Wealth Management

Segregated Portfolio Service

Adviser Guide

canada life

International™

New opportunities for you and your clients.

The Segregated Portfolio Service ('SPS') provides your clients with a broader range of investment opportunities, offering an additional investment with the potential for lower costs and better returns.

At Canada Life International Limited and Canada Life International Assurance (Ireland) DAC ("we/us"), we work hard to understand your needs, putting you at the heart of everything we do. From first class technical support by our specialist sales team, to the super-efficient service from our dedicated support team, you can rest assured you're in experienced hands.

We provide a range of international open architecture investment linked life assurance and capital redemption products ("Accounts") that provide access to a wide range of investments.

For UK resident Account holders, the choice of available investments is normally restricted to collective investment schemes and cash deposits, to comply with HM Revenue & Customs ("HMRC") Personal Portfolio Bond regulations. However, HMRC will allow a wider range of investments to be selected, provided the Account holder can demonstrate that they have no influence over investment decision making. This is where the Segregated Portfolio Service can help.

When choosing the Segregated Portfolio Service, Account holders appoint a Discretionary Fund Manager that has Segregated Portfolio Service terms of business with us to manage their investment. The Discretionary Fund Manager makes the investment decisions without influence over the selection of any investments from any other party. This means that by opting for the Segregated Portfolio Service, UK resident Account holders can access a wider range of investment options than would normally be available to them.

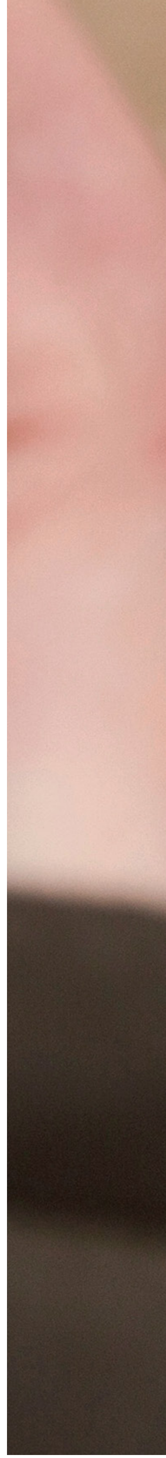
Suitability

With SPS, investors nominate a Discretionary Fund Manager ('DFM') to manage their assets with us. The DFM needs to already have a SPS agreement in place with us, and this allows them to manage the assets on our behalf without any influence or direction from the investor. In these circumstances, the HMRC limitations on asset permissibility do not apply.

Please be aware that SPS can only be selected where the investor is willing to pass all investment decision-making to the nominated DFM. If this is not be possible, SPS will not be appropriate.

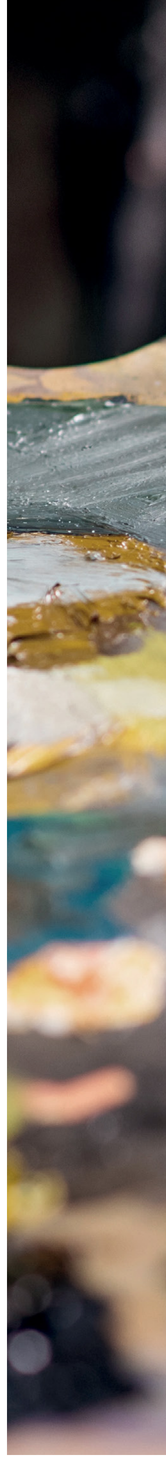
Benefits of Segregated Portfolio Service

- Wider choice of assets, including direct investment into equities giving greater scope for diversification
- Potential to reduce expenses by investing directly rather than through funds
- Opportunity to benefit from the nominated DFM's stock selection expertise
- Opportunity to create true income portfolios, with direct investment into gilts and other fixed interest assets
- The nominated DFM can also use fixed interest assets in a liability driven strategy that matches maturities to future requirements. This may be particularly useful in cases where there is a need for fixed withdrawals, such as Discounted Gift Trust Schemes



Invest in a wider range of assets that are normally not available under HMRC Personal Portfolio Bond regulations.

New opportunities for you and your clients.



What restrictions apply?

