



# A CLOSER LOOK AT YOUR FUND

Annual Update for the Scottish Life Fund  
June 2019

## **CONTENTS**

<b>Welcome to your annual update</b>	<b>3</b>
<b>Investment mix</b>	<b>4</b>
<b>Investment performance</b>	<b>5</b>
<b>How do I share in the profits and losses of the fund?</b>	<b>6</b>
<b>Demutualisation enhancement</b>	<b>7</b>
<b>Supervisory Committee</b>	<b>8</b>
<b>Committee members</b>	<b>9</b>
<b>How can I find out more?</b>	<b>10</b>

# WELCOME TO YOUR ANNUAL UPDATE

This update is to keep you informed of the investment performance of the **Scottish Life Fund** in the year ending 31st December 2018 and the benefits under your with profits plan from the 1st January 2019.

We will refer to ‘the Scottish Life Fund’ as ‘the fund’ throughout the rest of this update.

In previous updates we indicated that we were looking to improve the financial position and performance of the fund. We were able to do this in 2018 by making an offer to eligible planholders to buy-out their Guaranteed Annuity Rates. We call this offer ‘the GAR Scheme’; for more information visit [royallondon.com/GAR](http://royallondon.com/GAR). As a result of the success of the GAR Scheme we have made a Demutualisation Enhancement for the first time since 2011 and payouts are set to increase in 2019 by 5%-10% from 2018 levels.

# INVESTMENT MIX

## What is the investment mix of the 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.

Table 1 below shows the current investment mix for traditional with profits plans and how we have changed the mix of the investments backing the asset shares of traditional with profits plans in the fund since 2014.

As a result of the success of the GAR Scheme, we have been able to increase the proportion of assets in the fund that are seeking to achieve long term returns above inflation. The investment returns from Government bonds, other bonds and cash tend to vary less from year to year than the returns from company shares and property. However, over the long term, the investment returns from Government bonds, other bonds and cash tend to be lower than those from company shares and property. As a result of the large value of Guaranteed Annuity Rates within the fund, in recent years we have had to target a cautious asset mix, with only 20-35% invested in company shares. We are now able to target a mix of close to 50% in company shares by the end of 2019 to generate higher expected future returns.

**Table 1 – Investment Mix**

	Company shares %	Property %	Government and other bonds %	Cash and other investments %
31.12.2018	40	0	44	16
31.12.2017	21	0	53	26
31.12.2016	13	2	80	5
31.12.2015	21	3	73	3
31.12.2014	25	2	70	3

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

# INVESTMENT PERFORMANCE

## What was the investment return of the with profits plans in the fund for 2018?

The 2018 investment return on traditional with profits plans in the fund, before tax and charges, was -1.4%.

In line with the markets as a whole, the majority of the fund's assets provided negative returns during 2018. Company shares and UK bonds performance was weak whilst there were small positive returns on cash. Overall, the with profits fund provided a negative return for 2018.

Table 2 below shows the average investment return, before tax and charges, on the investments backing the asset shares of traditional with profits plans in the fund from 2014 to 2018.

We don't know what investment returns will be in 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.

**Table 2 – Investment Return**

	Investment return before tax and charges %
2018	-1.4
2017	+4.7
2016	+6.2
2015	+1.8
2014	+6.3

# 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 may be added to your plan:

- **annual bonuses**, which we may add during the lifetime of your plan and which increase the guaranteed amount payable when your plan matures or when the life assured dies, and
- **final bonuses**, which we may add on maturity or when a death claim is made. Final bonuses are not guaranteed and may go up or down.

The annual bonus rate for 2018 was 0.1% for traditional with profits plans.

There is more information on asset shares and how we decide annual and final bonus rates in the leaflet '**PPFM Guide 5**'. We tell you how to get a copy at the end of this leaflet.

# DEMUTUALISATION ENHANCEMENT

## What is the demutualisation enhancement for 2019?

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 the introduction of new Europe-wide regulations known as Solvency II, which all life and pensions providers must follow. Broadly the effect of these regulations is that we need to hold more capital to protect against the risks within the fund. Up until now the majority of the extra capital we have held

has related to Guaranteed Annuity Rates. This reduced our ability to distribute the Estate.

