# SUMMARY OF CHANGES TO THE PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT (PPFM) OF NFU MUTUAL

1 JANUARY 2024

NFU Mutual

INSURANCE | PENSIONS | INVESTMENTS

## SUMMARY OF CHANGES TO THE PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT (PPFM) OF NFU MUTUAL

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The Principles and Practices of Financial Management (PPFM) is a document that aims to explain how a company manages its **with-profits business**. We introduced a new version of our PPFM on 1 January 2024 with changes that have been summarised in this document. Changes have only been made to the Practices, no changes have been made to the Principles. The changes were proposed by the **With-Profits Actuary**, approved by the **With-Profits Committee** and then ratified by the Society's Board.

Words highlighted in **bold** in this document are listed in the glossary of the PPFM. A copy of the new PPFM is available on our website at nfumutual.co.uk.

### Summary of Changes to PPFM – 1 January 2024

#### Section 3.3.2 – Practices

#### Surrender values and policy alterations

Previously it was the Society's practice to determine payouts for paid up with-profits whole of life business using the same **terminal bonus** rates as paying policies. We have now revised our approach to setting payouts for paid up with-profits whole of life policies by using a separate set of **terminal bonus** rates, this change has been made to ensure paid up policies continue to receive a fair payout when compared to their underlying asset shares.

The following amendment has been made to the Section 3.3.2 of the PPFM to reflect this change.

The final line of the second paragraph in this section has been changed, the paragraph before the change is below:

*It is current practice that policies that have been made paid up or altered in some way are awarded the same **terminal bonus** rates as those that continue in full force. For these policies, payouts may diverge from the target **asset share** ranges outlined above. For traditional with-profits whole of life policies that have been made paid up, we may make further adjustments to **terminal bonus** rates in order to ensure fairness.*

The updated paragraph is now:

*It is current practice that policies that have been made paid up or altered in some way are awarded the same **terminal bonus** rates as those that continue in full force. For these policies, payouts may diverge from the target **asset share** ranges outlined above. For traditional with-profits whole of life policies that have been made paid up, we determine a separate set of **terminal bonus** rates in order to ensure fairness.*

**Section 3.4.2 – Practices**

**Smoothing approach**

Another change has been made to the PPFM following a review of our approach to smoothing. The maximum limit payouts could move from the previous year was previously 25%, however this has been reduced to 15% ensuring less volatile payout changes from one year to the next. In section 3.4.2, under "smoothing approach", we have amended the percentage in the first bullet point from 25% to 15%. The bullet point now reads:

*To smooth the payouts for policies with the same original term maturing in successive years. In normal circumstances, payouts should not differ by more than 15% compared to the previous year's payout.*

**Section 4.2 – Practices**

**Overall investment approach**

The third amendment to the PPFM as at 1 January 2024 is the addition of a paragraph in section 4.2 to provide further clarity on the assets the with-profits fund invests in. The newly added paragraph is provided below:

*We may also invest some of the assets of the **long-term business fund** in non-traditional assets such as **infrastructure** and **commodities**, to optimise the investment returns whilst managing risk by investing across a diversified range of investments. These assets are also known as **alternative assets**. We will only invest in **alternative assets** if the overall expected return or the reduction in overall risk (due to their low correlation with other assets) is better than expected on an investment in similar traditional assets such as equity shares and bonds. Any such investment will be subject to being able to meet our regulatory capital requirements and liquidity requirements of the fund.*

Finally, the changes below have been made to the Glossary in the PPFM to support the new wording by providing more information on the terminology. These are listed below:

**GLOSSARY**

***Alternative Assets***

*Alternative assets are generally considered to be investments that fall outside of the traditional asset classes commonly accessed by most investors, such as equity shares, gilts, and cash. These investments typically provide better diversification with other asset classes, may be less liquid than their traditional counterparts, and may require a longer investment period before any material enhancement to returns is realised. Examples of alternative assets include infrastructure and commodities.*

***Infrastructure assets***

*Infrastructure is an alternative asset class which comprises investment in physical assets, facilities, and services considered essential to the functioning and economic productivity of a society.*

*Examples of infrastructure assets include roads, bridges, tunnels, and drainage systems. Infrastructure projects are financed through a combination of bonds and equity shares, and therefore, a simple example of investing in infrastructure would be to buy equity shares of an infrastructure company.*

***Commodities***

*Commodities refer to raw materials such as oil or precious metals like gold and silver, or agricultural products such as wheat. Investment in commodities can be made in a variety of ways,  for example via direct purchase, through use of exchange traded products or by investing in commodity funds.*

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