- Your client cannot invest in any assets other than SPS while this agreement remains in force. Additional DFM SPS arrangements can be held with different DFMs in a single Account
- The nominated DFM will manage the assets in accordance with your client's risk profile and investment objective for as long as the agreement stays in place
- Neither your client nor anyone else may instruct or seek to influence the decisions of the nominated DFM when purchasing or redeeming any asset on your client's behalf
- Neither your client nor anyone else has any discretion over the choice of assets. For instance, your client cannot ask for a specific or bespoke investment to be included in the portfolio
- **If your client or anyone other than the nominated DFM are found to have influenced the selection or de-selection of investments, significant adverse UK tax consequences would follow for your client. Your client's Accounts would be treated as 'personal portfolio bonds' for UK income tax purposes and your client would be subject to an income tax assessment each year on a deemed 15% gain**
- There is an ongoing charge for using the SPS – please refer to the relevant Charges and Fees document or the Product Charges Guide for full details

Should you or your client have any instructions in respect of the Account, these should be given to us rather than the nominated DFM. This will ensure that your client continues to comply with the investment agreement and the restrictions listed above, so that the Account will not be treated as a Highly Personalised Bond for tax purposes by HMRC.

If investors or their financial advisers are found to have influenced the selection or de-selection of assets within a SPS portfolio, significant adverse UK tax consequences will apply to the Account. The Account would be treated as a 'personal portfolio bond' for UK income tax purposes and the Account owner would be subject to an income tax assessment each year on a deemed 15% gain. This income tax liability is compounded each year the Account is classified as a personal portfolio bond.

We would need to be advised if your client's risk profile and/or investment objectives change, and we will instruct the nominated DFM to change the asset mix in the SPS portfolio so that they manage the investment accordingly. We will not pass on instructions if they are likely to conflict with the terms of the investment agreement. If we feel that instructions do not comply with the agreement, we will let your client know.

The nominated DFM knows that they cannot take instructions directly from you or your client.

Ultimately, we have the power to prevent the purchase of any particular asset or instruct the sale of an asset if we become aware that your client or the nominated DFM have inadvertently overlooked the rules of the agreement.

Potentially reduce expenses by investing directly rather than through funds.

New opportunities for you and your clients.

How SPS compares to a standard DFM arrangement

Under a standard DFM agreement, you and your client can have as much input as you wish as regards the investment choice. This can be through written instructions or personal meetings with the DFM.

With SPS, neither you, your client nor anyone else can have any influence on the investment selections made by the SPS nominated DFM. This is required so that the Account will not be recognised as ‘highly personalised’ by HMRC.

You can give only broad investment aims to the nominated DFM, such as a ‘focus on growth’, ‘income’ or a ‘balance of the two’ or, for example, ‘a general desire to avoid unethical investments.’

As with any DFM agreement, we are the client of the DFM. In this case, we will also take a liaison role, passing on communications, such as valuations for the Account, to your client.

The nominated DFM may hold an annual review meeting with you and your client, but any discussion regarding the investments would be limited to the performance of the portfolio. If the overall risk profile needs changing this will be carried out by us through the completion of the nominated DFM’s appropriate forms.

HMRC Requirements

To ensure that SPS meets HMRC requirements, a strict compliance process must be in place:

- The nominated DFM must be able to demonstrate that they have acted independently of both you and your client
- Neither you nor your client may give any investment instructions to the nominated DFM. A declaration to this effect is required from all three parties
- If you and the nominated DFM are part of the same group, there must be a procedure in place to ensure that you do not influence the investment decisions of the nominated DFM
- All procedures must be documented and audited on a regular basis
- The nominated DFM will be appointed and paid by us from the cash transaction account within your Account
- Correspondence to you and your client must be for information purposes only. All correspondence from you or your client must go through us
- We have the right to veto the purchase of any asset or to insist on its sale if purchased in error

How it works in practice.

Client and adviser agree that one of the Accounts with the Segregated Portfolio Service is appropriate. This must be for the whole Account portfolio.

When requesting an illustration, please specify that the client wishes to invest in the Segregated Portfolio Service.

Client and adviser select the Discretionary Fund Manager.

Client completes the Segregated Portfolio Service Manager Appointment Request Form and the Account application form.

The client may specify attitude to risk, time horizon and broad investment aims, such as growth or income, but cannot have any other input into investment decisions.

