Forester Life Limited

Deferred Pensions Fund

Principles and Practices of Financial Management

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Contents

1. Introduction

This document has been produced in accordance with chapter 20.3 of the Financial Conduct Authority's Conduct of Business sourcebook. It describes the Company's principles and practices relating to Forester Life's Deferred Pensions Fund.

Principles are enduring statements of the overarching standards we adopt in managing the Deferred Pensions Fund which describe the business model we use in meeting our duties to the fund's Planholders and in responding to longer-term changes in the business and economic environment.

Practices describe our approach to managing the Deferred Pensions Fund and to responding to changes in the business and economic environment in the shorter-term, which contain sufficient detail to enable a knowledgeable observer to understand the material risks and rewards from maintaining a Deferred Pensions plan with us.

2. Background

The ultimate holding company of Forester Life Limited is the Independent Order of Foresters, a Canadian registered fraternal benefits society that operates in the United States, Canada and the United Kingdom. The group operates under the trading name, Foresters Financial.

Foresters Financial is an international financial services provider with a unique history that began in 1874 when we set out to provide access to life insurance for average working families. More than 140 years later, we provide personal insurance, savings and investing, and pension planning solutions that help families achieve long-term financial health and security.

Today, over two million members in the United Kingdom, Canada and the United States benefit from the foundation of experience, expertise and reliability we have built over two centuries. During this time, we have remained steadfast in our commitment to help improve family well-being, and each year we invest millions to support causes that enrich the lives of families and communities.

Foresters Financial was registered in the UK as an insurance society branch operation of its Canadian parent in 1929, providing protection and savings products, as well as charitable support to deserving causes and additional membership benefits mostly covering illness and disability.

Following the introduction of the Financial Services Act 1986, it was decided to restructure the branch as the process of selling life products and obligatory Forester membership did not sit comfortably with the Act's regulatory requirements.

The method of restructuring was to separate the UK Branch from the regulated insurance business by setting up a new corporate entity, Forester Life Limited ("the Company"). This company was incorporated in England and Wales in December 1994 and authorised by the Department of Trade and Industry (the Government department responsible at the time for the regulation of insurance companies) to carry on insurance business on 14 September 1995.

Under a Schedule 2C scheme, approved by the High Court on 20 September 1995, the existing long-term insurance business of the UK Branch was transferred into the new company with effect from 1 October 1995.

The Deferred Pensions contracts were originally part of the Company's non-profit fund. However, with the introduction of Solvency II and the fund's periodic distribution of bonuses, we have separated the contracts into a separate ring-fenced fund from 1 September 2016. As at 30 September 2016, the amount of the fund was set at £56,276,000.

The Deferred Pensions Fund has been closed to new business since the 1995 transfer, although contributions on in-force business continue to be paid into it. In addition, contributions can be increased, decreased, stopped or restarted at the request of the Planholder.

Because of the closure to new business, the number of plans remaining in the fund is gradually decreasing. The Company would consider no longer maintaining the fund as a separate account when the number of plans in force falls below 500, subject to the prior written approval of the regulators, currently the Prudential Regulation Authority and the Financial Conduct Authority. In these circumstances, the surplus would be used to determine a scale of guaranteed bonuses that would apply to all remaining plans in each subsequent year. It is expected that the number of plans in force will fall below 500 during 2032.

There are no requirements or constraints that apply as a result of previous dealings, including previous business transfer schemes. However, the Instrument of Transfer of Engagements under which all of the engagements of the Tunbridge Wells Equitable Friendly Society Limited were transferred to Forester Life Limited on 2 April 2013 states the following:

> 7.4. If either the Tunbridge Wells Fund or any of the Forester Life Long-Term Business Funds is unable to meet its liabilities (in either case a "Recipient Fund"), the other funds ("Providing Funds") may provide capital support by way of a contingent loan to the Recipient Fund (unless the provision of such capital support is not beneficial to the Providing Funds) on such terms as the Forester Life Board considers appropriate, fair and reasonable (taking into account the requirements of INSPRU [now interpreted as the FCA Handbook and the PRA Rulebook], the views of the Tunbridge Wells Fund Advisory Panel and the advice of the Actuarial Function Holder of Forester Life, the Tunbridge Wells Fund WPA [With-Profits Actuary] and the Forester Life WPA for the affected Forester Life Long Term Business Funds.

To date, there have been no such loans into or out of the Deferred Pensions Fund.

3. Principles of Financial Management

The following principles are not expected to change often. Should there be any changes, which are not immaterial, the Company will send details to all Deferred Pensions Planholders at least three months in advance of the effective date.

