Shepherds Friendly

Guide to Unit-Linked Investing

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Shepherds Friendly

Guide to Unit-Linked Investing

Contents

1 Introduction

Shepherds Friendly (the "Society") started as a sickness and benefits society in 1826 and has now grown to a membership of over 160,000 providing a range of savings and protection insurance.

As a mutual, Shepherds Friendly has no shareholders and is owned by its members.

The Society is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA.

Purpose of this guide

The purpose of this guide is to detail the guiding Principles and Practices that govern our unit-linked business. This guide applies to all operations that the Society conducts under our unit-linked business. Our intention is to explain this as clearly as possible so that you understand how unit-linked investing works. If there is anything in this document that is unclear then please ask. You can contact us through our online Help & Support form at **shepherdsfriendly.co.uk/help-and-support**, or by calling out Member Services team on **0800 526 249.**

Our unit-linked business relies on the use of discretion to operate i.e where we exercise our own judgement. This guide aims to provide insight into the nature and extent of the use of discretion in the management of our unit-linked business.

This guide covers the Funds that are available to link your plan to in Section 6. This section also covers the charging structure of each Fund and the pricing basis for each Fund.

This guide should be considered as a whole and individual sections should not be relied upon in isolation. The Principles detailed in each section should be read alongside their relevant Practices.

If there are differences between this guide and the Terms and Conditions ("Terms") of applying to our unit-linked business, then the Terms and Conditions will apply.

1 Introduction

Which products are covered by the guide?

Products covered by the guide	
Product name	Funds available as links
Stocks and Shares ISA	**Cash Fund**
	Low Risk Fund
	Medium-Low Risk Fund
	Medium Risk Fund
	Medium-High Risk Fund
	High Risk Fund

This guide does not cover our "with-profits" Investment ISA (which is also a Stocks and Shares ISA under the ISA Regulations). Information about our "with-profits" Investment ISA can be found at **(shepherdsfriendly.co.uk/investments/isa/investment-isa).**

What is "unit-linked" Stocks and Shares ISA?

The "unit-linked" Stocks and Shares ISA is a contract of life insurance because the benefits include an element of life cover payable on death. When you invest, you choose a Fund to which your plan will be linked. The amount payable to you under your plan will depend on the performance of the Fund(s) you choose as links. You won't however, have any shares or direct interest in the linked Fund. Instead, we will allocate units to you. The amount we pay to you on surrender of your plan (i.e. including withdrawal) depends on the value of these units. We will tell you below how we calculate the value of these units. Units are part of the contract between you and us – the value of each unit is based on the valuation of the linked Fund but will not (for example because of our charges) be exactly the same as the price or value of shares in the linked Fund.

The linked Funds have different levels of risk and invest in different types of investments. The value of a Fund (and so the value of your units) is not guaranteed and can go up or down. You could get back less than what you have paid in.

Governance

The Board of Directors of Shepherds Friendly (the "Board") has set up a sub-committee of appropriately experienced people to provide governance and oversight of how the Society's unit-linked business is managed. This is the Fair

1 Introduction (continued)

Member Benefits Committee (the "FMBC").

The FMBC, reviews at least annually the performance of the Society's unit-linked investments and monitors compliance against the Principles and Practices set out in this guide.

The Society reviews the guide at least once a year to make sure it remains accurate and current, and to consider ways in which the guide could be made clearer. All changes are overseen by the FMBC. The guide that applies at any point in time is available on the Society's website: **shepherdsfriendly.co.uk/investments/isa/stocks-and-shares-isa.**

Further information

We publish a range of other information on our website which may be of interest to plan holders who want to know more about how your products work. This can be found at **www.shepherdsfriendly.co.uk**.

If you have any further queries on your plan, then please do get in touch with us. You can contact us through our online Help & Support form at **shepherdsfriendly.co.uk/help-and-support**, or by calling our Member Services team on **0800 526 249**.

Terminology

There is a glossary of terms used in section 8.

