



How we manage our unit-linked funds

- a statement of the criteria and standards applied by Family Assurance Friendly Society Limited [Family] (including the Post Office Insurance Society [POIS]) when managing its unit-linked funds

***13th July 2010
V2.0***

This document provides details of the criteria and standards that we use in the management of all our [unit-linked funds](#). We are committed to communicating openly and honestly with all of our members and this document forms part of this communications strategy.

For the majority of our customers, we believe that the information we supply directly to a person taking out a policy in the literature we provide is enough to provide a good understanding of the product and the general operation of the fund in which it is invested.

The purpose of this document is to provide fuller, more technical, explanations of our current policies and procedures surrounding the operation and management of our [unit-linked funds](#).

It should be noted that the criteria and standards outlined in this document describe our current policies and we may change them if we decide it is appropriate to do so. We will only make changes if those changes are compatible with the principle of treating customers fairly, and, if the change is material, only with the approval of the Committee of Management.

We will, of course, notify relevant investors of any significant changes to the criteria and/or standards within a reasonable period after they become effective unless stated otherwise in this document. Any such notice will usually be provided in the next annual statement.

If you would like further information or clarification on any matter contained in this document, please feel free to contact our Family Customer Service Team on **08448 920920*** or our POIS Customer Service Team on **01273-222502**** Please note, however, that we do not provide advice, so if you are considering investing in one of our products and you are unsure about its suitability, you should speak to a financial advisor.

Other than in relation to the basis or frequency with which we may value our [unit-linked funds](#), none of the contents of this document forms part of, or varies, the terms and conditions of any policy issued by us. Similarly, none of the contents of this document forms part of, or varies, the Rules and Tables of the Society. In the event of any inconsistency between the contents of this document, the policy terms and conditions, and the Rules and Tables of the Society, the Rules and Tables of the Society will prevail.

** Open 9am-5.30pm weekdays and 9am-12pm Saturdays (calls may be monitored or recorded for training purposes). Calls cost 9.9p plus 3p per minute from a BT landline (correct at 06/05/2010). The cost of non-BT landline calls may differ.*

*** Open 9am-5pm weekdays (calls may be monitored or recorded for training purposes).*

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Glossary

AMC – Annual Management Charge

Annual Management Charge – A charge levied for administering the product and managing the fund. The amount of the charge is quoted as an annual percentage but is deducted from the value of the fund on a daily basis.

Appropriate Personal Pension – This is a type of special personal pension used by an individual when they wish to opt out (“contract-out”) of the State Second Pension (previously known as SERPS).

Bid price – Except where the fund has a [mid price](#), the price at which you would sell your units

Cancellation price - A term used to refer to the cost of cancelling a unit, based on selling the underlying assets within a [unit trust](#). Units are “cancelled” where there is a greater demand to sell units than there are units being purchased on a given day.

CIS – Collective Investment Scheme

Collateral - Assets accepted as security for a loan or other obligation.

Collective Investment Scheme – A collective investment scheme is a way of investing money that allows a large number of people to invest in a wide range of investments while sharing the costs of doing so.

Creation price – A term used to refer to the cost of creating a unit, based on the cost of buying the underlying assets within a [unit trust](#). The [offer price](#) on a [unit trust](#) is usually the creation price plus the initial charge. Units are “created” where there is a greater demand to purchase units than there are units being sold on a given day.

CTF – Child Trust Fund. A type of savings and investment account for children introduced by the Government and available for children born on or after 1st September 2002.

Custodian – An agent, bank, trust company, or other organisation which holds and safeguards a fund’s [assets](#).

Forward pricing - Forward pricing is when the unit price for a transaction is calculated **after** we have received the relevant instruction. Forward pricing means that an up-to-date value will be reflected in the unit price that members receive for any transaction they instruct us to carry out. It also means, however, that members will not know in advance what price will be used for a particular transaction.

Historic pricing - Historic pricing is when transactions are carried out at a known price that is based on an historic valuation of the assets in the fund. Historic pricing means that members can deal at a known price. It also means, however, that the unit price used for a transaction may not exactly reflect the current value of the fund’s assets.

ICVC – ICVC stands for Investment Company with Variable Capital. An ICVC is a type of company or fund specially created to invest in other companies and other investments. If you invest in an ICVC, your money will be pooled together with money from other investors and used to buy different investments. Investors in an ICVC will purchase shares. A share is a share of the total value of the assets held in the fund. The management of an ICVC is overseen by the Authorised Corporate Director (ACD).

Internal funds – [Unit trusts](#), [ICVCs](#) and [unit-linked funds](#) managed by Family, POIS or another of the companies in the Family Assurance group.

Mid price – The price at which you would both buy and sell your units in a mid-priced fund.

Money Market Instruments – Short term investments that provide a set return on maturity in exchange for investing money for an agreed time period.

Net Asset Value – The value of the assets held by a fund, plus any income received by or due to the fund from holding those assets, minus all tax, charges and expenses paid or owed by the fund.

NAV – Net Asset Value

Offer price – Except where the fund has a [mid price](#), the price at which you would buy your units.

Realised Gain - A gain resulting from selling an asset at a price higher than the original purchase price.

