Report of the Board of The Rechabite Friendly Society Limited (trading as Healthy Investment) to the With-Profits policyholders in the Healthy Investment Ethical With-profits Fund for the calendar year 2022.

1. Introduction

The Prudential Regulatory Authority (PRA) requires all With-profits providers, with the exception of non-directive friendly societies, to publish and maintain its Principles and Practices of Financial Management (PPFM). The PPFM sets out the principles and practices that an organisation follows in managing its With-Profits Fund.

The PPFM is available to all policyholders and you can obtain a copy from our website or by contacting this office.

This is the twelfth report the Board has made to its With-profits policyholders since the Society became, under PRA rules, a directive friendly society.

2. Governance arrangements

It is the responsibility of the Board of the Society to report to the With-profits policyholders at the end of every year.

The purpose of this report is to confirm that the Board believes that it has complied with its obligations detailed in the PPFM for the management of the Healthy Investment Ethical With-Profits Fund (The Fund) and sets out the reasons for that belief.

The report must also address all significant relevant issues, including the way in which the Society has:

- Exercised, or not exercised, any discretion in the way it has managed The Fund;

- Addressed any competing or conflicting rights, interests and expectations of its policyholders including those with different products and different lengths of membership.

All organisations who operate With-profits Funds must appoint a With-profits Actuary, who is not a member of the Board, to advise it on its use of discretion and the implications of the way in which the Board has used discretion in the fair treatment of members. The With-profits Actuary makes a formal report at the end of every year to the Board on the implications of the Board's discretionary decisions. They are also required to produce an annual report to With-profits policyholders stating whether, in their professional opinion, the Society has taken the interests of With-profits policyholders into account in a reasonable and proportionate manner in all their decisions. This report is annexed to this document.

In order to ensure that even further independent judgement is applied to whether the Board has complied with the PPFM and whether all With-profits members have been treated fairly, it is recognised good practice for all organisations operating a With-profits Fund to have a With-profits Committee. The With-profits Committee met on 7 March 2023 and has reported to the Board that it believes the Board has acted in accordance with the PPFM and that the interests of With-profits policyholders have been taken into account throughout the year.

The With-profits Committee comprises one Non-executive Director and two independent persons all of whom have relevant experience of With-profits. This ensures that the With-profits Committee is independent.

3. Changes to the PPFM

There were no changes made to the PPFM during 2022.

4. Compliance with the PPFM during the year

This report comments on specific areas. In particular, where discretion was used and where the fair treatment of policyholders was especially considered. This report follows the same sections as the PPFM.

4.1 The amounts payable on maturity

Asset shares for sample regular premium policies and single premium policies are calculated using the hypothecated fund performance and best estimate assumptions in accordance with the PPFM. This allows for expense deductions reflecting the expense allowances within the product terms (table allowances) until 31 December 2010 and then actual expenses thereafter. Mortality risk deductions are based on a standard actuarial table.

Underwriting or miscellaneous profit is calculated based on the change in the estate of The Fund other than that caused by the investment return the estate generates. Other sources of profits within the calendar year are added to the asset share as a percentage of the asset share.

The hypothecated fund performance allows for the differing amount of guarantees on the individual policies and assumes that the assets required to back the guaranteed benefits are invested in bond assets whereas the remaining asset share is invested in equities and properties (or more "risky" assets). For 2022, due to the significant investment losses (in particular, on the bonds, including the gilts) that occurred, our usual approach was changed. This meant, for Accumulating With-profits (AWP), we only allowed for the bond return of -11.12% that occurred up until July, with the remaining bond return in 2022 then being applied to the conventional policies. This followed a shortening of the duration of the bond portfolio to reduce the matching requirements for AWP business. Due to the respective weightings of liabilities, a much larger negative bond return of -36.83% was used for the conventional policies compared with a -11.12% bond return on the AWP policies.

The expense deductions allow for actual expenses since 31 December 2010. Prior to this expenses were based on tables within the Society's rulebook. The twelve year period from 31 December

2010 covers the majority of the AWP and conventional business liabilities so the Board believes that the asset shares reflect any expense profits and losses.

