

WESLEYAN

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Unit-linked Business Principles and Practices Manual

Wesleyan Assurance Society

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Wesleyan Assurance Society
Head Office: Colmore Circus, Birmingham B4 6AR
Telephone: 0121 200 3003 Fax: 0121 200 2971
Website: www.wesleyan.co.uk

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1. Purpose of this manual

This manual provides details of the principles and practices that Wesleyan Assurance Society (the Society) applies in the operation of all its internal unit-linked funds. We are committed to providing open and honest communications and believe that this manual will help with this aim. One of the key aims of this manual is to demonstrate our commitment to treating our unit-linked customers fairly.

In managing unit-linked funds, we rely on our ability to use discretion, particularly in relation to the basis used to determine prices and the allowances for taxation and dealing costs in the pricing of funds.

The purpose of this manual is to explain the principles and practices we adopt in the management of our unit-linked funds, in particular:

- ▶ to explain the nature and extent of the discretion available; and
- ▶ to give a knowledgeable observer (e.g. a financial adviser) an understanding of the mechanics of an investment in a unit-linked policy with the Society.

The manual covers the funds listed in Appendix A. Each of these funds may have different charging structures. Appendix A details the current methodology behind those charges.

To fully understand how we operate our unit-linked funds, the reader should consider the whole manual and not just selected sections. Principles should be read along with their associated practices.

However, this manual is not a comprehensive explanation either of our management of the unit-linked funds or of every matter which may affect those funds.

No part of the manual should be read as a recommendation to policyholders or potential policyholders or their advisers in relation to effecting or maintaining a unit-linked policy.

Accordingly, any person considering whether to effect or maintain a unit-linked policy with the Society should seek financial advice.

A customer friendly guide is available for download from the Society's website at the link below:

<https://www.wesleyan.co.uk/pdf/34114/how-our-unit-linked-funds-work>

2. Defining Principles and Practices

The Principles detailed in each section of this manual define the standards we adopt in managing the Society's unit-linked funds for current and future policyholders, and describe the approach used:

- ▶ in meeting our duty to unit-linked policyholders, and
- ▶ in responding to longer term changes in the business and economic environment.

The Practices detailed in each section of this manual describe the approach used:

- ▶ in managing the unit-linked funds, and
- ▶ in responding to changes in the business and economic environment in the shorter term

to meet those principles.

We may amend the contents of the manual in the future as the Society's circumstances change, business or economic environments alter, to reflect new product launches, or to reflect changes in the management of the unit-linked funds.

Our current practices are driven by the terms and conditions stated in policy documentation and by other communications to policyholders.

Where policy conditions state that we will inform policyholders of changes in advance of the change being made, we will do so and detail the actual or potential impact on their policies.

In other situations where we change practices, we may choose to inform policyholders, depending on the nature and materiality of the change. Where the impact of the change is material, we will normally inform policyholders before the change is made. In other cases, we will notify policyholders within a reasonable period after the effective date of the change, for example in their next annual statement.

The most important aspects of this manual have been summarised in a policyholder version. We will inform policyholders of the existence of this summary in their annual statements. It is also available for download from the Society's website at the link below:

<https://www.wesleyan.co.uk/pdf/34114/how-our-unit-linked-funds-work>

3. Calculating Unit Prices

3.1 Introduction

In this section we describe the way in which we value the Society's unit-linked funds. We consider the way that we value the assets in each fund and the methods we use to work out the unit price from the asset value.

3.2 Principles

Our overall principle in calculating unit prices is to ensure that we treat all policyholders fairly. We aim to:

- ▶ provide a fair valuation of the assets within a fund;
- ▶ allow for charges and expenses borne by the fund appropriately;
- ▶ provide a fair price to policyholders on purchase and sale of units;
- ▶ use a fair and transparent method of unit pricing; and
- ▶ minimise any cross-subsidy between policyholders of individual funds.

We may change these principles and the methods used to achieve them if circumstances change. We will only do so if the changes are compatible with treating customers fairly, and only with the approval of the Society's Board.

3.3 Practices

In general, the practices detailed below apply equally to both *Wesleyan Funds* and *Medical Sickness Funds*. Where there are differences between the funds the relevant detail is given.

3.3.1 Fund Valuations

At least once a month we calculate a value for each unit-linked fund. For most unit-linked funds a maximum and a minimum value is also calculated. For most funds this valuation is normally carried out every working day using recognised and independently assessed asset prices. We do not carry out valuations on UK Bank Holidays.

