

Principles and Practices of Financial Management for the UK Smoothed Managed With-Profits Fund

December 2023

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Preface

Phoenix Life Limited (“Phoenix”) is a life assurance company based in the United Kingdom (“UK”). Phoenix is a wholly owned subsidiary of Phoenix Group Holdings (the “Holding Company”). The Phoenix Group acquired Standard Life Assurance Limited (“SLAL”) in August 2018.

Details about the Phoenix Group are available on the website, thephoenixgroup.com

This document covers Standard Life Stakeholder pension plans written after 9 July 2006. These policies are in Phoenix’s Non-Profit Fund with any with-profits investment element in the UK Smoothed Managed With-Profits Fund.

On 27 October 2023 the business of SLAL was transferred into Phoenix. The UK Smoothed Managed With-Profits Fund was set up in Phoenix and all the business in the UK Smoothed Managed With-Profits Fund of SLAL (“SLAL UKSMWPF”) was transferred into the new Phoenix version of the fund. At the same time the business in the SLAL Proprietary Business Fund was transferred into Phoenix’s Non-Profit Fund.

In this document we refer to the with-profits investment element of Standard Life Stakeholder pension plans written after 9 July 2006 as “this business” or “these policies”. This document sets out the Principles and Practices of Financial Management (“PPFM”) applicable to this business and gives information about how we make the decisions that affect these policies.

Phoenix’s aim when managing our with-profits business in the UK Smoothed Managed With-Profits Fund is to optimise investment returns and provide growth over the long term for with-profits policies, while continuing to maintain an appropriate level of financial strength so we can meet all contractual obligations to our with-profits policyholders. In seeking to achieve this objective, we make decisions that we believe best balance the interests of our policyholders, having regard to their reasonable expectations and to the requirement to treat policyholders fairly. Where necessary we will also balance the interests of policyholders and shareholders, but subject always to treating all our policyholders fairly.

The Principles and Practices of Financial Management set out in this document describe the way in which Phoenix currently seeks to manage the with-profits investment element of UK Stakeholder pension plans written after 9 July 2006. Management of this business is not a mechanistic process carried out strictly on the basis of compliance with a detailed set of pre-determined rules, guidelines or criteria. Rather, it requires Phoenix to make judgements about the actions it should take in endeavouring to meet the objectives which are described in the Principles and Practices set out in this document.

Those judgements are made by Phoenix in good faith, with a view to balancing the different interests of policyholders. They are based, among other things, upon assumptions about the future, the fulfilment of which clearly cannot be guaranteed by Phoenix. Equally, Phoenix cannot guarantee that the judgements it makes will result in the objectives described in the Principles and Practices set out in this document being achieved.

With-profits contracts of insurance are long term in nature. Whilst Phoenix wishes its policyholders to have as clear an understanding as practicable of how Phoenix will seek to manage the business covered by this document (“this PPFM”), it is not in policyholders’ interests for Phoenix to do so by reference to rigid and inflexible criteria. Phoenix therefore seeks to respond to events in managing this business, and may adapt accordingly the Principles and Practices by reference to which it seeks to carry on this business. These Principles and Practices are likely to evolve over time, in response to changing experience, and changing events, such as changes in investment markets and insurance company legislation and regulation.

For these reasons, the statements made in this document represent the criteria to which Phoenix currently has regard, and the objectives it is currently seeking to pursue, in making judgements about the management of this business.

This document is not intended to alter the rights and obligations which Phoenix or policyholders have under any policy documents that Phoenix has issued. Should there be any conflict between this PPFM and what is said in any such policy document, the latter shall prevail.

We hope that this document will be helpful in explaining the Practices we adopt, as well as the Principles we seek to apply, in the management and operation of this business.

Background to the Principles and Practices of Financial Management

All UK with-profits providers are required by the UK's Financial Conduct Authority ("FCA") to document and make available the Principles and Practices of Financial Management that describe how they operate their UK with-profits business. The FCA prescribes the areas that this document should cover and requires that it be set out in terms of Principles (enduring statements of the overarching standards that apply) and Practices (more detailed statements on the current approach.)

This PPFM not only provides policyholders with an explanation of how with-profits business is operated, but also forms an important part of the governance arrangements of UK with-profits business. Every year, with-profits providers are required under the relevant regulations formally to review whether the UK with-profits business has been operated in line with their Principles and Practices of Financial Management.

In line with regulatory requirements, we will report each year to our UK with-profits policyholders covered by this PPFM on compliance with it. We will also communicate any changes (or proposed changes) to this PPFM to our UK with-profits policyholders in accordance with the relevant regulatory rules.

The current version of this PPFM, the report to UK with-profits policyholders on compliance with this PPFM and other useful with-profits information including investment reports and guides are available on the website, standardlife.co.uk/withprofits

The Principles are set out in full in Section 2. In addition, in subsequent sections the Principles are presented in bold font and set within boxes alongside the Practices to which they relate.

1. Introduction to Standard Life With-Profits

The Standard Life with-profits business covered by *this PPFM* are the *with-profits investment elements* of Stakeholder pension plans written after 9 July 2006 and allocated to the *UK Smoothed Managed With-Profits Fund of Phoenix*, including *policies* written by *SLAL* that were transferred from the *SLAL UKSMPWF*. This business continues to use the Standard Life brand.

This Section provides background on:

- the structure of *Phoenix* and its Long-term Business Fund;
- the scope of application of *this PPFM*;
- the nature of the business in the *UK Smoothed Managed With-Profits Fund*; and
- the governance of the *UK Smoothed Managed With-Profits Fund*.

The content of this Section, the earlier Preface, and Background Sections do not have the status of either *Principles* or *Practices* of Financial Management. Rather they are intended to provide context and to assist the reader to understand the *Principles* and *Practices* that follow in later sections.

A Glossary defining key words and phrases used in *this PPFM* is set out at the end of this document. Any words or phrases in italics in this document from this section onwards are defined in the Glossary.

