

Principles and Practices of Financial Management

2024 Annual Compliance Report to 90:10 With-Profits Fund Policyholders

5 June 2025



Introduction

This report:

- tells you how we've managed the 90:10 With-Profits Fund (the fund) in 2024,
- explains how we used our discretion in managing the fund, and
- gives information about the fund's investments, and the returns earned from them.

How we've managed the fund in 2024

We've done this in line with our published rulebook:

Principles and Practices of Financial Management (PPFM)

The PPFM plays an important role in the governance of with-profits business and achieving good outcomes for our customers. It:

- covers the standards, methods and controls we use to ensure we run the fund fairly, and
- explains how we respond to changes in the economic environment.

You may wish to refer to the PPFM for definitions of technical terms.

Version 14 of the PPFM was effective from 1 January 2022 and applied until 30 April 2024. On 1 May 2024, we published an updated PPFM. You can find it on our website at: zurich.co.uk/with-profits with a summary of the changes made noted on page 2.

The fund **only accepts** contractual premium increases and switches, and other options it's obliged to allow under the terms of existing plans.

The opinion of Zurich Assurance Ltd (ZAL) Board

The ZAL Board has considered the matters covered in this report and the evidence presented to them by the With-Profits Actuary, together with advice from the With-Profits Advisory Arrangement.

The Directors' opinion is that, during 2024:

- ✓ the company has complied with the PPFM,
- ✓ the way the company exercised discretion was appropriate, and
- ✓ the company has addressed any competing or conflicting rights, interests, or expectations in a reasonable and proportionate manner.

This report provides information in support of that opinion.



Good outcomes for customers

Our aim is to achieve good outcomes for all customers and ensure fairness



- between different types and groups of with-profits policyholders, and
- between them and our shareholders.

We believe good outcomes can be achieved by

- **keeping our promises** to pay at least the guaranteed minimum payments when they apply,
- aiming to **pay out a fair share of investment performance** to each with-profits policyholder. We use smoothed asset shares as a measure of the fair share for each policy - Appendix A of the PPFM describes how we calculate asset shares,
- aiming to **achieve growth over the long term** by having a proportion of investments in higher-risk assets such as company shares, while ensuring that we can meet the fund's guarantees,
- aiming to **smooth through some of the peaks and troughs** of stock market values,
- **adding regular bonuses** – remembering that, where guarantees apply, we can't take away regular bonuses once we've added them to your investment, and
- setting **final bonus rates** for groups of plans rather than individual plans. We believe that the grouping of plans, and the cross-subsidies which result, are fundamental to the management of this type of with-profits business.

There are **five main controls** in place to ensure customers in the fund achieve a good outcome:

1. The scrutiny provided by our With-Profits Governance.
The ZAL Board is responsible for managing the with-profits business including setting bonus rates. A broad description of the Board's governance role can be found on page 6 of the PPFM.
2. When we make important choices that affect the way we manage our with-profits policies, our With-Profits Actuary (who advises the Board) presents a report to the Directors giving the reasons behind the proposals and how these comply with the PPFM. The Board has appointed Martin Godwin as With-Profits Actuary.
3. To support the Board and the With-Profits Actuary in these roles, ZAL has established a With-Profits Oversight Group. This group oversees management of the with-profits funds, and associated customer propositions, ensuring the funds are properly controlled and managed.
4. Throughout the year, all the data, work and actions that support our decisions have been recorded. The With-Profits Actuary has reviewed this evidence and has provided his own opinion at the end of this report.
5. The Board has appointed a With-Profits Advisory Arrangement to provide an independent assessment of compliance with the PPFM and how any competing or conflicting rights and interests of policyholders and shareholders have been addressed. The Board has appointed Alison Carr as its With-Profits Advisory Arrangement.

Investment strategy

The assets of the fund are invested with the aim of:

- achieving above average returns when compared to agreed market indicators, in the longer term, and
- making sure the fund can always meet its guarantees.

Hong Kong and Isle of Man administered businesses have separate asset pools and are allocated the investment return on those asset pools.

For all other policies, the fund has 3 distinct asset pools for:

1. life plans, unitised pension plans and Esitran plans,
2. other types of conventional pension plans, and
3. assets backing guarantees, options and the Estate.

Details of the investment performance and strategy for these are shown below.

Pool 1 Life plans, Unitised pension plans and Esitran plans

In 2024, this asset pool produced overall investment returns of:

3.9% for pension plans
before charges

3.3% for life plans
lower due to differences
in the way they're taxed

This performance was **broadly in line with our long-term expectations.**

Investment strategy – the detail

- The percentage invested in equities ranged between 27.3% and 28.0% - against a target of 28%. We expect this range to remain between 26.5% and 29.5% for the time being.
- The rest of this asset pool is invested in fixed interest and variable yield securities and cash.
- Throughout 2024 the total percentage invested in equities and properties was consistent with our expected range.
- We'll continue to keep the mix of assets under review with any proposals to significantly change the investment strategy being presented to the Board for approval.

