

Consumer Guide

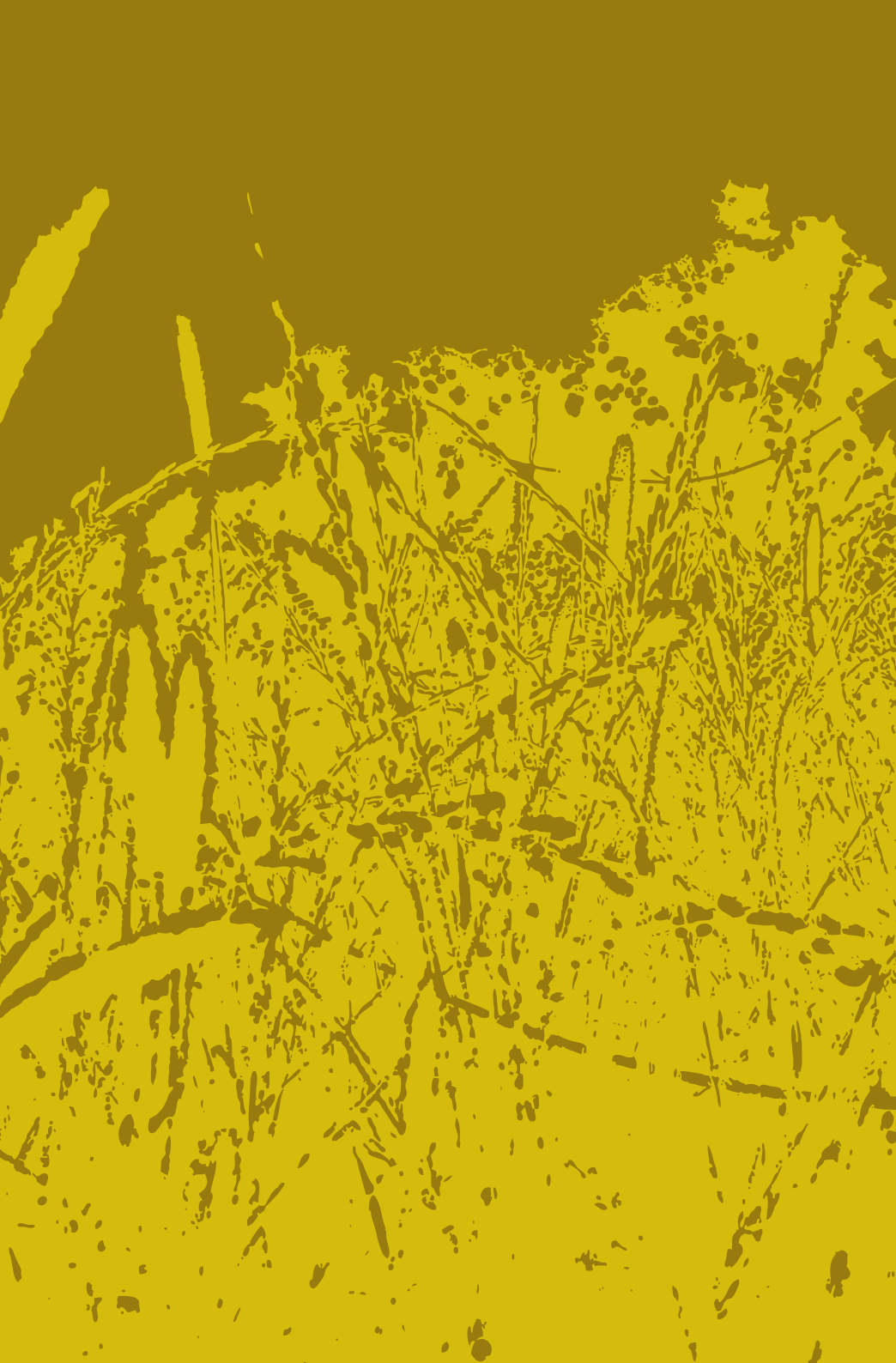
Confederation Life With-Profits Fund



Life's brighter under the sun



**Sun Life Financial
of Canada**



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Aims of this guide

This guide explains briefly how the Confederation Life With-Profits Fund is managed.

