For customers

Scottish Equitable plc 2023 annual report to with-profits investors

For the year to 31 December 2023

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June 2024

Scottish Equitable and with-profits

In this report you can find details of how we managed our with-profits business in 2023 and how we looked after our with-profits investors' interests

About this report

The Financial Conduct Authority requires us, Scottish Equitable plc, to produce a report each year for our with-profits investors stating whether or not we believe we've complied with our stated **Principles and Practices of Financial Management of With-Profits Business (PPFM)**.

Regulations set by the Financial Conduct Authority require firms like Scottish Equitable that have a with-profits fund to appoint a With-Profits Committee to advise the **Board** on matters impacting with-profits policyholders. The independent **Scottish Equitable Policyholders Trust Ltd** acts as Scottish Equitable's With-Profits Committee and oversees the assessment of our compliance with the **PPFM**. **Scottish Equitable Policyholders Trust Ltd** has reviewed this report before its publication. (You can find more details on this in the section 'How we make sure we're compliant with the **PPFM**'.)

A glossary of terms used in this report which are highlighted in **bold font** can be found in Appendix 2.

Our PPFM

Our **PPFM** sets out in detail our with-profits management strategy and processes. You can view it on our website at www.aegon.co.uk/with-profits or write to us at Aegon and Scottish Equitable Pensions and Bonds, SUNDERLAND, SR43 4DS for a copy.

Our **PPFM** is split into two sections: principles and practices. The principles set out our general approach to the management of with-profits business, and we don't expect these to change often. The practices cover the day-to-day operation of our with-profits business within the principles framework.

Our with-profits contracts and funds

Scottish Equitable plc used to be Scottish Equitable Life Assurance Society, which was a mutual company, and you may have invested in your with-profits contract with us then. On 31 December 1993 the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc as part of the demutualisation process as we became a public limited company. Scottish Equitable plc is owned by Aegon UK, which in turn is a subsidiary of the international insurance group Aegon Ltd.

We have at different points in time offered three broad types of with-profits investment:

- **traditional with-profits**;
- **unitised with-profits**; and
- **new generation with-profits**.

We generally offered **traditional with-profits** contracts up to 1984 for pensions business (for example retirement annuities) and 1991 for life business (for example mortgage **endowment** plans). We then offered **unitised with-profits** investment, available as a fund choice under unit-linked contracts taken out up to 30 September 2002. A range of **new generation with-profits** investment funds were then available as a fund choice under unit-linked contracts until 1 August 2013, when we closed the **new generation with-profits** funds to new investment.

We included minimum pension guarantees (including **guaranteed annuity options**) in a number of contracts mainly in the 1970s and 1980s. All of our traditional and **unitised with-**

profits (but not **new generation with-profits**) investments also offered different forms of investment guarantee. As people are living longer than originally expected and interest rates are lower than when these guarantees were written, the cost of meeting them has increased significantly over the many years since they were written. While we bought assets that provided some protection against the impact of interest rate changes, the cost of these guarantees has, over time, reduced the bonuses we are able to pay out to our traditional and **unitised with-profits** investors.

We stopped offering with-profits business with investment guarantees on 30 September 2002 – apart from ongoing regular contributions, contribution increases and new entrants into existing occupational pension schemes. Further restrictions were introduced from 30 April 2015 which stopped one-off contributions and investment switches being made into **unitised with-profits** funds. From 1 January 2016, the scale of premium rates applicable to any contribution increases and new entrants into existing occupational pension schemes was increased substantially to reflect the significant cost of guarantees continuing to be provided by these plans.

Between 30 September 2002 and its 1 August 2013 closure date, any new with-profits investments were into our range of **new generation with-profits** funds. These have no investment guarantees or bonuses and each fund is ring-fenced, which means that all investment profits and losses stay within each **new generation with-profits** fund and are reflected in payouts to investors. These new generation funds are therefore not affected by the cost of meeting the guarantees written in the past.

Scottish Equitable plc has only one overall **with-profits fund**, however we manage this as a number of notional individual sub-funds representing the different varieties of traditional, unitised and **new generation with-profits** investments that have been offered over many years. Investments in each of these notional sub-funds benefit from different guarantees (or no guarantee in the case of the **new generation with-profits** funds) and invest in different mixes of company shares, bonds and other asset types.

To help identify which type of with-profits investment you may hold, a summary of product types and the different notional sub-funds that have been offered over the years is included in Appendix 1 to this report.

