



# **The Board of Management's report to with-profits policyholders for the year 2010**

**PPFM COMPLIANCE FOR THE PERIOD 1 JANUARY 2010 to 31 DECEMBER 2010 –  
Board report to with-profits policyholders.**

---

# 1) Introduction

The Society's Principles and Practices of Financial Management ("PPFM") describes how the Society manages its with-profits business. A simplified version, called the consumer friendly PPFM ("CFPPFM"), summarises the main points in the PPFM.

The PPFM and CFPPFM are available on the Society's website at [www.shepherds.co.uk](http://www.shepherds.co.uk) or copies may be obtained by writing to The Company Secretary, Shepherds Friendly Society, Shepherds House, Stockport Rd, Cheadle, Cheshire SK8 2AA.

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 2010.

Two versions of the PPFM were in force throughout the year:

- Version 6, dated 22 July 2008, applied until 20 September 2010;
- Version 7, dated 21 September 2010, applied for the remainder of the year.

Version 7 is the same as version 6 except that the investment ranges specified in version 7 were amended to reflect the Society's current investment approach. In particular the ranges were widened to give the Society flexibility to manage its investments in a more flexible manner and to allow the Society to take advantage of opportunities as they arose.

## 2) Compliance with the PPFM

The Board of Management confirms that it has complied with its obligations relating to the PPFM throughout 2010. 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 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 With-Profits 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 2010 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 2010.

### **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 2010.

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

Annual bonus rates for conventional policies declared for the 31 December 2009 distribution applied on an interim basis throughout 2010. The rates were reviewed in December 2010 and maintained at the 2009 declared rates for all classes of policies. 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 2010 were set with the expectation that the target ranges specified in the PPFM would be met for maturities and surrenders. The With-Profits Actuary has confirmed that at least 90% of maturity and surrender payouts over 2010 were within the PPFM's stated target range.

---

In setting final bonus rates and 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 investment policy of the with-profits fund remained unchanged during the year, and in accordance with the PPFM.

The overall gross asset mix of the fund at the start and end of 2010 is shown in the table below.

Investment Class	Percentage of Fund At 1 January 2010	Percentage of Fund At 31 December 2010
Equities	45%	48%
Property	15%	16%
Fixed Interest	31%	34%
Cash and other investments	9%	2%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

The investments at the end of 2010 are in line with the ranges set out in the Society's PPFM.

The Society has remained in a strong financial position during the course of 2010. This has allowed the Society the freedom to take investment decisions likely to provide the greatest value to policyholders e.g. by moving from low yielding cash to equity investments during the year.

The following summarise the investment changes made by the Society over 2009:

- Equity investments moved from around 45% of the fund at the start of the year to 48% reflecting increased investment from cash and equity market gains over the year.
- The Society moved its equities away from mainly UK assets to more overseas assets (although denominated in UK based funds) so that now over half of the Society's equity assets are classified as overseas.
- The Society's holding of fixed interest investments with Barings was rebalanced to include greater gilt and index-linked assets with total holdings remaining broadly unchanged.
- Cash type assets reduced from 9% of the fund at the start of the year to just 3% at the end of the year as the Society sought to take advantage of rising equity markets.

These decisions helped to provide the Society with a return on the fund during 2010 equal to 9.6%.

The Society has not invested in any new or novel instruments during the course of 2010.

The Board is satisfied that the Society has abided by the broad principles and practices set out in the Society's PPFM during the course of 2010 and in a manner consistent with the Society's desire to treat its policyholders fairly.

## Business risk

Risks were monitored regularly during the year. No significant new risks were undertaken during the year.

---

## Expenses and charges

Expenses continued to be charged to the with-profits fund in line with the provisions of the PPFM.

## Inherited estate

The amount of the inherited estate has continued to be monitored and the level remained within the broad target range set out in the PPFM.

The investment strategy of the inherited estate has been maintained in line with the fund's overall investment strategy.

The inherited estate has not been used for any new purpose in 2010.

## 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 no changes to the PPFM during the course of 2010 other than to the investment limits as noted in the table below:

	Version 6	Version 7
<b>Equities</b>	35% - 50%	30% - 60%
<b>Property</b>	15% - 25%	10% - 20%
<b>Gilts and fixed interest</b>	15% - 25%	15% - 50%
<b>Cash</b>	5% - 15%	1% - 20%

# **With-Profits Actuary's report to with-profits policyholders for the year 2010**

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 Services Authority and the guidance requirements of the actuarial profession.

In my opinion, the annual report by the Society to its with-profits policyholders, and the discretion exercised by the Society in respect of 2010, 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**  
**15th March 2011**

**OAC plc**  
**Portsmouth House**  
**Minories**  
**London**  
**EC3N 1LJ**



The Shepherds Friendly Society is an incorporated society in the United Kingdom within the meaning of the Friendly Societies Act 1992 - No.240F. Authorised and Regulated by the Financial Services Authority and entered on the Financial Services Authority Register, No: 109997.

---