Royal London

The changes to the investment strategy

of the Royal London with profits fund

For policyholders in the Royal London sub-fund

Part A
Introduction

This leaflet explains:

- the changes we have made to the investment strategy of the *Royal London with profits fund* from 1 January 2010
- what the changes mean for your policy, and
- why we have made the changes.

We use certain terms in this leaflet that need a more detailed explanation than we can give in the text. We have highlighted these *like this* and explained them in Part C on page 6.

Part B
Answers to some questions you may have

1 What do you mean by 'fund' and 'asset share'?

We use these important terms throughout this leaflet, so we explain them here.

Fund

The *Royal London with profits fund* consists of:

- the with profits and non profit policies of *Royal London* including all transferred policies from Refuge Assurance plc and United Friendly Insurance plc, and
- non profit policies transferred from The Scottish Life Assurance Company and from Phoenix Life Assurance Limited.

With profits policies transferred from The Scottish Life Assurance Company and from Phoenix Life Assurance Limited are in separate funds, the Scottish Life Fund and the PLAL With-Profits Sub-fund respectively. These policies are not affected by the changes we have made to our investment strategy.

The sub-fund that your with profits policy is in depends on the type of policy it is and the company it was taken out with. Your policy is in the *Royal London sub-fund*.

We refer to the *Royal London with profits fund* as the *fund* in the rest of this leaflet.

The *fund* invests in a wide range of investments. We use bonuses to share the profits and losses made on these investments among the policies in the *fund*.

Asset share

Each policy has an *asset share*. We use this to help us decide how much to pay, after applying *smoothing*, when the policy's benefits become due.

This is how we calculate your policy's *asset share*.

- We start with the premiums paid into the *fund*.
- Then we take off your share of our expenses, tax (except for pension policies) and the cost of providing benefits and guarantees to your policy. If your policy was taken out with Refuge Assurance plc, we also transfer an amount to *working capital*.
- Then we allow for the investment returns earned by the investments backing your policy each year. This means that the *asset share* goes up when the investments backing your policy increase in value and down when they decrease in value.

2 What changes have you made to the investment strategy?

Before 1 January 2010 all policies in the *fund* had the same investment mix, meaning that they were all invested in the same investments. The investment return we used in calculating the *asset share* for each policy didn't vary according to:

- the sub-fund the policy was in, nor
- how long the policy had left until its maturity or pension date.

On 1 January 2010 we changed the investment strategy.

- Each sub-fund in the *fund* now has its own investment mix, generating a separate investment return for the policies in it. The investment mix of each sub-fund reflects its financial strength

and the nature of its liabilities. A financially stronger sub-fund is one that has a higher proportion of *working capital* and is better able to withstand the impact of poor investment returns. By the liabilities of a sub-fund we mean the benefits we expect to pay to the policies in it.

- Each policy in the *Royal London sub-fund* now has its own investment mix, which varies according to how long the policy has left until its maturity or pension date.

This means that the investment return we now use in calculating the *asset share* for each policy varies according to:

- the sub-fund the policy is in, and
- how long the policy has left until its maturity or pension date.

A small number of pension policies have a guaranteed minimum benefit that is very likely to be higher than the policy's *asset share* at its pension date, regardless of investment returns between now and then. We have now invested these policies entirely in government bonds, other bonds and cash. Questions 3 to 5 of this leaflet do not apply to such policies. If you have one of these policies, we are writing to you separately to tell you about this in more detail.

We haven't changed the way we choose and manage the investments in the sub-funds; we do it in the same way as we did before 1 January 2010 when all the sub-funds had the same investment mix.

3 How do you change my policy's investment mix over time?

This was the investment mix for all policies on 31 December 2009, under our old investment strategy.

