Scottish Friendly Assurance Society Ltd.

Principles and Practices of Financial Management For With-Profits Business Transferred from Canada Life Limited – The Manulife sub-fund

Effective: January 2025

Contents

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1 Introduction

Overview

1.1 The Conduct of Business Sourcebook of the Financial Conduct Authority ("FCA") requires firms to establish and maintain "Principles and Practices of Financial Management" ("PPFM") to govern their conduct of the with-profits funds.

1.2 This document sets out the PPFM that Scottish Friendly Assurance Society Limited ("Scottish Friendly", "we" or "us") apply in managing the with-profits business transferred from Canada Life Limited's ("CLL's") Manulife Fund (the "Manulife sub-fund"). The transfer of business on 1 November 2019 was under the terms of a Scheme approved by the High Court on 22 October 2019 (the "2019 Scheme"). The PPFM are not intended to alter the rights and obligations we have under the 2019 Scheme or any policy documents that have been issued to policyholders.

1.3 Scottish Friendly operates a single fund (referred to as our "Main Fund") which contains all of the firm's assets and liabilities. Within the Main Fund, we have constituted and operate a number of separate, notional internal sub-funds in respect of certain blocks of business which have transferred to us. Separate notional sub-funds have been constituted in respect of the business transferred from each of the following:

- Scottish Legal Life Assurance Society;
- Marine & General Mutual Assurance Society;
- Rational Shelley Friendly Society;
- London, Aberdeen and Northern Mutual Assurance Society; and
- the Manulife with-profits fund of Canada Life Limited (this being the Manulife sub-fund).

1.4 Scottish Friendly maintains separate PPFM documents in respect of the operation of the with-profits business in each notional sub-fund, as well as two PPFM documents in respect of the operation of the with-profits business managed outside of the notional sub-funds - one covering conventional with-profits business and the other covering unitised with-profits business. This PPFM document covers the operation of the with-profits business contained in the Manulife sub-fund.

Principles of Financial Management

1.5 The Principles are enduring statements of the standards Scottish Friendly adopts in managing the Manulife sub-fund and are not expected to change on a regular basis. All Principles set out in the Manulife sub-fund PPFM apply only to the business in the Manulife sub-fund.

1.6 They describe the business model used by Scottish Friendly in meeting its duties to with-profits policyholders in the Manulife sub-fund and in responding to longer term changes in the business and economic environment.

Practices of Financial Management

1.7 The Practices describe Scottish Friendly's current approach to managing the Manulife sub-fund and to responding to changes in the business and economic environment in the shorter term. The Practices will normally be reviewed annually, but could be reviewed at any time in exceptional circumstances. A review may not result in any changes to the Practices. All Manulife Practices set out in the Manulife sub-fund PPFM apply only to the business in the Manulife sub-fund.

1.8 The Practices are intended to contain sufficient detail to enable a knowledgeable observer to understand the material risks and rewards from maintaining a with-profits policy with Scottish Friendly in the Manulife sub-fund.

Arrangements for Changes

1.9 For any change to the Principles in the Manulife PPFM, Scottish Friendly will send its Manulife sub-fund with-profits policyholders written notice, setting out the proposed changes to the Principles, at least three months in advance of the effective date of the proposed changes.

1.10 The Practices are expected to change as the Manulife sub-fund's circumstances and the business environment change.

1.11 For any change to the Practices, Scottish Friendly will send its Manulife sub-fund policyholders written notice setting out the changes to the Practices. This notice may be in arrears, but will be within a reasonable time period of the effective date of the change.

1.12 Scottish Friendly will make every effort to ensure that the costs of notification are kept to a minimum and, in accordance with the FCA Rules, will not give the above notice if the changes are required to correct errors or omissions, improve clarity or are immaterial. In addition, the changes will not be pre-notified to policyholders if the change is due to new FCA Rules and do not materially change the way in which the with-profits policies are being managed.

