

Principles and Practices of Financial Management (PPFM)

Our PPFMs explain how we manage our With-Profits funds including the nature and extent of the decisions we take to manage the fund and how we apply discretion to treat customers fairly, by managing potentially competing and conflicting interests.

The documents are intended to provide a knowledgeable observer with an understanding of the material risks and rewards from starting and continuing an investment in a with-profits policy with Scottish Friendly.

PPFMs published by Scottish Friendly

We operate a single fund (referred to as our “Main Fund”) which contains the Society’s assets and liabilities. Within the Main Fund we operate sub-funds in respect of certain blocks of business which have transferred to us. PPFMs are produced for each sub-fund as well as the Conventional and Unitised with-profits business written directly in the Main Fund:

- Conventional Business PPFM;
- Unitised Business PPFM;
- Scottish Legal Life Assurance Society PPFM;
- Marine & General Mutual Assurance Society PPFM;
- Rational Shelley Friendly Society PPFM;
- London, Aberdeen and Northern Mutual Assurance Society PPFM; and
- Manulife with-profits fund of Canada Life Limited PPFM.

Summary of Changes since 2020

Introduction

The current versions of our PPFMs can be found on our website:

<https://www.scottishfriendly.co.uk/members-area/latest-investment-information/principles-and-practices-financial-management>

Previous PPFM versions are available on request and we have summarised notable changes made to each of our PPFMs since 2020 below. These updates are to correct minor errors and omissions or to improve clarity and presentation without materially affecting the substance of the PPFM.

This summary does not form part of the PPFM itself.

Main Fund Conventional Business PPFM

| Publication date | Notable changes |
|------------------|---|
| January 2024 | <p>Section 4: Clarify tax charges made to policies (where applicable) are on a basis appropriate to mutual life insurance.</p> <p>Sections 4 & 5: Updated wording to reflect practice in determining payouts on Whole of Life policies.</p> |
| November 2021 | <p>Section 7: Clarification relating to the use of investment derivatives in the fund.</p> |
| November 2020 | <p>Section 1: Clarification of Society fund structure.</p> <p>Section 7: Correction of responsibility for counterparty exposure monitoring. Revision to quantitative restrictions relating to investment holdings.</p> |

Main Fund Unitised Business PPFM

| Publication date | Notable changes |
|------------------|---|
| January 2024 | <p>Section 5: Addition of wording to clarify practice for bonus declaration frequency in normal circumstances.</p> <p>Section 9: Revision of practice for applying charges to policyholder asset shares.</p> |
| January 2023 | <p>Section 9: Clarify practice to practice relating to the application of charges.</p> <p>Section 11: Revised wording relating to volumes of new business to correct an inconsistency with the wording in the Conventional Business PPFM.</p> |
| November 2021 | <p>Section 7: Clarification relating to the use of investment derivatives in the fund.</p> |
| November 2020 | <p>Section 1: Clarification of Society fund structure.</p> <p>Section 7: Correction of responsibility for counterparty exposure monitoring. Revision to quantitative restrictions relating to investment holdings.</p> |

Scottish Legal Life Assurance Society PPFM

| Publication date | Notable changes |
|------------------|--|
| January 2024 | <p>Section 2: Removal of wording relating to rounding practice when setting final bonus rates.</p> |
| January 2023 | <p>Sections 2, 6 and Appendix B: Changes to practices to facilitate the change in approach to setting bonuses for whole-of-life assurances.</p> <p>Section 2: Change to practice to ensure that the estate is distributed through final bonuses rather than annual bonuses.</p> <p>Section 3: New wording to clarify the equity backing ratio may deviate from the stated range to reflect short-term tactical investment decisions.</p> <p>Section 4: Removal of historic wording relating to the risks associated with the SLL Staff Pension Scheme which was bought out following the transfer to the Society.</p> <p>Section 5: Additional wording to clarify treatment of investment costs for the purpose of assessing any maximum charge to policyholders.</p> <p>Section 6: Correction of omission in practice that sets out the actions to be taken if solvency deteriorates. Additional wording setting out practice for WPA to assess viability of the sub-fund at least every 5 years in line with the SLL Scheme.</p> |
| November 2021 | <p>Section 2: Clarification of practice for mortality charges. Clarification of approach taken for death claims when assessing payouts relative to specified target-ranges. Additional wording to highlight that Final Bonus rates could vary according to the tax status of the policy</p> |
| November 2020 | <p>Section 1: Clarification of Society fund structure.</p> <p>Section 2: Update to reflect approach taken to assess payouts relative to target ranges for CWP and UWP policies separately. Clarification of practice that smoothing limits would not constrain any distribution of the inherited estate.</p> <p>Section 3: Clarification of investment approach for guaranteed benefits. Correction of responsibility for counterparty exposure monitoring. Revision to quantitative restrictions relating to investment holdings.</p> |