With-profits policies with investment guarantees (traditional and unitised with-profits)

If your with-profits investment started before 30 September 2002, you'll have an investment guarantee. The details vary by policy and sub-fund, but typically include a minimum amount payable upon maturity, retirement or death. The investment guarantee doesn't apply on early cash-in, early retirement or on a switch of investment fund choice.

The amount guaranteed to be payable may be increased by any **annual bonus** (also known as reversionary bonus) that we may add. For traditional business, the **guaranteed benefit** payable at the maturity date is increased by any bonuses given. For **unitised with-profits** business, **annual bonus** is reflected in either an increase in the unit price or by an increase in the number of units held in the plan. We write to you each year to provide you with details of this **annual bonus** and the effect this has on your guaranteed amount.

We may increase your policy payout through the addition of a **final bonus** (also known as terminal bonus) if the investment performance of the fund over the period of your investment supports a higher payout than the guaranteed amount. In making this assessment we apply a degree of 'smoothing' to the investment returns. This is a process which aims to keep payouts more stable than following directly the ups and downs of the value of the underlying investments.

While we aim to provide part of your payout in the form of **final bonus**, there may be occasions where no **final bonus** is payable and, if this coincides with your maturity or pension date, you'll receive the guaranteed amount. However, if you cash in your policy before your maturity or pension date, your payout may be further reduced by the application of a **Market Value Reduction (MVR)** (only applies to **unitised with-profits** business) to reflect the investment returns on the assets underlying your policy, or through a lower surrender value scale (applies to **traditional with-profits** business).
If you'd like further detail on these features, take a look at our **PPFM** and other with-profits information on our website at www.aegon.co.uk/with-profits

With-profits policies without investment guarantees (new generation with-profits)

If your with-profits investment started after 30 September 2002, you'll be invested in one of our **new generation with-profits** funds. These funds don't have any investment guarantees. However, they do have a mechanism which smooths the daily unit price to dampen the immediate effect of peaks and troughs in the value of investment markets.

Early in 2020 we wrote to all of our **new generation with-profits** customers to explain changes we were making to the principles and practices described in the **PPFM** to help facilitate the orderly closure of our **new generation with-profits** funds when the appropriate time comes to close each of them.

The **new generation with-profits stakeholder** cautious fund was closed in 2021 and all remaining investments were switched into an alternative fund with a similar asset mix but without the smoothing features of the **new generation with-profits** fund.

We expect to follow a similar process, at the appropriate time, for other **new generation with-profits** fund closures.

If you'd like further detail on our **new generation with-profits** funds, take a look at our **PPFM** and other with-profits information on our website at www.aegon.co.uk/with-profits

How we make sure we're compliant with the PPFM

We take advice from the **With-Profits Actuary** on all aspects of the operation of our with-profits business. This ranges from bonus declarations to the systems and procedures needed to treat with-profits investors fairly. The **With-Profits Actuary** advises us on whether any changes we make are consistent with our **PPFM** and produces routine reports for us. One of these is a report explicitly covering compliance with the **PPFM** during the previous calendar year.

Also, the **Scottish Equitable Policyholders Trust Ltd** provides independent oversight and advice to Scottish Equitable plc on the way it manages the With-Profits fund. Its directors (who are independent of Scottish Equitable plc) meet regularly throughout the year and take advice from an independent actuarial adviser (who is also a director of **Scottish Equitable Policyholders Trust Ltd**). The **With-Profits Actuary** is present at these regular meetings, as well as certain directors and management of Scottish Equitable plc. All reports from the **With-Profits Actuary** to Scottish Equitable plc's directors are also given to **Scottish Equitable Policyholders Trust Ltd**.

Our with-profits decisions

Within our with-profits business, we have discretion (in other words we make all the decisions as to what to do) in the following key areas:

Traditional and unitised with-profits business

- How much should be invested in different types of assets (such as company shares, bonds, property).
- The setting of **annual bonus** rates, **final bonus** rates and **MVR**s.
- The calculation of surrender values (for **traditional with-profits** contracts) and unit prices (for certain **unitised with-profits** contracts).
- How much should be deducted from your policy to meet part of the expected future costs of guarantees.
- How much is added to your policy from the **Estate** (which is the excess assets in the fund over and above the amount required to meet our obligations to our customers) and how much of past additions to your policy may be taken back to protect the overall financial position of the fund (should this become necessary).
- The premium rates we charge on traditional with profits business for a given amount of benefit.

