A GUIDE TO HOW WE MANAGE OUR WITH PROFITS BUSINESS

Sun Life Assurance Society plc
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Aims of this guide

This guide tells you how we manage Sun Life Assurance Society plc's With Profits Fund. It is a summary of the key points in our 'Principles and Practices of Financial Management' (PPFM) document. The Principles are statements of the overall standards we adopt; the Practices describe our current approach to managing the With Profits Fund.

The PPFM itself is available from our website, www.axa.co.uk, or we can send you a copy if you ask us to – please see the contact details at the end of this booklet. The terms of the PPFM apply in the case of any differences between it and this document.

Why this guide is important

Please read this guide. It gives important information about how our with profits policies work and what policyholders can expect from them.

Please keep this guide in a safe place with your other policy documents. When reading this guide you may find it helpful to have your policy documents ready to refer to.

If, having read this guide, you need more information, please:

- call us using the phone number shown on the documents provided with this booklet;
- contact your financial adviser; or
- call 0117 989 9000 giving your policy number.

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How does your policy work?

Sun Life Assurance Society has with profits and non-with profits policies in a single fund. The non-with profits policies are mainly policies that provide a guaranteed series of payments (called 'annuities'), and these make up a significant proportion of the fund. With profits policyholders share in the profits and losses from all types of policy.

There are three main types of policy in the With Profits Fund:

- conventional with profits policies;
- unitised with profits policies; and
- deposit administration policies, which are used in connection with some pension schemes.

Your yearly statement or bonus notice will help you tell which type you have. If your statement shows units and unit prices, then you have a unitised policy. If you are an employer with a pension scheme, you may have a deposit administration contract. Otherwise, your policy is a conventional one.

If you are unsure about what type of policy you have, and need more information, please use the contact details given at the end of this booklet.

Conventional policies

If you have a conventional policy, we pay you a guaranteed amount on your policy's maturity date or on your death, which may be:

- a lump sum payment (called a 'sum assured'); or
- a series of payments (called an 'annuity' or 'pension').

We may add regular bonuses once a year to the guaranteed amount. On your policy's maturity date or on your death, we may also add a final bonus to the guaranteed amount.

Unitised policies

If you have a unitised policy, we use your premiums to buy units in the With Profits Fund. We add bonuses, if any, by either buying extra units or by increasing the price of the units, depending on the type of policy that you have.

For most unitised policies we add regular bonuses, if there are any, once a year by adding extra units. For the remaining unitised policies, we add regular bonuses, if any, at least monthly by increasing the unit price. We may also include a final bonus when your policy ends, on top of any guaranteed amount we have agreed to pay you.

Deposit administration plan policies

For deposit administration policies, we keep an account for each scheme. We credit the account with payments into the scheme, any guaranteed interest payments due and bonuses allocated. We debit the account with the cost of members' benefits and charges.

Guarantees

There may be guarantees under your policy. These apply if certain events happen or on specific dates stated in your policy document. For example, the event may be your policy's maturity date as agreed when you took it out. Or, for a pension policy, it may be the date you intended to retire when you bought the policy.

How are bonus rates determined?

Our overall aim is to make sure that all guarantees are met and that all policyholders are treated fairly. Future bonuses can not be guaranteed as they come from profits that have not yet been earned. This means that it is possible that no bonuses will be added.

Regular bonus rates: conventional policies

We set regular bonus rates for conventional policies at levels which the With Profits Fund can afford and which are likely to be stable in the long term. We take into account what we expect to pay out for existing policies in the future.

Regular bonus rates: unitised policies

To determine regular bonus rates on unitised policies, we estimate the expected underlying investment return of the assets in the With Profits Fund. This is an investment return that varies with long-term changes in economic circumstances or our investment strategy, but fluctuates less than market returns. We make certain deductions from this return, including allowances for expenses, tax, and our shareholders' profit.

Regular bonus rates: deposit administration plan policies

We set regular bonus rates on deposit administration policies by taking into account the actual return on the assets and any guaranteed interest payments due. Our aim is to produce a fair return for policyholders over the medium term.

Final bonus rates: conventional and unitised policies

To determine final bonus rates on conventional and unitised policies, we compare your policy's guaranteed benefits with its asset share. The asset share is an amount we work out by looking at how much you have paid into the With Profits Fund and the investment returns earned in respect of your policy. We then take away certain deductions which include expenses, tax, our shareholders' profit, and the cost of providing the agreed benefits for your policy (such as life insurance).

The expenses we allow for include:

- fees we pay for administration;
- commission paid to intermediaries;
- fees for investment management services;
- other investment related expenses, for example the cost of buying and selling assets; and
- part of the general expenses of the With Profits Fund, such as fees we pay to the financial regulator.

We use asset share as a guide when setting final bonus rates although you may get more or less than this as a result of smoothing (see below).

In addition to this, we may decide to add an extra amount to your final bonus. This extra amount is provided from surplus assets within the With Profits Fund if we decide there is enough surplus. The extra amount may vary depending on which type of policy you have, how long you have held your policy and why you have moved some or all of your investments out of the With Profits Fund. We currently expect to pay modest extra amounts in the future.

Smoothing

We cushion our policyholders from large fluctuations in regular and final bonus rates due to varying investment returns. We hold back some of the investment return in good years and use it to provide bonuses when returns are poor. This is known as 'smoothing'.

