

Forester Life Limited

Tunbridge Wells Fund

**Principles and Practices of Financial
Management**

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1 Introduction

This document has been produced in accordance with chapter 20.3 of the Financial Conduct Authority's ("**FCA's**") Conduct of Business Sourcebook. It describes the Company's principles and practices relating to the with-profits business in the Tunbridge Wells Fund ("**TW Fund**").

Principles are enduring statements of the overarching standards we adopt in managing the with-profits business in the TW fund. They describe the business model we use in meeting our duties to holders of *with-profits plans* and in responding to longer-term changes in the business and economic environment.

Practices describe our approach to managing the with-profits business 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 *with-profits plan* with us.

2 Background

Tunbridge Wells Equitable Friendly Society Limited ("**TWEFS**") was a mutual friendly society owned by its members and run by a board of directors. From January 2003 it traded as The Children's Mutual. Its entire business was transferred to Forester Life Limited ("**Forester Life**") on 2 April 2013.

The TW Fund was formed on 2 April 2013 as a merger of the Tunbridge Wells Equitable Life and Endowment Fund and the previously ring-fenced Boots Life Fund.

The Tunbridge Wells Equitable Life and Endowment Fund was the main business fund of TWEFS. The type of business transacted in the Tunbridge Wells Equitable Life and Endowment Fund was life insurance. Income protection policies were also written in the fund.

Historically, plans were offered as either whole of life assurances (under which the proceeds are paid out only on death) or as endowment assurances (under which the proceeds are paid out on survival to a specified date, or on earlier death) with both lump sum investment and regular payment plans being offered. Both *with-profits plans* and non-profit plans were offered.

The Boots Life Fund was formed from the business written by Boots Life Assurance Limited (*Boots Old Series business*), whose assets and liabilities were transferred to TWEFS on 31 October 1990 under a court sanctioned insurance business transfer. In addition, new business was transacted in the Boots Life Fund from 1 November 1990 (*Boots New Series business*), although the terms and conditions under which this business was written differed from those in relation to the *Boots Old Series business* and were

similar to the terms and conditions for business written at that time in the Tunbridge Wells Equitable Life and Endowment Fund.

The TW Fund is now closed to new business. Forester Life, therefore, has a plan in place to distribute the surplus arising within the TW Fund on a fair basis to different generations of holders of *with-profits plans* and other ex-members of TWEFS. This plan recognises the relative contributions to this surplus from the former Tunbridge Wells Equitable Life and Endowment Fund and the former Boots Life Fund.

The *Board* has discretion to determine (having regard to the advice of the TW Fund's With-Profits Actuary and the Forester Life Funds Advisory Panel) that a proportion of the surplus be utilised by way of an enhancement or otherwise distributed on a fair basis to planholders in the TW Fund holding with-profits, non-profit, sickness and unit linked plans in recognition of such planholders' former entitlement as members of TWEFS that they ceased to have as a result of the transfer under the *Transfer Instrument*.

The vast majority of *with-profit plans* in the TW Fund are *conventional with-profits plans*. However, a small proportion of the business was written as *unitised with-profits plans*. The non-profit and income protection plans are not considered further in this document, other than to note that, with effect from 1 October 2021, the risks on the non-profit plans, including unit-linked and sickness plans, were reassured with the Forester Life Open Business Fund. As part of this there is an arrangement whereby a proportion of profits on the sickness plans is returned to the TW Fund.

Under current tax regulations (contained within the Income and Corporation Taxes Act 1988), Forester Life is able to claim exemption from Income Tax and Capital Gains Tax on some of the plans in the TW Fund, subject to such plans satisfying certain criteria. Currently, these criteria include the limitation of eligibility in respect of each participating planholder to a maximum contribution into the TW Fund (and any other tax exempt friendly society life funds) of £25 a month or £270 a year. Those plans in respect of which Forester Life is able to claim exemption are referred to hereafter as tax-free plans; those in respect of which exemption cannot be claimed are referred to as taxable plans.

The ultimate holding company of Forester Life 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**").

3 Principles of Financial Management

The Principles form the broad framework of rules underpinning the operation of the TW Fund, in a way which is appropriate to its stated aims and objectives. They provide an enduring, long-term structure to ensure both continuity and consistency over time, and also document how we intend to interpret Principle 6 of the FCA's Principles for Businesses for *with-profits plans*. This FCA Principle requires us to pay due regard to the

interests of our customers and treat them fairly. They describe the business model used by Forester Life to enable it to meet its responsibilities to holders of *with-profits plans*. They also set out the way in which we will respond to longer-term changes in the business and economic environments in which Forester Life operates.

Although the Principles are intended to be stable and permanent as far as is reasonably practicable, they can be changed from time to time if necessary. In accordance with *FCA* regulations, we will give all holders of *with-profits plans* in the TW Fund written notice of any proposed changes to the Principles at least three months before these become effective. Where appropriate we will notify the *FCA* in advance of any change to the Principles.

The *with-profits plans* written in the TW Fund are *conventional with-profits plans* with the exception of a small number (less than 1%) of *unitised with-profits plans*. The Principles refer to all *with-profits plans* unless a specific difference is noted for the *unitised with-profits plans*.

3.1 Aims and objectives of the TW Fund

- 3.1.1 We will 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.
- 3.1.2 We will manage the TW Fund in such a way as to enable each invested *with-profits plan* to benefit from investment returns achieved from a mix of asset classes held during its *participation period*, while at the same time limiting exposure to volatile asset classes.
- 3.1.3 Our objective is to achieve as good an investment return as is practicable for each invested *with-profits plan*. To do this, we take into account the charges made by Forester Life for managing the TW Fund, the element of guarantee integral to that plan, our aim to smooth the impact of performance factors (such as market movements, mortality experience, *solvency* and other regulatory requirements) over the *participation period* of the plan and the underlying investment principles of the TW Fund.
- 3.1.4 We will use appropriate actuarial principles and models to smooth the investment returns earned by the TW Fund, based on tools that recognise what is a fair return to each individual *with-profits plan* whilst also aiming to limit large differences in payout between similar plans of the same series. In this way, we will seek to maintain consistency of payouts between all plans of the same series, invested at any time, and between different cohorts of plans of the same series, having entered into TWEFS at different times.
- 3.1.5 In so far as is reasonable and in line with the fair treatment of holders of *with-profits plans* in the TW Fund, Forester Life will manage the TW Fund

such that its assets are able to cover its liabilities and its capital and *solvency* requirements. Section 6 describes when support may be provided.