2 Defining Principles and Practices

“Principles” describe the enduring standards the Society adopts when managing unit-linked business and these principles are not expected to change often. They describe the business model we use to respond to longer-term changes in the business and economic environment so that we can continue to fulfil our responsibilities to unit-linked plan holders.

“Practices” on the other hand, describe the Society’s day-to-day approach to unit-linked business in response to shorter-term changes in the business and economic environment. The Practices change more often but remain within the boundaries set by the Principles.

For Sections 3 to 5, there will be a set of guiding Principles and a set of corresponding Practices.

We will review this guide at least once a year considering any change in operations of the unit-linked business to maintain accuracy of this guide and to improve clarity where possible.

As part of the review process of this guide we may make changes to the Principles or the Practices in response to changes in the economic environment, operational changes such as new product launches, or to reflect any changes in unit-linked plans. All changes are overseen by the Society’s Fair Member Benefits Committee.

If we need to make changes to any of the Principles, we will inform unit-linked plan holders with at least three months prior notice. If we need to make changes to the Practices, we may inform unit-linked plan holders depending on the nature and materiality of such changes - this will be covered by the Terms.

3 Calculation of Unit Prices

The purpose of this section is to explain how the Society calculates the unit prices for each of its unit-linked plans. This section describes how we value the assets in each Fund, and how we calculate the unit price from the asset value of the relevant linked Fund.

Principles

The calculation of unit prices has been set up so we can treat all plan holders fairly. The aims of the unit price calculation are to:

- Ensure that the unit price accurately reflects the underlying value of the assets. (i.e. the underlying Funds to which your plan is linked and the investments they hold such as shares or bonds).
- Provide a fair unit price to buy and sell units given the value of the underlying Funds.
- Use a fair pricing calculation which is transparent to the plan holder.

Practices

General: Your plan investment is divided into equal units for each Fund link you select. You can buy and sell these units. The price of them is based on the value of the linked Fund which you choose, calculated as follows.

Fund valuation: The Society will normally receive Fund valuations for each of the Funds it offers as links to your plan from the managers of the linked Fund, Royal London by 5.00pm. All linked Funds offered are UK ICVC Non-UCITS (Undertakings for Collective Investments in Transferable Securities) retail schemes (see the Glossary for further information on these terms). Their value is determined by the Fund Manager valuing all of the Fund's investments and cash on hand less any liabilities, then dividing the resultant total value by the number of shares in the Fund (the "Net Asset Value" or "NAV"). Dealing costs of the Fund Manager are deducted in calculating the NAV.

Unit price calculation: The unit price is then calculated by dividing the Net Asset Value of the Fund, after deducting the Annual Management Charge, by the number of units linked to each Fund.

For example, if the Net Asset Value of a Fund is £1,007.50 and the Annual Management Charge is £7.50, and there are 200 units linked to that Fund, then the unit price will be £5.

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3 Calculation of Unit Prices (continued)

Unit pricing basis: The unit pricing basis that the Society uses is a single pricing basis. This means that there is no difference between how units are bought and sold (i.e. no bid-offer spread) and instead the unit price for buying and selling units is the same.

We will monitor and review the pricing basis regularly for the appropriateness of the pricing basis. We may look to change the pricing basis at any point if the flow of monies (either in or out of the Fund) changes, and we will only seek to change the pricing basis following a persistent expansion or contraction of the Fund. We will notify you of any changes in accordance with the Terms.

Charges and expenses: The Annual Management Charge (AMC) is deducted from the Net Asset Value before the unit price is calculated each day in accordance with the above. This is done by taking the Annual Management Charge and applying it to the unit price at an equivalent daily rate i.e. 1/365th of the annual management charge is taken from the unit price each day.

The AMC reflects the expenses we incur, including:

- Dealing costs of the transactions.
- Administrative expenses.
- System costs.
- Bank charges.
- Audit fees.
- Any applicable tax charges or tax credits.

The impact of these expenses will vary for each Fund.

