

**PPFM COMPLIANCE FOR THE PERIOD
1st January 2024 to 31st December 2024
- Board report to with-profits policyholders.**

The Board of Management's report to with-profits policyholders for the year 2024

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 1st January to 31st December 2024.

2 Compliance with the PPFM

The Board of Management confirms that it has complied with its obligations relating to the PPFM throughout 2024. 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 2024 the With-Profits Actuary has been Cara Spinks, a consulting actuary at Broadstone. 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 2024.

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

Annual bonus rates for conventional policies declared for the 31st December 2023 distribution applied on an interim basis throughout 2024. The rates were reviewed in November 2024 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 2024 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 92% of all payouts were within range overall for 2024. This is an increase on the figures for 2023 which showed that 84% of claims overall were within target range.

The main reason for the increase from 84% to 92% is a decrease in the number of ISA surrenders during 2024 with payouts above the upper limit of the target range. Positive returns in recent years have helped to bring asset shares closer to payouts.

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

We continue to regularly monitor payouts, investment returns, withdrawal rates, the level of bonuses awarded and MVRs with the aim of maintaining the majority of payouts within the target range over the longer-term.

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 2024 is shown in the table below.

Investment Class	Percentage of Fund at 31st December 2023	Percentage of Fund at 31st December 2024
Equities	18%	17%
Property	0%	0%
Fixed Interest	72%	67%
Cash and other investments	10%	16%
Total	100%	100%

The return on the invested assets over 2024 was +6.7% for the Sustainable ISA/Junior ISA and +6.6% for other products (2023: +16.4% Sustainable ISA/Junior ISA, +8.1% other products).

The majority of the with-profits fund's investments are held in a multi asset fund and short duration credit fund, both managed by Royal London. The aim of the multi asset 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. The aim of the short duration credit fund is to achieve a total return over the medium-term by investing the majority of its assets in short duration (5 years or less) UK bonds. Investment in these funds is consistent with the PPFM principles.

The Board is satisfied that the Society has abided by the principles and practices set out in the Society's PPFM during 2024 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 policyholders 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 2024 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 2024 other than the enhancement the Directors agreed in November 2023 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 2024 were sufficient to justify the with-profits fund staying open to new business according to criteria included in the PPFM.

During 2024, the Society entered into a new partnership with Risk Assurance Management Limited to underwrite new and renewal sales of RAM's group life and CIC products.

Changes to the PPFM

An update was made to the PPFM during 2024 to reflect an increase in frequency for declaration of regular bonuses on with-profits ISAs.

A handwritten signature in black ink, appearing to read 'Ann-Marie O'Dea', written in a cursive style.

Ann-Marie O'Dea

Chief Executive Officer

March 2025

With-Profits Actuary's report to with-profits policyholders for the year 2024

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 2024. I can confirm that, throughout 2024, I have had full access to the Board of the Society to discuss matters relating to with-profits business.

I have carried out a review of the Society's compliance with the PPFM and its exercise of discretion over 2024, including the bonus declaration for the year ending 31 December 2024. In my opinion, the annual report by the Society to its with-profits policyholders, and the discretion exercised by the Society in respect of 2024, may be regarded as having taken the interests of the Society's with-profits policyholders into account in a reasonable and proportionate manner.

I have based my opinion on the information provided to me by the Society, and on my own knowledge and investigations during 2024. 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.



Cara Spinks FIA

With-Profits Actuary to the Society
24th March 2025



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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.