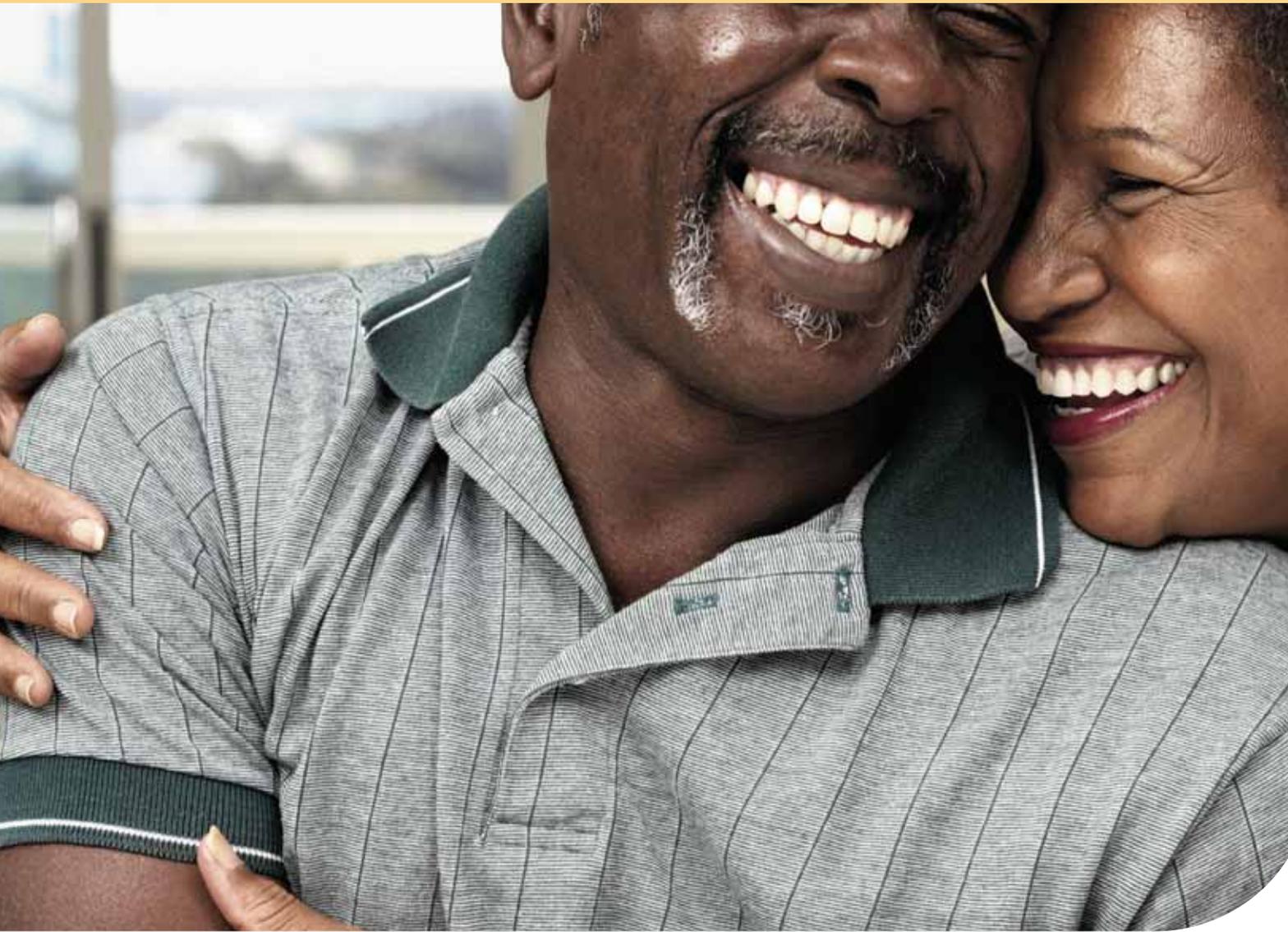


Consumer Friendly PPFM:  
your guide to how we manage the With Profits Sub Fund



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# introduction

This guide explains the main points about investing in the With Profits Sub Fund and contains important information about how the **Protected Investment Bond** and the **Protected Loyalty Bond** work.