Stakeholder pension plans are unitised plans that include a with-profits investment option, which is provided by the *UK Smoothed Managed With-Profits Fund*, as described below.

For these *policies* contractual benefits are determined with reference to the number of units allocated under the *policy*. The number of units allocated increases on payment of *premiums* (with the number of units allocated depending on the price applicable at the time of allocation). These *policies* do not receive bonuses. Unit values are determined directly from individual calculated asset shares and fully reflect the investment returns applicable to that *policy* (less appropriate deductions, for example for charges) after allowing for the effect of any recycling of smoothing gains and losses. The fair *payout* reflects any further smoothing adjustments. No minimum investment return applies, so unit values and fair *payout* values can fall as well as rise.

Claims arise from deaths, maturity (i.e. taking pension benefits) or *withdrawals* (including switching out of with-profits).

In all cases we seek to treat *policyholders* fairly. We use individual *asset shares* (subject to certain discretionary adjustments) as a tool to set fair *payouts* for *policyholders*.

Our policy for fair treatment of *policyholders* includes a discretionary adjustment for smoothing in accordance with the *Principles* and *Practices* set out in *this PPFM*. Smoothing can help to reduce the effects on payout values of fluctuations in investment returns that arise in the final years before a claim is paid. While we cannot fully protect *policyholders* from fluctuations in investment returns, we aim to smooth the effects of these over time for all payouts. Further details can be found in Section 3.

Phoenix's Long-term Business Fund

Phoenix's assets are divided between a large long-term business fund and a smaller Shareholder Fund. The long-term business fund is internally segregated into a *Non-Profit Fund* and 17 with-profits funds.

The with-profits fund covered by this PPFM is the *UK Smoothed Managed With-Profits Fund*. The other with-profits funds maintained by Phoenix are:

- the 90% With-Profits Fund;
- the 100% With-Profits Fund;
- the Alba With-Profits Fund;
- the Britannic Industrial Branch Fund;
- the Britannic With-Profits Fund;
- the German Smoothed Managed With-Profits Fund;
- the German With-Profits Fund;
- the Heritage With-Profits Fund;
- the LL With-Profits Fund;
- the NPL With-Profits Fund;
- the Pearl With-Profits Fund;
- the Phoenix With-Profits Fund;
- the SAL With-Profits Fund;
- the Scottish Mutual With-Profits Fund;
- the SERP Fund; and
- the SPI With-Profits Fund.

The *UK Smoothed Managed With-Profits Fund* is the fund into which all the *SLAL UKSMWPF* business was transferred on 27 October 2023. It contains the *with-profits investment element* of all Standard Life Stakeholder pension plans in the *Phoenix Non-Profit Fund*.

Unless stated otherwise, any references in *this PPFM* to *Phoenix* are in relation to its management of the *UK Smoothed Managed With-Profits Fund* only. *Phoenix* may use different approaches to managing its other with-profits funds. There are separate PPFM documents covering the other UK funds that are available online:

thephoenixgroup.com/customer-support

Scope of application of this PPFM

This PPFM applies to the with-profits business in the *UK Smoothed Managed With-Profits Fund* only. In *this PPFM* all references to the fund should be taken to mean the *UK Smoothed Managed With-Profits Fund*.

This document does not (in any way) amend, vary or alter (expressly or implicitly) the contractual terms and conditions of any *policies*. If there is any conflict between any *Principle* and/or *Practice* set out in *this PPFM* and any contractual term or condition of a *policy*, then the relevant contractual terms and/or conditions shall prevail.

This PPFM applies only to *policies* effected and carried out from an establishment in the UK. *This PPFM* does not apply to any *policy* effected or carried out through an establishment outside of the UK.

Overview of the UK Smoothed Managed With-Profits Fund

The *UK Smoothed Managed With-Profits Fund* does not contain any business other than the *with-profits investment element* of Standard Life Stakeholder pension plans written after 9 July 2006. This may change in future.

As described in Section 4, in determining our investment strategies for the assets backing this business, we operate within certain constraints that are reviewed regularly by the *Board*.

In normal circumstances there is no reliance on assets outside the *UK Smoothed Managed With-Profits Fund* to support this business.

Policyholders participate in the investment returns on the relevant assets in the *UK Smoothed Managed With-Profits Fund*. In normal circumstances these *policies* are not exposed to any other risk. These other risks are assumed by shareholders.

Governance of the UK Smoothed Managed With-Profits Fund

This section describes the governance arrangements relevant to the *UK Smoothed Managed With-Profits Fund*, and sets out the process by which decisions on the exercise of discretion within the Fund are taken.

Phoenix is advised on the exercise of discretion and on the reasonable expectations and fair treatment of *policyholders* in the *UK Smoothed Managed With-Profits Fund* by the *With-Profits Actuary*.

Phoenix has also established a With-Profits Committee. The constitution and terms of reference of the With-Profits Committee are available on the website, standardlife.co.uk/withprofits.

The terms of reference of the With-Profits Committee require it to provide an independent assessment of compliance with the *Principles* and *Practices* set out in this document (including in respect of the actions taken to balance the rights and interests of *policyholders* and shareholders). The With-Profits Committee does not itself make decisions with regard to the management of the business. Its duties include to report on and provide clear advice to the *Board* (or the relevant committee or person to whom the decision making authority has been delegated) as to the fairness to with-profits policyholders, and as amongst groups of with-profits policyholders. It reports on any issues with which the *Board* or the With-Profits Committee considers with-profits policyholders might expect the With-Profits Committee to be involved including;

- the way in which the *UK Smoothed Managed With-Profits Fund* is managed and whether this is properly reflected in *this PPFM*; or
- whether the *Board* has addressed effectively the conflicting rights and interests of with-profits policyholders and other policyholders or stakeholders including, if applicable, shareholders in a way that is consistent with appropriate conduct and the principle of treating customers fairly.

