



Investor protection

This document is for financial professionals only

aberdeenplc.com

Contents

| | |
|------------------------------|----|
| An overview | 3 |
| Aberdeen platforms | 9 |
| International Portfolio Bond | 10 |
| Onshore Bond | 13 |
| Pensions including SIPP | 14 |
| Mutual Funds | 17 |



Please note that the FSCS limits referred to are those which came into force in April 2019. For claims prior to this date different limits may apply.

Any links to websites, other than those belonging to the Aberdeen Group, are provided for general information purposes only. We accept no responsibility for the content of these websites, nor do we guarantee their availability.

Any reference to legislation and tax is based on Aberdeen's understanding of United Kingdom law and HM Revenue & Customs practice at the date of production. These may be subject to change in the future. Tax rates and reliefs may be altered. The value of tax reliefs to the investor depends on their financial circumstances. No guarantees are given regarding the effectiveness of any arrangements entered into on the basis of these comments.



An overview

What is the Financial Services Compensation Scheme (FSCS)?

The Financial Services Compensation Scheme (FSCS) is a protection scheme which aims to pay **compensation** to **eligible claimants** if a firm is unable, or likely to be unable, to pay claims against it.

It was introduced by the Financial Services and Markets Act 2000 and came into force in December 2001. The FSCS replaced the various other previous protection schemes including the Policyholders Protection Scheme and Investors Compensation Scheme.

What are the compensation limits for the Financial Services Compensation Scheme (FSCS)?

The Financial Service Compensation Scheme (FSCS) covers deposits, investments, general and life insurance, and arranging and giving advice on mortgages. The FSCS provides the following limits:

01

Deposits

The FSCS provides cover for deposits up to £85,000 for each eligible claim per banking group.

Where an **eligible claimant** has deposits above the protected limit with a banking group, they may get a further payment from the FSCS based on the proportion of the amount above the protected limit that could be paid by the administrator of the failed bank. To enable this, the depositor has to assign their full rights (including their loss) to the FSCS, who will eventually receive payment from the administrator.

The following example shows how this works in practice:

- Denise has £110,000 deposited in a failed bank where the administrator could pay depositor creditors 60p in the £1.
- She will get £85,000 from the FSCS in a reasonably short time after the bank was declared 'in default'.
- Her full rights are assigned to the FSCS.
- The FSCS will eventually get £66,000 from the administrator (60% of £110,000).
- Denise will then get part of her remaining loss at the recovery rate of 60% of the excess over the protected limit, i.e. 60% of £25,000 = £15,000.
- So, Denise will receive payments totalling £100,000 from the FSCS.

The FSCS will also provide protection for temporary high balances in deposits up to £1,000,000 for qualifying events. Qualifying events include scenarios such as proceeds from sale of private residential property, benefits payable under an insurance policy or benefits payable on death. Qualifying events will be covered for 6 months from the later of date of deposit or date became legally transferable.

02

Contracts of Insurance

The FSCS provides cover for long-term policies such as life assurance and pension policies of 100% of the claim without limit.

The FSCS will initially attempt to secure continuity of long-term insurance cover, prior to a compensation payment, where it is reasonably practicable to do so.



03

Compulsory insurance (e.g. car insurance)

The FSCS provides cover at 100% without limit.

04

Investment business

The FSCS provides cover of 100% of the first £85,000.

It is our view that the individual's investment should always be protected in the event of insolvency of Aberdeen or an external mutual fund manager due to the requirement of the fund manager to appoint a depository and custodian.

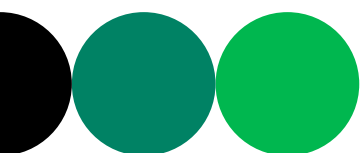
One of the primary functions of the custodian is the safekeeping of securities and cash in deposit accounts, held in the name of the depository. This has the effect of segregating the funds from the fund manager's own monies and effectively protects the client's investments should the fund manager become insolvent.

