

Changes to our Principles and Practices of Financial Management

We intend to change the Society's Principles and Practices of Financial Management (the "PPFM") with effect from 16th December 2020. The current PPFM (2018) and the revised version can be found on our website at <https://www.shepherdsfriendly.co.uk/your-mutual/about-us/principles-and-practices-of-financial-management>. Please contact us at info@shepherdsfriendly.co.uk if you would like a copy of either document.

The PPFM explains how we conduct our With-Profits business and the way in which your Board decides how your money should be managed, invested, and returned to you in the future. 'Principles' describe the enduring standards we adopt when managing With-Profits business and are not expected to change often. 'Practices' describe our day-to-day approach in managing With-Profits business in response to shorter-term changes in the business and economic environment.

This year we have undertaken a full review of the PPFM and have concluded that the PPFM is consistent with the way in which we manage the With-Profits fund. However, we have determined that the PPFM would benefit from a refresh in tone and greater clarity in some sections. Rather than make changes to the existing document, we have rewritten the PPFM, and this has resulted in changes to the wording of both principles and practices.

Given the extent of the rewrite, it is not feasible to highlight every individual change. The table below attempts to summarise the main differences and significant changes between the current PPFM and the new version.

Current PPFM	New PPFM
Section 1 Introduction	This section has been split into two, Section 1 - Introduction and Section 2 - The Society's Financial Objectives. We have removed the reference to notional sub-funds within the With-Profits fund as this refers to investment practices that are no longer relevant; the Society only operates one With-Profits fund.
Section 2 The amount payable under a With-Profits contract	This is now Section 3 - How With-Profits policies work. The PPFM clarifies the role of the Fair Member Benefits Committee (FMBC) and the With-Profits Actuary (WPA) in the governance of the With-Profits fund.
Section 3 Investment strategies	This is now Section 4 - How investments are managed. We have removed the reference to notional sub-funds. The PPFM clarifies that the Society may invest in listed and non-listed companies and also that the Society does not invest in derivatives for speculative purposes. This section re-emphasises that we use the With-Profits fund to invest in the Society's non-profit business and introduces a new practice that limits such investment: "The Society aims to ensure that the value of the non-Child Trust Fund assets of the With-Profits fund will be greater than 90% of the aggregate of the value of the Society's With-Profits policies."

Current PPFM	New PPFM
<p>Section 3 continued Investment strategies</p>	<p>Following the move to appoint Royal London Asset Management as the Society's investment manager during 2019, the PPFM now includes a new practice that clarifies the current investment strategy:</p> <p>“The majority of the Society's non-CTF related investments of the With-Profits fund are invested in a pooled fund which is targeted to provide a stable return of 4% p.a. in excess of the return that would be earned by investing in cash. If the Society were able to invest in money markets and earn 0.5% p.a., it is expected that the pooled fund would be able to earn 4.5% p.a.”</p>
<p>Section 4 Business risk</p>	<p>This is now Section 5 - How business risk is managed. We have removed the reference to notional sub-funds.</p> <p>The PPFM clarifies that the investment in non-profit policies is a business risk and includes a summary of the significant controls we use to manage the risk. The PPFM also provides more information on how we allocate profits from non-profits business to With-Profits policies.</p>
<p>Section 5 Charges and expenses</p>	<p>This is now Section 6 - How charges and expenses are applied.</p>
<p>Section 6 Management of the Society's surplus</p>	<p>This is now Section 8 - How surplus is managed. We have removed the reference to notional sub-funds.</p> <p>The practice that considers what happens when the Society's surplus falls below its target range has been changed. The timeframe to restore the surplus to within its target range is now 12 months rather than five years.</p>
<p>Section 7 Volumes of new business and arrangements on closing to new business</p>	<p>This is now Section 7 - How new business is managed. We have not made any significant changes to the principles and practices.</p>
<p>Section 8 Glossary</p>	<p>This is now Section 9 - Glossary of terms used. We have updated this section to reflect new terms used in the PPFM.</p>

The changes to the PPFM were reviewed by both the FMBC and the WPA before they were recommended to the Board for approval.

We would like to reassure you that we have not made any significant changes to the way in which we manage the With-Profits fund. Rather we have changed the way in which we describe how we manage the fund. We hope that you agree with the changes and find the new PPFM gives you greater clarity and insight into how we look after your money. If you would like any further clarification or information on the changes then please contact us at info@shepherdsfriendly.co.uk.

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