The Confederation Life With-Profits Fund is managed by Sun Life Assurance Company of Canada (U.K.) Limited.

Why this guide is important

Please read this guide alongside your latest bonus statement and plan documents. It gives important information about how the plans that depend on it work and what you or your beneficiaries can expect back from it.

Please keep it in a safe place with your other plan documents. If you need copies of these documents please contact us on

0845 072 0223.

What does this guide cover?

This guide covers:

- investing in the Confederation Life With-Profits Fund; and
- how our approach to managing the Confederation Life With-Profits Fund affects the amount paid under your plan.

Our approach can change from time to time. For example, we may change our approach to managing the With-Profits Fund as a result of changes in the business or economic environment, or to protect plan-holders' interests. We will tell you if we make alterations that may significantly affect your plan.

What is a with-profits plan?

A with-profits plan is a plan that invests in a With-Profits Fund. It shares in the profits or losses of the fund, which are allocated to the plan through a system of bonuses as described below.

Generally, a with-profits plan has three main features:

- investment in a mixture of assets to provide the potential for growth in the longer term (at least ten years);
- some guarantees of the minimum amount that will be paid on certain dates; and
- some protection against the ups and downs of investment markets (known as 'smoothing').

We explain all of these features later in this guide.

How does the Confederation Life With-Profits Fund work?

We pool your money with that of other plan-holders in the Confederation Life With-Profits Fund.

The fund invests in a range of fixed interest investments such as bonds (loans to the Government or companies) and cash deposits. The proportion of the fund invested in each of these asset types will vary over time.

The profits of the fund depend on the return from these investments less the expenses incurred by the fund and the cost of providing benefits to plan-holders or their beneficiaries.

Fairness to all investors in the Confederation Life With-Profits Fund

We aim to pay all profits of the fund to plan-holders or their beneficiaries in a manner that is fair to all plan-holders in the Confederation Life With-Profits Fund.

When determining the amount to pay we take into account a number of factors, including:

- the premiums paid to the fund;
- the fund's past investment performance;
- the cost of providing benefits;
- the expenses for setting up and

administering the plans and investing the fund's assets;

- other profits and losses in the Confederation Life With-Profits Fund;
- the cost of the guarantees; and
- taxation.

All profits of the fund go entirely to plan-holders in the fund.

Looking ahead

Under the terms of the Scheme, the Company can convert the fund to providing fixed benefits once it has reduced to a certain size. The fund has now passed this point and so in line with the Scheme, the Company is investigating converting the fund for the benefit of the plan-holders going forward.

What are the bonuses?

We share out the profits of the Confederation Life With-Profits Fund through a system of bonuses, which is designed to provide you with your fair share of the Confederation Life With-Profits Fund.

We can add two types of bonus to your plan. They are:

- ‘reversionary’ or ‘annual’ bonuses which we may add annually to your plan. They increase the guaranteed minimum amount on your plan (the minimum amount we pay to you when your plan matures or to your beneficiaries if you should die*) and, once added to this guaranteed minimum, we can’t take them away; and
- ‘terminal’ or ‘final’ bonus which we may add on top of the reversionary bonuses, when your plan ends.

Different types of plans receive different amounts of bonus. The yearly statement we send you includes information about the current bonuses for your plan.

Before adding bonuses, our first priority is to make sure there is enough money in the fund to pay any guaranteed benefits, including reversionary bonuses already allocated. Further bonuses can only be added when those guarantees have been secured.

Reversionary bonuses

When deciding how much reversionary bonus to pay, the main criteria we take into account are the financial position of the Confederation Life With-Profits Fund and the level of guaranteed benefits already being provided.

When determining the amount of reversionary bonus, we keep a portion of the profit aside with the aim of paying some terminal bonus when your plan ends.

