

# Explanatory Statement

Explanatory Statement for the Scheme of Arrangement between Sun Life Assurance Company of Canada (U.K.) Limited and its SLFC Assurance UK With-Profits Fund Policyholders pursuant to Part 26 of the Companies Act 2006.



Sun Life Financial  
of Canada

Unless otherwise indicated, the statements, opinions and information contained in this Explanatory Statement are correct at 18 November 2016 and reflect the circumstances existing, and the information of which we were aware at that time.

We have not authorised any person to make any representation, whether verbal, written, express or implied, about the Scheme of Arrangement, which is inconsistent with the statements made in this Explanatory Statement. Consequently, if any such representation is or has been made, it should not be relied upon. We have produced this Explanatory Statement to comply with Section 897 of the Companies Act 2006 and it includes information we must provide you with under the terms of the Act.

You should not consider the contents of this Explanatory Statement to provide legal, tax, financial or other professional advice. This Explanatory Statement does not take into account your specific investment objectives, financial situation or particular needs. You should read this Explanatory Statement carefully, and entirely, before deciding how to vote on the resolution to be considered at the Policyholder Meeting. If you need advice on the legal, tax, financial or other matters in connection with the Scheme, you should contact your own professional advisers.

**If you would like this information in large print, in Braille or on a CD please call us on 0345 605 2323 or +44 (0) 1242 663 604 from a mobile phone or from overseas. Our phone lines are open from 8am to 6pm, Monday to Friday.**

We have prepared this Explanatory Statement to tell you about a Scheme of Arrangement we are proposing under Part 26 of the Companies Act 2006. The Scheme creates an agreement between us, Sun Life Assurance Company of Canada (U.K.) Limited (“SLOC”) and our Policyholders in the SLFC Assurance UK With-Profits Fund (the “Fund”).

### The Scheme

The purpose of the Scheme is to convert all Policies in the Fund from With-Profits Policies to Non-Profit Policies with guaranteed future benefits. This is explained on page 6. Policyholders are asked to consider exchanging the risk of variable returns in future for the certainty of fixed returns which will provide guaranteed future benefits. Policyholders would give up the potential for higher bonuses if the Fund performed well in exchange for the certainty of guaranteed returns which are fixed and not affected by future Fund performance.

As the Scheme varies your rights, it must be approved by the required majorities of Policyholders and also by the High Court of Justice in England and Wales. The Court will only consider a scheme if our regulatory bodies (the Financial Conduct Authority and Prudential Regulation Authority) have been consulted and the Court can only approve the Scheme if the required majorities of Policyholders vote in favour of it. We have provided full details on how you can vote on pages 11 to 13 and we encourage you to use your vote.

You should read this Explanatory Statement with the letter from our Chief Executive Officer, the Questions and Answers and the Summary of the Independent Expert’s Report.

### Policies within the SLFC Assurance UK With-Profits Fund

Our records show that you hold a policy in the Fund and so your Policy would be affected by the Scheme. The Fund includes policies with start dates between 1939 and 1990 and during that time there have been several company name changes and fund mergers. You should recognise one of the following companies as the original company from which you bought your Policy:

- Laurentian Life plc
- The Imperial Life Assurance Company of Canada
- Imperial Trident Life Ltd
- The Southampton Insurance Company Ltd
- Trident Life Assurance Company Ltd
- The African Life Assurance Society Ltd

If you do not recognise any of these companies or are unsure, please contact us. A full list of companies is available in our ‘UK Timeline’ in the customer service section of our website [www.sloc.co.uk](http://www.sloc.co.uk).

The Scheme applies to all the policies in the Fund and will affect all Policyholders in a similar way. Not all the policies have a terminal bonus so when we need to refer to those policies we have called them “Trident Policies”. When we need to refer to policies with a terminal bonus we have called them “Imperial Policies”.

If your Policy number starts with ‘24’ then you have a Trident Policy and the Trident specific references apply to you. If your Policy number does not start with ‘24’ then you have an Imperial Policy and the Imperial specific references will apply to you. Your Policy number is shown on the letter you received with this document and your most recent annual statement.