For the investor this means that the only time they would need to look to the FSCS for compensation would be in the event of the fund manager acting dishonestly, fraudulently or negligently. It would also apply if the investor was mis-sold the product and suffered a loss because of that (for example where the fund was a high risk investment and the client was identified as being risk averse).

05

Mortgages (home finance mediation)

The FSCS provides cover of 100% of the first £85,000 for mortgages claims against firms declared in default from 1 April 2019.



When can a claim for compensation be made to the FSCS?

The **FSCS** can only pay compensation to **eligible claimants** when an authorised company is unable or is unlikely to be able to pay claims against it. At this point the FSCS will generally declare the firm as being 'in default' and only after this time will they consider any claims.

While a firm is still trading or still has sufficient assets to meet claims, the FSCS will not consider a claim and the claimant will need to reclaim any money due from the firm itself or the firm's administrators.

The FSCS calls itself 'a fund of last resort' for customers of authorised financial services firms and does not consider any claim until the authorised firm is 'in default'.

This means that investors could in many cases get some of their investment back perhaps from the firm's administrators. If this is less than the compensation limit, they would then be able to claim for their loss from the FSCS once the firm was in default, but only up to the relevant limit.

The FSCS website provides details on how long claims take on average, please visit their page for further information. <https://www.fscs.org.uk/making-a-claim/claims-process/timescales/>

When does the FSCS not apply?

The following are examples of where the **FSCS** would not apply:

- Buying a suitable investment product which makes a loss due to a fall in market prices (for example, following a crash in the stock market).
- Recovering losses above the **FSCS limits**.
- The firm is still trading.
- When the firm is not authorised by the Financial Conduct Authority (FCA) and/or the Prudential Regulation Authority (PRA).

How are FSCS compensation payments taxed?

Generally **FSCS** compensation payments are free of tax. However, where part of the payment includes interest that would have been due by the defaulting company, this interest will be subject to income tax.

For example, if an individual has a deposit with a bank or building society which is in default. Any interest which is due for the period between the last interest payment and the date the bank or building society defaulted will remain taxable as income when paid by the FSCS.

The recipient of the compensation payment can submit a written request to the FSCS for a statement showing the gross and net amounts paid and the tax deducted. This will allow them to reclaim any overpaid tax if they are non-taxpayers or include the amount of notional tax deducted when calculating any liability to higher rate tax on the accrued interest.

Who would be regarded as an eligible claimant for the FSCS?

In order for a claim for compensation under the **FSCS** to be successful, the claim must be made by an 'eligible claimant'. Details of who can claim are set out in the FCA's handbook and on the FSCS website.

In summary, any person can be an 'eligible claimant' unless they are specifically excluded. This section includes a table of excluded persons. However, certain persons who are included within the table of exclusions may still be eligible to claim if they satisfy exemptions set out in the FCA's handbook and on the FSCS website.

The following table is a summary of 'eligible claimants'. It is not an exhaustive list but covers the main class of eligible claimants and circumstances where they may be excluded. Note – the FCA reference to a 'person' includes individuals, trustees, businesses and partnerships.

| Eligible claimants | But not... | Unless... |
|----------------------------|--|--|
| Individuals | <p>Directors of the 'person' in default.</p> <p>Person is a partner in a partnership</p> <p>If FSCS believe they are responsible for or contributed to relevant person in default.</p> | <p>The directors were not paid for their services and the 'person' is a mutual association (but not a 'large mutual').</p> <p>Person in partnership entered into general insurance contract before 1 December 2001.</p> |
| Companies | <p>'Large' companies.</p> <p>In regards to deposits – The company is:</p> <ul style="list-style-type: none"> • credit institution • financial institution • investment firm • insurance undertaking • reinsurance undertaking • collective investment undertaking • pension or retirement fund • public authority, other than a small local authority. <p>Companies whose claim is due to a default of another company in the same group.</p> | <p>A claim in respect of the long term insurance or deposit part of the scheme.</p> <p>A claim in regards to deposits by personal pension schemes, stakeholder pension scheme and occupational pension schemes of micro, small and medium-sized enterprises.</p> <p>A claim in respect of the long term insurance or investment business part of the scheme.</p> <p>The claimant is an eligible trustee.</p> |
| Partnerships | 'Large' partnerships (i.e. partnerships with net assets of more than £1.4m). | A claim in respect of the deposit or long term insurance part of the scheme. |
| Mutual associations | 'Large' mutual associations. (i.e. mutual associations with net assets of more than £1.4m). | A claim in respect of the deposit or long term insurance part of the scheme. |