Senior managers in *Phoenix* will document any discretionary actions proposed to be taken in relation to *policies*. All material discretionary actions proposed will be discussed with the *With-Profits Actuary* and the With-Profits Committee. Specifically, the With-Profits Committee will review all material recommendations as to how the *Board* might exercise its discretion. The *Board* will decide on the actions to be taken, after taking into account the views expressed by the With-Profits Committee and by the *With-Profits Actuary*. The *Board* delegates some of this decision-making power to other appropriate committees or persons.

The With-Profits Committee may append a report of their own on the exercise of discretion for these *policies* to *Phoenix's* annual report to *policyholders* on this topic if they wish. A report will be prepared by the *With-Profits Actuary* with regard to the exercise of such discretion and will be appended to *Phoenix's* annual report.

The *Board* will ensure that the With-Profits Committee has access to all information and support the With-Profits Committee requires to perform its role in accordance with its terms of reference. The With-Profits Committee may also engage professional advice to support its work.

The *Board* will bring all relevant matters to the attention of the With-Profits Committee in good time.

2. Principles of Financial Management

For consistency, the numbering used below is the same as that used in the later sections from which the *Principles* have been reproduced.

General Principles

3.1.1.1 *Phoenix* aims to treat its *policyholders* fairly. *Phoenix* will operate its UK with-profits business in the *UK Smoothed Managed With-Profits Fund* in accordance with the *Principles* and *Practices* set out in this document.

3.1.1.2 Any changes to the *Principles* must be approved in advance by the *Board* and will be notified to *policyholders* normally at least three months in advance of them becoming effective.

3.1.1.3 In managing the UK with-profits business in the *UK Smoothed Managed With-Profits Fund* in accordance with *this PPFM*, the *Board* may delegate to appropriate committees or persons such of its authorities as the *Board* may determine from time to time, including the exercise of any discretion vested in the *Board*. Any such delegation will be appropriately documented.

3.1.1.4 Any changes to the *Practices* must be approved by appropriate senior managers within the authorities delegated by the *Board*, and will be submitted to the *Board* for review in due course as part of the regular monitoring of the with-profits business. *Policyholders* will be notified of changes to the *Practices*. Such notification may be given in arrear but will be within a reasonable time period of the effective date of the change.

3.1.1.5 *Phoenix* may enter into material transactions relating to the *UK Smoothed Managed With-Profits Fund* provided that, in the reasonable opinion of the *Board*, the transaction is unlikely to have a material adverse effect on the interests of the *UK Smoothed Managed With-Profits Fund's* existing *policyholders*.

Setting Payouts - Overview

3.2.1.1 *Phoenix's* aim is that, subject to meeting all contractual and regulatory obligations, *payouts* on a *policy* should fairly reflect the experience of the *UK Smoothed Managed With-Profits Fund* applicable to such a *policy*, after any adjustments for smoothing.

3.2.1.2 When setting *payout* levels, *Phoenix* seeks to ensure fair treatment between those *policyholders* who choose to withdraw and those who remain.

3.2.1.3 In normal circumstances *Phoenix* seeks to smooth *payouts* to *policyholders* for all claims.

3.2.1.4 *Phoenix* may, at its discretion, cease smoothing of *payouts* or differentiate the smoothing approach for different types of claim if it is appropriate to do so in the interests of *policyholders* or to protect the *UK Smoothed Managed With-Profits Fund*.

3.2.1.5 *Phoenix* aims to operate smoothing of *payouts* in such a way as to be neutral for *policyholders* as a whole over time, but the *payout* applicable for any individual *policyholder* may be impacted positively or negatively by the application of smoothing. Smoothing formulae will be set from time to time by the *Board* to take into account current and expected economic conditions.

3.2.1.6 *Phoenix* monitors the expected and actual smoothing profits and losses. These profits and losses will normally be reflected in *payouts* of the remaining *policyholders*.

3.2.1.7 The methodology and parameters used in *payout* calculations may, of necessity, involve some measure of approximation. *Phoenix* reviews regularly the methodology and parameters used and sets parameters on bases appropriate for the relevant business.

3.2.1.8 *Phoenix* may change historical parameters applied to *asset share* calculations in the light of subsequent information about actual experience, subject to the requirement to treat *policyholders* fairly.

How the With-Profits Assets are Invested

4.1.1.1 Within certain constraints determined and reviewed from time to time by the *Board*, *Phoenix* may invest in assets where the future return is uncertain (i.e. that are subject to market risk and other risks), where it believes this is appropriate in terms of the returns likely to be achieved. *Phoenix* usually invests with-profits assets in a wide range of asset classes, usually including equities, bonds and cash deposits. This may be achieved through holding appropriate derivative contracts as well as the underlying assets themselves.

4.1.1.2 The investment policy for the *UK Smoothed Managed With-Profits Fund* shall have regard to the nature of the liabilities of the *UK Smoothed Managed With-Profits Fund* and in particular have regard to the reasonable expectations of *policyholders* invested in the *UK Smoothed Managed With-Profits Fund* and the duty to treat them fairly.

4.1.1.3 The investment policy and the practices are reviewed regularly by the *Board* to ensure their continued suitability in terms of liquidity, risk (including *counterparty risk*) and likely return.

4.1.1.4 *Phoenix* will not invest the *UK Smoothed Managed With-Profits Fund* in assets that are, because of their strategic importance to the *Phoenix group*, not normally traded.

4.1.1.5 The investment return attributed to the *asset shares* of the *policies* will reflect the investment returns on the mix of the assets backing them.

4.1.1.6 In determining from time to time how the assets of the *UK Smoothed Managed With-Profits Fund* shall be invested, *Phoenix* shall use all reasonable endeavours to ensure that the *UK Smoothed Managed With-Profits Fund* is treated fairly compared with its other funds.

4.1.1.7 In determining from time to time how the assets of the *UK Smoothed Managed With-Profits Fund* shall be invested, there is no reliance on any assets outside the *UK Smoothed Managed With-Profits Fund*.