Marine & General Mutual Assurance Society PPFM

| Publication date | Notable changes |
|------------------|---|
| January 2024 | <p>Section 4: Added wording to reflect practice in determining payouts on Whole of Life policies.</p> <p>Section 6: Clarified wording relating to rounding practice when calculating MVRs.</p> <p>Section 7: Clarified bonus series policy grouping practice.</p> |
| January 2023 | <p>Section 9: Added wording to confirm tax approach for the sub-fund.</p> <p>Section 11: Correction of omission in principle that sets out the actions to be taken if solvency deteriorates.</p> |
| November 2021 | <p>Section 4: Correction of practice relating to assessment of payouts relative to specified target ranges</p> <p>Section 7: Correction of practice relating to the timing treatment of premiums received in asset share calculations for Unitised with-profits policies.</p> <p>Section 8: Clarification relating to the use of investment derivatives in the fund.</p> |
| November 2020 | <p>Section 1: Clarification of Society fund structure.</p> <p>Section 8: Revision to quantitative restrictions relating to investment holdings.</p> |

Rational Shelley Friendly Society PPFM

| Publication date | Notable changes |
|------------------|--|
| November 2021 | <p>Section 6: Revised wording clarifying smoothing practices applying to final bonus rates.</p> <p>Section 7: Clarification relating to the use of investment derivatives in the fund.</p> |
| November 2020 | <p>Section 1: Clarification of Society fund structure.</p> <p>Section 7: Correction of responsibility for counterparty exposure monitoring.</p> |

London, Aberdeen and Northern Mutual Assurance Society PPFM

| Publication date | Notable changes |
|------------------|--|
| January 2023 | <p>Section 5: Revision of practice to annual bonuses.</p> <p>Section 9: Added wording to confirm tax approach for the sub-fund.</p> <p>Section 11: Clarified practice relating to new business where an existing policy has a right to top up or effect a new policy.</p> |
| November 2021 | <p>Section 7: Additional wording clarifying the use of investment derivatives in the fund.</p> <p>Section 10: Correction of the criteria defining the requirements which would allow the LANMAS sub-fund to be wound-up.</p> |
| November 2020 | <p>Section 1: Clarification of Society fund structure.</p> <p>Section 7: Correction of responsibility for counterparty exposure monitoring. Revision to quantitative restrictions relating to investment holdings.</p> <p>Sections 8 and 10: Clarification of actions that may be taken to maintain the estate within the target range.</p> |

Manulife with-profits fund of Canada Life Limited PPFM

| Publication date | Notable changes |
|------------------|--|
| January 2023 | <p>Section 4: Principle corrected to clarify that some assets will be used to meet expenses of the sub-fund (which may include expenses of winding up the sub-fund in the future).</p> |
| November 2021 | <p>Section 4: Correction of responsibilities when the sub-fund is to be wound-up.</p> <p>Section 5: Correction of the approach taken when determining the interest surplus factor each year.</p> <p>Section 6: Additional wording clarifying the use of investment derivatives in the fund.</p> |
| November 2020 | <p>Section 1: Clarification of Society fund structure.</p> <p>Sections 4 and 5: Additional wording to clarify the approach taken to determine early surrender values.</p> <p>Section 6: Revision to quantitative restrictions relating to investment holdings and extended range of target equity backing ratio to between 0% and 20%. (Was 5% to 20%)</p> <p>Removal of reference to Policy Loans since they did not form part of the transfer of liabilities to the Society from Canada Life.</p> |