**It is an important document so please keep it safe with your other bond documents.**

## important note:

If you need more information about your **Protected Investment Bond** or **Protected Loyalty Bond**, please refer to the Key Features Document and/or other product literature that you received when you took out your bond.

Our approach to managing the With Profits Sub Fund may change in the future, and we will let you know if we make any changes that may significantly affect your investment.

# 1 what is the With Profits Sub Fund?

## summary

The With Profits Sub Fund is an investment fund. We combine your money with that of other investors to form the fund, and manage it on your behalf.

Policies investing in the With Profits Sub Fund are medium to long term investments, which means that you should ideally keep your investment for at least 10 years.

The With Profits Sub Fund provides some stability against the short term ups and downs of the investment markets, by smoothing returns and pooling your money with that of other with profit investors. In this way everyone shares in the profits or losses of the Fund.

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## investment

The With Profits Sub Fund may invest in a wide range of investments including:

- Fixed interest securities and government bonds
- The shares of UK and overseas companies
- Property
- Cash
- Other investments such as currency, commodities or structured investments
- Our own business activities involving the additional assets of the Fund (see section 3).

Different policies in the With Profits Sub Fund invest in these investments in different proportions.

 further information on **how the With Profits Fund is invested** can be found on our website [engagemutual.com/withprofits](https://www.engagemutual.com/withprofits)

## sharing performance

The performance of the Fund is shared out to policyholders in different ways depending on the policy that you have.

For single premium With Profits policies commencing after 31st October 2006 the performance of the Fund is shared out via changes in the price of units allocated to each policy. This applies to the **Protected Investment Bond** and the **Protected Loyalty Bond**.

For all other With Profits policies the performance of the Fund is shared out to policyholders through bonuses.

## guarantees

Unlike many stock market based investments, policies investing in the With Profits Sub Fund provide a guarantee on the minimum amount of money that you will get back. This is explained in section 4 of this guide.

## smoothed returns

Investment returns achieved by the Fund will vary over time and there will be periods when investments may do very well, but other periods when they may perform badly. The With Profits Fund uses a process known as smoothing to help smooth out some of these short term variations in performance.

 further information on **smoothed returns** can be found in the Principles and Practices of Financial Management (PPFM) on our website [engagemutual.com/withprofits](https://www.engagemutual.com/withprofits)

## 2 what affects the overall performance of the Fund?

### investment returns

The investment returns earned by the Fund's assets, after any tax has been paid, will have the biggest impact on the performance of the Fund. The returns on company shares are more variable because they are higher risk investments, and their values tend to go up and down to a greater extent than other assets, such as government bonds, or cash, which can be less volatile. However, historically, over the long term, the returns from company shares tended to provide better returns than cash. Past performance is not a reliable indicator of future results. Your investment may go down as well as up and you may not get back the full amount of your original investment.

### asset mix

Because the investment performance of different types of assets may vary considerably over time, the overall performance of the Fund will depend on the mix of assets that it holds. However, we manage the Fund by notionally allocating differing proportions of each asset class to each group of policies, depending on the type of policy you have. Each policy is then attributed with the investment return earned by these assets.

We monitor the asset mix for the Fund, and for different groups, on a regular basis, and will change the asset mix, depending on:

- The total amount of policy guarantees, and when these guarantees are likely to arise
- Our view of investment market conditions
- The overall financial strength of the Fund (or in other words, the size of the additional assets over and above what is required to meet policyholder benefits and cover other business risks).



further information on **how the With Profits Fund is invested** can be found on our website [engagemutual.com/withprofits](https://engagemutual.com/withprofits)

# Consumer Friendly PPFM: your guide to how we manage the With Profits Sub Fund

## expenses

The expenses of managing the Fund must be paid for out of the Fund's assets. These expenses will typically cover:

- The costs of managing the With Profits Sub Fund
- The ongoing costs of administering existing policies invested in the With Profits Sub Fund
- The costs of setting up new policies invested in the With Profits Sub Fund
- The costs of investing the Fund's assets

For some policies we cover these expenses by making explicit charges against each policy. For others, the expenses are already allowed for in the returns allocated to each policy.