Stamp Duty Reserve Tax (SDRT) – When shares are purchased, Stamp Duty Reserve Tax at a rate of 0.5% must be paid. Our [unit trusts](#) are subject to SDRT but our [unit-linked funds](#) are not.

Stock lending agreement - An agreement setting out the terms under which stock transactions can take place. A stock lending transaction is a loan of a stock from one firm to another, who must eventually return the same stock as repayment. Stock lending allows a firm in possession of a particular stock to earn enhanced returns on the stock through lending charges.

Tax-Exempt Savings Policy – A type of policy that only friendly societies can issue. The fund is not subject to corporation tax (although dividends are taxed at source) and the returns are free of personal income tax and capital gains tax.

TESP – Tax-Exempt Savings Policy

Unit-linked fund – A fund whose performance is linked to the assets in which it invests. This is often stocks and shares but can be other types of investment such as property or government or corporate bonds. Unit-linked funds are often invested in a mixture of different types of assets. Investors in a unit-linked fund will purchase units. A unit is a share of the total value of the assets held in the fund.

Unit trust – Very similar to a [unit-linked fund](#) except that it is set up under a “Trust” and has a “Trustee” who looks after the assets on behalf of the investors. Unit Trusts are more heavily regulated by the Financial Services Authority than [unit-linked funds](#).

Unrealised Gain - If you own an investment that has increased in value, your gain is unrealised until you sell and take your profit.

We/us/our – Family Assurance Friendly Society Limited including the Post Office Insurance Society

Working day– Any day of the week not including Saturdays, Sundays and English public (bank) holidays.

You/your – an investor in one of our [unit-linked funds](#)

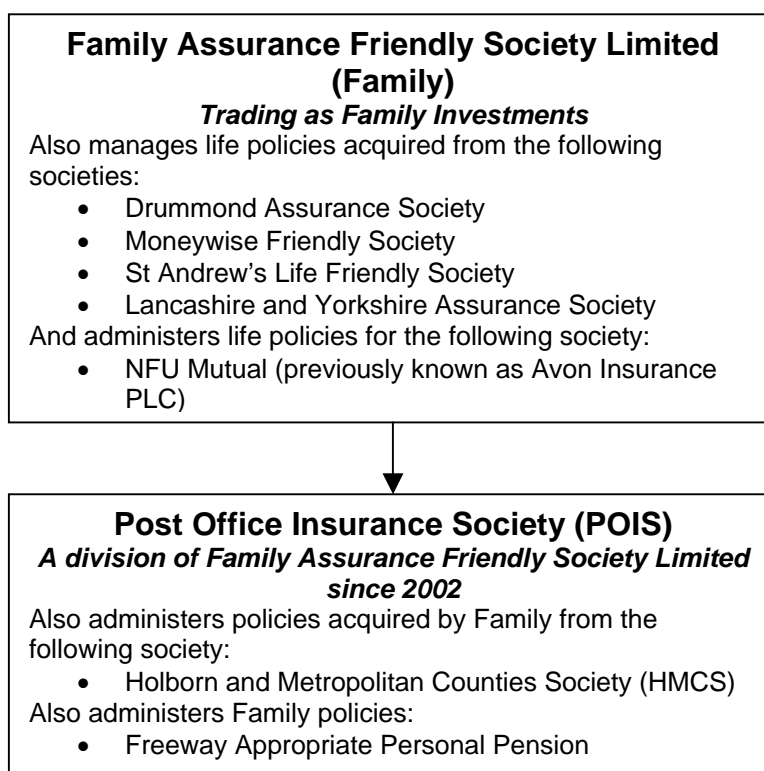
1. Structure of Family and POIS life policy administration

Family Assurance Friendly Society Limited (Family) has grown substantially over the years since its launch as the “Family Assurance Society” in 1975 with its only product, the “Family Bond”, a [tax-exempt savings policy \(TESP\)](#) for adults. Family have subsequently launched various products including [TESPs](#), [unit trusts](#), ISAs and [CTFs](#). Family currently offer two TESPs invested in unit-linked life funds: The Family Bond and the Junior Bond.

Family Assurance Friendly Society Limited currently trades as Family Investments.

In addition, Family has, through mergers and acquisitions, acquired policies from various other societies. One of these societies was the Post Office Insurance Society (POIS), which became a division of Family in 2002. Since then, POIS has not only continued to manage its own book of policies but has also taken on the administration of the policies that Family acquired from the Holborn and Metropolitan Counties Society (HMCS) and Family’s [Appropriate Personal Pension](#) policy, Freeway.

The administrative structure we have developed for the administration of our life policies is described in the diagram below.



POIS currently offer three products that are invested in unit-linked life funds. Two [TESPs](#) (The Tax-Exempt Savings Plan and the Children’s Tax-Exempt Savings Plan) and one taxable life policy (the Savings and Investment Plan).

This document provides details of the criteria and standards for managing those [unit-linked funds](#) which are used for investment by any past or current product of Family or POIS.

2. Governance Structure

2.1 The Committee of Management

The Committee of Management (CoM) has ultimate responsibility for the oversight and management of our [unit-linked funds](#).

The Committee is currently formed of 7 non-executive directors and 5 executive directors. Election or re-election of directors is by majority vote at the Annual General Meeting. Directors stand for re-election every three years (unless they have served in excess of nine years in which case they stand for re-election every year).

