

**Shepherds  
Friendly**

Your modern mutual

PPFM Compliance for the period  
1 January 2015 to 31 December 2015



## **Board report to With-Profits policyholders**

The Board of Management's report to With-Profits policyholders for the year 2015

[www.shepherdsfriendly.co.uk](http://www.shepherdsfriendly.co.uk)



## Introduction

The Society's Principles and Practices of Financial Management ("PPFM") describes how the Society manages its with-profits business. A simplified version, called the consumer friendly PPFM ("CFPPFM"), summarises the main points in the PPFM.

The PPFM and CFPPFM are available on the Society's website at [www.shepherds.co.uk](http://www.shepherds.co.uk) or copies may be obtained by writing to The Company Secretary, Shepherds Friendly Society, Haw Bank House, High Street, Cheadle, Cheshire SK8 1AL.

The Society is required to produce a report for with-profits policyholders stating whether, throughout the financial year covered, it believes it has complied with the obligations relating to the PPFM and its reasons for that belief. This report covers the period from 1 January to 31 December 2015.

Version 8 of the PPFM, dated 11 July 2013, applied throughout 2015.

## Compliance with the PPFM

The Board of Management confirms that it has complied with its obligations relating to the PPFM throughout 2015.

### In particular, it confirms that -

- (a) the Board's discretion in the conduct of the Society's with-profits business has been applied in accordance with the PPFM, and
- (b) any competing or conflicting rights, interests or expectations of the Society's policyholders have been addressed through the application of the PPFM

in a reasonable and proportionate manner.

In so doing the Society confirms that it has maintained fairness between different categories of policy and policyholder.

### In making this declaration we have taken into account:

- (a) advice from our With-Profits Actuary on compliance with the PPFM and discretion exercised throughout the period. A statement from him is attached to this report,
- (b) judgement from our With-Profits Committee on our compliance with the PPFM throughout the period,
- (c) the Directors' overall assessment of the business,
- (d) the materiality of individual aspects of compliance.

The main reasons for believing we can make this statement are covered in this document.

## Governance

The Society is required to maintain governance arrangements designed to ensure that, in the conduct of our with-profits business, we comply with, maintain and record our PPFM.

The Board of Management takes overall responsibility for the management of the with-profits fund and ensuring that compliance with the PPFM is maintained. In doing so, advice is taken from the With-Profits Actuary, particularly on key aspects of the exercise of discretion in management of the fund. Throughout 2015 the With-Profits Actuary was Christopher Critchlow. The With-Profits Actuary is required to report annually to policyholders on the management of the fund and his statement is attached to this report.

Since 1 January 2011 all key decisions are reviewed by a With-Profits Committee who have provided comments on compliance with the PPFM and the fairness of treatment of policyholders over 2015.



## Reasons for Board's confirmation of compliance with the PPFM

Having taken advice from the With-Profits Actuary and the With-Profits Committee the Board has reviewed the key provisions of the PPFM. The Board has considered each element of the PPFM and its conclusions on each area are as follows.

### Payouts and bonus rates

Payouts made from the with-profits fund during the year reflected asset shares, subject to meeting any guaranteed benefits and allowing for smoothing in accordance with the PPFM. The calculation of asset shares has been consistent with the PPFM and no departures from the methodology set out in the PPFM were made during 2015.

All bonuses were set following advice from the With-Profits Actuary.

Annual bonus rates for conventional policies declared for the 31 December 2014 distribution applied on an interim basis throughout 2015. The rates were reviewed in October 2015 at which point they were reduced to recognise the impact of lower expected future investment returns. This decision is consistent with the long term sustainable rates that the With-Profits Actuary believes these policies can support.

The final bonus rates that applied to payouts throughout 2015 were set on the advice of the With-Profits Actuary to ensure that at least 90% of maturity and surrender payouts over 2015 would fall within the PPFM's stated target range. The With-Profits Actuary has confirmed that at least 90% of payouts over 2015 did fall within the PPFM's stated target range.

In setting final bonus rates and market value reductions ("MVRs") we followed the approach set out in the PPFM and differentiated between classes and generations of policy in a reasonable and proportionate manner.

### Investment policy

The overall gross asset mix of the fund at the start and end of 2015 is shown in the table below.

Investment Class	Percentage of Fund at 31 December 2015	Percentage of Fund at 31 December 2014
Equities	48%	39%
Property	11%	12%
Fixed Interest	39%	44%
Cash & other investments	2%	5%
TOTAL	100%	100%

Over the year the Society has sold some of its directly held property investments and fixed interest assets and allocated the proceeds in equities.

