Guide to investing in the Life Fund

Purpose

This document summarises where your money is invested and how we currently work out plan values. We may alter our approach to respond to changes in the business or economic environment or to protect the interests of planholders - if we do, we'll let you know in your yearly statement.

What is the Life Fund?

Your savings, along with those of other members, go into the Life Fund. The Fund also contains money that's been built-up over a number of years, which exceeds the amount we expect to pay out to existing members. This part is known as the estate. It's the working capital of the business and isn't set aside for particular purposes or members. Current and future members have an interest in the estate and these interests may vary over time.
The estate gives greater capacity to protect plan values and increase investment flexibility, which creates opportunities for higher growth potential.
It also enables us to meet exceptional costs and enhances our ability to undertake Police Mutual Group activities. There's no established practice of the estate being distributed to certain groups or members, or giving certain groups a priority interest.

What does the Life Fund invest in?

We consider carefully how we use the Life Fund. As a mutual we don't have any shareholders. Whilst this means shareholders don't take a share of the profits, it also means that we can't raise additional capital in the same way as companies that are quoted on the stock market. We might also choose to invest parts of the Life Fund, such as the estate, or types of plans, differently if we believed this would help to increase returns, reduce risk, or if it was fairer.

Assets – We invest in the UK and overseas in the form of company shares, bonds, property, commodities and cash. 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 also invest in a range of different assets, so you should get a better spread of investments than if you invest on your own.

In most investment conditions we put between 50% and 60% of the assets linked to each plan 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. However, the risk is higher so we control how much we invest. Sometimes we need to be at the lower end of the range – and, in exceptional conditions, even lower.

Fund performance is reviewed at least four times a year and investment strategy every two years - contact us if you'd like more details on how the Fund is currently invested.

Business activities – The estate supports Police Mutual Group activities, which include providing financial education, funding the Police Mutual Foundation, supporting business ventures such as personal lending, providing capital for subsidiary companies and 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 members and the stability of the Life Fund. You can find details of these activities online in our *Annual Report & Financial Statements.*

How does the Life Fund affect my plan's value?

When you invest you get a share of the Life Fund. Your plan's value is based on this portion and one of the biggest things to affect it is how the Fund's investments have performed. Performance can vary – sometimes the Fund will perform well, but not so well at other times.

To help protect plan values we use 'smoothing'. This is where we aim to even out short-term highs and lows in how the Fund performs by holding 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.

Other important factors that affect your share of the Life Fund are: what you've paid in, how long you invest for, any withdrawals you make, how much we have guaranteed to pay out and deductions such as tax, charges and the cost of the life cover that comes with your plan. (See your *Key Information Document* or *Key Features Document* for details such as the charges that apply.) On the next page we've explained how values are worked out for different types of plans.

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Who makes decisions about the Life Fund and plan values?

The Managing Board is responsible for making sure we take an affordable level of risk and operate the Life Fund in accordance with our *Principles and Practices of Financial Management (PPFM)* to ensure it is managed fairly and effectively.

There is also a With-Profits Committee, which 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 Committee includes non-executive representation and a Chairperson who is independent of the Managing Board. In addition, a With-Profits Actuary is specifically appointed under Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) rules to advise the Managing Board.

Before it makes any decisions that might have a material impact on with-profits planholders, 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 and custom and practice.

If you'd like to know more, a report is made every year to confirm whether the Life Fund has been managed in accordance with the *PPFM*. The report and *PPFM* are available at policemutual.co.uk/about-us/police-mutual-life-fund/.

How are plan values worked out?

Fixed saving term investments

Regular Savings plan / Children's Bond / Moneyspinner / Minimum Low Cost Endowment / Low Cost Endowment / Full Endowment/ Regular Savings plan (without guarantee), although for this plan the guaranteed amount only applies if you die during the term.

At the end of the saving term, or if you die, your plan has a guaranteed payout so you'll always get at least that amount. You may also get a bonus on top because for these plans we use bonuses to distribute any profits made by the Life Fund. Bonuses are calculated to give you your fair share of the Life Fund after smoothing.

We usually decide the bonus rates once a year, but we may have to change them more often in times of uncertain market conditions. For plans that are a combination of tax-exempt and taxable, the bonus rates will be the same.

There are two types of bonus and they work a little differently:

Regular bonuses – We sometimes add these during the saving term. Once added, they are guaranteed at the end of the saving term or if you die. When deciding whether to add one we consider past and potential investment returns, the value of the Life Fund compared 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* or *Low Cost Endowments* 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 saving term, or if you die. 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 your plan's smoothed share of the Fund is worth less than your guaranteed amount.

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.

Cashing in early – If you decide to cash in your plan before the end of the saving term then any guarantee doesn't apply and you're likely to get back less than your share of the Fund. That's because we may not 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%. 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.

Flexible investments with guarantees

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

When your plan reaches a guarantee point, or if you die, the plan pays out at least the guaranteed amount. We may also add a final bonus as a way to distribute any profits made by the Life Fund. This will happen if your plan's share of the Fund is higher than your 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 this. Your share of the Fund depends on investment performance during the time that you invest. At any particular time, and in most conditions, smoothing is applied by considering how the Fund has varied over the previous 26 weeks.

Cashing in before a guarantee point – If you decide to cash in your plan, or transfer out before a guarantee point, we'll add a final bonus if your plan's smoothed share is higher than your guaranteed amount. However, if it's lower, then we may deduct a Market Value Reduction. This is designed to protect the Life Fund and other planholders when market conditions are unfavourable. Final bonuses and Market Value Reductions are calculated for individual plans and change regularly to reflect investment conditions.

Flexible investments without guarantees

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

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 than this. Your share of the Fund depends on investment performance during the time that you invest. At any particular time, and in most conditions, smoothing is applied by considering how the Fund has varied over the previous 26 weeks.

For the *Options ISA, Guaranteed ISA, Guaranteed Investment Bond and Group Personal Pension* we would aim to restrict the difference between the smoothed share of the Fund and the unsmoothed share 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.

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

For more information:

1. Call **01543 441 630**
2. Visit **policemutual.co.uk**