The CoM delegate responsibility for the strategic direction and oversight of the investment policy of our [unit-linked funds](#) to the Investment sub-committee.

2.2 The Investment Sub-Committee

The role of the Investment Sub-Committee (ISC) is to provide strategic direction and oversight of the Society's long-term investment policy. The full terms of reference of this committee can be viewed in the Member Information section of our website at <http://www.familyinvestments.co.uk/memberinfo.aspx>.

2.3 The Actuarial function holder

Our [unit-linked funds](#) are also reviewed at regular intervals by an external actuary, the Actuarial Function Holder. He will advise the Committee of Management on the management of the funds including the risks of any fund failing to meet its liabilities or failing to meet policyholder's reasonable expectations.

2.4 Investment Advisers

Our Investment Advisers are currently Santander Asset Management UK Limited. They are responsible for short-term tactical changes in policy, together with decisions over specific stock selection. They provide reports to each meeting of the ISC on their activity and performance

2.5 Internal Audit and Compliance

These departments conduct periodic monitoring of the management of the [unit-linked funds](#) and report their findings to the Committee of Management, Audit Committee and/or Investment Sub-Committee as appropriate.

2.6 Pricing and Dealing Functions

We manage our own pricing and dealing functions in-house, and are therefore responsible for ensuring that targets for accuracy are met and that the application of pricing policies is done in a manner fair to customers.

3. Calculating Unit Prices

3.1 Introduction

3.1.1 Our overarching principle when calculating unit prices for our [unit-linked funds](#) is to treat all our members fairly, in accordance with policy provisions, legislation, insurance regulations and FSA rules and guidance. In doing this, we will ensure that:

- unit prices are calculated in a clear and transparent manner;
- unit prices accurately and fairly reflect the value of the underlying assets
- cross-subsidy between members and individual funds is avoided as far as reasonably possible;
- charges and expenses, income and taxation are recognised appropriately in the price; and,
- the pricing method is fair to both the fund and to individual members

3.2 Valuing the fund and its underlying assets

3.2.1 The value of each of our funds is calculated by valuing the assets it holds on either a bid, an offer or a mid basis. This means that we value the fund using the [bid price](#), [offer price](#) or [mid price](#) of each of the underlying assets.

3.2.2 *Valuing the fund on a bid or an offer basis*

3.2.2.1 For these funds (see [Appendix](#)), the basis we use to value the underlying assets will depend on whether we believe the fund to be expanding (i.e. there is more money entering the fund than leaving it) or contracting (i.e. there is more money leaving the fund than entering it). If we believe the fund is expanding we will value the fund on an offer basis. If we believe the fund is contracting, we will value the fund on a bid basis. The decision to change the pricing basis is generally taken only after a sustained period of expansion or contraction against the current basis.

3.2.2.2 Assets in the fund will then be valued as follows:

- If the asset has a single price, at that price;
- If separate buying and selling prices are quoted, at the [bid price](#) where the fund is valued on a bid basis, and at the [offer price](#) where the fund is valued on an offer basis;
- For units held in a [unit trust](#) managed by us, at the [creation price](#) where the fund is valued on an offer basis, and at the [cancellation price](#) where the fund is valued on a bid basis;
- If the price of the asset is unreliable or no recent price exists, at a value which, in our opinion (having taken advice from our Investment Adviser), is fair and reasonable;
- Cash will be valued at its nominal value.

3.2.3 *Valuing the fund on a mid basis*

3.2.3.1 For funds valued on a mid basis (see [Appendix](#)), assets in the fund will be valued as follows:

- If the asset has a single price, at that price;
- If separate buying and selling prices are quoted, at the average of the two prices;

- For units held in a [unit trust](#) managed by us where separate buying and selling prices are quoted, at the average of the creation and [cancellation prices](#);
- If the price of the asset is unreliable or no recent price exists, at a value which, in our opinion (having taken advice from our Investment Adviser), is fair and reasonable (but see [3.2.5](#));
- Cash will be valued at its nominal value.

3.2.4 **Timing**

3.2.4.1 All Family funds are valued each [working day](#) at 10 am.

3.2.4.2 POIS funds are valued as follows:

- The Family Freeway Managed fund is valued as per Family funds above
- Funds in which ex-HMCS policies are invested are valued at least once a month on the second Monday of each month*
- All other POIS funds are valued at least once a month on the last Thursday of each month except in December when they are valued on the last [working day](#)*

*POIS funds are reviewed daily. If the value in one of the funds falls or rises by more than 2% it will be revalued prior to the normal revaluation date.

3.2.5 **Obtaining values for the underlying assets**

3.2.5.1 It is easy to obtain up to date values for most of the assets held by our [unit-linked funds](#). However, where a fund holds property assets, it is more difficult to obtain an accurate and up-to-date value because of how often those assets are themselves valued. Our funds may hold both investments in external property funds or direct investment in property (see Appendix).

3.2.5.2 Currently, any external property fund(s) are valued on a monthly basis.

The property that our funds hold directly is valued on an annual basis (as at 31st December each year) by independent professional advisors at market value based on vacant possession. Any income received or due to the fund from direct investment in property is applied to the fund on a daily basis.

Directly held property assets are valued at a price that we believe represents a fair and reasonable market price.

