



A GUIDE TO INVESTING IN THE RLCIS WITH-PROFITS STAKEHOLDER FUND

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1. Introduction

On 31 July 2013 Royal London completed the acquisition of Co-operative Insurance Society Limited from Co-operative Banking Group Limited. Following the acquisition Co-operative Insurance Society Limited was renamed Royal London (CIS) Limited.

On 30 December 2014 the policies of Royal London (CIS) Limited were transferred into a separate sub-fund of the Royal London Long Term Fund called the Royal London (CIS) Sub-Fund. At the same time, the Royal London (CIS) Sub-Fund was closed to new policies.

The Royal London Long Term Fund consists of the Royal London Main Fund, which is open to new business, and sub-funds which are all closed to new policies.

We will manage the Royal London (CIS) Sub-Fund in accordance with the Transfer Scheme; this is one of the legal documents that transferred the business of Royal London (CIS) Limited to Royal London. The Transfer Scheme states that Royal London will manage the Royal London (CIS) Sub-Fund as if it was a stand-alone fund, operating within the constraints of its own capital.

The Royal London (CIS) Sub-Fund itself consists of three funds:

- the RLCIS OB & IB Fund;
- the RLCIS With-Profits Stakeholder Fund; and
- the RLCIS With-Profits Pension Fund

This guide covers with-profit stakeholder pension plans in the RLCIS With-Profits Stakeholder Fund.

In this guide we call the RLCIS With-Profits Stakeholder Fund, 'the fund'.

2. What is this guide for?

This guide tells you how we manage the fund.

It should answer most of the questions you might have. If you have any further questions then please contact us our contact details are shown at the end of this guide.

This guide explains the main aspects of how we currently manage the fund. It covers the key points from the detailed technical guide called the Principles and Practices of Financial Management (PPFM) document, but is not a replacement for it. Please see the PPFM for a fuller description of how we manage the fund. If this guide is inconsistent with the PPFM, the PPFM overrides this guide.

You can download all of our guides, including the PPFM documents, from our website www.royallondon.com or instead you can contact us for a copy.

If we make a significant change to our approach to managing the fund in the future, we'll write to tell you.

3. What is the RLCIS With-Profits Stakeholder Fund?

The RLCIS With-Profits Stakeholder Fund provides benefits in respect of with-profits stakeholder pension plans issued by Royal London (CIS) Limited.

The fund is one of the investment choices we offer for stakeholder pension plans that were issued by Royal London (CIS) Limited. You may have some or all of your contributions invested in this fund.

The fund is closed to new policies

The fund is divided into units and each business day we publish unit prices for the units. We may have more than one type of unit within the fund to allow us to apply the appropriate charge in setting the unit price for each series of units. The unit prices are the prices used to work out benefits and to allocate units when pension contributions, and any tax relief paid by the Government to us in respect of those pension contributions, are paid into the fund.

The investment profits or losses of the fund are reflected in your benefits by changing the price of units, rather than by granting bonuses (e.g. annual

and final bonuses) as we would do in the case of, for example, traditional with-profits policies.

If we make any profits from the difference between the charges we make and our costs in the future on the Royal London (CIS) Sub-Fund's stakeholder pensions business, we may decide, in certain circumstances, to allocate a share of them to you.

Apart from these potential expense profits, you will not be entitled to share in any profits arising in other funds of Royal London, including the RLCIS OB & IB Fund and the RLCIS With-Profits Pension Fund. Likewise Royal London's other funds do not have any entitlement to share in any profits arising in the RLCIS With-Profits Stakeholder Fund.

4. What is a with-profits stakeholder pension plan?

A with-profits stakeholder pension plan is a pension plan for which the investment profits and losses are smoothed (or averaged) over the period of time the plan is held.

A with-profits stakeholder pension plan benefits from a special feature known as smoothing. Smoothing is designed to protect with-profits policyholders from the direct impact of some of the sudden movements in the stock market, but it cannot get rid of the strong link between the underlying market investment returns, and with-profits returns.