## other factors

The performance of the Fund may also be affected by other business risks that the Fund supports, for example, the costs of meeting any investment guarantees, providing life assurance or writing new business in the Fund. Performance may also be affected by profits or losses arising on policies within the Fund that are not with profits.

# 3 how is the Fund managed fairly and effectively?

## decision making

**engage** Mutual Assurance has a framework in place to ensure that we manage the Fund fairly and effectively, and in accordance with the regulations of the Financial Services Authority.

We produce a document called the Principles and Practices of Financial Management (PPFM) which gives detailed and technical information about how we manage the With Profits Fund.

A subcommittee of the Board of Directors meets on a regular basis to review the progress of the Fund, and ensure that it is managed in accordance with the PPFM. This subcommittee includes non executive representation and is attended by the With Profits Actuary, who is specifically appointed under FSA Regulations, to give advice to the Board of Directors, and ensure that bondholders are treated fairly.

On an annual basis, the Board of Directors and the With Profits Actuary make a report available to bondholders, confirming that the With Profits Sub Fund has been managed in accordance with the PPFM

If the approach to managing the With Profits Sub Fund changes in the future, we will update the PPFM, and we will let you know about any changes that may significantly affect your investment.

 the **Principles and Practices of Financial Management (PPFM)** can be found on our website [engagemutual.com/withprofits](https://engagemutual.com/withprofits)

## investment strategy and additional assets

The investment strategy for the Fund is the responsibility of the Board, but is managed by the Board subcommittee, who recommend how much of the Fund to invest in each type of asset. The investment strategy also takes account of the 'additional assets' in the Fund. These are the assets over and above those required to meet policyholder benefits. The additional assets are used to cover business risks, to cover the cost of providing guaranteed benefits, the costs of any smoothing and to finance the writing of future new business.

The additional assets are not owned by any particular class of policyholder and there is no predetermined target size for the additional assets. However, the Board of Directors will review the progress of the Fund on an annual basis, and confirm that the Fund does not have excess additional assets, which may otherwise be given to existing policyholders.

## closing the fund to new business

The Fund will be kept open to new business providing that new business is expected to be profitable, and is within the Fund's solvency tolerance. If the Fund was closed to new business then a communication would take place to all policyholders, explaining the likely impact on the Fund, and any changes required to the Principles and Practices of Financial Management.

A detailed financial plan would also be submitted for approval by the Financial Services Authority in accordance with the FSA Regulations.

# 4 the Protected Investment Bond and Protected Loyalty Bond

## summary

The **Protected Investment Bond** and the **Protected Loyalty Bond** are types of Single Premium Unitised With Profits Policies.

When you invest in either the **Protected Investment Bond** or the **Protected Loyalty Bond** we allocate a certain number of units to your bond. Units are used to calculate what you have invested into your bond and its value over time. We aim to increase the value of your bond over time by increasing the price of the units.

The return on your investment will depend on the value of the units when you cash in your bond, after allowing for any investment guarantees or smoothing that is applied.

## what are the guaranteed benefits?

On the 5th, 10th or any subsequent 10th anniversary you can cash in your **Protected Investment Bond** or **Protected Loyalty Bond** and receive at least your original investment, less any withdrawals made, even if the fund has fallen in value.

A guarantee is also applied on death at any time while the bond is in force. If you are the sole bondholder your estate will receive either 101% of the units notionally allocated to the bond on the day before death, calculated at the unit price on the day on which death is notified to the Society or; 101% of the original investment less any withdrawals made, whichever is greater.

## what affects the amount I will get back?

The amount you get back will depend on the value of the units when you cash in your bond.

Each week we calculate the price of the units and this will reflect:

- The investment performance of the underlying assets
- The annual management charge and charges for guarantees
- Any miscellaneous profits or losses generated by the overall With Profits Sub Fund
- Taxation.