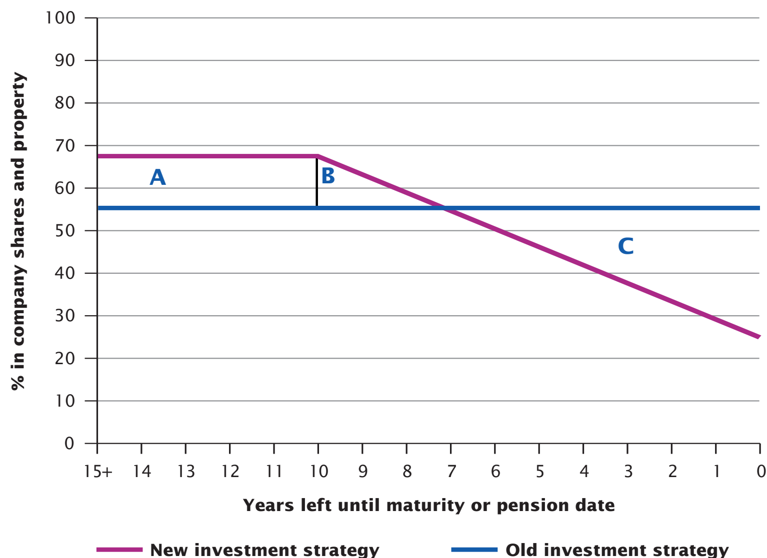
- Around 55% was invested in company shares and property.
- Around 45% was invested in government bonds, other bonds and cash.

The investment returns from company shares and property are potentially higher, but less stable, than from government bonds, other bonds and cash. The investment returns from government bonds, other bonds and cash are potentially lower, but more stable, than from company shares and property.

Since 1 January 2010 each policy has its own investment mix, which varies according to the sub-fund it is in and how long it has left until its maturity or pension date. If your policy doesn't have a maturity or pension date, we explain under question 5 the assumption we have made when setting its investment mix.

Chart 1 shows how we now change the proportion of a policy invested in company shares and property as the policy gets closer to its maturity or pension date.

Chart 1:
The approximate proportion of the Royal London sub-fund invested in company shares and property under our old and new investment strategies



Area A shows the period when the proportion invested in company shares and property is higher than under our old investment strategy.

Area B shows the period when we start to reduce gradually the proportion invested in company shares and property. However, during this time the proportion is still higher than under our old investment strategy.

Area C shows the period when we continue to reduce the proportion invested in company shares and property to a lower level than under our old investment strategy.

How we are changing your policy's investment mix depends on how long your policy currently has left until its maturity or pension date. We show this in Table 1.

By your policy's maturity or pension date we currently expect to have:

- reduced the proportion invested in company shares and property to around 25%, and
- increased the proportion invested in government bonds, other bonds and cash to around 75%.

If your policy has under two years left until its maturity or pension date, we are reducing the proportion invested in company shares and property in two stages.

- We reduced it to around 35% on 1 January 2010.
- We intend to reduce it to around 25% in early 2011.

All these proportions will also change from time to time as a result of our investment decisions and changes in investment markets. However, we expect changes to be gradual.

4 How might the changes affect my policy's value at its maturity or pension date?

We are not changing the way we decide policy values and final bonuses. Your policy's value still depends on how its *asset share* grows and the amount of *smoothing* we apply. How your policy's *asset share* grows depends on the investment returns we add, which in turn depend on the policy's investment mix.

The investment returns we add to your policy's *asset share* for 2010 and later years will now vary according to:

- the sub-fund the policy is in, and
- how long the policy has left until its maturity or pension date.

This means that the changes will affect your policy's *asset share* and therefore its value when the benefits become due. We cannot tell exactly how much the changes will affect them as they depend on future investment returns and the amount of *smoothing* we apply.

However, we expect that policy values for almost all policies in the *Royal London sub-fund* at their

Table 1: How we're changing your policy's investment mix

How long your policy currently has left until its maturity or pension date		
More than 10 years left	**7 to 10 years left**	**Fewer than 7 years left**
We have **increased** the proportion invested in company shares and property from around 55% to around 65%. We show this in area A of chart 1. We will gradually **reduce** this proportion each year in the 10 years before the maturity or pension date. We show this in areas B and C of chart 1.	We have slightly **increased** the proportion invested in company shares and property. We show this in area B of chart 1. We will gradually **reduce** this proportion each year until the maturity or pension date. We show this in area C of chart 1.	We have **reduced** the proportion invested in company shares and property. We show this in area C of chart 1. We will gradually **reduce** this proportion further each year until the maturity or pension date.
We have **reduced** the proportion invested in government bonds, other bonds and cash from around 45% to around 35%. We will gradually **increase** this proportion each year in the 10 years before the maturity or pension date.	We have slightly **reduced** the proportion invested in government bonds, other bonds and cash. We will gradually **increase** this proportion each year until the maturity or pension date.	We have **increased** the proportion invested in government bonds, other bonds and cash. We will gradually **increase** this proportion further each year until the maturity or pension date.

maturity or pension date will be broadly similar to what they would have been under the alternative change to our investment strategy that we would otherwise have needed to make. Only if we experience extreme investment markets would we expect the changes to our investment strategy to affect policy values substantially.

