

A guide to how we manage our Unit-linked Funds

Glossary of terms

Annual Management Charge

This is a charge made by Healthy Investment for managing your Unit-linked Investment. It includes all the administrative, investment management and other costs of running your investment. It is expressed as a percentage of the value of your Child Trust Fund or ISA and collected by us on an ongoing basis. We take it into account when we calculate the unit price so that it will not show as a deduction from your investment.

Business day

Monday to Friday excluding all UK bank and public holidays.

Child Trust Fund (CTF)

All children born in the UK between 1 September 2002 and 2 January 2011 were issued with a CTF voucher. These long-term investments mature when the child reaches the age of 18.

Financial Conduct Authority (FCA)

The FCA was set up by the government on 1 April 2013 as the independent regulator of the conduct of UK financial services firms.

Government bond

In order to raise money, the UK Government issues fixed interest bonds which are often referred to as gilts. These generally have a maturity date when they will pay back the original nominal amount of the investment. They pay a fixed rate of interest although the price at which the bond can be bought or sold can rise and fall.

ISA

Individual Savings Accounts are savings or investment accounts that allow a UK investor to benefit from not paying income or capital gains on the interest or growth they receive.

Prudential Regulation Authority (PRA)

The PRA is part of the Bank of England and is responsible for the prudential regulation of all UK financial services providers.

Supranational Bond

Similar to UK government bonds these are issued by supranational organisations, e.g. the European Central Bank.

Stakeholder

When the government launched Child Trust Funds (CTF) they set a range of minimum standards for a CTF to be classed as a Stakeholder CTF. We explain more about these in the Terms and Conditions of your CTF.

Unit price

This is the price that you buy and sell units within one of our funds. The price we use for buying and selling is the same.

1. Who is this guide for?

This guide is relevant to you if you have a Stakeholder or Ethical Child Trust Fund with Healthy Investment or you are considering investing in one. It is also relevant if you have left your CTF invested after your 18th birthday in either our All Share ISA or the Healthy Investment Ethical Unit-linked ISA.

It is not relevant if you have a With-profits Investment (ISA, Junior ISA, Bond or Tax Exempt and Standard Savings Plans) with Healthy Investment. We have a separate guide to how we manage our With-profits Fund.

You may wish to keep this guide with your welcome letter or statements. It is also available on our website or by contacting this office.

Whilst we have made every effort to write this guide in plain English, we appreciate that it is a fairly technical document. If you have any questions, then please contact this office and we will be able to help you. Our contact details are at the end of this guide.

Wherever we have used a term that needs more explanation we have highlighted them and included them in the glossary.

2. What is the purpose of this guide?

This guide is written to answer some of the questions that you may have about how our Unit-linked Funds work. It explains how we manage the funds and how we try and ensure that we treat all our members fairly.

It also describes how much discretion we have and how we use it in managing the funds.

This guide does not change the Terms and Conditions of your Child Trust Fund (CTF) or Unit-linked ISA or explain them; it is designed to give you further information to help you understand your investment better. If you want a copy of the Terms and Conditions or Key Information Document of your CTF or ISA, you can get these from our website or from our office.

3. Who are Healthy Investment?

Healthy Investment is the trading name of The Rechabite Friendly Society Limited. We are a mutual friendly society owned by and run for the sole benefit of our

members. Formed in 1835 the Society has a long and distinguished history of providing financial services products to members. We are authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority.

4. What is a Unit-linked Fund?

A Unit-linked Fund is a pool or pot of assets that many different policyholders invest in. It is looked after by a fund manager, in this case Healthy Investment.

The whole fund is then divided into a number of equal units.

The number of units goes up and down as additional investments are made, or members withdraw their investment. Healthy Investment may increase or decrease the number of units within the fund.

The price or value of a unit goes up and down over time as the value of the investments within the fund changes.

5. What Unit-linked Funds does Healthy Investment operate?

We currently have two Unit-linked Funds.

If you have a Stakeholder Child Trust Fund or All Share ISA with Healthy Investment you will be invested in the Healthy Investment All Share Unit-linked Life Fund. This Fund was previously known as the Healthy Investment Stakeholder Equity CTF Unit-linked Life Fund.

If you have an Ethical Child Trust Fund or a Unit-linked Ethical ISA with Healthy Investment you will be invested in the Healthy Investment Ethical Unit-linked Life Fund. This Fund was previously known as the Healthy Investment Ethical CTF Unit-linked Life Fund.

We may, if we can demonstrate that they would be of benefit to all our members, launch new Unit-linked Funds in the future.

6. How does a Unit-linked Fund work?

When you invest in a Healthy Investment CTF or Unit-linked ISA we allocate units in the relevant fund to your policy. If you transfer your CTF to another provider or after age 18 you withdraw from the ISA, you sell your units in the policy back to us and we pay out the proceeds to you or transfer the proceeds to your new provider.

Purchases and sales of units are done at the unit price on the day of the transaction which are undertaken on the next valuation date.

7. What does my Unit-linked Fund actually invest in?

If you have a Stakeholder CTF or All Share ISA with Healthy Investment your policy is invested in Healthy Investment's All Share Unit-linked Life Fund. This Unit-linked

Fund is currently 100% invested in Legal and General's All Share Index Tracker Fund.

