

Forester Life Limited - Directors' Annual Report to Tunbridge Wells Fund's With-Profits Planholders - 2023

Introduction

This annual report explains how we managed the Tunbridge Wells Fund in 2023. In particular, it considers:

- if our operation of the Tunbridge Wells Fund during 2023 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/wp ;
- the way we have exercised management discretion in making key decisions during 2023 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.

Governance

In order to ensure that the PPFM is maintained and complied with, we established a Tunbridge Wells Funds Advisory Panel.

Effective from 1 April 2023, we transferred the responsibilities and duties of the Tunbridge Wells Fund Advisory Panel to the Forester Life Funds Advisory Panel. This change did not affect the way in which we manage the fund.

During 2023 the relevant panel acted 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 2023 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 in 2023, 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 2023 it has complied with the PPFM. 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 2023

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, the non-profit business, and changes to the PPFM. Each of these areas is now considered separately.

Investment Management

Investment management of the With Profit Fund is undertaken by Schrodgers and we regularly monitor performance.

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 and, in particular, to safeguard the solvency of the TW 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.

The fund aims to match the cash-flows from the fixed interest investments with the expected guaranteed payments to planholders.

Pay-outs

Forester Life aims to provide the Tunbridge Wells Fund's planholders with a fair return on their investment. This is achieved through the setting of bonuses, smoothing of investment 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 plus a share of any business profits added. These amounts are then built up at the rate of investment return allocated to the plan.

In addition, pay-outs may also include a distribution of the fund's surplus assets. In order to distribute the surplus pay-outs are calculated as a proportion of the 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. We call this the adjusted asset share.

We set final bonus rates for unitised with-profits plans in January, whilst for other with-profits plans, the final bonus is based on a plan's individual adjusted asset share.

In respect of smoothing, we smooth the investment returns applied to the adjusted asset shares for maturing policies and death claims. The surrender value methodology also uses individual adjusted asset shares to determine plan pay-outs, but without smoothing.

There were no changes to the way we calculate pay-outs during 2023, and pay-outs were in line with the target ranges set out in the PPFM. This, together with the fact that the methodology uses individual adjusted asset shares to determine pay-outs, means that we consider pay-outs from the fund to be fair and reasonable.

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. This is the adjustment referred to above.

Non-profit Business

With effect from 1 October 2021, a reinsurance agreement was put in place with Forester Life's Open Business Fund (OBF). Under this agreement, the risks under most of the non-profit business were reinsured with the OBF in return for a reinsurance premium. The agreement operated as expected during 2023.

Changes to the PPFM

From 1 April 2023 we updated the PPFM to reflect the transfer of the responsibilities and duties of the Tunbridge Wells Fund Advisory Panel to the Forester Life Funds Advisory Panel. From 1 June 2023, we made some minor amendments to the PPFM to improve clarity.

From 1 September 2024, we will make a change to the PPFM to allow us to change the proportion of asset share we pay more frequently than yearly. This will allow us to increase the proportion of asset shares we pay, if appropriate to do so, during the year. The PPFM currently only allows us to reduce this proportion during the year.

These changes were communicated within the annual statements.

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

Dated: 1 May 2024