We appoint the Discretionary Fund Manager.

We are the client of the Discretionary Fund Manager.

Discretionary Fund Manager manages the assets in accordance with client's broad aims.

The Discretionary Fund Manager sends investment management communications on the portfolio to us and we will forward to adviser and/or client.

The Discretionary Fund Manager may send valuation statements direct to the client, but all communications would normally be through us.

Account Liquidity

The nominated DFM is responsible for ensuring that sufficient cash is available to maintain a positive balance in the Account's cash transaction account. If a withdrawal is required, we will arrange for the nominated DFM to sell sufficient assets to cover the withdrawal. You or your client cannot request that specific assets are sold to maintain the cash transaction account balance or to cover withdrawal requests. Where there is more than one SPS portfolio, you should let us know where we should request money from to keep the cash transaction account healthy. This can be from a single DFM or split between all DFM's.

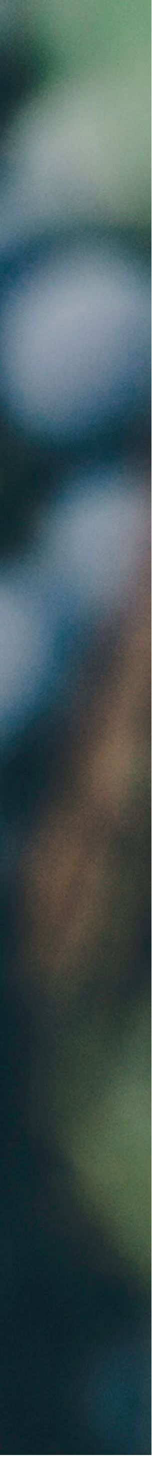
Cancelling the Agreement

Some clients may decide that having the ability to directly influence investment decisions is more attractive to them in the long term than having the opportunity to invest in a wider range of assets than those limited by HMRC regulations. In this case, your client can advise us in writing to cancel the agreement with the nominated DFM. We will advise the nominated DFM that the agreement has been cancelled and will instruct them to sell all non-permissible holdings at the earliest possible opportunity. It may be possible to transfer any permissible assets in specie, but this will depend on the assets held and would need to be explored in more detail at the time the agreement is canceled.

Once all SPS holdings have been sold, the cash value of the assets will be returned to us. We pay the proceeds from the sale of the portfolio into the Account's cash transaction account, and your client can then purchase other assets that better suit their needs, manage these themselves, or appoint a new investment adviser or a new DFM.

If the nominated DFM is unable to sell all the assets from the SPS portfolio for any reason (for example if the underlying asset is suspended from dealing or is difficult to liquidate at short notice, such as commercial property), this will delay your client's ability to make their own investment choices.

Benefit from the investment manager’s stock selection expertise.



Investment restrictions and permissible assets

The assets permissible under HMRC Personal Portfolio Bond regulations, The Income Tax (Trading and Other Income) Act 2005 (ITTOIA05 sections 515 – 526), for individual policyholders, and UK Statutory Instrument SI 1999/1029 (Personal Portfolio Bonds (Tax) Regulations 1999), for corporate policyholders, are limited to the following:

- Authorised unit trusts
- Authorised investment trusts
- Open-ended investment companies
- Linked life funds
- Cash/deposits

The assets that may be held under SPS are not restricted by the HMRC Personal Portfolio Bond regulations. However, there are additional regulatory restrictions that apply outside of HMRC regulations which vary depending on the jurisdiction of the Account provider. These are as follows:

- Canada Life International Assurance (Ireland) Dac (CLIAI), is subject to the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 of 2015) (which transposed into Irish law the Solvency II Directive (Directive 2009/138/EC)) (the "**Solvency II Regulations**") as well as any additional requirements set out by the Central Bank of Ireland, which regulates CLIAI

- Canada Life International Limited (CLI), is subject to the Isle of Man Insurance Act 2000 as well as any additional requirements set out by the Isle of Man Financial Services Authority, which regulates CLI

The permitted assets allowed through SPS that would otherwise not be permitted by HMRC limitations, include:

- UK and global equities (listed on a regulated exchange)
- UK gilts
- Government, municipal and corporate bonds
- Eurobonds
- Structured products

The Solvency II Regulations may allow other types of investment to be held, but we believe the above normally cover most requirements. However, we will provide support in assessing other types of investment should the nominated DFM want to use them.