4.1.1.8 Subject to the above *Principles*, we will seek to optimise the investment return on assets in the *UK Smoothed Managed With-Profits Fund*.

Business Risks and Rewards

5.1.1.1 The risks arising from any business activities, other than those risks associated with the assets backing *asset shares* will be borne by *Phoenix's* other long-term business or shareholder funds. Consequently any profits or losses from such business risks activities, for example writing new business, will accrue to *Phoenix's* other long-term business or shareholder funds.

5.1.1.2 There is no *Inherited Estate* attributable to the business covered by *this PPFM*, and there is no intention to build up an *Inherited Estate* within the *UK Smoothed Managed With-Profits Fund* in the future.

Management of New Business

5.2.1.1 It is not expected that growth in *Phoenix's* new business will have any impact on the business covered by *this PPFM*; should there be a prospect of it doing so, new business will be limited in order to protect the interests and reasonable expectations of the relevant *policyholders*.

5.2.1.2 Should *Phoenix* ever close the *UK Smoothed Managed With-Profits Fund* to new with-profits business, or cease offering the business covered by *this PPFM*, the relevant remaining business will continue to be managed using similar *Principles* to those which would have applied had closure not occurred, having regard, amongst other things, to obligations to treat customers fairly. In particular *policyholders* will not receive anything in excess of their *asset share* after any further adjustment for smoothing in such circumstances.

Equity between policyholders and shareholders

5.3.1.1 *Policyholders* are only entitled to their *asset share*, after any further adjustment for smoothing. Shareholders are entitled to all other assets in the *UK Smoothed Managed With-Profits Fund*, including charges deducted from *asset shares*.

3. How With-Profits Works for Standard Life Policyholders invested in the UK Smoothed Managed With-Profits Fund

3.1 General Principles and Practices

3.1.1 Principles

3.1.1.1 *Phoenix* aims to treat its *policyholders* fairly. *Phoenix* will operate its UK with-profits business in the *UK Smoothed Managed With-Profits Fund* in accordance with the *Principles* and *Practices* set out in this document.

3.1.1.2 Any changes to the *Principles* must be approved in advance by the *Board* and will be notified to *policyholders* normally at least three months in advance of them becoming effective.

3.1.1.3 In managing the UK with-profits business in the *UK Smoothed Managed With-Profits Fund* in accordance with *this PPFM*, the *Board* may delegate to appropriate committees or persons such of its authorities as the *Board* may determine from time to time, including the exercise of any discretion vested in the *Board*. Any such delegation will be appropriately documented.

3.1.1.4 Any changes to the *Practices* must be approved by appropriate senior managers within the authorities delegated by the *Board*, and will be submitted to the *Board* for review in due course as part of the regular monitoring of the with-profits business. *Policyholders* will be notified of changes to the *Practices*. Such notification may be given in arrear but will be within a reasonable time period of the effective date of the change.

3.1.1.5 *Phoenix* may enter into material transactions relating to the *UK Smoothed Managed With-Profits Fund* provided that, in the reasonable opinion of the *Board*, the transaction is unlikely to have a material adverse effect on the interests of the *UK Smoothed Managed With-Profits Fund's* existing *policyholders*.

3.1.2 Current Practices

Changes to Principles and Practices

Our *Practices* and *Principles* may change from time to time. Some factors, such as the results of reviews carried out concerning the methods and parameters used to determine with-profits *payouts*, may result in changes to *Practices*.

Other factors may cause a change in either *Principles* or *Practices*. Such factors include:

- a sustained change in external economic conditions;
- considerations of fairness – for example between different generations of *policyholders* or for different types of claim;
- a relevant legal or regulatory change.

We will seek the opinion of the With-Profits Committee and the *With-Profits Actuary* before making a change to the *Principles* or *Practices*, although the final decision rests with the *Board*.

Following formal approval from the *Board* or relevant committee or person (consistent with the authorities delegated by the *Board*), any changes made to *this PPFM* will be documented and this documentation will be retained for at least as long as required by regulations.

The *Board* monitors compliance with *this PPFM*. In line with regulatory requirements, we will report each year to *policyholders* on compliance with *this PPFM*. A report will be prepared by the *With-Profits Actuary* with regard to the exercise of discretion and will be appended to this annual report.

We will also communicate any changes (or proposed changes) to *this PPFM*, in accordance with the relevant regulatory rules relating to changes (or proposed changes) to PPFMs.

The current version of this PPFM and the report to UK policyholders are available on the website, standardlife.co.uk/withprofits

A number of the *Board's* responsibilities under *this PPFM* are delegated to appropriate committees or persons.

3.2 Setting Payouts - Overview

This Section describes our approach to determining the amounts payable under *policies*.

This Section also covers how we determine the extent to which investment returns should be smoothed when setting *payouts*.

3.2.1 Principles

3.2.1.1 *Phoenix's* aim is that, subject to meeting all contractual and regulatory obligations, *payouts* on a *policy* should fairly reflect the experience of the *UK Smoothed Managed With-Profits Fund* applicable to such a *policy*, after any adjustments for smoothing.

3.2.1.2 When setting *payout* levels, *Phoenix* seeks to ensure fair treatment between those *policyholders* who choose to withdraw and those who remain.

3.2.1.3 In normal circumstances *Phoenix* seeks to smooth *payouts* to *policyholders* for all claims.

3.2.1.4 *Phoenix* may, at its discretion, cease smoothing of *payouts* or differentiate the smoothing approach for different types of claim if it is appropriate to do so in the interests of *policyholders* or to protect the *UK Smoothed Managed With-Profits Fund*.

3.2.1.5 *Phoenix* aims to operate smoothing of *payouts* in such a way as to be neutral for *policyholders* as a whole over time, but the *payout* applicable for any individual *policyholder* may be impacted positively or negatively by the application of smoothing. Smoothing formulae will be set from time to time by the *Board* to take into account current and expected economic conditions.

