

Investments

Closed Scottish Life With Profits fund

Your plan is invested in the closed Scottish Life Fund. In this leaflet we call the closed Scottish Life Fund the With Profits fund.

What is the investment mix of the With Profits fund?

The fund is invested in a mixed portfolio of assets which includes Government and other bonds and company shares (both UK and overseas). The aim of the investment strategy is to maximise the long term return on investments for with profits planholders whilst recognising the need for the fund to meet the guarantees provided to planholders.

Tables 1 and 2 show the current investment mix and how we have changed the mix of the investments backing the asset shares of with profits policies in the With Profits fund since 2016.

By **asset share** we mean the accumulation of premiums paid into a with profits policy after taking off expenses and charges and allowing for the profits and losses earned by the investments.

Table 1 – Conventional With Profits Policies

	Company shares %	Property %	Government and other bonds %	Cash and other investments %
31/12/2020	52	6	40	2
31/12/2019	50	6	27	17
31/12/2018	40	0	44	16
31/12/2017	21	0	53	26
31/12/2016	13	2	80	5

Table 2 – Unitised With Profits Policies

	Company shares %	Property %	Government and other bonds %	Cash and other investments %
31/12/2020	61	7	31	2
31/12/2019	59	7	19	15
31/12/2018	50	0	37	13
31/12/2017	36	0	43	21
31/12/2016	22	3	71	4

Since the strength of the fund improved substantially toward the end of 2018, we have been able to safely increase our investment in assets like company shares and property that tend to achieve better returns in the long run. We had previously needed to invest a higher proportion of the fund in assets such as government bonds and cash, which give predictable returns, to keep the guaranteed benefits safe.

What was the average investment return of the with profits policies in the With Profits fund for 2020?

Table 3 shows the average investment return, before tax and charges, on the investments backing the asset shares of with profits policies in the With Profits fund from 2016 to 2020.

Table 3 – Investment Returns before tax and charges

	Conventional With Profits %	Unitised With Profits %
2020	+2.6	+1.7
2019	+8.0	+9.6
2018	-1.4	-2.6
2017	+4.7	+6.9
2016	+6.2	+7.6

Despite some extreme movements throughout the year, shares provided a very small positive investment return overall for 2020. Bonds and cash provided better, though still modest, returns.

We don't know what investment returns will be in the future; you should not assume that they will be the same as they were in previous years. We continuously monitor economic conditions, and where necessary adjust the investment mix to be appropriate given the current conditions. Royal London remains strong in these uncertain financial times. Your with profits policy has two important features to protect your investment.

Firstly, we reduce the impact of ups and downs in investment markets, by holding back some investment gains in good times so we can return these when things aren't so good. We call this smoothing. Secondly, your policy has a guaranteed minimum policy value which we usually guarantee to pay when your policy ends, or on death if sooner, no matter what happens in the investment markets. The section 'How do I share in the profits and losses of the fund?' explains how we distribute these investment returns by adding bonuses to your policy.

Risk factors

It is important that you understand the potential risks associated with this fund. We have detailed below the specific risks we think you should be aware of. For further information on each of these risks please refer to our **Guide to Fund Risks**.

Table 4

Investment Risk Factors	Yes/No
Exchange Rate	Yes
Emerging Markets	Yes
Concentrated Portfolio	No
Smaller Companies	Yes
High Yield Bonds	Yes
Sector Specific	No
Geared Investments	No
Property	Yes
Higher Risk Fund	No
Derivatives	Yes
Equities	Yes
Bonds	Yes
Money Market	Yes
Stock Lending	Yes

How do I share in the profits and losses of the fund?

The performance of the With Profits fund is shared out to its investors through a system of bonuses. There are two types of bonus that we may add to your policy:

- **regular (or annual) bonuses**, which we may add during the lifetime of your policy and which increase the guaranteed minimum amount payable when you retire or when your policy matures, and
- **final bonuses**, which we may add on maturity/retirement. Final bonuses are not guaranteed and may go up or down.

Some unitised policies have a unit price that changes on a daily basis to reflect the addition of regular bonus, but the effect is the same.

The regular bonus rate for 2020 was 0.1% for conventional with profits policies, 2.0% for Talisman and Retirement Solutions policies and 2.5% for other unitised with profits policies.

A Market Value Reduction (MVR) may be applied to reduce the value of units being cashed in during adverse market conditions. A reduction would be applied to ensure a fair level of payouts to everyone invested in the fund. If we did not do this the investors remaining in the fund would not receive their fair share. Please note that if an MVR is applied to your policy, the value of your plan would be reduced and you could get back less than you paid in. The MVR will not be applied if the policy is being cashed in on death or in certain other circumstances as set out in your policy documents.

There is more information on asset shares and how we decide annual and final bonus rates and MVRs in the leaflet 'A guide to how we manage our with profits fund'. We tell you how to get a copy at the end of this leaflet.

Demutualisation Enhancement

To help with the technical language used in this section the key terms are highlighted the first time they appear and explained clearly at the end of this section.

What is the demutualisation enhancement for 2021?

When Scottish Life demutualised and was acquired by Royal London in 2001 there was a commitment to distribute the **Estate** fairly over the expected lifetime of qualifying plans. The **demutualisation enhancement** was the process agreed to achieve that distribution.

We made a demutualisation enhancement each year up until 2011. In 2012 we changed our approach, in anticipation of new regulations that would require us to hold more capital to protect against the risks within the fund.

Under the new approach, we rely a little more on the **target payout** to distribute the Estate fairly. This enables us to pay

claiming planholders their fair share of any Estate not already distributed through demutualisation enhancements. Demutualisation enhancements benefit all planholders and have more impact on the strength of the fund.

As well as using the new approach, we took steps to improve the financial position and performance of the fund. During 2018 in particular, the strength of the fund improved substantially as a result of this. We have since made a series of further demutualisation enhancements, with a cumulative value of 22%, between January 2019 and January 2020.

The fund has now settled into a relatively stable position. In 2021 we're making a demutualisation enhancement of 3.7%.

What is the target payout for 2021?

Last year we targeted payouts at 113.5% of asset share. This year we are targeting 112%. Together with the demutualisation enhancement, this represents a 2% increase in the overall benefit of Estate distribution to planholders claiming in 2021, relative to those claiming in 2020.

Estate

The amount by which the investments of the fund are greater than the benefits already promised to planholders. You might also think of it as the fund's available capital.

Demutualisation Enhancement

One of the ways we can distribute the estate to planholders. It involves applying a special increase to asset shares in addition to the returns actually achieved.

Target Payout

We currently aim to pay more than asset share to distribute the estate. The proportion of the asset share that we aim to pay is called the target payout.

Where can I find out more information?

You can view and download the following documents from our website royallondon.com/PPFM:

- **'The Scottish Life PPFM'** which is a technical document that explains the way in which we manage our With Profits fund.
- **'PPFM Guide 5'** which is a plain English guide to the key points of the PPFM. This includes more information on asset shares and how we decide annual and final bonus rates. You can find this under the **'Scottish Life Guides'** section of the webpage.
- **'The Directors' report on compliance'** which is the most recent report about how we have complied with the PPFM.

PPFM changes at 1 October 2020

There have been a few small updates to PPFM Practices to improve clarity.

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