3.2 Investment policy

- 3.2.1 We will invest in such a mix of asset classes as is necessary to facilitate the aims and objectives of the TW Fund.
- 3.2.2 Asset classes eligible for investment will include, but are not restricted to, 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.
- 3.2.3 We will aim to ensure that the mix of asset classes matches the reasonable expectations of our customers (as gleaned from promotional and other material provided by us) in terms of exposure to different market risks and the guarantees integral to each *with-profits plan*.
- 3.2.4 We will vary the mix of asset classes from time to time in response to changes in the economic environment, to meet the aims and objectives of the TW Fund and, in particular, to safeguard the *solvency* of the TW Fund.

3.3 Asset share methodology

- 3.3.1 For each *with-profits plan* invested in the TW Fund, we calculate, in accordance with rules laid down by the *FCA*, a value known as an *asset share*. This *asset share* represents an accumulation based on achieved investment returns, net of tax as appropriate, of all payments made to date less all costs incurred. Charges include an appropriate allowance for expenses, *mortality costs* and guarantees.
- 3.3.2 For each *with-profits plan* invested in the TW Fund, we also calculate an *adjusted asset share* which is the plan's *asset share* with the addition of the adjustment credited to the plan in order to distribute the surplus arising within the TW Fund on a fair basis to different generations of holders of *with-profits plans* and subject to 3.3.4 below. In practice, *this adjusted asset share* is calculated by applying an uplift percentage to the *asset share*. This percentage may be zero. The uplift percentage will vary from time to time. For *Boots Old Series business with-profits plans* this *adjusted asset share* includes the adjustment that already existed at the time of the merger between the Boots Life Fund and the Tunbridge Wells Equitable Life and Endowment Fund on 2 April 2013.
- 3.3.3 We aim to distribute any surplus arising within the TW Fund to its with-profits planholders by way of *planned adjustments*, the differences between *asset share* and *adjusted asset share*. Forester Life reserves the right to change the level of the *planned adjustments* (including the removal of previous *planned adjustments* from all business including

Boots Old Series business with-profits plans) if the *solvency* position has changed.

- 3.3.4 The *Board* has discretion to determine (taking into account the advice of the TW Fund's With-Profits Actuary and the Forester Life Funds Advisory Panel) a proportion of the surplus that can be distributed on a fair basis to planholders in the TW Fund holding with-profits, non-profit, sickness and unit linked plans in recognition of such planholders' former entitlement as members of TWEFS that have ceased as a result of the transfer under the *Transfer Instrument*.
- 3.3.5 The investment return used in the calculation of *asset shares* reflects the actual returns earned by the various classes of assets held within the TW Fund, and may include an allowance in respect of income derived from other types of business transacted in the TW Fund, or from dividend or other income remitted to the TW Fund by any subsidiary undertaking owned wholly or jointly by Forester Life.
- 3.3.6 Up to 1 July 2017, for all *conventional with-profits plans* other than *Boots Old Series business with-profits plans*, we switched the assets notionally allocated to the plan's *asset share* from higher- to lower-risk asset classes on an ongoing basis, in accordance with previous Principles and Practices of Financial Management ("**PPFM**"). For a *unitised with-profits plan* and a *Boots Old Series business with-profits plan*, the proportions of higher- and lower-risk assets were constant throughout the *participation period*.
- 3.3.7 From 1 July 2017, all plans, including *Boots Old Series business* and *unitised with-profits plans*, will have assets notionally allocated to its *asset share* that will be consistent with the assets allocated to the business as a whole.
- 3.3.8 *Asset shares* are used as a core part of the process to determine plan payouts. As part of this process, *smoothed asset shares* are calculated by averaging the investment returns allocated to *asset shares* over a period of time in such a way as to smooth their effect. This averaging enables us to meet the objective of smoothing payouts from one time period to another.

3.4 Expenses and charges

- 3.4.1 The expenses and charges to be borne by the TW Fund are set out in the *Transfer Instrument*. The most significant items are summarised below.
- The cost of administering the business (including investment management services) within the TW Fund, according to the tariff set out in the *Transfer Instrument*.
 - A charge for taxation determined as if the TW Fund was a standalone friendly society, as set out in the *Transfer Instrument*.

- Payments of interest and repayments of capital in respect of any amounts borrowed by the TW Fund from other parts of Forester Life.
 - Any reinsurance premiums paid to reinsurers in respect of any of the liabilities of the TW Fund that are reinsured.
- 3.4.2 From 1 October 2016, an arrangement has been put in place between the non-profit business fund of Forester Life and the TW Fund. This arrangement caps the liability in the TW Fund in respect of the pension scheme deficit of the Tunbridge Wells Retirement Benefit Scheme at the level of the deficit as at 30 June 2016.
- 3.4.3 The *Board*, having taken advice from the With-Profits Actuary, will determine how the total expenses and charges borne by the TW Fund will be allocated to the *asset shares* and the *Estate*.
- 3.4.4 Charges made to aggregate *asset shares* are spread across individual *asset shares* in line with decisions made by the *Board*.
- 3.4.5 The costs of smoothing are charged to the fund. These are expected to be broadly neutral over the medium to longer-term. Forester Life has not set a maximum limit for these costs, but should it do so in the future such limit would be determined by the need to maintain the *solvency* of the TW Fund.
- 3.4.6 The *Board* may use its discretion to amend the basis on which charges are applied or apportioned if, in its view, the current basis leads to a material inequity between different types and generations of planholders.

