

# A guide to our Life and Endowment Fund

**Please read this leaflet.**

*It contains important information about how we manage the Tunbridge Wells Equitable Life and Endowment Fund. It also tells you how the With-Profits plans that invest in this fund work.*



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## Why you should read this leaflet

This leaflet explains how we manage the fund and how we work out what you will get back from your With-Profits plan which is invested in this fund. To help we've included a glossary on page 15 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.

For plans already in existence these documents 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”
- an illustration showing how much you might get back in future. 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 609 0085.**

**Please keep this leaflet in a safe place with your other plan documents.**

# 1 Introduction

This leaflet tells you about the Tunbridge Wells Equitable Life and Endowment Fund. It's 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 (see section 12 on page 15).

We manage the fund in line 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 material changes on our website as soon as possible after we make them; we will also tell you about these 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 ([thechildrensmutual.co.uk](http://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. Please contact us on 0845 609 0085 if you can’t find this document.

All 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 11), 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; however, their value, along with the **sum assured**, may be reduced if you cancel the plan or stop paying the premiums before the plan is due to end. 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**
- the yearly **bonuses** already added
- a final **bonus**.

See section 5 on pages 9 and 10 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 11) or final **bonus** (see section 5 on pages 9 and 10).

If the person whose life is insured by the plan dies before it has been cashed-in, we would pay out 101% of the value of the units on the date of death. We may also add a final **bonus** (see section 5 on pages 9 and 10), 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 pages 5 and 6). But for both types of plan, we use a method based on what are known as **asset shares**.

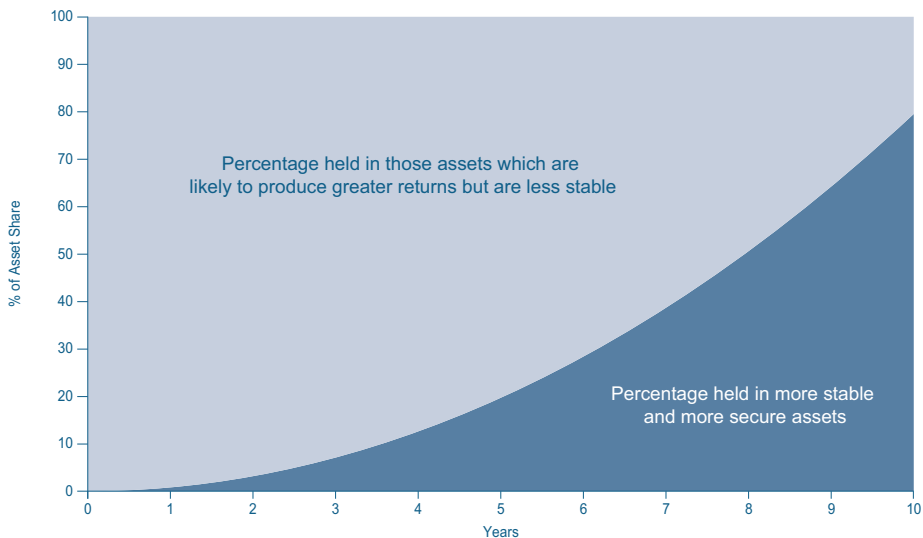
### Asset shares

We use the phrase **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, over time, but this cannot be guaranteed.

### Conventional With-Profits plans

During a **conventional With-Profits** plan's **participation period**, we switch the types of investment allocated to its **asset share** to reflect its value to date, and the **guarantees** that have built up for it. This means that in the early years, most of a plan's **asset share** will be represented by investments that are more likely to produce greater returns over the longer term. However, the values of these types of investment tend to go up and down in the short term, sometimes very significantly. So in the plan's later years we will gradually switch the investments representing the **asset share** to those where the value is more stable, and which therefore offer more security. Generally, the greater the **guarantees** already built up by a plan, the greater will be the proportion of more stable investments we hold for it.

## How mix of investments backing asset share changes over time



This graph is just an example – the actual mix of investments for individual plans may be different.