This means that we hold back some of the profit made when investment returns are good, so that we can increase returns if investment returns are lower. We do this so that your investment should provide a steadier return from day to day than if you invest in a fund which fully reflects the rise and fall in stock markets, such as a unit trust.

This means that we spread profits over time, although our aim is to pay out all the investment returns earned by the fund over the long term, after allowing for our charges.

The value of your plan may rise or fall from day to day.

However, because of smoothing, the rise or fall in your plan value will normally be less extreme than the rise or fall in the value of the fund's assets. Smoothing does not protect against prolonged falls in the stock market, because the profits held

back from periods of good returns may not provide sufficient protection against investment losses.

Each business day, we calculate the investment return obtained on the assets (types of investment) of the fund and use a smoothing method to calculate a smoothed investment return. By applying this smoothed investment return to the previously published unit prices, and allowing for the charges we make to meet our costs, we obtain new unit prices which we publish the next business day.

In practice, there will be a difference between the actual investment returns achieved by the fund over any time period and the investment return that we have assumed in setting the smoothed unit prices. As a result, there is usually a difference between the value of the assets of the fund on any day and the value of the units at the smoothed unit price. This difference is known as the smoothing reserve, and the amount of the smoothing reserve could be either positive or negative.

Each time we calculate the smoothed unit prices, we adjust the value of the assumed long-term investment return in such a way that the smoothing reserve would be fully extinguished over a set period, typically three to six months, if the actual return achieved over that period was equal to this assumed long-term return.

If required, we will adjust our normal smoothing approach so that the smoothing reserve does not exceed 12% (or such other limit as we may determine from time to time) (either positive or negative) of the total assets of the fund. This may result in a lower degree of smoothing or no smoothing at all for a period of time until the smoothing reserve falls below this limit.

As the fund is closed to new policies, any positive smoothing reserve will be distributed fully among stakeholder planholders with units in the fund over the lifetime of their plans.

5. What are the charges?

The charges made under your stakeholder pension plan are set out in your Key Features document and are guaranteed never to exceed the maximum level allowed by the Government for stakeholder pensions.

6. What are the investments in the fund?

The fund is invested in a wide range of carefully selected assets with the aim of achieving growth. A wide range of assets is held to help reduce the risk to the value of the fund that would arise if most or all of the assets were invested in a single category of assets.

Investments include:

- UK and overseas shares
- Government bonds (loans to the Government)
- company bonds (loans to companies)
- cash deposits.

The fund does not currently invest in property directly although it may do so in the future. The fund may also invest in other assets in the future.

We have always aimed to hold between 50% and 70% of the fund in higher-risk assets such as company shares and property, including a proportion in overseas shares. Such investments are generally expected to provide higher returns than other investments over the longer term. We do this by investing directly in such assets and/or by investing in our unit trusts. We hold the rest of the assets in the fund in less risky assets such as bonds and cash deposits.

The current mix of assets held for your plan is usually shown with your statement and is also available on request.

Our Responsible Shareholding programme is an important part of how we manage the investments in the fund.

We aim to influence the companies in which the fund invests on a range of social, ethical and environmental issues.

This means that we will engage with companies on a broad and challenging ethical agenda, reflecting the issues that our customers would expect the businesses in which we invest to address. We consider such influence to be for the benefit of the companies in which the fund invests and therefore for the benefit of the fund itself.

7. What affects the benefits that I will receive?

The benefits that you will receive from your investment in the fund depend on how much you have invested in the fund, including any tax relief received in respect of your pension contributions. They also depend on:

- the investment performance of the fund
- how investment profits and losses are smoothed
- any distribution of the fund's smoothing reserve
- the charges that apply to your investments in the fund
- the charges that apply to your investments in the fund
- the effects on the fund of the business risks arising in the Royal London (CIS) Sub-Fund and in other funds of Royal London (see section 9).

