

Sun Life Assurance Company of Canada (U.K.) Limited

# The Directors' Annual Report to Plan-holders

Confederation Life With-Profits Fund in 2015

## Introduction

This annual report explains how we managed the Confederation Life With-Profits Fund in 2015. In particular, it considers the conversion to non-profit status, which took effect in March 2015.

Throughout the remainder of this report we refer to the Confederation Life With-Profits Fund as the 'With-Profits Fund' or 'the fund'.

In preparing the report we have taken advice from our With-Profits Actuary. A separate statement from our With-Profits Actuary is included at the end of this report.

If you would like a copy of the Principles & Practices of Financial Management ("PPFM") or the Consumer Guide which provides a briefer explanation of how we manage the fund, please call us on 0345 072 0223 (or 01256 841414 from a mobile phone) and we will send you copies of these documents.

## Summary

The Directors considered the advice and reports of the With-Profits Committee and the With-Profits Actuary and are satisfied that for the financial year 2015:

- The With-Profits Fund was managed in line with the PPFM for the period until 31 March 2015 when the plans were converted to Non-Profit.
- The use of management discretion was consistent with the PPFM framework.
- There has been an appropriate degree of protection for all plan-holders and their rights, interests and expectations have been properly taken into account as described in the PPFM.
- Plan-holders have been treated fairly and where there are competing or conflicting interests and expectations of different groups of plan-holders, the Directors have complied with the PPFM.

## Investment management 1 January 2015 to 31 March 2015

The net investment return (after allowing for tax and investment expenses) earned by the With-Profits Fund was 3.8% in the quarter (equivalent to 16.1% per annum). The main drivers behind this performance were falling market yields and reducing credit spreads that increased the value of the fund's fixed interest assets.

The fund was invested in fixed interest assets and cash (approximately 41% in government bonds, 59% in company bonds and 0% in cash and short-term investments at the

beginning of the year). We monitored the investment holdings each month to ensure the investment mix remained appropriate.

We had a limit on the proportion of low credit-rated company bonds in the fund. At the beginning of the year, these bonds comprised 4% of the fund, which complies with the maximum permissible for the fund of 5%.

In February, the investment guidelines for the fund were suspended to allow the fund to transition to the post-conversion government bond strategy and lock into attractive conversion terms.

## Management of payouts

Claims from 1 January 2015 to 31 March 2015 were paid using the annual and terminal bonus scales that were effective from 1 January 2015.

The plans in force on 31 March 2015 were converted to Non-Profit on this date, and the annual and terminal bonus scales were replaced by bonus scales that are guaranteed and will not change in future. Converted plans that become claims from 1 April 2015 are paid using the guaranteed annual bonus scale, which is guaranteed at a slightly lower level than before conversion, and a guaranteed terminal bonus scale that is guaranteed at the same level as before conversion.

## Management of expenses 1 January 2015 to 31 March 2015

In line with the PPFM, we continued to charge expenses at the maximum level allowed by the 1994 court approved scheme of transfer.

## Revisions to the PPFM over 2015

We did not make any changes to the PPFM.

## Report of the With-Profits Actuary of the Confederation Life With-Profits Fund to the with-profits plan-holders

The Financial Conduct Authority Handbook of Rules requires an actuary appointed to perform the With-Profits Actuary function for a firm to report to the firm's with-profits plan-holders as to whether the annual report of the firm and the discretion exercised by the firm in respect of the period covered by the report may be regarded as having taken the interests of the with-profits plan-holders into account in a reasonable and proportionate manner.

This is my report for the three month period ended 31 March 2015. In producing this report, I have based my opinion on the information and explanations provided to me by the Sun Life Assurance Company of Canada (U.K.) Limited ("the Company"), having regard to the Principles and Practices of Financial Management (PPFM) of the Confederation Life With-Profits Fund. I have also had regard to the relevant Technical Actuarial Standards issued by the Financial Reporting Council.

I am satisfied that the Company has complied with the principles and practices set out in the PPFM for the three month period ended 31 March 2015. Moreover, I am satisfied that the Company's report and exercise of discretion over this period may be regarded as having taken the with-profits plan-holders interests into account in a reasonable and proportionate manner.

The fund was converted from with-profits to non-profit benefits with effect from 31 March 2015, and thus from this date the fund ceased to exist.

As With-Profits Actuary I reported and opined separately that the terms of this conversion were in all respects fair to the with-profits plan-holders.

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With-Profits Actuary