What

- A simple guide explaining how we invest, manage, protect and aim to grow your money

Why

- It is in your interest to understand the Guiding Principles by which we operate on your behalf

How you share in the profits of Foresters Friendly Society

What are the Principles and Practices of Financial Management (PPFM)

The PPFM is a document describing, in detail, how we run our with profits business. It is split into two areas:

- Principles. High-level statements that describe our long-term approach to managing the fund.
- Practices. Specific statements on how we intend to put the Principles in place.

Naturally, we do not expect to change the Principles often, but will do so if we think they could lead to Members being treated unfairly or if they could stop us managing the funds properly. If changes are to happen, we must tell you at least three months in advance. In this way, you will know how our long-term approach will be changing.

Practices change more often because we need to be able to respond to how the economy is performing, new rules and regulations, and new methods in the life insurance industry. We will publish any changes to Practices on our website and tell you about them in our next letter to you. In this way, you will be kept informed of how our approach has changed.

Because the PPFM is a long and very detailed document, this guide only highlights its key points.

How we decide how much you receive

The amount you receive depends on the type of with profits policy you have. Your policy contract should state clearly that you have a with profits policy. If you lose your policy, please phone us on 0800 783 4162.

Under with profits policies, in return for your contributions/premiums, we pay a guaranteed amount which may be:

- one lump sum payment (called a basic sum assured or basic maturity amount)

  or
- a series of payments (called an annuity or pension)

We aim to increase the guaranteed amount by adding bonuses. Guaranteed amounts from your policy will be paid on the set event or date stated in your policy contract. The set event may be the end of the policy's term, as agreed when you took it out. This date is called the "maturity date". The set date may be when you retire.

Different amounts may be paid out on other events, such as deaths, and your policy contract will tell you what these amounts are. If you leave your policy early, we may reduce the amount paid out.

How we decide bonuses

In most cases we announce bonuses at least once a year. When deciding whether we should pay bonuses, we look at the current financial position of the fund and forecast how we expect this to change in the future.

If we think profits are not or will not be enough, we may not pay any bonuses. If the guaranteed benefits for the group are higher than the value of investments held, bonuses may be small or nothing. We may pay different bonuses for different groups of policies to reflect the nature of the policies.

Annual bonuses

We aim to pay annual bonuses once a year to our with profits policies.

Annual bonuses are set by taking into account what the fund can afford to pay now and in the future. This approach enables us to make sure we can meet all guaranteed amounts when they have to be paid.

We aim to not significantly vary the amount of annual bonuses from year to year. Once an annual bonus has been added, this increases the guaranteed amount on a policy and so can't be taken away.

Interim bonuses

Interim bonuses may be paid to with profits policies between annual bonuses. If you make a claim between dates on which we've paid an annual bonus, we may add an interim bonus too. This makes up for some or the entire expected annual bonus earned in the year.

Final bonuses

Final bonuses may be paid to some policies when they end. We pay them to make sure your total pay out fairly reflects the amount due to you in light of how the fund has performed over the term of your policies. This will take into account a number of factors such as investment performance, allowing for any tax and deductions for expenses and the cost of any options and guarantees. The level of final bonus will also take into consideration an element of smoothing that is described in the section that follows on how we cushion you from the ups and downs of the stock market.

WARNING: The addition of bonuses from the with profits fund is not guaranteed and therefore it is possible that any Foresters Friendly Society with profits policy might not receive any annual and/or final bonus.

What happens if you exit (or surrender) your policy early?

If you exit your policy early (surrender your policy), we work out how much to pay you with the aim of being fair to Members leaving the fund and those staying. If there is any conflict between the interests of Members who are leaving and those who are staying, we normally give priority to those staying.

What is a Market Value Reduction (MVR)?

We may reduce the surrender value of some policies by applying a Market Value Reduction (MVR). Its purpose is to ensure that:

- the surrender value is not unfairly higher than the market value of the policy's assets; and
- a fair share is left for the remaining Members

The size of a MVR will change from time to time. A MVR only applies to Bonds, Individual Savings Accounts (ISAs), Child Trust Fund and Ethical Child Trust Fund in the Order Insurance Fund (OIF) and Tunstall Fund (TF). Your policy contract will tell you if you have one of these policies.

It's worth noting that MVRs are not applied to payouts on maturity or death.

