Police Mutual
ALL PART OF THE SERVICE

Guide to investing in the Life Fund

We have a framework that makes sure we manage the Life Fund fairly and effectively for members and in accordance with the regulations of the Financial Conduct Authority (FCA). Our *Principles and Practices of Financial Management (PPFM)* describes in detail how we do this – you can request a copy or download it at policemutual.co.uk/about-us/police-mutual-life-fund.

We've produced this guide to summarise the key points – please read it and keep it in a safe place with your other plan documents.

How we invest your money

Your payments – along with those of other members – go into our Life Fund, which holds a range of investments in the UK and overseas in the form of company shares, bonds, property, commodities and cash. We invest in a range of different assets, so if one asset performs badly, the impact on your plan's value is reduced. Essentially, you get a better spread of investments by sharing in a fund than if you invest on your own.

The amount we invest – and the areas we invest in – varies according to market conditions and the limits we set, which helps us to manage risk and maintain the financial security of the Fund.

We'd normally invest between 50% and 60% of your share of the Fund in company shares, property and commodities, and would generally aim to be in the middle of this range. Investing in this way offers the potential for higher returns than cash-based investments, especially over the long term, but the risk is higher.

Since we commit to making sure our Fund covers all the money we've guaranteed to planholders at any time, we control how much we invest in these higher risk areas. That means we sometimes need to be at the lower end of the range – and, in exceptional conditions, even lower.

We might invest parts of the Life Fund, such as the estate (explained later), or types of plans, differently. But we'd only do this if we believed it would help to increase returns, reduce risk, or if it was fairer.

The Fund's performance is reviewed at least four times a year and the investment strategy is reviewed once a year. Contact us if you'd like more information on how the Life Fund is currently invested.

Smoothing

Along with spreading where the Life Fund is invested, we also aim to reduce risk by evening out short-term highs and lows in how the Fund performs. This is called smoothing.

The performance of the Fund can vary – sometimes it'll perform well, but not so well at other times. Smoothing is when we hold back some of the gains from a good period to cover the losses made in another.

Unfortunately there may be times when smoothing can't fully protect your plan's value. This can happen, for example, following a significant or sustained fall in the stock market, or when investment returns are below the level we normally expect.

Fair and effective management

As a mutual we don't have shareholders who take a share of the profits. However, this means that we can't raise additional capital in the same way as companies that are quoted on the stock market, so we have to consider carefully how we use the Life Fund. The Managing Board is responsible for making sure we take an affordable level of risk and operate the Life Fund in accordance with our PPFM.

The Memorandum and Rules set out the powers and duties of the Managing Board. The Managing Board is given discretion so they can make decisions about:

- Investment strategy
- Management of the estate
- The level of bonuses added and the amount of smoothing applied

The With-Profits Committee is a sub-committee of the Managing Board, and it meets on a regular basis to make sure the business has been managed according to the PPFM. It also provides independent judgment as to how the Managing Board has addressed any conflicting rights and interests of planholders.

The With-Profits Committee includes non-executive representation and a Chairperson who is independent of the Managing Board.

In addition, Police Mutual has a With-Profits Actuary, who is specifically appointed under FCA and Prudential Regulation Authority (PRA) regulations to advise the Managing Board.

Before it makes any decisions, the Managing Board considers (among other things):

- The Memorandum and Rules
- Appropriate actuarial advice
- The views of the With-Profits Committee and the With-Profits Actuary
- The effect on all current and future planholders and members
- Our custom and practice

The Managing Board and the With-Profits Actuary make a report available to planholders every year to confirm whether the Life Fund has been managed in accordance with the PPFM.

The estate

Our Life Fund has been operating for many years and contains an amount of money in excess of the amount we expect to pay out to existing planholders. This excess is what we call the estate. It's the working capital of the business, and its size is important because it gives us:

- The flexibility to invest in a more diverse investment range, so we have the potential to grow
- The ability to undertake Police Mutual Group activities
- A cushion of additional security to protect planholders when investment returns are low
- A greater capacity for smoothing the returns
- The ability to meet any exceptional costs of managing the business and statutory solvency requirements

The estate isn't set aside for particular purposes. There's no established practice of it being distributed to certain groups or members, or giving certain groups a priority interest. Current and future members both have an interest in the estate, and these interests may vary over time.

Investment in Police Mutual Group activities

We may use the estate to support Police Mutual Group activities, which include:

- Financial education
- The Police Mutual Foundation
- Business ventures
- Providing capital for subsidiary companies
- Any activities we believe are in the interests of all our members

Any significant activity must be approved by the Managing Board, which considers the costs, benefits and risks to all planholders and the stability of the Life Fund.

We expect activities to provide benefits or generate profits, but there's always a chance that we make a loss. Any profit or loss from Police Mutual Group activity only affects the estate, although in exceptional circumstances this could affect plan values.

Details of these activities are included in our Annual Report and Accounts.

How we determine your plan's value

Your plan's value is based on your share of the Fund which reflects what you've paid in and how the Life Fund's investments perform. Other important factors include:

- How long you invest for
- Any withdrawals you've made
- How much we've guaranteed to pay out
- How we smooth investment returns
- Deductions such as tax, charges and the cost of the life cover that comes with your plan

The management of the estate and results from other business activities don't normally affect the value – but there could be an impact, such as if we have more or less investment flexibility. In exceptional circumstances we may make additions or deductions to your share.

How we work out value depends on the type of investment. We offer three types - Fixed saving term investments with guarantees, Flexible investments with guarantees and Flexible investments without guarantees. You'll find your plan/investment option listed under one of these headings.