New generation with-profits business

- How much should be invested in different types of assets.
- The setting of **Expected Growth Rates** (which is what we assume the long-term return on the investments for each fund to be, and which feeds into our smoothing formula).
- The setting of any smoothing adjustments that may be required. (These are adjustments, upwards or downwards, that may apply to your payout when you leave the fund.)
- The relative weightings between the **expected growth rate** and the actual investment return achieved, as used in our smoothing formula.
- The details of the smoothing formula we use to smooth investment returns to get to the smooth unit price.
- With each fund in run-off, decisions as to the ongoing operation of smoothing and the timing and nature of the closure of each fund.

In line with the demutualisation process that took place in 1993, as described in the 'Our with-profits contracts and funds' section of this document, the expenses or charges allocated to your investment are set at specific levels. If you've invested in **unitised with-profits** or **new generation with-profits** funds, you can find details of the charges in your illustration and policy conditions booklet. If you invested in **traditional with-profits** contracts, the relevant expenses charged to your policy were set in our **Scheme of Demutualisation** and are updated each year for inflation as set out in section 4.9.1 of our **PPFM**.

Investment policy

You can find the target investment ranges for traditional, unitised and **new generation with-profits** business in the **PPFM** (and listed later in this report). In addition, the actual levels are updated quarterly on our fund factsheets, which are available on our public website. The target ranges specify how much of each notional sub-fund is to be invested in a combination of equities (company shares) and property, with the balance to be invested in fixed interest securities (bonds issued by governments and companies) and cash.

Responsible Investment

Aegon's responsible investment framework sets out how our with-profits fund assets should be managed, consistent with our objectives, relevant laws and market and consumer expectations. Responsible investment is commonly defined as the incorporation of environmental, social and governance (ESG) factors in investment decisions and stewardship. Prospective fund managers are screened based on their ability to meet our minimum expectations across five areas of responsible investment and to report back to us on activities across these themes and risks.

We expect our fund managers to support our climate ambition and net zero commitment and to sign up to the United Nations Principles for Responsible Investment and to be signatories to the UK Stewardship Code 2020 and apply its definition of stewardship, which is the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society". As at May 2024, our with-profits asset managers (Aegon Asset Management and Columbia Threadneedle Investments) comply with these expectations. This demonstrates a commitment by asset managers to champion clients' interests and to use their influence to promote sustainable value creation through activities such as voting at shareholder meetings and proactively engaging with companies to ensure they are being managed for the long-term benefit of clients.

Our climate-related disclosures, based on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, show how we are identifying risks and opportunities related to climate change, and acting on them. The **Board** supervises our efforts to address climate change related risks, and oversees our approach to sustainability, including, our responsible investment and stewardship commitments. This includes Aegon UK's net zero commitments, our climate road map and long-term resilience of the business to climate change.

You can find out more about responsible investing by visiting aegon.co.uk/customer/investment-choices/responsible-investing

In addition, our most recent Task Force on Climate-Related Financial Disclosures (TCFD) report may be obtained by visiting aegon.co.uk/corporate-sustainability/governance-matters

Traditional and unitised with-profits

During 2023 the proportion of investments targeted to be invested in equities and property was as follows:

Non-unitised products:

Traditional with-profits (life & pension) 10-20%

Reflex Deposit Administration pension (WP)

Pension deposit administration 0%

Unitised with-profits funds:

With-Profits **Endowment** pension fund (WPE)

With-Profits **Endowment** life fund (WPC)

With-Profits **Whole of life** fund (WWP) 0%

With-Profits Option 1 pension fund (WP1)

Deposit Administration fund (DAF)

Deposit Administration fund 2 (DA2) 15-25%

High Equity with-profits pension fund (WP2)

With-Profits Bond (WPB) 65-75%

Under these notional sub-funds, the higher the level of guarantees for investors, the lower the target equity/property range generally. The Appendix to this report contains a summary description of each of these sub-funds along with a brief overview of any associated investment guarantee.

New generation with-profits

The target investment mix for the new generation with-profits funds during 2023 was as follows:

Life Growth, Pensions Growth and Pensions Stakeholder Growth sub-funds

UK and overseas equities	80-90%
UK and overseas fixed interest	10-20%
Cash and others	0-5%

Life Cautious and Pensions Cautious sub-funds

UK and overseas equities	35-45%
UK and overseas fixed interest	55-65%
Cash and others	0-5%

Investment returns

The gross investment returns (before any deductions or additions made by us) over the last two years under traditional and **unitised with-profits** investments are shown below. These investment returns feed directly into the calculations used to set the bonus rates and **MVR**s that determine payouts to policyholders. These returns don't directly represent changes in the value of with-profits policies to investors. When we set bonus rates and **MVR**s, investment returns are smoothed. Past performance isn't a reliable indicator of future results. the value of the investments can fall as well as rise for a number of reasons, for example market and currency movements. You may get back less than the amount originally invested if you surrender the policy before the selected maturity date.