How we aim to protect you from the ups and downs of the stock market

Historically, the value of shares and property has risen more than government bonds and cash over long periods such as 20 years. However, the return has also been more unpredictable and volatile. One year an investment may do very well, the next it could fall in value.

We aim to protect Members against periods of poor investment return by 'smoothing' bonuses from year to year.

So we may hold back some of the profit earned during good years. This 'smoothing' is one of the main ways in which the with profits fund aims to be fair to all its Members. It also keeps the fund strong.

In adverse or unusual circumstances, we may apply a lesser degree of 'smoothing' than normal to protect the fund's financial strength. We may smooth regular premium policies that continue until maturity more than we smooth surrendered policies and single premium policies.

How we invest the with profits fund

We decide what to invest in and how much to invest by looking at:

- the fund's current and future financial position and the need to make sure there is enough money in it
- the level of guarantees in the fund
- Members' reasonable investment expectations, including any specific promises we have made to you about how your money is invested

The fund invests in a mix of equities (shares), property, fixed-interest type assets (such as government bonds and corporate bonds), and cash. These different investment types are called assets.

Normally we do not use derivatives (which are the rights to buy or sell assets at a particular price at a particular time), but may decide to use them in certain circumstances as an efficient way of quickly changing the investments in the fund.

We control the risks that come with investing by choosing assets of good quality and by setting limits on the amounts we invest in any one asset or our exposure to any third party.

If we think it is right to do so, we may allocate certain assets to specific policies in the fund. For example, we may do this to reflect the type, the amount and the timing of guarantees.

We review our investment strategy at least annually but may need to do so more often if market conditions change quickly.

Ethical investment

Foresters Friendly Society offers an Ethical Child Trust Fund. Contributions are invested into the ethical section of Foresters Friendly Society's with profits fund.

How we manage potential risks

The fund is exposed to a number of risks. Our biggest risks come from the need to pay all guarantees when they are due and the possibility of falls in share or property values.

We aim to reduce our exposure to risk by changing our investment strategy as market conditions dictate.

Currently, we aim to spread risk over the fund as a whole.

However, if a risk arises which is related closely to a particular policy type, we may apply some or all of the cost of this risk to the policies in question as long as this is consistent with the plan conditions and the law.

Except for normal levels of investment risk resulting from managing the fund's assets, the fund will not take on any significant new risks.

More about charges and expenses

All charges for administration, expenses and commission are based on what we calculate to be the fair share of the costs we incur. The charges we make to manage individual funds are based on a fair share of the total investment management costs of Foresters Friendly Society.

This calculation takes into account costs of holding different types of assets and the fund's investment activity (i.e. the costs of buying and selling assets).

A guide to how we manage our with profit funds

Foresters Friendly Society manages a range of with profits funds. This guide covers our Order Insurance Fund (OIF), Pure Endowment Fund (PEF), Tunstall Fund (TF) and Leek Fund (LF) only.

We manage the funds by following:

- Guiding Principles
- Principles and Practices of Financial Management (PPFM)

What are our Guiding Principles?

Put simply, our Guiding Principles are the philosophy on which we base our management of the funds.

In following our Guiding Principles:

- We will manage our entire business in a lawful, sound and prudent manner. We will also manage the fund to make sure we can pay all guarantees and with the aim of giving fair treatment to all our Members.
- In good years, we may hold back some of the profits made by the funds and use them to pay out more in years where the funds perform less well. This is known as 'smoothing'. Smoothing will not be used to cushion payouts during periods of prolonged poor investment returns.
- If we think there is not enough money in the funds to enable us to manage the funds properly, we may add some money - temporarily or permanently - from our other funds. Normally we will not use the OIF, PEF, TF or LF to support our other funds unless exceptional circumstances arise. If we do have to do this, we will try to minimise any financial disadvantage to Members in the funds.
- We will aim to make sure that all the money in the funds is distributed over the remaining lifetime of the with profits policies in the funds.

Normally we won't change the approach we use when managing the funds. However, we might consider making such a change if, for example, we need to:

- protect the financial position of the fund in adverse circumstances
- improve the accuracy of our methods
- correct any major errors
- ensure we follow changes in taxation or regulation guidance
- deal with unforseen events

If you would like a more detailed technical description of how we manage our with profit funds, please request a copy of our Principles and Practices of Financial Management (PPFM).

How to get in touch

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Information, including a copy of this document, is available in large print, audio and Braille upon request.

Foresters Friendly Society is the trading name of The Ancient Order of Foresters Friendly Society Limited.

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