



LOMBARD  
INTERNATIONAL  
ASSURANCE

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# Wealth Passport – UK Hybrid Product

31/07/2023

*For distribution to authorised UK intermediaries only. Not intended for distribution to customers.*



## Product Information

Insurer	Lombard International Assurance
Brief description	<p>Single Premium unit-linked insurance contract for UK tax residents (who may be US persons or may be moving temporarily to the US) which is designed to meet the requirements for classification as a life insurance contract in the UK and a deferred variable annuity in the U.S for federal tax purposes.</p> <p>It is intended to provide a tax deferred investment in the UK and the US. The Policy may be surrendered before the selected annuity payment start date or converted into a variable income stream. Policyholders must name an annuitant, select an annuity payment option and provide an annuity payment start date at inception.</p> <p>It is designed for residents of the UK with a current or planned US nexus.</p>
Duration	Maximum term until the month before the 85th birthday of the oldest Annuitant. At the term date, the Policy value will be used to support the chosen annuity payment option, if the Policy was not previously surrendered.
Policyholder	One or more physical (natural) person(s) or certain types of legal entities; joint Policyholders must be spouses. Policyholders must qualify as “Accredited Investors” in accordance with Regulation D of the U.S. Securities Act of 1933. Maximum age is 80 unless agreed otherwise
Life assured	Same person as Policyholder (or Annuitant, in case of an entity as Policyholder). Must be between ages 18 and 80.
Annuitant	Same person as Policyholder (or Life Assured, in case of an entity as Policyholder). Must be between ages 18 and 80.
Beneficiaries	Generally not appointed, but possible on a Beneficiary Nomination Form, subject to the Insurer’s consent. If appointed, must be same person as Policyholder (or Life Assured, in case of an entity as Policyholder)
Contract currency	USD (other currencies upon request)
Premium payments	Single premium by bank transfer. Transfer in kind is not permitted.
Minimum initial payment	USD 1,000,000 (or equivalent in another currency)
Additional payments	Minimum USD 100,000 (or equivalent in another currency)



Initial Period	In case of partial or total surrender during the initial period of five years, there may be a discontinuance charge equal to maximum the amount of Administration Charge still outstanding.
(Partial) Surrender	Minimum USD 100.000. Not possible after Annuity Payment Start Date. Penalty fee, if agreed, may apply for first 5 years. For US taxpayers, partial surrenders (with the exception of annuity payments) are generally taxed in by US on a gains-first basis. Withdrawals before the age of 59.5 are (with limited exceptions) are subject to an additional penalty tax in the US.
Payment At Annuity Payment Start Date	The Policyholder must choose between two Annuity options. Annuity payments are based on the annuity table in force as of the annuity payment start date. The Policy value and the age of the annuitant will influence the amount of the payment. Annuity payments are not guaranteed and will be adjusted annually based on the remaining value of the underlying investments.
Cancellation	Possible for 30 days after policy issuance. Cancellation results in a refund of Policy value (reflecting any reduction in value of the investments made), net of any initial advice fee paid to an intermediary.
Investment supports available	Discretionary mandate following strategy selected by policyholder
Payment in case of death	The policy value in the event of the death of the last surviving Life Assured plus a standard death cover.
Death cover	<ul style="list-style-type: none"><li>• Standard death cover of 1% of NAV capped at USD/EUR 8,000 (or GBP 5,000, if applicable)</li><li>• Enhanced Death Benefit may be requested and is subject to ongoing charges</li></ul>
Recommended Minimum Holding Period	10 years
Contract Assignment or charge	Not permitted unless with prior consent of the Insurer.



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## Product costs

For standard business, the maximum charges applicable to a Policy are defined as below.

The maximum charges do not necessarily reflect any specific distribution agreement.

- Potential Initial Advice fee, the amount of which is agreed between the client and the distributor. Lombard International Assurance will deduct the amount agreed from the initial premium and transfer it to the adviser.
- Administrative annual fee, during the life of the Policy, on the Policy value, deducted on a quarterly basis,
  - o annual Administration Charge rate of maximum 1%,
  - o potential Policy Fee (for year 2023: USD 2,154, or other currencies upon request),

The Policy Fee will be indexed annually at 1 January each year. The rate of indexation will be less than 2% above the reference index but never less than 0%. The reference index is the 12- monthly IPCH (Indice des Prix à la Consommation Harmonisé (Harmonised consumer price index)) rate, as published by STATEC (Service central de la statistique et des études économiques – the Luxembourg State Statistics Department) on 30 November.