The individual policy calculations generate a compliant framework. However, the scale of the movement in the bond values in 2022 has shown that the hypothecation between bonds and equities should be extended to hypothecating bond performance between policies based on their outstanding duration. A policy soon to mature has a very different matching liability profile than a policy with 20 years until maturity. This work will be carried out in 2023.

The target range in the PPFM for maturing policies is between 70% and 130% of asset shares for regular premium policies and between 80% and 120% of asset shares for single premium policies. In 2022, due to the changes referred to above, there were 248 conventional policies outside of this range, out of 512 maturities (48%). The effect of the revised hypothecation approach referred to above has been estimated. This results in a bond return for policies about to mature of 5% reflecting the redemption yield movement multiplied by the outstanding duration. Had this revised approach to calculating asset shares been applied in 2022, only 20 policies out of 512 maturing policies would have fallen outside the target range.

This revised hypothecation approach means that in future asset shares will be calculated allowing for the returns on bonds that match the duration of the policies. The change would be consistent with the principles for investment return allocations in the PPFM, but the practices section may need some changes.

4.2 The amounts payable in surrender

The target range for pay outs on surrendered policies is between 60% and 130% of asset shares for regular premium policies and 70% to 120% for accumulating With-Profits policies.

Regular premium policies have surrender values that pay exactly the asset share plus a smoothing allowance into the maturity payout at higher durations in force. This is in accordance with the PPFM.

Due to the poor investment performance during 2022, Market Value Reductions ("MVRs") were applied to surrenders of AWP policies during 2022 in accordance with the advice of the With-profits Actuary. The Board reviews AWP, MVR and terminal bonus rates monthly after taking advice from the With-profits Actuary. Surrender values for regular premiums policies are reviewed monthly to ensure they reflect the policies asset share.

During 2022 there were three out of 183 AWP policies that fell outside the asset share range and nine out of 84 regular premium policies.

4.3 Bonus rates

The annual bonus declaration for 2022 was agreed by the Board at its meeting on 16 March 2023.

The Board followed the advice of the With-profits Actuary in declaring (regular) bonuses on all AWP policies.

The Board is aware of the need to monitor interim and terminal bonus rates and investment performance throughout the year and amend bonuses accordingly.

In determining the level of bonuses, the Board bore in mind: the asset share methodology used to determine maturity values; the fair treatment of all members with different types of policies and different lengths of investment; the smoothing of members returns and the balance of the smoothing account; the solvency position of the Society; and the need for maturity and surrender payments to be calculated in line with the PPFM.

The With-profits Actuary has confirmed that the bonus declarations made by the Board are in accordance with the PPFM.

4.4 Smoothing

The Society aims to smooth the fluctuations of investment return and other sources of profits and losses over the period of the contract.

A formal smoothing account was established at the beginning of 2011 with a nil balance. The asset share on payouts within the year has been compared to the payouts made on individual policies on surrender, maturity and death.

As expected in a year of poor investment returns, there has been a decrease in the smoothing account of £359k for the year giving a balance carried forward as at 31 December 2021 of £830k.

The smoothing account is part of the estate of the Society.

The Board can confirm that the smoothing policy detailed within the PPFM is being followed.

4.5 Investment policy

The Board appoints discretionary fund managers to actively manage the equity, fixed interest and commercial property elements of The Fund. During the year the appointed fund managers were abrdn.

The mix of asset classes held has been within the investment limits laid down by the Board, which was agreed after advice from the With-profits Actuary and the Investment Managers.

The mix of assets held is published by the Society on its website and has been in line with the fund manager's view on the potential performance of each asset class.

The Board is satisfied that it and the Investment Managers have controlled investment policy in line with the PPFM.

4.6 Business risk

Risk management is the responsibility of the Board who use various tools including a Risk Management Team, a Risk Committee and a detailed risk register to manage potential risks.

Consideration of the various business risks is incorporated within the Society's Own Risk and Solvency Assessment which was completed towards the end of the year.

The Society has three main outsourcers: Moore & Smalley for internal audit, Steve Dixon Associates llp for actuarial functions and abrdn for investment management.