Notes – In addition to the information above, the following category of claimants are not eligible:

- Overseas financial services institutions;
- Superannuation institutions, governments, and central administration authorities;
- Local authorities (including provisional, regional & municipal authorities);
- Auditors of the 'person' in default;
- Claimants who were convicted of money laundering offences in relation to transacting with the 'person' in default.

Do claimants under the FSCS need to be UK resident?

The **FSCS** is a compensation scheme to protect those persons who at the time they made the payments, were UK resident individuals, trustees, companies or partnerships who buy or receive advice on financial products from UK authorised firms.

However the scheme can cover a wider range of claimants as it extends to cover FCA and/ or PRA authorised firms who are based in the UK, European Economic Area (EEA), (for firms that have entered the temporary permissions regime) Channel Islands or Isle of Man. In addition it can protect persons who live in the EEA Channel Islands or Isle of Man if they buy or receive advice on financial products from UK authorised firms. A local compensation scheme may also apply in the jurisdiction the investment, bank account etc. is based in.

It is important to note that the eligibility of a claimant will depend on how the firm is authorised and where the claimant was based when they were investing or paying premiums, (not where they are at the time of the claim).

Intermediaries should check the arrangement of their client's investment, deposit, protection plan, etc to determine whether the FSCS would apply should a firm, product provider or bank fail.

How do you decide if a trust is eligible?

Trusts will be considered to be eligible for FSCS protection where:

- There is one trustee – when the trustee was UK resident when the contract began, or
- The trust is corporate – when it is established in the UK, or
- There is more than one individual trustee – when one of them is a UK resident

Which UK-based foreign banks are covered by the FSCS?

The FCA has published a list of banks whose eligible depositors are covered by the UK's FSCS up to a limit of £85,000.

The banks in this list are either:

- incorporated in the UK, including the UK incorporated subsidiaries of foreign banks, or
- incorporated outside the European Economic Area (EEA) but authorised by the FCA to accept deposits in the UK as a branch.

The link below provides the full list:

www.bankofengland.co.uk/prudential-regulation/authorisations/financial-services-compensation-scheme

How does the FSCS define a large company?

In some scenarios, 'large companies' cannot claim compensation from the scheme. The FSCS regard a 'large company' as having two out of the three following characteristics:

- A turnover of more than £6.5M;
- A balance sheet of more than £3.26M;
- Having on average more than 50 employees.

Putting this into more practical terms, many life companies will be regarded as a 'large company'. In general where a life office offers access to an external fund managed by another financial product provider, it is the life company which buys and holds the investment in their name.

There are advantages in this method; mainly that the life company will usually get better terms on the purchase for the client. However, the 'large company' rule applies here and therefore life offices cannot claim compensation should the external fund manager default.

Large companies are no longer exempt for eligibility in regards to claims for deposits. However, other exemptions may apply such as insurance undertaking. For example Phoenix Life Limited, trading as Standard Life, who provide some of the products available on the Aberdeen wrap platform is classed as an insurance undertaking.

What are the time limits for making compensation payments from the FSCS?

The FSCS must pay claims 'as soon as reasonably possible' after establishing:

- The claimant has an **eligible claim** and;
- The **amount of the claim** to be paid to the claimant.

In any event this should be done within three months of establishing these facts. In certain circumstances, the FSCS can ask the regulators to extend this limit and if this is granted the limit can be increased up to a maximum of six months.

The FSCS can postpone payment of compensation under certain circumstances, such as:

- There is still a possibility of the claimant recovering the debt from the person in default (or their estate).
- The calculation of the compensation is complex and cannot be completed within the prescribed timescales.
- The claimant has been charged with an offence relating to money laundering.