Corporate Structures and Governance

1.13 Scottish Friendly was established as a friendly society in 1862 and is incorporated under the Friendly Societies Act 1992. We are a mutual society and so have no shareholders. Scottish Friendly has a Board of Directors, which is the ultimate governing body for Scottish Friendly, and distribution of surplus and bonuses is determined by the Board upon the advice of the With-Profits Actuary.

1.14 Oversight of Scottish Friendly's with-profits business ultimately rests with the Board. The Board is required by FCA Rules to establish arrangements to ensure that there is appropriate independent oversight and challenge of the way it manages Scottish Friendly's with-profits business. The With-Profits Committee has been established to provide this challenge to ensure that the with-profits policyholders are treated fairly and that their interests are fully considered. The With-Profits Committee is a sub-committee of the Board and the majority of its members must be independent.

1.15 Each year a report will be prepared by Scottish Friendly stating whether it believes it has complied with the Manulife PPFM, together with reasons for that belief. Scottish Friendly has appointed a With-Profits Actuary, as required by the FCA, whose main duty is to provide advice to Scottish Friendly on the exercise of discretion. The With-Profits Actuary also provides a report to accompany Scottish Friendly's report, commenting on Scottish Friendly's compliance with the Manulife PPFM. The With-Profits Actuary is not, and will not be, a member of Scottish Friendly's Board.

2 Manulife sub-fund Background

2.1 The Manulife sub-fund was originally set up by Manulife on 1 January 1990 and was transferred to Canada Life Assurance Company (CLACO) in 1995 when the latter acquired the UK operations of The Manufacturers Life Insurance Company. The transfer to CLACO was under the 1995 Scheme which stated that policy benefits, in particular bonus expectations, are determined by reference to and sourced solely from the "ring-fenced" fund. The Manulife sub-fund and its surplus will be used solely for the benefit of policyholders in the Manulife sub-fund.

2.2 CLACO, which is the Canadian insurance parent company of CLL, demutualised in 1999. As part of this process, the UK operations were restructured and all of the UK long term business was transferred to CLL, including the Manulife sub-fund. The Manulife sub-fund was subsequently transferred to Scottish Friendly in 2019 and is constituted as a ring-fenced sub-fund of Scottish Friendly. The 2019 Scheme replicated the relevant provisions of the 1995 and 1999 schemes.

2.3 The Manulife sub-fund contains both with-profit and non-profit business that consist of whole of life, endowment, term and pension policies together with some vested annuities. The majority of the with-profits policies are whole of life policies.

2.4 No new with-profits policies have been written in this sub-fund since the Manulife sub-fund was set up in 1990. Existing customers continue to be able to exercise options under their policies, including those to increase premiums payable or to pay additional single premiums.

2.5 The with-profits policies in this sub-fund share in the surplus of the Manulife sub-fund as determined at least annually in accordance with the 2019 Scheme.

3 Overriding Principles

3.1 Scottish Friendly has three overriding principles that can be regarded as overriding the principles and practices contained elsewhere herein if they come into conflict. These are:

a) We will manage our business in accordance with all legal and regulatory requirements.

b) We will manage our business in a sound and prudent manner with due regard to the interests of our policyholders and with a view to treating all policyholders fairly.

c) We will aim to manage our business in order to ensure that all guaranteed benefits can be paid as they fall due.

4 Methods of Determining Claim Values

The purpose of this section is to outline the Principles and Practices followed when determining the claim values, under both maturity and surrender, for the with-profits business in the Manulife sub-fund.

4.1 Principles

4.1.1 Scottish Friendly's objectives with regard to with-profit policy values are:

a) To treat all with-profit policyholders equitably.

b) To have due regard to the company's understanding of policyholders reasonable expectations.

c) To comply with the 2019 Scheme.

d) To declare bonuses which are determined in such a way as to give policyholders a return which reflects the long term earnings profile of the sub-fund whilst providing some smoothing of returns.

e) To distribute equitably to the with-profits policyholders the total assets in the Manulife sub-fund after meeting the cost of any options, guarantees and expenses arising from the with-profits policies and the liabilities of the non-profit policies.