3 Calculation of Unit Prices (continued)

Dilution levies: A dilution levy is a charge to protect existing holders of units from bearing the costs of large transactions – it is charged on the customer who has caused the extra costs by entering into the big transaction. The Society does not currently charge dilution levies to any of the plans. However, we reserve the right to charge a dilution levy in the future if we believe that the extent of dilution requires it.

Creating or cancelling units: We will create or cancel units when the number of units in the Fund is either increasing or decreasing respectively.

When we create or cancel units, we will use reasonable efforts so that existing plan holders are not adversely affected by these transactions.

The creation or cancellation of units is done on the day that the Society buys or sells shares in the linked Fund. This may mean that the value of the units may be different from the value of units on the day you instruct us to buy or sell units.

Unit allocation: If monies are received for a purchase of units before 11.59pm on a particular working day then it will be deemed to be received on that working day; if monies are received for a purchase of units after 11.59pm on a particular working day or on a non-working day then it will be deemed to be received on the next available working day. Once your monies have been received and reconciled, the Society will buy shares in the Fund on the next available trading window.

If an instruction for or Fund switch is received before 11.59pm on a particular working day then it will be deemed to be received on that working day; if an instruction for withdrawal is received after 11.59pm on a particular working day or on a non-working day then it will be deemed to be received on the next available working day. Once your instruction has been received, the Society will sell shares in the Fund on the next available trading window.

The Society's trades will be conducted in a trading window that is at least weekly. We will take care that any delays in transactions are kept to a minimum. There may be occasions when we can't meet the timescales mentioned above, for example if the instruction is unclear or does not appear to be from an authorised person. If any unavoidable transaction delays do occur, then the unit price on the day at which the shares in the Fund are bought and sold will be used.

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3 Calculation of Unit Prices (continued)

This means that there is a risk that the unit price when you instruct us to buy or sell units may be different (go up or down) from the value at at the time at which we arrange the buying or selling of shares in the linked Fund.

Rounding of unit prices: The unit prices available for each linked Fund are rounded to six (6) decimal places.

Timing of price changes: All Funds are valued each working day according to their closing prices.

The Funds are valued so that they can be used to calculate the unit price on the next available working day.

The Society reserves the right to alter the timing of unit prices should market conditions dictate a change in timing.

Availability of your unit valuation: The value of your units is available at any time on the mobile app. Alternatively, you can contact us for a valuation at any time. You will also receive a statement at least annually illustrating the value of your plan.

4 Use of Discretion in Unit-Linked Business

The purpose of this section is to describe how we use discretion i.e we apply our own judgement in the management of unit-linked business. This section sets to describe the scope of discretion used in our management of unit-linked business.

It is ultimate responsibility of the Society's Board to provide oversight and management of the unit-linked business.

Principles

The overall aim in using discretion to manage the unit-linked business is to treat all unit-linked plan holders fairly.

Practices

Introduction and Seeding of a new Fund: From time to time, we may introduce a new Fund in response to changes in customer circumstances. When we are looking to introduce a new Fund, we will look to invest a set amount of capital into the Fund. This is known as "Seeding". We do this so that the Fund operates already on a diversified set of assets and to reduce overall operational risk when we offer the Fund to market.

Once sufficient plan holder investments have been made such that the seeded capital is no longer required, we will disinvest the Seeding capital from the Fund.

When we introduce a new Fund, we will ensure that any new Fund is available to all plan holders to invest in once it is available, and that key information related to the new Fund is available.

Dealing costs: The dealing costs for each Fund is embedded within the Society's Annual Management Charge. These are reviewed regularly with information provided by our Fund Managers.

4 Use of Discretion in Unit-Linked Business (continued)

Mergers and closure of a Fund: We may have to merge or close one or more Funds that we offer to new business, or discontinue a linked Fund entirely. This may be due to operational considerations, governance reasons, external events, corporate changes, or high expense ratios within the Fund.