Fixed saving term investments with guarantees

- Regular Savings Plan
- Children's Bond - this plan has a fixed saving term for regular payments, but doesn't have a fixed maturity date
- Moneyspinner
- Minimum Low Cost Endowment • Low Cost Endowment
- Full Endowment

At the end of the payment term, or if you die, your plan has a guaranteed payout so you'll always get at least that amount, but the smoothing process may mean that your payout can be more or less than your share of the Fund. It may vary between 80% and 120%, although we expect payouts to average 100% of your share of the Fund.

If you decide to cash in your plan before the end of the payment term then the guarantee doesn't apply and you're likely to get back less than your share of the Fund. That's because we don't smooth cash-in values as much, and we also make a deduction of 5% of the value plus an end of plan charge. Cash-in values may vary between 75% and 115% of your share of the Fund, but we expect cash-in values to average 95% of your share of the Fund.

Cash-in values are more likely to be at the extremes of this range or even outside of the range during the first two years because the amounts being paid are smaller.

Bonuses

We use bonuses to share out profits made by the Fund. These are paid on top of your plan's guaranteed amount. We usually decide bonus rates once a year, but we may have to change them more often than that in times of uncertain market conditions. There are two types of bonus and they work a little differently.

Regular bonuses

We sometimes add these during the life of the plan to share out some of the profit made by the Fund. They're a percentage of the guaranteed payout and a percentage of bonuses that have already been added. Once added, they become guaranteed – as long as you keep your plan to the end of the payment term.

When deciding whether to add one we consider past and potential investment returns, the value of the Life Fund in relation to the guarantees we've promised to planholders and other expenses we might need to cover. Currently we're not expecting to add regular bonuses to Regular Savings Plans (because it gives greater investment freedom and we can pay out fair shares of the Fund by using final bonuses).

Final bonus

This may be paid at the end of the payment term, or if you die. If your plan's smoothed share of the Fund is higher than your guaranteed amount, then we'll add a final bonus. It's a percentage of the guaranteed payout and the regular bonuses added over the term of the plan, and it could make a significant difference to your payout.

In most circumstances we expect to pay a final bonus – the only time we might not is when the total profit earned on your plan is less than the guaranteed amount and any regular bonuses that have already been added.

For plans that are a combination of tax-exempt and taxable, the regular and final bonus rates applied to each will be the same.

- **Regular Savings Plan (without guarantee)**

At the end of the term we expect payouts to average 100% of your share of the Fund. The smoothing process may mean that your payout can be more or less than your share of the Fund - it may vary between 80% and 120%. If you die before the end of the term your plan will payout at least the guaranteed life cover amount.

If you decide to cash in before the end of the term, you're likely to get back less than your share of the Fund. That's because we don't smooth cash-in values as much, and we also make a deduction of 5% of the value plus an end of plan charge. Cash-in values may vary between 75% and 115% of your share of the Fund, but we expect cash-in values to average 95% of your share of the Fund.

Flexible investments with guarantees

- Guaranteed ISA
- Guaranteed Investment Bond
- Platinum Bond
- Top-up Pension Plan
- Options ISA - Protected growth option

When your plan reaches a guarantee point, or if you die, the plan pays out at least the guaranteed amount. We use a final bonus as a way to share out profits made by the Fund. These are paid on top of your plan's guaranteed amount.

We expect payouts to average 100% of your share of the Fund. But the smoothing process may mean that the payout can be more or less than your share at that time.

We normally calculate your plan's smoothed share of the Fund using smoothed performance over the past 26 weeks. For the Guaranteed ISA, Guaranteed Investment Bond and Options ISA we would normally restrict the difference between the smoothed share of the Fund and the unsmoothed share of the Fund to no more than 5%, by adjusting the smoothed price accordingly. In exceptional market conditions we may need to use the unsmoothed share of the Fund instead. If your plan's share is higher than your guaranteed amount then we'll add a final bonus.

If you decide to cash in your plan, or transfer out before a guarantee point, we'll calculate your plan's share of the Fund in the same way. For instance, if your plan's smoothed share is higher than your guaranteed amount, then we'll add a final bonus. However, if it's lower, then we may deduct a Market Value Reduction. The Market Value Reduction is designed to help protect the Life Fund and the remaining planholders when market conditions are unfavourable.

Final bonuses and Market Value Reductions are calculated for individual policies and change regularly to reflect investment conditions.

Flexible investments without guarantees

- Group Personal Pension (main fund)
- Options ISA - Non guaranteed option

When your plan is cashed in, or transferred out, we expect payouts to average 100% of your share of the Fund. But the smoothing process may mean that the payout can be more or less.

We normally calculate your plan's smoothed share of the Fund using smoothed performance over the past 26 weeks. We would normally restrict the difference between the smoothed share of the Fund and the unsmoothed share of the Fund to no more than 5%, by adjusting the smoothed price accordingly. In exceptional market conditions we may need to use the unsmoothed share of the Fund instead

How we decide charges

When we calculate your plan's share of the Life Fund we make charges to cover the cost of running the plan (and other expenses). For example, we make a charge to allow for the potential cost of the guarantees we provide. Other costs could include smoothing, the use of capital and managing the estate. These differ between products.

All charges are allowed for when calculating the value of your plan. We aim to charge a fair share of our expenses to each planholder, and we review these charges every year based on our experience of operating the Life Fund.

Looking to the future

We'll continue to allow people to invest in the Life Fund – as long as it's in the best interests of both our existing and new members. If we stopped, it would mean we'd have to review the way we smooth payouts and how we invest the money within the Fund.

This guide summarises our current approach. We expect that the approach may change over time – and if it does, we'll let you know about it in your yearly statement. We'll also send you an updated copy of this guide if anything significant has changed in the previous year.

How to contact us

1. Call 0345 88 22 999

2. Visit policemutual.co.uk

We're open from 8.30am - 5.30pm Mon-Fri

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