3.2.5.3 Please note that this is not a finite list of those assets valued less frequently than each of [our unit-linked funds](#). We have, however, included all relevant assets held at the time that this version of this document was published.

3.3 **Calculating the price at which you can buy and sell your units**

3.3.1 To calculate the price at which you can buy and sell your units, we will take the value of the fund calculated as described above, add any income received by or due to the fund from holding those assets, and then deduct tax, the [annual management charge](#) and any other applicable charges or expenses paid or owed by the fund. This gives us the [Net Asset Value \(NAV\)](#) of the fund. See [Section 5](#) for details of the types of charges and expenses that the funds may incur and the [Appendix](#) for the deductions applied to each fund.

3.3.2 Funds valued on a bid or an offer basis:

- 3.3.2.1 With these funds, dividing the [NAV](#) by the total number of units in issue gives us the [bid price](#) (the price at which you would sell your units).
- 3.3.2.2 If there is an initial charge (see [Appendix](#)) this will then be added to the [bid price](#) to provide the [offer price](#) (the price at which you would buy your units).
- 3.3.2.3 If there is no initial charge, the [bid price](#) will also be the [offer price](#)

3.3.3 Funds valued on a mid basis:

- 3.3.3.1 For those funds valued on a mid basis which do not have an initial charge (see [Appendix](#)) dividing the [NAV](#) by the total number of units in issue gives us the [mid price](#) (the price at which you would both buy and sell your units).
- 3.3.3.2 For those funds valued on a mid-basis which have an initial charge (see [Appendix](#)), dividing the [NAV](#) by the total number of units in issue gives us the [bid price](#) (the price at which you would sell your units). The initial charge will then be added to the [bid price](#) to provide the [offer price](#) (the price at which you would buy your units).
- 3.3.4 Unit prices for our [unit-linked funds](#) are rounded to 4 decimal places.
- 3.3.5 The basis on which each fund is valued is detailed in the [Appendix](#).

3.4 Basis for creating and cancelling units

- 3.4.1 If, on any particular day, there are more units being sold than purchased, we may need to cancel units in the fund. For funds valued on an offer basis, these units will be cancelled using the [offer price](#). For funds valued on a bid basis, these units will be cancelled using the [bid price](#). For funds valued on a mid basis, these units will be cancelled using the [mid price](#). See [Appendix](#).
- 3.4.2 If, on any particular day, there are more units being purchased than sold, we may need to create more units. For funds valued on an offer basis, these units will be created using the [offer price](#). For funds valued on a bid basis, these units will be created using the [bid price](#). For funds valued on a mid basis, these units will be created using the [mid price](#). See [Appendix](#).

4. Dealing

- 4.1 “Dealing” is where you instruct us to carry out a transaction which involves buying or selling units. This includes when premiums are received and when withdrawals or switches and death claims are made.
- 4.2 Our overarching principle when dealing is to treat all our members fairly, in accordance with the policy provisions, legislation, insurance regulations and FSA rules and guidance. In doing this, we will ensure that:
- instructions are carried out promptly in accordance with the policy provisions; and
 - dealing procedures are fair and applied consistently.

4.2 Family funds

- 4.2.1 We will use the unit price on the [working day](#) after we receive an instruction to buy and/or sell units*.
- 4.2.2 This does not apply to the purchase of units with premiums received by Direct Debit. All premiums received by Direct Debit will purchase units using that day’s price.
- 4.2.3 Instructions to buy and sell units are only accepted (ie considered received) on [working days](#).
- 4.2.5 This means that all deals for Family funds are carried out on a [forward pricing](#) basis.
- Alterations to instructions will only be accepted up to the pricing point we are due to use in line with paragraph 4.2.1.

*

¹We are bound by the Money Laundering legislation to verify the identity of investors. If we need to request identification when we receive an instruction to sell units, we will sell those units within the normal time-scale as described above. The proceeds from the sale will then be held until the necessary identification is received.

²On notification of a death, we will switch units into the relevant series of the Family Safety First Fund (unless the plan is already invested in the Family Safety First Fund). This switch will be processed on a [forward pricing](#) basis using the unit price on the [working day](#) after we are notified of the death. Units will then be sold on a [forward pricing](#) basis using the unit price on the [working day](#) after the final item of requested documentation has been received.

³Instructions received which cannot be processed until a future date (eg where the policy has not yet reached the end of the initial payment term) will be processed using the unit price on that future date (or on the next [working day](#) if the “future date” is not a [working day](#)).

⁴Where a policy matures on a policyholder’s 85th birthday, units will be sold automatically using the price on the 85th birthday of the policyholder (or on the next [working day](#) if the “85th birthday” is not a [working day](#)).

