

UK Smoothed Managed With-Profits Fund

Standard Life Assurance Limited
June 2023

Report to UK With-Profits Policyholders
1 January 2022 to 31 December 2022

Standard Life

Part of Phoenix Group

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1. Introduction and Summary

This is a report on the operation of business in our UK Smoothed Managed With-Profits Fund. This Section summarises the main conclusions.

We describe how we manage our UK with-profits business in our Principles and Practices of Financial Management, our PPFMs. We have PPFMs for the

- Heritage With-Profits Fund, and
- UK Smoothed Managed With-Profits Fund.

We publish our PPFMs, and other documents referred to later in this report, on our website at standardlife.co.uk/withprofits

1.1 Opinion of the Board of Standard Life Assurance Limited

The Board has reviewed the operation of our business in the UK Smoothed Managed With-Profits Fund. The Board's opinion is that throughout 2022 this business was managed in accordance with the PPFM for the UK Smoothed Managed With-Profits Fund ("UK Smoothed Managed PPFM").

It is also the Board's opinion that the exercise of discretion over the period

- was appropriate,
- took full account of policyholders' reasonable expectations,
- maintained fairness between different categories of policy and policyholder, and
- maintained fairness between policyholders and shareholders.

Sections 4 and 5 of this report discuss the main areas where discretion has been applied.

The Board's opinion takes account of advice from our With-Profits Actuary and With-Profits Committee on all key aspects of the operation of our with-profits business during the period.



You can also get a copy of any of the documents on our with-profits website by calling us on 0345 606 0100. (Call charges may vary.)

2. Roles and responsibilities

2.1 Governance

Each year, the Board of Standard Life Assurance Limited (the "Board") reviews whether its with-profits business has been operated in line with its PPFMs. We then report to our UK with-profits policyholders on compliance with the PPFM and on the exercise of discretion. This is the report for the UK Smoothed Managed With-Profits Fund. Currently, the only business in this Fund is the with-profits investments of Stakeholder plans that started after 9 July 2006.

During the year, senior managers document any proposals for discretionary actions to be taken in relation to the UK Smoothed Managed With-Profits Fund and those proposals are discussed with the With-Profits Actuary and the With-Profits Committee.

The Board decides on the actions to be taken, after taking into account the views expressed by the With-Profits Actuary and the With-Profits Committee. In some cases the Board delegates this decision-making power to appropriate committees or persons.

2.2 Role of the With-Profits Actuary

The With-Profits Actuary provides advice whenever Standard Life is preparing to make key decisions that affect with-profits business. The advice takes account of relevant Principles and Practices as set out in the UK Smoothed Managed PPFM and of the need to ensure the fair treatment of all with-profits policyholders. Standard Life must have due regard to their advice.

2.3 Role of the With-Profits Committee

The With-Profits Committee exercises independent judgment in advising Standard Life on the management of its with-profits business. In particular, the Committee is required to

- consider the interest of all with-profits policyholders and
- advise the Board on achieving fair treatment for those policyholders.

There's more information on our website about what the With-Profits Committee does and who its members are, see Section 1.

3. Management of With-Profits Business in the UK Smoothed Managed With-Profits Fund and the Exercise of Discretion

3.1 Opinion of the Board of Standard Life Assurance Limited

The Board has reviewed the operation of our with-profits business in the UK Smoothed Managed With-Profits Fund. The Board's opinion is that throughout 2022 this business has been managed in accordance with the UK Smoothed Managed PPFM.

It is also the Board's opinion that the exercise of discretion over the period

- was appropriate,
- took full account of policyholders' reasonable expectations,
- maintained fairness between different categories of policy and policyholder, and
- maintained fairness between policyholders and shareholders.

The Board's opinion takes account of advice from our With-Profits Actuary and With-Profits Committee on all key aspects of the operation of our with-profits business during the period.

3.2 With-Profits Actuary's statement

Each year we provide a statement from the With-Profits Actuary alongside our report on the operation of our UK with-profits business in the UK Smoothed Managed With-Profits Fund (this report). When producing the statement the With-Profits Actuary reviews our report and the discretion exercised during the period it covers. The With-Profits Actuary's statement is annexed to this report.

3.3 With-Profits Committee's opinion

The With-Profits Committee's opinion is that, during 2022

- the PPFM has been complied with; and
- discretion was exercised in an appropriate manner.

In reaching this conclusion it has relied on the information that we have provided.