Type of investment	2023 returns	2022 returns
Traditional with-profits (life and pension)	+7.1%	-13.6%
Reflex Deposit Administration pension (WP), Unitised Pensions WPE, Unitised Life WPC, WWP	+7.0%	-14.6%
Unitised Pensions WP1, DAF, DA2	+6.7%	-12.6%
Unitised Pensions WP2 Unitised Life WPB	+7.6%	-9.9%

The investments of the fund showed some recovery over 2023 following the adverse investment returns of 2022, but noting that geo-political and economic landscapes remain uncertain with a number of regional conflicts and threats ongoing.

In detail, the **traditional with-profits** and **unitised with-profits** fixed interest investments returned +7.0% and **new generation with-profits** fixed interest investments returned +8.6%. UK equities, overseas equities and direct property returned +5.3%, +17.5% and -4.4% respectively. The returns shown above reflect the corresponding asset mix held within each of the notional sub-funds (for example WP1 has a 20% UK equity content and 80% fixed interest, resulting in a net return of 6.7%; from 20% x 5.7% plus 80% x 7.0%).

New generation with-profits sub-funds use a smoothed unit price to share out their profits and losses to investors, unlike **traditional with-profits** policies and **unitised with-profits** sub-funds, which use a system of **annual bonuses** and **final bonuses** or **MVR**s. The change in smoothed unit price (for the 1% annual management charge version) for the **new generation with-profits** sub-funds over the last two years is shown below.

Fund	2023 unit price change	2022 unit price change
Life Growth fund	+6.2%	-3.5%
Life Cautious fund	+5.4%	-8.0%
Pensions Growth fund	+6.4%	-3.3%
Pensions Cautious fund	+5.7%	-7.7%
Pensions **Stakeholder** Growth fund	+6.4%	-3.3%

The unit price changes in the **new generation with-profits** funds during 2023 broadly reflect the average of the underlying asset returns and the **expected growth rates**, which are detailed later in this report.

Annual bonus rates, final bonus rates and MVRs

We declared **annual bonus** rates on 1 April 2023 for those funds where the bonus is declared in advance, and on 31 December 2023 for those funds where the bonus is declared in arrears. This was done in line with the methods described in the **PPFM**. You can find the declared **annual bonus** rates below, with the previous year's rates for comparison.

Annual bonus declared in advance	1 April 2023	1 April 2022
Unitised with-profits pension:		
WP2	2.25%	2.25%
DAF	1.25%	1.25%
DA2	nil	nil
Pension deposit administration funds:		
SE Funding, Barclays Retirement Accumulator Plan, Money Plus and Money Purchase Plan	nil	nil
Unitised with-profits life:		
WPB (1.0% annual management charge)	2.75%	2.75%
WP0 (1.5% annual management charge)	2.75%	2.75%

Annual bonus declared in arrears	31 December 2023	31 December 2022
Traditional with-profits:		
Life	2.50%	2.50%
Pensions	0.25%	0.25%
Pension deposit administration funds:		
Reflex Deposit Administration pension (WP)	nil	nil
Unitised with-profits:		

Pensions WPE fund	nil	nil
Pensions WP1 fund	nil	nil
Life WPC fund	nil	nil
Life WWP fund	nil	nil

Annual bonus rates are in addition to any guaranteed growth rates, which are as follows:

Fund	Guaranteed growth (expressed as an annual rate of increase)
Traditional with-profits	In the range 2-5.5%
Reflex Deposit Administration pension (WP)	5.0%
Pensions Deposit Administration	0.0% (in other words the value can't fall)
Unitised Pensions WPE	Around 5.5%
Unitised Pensions WP1	4.0%
Unitised Pensions WP2 and DAF, Unitised Life WPB	0.0% (in other words the unit price can't fall)
Unitised Pensions DA2	3.0%
Unitised Life WPC	3.9%
Unitised Life WWP	2.7%
All **new generation with-profits** funds	No investment guarantees

These rates only apply if you stay invested to a date specified in our policy documents (for example a specified maturity or retirement date or on earlier death). The rates represent the growth of the minimum **guaranteed benefits**, if the investment is held to the specified date, expressed as an annual rate.

Whilst there were negative asset returns over 2022 for all asset classes, these were largely reflected through a reduction in **final bonus** rates with **annual bonus** rates remaining unchanged. Where a nil **annual bonus** rate is declared this is because the expected investment returns are such that no **annual bonus** is affordable over and above the guaranteed growth rate.