If your policy has a guaranteed minimum benefit, the policy's value at its maturity or pension date will not be less than that amount, even if its *asset share* at that date is lower. This removes some of the risks associated with poor investment returns. The more likely it is that your policy's *asset share* will be lower than its guaranteed minimum benefit at its maturity or pension date, the less likely it is that the changes we have made will affect your policy's value at that date.

Here is some more information about the possible impact of the changes on your policy's value according to whether it currently has:

(a) more than 7 years left until its maturity or pension date, or

(b) fewer than 7 years left until its maturity or pension date.

(a) More than 7 years left until its maturity or pension date

If your policy has more than 7 years left until its maturity or pension date, a higher proportion of it is now invested in company shares and property.

This means that, until it has 7 years left until its maturity or pension date, its investment returns should be higher, but less stable, than they would have been under our old investment strategy. It also means that, during those years, your policy's *asset share* is likely to fluctuate more than it would have done under our old investment strategy.

When your policy has fewer than 7 years left until its maturity or pension date, we will have:

- gradually reduced the proportion invested in company shares and property to a lower level than it would have been under our old investment strategy, and
- gradually increased the proportion invested in government bonds, other bonds and cash to a higher level than it would have been under our old investment strategy.

This is what this means.

- Your policy's investment returns in the last 7 years before its maturity or pension date should be more stable (but may also be lower) than they would have been under our old investment strategy.
- Your policy's *asset share* and projected value at its maturity or pension date should fluctuate less than they would have done under our old investment strategy.
  We believe that this will help you plan your finances better as your policy gets closer to its maturity or pension date.

The longer your policy has until its maturity or pension date the longer it will have when the proportion invested in company shares and property will be higher than it would have been under our old investment strategy. This will tend to increase the likelihood that your policy's *asset share* at its maturity or pension date will be higher than it would have been under our old investment strategy.

(b) Fewer than 7 years left until its maturity or pension date

If your policy has fewer than 7 years left until its maturity or pension date, a higher proportion of it is now invested in government bonds, other bonds and cash.

This is what this means.

- Your policy's future investment returns should be more stable (but may also be lower) than they would have been under our old investment strategy.
- Your policy's *asset share* and projected value at its maturity or pension date should fluctuate less than they would have done under our old investment strategy. We believe that this will help you plan your finances better as your policy gets closer to its maturity or pension date.

5 My policy doesn't have a maturity or pension date. What assumption have you made when setting its investment mix?

If your pension policy doesn't have a pension date, we have set its investment mix assuming that you will take your pension benefits on your 65th birthday. You can still take your pension benefits at any time between ages 55 and 75.

If your policy is not a pension policy and doesn't last for a fixed number of years, we have set its investment mix after estimating when we will pay the policy value. We have based this on the dates at which we have paid the policy values of similar policies.

6 Why are some pension policies now invested entirely in government bonds, other bonds and cash?

A small number of pension policies have a guaranteed minimum benefit that is very likely to be higher than the policy's *asset share* at its pension date, regardless of investment returns between now and then. If you have one of these policies, we are writing to you separately to tell you about this in more detail.

The guaranteed minimum benefit on such a policy might be, for example, the sum assured plus the annual bonuses we've already added. We have now invested these policies entirely in government bonds, other bonds and cash.

If, as we expect, such a policy's guaranteed minimum benefit is higher than its *asset share* at its pension date, it will be the amount with which the policyholder can buy their pension benefits. Such policies would not gain from being invested in company shares and property as, regardless of how well these investments performed, the policy's value at its pension date would still be the guaranteed minimum benefit. However, if investments in company shares and property performed poorly, our old investment strategy meant that other policies in the *fund* may have had to further subsidise the policies receiving the guaranteed minimum benefit.

Our new investment strategy reduces the likelihood of other policies in the *fund* having to further subsidise the policies receiving the guaranteed minimum benefit.