We monitor the assets held within portfolios from time to time. If we identify any non-compliant assets, we advise the nominated DFM, who must dispose of the assets immediately.

Moving to SPS from an existing DFM agreement (within an existing Account)

Clients can move from an existing DFM arrangement to SPS, although this will significantly change the relationship with the nominated DFM.

Where a client may have previously been able to influence investment decisions, this flexibility disappears under the SPS terms and no assets other than SPS investments can be held within the client's Account.

Transferring assets from an existing discretionary portfolio (to a new or existing Account)

Clients can choose to transfer assets already held in a portfolio that is being managed by a qualifying DFM. Such a transfer can be instead of, or in addition to a cash payment. Assets can be transferred in-specie, which means the DFM need not physically sell the assets. If assets are already held, transferring them to us in-specie can save costs and eliminates time spent out of the market, which may lessen risk. However, in-specie transfers of permitted assets are only allowable subject to the following conditions:

- Any assets that are to be transferred to an Account must be held within a discretionary portfolio and have been selected by a DFM
- The DFM has complete discretion over the nature and management of the assets it will accept into the portfolio, including the choice of any wrapper in which they are held. They will not accept any assets held directly by the client
- The DFM has complete discretion over the assets that can be transferred to the Account. The client must not influence the selection of assets, but may indicate their desired level of risk and broad investment objectives. This also applies to you or any other person acting on the client's behalf
- No individual asset can represent more than 33% of the total value of the assets the client wants to transfer to us
- The client can have no influence on when individual assets are sold and no influence over any assets subsequently purchased
- Any assets held on the client's behalf by the DFM, must have been held for more than six months
- The DFM must ensure that all investments held within the Account comply with:
  - For CLIAI, the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 of 2015) (which transposed into Irish law the Solvency II Directive (Directive 2009/138/EC)) (the "Solvency II Regulations") as well as any additional requirements set out by the Central Bank of Ireland, or
  - For CLI, the Isle of Man Insurance Act 2000 as well as any additional requirements set out by the Isle of Man Financial Services Authority
- The value of the first transfer of assets must be at least £100,000 (€150,000 or US$200,000)

Points to consider

Wrapping a discretionary portfolio in an international life assurance or capital redemption product that has been transferred in-specie is a disposal for capital gains tax purposes. This will create a tax liability if the gain on the discretionary portfolio, plus any other gains, exceeds the clients annual capital gains tax allowance.

Holdover relief is not available, even when the Account is held in a trust.

The in-specie process is dependent on the time taken by the Discretionary Fund Manager to register us as the owner of the assets. In-specie transfers can take some time to complete, and clients should factor this into their plans – for instance, if they intend using the Account to provide an income stream.

Our International Products

Also known as open architecture bonds, our range of international investment linked life assurance and capital redemption products offer the opportunity to accumulate and manage wealth with the flexibility of allowing tax efficient withdrawals. Your clients can enjoy a wealth of investment options tailored to their investment objectives and attitude to risk.

Where we use 'Account(s)' within this document we mean the following range of international products:

Open to new business:

- Premiere Account & Premiere Europe Account
- Premiere Discounted Gift Trust Account & Premiere Europe Discounted Gift Trust Account
- Wealth Preservation Account & Wealth Preservation Europe Account
- Controlled Access Account

Closed to new business but open for top-ups:

- International Portfolio Bond

Closed to both new business and top ups:

- Enhanced Estate Preservation Account
- Estate Preservation Account
- Inheritance Planning Account

This is based on our current understanding and interpretation of current legislation in the UK, Isle of Man, and Ireland, and HMRC and Irish Revenue Commissioners practice, which may change. The value of an investment in the Account can fall as well as rise and your clients may receive back less than they invest. While every effort has been made to ensure the accuracy of the information contained in this document, neither we nor our representatives can accept any liability for the consequences of any action taken, or not taken, on the strength of this information.

This is not a consumer advertisement. It is intended for financial advisers and should not be relied upon by private investors or any other persons.

To find out more, talk to your usual representative or call

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We may record and monitor calls. Call charges will vary.

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