### Unitised With-Profits plans

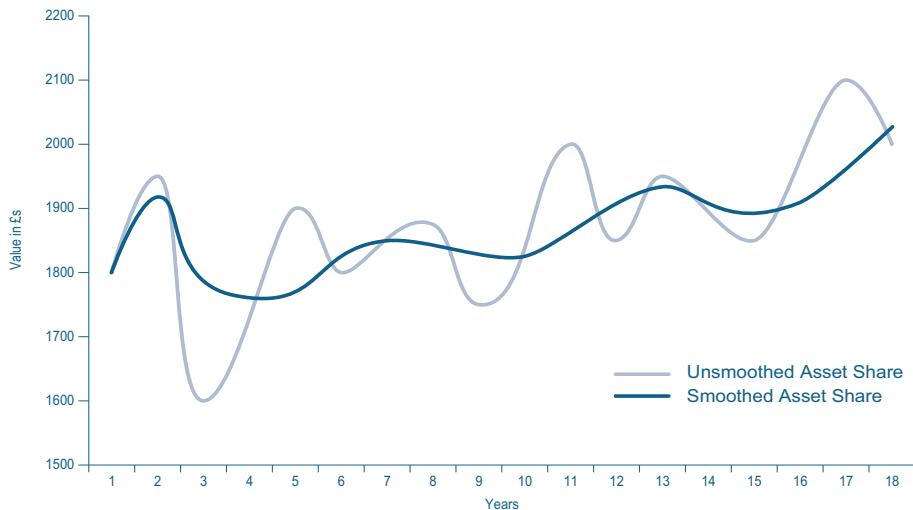
The mix of investment types allocated to the **asset shares** of a **unitised With-Profits** plan remains constant throughout its **participation period**.

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 fund – particularly company shares and, to a lesser extent, government bonds and other fixed and variable 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, the aim of the fund is to provide steady growth over the longer term. So we use a process called smoothing to try to flatten out the effects of these ups and downs on plan payouts (especially on payouts for plans that have reached the end of their **participation period**).

## Unsmoothed Asset Share compared to smoothed Asset Share



This graph shows the effect of smoothing on plan payouts over time. Again, it's just an example – real life values may be different to this.

We aim to pay out as close as possible to 100% of the **smoothed asset share** value of each plan when it reaches the end of its **participation period**.

If the person whose life is insured by the plan dies, we will also aim to pay out as close as possible to 100% of its **smoothed asset share** value. But if the value of the **sum assured** and yearly **bonuses** (see section 5 on pages 9 and 10) already added to the plan is higher, we pay out the higher amount.

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.

If a plan is cashed-in early we aim to pay out as close as possible to 100% of its unsmoothed **asset share** value. In this case, we wouldn't apply smoothing (see section 6 on page 11).

### How we apply smoothing

We work out the value of the unsmoothed **asset shares** of 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 on pages 9 and 10).

## 5 How we decide *bonuses*

The way we manage the fund, and our investment strategy (see section 7 on page 12), 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.

Firstly, we value the assets of the fund and then make allowance for what we need to keep in reserve for the ongoing running of the business. The excess of the value of the assets over our reserves is the surplus. Acting on the advice of a professional expert called the With-Profits Actuary, our **Board** then decide how much of this surplus we can share with customers as **bonuses**. 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, and which is consistent with our rules and our PPFM.

There are two types of **bonus** – “yearly” and “final”; which we describe 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 follow three steps:

- 1) We take a number of sample plans that are representative of all **conventional With-Profits** plans investing in the fund. We work out what the value of the **smoothed asset shares** of each of these sample plans could be when it reaches the end of its **participation period**. Our figures are based on our view of future economic conditions, and in particular the future investment returns that we believe can be realistically achieved by the fund.
- 2) We then compare the values of the projected **smoothed asset shares** with the value of the **guarantees** (the **sum assured** and **bonuses** already added) attached to each sample plan which could be paid out at the end of the **participation period**.
- 3) If the value of these **guarantees** is lower than the future **smoothed asset share** value, we add part of the difference to the plan as a yearly **bonus**.

Unless the plan is cancelled or altered or premium payments 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**" to cover 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 **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 value of the **smoothed asset shares** and the **guarantees** that have built up for the plan. If the value of the **guarantees** at this time is greater than the value of the **smoothed asset shares**, we pay out the **guarantees** in full.

## **Bonuses on unithised With-Profits plans**

For **unithised 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** on a daily basis to the number of units you hold in your plan.

We may also add a final **bonus** to **unithised 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.

Please bear in mind that if, for any part of a plan's **participation period**, investment performance is very poor, it's possible that no **bonuses** (yearly, final or both) may be added for that period.

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

### Conventional With-Profits plans

If your circumstances 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 are other courses of action you could consider.

If you do cash-in the plan - provided it has been going for long enough – we will 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. That's because your plan has been designed to be a long term investment (10 years or more).

If the plan has only been going for a short time, the value of its unsmoothed asset share might be a negative figure. This could happen if the costs of setting it up and managing it are greater than the payments you have made so far. In this case, 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. Or you can call us and ask.

### Unitised With-Profits plans

As this type of plan has no fixed **participation period**, you can take money out at any time. Either the whole plan can be cashed-in, or just part of it.

Because we add **bonuses** to these plans in advance (see section 5 on pages 9 and 10) there is always the chance that the value of the units to be cashed-in (the number of units held multiplied by the unit price) could be greater than the **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.