It's important to view **annual bonus** rates in the context of the additions and guarantees over the whole investment term. We have to make sure that guarantees to our investors can be met. Once an **annual bonus** is added to an investment, it increases the guarantees under that investment. If we build up guarantee levels that are too high, the financial position of the fund may be threatened, and this may then require us to move into assets expected to give a lower investment return or reduce payouts to investors.

This is particularly relevant at the moment because:

- many of the notional with-profits sub-funds have high rates of future guaranteed growth on top of any **annual bonus** additions (see the table on guaranteed growth rates above);

- **guaranteed benefits** continue to remain high relative to the investment return that has been achieved under a number of sub-funds, and

Because of all these factors, we believe the 2023 **annual bonus** declaration represents a fair outcome to protect the long-term interests of all with-profits investors.

Guaranteed benefits and **annual bonuses** represent only a part of the ultimate payout under a with-profits investment. There are also **final bonuses** or **MVR**s under **unitised with-profits** funds and **final bonuses** and surrender value bases under **traditional with-profits** contracts. We updated **final bonus** rates and **MVR**s every three months during 2023. All our **final bonus** and **MVR** calculations in 2023 were calculated using the methods set out in the **PPFM**.

For **unitised with-profits** pension deposit administration funds, we declare a bonus based on the investment return achieved on the **With-Profits fund's** fixed interest investments over the previous calendar year less a charge of 0.5%.

As the fund's fixed interest investments fell in value over 2022, the rate from 1 April 2023 remained as nil. This increased the investment loss carried forward to be offset against any future gains before any bonus additions are made to the deposit administration funds.

Additions to policies from Estate distribution and deductions for guarantee costs

Additions from the **Estate** and deductions for guarantee costs apply only to traditional and unitised with-profits policies and do not apply to **new generation with-profits** policies.

The **Estate** represents the excess of assets within the fund over and above the amount required to meet our obligations to customers. The **shareholder** (i.e. the owner of Scottish Equitable plc) has no entitlement to any of the **Estate**, which is wholly for the benefit of with profits policyholders. The **Estate** is used to provide protection to the fund against the risk of adverse future events and to meet changes in the cost of guarantees.

Taking into account these requirements, we aim to distribute the **Estate** fairly to traditional and **unitised with-profits** policyholders over time by making discretionary additions from the **Estate** to investment returns or final payouts. Such additions are not guaranteed and the amount can be changed at any time.

In the event of adverse financial circumstances affecting the fund, we may have to take back past additions from the **Estate** we've made to investment returns and stop making additions to final payouts from the **Estate**.

Throughout 2023 we made discretionary additions from the **Estate** to final payouts of 1%; before making any further increases required to meet guaranteed minimum payouts.

As we explain in the **PPFM**, we may make regular deductions from the with-profits investment returns to meet some of the expected future guarantee costs, including **guaranteed annuity option** costs. The rest of the expected future guarantee costs will be met from the **Estate**.

The same rate of addition from the **Estate** or deduction for guarantee costs applies to all our traditional and **unitised with-profits** policies. During 2023 we did not make any deductions for guarantee costs.

You can find more detail about the rates of deduction from investment returns for guarantee costs, and rates of addition to investment returns in relation to **Estate** distribution on the with profits sub-fund factsheets on our public website at http://www.aegon.co.uk/with-profits

Competing interests of different stakeholders

The main stakeholders of the With-Profits fund are the with-profits investors (policyholders) and the **shareholder** of Scottish Equitable plc. As the **shareholder** isn't entitled to receive a share of the profits generated within the fund (other than contractual policy charges and expenses), there is limited scope for conflicts of interest to arise between the with-profits investors and the **shareholder**. The **shareholder**'s main aims are that the fund maintains enough capital to withstand adverse circumstances and that investors are treated fairly.

Different groups of with-profits investors within the fund have differing levels of guarantees depending on when they joined the fund. The assets in which different groups of with profits customers are invested vary depending on the level of guarantees they benefit from. Payouts on traditional and **unitised with-profits** policies (not on **new generation with-profits** policies) can be affected by the profits and losses made by the fund as a whole. This means that losses made as a result of guarantees that apply to only some policyholders could lead to reduced payouts for all policyholders in the fund (except for **new generation with-profits** policies). Conversely if guarantees applying to only some policyholders cost less than expected then all policyholders (except new **generation with-profits** policyholders) may benefit from this.

Management Actions

As described earlier we expect to distribute the **Estate** over time by making additions to traditional and **unitised with-profits** policies. The **Estate** can vary in size as a result of profits and losses from the impact of investment returns on the cost of guarantees and various other factors such as how long people are expected to live.