3.1. The amount payable under a Deferred Pensions plan

The aim of the method used to determine the amount payable under a Deferred Pensions plan is that the entire assets of the Fund, apart from any charges and expenses permitted under sections 3.7 and 4.7 and the Company's share of the surplus allowed under sections 3.10 and 4.10, are distributed to Planholders over the remaining term of the liabilities.

There are no limits applied to changes in pay-outs on retirement from one period to the next other than those imposed by the use of smoothing, as described in sections 3.4 and 4.4.

All claim payments receive the guaranteed claim value, equal to the contributions paid less charges, accumulated at the crediting rates (see sections 3.2 and 4.2).They may additionally receive a final bonus. The rates of final bonus are based on the asset shares of sample plans, after allowing for the Company's share of the surplus, and include an allowance for distribution of the inherited estate (see sections 3.8 and 4.8).

Asset shares are the contributions paid by the Planholder, less a share of the fund's expenses, accumulated at the rate of investment return achieved by the appropriate subset of the fund. There are two subsets, one for Retirement Annuity Contracts (which were written before 1 July 1988) and one for Personal Pensions (which were written after 30 June 1988).

Asset shares of sample plans are usually calculated annually, although can be calculated more frequently if required, using a proprietary modelling package. This model contains all historical data relevant to the calculation of sample asset shares and is updated as required. Where actual historical experience is unavailable, the Company will use an appropriate approximation.

Changes to the method, assumptions or parameters will not be made without the prior approval of the Forester Life Board. The Board will receive advice from the With-Profits Actuary and the Forester Life Funds Advisory Panel. In order to treat Planholders fairly, the Company will not change the historical assumptions and methods unless it can be clearly demonstrated that a significant class of Planholders has been materially disadvantaged.

3.2. Crediting rates

The aim in setting crediting rates is to set rates that would be level in stable economic conditions. These rates are normally determined annually. In changing economic circumstances, the Company may review them more frequently, as well as overriding the constraints set out in 4.2 below.

Crediting rates vary only by product. In view of the fact that the fund is closed to new business, the Company cannot see any circumstances under which a new crediting rate series would be necessary.

3.3. Final bonus rates

The aim in setting final bonus rates is to distribute the whole of the fund's assets in a fair and proportionate manner.

Final bonus rates for claims are intended to reflect the asset share of the plan. However, due to the use of sample plans for determining final bonus rates, an individual claim value may diverge from its asset share.

Final bonus rates also include an allowance for the distribution of the inherited estate, as described in sections 3.8 and 4.8. They also allow for the Company's share of the surplus (see sections 3.10 and 4.10).

The rates may vary by product. The Company will normally determine the rates annually, although it may review them more frequently. Any change in the rates may be subject to rounding as well as upper and lower limits.

3.4. Smoothing the value of a Deferred Pensions plan

The aim of the smoothing policy is to ensure that claim values are not immediately subject to significant short-term fluctuations in the value of assets.

Smoothing is only applied to claims that receive a final bonus but is irrespective of type of claim. There is no limit to the cost of smoothing (that is, the extent to which the amount actually payable under the Deferred Pensions plans diverges from the non-smoothed sample asset shares, except where due to applicable guarantees), although due to the method used, the aggregate cost is expected to be neutral over the long-term. Any divergences between smoothed and unsmoothed claim values will ultimately be reflected in enhanced or reduced final bonus rates.

3.5. Investment strategy

The aim of the investment strategy is to secure the guaranteed liabilities of the fund with a high degree of confidence and to maximise the investment return on Planholders' assets by taking an acceptable level of risk.

The Company determines the proportions of the total assets for each different type of asset. The proportion invested in each asset type is subject to minimum and maximum limits.

Within the fixed interest asset class, there are also maximum proportions of total assets for stocks with different credit ratings.

Limits will not be changed without the prior approval of the Forester Life Board. The Board will receive advice from the With-Profits Actuary, as well as the Investment Manager. In order to treat Planholders fairly, the Company will not change the limits unless it believes that the changes will be beneficial to the Planholders, without significantly impairing their security.

The investment strategy is independent of any assets outside of the fund. The fund does not have any assets that would not be traded because of their importance to Forester Life.

Derivative instruments may be used for the purpose of reduction of investment risk and efficient portfolio management. Their use is subject to the prior approval of the Forester Life Board and subject to strict controls and supervision.

The investment strategy applies to the whole Fund and across all generations of Planholders.

