

HOW OUR WITH PROFITS FUND WORKS

For policies purchased from Medical Sickness Society before the transfer of business to Wesleyan in July 1997.

WESLEYAN

we are all about you



ABOUT THIS DOCUMENT

This document explains our With Profits Fund, which several of our products invest in. The aim of the fund is to provide capital growth while reducing the impact of the ups and downs of the stock market through a process known as smoothing. Please keep this document with the information about your policy.

WHAT DOES THIS DOCUMENT COVER?

This document provides a summary of the With Profits Fund for Medical Sickness Society (MSS) policies purchased before the transfer of business to Wesleyan Assurance Society in 1997. It explains how the fund works for the types of products listed under 'Who should read this document' below.

These policies are maintained in a separate fund called the 'MSS Fund', which was closed to new business at the time of the transfer. The rest of our long-term business assets are in the 'Open Fund'.

This document does not provide details of the product you may have with us. That information is in your policy documentation. If you would like to speak to us about the product you hold with us, you can contact us using the details on page 9.

WHO SHOULD READ THIS DOCUMENT?

If you hold an **MSS with-profits** product purchased before the transfer of business to Wesleyan in 1997, then this booklet is for you. Benefits are expressed in the form of sum assured (or annuity amount) and annual bonus.

This includes MSS products such as:

- ▶ Whole of Life
- ▶ Endowments
- ▶ Conventional With Profits Personal Pension Plans and Additional Voluntary Contributions (AVCs)
- ▶ Conventional With Profits Retirement Annuities

It does not cover MSS-branded policies purchased after the transfer of business in July 1997. However, it does cover additional premiums made after July 1997 into plans that you already held before the transfer of business to Wesleyan.

DOCUMENTS FOR OTHER TYPES OF POLICY

This document does not cover all of our products. Some products have access to our With Profits Fund, but are covered by other documents:

Type of Product Held	Document to Read
Policies purchased from Wesleyan where premiums are used to buy units.	How Our With Profits Fund Works (for policies where premiums are used to buy units).
Conventional policies purchased from Wesleyan that have a sum assured, capital amount or pension amount and bonuses, but not units.	How Our With Profits Fund Works (for policies where premiums are not used to buy units).
Investments in the Wesleyan With Profits Growth Fund or Wesleyan With Profits Growth Pension Fund through a third-party Stocks & Shares ISA or Self Invested Personal Pension	How Our With Profits Fund Works (for investments made through financial intermediaries).

The three documents above can be found on our website at www.wesleyan.co.uk/savings-and-investments/with-profits-fund or you can ask us for a copy by contacting us using the details on page 9.

WHAT IS A WITH-PROFITS FUND?

A with-profits fund is a pooled investment. You pay into the fund alongside other investors, and the money is invested in a mix of assets.

What you get back will largely be determined by the investment return achieved by the assets in the fund.

Investors share in the profits of the funds through the addition of bonuses.

You can take your money out at any time, but a minimum investment period of 5 years is recommended. Whilst there is no guarantee, this is because returns generated from investing over the longer term tend to be less volatile.

In managing the fund we aim to:



Give you a return on your money by adding bonuses to your policy.



Ensure the bonuses reflect the performance of the diverse portfolio of underlying investments within the fund over the long term, allowing for costs and expenses.



Reduce the ups and downs of the stock market and produce a more stable return through smoothing.



Act to ensure we treat all investors fairly and deliver good outcomes for customers.

What is the objective of our With Profits Fund?

The fund aims to provide capital growth over a medium to long term period (5 years or more) by investing in UK and International shares, fixed interest stocks, property, cash and other related investments. The fund also aims to reduce the impact of rises and falls in the market by 'smoothing' the return on your investment over the period of your policy.

Your benefits

When you took out your with-profits policy, you agreed to pay a certain level of premiums over a specified period (e.g. up to an end date, such as a maturity date or retirement date). In return for these premiums, we guarantee to pay you the amount specified in your policy documentation at the end date. This amount may be called a sum assured or an annuity amount (annuity amounts are annual amounts paid as an income from the end date). We may also add bonuses as described later in this document.