3.3.2 Maximum and Minimum Fund Valuations

The maximum valuation of a fund is equal to the cost of acquiring the relevant portfolio of assets, less the relevant accrued management charge. In calculating the cost of acquiring the portfolio of assets, due allowance is made for cash balances, notional dealing expenses, accrued income, dividends and any rebates, taxation (if appropriate), transactions awaiting settlement and any other miscellaneous items.

The minimum valuation of a fund is equal to the value derived from (notionally) selling the relevant portfolio of assets, less the relevant accrued management charge. In calculating the value from selling the portfolio of assets, due allowance is made for cash balances, notional dealing expenses, accrued income, dividends and rebates, taxation (if appropriate), transactions awaiting settlement and any other miscellaneous items.

In calculating these minimum and maximum values, calculation methods are defined to ensure there is no double charging of the fund in respect of expenses.

3.3.3 Pricing Basis

We will normally value a unit-linked fund using the maximum value if we believe the fund is expanding (i.e. there is more money coming into the fund than leaving it). This is sometimes referred to as pricing on an Offer Basis.

We will normally value a fund using the minimum value if we believe the fund is contracting (i.e. there is more money leaving the fund than coming into it). This is sometimes referred to as pricing on a Bid Basis.

We keep the pricing bases of the funds under regular review. It may be appropriate to switch the pricing basis if changes in the flow of monies (in or out of the fund) occur. A decision to change the pricing basis is generally taken only after a sustained period of expansion or contraction against the current basis.

3.3.4 Asset Values

Unit Trusts and Open Ended Investment Companies (OEICS)

Units or shares in a collective investment scheme (e.g. Unit Trusts or OEICS) are valued as follows:

The price used is the most recent Net Asset Value (NAV) quoted by the Unit Trust provider. An appropriate adjustment is made to this price in respect of dealing costs.

Any other investment quoted on a recognised investment exchange

Any other investment quoted on a recognised investment exchange is valued as follows:

If a *single price* is quoted for buying and selling the security, the price used is that price; or

If separate buying and selling prices are quoted by the exchange: if pricing on a bid basis the price used is the exchange's buying price; if pricing on an offer basis the price used is the exchange's selling price.

Property

Property is valued on 31 December each year by the Society's appointed valuers at a value that the valuers believe represents a fair and reasonable value. The capital value is adjusted quarterly using the MSCI index. An independent valuation is also performed every five years by an external company to ensure the internal valuation is not significantly out of line with market conditions. We may choose to conduct our internal valuation on a more frequent basis if there is significant market volatility. Rental income is accrued daily for asset valuations.

Cash

Cash and amounts held in current and deposit accounts and in other time-related deposits are valued at their nominal values. Where the deposit is in a foreign currency we use a mid-market foreign exchange rate for conversion into sterling.

Other Current Assets

Other current assets are valued as follows:

- ▶ Accrued income, accrued interest and accrued rebates are valued using the nominal value accrued to the valuation point (see 3.3.11)
- ▶ Transactions awaiting settlement and any other miscellaneous items are valued using appropriate market values as at the valuation point.

Unquoted Stocks

In certain situations, it may not be possible to obtain the market value of a security; for example, it may no longer be quoted on a recognized stock exchange. In these circumstances a fair value will be determined and applied.

3.3.5 Charges and ExpensesAnnual Management Charges (AMCs)

Unit prices include an allowance for the AMC appropriate for each unit-linked fund. The current level of charges can be found on the fund factsheets and how they are applied is set out in Appendix A.

The AMC is normally taken daily by multiplying the total opening net asset value of that day by the current annual charge divided by 365. The unit price quoted will be after allowing for the AMC.

Where policy conditions specify an AMC that is higher than that charged to the unit-linked fund units equal in value to the difference are deducted from the policyholder's unit account.

Similarly, where policy conditions specify an AMC that is lower than that charged to the unit-linked fund units equal in value to the difference are credited to the policyholder's unit account.

Initial Charges and dealing expenses

For *dual priced funds* there is an initial charge equal to the difference between the *Bid Price* and the *Offer Price*. The charge is no greater than 5% of the *Offer Price* plus a rounding adjustment of no more than 0.1pence (see Appendix A).

For *single priced funds* the *Bid* and *Offer Prices* are equal and any initial charge the Society may take is charged separately.

An appropriate allowance for dealing costs is included in the calculation of unit prices (see section 3.3.2).

Unit Trust (and other) expenses

Some unit-linked funds invest in external Unit Trusts. These underlying assets incur various expenses that impact on the price of the fund.

The expenses incurred by the underlying Unit Trust can include:

- ▶ Registrar Fees
- ▶ Custody Transaction Charges
- ▶ Handling Charges
- ▶ Trustee Fees
- ▶ Bank Charges
- ▶ Interest Charges
- ▶ Audit Fees
- ▶ Stamp Duty Reserve Tax
- ▶ Broker Commission
- ▶ Administration Charges
- ▶ Other regional charges

The impact of these expenses on the underlying unit trust (and hence the unit-linked price) will vary from one unit trust to another.