7 Why have you made these changes?

We have made these changes for several reasons.

- Generally, over the long term, investment returns from company shares and property are higher but less stable than those from government bonds, other bonds and cash.

  When a policy is further from its maturity or pension date, the stability of returns is less important than maximising returns. As the policy gets closer to its maturity or pension date, stability of returns becomes more important so that the policy's projected value at its maturity or pension date fluctuates less.

  Our new investment strategy reflects this and we believe that it is in the best interests of most policyholders and will help them to plan their finances better as their policies get closer to their maturity or pension dates.

- Some sub-funds are financially stronger than others. A financially stronger sub-fund is one that has a higher proportion of *working capital* and is better able to withstand the impact of poor investment returns. The *Royal London sub-fund* is one of the stronger sub-funds. We believe that it is fair and appropriate for the financial strength of a sub-fund to be reflected in its investment mix, with:
  - the stronger sub-funds having a higher proportion invested in company shares and property, and
  - the weaker sub-funds having a higher proportion invested in government bonds, other bonds and cash.

  By increasing the proportion that the weaker sub-funds have in government bonds, other bonds and cash, we have reduced, but not removed, the likelihood of the *Royal London sub-fund* needing to subsidise the weaker sub-funds. We believe that this is fairer.

- By changing the investment mix we have reduced the amount of capital that we need to hold. This helps us to manage the *fund* more effectively, which should result in better investment returns for our with profits policyholders.

- A small number of pension policies have a guaranteed minimum benefit that is very likely to be higher than the policy's *asset share* at its pension date regardless of investment returns between now and then. We have now invested these policies entirely in government bonds, other bonds and cash, which has also reduced the amount of capital that we need to hold. This helps us to manage the *fund* more effectively, which should result in better investment returns for our with profits policyholders.

8 What steps did you take before you decided to change your investment strategy?

This is what our Board of Directors did before changing our investment strategy.

The Board considered carefully all the implications of the changes to our investment strategy to ensure our policyholders are treated fairly, in particular:

- the reduced likelihood of some policies having to further subsidise the guaranteed minimum benefits of other policies

- the reduced likelihood of the *Royal London sub-fund* having to subsidise the weaker sub-funds
- the reduced variability in policy values that results from varying a policy's investment mix according to how long it has left until its maturity or pension date, and
- the likely impact on a policy's value at its maturity or pension date.

In considering the likely impact on policy values, the Board compared many possible policy values for a large number of different specimen types of policies. It did this under the new investment strategy, and the investment strategy we would otherwise have needed to follow. The comparisons included policies with:

- different lengths of time to their maturity or pension date, and
- different likelihoods of the guaranteed minimum benefit being higher than the policy's *asset share* at its maturity or pension date.

The Board consulted:

- our legal advisers
- our With Profits Actuary, and
- the Independent Person who provides advice to the Board on the way we manage the *fund*.

It took their views into account when deciding on the changes to our investment strategy. The Board also notified the Financial Services Authority, which did not raise any objections.

Taking all of this into account, the Board concluded that we can make the changes and that, overall, the changes treat policyholders fairly.

9 Who do I call if I have further questions?

If you have any further questions, please call us on 0845 602 6403 between 8am and 6pm Monday to Friday, except bank holidays.

Part C
Meanings of words

Asset share

We explain this under question 1 in part B on page 1.

Fund

We explain this under question 1 in part B on page 1.

Royal London

The Royal London Mutual Insurance Society Limited.

Royal London sub-fund

The sub-fund that contains all policies taken out with *Royal London*, including Scottish Life branded policies taken out after 30 June 2001, and Ordinary Branch policies taken out with Refuge Assurance plc. Ordinary Branch policies include all pension policies as well as life policies which, when taken out, had premiums payable in a lump sum, or every four, six or twelve months, or monthly from a bank account.

Royal London with profits fund

We explain this in the answer to question 1 in part B on page 1.

Smoothing

The way in which we reduce the impact on policy values of the variation (sometimes quite a large variation) in the investment returns earned from year to year.

Working capital

The amount by which the investments of the *fund* or a sub-fund are greater than the amounts we have set aside to pay future policy benefits to policyholders.

If you would like a copy of this leaflet in large print, please call us on 0845 602 6403

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MKT-HYP-Q&A-RL 03/2010 5753