4.1.2 We will use appropriate models, methods and techniques to manage the Manulife sub-fund and determine pay-outs.

4.1.3 The amount payable to policyholders will be determined by Scottish Friendly in accordance with the policy conditions and the 2019 Scheme.

4.1.4 The benefits under a Manulife with-profits policy are expected, on aggregate, to reflect the policyholders' share of the surplus emerging from the Manulife sub-fund. This will be distributed to the with-profits policyholders in the form of annual (or regular) bonuses which accumulate throughout the lifetime of the policy and increases the guaranteed benefits along with a final bonus which may be added at the point of claim. By the very nature of bonuses they do not become a contractual right until they have been declared and it is possible that annual bonuses could be negative.

4.1.5 Annual bonuses are distributed using the "Contribution Method" and final bonuses distribute any additional surpluses arising from experience in the Manulife sub-fund.

4.1.6 Annual bonuses are calculated to reflect:

- differences between actual and expected investment income (expressed as the "interest surplus"); and
- an allowance for other sources of profit arising from the with-profits business, for example due to policyholder claims differing from expectations (expressed as the "loading surplus").

4.1.7 The with-profit policyholders, as a class, benefit from any surplus or suffer any losses arising from the non-profit policies in the Manulife sub-fund, through the level of final bonus awarded.

4.1.8 Scottish Friendly does not charge for any capital tied up in or by the Manulife sub-fund.

4.1.9 This is a closed sub-fund where the whole of the surplus in the Manulife sub-fund will be used for the benefit of the with-profit policyholders only. Therefore the smoothing policy will aim to operate such that all policyholders are treated fairly and all with-profits policyholders receive an equitable share of the Manulife sub-fund.

4.1.10 All pay-outs will reflect the terms of the 2019 Scheme, with regard to the full distribution of the Manulife sub-fund, which will be used to ensure pay-outs are in line with the expectations of the policyholders.

4.1.11 As per the 2019 Scheme, when the aggregate number of Manulife with-profit policies in force declines to such a small number that, in the view of the Board, on advice of the With-Profits Actuary and the Chief Actuary, the continued determination of the bonus scale is likely to lead to inequitable distributions, Scottish Friendly may, subject to the prior written consent of the Regulators, cease to maintain this sub-fund on a "ring-fenced" basis. In this situation, the Chief Actuary shall calculate the surplus then existing in the Manulife sub-fund on a basis that reflects the current and expected future financial and other circumstances which he/she regards as being appropriate, without any allowance for future bonuses or dividends. Based upon this surplus a scale of guaranteed bonuses shall be determined by the Chief Actuary and applied in all subsequent years. Approval of these guaranteed benefits is required from the Scottish Friendly Board. These policies will no longer carry rights to participate in any future surplus.

4.1.12 On early surrender of a policy the amount paid out on surrender is adjusted by applying "Cash Value Factors" to the sum assured and attaching bonuses. Cash Value Factors are discussed in more detail in Sections 5.4.5 and 5.4.6. This value may be increased to make an allowance for a final bonus. The policies in the Manulife sub-fund generally have a high level of guaranteed benefits, which could be higher than the value of the assets backing the policy. Therefore, it would not be appropriate for the surrender value to directly reflect the underlying value of the assets backing the policy.

4.2 Practices

4.2.1 The practices used to determine claim values are all covered by the principles outlined in section 4.1.

5 Bonus and Smoothing Policies

The purpose of this section is to outline the bonus and smoothing policies used when determining the level of benefits for the with-profits policies in the Manulife sub-fund. The main aspects of the calculation used for the annual bonus are highlighted, as well as the final bonus and smoothing policies.

5.1 Principles

5.1.1 The amount payable on maturity is equal to the sum assured plus attaching annual bonuses plus any final bonus.

5.1.2 Annual bonuses are distributed using the "Contribution Method" and final bonuses distribute any additional surpluses arising from experience in the Manulife sub-fund.