3.2.1.6 *Phoenix* monitors the expected and actual smoothing profits and losses. These profits and losses will normally be reflected in *payouts* of the remaining *policyholders*.

3.2.1.7 The methodology and parameters used in *payout* calculations may, of necessity, involve some measure of approximation. *Phoenix* reviews regularly the methodology and parameters used and sets parameters on bases appropriate for the relevant business.

3.2.1.8 *Phoenix* may change historical parameters applied to *asset share* calculations in the light of subsequent information about actual experience, subject to the requirement to treat *policyholders* fairly.

3.2.2 Current Practices

Asset Shares and Payouts

Payouts are based on *asset shares*. The asset share of a *policy* is:

- the accumulation of *premiums* (less any amounts in respect of *withdrawals*, if relevant) at the investment returns on the backing assets;
- less deductions for charges; and
- plus a share of the smoothing gains, less a share of the smoothing losses, incurred on past claims that arose since the start of the *policy*.

The fair *payout* is determined from individually calculated *asset shares*, with any further adjustment for the effect of any smoothing of investment returns (see below). The fair *payout* for each policy changes daily and depends directly on the investment performance of the backing assets and the deductions made for charges.

The fair *payout* can go down as well as up.

The fair *payout* for a *policy* is determined from the number of units in the *UK Smoothed Managed With-Profits Fund* allocated to it. There are no investment guarantees or bonuses.

Under current legislation no tax is payable and no deduction is made for tax, though a deduction would be made if tax became payable.

Investment Return

The most important influence on *asset shares* is usually the investment return on the assets held to back them. We aim to provide a return to each *policyholder* that reflects the investment performance of the assets backing their *policy's asset share* over the period of their investment, after any deductions and any adjustment in respect of smoothing. Since the assets of the *UK Smoothed Managed With-Profits Fund* are specifically identified, the investment return is obtained from the investment income from, and change in value of, these assets. The investment returns used are net of any investment management expenses that are deducted directly from funds under management.

Charges

The only charge is the current explicit fund management charge. However, this charge has a maximum limit. In addition we will not increase this charge beyond the level of the fund management charge on an equivalent investment-linked Stakeholder pension plan.

Smoothing

In normal circumstances we aim to smooth *payouts*. The extent, if any, to which we do so is dependent on considerations of fairness to *policyholders* as a whole and of protecting the *UK Smoothed Managed With-Profits Fund*. There may be circumstances in which we would apply no smoothing at all to *payouts*, for example if *withdrawals* become substantial, or the financial security of the *UK Smoothed Managed With-Profits Fund* might be impaired, or if to do so would be unfair to the remaining *policyholders*.

Smoothing may be applied through:

- smoothing of investment returns to calculate initial smoothed values from *asset shares*; and
- adjustment of the resulting values when determining *payout* values.

Our aim is that *payouts* for these *policies* should be between 80% and 125% of their *asset share*. Individual *policies* may have different *payouts* (as a percentage of *asset share*) within this range. This range allows *smoothing* to operate without undue constraints in normal circumstances.

The objective that smoothing should be neutral over time to *policyholders* as a whole is achieved by automatically allocating to the *asset shares* of the remaining *policies* the gains and losses that arise as a result of the application of smoothing to *payouts*. The *policy payout* is not affected by smoothing gains or losses on *payouts* made before it started. At the close of each day, any gains or losses arising from the application of smoothing to *payouts* that day are normally spread across the *asset shares* of the remaining *policies*, as determined by the *Board*.

The extent to which smoothing of *payouts* applies may be restricted so as to limit the expected impact on *payouts* for the remaining *policyholders*. Smoothing will normally be reduced whenever it is expected to result in:

- gains or losses on *payouts* in any rolling 12 month period of more than 1% of the *asset shares* of relevant *policies* remaining at the end of the year; or
- total accumulated gains or losses on past *payouts* of more than 3% of the *asset shares* of relevant *policies* remaining at the end of the year. There will normally be no smoothing of investment returns and *payouts* if the total accumulated smoothing gains or losses on past *payouts* amount to 5% or more of the *asset shares* of the relevant remaining *policies*, unless future smoothing gains or losses are expected to reduce that figure.

Despite these restrictions on the smoothing of *payouts* actual smoothing gains and losses may fall outside these limits (e.g. in circumstances such as rapidly falling or increasing investment returns). In these circumstances and if deemed necessary (in the interests of fairness), *Phoenix* would normally address these gains and losses through the smoothing of future *payouts* in the same way as described above.

Parameters used in calculating asset shares and payouts

In calculating *asset shares*, we aim to use our best estimates of the relevant parameters. In calculating some parameters, there may be an element of averaging across *policies*. We may change historical parameters applied in *asset share* calculations in the light of subsequent information about actual experience but only if to do so would improve the accuracy of *asset share* calculations and be consistent with treating *policyholders* fairly.

Documentation and Change Control

We document and retain details of the methods, parameters and smoothing mechanisms used.

Outsourcing

Phoenix may outsource tasks (either to subsidiaries within the *Phoenix Group* or externally) where we believe that this will improve efficiency or where it fits with the business model of the *Phoenix Group*. For example, the investment of with-profits assets is carried out by external investment managers under instructions from the *Board of Phoenix* in return for a contractual fee.

Where outsourcing is considered appropriate, the arrangements are regularly reviewed by the *Board* (or by managers of *Phoenix* on their behalf). The frequency of such reviews depends on the nature and extent of the services provided. This is irrespective of whether the outsourcing is to a connected or third party.

Termination provisions for outsourcing arrangements also vary by engagement but typically include the right to terminate in the event of material breach of any of the key provisions or failure to meet the agreed service standards.

4. How the With-Profits Assets are Invested

Section 3.2.2 explains that the most important influence on *asset shares* is usually the investment return earned on the assets held to back them. This section describes the approach *Phoenix* follows in seeking to optimise investment returns for *policies*.