4.3 POIS funds

4.3.1 The unit price used when we process any transaction(s) on funds administered by POIS is detailed in the table below:

POIS funds	POIS Regular Premium Plans ¹	POIS Money Bond	HMCS Bonds	Freeway Pension Plan ³
Transaction	<i>Unit price used will be the unit price on the:</i>			
Contributions				
Direct Debit	Collection date <i>Historic pricing basis</i>	N/A	N/A	N/A
Cheque	Date of receipt ² <i>Historic pricing basis</i>	Next pricing point following receipt of the cheque <i>Forward pricing basis</i>	Next pricing point following receipt of the cheque ² <i>Forward pricing basis</i>	N/A
Standing Order	N/A	N/A	Next pricing point following receipt of the contribution ² <i>Forward pricing basis</i>	N/A
Deduction from pay	Date we expect to receive the payment from your employer ⁶ <i>Pricing basis may vary</i>	N/A	N/A	N/A
Contracted-out rebate/minimum contribution³	N/A	N/A	N/A	Date of receipt of correctly referenced rebate/contribution ² <i>Historic pricing basis</i>
Exits⁸				
Encashment	Date of receipt ^{2,7&9} <i>Historic pricing basis</i>	Date of receipt ^{2,7&9} <i>Historic pricing basis</i>	Date of receipt ^{2,7&9} <i>Historic pricing basis</i>	N/A
Switches	N/A	N/A	N/A	Next pricing point following receipt of the instruction <i>Forward pricing basis</i>
Death	Date of Death ² <i>Historic pricing basis</i>	Date final item of requested documentation is received ² <i>Historic pricing basis</i>	Date of notification ² <i>Historic pricing basis</i>	Date final item of requested documentation is received ^{2&4} <i>Historic pricing basis</i>

POIS funds	POIS Regular Premium Plans ¹	POIS Money Bond	HMCS Bonds	Freeway Pension Plan ³
Open Market Option/Triviality payment	N/A	N/A	N/A	Date final item of requested documentation is received ^{2&5} <i>Historic pricing basis</i>
Transfers	N/A	N/A	N/A	Date final item of requested documentation is received ² <i>Historic pricing basis</i>

¹ POIS Regular Premiums Bonds are the Savings and Investment Plan, the Tax Exempt Savings Plan and the Children's Tax Exempt Plan (previously known as the Savings Bond, the Tax-exempt Bond and the Junior Bond).

² If the date of receipt, notification or death is not a [working day](#), then the price on the next [working day](#) will be used (ie if an instruction is received on a Saturday then Monday's price will be used)

³ The Freeway Pension Plan is an [Appropriate Personal Pension](#) used as a means of contracting out of the State Second Pension (previously known as SERPS). As such, the only contributions that can be made are those received from the Department of Work and Pensions. These are known as Rebates or Minimum Contributions.

⁴ On notification of a death, we will switch units from the Family Freeway Managed Fund to the Family Pension Safety First Fund (unless the plan is already invested in the Family Pension Safety First Fund). This switch will be processed on a [historic pricing](#) basis using the unit price on the date we are notified of the death. Units will then be sold on a [historic pricing](#) basis using the unit price on the date that the final item of requested documentation has been received.

⁵ If the pre-selected retirement date has not yet been reached when the final item of requested documentation is received then the transaction is held over until that date and the unit price used will be the price on the selected retirement date ([Forward pricing](#) basis).

⁶ It is possible that contributions received by deduction from pay are not received on the date agreed with the relevant employer. In the interests of treating customers fairly, therefore, units are purchased using the price on the agreed date regardless of when the contribution is actually received. It is therefore not possible to ascertain in advance whether units are purchased on a [forward](#) or [historic pricing](#) basis.

⁷ This does not apply to instructions received which cannot be processed until a future date (eg where the policy has not yet reached the end of the initial payment term).

⁸ We are bound by the Money Laundering legislation to verify the identity of investors. If we need to request identification when we receive an instruction to sell units, we will sell those units within the normal time-scale as described above. The proceeds from the sale will then be held until the necessary identification is received.

⁹ We reserve the right to process the surrender at the next pricing point if the value in the fund falls or rises by more than 2%.

5.Charges and expenses

- 5.1 Our overarching principle when applying charges and expenses is to treat all our members fairly, in accordance with policy provisions. In doing this, we will ensure that:
- our approach is consistent with any information given in marketing literature;
 - our methodology is fair between different funds and different groups of unitholders; and,
 - where applicable, charges and expenses are recognised appropriately in the price.

5.2 The charges and expenses detailed in this document are those which are applied to the fund only, there may be other policy specific charges that apply to the type of policy you have (for example, life cover charges) which will be detailed in the Key Features you received when you applied for your policy.

5.3 We reserve the right to make charges in addition to those detailed here in response to a new or unforeseen expense.

5.4 Initial charge

5.4.1 For some of our funds (see Appendix), an initial charge will be added to the [bid price](#) to provide the [offer price](#). See Chapter 3 for details of how the unit price is calculated.

5.5 [Annual Management Charge \(AMC\)](#)

5.5.1 The [AMC](#) is calculated and deducted on a daily basis. It is calculated by multiplying the [Net Asset Value \(NAV\)](#) of the fund by the relevant [AMC](#) divided by 365 (366 in a leap year). This deduction is made before the unit price is calculated as per paragraph [3.3.1](#)). We reserve the right to change how we calculate the [AMC](#) if a specific need arises which makes it necessary to do so.

5.5.2 The [AMC](#) is taken from the income of the fund.

5.5.3 The [AMC](#) applied to each fund or fund series is detailed in the [Appendix](#).

5.6 Other expenses

5.6.1 Various other expenses may be incurred by a fund if it invests in certain assets (typically, but not restricted to, externally held [unit trusts](#) and other [collective investment schemes](#)).