When merging or closing a Fund, we will take the following information into consideration:

- Sufficient consistency of Fund investment aims and risk profile between merging Funds.
- Plan conditions as they relate to closing Funds.
- Any differences in allowable charges/deductions or past practices.
- The implications of a change in pricing basis and the impact on different generations of plan holders.
- The form of the merger (whether it is in cash or in specie) and any phasing required.
- Valuation of hard-to-value or illiquid assets that are in the closing or merging Fund, particularly if those assets make up a significant portion of the Fund.
- Any communications that we require to send to plan holders. Communications that we send to plan holders will include further actions that they must take, including what would happen if no action is taken.

If we merge or close Funds, we will inform plan holders with at least one month's notice in accordance with the Terms and Conditions. If we consider it to be necessary, we will ask you to tell us which alternative Fund you would like your plan to be linked with. If you don't tell us, your plan will be linked to the Fund which seems closest in risk to the Fund which you have selected.

4 Use of Discretion in Unit-Linked Business (continued)

Fund performance reviews: We will regularly perform Fund reviews assessing the following:

- Performance of the Fund against its investment mandate.
- Asset class composition and suitability of the Fund against risk level of the Fund.

Emergency situations and significant events: Exceptional circumstances, such as significant market disruption, or an emergency situation could affect the unit price and valuation process. We might have to apply our discretion in setting a price of units and/or change from stated Fund investment strategies, or temporarily defer unit transactions or unit pricing. If this happens, we aim to treat existing and future customers fairly.

Investment strategy: The Society aims to offer holders of the "unit-linked" Stocks and Shares ISA an appropriate range of investment options offering different levels of risk and reward. We use Funds selected from Royal London to offer this range. Royal London's investment strategy with each Fund is to provide an appropriate amount of investment return relative to the risk appetite of each Fund. This is achieved through an appropriate asset allocation dictated through each Fund's mandate.

The Society also has available a Cash Fund which plan holders can use during periods of adverse market movements in a particular Fund.

The Society performs regular reviews of each Fund available as part of its unit-linked offering for the appropriateness of each Fund.

Box management: Box management involves a unit-linked product provider holding a pool of units to reduce the number of transactions with a linked Fund (i.e. so there are fewer transactions). The Society does not use a box management system as part of its unit-linked business.

5 Errors and Compensation

The purpose of this section is to provide an overview of how we address any unit pricing errors. Although the Society has daily checking processes in place for the unit price for each Fund, errors may still occasionally arise.

Principles

We will attempt to rectify any unit pricing errors (or any material loss borne by such pricing errors) as soon as is reasonably practical once they have been identified.

We will compensate plan holders for any material loss borne by unit pricing errors.

Practices

We define a material unit pricing error as any error that impacts the daily unit price by at least 0.5%.

All unit pricing errors are recorded and reported as part of the wider governance of unit-linked business. Any unit pricing errors are reported to the Society's Fair Members Benefit Committee. The Fair Members Benefit Committee will then discuss the wider implications of such errors and recommend further actions following an error.

Error	Action
Below 0.1% of the correct unit price	These errors will be recorded but not normally investigated. Persistent errors of this size may warrant wider investigations into the unit pricing.
Between 0.1% and 0.5% of the correct unit price	These errors will be recorded and investigated for wider implications. We may look to investigate the position of plan holders and we may put the customer back in the position he or she would have been in if the error had not occurred but this is not normally required.
0.5% or above of the correct unit price and the impact on the plan holders plan value is more than £10	These errors will be recorded, corrected, and investigated for wider implications. We will aim to put the plan holder as closely as we can to the position he or she would have been in had the error not occurred in line with standard industry practice. This means also that if a plan holder has benefited from a pricing error we may seek to recover this. See more detailed explanation below.

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Errors and Compensation (continued)

Each year, any unit pricing errors that have been recorded will be collated and reported to the Society's Fair Members Benefit Committee, including the results of any investigation into unit pricing errors and actions following such investigations. If there are significant or persistent failings with unit pricing, these will be shared with the Financial Conduct Authority.