4.1.1 Principles

4.1.1.1 Within certain constraints determined and reviewed from time to time by the *Board*, *Phoenix* may invest in assets where the future return is uncertain (i.e. that are subject to market risk and other risks), where it believes this is appropriate in terms of the returns likely to be achieved. *Phoenix* usually invests with-profits assets in a wide range of asset classes, usually including equities, bonds and cash deposits. This may be achieved through holding appropriate derivative contracts as well as the underlying assets themselves.

4.1.1.2 The investment policy for the *UK Smoothed Managed With-Profits Fund* shall have regard to the nature of the liabilities of the *UK Smoothed Managed With-Profits Fund* and in particular have regard to the reasonable expectations of *policyholders* invested in the *UK Smoothed Managed With-Profits Fund* and the duty to treat them fairly.

4.1.1.3 The investment policy and the practices are reviewed regularly by the *Board* to ensure their continued suitability in terms of liquidity, risk (including *counterparty risk*) and likely return.

4.1.1.4 *Phoenix* will not invest the *UK Smoothed Managed With-Profits Fund* in assets that are, because of their strategic importance to the *Phoenix group*, not normally traded.

4.1.1.5 The investment return attributed to the *asset shares* of the *policies* will reflect the investment returns on the mix of the assets backing them.

4.1.1.6 In determining from time to time how the assets of the *UK Smoothed Managed With-Profits Fund* shall be invested, *Phoenix* shall use all reasonable endeavours to ensure that the *UK Smoothed Managed With-Profits Fund* is treated fairly compared with its other funds.

4.1.1.7 In determining from time to time how the assets of the *UK Smoothed Managed With-Profits Fund* shall be invested, there is no reliance on any assets outside the *UK Smoothed Managed With-Profits Fund*.

4.1.1.8 Subject to the above *Principles*, we will seek to optimise the investment return on assets in the *UK Smoothed Managed With-Profits Fund*.

4.1.2 Current Practices

4.1.2.1 Investment Strategy Overview

The *UK Smoothed Managed With-Profits Fund* may be invested in a wide range of assets, including UK and overseas equities, bonds and cash deposits. These assets may be either actively or passively managed. As part of the exposure to such asset classes, the investment managers may use derivatives as an investment tool, subject to predetermined guidelines.

Phoenix in setting investment strategy takes into account a number of factors, including:

- the balance between risk and expected return (in general, the higher the risk, the higher the expected return);
- our approach to *Responsible Investment*;
- the aim to invest in a wide range of asset classes; and
- the need to maintain adequate liquidity.

In normal circumstances we would expect to make any significant changes to the asset mix gradually.

Quarterly information on the asset mixes and credit quality of fixed interest investments backing the *asset shares of policies* is published on the website: standardlife.co.uk/withprofits.

At least once each year, the *Board* approve changes to the proportion of assets invested in different asset categories, such as equities, bonds and cash deposits. The asset allocation is one part of the overall investment strategy that includes appropriate benchmarks and performance targets. The strategy also includes contingency plans relating to how the assets will be managed in light of changes in market circumstances. Between scheduled reviews investment market conditions are monitored and, if it is considered necessary, the *Board* will carry out a review in advance of the next scheduled review.

Relevant Committees or individuals review and monitor on-going asset allocation and contingency plans, as well as benchmarks, associated performance targets and performance against benchmarks, and provide oversight of the investment management process. Senior managers report regularly to the *Board* on the outcome of these investigations.

The *Board* formally approve the constraints and contingency plans, the benchmarks and the associated performance targets.

The *UK Smoothed Managed With-Profits Fund* may lend its assets in return for a fee, subject to receipt of appropriate collateral as security. Any stock lending is subject to documented agreements between the fund, its investment managers and its lending agents. An Investment Committee advises the *Board* on the terms under which stock lending takes place and oversees the operation of stock lending arrangements to ensure that they are in accordance with the agreements.

The investment managers for the with-profits assets carry out their duties in line with instructions (including, for example, benchmarks and risk tolerances) approved by the Board of *Phoenix*.

While the investment managers, have to stay close to these asset proportion benchmarks, their objective is to outperform the investment performance targets by exercising discretion within specified limits (see Section 4.1.2.2).

Phoenix uses a number of different investment managers for the *with-profits assets* and will replace underperforming managers when this is considered to be in the best interest of with-profits policyholders.

4.1.2.2 Allowable Assets

Subject to the *Principles*, investment managers are allowed freedom to invest in any financial instrument as long as it meets predefined minimum criteria. For example, the asset must be capable of being priced and administered and must satisfy the requirements of the Risk Policies and the appropriate internal fund specifications (documents setting out how the assets should be managed).

Risk Policies are established for each of credit risk, market risk, liquidity and funding, insurance risk, operational risk and sustainability. Together these policies along with associated governance arrangements ensure, so far as is reasonable, that the risks taken in meeting the *UK Smoothed Managed With-Profits Fund's* financial and regulatory objectives are identified and managed in a sound and prudent manner.

It is an overriding prudential requirement that the assets in the *UK Smoothed Managed With-Profits Fund* are of sufficient quality and are sufficiently well diversified geographically, across industries and across individual counterparties and groups of related counterparties, to constitute appropriate backing for the relevant liabilities. Investment transactions must also comply with all applicable legislation and regulation.

The purpose of the market risk constraints (see list below) is to set a framework within which this overriding requirement must be satisfied, without impairing unnecessarily the ability of the investment managers to invest for return. It is the responsibility of all investment staff to ensure that any overriding requirements are satisfied notwithstanding this framework.

The limits on the amount of investment in any particular type of asset and the credit and liquidity standards imposed are detailed in the internal Risk Policies and associated governance documentation. These restrictions may vary from time to time, but are designed to ensure that adequate levels of diversification and liquidity are maintained. The restrictions are agreed and reviewed regularly by the *Board*. Examples of the types of restrictions include:

- overall currency exposure;
- exposure to individual companies or property investments;
- exposure to investment market sectors;
- exposure to corporate bonds of different credit ratings; and
- exposure to sectors or companies that do not align with our approach to *Responsible Investment*, for example tobacco.

