A change to the investment strategy

of the Royal London with profits fund

For policyholders with pension policies with a guaranteed minimum benefit that is very likely to be higher than the policy's asset share at its pension date

Part A
Introduction

This leaflet explains:

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

We have also made other changes to our investment strategy, which do not affect your policy.

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 3.

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* has several sub-funds. The sub-fund that your with profits policy is in depends on the type of policy it is and the company you took it out with.

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 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 change have you made to the investment strategy?

Before 1 January 2010 around 45% of your policy was invested in government bonds, other bonds and cash. The rest was invested in company shares and property.

Since 1 January 2010 all of your policy has been invested in government bonds, other bonds and cash. The returns from these types of investment are potentially lower, but more stable, than from company shares and property.

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.

3 What does this change mean for my policy?

Your policy has a guaranteed minimum benefit (for example the sum assured or basic pension plus the annual bonuses we've already added) that is significantly higher than its *asset share*. If, as we expect, it is still higher at its pension date, it will be the amount with which you can buy your pension benefits.

We think it is very likely that your policy's guaranteed minimum benefit will be higher than its *asset share* at its pension date, regardless of investment returns between now and then. So, on 1 January 2010, we invested 100% of the policy in government bonds, other bonds and cash. On 31 December 2009 it was around 45%.

Before we made this change, in the event of extremely good investment returns from company shares and property until your policy's pension date, there was a small chance that your policy's *asset share* might have increased so much that, at that date, it was higher than the guaranteed minimum benefit.

This means that the amount with which you could buy your pension benefits at your pension date might have been higher than the guaranteed minimum benefit. We believe that the chance of this happening was very small. By no longer investing any of your policy in company shares and property, we have made this small chance even smaller.

To compensate you for this, we have increased your policy's guaranteed minimum benefit by a small amount. You will see this on the yearly statement that we'll send you in the next few months. It will be part of the annual bonus that we add to your policy for 2009.

4 Why have you made this change?

Under our old investment strategy any poor performance of company shares and property would mean that other policies in the *fund* may have had to subsidise, to an increased extent, policies like yours that are very likely to receive the guaranteed minimum benefit.

Our new investment strategy reduces the likelihood of this happening. It also enables us to reduce the capital that we need to hold. This helps us to manage the *fund* more effectively, which should result in better investment returns for our other with profits policyholders, while still paying the guaranteed minimum benefit on policies like yours.

We believe that our new investment strategy is fairer.

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

We have also made other changes to our investment strategy, which do not affect your policy. This is what our Board of Directors did before changing the 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 subsidise the guaranteed minimum benefits of other policies
- the likely impact on a policy's value at its 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 pension date, and
- different likelihoods of the guaranteed minimum benefit being higher than the policy's *asset share* at its 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.

6 Who do I call if I have further questions?

If you have any further questions about this change, or the other changes we have made to our investment strategy, 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.

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

Royal London Group
Royal London House, Alderley Road, Wilmslow, Cheshire, SK9 1PF, United Kingdom

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.

www.royal-london.co.uk