We aim to avoid making large changes in the amount of reversionary bonuses added to the plan from year to year, but may need to do so in exceptional circumstances, such as when the market values of investments change very sharply.

Different reversionary bonuses may apply to different types of plans.

Terminal bonuses

When your plan ends, we may pay a terminal bonus in order to achieve a fair allocation of the profits of the fund to plan-holders. We pay terminal bonuses in a way that will fully distribute the fund to plan-holders in a fair and orderly way over time.

The amount of terminal bonus depends primarily on investment returns over the lifetime of your plan. We aim to avoid changing terminal bonuses more than once a year, but we may have to do

so in exceptional circumstances, such as when the market values of investments change very sharply.

Different terminal bonuses may apply to different types of plans.

*For some plans reversionary bonuses do not increase the death benefit. Your plan document will explain if this is the case for your plan.

What affects the value of my plan?

Many factors affect the amount paid to you or your beneficiaries under your plan. These are the main ones:

a Investment performance

The most important factor affecting the value of your plan is the investment performance of the assets in the fund over the lifetime of your plan. These assets earn a return through both the income received (for example, interest), and also through any changes in the capital value of the assets (either gains or losses).

Investment performance depends on several things, including how much of the fund is invested in different asset types. The Confederation Life With-Profits Fund invests in a range of fixed interest assets such as bonds (loans to the Government or companies) and cash deposits. The assets of the fund are chosen to match as closely as possible the likely benefits that will be paid by the fund in future.

We review our investment strategy at least annually, but more frequently if investment market conditions change sharply. In doing so we take the following factors into consideration:

- the Confederation Life With-Profit Fund's current and expected future

financial position and the need to make sure there is enough money in the fund to meet our obligations to plan-holders;

- the level of guarantees in the fund;
- plan-holders' reasonable expectations;
- an assessment of the likely future performance of fixed interest assets; and
- the stability of investment returns.

Our first priority is to make sure that the fund will be in a position to meet its guarantees to you and other plan-holders. The safest way of securing those guarantees is by investing in government bonds and other safe fixed interest assets.

We manage the risks that come with investing by choosing assets of good quality and by setting limits on, for example, how much we invest in any one asset or type of asset.

When we send your yearly statement we will include information about how much we have invested in the different types of fixed interest assets. We will also include information about recent investment performance and will inform you of our latest reversionary bonus and terminal declarations.

b Guarantees to you or your beneficiaries

Guaranteed amounts from your plan will be paid on the set event or date stated in your plan document. The set event may be the end of the plan's term (called the 'maturity date'), or if you die.

c Smoothing

With-profits investing generally includes a special feature called 'smoothing', which provides a cushion against the short-term ups and downs of investment markets. The main aim of smoothing is to reduce the effect of investment market fluctuations on what you or your beneficiaries get back from your plan. So, for example, in good years some of the profits would be held back and used to top up bonuses in poorer years.

The investment strategy of the Confederation Life With-Profits Fund significantly reduces the impact of short-term investment market fluctuations on what you receive from your plan.

However, in exceptional circumstances, such as if there were large falls in asset values; your plan may get reduced bonuses or no bonus at all.

d Our expenses

When estimating your fair share of the fund, we make a deduction for

the expenses incurred by the fund. These expenses include the costs of setting up and administering your plan, commission, and fees for investment management and administration.

Other exceptional costs may be charged to the Confederation Life With-Profits Fund, subject to meeting regulatory guidelines and only with the approval of the Board on advice from the With-Profits Actuary. The With-Profits Actuary is responsible for providing advice on matters where there is flexibility as to how we operate the Confederation Life With-Profits Fund.

e Guarantees to other with-profits investors

Our guarantees to other with-profits investors can affect the amount paid under your plan as we may allow for the cost of meeting the guarantees when determining bonuses. Similarly, guarantees to you may affect the amounts payable to other plan-holders.

f Taxation

Any tax that we pay in respect of the Confederation Life With-Profits Fund will reduce the profits of the fund and so will reduce the amount that we will be able to pay out to plan-holders.

