

# With-Profits Information Sheet

## What is a with-profits policy?

With-profits is a type of investment plan sold in the UK in which extra amounts may be added to the main benefit (**known as the sum assured**) to reflect profits earned during the course of the contract.

A with-profits policy shares in the profits of the Society through the addition of annual and final bonuses. The amount of bonus will depend on how the investments in the fund have performed while you have been paying premiums into it. Regular or **“reversionary”** bonuses may be added, usually each year, and once declared are guaranteed.

A final or **“terminal”** bonus may be added when the policy is closed after it has run its minimum or set term. The amount of bonus will also depend on the allowance we make for the expenses of setting up and running the policy. The Society is a mutual organisation, which means that there are no shareholders. The Society is, therefore owned by its members, which includes with-profits policyholders.

With-profit funds are typically invested in a mixture of equities, property and fixed income investments (see overleaf). Under poor market conditions a **“Market Value Reduction”** (MVR) may be applied to the value of the policy if it is surrendered at a time when market values are depressed. This is to ensure the fair treatment of policyholders remaining in the fund.



## The following policy types are classed as with-profits:-

- ✔ Tax Exempt Savings Plan (TESP) - with or without life cover
- ✔ Regular Savings Plan
- ✔ Investment Bond
- ✔ Income Bond
- ✔ Individual Savings Account (ISA)
- ✔ Junior Individual Savings Account (JISA)



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## Understanding the with-profits fund

Sheffield Mutual's with-profits fund is managed to provide a low to medium risk investment, appealing to individuals with a more cautious approach to investing. When you invest with us, we pool your money together with other members' in the with-profits fund.

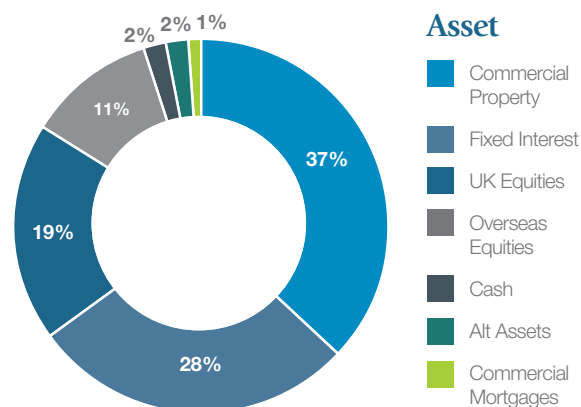
The with-profits fund invests in things like commercial property, shares, fixed interest, cash, bonds and government gilts. With-profits aims to offer a better return than a typical bank or building society account, but is not as risky as investing all your money directly on the stock market as we 'smooth' returns.

## Explaining Smoothing

A particular feature of with-profits is 'smoothing'. This is the process where we hold back some surplus profit in good years so we can top up policy bonuses in years where the performance is not as strong. Smoothing aims to even out the short term ups-and-downs that is often associated when investing directly in the stock market and has enabled the Society to maintain stable bonus rates even in volatile markets.

**The payment of policy bonuses is not guaranteed and depends on the performance of the with-profits fund.**

## Asset allocation



As at 31/12/2019

Our strategy is to achieve a balanced return of income and capital growth through a combination of good quality assets. We hold a high proportion of commercial property as we can generate good yields from long-term leases with reputable tenants. We maintain a reasonable exposure to shares in order to preserve the value of investments over time but hold some of the funds in other assets to improve diversification and spread risk.

## Glossary / Jargon Buster

### Annual Bonus

This is the bonus we may add to your policy each year. It is sometimes called a reversionary or regular bonus.

### Assets

These are the investments held within the Society's long-term business fund.

### Equities

Another word for "Share". A shareholder's equity is the value of the shares they hold.

### Final Bonus

This is the bonus that we may add at the end of the investment. It is sometimes called a terminal bonus.

### Market Value Reduction

This describes an adjustment to the value of your policy in adverse investment conditions, in order to ensure you receive your fair share of the fund on surrender or encashment.

### Sum Assured

This is the amount shown on your illustration and is the guaranteed minimum you will receive on maturity and death (depending on the type of policy), providing you continue to pay all the premiums due.

### Surrender

To cash in your policy before the end of its term.