We may not apply an **MVR** if the plan is cashed in on the 10th anniversary of its start date and no part of the plan has been previously cashed in. In these circumstances the amount paid out is subject to a minimum of the initial single premium. However we do not apply an **MVR** if we pay out because the planholder has died or on regular withdrawals that were set up when the contract started.

## 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 company bonds, units in collective investment schemes, and cash deposits.

When deciding how and where to invest the fund, we consider both the potential for earning good returns (“reward”), and the chance of falls in value (“risk”), that each type of investment opportunity presents. We aim for a spread of investments that gives an 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 investment returns for our planholders, and to ensure we can cover 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.

Because we must always be confident that the fund can meet the cost of the **guarantees** they need to be backed by more stable investments (such as cash deposits). However investments like cash tend 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. However, the way we work out **bonuses** (see section 5 on pages 9 and 10) helps us to maintain a flexible investment strategy, by ensuring that the value of **guarantees** does not grow too fast. Another advantage of keeping more of the fund in lower risk investments is that we can maintain a greater degree of stability and security.

We can also 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 they give an appropriate balance between risk and reward, 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 (for example, a mutual company cannot raise capital by offering shares for sale) 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** when they become payable.

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 fund have to be met from the fund. So to cover the expenses, we make a charge to the **asset shares** of individual plans.

**Asset shares** only get charged for expenses that are incurred in connection with With-Profits business. 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, taking into account the different types of plan and different **participation periods**.

For expenses not incurred in connection with With-Profits business, such as development costs, the **Board** may choose to charge these to **asset shares** provided any benefits from them are subsequently added to **asset shares**.

## 10 Future business

The fund is currently open to new business, and we continue to actively sell **conventional With-Profits** plans and to accept new applications. 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 we decided 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 fund and how we manage it in our PPFM (see section 1 on page 4). You can read the PPFM in full on our website at [thechildrensmutual.co.uk](http://thechildrensmutual.co.uk).

Alternatively, you (or your financial adviser) can request a copy of our PPFM by calling us on:

0845 609 0085

or by writing to:

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

## 12 Glossary of terms

<b>Asset share(s)</b>	The value of 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.
<b>Board</b>	The Committee of Management of Tunbridge Wells Equitable Friendly Society Limited. The members of the <b>Board</b> 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 <b>Board</b> is ultimately responsible in law for all actions taken by the Society.
<b>Bonus, bonuses</b>	The part of the operating profit (the excess of income over expenditure) generated by the operation and management of the fund that the <b>Board</b> decides is allocated to With-Profits plans investing in the fund.
<b>Conventional With-Profits</b>	A type of plan for which benefits are expressed as the total of the <b>sum assured</b> , yearly <b>bonuses</b> and final <b>bonus</b> .
<b>Estate</b>	The investments held by the fund that represents the difference between its overall value and the value of the <b>asset shares</b> of the With-Profits plans investing in it. The <b>estate</b> has built up over time, and can be used by the Society to help meet its day-to-day business costs, and to fund the development of other types of business which we believe should ultimately generate a profit for our With-Profits planholders.
<b>Guarantees</b>	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 <b>participation period</b> , or on the earlier death of the person whose life is insured by it.
<b>Market Value Reduction (MVR)</b>	The amount which we may deduct from the value of a <b>unitised With-Profits</b> plan when it pays out, so as to ensure that the payout value is not more than the plan's <b>smoothed asset share</b> at that time. We do not apply the <b>MVR</b> on the planholder's death, or on regular withdrawals set up at the plan's start date. We may also not apply an <b>MVR</b> if the plan is cashed in on the 10th anniversary of its start date and no part of the plan has been previously cashed in. In these circumstances the amount paid out is subject to a minimum of the initial single premium.
<b>Participation period(s)</b>	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, <b>unitised With-Profits</b> plans) it will be an open-ended period, finishing on the death of the person whose life is insured by the plan.
<b>Smoothed asset share(s)</b>	The value of <b>asset shares</b> averaged over a period of time in a way that smoothes the effects of the factors we use to calculate those <b>asset shares</b> . The most important of these factors is the investment returns.
<b>Solvency, solvent</b>	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 <b>guarantees</b> ) and any other margins in excess of this that we are required to hold by our regulators.
<b>Sum assured</b>	The guaranteed minimum amount that a <b>conventional With-Profits</b> plan will pay out either at the end of its <b>participation period</b> (if it has one) or on the death of the person whose life is insured by it.
<b>Unitised With-Profits</b>	A type of plan for which benefits are expressed as the value of a number of "units" in the fund.

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Tunbridge Wells Equitable Friendly Society Limited was established in 1881.