

The Healthy Investment

Coventry Assurance Ring Fenced Fund

A GUIDE TO HOW WE MANAGE OUR WITH PROFITS BUSINESS

A guide to how we manage our With profits business.

On 28 October 2011 all of the policies of Coventry Assurance Society were transferred to Healthy Investment. We keep these in a separate fund. This guide tells you how we manage the fund and explains what you can expect to get back. It is the consumer friendly version of the Principles and Practices of Financial Management (PPFM).

Please read this guide – it gives important information about how With profit policies work.

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1. Glossary

Asset share

The term used to describe your fair share of the underlying assets in the fund.

Board

In this document the Board refers to the Board of directors of the Society as elected by the membership.

CFPPFM

These are initials used to describe our Customer Friendly Principles and Practices of Financial Management, which is this document. It provides you with more information on how we manage our Coventry Fund.

Coventry Fund

These are the assets transferred from Coventry Assurance Society which we keep in a separate fund.

Final bonus

This is the bonus that we add at the end of the investment.

Healthy Investment

Healthy Investment is the trading name of The Rechabite Friendly Society Limited, an FSA authorised, directive friendly society.

Maturity

When the policy has run its full term and the investment pays out it is said to have reached maturity.

Policy term

This is the length of time that you commit to maintaining your policy when you take it out.

PPFM

The Principles and Practices of Financial Management is the more detailed and technical document which sets out how we manage our Coventry Fund.

Regular bonus

This is the bonus that we add annually to your sum assured.

Reversionary bonus

This is another way of saying regular bonus.

Ring fenced fund

This is the fund of assets that was transferred from Coventry Assurance Society which we keep separate from the rest of Healthy Investment's With profits Fund.

Smoothing

Rather than amending the terminal bonus rates every time there is a rise or fall in the stock market we aim to make your return more even.

Stock market

In this document we mean stocks and shares quoted and traded on the UK Stock market and major overseas markets.

Sum assured

This is the amount shown on your personal illustration and is the guaranteed minimum you will receive on death or maturity providing you continue to pay all the premiums you committed to making when you took out the policy.

Surrender

To cash in your policy.

Surrender valuation

If you are considering cashing in your investment we will tell you what it is worth. This is a surrender valuation.

Terminal bonus

This is another way of saying final bonus.

The estate

The assets in the Coventry Fund which have built up over time and are not part of an individual's asset share, which we use to help smooth the payouts on maturity and with absorbing any losses or profits.

The Society

References in this document to the Society refer to Healthy Investment.

With profits

The name or description of the type of investment that this document describes.

With Profits Actuary

The Actuary, or With Profits Actuary is the appropriately qualified and FSA regulated person the Society employs to undertake its investment, solvency and asset share calculations and to advise the Board on its compliance with the Principles and Practices of Financial Management.

With profits Fund

This is all the money that has been invested in our With profit policies which is held in a variety of different assets.

2. Introduction

Healthy Investment is the trading name of The Rechabite Friendly Society Limited which is an incorporated friendly society.

Coventry Assurance Society was an unincorporated friendly society. In October 2011 all of the policies, assets and liabilities of the Coventry Assurance Society were transferred to a special fund within Healthy Investment known as the Coventry Fund.

We manage our Coventry Fund by following a set of principles. These principles and how we follow them in practice are explained in a document called the Principles and Practices of Financial Management (PPFM). The PPFM is a detailed document. This guide is a summary of the contents of the PPFM.

We can, over time change the principles by which we manage our Coventry Fund. If we do this we will write to all our members to give them notice of the proposed changes. If we change any of our practices we will write to members at the earliest opportunity and inform them of this change.

3. What is a With profits policy?

A With profits policy guarantees to pay a minimum cash sum (the sum assured) on death or maturity. Regular bonuses may be added which increase the guaranteed minimum cash sum. These bonuses may increase or decrease or may not be added at all. A final bonus, called a terminal bonus, may be added at the maturity date or in the event of a death claim or for single premium investments on surrender. The amount of terminal bonus and regular bonuses added will depend on how the investments in the Coventry Fund have performed while you have been paying premiums into it. The amount of terminal bonus and regular bonuses will also depend on the charges the Society makes to the Coventry Fund for running the policy. The bonuses will also reflect any other profits or losses made by the Coventry Fund. The Coventry Fund is a mutual organisation which means that there are no shareholders and the With profit policyholders are the effective owners of the Coventry Fund. Please see section 13 "What risks is the Coventry Fund exposed to" and section 8 "What is smoothing".