In addition to these asset class specific restrictions, there may be limitations on the acceptable aggregation of exposure to any single entity.

Exposure limits are set and reviewed in accordance with the Risk Policies and associated governance documentation. Any breach of these exposure limits is reported to the relevant committee or person.

The use of new types of investment (such as new derivative structures), or investments whose nature has changed, is monitored to ensure that they meet the minimum criteria and are appropriate.

Derivatives may be employed only:

- to meet contractual obligations; or
- if they are an efficient means to reduce either risk or cost; or

- as a means of generating additional capital or income if this can be achieved with an acceptably low level of risk.

Guidelines relating to the use of derivatives are approved at least once a year and are currently set out in the Risk Policies and associated governance documentation.

In employing derivatives, we aim always to have sufficient cash equivalents or underlying assets to cover any potential obligation or exercise right. Derivative transactions may be undertaken for the purpose of efficient portfolio management only if the economic impact of these trades would otherwise have been permitted as a single direct transaction or as a series of direct transactions.

Investment Guideline documents describe further constraints such as the maximum acceptable tracking error (from the benchmarks set) that individual portfolio managers can run. Compliance with both the Risk Policies and the Investment Guideline documents is regularly monitored. Any breach of Risk Policies or Investment Guidelines is reported to the relevant committee or person.

Credit risk in respect of fixed interest stocks is assessed by reference to the counterparties' credit ratings with Moody's, Standard & Poor's or other equivalent measure. Credit risk in respect of deposit investments is assessed using a scoring methodology.

Credit limits are monitored regularly by dedicated analysts. Any breaches of the credit limits are reported to the relevant committee or person, who ensures that an appropriate summary is given to the relevant senior manager in *Phoenix*.

There are no assets in the *UK Smoothed Managed With-Profits Fund* that would not normally be traded because of their importance to the *Phoenix Group*.

5. How Business Risk is Managed

Section 4 describes how *Phoenix* manages the risks associated with investing in assets where the future returns are uncertain (i.e. subject to market and other risks).

Phoenix accepts business risks but, as explained in this section, the risks arising within the *UK Smoothed Managed With-Profits Fund* relate solely to those associated with investments and smoothing of investment returns.

Section 5.1 describes our approach to business risks and rewards, including our approach to holding an *Inherited Estate* in the *UK Smoothed Managed With-Profits Fund*. Section 5.2 discusses how *Phoenix* manages its levels of new business in the *UK Smoothed Managed With-Profits Fund*. Section 5.3 describes our approach to managing the interests of *policyholders* in the *UK Smoothed Managed With-Profits Fund* and the interests of shareholders.

5.1 Business Risks and Rewards

This section explains that *policyholders* in the *UK Smoothed Managed With-Profits Fund* do not share in any profits or losses arising from business risks other than those associated with the assets backing *asset shares*. It also explains that there is no *Inherited Estate* in the *UK Smoothed Managed With-Profits Fund* attributable to the *policyholders*.

5.1.1 Principles

5.1.1.1 The risks arising from any business activities, other than those risks associated with the assets backing *asset shares*, will be borne by *Phoenix's* other long-term business or shareholder funds. Consequently any profits or losses from such business activities, for example writing new business, will accrue to *Phoenix's* other long-term business or shareholder funds.

5.1.1.2 There is no *Inherited Estate* attributable to the business covered by *this PPFM*, and there is no intention to build up an *Inherited Estate* within the *UK Smoothed Managed With-Profits Fund* in the future.

5.1.2 Current Practices

5.1.2.1 Profits and losses from business risks

The *UK Smoothed Managed With-Profits Fund* does not bear any business or other risks, other than those associated with the assets backing *asset shares*, and so does not accrue any profits or losses from activities giving rise to such other risks.

In particular no profits or losses are attributable to *policyholders* from the excess or shortfall of charges over the expenses incurred by *Phoenix*, or from *withdrawals* or other *policy* discontinuances, other than those attributable to smoothing.

As described in Section 3.2.2, if the financial security of the *UK Smoothed Managed With-Profits Fund* is impaired, we can reduce or remove the amount of investment *smoothing* applying to with-profits *payouts*. This could result in with-profits *payouts* being less than they otherwise would be.

5.1.2.2 Inherited Estate

An *Inherited Estate* is the excess of assets within a long-term business fund over the amount required to meet liabilities in that fund, including those arising from the regulatory duty to treat

policyholders fairly. Any assets injected from the shareholder environment into the *UK Smoothed Managed With-Profits Fund*, whether at the time of its creation or subsequently, will be held for the benefit of shareholders. *Payouts* to *policyholders* will be their individual *asset shares* after any further adjustment for smoothing. Hence there is no *Inherited Estate* in the *UK Smoothed Managed With-Profits Fund* that is, or could be, attributable to *policyholders*.

5.2 Management of New Business

This section discusses how *Phoenix* manages its levels of new business in the *UK Smoothed Managed With-Profits Fund*. Whilst we have no plans to stop accepting new business in the *UK Smoothed Managed With-Profits Fund*, we also cover what would happen if we ever did so.

5.2.1 Principles

5.2.1.1 It is not expected that growth in *Phoenix's* new business will have any impact on the business covered by *this PPFM*; should there be a prospect of it doing so, new business will be limited in order to protect the interests and reasonable expectations of the relevant *policyholders*.

5.2.1.2 Should *Phoenix* ever close the *UK Smoothed Managed With-Profits Fund* to new with-profits business, or cease offering the business covered by *this PPFM*, the relevant remaining business will continue to be managed using similar *Principles* to those which would have applied had closure not occurred, having regard, amongst other things, to obligations to treat customers fairly. In particular *policyholders* will not receive anything in excess of their *asset share* after any further adjustment for smoothing in such circumstances.