These factors are taken into account when we set the unit prices, which determine how much we will pay you when you make a claim on the fund, or transfer or switch all or part of your investments out of the fund.

8. How do you determine my benefits?

We work out the with-profits benefits you receive by multiplying the number of units you hold in the fund by the published unit price at the time you make a claim for benefits.

When you pay a pension contribution into the fund, we use the published unit price to allocate units in the fund to your stakeholder pension plan. We work out how many units to allocate by dividing the pension contribution by the unit price that applies at the next valuation after we receive payments. We will allocate units in respect of tax relief, which we reclaim on your behalf from the Government, when the tax relief is received. This will be some time after we receive the pension contribution that relates to the tax relief.

We work out the with-profits benefits you receive by multiplying the number of units you hold in the fund by the unit price at the time you make a claim for benefits. Except for benefits paid on retirement or death, we may in exceptional circumstances reduce this value by a Market Value Reduction. (See section 10.)

Currently stakeholder planholders are able to take up to 25% of their retirement benefits as a tax-free lump sum, with the remainder of their benefits being used to purchase a pension, which is taxable. However, in the future you may be able to take a larger proportion of your benefits in the form of a lump sum, although it is likely that no more than 25% of your retirement benefits will be able to be taken as a tax-free lump sum, with any residual lump sum being subject to tax. The types of benefit available to you and the tax position of the benefits are subject to change by the Government. As you approach the retirement age that you have selected for your stakeholder pension plan, we will inform you of the retirement options available to you.

9. What are the business risks associated with investing in the fund?

Apart from risks relating to how well our investments might do, the fund is not itself directly subject to other business risks.

However, the fund is indirectly exposed to business risks arising in the RLCIS OB & IB Fund and the other funds of Royal London.

We use money from the RLCIS OB & IB Fund to help meet any shortfall between the costs involved in acquiring and managing the pension plans invested in the fund and the charges we make to such plans and to ensure that the fund has enough money to meet its liabilities. In the exceptional circumstance that we do not have enough assets to meet our contractual commitments, either in the RLCIS OB & IB Fund or in other funds of Royal London, it is possible that you could receive less than the benefits set out in your contract. Since 1 August 2013 the risks relating to the level of costs in the Royal London (CIS) Sub-Fund have been reduced by the nature of the fee arrangement with the Royal London Main Fund as part of the terms of Royal London's purchase of CIS.

10. What if I decide to move out of the fund?

This may happen if you:

- retire
- switch into another stakeholder fund within the Royal London (CIS) Sub-Fund
- transfer your investment to another company.

The amount available will normally be the value of units in your plan (i.e. the number of units multiplied by the unit price) or a proportion of this value if you are taking benefits from or switching only a proportion of your fund. The same approach is used to determine benefits on death.

In exceptional circumstances it may be necessary to reduce the plan value available to those who are taking money out of the fund. We would do this by applying a Market Value Reduction.

We would use a Market Value Reduction in order to maintain a fair level of return to everyone still invested in the fund. If we didn't apply one, the extra amount given to someone leaving the fund would have to come from other investors who might therefore receive less than their fair share.

We regularly monitor investment conditions and the total level of money being moved out of the fund, and may apply a Market Value Reduction at any time if we believe it to be necessary to protect the fund.

It is most likely that we'll need to apply the Market Value Reduction when a large amount of money is being taken out of the fund at a time when investment values have been particularly depressed.

A Market Value Reduction will not be applied to payments made on death or on retirement. We have the right to ask one month's notice of transfers and switches out of the fund. We will normally process these transactions more quickly than this, but we will defer transactions until the end of the notice period if we consider it is necessary to protect investors in the fund. You should consider seeking financial advice before deciding whether to transfer or switch the value of your plan.

How to contact us

**If you need more information, contact our Customer Contact Centre
0345 605 7777**

Or write to:

Royal London
Churchgate House
56 Oxford Road
Manchester
M1 6EU

**If you would like a copy of this leaflet in large print, audio or Braille,
please call us on 0345 605 7777.**



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