3.6. Business risk

The fund would only undertake a business risk that involves the Deferred Pensions business.

Any risk involving the Deferred Pensions business would be borne, in the first instance, by the fund. Examples of this include the exposure to maintaining Deferred Pensions plans and guarantee and smoothing costs. The rewards and losses from these risks will be borne by the Deferred Pensions Planholders. These topics are dealt with in more detail in sections 4.3, 4.4 and 4.7.

Compensation and redress costs arising from the Deferred Pensions business would be borne by Forester Life. These amounts exclude any payment or transfer of liabilities made to correct an error and which has the effect of restoring a Planholder, or former Planholder, and the fund to the position they would have been in if the error had not occurred.

3.7. Charges and expenses

The aim of the Company's approach to applying charges and apportioning expenses to Deferred Pensions Planholders is to apply such charges and expenses in an equitable manner, with due consideration to the nature of the item.

In order to treat all its Planholders fairly, the Company will not change the basis unless it can be clearly demonstrated that a significant class of Planholders has been or will be materially disadvantaged.

3.8. Management of the inherited estate

The inherited estate is being distributed to Planholders through the use of final bonus rates and will reduce as the fund diminishes. It will reduce to zero as the number of plans and the fund reduces to zero, subject to the termination of the fund as outlined at the end of Section 2 above.

There are no constraints on how the Company may deal with the inherited estate.

3.9. Volumes of new business and arrangements on stopping taking new business

The fund has been closed to new business since 1995. Therefore, the arrangements for reviewing the limits on the quantity and type of new Deferred Pensions business and the anticipated actions to be taken on ceasing to write new business do not apply.

3.10. Equity between the Deferred Pensions fund and shareholders

Assets may only be transferred out of the fund in order to meet expenses, special levies, claim payments to Planholders and the Company's share of any surplus paid. Assets may also be disposed of on an arm's length commercial terms basis.

The Deferred Pensions Planholders receive at least 90% of the surpluses within the fund.

4. Practices of Financial Management

The following practices are expected to change as the Company's circumstances and the business environment change. Whenever there are changes, which are not immaterial, the Company will send details, to all Deferred Pensions Planholders. Although this notice may be in arrears, it will be within a reasonable time period from the effective date.

4.1. The amount payable under a Deferred Pensions plan

All claim payments receive the guaranteed claim value, equal to at least the contributions paid less charges, accumulated at the crediting rates (see sections 3.2 and 4.2). They may additionally receive a final bonus. The rates of final bonus are based on the asset shares of sample plans, after allowing for the Company's share of the surplus, and include an allowance for distribution of the inherited estate (see sections 3.8 and 4.8).

The asset share at the end of each month is calculated for each sample plan as follows:

Asset share brought forward at the beginning of the month

plus contributions received

plus investment return

minus charge for death claims

minus charge for expenses

Since 1 October 2016, the investment return allocated to asset shares is that calculated on the appropriate subset of the Fund. From 1 January 1995 to 30 September 2016, the two subsets were invested in different funds and the investment return allocated to asset shares was that earned on the appropriate fund. Before 1995 appropriate indices have been used.

For Retirement Annuity Contracts, the assets are only fixed-interest assets; for Personal Pension contracts, the assets also include equities and cash.

The charge for death claims is based on standard actuarial mortality tables, adjusted to reflect the Company's experience.

The annual charge for expenses is the total amount charged to the fund, divided by the average number of plans in force.

Overall, the fund is not subject to tax. Any tax due on the proportion of the surplus transferred to the Company is the responsibility of the Company.

The same parameters are used for all plans in each subset of the fund in the individual calculation of sample asset shares.

The method of determining asset shares is encapsulated in the model. The model contains all historical data relevant to the calculation of asset shares and is updated annually.

If changes to the methods, parameters or assumptions were required, then the Company would make a recommendation. These changes would then be discussed and approved by the With-Profits Actuary and the Forester Life Funds Advisory Panel before being submitted to the Board of Directors for final approval.

There is no explicit charge for the guaranteed claim values. Any other risks will be charged for in a way that does not materially disadvantage a significant class of Planholders.

Because of the variability of contributions, the Company cannot calculate asset shares for each individual plan. Consequently, it is unable to set target ranges for pay-outs on retirement. However, given the methodology for setting final bonus rates is based on asset shares for sample plans together with an allowance for distribution of the inherited estate, payouts are considered to be appropriate and fair.