5.6.2 The type of expenses incurred by the fund or the underlying investment(s) can include:

- Registrar Fees
- Custody Charges
- Transaction Charges
- Handling Charges
- Trustee Fees
- Bank Charges
- Interest Charges
- Audit Fees
- [Stamp Duty Reserve Tax](#)

- Broker Commission
- Administration Charges
- Other regional charges
- Expenses from property investment (see section [5.6.6](#))
- Performance fees (see section [5.6.7](#))

5.6.3 The impact of these expenses on unit prices will vary and an estimate of the future impact on each fund is included in the table in the [Appendix](#). The actual impact of the “other expenses” and the estimates of the future impact are reviewed every six months. If you would like up to date estimates, or details of the actual impact of the other expenses for the previous 12 months, please contact our Family Customer Service Team on **08448 920920*** or our POIS Customer Service Team on **01273-222502****.

5.6.4 To mitigate the impact of some of these expenses, where a fund holds units in an external fund we seek to agree reduced charges wherever possible. Such rebates would normally be credited to the fund in the form of units.

5.6.5 Additional costs may also be incurred by the [unit-linked fund](#) in respect of the safe-keeping of certain assets within that fund.

5.6.6 *Expenses from property investment*

5.6.6.1 Expenses from direct investment in property are deducted from funds on a weekly basis. Expenses from other investments in property will be reflected in the unit price for that investment.

5.7 Commission Sharing Arrangements

5.7.1 Our Investment Adviser, Santander Asset Management (Santander), uses brokers to buy and sell investments and to provide research and/or execution services in relation to buying and selling those investments. The brokers receive commission for doing this.

With some of these brokers, Santander may decide to enter into what is called a “Commission Sharing Arrangement”. This is where the broker agrees to pass on some of the commission they receive to another broker that Santander has chosen to supply research and/or execution services to.

These arrangements will not affect the trading process operated by Santander who will continue to comply with the relevant regulatory requirements.

5.8 Dilution levy

5.8.1 Units in the funds are both bought and sold without *dealing costs* (the costs incurred by the funds when buying or selling assets such as shares) being included. These costs are met by the fund, the value of which is therefore diluted.

* Open 9am-5.30pm weekdays and 9am-12pm Saturdays (calls may be monitored or recorded for training purposes). Calls cost 9.9p plus 3p per minute from a BT landline (correct at 06/05/2010). The cost of non-BT landline calls may differ.

** Open 9am-5pm weekdays (calls may be monitored or recorded for training purposes).

- 5.8.2 It is possible to allow the cost of dilution to be met directly from the fund's assets or to be recovered from investors on the purchase or redemption of units in a fund. This can be done by charging a dilution levy or by applying a dilution adjustment.
- 5.8.3 The purpose of both a dilution levy and a dilution adjustment is to reduce the effect of dilution; however, because the value of individual purchases and redemptions are relatively small, our current policy is not to charge a dilution levy or apply a dilution adjustment. This may have the effect of reducing the future growth of the scheme.
- 5.8.4 Although our current policy is not to apply a dilution levy or dilution adjustment, we reserve the right to review this policy and change it at our discretion. In the event that a levy or adjustment is made, it will not be retained by us but will be paid into the fund for the benefit of the investors.

5.9 Investing in other internally managed funds

- 5.9.1 Some of our funds hold units in other internally managed [unit-linked funds](#) or [unit trusts](#). This is to allow a fund to gain exposure to a specific type of investment without directly holding those assets and incurring extra costs.
- 5.9.2 *Investing in other internally managed [unit-linked funds](#):*
- 5.9.2.1 When investing in an internally managed fund priced on a bid or an offer basis, units are bought at the [offer price](#) and sold at the [bid price](#). Currently, there is no difference (spread) between the buying and selling price of units on any [internal fund](#) holdings (ie we do not apply an initial charge).
- 5.9.2.2 When investing in an internally managed single-priced unit-linked fund priced on a mid basis, units are bought and sold at the [mid price](#).
- 5.9.2.3 Where a fund holds units in another [internal fund](#) there is no duplication of the [AMC](#) as [internal fund](#) holdings are held in a series of the relevant fund where no [AMC](#) is charged (see [Appendix](#))
- 5.9.3 *Investing in internally managed [unit trusts](#):*
- 5.9.3.1 [Internal funds](#) buy units in internally managed [unit trusts](#) at the [creation price](#), or where a holding is switched to another internally held [unit trust](#), at the mid of the [creation price](#) and the [cancellation price](#) plus stamp duty. [Internal funds](#) sell units in internally managed [unit trusts](#) at the [cancellation price](#), if units have to be cancelled. The unit price on deals in internally managed [unit trusts](#) is rounded to 4 significant figures.
- 5.9.3.2 Where a fund holds units in an internally managed [unit trust](#), a rebate of the management charge, apportioned to the number of units held, is accrued daily and paid to the fund monthly in arrears.
- 5.9.3.3 When transacting with other [internal funds](#), all units are bought and sold on a [forward pricing](#) basis.