- The client may ask Lombard International Assurance to facilitate the payment of an Ongoing Advice Fee to his adviser. This fee is deducted from the Policy and recorded as a withdrawal. The actual amount of this fee is agreed between the client and his adviser. This withdrawal may give rise to a U.S. income tax obligation and possible additional tax penalty, depending on the age of the Policyholder.
- In case of partial or total surrender during the initial period of five years, there is a discontinuance charge equal to maximum the amount of Administration Charge still outstanding.
- There are also third party fees including, but not limited to, distribution fees which will be charged on the Policy; Custodian bank fees, Investment Manager fees and, if applicable, fund administrator fees which will be charged on the relevant Fund.

For non-standard business, for processing certain administrative activities or any complex set-up, Lombard International Assurance will charge additional fees.

The inclusion of Specialised Investments as Underlying Assets is subject to the prior consent of Lombard International Assurance and to additional charges, with the mark-up ranging between 25% of the Administration Charge with a minimum of EUR 750 and 100% of the Administration Charge with a minimum of EUR 3,000, depending on the Specialised Investments and assessed on a case by case basis.

Mortality costs for any Enhanced Death Cover (a death benefit over the Standard Death Cover amount) will be charged quarterly on the Policy value for the additional death cover. Mortality costs will vary according to the age and health of the youngest life assured as well as the sum at risk.



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## Conflicts of interest

Regarding the promotion, intermediation and conclusion of the Policy, Lombard International Assurance does not consider that it is in a situation of conflict of interest.

Nevertheless, there could be situations on occasion which might present an unavoidable situation of conflict of interest. In these situations, if all organisational and administrative provisions that have been taken are not sufficient to ensure that risks of damage to Policyholder interests will be prevented, Lombard International Assurance will provide the concerned Policyholder with a specific description of the conflict of interest. This communication will disclose the general nature and where applicable, the source of such conflict of interest, as well as the risks that arise as a result and steps undertaken to mitigate these risks. Lombard International Assurance will also clearly state that the organisational and administrative arrangements established by the insurer to prevent or manage the conflict of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the customer will be prevented.

Examples of these situations may include the execution of a variety of activities, including (i) investment activity, divestment of Eligible Assets, and/or (ii) connected activities such as deposit or management.

These activities could arise, for example, when the issuer of Eligible Assets, the Investment Managers, or the Custodian Bank are bound to Lombard International Assurance by business relations or make part of the same group.

Lombard International Assurance has defined a procedure to identify, prevent and manage those situations of conflict of interest. In particular, this procedure is designed to:

- (a) identify the situations of conflict of interest;
- (b) prevent and manage potential conflicts of interest;
- (c) inform Policyholder about potential situations of conflict of interest that might harm their interests;
- (d) register conflicts of interest.

The Distributor and the Policyholder can request and obtain from Lombard International Assurance additional information about the procedure related to conflicts of interest and obtain a copy of the document that lays out the procedure.



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## Product Approval process

The Product Approval process applies the right balance of control, depth of detail in documentation and challenge depending on the risk assessment of the product and market at stake. The process is made up of several stages and each stage has a set of activities and decisions associated.

### Idea Generation

This stage of the process is to develop an understanding of customer, commercial and/or compliance needs and to start to develop a concept that meets these needs.

### Idea Screening

Based on the information acquired, a formal decision is made on that basis whether the requested development is being taken to the next stage. This process will benchmark the product against agreed criteria and where relevant, market information.

### Planning & Due Diligence

Should the idea succeed to the screening stage, the project plan will be drafted with a number of specific development steps to go through to build the product/service. It will be shared with all stakeholders asking them to approve deadlines and resource needs.

The results of this preliminary analysis and recommendations will be presented to the Product Oversight, whose authority is delegated from the Executive Committee, which will decide whether the requested development will be taken to the next stage of development.

### Development

Following the Product Oversight Committee's agreement to develop the product, the Product Development Team will proceed with the development phase, which includes, but is not limited to: setting up the products, system integration testing and risk mitigations actions on the identified risks.

In this framework, the Target Market, compatible with the product under development is identified and a Product Testing is performed.