Compensation payments in respect of deposits should normally be paid within 20 business days. However, the FSCS has a target, that the majority of claimants will receive compensation within 7 days of the deposit taker being declared in default.

Do policyholders have any rights as a creditor if the product provider goes into administration?

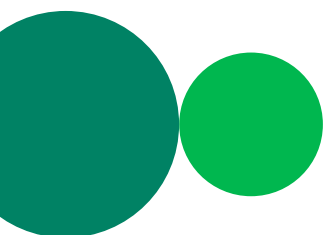
There are specific rules which apply to insurance companies on a winding-up as a result of the Solvency II Directive 2009.

The Directive was implemented in the UK in such a way that insurance claims (i.e. claims of policyholders) against an authorised insurance company take precedence over most other claims. Firstly, the administrators will generally have a right to funds to cover the costs of winding-up. After that, only certain claims can take precedence over claims by policyholders.

These are:

- Employees of the insurance company (e.g. for outstanding salary);
- Claims for tax or social security;
- Claims on assets subject to 'rights in rem' (the literal meaning for this is a right in a thing. For example, if the photocopiers in the building are rented, the owners of the copiers would generally have a right to get them back).

Therefore it is only if meeting the above claims means that the remaining assets are insufficient to meet the policyholders' claims that a policyholder would need to turn to the **FSCS** as the firm is unable to meet any further liabilities.



Aberdeen platforms

Are clients on the Aberdeen platforms protected if Aberdeen Platform Limited (APL) or Elevate Portfolio Services Limited (EPSL) defaults?

Personal holdings (Stocks, shares, mutual funds etc. but not bank accounts) on the Aberdeen platforms are held in nominee accounts and are completely separate from APL's and EPSL's own assets.

Where the holding is a mutual fund, the fund manager is required by the FCA to appoint a custodian or depository who is responsible for the safekeeping of the assets. The depository will normally appoint a custodian to act on their behalf. One of the custodian's primary functions is the safekeeping of securities and cash in deposit accounts, held in the name of the depository. This has the effect of segregating the funds from the fund manager's own monies and effectively protects the client's investments should the fund manager become insolvent.

Similarly, unit trust trustees have a primary objective to protect the investor and legally hold the assets of the unit trust on their behalf.

By segregating and ring-fencing the assets, this should provide adequate protection from creditors if a fund manager defaults (whether it is Aberdeen or any external mutual fund manager).

This means that the only time there would need to be a claim against the FSCS would be in the event of the fund manager acting dishonestly, fraudulently and/or negligently or if the client was mis-sold the product and suffered a loss (for example, where the fund was a high risk investment and the client was identified as being risk averse). In the event that there is a claim, the FSCS would cover any valid claim up to 100% of the first £85,000 under the investment business part of the scheme.

How is cash held on the Aberdeen Wrap, Elevate and Fundzone platforms protected?

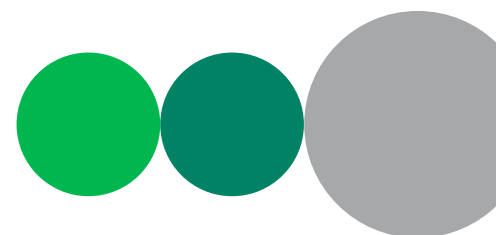
'Uninvested money' in a Wrap, Elevate or Fundzone Account (i.e. money not invested in specific products such as SIPP, investment bonds or collectives) is held as client money. APL and EPSL hold client money in accordance with the FCA/PRA's client money rules in client bank accounts which are segregated from APL's and EPSL's own money at banks regulated by the FCA and the PRA.

A client's money is held with the money of other clients, collectively called 'pooled client money accounts'. For example, this means cash held in 'the Wrap, Elevate and Fundzone cash accounts and also accounts holding the cash elements of any ISA or Wrap Personal Portfolio, Elevate General Investment Account and Fundzone Investment Funds, these will all form part of a pooled client bank account.

