A Guide to our With-Profits Fund

Please read this leaflet.
It contains important information about how we manage our With-Profits Fund (the Boots Life Fund), and about how plans that invest in this fund work.

Why you should read this leaflet

Please read this leaflet. It contains important information about how we manage our With-Profits Fund (the Boots Life Fund), and about how plans that invest in this fund work. It also explains how we work out what you will get back from your plan. We've included a glossary on page 12 to explain the meaning of technical words and phrases that may not be familiar to you.

We suggest you read this leaflet together with other documents you should have received that contain information about the Fund and about the plan you hold, or are thinking about starting.

For plans already in existence these include

- the policy document, which is evidence of your contract with us and contains the terms and conditions
- your yearly **bonus** statements

Depending on when your plan started, you may also have received

- a brochure, describing the plan
- a document called "Key Features" or "Product Particulars", containing information such as the level of risk involved
- an Illustration showing possible future returns. This might be a separate document, or be included in the Key Features

For plans that have not yet started, you should have received at least a brochure and Key Features document.

If you need more information, please contact us on 0845 600 2685
Please keep this leaflet in a safe place with your other plan documents.

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1 Introduction

This leaflet tells you about the Boots Life Fund, which is managed by The Children's Mutual and is the fund in which your plan is invested (or will be invested if it has not yet started). We sometimes use technical words or phrases to describe the way we manage the fund; these appear in **bold text**, and we explain what they mean in the Glossary of terms (section 12 on page 12).

We manage the fund in accordance with

- our overall strategy, and
- our Principles and Practices of Financial Management (PPFM)

Our overall strategy

Our overall strategy is to manage our business in a way that

- is both sensible and prudent;
- meets the requirements of all relevant laws and regulations;
- aims to treat all of our customers fairly;

and to manage the fund in a way that

- ensures it remains **solvent**;
- means we can meet the full cost of all **guarantees** provided by plans investing in the fund.

Our PPFM

This is a document that explains in detail how we manage the fund. It is divided into two parts – *Principles* and *Practices*.

The *Principles* are general statements about our approach to managing the fund over the long term. We would not expect to change these very often, although we could do so if we believed this would help us to manage the fund properly, or to treat our customers more fairly. We must give you at least three months notice of any changes we make to the Principles, before they can be put into effect.

The *Practices* describe how we apply the Principles on a day-to-day basis. These could change more often than the Principles, for example because of changes in laws and regulations that apply to our business, or developments that affect the economy generally. We will put an explanation of any changes on our website as soon as possible after we make them; we will also tell you about the changes the next time we write to all customers holding the type of With-Profits plans affected by the changes.

The PPFM is a complex document, designed mainly for professional financial advisers. This leaflet aims to explain its major points in a simpler way. However, you can see the full PPFM document on our website (www.thechildrensmutual.co.uk), or ask us for a copy at any time.

2 Different types of With-Profits plan

There are two types of With-Profits plan investing in the fund. These are called **conventional With-Profits** and **unitised With-Profits**.

For an existing plan, your plan (or "policy") document shows the type of plan you have. Plans that have not yet started will be **conventional With-Profits** plans.

Conventional With-Profits plans

Most conventional With-Profits plans investing in the fund are set up to run for a number of years (the **participation period**) with payments ("premiums") due to us at regular intervals throughout that period. Except when it is cashed-in early (see section 6 on page 9), this type of plan is designed to pay out at least a set minimum amount, called the **sum assured**.

There are also **conventional With-Profits** plans investing in the fund that will only pay out the **sum assured** on the death of the person whose life is insured by the plan, whenever this happens. Premiums for these plans may be payable until death, or stop after a number of years; in either case the **participation period** continues until the plan pays out on death.

We aim to pay out an amount for each **conventional With-Profits** plan that fairly represents its share of the overall performance of the fund during its **participation period**. The most important factor in this performance is usually the investment returns that we have achieved.