3.5 Payout policy

- 3.5.1 For *with-profits plans*, we will endeavour to pay out, on reaching the end of the *participation period*, an amount that is as close to 100% of the *smoothed adjusted asset share* of such plans as is reasonably practicable. For certain smaller product groups, we use asset shares for a representative sample of plans. If the guaranteed benefit under a plan is higher than this amount, then we will pay the guaranteed benefit. In certain circumstances, for example, where the TW Fund's *solvency* position is at risk or would be at risk or in stressed economic conditions, Forester Life may reduce the level of *planned adjustments* within the *smoothed adjusted asset share*, or remove it completely.
- 3.5.2 For *with-profits plans*, the amounts payable on death are determined by applying the in-force rates of *final bonuses* that have been determined by applying the principle set out in paragraph 3.5.1 above.
- 3.5.3 For conventional *with-profits plans* being cancelled prior to the end of the *participation period* (on being cashed-in or surrendered), we will endeavour to pay out an amount that is as close to 100% of the *adjusted asset share* of such plans or sample plans at the time of cancellation as is possible.

3.5.4 The approach used in assessing payouts is to calculate payouts based on individual plans in most cases, and a representative sample of plans for certain smaller product groups.

3.6 Bonus distribution policy

3.6.1 In endeavouring to achieve our objectives for *with-profits plan* payouts and provision of guarantees, we will aim to distribute profits to plans throughout their *participation period* by allocating *bonuses* to them.

3.6.2 We will allocate to each *with-profits plan* invested in the TW Fund a "fair and equitable" share of any surplus generated by the TW Fund, after meeting all expenses of operating and managing the TW Fund, and after allowing for the retention of an amount to allow for future contingencies. Any such amount held in reserve shall not be excessive in relation to the ongoing liabilities of the TW Fund, to guarantees given to customers and to the underlying *solvency* and capital requirements of the TW Fund. The amount of surplus allocated to a plan is referred to as *bonus*. In determining what is "fair and equitable" in this context, we will use *asset shares* for plans as that allows for the premiums paid, the investment returns earned by the plan and the plan's share of fund expenses and tax. For certain smaller product groups, we use *asset shares* for sample plans to aim for consistency of approach between plans of the same series which are of different size, duration in force and original *participation period*.

3.6.3 We will calculate the proportion of the available surplus of the TW Fund attributable to each *with-profits plan* for the relevant distribution period by reference to:

- its participating value brought forward from the preceding distribution period (being the aggregate of the guaranteed sum payable on death and the total of all *bonuses* previously allocated to the plan for *conventional with-profits plans* and the value of the units allocated to the plan for *unitised with-profits plans*); and
- the payments made into the Fund in respect of it during the relevant distribution period.

Each distribution period is one calendar year. *Bonuses* allocated at the end of each distribution period are referred to as *yearly bonuses*. For the avoidance of doubt, *yearly bonuses* may be zero.

3.6.4 The *Board* sets an interim rate for allocation of a *yearly bonus* to any *with-profits plan* which pays out on either reaching the end of its *participation period*, or on the death of a person whose life is insured by the plan, during the succeeding distribution period. However, the interim *bonus* rate is subject to ongoing review, and may be changed at any time without prior notice.

3.6.5 We may make a further allocation of surplus to each plan at the time it pays out, either on reaching the end of its *participation period* or on the death of a person whose life is insured by the plan. This is referred to as the *final bonus*. Calculation of the *final bonus* at the end of the *participation period* is based on the relationship between the *smoothed adjusted asset share* of the plan and the actual value of the plan as represented by i) the aggregate of its guaranteed sum payable on death and all *yearly bonuses* previously allocated to it for *conventional with-profits plans* and ii) the value of the units allocated to the plan for *unitised with-profits plans*. The aim is for the *final bonus* at the end of the *participation period* to be set at a level that achieves the payout objective. The payout objective is to pay approximately 100% of the *smoothed adjusted asset share* at the time of exit from the TW Fund or the guaranteed benefit if higher.

3.6.6 The *final bonus* on the death of a person whose life is insured by the plan is set equal to the in-force rate of *final bonus* as determined by the principle set out in paragraph 3.6.5.

3.6.7 We will maintain a "fair and equitable" (as defined above) balance between *yearly bonuses* (guaranteed) and *final bonuses* (non-guaranteed).

3.7 Discretion

3.7.1 The operation of the *bonus* distribution and payout policies rests upon the exercise of the discretionary powers of *the Board* in determining the proportion of the TW Fund available at any time for allocation to invested *with-profits plans*.

3.7.2 In exercising their discretion, the *Board* will always take full account of the professional opinion of the With-Profits Actuary as to such matters as the overarching *solvency* of the TW Fund, the need for prudent reserving against future contingencies, the cost of benefits already guaranteed to customers, the level of investment return earned by the TW Fund and the potential for future returns in the light of current market conditions.

3.7.3 The *Board* will always exercise its discretion in such a way as it believes, after having taken appropriate advice, to be fair to customers as a whole, and in a way that is consistent with this document (as established by monitoring at appropriate intervals).

3.8 Guarantees

3.8.1 We will apply to each *conventional with-profits plan* investing in the TW Fund, from its inception, a monetary amount which Forester Life guarantees to pay out in full either:

- in respect of a whole of life insurance, on the death of a person whose life is insured; or

- in respect of an endowment plan, on either the death of a person whose life is insured or on their survival to the end of the *participation period* of the plan, whichever shall occur first.

Payment of this sum in full is dependent upon all payments for the plan due to that time having been made. In the event that any payments are due and unpaid at the time the plan pays out, an appropriate deduction will be made from the value of the plan and the net balance paid out.

- 3.8.2 We guarantee that all *yearly bonuses* allocated to the plan up to the time it pays out either on reaching the end of its *participation period*, or on the death of a person whose life is insured by the plan, will be paid out in full, subject to all due payments having been made.
- 3.8.3 For *unitised with-profits plans*, there are a limited number of guarantees that payouts will be at least equal to contributions.
- 3.8.4 The costs of guarantees will be met by a combination of a contribution from the TW Fund and charges to *asset shares* as determined by the *Board*.