3.3.6 Dilution Levies

Dilution levies are not currently charged on any funds in the fund range. However, the Society retains the right to charge these levies in the future, should the extent of the *dilution* become material.

3.3.7 Basis for creating or cancelling units

When the number of units in the fund is increasing, we will normally create additional units using an unrounded *Bid Price* on an Offer Basis. When the number of units in the fund is reducing, we will normally cancel units using an unrounded *Bid Price* on a Bid Basis.

When creating or deleting units we ensure that existing policy values are not affected.

If there are delays in creating or cancelling units because of administration problems or backdated transactions, the profit or loss is borne by the Society, not the fund.

3.3.8 Policyholder Unit Allocation

Policy conditions will specify an effective date at which unit transactions are deemed to apply. The unit price used for these transactions will be the unit price for the effective date.

Where the effective date is dependent upon the day that policyholder written instruction is received then: if written instruction is received before 4pm on a particular working day then it is deemed to be received on that day; if written instruction is received after 4pm on a particular working day or if it is received on a non-working day, then it is deemed to be received on the next working day.

The Society aims to ensure that as far as possible processing delays are kept to a minimum. However, the price that the policyholder receives on a delayed transaction is the same as that which they would have received if there had been no such delay.

3.3.9 Rounding of Prices

For *Wesleyan Funds (Original Range)*, *Bid* and *Offer* prices are rounded to the nearest 0.1 pence.

For *Wesleyan Funds (2012 Range)* prices are rounded up to the higher 0.1 pence.

For *Medical Sickness funds*, *Bid* prices are rounded up to the higher 0.1 pence and *Offer* prices are rounded down to the lower 0.1 pence.

3.3.10 Prices used for Internal Deals

Some unit-linked funds hold units in other funds in the same range. This is to allow a fund to gain exposure to a certain type of investment without directly holding those investments and incurring extra management costs. The units held in this way are known as *Inter Fund units* and have separate unit prices. Inter Fund units have a lower or zero AMC so that there is no double charging.

Currently the Medical Sickness Life Managed Fund and Pensions Managed Fund hold *Inter Fund units* in the following direct funds (life or pensions as appropriate):

- ▶ Medical Sickness UK Equity Fund
- ▶ Medical Sickness North American Fund
- ▶ Medical Sickness Far Eastern Fund
- ▶ Medical Sickness European Fund
- ▶ Medical Sickness Fixed Interest Fund.

Currently the Wesleyan Moderate-High Risk/Reward Fund and Wesleyan Higher Risk / Reward Fund (both life and pensions) hold *Inter Fund units* in the following direct funds (life or pensions as appropriate):

- ▶ Wesleyan Government Bond Fund
- ▶ Wesleyan Corporate Bond Fund
- ▶ Wesleyan UK Shares Fund
- ▶ Wesleyan UK Higher Risk Shares Fund
- ▶ Wesleyan UK Smaller Companies Fund
- ▶ Wesleyan European Shares Fund
- ▶ Wesleyan North American Shares Fund
- ▶ Wesleyan Japanese Shares Fund
- ▶ Wesleyan Asian (ex. Japan) Fund
- ▶ Wesleyan Emerging Market Shares Fund

Internal deals take place at the unrounded inter fund *bid price*.

3.3.11 Timing of Price Changes

All Funds are valued using closing prices

The prices for the Wesleyan Life Managed Fund, Life Deposit Fund and the Wesleyan Risk Averse Life Fund apply to the next working day after the valuation.

The prices for the Wesleyan Pension Managed Fund, Pension Deposit Fund and the Wesleyan Risk Averse Pension Fund apply to the day of the valuation.

The prices for the *Wesleyan (2012 Range) Funds* not mentioned above apply to the next working day after the valuation and any intervening non-working days.

The prices for the *Medical Sickness Funds* apply to the day of the valuation.

To preserve the interests of policyholders the Society reserves the right to change the valuation point of any fund if market conditions dictate.

3.3.12 Availability of Prices

Most of our unit-linked fund prices are available to policyholders from the unit prices section of the Society's website (<https://www.wesleyan.co.uk/fund-prices>).

Our unit-linked prices are also available from the following sources:

- ▶ Financial Express
- ▶ Lipper Hindsight
- ▶ Reuters
- ▶ Morningstar

Individual policy valuations are available on request from the Society using the contact details on policy documentation provided to policyholders. Contact details are also available on the Society's website and quoted on annual statements.

