Forester Life Limited - Directors' Annual Report to Tunbridge Wells Fund's With-Profit Planholders - 2019

Introduction

This annual report explains how we managed the Tunbridge Wells Fund in 2019. In particular, it considers:

- if our operation of the Tunbridge Wells Fund during 2019 complied with the fund's Principles and Practices of Financial Management (PPFM). The PPFM is the document that we are required by law to produce and which sets out how the company will manage the fund. A copy of the latest PPFM can be found on our website www.foresters.com;

- the way we have exercised management discretion in making key decisions during 2019 and whether this was consistent with the PPFM; and

- how we have addressed any competing or conflicting rights, interests or expectations of the fund's planholders.

In order to ensure that the PPFM is maintained and complied with, we have established a Tunbridge Wells Fund Advisory Panel. The panel acts in an advisory capacity to inform and monitor the decision-making of Forester Life in its management of the Tunbridge Wells Fund and thereby protect the interests of the planholders in the fund.

In addition to taking advice from the panel, we also receive advice from our With Profits Actuary (WPA) on the management of the fund. The WPA is required to produce an annual report to planholders and a copy of the report for 2019 is also available on our website. The panel, although not required to do so, can choose to write to planholders if they feel it appropriate. However, as the panel considers that this report provides a full and fair view of the fund's operation in 2019, they do not intend to produce a separate report.

Statement of Compliance

Forester Life, having considered the advice of the panel and the WPA, believes that in respect of the calendar year 2019 it has complied with the PPFM in all material aspects. In particular, management discretion has been exercised appropriately and the competing or conflicting rights, interests or expectations of different groups of planholders have been taken into account.

Changes to the PPFM

During 2019 the PPFM was updated primarily to reflect the new bonus strategy and some changes to the investment strategy as well as some minor tidying up changes. The main changes were:

- We smooth the payouts under with-profits policies. In the past this was done by comparing the payout of a policy with similar policies maturing one and two years earlier. The approach has been changed and we now smooth the investment returns used in the calculation of policy payouts;

- For an individual policy, we used to assume that investment was in high risk assets at the start of the contract, moving into lower risk assets throughout the term of the policy. We no longer do this, and now assume that all policies are invested in an identical mix of assets;

- In our bonus calculations, we used to look at sample policies, but now in most cases we carry out the calculations for each individual policy in the fund;

Overview of 2019

In managing the fund, key areas of management discretion concern investment management, pay-outs from the fund, expenses, management of the fund's surplus assets and changes to the PPFM. Each of these areas is now considered separately.

Investment Management

Investment management of the Tunbridge Wells Fund is undertaken by Schroders.

The investment strategy of the fund is to invest in such a mix of asset classes as is necessary to facilitate the aims and objectives of the Tunbridge Wells Fund. These aims and objectives, which are fully outlined in the PPFM, are broadly:

- to provide and manage a fund that is suitable for both medium and long-term investment by individual customers who are seeking a return that reflects some exposure to real assets while providing a degree of security of capital;

- to manage the fund in such a way as to enable each plan to benefit from investment returns achieved from a mix of asset classes while at the same time limiting exposure to the risk of investment in volatile asset classes; and

- to achieve as good an investment return as is practicable for each plan.

To meet this strategy the fund's investments can include UK and overseas equities, UK and overseas government bonds, UK and overseas corporate bonds, UK and overseas pooled investment vehicles (e.g. unit trusts, OEICS, etc.), money market instruments, derivative instruments, property (including property trusts) and cash.

During early 2019, a change was made which aims to match the cash-flows from the fixed interest investments with the expected guaranteed payments to planholders.

Pay-outs

The management of pay-outs from the fund is achieved through the setting of bonuses, smoothing of pay-outs and determining surrender values.

Foresters Financial

Bonuses are set to ensure a planholder receives a fair and equitable share of the fund in respect of the period they are invested. To do this, we calculate a value known as an asset share. An individual plan's asset share consists of the payments made into it, less management expenses, tax and other charges plus a share of any business profits added. These amounts are then built up at the rate of investment return allocated to the plan.

During 2019, there were no changes to the annual bonus rates, whilst final bonus rates were adjusted in January and July. The method of setting final bonus rates was changed from the start of 2019 and for each policy the final bonus is now based on its individual asset share rather than being combined with other similar policies.

In respect of smoothing, rather than smoothing the policy values over three years, we instead smooth the investment returns applied to the asset shares for maturing policies and death claims.

The surrender value methodology was also updated for 2019 to use individual asset share to determine plan pay-outs.

All of these actions ensured that pay-outs during 2019 were in line with the target ranges set out in the PPFM.

Management of Expenses

The expenses and costs charged to the fund were no higher than those specified in the transfer agreement that led to the establishment of the Tunbridge Wells Fund.

Surplus Assets in the Fund

The Tunbridge Wells Fund has additional surplus assets in excess of those required to meet the expected claim payments to planholders, the fund's expenses and tax. As the fund is now closed to new business, pay-outs from the fund will include, where appropriate, a proportion of this additional surplus. The aim is to distribute it on a fair basis to different generations of planholders taking into account the need to retain capital in the fund for future contingencies.

Further Information

If you have any questions regarding this document, please write to the following:

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