6. Other events

6.1 Adverse events

- 6.1.1 If a significant adverse event results in us being unable to access our buildings or systems, or if accurate market values are unavailable for a significant proportion of assets, we may suspend the unit price and/or defer processing transactions for up to 28 days.
- 6.1.2 Any action taken of this nature would be in accordance with our current Business Continuity Plan and would only be carried out where it would protect the interests of our unitholders. We would not defer transactions or suspend the unit price for any longer than is necessary to achieve this.

6.2 Closing or merging funds

- 6.2.1 We may decide at any time to close a fund, close a fund to new customers, and/or to stop allowing switches into a fund by existing customers. We may also decide to merge two or more funds together that have similar investment objectives.
- 6.2.2 We would only do this, if a specific business need arises or we believe that it is in the unitholders' best interest to do so.
- 6.2.3 Unitholders will normally be notified at least one month in advance of any such action where it resulted in a significant change to their investment strategy or charges.

6.3 Launching new funds

- 6.3.1 From time to time we may decide to launch a new fund.
- 6.3.2 To ensure that any new fund has enough capital to ensure that it can operate effectively with the appropriate diversification of assets, the new fund may be "seeded" by one or more of our existing [unit-linked funds](#) providing the new fund with assets in exchange for units.
- 6.3.3 In line with our policy for funds invested in other [internal funds](#) (see [Section 5.8.2.3](#)), investors in the new or existing fund will not incur any additional fund charges because of the seeding.
- 6.3.4 In deciding whether we will use a fund to provide seeding capital, we will assess the appropriateness of doing so on an individual basis to ensure that the existing fund is not detrimentally affected.
- 6.3.5 Once the fund has received enough capital from investors so that it can operate independently and effectively, the seeding capital will be returned unless it is deemed to be an appropriate way for the existing fund to be exposed to the type of assets in which the new fund invests.

6.4 Stock lending

- 6.4.1 Where we consider it to be appropriate, we may enter into a [stock lending agreement](#) with our [Custodians](#), State Street Bank and Trust Company, to generate extra income for a fund. The funds that are currently able to participate in stock lending are detailed in the [Appendix](#). We will not enter into a [stock lending agreement](#) for any of our other funds without prior approval from the Committee of Management.

6.4.2 When [stock lending, collateral](#) is received (by the [Custodian's](#) agent) from the borrower to cover the risk of the borrower failing to return the loaned stock. As such, we believe that these [stock lending agreements](#) present a low risk to the funds.

6.5 Complaints

6.5.1 Any complaints regarding the operation of our funds will be dealt with in line with the FSA rules and our Internal Complaints Handling Procedure (ICHP).

6.5.2 Wherever possible we attempt to calculate any compensation payments consistently in line with guidance provided by the Financial Ombudsman Service (FOS).

6.5.3 A copy of our ICHP is available on request and is sent to each complainant on receipt of a complaint.

6.5.4 All complaints are dealt with individually and fairly on their own merits and we endeavour to resolve them without undue delay.

6.6 Pricing Errors, Dealing errors and Compensation

6.6.1 All pricing and dealing errors are recorded and corrected as soon as reasonably practical.

6.6.2 Compensation may be paid to the fund, or to individual unitholders in response to a pricing or dealing error we have made which has resulted in a financial loss whether or not the affected unitholder(s) has complained.

6.6.3 The Committee of Management (CoM) has overall responsibility for ensuring that there are appropriate systems and controls in place to prevent pricing and dealing errors. All pricing and dealing errors are investigated to ensure that they are not indicative of wider systemic issues, which may require resolution. The CoM are also ultimately responsible for overseeing the process of correcting any pricing or dealing errors that occur.

6.6.4 Where a pricing or dealing error has occurred which affects the unit price by less than 0.1%, compensation would not normally be paid.

6.6.5 Where a pricing or dealing error occurs which affects the unit price between 0.1% and 0.5%, compensation may be considered.

6.6.6 Where a pricing or dealing error occurs which affects the unit price by more than 0.5%, compensation would normally be paid.

6.6.7 Where compensation is by means of a cash payment (eg paid out to the affected policyholder by cheque), no compensation would normally be paid unless the amount due is greater than £10.00.

6.6.8 In addition to the above, where there is a dealing error which affects only one individual, we will only pay compensation where the financial loss incurred by that individual is calculated to be more than £1.00 at the time of the error.

7. Tax

7.1 Our overarching principle when dealing with a fund's tax liability is to treat all our members fairly, in accordance with policy provisions, relevant legislation and HMRC regulations and guidance. In doing this, we will ensure that:

- our approach is consistent with any information given in marketing literature;
- our methodology is fair between different funds and different groups of unitholders;
- wherever possible we charge to the fund the tax charge it actually incurs; and,
- relevant tax charges are recognised appropriately in the price.

7.2 Tax-exempt funds

7.2.1 Income received in the form of dividends from both UK and overseas companies is taxed at source.

7.2.2 For dividends from overseas companies, if there is a tax treaty in place between the UK and the country that taxed the dividend, a portion of this tax may be recoverable. If this is the case, the Custodian recovers the tax on behalf of the fund.

7.2.3 Tax-exempt funds do not pay any further tax.

7.3 Taxable funds

7.3.1 Corporation Tax

7.3.1.1 Corporation Tax (CT) is only payable by taxable funds.

7.3.1.2 It is calculated on taxable income less expenses. Taxable income encompasses all types of income, with the exception of dividends received from UK companies which are taxed at source. Corporation tax does not have to be paid if the fund's expenses exceed the taxable income.