At least once a year, the Company determines whether the fund has an excess surplus, as defined in the Financial Conduct Authority's Glossary of Definitions. The factors likely to be regarded as relevant to address Planholders' interests and security when determining excess surplus are:

- the fund is closed to new business; and

- the ratio of the guaranteed claim values plus final bonuses to the market value of the assets of the fund.

4.2. Crediting rates

Crediting rates take account of the overall redemption yield of the fixed interest investments within the fund, adjusted to allow a margin for final bonus.

For Retirement Annuity Contracts, the rate is increased by 0.75% to allow for the annual management charge. For Personal Pension contracts, the rate is reduced to allow for market volatility in non-fixed-interest assets.

Crediting rates are normally reviewed once a year but may be reviewed more frequently in changing economic circumstances. There is no limit on any increase or decrease in crediting rates, although they cannot be reduced below zero.

4.3. Final bonus rates

Final bonus rates are determined by comparing the differences between the asset shares of sample plans and the corresponding guaranteed claim values with the number of years in force and the differences between the guaranteed claim values and the contributions paid. The asset shares include an adjustment for the distribution of the inherited estate. The sample plans vary by product type, commencement date and number of contributions made. An average contribution, dependent on plan type, is assumed.

These differences are converted into final bonus rates that depend on the total contributions paid, the guaranteed claim value and the complete number of years in force and include an allowance for the Company's share of the surplus. The rates are rounded at the discretion of the Company.

In a rapidly changing economic environment, the Company may set the final bonus rates more frequently than annually.

4.4. Smoothing the value of a Deferred Pensions plan

The Company limits the change in final bonus rates, such that the change in pay-out for any sample plan before and after any amendment to final bonus rates does not exceed 10%. However, in adverse financial circumstances all final bonuses could be removed and smoothing would not apply.

The smoothing formula is applied to all sample plans equally and individually, as well as to all types of claim, although only claims that receive a final bonus can be smoothed.

The Company expects smoothing to be neutral during periods of relatively stable investment returns. However, in times of rapidly changing asset values this will not be true. Although there is no overall limit to the accumulated cost of, or excess from, smoothing, the Company does not expect the cost or excess to be significant.

4.5. Investment strategy

The strategy is independent of any assets held by the Company outside the fund.

All investments are outsourced to Schroders, a global investment manager.

The Deferred Pensions Fund's investment strategy is reviewed at least once a year.

The fund invests in assets appropriate to the nature of the Deferred Pensions business; mainly, but not limited to, a range of UK and global equities, Government bonds and corporate bonds. This includes indirect investments through collective investment funds.

The target asset allocation for the Deferred Pensions Fund is shown in the following table:

Asset Class	**Proportion**
Fixed interest investments	59%
Equities, including Real Estate Investment Trusts	40%
Cash	1%

For the purposes of efficient portfolio management, actual holdings may differ by up to three percentage points from the proportions above.

Limits are imposed on the credit ratings of the corporate bond portfolio. The fund normally invests in corporate bonds that have investment grade ratings, but may retain investments that lose this rating. Any changes to limits, as well as to the target asset allocation, would need to be approved by the Board of Directors, following consideration of the opinions of the Forester Life Advisory Panel and the With-Profits Actuary.

Derivative instruments are only used for efficient portfolio management within guidelines provided to the investment manager.

There are no material non-tradable assets.

There is a high degree of matching between the payments expected from the fixed-interest investments and the expected outgo from payments of guaranteed claim values and expenses less contributions. For this purpose, the guaranteed claim values allow for the continuation of the current crediting rate. As a minimum standard, the duration of the fixed interest investments would be within two years of that of the guaranteed claim values.

The investment strategy of the fund is reviewed annually.

For fixed-interest investments, the maximum proportion of the asset class that may be invested in different credit ratings is as follows:

Credit Rating	**Maximum**
UK Government securities	100%
AAA	50%
AA	50%
A	50%
BBB	30%

Assets that fall outside the limits of the above table will normally be sold within 90 days, where feasible.

In addition to the above, the fund's assets will be well spread by asset class, industry sector, issuer and, where relevant, counterparty risk.

Before investing in new or novel investment instruments, a proposal would be discussed and approved by the Forester Life Funds Advisory Panel and the With-Profits Actuary. The proposal would then be submitted to the Board of Directors for final approval.

4.6. Business risk

The fund would only undertake a business risk that involves the Deferred Pensions business.