The gross hypothecated asset mix of each of the notional sub funds (except the non-profit income protection fund) at the start and end of 2015 are shown in the tables below. No table is given for non-profit income protection as the reserves for these contracts are all negative and hence do not require any assets to support them.

### With profits sub fund

Investment Class	Percentage of Fund at 31 December 2015	Percentage of Fund at 31 December 2014	PPFM Range (version 8)
Equities	61%	55%	See footnote*
Property	13%	16%	
Fixed Interest	26%	29%	
Cash & other investments	0%	0%	
TOTAL	100%	100%	

\*A maximum of 80% may be invested in equities and property. A maximum of 40% may be invested in fixed interest and cash. A minimum of 50% of fixed interest investments must be investment grade.

The return over 2015 on this fund was 5.36%.

### Holloway income protection sub fund

Investment Class	Percentage of Fund at 31 December 2015	Percentage of Fund at 31 December 2014	PPFM Range (version 8)
Equities	51%	47%	See footnote*
Property	15%	18%	
Fixed Interest	34%	35%	
Cash & other investments	0%	0%	
TOTAL	100%	100%	

\*A maximum of 70% may be invested in equities and property. A maximum of 50% may be invested in fixed interest and cash. A minimum of 50% of fixed interest investments must be investment grade.

The return over 2015 on this fund was 5.51%.



## Non-profit whole of life sub fund

Investment Class	Percentage of Fund at 31 December 2015	Percentage of Fund at 31 December 2014	PPFM Range (version 8)
Equities	0%	0%	See footnote*
Property	0%	0%	
Fixed Interest	100%	99%	
Cash & other investments	0%	1%	
TOTAL	100%	100%	

\*A minimum of 80% must be invested in fixed interest or cash. A minimum of 80% of fixed interest investments must be investment grade.

The return over 2015 on this fund was 1.10%.

## Surplus sub fund

Investment Class	Percentage of Fund at 31 December 2015	Percentage of Fund at 31 December 2014	PPFM Range (version 8)
Equities	24%	20%	See footnote*
Property	1%	0%	
Fixed Interest	62%	55%	
Cash & other investments	13%	25%	
TOTAL	100%	100%	

\*A minimum of 60% must be invested in fixed interest or cash. A minimum of 80% of fixed interest investments must be investment grade.

The return over 2015 on this fund was 1.37%.

There has not been any material change in the approach taken by the Society in its investment strategy.

The Board is satisfied that the Society has abided by the principles and practices set out in the Society's PPFM during 2015 and in a manner consistent with the Society's desire to treat its policyholders fairly. However it will continue to review its PPFM ranges to ensure they are consistent with the current investment climate and the stance of the Board in managing the Society's assets.

## Business risk

Risks were monitored regularly during the year.

No new ventures were undertaken.

## Expenses and charges

Expenses continued to be charged to the With-Profits fund in line with the provisions of the PPFM.

## Inherited estate

The amount of the inherited estate has continued to be monitored and the level remained within the broad target range set out in the PPFM.

The investment strategy of the inherited estate has been maintained in line with the fund's overall investment strategy.

The inherited estate has not been used for any new purpose in 2015.

## New business

Volumes of new business were sufficient to justify the With-Profits fund staying open to new business according to criteria included in the PPFM.

## Changes to the PPFM

There have been no changes to the PPFM during 2015. Version 8 of the PPFM, dated 11 July 2013, has applied throughout 2015.

**A M O'Dea**

Chief Executive Officer

23rd March 2016



## With-Profits Actuary's report to with-profits policyholders for the year 2015

As With-Profits Actuary to The Shepherds Friendly Society Limited ('the Society') I am required to report to the with-profits policyholders every year on whether, in my opinion, the with-profits business of the Society has been managed over the year in a way that takes their interests into account in a reasonable and proportionate manner.

Policyholders should not rely solely on the information contained in this report when making financial decisions and this report does not represent financial advice.

I can confirm that I have had full access to the Board of the Society to discuss matters relating to with-profits business. In addition, in preparing this report, I have taken account of the rules of the Financial Conduct Authority and the guidance requirements of the Actuarial Profession and the Financial Reporting Council.

In my opinion, the annual report by the Society to its with-profits policyholders, and the discretion exercised by the Society in respect of 2015, may be regarded as having taken the interests of the Society's with-profits policyholders into account in a reasonable and proportionate manner.

Christopher Critchlow BSc FIA  
With-profits Actuary to the Society  
2 March 2016

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The Head office and Registered office of The Shepherds Friendly Society is based in the United Kingdom.