Royal London

The changes to the investment strategy

of the Royal London with profits fund

For policyholders in the UFOB sub-fund

Part A
Introduction

This leaflet explains:

- the changes we are making to the investment strategy of the *Royal London with profits fund*
- what the changes mean for your policy, and
- why we are making 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 are making 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 (in your case United Friendly). Your policy is in the *UFOB 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. We also take off a *transfer to the working capital of the Royal London sub-fund*.
- 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 are you making 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.

- From 1 January 2011 each policy in the *UFOB sub-fund* will have its own investment mix, which will vary 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. From 1 January 2011, for policies in the *UFOB sub-fund,* it will also vary according 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.

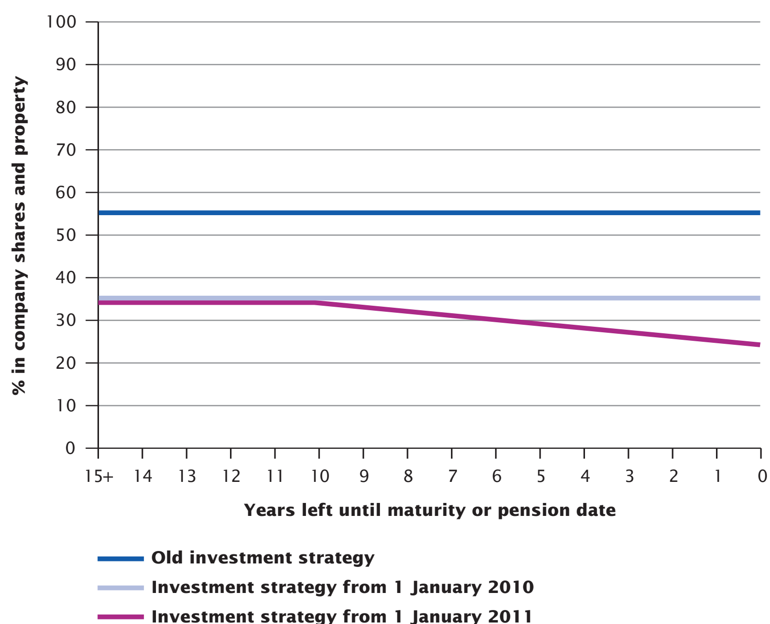
Since 1 January 2010 each policy has its own investment mix, which varies according to the sub-fund it is in and how long it has left until its maturity or pension date. If your policy doesn't have a maturity date, we explain under question 5 the assumption we have made when setting its investment mix.

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.

This is how we changed your policy's investment mix on 1 January 2010.

- We reduced the proportion invested in company shares and property from around 55% to around 35%.
- We increased the proportion invested in government bonds, other bonds and cash from around 45% to around 65%.

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



From 1 January 2011 we will vary your policy's investment mix according to how long the policy has left until its maturity or pension date. Table 1 shows what we currently intend to do.

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%.

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.

Table 1: How we currently intend to change your policy's investment mix from 1 January 2011

How long, at 1 January 2011, your policy has left until its maturity or pension date	
More than 10 years left	**Fewer than 10 years left**
The proportion invested in company shares and property should not change until 10 years before your policy's maturity or pension date. We will then gradually **reduce** the proportion each year until the maturity or pension date.	On 1 January 2011 we will further **reduce** the proportion invested in company shares and property. The proportion will depend on how long your policy has left until its maturity or pension date. We will then gradually further **reduce** the proportion invested in company shares and property each year until the maturity or pension date.
The proportion invested in government bonds, other bonds and cash should not change until 10 years before your policy's maturity or pension date. We will then gradually **increase** the proportion each year until the maturity or pension date.	On 1 January 2011 we will further **increase** the proportion invested in government bonds, other bonds and cash. The proportion will depend on how long your policy has left until its maturity or pension date. We will then gradually **increase** the proportion invested in government bonds, other bonds and cash each year until the maturity or pension date.

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 which sub-fund the policy is in. From 1 January 2011 they will also vary according to 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.

Reducing the proportion of your policy invested in company shares and property means that, on average over the longer term, it is likely that your policy's *asset share* and value at its maturity or pension date will be lower than it would have been under our old investment strategy.

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.

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

If your policy is a whole of life policy (so it doesn't last for a fixed number of years), we have set its investment mix after estimating when we will pay the policy value.

- If you are still paying premiums, we have used the date from which you no longer need to pay them.
- If you have finished paying because you have paid all the premiums due and we have told you that you no longer need to pay them, we have used an estimated date based 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.

- Some sub-funds are financially weaker than others. A financially weaker sub-fund is one that has a lower proportion of *working capital* and is less able to withstand the impact of poor investment returns. The *UFOB sub-fund* is one of the weaker sub-funds. Under our old investment strategy the *UFOB sub-fund* benefited from good investment returns to the same extent as the other sub-funds. However, in the event of poor investment returns, the stronger *Royal London sub-fund* may have had to subsidise the *UFOB sub-fund*.

  Each sub-fund now has its own investment mix, with the weaker sub-funds having a higher proportion invested in government bonds, other bonds and cash. This has reduced, but not removed, the likelihood of the *Royal London sub-fund* needing, in exceptional circumstances, to subsidise the *UFOB sub-fund*. We believe that this is fairer, although it also means that policyholders in weaker sub-funds won't benefit to the same extent as before from the potential good investment returns of company shares and property.
- 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.
- 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.
- Investment returns on policies in the *UFOB sub-fund* should be more stable (but are also likely to be lower) under our new investment strategy than they would have been under our old investment strategy. This is because we have increased the proportion invested in government bonds, other bonds and cash. From 1 January 2011 we will start to increase this proportion further as a policy gets closer to its maturity or pension date.

This means that a policy's projected value at its maturity or pension date should fluctuate less than it would have done under our old investment strategy.

We believe that this will help policyholders to plan their finances better as their policies get closer to their maturity or pension dates.

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.

Transfer to the working capital of the Royal London sub-fund

This transfer is the same transfer that was previously made to shareholders of United Assurance Group plc. *Royal London* acquired the right to this transfer when it bought the shares of United Assurance Group plc.

UFOB sub-fund

The sub-fund that contains Ordinary Branch policies taken out with United Friendly Insurance plc. This includes 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.

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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Royal London Group consists of The Royal London Mutual Insurance Society Limited and its subsidiaries. All of the following companies are authorised and regulated by the Financial Services Authority (FSA). The Royal London Mutual Insurance Society Limited (FSA registration number 117672) provides life assurance and pensions and is a member of the Association of British Insurers. Royal London Savings Limited (FSA registration number 191237) provides the Individual Savings Account. Royal London Unit Trust Managers Limited (FSA registration number 144037) provides unit trusts.

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