Policies with no specific end date for the policy are Whole of Life policies and will pay out the guaranteed sum on death.

If you stop paying premiums before the date in the policy documentation, the sum assured (or annuity amount) will be revised, and then this new amount will be guaranteed at the end date.

HOW IS MY MONEY INVESTED IN THE WITH PROFITS FUND?

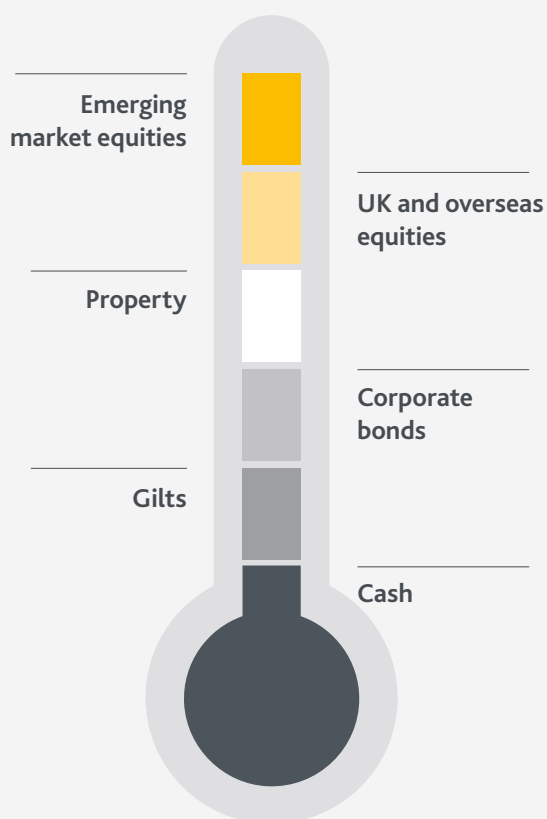
As part of the transfer agreement between Wesleyan and MSS, we pool the investments of the MSS Fund with the Open Fund (which is used for all of our other with-profits business). The resulting investment returns are shared fairly between the two funds.

The financial strength of Wesleyan Assurance Society gives us the freedom to invest the fund in a diverse range of assets that we believe will generate growth in the long term whilst managing risk and reducing volatility. You can learn more about our financial strength on page 8.

These assets include higher-risk investments such as quoted company shares and commercial property. Historically, these assets have had the best long-term growth prospects, but also carry a higher risk of fluctuations in value.

We also invest in lower-risk investments such as interest-paying bonds and cash deposits. We expect these assets to provide more stable, albeit typically lower, investment returns over the longer term.

There is more information on this in our document 'Principles and Practices of Financial Management (MSS Fund)'. See page 9 for more information on where to find this.



Allocation of assets within the fund

The exact proportion of each type of asset changes over time because we regularly monitor and adjust the investments with the aim of maximising return within an acceptable level of risk. However, the chart below gives an indication based on the asset allocation at the date shown.

With Profits Fund asset allocation

As at 31 January 2024



- Equities 63.1%
- Fixed Interest 15.9%
- Property 8.9%
- Index Linked 6.9%
- Cash 5.2%



Our investments team

Our investments team manage **£7.6bn (as at 31 December 2023)** across our With Profits Fund plus a range of other funds.

Our experienced fund managers continuously strive to outperform the markets. They do this by:

- ▶ identifying 'out-of-favour' equities with the long-term potential to grow in value,
- ▶ maintaining diverse portfolios across our fund range. This is to protect our customers' money from volatility over time, reduce risk, and deliver a return on investments.

We are proud to have won 'Responsible Investor of the Year – re/insurer' at the Insurance Asset Risk Awards 2022, 'Investment Team of the Year – re/insurer' at the 2023 awards, and in the same year, we also won a Diversity Award at the Wealth & Asset Management Awards 2023.