## Timetable

5pm, Wednesday 11 January 2017	Proxy voting forms must be received on-line.
5pm, Thursday 12 January 2017	Proxy voting forms must be received by post.
11am, Friday 13 January 2017	Policyholder Meeting at The Wesley Hotel, 81-103 Euston Street, London, NW1 2EZ. This is convened with the Court's permission for the purpose of considering and voting on the Scheme.
18 January 2017	Proposed date for Court hearing to sanction the Scheme (subject to Policyholders voting in favour of the Scheme).
1 February 2017 – Effective Date	When the Scheme takes effect (subject to Policyholders voting in favour of the Scheme and the Court sanctioning the Scheme).
1 April 2017 – Final Implementation Date	When Guaranteed Annual Increases and Guaranteed Final Increases (where applicable) take the place of existing Reversionary Bonuses and Terminal Bonuses (where applicable).

The times and dates above are based on current expectations and may change. If they do we will add the new times and dates to our website at [www.sloc.co.uk](http://www.sloc.co.uk) (under the 'Latest news' section on the home page) and contact anyone who has told us that they plan to attend the Policyholder Meeting and/or Court hearing.

### Our recommendation

We have explained the benefits and disadvantages of the Scheme on page 9. We recommend the Scheme because we strongly believe it is in the best interests of Policyholders.

We encourage you to have your say by attending the Policyholder Meeting to vote or appointing a Proxy to vote on your behalf.

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# 1. Summary of the Scheme

This section provides summary information from the Scheme document which is a more technical explanation of our proposal prepared for and submitted to the Court. The Scheme document is available on our website at [www.sloc.co.uk](http://www.sloc.co.uk) (under the 'Latest news' section on the home page) or contact us if you would like us to send you a copy.

## 1.1 Purpose

The purpose of the Scheme is to convert the Policies in the Fund from With-Profits Policies, which are entitled through the bonus system to share in the profits from the assets of the Fund, to Non-Profit Policies, which are entitled to future benefits at a level guaranteed on conversion. If approved, on the Effective Date 1 February 2017, we will close the Fund and convert your With-Profits Policy to a Non-Profit Policy. The Scheme will become effective for all Policyholders, including any Policyholders who may have voted against the Scheme or not voted at all.

## 1.2 Rationale

The Fund is currently still viable but there will come a time in the future when it will no longer be practical for the Fund to continue as a with-profits fund. Since we stopped accepting new Policyholders into the Fund in 1990, both the number of Policyholders and the size of the Fund have continued to reduce. As the Fund gets smaller it becomes increasingly difficult to smooth the investment returns and benefits of the Fund and the risk of more volatile benefits for the remaining Policyholders increases. 'Smoothing' is a feature of with-profits funds which aims to guard against short term investment market ups and downs. Converting the Fund will avoid the risk of volatile benefits in the future.

The Fund is invested in an asset type called corporate bonds (loans to companies) and government bonds. The value of these investments is relatively high compared to recent history. Converting the Fund would lock in the value of corporate bond assets for the benefit of Policyholders and avoid the effect of any future unfavourable investment conditions.

## 1.3 Costs

The costs of converting the Fund are partially paid from the Fund's assets. The Scheme has limited these to £480,000

of external costs and £50,000 of internal costs (both net of tax). Conversion costs are relatively fixed and do not depend greatly on how many Policyholders are in the Fund. Converting the Fund now spreads the cost of conversion over the largest number of Policyholders. The costs are being charged to the Fund and whether the Scheme proceeds or not they are not refundable.

## 1.4 Matters unaffected by the Scheme

Your new Non-Profit Policy will have the same basic sum assured and all the bonuses added to date and any settlement options will be maintained. Where your Policy currently guarantees the surrender value of the basic sum assured, this guarantee will continue to apply.

The surrender or net value of bonuses is not currently guaranteed, and we will continue to review these each year in line with any changes to economic assumptions and investment conditions since the Effective Date.

Your current Policy number and the administration arrangements of your Policy will not change. Your Policy will continue to be treated as it is now for UK tax purposes. Any claims in progress before the Final Implementation Date will be settled on the current benefits basis and are unaffected by the conversion.

The conversion will make no material change to SLOC's financial stability.

## 1.5 Future benefits

Your benefits will increase each year by a guaranteed amount. In March 2017 we will send you an individual Endorsement to amend your current Policy Terms and Conditions. The Endorsement will include a statement showing the exact future benefits of your Non-Profit Policy. These benefits are described below.

### Guaranteed Annual Increase

Each year on the policy anniversary after conversion we will add a Guaranteed Annual Increase to your Policy benefits, which will:

- replace the current annual Reversionary Bonus; and
- be set at the same level as the current Reversionary Bonus.

