



A CLOSER LOOK AT YOUR FUND

Annual Update for the Scottish Life Fund
June 2020



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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 2019 and the benefits under your with profits plan from the 1st January 2020.

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

Over the last few years we have taken actions to improve the financial position and performance of the fund. Because of these actions, in January 2019 we were able to make a Demutualisation Enhancement for the first time since 2011. We have followed this up with further Demutualisation Enhancements in July 2019 and January 2020 (see page 7 for more details).

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 guarantee to pay on its maturity date, or on death if earlier, no matter what happens in the investment markets.

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 2015.

As a result of the improved financial position of the fund, over the last two years 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.

Table 1 – Investment Mix

	Company shares %	Property %	Government and other bonds %	Cash and other investments %
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
31.12.2015	21	3	73	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 2019?

The 2019 investment return on traditional with profits plans in the fund, before tax and charges, was +8.0%.

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 2015 to 2019.

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 %
2019	+8.0
2018	-1.4
2017	+4.7
2016	+6.2
2015	+1.8

Shares and property performed very well during 2019 which helped to boost the more modest positive investment returns from bonds and cash.

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 2019 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 2020?

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.

Over the last few years we have taken steps to improve the financial position and performance of the fund. As a result, at the start of last year we made a demutualisation enhancement of 11.4%. We then made a further demutualisation enhancement of 4.4% in July 2019.

In 2020 we're making a demutualisation enhancement of 4.9%.

What is the target payout for 2020?

As well as applying the demutualisation enhancement to asset shares, we also **target payouts** at more than 100%. Last year we targeted payouts at 114% of asset share for the first half of the year and 116% for the second half of the year. This year we are targeting 113.5%. Together with the demutualisation enhancement this represents a 3% increase overall in target payouts from the end of 2019.

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.

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.

In 2019, Tim Harris stepped down from his roles as Deputy Group Chief Executive and Group Finance Director of Royal London. He has been replaced on the Supervisory Committee by Royal London's Chief Actuary, Shaun Cooper.

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 and pensions sector
- **Stuart Purdy** – Former Products and Investment Director of Aviva Europe with significant life insurance and pensions experience
- **Shaun Cooper** – Chief Actuary of Royal London
- **Martin Lewis** – Legacy Division Director 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:

- ‘**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.

PPFM Changes

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



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