

A guide to how we manage our POIS with-profits fund

Aims of the guide

This guide tells you how we (Family Investments) manage our POIS with-profits fund.

Why this guide is important

Please read this guide if you have a POIS with-profits policy. It gives important information about how your policy works and what you can expect back from it. You may wish to read this guide after you have read your bonus statement, which shows your policy's sum assured and the value of bonuses already allocated to you.

If you have lost your copy of your most recent bonus statement, please get in touch with us on 01273 222 502.

If you decide not to read this guide now, please keep it in a safe place with your other policy documents.

1 Introduction

This document covers the POIS with-profits fund, which is referred to in this guide simply as the POIS Fund. The POIS Fund is managed by us.

The POIS Fund was originally part of POIS Assurance Limited but was transferred to us on 2 April 2002. We stopped putting new policies into the fund shortly after it was transferred and paid £2 million into it to share among the with-profits policies already in the POIS Fund. We keep the POIS Fund completely separate from the rest of our business.

We manage our POIS Fund by following a set of principles and practices which we set out in a document called the Principles and Practices of Financial Management of the POIS Fund.

The Principles and Practices of Financial Management of the POIS Fund (the “PPFM”) is a more detailed document than this guide which sets out only its key points. Principles are shown in blue in this guide. Where there is any conflict between this guide and the PPFM, the terms of the PPFM shall prevail.

What are principles and practices?

Principles are high-level statements that describe our long-term approach to managing our POIS Fund. There are a small number of overriding principles as well as more detailed principles.

Practices are more specific statements which flow from the principles. These describe how we manage our POIS Fund.

We don't expect to change the principles often, but will do so if we think they could lead to you being treated unfairly or if they could stop us managing the fund properly. We must tell you at least three months in advance if changes are to happen. Then you will know how our long-term approach will be changing.

Practices change more often because we need to respond to how the economy is doing and any new rules and regulations. We will publish any changes to practices on our website and let you know about them in the next bonus statement we send you. Then you will know how our approach has changed.

What are the overriding principles?

The sound financial management of our POIS Fund is our main principle since we never want to be in a position where we cannot pay your guaranteed sum assured and any bonuses we have added to your policy. Our other overriding principles are:

- We will pay out all the money in our POIS Fund over time to the policies in the POIS Fund.
- We will aim to avoid holding back more of the profits of our POIS Fund than are needed to ensure sound financial management.
- We will aim to treat to all our POIS policyholders fairly.

- We will aim to be consistent from year to year in the way we calculate bonuses.

2 How we decide how much you receive from your policy

- How much you get depends on the type of with-profits policy you have.
- Your policy document, which is a legal document setting out our obligations and yours, will tell you what type of policy you have. (If you have lost your policy document, please phone us on 01273 222 502).
- Under all POIS with-profits policies, in return for your premiums, we will pay you a guaranteed sum assured. This is usually one lump sum payment which we aim to increase by adding bonuses.
- Your guaranteed sum assured and any bonuses we have added will be paid on the set date or event stated in your policy. The set date is usually the end of the policy's term, called the maturity date. The set event is usually when you die.

3 How we decide bonuses

- We announce bonuses at least once a year. When deciding whether we should pay bonuses, we look at the current financial position of our POIS Fund and forecast how we expect this to change in the future.
- We also calculate something called "asset shares" to help us decide bonuses. This is a calculation which helps us determine how much your policy has contributed to our POIS Fund and how much of the profits of our POIS Fund we should give you. We calculate the asset share of a with-profits policy by:
 - Looking at the premiums you have paid
 - Adding the investment return on these premiums
 - Making deductions to cover the expenses of our POIS Fund, tax and the costs of providing death benefits
 - Adding a fair share of the £2 million we paid into the POIS Fund when POIS became part of us in 2002
 - Adding a fair share of other profits or losses in our POIS Fund.

Annual bonuses

- Annual (or reversionary) bonuses are set by taking into account what our POIS Fund can afford to pay now and in the future.
- Because future investment returns are expected to be low we are unlikely to increase the current annual bonus rate in the future.
- The bonus we pay in the future may decrease if we don't think our POIS Fund can afford it.
- Once an annual bonus has been added to your policy, however, we will not take it away.

Interim bonuses

- If you make a claim between dates on which we've paid an annual bonus, our current practice is to add an interim bonus too. This makes up for some, or all, of the expected annual bonus earned since the last one.

Final bonuses

- A final (or terminal) bonus may be paid to you when you take the money from your policy.
- If your sum assured, and any annual bonus we have already given you, is similar to your policy's asset share we may not add any final bonus. We are more likely to add a final bonus if your sum assured and any bonus we have already given you is less than your policy's asset share.