5.1.3 The primary mechanism for implementing smoothing of maturity and other pay-outs is to manage the final bonus rates so that in normal economic conditions pay-out values do not change sharply from year to year. However, in extreme economic conditions, there is a likelihood that pay-out values may fluctuate between years and indeed may fluctuate within the same calendar year. The smoothing policy is solely for the benefit of the policyholders in the Manulife sub-fund.

5.1.4 The interest surplus reflects the smoothed investment income (excluding capital gains/losses) on the assets held in the Manulife sub-fund. This provides a degree of smoothing in terms of the annual bonuses.

5.2 Practices – Annual Bonus

5.2.1 Annual bonuses are declared as an additional sum assured which the policyholder can choose to take as an equivalent cash bonus. The cash bonus itself is the sum of the interest surplus and the loading surplus, determined using the Contribution Method. The additional sum assured, if chosen by the policyholder, is calculated by increasing the cash bonus to reflect the fact that it will be paid later.

5.2.2 There is an option to leave the cash bonus on deposit. The rate credited on the cash bonuses on deposit will be based on the net yield on a 5-year gilt at the time of the annual review. The net yield will allow for tax and investment expenses and the rate credited will be rounded down to the nearest 0.25%. This rate will be subject to the smoothing policy applied for annual bonuses. Should this rate fall below zero, discretion will be exercised as to the rate to be credited for cash on deposit.

5.2.3 The annual bonus reflects the investment income on assets held in the Manulife sub-fund (the interest surplus) plus an allowance for the surplus arising from mortality, lapses and expenses (the loading surplus) in respect of the with-profits policies.

Interest surplus

a) The assets of the Manulife sub-fund earn an investment return which comprises of income on assets (investment income) plus the capital gain (or loss) on the change in value of the assets. A rate of smoothed investment income is calculated with reference to the average market value of the

Manulife sub-fund assets held during the year using the start and end year values, the result of which is subject to the smoothing policy described in section 5.4.

b) The Contribution Reserve is used to calculate the interest surplus. The Contribution Reserve is calculated as the value, based on assumptions at the time of policy issue, of the cost of paying the sum assured and attaching bonuses on death and maturity, less future valuation premiums. The valuation premium used in calculating the Contribution Reserve is the part of the premium originally assumed at policy issue to cover the guaranteed portion of benefits.

c) The interest surplus is based on the excess of smoothed investment income on the assets held over that assumed in the computation of the Contribution Reserve.

d) If the above results in a negative interest surplus, other factors, including the interest rate assumed in the computation of the Contribution Reserve and the overall impact on policyholder pay-outs (including any final bonus), will be considered before declaring a negative interest surplus.

e) For the pension policies, the aim is that the gross of tax equivalent of the excess investment return (appropriate for life policies) is distributed through the interest surplus.

Loading surplus

f) The loading surplus reflects an allowance for the surplus arising from mortality, lapses and expenses in respect of the with-profits policies. This is distributed as an amount which is proportionate to the sum assured.

g) The components used for the computation of the loading surplus have been maintained at a constant level for a number of years. The impact of the variance between the components used in the computation and the actual experience is reflected in the final bonus scale using the approach described in section 5.3 below.

5.2.4 The annual bonus will be reviewed on an annual basis. This review will generally be based on the experience of the Manulife sub-fund in the calendar year preceding the review but will reflect the expected experience for the year of review.

5.3 Practices – Final Bonus

5.3.1 The Manulife sub-fund mainly consists of whole of life with-profit policies. This means the use of Asset Shares is not appropriate. Therefore a valuation, of the assets and liabilities, as described in section 5.3.3, is used to assist in deriving a final bonus scale whereby the present value of the liabilities approximately equates to the value of assets.

5.3.2 The final bonus will reflect the sustainability of bonuses on the valuation of the assets and liabilities, as described in sections 5.3.3 and 5.3.4. The annual bonus used for this sustainability test will be based on the latest investigation. The projected final bonus scale may vary by calendar year of claim. This test will reflect both the with-profit and the non-profit components of the Manulife sub-fund.