We arrive at the amount we pay out at the end of the **participation period** or on death by adding **bonuses** to the plan. We usually add a **bonus** each year and, once added, these **bonuses** are guaranteed. We may also add an extra final **bonus** when the plan pays out, although this is not guaranteed. So the payout value of the plan at the end of the **participation period** or on death will normally be made up of the **sum assured**, plus yearly **bonuses**, plus a final **bonus**. See section 5 on page 7 for more information about **bonuses**.

Unitised With-Profits plans

Our **unitised With-Profits** plans are lump sum (single premium) investments. They do not have a fixed **participation period**, but can be cashed-in at any time.

The amount we pay out under a **unitised With-Profits** plan depends on the number and price of the units allocated to it when it is cashed-in, and on whether we apply a **Market Value Reduction (MVR)** (see section 6 on page 9) or final **bonus** (see section 5 on page 7).

If the person whose life is insured by the plan should die before it has been cashed-in, we would pay out an amount equal to 101% of the value of the units on the date of death. We may also add a final **bonus** (see section 5 on page 7), but this is not guaranteed.

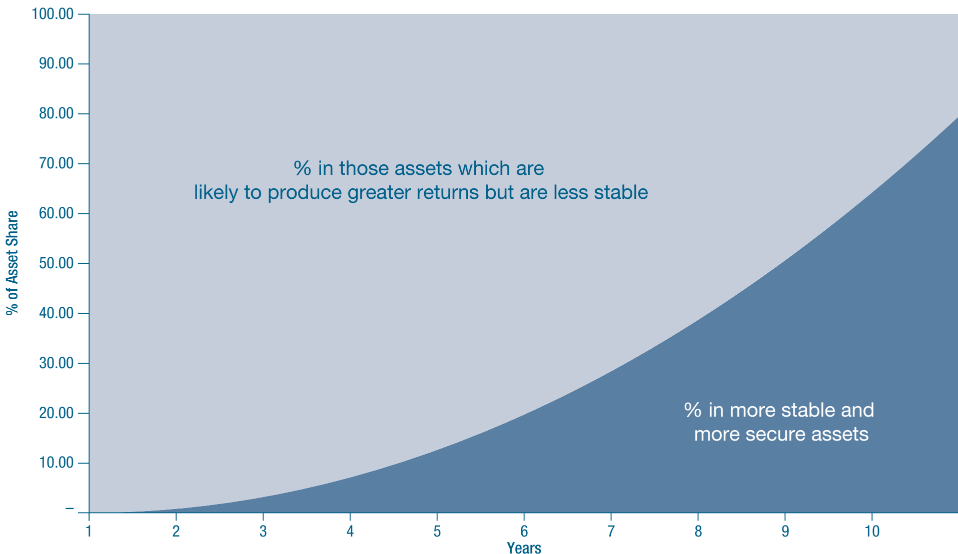
3 How we decide what your plan is worth

The way we decide what your plan is worth depends partly on the type of With-Profits plan you have (see section 2 on page 4). But for both types of plan, we use a method based on what are known as **asset shares**.

Asset shares

We use the term **asset shares** to describe the proportion of the overall fund represented by each individual plan. The value of each plan's **asset share** is expected to grow gradually, as its **participation period** goes by, but as this depends on economic performance it cannot be guaranteed.

Over the course of the **participation period** of a **conventional With-Profits** plan that started on or after 1 November 1990, we switch the types of investment allocated to its **asset share** so as to reflect its accumulated value to date, and the extent of the **guarantees** that have built up for it. So, in such a plan's early years the bulk of its **asset shares** will be represented by investments that are more likely to produce greater returns over the longer term. However, as the value of this type of investment is liable to keep going up and down over the short term, in the plan's later years we will largely replace these by investments where the value is more stable, and that therefore offer a greater level of capital security. Generally, the greater the **guarantees** built up by a plan, the less exposure to the risk of capital loss is required, so the greater will be the proportion of more stable investments we hold for it.