This enables us to meet the government's standards for a Stakeholder CTF investment by ensuring that your investment is spread across a large number of UK shares.

Whilst the purpose of the Legal and General All Share Index Tracker Fund is to track the performance of the UK All Share Index there is a possibility that it will not track it exactly. Healthy Investment monitors this and will investigate any tracking error over 0.5%.

As fund manager we may, if we believe it to be in the best interests of members, choose to invest the funds held in the fund in a different tracker fund or directly. We will, however, ensure that Stakeholder standards are maintained.

If you have a Healthy Investment Ethical Child Trust Fund or a Healthy Investment Ethical Unit-linked ISA, your monies are invested in Healthy Investment's Ethical Unit-linked Life Fund.

This invests in a mix of UK and overseas shares, corporate and government bonds, commercial property, and bank deposits. You can find out the current percentage of the fund held in each type of asset from our website.

The Healthy Investment Ethical Unit-linked Life Fund does not knowingly invest directly in companies involved in alcohol, arms and tobacco industries and gambling or pornography providers.

As well as individual shares or bonds the Healthy Investment Ethical Unit-linked Life Fund can also invest in collective investments which might include unit trusts or other Unit-linked Funds offered by other financial institutions.

None of our Unit-linked Funds invest in derivatives or other similar high-risk investments.

8. How does Healthy Investment manage your policy?

When you invest in one of our funds your share of that fund is clearly identifiable by the number of units allocated to your CTF or ISA.

We will ensure that the funds comply with the Terms and Conditions of your policy and that Stakeholder CTFs continues to meet all the government standards of a Stakeholder product.

We will only take any charges that we have told you about and are detailed in the Terms and Conditions of your policy.

We aim to ensure that all members of the Society, both our With-profits Fund members and our Unit-linked Fund members are treated fairly, especially whenever we must use our discretion in managing our various funds.

If we make any mistakes, we will resolve them fairly, consistently, and as quickly as we can.

The Society's Board has responsibility for the governance of the Unit-linked Funds. This includes approving the way the fund and units are valued, charges, all issues of fairness and any use of discretion.

The Society's Audit Committee is responsible for scrutinising the detailed operation of the funds and ensuring the Board's policies and procedures are followed.

The Society's Investment Committee monitors the performance of the external fund managers and ensures that they operate within the clear limits the Board have set.

The Society also employs an Actuary who advises the Board, and internal and independent external auditors who review the way our Unit-linked Funds are operated.

In order to make sure that we can invest 100% of Healthy Investment's All Share Unit-linked Life Fund in the Legal and General All Share Index Tracker Fund or other suitable investments, the Society holds a number of units of the Healthy Investment All Share Unit-linked Life Fund within its With-profits Fund. As members invest in a Stakeholder CTF or ISA we transfer some of our units to them at the current price.

The Healthy Investment With-profits Fund also owns some units of the Healthy Investment Ethical Unit-linked Life Fund and we do the same when members make additional investments into their Ethical CTF or ISA.

9. How does Healthy Investment value a fund?

We calculate the value of our All Share Unit-linked Life Fund every business day. As 100% of this fund is currently invested in the Legal and General Fund we take the unit price of the Legal and General Fund, multiply it by the number of units in our fund and deduct our charges for managing the policy.

Legal and General provides us with a single price of the units in their fund.

We calculate the value of our Ethical Unit-linked Life Fund in the same way, although we only do it once per week (on a Friday). The external investment managers who we currently use to manage the equity and fixed interest investments within the fund provide us with a valuation of the assets they manage. The fund will be valued on either a bid or an offer basis depending on if we need to create more units in the fund or not.

10. How do we calculate unit prices?

Every time we value one of our funds, we calculate the individual price or value of each unit within the fund.

We take the total value of the assets held in the fund, deduct our charges for running your CTF or ISA, then divide this by the total number of units in the fund.

If the unit price is above 1.000, we round the unit price to the nearest 4 significant figures. If it fell below 1.000, we would round it to 3 decimal places.

The current unit prices of both funds are published weekly on our website.

The current value of your investment is the number of units you hold multiplied by the current unit price.

All of our funds are single priced which means that there is no difference between the price that you buy and the price that you sell units.

11. When I make an investment how do you know how many units to allocate me?

When you transfer into or make an additional contribution to a Stakeholder CTF or All Share ISA we allocate additional units to your policy. We take the amount you have invested and divide it by the current unit price to give us the number of units we allocate to your policy.

We round the number of units to the 4 decimal places.

When you transfer into or make an initial contribution to an Ethical CTF or Unit-linked ISA we also allocate additional units to your policy. As there is an initial charge for investing in the Ethical CTF and Unit-linked ISA we deduct this from the contribution before calculating the number of units we allocate to your policy.

When you withdraw from your All Share ISA or transfer it or your CTF to another provider we sell the units that you hold back to Healthy Investment at the current unit prices. In both our funds there is no difference between the buying and selling price.

