

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

# The Directors' Annual Report to Plan-holders

SLFC Assurance UK With-Profits Fund in 2016 and January 2017



Sun Life Financial  
of Canada

## Introduction

This will be the final annual report we provide because we converted the policies in the SLFC Assurance UK With-Profits Fund to non-profit from 1 February 2017.

This annual report explains how we managed the SLFC Assurance UK With-Profits Fund through 2016 and up to the date of conversion. In particular, it considers:

- The conversion to non-profit status.
- Whether the operation of the SLFC Assurance UK With-Profits Fund during 2016 and January 2017 was compliant with the Principles & Practices of Financial Management ("PPFM").
- How we used our management discretion when making key decisions during 2016 and January 2017, and whether the way in which management discretion was exercised was consistent with the PPFM.
- Whether plan-holders' expectations have been addressed appropriately.

Throughout the remainder of this report we refer to the SLFC Assurance UK With-Profits Fund as the 'With-Profits 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 PPFM referred to in this report or the Consumer Guide which provides a brief explanation of how we managed the fund, please call us on 0345 605 2323 (or 01242 663 604 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. They are satisfied that for the 13 months ended 31 January 2017:

- The With-Profits Fund was managed in line with the PPFM.
- 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 have been competing or conflicting interests and expectations of different groups of plan-holders the Directors have complied with the PPFM.

## Investment management

The Fund was invested in fixed interest assets and cash (approximately 60% in government bonds, 40% in company bonds and a small amount in cash). We monitored the investment holdings each month to ensure the investment mix remained appropriate.

The net investment return (after allowing for tax and investment expenses) earned by the With-Profits Fund during 2016 was 14.1%. During January 2017 the return was -2.1%. The main driver behind the 2016 performance was the reduction in market yields that increased the value of the With-Profits Fund's fixed interest assets. In January 2017 market yields reversed, decreasing the value of the With-Profits Fund's fixed interest assets.

## Management of payouts

Claims from 1 January 2016 to 31 March 2016 were paid using the annual and terminal bonus scales that were effective from 1 April 2015. Claims from 1 April 2016 to 31 January 2017 were paid using the annual and terminal bonus scales that were effective from 1 April 2016.

## Conversion to Non-Profit

All policies in force on 1 February 2017 were converted to non-profit on this date. Future claim amounts, other than surrender values, were guaranteed from this date. During March 2017 policyholders received a personalised statement setting out the guaranteed benefits that apply at each future date from 1 April 2017 onwards.

## Management of expenses

In line with the PPFM, we continued to charge expenses incurred directly to the With-Profits Fund. We ensured that those expenses not directly incurred were limited to a reasonable increase from those charged in the previous year.

## Revisions to the PPFM

In the 13 months to 31 January 2017 we updated the PPFM practices to clarify that no policies have guaranteed minimum reversionary bonus rates. We did not make any changes to the principles.

## Report of the With-Profits Actuary of the SLFC Assurance UK With-Profits Fund to the with-profits plan-holders

The FCA 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 thirteen month period ended 31 January 2017. In producing this report, I have based my opinion on the information and explanations provided to me by Sun Life Assurance Company of Canada (U.K.) Limited ("the Company"), having regard to the Principles and Practices of Financial Management (PPFM) of the SLFC Assurance UK With-Profits Fund. I have also had regard to the relevant Technical Actuarial Standards issued by the Financial Reporting Council.

The With-Profits Fund was converted from with-profits to non-profit benefits with effect from 1 February 2017 under a Companies Act Scheme of Arrangement, and thus from this date the With-Profits Fund ceased to exist. As With-Profits Actuary I inputted into and opined on the terms of the conversion, including their fairness, and I have also opined that the implementation of the conversion was in accordance with the Scheme of Arrangement.

I am satisfied that the Company has complied with the principles and practices set out in the PPFM for the thirteen month period ended 31 January 2017. Moreover, I am satisfied that the Company's report and its exercise of discretion over the period may be regarded as having taken the with-profits plan-holders interests into account in a reasonable and proportionate manner, including in respect of the new Solvency II regulatory regime which came into force on 1 January 2016.

John A Jenkins

Fellow of the Institute and Faculty of Actuaries

Partner KPMG LLP

With-Profits Actuary

27 March 2017