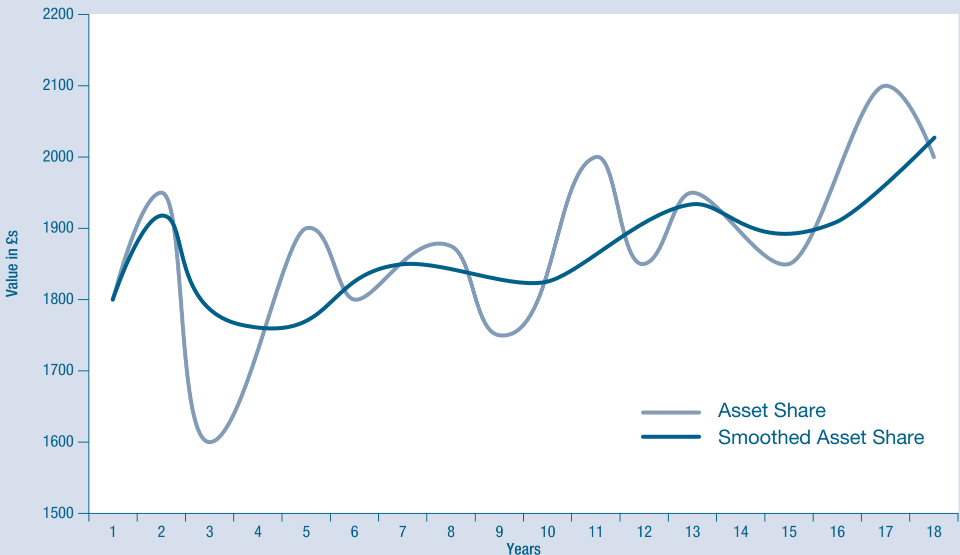
This graph shows how the split of investments allocated to a typical asset share might change over the **participation period** of a plan. We include it for illustration purposes only – the actual shape may be different to this.

The spread of investment types allocated to the **asset shares** of a **conventional With-Profits** plan that started before 1 November 1990, and those allocated to the **asset shares** of a **unitised With-Profits** plan, remain constant throughout its **participation period**.

At this stage – before we have applied "smoothing" (see section 4 below) – we refer to the **asset shares** as being "unsmoothed". Whenever we work out what your plan is worth we start with the actual value of the unsmoothed **asset shares** at that time.

4 Smoothing – what it means and how we apply it

The value of most investments held by the With-Profits fund – particularly company shares and, to a lesser extent, government bonds and other fixed interest securities – goes up and down over time. This means the value of each plan's unsmoothed **asset share** also moves up and down. However, as the aim of the fund is to provide steady growth over the longer term, we try to flatten out the effects of these ups and downs in asset values on plan payouts (most particularly on payouts for plans that have reached the end of their **participation period**), by a process called smoothing.



This graph shows the effect of smoothing on plan payout values over a period of time. We include it for illustration purposes only – the actual comparison between asset share and smoothed asset share values may be different to this.

For plans that started before 1 November 1990, we aim to pay out as close as possible to 120% of the **smoothed asset share** value of each plan when it reaches the end of its **participation period**. For plans that started on or after 1 November 1990, we aim to payout as close as possible to 100% of that value.

When the payout under a plan arises on the death of the person whose life is insured by it, we will pay out as close as possible to 120% of its **smoothed asset share** value (if it started before 1 November 1990) or 100% of that value if it started on or after 1 November 1990, unless the value of the **sum assured** and yearly **bonuses** (see section 5 below) already added is higher, in which case that is the amount we pay out.

We are able to aim at paying out more than 100% of the **smoothed asset share** of a plan that started before 1 November 1990, and yet still treat all customers investing in the fund fairly, because of the way the fund has been managed historically (both before and after it was transferred to us), its investment strategy, and the relatively low cost of acquiring new business before that date.

If a plan (regardless of when it started) is cashed-in early we aim to pay out as close as possible to 100% of its unsmoothed **asset share** value (see section 6 on page 9).

Although smoothing helps us to avoid very large changes in the level of payouts from one year to the next, it cannot provide full protection against the effects of long periods of low investment returns.

How we apply smoothing

We work out the value of the unsmoothed **asset shares** underlying three sample plans which are identical to yours in all respects except that one will have started one year earlier than yours, and one two years earlier. We then take the average of these three values, which gives what we call the **smoothed asset share** value of the sample plan that started at the same time as yours.