The current Reversionary Bonus for Imperial Policies is 0.5% and for Trident Policies is 4.0%. These percentages will be fixed on conversion and used to calculate the Guaranteed Annual Increase.

To work out Guaranteed Annual Increases we will add the sum assured, Reversionary Bonuses already added and any Guaranteed Annual Increases to date together and multiply this amount by the appropriate set percentage shown above (depending on which type of Policy you have).

#### **Guaranteed Final Increase**

The Guaranteed Final Increase only applies to Imperial Policies; it does not apply to Trident Policies because they have no Terminal Bonus. A terminal bonus is a discretionary bonus on death or when the Policy matures.

When the Policy ends (on death or maturity) we will add a Guaranteed Final Increase to the sum assured plus any Reversionary Bonuses or Guaranteed Annual Increases which have already been added. Any Special Bonuses (applied to selected policies annually up to 2006 under the terms of a 1987 business transfer) will be guaranteed but excluded in the calculation of the Guaranteed Final Increase.

The Guaranteed Final Increase will:

- replace the current discretionary Terminal Bonus; and
- increase every year.

We will set the Guaranteed Final Increase at the same level as the current Terminal Bonus between the Effective Date and the Final Implementation Date.

From the Final Implementation Date to 1 April 2018 we will calculate the Guaranteed Final Increase in the same way as we currently calculate the Terminal Bonus. It will reflect the returns achieved from the Fund up to the Effective Date. It will then increase on 1 April each year.

Your new Non-Profit Policy will provide certainty of guaranteed future benefits

#### **Imperial Policies**

From 1 April 2018, Imperial non-profit benefits will be slightly lower than the 'expected' \* with-profits benefits. This is because the cost of providing guaranteed non-profit benefits is higher than providing discretionary with-profits benefits.

*\*We estimate what 'expected benefits' might be assuming that current market conditions continue. The difference between non-profit benefits and expected with-profits benefits will depend on market conditions on the Effective Date.*

At the point of conversion, if necessary, the Scheme will limit any reduction in Policy claim value (on death or maturity) to a maximum of 10% of the expected benefits. If you take your Policy benefits in 25 years' time or later, the largest possible reduction you will get due to the conversion is 10%. If you take your benefits earlier than this, the largest possible reduction is on a sliding scale from 10% in 25 years' time down to zero if you take your Policy benefits straight after the conversion. This feature ensures that your reduction in benefits due to the conversion is always fair.

We have provided a projection of benefits on page 10 to compare Imperial non-profit benefits with expected benefits for a sample policy.

#### **Trident Policies**

Trident Policies have a Reversionary Bonus and do not have a Terminal Bonus. At conversion the Reversionary Bonus will be replaced with the Guaranteed Annual Increase at 4% each year. This means the Trident non-profit benefits received after conversion will be the same as those expected to be received if the Policy had continued as with-profits and the current 4% reversionary bonus rate remained unchanged.

#### **1.6 What happens if the Scheme is not approved?**

If the Scheme is not approved, we will write to let you know. Your current With-Profits Policy will be unchanged and we will continue to run the Fund as a with-profits fund in accordance with its Principles and Practices of Financial Management.

If we propose another scheme of arrangement within five years of the proposed Effective Date, that is 1 February 2022, we will not charge the Fund with any costs for its preparation or implementation. Going forward from 1 February 2022, the costs of any scheme of arrangement would once again be charged to the Fund.

## 2. Policy Benefits Comparison

The features of the proposed Non-Profit Policy compared to those expected under a With-Profits Policy are as follows:

### Current With-Profits Policy

Sum Assured	<b>Guaranteed</b>
Special Bonuses	<b>Guaranteed</b>
Reversionary Bonuses	<b>Guaranteed</b>
Future Reversionary Bonuses	<b>Not Guaranteed</b> – can rise or fall in future and only become guaranteed once declared.
Future Terminal Bonus (Imperial Policies only)	<b>Not Guaranteed</b> – these may or may not be declared in future.

### Non-Profit Policy

Sum Assured	<b>Guaranteed</b> – no change on conversion.
Special Bonuses	<b>Guaranteed</b> – no change on conversion.
Reversionary Bonuses	<b>Guaranteed</b> – no change on conversion.
Future Guaranteed Annual Increase	<b>Guaranteed</b> – on conversion, at the current level.
Guaranteed Final Increase (Imperial Policies only)	<b>Guaranteed</b> – on conversion, starting at the level that would have been declared in the absence of a conversion, and increasing in each future year.

