

# PPFM COMPLIANCE FOR THE PERIOD 1 JANUARY 2017 to 31 DECEMBER 2017

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Board report to with-profits policyholders.

The Board of Management's report to with-profits  
policyholders for the year 2017

**The Shepherds Friendly Society Limited** Registered Office: Haw Bank House, High Street, Cheadle, Cheshire SK8 1AL.  
**Tel:** 0161 428 1212 **Fax:** 0161 428 3666 **Email:** [info@shepherdsfriendly.co.uk](mailto:info@shepherdsfriendly.co.uk) **Web:** [www.shepherdsfriendly.co.uk](http://www.shepherdsfriendly.co.uk)

SHEPHERDS FRIENDLY IS A TRADING NAME OF THE SHEPHERDS FRIENDLY SOCIETY LIMITED WHICH IS AN INCORPORATED FRIENDLY SOCIETY UNDER THE FRIENDLY SOCIETIES ACT. REGISTERED NO 240F. AUTHORISED BY THE PRUDENTIAL REGULATION AUTHORITY AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY AND THE PRUDENTIAL REGULATION AUTHORITY, FINANCIAL SERVICES REGISTER NO 109997.

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

# 1. Introduction

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The Society's Principles and Practices of Financial Management ("PPFM") describes how the Society manages its with-profits business. The PPFM is available on the Society's website at [www.shepherdsfriendly.co.uk](http://www.shepherdsfriendly.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 2017.

The following versions of the PPFM applied throughout 2017:

- Version 10 effective from 1 January 2017 to 31 May 2017
- Version 11 effective from 1 June 2017 to 31 December 2017

## 2. Compliance with the PPFM

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The Board of Management confirms that it has complied with its obligations relating to the PPFM throughout 2017.

**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 below.

## 3. Governance

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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 2017 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 2017.

## 4. 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 2017.

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

Annual bonus rates for conventional policies declared for the 31 December 2016 distribution applied on an interim basis throughout 2017. The rates were reviewed in November 2017 and the decision was made to retain the existing rates for non-ISA business and to increase them for ISA business. 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 2017 were set on the advice of the With-Profits Actuary to ensure that at least 90% of maturity and surrender payouts over 2017 would fall within the PPFM's stated target range. The With-Profits Actuary has confirmed that at least 90% of payouts over 2017 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 2017 is shown in the table below.

Investment Class	Percentage of Fund At 31 December 2017	Percentage of Fund At 31 December 2016
Equities	55%	44%
Property	12%	13%
Fixed Interest	32%	37%
Cash and other investments	1%	6%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

The gross hypothecated asset mix of each of the notional sub funds (except the non-profit income protection and non-profit whole of life funds) at the start and end of 2017 are shown in the tables below. During 2017 the hypothecated assets of the with profits and Holloway income protection sub-funds were merged.

No table is given for the non-profit income protection sub-fund as the reserves for these contracts are all negative and hence do not require any assets to support them. Similarly, there are no longer any assets required in the non-profit whole of life sub-fund.

### With profits sub fund

Investment Class	Percentage of Fund At 31 December 2017	Percentage of Fund At 31 December 2016	PPFM Range (version 11) from 1 June 2017
Equities	58%	51%	See footnote*
Property	13%	14%	
Fixed Interest	29%	29%	
Cash and other investments	0%	6%	
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	

\*A maximum of 80% may be invested in equities and property. A maximum of 60% may be invested in fixed interest and cash. A minimum of 60% of fixed interest investments must be investment grade.

## Holloway income protection sub fund

Investment Class	Percentage of Fund At 31 December 2017	Percentage of Fund At 31 December 2016	PPFM Range (version 11) from 1 June 2017
Equities	58%	47%	See footnote*
Property	13%	14%	
Fixed Interest	29%	37%	
Cash and other investments	0%	2%	
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	

\*A maximum of 80% may be invested in equities and property. A maximum of 60% may be invested in fixed interest and cash. A minimum of 60% of fixed interest investments must be investment grade.

The return over 2017 on the combined with profits and Holloway income protection sub-funds was 11.2% including the 0.5% enhancement the Directors agreed in November 2017 should be distributed to asset shares in respect of surplus arising on the fund.

## Surplus sub fund

Investment Class	Percentage of Fund At 31 December 2017	Percentage of Fund At 31 December 2016	PPFM Range (version 11) from 1 June 2017
Equities	27%	12%	See footnote*
Property	5%	5%	
Fixed Interest	57%	63%	
Cash and other investments	11%	20%	
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	

\*A minimum of 60% must be invested in fixed interest or cash. A minimum of 80% of fixed interest investments must be investment grade. A maximum of 40% may be invested in an "absolute return" type of managed fund.

The return over 2017 on this sub-fund was 7.7%.

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 2017 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 material ventures were undertaken.

## **Expenses and charges**

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

## **Management of the Society's surplus**

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

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

The surplus has not been used for any new purpose in 2017 other than the 0.5% enhancement the Directors agreed in November 2017 should be distributed to asset shares in respect of surplus arising on the fund.

## **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 were changes made to the PPFM during 2017 to reflect the merger of the conventional with profits and Holloway income protection sub-funds. Version 10 of the PPFM was effective from 1 January 2017 to 31 May 2017. Version 11 of the PPFM was effective from 1



**Ann-Marie O'Dea**

Chief Executive Officer

18th April 2018

## With-Profits Actuary's report to with-profits policyholders for the year 2017

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.

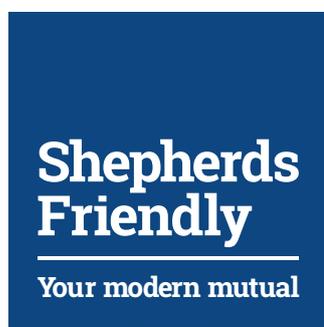
Policyholders should not rely solely on the information contained in this report when making financial decisions and this report does not represent financial advice.

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 2017, 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  
15 March 2018

**OAC plc**  
141-142 Fenchurch Street, London  
EC3M 6BL



to make members  
feel valued

to remain mutual  
when in our  
members interests

to provide simple,  
value for money  
financial solutions

to be a place  
where people  
want to work

We believe that mutuality is the best way of providing maximum benefit to our members and at the heart of the Society we have the mutual core values of trust, mutual benefit and ownership. We ensure that the money you invest with us is treated in a responsible and sensible manner to give as good a return on your investment as possible.

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