In respect of residual risks, such as maintaining Deferred Pensions plans and guarantee and smoothing costs, these are covered in more detail in sections 4.3, 4.4 and 4.7. In particular, the cost of maintaining Deferred Pensions plans depends on the total maintenance expenses of the Company, the total number of plans in force, the total number of claims and the size of the funds under management. The Company actively monitors all these items, to ensure that expenses are controlled. The long-term aim is for maintenance expenses per plan to rise in line with consumer price inflation.

Residual risks are pooled among all Deferred Pensions Planholders.

4.7. Charges and expenses

The charges made to the guaranteed claim values depend on the product and commencement date, as follows:

Subset of Fund	Product	Commencement date	Annual Charge
Retirement Annuity Contracts	Forester Retirement Plan	Before 1 July 1987	£20 + 0.75% of guaranteed claim value
		After 30 June 1987	£40 + 0.75% of guaranteed claim value
Personal Pension	Appropriate Personal Pension Plan	Any	£20
	All other products	Any	£40

Charges are deducted annually at the end of the month in which the plan anniversary occurs. However, from 1 March 2020, the £20 or £40 fixed charge is reduced for smaller plans such that the charge is a maximum of 1% of the fund value. Otherwise, these charges are unchanged since the commencement of the plans.

The Company's total maintenance expenses for a year are sub-divided into:

a) expenses proportionate to number of plans in force;

b) expenses proportionate to number of claims;

c) expenses proportionate to funds under management; and

d) other costs.

Categories a) and d) are apportioned to all plans in proportion to the average number of plans in force during the year; category b) is apportioned equally to all claims; and category c) is apportioned in proportion to average weighted funds under management during the year.

Each plan in the fund is allocated the same proportion of the fund's total maintenance expenses.

Maintenance expenses include all investment expenses except those directly related to the sale or purchase of an investment, such as commission and stamp duty. The expense for each plan will be used in the asset share calculation.

The weightings used in the calculation reflect the charges made by the fund managers.

There is no renewal commission apportioned to the fund.

Direct investment expenses, such as commission and stamp duty, are deducted from the proceeds of sales or added to the cost of the investment, as appropriate.

Charges incurred through investment in collective investment schemes would be borne by the fund, although any charges incurred by investment in a Foresters or Schroders controlled collective investment scheme would be reduced to eliminate the effect of double-charging.

The Company will not charge expenses to the fund at an amount other than cost.

Any change in basis, including any change in the method used for apportioning maintenance expenses, would need to be approved by the Forester Life Board. The change would also require the approval of the With-Profits Actuary.

The Company will periodically review the arrangements under which it obtains out-sourced services. Currently, Forester Holdings (Europe) Limited, the immediate parent company of Forester Life, provides all support services necessary for the Company to operate efficiently and economically in carrying out its business.

4.8. Management of the inherited estate

The inherited estate, for each subset of the fund, is defined as:

Value of assets

minus guaranteed claim values

minus final bonuses currently payable on death (excluding the proportion due to the distribution of the inherited estate)

minus the Company's share of the final bonuses

minus the future expected cost of the guaranteed claim values

minus the Fund's risk margin

minus the Fund's solvency capital requirement

minus current liabilities

The inherited estate is gradually being distributed to Planholders in the form of increased claim values. Consequently, the investment strategy for the inherited estate is the same as for the remainder of the fund. There are no constraints on how the inherited estate is used, subject to equity between the Deferred Pension Planholders and the shareholder as described in sections 3.10 and 4.10.

There are no guidelines in place regarding the maximum or minimum size of the inherited estate. In the long-term, the inherited estate is expected to decrease slightly faster than the fund, but this position can be different in the short-term.

4.9. Volumes of new business and arrangements on stopping taking new business

The fund has been closed to new business since 1995.

4.10. Equity between the Deferred Pensions Fund and shareholders

The Deferred Pensions Planholders receive 90% of the surpluses within the fund. Consequently, one-ninth of the final bonus paid on claims is deducted from the fund and transferred to the Company.

5. Governance

In order to ensure that the Company complies with, maintains and records the principles and practices set out in this document, it has established a Forester Life Funds Advisory Panel. The Panel can include non-executive UK directors of the Company.

The Panel will, at least once in every 12 months, make a judgement as to the compliance of the Company with the principles and practices and how any competing or conflicting rights and interests of Planholders have been addressed.

6. Questions

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

Customer Services
Foresters Financial
Foresters House
2 Cromwell Avenue
Bromley
BR2 9BF

Email: service@Foresters.co.uk

Although the Company will do its best to answer all questions, please note that some information may be commercially sensitive or confidential and hence cannot be disclosed.