3.9 Other considerations

- 3.9.1 In managing the TW Fund, we will seek to take into account the approach to management that has been taken in the past.
- 3.9.2 In managing the TW Fund, we will take reasonable steps to take into account the statements made in past marketing literature, plan conditions and disclosure documents.
- 3.9.3 We will also take into account any special arrangements that were entered into in respect of any earlier funds which have been transferred to, or amalgamated with, the TW Fund. In particular, we will take account of the arrangements made upon the transfer of engagements to TWEFS that formed the basis of the Boots Life Fund.
- 3.9.4 We will endeavour to be as consistent as is reasonably practicable with all past Principles, in so far as to do so does not compromise either the *solvency* or capital requirements of the TW Fund, or the interests of current and/or future holders of *with-profits plans*.
- 3.9.5 We will always manage and operate the TW Fund in such a way as is compatible with the reasonable expectations of our customers, while also safeguarding the continued *solvency* of the TW Fund.

4 Practices of Financial Management

The Practices describe the way in which we manage the TW Fund on a day-to-day basis, and how we will respond to shorter-term changes in the business and economic environment. They represent the practical implementation of the business model described by the Principles. From the

information they contain, it should be possible for holders of *with-profits plans* to understand both the prospective rewards of, and the material risks presented by, maintaining a *with-profits plan* investing in the TW Fund.

As the Practices are concerned essentially with the ongoing and shorter-term operation of the TW Fund, it is to be expected that they will need to be changed more frequently than the Principles. In accordance with *FCA* regulations, we will give all holders of *with-profits plans* in the TW Fund written notice of any changes to the Practices, within a reasonable period after the changes have become effective. Where appropriate, we will also notify the *FCA* of any change to the Practices.

The procedures underlying these Practices are documented internally both in the form of procedure manuals and as part of our financial modelling systems. Historical assumptions and their derivation are included as part of such documentation. This documentation is part of our systems and controls and is regularly reviewed as part of our ongoing risk management process.

Any changes to these procedures, in so far as they do not affect the Principles and Practices, are implemented as part of the ongoing management of the TW Fund and will be authorised by the appropriate line manager. Where a change impacts on a Principle or a Practice, this will require the agreement of the *Board*.

Historical assumptions will only be amended where it is discovered that there was a material error leading to inequity between classes or generations of planholders.

The *with-profits plans* written in the TW Fund are *conventional with-profits plans* with the exception of a small number (less than 1%) of *unitised with-profits plans*. The Practices refer to all plans unless a specific difference is noted for the *unitised with-profits plans*.

4.1 Past considerations

- 4.1.1 For each *with-profits plan* invested in the TW Fund, we calculate as required an *asset share* and an *adjusted asset share* as set out in section 3.3 above. Details of the methodology for calculating *asset shares*, including current and historical assumptions and approximations used, are documented within our internal systems and central procedural records.
- 4.1.2 The expenses and *mortality costs* used in these calculations are based on yearly analyses of our past experience for plans of the same or directly similar type.
- 4.1.3 The rate of return is based on analyses of actual investment returns and, where appropriate, tax rates. In assessing the investment return achieved on a plan, we make an assumption about the assets underlying the *asset share*. Up to 1 July 2017, for all *conventional with-profits plans*

other than *Boots Old Series business with-profits plans* we switched the assets notionally allocated to the plan's *asset share* from higher- to lower-risk asset classes on an ongoing basis, in accordance with the previous PPFM. For a *unitised with-profits plan* and a *Boots Old Series business with-profits plan*, the proportions of higher- and lower-risk assets were constant throughout the *participation period*.

- 4.1.4 From 1 July 2017, all plans, including *Boots Old Series business*, will have the same assets notionally allocated to their *asset shares*.
- 4.1.5 The *Board* may use its discretion to amend these asset allocations to reflect significant changes in economic or market conditions if it deems this to be necessary to safeguard the interests of the TW Fund, including the overall *solvency* and capital requirements of the TW Fund.
- 4.1.6 The tax liability on the TW Fund is allowed for in *asset shares* by adjusting the investment returns to reflect prevailing tax rates for income and capital gains and by adjusting expenses to reflect tax relief at the then prevailing rates. Any difference between tax charges levied on *asset shares* and tax paid by the TW Fund is met by/falls to the *Estate*.
- 4.1.7 For conventional with-profits plans, we smooth the value of the plan *asset shares* by smoothing the investment return. This is done by calculating two indices, one for the unsmoothed returns and one for the smoothed returns allocated to *asset shares*. There are separate indices for exempt and taxed business.
- 4.1.8 The smoothed investment return index for the current month is calculated by taking a weighted average of
- the index of actual returns for the month, and
 - the index of smoothed returns for the previous month plus one month's expected rate of long-term growth.
- 4.1.9 The weights used in the above formula and the expected rate of long-term growth are reviewed regularly and may be changed at the Company's discretion. Any changes will only apply to future smoothed index values.
- 4.1.10 Investment returns before 1 July 2017 are not smoothed.
- 4.1.11 The smoothing formula is applied to all policies equally and individually, although only to death and maturity claims. Surrender values are not smoothed.
- 4.1.12 For unitised with-profits business, we smooth the value of sample plan asset shares by averaging the investment returns over three years.

4.1.13 The *smoothed adjusted asset share* is equal to the *smoothed asset share* (as calculated above) plus an uplift as described in section 3.3.

