With-Profit Endowments 2014

In the first quarter of each year, most UK Life Insurance companies will publish results on the performance of their With-Profit funds during the previous calendar year. They will also announce the changes that they are making to annual bonus rates, terminal bonus rates and ultimately the levels of payout for maturing With-Profit policies. Individual policyholder statements will be sent out detailing the bonus additions and guarantees that are to be applied to their policies. 2014 is expected to be a busy year for Life Insurance companies as the number of Endowment policies that mature this year is probably going to be as high, if not higher, than in 2013.

Surrenda-link Limited has been a major participant in the endowment purchasing market for almost 25 years and is constantly monitoring the performance of the larger UK Life Insurance Companies, comparing the relative performance of With-Profit funds and changes in bonus rates from year to year to ascertain how policies might fair in the future. The performance of world equity markets during 2013 was generally quite strong and the movements in property indices suggested a potential double digit return on UK property investments. Conversely, UK Gilt markets and fixed interest stock performed poorly although the balanced asset mixes that typically underlie the With-Profit funds were expected to have delivered reasonable returns. Without exception, the published 2013 annual returns for each of the With-Profit funds were positive and most showed an improvement on the solid performance achieved in 2012.

Table A: Return on With-Profits funds over the calendar years 2012 & 2013

Life Company	2012 Annual Return	2013 Annual Return
Clerical Medical	7.2%	9.9%
Commercial Union	7.3%	9.1%
Friends Provident	8.5%	7.5%
General Accident	7.3%	9.1%
Legal & General	10.6%	9.1%
Norwich Union	8.1%	9.8%
Prudential	10.5%	10.3%
Royal Life	8.1%	n/a
Scottish Amicable	9.7%	9.1%
Standard Life	7.9%	9.6%
Scottish Widows	9.0%	9.0%
Average	**8.6%**	**9.2%**
FTSE All Share Index (total return)	12.3%	20.8%
FTSE 100 index (total return)	10.0%	18.7%
ABI UK - mixed 20%-60% Shares - Life	8.4%	7.8%
IPD UK All Property Monthly (total return)	2.4%	10.9%
Morningstar 90 days notice	0.6%	0.4%

Note: The figure for Royal Life had not been released at the time of this report.

Table source: Life Company data, reports and press releases.

Table A (above) shows the gross annual returns achieved on the assets underlying the With-Profit funds of the larger Life Companies (as per Surrenda-Link experience). The figures for the previous two complete calendar years are shown together with comparable performance figures for other investments and indices. The figures in the table represent gross annual return figures, i.e. before the deduction of tax and expenses. Prudential topped the 2013 calendar year returns at 10.3%, which is likely down to the asset allocation and investment strategies employed by this provider. The weakest performer was Friends Provident, returning below 8.0%, whose asset allocation and investment strategies have performed poorly compared to that of their competitors.

The asset mix of a With-Profit fund is a key driver to the overall performance achieved. As With-Profit funds mature they will tend to adopt a strategy of holding a greater proportion of fixed interest assets (i.e. government and corporate bonds). This will be to both support capital preservation and to ensure that the funds comply sufficiently with stringent solvency regulation. The liability profile of the funds and the requirements to comply with such stringent regulation can restrict the investment freedom and limit the strategies that can be adopted going forward.

The equity backing ratio (EBR) is typically defined as the ratio of the equity and property assets to the total assets in the fund. Table B below shows the broad breakdown of Equity, Property and Fixed Interest assets within each of the funds. During 2013, there has been a noticeable increase in the EBR of most of the funds, with Commercial Union and General Accident having the highest holding of Equities and Property, at almost 70%. Royal Life has the lowest reported holding, at 45%, although this figure is from mid-year publications and the final year end position may differ.

Table B: Asset Mix as at end of 2013

Life Company	Equities	Property	Fixed Interest / Cash/ Other
Clerical Medical	44.9%	13.8%	41.3%
Commercial Union	50.7%	19.1%	30.2%
Friends Provident	35.6%	10.5%	53.9%
General Accident	50.7%	19.1%	30.2%
Legal & General	52.0%	12.0%	36.0%
Norwich Union	50.0%	20.7%	29.3%
Prudential	37.9%	13.9%	48.2%
Royal Life	39.0%	6.0%	55.0%
Scottish Amicable	35.2%	10.1%	54.7%
Standard Life	40.3%	13.7%	46.0%
Scottish Widows	47.0%	14.0%	39.0%
Average	**43.9%**	**13.9%**	**42.2%**

Table source: Life Company data, reports and press releases.