4. Use of Discretion for unit-linked business

4.1 Introduction

Appropriate management of unit-linked business will at times mean that discretionary actions are necessary. In this section we outline the scope of and limits to the Society's discretion in managing unit-linked funds.

The Society's Board carries ultimate responsibility for oversight and management of the Society's unit-linked funds. The Society's Chief Product Officer (see Appendix B) has been nominated by the Board as being responsible for ensuring policy is applied and monitored appropriately on an ongoing basis.

4.2 Principles

The overall principle that we aim for in exercising discretion is to ensure that we treat all policyholders fairly. We aim to:

- ▶ operate the funds according to the published criteria and standards;
- ▶ disclose the scope of the Society's discretion in managing unit-linked funds;
- ▶ ensure that any change to the objectives and methods of managing unit-linked funds only happens when we believe it to be consistent with treating customers fairly.

Any change to the objectives and methods of managing the funds can only be made with the approval of the Board.

4.3 Practices

4.3.1 Launching Funds and seeding with Capital

New funds are occasionally added to the *Wesleyan fund* range to reflect changing customer requirements. To enable a new fund to operate effectively through a diversified portfolio of assets prior to having received substantial investment, the fund will be "seeded" with sufficient capital to follow its Investment Mandate, to reduce operational risk if the fund expands quickly and to ensure an acceptable initial total expense ratio.

Once the fund has received sufficient policyholder investment to allow it to run a reasonably diversified investment strategy, the seeding capital will be returned.

When launching a new fund, we will ensure clarity of the published fund aims and the Investment Mandate as well as ensuring the name of the fund is consistent with the aims and the mandate.

4.3.2 Allowance for Dealing Costs

Notional dealing costs are included in the calculation of prices. These allowances are based on market levels and are reviewed at least annually by the Director of Investments and Valuation Actuary.

4.3.3 Unit Price Rounding

Policy documents generally give discretion to the Society in determining the appropriate level of rounding in unit prices.

For Wesleyan unit-linked funds the Society exercises this discretion so that the effect of rounding is overall, neutral:

- ▶ to different groups of policyholders invested in the same unit-linked fund (e.g. to those purchasing, maintaining or encashing units);
- ▶ to both policyholders and the Society.

The Society's current rounding practice including how we round Medical Sickness unit-linked fund prices is detailed in section 3.3.9.

4.3.4 Application of annual management charges and expenses

Policy documents outline any discretion that the Society has in determining the charges and expenses that can be applied to the fund, and the scope that the Society has to change the level of charges taken.

We will give at least one month's notice in writing to those policyholders affected before changing the level of annual management charges deducted from a unit-linked fund.

We will not increase the charges on any fund where the policy wording of the policies investing in the fund do not allow such an increase.

4.3.5 Taxation

The details of how we exercise discretion in relation to the allowance in unit pricing for taxation are covered in Appendix C.

4.3.6 Criteria for moving funds between Bid and Offer bases

We have the discretion to price funds on either a Bid Basis or an Offer Basis. The way we exercise this discretion is set out in 3.3.3.

4.3.7 Closing or Merging Funds

There may be circumstances when we decide to close or merge funds. These circumstances may include small fund sizes leading to high total expense ratios for policyholders, operational considerations, corporate changes (e.g. company mergers or group reorganisations), governance reasons (e.g. continued poor performance), or external events (e.g. closure of suitable underlying external funds)

When making decisions to close or merge funds we will take into account considerations such as:

- ▶ Sufficient consistency of fund investment aims and risk profile between the merging funds
- ▶ Policy conditions regarding rights to close funds and notice periods
- ▶ The implications for future tax charges relative to the un-merged state
- ▶ Any differences in allowable charges/deductions or past practices

- ▶ The implications for future choices of pricing basis (bid or offer) and the impact on different groups of policyholders
- ▶ Whether to execute the merger by cash or in specie transfer, and any phasing (e.g. to minimise dilution levies borne by the funds)
- ▶ Valuation prices for hard-to-value or illiquid assets, particularly if they form a significant part of any of the merging or closing funds
- ▶ Communications, including any default if no customer action is taken and any free switches being offered

Regardless of policy conditions we will give policyholders at least one month's notice in writing (or any longer period outlined in their policy conditions) of any such change.

4.3.8 Internal asset deals between two unit-linked funds

From time to time it may be appropriate to deal between two unit-linked funds rather than buy and sell the underlying assets in the market (thus avoiding dealing costs). Any financial benefits of conducting transactions in such a manner are shared appropriately between the two funds.

The Society does not take a share of any such benefits.