4.2 Investment policy and fund management

- 4.2.1 The *Board* has overall responsibility for the investment policy of the TW Fund.
- 4.2.2 Forester Life employs professional fund managers to manage the investment of the TW Fund on its behalf and their performance is monitored on a regular and continuous basis.
- 4.2.3 The fund managers are required to manage the TW Fund's investments in accordance with the principal aims and objectives set for the TW Fund by the *Board* of Forester Life. Subject to such parameters, in particular the Forester Life's desired asset allocation, and to the extent permitted by Forester Life, the asset managers have the power to exercise their discretion in buying, holding and selling specific equities, stocks, bonds, gilts or other tradeable financial instruments from time to time, in the light of the prevailing economic environment.
- 4.2.4 The fund managers are periodically given liability cash-flow projections by Forester Life in respect of the guaranteed benefits and they aim to match the income from the fixed interest investments to this pattern of cash-flows. In addition, there is a specific benchmark against which equity investments are managed and risk constraints on all asset classes. These constraints are set with regard to the degree of risk the *Board* believes is desirable and in the light of performance objectives given to the fund managers.
- 4.2.5 The actual investments held by the TW Fund will reflect, and be appropriate to, the underlying *asset shares* and *adjusted asset shares* of invested *with-profits plans*. However, the *Board* may use its discretion to amend the asset allocation to reflect significant changes in economic or market conditions if it deems this to be necessary to safeguard the interests of the TW Fund including the overall *solvency* and capital requirements of the TW Fund and of Forester Life.
- 4.2.6 Any assets in excess of the amount required to cover plan *asset shares* will be invested in such a way as to maximise the expected investment return from those assets while taking account of the anticipated costs of guarantees and smoothing policy, the overall *solvency* of the TW Fund, and the investment principles.
- 4.2.7 The TW Fund will not invest in corporate bonds that are rated below BBB- by a majority of the leading independent risk ratings agencies unless the bonds relate to current holdings and the fund managers and the *Board* believe a hold position is appropriate.
- 4.2.8 Forester Life may allow the fund managers of the TW Fund to make use of derivatives as part of an investment strategy to aid efficient portfolio

management and to reduce the risk exposure of the fund to significant movements in markets. The asset management agreement sets out controls on the use of derivatives and a range of appropriate counterparties is used to limit counterparty exposure.

- 4.2.9 An annual formal review of investment strategy and asset allocation is carried out which reviews asset mix and cash-flows in light of the TW Fund's liabilities, taking account of planholders' reasonable expectations with regard to *asset shares* and also guarantees provided by plans written in the TW Fund.
- 4.2.10 Any proposal for the fund to invest in a new or novel investment instrument would require the approval of the *Board*, following a written submission as to how such an investment would assist meeting the TW Fund's investment objectives.
- 4.2.11 The TW Fund may have a limited number of assets that would not normally be traded. Any new investment not derived from an existing investment requires *Board* authorisation in consideration of the potential risk and return to the TW Fund. Such assets are included in the determination of the overall return on the TW Fund.

4.3 Expenses and Charges

- 4.3.1 The total expenses and charges to be borne by the TW Fund will be allocated to the *asset shares* and the *Estate* of the TW Fund. The allocation will be determined by the *Board*, having taken advice from the With-Profits Actuary.
- 4.3.2 To the extent that any charge is common to all plans invested in the TW Fund, we will, if making an allowance, charge a fair proportion to each *asset share*. This may be done by applying a fixed charge to each *asset share*, by applying a charge as a percentage of the *asset share*, by applying a charge as a percentage of the premium allocated to the *asset share* in the year in question or by any combination of these.
- 4.3.3 To the extent that any charge is common only to those plans forming part of a cohort which entered into the TW Fund during a specific period of time, we will, if making an allowance, charge a fair proportion to each *asset share* allocated to those plans.
- 4.3.4 To the extent that any charge is peculiar to a particular plan, we will, if making an allowance, charge only to the *asset share* of that plan.
- 4.3.5 For any items of exceptional expenditure, the *Board*, having taken advice from the With-Profits Actuary, may use its discretion to charge the costs to either *asset shares* on a fair and equitable basis or to the *Estate*.
- 4.3.6 As set out within other sections of these practices, charges may also be made to *asset shares* in respect of mortality and investment guarantees arising.

4.3.7 Charges may also be applied to *asset shares* to cover losses, such as morbidity losses, that can validly be applied to the TW Fund.

4.4 Bonus distribution policy – all *with-profits plans*

4.4.1 We endeavour to operate and manage the TW Fund, and invest in asset classes, in a way designed to ensure that, over time, the total assets of the TW Fund are more than sufficient to meet the contractual obligations of the invested plans, including guarantees.

4.4.2 All profits earned by the TW Fund are used ultimately for the benefit of customers investing in the TW Fund.

4.4.3 As the TW Fund relates to long-term business, it is not appropriate to allocate surplus arising in full at any given time to the *with-profits plans* in force at that time. Part of the surplus is retained in reserve for use by Forester Life in maintaining the existence and *solvency* of the TW Fund over the long term, and to facilitate smoothing of returns allocated to the *asset shares* underpinning the payouts made in respect of the *with-profits plans*.

4.4.4 Each *with-profits plan* in the TW Fund participates in the distribution of surplus. For *conventional with-profits plans*, the extent of participation is determined initially by the amount of the minimum sum which we guarantee to pay out on the death of a person whose life is insured by the plan. For *unitised with-profits plans*, the extent of participation is determined by the contribution(s) made by the customer.

4.4.5 For the avoidance of doubt, the declaration of *yearly bonuses* for a particular year may be zero. Further, *final bonuses* may be zero.

4.5 Bonus distribution policy – *conventional with-profits plans*

4.5.1 After taking into account the value of future liabilities (including under any non-profit plans invested in the TW Fund), guarantees already attaching to *with-profits plans*, *solvency* requirements and prudent reserves against potential future contingencies, we calculate what proportion of the surplus can be reasonably distributed among plans of this type. We call this the distributable surplus.

4.5.2 The distributable surplus is divided among *with-profits plans* in the form of *bonuses*. Because this is done on a yearly basis, these *bonuses* are referred to as *yearly bonuses*. *Bonuses* are allocated to each invested plan in direct proportion to:

- its minimum sum guaranteed payable on the maturity of the plan assuming continuation of the current level of premium (or on the death of a person whose life it insures for whole-life contracts); and
- all *yearly bonuses* previously allocated to it.

The rates at which we allocate *bonuses* depend upon the level of distributable surplus available and may differ:

- from accounting period to accounting period;
- between different cohorts of plans having entered the TW Fund in different years;
- between different series of plans; and
- between those allocated to minimum guaranteed sums payable on maturity (or death for whole-life policies) and those allocated to previously allocated *yearly bonuses*.

4.5.3 In considering the level of yearly bonuses, we give consideration to the consequent build-up of guarantees and how this compares with projected *asset shares*. In line with our Principles, we aim to balance the distribution of surplus between *yearly* and *final bonuses*. As a result, we aim to ensure that, where possible, guaranteed benefits do not grow to an extent where holders of *with-profits plans* could receive an unfair or inequitable return when compared to their plan's *asset share*.