The payout amounts for maturing endowment policies are significantly higher than that of a conservative investment into a bank savings account over an equivalent term. Table C below shows the actual maturity payouts for 25 year term policies maturing at 1st March 2014, for a male aged 30 (next birthday) and a monthly premium of £50. Scottish Amicable and Prudential sit atop of this list, with payouts of £31,793 and £31,438 respectively, both yielding annualised returns of approximately 5.5% per annum. Scottish Widows produces the lowest return over the 25 year term of £25,842 with an annualised yield of 4.1% per annum.

Table C: Maturity Payouts

Life Company	March-14 (£)	Return
Clerical Medical	30,048	5.2%
Commercial Union	28,788	4.9%
Friends Provident	29,586	5.0%
General Accident	28,869	4.9%
Legal & General	29,278	5.0%
Norwich Union	25,988	4.1%
Prudential	31,438	5.5%
Royal Life	30,398	5.2%
Scottish Amicable	31,793	5.5%
Standard Life	27,304	4.5%
Scottish Widows	25,842	4.1%
Average	**29,030**	**4.9%**

Average Saving Account
Payout = 20,945
Return = 2.5%

Table source: Life Company data, reports and press releases.

Over the last 10 years, the payouts on maturing policies have reduced almost consistently year on year. Despite the good asset performance figures for 2013, the latest bonus rate announcements have, in the main, led to a further reduction in payouts for 25 year term policies when compared to the equivalent period last year. Table D shows the maturity payout for a policy maturity this year and the comparable figure from 12 months ago.

Table D: Maturity Payouts Calendar Year-on-Year Change

Life Company	March-13 (£)	March-14 (£)	Change (£)	Change
Clerical Medical	30,915	30,048	(867)	(2.8%)
Commercial Union	27,359	28,788	1,429	5.2%
Friends Provident	30,271	29,586	(685)	(2.3%)
General Accident	29,765	28,869	(896)	(3.0%)
Legal & General	30,789	29,278	(1,511)	(4.9%)
Norwich Union	24,600	25,988	1,388	5.6%
Prudential	32,528	31,438	(1,090)	(3.4%)
Royal Life	30,943	30,398	(545)	(1.8%)
Scottish Amicable	32,931	31,793	(1,138)	(3.5%)
Standard Life	27,791	27,304	(487)	(1.8%)
Scottish Widows	25,432	25,842	410	1.6%
Average	**29,393**	**29,030**	**(363)**	**(1.2%)**

Table source: Life Company data, reports and press releases.

With a few exceptions, the majority of Life Companies have shown a reduction in the maturity payout amount. The three increases come from Commercial Union, Norwich Union and Scottish Widows with Norwich Union showing the largest boost of £1,388 (5.6% up on 2013). However, as for 2013, this particular Life Company actually pays out one of the lowest amounts from this group. The most significant reduction in maturity payout is attributed to Legal & General which has reduced the payout from £30,789 to £29,278, a reduction of £1,511 (4.9% down on 2013).

The fact that maturity payouts have, on the whole, mostly reduced even though asset returns have been positive for the last year, will in part be due to the smoothing processes that each Life Company has employed. It may be that this is a strategy to increase smoothing reserves and strengthen balance sheets which could be interpreted as a positive for the groups of policyholders whose policies mature in the future. However, it is not possible to comment on this with the any conviction or certainty at this time. More detail and information will become available when the Life Companies complete their FCA returns and SL will be producing its annual analysis as and when they are published later in the year.

DISCLAIMER

This material has been prepared by SL Investment Management Limited, which is authorised and regulated by the Financial Conduct Authority.

This material is provided for informational purposes only and is intended solely for the person to whom it is delivered. This material does not constitute an offer to sell or the solicitation of an offer to purchase. All information contained herein is preliminary, limited and subject to completion, correction or amendment. While we hope you will find the information helpful, it is provided on the basis that we do not give any representation or warranty that the information is complete and accurate, that it has been correctly extracted or that it is suitable to be used for purposes other than that for which it was originally intended. Nothing in this document should be considered to constitute financial or other professional advice or recommendations.

We recommend that you do not act in reliance on any of the specific information that we are providing without independently checking that information and we do not accept responsibility for the consequences of any such action.

This document is intended for "investment professionals" as defined in article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and must not be acted or relied upon by other persons.

This document and the copyright in the content are owned by SL Investment Management Limited. SL Investment Management Limited acts as a specialist fund manager, investment and or fund advisor and is remunerated on that basis