4.3.9 Asset Valuation

Assets are normally valued in line with the practices in Section 3. However, there may be times when a fair market value for assets is not available (e.g. valuation of shares which have been suspended from trading). In these situations, we will place a fair estimate on the value of the assets.

4.3.10 Asset allocation and Investment Strategy

Each unit-linked fund has an objective and Investment Mandate that the Director of Investments aims to meet. It is also likely to have limits in terms of the type of assets in which it can invest. These Investment Mandates prohibit any participation in stock lending.

The objectives of each fund will be disclosed to policyholders at outset in point of sale information. Fund fact sheets are also available from the Society's website <https://www.wesleyan.co.uk/fund-prices>. Further details on objectives and limits, including the Investment Mandate are available on request.

Regular monitoring is carried out to ensure that each fund remains invested in line with its Investment Mandate and that any breaches are reported and rectified as soon as possible.

The majority of each fund's assets are easily realisable in normally functioning markets. The criteria are set out in the Society's Liquidity Policy and compliance with this policy is monitored and reported monthly.

4.3.11 Choice of valuation point

The Society's choice of valuation point for each unit-linked fund is outlined in Section 3.3.11.

4.3.12 Response to Adverse Events or significant movements in asset prices

If a significant adverse external event results in the unavailability of market values for some assets or raises questions about the appropriateness of those values, we may act to ensure fairness to customers leaving, staying in and joining a fund.

Actions that may be taken include, but are not limited to:

- ▶ Deferral of transactions with policyholders;
- ▶ Temporary suspension of unit price;
- ▶ Divergence from stated investment strategy
- ▶ Repricing on a particular day

Deferral of transactions will only be used when necessary to ensure fairness and will consider:

- ▶ The ability of the fund to trade assets at a fair price in line with customer transactions;
- ▶ The level of customer transactions being experienced;
- ▶ Maintaining an asset portfolio that is appropriate for customers and in line with the fund aims
- ▶ Deferral rights as set out in customer terms and conditions;
- ▶ Communication to policyholders, particularly those paying premiums into the fund;
- ▶ Whether all transaction on that fund are deferred or whether some transactions will be allowed to continue as normal (e.g. maturities).

If any asset value is unavailable unexpectedly, for example an external unit trust price has not been provided, we may choose to make an adjustment to the previous day's value.

4.3.13 Complaint resolution

Any complaints regarding the operation of the unit-linked funds will be dealt with in line with the Society's normal complaints procedures which are in line with industry standards. Details of our complaints procedure are available on request and are also available for download from the Society's website.

4.3.14 Correction of pricing errors

Details of the principles and practices that the Society applies to correction of unit pricing errors are covered in Section 5.

4.3.15 Breach of policy conditions

If we become aware of a breach of policy conditions, we will correct these as soon as reasonably practical after they are identified.

4.3.16 Review of Scope of Discretion

The scope of discretion will be reviewed annually or upon a significant change to the fund or investor base.

5. Error Correction

5.1 Introduction

Daily checks are in place to identify errors in unit pricing before they can have an impact on investors. However, errors may still occur occasionally.

In this section we describe how we address any unit pricing errors which arise.

5.2 Principles

We will endeavour to correct all pricing errors (or any material loss suffered by a unit-linked fund) as soon as practicable once they have been identified.

We will compensate policyholders where they have suffered a material loss.

5.3 Practices

The Society adopts the following criteria for investigating and resolving unit price errors:

The Society defines material errors as those that impact the unit price by more than 0.5%.

All errors are recorded and reported (see 5.4 below).

All errors, including any wider implications and investigations or actions required, are considered by the Unit Pricing Committee.

Practices regarding the investigation of errors are based on the scale of the error.

Price Errors Below 0.1%: Errors impacting prices by less than 0.1% are recorded but their impact on policyholders is not normally investigated. We will however monitor the frequency and source of the error to ensure as far as possible that similar errors do not occur in the future.

Errors between 0.1% and 0.5%: Errors impacting prices by at least 0.1% but less than 0.5% are recorded and investigated for wider implications. Action to put the customer back into the position that they would otherwise have been may be considered but not normally required. The exception would be if we identified a widespread, systemic error likely to have resulted in losses above £50 for individual retail investors,

Price Errors of 0.5% or more: Any such errors are recorded, corrected and fully investigated for wider implications. Action to put the customer back into the position that they would otherwise have been in would normally be taken.

Where a policy remains in force we will normally compensate by adjusting the number of units allocated to the policy. However, if the policy has been paid out in full it may be necessary to make a cash compensation payment.

We will compensate those policyholders who have been disadvantaged by more than our "de minimis" limit, currently £10.

Where appropriate, compensation is paid from the Society rather than the unit-linked fund itself so that other policyholders investing in the unit-linked fund are not adversely affected.