This table shows:

- with-profits benefits are currently partially guaranteed, that is, the sum assured and any Reversionary or Special Bonuses which have already been declared are guaranteed. Future Reversionary Bonuses and Terminal Bonus are not guaranteed, and will depend on future investment market conditions so they could go up or down.
- non-profit benefits are fully guaranteed, that is, the sum assured, any Reversionary or Special Bonuses which have already been declared. In addition, future annual and final increases (if applicable) are guaranteed which means they will not be dependent on future investment market conditions. Your actual non-profit benefits will be shown in your Endorsement.

### 3. Advantages and Disadvantages for Policyholders

#### **The Scheme provides the following advantages for Policyholders:**

##### **It will provide future certainty**

Your guaranteed benefits will immediately increase. In future, your Policy will increase every year by a guaranteed amount and when your Policy ends (on death or maturity), if you are an Imperial Policyholder, your benefits will increase by an additional guaranteed amount which will also be fixed at the point of conversion. Your future benefits cannot fluctuate because they will no longer depend on market conditions.

##### **It will lock in the value of current investment gains**

The Fund is invested in corporate bonds (loans to companies) and government bonds. The value of these investments is currently relatively high (when compared to recent history). By converting the Fund now, your Policy will lock in the value of these investment gains and will not be adversely affected by any future unfavourable investment market conditions.

##### **It will spread the cost of the conversion process fairly**

The costs of converting the Fund will be much the same regardless of how many policies are in the Fund at the time of conversion. The costs are partially paid for from the Fund's assets. By converting the Fund now, we can spread the cost of the process over a larger number of policies which would reduce the impact on each individual Policy.

##### **It will remove the risk of more volatile benefits in the future**

As the Fund gets smaller it becomes increasingly difficult for us to smooth the investment returns and benefits of the Fund. 'Smoothing' is a feature of with-profits funds which aims to guard against short term investment market ups and downs. This will become more important as the Fund reduces in size, creating the risk of more volatile benefits in future. By converting the Fund now, we can avoid this risk.

#### **The Scheme provides the following disadvantages for Policyholders:**

##### **You lose any future upside investment potential**

Future non-profit benefits will increase by a guaranteed amount which will be fixed at the point of conversion. They will not benefit from any future favourable investment market conditions which could have resulted in increases in value.

Future with-profits benefits are variable. They could benefit from future favourable investment market conditions which may result in increases in value.

##### **Your Guaranteed Final Increase would be lower than expected Terminal Bonuses (if applicable)**

The reason your Guaranteed Final Increase would be lower than the Terminal Bonus is that the cost of providing guaranteed non-profit benefits is higher than providing discretionary with-profits bonuses. Your non-profit benefits will therefore be lower than the amount you might receive from a with-profits policy assuming that current market conditions continue.

## 4. Projection of Benefits Example - Imperial Policy

We have prepared the following illustration of benefits using a sample Imperial whole of life with-profits policy which started in 1985 ("Sample Policy"). We have based our calculations on fixed market and Fund conditions as if the Fund converted on 31 March 2016. The actual conversion terms will depend on market and Fund conditions on the Effective Date.

The illustration compares the projected expected benefits you might get from a with-profit Sample Policy with those you would get from a non-profit Sample Policy. The potential impact is similar for most endowments and whole of life policies. The values shown would apply on death, and, for endowment policies, on maturity.

The Sample Policy on 31 March 2016 had a guaranteed value of £7,975 (made up of sum assured, Special Bonuses and Reversionary Bonuses). It had a Terminal Bonus of £968 making the total with-profits benefits £8,943. The total non-profit guaranteed benefits on this date are the same but are entirely guaranteed whereas only a proportion of the with-profits benefits are guaranteed. The increase in guaranteed benefits on this date is 12% and there is no reduction in overall benefits.

Overall, the projection of benefits shows that for the Sample Policy:

- On conversion the Sample Policy's guaranteed benefits increase each year.
- The guaranteed benefits after conversion are 12% higher immediately, increasing to 34% after 25 years and continue to increase thereafter.
- Immediately after conversion the non-profit benefits are the same as the expected with-profits benefits.
- In this illustration, the potential reduction in total benefits gradually increases for claims on death or maturity over the next 25 years (up to 1 April 2042) to 5.2%. It then remains at 5.2%.