## investment performance

Your bond currently invests in the Insight Investment **Diversified Target Return Fund**. However, there may be circumstances in the future where **engage** is required to change the investment manager. In these circumstances we will communicate this change to you, along with the reasons for the change.

The Insight Investment DTR fund is a UCITS III structure and derivatives may be used to meet the fund's objectives.

The composition of the Fund and the proportion of each type of investment within the Fund will vary, reflecting changing market conditions. The Fund will gain exposure to one or more of the following asset classes: fixed income, cash, near cash and deposits, equities, property, collective investment schemes, which have as their objective an absolute or target return, commodities and currency and structured products.

If the underlying investments under perform their target levels, or investment conditions change, such that the cost of providing the guarantees exceeds the guarantee charge (see below) that we take from your bond, in the interests of protecting all members in the With Profits Sub Fund we may:

- Increase the charge that we make for providing the guarantees
- Or, change the investment mix of your bond so that a larger proportion is held in more secure assets such as government bonds or cash.

These actions will be subject to the approval of the With Profits Actuary and the Board.

## expenses and charges

As with any investment, there are expenses involved in setting up and administering your bond, and managing the investments. There are also costs in providing the guaranteed benefits. We cover these costs by applying charges to your bond. These are set out in your Key Features document and Policy Conditions.

As described in the section Investment Performance above, there are circumstances where the charge made for providing the guarantees may be increased.

## miscellaneous profits/losses

Miscellaneous profits or losses may arise from the activities of the overall With Profits Fund. For example, profits arising from non profit business. Typically these profits or losses are not attributable to any particular group of policyholders and are shared across the whole Fund.

There are regular investigations to determine whether any miscellaneous profits or losses have arisen, and how these are allocated to bond and policyholders.

# Consumer Friendly PPFM: your guide to how we manage the With Profits Sub Fund

Any allocation of miscellaneous profits or losses will be subject to the approval of the With Profits Actuary and the Board.

Any miscellaneous profits or losses attributable to either the **Protected Investment Bond** or the **Protected Loyalty Bond** will be reflected in the unit price, or via an increase in the number of units allocated.

## smoothing returns

Investments such as stocks and shares can rise and fall in value sharply. Large movements over short periods of time could potentially mean a significant change in the value of your bond in a matter of days or weeks.

In order to protect you from some of the short term volatility, we average the price changes during the previous 26 weeks. This would give you some protection if you happened to cash in some or all of your bond at a time when, for example, stock market performance has been weak. Conversely, if stock market performance has been strong you will not receive the full benefit of this, as a result of the effects of averaging.

We do this by giving your bond two unit prices. One is the **Pure Price** which reflects the actual value of the investments underlying your bond. When you initially make your investment we will allocate units to your bond at the Pure Price.

The other unit price is the **Average Price** which is the average of the Pure Price over the previous 26 weeks. We will use the Average Price to calculate the value of your bond when you cash it in after its first 26 weeks. On partial withdrawal and regular withdrawal the number of units cancelled will be based on the Average Price.

The only exception to the above is when the Pure Price is less than 90% of the averaged price. In this situation, to protect the remaining members of the With Profits Fund, any surrenders or partial withdrawals will be based on the Pure Price.

On notification of death within the first 26 weeks of the bond being in force the Pure Price will be used to value the units. After 26 weeks the Average Price will be used.

It is possible for the Average Price to be lower than the Pure Price, if for example, the market has risen rapidly over a short period of time.

Over the long run, the financial impact on the overall With Profits Fund of smoothing returns is expected to be neutral. If any long term profits arise as a result of smoothing returns, these will be distributed back to bondholders as miscellaneous profits.



## 5 further information

If, when you've read this guide, you would still like further information, our **Principles and Practices of Financial Management (PPFM)** gives more detailed and technical information about how we manage the With Profits Fund. The PPFM is available on request. Please see our contact details below;

If you need more information about your With Profits bond, please refer to the **Key Features Document** and/or other product literature that you received when you took out your bond. Our approach to managing the With Profits Fund may change in the future, and we will let you know if we make any changes that may significantly affect your investment.

If you have any queries or require further information please contact our customer contact centre on;

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