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 2024.

1. Introduction

The Prudential Regulatory Authority (PRA) requires all With-profits providers, with the exception of non-directive friendly societies, to publish and maintain 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 fourteenth report that 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. The With-profits Actuary is 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 6 March 2024 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

In 2024, the Coventry Assurance Ring Fenced Fund was merged into the main With-profits Fund as the value of assets in the fund fell below the level specified in the transfer agreement. The With-profits policies in the ring fenced fund were converted into non-profit policies with an uplift of 17.5% of their sum assured and accrued reversionary bonuses.

The PPFM was updated to reflect these changes. There were no changes to the principles set out in the PPFM.

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 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.

The expense deductions allow for both the reasonable expectations of policyholders in following table deductions until the business had developed to a reasonable size, and then assuming no subsidy from the estate after 31 December 2010, so that the asset shares reflect any expense profits and losses.

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 fixed interest bond assets, whereas the remaining asset share is invested in equities and properties (more risky assets). However, due to the investment losses that occurred during 2022, and in particular the scale of the movement in bond values, the board approved a change in the asset share methodology to extend the hypothecated bond performance to allow for the outstanding duration of policies. This is because a maturing policy has a very different matching liability profile than a policy with say 20 years until maturity.

The revised asset methodology hypothecates bond returns to the part of the asset share matching the guaranteed element based on the outstanding duration of the guarantee. The total return achieved by the fund is then reduced by the total of the hypothecated theoretical guaranteed liability return, and the excess is then spread over the fund's value in excess of the value of the guaranteed liability. The asset share is, thus, calculated based on the bond return of the relevant duration of the guaranteed liability plus the excess return.

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 target range in the PPFM for maturing policies is between 70% and 130% of asset share for regular premium policies and between 80% and 120% of asset share for single premium bonds and ISA policies. In 2024 there was just one conventional policy outside of this range, out of 552 maturities (0.2%).

In 2025, we are expecting nine policies out of the 573 maturing conventional policies (1.6%) to be outside of this range. All nine policies are 'paid up' policies.

The Board followed the advice of the With-profits Actuary in setting the 2024 reversionary bonus rates and the 2025 interim bonus rates. Terminal bonus and Market Value Reduction (MVR) rates are reviewed monthly and the monthly advice given in 2024 has been tested against individual policy asset shares at the year end to ensure that the results are consistent with actual policy asset share.

4.2 The amounts payable on surrender

The target range for pay outs on surrendered policies is between 60% and 130% of asset share 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 and have remained in-force for policies surrendering 2024 in accordance with the advice of the With-profits Actuary. The Board reviews MVR and terminal bonus rates on AWP policies monthly, after taking advice from the With-profits Actuary. Surrender values for regular premium policies are reviewed monthly to ensure they reflect the policy's asset share.

During 2024 there were twenty-nine AWP that fell outside this range (out of 227 surrenders) and twenty-one regular premium policies (out of 135 surrenders).

4.3 Bonus rates

The annual bonus declaration for 2024 was agreed by the Board at its meeting on 13 March 2025.

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

There has been a decrease in the smoothing account of £586k for the year giving a balance carried forward as at 31 December 2024 of £236k.

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 funds of the Society are currently invested by Legal and General Investment Management, who were appointed in November 2023. Until November 2023 the funds were managed by 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 taking into consideration the investment manager's view of the investment outlook.

The performance of the portfolio (net of charges) was +0.29%.

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: PKF Littlejohn llp for internal audit, Steve Dixon Associates llp for actuarial functions and Legal and General for investment management.

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

4.7 Charges and expenses
Whilst the Society continues to control costs carefully expenses in 2024 were significantly higher compared to 2023. This was due to the extra costs related to the upgrading of our policy administration software and the transfer of engagements of Red Rose Friendly Society.

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 early in 2025 which resulted in some small changes to the expense allowance for the 2024 valuation compared to those used in 2023.

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 2024 was £10.2 million. The total assets, excluding those for unit-linked policies, was £100.5 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. As at 31 December 2024 the estate was 10.2% of total assets, excluding assets held for unit linked insurances.

4.9 New business
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 the period covered by this report (2024) 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 smoothing is in line with the PPFM.
- Investments have been managed in line with the PPFM.
- Outsourcing arrangements have been subject to appropriate systems and controls.
- The smoothing account has been established and has been reported on to the Board.
- New business continues to be written resulting in a growing Society.

Tim Birse
Chairman
28 March 2025

Peter Green
Chief Executive
28 March 2025

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 2024 to 31st December 2024.

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 28 March 2025