5.3.3 The market value of assets is normally used together with a discount rate which is consistent with this for the valuation of the liabilities. The discount rates used for the valuation of liabilities will reflect the expected return of the assets backing the liabilities being valued and currently assumes that equities and properties will provide a higher return than that available on gilts.

5.3.4 Other relevant components are considered, such as the creditworthiness of the assets and policyholder behaviour, to determine a “best estimate” valuation of the assets and liabilities.

5.3.5 Any surplus or deficit at the date of valuation is reduced by changing the final bonus scale by calendar year of claim in this projection, and/or the interest surplus component of the annual bonus such that the total value of the liabilities is within 5% of the total value of assets.

5.3.6 The surplus/deficit includes experience from surrendering policies and non-profit policies within the Manulife sub-fund.

5.3.7 At times, the final bonus may only be a small proportion (may be zero for some durations) of the total pay-out and hence it may be necessary to change the interest surplus component of the annual bonus to ensure that the total value of liabilities is within 5% of the total value of the assets.

5.3.8 The final bonus scale may vary by rate series (e.g. issue date, premium rate change date etc.) to ensure total pay-outs are fair and reasonable.

5.3.9 For pension policies, the final bonus will reflect the overall return on the policy compared to the overall gross return on a life policy.

5.3.10 The objectives mentioned in section 4.1.1 will be reflected in determining policy values.

5.3.11 Final bonuses will be reviewed semi-annually and could be reviewed more often if the investment markets move significantly.

5.4 Practices – Smoothing Policy

5.4.1 It is expected that the investment income used to compute the interest surplus element of the annual bonus will reflect a smoothed investment income and will not change by more than 1% from one year to the next.

5.4.2 To ensure that all policyholders are paid an equitable and fair share of the total Manulife sub-fund there may be fluctuations in the policy pay-outs even for policies maturing in the same calendar year. This may be due to the final bonuses being reviewed when the value of assets has changed significantly since the last review.

5.4.3 The smoothing policy will not benefit policyholders in any fund other than the Manulife sub-fund as the whole of the Manulife sub-fund will ultimately be distributed to its policyholders.

5.4.4 For policies of the same duration exiting in successive years, pay-outs will not be expected to change due to changes in the final bonus rates (only) by more than 10% from one year to the next, under normal market conditions.

5.4.5 On surrender of a policy the amount paid out is computed by applying "Cash Value Factors" to the sum assured and attaching bonuses and this is enhanced by a final bonus, if appropriate.

5.4.6 There are two "Cash Value Factors", each consisting of a set of rates; one Cash Value Factor is applied to the sum assured and the other to the attaching bonuses. The Cash Value Factor applied to the sum assured is calculated using the same assumptions as those used to calculate the sum assured on policy maturity or death. The Cash Value Factor applied to the attaching bonuses is not guaranteed and may change in the future.

5.4.7 The level of final bonus payable on surrenders will be reviewed at least annually. Policies in the Manulife sub-fund generally have a high level of guaranteed benefits and the value of these guaranteed benefits could exceed the underlying value of assets backing the policy. In such conditions it would not be appropriate for the surrender value to directly reflect the underlying value of the assets backing the policy without taking into consideration the high level of guaranteed benefits. The surrender value is likely to move towards maturity pay-out as the policy approaches maturity or, in the case of whole of life policies, a chosen age.

6 Investment Strategy

The purpose of this section is to describe significant aspects of the investment strategy for the Manulife sub-fund. This includes details of the management of the investments and the governance of decisions in respect of the assets held.

6.1 Principles

6.1.1 The aim is to maximise returns to the policyholders consistent with the objective of meeting the liabilities as these become due.

6.1.2 The whole of the Manulife sub-fund will be used for the benefit of its policyholders and the main obligation on Scottish Friendly is to ensure that the sub-fund is managed prudently and in particular to ensure that the asset mix in the sub-fund reflects the nature of the liabilities.