At the point of conversion, if necessary, the Scheme will limit any reduction in policy claim value (on death or maturity) to a maximum of 10% of the expected benefits.

Time elapsed since conversion (in years)	With-Profits Sample Policy			Non-Profit Sample Policy		
	Sum Assured + Special Bonus + Reversionary Bonus	Expected Future Bonus (Reversionary and Terminal)	Total Expected With-Profits Benefits (based on estimates and assumptions)	Total Non-Profit Guaranteed Benefits	Increase in the Policy's guaranteed elements*	Potential Reduction in Total Benefits** (based on estimates and assumptions)
0-1	£7,975	£968	£8,943	£8,943	12%	0.0%
5	£7,975	£1,391	£9,366	£9,269	16%	1.0%
10	£7,975	£1,837	£9,812	£9,608	20%	2.1%
15	£7,975	£2,309	£10,284	£9,963	25%	3.1%
20	£7,975	£2,805	£10,780	£10,327	29%	4.2%
25	£7,975	£3,329	£11,304	£10,713	34%	5.2%
30	£7,975	£3,879	£11,854	£11,236	41%	5.2%

\* After conversion the Guaranteed Annual Increase and Guaranteed Final Increase replace the Reversionary Bonus and Terminal Bonus. See the Policy Benefits Comparisons on page 8.

\*\*This column compares the total expected With-Profits benefits for the Sample Policy with the total guaranteed Non-Profit benefits.

## 5. Voting

A Scheme is a legal process outlined in Part 26 of the Companies Act. In order for SLOC to implement the Scheme, we need:

- the required majorities (see 5.1.1 below) of Policyholders to vote in favour of the Scheme; and
- the Court to approve the Scheme.

### 5.1 Voting Requirements

#### 5.1.1 Policyholder approval

The Act provides that to succeed the Scheme must be approved by:

- a simple majority – i.e. more than 50% of Policyholders who vote, vote in favour of the Scheme. This majority depends only on the number of Policyholders who vote; and
- a vote by value of Policies. Those Policyholders who vote in favour must hold at least 75% of the total value of the Policies held by all Policyholders who vote.

The effect of this dual requirement is that appropriate weight is given to the views of those Policyholders with the biggest investments in the Fund, but also that the views of small Policyholders are appropriately considered.

The table below provides examples of how these two voting requirements work in practice, if the Fund had five Policyholders with a total policy value of £20,000:

Policyholder	Policy Value	Example 1	Example 2	Example 3
A	£1,000	Votes “No”	Does not vote	Votes “No”
B	£6,000	Votes “Yes”	Does not vote	Votes “Yes”
C	£10,000	Votes “Yes”	Votes “Yes”	Votes “Yes”
D	£1,000	Votes “No”	Votes “Yes”	Votes “Yes”
E	£2,000	Votes “No”	Votes “No”	Votes “Yes”
<b>Result</b>		The Scheme would not be approved in this example as only 2 of the 5 Policyholders vote “yes” even though together those 2 Policyholders hold over 75% of the Fund value.	The Scheme would be approved in this example. Policyholders A and B are not included in the relevant percentages as they do not vote either way.	Both of the voting requirements are met so the Scheme would be approved in this example.

### 5.1.2 Policyholder class(es) for the Policyholder Meeting

If creditors or shareholders of a company are to be affected differently under the terms of a scheme of arrangement, then the Court requires that the creditors or shareholders are grouped into separate “classes”. The “classes” are grouped together to ensure that the members of each class are affected by the scheme of arrangement in broadly the same way. Each of these “classes” is then entitled to have their own meeting to vote on the scheme of arrangement. This is to ensure that the rights of each class and the impact of the proposed scheme on such rights are represented equally.

For the purposes of the Scheme, we consider that Policyholders in the Fund are the only class of creditor affected by the Scheme and that SLOC’s shareholder is not affected by the Scheme.

The question to be considered by all Policyholders is whether to exchange their existing rights to a share in the profits of the Fund for a guaranteed return. As this is the same question for all Policyholders we believe that all Policyholders are affected by the Scheme in the same way and therefore only one meeting of the Policyholders is needed.