When an error has been identified in the quoted Fund price, we will rectify the unit price as soon as possible. The unit price change will happen automatically – there is no smoothing of the change in the unit price.

We may also elect to compensate you through additional allocation of units or through a payment of compensation. This is done so that we can treat all plan holders fairly.

We will compensate any plan holder who has been disadvantaged by a 0.5% or above pricing error subject to our minimum limit of £10. Anything below £10 will be considered immaterial.

Where appropriate, the cost of compensation will be borne from the Society rather than the unit-linked Fund in order not to adversely disadvantage plan holders.

The Society retains the right to reclaim the amount of overpayment or overallocation from a pricing error if it has significantly advantaged a plan holder. This is subject to a minimum amount of £100.

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6 Funds Overview

The purpose of this section is to provide an overview of the different Funds we offer as links to your unit-linked plan, how charges are applied, and the pricing basis for the Funds. Please refer to the 'Key Information Documents' and the 'Fund Fact Sheets' for further details.

Because the Stocks and Shares ISA is unit-linked it means that all the money you pay to the Society follows the investment performance of the linked Fund you have chosen. The Society invests the money into unit-linked Funds managed by Royal London Asset Management (RLAM). You do not have any direct interest in the relevant Fund – but the amount you will be entitled to on surrender is calculated based on the performance of the Fund you have chosen as a link.

Each Fund has a different asset allocation and so has a different level of risk. Assets held by the Fund may include stocks and shares, equities, government gilts, corporate bonds, property and cash. Below is an overview of each of the Funds available.

Low Risk Fund (least risky)

The Low Risk Fund aims to achieve a low level of risk and return. The Fund will focus on fixed income assets such as bonds and cash, which generally carry low risk. It will also invest, to a limited extent, in higher-risk assets like shares, property, and commodities with the potential for greater returns.

The Low Risk Fund forms part of Royal London's Global Multi-Asset Portfolio ('GMAP') range.

There is an annual management charge of 0.75% that is applied to the unit price. This is taken at an equivalent daily rate (i.e., 1/365th of 0.75% is taken from the unit price daily). Please refer to section 3 of this guide "Calculation of Unit Prices".

The unit pricing of this Fund is single priced, meaning that the unit price for buying and selling units is the same.

Medium-Low Risk Fund

The Medium-Low Risk Fund aims to achieve a medium low level of risk and return. The Fund will balance investments equally between fixed income assets such as bonds and cash, which generally have low risk. It may also invest in some higher risk assets like shares, property, and commodities with the potential for greater returns.

The Medium-Low Risk Fund forms part of Royal London's Global Multi-Asset Portfolio ('GMAP') range.

There is an annual management charge of 0.75% that is applied to the unit price. This is taken at an equivalent daily rate (i.e., 1/365th of 0.75% is taken from the unit price daily). Please refer to section 3 of this guide "Calculation of Unit Prices".

The unit pricing of this Fund is single priced, meaning that the unit price for buying and selling units is the same.

6 Funds Overview (continued)

Medium Risk Fund

The Medium Risk Fund aims to achieve a medium level of risk and return. The Fund will focus more on assets with the potential for higher returns but greater risk, such as shares, property, and commodities. It will reduce investments in low risk assets like bonds and cash.

The Medium Risk Fund forms part of Royal London's Global Multi Asset Portfolio ('GMAP') range.

There is an annual management charge of 0.75% that is applied to the unit price. This is taken at an equivalent daily rate (i.e., 1/365th of 0.75% is taken from the unit price daily). Please refer to section 3 of this guide "Calculation of Unit Prices".

The unit pricing of this Fund is single priced, meaning that the unit price for buying and selling units is the same.

Medium-High Risk Fund

The Medium-High Risk Fund aims to achieve a medium high level of risk and return. The Fund prioritises assets with higher return potential, such as shares, property, and commodities. This means there is a higher risk of getting less back than what you have paid in. It invests less in low risk, lower return fixed income assets like bonds and cash.

The Medium-High Risk Fund forms part of Royal London's Global Multi Asset Portfolio ('GMAP') range.