In situations where a policyholder has gained from an error, the Society retains the right to reclaim the amount of over payment or over allocation from the policyholder.

5.4 Reporting

All errors will be reported to the Chief Product Officer and Compliance Officer. They will also be summarised in a report to the Chief Product Officer on an annual basis along with details of any rectifying actions taken.

Where significant or persistent failings have occurred, we will share the information with the Financial Conduct Authority.

Appendix A

A.1 Application of Annual Management Charges and Initial Charges

This section details the funds that the Society currently manages. Each policy will be invested in some but not all of these individual funds. Information is provided on

- ▶ how the annual management charge is applied
- ▶ whether the funds are single or *dual priced*

Details of the current annual management charge applied to these funds per annum can be found in the fund fact sheets on our website:

<https://www.wesleyan.co.uk/fund-prices>

A.2 Wesleyan Funds (Original Range)

A.2.1 Wesleyan Life Managed Fund and Pension Managed Fund Series 1

The annual management charges in these funds are taken daily through a deduction in the unit price.

This fund is *dual priced* with a bid/offer spread of 5% plus a rounding adjustment of no more than 0.1 pence.

A.2.2 Wesleyan Managed Pension Fund Series 2, 3, 4 and 5

The annual management charges in these funds are taken daily through a deduction in the unit price.

These funds are *single priced* (i.e. there is no bid/offer spread).

A.2.3 Wesleyan Life Deposit Fund and Pension Deposit Fund Series 1

The annual management charges in these funds are taken daily through a deduction in the unit price.

This fund is *dual priced* with a bid/offer spread of 5% plus a rounding adjustment of no more than 0.1 pence.

A.2.4 Wesleyan Pension Deposit Funds Series 2, 3 and 4

The annual management charges in these funds are taken daily through a deduction in the unit price.

These funds are *single priced* (i.e. there is no bid/offer spread).

A.3 Wesleyan Funds (2012 Range)

For the funds listed below the management charges in these funds are taken daily through a deduction in the unit price. All the funds are *single priced*.

There are Pensions and Life forms of each fund, and two series of each of the Pensions funds.

Wesleyan Risk Averse Fund
 Wesleyan Low Risk / Reward Fund
 Wesleyan Moderate-High Risk/Reward Fund
 Wesleyan Higher Risk / Reward Fund
 Wesleyan Government Bond Fund
 Wesleyan Corporate Bond Fund
 Wesleyan UK Shares Fund
 Wesleyan UK Higher Risk Shares Fund
 Wesleyan UK Smaller Companies Fund
 Wesleyan European Shares Fund
 Wesleyan North American Shares Fund
 Wesleyan Japanese Shares Fund
 Wesleyan Asian (ex. Japan) Fund
 Wesleyan Emerging Market Shares Fund
 Wesleyan Ethical Shares Fund

A.4 Medical Sickness Funds

For the fourteen funds listed below the management charges in these funds are taken daily through a deduction in the unit price. All of the funds are *dual priced* with a bid/offer spread of no more than 5%.

MSS Life UK Equity Fund
 MSS Life North American Fund
 MSS Life Far Eastern Fund
 MSS Life European Fund
 MSS Life Fixed Interest Fund
 MSS Life Money Fund
 MSS Life Managed Fund

MSS Pension UK Equity Fund
 MSS Pension North American Fund
 MSS Pension Far Eastern Fund
 MSS Pension European Fund
 MSS Pension Fixed Interest Fund
 MSS Pension Money Fund
 MSS Pension Managed Fund

Appendix B Our Governance Structure for unit-linked business

B.1 Society's Board

In addition to their other responsibilities, the Society's Board (the Board) carries ultimate responsibility for oversight and management of the Society's unit-linked funds. The Board adopts policies to ensure policyholders are treated fairly.

B.2 Chief Product Officer

The Society's Chief Product Officer has been nominated by the Board as having overall responsibility for the accuracy of unit pricing calculations and any decisions involving the use of discretion.

The Chief Product Officer is also responsible for reviewing *box positions* on the Society's unit-linked funds.

Within limits, some of the responsibility for *box management* and use of discretion will be delegated to the Director of Investments, Head of Product Strategy and Valuation Actuary.

B.3 Director of Investments

The Director of Investments has overall responsibility for managing each unit-linked fund in accordance with its fund objectives and Investment Mandate.

The Director of Investments also:

- ▶ Makes suggestions on *box management* to Valuation Actuary.
- ▶ reviews the allowance for dealing costs included in the calculation of unit prices
- ▶ contributes to the Valuation Actuary annual report to the Chief Product Officer regarding compliance with the principles and practices as set out in this manual. A copy of this report is also provided to the Society's Risk and Regulatory department.