We use the **smoothed asset share** values to help work out **bonuses** (see section 5 below).

5 How we decide bonuses

The way we manage the fund, and our investment strategy (see section 7 on page 10), are designed to make a profit – in other words, to produce income greater than our expenses. As a mutual organisation, with no shareholders, all profits are used ultimately for the benefit of customers investing in the fund. We share the profits between our With-Profits customers by adding **bonuses** to their plans.

The proportion of profits that is available for us to share out as **bonuses** – after making allowance for what we need to keep in reserve for the ongoing management of the fund – is decided by our **Board**, acting on the advice of a professional expert called the With-Profits Actuary. This person has to be approved by our regulator, the Financial Services Authority (FSA). The **Board** therefore has a degree of discretion in deciding the level of **bonuses**. It will always exercise this discretion in a way that it believes to be fair to all With-Profits planholders, investing in the fund, and that is consistent with the Society's rules and our PPFM.

There are two types of **bonus** – "yearly" and "final"; we describe these later in this section. We normally announce our yearly **bonus** rate once a year, in December. We currently announce final bonus rates twice a year, in December and June. We keep all **bonus** rates under continual review, and might announce changes more frequently if necessary to reflect changes in the economic environment.

Bonuses on conventional With-Profits plans

We normally add yearly **bonuses** to these plans once a year, on 31 December.

To work out the yearly **bonus** rate, we first take a number of sample plans that are carefully selected to be fully representative of all **conventional With-Profits** plans investing in the fund. We then calculate what the value of the **smoothed asset shares** underlying each of these sample plans could be when it reaches the end of its **participation period**. We call this the "projected" **smoothed asset share** value. These projections are based on our view of anticipated future economic conditions, and in particular the future investment returns that we believe can be realistically achieved by the fund.

We then compare the projected **smoothed asset share** values for each sample plan with the projected value of the **guarantees** that have already built up for it. Provided the projected value of these **guarantees** is lower than the projected **smoothed asset share** value, we can add part of the difference to the plan as a yearly **bonus**. Because yearly **bonuses** are guaranteed once they've been added to plans, the actual proportion of the difference that we add may be lower than might otherwise be the case.

The guaranteed nature of yearly **bonuses** means that, unless the plan is cancelled or altered or premium payments (where due) are stopped, the amount we pay out at the end of the plan's **participation period**, or on the death of the person whose life it insures, will include these **bonuses** in full.

If we pay out a plan (other than if it is cashed-in) part way through a calendar year we will normally add an "interim **bonus**" in respect of the period since the last yearly **bonus** was added. We announce the interim **bonus** rate each year at the same time as the yearly **bonus** rate, but we can change it if necessary – for example to reflect a major drop in investment returns – at any time without giving notice.

We also aim to add a further, one-off, **bonus** to your plan when it pays out at the end of the **participation period** or on earlier death. This is called a "final **bonus**". The final **bonus** is intended to make up any remaining difference between the overall value of the **smoothed asset shares** and the **guarantees** that have built up for the plan. However, if the value of the **guarantees** at this time is greater than the value of the **smoothed asset shares**, then of course we pay out the **guarantees** in full.

The payment of final **bonuses** always depends on our being able to maintain the overall **solvency** of the fund.

Bonuses on unitised With-Profits plans

Unlike conventional With-Profits plans, for which we decide the yearly bonus rate at the end of each year, for unitised With-Profits plans we announce a bonus rate at the beginning of each calendar year. This is based on the level of investment return and expenses we expect to experience over that year. We apply this bonus rate to units allocated to these plans on a daily basis throughout the year.

We may also add a final bonus, similar to that described above for conventional With-Profits plans, to unitised With-Profits plans when they are paid out, but this is not guaranteed. If a guarantee applies to the plan at the time it pays out (for example, on death) and the value of this is greater than the value of the smoothed asset shares, then we pay the value of the guarantee in full.

The payment of final bonuses always depends on our being able to maintain the overall solvency of the fund.