When we test the financial strength of the fund to ensure that it is able to meet **regulatory solvency requirements** we make assumptions about what we would do to ensure the fund remains solvent in the event that the fund makes significant losses that could not be adequately covered by the **Estate**. These assumptions about what we would do are known to us and to our regulator as '**Management Actions**'. During 2023 the **Management Actions** we assumed that we could take in the event that the fund incurred significant losses that could not be adequately covered by the **Estate** included:

- Reducing all regular bonus rates to nil
- Changing the asset mix on traditional and **unitised with-profits** policies so that it contains more government bonds and less company bonds and shares
- Reducing payouts on traditional and **unitised with-profits** policies, either by increasing the level of annual deductions for guarantee costs up to a maximum of 2% per annum, or making a one-off deduction of up to 20%. We would not pay out less than any guaranteed minimum amount that applied.

Over 2023 the fund was able to meet its **regulatory solvency requirements** and we did not require to take such actions. However, with the fund continuing to operate at a reduced level of **estate** following increases in interest rates, the **estate** distribution applied to exiting policies remained at a level of +1% through 2023.

Ensuring fair payouts (traditional and unitised with-profits)

To help ensure that policyholders are treated fairly, we monitor levels of traditional and **unitised with-profits** payouts relative to the investment returns that have been achieved on the amounts invested by customers after allowing for expenses and charges and any discretionary additions from the **Estate** (the total of which is referred to as '**asset share**' in the **PPFM**). Regulations set by the Financial Conduct Authority require us to make sure that we expect no less than 90% of maturity payments to fall within the target payout range specified in our **PPFM**. Our current target payout ranges as a percentage of **asset share** are:

Unitised with-profits (other than deposit administration)	85% - 115%
Unitised with-profits (deposit administration funds)	80% - 120%
All **traditional with-profits** life and pension contracts	70% - 180%

Throughout 2023, **final bonus** rates for **unitised with-profits** funds were determined by direct reference to smoothed investment returns less charges, resulting in target payouts at the point of each quarterly rate review of between 101.9% and 107.0% of **asset share** before any discretionary distribution from the **estate** was added.

Whilst the ratio varies by fund, they all started the year above 100% reflecting a period of unfavourable investment performance over the previous year. This position held relatively stable over 2023 as the adverse experience of 2022 remained fully within our 2 year smoothing period with positive returns of 2023 replacing positive returns from 2021 within our smoothing assessment. The ratio differs between notional sub-funds and is influenced by the smoothing position of each sub-fund, which in turn depends on both past investment returns and our assumptions about future investment returns; both of these varying depending on the underlying asset mix.

For **traditional with-profits** a single rate of **final bonus** is set for each group of policies of a similar age. In calculating the **asset share** for traditional policies we deduct a fixed amount per policy each year to cover administration expenses.

Because these fixed expenses have a particularly significant impact on the **asset shares** of very small policies we don't include policies worth less than £5,000 when we are checking that 90% of policy payouts fall within the 70% to 180% range.

All **traditional with-profits** payouts made during 2023 which fell below the lower end of the target range or above the upper end of the target range were checked for any underlying problem with the claim payout. The purpose of this review is to highlight any policies where we may conclude that action is required because the payout was unfair. No policies were identified as requiring an adjustment to their payout over 2023.

In addition to complying with our target payout ranges, if we find that a **final bonus** rate or **MVR** has been calculated incorrectly and we conclude that as a result a payout was unfair, our practice is that this will be corrected and, if appropriate, an additional payment made.

Calculation of surrender values (traditional with-profits)

The monitoring of payouts described above includes monitoring of fair surrender values for both premium paying and paid-up **traditional with-profits** contracts.

New generation with-profits – expected growth rates

We reviewed the yearly **Expected Growth Rates** for the **new generation with-profits** funds during 2023 against our expected future rates of return on equities and fixed interest securities. As a result, the yearly **Expected Growth Rates** applying during 2023 were:

Fund	From 01/04/23-31/03/24	From 01/04/22-31/03/23
Life Growth	4.75%	4.50%
Life Cautious	4.25%	2.75%
Pensions Growth (inc **Stakeholder**)	5.25%	4.75%
Pensions Cautious	5.00%	3.25%

These **Expected Growth Rates** are before any annual management charge deduction. The **Expected Growth Rates** for the Life funds can be slightly lower than for Pensions funds as Life funds must allow for the expected effect of taxation.