Our approach to sustainability

Our With Profits Fund should not be considered a sustainable fund but it is required to comply with the Wesleyan Assurance Society Sustainable Investing Policy. In 2020, we built on our Sustainable Investment (SI) function. Our dedicated SI Team:

- ▶ work alongside our fund and property managers and analysts, assessing our funds, holdings, and management decisions through a sustainability lens,
- ▶ use environmental, social and governance (ESG) factors to measure this activity, challenging and supporting where appropriate.

You can find out more about our SI Team and our approach to sustainable investing at www.wesleyan.co.uk/savings-and-investments/sustainable-investing

£4.5bn

The size of the Wesleyan With Profits Fund (29 February 2024).*



*Total size of With Profits funds under management including both the Open Fund and the MSS Fund.

BONUSES

The conventional with-profits policies covered by this document provide a sum assured/annuity amount that is guaranteed in certain circumstances (see page 7 for further information on guaranteed events). We also aim to increase the value of policies by distributing profits from the fund in the form of bonuses. Some of the profits are distributed as annual bonuses, with any balance being added in the form of a final bonus when you receive the proceeds of your policy.

Annual bonuses

The purpose of annual bonuses is to gradually increase the guaranteed benefits on your policy. They are usually added once a year, and are set at a prudent level taking into account the guarantees already on your policy and what we expect to be able to pay in future. There may be times when we cannot add an annual bonus; for example, if the guarantees on the policy are already too high compared to what we expect to be able to pay in future.

When we pay out on a claim, we may also pay an additional annual bonus, called an 'interim bonus' covering the period since the last annual bonus was added.

Final bonus

The purpose of a final bonus is to bring the value of your policy when it pays out in line with the value of the performance of the With Profits Fund over the lifetime of your policy, subject to smoothing (see smoothing section below). This is intended to ensure that policyholders receive their policies' fair share of the fund. We set final bonus rates at least once per year. The level of any final bonus is not guaranteed.

Surplus distribution

In addition, in line with the terms of the 1997 transfer agreement, payouts will include a fair share of any surplus assets in the fund, so that ultimately all of the assets of the MSS Fund are distributed to the policyholders in that fund. The level of any surplus distribution is not guaranteed.

Factors that affect bonuses

In determining bonuses for with-profits policyholders, our considerations include:

- ▶ investment performance and outlook: this is usually the biggest factor affecting returns;
- ▶ operating expenses and charges arising from the costs to operate the fund and your product; and
- ▶ smoothing

SMOOTHING

Like many investments, the value of the assets held by the With Profits Fund varies on a daily basis. However, one of the main aims of our With Profits Fund is to reduce the effect of short-term fluctuations on the value of your policy through our smoothing process.

Our aim in setting bonus rates and surrender values is that the value of your policy changes gradually over time. Where investment returns are higher than expected, our smoothing process is likely to result in us paying out less than the full underlying value of your policy. However, if investment returns are lower than expected, you are likely to get back more

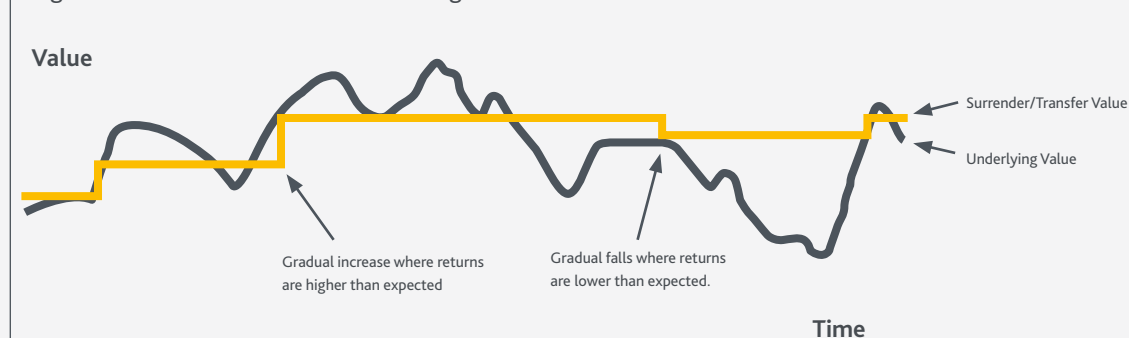
than the underlying value of your policy. This is illustrated in Figure 1.

