

**PPFM COMPLIANCE FOR THE PERIOD
1st January 2023 to 31st December 2023
- Board report to With-Profits policyholders.**

The Board of Management's report to with-profits
policyholders for the year 2023

The Shepherds Friendly Society Limited

Registered Office: Haw Bank House, High Street,
Cheadle, Cheshire, SK8 1AL.

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/about/ppfm/ 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 2023.

2 Compliance with the PPFM

The Board of Management confirms that it has complied with its obligations relating to the PPFM throughout 2023. 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 her 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 2023 the With-Profits Actuary has been Cara Spinks, a consulting actuary at OAC Limited. The With-Profits Actuary is required to report annually to policyholders on the management of the fund and her statement is attached to this report.

All key decisions are reviewed by the Fair Members Benefit Committee who provide comments on compliance with the PPFM and the fairness of treatment of policyholders.

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

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

Payouts and bonus rates

Payouts made from the with-profits fund during the year broadly 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 2023.

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

Annual bonus rates for conventional policies declared for the 31 December 2022 distribution applied on an interim basis throughout 2023. The rates were reviewed in November 2023 and the decision was made to maintain 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 2023 were set on the advice of the With-Profits Actuary. When setting final bonus rates, the aim over the longer term is that at least 90% of maturity and surrender payouts will fall within the PPFM's stated target range (80%-120% of asset share).

The With-Profits Actuary has notified us that 84% of all payouts were within range overall for 2023. This is a reduction on the figures for 2022 which showed that 89% of claims overall were within target range.

The main reason for the reduction from 89% to 84% is the increase in the number of ISA surrenders during 2023 that had payouts above the upper limit of the target range. This was due to an increase in surrenders during 2023 caused by competitive pressures in the market and the Society's decision not to apply a market value reduction ("MVR") in order to protect the interests of long-standing members leaving the fund at a time of investment market volatility.

The With-Profits Actuary has confirmed that, having reviewed the size of the overpayment overall, she believes there has been no material detriment to the remaining with profit policyholders and the Society's principles for smoothing have been broadly met.

We expect that, in the longer term the proportion of payouts falling within target range will increase. The situation continues to be regularly monitored with regards to investment returns, withdrawal rates, the level of bonuses awarded and MVRs.

In setting final bonus rates and MVRs we have followed the approach set out in the PPFM and have 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 2023 is shown in the table below.

Investment Class	Percentage of Fund at 31st December 2022	Percentage of Fund at 31st December 2023
Equities	21%	18%
Property	0%	0%
Fixed Interest	61%	72%
Cash and other investments	18%	180%
Total	100%	100%

The return on the invested assets over 2023 was +16.4% for the Sustainable ISA/JISA and +8.1% for other products (2022: -16.9% Sustainable ISA/JISA, -5.6% for other products).

The majority of the with profits fund's investments are held in a multi asset fund managed by Royal London. The aim of the fund is to generate growth whilst managing the downside risk. The fund invests in an asset mix including UK and overseas equities, commodities, bonds, money market instruments, deposits and cash, with a blend of active and passive funds and exchange traded funds. This is consistent with PPFM principles.

The Board is satisfied that the Society has abided by the principles and practices set out in the Society's PPFM during 2023 and in a manner consistent with the Society's desire to treat its policyholders fairly. However, we 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 being paid to With-Profits planholders in the form of increased investment returns credited to members' asset shares.

The Society continually reviews ways in which risks can be managed within the business. The business strategy is one of ensuring the Society has a diversified product base with diversified routes to market. The Society works with key partners to help achieve these objectives.

Over 2023 the Society continued to develop sale and distribution partnerships. All new initiatives are considered carefully by the Society's Board of Management after advice from the Society's With-Profits Actuary, on the impact each proposal and the cumulative impact of all such initiatives may have on the interests of current with-profits policyholders.

The Society regularly reviews the reinsurance arrangements it has in place on its protection portfolio to ensure the Society manages its business risks within risk appetite.

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 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 purpose in 2023 other than the enhancement the Directors agreed in November 2022 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 during 2023 were sufficient to justify the with-profits fund staying open to new business according to criteria included in the PPFM.

During 2023, following a review of the product range, the Society made the decision to withdraw the Sustainable ISA, Sustainable Junior ISA, Bonus Plan and Young Saver Plan products from sale.

Changes to the PPFM

Some minor changes were made to the PPFM during 2023 to reflect a new distribution partnership.



Ann-Marie O'Dea

Chief Executive Officer

20th March 2024

With-Profits Actuary's report to with-profits policyholders for the year 2023

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 have been With-Profits Actuary to the Society throughout 2023.

I can confirm that, throughout 2023, I have had full access to the Board of the Society to discuss matters relating to with-profits business.

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 2023, may be regarded as having taken the interests of the Society's with-profits policyholders into account in a reasonable and proportionate manner.



Cara Spinks FIA

With-Profits Actuary to the Society
20th March 2024

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