

Forester Life Limited – Directors’ Annual Report to With Profit Fund Planholders - 2019

Introduction

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

- if our operation of the With Profit 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 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 Forester Life Funds Advisory Panel. The panel acts in an advisory capacity in order to inform and monitor the decision-making of Forester Life in its management of the With Profit 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 during 2019, it does 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 respects. 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.

Overview of 2019

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

Pay-outs

Forester Life aims to provide the With Profit Fund's planholders with a fair return on their investment. This is achieved through the setting of bonuses, smoothing of returns and determining surrender values. To do this, we calculate a value known as an asset share. An individual policy's asset share consists of the payments made into it, less management expenses, tax and other charges. These amounts are then built up at the rate of investment return allocated to the plan.

In addition, as the With Profit Fund is closed to new business, pay-outs will include a distribution of the fund's surplus assets. This is achieved by:

- the use of enhanced asset shares - the investment return has been adjusted to ensure that the total enhanced asset shares are equal to the total assets of the fund; and
- pay-outs being a proportion of the enhanced asset share, subject to any guaranteed values, to ensure that the entire assets of the fund are distributed to planholders over the remaining term of the liabilities.

During 2019, annual bonus rates were reduced. The proportions of the enhanced asset share payable on claims were unchanged during 2019.

In respect of smoothing, there were no changes to the methodology set out in the PPFM during 2019. Similarly, there was no change in the surrender value methodology during 2019.

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

Investment Management

Investment management of the With Profit Fund is undertaken by Schroders.

The aim of the investment strategy is to secure the guaranteed liabilities of the fund with a high degree of confidence and, concurrently, to outperform the fund's total benchmark. The investment style is that of active portfolio management, seeking superior investment returns by way of income and capital appreciation.

During 2019, there was a reduction the proportions of government and index-linked bonds and a corresponding increase in the proportion of corporate bonds.

Within the corporate bonds category, changes were also made to the maximum levels and maximum outstanding duration of the differently rated bonds that can be held.

Management of Expenses

The expenses charged to the Fund in 2019 were, in line with the PPFM, an appropriate proportion of the total expenses incurred by Forester Life. The Company monitors expenses to ensure that the charges to planholders are fair.

Changes to the PPFM

The PPFM was updated from 1 June 2019, in line with the investment changes mentioned above.

Further Information

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

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