Smoothing is one of the main ways in which the With Profits Fund aim to be fair to all with profits policyholders. Over the long term, we would not expect the Fund itself to gain or lose from smoothing.

If your policy is not entitled to any final bonus, its regular bonuses may vary more than other policies' because we cannot use a final bonus to adjust the overall amount we pay you. Policies where we do not pay final bonuses include With Profits Annuities, Deposit Administration Plans, and policies invested in the Group With Profits Fund.

Our shareholders' profit

For every £9 of bonus we add to your policy, our shareholders are entitled to a maximum of £1.

How is your money invested?

Our investment strategy for with profits policies is to invest in a broad range of assets. We aim to provide the best possible investment returns for the benefit of policyholders generally, allowing for:

- the level of guarantees within the With Profits Fund; and
- the amount of surplus assets in the With Profits Fund.

The With Profits Fund invests in a mixture of assets: mainly shares, property, bonds (loans to governments or companies), and money market investments (such as bank deposits). Historically, shares and property have produced higher returns than bonds and money market investments over long periods such as twenty years. However, bonds and money market investments are more secure and are more suitable for backing guaranteed payments.

We set guidelines for our investment managers to tell them the proportions of the With Profits Fund that should be invested in each type of asset. We also aim to control any potential risks to the With Profits Fund by setting guidelines covering the quality of the assets, and setting limits on the amount that we invest in any one asset or with any third party.

We review our long-term investment strategy at least yearly but may do so more often if market conditions change quickly.

What happens if you leave the With Profits Fund early?

You may decide to move some or all of your investment out of the With Profits Fund early, for example:

- cashing in your policy;
- transferring to another company; or
- switching to another type of AXA fund.

We would then work out how much to pay you with the aim of being fair to you and other policyholders leaving the With Profits Fund, and to those policyholders staying in the With Profits Fund.

We will use the asset share as a guide for working out how much we should pay you if you cash-in or transfer your policy or switch from the With Profits Fund into other investment funds.

Conventional policies

We reduce your policy's guaranteed benefits to reflect that you have been invested in the With Profits Fund for a shorter time than we expected when you took out your policy. We may add a final bonus as described earlier. In adverse financial conditions, for example if investment markets fall significantly, we may change the way we determine how much is due to you. This may mean that we reduce the amount we pay you in order to be fair to all policyholders.

Unitised policies

We work out the cash-in, transfer or switch value by looking at the value of the units in your policy and then applying any reduction as described in the policy booklet. We may then add a final bonus as described earlier.

If the assets in the With Profits Fund which back your policy have performed worse than we assumed when we added regular bonus to your policy then we may reduce your payout by applying what is known as a 'Market Value Reduction' (MVR). We apply an MVR to make sure that:

- the cash-in, transfer or switch value is fair compared to the asset share of the policy; and
- a fair share of the With Profits Fund is left for the remaining policyholders.

However, for certain policies we guarantee not to apply an MVR on certain dates. Your policy booklet will tell you if this is the case.

How are business risks managed?

The With Profits Fund is exposed to a number of risks. The cost of risks is normally allocated to the With Profits Fund as a whole. Our biggest risks come from the need to pay the guaranteed payments on all with profits and non-with profits policies when they become due, and from the possibility of falls in asset values.

We aim to minimise the risks to the With Profits Fund by monitoring the various risk factors, and taking action to reduce our exposure to risk, for example by changing our investment strategy or entering into arrangements to transfer the risk to other companies, known as 'reinsurance'.

What is the estate?

The estate is the assets in the With Profits Fund over and above those required to cover the amounts we expect to pay out to policyholders, including bonuses we expect to add in the future. Over time we aim to pay out all the assets in the With Profits Fund in a way that is fair to all policies.

The estate:

- provides us with investment flexibility;
- enables bonuses on with profits policies to be smoothed; and
- enhances the security of policy benefits generally.

If at any time we believe that the amount of the estate is too low then we will take action to increase it, for example by reducing future bonus rates or changing our investment strategy.

Similarly if we believe that the amount of the estate is too high, we will take action to reduce it, for example by increasing the amount we allocate to bonuses over a period of time.

How is the sale of new policies managed?

We closed the With Profits Fund to new customers on 31 July 2009. Existing policyholders can still top-up their plans, and new members can still join existing group pension policies.

Although we no longer sell new policies, the With Profits Fund will continue to be managed in line with our PPFM.

How can you find out more?

This guide is a summary of our 'Principles and Practices of Financial Management' (PPFM) document, which gives a more detailed description of how the With Profits Fund is managed.

If you would like a copy, please use the contact details below. Or you can read it on our website www.axa.co.uk.

If, having read this guide, you need more information, please:

- call us using the phone number shown on the documents provided with this booklet;
- contact your financial adviser; or
- call 0117 989 9000 giving your policy number.

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The address for written communication is AXA, PO Box 1810, Bristol, BS99 5SN. The telephone number of AXA is 0117 989 9000.
AXA is a worldwide insurance group. In the UK, one of the AXA companies is Sun Life Assurance Society plc, the provider of this policy.
Authorised and regulated by the Financial Services Authority. Sun Life Assurance Society plc is a company limited by shares,
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As part of our commitment to quality service, telephone calls may be recorded.