## Risks for Policyholders

**Investment risk in the underlying assets, including from the failure of an asset issuer or other investment counterparty, is borne by the Policyholder.**

Lombard International Assurance is subject to Luxembourg legislation governing the protection of insurance-linked assets. The underlying assets of its policies are segregated from the Insurer's own assets and liabilities and are deposited with an independent credit institution with the approval of the insurance regulator, the Commissariat aux Assurances. All such assets, other than cash deposits, are required to be held off-balance sheet at the credit institution.

In the unlikely event of the failure of Lombard International Assurance, Policyholders have a super-preferential right over the value of underlying assets. Furthermore, Policyholders have a preferential right, which overrides any other right, except those defined by law (including legal charges over assets), over the assets of the Insurer in the event that the segregated pool of underlying assets is not sufficient to cover all insurance claims. The above asset protection regime is neither a compensation scheme nor a guarantee scheme.

The Policyholder bears the risk associated with the negative performance of the assets underlying the Units of the Assets linked to the policy, the relevant "Fund".

The typical financial investment risks to which the Policyholder is exposed can be summarised as follows:

- (a) **Specific risk and Systematic risk:** this risk is typical of the equity securities (e.g. shares) in which the Fund invests, and is linked to the variability of their prices, which reflect both the market outlook regarding the issuer's economic performance (specific risk) and fluctuations in the markets on which the instruments are traded (generic risk);
- (b) **Credit risk:** this risk is typical of the debt securities (e.g. bonds) in which the Fund invests, and is linked to the possibility that the issuer may be unable to pay the interest or repay the principal; the value of the security, and therefore of the respective Fund, reflects this risk by fluctuating as the issuer's credit conditions change;
- (c) **Interest risk:** this risk is also typical of the debt securities in which the Fund invests, and is linked to the variability of their prices due to fluctuations in market interest rates; the longer these fluctuations last, the more pronounced the impact on the prices of the securities and therefore, on the yields, especially in the case of fixed-income securities - a rise in market rates will cause a fall in the price of the security, and therefore of the respective Fund, and vice versa.
- (d) **Counterparty risk:** the risk that the issuer or counterparties will be unable to meet their obligations;
- (e) **Liquidity risk:** the risk that the securities in which the Fund invests may not be readily convertible into cash without a loss of value, when necessary. This depends primarily on the characteristics of the market on which the security is traded;
- (f) **Exchange risk:** the risk of fluctuations in the exchange rate of the Policy currency, namely EUR, against the Fund Currency and any other currency of denomination of the assets in which the Funds' assets are denominated;
- (g) **Country risk:** the risk linked to investments in foreign markets, particularly emerging markets, where the political and/or economic situation of the issuer's country or the relevant regulations may offer lower levels of guarantee and protection for the Policyholder.



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- (h) **Derivative investment risk:** this risk is typical of the derivatives in which the Funds may invest, and is linked to the variability of their prices due to (i) the leverage associated with them, (ii) the creditworthiness of the counterparties involved, and/or (iii) the potential illiquidity of the markets on which they are traded (particularly in the case of instruments not traded on regulated markets or “over the counter”). Where derivatives are used for hedging purposes, the investment risk is linked to price variability arising from insufficient correlation with the value of the underlying asset or of the hedged position.

**The Policy pays out on the death of the relevant life assured. After the start of Annuity Payments, the Annuity Option can no longer be changed. Withdrawals or Surrender will no longer be possible after the Annuity Payment Start Date.**





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## Customer Vulnerability

The Target Market of the product may include customers with vulnerabilities or who may develop vulnerabilities over the course of their investment in the product. Such vulnerabilities may affect a Policyholder's judgement and/or decision making capabilities. Therefore, it is important that these vulnerabilities are assessed and taken into account during the advice process both at the initial sale and over the lifetime of a Policy.

Vulnerabilities may be exhibited more frequently by customers with the following characteristics:

- The language of the Policyholder differs from the language of the product
- Elderly
- Young/Minor
- Dependency
- Incapacity

Lombard International Assurance has a defined procedure to support fair treatment and positive outcomes for customers who may have specific needs. These include the appointment of an internal Vulnerability Champion who ensures ongoing staff training and awareness and provides specific support when needed.

Intermediaries who seek additional guidance or support to identify or serve vulnerable customers may contact Lombard International Assurance for assistance.



## Target market

### Investor Type

The product is designed for natural persons, retail and professional investors as defined in Directive 2014/65/EU and who qualify as “Accredited investors” as defined in Regulation D under the U.S. Securities Act of 1933. It is intended for policyholders and lives assured at least 18 years old with a maximum age of 80 years at Policy inception. Holders of a Wealth Passport Policy are generally residents of the UK and are or anticipate being U.S. taxpayers.