7.3.1.3 Income received in the form of dividends from overseas companies may also be taxed at source. If there is a tax treaty in place, however, between the UK and the country which taxed the income, a portion of the tax paid may be recoverable. If this is the case, the Custodian recovers the tax on behalf of the fund.

7.3.1.4 The current rate of corporation tax is 20% of net taxable income. It is calculated and deducted from the unit price daily.

7.3.2 Capital Gains Tax

7.3.2.1 Capital Gains Tax (CGT) is only payable by taxable funds. CGT is paid on net realised and unrealised gains on individual holdings.

7.3.2.2 The current rate of CGT is 20%. CGT is calculated and deducted from the unit price daily.

7.3.2.3 Any CGT paid in previous accounting periods is recovered if there is a net loss in the current accounting period.

7.4 Pension Funds

- 7.4.1 Income received in the form of dividends from both UK and overseas companies is taxed at source.
- 7.4.2 For dividends from overseas companies, if there is a tax treaty in place between the UK and the country that taxed the dividend, a portion of this tax may be recoverable. If this is the case, the Custodian recovers the tax on behalf of the fund.
- 7.4.3 Pension funds do not pay any further tax.

APPENDIX

All information in the table below is correct as at 13th July 2010.

Fund Code	Fund name	Fund Number	Series*	Invests in	Pricing Freq	Pricing Basis	Tax	Initial Charge	Annual management charge	Estimated future other expenses	Stock lending permitted?
FAB1	UK Balanced	48	4	FAD1 & FAK1	Daily	Bid	Tax-exempt	N/A	1%	0.05%	N
FAC1	Capital Builder		N/A	Family Asset Trust	Daily	Bid	Tax-exempt	5%	1%	0.1%	N
FAD1	Fixed interest		Cross holding	Gilts & UK Corporate Bonds	Daily	Bid	Tax-exempt	N/A	N/A	N/A	Y
		47	4		Daily		Tax-exempt	N/A	1%	N/A	
FAG1	Safety First	29	1	Cash Deposits & Santander Money Market Fund****	Daily	N/A	Tax-exempt	N/A	1.95%	0.05%	N
		29	4		Daily		Tax-exempt	N/A	1%	0.05%	
			HMCS		Monthly**		Tax-exempt	N/A	1%	0.05%	
		82	1		Daily		Tax-exempt	N/A	1.95%	0.05%	
		83	1		Daily		Tax-exempt	N/A	1.5%	0.05%	
FAK1	UK Equity		Cross holding	Family Asset Trust	Daily	Bid	Tax-exempt	N/A	N/A	0.1%	Y
		54	4		Daily		Tax-exempt	N/A	1%	0.1%	
			HMCS		Monthly**		Tax-exempt	N/A	1%	0.1%	
FAS1	Pension Safety First	11	1	Cash Deposits & Santander Money Market Fund****	Daily	N/A	Pension	5%	0.75%	0.05%	N
FASU	Sovereign	24	1	Family Balanced International Fund, Hermes Property CIS , Henderson CIS , Aberdeen Emerging Markets CIS , & Direct Property.	Daily	Bid	Tax-exempt	N/A	1.95%	0.2%	Y
		24	4		Daily		Tax-exempt	N/A	1%	0.2%	
			POIS		Monthly*		Tax-exempt	N/A	1.95%	0.2%	
			ISA		Daily		Tax-exempt	N/A	1.5%	0.2%	
		78	1		Daily		Tax-exempt	N/A	1.95%	0.2%	
		79	1		Daily		Tax-exempt	N/A	1.5%	0.2%	

Fund Code	Fund name	Fund Number	Series*	Invests in	Pricing Freq	Pricing Basis	Tax	Initial Charge	Annual management charge	Estimated future other expenses	Stock lending permitted?
FAU1	Charities Ethical Exempt	41	1	Family Charities Ethical Trust	Daily	Mid	Tax-exempt	N/A	1.95%	N/A	N
		41	4		Daily		Tax-exempt	N/A	1%	N/A	
		80	1		Daily		Tax-exempt	N/A	1.95%	N/A	
		81	1		Daily		Tax-exempt	N/A	1.5%	N/A	
FAW1	Freeway Managed	10	1	Family Balanced International Fund, Henderson Property CIS , Aberdeen Emerging Markets CIS , & Direct Property.	Daily	Mid	Tax-exempt	5%	0.75%	0.1%	Y
POMB	POIS Money Bond		POIS	Family Asset Trust & FAD1	Monthly*	Offer	Taxable	N/A	1.25%	0.05%	N
POSB	POIS Savings Bond		POIS	Family Asset Trust	Monthly*	Offer	Taxable	N/A	1.95%	0.1%	N

*Some of our [unit-linked funds](#) have different series to allow for the application of different charging structures. Where the series is marked as “cross-holding” this means that this series is only used for other [unit-linked funds](#) to invest in and, as such, no charges are applied.

** These funds are priced at least once a month on the last Thursday of each month except in December when they are priced on the last [working day](#).

*** These funds are priced at least once a month on the second Monday of each month.

****The Santander Money Market Fund invests in [Money Market Instruments](#).