4.5.4 Once we have allocated a *yearly bonus* to a *with-profits plan*, we guarantee to pay out the full value of that *bonus* on the earlier of:

- the death of a person whose life is insured by the plan; and
- the end of the plan's *participation period*.

In both cases, this is subject to all payments due to Forester Life in respect of the plan up to and including the date on which the event triggering the payout occurs having been made.

4.5.5 When the accumulated value of a *with-profits plan* becomes payable on either the death of a person whose life is insured by it or at the end of the plan's *participation period*, we may adjust the payout value by allocating to it a further *bonus*, referred to as the *final bonus*. For plans at the end of their *participation period*, the *final bonus* represents its share of such surplus as has been earned by the TW Fund during the plan's *participation period* but which has not been allocated to the plan as part of the *yearly bonuses*.

4.5.6 For *conventional with-profits plans*, we calculate the *final bonus* by reference to the *smoothed adjusted asset share* notionally underpinning the plan and taking into account any difference between:

- the actual value of the *smoothed adjusted asset share* at the date the event triggering the payout occurred; and
- the aggregate value of the minimum guaranteed sum and all *yearly bonuses* previously allocated to the plan.

- 4.5.7 In certain circumstances, for example where the TW Fund's *solvency* position is at risk, or would be at risk, or in stressed economic conditions, the risks to the remaining planholders may be too high to enable payment of the full *final bonus* at the date of the event triggering the payout. In such circumstances, Forester Life may reduce or remove completely that part of the *final bonus* relating to the *planned adjustments*.
- 4.5.8 Although we endeavour to allocate to the plan as much of that difference as is reasonably practicable, the actual proportion that we are able to allocate is not guaranteed and may be more or less than 100%.
- 4.5.9 If an invested with-profits plan is cashed-in before it has reached the end of its *participation period*, the guarantees that have previously been applied to it are no longer valid. We calculate the amount which we will pay out upon cancellation by reference to the value of the *adjusted asset share* notionally underpinning the plan at the cancellation date. We endeavour to perform this calculation so as to pay out as close to the actual value of the *adjusted asset share* as is reasonably practicable.

4.6 Bonus distribution policy – unitised with-profits plans

- 4.6.1 Before each accounting period starts, we calculate a rate of distributable surplus which we expect to apply to invested plans of this type for the ensuing accounting period. Our calculation will take into account all the same factors as are relevant to the calculation of distributable surplus for other types of *with-profits plans* invested in the TW Fund, but in addition we make reasonable assumptions as to the rate of investment return we expect the TW Fund to achieve during the ensuing accounting period, and as to the level of expenses to be borne by the TW Fund in respect of *unitised with-profits plans* during the same period. We refer to the result of these calculations as the *yearly bonus*.
- 4.6.2 We declare this *yearly bonus* rate in advance, and then apply it to the invested *unitised with-profits plan* on a daily basis throughout the ensuing accounting period. We allocate an equal proportion of the yearly rate on each day of the period. We apply the rate to each unit allocated to each plan.
- 4.6.3 When the accumulated value of an invested *unitised with-profits plan* becomes payable, we may adjust the payout value so as to ensure it reflects the actual value of the *smoothed adjusted asset share* underpinning the plan at that time. If negative, this adjustment is referred to as the "Market Value Adjustment" (MVA). We do not apply the MVA to any payout arising from:
- the death of the person whose life is insured by the plan; or
 - a regular income withdrawal facility for which the planholder opted at the time the plan was taken out.

- 4.6.4 We may not apply the MVA in full to any plan which is cancelled on the tenth anniversary of the date on which it commenced and for which no part of the plan has previously been cancelled (other than in respect of any prior automatic transfers to an Individual Saving Account ("ISA") plan arranged when the plan was set up). In these circumstances the amount paid out is subject to a minimum of the original premium (subject to adjustment in respect of any prior automatic transfers to an ISA plan arranged when the plan was set up).
- 4.6.5 We will only apply an MVA to reflect changes in investment conditions or in response to an exceptional proportion of *unitised with-profits plans* exiting the TW Fund on cancellation.
- 4.6.6 If the *smoothed adjusted asset share* of a plan exceeds the value of units encashed, then if the whole plan is being encashed we may add a *final bonus* to a plan, but this is at the discretion of the *Board* and is not guaranteed.

4.7 Payout policy

- 4.7.1 For *with-profits plans* our policy is to pay out, on its reaching the end of its *participation period*, an amount as close as is reasonably practicable to 100% of the *smoothed adjusted asset share* underpinning that plan. If the guaranteed benefit under the plan is higher than this amount, then we will pay the guaranteed benefit.
- 4.7.2 We cannot guarantee to pay 100% of *smoothed adjusted asset share* for the primary reason that we aim to restrict the movement in payouts from one month to the next. However, we would normally expect that for at least 90% of *with-profits plans* where the payout exceeds the guaranteed benefit, the payout will fall within the range from 80% to 120% of *adjusted asset share*. Smoothed adjusted asset shares are used to determine maturity payments while the target range is assessed against unsmoothed adjusted asset shares. Smoothed and unsmoothed asset shares can be quite different, especially during times of market turmoil, and this is a key reason for the width of the range. Bearing this in mind and the fact that the range describes the maximum difference, in moderate investment conditions, between smoothed and unsmoothed asset shares rather than a typical difference, we consider the ranges to be appropriate and fair. However, in a number of circumstances, for example where the TW Fund's *solvency* position is at risk or would be at risk it may not be possible to make payouts which fall within these ranges.
- 4.7.3 On early termination of a *with-profits plan* our policy is to pay an amount as close as is reasonably practicable to the actual value of the *adjusted asset share*.
- 4.7.4 We cannot guarantee to pay 100% of *adjusted asset share* after making any relevant deduction. However, we would normally expect that for at least 90% of *with-profits plans* the payout will fall within the range from

75% to 125% of *adjusted asset share*. Bearing in mind the fact that the range describes the maximum difference, in moderate investment conditions, between payouts and adjusted unsmoothed asset shares rather than a typical difference, we consider the ranges to be appropriate and fair. However, in a number of circumstances, for example where the TW Fund's *solvency* position is at risk or would be at risk it may not be possible to make payouts which fall within this range.