3.4 Where to get more information about with-profits

There's more information about with-profits business in our With-Profits guides.

You'll find the most up-to-date versions of these on our website, see Section 1.

4. With-Profits Payout Values

Payouts directly reflected the investment performance of the relevant with-profits assets, our deductions for charges, gains and losses from smoothing payouts, and any smoothing of investment returns applied. This method for setting with-profits payouts and the discretion exercised were consistent with the UK Smoothed Managed PPFM throughout 2022.

4.1 Smoothing

An asset share, which allows for investment performance and deductions, represents the underlying value of a with-profits investment. Smoothing is then the process by which we can even out some of the short-term fluctuations in investment returns to reduce the immediate impact on payouts. Smoothing is a discretionary adjustment and we take account of the need to protect the interests of all policyholders when we decide how much smoothing to provide.

We have stated an aim that smoothed values should be no less than 80% and no more than 125% of asset share. This range is consistent with the way that we normally smooth to try to reduce short-term fluctuations while being fair between all with-profits policies over time. By applying smoothing in the normal way during 2022 we ensured that all payouts were within this range.

4.2 Allocation of expenses

Shareholders are entitled to the charges we deduct when we calculate plan values. In return they meet all the expenses incurred in running the UK Smoothed Managed With-Profits Fund. The level of the expenses incurred therefore has no impact on with-profits policyholders.

The charges cannot be more than the fund management charges for equivalent investment-linked Stakeholder plans.

4.3 Errors

We seek to maintain high administrative standards. However errors occur from time to time in the operation of with-profits and other types of business. When we discover such errors we correct them. If appropriate, we make additional payments to policyholders whose payouts have been adversely affected by such errors. Also, where appropriate, we put extra controls in place to reduce the risk of future errors.

We are not aware of any errors during 2022 that would have compromised our compliance with the UK Smoothed Managed PPFM.

Shareholders meet any costs arising from errors in respect of business in the UK Smoothed Managed With-Profits Fund.

5. Management of With-Profits Assets

Our aim is to optimise investment returns and provide growth over the long term for UK with-profits policies. This is underpinned at all times by our commitment to treating policyholders fairly.

We keep the asset mix for this with-profits business under review and in deciding what mix to hold we consider a number of factors including the appropriate balance between risk and expected return and our approach to responsible investment.

Responsible investment is our practice of incorporating environmental, social and governance (ESG) factors into investment decisions.

You can find out more about the social and environmental impact our investments may have in our Fund Climate Report. You can read our report at standardlife.co.uk/fund-climate-report.

Lower-risk assets have more stable values but over the longer term we expect them to give lower returns. Any change in the asset mix is likely to result in a change in future returns and plan payouts.

The following table shows the approximate proportion of equity investments backing UK Smoothed Managed With-Profits business at 31 December 2022. The table also shows the return achieved during 2022:

Class of with-profits business	Equity proportion 31.12.2022	Return*
Stakeholder With-Profits 2006 Fund	72%	-7.0%

* This is the investment return before tax for the period 1 January to 31 December 2022.

We publish up-to-date asset and investment return information on our website, see Section 1.

6. New Business

We do not set any limits on the new business that can be written in the UK Smoothed Managed With-Profits Fund. We have no plans to stop selling

new with-profits business. If we did, we would not expect this to change the way we manage existing business.

7. PPFM Review

The UK Smoothed Managed PPFM has been maintained in accordance with regulations throughout 2022. We made some minor changes in 2022 to improve clarity and aid understanding.

You can find the current version of the PPFM on our website, see Section 1.

Annex

Statement to with-profits policyholders by the With-Profits Actuary

As With-Profits Actuary I advise Standard Life Assurance Ltd (“SLAL”) when it exercises its discretion in managing its with-profits business, for example in declaring with-profits bonuses.

Each year I have to provide a statement to UK with-profits policyholders regarding

- SLAL’s annual report, and
- the discretion exercised in the management of with-profits business.

From the information and explanations provided to me by SLAL, I believe that SLAL’s report adequately explains how it has fairly exercised its discretion. It is my opinion that the report and the discretion exercised by SLAL during 2022 took your interests into account in a reasonable and proportionate manner.

In making this statement I have taken account of relevant rules issued by the Financial Conduct Authority and followed applicable professional guidance and standards.

Kate Stewart Roper FFA
With-Profits Actuary

June 2023

www.standardlife.co.uk

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