The bonuses added to With profits policies within the Coventry Fund depend on the way we manage the Coventry Fund.

4. What are the main principles we follow?

- We manage the Coventry Fund and determine bonus payments in a lawful, sound and prudent manner.
- We aim to treat all policyholders fairly.

- We aim to ensure that we can pay all guaranteed benefits as and when they become due.

5. How do we decide regular bonuses?

- Regular bonuses are set by taking into account what the fund can afford now and in the future.
- Regular bonuses are based on the investment returns achieved within the fund after allowing for the level of guaranteed benefits in each individual policy.
- We normally set regular bonus rates once every year.

The rate of bonus is decided by the Society's Board of Directors after taking professional advice from the Society's With Profits Actuary.

Once regular bonuses are added to the guaranteed sum assured, they cannot be taken away, providing the policy is maintained until maturity.

Regular bonuses may vary from year to year and they may be reduced to nil for some years if the fund falls to a level where only the guaranteed benefits could be paid.

Regular bonuses are expressed as a percentage of your sum assured.

6. How do we decide terminal bonuses?

The rate of terminal bonus is decided by the Society's Board of Directors after taking professional advice from the Society's Actuary.

Terminal bonuses are paid to make sure that you get back an amount that fairly reflects the performance of the Coventry Fund's investments, if the regular bonuses we have added have not already done this. We call this amount your asset share.

When we calculate your asset share we take into account the premiums you have paid, the investment performance of the Coventry Fund while the premiums have been invested and the charges we make to cover our expenses. The investment returns credited to the asset share reflect the level of guarantees on the individual policy. The higher the level of guaranteed benefits on maturity are compared to the asset share, the more the investment return will reflect the safer assets (such as fixed interest securities and deposits) that we have in the Fund. The smaller the level of guaranteed benefits, the more the investment return will reflect the return on the assets we expect to outperform these safer assets in the long term (such as shares) that we have in the Fund.

We aim to pay out on average the full asset share to policyholders but we ignore small day to day movements in the value of the fund. We also use a method called smoothing, outlined in section 8, to make sure payouts from one year to the next do not change significantly. There is a target range set by the Board and details of this target range is shown in the PPFM.

Terminal bonuses may not be added at all if the value of the Coventry Fund falls to a level where only the policyholders' guaranteed benefits could be paid.

Bonuses are also affected by other profits or losses made by the Society. See section 13 "What risks is the Coventry Fund exposed to?"

7. What are the charges?

Expenses will be charged to the Coventry Fund from the rest of the Society as agreed by the Board of Coventry Assurance Society prior to their dissolution at the following rates:

- 0.7% of the value of assets within the Coventry Fund
- 7.5% of the premiums received for Unibond policies
- 12.5% of the premiums received for all other policies
- £25 per policy claiming death benefits under Table A insurances

The charges are to cover the expense of investing the premiums, the cost of ongoing administration and the cost of providing life insurance.

8. What is smoothing?

We aim to target policy payouts so that policyholders receive their asset share. However, With profits policies normally smooth out the highs and lows in the change in values of investments. The target range for maturity payments is between 70% to 130% of the asset share. This range is reviewed annually after advice from the With Profits Actuary.

Smoothing works both to:

- a) reduce the variation in maturity values between different policies maturing at the same time with different contribution levels and of different types.
- b) reduce the variation in maturity values at different maturity dates. (For example, it is highly unlikely that we will change bonus rates during a year unless there had been major changes in the value of the stock market).

c) reduce the variation between maturity values from one year to the next, the aim being to avoid short term temporary movements in stock markets affecting the maturity payout.

d) allow death benefits to follow the same bonus rates as maturity payouts to ensure that benefits are equal.

Some smoothing may be applied to surrender values but at a much lesser extent than to the maturity or death benefit value.

Whilst smoothing helps to protect members from short term fluctuations in the stock market it will not protect against long term and sustained falls in the value of stocks and shares. Equally, smoothing will not protect members from reductions in bonus rates caused by returns over the longer term being less than currently experienced.