By segregating the cash in the pooled client bank accounts from APL's or EPSL's own capital, this has the effect of fully protecting investors using Aberdeen platforms should APL or EPSL default.

The protection available for cash held within an international portfolio bond or a SIPP on the Aberdeen wrap platform will be treated in the same way as non wrap investments into these products.

If any bank which holds such client money defaults, the **FSCS** has specified that, subject to the general conditions of the compensation scheme, each client should benefit from FSCS protection on an individual basis in respect of their funds held in the client accounts. In this scenario, APL and EPSL will submit claim to the FSCS on behalf of their clients. This FSCS protection applies to the Wrap, Elevate and Fundzone cash accounts.



International portfolio bond

Are International portfolio bond investors covered by the FSCS?

The rules made under the Financial Services and Markets Act 2000 (as amended) for the protection of retail clients in the UK do not apply.

It is important to understand that your Bond is not protected by the UK Financial Services Compensation Scheme (FSCS) if we are unable to meet our liabilities to you. There is no access to the FSCS if you have a pre-existing International Bond or plan to take out an International Bond in the future.

You should note that there is no equivalent compensation scheme available in Ireland. However, the situation where Standard Life International would be unable to meet policyholder liabilities is extremely unlikely. Irish regulations protect policyholders by imposing strict capital requirements on insurance companies. Under Solvency II, Standard Life International is subject to extensive obligations concerning the level of capital it must hold. Solvency Capital Requirements (SCR) represent the capital requirements that must be held in addition to policyholder liabilities. By holding more excess capital than SCR, the situation where Standard Life International would be unable to pay customer obligations is very low. Please contact your financial adviser for further information.

It should be noted that if the bond provider were to be declared in default, some of the bond's underlying investments may be in external funds such as **insured funds, mutual funds, deposits or structured deposits**, and since these fund providers are not in default, this reduces the actual loss.

What protection is available for investors in insured life funds?

The International portfolio bond provider offers different types of insured funds.

Some offer investment in funds managed directly by the bond provider whilst others invest in funds managed by an external fund manager. This is known as an external fund link (EFL).

Where the investment is made only in to the bond providers directly managed insured funds, the structure is relatively straightforward. The investor purchases units in the insured fund offered by the insurance company. If the insured fund provider defaults, the investor could not claim compensation from the FSCS.

If the investment includes any investments into EFLs or a mix of EFLs and directly managed insured funds, then the situation needs to be considered by the bond provider or the external fund manager was to be in default.

If the bond provider were unable to meet its claims, investors could not claim compensation.

There would also be no claim for compensation under FSCS rules if the external fund manager was unable to meet its claims, as the provider of the bond cannot make a claim on behalf of its policyholders due to the '**large company**' rule.

Where the external fund invests in mutual funds, such as OEICs or unit trusts, these will be ring-fenced in the same way as direct holdings of these investments. This means the assets will be held by the appointed custodian and separate from the fund manager's own assets and therefore enjoying a robust level of protection in the event of insolvency of the external fund manager.

How are investments in mutual funds protected by the FSCS when they are bought through the International portfolio bond?

The bond provides access to a wide range of mutual funds offered through Aberdeen wrap platform as well as acceptable 'whole of market' funds.

Mutual funds, such as OEICs or unit trusts, are bought on the bond owner's behalf by the bond provider and in this transaction there is no **FSCS** cover should the mutual funds manager default due to the **large company** rules.

If the bond owner invests in mutual funds and the bond provider were to default, then no compensation would be payable. However, since the investments are held within a separate OEIC or unit trust fund which is not in default there may not be any loss.

It is very important to note that although there would generally be no claim should a mutual fund manager default, this may not be an issue since an OEIC fund manager is required by the FCA to appoint a depositary who is responsible for the safekeeping of the assets. The depositary will normally appoint a custodian to act on their behalf, thus providing a robust level of protection for investments in the event of insolvency of the external fund manager.