6.1.3 In particular the company will manage the Manulife sub-fund in such a way that it takes due regard to:

a) The profile of the liability cash flows.

b) The profile of the asset cash flows.

c) The level of guarantees in the sub-fund.

d) The risk profile of the sub-fund.

e) The liquidity needs of the sub-fund.

This strategy will reflect solely the assets and liabilities in the sub-fund and will not reflect the possibility of support being provided by the Scottish Friendly Main Fund.

6.2 Practices

6.2.1 The investment strategy of the Manulife sub-fund is determined by the Board, taking into account the profile of the liabilities of the Manulife sub-fund. This is documented in section 6.2.3. The Board has established a committee, the Investment Committee, who perform an assessment of suitability of the assets on an annual basis. The Investment Committee receives reports that include evidence of adherence to the investment allocation as in section 6.2.5.

6.2.2 The Investment Committee reviews the performance and mix of assets between the different asset classes quarterly for the Manulife sub-fund. This review will include the liquidity requirements for the sub-fund.

6.2.3 The current guidelines to be followed in determining the investments within each of the asset classes are as follows:

a) The guaranteed benefits on the with-profit policies will be matched largely by fixed interest securities, cash, policy loans and a small proportion of a mixed commercial property portfolio.

b) The future annual bonus and final bonus component of the Manulife sub-fund will be invested largely in a mixture of equities and a mixed commercial property portfolio with some fixed interest securities.

c) The non-profit liabilities are matched largely by a mixture of cash and fixed interest securities and commercial mortgages (subject to availability).

d) The credit quality of the assets will be managed to ensure it is appropriate, taking into account Scottish Friendly's risk appetite and the need to treat policyholders fairly.

6.2.4 The target asset allocation for invested assets for the whole Manulife sub-fund is:

Fixed interest securities	60-100%
Property	0-10%
Commercial mortgages	0-10%
Equities	0-20%
Cash/other	0-20%

6.2.5 The target asset allocation is expected to change over time as the Manulife sub-fund runs off. The percentage allocation of fixed interest securities will likely increase alongside the increase of policy guarantees.

6.2.6 There is a block of non-profit pension policies where the policies are credited with a return which is linked to the mortgage rate charged by building societies. There are no suitable assets available to match this return exactly and the assets are invested in a mixture of cash, commercial mortgages and short term fixed interest securities. There is a risk arising from this in that the difference between the rate credited to these policies and the return earned on the assets could widen and hence cause an investment loss.

6.2.7 Asset holdings may be held directly or indirectly e.g. via unit trusts or other pooled investments.

6.2.8 The Manulife sub-fund may invest in derivatives either as part of efficient portfolio management or to help manage risk by matching specific liabilities or to protect solvency. Any decision to invest in derivatives is subject to Board approval.

7 Exposure to Business Risk

The purpose of this section is to describe the exposure of with-profits business to business risks other than those arising from investment returns. These may include the impact of mortality, lapses and surrenders on both the with-profit and the non-profit policies.

7.1 Principles

7.1.1 Under the terms of the 2019 Scheme, some elements of the business risk have been transferred to the Scottish Friendly Main Fund. An example of this relates to aspects of expense risk, where the Scottish Friendly Main Fund limits the charges it may deduct from the Manulife sub-fund to cover expenses to a specified amount, increased with inflation.

7.1.2 The with-profits policyholders, as a class, benefit from any surplus or suffer any losses arising from the non-profit policies in the Manulife sub-fund.

7.1.3 As part of Scottish Friendly's overall risk management, the Board has established an appropriate risk management structure and procedures to manage the risks embedded within the business, including those within the Manulife sub-fund.

7.1.4 Policy benefits and policyholder expectations are determined solely by reference to the assets within the Manulife sub-fund and there is no expectation of any capital being injected into this sub-fund. However, in the unlikely event of the Manulife sub-fund being unable to meet its guaranteed benefits, the Scottish Friendly Main Fund will provide the required capital support if the deficit is considered by the Board, on advice of the Chief Actuary and the With-Profits Actuary, to be of a permanent nature.