### Knowledge and/or Experience

The product is addressed to a Policyholder with (i) an average level of knowledge of, or investment experience in, packaged retail and insurance-based investment products, financial markets and asset class(es) allowed by the product or with (ii) financial industry experience.

### Ability To Bear Losses

The product is intended for a Policyholder who is able to bear investment losses. He/she is able to afford very limited to high downward fluctuations and losses over the short to medium-long term as defined in the suitability assessment process.

### Risk Tolerance

The level of risk of the product is from 3 to 6 on a scale of 1 to 7, according to the summary risk indicator in accordance with PRIIPS Regulation 1286/2014. It indicates the likelihood that the product will lose money because of markets movements or the insurer’s inability to pay out. The level of risk varies according to the investment strategy associated to the underlying investment supports or their asset allocation.

### Liquidity accessibility

The Policyholder targeted by the product has at least a minimum amount of USD 1,000,000 (or the equivalent in another currency) to be invested in the product.

### Objectives and needs of the investors

The product is designed for a client who is seeking the benefits of a single-premium, unit-linked life insurance product which is designed to provide tax deferral in both jurisdictions and whilst US tax resident by meeting the classification as a life insurance contract in the UK and a deferred variable annuity in the U.S. The product is for Policyholders who seek a medium- to long-term investment. Hence, the recommended holding period is 10 years. The product can satisfy one or more sustainability preferences being expressed by the Policyholder in the appropriate questionnaire, depending on the characteristics of the investment options offered. Therefore, the product only takes into account the sustainability factors considered by the investment manager in relation to the investment options offered from time to time. The type of Policyholder to which the product is aimed varies according to the underlying investment classes (potentially envisaging sustainability factors). It is intended for a Policyholder who is willing to accept the exclusions specified in the documentation and for the Policy to come to an end following the death of the relevant life assured



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## Distribution Strategy

The product is distributed only on an advised basis within the UK through authorised intermediaries.

## Negative Target market

This product is not appropriate for clients looking for a guaranteed return product or a product with a capital guarantee, nor for certain types of legal entities.

It is also not appropriate for policyholders who:

- Intend to be long term US resident and require access to Policy value before age 59.5,
- wish to assign or charge the Policy, or
- wish to invest personalised assets or self-manage investments.



## Fair Value Assessment

This information is provided to help you understand the value that the product provides to customers in line with the Financial Conduct Authority's (FCA) Consumer Duty Policy Statement PS22/9.

Our assessment concludes that the product meets the needs of the Target Market and provides fair value to customers when considering costs, design features, services and benefits.

We reached this conclusion through a detailed analysis of the product that considered:

Features:

Assessment Area	Assessment outcome
Product Design Features	The product meets the needs of the Target Market by providing a tax-efficient investment opportunity that complies with relevant UK and US regulations. The product may also support sustainable investments, depending on the preferences of the client.
Product Benefits	The product offers access to a range of potentially valuable benefits (subject to the customer seeking appropriate independent legal and tax advice), including <ul style="list-style-type: none"><li>• Luxembourg Investor Protection arrangements</li><li>• Support for Wealth Planning objectives</li><li>• Succession Planning</li></ul>
Service Proposition	Additional services are provided to enhance the customer proposition: <ul style="list-style-type: none"><li>• In-house UK wealth planning expertise provided to intermediaries</li><li>• digital access to Policy information</li></ul>
Pricing/Cost	Costs were assessed both in terms of their average impact on returns (Reduction in Yield) and the typical time required for the Policyholder to reach the breakeven point (Payback Period).  The outcome of both assessments was positive, meaning that the product meets our internal thresholds for customer value.
Adviser Charges	Adviser Charges that have been agreed between the Adviser and the Policyholder may only be facilitated by the Insurer with prior approval.  As they are deducted as withdrawals, Adviser Charges in a Wealth Passport may result in current U.S. taxation and may not result in a good outcome for Policyholders with U.S. tax liabilities.  These Charges, if applied, should be set within a range which the Adviser considers to be appropriate to the pricing of the product and the impact on returns.



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Ongoing review of investment management	All investment managers (including Discretionary Investment managers appointed to follow a client's chosen investment strategy) are subject to the Insurer's Due Diligence assessment.
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***This document was prepared by Lombard International Assurance S.A. and is designed to support the product governance objectives of intermediaries. It is not intended for clients or for further distribution.***



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