### 5.1.3 Policy values for voting purposes

We have assigned a value to each Policy in the Fund for the voting requirement. The Policy value will be the prospective value of benefits on 30 June 2016 using the bonus setting basis in force at that time. The value of individual policies relative to each other is not materially affected for voting purposes due to the passage of time between 30 June 2016 and the date of the Meeting. This methodology is intended to fairly represent each Policyholder’s interest in the Fund relative to the interest of the other Policyholders in the Fund. The Company believes this gives a fair relative value of the Policies in the Fund and the Court approved the methodology at a directions hearing held on 18 November 2016.

## 5.2 Voting Arrangements

### 5.2.1 The Policyholder Meeting

The Policyholder Meeting will be held at The Wesley Hotel,

81-103 Euston Street, London, NW1 2EZ starting at 11 am on Friday 13 January 2017.

To vote and have your say at the Meeting you can either:

- a. attend the Meeting in person; or
- b. appoint a proxy to attend the Meeting on your behalf by filling in and returning the enclosed Proxy Voting Form by 5pm on Thursday 12 January 2017 or
- c. appoint a proxy to attend the Meeting on your behalf on-line by 5pm on Wednesday 11 January 2017.

Your Proxy (either the Chair of the Meeting, his nominee or a person of your choice) attends and votes at the Meeting on your behalf. If you do choose someone, other than the Chair (or their selected nominee), to attend and vote on your behalf it is your responsibility to ensure that that person attends the Meeting and to instruct them on how you wish to vote. If you would like the person attending the Meeting on your behalf to make any comments, you will need to appoint someone other than the Chair and give them the relevant instructions directly. If you appoint a Proxy to attend and vote on your behalf, you can change your mind and still attend and vote at the Meeting yourself.

All Meeting attendees whether Policyholders or Proxies will need to bring their driving licence or passport so that we can verify their identity.

For joint life Policies’ correspondence and information, including this Explanatory Statement, is only being sent to the joint Policyholder whose name appears first on our register of Policyholders. Either Policyholder may vote; however, where we receive more than one vote in respect of a Policy, only the vote of the first-named Policyholder will be counted.

Each Policyholder will be given one vote regardless of the number of Policies they may have in the Fund. Where a Policyholder has more than one Policy:

- a. the value of all their Policies will be added together for the ‘vote by value’ part of the Policyholder approval process described in 5.1.1 (b); and
- b. each Policyholder’s voting decision will be applied to all of their Policies in the same way.

At the Meeting the Chair will record all votes received from Policyholders attending in person and Proxies attending on behalf of Policyholders. The Chair of the Meeting may announce the result of the vote at the Meeting depending on the time required for verification. We will publish the results of the Meeting on our website at **www.sloc.co.uk** (under the 'Latest news' section on the home page) within five days of the Meeting.

### **5.2.2 How do I appoint a proxy on-line?**

If you have provided us with your email address you will receive an email from Electoral Reform Services Limited who will facilitate the on-line proxy appointment service on our behalf. The email will contain a two-part security code and a link to their website on which you can then appoint your proxy. You can appoint a Proxy on-line until 5pm on Wednesday 11 January 2017.

### **5.2.3 What happens after the Policyholder Meeting?**

If the required majorities of Policyholders have voted in favour of the Scheme we will proceed to the Court for the Scheme to be sanctioned.

We will provide a summary of all comments received from Policyholders, whether before, during or after the Meeting, to the Judge at the hearing to seek sanction of the Scheme. However, you (or your legal representative) may attend the Court hearing in person and make any comments directly to the Judge. If you wish to attend the Court hearing, for the convenience of the Court, it would be helpful if you would tell us beforehand by contacting us by telephone on 0345 605 2323. However, you may attend the Court hearing whether or not you tell us in advance.

We will confirm details on the time and date of this hearing on our website at **www.sloc.co.uk** (under the 'Latest news' section on the home page) following the Meeting.

## 6. Internal and External Review

### 6.1 The Board and SLOC's Chief Actuary

The Board of Directors of SLOC has approved the Scheme document and the contents of this Explanatory Statement. In recommending the proposed Scheme and this Statement, the Board has taken advice from its internal and external actuarial and legal advisers. In particular, the Board has been advised by SLOC's Chief Actuary on the terms of the Scheme. The Chief Actuary's role includes advising SLOC on the level of capital resources required to meet its liabilities to Policyholders in reasonably foreseeable circumstances.