- 4.7.5 When the aggregate value of the *smoothed adjusted asset share* which underpins a *with-profits plan* is greater than the value of the existing guaranteed benefits, we will endeavour to make good as much of the shortfall as we reasonably can. We will do this by allocating a *final bonus* to the plan, as described above under "*Bonus* distribution policy".
- 4.7.6 Where the payout diverges from the *smoothed adjusted asset share*, the cost of any such difference is borne by (if positive) or credited to (if negative) the *Estate*.
- 4.7.7 Where the *smoothed adjusted asset share* diverges from the *adjusted asset share*, the cost of smoothing is borne by (if positive) or credited to (if negative) the *Estate*. These are expected to be broadly neutral over the medium to longer term. Forester Life has not set a maximum limit for these costs but should it do so in the future such limit would be determined by the need to maintain the *solvency* of the TW Fund.

4.8 Discretion

- 4.8.1 The *Board* is required to exercise discretion in a number of areas governing the operation of the TW Fund. In particular, it exercises discretion in relation to:
- the allocation of *bonuses* to plans, taking advice from the With-Profits Actuary with regard to the levels and split of *bonuses* and their impact on the TW Fund;
 - the allocation of expenses to plan *asset shares* and to the *Estate* where these are not explicitly stated in the *Transfer Instrument*;
 - the type and level of charges applied to *asset shares* to cover losses that can validly be applied to the TW Fund; and
 - the nature of the underlying investments of the TW Fund.
- 4.8.2 In all circumstances, the *Board* will exercise discretion in such a way as is fair to customers as a whole and is in accordance with the Principles above.

4.9 Guarantees

- 4.9.1 As part of our *asset share* methodology, at present we make no charge for the cost of guaranteed payouts when plans reach the end of their *participation period*. These costs are at present estimated and allowed

for when determining the *Estate*. However, the *Board* may decide to apply such a charge to existing and/or future *with-profits plans* at any time, subject to the principle of treating customers fairly and advising the affected planholders.

4.9.2 The *mortality costs* are charged to *asset shares* and are based on a yearly analysis of our mortality experience.

4.10 Risks

4.10.1 Ultimately, the holders of *with-profits plans* have exposure to key risks that could impact the TW Fund.

4.10.2 As the TW Fund is closed to new business, no new business risks are undertaken in the TW Fund.

4.10.3 Forester Life operates a system of risk management across all of its business including the TW Fund such that risks are identified and controls are put in place to mitigate their likelihood and impact. The risks that are relevant to the TW Fund and the primary means by which they are mitigated are:

- Investment risk - through appropriate matching of assets to liabilities and controls placed on the investments held by the TW Fund.
- Mortality risk - through comprehensive *underwriting* where appropriate and by effecting appropriate levels of reinsurance cover with specialist reinsurance carriers.
- Morbidity risk - through comprehensive *underwriting* where appropriate and by effecting appropriate levels of reinsurance cover with specialist reinsurance carriers.
- Taxation risk - through the employment of specialist external tax advisers.
- Surrender risk - through the close monitoring of surrender experience and by ensuring that the payouts made to planholders who surrender their plans are fair to those remaining planholders.
- Mis-selling/mis-buying compensation risk - through always treating customers fairly and openly. By ensuring that all customer literature is written in a clear, fair and not misleading manner and is, so far as is practicable, expressed in plain language. By ensuring that employees are fully trained in the products written in the TW Fund and the procedures adopted by Forester Life to administer those products. To the extent that, historically, TWEFS employed a sales team to give advice to customers, the risk that members of such team might have given misleading advice is monitored by Forester Life's dedicated compliance team. Whenever customers submit complaints of a mis-selling or other nature, these are fully

investigated by the compliance team in accordance with procedures laid down by the *FCA*. If complaints cannot be resolved to customers' satisfaction, they are able to refer such complaints to the Financial Ombudsman Service, whose findings are binding upon Forester Life.

4.11 Future Considerations

- 4.11.1 As part of the ongoing review of the financial condition of the TW Fund, Forester Life and any subsidiary undertakings, projections are prepared as to the impact on the TW Fund of Forester Life's business plans and, where relevant, any subsidiary undertakings.
- 4.11.2 From such comparisons, the *Board* gains assurance that both the TW Fund and Forester Life can support the business plan or, if this is not the case, information upon which to amend the business plans accordingly.
- 4.11.3 The TW Fund is no longer writing new business, and consideration is thus being given to the most effective way to administer and manage the TW Fund in this environment. Included within this consideration is an assessment of future investment strategy to reflect the shrinking of the TW Fund, the associated distribution of surplus in *bonuses* and the general administration of the *with-profits plans*.
- 4.11.4 Under the terms of the *Transfer Instrument*, if, at any time, the number of *with-profits plans* within the TW Fund falls in aggregate below 1,000 or if the aggregate value of the *asset shares* of the TW Fund falls below £5,000,000 (as adjusted annually for inflation) Forester Life may, having regard to the advice of the TW Fund With-Profits Actuary, the Forester Life Funds Advisory Panel and the Forester Life Funds With-Profits Actuary, cease to maintain the TW Fund separately from the other Forester Life Long Term Business Funds. If Forester Life ceases to maintain the TW Fund as a separate fund, it will calculate the surplus then existing and likely to arise on a basis which reflects the current and likely financial and other circumstances and use it, taking account of paragraph 3.3.4, to determine a scale of guaranteed increases in benefit to be applied over the remaining lifetime of the *with-profits plans* within the TW Fund.

5 Governance

Under the terms of the *Transfer Instrument* Forester Life established the TW Fund Advisory Panel whose terms of reference and method of operation are approved by the *Board*. The responsibilities and duties of the Panel have subsequently been transferred to the Forester Life Funds Advisory Panel, which already covered Forester Life's other with-profit funds.