Pool 2 Conventional pension plans other than Esitran

In 2024, this asset pool produced overall investment returns of:

-0.9% before charges

This performance was **below our long-term expectations** due to poor investment returns on fixed interest securities.

Investment strategy – the detail

- This asset pool is currently invested entirely in fixed and variable interest rate securities and cash.
- To compensate for the lower expected long term returns of this asset pool's investment strategy, ZAL currently adds a further 1% to asset shares each year. This enhancement is provided by the estate of the fund and may be changed or removed for future years.
- We'll continue to keep the mix of assets under review with any proposals to significantly change the investment strategy being presented to the Board for approval.

Pool 3 Assets backing guarantees, options and the Estate

In 2024, this asset pool produced an overall investment return of:

-0.4% before charges

This performance was **below our long-term expectations** due to poor investment returns on fixed interest securities. It's above the return for pool 2 due to the investment in equities.

Investment strategy – the detail

- The percentage invested in equities ranged between 2.4% and 4.0%, which meant that the percentage of the overall fund invested in equities ranged between 11.7% and 12.5%.
- The rest of this asset pool is invested in fixed interest and variable yield securities and cash.
- Throughout 2024 the percentage invested in equities was consistent with our expected range. For the time being we expect the percentage of the overall fund invested in equities to remain between 11% and 13%.
- We will continue to keep the mix of assets under review. Any proposals to significantly change the investment strategy for the fund require Board approval.

Sustainable investments

We aim to be a responsible and impactful business. This means striving for a positive impact on society and our planet in everything we do, from the way we treat our customers and employees, to the suppliers we choose to work with and the companies we invest in.

You can read about our approach to sustainability, including our climate commitment and annual sustainability report, at zurich.co.uk/sustainability. You'll also find information on how we manage climate-related risks in respect of customer investments and climate-related information for the fund.



Annual bonuses

The size of any annual, or regular, bonus depends mainly on what bonuses we have already added, on past investment performance, and on what we expect in the future.

Where guarantees apply, we can't take away regular bonuses once we've added them – so where these have been high in the past we may set lower rates, sometimes at zero, to balance them out over the life of your plan.

If we didn't set rates this way, the guarantees in the fund could become big enough to force us to increase the percentage of the fund's assets invested in lower risk assets. This change to the fund's assets would mean we'd expect to achieve a lower total return on your investment over the long term – even though the guaranteed part of the return on your investments, that comes from regular bonuses, might be higher.

In January 2024, for unitised plans we declared increased rates of annual bonus by 0.5% for pension plans and by 0.25% for life plans.

For conventional plans we declared unchanged rates of annual bonus.

Final bonuses and Market Value Reductions (MVRs)

For plans invested in Asset Pool 1, the full profits earned over the plans' lifetimes will normally exceed the amount that has been added through annual bonuses – so we use final bonuses to 'top up' pay-outs so policyholders will also benefit from the rest of those profits. Investment returns will usually be the most significant source of profit but other sources, for example mortality or expense profits, can also affect final bonus rates.

For plans invested in Asset Pool 2, the total guaranteed minimum benefits for plans expected to end in 2024 was larger than the total of their asset shares – so no final bonus was declared.

During 2024, we continued our established practice of calculating surrender values by recalculating benefit values from inception – leading to final surrender values which were more than 100% of asset share on average.

Final Bonuses and Market Value Reductions (MVRs) continued

When you take money out of the fund, we may need to apply an MVR if the value of your units meant your investment would be worth more than your fair share. We guarantee an MVR won't apply on death, or on the future date you've asked for your plan to end.

No MVRs were applied to any withdrawals in 2024.

Final bonus and MVR rates depend on when the investment was made. This helps ensure performance is shared fairly between plans starting at different times to reflect that they'll have experienced different investment returns over their lifetimes.

Our final bonus and MVR rates are reviewed regularly, and any changes to these rates are made in line with our published policy.

To reduce the impact of fluctuations in investment values, we apply smoothing when calculating final bonus and MVR rates. We normally change rates once a year, but we may do this more often if it's necessary to ensure good customer outcomes.

Smoothing may also be applied by limiting the change in plan values from one year to the next.

Final bonus rates were changed on 8 January 2024 and rates were next changed on 13 January 2025.

During 2024, for each conventional plan type, final bonuses were set to target an average pay-out of 100% of asset share at maturity for each group of plans (except for Esitran plans – see the PPFM for further details).

The number of plans in each group was those plans, or plan increases, which started in a particular calendar year and were due to mature in 2024. Where the number of plans in a group was small, we combined results for more than one year.

As the number of plans surrendering is small, surrender values were set to target (at an aggregate level) an average pay-out of 100% of asset share across all plans of that plan type. The same final bonus rates are used for death claims as for maturities.

For each unit series, the final bonus rate was set to target an average pay-out of 100% of asset share.