7.2 Practices

7.2.1 For the insurance products, heavier than expected mortality will lead to a lower surplus available for distribution whilst for the annuity products lighter than expected mortality will lead to lower surplus.

7.2.2 The surrender surplus will be impacted by the surrender experience and any change in the basis of computing the surrender value.

7.2.3 The guarantees and options offered on the policies in the Manulife sub-fund may impact the surplus distributed to policyholders, depending on policyholder actions. Experience to date on these options has not materially impacted the surplus being distributed to policyholders.

7.2.4 As part of managing the business risks in Scottish Friendly, the Board has established appropriate risk management structures and procedures to manage the risks embedded in the business. The Board assumes the responsibilities of risk management and has established appropriate policies and maintains processes to control exposure to business risk.

7.2.5 The implications of the business risks impacting Scottish Friendly are addressed in the annual review of the Own Risk and Solvency Assessment (ORSA).

7.2.6 The Manulife sub-fund contains non-profit policies and as such is exposed to the surplus or deficit arising on that business. The main area of exposure, other than the investment risk on a block of pension policies mentioned in section 6.2.8, is in respect of annuitant mortality and large sums insured on some of the term policies.

7.2.7 The policyholders' exposure to expense risk has been reduced by virtue of the fact that the 2019 Scheme controls the level of expense charged against the Manulife sub-fund.

7.2.8 On occasion it may be appropriate to compensate the policyholders of the Manulife sub-fund due to loss resulting from the historical mis-selling of products, products sold on the basis of marketing literature which may be regarded as misleading and policyholders making inappropriate financial decisions due to lack of sufficient clarity of the policyholder communications. Such compensation payments would not be charged to the sub-fund. However, any rectification payment made to a policyholder or former policyholder to correct an erroneous underpayment of policy proceeds, or a reimbursement of premiums overpaid, will be charged to the sub-fund.

7.2.9 It is unlikely that the assets in the Manulife sub-fund will be insufficient to meet the sub-fund's guaranteed liabilities but, should that become the case, it is expected that the Scottish Friendly Main Fund will provide the capital support needed to allow the Manulife sub-fund to meet its guaranteed liabilities. In that case, it may also be necessary for the Scottish Friendly Main Fund to meet the regulatory capital requirements for the Manulife sub-fund. Any capital provided for this latter purpose will not be available for distribution to the policyholders of the Manulife sub-fund.

8 Charges and Expenses

The purpose of this section is to describe the expenses and the application of charges to the Manulife sub-fund and policyholders.

8.1 Principles

8.1.1 The 2019 Scheme prescribes the key charges made against the Manulife sub-fund.

8.1.2 Any charges made against the Manulife sub-fund are reviewed by the Chief Actuary and the With-Profits Actuary to ensure that they are fair and comply with the terms of the 2019 Scheme.

8.1.3 Changes to the expenses and charges made against the Manulife sub-fund will only be made to the extent that they are permissible under the 2019 Scheme.

8.1.4 Investment dealing charges are paid out of the Manulife sub-fund as these are incurred.

8.2 Practices

8.2.1 The charges for ongoing policy servicing will be applied monthly to the Manulife sub-fund and may not exceed £56.63 per policy per annum, charged monthly, and increased annually with a one month lag, in line with changes in the Retail Prices Index from 1 January 2019. .

8.2.2 Investment management charges were fixed by the 1995 Scheme at the rate of 0.25% of the first £200m of assets and 0.125% of any balance above this amount. These are both applied to the average market value of funds under management and are payable quarterly in arrears. Investment dealing charges will be paid directly out of the Manulife sub-fund as these are incurred.

8.2.3 The tax charged to the Manulife sub-fund is equal to the charge that the sub-fund would be liable for if it was a standalone mutual life company. This basis will be reviewed by the With-Profits Actuary and the Chief Actuary in the event of any material change in the basis of taxation of life assurance companies in the UK.

9 Management of the Estate

9.1 Principles

9.1.1 The Manulife sub-fund was established with the aim of fully distributing all surplus arising in it to its with-profit policyholders of the Manulife sub-fund.