B.4 Valuation Actuary

The Valuation Actuary has responsibility for performing daily checks on the unit prices calculated.

The Valuation Actuary also:

- ▶ makes, within limits, discretionary decisions on *box management*, error handling and compensation
- ▶ provides an annual report to the Chief Product Officer regarding compliance with the principles and practices as set out in this manual and the application of controls over the pricing function.

The Society will determine the person carrying out the role of Valuation Actuary from time to time.

B.5 Investment Operations Manager

The Investment Operations Manager has responsibility for daily valuation of the assets and liabilities for each unit-linked fund and deriving the unit prices from these valuations.

The Investment Operations Manager also contributes to the Valuation Actuary annual report to the Chief Product Officer regarding compliance with the principles and practices as set out in this manual.

The Society will determine the person carrying out the role of Investment Operations Manager from time to time.

B.6 Executive Committee

The Executive Committee has the responsibility to define standards for the operation of the fund, and for oversight of the operations of systems and controls.

B.7 Investment Committee

The Investment Committee reviews investment strategy and performance for the unit linked funds.

B.8 Corporate Audit

The Corporate Audit department is responsible for providing independent assurance over the management of risks around unit linked business and associated processes.

B.9 Compliance Officer

The Compliance Officer is responsible for providing oversight of the adequacy and effectiveness of the measures and procedures put in place to ensure that the business complies with the principles and practices as set out in this manual and that these are designed to ensure customers are treated fairly.

The Compliance Officer is assisted in this role by the Chief Risk Officer and members of the Risk and Regulatory departments.

B.10 Unit Pricing Committee

The purpose of the Unit Pricing Committee is to provide operational oversight of the Society's daily unit pricing activities.

This will be achieved through:

- ▶ monitoring and reviewing the operational effectiveness of unit-pricing processes
- ▶ reviewing the effectiveness of the Society's unit-linked business principles and practices in treating customers fairly
- ▶ reviewing the ongoing compliance of the Society's unit-linked business principles and practices with regulatory rules and guidance

The Unit Pricing Committee is also required to monitor and review any unit-pricing matters escalated by the Chief Product Officer, Chief Risk Officer or Compliance Officer.

Appendix C Taxation of unit-linked funds

C.1 Introduction

In this section we describe the way in which we allow for tax when pricing unit-linked funds.

We are charged tax on the investment income and capital gains that are received on the investments held in Life funds. We receive tax relief on expenses that are attributable to these funds.

C.2 Principles

The overall aim of our tax charging methodology is to ensure that all tax allocations are fair between different funds and between different groups of policyholders.

We seek to pass on to the fund the actual tax that will be charged as the underlying event arises. If the actual charge is not known (e.g. because it will not be incurred until some later date), we will estimate the charge to the fund, allowing for any timing difference.

The scope and nature of the taxation of unit-linked life funds may be subject to change over time.

We take the following factors into account:

- ▶ The impact of tax balances in the fund as these can distort the risk profile of the fund (e.g. through gearing)
- ▶ Ensuring consistency with current tax rates and tax regime (with changes being implemented from the effective date of the change, unless equity demands otherwise)
- ▶ Placing an appropriate value on deferred tax assets and liabilities
- ▶ Ensuring that the value of the fund takes account of any appropriate tax relief attributable to asset classes held in the fund.
- ▶ The need for procedures that are operationally robust, bearing in mind that taxation deals with future events whose outcome is uncertain

C.3 Practices

C.3.1 Taxation of Investment Income

Investment income received includes:

- ▶ dividends from shares
- ▶ rental income from property
- ▶ coupons from fixed interest investments
- ▶ rebates of management charges from underlying Unit Trusts and OEICs
- ▶ distributions from underlying Unit Trusts and OEICs
- ▶ profits and losses on fixed interest securities
- ▶ income on cash deposits held

Tax is charged on investment income at the current policyholder tax rate. Dividends from UK equities and the income element of UK dividends from Unit Trusts and OEICs are not currently subject to any additional tax having already been received net of tax.

C.3.2 Capital Gains Taxation

A capital gain occurs when an underlying asset (e.g. equities or property) is sold (or deemed to be sold) at a higher price than it was bought (after indexing the purchasing price in line with inflation). Tax is due on the chargeable gain at the current policyholder tax rate.

To treat all unit holders equitably, it is necessary to make an allowance within the unit price for expected future capital gains tax payments on assets of the unit-linked fund that have increased in value but have not yet been sold.