9. What happens if you leave early?

We also use an asset share approach when we work out how much to pay if you decide not to pay premiums until the maturity date. The target range for surrender payments is around 100% of the asset share.

If you stop your policy early (e.g. surrender your policy), we work out how much to pay you with the aim of being fair to all policyholders, that is those leaving the fund and those staying. There is generally no guarantee that you will be paid a certain minimum amount. If you surrender your policy within the first two years you are unlikely to receive any benefit at all on a regular premium policy. If the value of the assets in the Coventry Fund is low, you may get back less than you invested.

If you are considering stopping paying your regular premiums, surrendering or cashing in your policy early we strongly recommend that you seek professional financial advice.

10. What happens if you die before the end of the policy term?

The guaranteed sum assured or fund value plus all regular bonuses added up until the time of death are paid out. A terminal bonus may also be paid but this will depend on the number of years the policy was in force before the date of death. The same bonuses will apply to death benefits as to maturity values.

11. What does the Coventry Fund invest in?

The Coventry Fund invests in a range of assets including shares, fixed interest securities, property and commercial bank deposits. We aim to maximise the investment returns whilst ensuring that the fund can meet its commitments to policyholders to pay guaranteed benefits.

We formally review the percentage of each asset in the fund every year and more frequently when market values are volatile. We closely monitor the amount of shares and property invested in the fund as returns from these investments are generally more volatile than those from fixed interest securities and cash. The percentage of shares and property held within the fund can range from 0% to 70%.

Your policy's bonus performance will depend on the proportion of your own policy's asset share that we believe is suitable for higher performing assets like shares and properties. The higher the level of the value of guaranteed benefits compared with your policy's asset share, the lower the proportion that we feel can be invested in higher performing assets. Therefore, the overall amount invested in shares and properties is an average over all policies and is not used to determine the amount of bonuses that we credit to any one policy.

12. Why does the fund have assets in excess of the total asset shares?

At all times the Coventry Fund needs to hold enough assets to pay policyholders the benefits promised to them by the guarantees and the terminal bonuses, or by the asset share for surrender values.

Over time, the Coventry Fund has built up more assets than the asset shares of the individual insurances. The extra assets are called the estate. The estate provides the working capital that supports the Coventry Fund and allows it to make promises in the future. The estate also provides a buffer to allow the Coventry Fund to smooth policy payouts and to absorb losses and profits.

The Society targets the amount of Coventry Fund estate that it feels is appropriate to hold for the size of the fund and the policies in force. Over the long term, the Board of the Society will credit or debit any difference in the Coventry Fund estate back to or from the asset shares of policyholders. The Board will aim to do this gradually but may need to carry out larger adjustments if the ability to meet guaranteed benefits may be put at risk.

As the Coventry Fund is closed to new business, the Board of the Society will be targeting the estate to disappear when the last policy matures. It is likely that the separate Coventry Fund will be merged into the main Society funds before this happens and the Board of the Society will target the estate transferred to be a reasonable amount compared to the policies in force on the merger and the risks intrinsic to these policies.

13. What risks is the With profits Fund exposed to?

The Society does not have any shareholders so the Coventry With profits policyholders receive the benefits but also bear the costs of the risks of all business activity.

As no new business is being written into the Coventry Fund the fund is not bearing any of risk associated with selling new business.

The fund is exposed to the general risks of carrying out insurance business. This includes risks associated with operational or compliance failures as well as whether other non-profit business experience accords with that expected in arriving at the premium rates charged.

14. Where can I find out more?

The PPFM of the Coventry Fund is available on our website www.healthyinvestment.co.uk, you can request a copy by calling 0161 762 5790 or freephone 0800 731 2422 or by writing to the Society's Head Office, 2 The Old Court House, Tenterden Street, Bury, Greater Manchester, BL9 0AL.

The FSA's website www.moneymadeclear.gov.uk has further information on With profits.

You may find it helpful to speak to a professional financial adviser.

ETHICAL SAVINGS AND INVESTMENTS

Healthy Investment
2 The Old Court House, Tenterden Street, Bury, BL9 0AL
Tel: 0161 762 5790 Fax: 0161 764 3557
coventry@healthyinvestment.co.uk

Healthy Investment is the trading name of The Rechabite Friendly Society.
Authorised and regulated by the Financial Services Authority. FSA register 109994.