5.2.2 Current Practices

We will seek to offer fair terms for new and incremental business without adversely affecting the interests of existing *policyholders*.

As the expenses of writing new business do not affect the *UK Smoothed Managed With-Profits Fund*, accepting new business does not in general place material constraints on the *UK Smoothed Managed With-Profits Fund*. *Phoenix* does not need to apply upper or lower limits on volumes of new business in this fund.

We have no plans to close to new with-profits business.

5.3 Equity between policyholders and shareholders

This section describes our approach to managing the respective interests of *policyholders* in the *UK Smoothed Managed With-Profits Fund* and of shareholders.

5.3.1 Principles

5.3.1.1 *Policyholders* are only entitled to their *asset share*, after any further adjustment for smoothing. Shareholders are entitled to all other assets in the *UK Smoothed Managed With-Profits Fund*, including charges deducted from *asset shares*.

5.3.2 Current Practices

The *Board* will exercise its responsibilities in relation to the management of the *UK Smoothed Managed With-Profits Fund* so as to protect the interests of *policyholders*. The *Principles* and *Practices* that the *Board* will observe in exercising these responsibilities are set out in *this PPFM*.

The main areas of discretion which may be exercised by the *Board* which might affect *policyholders'* reasonable benefit expectations are the following:

- the smoothing of *payouts*; and
- investment strategy.

As described in Section 3.2.2 any gains or losses from the smoothing of *payouts* are normally automatically allocated to the *asset shares* of the remaining *policies* at the close of each day. This results in no conflict between *policyholders* and shareholders in the approach to the smoothing of *payouts*.

Since shareholders receive the fund management charge that is deducted from *asset shares* as a percentage of *asset share*, the interests of *policyholders* and shareholders are aligned in achieving the optimum investment return.

Glossary

In *this PPFM*, the following terms shall have these meanings, except where otherwise specified:

asset share - the asset share of a *policy* is:

- the accumulation of *premiums* (less any amounts in respect of *withdrawals*, if relevant) at the investment returns on the backing assets;
- less deductions for charges; and
- plus a share of the smoothing gains, less a share of the smoothing losses, incurred on past claims that arose since the start of the *policy*.

Board – the Board of Directors of Phoenix Life Limited.

counterparty risk – the financial risk that a third party may fail to meet its obligations under contracts entered into with the Phoenix group.

Holding Company - Phoenix Group Holdings, the holding company for the *Phoenix Group*.

Inherited Estate – the Inherited Estate is the excess of assets within a long-term business fund over the amount required to meet the liabilities in that Fund, including those arising from the regulatory duty to treat *policyholders* fairly.

Non-Profit Fund – the Fund into which was transferred all the business in the *Proprietary Business Fund* when the *SLAL* business transferred into *Phoenix* on 27 October 2023.

payout – the actual benefits paid on a *policy* claim (for example on maturity, *withdrawal* or death).

Phoenix – Phoenix Life Limited, which is a life assurance company based in the United Kingdom. *Phoenix* is a wholly owned subsidiary of Phoenix Group.

Phoenix Group – Phoenix Group Holdings and its subsidiaries and subsidiary undertakings.

policy – the *with-profits investment element* of any plan that is allocated to the *UK Smoothed Managed With-Profits Fund*.

policyholder – in *this PPFM* we use the term policyholder to mean the holder of a *policy* in the *UK Smoothed Managed With-Profits Fund*.

Practices – the with-profits Practices describe *Phoenix's* approach to managing the *UK Smoothed Managed With-Profits Fund* and to responding to changes in the business and economic environment in the shorter term.

premium - that part of any payment to any plan that is allocated to units in the *UK Smoothed Managed With-Profits Fund*

Principles – the with-profits Principles are enduring statements of the overarching standards *Phoenix* adopts in managing the *UK Smoothed Managed With-Profits Fund* and describe the business model used by *Phoenix* in meeting its duties to *policyholders* and in responding to longer-term changes in the business and economic environment.

Proprietary Business Fund – this was the non-profit fund of *SLAL* and contained the Stakeholder pension plans written by *SLAL* after 9 July 2006 together with certain other business. The *with-profits investment element* of these Stakeholder plans were allocated to the *SLAL UKSMWPF*.

Responsible Investment – our practice of incorporating Environmental, Social and Governance (ESG) factors into investment decisions.

SLAL – Standard Life Assurance Limited, which was a life assurance company based in the United Kingdom. The business of *SLAL* transferred into *Phoenix* on 27 October 2023.

SLAL UKSMWPF – this fund contained the *with-profits investment element* of Stakeholder pension plans written by *SLAL* after 9 July 2006.

SL International – Standard Life International Designated Activity Company, a wholly owned subsidiary company of the *Phoenix Group* based in the Republic of Ireland.

this PPFM – this document which sets out our Principles and Practices of Financial Management of the *UK Smoothed Managed With-Profits Fund*.

UK Smoothed Managed With-Profits Fund – the Fund into which was transferred all of the *SLAL UKSMWPF* business when the business of *SLAL* transferred into *Phoenix* on 27 October 2023. It contains the *with-profits investment element* of all Standard Life Stakeholder pension plans in the *Non-Profit Fund*.

With-Profits Actuary – the person who from time to time is the actuary appointed by *Phoenix* to perform the role of With-Profits Actuary for the *UK Smoothed Managed With-Profits Fund*. The With-Profits Actuary's main duties include advising the *Board* on key aspects of its exercise of discretion in relation to the with-profits business.

with-profits investment element – that part of any payment to or other amount attributable to any plan (including a rebate of charges) that is applicable to the allocation of units in the *UK Smoothed Managed With-Profits Fund*.

withdrawals – this term includes transfers and switches out of with-profits.

Where we use terms such as “appropriate”, “fair”, “necessary”, and “significant”, these are generally dependent on judgements made by the *Board*, using the discretion available to it, of relevant factors or circumstances concerned in the context.

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