The Forester Life Funds Advisory Panel, which has no executive decision-making authority, is authorised to consider any matter and to make recommendations to the *Board* it deems appropriate within its terms of reference. It thus acts in an advisory capacity to inform decision-making by the *Board* in relation to the management of the TW Fund.

The responsibility of the Forester Life Funds Advisory Panel is to provide an independent view on the management and operations of the TW Fund and, in particular, adherence to the terms and conditions outlined in the *Transfer Instrument*. Specifically, its responsibilities include the need to assess, report on and give advice (and, where relevant, recommendations) to the *Board* on:

- whether it considers Forester Life has met its regulatory responsibilities to the TW Fund planholders and in particular, its obligations to pay close regard to their reasonable expectations;
- the way in which the TW Fund is managed and whether this is in accordance with these Principles and Practices of Financial Management;
- whether Forester Life has addressed appropriately and effectively the conflicting rights and interests of with-profits planholders and other planholders or stakeholders of the TW Fund in a way that has paid due regard to their interests and has treated them fairly in the management of their plans, the TW Fund and any proposed actions affecting them;
- the treatment of debits and credits to the TW Fund and the consistency of their treatment in line with the *Transfer Instrument*;
- any other issues with which the TW Fund planholders might reasonably expect the Forester Life Funds Advisory Panel to be involved.

6 Mutual Support

In so far as is reasonable and in line with the fair treatment of holders of *with-profits plans* in the TW Fund, Forester Life will manage the TW Fund such that its assets are able to cover its liabilities and its capital and *solvency* requirements. However, under the terms of the *Transfer Instrument*, if either the TW Fund or any of the other Forester Life Funds is unable to meet its liabilities, the other funds may provide capital support on such terms as the Forester Life *Board* considers appropriate, fair and reasonable (taking into account the relevant regulatory requirements, the views of the Forester Life Funds Advisory Panel and the advice of the Chief Actuary of Forester Life, the TW Fund With-Profits Actuary and the Forester Life Funds With-Profits Actuary for the affected Forester Life Long Term Business Funds).

7 Questions

- 7.1.1 If you have any questions regarding this document, please write to or email the following:

Customer Services
Forester Life Limited
Foresters House
2 Cromwell Avenue
Bromley

BR2 9BF

Email: service@foresters.co.uk

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

Glossary

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| Adjusted asset share | The plan's <i>asset share</i> with the addition of the adjustment credited to the plan in order to distribute the surplus arising within the TW Fund on a fair basis to different generations of holders of <i>with-profits plans</i> and recognising the <i>Board's</i> discretion to utilise a proportion of the surplus in recognition of planholders' former entitlement as members of TWEFS. For <i>Boots Old Series business with-profits plans</i> this <i>adjusted asset share</i> includes the adjustment that already existed at the time of the merger between the Boots Life Fund and the Tunbridge Wells Equitable Life and Endowment Fund on 2 April 2013. |
| Asset share | The payments made by the planholder, less deductions for expenses, tax and other charges, plus allocations of business profits, accumulated at the rate of investment return achieved. |
| Board | The <i>Board</i> of Forester Life Limited. |
| Bonus | That part of any distributable surplus generated by the operation and management of the TW Fund which is allocated to <i>with-profits plans</i> . A <i>bonus</i> can be either a <i>yearly bonus</i> or a <i>final bonus</i> . |
| Boots New Series business | Business written in the Boots Life Fund on or after 1 November 1990. |
| Boots Old Series business | Business written in the Boots Life Fund prior to 1 November 1990. |
| Conventional with-profits plan | The form of <i>with-profits plan</i> where premium rate tables are used to determine the guaranteed sum payable on the death of the planholder, based on gender, payment amount and <i>participation period</i> . |
| Estate | Those assets representing the difference between the overall value of the TW Fund and the sum of the aggregate <i>asset shares</i> of all of the <i>with-profits plans</i> invested in the TW Fund and all other relevant liabilities including the cost of guarantees. |
| Final bonus | A one-off <i>bonus</i> , allocated to a plan upon its exit from the TW Fund as a result of the death of the person whose life is insured by the plan, or on reaching the end of the plan's <i>participation period</i> . The allocation of a <i>final bonus</i> is not guaranteed. |
| FCA | Means the UK Financial Conduct Authority or such other governmental, statutory, regulatory or other authority as shall from time to time carry out all or any of such functions in relation to with-profits business carried out in the UK as are currently allocated to the Financial Conduct Authority under the Financial Services and Markets Act 2000 |
| Mortality costs | The costs of the mortality guarantee provided by a plan. |
| Participation period | The full period for which a customer contracts to save upon effecting a plan. |
| Planned adjustments | The difference between the <i>asset share</i> and the <i>adjusted asset share</i> . |

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| Smoothed adjusted asset share | The <i>smoothed asset share</i> plus the <i>planned adjustments</i> . |
| Smoothed asset share | The value of <i>asset shares</i> with the investment returns averaged over a period of time in such a way as to smooth their effect. |
| Solvency | The ability of Forester Life to demonstrate that there are sufficient assets in the TW Fund to meet its liabilities and any other margins or capital required by regulators. |
| Transfer Instrument | 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. |
| Underwriting | The assessment of the extent to which the overall exposure to mortality or morbidity risk presented by the person whose life or health is to be insured by a plan deviates from the underlying assumptions made when the cost of the mortality or morbidity guarantee was calculated. |
| Unitised <i>with-profits plan</i> | The form of <i>with-profits plan</i> where the amount invested by the planholder secures a number of notional 'units', this number being determined by dividing the amount invested by the prevailing price. The value of each plan at any time is determined by multiplying the number of notional units allocated to it by the prevailing price. The unit price is calculated daily dependent on the <i>yearly bonus</i> . |
| With-profits plan | Any plan that gives the planholder the right to participate in the profits of the TW Fund. <i>A with-profits plan can be either a conventional with-profits plan or a unitised with-profits plan.</i> |
| Yearly bonus | A <i>bonus</i> allocated yearly, following the end of each distribution period. Once allocated, <i>yearly bonuses</i> are guaranteed provided premiums continue to be paid. |