Similar protection is available for investments in unit trusts where the trustees are responsible for the safekeeping of the assets. In general, the only circumstance that a default could actually occur in a mutual fund would be in the event of the fund manager acting dishonestly, fraudulently or negligently.



How are deposit accounts held within the International portfolio bond protected if the deposit account provider defaults?

Investments in UK based deposit accounts including the bank account held at bond level are not covered by the **FSCS** if the UK based deposit account provider were to default as the investor in these deposits is regarded by FSCS as a **insurance undertaking**.

For example, an International Portfolio Bond, the bond provider holds a pooled client deposit account in its name with the bank offering the deposit account.

Generally, if a deposit account is based offshore, there is no compensation available from the FSCS since these deposit providers are not FCA and/or PRA authorised and the FSCS will therefore not apply. In some circumstances where the account is provided by a subsidiary of a bank based in the UK, the parent company may provide a letter of comfort confirming that they will make up any liability should the subsidiary default.

A local compensation scheme may apply in the jurisdiction the deposit account is based in. The bond provider will be able to give you more information regarding what protections are available.

How are Structured Deposits held within the International portfolio bond covered by FSCS?

A structured deposit provides an investment vehicle that combines:

- An element of capital protection (often even a full return of the original investment); plus
- A degree of participation in the return from a potentially higher performing, but consequently riskier, investment.
- Structured deposits are an externally managed investment. As the bond provider is the purchaser, and classified as an **insurance undertaking**, this investment is therefore not covered by the **FSCS**.

However, the bond provider has rights to the underlying assets if a structured deposit provider defaults and should be able to claim the current, redeemable value of the underlying asset(s).

Are funds managed by discretionary investment managers within the International portfolio bond covered by the FSCS?

Investments made by discretionary investment managers (DIM) within the International Bond are not covered by the **FSCS** should the DIM default, as the purchaser of the DIM funds is the bond provider. As the investment is externally managed by the DIM and the bond provider is the purchaser, and an insurance undertaking, this investment is not covered by the FSCS.

However, the DIM is obliged to keep client assets separate from its own assets. DIMs are bound by strict regulatory and legal obligations to ensure that investment monies are ring-fenced from the DIM's other assets.

Onshore Bond

How are investments protected in the event of an onshore bond provider defaulting?

UK firms selling financial products in the UK (including Aberdeen) are authorised by the FCA and/or PRA. In general, any private individual (and others, such as certain trustees and small businesses) who invest in an onshore investment bond such as a bond made available via the Aberdeen wrap platform will be protected by the **FSCS** should that authorised firm be unable to meet its liabilities.

What compensation is available from the FSCS if there is a valid claim against an onshore bond provider?

If an onshore bond provider defaulted, the bond would be covered by the 'protected contract of insurance' part of the **FSCS** and the policyholder would be entitled to claim for up to 100% of the value of the bond without limit.

The policyholder would receive an initial payment from the bond provider representing the policyholder rights as a creditor once it has been established how much the provider can pay. The difference up to the scheme limit is then paid directly from the **FSCS**.

What protection is available for investors in insured life funds?

The onshore bond provider offers different types of insured funds. Some offer investments in funds directly managed by the bond provider whilst others invest in a fund provided by an external fund manager known as an external fund link (EFL).

Where the investment is made only in to the bond provider's own directly managed insured funds, the structure is relatively straight forward. The investor purchases units in the insured fund(s) offered by the insurance company. If the bond provider defaults the investor could claim compensation from the **FSCS** under the contract of insurance part of the scheme.

If the investment includes any investments into EFLs or a mix of EFLs and directly managed insured funds, then the situation needs to be considered if the bond provider or the external fund manager was to be in default.

If the bond provider was unable to meet its claims, investors would be protected under the 'Protected contract of insurance' category. This provides cover at 100% of the value of the policy (including the value of any EFL funds) without limit.

However, there would be no claim for compensation under **FSCS** rules if the external fund manager was unable to meet its claims, as the bond provider cannot make a claim on behalf of its policyholders due to the 'large company' rule.