12. How are charges deducted from my investment?

All of the ongoing charges and costs of running the fund and your CTF or ISA are included in the calculation of the unit price. This includes all costs, taxes, share dealing costs and our administration expense.

The maximum cost of a Stakeholder CTF is set by legislation at 1.5% per annum. This is generally called an Annual Management Charge (AMC). We are currently charging 1.5% AMC on our Stakeholder CTFs and All Share ISAs.

The AMC for the Ethical CTF and the Ethical Unit-linked ISA is also currently 1.5% per annum.

The Ethical CTF and the Ethical Unit-linked ISA also has an initial charge of 5% and we deduct this from your investment before calculating the number of units we allocate to your CTF or ISA.

Part of the AMC is retained by the investment managers for making and managing the actual investments held. When calculating the unit-price we then deduct the remaining proportion of the AMC to cover our costs. We calculate this as a percentage of the fund value multiplied by the number of days since we last calculated the charge divided by 365.

13. What about tax?

CTFs and ISAs are tax efficient investments, therefore we do not expect to pay tax on income and growth within the funds.

Under current legislation when a CTF is transferred to an ISA or a withdrawal from an ISA is made no tax will be liable.

If we became aware of any tax that might be payable, we would reduce the value of the fund to allow for it.

14. What happens if Healthy Investment make a mistake in valuing the fund or calculating the price of units?

We take great care in undertaking these calculations and have controls in place to minimise the risk of the calculations being incorrect. However, we recognise that as with any process things could go wrong.

If the error is less than 0.5% of the value of your investment, we will simply correct the error so that the value of the CTF or ISA is the same as if the error had not been made.

If the error is over 0.5% of the value of your investment then we will correct the error so that the value of the CTF or ISA is the same as if the error had not been made and we will write to you with an explanation of what we had done wrong.

Correcting an error may involve adding or taking away some units from your policy.

Our priority is ensuring that you are treated fairly and not disadvantaged by any error we might make.

We will generally correct errors within one month of identifying them. If for any reason we are unable to do this within three months we will discuss with the Board the appropriateness of writing to the affected members with an explanation of the error and why it is taking longer to remedy than we expect.

The Board has the discretion not to correct an error only if the error is to the advantage of CTF or ISA holders and the cost of correcting the error is disproportionate to the amount of the error.

15. What discretion does Healthy Investment have in managing the funds?

Whilst there are very strict rules about how Unit-linked Funds are managed we do have some discretion in some aspects of how we manage the funds. We must use

our discretion to ensure that all our members are treated fairly and to balance the interest of new investors and investors withdrawing and between our unit-linked members and the members of our With-profits Funds.

Charges

We may from time to time change the level of charges we take from the fund to ensure they reflect the costs of managing the fund and your CTF or ISA. We cannot increase the charge made for a Stakeholder CTF over the maximum set by HMRC. If we were to increase any charges, we would give you at least 30 days' notice before any change was made.

Tax

We may change the way we allow for any tax liability to reflect its impact on the fund more accurately or to reflect any changes in tax laws.

Healthy Investment's holding

We have the discretion to increase or decrease the number of units of each fund Healthy Investment owns as part of its With-profits Fund. We hold units to ensure Unit-linked policyholders can buy and sell their units without any delay.

Closing or merging a fund

We may choose to close a fund to new policyholders or may close it completely. If we do this, we will offer you an alternative fund for your CTF or ISA. We would only do this if there was a good reason to do it. An example might be if the fund became too small to manage cost effectively. If ever we were going to do this, we would give you at least 30 days' notice and provide an explanation of why we have taken this decision and the various options that are available to you.

Investment managers

We currently use Legal & General to manage the investments in our All Share Unit-linked Life Fund and Investec to manage the equity and fixed interest holdings within the Healthy Investment Ethical Unit-linked Life Fund. The Board has the discretion to change investment managers if it believes this would be in the best interests of policyholders.

Exceptional situations

In exceptional situations we have the discretion to take exceptional action only in order to protect policyholders' interests.

An exceptional situation might be: a major world event which closes or interrupts a stock market or significantly affects asset values, a major failure of our systems or one of our fund managers which makes setting the unit price difficult, a time when asset prices are moving so fast that we cannot set a unit price that is fair.

In these or other exceptional circumstances we may need to delay buying or selling units in your policy, delay calculating the unit price or change our investment strategy or take other necessary action to protect policyholders.

16. How can I find out more?

If you have any questions, please get in touch.

The Key Information Document and Terms and Conditions of your Child Trust Fund or ISA have more information about how your policy works.

Your last statement will show the number of units allocated and the value of the investment at the date of the statement. You can request an up to date statement at any time.

Our offices are open Monday to Friday from 9 am until 5 pm.

Healthy Investment
2 The Old Court House
Tenterden Street
Bury
Greater Manchester
BL9 0AL

Tel: 0161 762 5790 Fax: 0161 764 3557

enquiries@healthyinvestment.co.uk

www.healthyinvestment.co.uk

Authorised by the Prudential Regulation Authority and
Regulated by the Financial Conduct Authority and the Prudential Regulation Authority
Financial Services Register 109994

DIR/ADV 03 01 12/20