9.1.2 As such:

a) there is no significant estate in this sub-fund and nor is there an expectation that one will develop, and

b) no other policyholders in Scottish Friendly, be they in the Scottish Friendly Main Fund or any of the other sub-funds, will benefit from the distribution of any surplus assets in the Manulife sub-fund.

9.2 Practices

9.2.1 The practices are covered by the principles outlined in section 9.1.

10 Volume of New Business

The purpose of this section is to describe the process around managing new business accepted into the Manulife sub-fund.

10.1 Principles

10.1.1 No new policies have been written in this sub-fund since it was set up in 1990. Existing customers continue to be able to exercise options under their policies, including those to increase premiums payable or to pay additional single premiums.

Where there is an option to take out another policy without medical evidence, the nearest equivalent policy will be offered.

10.2 Practices

10.2.1 The practices are covered by the principles outlined in section 10.1.

Introduction
Manulife Sub-fund Background
Overriding Principles
Methods of Determining Claim Values
Bonus and Smoothing Policies
Investment Strategy
Exposure to Business Risk
Charges and Expenses
Management of the Estate
Volume of new business
Glossary

11 Glossary

1995 Scheme
The scheme of transfer under section 49 of and Part 1 of Schedule 2C to the Insurance Companies Act 1982 for the transfer to CLACO of the long term business of The Manufacturers Life Insurance Company carried out in the UK.

1999 Scheme
The scheme of transfer under section 49 of and Part 1 of Schedule 2C to the Insurance Companies Act 1982 for the transfer of the UK branch of CLACO and of Albany Life Assurance Company Limited into The Canada Life Assurance Company of Great Britain Limited ("CLGB"). This transfer took place on 5 November 1999 as part of the Demutualisation of CLACO's long term insurance business.

2019 Scheme
The scheme of transfer under Part VII of the Financial Services and Markets Act 2000 for the transfer of business from Canada Life Limited to Scottish Friendly Assurance Society Limited. This transfer took place on 1 November 2019.

Actuary
A Fellow of the Institute and Faculty of Actuaries, or equivalent professional body.

Cash Value Factor
There are two Cash Value Factors, both of which are a set of rates. These are used to calculate surrender values. The first Cash Value Factor is a set of rates, specified in the policy document, to be applied to the sum assured to compute the surrender value in respect of the sum assured. The second Cash Value Factor is a separate set of rates used for computing the surrender value in respect of attaching bonuses. These rates will be reviewed from time to time, but any guarantees will be honoured.

Chief Actuary
The Actuary appointed to perform the Chief Actuary Function as defined in the supervisions manual of the Regulators.

CLACO
The Canada Life Assurance Company, being a company organised and existing under the laws of Canada.

Contribution Method
A method used to determine the level of annual bonuses to declare. In this case, it's a two-factor formula. The two factors reflect the investment income surplus and an allowance for the lapse, expense and mortality surplus, arising from the with-profits policies.

Demutualisation
The conversion of CLACO's corporate structure to a shareholder-owned company from a mutual company in respect of which certain of its policyholders have ownership interests or rights. This happened on 5 November 1999.

Estate
The excess of assets maintained within a with-profits fund over and above the amount required to meet liabilities (including liabilities which arise from setting discretionary benefits in line with policyholder expectations).

Smoothing
A means by which long term returns on with-profits policies are adjusted to even out the short term high and low investment returns.

Surplus
The excess of assets over liabilities in the Manulife sub-fund, where both are valued using assumptions that reflect Scottish Friendly's best estimate expectation of future outcomes.

Surrender Value
The claim value paid when a policy is voluntarily discontinued by the policyholder before the maturity date.

Regulators
The Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) or other regulatory body. These are the successor organisations to the Financial Services Authority (FSA).

UK Branch
Branch established by CLACO in the UK through which the UK business of CLACO was operated.

With-Profits Actuary
The Actuary appointed to perform the With Profits Actuary Function as defined in the supervision manuals of the Regulators.