6 How we decide what you will receive if you cash-in your plan

Conventional With-Profits plans

If your circumstances should change you might decide you need to cash-in your plan early. We would always recommend that you contact a financial adviser before taking this step, as there might be alternative courses of action you could consider.

However, if you do cash-in the plan, we will – provided it has been going for long enough – aim to pay out an amount that is as close as possible to the value of its unsmoothed asset share at the time it is cashed-in. Depending on how long the plan has been going when you cash it in, the amount you get back could be less than you have paid in.

If the plan has only been going for a short time, the value of its unsmoothed asset share might be a negative figure (if, for example, the costs of setting it up and managing it are greater than the payments that have been made so far), which means that we will not pay anything back. Your plan documents will give you an idea of how long it must have been going before it will have a cash-in value.

Unitised With-Profits plans

As this type of plan has no fixed participation period, it is always necessary to cash it in to withdraw money from it. Either the whole plan can be cashed-in, or just part of it.

As we add bonuses to these plans in advance (see section 5 on page 7) there is always the chance that the value of the units to be cashed-in (that is, the number of units multiplied by the unit price) could be greater than the relevant smoothed asset share of those units at that time. This is especially likely to be the case during a period of falling or low investment returns. To allow for this, and to make sure the amount we pay out is not more than the smoothed asset share of the units cashed-in, we may apply a Market Value Reduction (MVR) – which will reduce the amount we pay out.

7 Our investment strategy

We invest the fund in a way that we believe should achieve our overall aim of providing a fair return to every planholder. To do this we hold money in a wide range of different types of investment, including company shares, government and corporate bonds, collective (or "pooled") investment schemes, and cash deposits.

In considering how and where to invest the fund, we take into account both the potential for earning positive returns ("reward"), and the exposure to possible reductions in value ("risk"), that each type of investment opportunity presents. We aim to achieve a spread of investment types that should secure a fair overall balance between risk and reward. We invest mainly in the UK but also in other countries when we decide it is appropriate to do so.

The mix of investments is designed to provide fair and realistic returns for our planholders, and to cover the fund's liabilities arising from any **guarantees** attaching to the plans. We formally review the investment strategy at least once a year and will vary the mix of investments from time to time in line with the aims of the fund, our view of the outlook for different investment types, and the need to maintain the **solvency** of the fund.

The way we work out **bonuses** (see section 5 on page 7) also helps us to maintain flexibility in our investment strategy, by ensuring that the value of **guarantees** does not grow at too fast a rate. This is important, because **guarantees** need to be backed by more stable investments (such as cash deposits), so that we can always be confident the fund can meet these liabilities. However, this type of investment tends not to offer the same level of potential returns as company shares, so the greater the level of **guarantees** attaching to plans, the less scope we have to hold investments that are more likely to produce higher investment returns. On the other hand, by keeping more of the fund in lower risk investments we can maintain a greater degree of stability and security.

We can use part of the fund to meet the costs of developing or acquiring new types of business (including those undertaken by other companies that we own), provided we believe that the potential investment return we could achieve would be to the long-term advantage of our With-Profits planholders, and that using assets in this way will not adversely affect the **solvency** of the fund.

8 Business risks and how we manage them

In common with all organisations investing on behalf of customers, the fund is exposed to a number of risks. Some are associated with both the type of plans we offer and the way the fund is managed, and others with the performance of the investment markets. There are also risks relating to our status as a mutual organisation, and to the legal and regulatory regimes under which we operate. A major source of risk arises from the fund's contractual liability to pay out all plan **guarantees** as they fall due.

We operate a Risk Management system which enables us to identify the risks which could affect the fund, and to introduce and maintain controls and procedures to limit or reduce the potential impact of these risks.

9 Our charges and expenses

The expenses of managing the With-Profits fund have to be met from the fund. However, for plans that started on or after 1 November 1990 we make a charge for this purpose to the **asset shares** underlying individual plans. We aim to ensure this charge is not only sufficient to cover the expenses in full (except for the cost of smoothing, for which we do not currently make any charge to **asset shares**), but is also fair to all planholders affected, taking into account the different types and **participation periods** of their plans. We do not currently make any charge for expenses to **asset shares** underlying plans that started before 1 November 1990.