We aim for total payouts to be in line with the value of the performance of the fund over the long term.

There may be occasions when we have to suspend the smoothing process, but only if necessary to protect the interests of policyholders, the Society's members, and the overall financial strength of the Society.

Any distribution from the surplus assets in the fund is in addition to the smoothed underlying value of your policy.

Figure 1. An illustration of how smoothing works



This shows an indicative total payout on surrender/transfer of a single premium policy

IS THE VALUE OF MY POLICY GUARANTEED?

When you took your policy out, the policy documentation would have specified the premiums that were due, how long they were payable for, when the benefit would be paid, and what the initial amount of that benefit was. The initial amount of the benefit may have been called a sum assured or annuity amount. An annuity amount is an annual payment amount, whereas a sum assured is a single lump sum payment.

Most policies have a specified end date which may be a maturity date or a retirement date. For Whole of Life policies the policy will end on the death of the person covered by the policy. For some policies, the premiums may have an earlier end date than the policy end date.

As long as you pay all the premiums due as specified in your policy documentation, we guarantee to pay you the specified benefit at the specified end date.

Some policies may have a different benefit payable on death; for example, pensions or policies taken out to cover a mortgage. This would be shown on your policy documentation.

If you alter your policy after you have taken it out, for example by stopping paying premiums, we will change the guaranteed benefit to take account of the change. The new benefit will be guaranteed to be paid at the end date of the altered policy.

As described on the previous page, we may add annual bonuses. These are additions to the guaranteed amount that we will pay at the end date of your policy, as long as you continue to pay the remaining premiums due.

The value of the final bonus added to your policy is not guaranteed. If the value of our With Profits Fund reduces, the value of final bonus available will be reduced to reflect this (allowing for the benefits of smoothing) and we may not be able to add any final bonus at all.

We do this to be fair to all of our policyholders. If we did not, those remaining in the fund would be adversely impacted by us paying out more than the fair share to people leaving the fund.

The amount of any surplus distribution is also not guaranteed and may increase or reduce depending on the experience of the fund; for example, relating to the costs of guarantees.

Taking your money early

If you decide to end your policy before its specified end date, then the above guarantees will not apply. Instead, we will calculate an amount that we believe to be a fair share of the fund that you have accumulated so far, taking account of smoothing. This is called a surrender value, or (for pension policies) a transfer value. This would still include a fair distribution of the surplus from the fund.

Guaranteed Annuity Rates (GARs)

Some pension policies contain Guaranteed Annuity Rates (GARs). These provide a guaranteed minimum level of income that we would pay if you chose to take an annuity with us at your retirement date.

If you have a pension policy you should check your policy documentation to see if it contains a GAR. The value of this guarantee to you varies depending on how much it would cost to buy the same level of pension income at retirement. This cost varies over time, depending on economic conditions and life expectancy.

If you hold such a policy, it is very important that at your retirement date, you consider whether this would be a valuable option for you. We will write to you with details of your pension options when you reach your selected benefit date.

With-profits income protection policies

If your policy pays a guaranteed benefit during illness, we do not add any bonuses to this benefit. Instead, we aim to build up a lump sum that will be paid at the agreed end date of your policy, or on earlier death. The lump sum will be the total of any annual bonuses added, and any final bonus we add at the time you are paid the lump sum. We will let you know about any bonuses that are applied to your policy.

BEING AN INVESTOR IN OUR WITH PROFITS FUND

Ownership

When you invest in a mutual organisation such as ours, we have no shareholders to satisfy, which means we are all about you. Being a mutual is an integral part of who we are and how we operate.