The Board accepted the Chief Actuary's advice. The Chief Actuary concludes in his report:

- The conversion provides Policyholders with considerably increased guarantees by guaranteeing the levels of immediate and ongoing annual and final increases that will apply in future.
- Policyholders see a reduction in risk as a result of the conversion, but this is accompanied by slightly lower returns than central expectations within a with-profits structure. In the Chief Actuary's opinion, the trade-off between risk and return is appropriate.
- The conversion resolves the emerging difficulties of maintaining sufficiently diversified investments and ensures that the Fund's inherited estate is completely distributed in an equitable manner.
- Conversion would be required at some future point to avoid a tontine effect; converting now ensures per-policy costs of conversion are relatively low compared to a later conversion and takes advantage of the low corporate bond spreads. Additionally, converting now is anticipated to lead to earlier savings in external governance costs. All of these factors act to increase Policyholder benefits post-conversion. Should corporate bond prices develop in a sufficiently adverse manner such that the rationale above no longer holds true, the impact on Policyholders will be capped. If the Conversion Assessment produces results where the impact on some groups of Policyholders exceeds 10%, revised benefit scales will be proposed by increasing the GFI increments during the first 25 years post conversion, to limit the impact to 10%.
- No other aspects of the Policyholders' rights and interests will be materially affected by the conversion.
- The conversion has no material adverse impact on the ability of the Company to fulfill the liabilities of the Fund's Policyholders following the conversion, compared to its ability to do so prior to the conversion.
- The Chief Actuary's conclusions in respect of the impact of the conversion on other policyholders of SLOC are:
  - There will be no material adverse impact of the conversion on the benefit expectations of other policyholders of SLOC.
  - There will be no material adverse impact of the conversion on the security of other policyholders of SLOC.
- Having considered the relative advantages and disadvantages of the conversion, in the Chief Actuary's opinion the proposed conversion is reasonable for the Policyholders within the Fund. Furthermore, the Chief Actuary does not believe that the conversion will have any material detrimental effect on any of the other policyholders of SLOC.
- The Chief Actuary has further considered the conversion and its impact on the Company:
  - There will be no material impact of the conversion on the solvency of the Non-Profit Fund.
  - The Chief Actuary considers that a fair price is being paid for the risks being transferred to the Shareholder, including an allowance for the return on capital which the Shareholder needs to provide to meet its risk appetite level of solvency.
  - It is reasonable for the Shareholder to limit the level of conversion costs charged to the Fund, and to guarantee a maximum level of impact of the conversion on Policyholder benefits, in order to secure a transaction which supports its long term objectives of rationalising the business in run-off.

The report of the Chief Actuary is available on our website at [www.sloc.co.uk](http://www.sloc.co.uk) (under the 'Latest news' section on the home page) or contact us if you would like us to send you a copy.

## 6.2 With-Profits Actuary (“WPA”)

The WPA is an external consultant to SLOC who advises on discretionary matters affecting with-profits business. He has reviewed the Scheme acting in the capacity as WPA to the Fund and prepared a detailed report. The WPA has considered, amongst other things, how it affects Policyholders in the Fund and with-profits policyholders in general to ensure their fair treatment. The WPA is not an employee or member of SLOC’s management. In his report, the WPA concludes that the Scheme will be generally beneficial to Policyholders.

The WPA has reviewed the proposed Scheme and the corresponding voting arrangements, and considered all of the relevant aspects which may impact the Policyholders of the Fund and the other policyholders within the SLOC funds.

The WPA’s conclusions in respect of the effects of the Scheme on the with-profits Policyholders of the Fund are:

- The Scheme will be generally beneficial to Policyholders as it will provide the certainty of fixed benefits. The lower risk investment strategy of the Fund means that there is already limited upside potential.
- The reduction in expected future Policyholder benefits estimated through the initial assessment process, whereby almost all Policies are expected to receive a reduction in payout of less than 5%, is fair and reasonable in return for the benefits becoming guaranteed.
- Assuming that the Scheme is approved by the Court and successfully voted for by the Policyholders, there is a risk that credit spreads will widen between 31 March 2016 and the Effective Date of the conversion, resulting in a greater reduction in expected payouts. The Scheme will however still be fair and reasonable in those circumstances as it provides for a maximum reduction as compared with expected Policyholder benefits had the Fund continued as with-profits.
- There should be no impact on the day-to-day administration of the Policies.

