Foresters Financial

Forester Life Limited – Directors' Annual Report to With Profit Fund Planholders - 2021

Introduction

This annual report explains how we managed the With Profit Fund in 2021. In particular, it considers:

- if our operation of the With Profit Fund during 2021 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 http://www.foresters.com/en-gb/tools-and-guides/managing-with-profits-funds;

- the way we have exercised management discretion in making key decisions during 2021 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 2021 is also available on our website. The panel, although not required to do so, can choose to write to planholders if it feels it appropriate. However, as the panel considers that this report provides a full and fair view of the fund's operation during 2021, 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 2021 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 2021

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 plan'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. For the period to 1 May 2021, this was 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.

From 1 May 2021 onwards, a new methodology was introduced based on the asset share rather than the enhanced asset share. Alongside this change, the proportion of asset share payable was increased. Forester Life believes that this new methodology gives a fairer outcome for planholders within the fund. The proportions of asset share were then further increased from 1 November 2021 following a review of the surplus within the fund.

During 2021, the methodology for setting annual bonus rates was simplified. Overall, annual bonus rates were reduced, in order to avoid guaranteed values becoming too significant, but some planholders will have seen an increase.

In respect of smoothing, there were no changes to the methodology set out in the PPFM during 2021.

The surrender value methodology was changed, as set out above, to reflect the move from enhanced asset share to asset share and the increase in the proportion payable. However, there was no change in the methodology for calculating minimum surrender values during 2021.

All of these actions ensured that pay-outs during 2021 were in line with the target ranges set out in the PPFM. This, together with the fact that the methodology uses individual asset shares to determine pay-outs, means that we consider pay-outs from the fund to be fair and reasonable.

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. The investment style is that of active portfolio management, seeking superior investment returns by way of income and capital appreciation.

During 2021, no changes were made to the target proportions of assets of different types. However, we did remove benchmarks from 1 May 2021 to allow Schroders to set the level of investment in each fixed interest credit rating, subject to overall guidelines, although we continue to monitor Schroders' performance.

Management of Expenses

The expenses charged to the Fund in 2021 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

Changes to the PPFM were made from 1 May 2021, mainly to reflect the new methodology for setting pay-outs, outlined above. Letters to planholders summarising these changes were sent during December 2020.

Some additional changes are planned with effect from 1 January 2022, and these will be communicated on annual statements. The main change was in section 4.1 on pay-outs. Previously we expected most maturity pay-outs to fall within a range of 50% to 150% of unsmoothed asset share. This has been changed to 70% to 120% of unsmoothed asset share, and some explanation for the width of the range has been added. We have also clarified that where the central target is more than 100% of unsmoothed asset share, the ranges will be adjusted accordingly.

In addition, in the introduction we have updated the year in which we expect the number of plans to fall below 5,000 from 2037 to 2038, based on our latest modelling estimates. This is the point at which we are allowed to distribute the surplus in the fund to the remaining plans and convert them to non-profit.

Further Information

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

Customer Services
Foresters House
2 Cromwell Avenue
Bromley
BR2 9BF

Email: service@foresters.co.uk

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