

# A closer look at **your fund**

Annual Update for the Scottish Life Fund  
June 2021



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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 2020 and the benefits under your with profits plan from the 1st January 2021.

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, the strength of the fund increased substantially, particularly toward the end of 2018.

The fund remains in a strong and stable financial position. The difficult economic circumstances brought about by the pandemic have not materially impacted plan values. We have been able to make a further Demutualisation Enhancement of 3.7% in January 2021 (see page 7 for more details).

A key activity we are undertaking this year is a Simplification Programme to simplify and modernise the way we do things for the benefit of our longstanding customers. Look out for our separate communications about any proposed changes that would affect your plan.

# 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 2016.

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.

**Table 1 – Investment Mix**

	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

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 2020?

The 2020 investment return on traditional with profits plans in the fund, before tax and charges, was +2.6%.

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 2016 to 2020.

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 %
2020	+2.6
2019	+8.0
2018	-1.4
2017	+4.7
2016	+6.2

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.

# 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 2020 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 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.

# 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.

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** – Formerly a 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** – Value Enhancement and M&A 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](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

The only changes we made to the PPFM document during 2020 were to update information about the structure of Royal London following recent business activity. There were no changes to any principles or practices.





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