As a result of the success of the GAR Scheme we have been able to release some of the capital held in relation to Guaranteed Annuity Rates and in 2019 we're making a **demutualisation enhancement** of 11.4%. This will be our first enhancement since 2011.

## What is the target payout for 2019?

As well as applying the demutualisation enhancement to asset shares, we also target payouts at more than 100%. Last year we targeted payouts at 118% of asset share. This year we are targeting 114%. Together with the demutualisation enhancement this represents an 8% increase overall in target payouts.

### **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.

# SUPERVISORY COMMITTEE

One of the ways in which planholders' interests are protected is through the Supervisory Committee which was set up to monitor the management of the fund, including the investment and bonus plan. It also monitors compliance with the terms of the Scheme – the detailed principles and arrangements that governed the transfer of Scottish Life's business to Royal London and the way the fund is then managed. The Committee has again not raised any concerns about the way the fund is being operated, and has been very supportive in the successful completion of the GAR Scheme, leading to a stronger Scottish Life Fund.

# COMMITTEE MEMBERS

## Supervisory Committee members

The Supervisory Committee has five members. A majority, including the Chairman, is required to be wholly independent of Royal London's Board and Management. In carrying out their duties, the members of the Committee are required to have regard solely to the interests and reasonable expectations of the planholders in the fund. The Chairman has a casting vote if necessary.

The current members of the Supervisory Committee are:

- **Adrian Eastwood (Chair)** – Former Chief Actuary for Scottish Widows and other Lloyds Banking Group life companies with extensive experience in the life insurance and pensions sectors
- **Michael Livingston** – Partner at law firm Dentons with considerable practice experience in the life insurance sector
- **Stuart Purdy** – Former Products and Investment Director of Aviva Europe with significant life insurance and pensions experience
- **Tim Harris** – Deputy Group Chief Executive and Group Finance Director of Royal London
- **Martin Lewis** – Finance Chief Operating Officer of Royal London



**Brian Murray**  
With Profits Actuary

# HOW CAN I FIND OUT MORE?

## More information about the fund

You can view and download the following documents from our website at [royallondon.com/PPFM](http://royallondon.com/PPFM):

- ‘**The Scottish Life PPFM**’ which is a technical document that explains the way in which we manage the fund.
- ‘**PPFM Guide 5**’ which is a plain English guide to the key points of the PPFM. 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.

You can also ask us to send you copies of these documents by calling us on **0345 60 50 050**.

If you need any more information or have any questions on the **Scottish Life Fund** or your with profits plan please call us on **0345 60 50 050** between 8.00am and 6.00pm Monday to Friday, except bank holidays or visit [royallondon.com/SLbonus](http://royallondon.com/SLbonus).

## PPFM Changes

There have been a few small updates to PPFM practices to update terminology to improve clarity.





**Royal London**

1 Thistle Street, Edinburgh EH2 1DG

**royallondon.com**

All literature about products that carry the Royal London brand is available in large print format on request to the Marketing Department at Royal London, 1 Thistle Street, Edinburgh EH2 1DG.

All of our printed products are produced on stock which is from FSC® certified forests.

The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm is on the Financial Services Register, registration number 1 17672. It provides life assurance and pensions. Registered in England and Wales number 99064. Registered office: 55 Gracechurch Street, London, EC3V 0RL. Royal London Marketing Limited is authorised and regulated by the Financial Conduct Authority and introduces Royal London's customers to other insurance companies. The firm is on the Financial Services Register, registration number 302391. Registered in England and Wales number 4414137. Registered office: 55 Gracechurch Street, London, EC3V 0RL. Royal London Corporate Pension Services Limited is authorised and regulated by the Financial Conduct Authority and provides pension services. The firm is on the Financial Services Register, registration number 460304. Registered in England and Wales number 5817049. Registered office: 55 Gracechurch Street, London, EC3V 0RL.