New generation with-profits – smoothing adjustments

We currently don't apply smoothing adjustments to payouts to investors leaving the **new generation with-profits** funds as long as the ratio of the smoothed fund value to the actual value of the underlying investments is in the range 80% to 130%. During 2023 we applied no upwards smoothing adjustments and 2 cases where we applied downwards smoothing adjustments, with an aggregate impact of less than £1.

Changes to the PPFM during 2023

There were no material changes made to the principles of the **PPFM** during 2023.

An update was made to practice 6.3.4 to clarify that we normally expect at least 90% of the **new generation with-profits** Fixed Interest fund (SENGBD) fixed interest securities to have credit ratings of BBB or higher.

Our directors' opinion on our with-profits management in 2023

We can confirm that, throughout 2023, we've met the requirements of the **PPFM** and we've exercised our judgement fairly, taking into account the interests of with-profits investors in a fair and reasonable manner. This is based on the evidence and explanations We've provided in this report, and a review undertaken by the With Profits Actuary. **Scottish Equitable Policyholders Trust Ltd**, acting as the Scottish Equitable With-Profits Committee, has reviewed this annual report to policyholders and the **With-Profits Actuary**'s statement.

The directors of Scottish Equitable plc
June 2024

We're not allowed to give you advice, but if you'd like any further information on our with-profits contracts or funds and how we run them, please contact us:

Aegon and Scottish Equitable Pensions and Bonds
SUNDERLAND
SR43 4DS

03456 10 00 10
+44(0)131 378 3000 from abroad

Call charges will vary

Statement by the With-Profits Actuary

I can confirm that, in my opinion, Scottish Equitable plc's 2023 annual report to with-profits investors and the discretion exercised by its directors during 2023 have taken the interests of with-profits investors into account in a reasonable and proportionate manner. In reaching this conclusion, I have taken account of the information and explanations provided to me by Scottish Equitable plc, as well as the relevant rules and guidance of the Financial Conduct Authority.

Alan McBride
With-Profits Actuary
Scottish Equitable plc

Appendix 1

Investment guarantees

The **With-Profits fund** contains a number of notional sub-funds with different features. The guarantees associated with each of these different sub-funds are listed below. These guarantees don't apply if you cash in your with-profits investment early (including switching your investment fund choice). Any guarantees are based on the ability of the issuing insurance company – in this case Scottish Equitable plc – to pay them. If, for example, the company no longer existed, then the guarantees it provides would be affected. In the table, 'pension date' means the retirement date you selected at the outset of your policy.

Sub-fund	Investment guarantees in summary
Traditional With-Profits	Significant investment guarantees when held to the contractual maturity date. This includes the following product lines, typically available prior to the mid-1980s: Whole of Life ("O", "Flexplan", "75+", "L") Endowments ("Chequeplan", "E") Mortgage Endowments ("MPlan") Individual Retirement Annuity ("10% Plan","RAW") Group Pension Schemes ("Exsel", "SEL")
New Generation With-Profits: With-Profits Growth and With-Profits Cautious funds (life and pensions versions; WCA, WGW, SZG, WCS and WGR)	There are no investment guarantees applicable to these funds, which were available to new investments between 30th September 2002 and 31st July 2013.
Unitised With-Profits sub-funds (listed below):	Varying levels of investment guarantee as listed below. These were available to new investments between the early 1980s and 30th September 2002.
High Equity With-Profits pension fund (WP2)	At certain points as set out in your policy conditions, a guarantee that the price you receive when you sell units won't be less than the selling price when you bought the units.
With-Profits **Endowment** pension fund (WPE)	Guaranteed minimum return of around 5.5% each year for units held to your pension date.
With-Profits Option 1 pension fund (WP1)	Guaranteed minimum return of around 4.0% each year for units held to your pension date.
Reflex Deposit Administration pension contracts (WP)	Guaranteed minimum return of around 5.0% p.a. for units held to your pension date.
Deposit Administration Fund (DAF)	At certain points as set out in your policy conditions, a guarantee that the price you receive when you sell units won't be less than the selling price when you bought the units.
Deposit Administration Fund 2 (DA2)	Guaranteed minimum return of around 3.0% each year for units held to your pension date.
Pension deposit administration contracts	A guarantee that the amount received won't be less than the amount invested into the contract plus any annual deposit bonus additions. The individual and group pension plans issued on this basis included: "SEF", "Money Purchase", "Money Plus", "BRAP" and "BISCO".
With-Profits Bonds (WPB, WP8, WP9 and WP0)	At certain points as set out in your policy conditions, a guarantee that the price you receive when you sell units won't be less than the selling price when you bought the units.
With-Profits **Endowment** life fund (WPC)	Guaranteed minimum return of around 3.9% each year for units held to your contractual maturity date.
With-Profits **Whole of Life** fund (WWP)	Guaranteed minimum return of around 2.7% each year for units held to your 85th birthday.