New Century Savings Plan

- Premiums are normally paid until the end of the policy's term but if you have a New Century Savings Plan policy you only pay premiums for the first ten years of the policy's term. Because of this difference, we decide bonuses for New Century Savings Plan policies in a slightly different way than described above for other with-profit policies. The main differences are:
 - In the first ten years we decide annual and interim bonuses in the same way as for other with-profit policies.
 - At the end of ten years a further (or special) bonus may be paid to you. We decide the amount of this special bonus in the same way we decide a final bonus for other policies.
 - The special bonus will be paid to you when you take your money from your policy. If you only take some of your money at the end of ten years then some of the special bonus will be paid and the remainder will be paid when you take the rest of your money.
 - If you do not take all of your money from your policy at the end of ten years we will also continue to announce annual bonuses on your policy. The annual bonuses will take into account the investment returns on the part of the POIS Fund backing your policy. Because of this no more final bonus will be paid to you but the annual bonus may increase (or decrease) in the future.

4 How we decide how much you get if you leave your policy early

- If you don't want to wait until the maturity date we will usually be prepared to pay you an amount before then (a surrender value), but, you will not usually be entitled to any further payments from your policy.
- The surrender value, after all premiums have been paid, for a New Century Savings Plan policy is the guaranteed sum assured and any bonuses we have added, including any special bonus.
- For other with-profits policies (including New Century Savings Plan policies that surrender before all the premiums have been paid) the surrender value is based on the value of the guaranteed sum assured and bonuses being given up. If your policy would have been likely to have received a final bonus on maturity or a special bonus at the end

of the premium paying term we will allow for this in calculating your surrender value. Because you will have stopped paying premiums and are getting the money before the maturity date, however, your surrender value may be significantly less than your guaranteed sum assured and bonuses.

5 How we cushion you from the ups and downs of the stock market

- Historically, the value of shares and property has risen more than government bonds and cash over long periods such as 20 years. But the return has also been more variable. One year an investment may do very well, the next it could fall in value.
- We aim to cushion you against large falls by investing the majority of our POIS Fund in fixed interest securities. We also aim to smooth out returns and try to avoid paying big bonuses in one year and very small bonuses in the next year.

6 How we decide the investment strategy

- Our POIS Fund invests in a mix of equities (shares), property, fixed-interest type assets (such as government bonds and corporate bonds), and cash. These different investment types are called assets.
- We decide what to invest in and how much to invest by looking at:
 - The money we need to pay your benefits as they fall due
 - What investments we need to ensure the sound financial management of our POIS Fund
 - The amount of risk that our POIS Fund can take on
 - Statements that have been made to you about the investments of the POIS Fund.
- We control the risks that come with investing by setting limits on the amount we invest in equities and corporate bonds.
- We review our investment strategy annually.

Our current investment strategy

- The POIS Fund sold most of its equities between 1998 and 2001 and invested mainly in fixed-interest assets. This was done to keep the fund financially sound since it would otherwise have been threatened by the large falls in stock markets, such as those observed in 2008, and the decline in interest rates to historically low levels.
- The POIS Fund does not accept new policies and so the time remaining until we have to pay all of the guaranteed sums assured, and bonuses already added, is reducing each year. This means we will need to keep a large part of the POIS Fund in fixed-interest investments for the foreseeable future. This reduces risk but may limit the returns you receive.
- This is particularly true for New Century Savings Plan policies that remain invested in the POIS Fund after the ten year premium paying term. Because of the high guarantees these policies will be invested in short term deposits and this will be reflected in the annual bonus rate for these policies.

7 How we manage exposure to business risk

- Our POIS Fund is exposed to the risk that it will not have enough money to pay all guaranteed amounts when they are due. We manage this risk through our investment strategy as described above.
- In addition to investment risk, our POIS Fund is exposed to the business risks associated with maintaining the policies of the fund. Any profits or losses from these risks will be shared among the with-profits policies.
- In the unlikely event that the money in our POIS Fund is not enough to pay your guaranteed sum assured and the bonuses we have added, we may have to reduce what we pay to you to below this amount.
- We keep the POIS Fund separate from the rest of Family's business so you are protected from the risks in the rest of our business.

8 How we decide charges and expenses

- The most we can take from the Fund each year to cover our administration expenses was agreed with POIS Assurance Limited before the POIS Fund was transferred to us. We will continue to follow this agreement in the future.
- The amount we currently take is the maximum we agreed. It is a fixed amount per policy. The fixed amount increases with inflation each year.
- We also take from the fund the fees our investment managers charge for managing the assets of the POIS Fund.

9 What the estate is and how we manage it

- Some with-profits firms have what is known as an estate. This is a pot of money that provides working capital for the fund and supports its operation
- As our POIS Fund does not accept new policies, we aim to ensure a fair and orderly distribution of all its assets, over the remaining lifetime of the policies in our POIS Fund.
- We do this by adding any surplus in our POIS Fund to the asset shares we calculate.
- By taking this approach we aim to ensure that any estate is run down to zero over time, broadly in line with the run off of the business in our POIS Fund.
- If the number of policies in our POIS Fund falls below 1000 we may stop managing it as a separate fund. If we do this we will give any remaining surplus to the remaining with-profit policyholders as one-off final bonus payment.

10 How to find out more

You can get a more detailed technical description of how we manage our POIS with-profits fund in our Principles and Practices of Financial Management of the POIS Fund. You or your adviser can ask us for a copy (our details are below), or you can read it on our website (www.pois.co.uk).

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