Risk and outsourcing arrangements have been controlled in accordance with the PPFM.

4.7 Charges and expenses

The Society continues to control costs carefully.

The expenses incurred are close to the expenses used in the Key Information Documents issued by the Society and to the expenses being charged to surrender value asset shares. An expense analysis was carried out by the With-profits Actuary in 2022 which resulted in some small changes to the expense allowance for the 2022 valuation compared to those used in 2021.

The Board is content that the charges and expenses are in line with the PPFM, recognising that this position needs to be reviewed against the business plan on an annual basis.

4.8 Management of the estate

The PPFM defines the estate as the difference between the assets and the realistic prospective value of policy cash flows on the regular premium policies and the asset shares on the accumulating With-profits policies.

The With-profits Actuary and the Board are satisfied that the estate was managed in accordance with the rules of the PPFM.

The estate as at 31 December 2022 was £9.2 million. The total assets, excluding those for unit-linked policies, was £100 million. The PPFM states that the Board believes that the estate should be in the range of 10% to 20% of total assets, excluding any assets held for unit linked insurances. At 9.2% the estate is marginally outside the target range.

4.9 New business

The Society provides a range of With-profits policies for financial advisers that allow for the facilitation of their fees.

Alternative products are available directly and through introducers, which being available on a non-advised basis, include commission.

The Society is successful at selling With-profits business through financial advisers and directly to members. The Board is confident that sales were at a level which did not place an undue strain on solvency, were beneficial to the existing policyholders and were in accordance with the PPFM.

4.10 Allocation of profits

The Society is a mutual friendly society which means that there are no shareholders. All profits are ultimately given to the members of the Society.

4.11 Customer communications

The With-profits Actuary has responsibility for controlling representations made to policyholders by reviewing and signing off documents. All new documents and amendments to existing documents (Key Information Documents, Terms and Conditions and Policy Documents) are reviewed and signed off prior to issue. The Society's PPFM has been approved by the With-profits Actuary, as have the bonus notices and accompanying leaflet.

5. Conclusion

During 2023 the asset share methodology will be refined to reflect the investment return generated by bonds of a duration to match the outstanding duration of policies.

During the period covered by this report (2022) the Board is satisfied that:

- The Society has met its PPFM requirements on payouts on maturity.
- Surrender values are within the range specified by the PPFM.
- The bonuses declared and the smoothing is in line with the PPFM.
- Investments have been managed in line with the PPFM.
- Outsourcing arrangement have been subject to appropriate systems and controls.
- The smoothing account has been established and is reported to the Board annually.

Tim Birse	Peter Green
Chairman	Chief Executive
30 March 2023	30 March 2023

Healthy Investment

2 The Old Court House, Tenterden Street, Bury, Greater Manchester BL9 0AL
Tel No. 0161 762 5790 Fax No. 0161 764 3557
E-Mail enquiries@healthyinvestment.co.uk
Website www.healthyinvestment.co.uk

Annex 1
Report from the With-Profits Actuary to With-Profits policyholders of Healthy Investment.

I have made a report to the Board in accordance with the requirements of the Supervision Manual of the FCA Handbook to inform them of my view of the way in which the Principles and Practices of Financial Management (PPFM) has been applied and how discretion has been exercised in respect of the With-Profits policyholders.

I am also required by the Supervision Manual to draft a report to With-Profits policyholders to accompany the firm's annual report required by COBS20.4.7R, stating whether, in my opinion, the discretion exercised by the firm in respect of the period covered by the report may be regarded as taking the interests of the firm's With-Profits policyholders into account in a reasonable and proportionate manner. In doing this, I must have regard to the rules and guidance laid down in COBS20.2 of the FCA Handbook.

I can confirm that, in my opinion, the Board has acted in a manner consistent with the PPFM in the year from 1st January 2022 to 31st December 2022.

I can confirm that, in my opinion, the Board has taken the interests of With-Profits policyholders into account in a reasonable and proportionate manner.

S W Dixon BA, FIFA
With-Profits Actuary for Healthy Investment.

Dated 3 April 2023