There is an annual management charge of 0.75% that is applied to the unit price. This is taken at an equivalent daily rate (i.e., 1/365th of 0.75% is taken from the unit price daily). Please refer to section 3 of this guide "Calculation of Unit Prices".

The unit pricing of this Fund is single priced, meaning that the unit price for buying and selling units is the same.

High Risk Fund

The High Risk Fund aims to achieve a high level of risk and return. The Fund typically invests in shares in both UK and overseas markets but may also place a limited amount of investments in other assets including cash and cash-like assets.

The High Risk Fund forms part of Royal London's Global Multi Asset Portfolio ('GMAP') range.

There is an annual management charge of 0.75% that is applied to the unit price. This is taken at an equivalent daily rate (i.e., 1/365th of 0.75% is taken from the unit price daily). Please refer to section 3 of this guide "Calculation of Unit Prices".

The unit pricing of this Fund is single priced, meaning that the unit price for buying and selling units is the same.

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6 Funds Overview (continued)

Cash Fund

The Cash Fund aims to achieve a very low level of risk and return. This is a separate Fund that the Society offers to plan holders during periods of adverse market movements. The Fund will focus on fixed income assets such as bonds and cash, which generally carry low risk. The unit price is guaranteed not to fall for this Fund and any growth is expected to be nil or limited.

This Cash Fund is based on the Royal London Short Term Money Market Fund.

There is an annual management charge of 0.75% that is applied to the unit price. This is taken at an equivalent daily rate (i.e., 1/365th of 0.75% is taken from the unit price daily). Please refer to section 3 of this guide "Calculation of Unit Prices".

The unit pricing of this Fund is single priced, meaning that the unit price for buying and selling units is the same.

7 Taxation

The purpose of this section is to discuss the taxation of the unit-linked Funds, and the tax you may have to pay.

Tax on the Fund: The Society is not expected to pay tax on any of its unit-linked Funds. Any tax charges incurred or credits received by the Society is reflected in the Annual Management Charge.

Tax to plan holders: As the plan is an ISA product, plan holders will not normally be subject to capital gains tax or income tax in respect of returns they receive, for as long as they are operated within the ISA Regulations – you should refer to the Terms and Conditions for more information on this. However, there may be exceptional circumstances where tax may be paid (e.g., on death).

This section will be updated in line with current HMRC regulation.

8 Glossary

Term	Definition
Board	The Board of Directors, or Board, has overall responsibility for the control of the business of the Society in order to ensure that it achieves its objectives. The Board is responsible for the direction of the Society's current and proposed business, including oversight of its subsidiaries, and having regard to its members, acts in the Society's best interest.
FMBC	This refers to the Fair Members Benefit Committee. The FMBC advises the Board on the exercise of discretion in the management of unit-linked and other areas of the Society's business. It is chaired by a Non-Executive Director of the Society.
Friendly Society	A Friendly Society is a mutual organisation whose main purpose is to provide insurance benefits.
ISA	This means an individual savings account, under the ISA Regulations.
ISA Regulations	The Individual Savings Account Regulations 1998.
ICVC	An investment company with variable capital (also known as an open ended investment company or OEIC). This is a type of Fund set up as a company which owns and manages investments (of various types) in order to give its members the benefit of spreading investment risk and the benefit of the management of the Funds by or on behalf of the company. Please note, while our Funds are ICVC's/OEIC's, you will have no shares or other direct interest in them.
Seeding	This refers to the initial injection of capital in a new Fund so that the Fund can operate on a diverse set of assets in the underlying Fund and reduce overall operational risk.
UCITS	A UCITS (Undertakings for Collective Investment in Transferable Securities) Fund refers to a wide range of collective investment schemes which are governed by an EU-wide regulatory framework. Please note the Funds we use are Non-UCITS retail Funds.
Non-UCITS Retail Scheme	An authorised investment Fund which is not a UCITS. NURS have wider investment powers than UCITS (defined below). All linked Funds are NURS.