Distribution of excess estate

At least once a year, we calculate the Estate to determine if it's more than is needed to meet the aims of the prudent management of the fund. It's calculated as:



During 2024, we continued to distribute the Estate to customers using the final bonus mechanism described in the PPFM.

This distribution is achieved by considering whether to include an enhancement within asset shares at the time of claim. The enhancement can be altered or removed at any time.

For withdrawals paid during 2024, we applied enhancements, at point of withdrawal, of

49% to asset shares
on withdrawals effective
before 8 January 2024

64% to asset shares
on all other withdrawals

During 2024, before 1 May, we reserved the right to exclude from Estate distribution any new investment into the fund made after 1 January 2021. From 1 May, we have only reserved the right to exclude from Estate distribution any new investment into the fund made after 1 January 2023.

All plans which made withdrawals from the fund during 2024 had the distribution added to their asset shares. For most plans this resulted in an increase in pay-outs. The exception was those conventional pension plans for which no terminal bonus is paid. This is because their guaranteed values were higher than their increased asset share.

Target ranges

Our target is for at least 90% of maturity and surrender payments to be between 80% to 120% of unsmoothed asset share.

For claims paid during 2024, the percentage of maturity payments within range was below this target due to the volume of claims paid on older conventional plans. On these plans a smaller proportion of payments are within the published range but they account for a significantly larger proportion of total maturities paid than the proportion that they account for of in force plans.

However, we can assess achievement of these targets over a longer period and, using data for the last 9 years, we met these targets on

- 91% of maturities and
- 94% of surrenders

Excluded from this assessment are maturities, or surrender payments, where a guaranteed, or underpinned, amount was paid that fell outside the target range.

In the long-term, ZAL expects at least 90% of maturities and surrenders to be within the published range.

These ranges are similar to those used by many with-profits funds (and narrower than are used by some), but we believe they're appropriate for the 90:10 Fund because bonus rates are determined:

- by considering all sources of profit and loss of the fund, and
- for groups of plans rather than individually.

The long history of the fund and the changes to contracts over that time mean we expect a small number of payments to be above or below the target ranges, and we have controls in place to investigate the circumstances to ensure that neither customers leaving the fund, nor those remaining in, have been treated unfairly.

No evidence, of unfair treatment has been identified so far, but we remain vigilant. If unfair treatment were to be identified, appropriate action would be taken.



Expenses and Charges

Overall impact on the fund

As a result of a scheme of arrangement effective 1 January 2005, investment management fees for all business together with administration expenses for Group business continue to be charged to the fund as incurred. For all other plan types a charge is made to the fund for each policy and for each claim paid.

These policy and claim charges are to cover administration expenses, and increase in line with the Average Weekly Earnings Index for June of each year. In 2024 this resulted in an increase of 2.7%.

This arrangement protects the fund from increases which may result from diseconomies of small scale, due to the impact of fixed costs that can sometimes occur in a closed fund situation.

The charges taken from the fund vary with different groups of plans and, after the increase, remain on average less than 0.7% of the fund's value.

The charges allocated to the fund are deducted from asset shares.

Impact on policy asset shares

For plans in this fund, costs of administration and investment management aren't generally applied as specific charges defined in the policy conditions. Instead, they're deducted from asset shares and so affect each plan's benefits to the extent asset shares are used to calculate benefits. The costs of providing risk benefits, such as life cover, are charged to asset shares based on the estimated average cost over groups of similar plans.

Ongoing expenses are charged to asset shares in line with any charges identified in the contract.

For unitised with-profits business, any remaining expenses and commission are charged as a proportion of asset shares subject to a maximum of 2% per annum.

For conventional with-profits business, claims expenses are charged to the asset shares of plans becoming claims in the year. Other remaining expenses are charged as a proportion of sums assured.

The costs of certain other guaranteed benefits are met by the resources in excess of asset shares of the 90:10 Fund. Examples of guaranteed benefits are guaranteed annuity options and guaranteed maturity values.

Communication to policyholders

Two communications were made available to policyholders during 2024;

- an annual statement including information on the with-profits fund.
 - For unitised plans this is usually sent close to the policy anniversary.
 - For conventional plans, the annual mailing was produced in May 2024, and
- the 2023 annual report on compliance with the PPFM was published in June 2024 on our website at zurich.co.uk/with-profits.

Statement from the With-Profits Actuary

2024 Annual Report from the With-Profits Actuary to 90:10 Fund Policyholders

In my opinion, the annual report from ZAL and the exercise of discretion by ZAL during 2024, has considered the interests of the different categories of with-profits policyholder in a reasonable and proportionate manner.

I have formed this opinion based on the information and explanations given to me by ZAL and considering the relevant rules and guidance issued by the Financial Conduct Authority.

My report, and the work on which it's based, complies with the technical actuarial standards issued by the Financial Reporting Council and the professional standards issued by the Institute and Faculty of Actuaries.

Martin Godwin

With-Profits Actuary

Zurich Assurance Ltd

5th June 2025