Where the external fund invests in mutual funds, such as OEICs or unit trusts, these will be ring-fenced in the same way as direct holdings of these investments. This means the assets will be held by the appointed custodian and separate from the fund manager's own assets and therefore enjoying a robust level of protection in the event of insolvency of the external fund manager.

Pensions including SIPP

How are pension investments protected in the event of a product provider defaulting?

Firms selling financial products in the UK (including Aberdeen) are authorised by the FCA and/or PRA. In general, any pension such as a SIPP made available via the Aberdeen wrap platform will be protected by the **FSCS** should that authorised firm be unable to meet its liabilities. However the level of protection will depend on which underlying investments are chosen within the SIPP.

Most SIPPs are trust based so the assets are owned by trustees (usually a corporate trustee owned by the provider of the scheme, but sometimes it could be a corporate trustee together with the member of the fund concerned). The fund will then be administered by a financial services company who will also provide some of the investments.

What protection is available to the trustees of a pension scheme?

The **FSCS** allows trustees of personal pension schemes, SIPP, SSAS and stakeholder schemes to make a claim if an authorised firm defaults. The claim is treated as being made on behalf of each member individually rather than one claim for all members.

The situation is more complex for trustees of other forms of occupational pension scheme but most trustees will be able to make a claim. If the claim is for money purchase pension benefits or non-money purchase benefits and the sponsoring employer is not a '**large company**', '**large mutual association**' or '**large partnership**', the trustees will be able to claim on behalf of each member.

A 'large mutual association' is defined as a mutual association or unincorporated association with net assets of more than £1.4M. A 'large partnership' is defined as a partnership with net assets of more than £1.4M.



What compensation is available from the FSCS if there is a valid claim against a SIPP provider?

The level of compensation available from the FSCS should there be a valid claim against the SIPP provider will depend on which investments are held within the SIPP and how the SIPP itself is structured.

For example, the FSCS allows the trustee of the SIPP to claim for each client.

The FSCS limits apply at member level and are £85,000 for deposit accounts, £85,000 for investment business (for example mutual funds) and 100% of all assets without limit for contracts of insurance (the insured funds of the product provider).

It is important to consider where the money is actually invested. For example:

- If a member of a SIPP invests 100% in external mutual funds and the SIPP provider were to default, the investment is safe as it is held with an external fund manager and cannot be touched by creditors of the SIPP provider.
- If they have a SIPP and invest 100% in mutual funds (either internal or external mutual funds) and the fund manager defaults, the investment is still safe. The assets will be held by the appointed custodian and separate from the fund manager's own assets and therefore enjoying a robust level of protection in the event of insolvency of the fund manager.

What protection is available for SIPP members who invest in insured funds?

The structure of the SIPP made available via the Aberdeen wrap platform means that a member's funds are held and invested by the scheme trustee on behalf of each member. The SIPP offers different types of insured funds. Some offer investment into directly managed insured funds whilst others invest in a fund provided by an external fund manager known as an external fund link (EFL).

Where the SIPP invests only in directly managed insured funds, the structure is relatively straight forward. The investor, the scheme trustee, purchases units in the insured fund(s) offered by the insurance company. If the SIPP provider defaults then the scheme trustee could claim compensation from the FSCS under the contract of insurance part of the scheme.

If the SIPP includes any investments into EFLs or a mix of EFLs and directly managed insured funds, then the situation needs to be considered if the SIPP provider or the external fund manager was to be in default.

If the SIPP provider was unable to meet its claims, the scheme trustee would be protected under the 'Protected contract of insurance' category. This provides cover at 100% of the value of the policy (including the value of any EFL funds) without limit.

If the external fund manager was in default there would be no claim under the FSCS as the scheme trustee has purchased the units from the insurance company not directly from the external fund manager. Also the insurance company cannot claim against the external fund manager due to the 'large company' rule.

However, where the external fund invests in mutual funds, such as OEICs or unit trusts, these will be ring-fenced in the same way as direct holdings of these investments. This means the assets will be held by the appointed custodian and separate from the fund manager's own assets and therefore enjoying a robust level of protection in the event of insolvency of the external fund manager.