Financial strength

We know that investing in a financially secure company is important in giving you peace of mind. We therefore seek to manage the Society to ensure it is financially strong. This means we can operate the fund flexibly to benefit all our with-profits investors, and enables us to:

- ▶ withstand market volatility;
- ▶ invest in a diverse range of assets to deliver strong returns in the long term whilst managing risk;
- ▶ meet our commitments to you and other policyholders; and
- ▶ smooth out short-term falls and rises in returns.

Delivering for investors

Wesleyan is committed to doing the right thing for our customers, and aims at all times to deliver good outcomes. Alongside our financial strength, we maintain strong internal oversight and governance. Whilst the Board is ultimately responsible for decisions, it takes advice from qualified actuaries and other experts, including a committee of independent experts, and is subject to regulatory oversight.

Product expenses

The expenses we deduct from your policy, to cover the costs of administering your policy and managing the investment in the fund, are guaranteed under an arrangement with the Open Fund. This ensures that charges do not rise unfairly as the number of the policies in the fund decreases.

The costs of guarantees are met by the surplus in the fund, so are not charged directly to policies, but will impact the amount of surplus available to distribute.

In addition, as set out in the transfer agreement, we make a deduction for the charge paid by the MSS Fund to the Open Fund for the investment support it receives.

Future fund merger

The Medical Sickness Society (MSS) Fund closed to new business in 1997 and is therefore getting smaller as policyholders retire or otherwise claim on their policies. If no action was taken, this could ultimately lead to volatility in payouts for customers. In the best interests of MSS policyholders, we therefore anticipate merging the MSS Fund into the Open Fund in the near future. We will communicate with policyholders as this progresses.

FURTHER INFORMATION

Annual statement

We send you an annual statement which shows the bonuses that have been added to your policy up to the statement date.

More about our With Profits Fund

This document is a summary of the key information about our With Profits Fund. For more detailed information you can obtain a copy of the Principles and Practices of Financial Management (Medical Sickness Society (MSS) Fund). This explains the detailed standards we apply to the management of our with-profits business.

Each year we also publish an annual report which explains how we have acted to manage our With Profits Fund during the year.

Both of these are available at:

www.wesleyan.co.uk/savings-and-investments/with-profits-fund or you can ask us for a copy by contacting us using the details on this page.

Contacting us

If you have any questions, you can contact us in one of the following ways:

- ▶ Call us on 0345 351 2352. Our lines are open from 9am to 5pm, Monday to Friday. Calls may be recorded to help us provide, monitor and improve our services to you.
- ▶ Write to us at our Head Office:
Wesleyan Assurance Society
Colmore Circus
Birmingham B4 6AR
- ▶ Log into your account at mywesleyan.co.uk/login or download the My Wesleyan app, where you can correspond with us securely via 'Messages'.
- ▶ Contact your Wesleyan Financial Services (WFS) Specialist Financial Adviser, if you have one.

You can arrange a meeting with your Wesleyan Financial Services (WFS) Specialist Financial Adviser at your convenience by visiting:

www.wesleyan.co.uk/financial-advice/appointment

Learn more about our advice charges at

www.wesleyan.co.uk/financial-advice/charges

You can also book an appointment over the phone on 0800 980 3810. Lines are open from 9am to 5pm, Monday to Friday.

We are all about you.

Since we were founded over 180 years ago, we have cherished our mutual status. It's an integral part of who we are and with no shareholders, our focus is solely on members and customers. We work to benefit those who invest in our business. Not only today, but also in the future.

It's why 'we are all about you'.

A guide to the many ways in which the Wesleyan Group of companies can help you to plan, prioritise and secure your financial future.

For you



Savings & Investments



Mortgages



Retirement Planning



Insurance



Life & Income Protection

For your business



Equipment Insurance



Personal Protection



Premises Insurance



Finance & Funding

For more information about the Wesleyan Group of companies, visit wesleyan.co.uk/ourcompanies

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'WESLEYAN' is a trading name of the Wesleyan Group of companies.

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