



ROYAL LONDON WITH PROFITS FUND

Your policy is invested in the Royal London open fund.

The Royal London open fund is designed for investors looking for a medium to long-term investment.

In this leaflet we call the Royal London open fund the With Profits fund.

WHAT IS THE INVESTMENT MIX OF THE WITH PROFITS FUND?

The With Profits fund is invested in a mixed portfolio which includes company shares (both UK and overseas), Government and other bonds and property. The aim of the investment strategy is to maximise the long term return on investments for with profits policyholders whilst recognising the need for the fund to meet its guaranteed liabilities and commitments to policyholders.

Table 1 shows the current overall investment mix and how we have changed the mix of the investments backing the asset shares of with profits policies in the With Profits fund since 2012.

By **asset share** we mean the accumulation of premiums paid into a With Profits policy after taking off expenses and charges and allowing for the profits and losses.

Table 1

	Company shares %	Property %	Government and other bonds %	Cash and other investments %
31/12/2016	41	13	44	2
31/12/2015	47	17	36	0
31/12/2014	46	16	37	1
31/12/2013	50	14	36	0
31/12/2012	42	14	44	0

WHAT IS THE INVESTMENT MIX OF MY POLICY?

Since January 2010 we have varied the investment mix of your policy according to how long we think it has left to run. However, we have now decided to move back to a single mix of assets for all policies in the fund. We mentioned that this was under consideration last year.

We are making this change because interest rates are at all-time low levels. We have already started bringing in the change over 2016 and will gradually move towards this new single asset mix over the next few years.

Currently we still vary the investment mix of your policy according to how long we think the policy has left to run. When there are only 10 years left to run we gradually:

- reduce the proportion invested in company shares and property, and
- increase the proportion invested in government bonds, other bonds and cash.

The investment returns from government bonds, other bonds and cash tend to vary less from year to year than the returns from company shares and property. However, over the longer term, the investment returns from government bonds, other bonds and cash tend to be lower than those from company shares and property.

Table 2 shows the approximate 2016 investment mix for some example policyholders in the With Profits fund. As noted above we are moving back towards a single investment mix over the coming years. We have started to reduce the difference between short-term and long-term policies already. We regularly review the overall investment mix.

Table 2

Number of years to the policy maturity date	Approximate proportion invested in company shares and property %	Approximate proportion invested in government bonds, other bonds and cash %
15	71	29
10	68	32
5	53	47
1	40	60

WHAT WAS THE INVESTMENT RETURN FOR MY POLICY FOR 2016?

The investment return that we add to the asset shares of policies varies according to how long the policy has left to run. That's because we currently vary the investment mix of a policy during its last 10 years. We explain this under 'What is the investment mix of my policy?' on the previous page.

Table 3 shows the investment returns added to asset shares for 2016 for some example with profits policies in the With Profits fund.

Table 3

Number of years to the policy maturity date	Investment return before tax and charges %
15	13.9
10	13.9
5	13.6
1	13.3

Company shares and bonds performed very well in 2016. This was a result of currency movements caused by the Brexit vote in June. Property and cash provided more modest positive returns.

We don't know what investment returns will be in the future; you should not assume that they will be the same as they were in previous years. However, we believe that the current investment mix is appropriate for the With Profits fund in the current economic conditions.

RISK FACTORS

It is important that you understand the potential risks associated with this fund. We have detailed below the specific risks we think you should be aware of. For further information on each of these risks please refer to our [Guide to Fund Risks](#).

Table 4

Investment Risk Factors	Yes/No
Exchange Rate	No
Emerging Markets	No
Concentrated Portfolio	No
Smaller Companies	No
High Yield Bonds	No
Sector Specific	No
Geared Investments	No
Property	Yes
Higher Risk Fund	No
Derivatives	No
Equities	Yes
Bonds	Yes
Money Market	Yes
Stock Lending	No

HOW DO I SHARE IN THE PROFIT AND LOSSES OF THE FUND?

The performance of the With Profits fund is shared out to its investors through a system of bonuses. There are two types of bonus that we may add to your policy:

- **annual bonuses**, which we may add during the lifetime of your policy and which increase the guaranteed amount payable when you take your guaranteed benefits, and
- **final bonuses**, which we may add when your policy ends. Final bonuses are not guaranteed and may go up or down.

Some unitised policies have a unit price that changes on a daily basis to reflect the addition of regular bonus, but the effect is the same.

From 1st January 2017, we increased the annual bonus rates from 2.0% to 2.18% for pension policies and from 1.25% to 1.43% for life and savings policies. Your bonus rate has increased by 0.18% this year, as a result of our new approach to ProfitShare. You can read more about this in the section titled 'Royal London ProfitShare'.

A **Market Value Reduction (MVR)** may be applied to reduce the value of units being cashed in during adverse market conditions. A reduction would be applied to ensure a fair level of payouts to everyone invested in the fund. If we did not do this the investors remaining in the fund would not receive their fair share. Please note that if an MVR is applied to your policy, the value of your plan would be reduced and you could get back less than you paid in. The MVR will not be applied if the policy is being cashed in on death or in certain other circumstances as set out in your policy documents.

ROYAL LONDON PROFIT SHARE

As a result of our good operating profits and continued strong capital position we have allocated a discretionary Profit Share to all eligible with profits policyholders. We have applied this by enhancing the asset shares of the relevant policies by 1.4%.

As mentioned earlier, our new approach to ProfitShare meant that we have also increased your annual bonus by 0.18% this year.

We hope to award a similar level of ProfitShare next year and our business plan supports that. However, the current uncertainty in financial markets may affect the amount of profits we are able to earn and share with our customers. Rest assured that, whatever happens in 2017, we will do all we can to maintain your ProfitShare at an attractive level.

WHERE CAN I FIND OUT MORE INFORMATION ABOUT THE WITH PROFITS FUND?

You can view and download the following documents from our website royallondon.com:

- **Principles and Practices of Financial Management (PPFM)** which is a technical document that explains the way in which we manage our With Profits fund.
- **A guide to how we manage our With Profits fund** which is a plain English guide to the key points of the PPFM. This includes more information on asset shares, how we decide annual and final bonus rates and MVRs. The version that covers your policy is **Guide 6**.
- The Directors report on compliance which is the most recent report about how we have complied with the PPFM.

To find these documents, please click on '**Welcome to Royal London**' then '**Corporate Governance**' then '**PPFM**'. If you prefer, you can ask us to send you copies by calling us on [03450 502020](tel:03450502020).

PPFM CHANGES AT 31 DECEMBER 2016

We have made a change to the Practices to permit more freedom to invest in new asset types subject to following the standard approval process. There have been a few small updates to other PPFM Practices to update terminology.



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