In practice, a certain amount of approximation is necessary to make an appropriate allowance for unrealised capital gains tax. However, we try to ensure that the unit pricing process incorporates a fair allowance for capital gains tax on unrealised gains by considering the tax that will be payable at the point when the underlying asset is expected to be sold. In practice, this may mean we discount the tax rate to take into account an estimate of the average time until gains will be realised. Allowance is also made for special tax rules relating to capital gains on collective investment schemes such as unit trusts or OEICS.

A capital loss occurs when an asset is sold at a lower price than it was bought. In certain circumstances, capital losses can be used to offset capital gains and hence reduce the amount of capital gains tax payable and we make appropriate allowance for this.

C.3.3 Expense relief

Relief for management expenses incurred by the fund is granted at the current policyholder tax rate.

Appendix D Box Management

D.1 Introduction

In this section we describe how we use a “*box*” in the management of our unit-linked business. The benefit of holding a *box* is that it enables greater flexibility, namely:

- ▶ On a day to day basis units can be allocated or de-allocated to policies without delay and without having to buy or sell the underlying assets. This reduces the dealing expenses to the fund.
- ▶ Purchases and sales of the underlying assets can be delayed until the underlying asset prices are more favourable.

D.2 Principles

We may hold a *box* to reduce the cost to the fund of either making a series of small transactions or holding fluctuating levels of cash in the fund.

A *box* may also be used when the short-term trend of unit transactions is different to that assumed in the current pricing basis.

The units in the *box* are owned by the Society’s Estate. We manage the *box* only to achieve the benefits mentioned above for our unit-linked policyholders, and not for the benefit of the Society or its with profits policyholders.

D.3 Practices

The Society currently operates a *box* on all its unit-linked funds (see Appendix A for the full list of funds currently operated by the Society).

We set lower limits for the size of the *box* and these are monitored at least weekly. The lower limit for each unit-linked fund will be at least zero, although there is no lower limit for individual unit series within a unit-linked fund. There is no absolute upper limit for the overall size of the *box* held. However, the *box* actually held for each fund will reflect the size of that fund and take into account the typical size of transactions in that fund.

D.4 Reporting

Any deviation from the above limits is recorded and reported to the Head of Financial Risk.

Appendix E Glossary

The section explains some of the terms and expressions used in the manual.

Bid Price

The price at which units are redeemed by policyholders.

Box

The box of a unit-linked fund is the additional units the Society holds in excess of those allocated to policyholders.

Box Management

Box Management reflects how the Society chooses to manage the size of the box position (see below).

Box Position

The box position is the value of the additional units held in excess of those allocated to policyholders at any particular time.

Dilution

When a fund is *single priced* (see below), the prices of its units are calculated using the mid-market prices of the underlying assets held by the fund. However, the actual cost of purchasing or selling a fund's assets and investments may deviate from the mid-market value used in calculating the unit price due to dealing charges, taxes, and any spread between the buying and selling prices of the investments. These costs may have an adverse effect on the value of the fund known as 'dilution'.

Dilution Levies

Reduce the effect of *dilution* either by paying the amount into the fund or by making a separate charge to policyholders when they buy or sell units in a fund. The amount of the levy is paid into the fund for the protection of existing /continuing policyholders.

Direct Fund Unit Prices

These prices are used to allocate or de-allocate units held directly by policyholders (see 3.3.8).

Dual Priced Funds

These funds have two prices (an *offer price* and a *bid price*) that are used for allocations and de-allocations to/from policyholder unit accounts (see Appendix A).

Inter Fund Units

Where one unit-linked fund (such as a managed fund) owns units in another unit-linked fund, inter fund *bid* and *offer prices* are calculated for the purposes of *internal deals* (see below).

Internal Deals

An internal deal occurs when one unit-linked fund buys or sells units in another unit-linked fund.

Medical Sickness Funds

These are the unit-linked funds initially set up by Medical Sickness Society prior to the merger with Wesleyan Assurance Society in 1997. These funds are listed in Appendix A.

Offer Price

The price at which units are sold by the Society to policyholders.

Single Priced Funds

These funds have a single price that is used for both allocating and de-allocating units to policies. Any initial charge the Society may take is charged separately, rather than being included within the difference between the buying and selling prices (the spread) which is the case with *dual pricing*.

Wesleyan Funds (Original Range)

These are the unit-linked funds initially set up by the Society and are listed in Appendix A: the Managed and Deposit funds. See also *Medical Sickness Funds* and *Wesleyan Funds (2012 Range)*.

Wesleyan Funds (2012 Range)

These are the unit-linked funds set up by the Society for investment from 9 January 2012 into a wide range of investments tailored to each customer's risk appetite. These funds, are available for both life and pensions investments. See also *Medical Sickness Funds* and *Wesleyan Funds (Original Range)*.