Appendix 2

Glossary of terms

This section explains the words and phrases highlighted in **bold** throughout the document.

Terminology	Description
Annual bonuses	Amounts, which when added to policies, increase the guaranteed **benefits** applying at specific points in time as per the policy conditions. Bonus rates are normally reviewed annually.
Asset shares	An evaluation of each investor's fair share of the assets in the with-profits fund, based on the contributions they have paid in, the investment returns on those contributions, and the expenses or charges deducted. Asset shares are used as a guide to setting bonus rates and with-profits payouts.
Board	The **Board** of Directors of Scottish Equitable plc, or a committee of this body acting under its delegated authority.
Endowment	A **traditional with-profits** life insurance policy designed to pay a lump sum after a specified term or upon death.
Estate	The excess of the assets within the with-profits fund over and above the amount required to meet the fund's contractual obligations to investors.
Expected growth rate	Our assumed long-term rate of investment return used within the smoothing mechanism for the **New Generation With-Profits funds**.
Final bonuses (also known as terminal bonus)	Non-guaranteed amounts that may be added to **guaranteed benefits** (including **annual bonus** additions) when a with-profits investment is encashed.
Guaranteed benefits	Amounts guaranteed to be paid at specific points in time as set out in the policy conditions.
Guaranteed annuity option	An option, which exists under certain pension contracts, to convert the fund available at retirement to an annuity on guaranteed terms as set out in the policy conditions.
Management Actions	Actions that Scottish Equitable plc reserves the right to take in adverse circumstances to help ensure the equitable operation of the **with-profits fund** and that the fund can continue to meet its **regulatory solvency requirements**.
Market value reductions (MVRs)	A reduction in the value of units under a **unitised with-profits** policy that may apply when a claim arises at a point where no guarantee exists.
New generation with-profit	With-profits funds under which there is no concept of **annual bonuses** or **final bonuses**, with benefits being determined by reference to a smoothed unit price that normally changes on a daily basis.
Principles and Practices of Financial Management of With-Profits business (PPFM)	A regulatory document that explains how we manage our with-profits business, which is available from our public website (www.aegon.co.uk/with-profits).
Regulatory solvency requirements	The minimum excess of assets over liabilities that must be maintained in the **with-profits fund** in accordance with the requirements of the Prudential Regulation Authority.

Scheme of Demutualisation	The legal document approved by the Court of Session that authorised and gave effect to the transfer of business from Scottish Equitable Life Assurance Society to Scottish Equitable plc with effect from 31 December 1993.
Scottish Equitable Policyholders Trust Ltd	An independent body which acts as Scottish Equitable's With-Profits Committee and, on behalf of with-profits investors, oversees the way in which the **with-profits fund** is managed.
Shareholder	Aegon Ltd, the ultimate parent company of Scottish Equitable plc.
Stakeholder pensions business	A pension scheme established in accordance with the Stakeholder Pension Schemes Regulations 2000.
Terminal bonus	See **Final Bonuses**.
Traditional with-profits	A with-profits policy that, in accordance with the policy conditions, offers a level of **guaranteed benefit** in return for the payment of a premium or an agreed series of premiums. Offers no facility to switch into a unit-linked contract. These contracts include both **Endowment** and **Whole of Life** policies.
Unitised with-profits	A with-profits policy that, in accordance with the policy conditions, offers a level of **guaranteed benefit** (with the exception of **new generation with-profits**) linked to the payment of each individual premium. **Guaranteed benefits** (including **annual bonus** additions) are expressed in terms of a unit value. Generally, it offers the facility to switch into a unit-linked contract (but not always).
Whole of Life	A **traditional with-profits** life insurance policy designed to pay a lump sum upon death.
With-profits actuary	An actuary appointed under chapter 4.3.16 of the Supervision manual of the Financial Conduct Authority to advise the directors of Scottish Equitable plc on their exercise of discretion in the management of the **with-profits fund**.
With-profits fund	The sub-fund of Scottish Equitable plc's long-term insurance fund into which all with-profits business was written or transferred on the demutualisation of Scottish Equitable Life Assurance Society, and from which with-profits investors (with the exception of New Generation With-Profits investors) are entitled to share in the profits and losses in accordance with their individual policy conditions, the **Scheme of Demutualisation**, and the **PPFM**.