

PPFM COMPLIANCE FOR THE PERIOD 1 JANUARY 2018 to 31 DECEMBER 2018

Board report to with-profits policyholders

The Board of Management's report to with-profits
policyholders for the year 2018

The Shepherds Friendly Society Limited Registered Office: Haw Bank House, High Street, Cheadle, Cheshire SK8 1AL.
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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

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 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 2018.

The following versions of the PPFM applied throughout 2018:

- Version 11 effective from 1 January 2018 to 30 September 2018
- Version 12 effective from 1 October 2018 to 31 December 2018

2. Compliance with the PPFM

The Board of Management confirms that it has complied with its obligations relating to the PPFM throughout 2018.

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 Fair Members Benefit 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

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 2018 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 2018. Over 2018 the Society changed the name of the With-Profits Committee to the Fair Members Benefit Committee to reflect the wider scope of issues it considers.

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 2018.

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

Annual bonus rates for conventional policies declared for the 31 December 2017 distribution applied on an interim basis throughout 2018. The rates were reviewed in November 2018 and the decision was made to retain the existing rates for all 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 2018 were set on the advice of the With-Profits Actuary to ensure that at least 90% of maturity and surrender payouts over 2018 would fall within the PPFM's stated target range. The With-Profits Actuary has confirmed that at least 90% of payouts over 2018 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 2018 is shown in the table below.

Investment Class	Percentage of Fund At 31 December 2017	Percentage of Fund At 31 December 2018
Equities	55%	62%
Property	12%	12%
Fixed Interest	32%	21%
Cash and other investments	1%	5%
TOTAL	100%	100%

No hypothecation of assets was applicable during 2018 as all of the assets belonged to the with profits fund.

The return on the with profits fund over 2018 was -4.5%.

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 2018 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.

The Society continues its investment in the growth of its non-profit business. Profits on these initiatives are now being paid to with-profits policyholders in the form of increased investment returns credit to members' asset shares.

The Society is reviewing ways in which risks can be managed within the business. This has led to implementing a reinsurance arrangement on the Society's Over 50s business.

Over 2018 the Society increased its strategic investment with Life's Great. This is now a significant component of the Society's investments. The Board actively considers its continued value-for-money.

No other 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 2018 other than the 0.7% enhancement the Directors agreed in November 2018 should be distributed to asset shares in respect of surplus arising on the fund (primarily from non-profit business).

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 2018 to combine the conventional with profits and Holloway funds for investment management purposes. Version 11 of the PPFM was effective from 1 January 2018 to 30 September 2018. Version 12 of the PPFM was effective from 1 October 2018 to 31 December 2018.

For and on behalf of the Board



Ann-Marie O'Dea
Chief Executive Officer
2nd April 2019

With-Profits Actuary's report to with-profits policyholders for the year 2018

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 2018, 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
18 March 2019

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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