If at any time the charges described above should not be sufficient to meet the fund's relevant expenses in full, we can use what we call the **estate** to cover any shortfall. If at any time the charge to unsmoothed **asset shares** is greater than required to cover the fund's expenses, we will transfer all or part of the excess to the **estate**.

10 Future business

The fund is currently open to new business, and we continue to actively promote **conventional With-Profits** plans for investment in the fund. We will only accept new business into the fund on terms, and at a level, that we believe will not disadvantage our existing With-Profits planholders.

Although we could close the fund to new business, or to certain types of new business, at any time, we currently have no intention of doing so. If, however, we should decide that this would be in the best interests of existing planholders (for example, if the costs of accepting new plans were to become too high), we would draw up and agree with our regulator a plan to close the fund and continue managing it until the last With-Profits plan has paid out (this is called a "run-off" plan). We would notify all planholders in advance of our intention to close the fund.

If the fund were closed, we would continue to use the **estate** to support the cost of managing it until the end.

11 How you can find out more

You can find more detailed information about our With-Profits fund and how we manage it in our PPFM (see section 1 on page 3). You can read the PPFM in full on our website at www.thechildrensmutual.co.uk.

Alternatively, you (or your financial adviser) can request a copy of our PPFM by calling us on **0845 600 2685** or by writing to:

The Children's Mutual, Customer Services, PO Box 2090, Gloucester GL4 3WR

Please make sure that you (or your adviser) ask clearly and specifically for the Boots Life Fund PPFM.

12 Glossary of terms

Term	Definition
Asset share(s)	The payments made by or on behalf of the planholder, less deductions for expenses, tax and other charges, plus allocations of business profits, built up at the rate of investment return achieved on the assets (investments) allocated to the plan.
Board	The Committee of Management of Tunbridge Wells Equitable Friendly Society. The members of the Board are elected by the Society's members (including With-Profits plan-holders), and are subject to vetting by our regulator to ensure their suitability to hold office. The Board is ultimately responsible in law for all actions taken by the Society.
Bonus, bonuses	The part of the operating profit (the excess of income over expenditure) generated by the operation and management of the fund that the **Board** decides is allocated to With-Profits plans investing in the fund.
Conventional With-Profits	A type of plan for which benefits are expressed as the total of the **sum assured**, yearly **bonuses** and final **bonus**.
Estate	The investments held by the fund that represent the difference between its overall value and the value of the **asset shares** of the With-Profits plans investing in it.
Guarantees	Legally binding commitments on the Society to pay out specific amounts of money in particular circumstances – for example, when a plan reaches the end of its **participation period**, or on the earlier death of the person whose life is insured by it.
Market value Reduction (MVR)	The amount which we may deduct from the value of a **unitised With-Profits** plan when it pays out, so as to ensure that the payout value is not more than the plan's **smoothed asset share** at that time. We do not apply the MVR in certain circumstances (for example on death) – these are detailed in your plan document.
Participation period	The full period of time for which the plan is intended to be in existence; it is usually called the "term" in the plan document. For most plans this will be a set period, but in some cases (for example, **unitised With-Profits** plans) it will be an open-ended period, finishing on the death of the person whose life is insured by the plan.
Smoothed asset share(s)	The value of **asset shares** averaged over a period of time in a way that smooths the effects of the factors we use to calculate those **asset shares**. The most important of these factors is the investment returns.
Solvency, solvent	The ability of the Society to show that the value of the fund's and any other assets (investments) it holds is sufficient to cover both its liabilities (including **guarantees**) and any other margins in excess of this that is required to be held by our regulators.
Sum assured	The guaranteed minimum amount that a **conventional With-Profits** plan will pay out either at the end of its **participation period** (if it has one) or on the death of the person whose life is insured by it.
Unitised With-Profits	A type of plan for which benefits are expressed as the value of a number of "units" in the fund.

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