What is the Inherited Estate and how does Sun Life Financial of Canada manage it?

The Confederation Life With-Profits Fund has what is known as an Inherited Estate. This is a pool of excess assets that is built up from past profits that have not been distributed as reversionary or terminal bonuses.

The Inherited Estate provides additional capital for the fund. It can be used to meet exceptional cost incurred by the fund and to support payments to plan-holders when conditions are difficult.

The Confederation Life With-Profits Fund is closed to new investors and so we are distributing all of the fund's assets, including the Inherited Estate, to existing plan-holders over the remaining lifetime of their plans in a fair and orderly manner. By taking this approach we expect the Inherited Estate to reduce over time, broadly in line with the run-off of the business in the fund.

What if I decide to cash in my plan early?

If you cash in your plan early we do not guarantee the minimum amount payable unless your plan specifically states that

a guaranteed minimum is payable on surrender. The amount we pay you is calculated with the objective of achieving a fair balance between plan-holders who leave early and those who remain in the fund.

How does Sun Life Financial of Canada manage exposure to risk?

The Confederation Life With-Profits Fund is exposed to a number of risks. The biggest risk comes from the need to pay all guarantees when they are due and that this may occur at a time when asset values have fallen. We aim to manage the exposure of the Confederation Life With-Profits Fund to this and other risks.

We do not plan to expose the Confederation Life With-Profits Fund to any new risks, and in particular we are no longer writing any new business in the Confederation Life With-Profits Fund (although we do allow existing plan-holders to take out a new plan if this is part of the terms of their plan). This will help to reduce the risks to which the Confederation Life With-Profits Fund is exposed.

Are there any more details I should know?

This guide explains as simply as possible how Sun Life Financial of Canada manages the Confederation Life With-Profits Fund. This may be all you wish to know. We have included some additional background information in the following paragraphs.

The Confederation Life With-Profits Fund was established when the business of the U.K. Branch of Confederation Life was transferred to the U.K. Branch of Sun Life Assurance Company of Canada on 12 December 1994. In order for this to take place, it was necessary for a legal Scheme to be approved in the High Court.

Sun Life Assurance Company of Canada used to be a mutual insurance company. This meant that the with-profits plan-holders owned the company. On 22 March 2000, the company was reorganised by a demutualisation, and became a shareholder-owned company. If you owned a with-profits plan that was in-force in January 1998, then you received a benefit, either in shares or as cash, as your portion of the demutualisation process.

As part of the reorganisation, the existing U.K. with-profits plans, including ex-Confederation Life plans, were transferred to Sun Life Assurance Company of Canada (U.K.) Limited. In order for this to take place, it was necessary for a further legal Scheme to be approved in the High Court.

This further Scheme provided that the Confederation Life With-Profits Fund would continue to be managed in accordance with the terms of the original Scheme.

We have published our Principles and Practices of Financial Management (PPFM), which describes in detail how we manage the Confederation Life With-Profits Fund. We have set up a With-Profits Committee, which is an advisory committee to the Board of Directors, to make sure that we do manage the Confederation Life With-Profits Fund in this way.

You should note that this guide represents a simplified version of the information contained in the PPFM, which will take precedence if there is any inconsistency. Furthermore, if there is any inconsistency between the PPFM and the terms of the High Court Scheme referred to above, the terms of the Scheme will apply.

Where I can find out more?

For more detailed information about how Confederation Life with-profits plans work, and how we manage the Confederation Life With-Profits Fund please contact us on **0845 072 0223** and ask for a copy of our Principles and Practices of Financial Management (PPFM). Alternatively, you can read it on our website, **www.sloc.co.uk**

If you need financial advice you will need to contact a financial advisor who may make a charge for this. You can obtain a list of advisers at **www.unbiased.co.uk**

Sun Life Assurance Company of Canada (U.K.) Limited, incorporated in England and Wales, registered number 959082, registered office at Matrix House, Basing View, Basingstoke, Hampshire, RG21 4DZ, trades under the name of Sun Life Financial of Canada and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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