What protection is available for pension members who invest in external mutual funds?

Where the mutual funds are accessed through a mutual funds platform or as a wider direct investment, the pension scheme trustees can make a claim on behalf of individual members from the **FSCS** should the mutual fund manager default and be unable to cover their liabilities. This would be done under the Investment Business category and is currently limited to £85,000.

However, the appointment of the depositary and custodian has the effect of segregating the funds from the mutual fund manager's own monies thus providing a robust level of protection for the member's investments in the event of insolvency of the mutual fund manager. The only time that pension scheme trustees would need to look to the FSCS for compensation would be in the event of the fund manager acting dishonestly, fraudulently or negligently.

If the pension provider were to default, the mutual funds would still be an asset of the pension scheme and would therefore be fully protected.

What protection is available if a SIPP member uses a discretionary investment manager to invest on their behalf?

The discretionary investment manager (DIM) is obliged to keep client assets separate from its own assets. If the DIM defaults, there is normally no need to make a claim on the **FSCS** as the assets are still owned by the SIPP provider and can therefore be recovered in full. If the investment provider chosen by the DIM defaults, the SIPP provider will be able to claim in respect of underlying assets if those assets are covered by the FSCS.

What protection is available if a SIPP member invests in commercial property?

If a SIPP member invests in commercial property, the property is owned by the SIPP provider. This means that in the event of the provider defaulting, the property would still be an asset of the SIPP scheme and would therefore be fully protected.

How is SIPP client money in a bank account protected?

This will depend on the structure of the SIPP so should be referred to the provider concerned. We will explain how the money is protected using a hypothetical example. If a SIPP bank account is provided by XYZ, then cash deposits held within this account are protected under the **FSCS** rules. This means that the scheme trustee can claim up to £85,000 on behalf of each scheme member in the event of Bank XYZ defaulting. This applies equally to deposit accounts with other FCA and/or PRA authorised banks.

Where a member has other personal deposits with Bank XYZ, these will be aggregated with the SIPP bank account and only one FSCS compensation amount of £85,000 will therefore be available.

It is worth remembering that cash held on deposit with a bank is not the same from a FSCS perspective as investing in an insured cash fund. The former will have an FSCS limit of £85,000 if the bank defaults whereas the latter will be regarded as part of a contract of insurance which currently allows compensation up to 100% of the value without limit if the insurer defaults. If the insurer invests some of the insured cash fund in a bank that defaults the insurer can't claim (as it is an **'insurance undertaking'**) but it will use a number of banks to minimise default risk in the fund.



Mutual Funds

What protection is available for investors in mutual funds?

Mutual funds such as OEICs and unit trusts fall within the investment business category of the **FSCS**. This provides eligible claimants with cover at a flat level of 100% of £85,000.

However, the investment should always be protected in the event of insolvency of the external mutual fund manager due to the requirement of the fund manager to appoint a depositary and custodian.

One of the primary functions of the custodian is the safekeeping of securities and cash in deposit accounts, held in the name of the depositary. This has the effect of segregating the funds from the fund manager's own monies and effectively protects the client's investments should the fund manager become insolvent.

For the investor this means that the only time they would need to look to the FSCS for compensation would be in the event of the fund manager acting dishonestly, fraudulently or negligently. It would also apply if the investor was mis-sold the product and suffered a loss because of that (for example, where the fund was a high risk investment and the client was identified as being risk averse).



Find out more

For more information on the products or services in this booklet, or if there's anything more about Aberdeen we can help you with, visit our website.

Aberdeen Platform Limited, provider of the Wrap platform and Wrap Personal Portfolio, is registered in Scotland (SC180203) at 1 George Street, Edinburgh EH2 2LL and authorised and regulated by the Financial Conduct Authority.

Aberdeen Platform Limited is part of the Aberdeen Group, which comprises Aberdeen Group plc and its subsidiaries.

ADV154 1025 ©Aberdeen Group plc 2025. All rights reserved.

aberdeenplc.com

STA0825942056-001