If the Scheme does not proceed for any reason, then it will

in the WPA’s opinion be reasonable for the costs incurred (up to the cost specified in the Scheme of £480k of external and £50k of internal, net of tax) to be charged (or remain charged) to the Fund, with no further allowance for any subsequent Scheme being made for at least 5 years.

The WPA’s conclusions in respect of the effects of the Scheme on the other with-profits Policyholders of SLOC are that there will be no effect on their benefit expectations and that there will be no material effect on the security of their benefits. The WPA also notes that the SLOC Chief Actuary has reached a similar conclusion in respect of the effect of the Scheme on the existing SLOC non-profit Policyholders.

The report of the WPA is available on our website at [www.sloc.co.uk](http://www.sloc.co.uk) (under the ‘Latest news’ section on the home page) or contact us if you would like us to send you a copy.

## 6.3 Independent Expert

John McKenzie of Milliman LLP, a provider of independent expert work, was appointed Independent Expert in respect of the Scheme. The Independent Expert was appointed by SLOC to provide an impartial view of the proposed Scheme and to provide an opinion on whether the proposed Scheme is fair and reasonable and in the best interests of Policyholders. His views and opinion are set out in a detailed report.

The Independent Expert has prepared a Summary Report and this is enclosed as a leaflet.

The Independent Expert has supported the Scheme proposals. His conclusions in respect of the effects of the Scheme on the with-profits Policyholders of the Fund are:

- The proposed terms of the Scheme for the conversion of the with-profits benefits of the Fund’s Policies to non-profit are fair and reasonable;
- The proposed formula for determining the value of each of the Fund’s Policies will result in each Policy having an appropriate relative weighting for the purposes of voting on the terms of the Scheme;
- The terms of the Scheme will have no material impact on the security of, or benefit expectations under, any other SLOC policies and, consequently, no other SLOC policyholders need to be party to the Scheme; and,

- The terms of the Scheme are unlikely to result in a relatively more favourable outcome arising for SLOC's shareholders than the Fund's Policyholders.

The full report of the Independent Expert is available on our website at [www.sloc.co.uk](http://www.sloc.co.uk) (under the 'Latest news' section on the home page) or contact us if you would like us to send you a copy.

#### **6.4 Financial Conduct Authority and the Prudential Regulation Authority**

We have kept our regulators informed of our proposals and in particular, have shared with them the Scheme document and this Explanatory Statement.

## 7. Contacts

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

If you have any questions or concerns about the Scheme please contact us by telephone on 0345 605 2323 or +44 (0) 1242 663 604 from a mobile phone or overseas. Our phone lines are open from 8am to 6pm, Monday to Friday. You can also write to us at PO Box 1140, Bishops Cleeve, Cheltenham, GL50 9QW.

### **WPA**

John Jenkins, KPMG LLP  
15 Canada Square, London, E14 5GL

### **Financial Conduct Authority**

25 The North Colonnade, Canary Wharf,  
London, E14 5HS

### **Independent Expert**

John McKenzie, Milliman LLP  
11 Old Jewry, London, EC2R 8DU

### **Prudential Regulation Authority**

Bank of England,  
Threadneedle Street, London, EC2R 8AH

Our regulatory registration number is 110481.

## 8. Further Information

The following documents are available for you to read on our website at [www.sloc.co.uk](http://www.sloc.co.uk) (under the 'Latest news' section on the home page).

- The Scheme document.
- The report from the Chief Actuary.
- The report of the With-Profits Actuary.
- The report of the Independent Expert.
- The latest audited Accounts and Financial Statements of SLOC.
- The Fund's Principles and Practices of Financial Management, which SLOC will use to continue to run the Fund if the Scheme is not approved.
- The Consumer Guide for the Fund, the shorter consumer friendly version of the Principles and Practices of Financial Management.

We will also be happy to send you copies of any or all of these documents if you contact us. This Explanatory Statement is also on the website.

## 9. Directors' Interests

The remuneration for SLOC's executive Director is based on a number of factors. A small part of this includes the strategic direction of the Fund.

None of the non-executive Directors of SLOC have a financial interest, whether as a Director of SLOC or as a Policyholder in the Fund, in the Scheme being proposed.

Sun Life Assurance Company of Canada (U.K.) Limited, incorporated in England and Wales, registered number 959082, registered office at Matrix House, Basing View, Basingstoke, Hampshire, RG21 4DZ, trades under the name of Sun Life Financial of Canada and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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