Ethical Child Trust Fund - Key Features

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What

- Outlines the Key Features and terms and conditions of our Ethical Child Trust Fund

Why

- To help explain the Ethical Child Trust Fund – how it works, its aims, terms and conditions
- To give you the main features of the product to help you decide if it is suitable for you
- Includes information on your bonuses and how we invest, manage, protect and grow your money

The Financial Services Authority is the independent financial services regulator. It requires us, Foresters Friendly Society, to give you this important information to help you to decide whether our Ethical Child Trust Fund is right for your child. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.

Foresters Friendly Society Ethical Child Trust Fund Key Features

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

Its Aims

To invest your contributions in the ethical section of the Foresters Friendly Society with profits fund, across a spread of assets (property, equities, fixed interest and cash). The Foresters Friendly Society Ethical Child Trust Fund (Ethical CTF) aims to provide the named child with:

- A tax-free cash sum on their 18th birthday.
- Additional tax-free bonuses added to the value of the fund on a yearly basis, with a possible final bonus paid on maturity at the end of the term of the contract.
- At least the money that has been contributed into their Ethical CTF when he or she turns 18.

Your Commitment

- Anyone can put money into the Ethical CTF, providing total contributions into each child's fund do not exceed £1,200 per policy year (excluding Government contributions).
- All money put into the fund immediately becomes the child's and cannot be returned to the contributor, so contributions should be seen as a gift to the child.
- To start the Ethical CTF we must be in receipt of an original copy of the child's Child Trust Fund voucher that will be sent to the parent(s)/guardian of eligible children by the Government after the child is registered for child benefit.

Risk Factors

- Bonuses will depend on the future investment performance of the ethical section of the with profits fund, as well as any deductions and how Foresters Friendly Society decide to distribute any profit.
- The addition of bonuses is not guaranteed and therefore it is possible that the Ethical CTF might not receive any annual and/or final bonus.
- The rules and legislation covering the operation of Child Trust Funds may change which could affect the tax status of your child's Ethical CTF.
- Your circumstances may change, forcing you to stop making contributions.
- Our deductions may turn out to be higher than expected.
- A Bank or Building Society account has greater certainty of growth than the Ethical CTF. Also a Bank or Building Society account allows ready access to funds whereas the Ethical CTF may not allow the child access to the funds until he or she is 18.
- The fund benefits can only be paid to the child.
- You should also be aware that inflation will reduce what the child can buy in the future with the fund.
- The Ethical CTF is unsuitable as a short term investment. Only the child will have access to the money and not until they reach 18. It will be locked in until then.
- If you transfer your Child Trust Fund to another provider in adverse investment conditions the fund may be subject to a Market Value Reduction. If used this would reduce the value of the Child Trust Fund. However, the transfer value will not be less than the total of all contributions paid.

Your Questions Answered

What is a Child Trust Fund?

Child Trust Funds were introduced by the Government in 2005 as a way to encourage more people to save on behalf of children. All money saved into a Child Trust Fund account is gifted to the child and cannot be accessed by the child until his or her 18th birthday. All Child Trust Fund accounts enjoy special tax-exempt status meaning that the money the child gets back will be free from Income Tax. The parent/guardian of every eligible child is sent a Child Trust Fund voucher by the Government with a minimum value of £250 in order to encourage them to open a Child Trust Fund account.

Who is eligible for a Child Trust Fund?

Every child receiving child benefit born in the United Kingdom since 1st September 2002 is eligible for a Child Trust Fund account.

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Who can open a Child Trust Fund account for the child and who controls it?

It is the parent/guardian's responsibility to open a Child Trust Fund in the child's name. The only way to open a Child Trust Fund is for the parent/guardian to send the original copy of the Government voucher to their chosen product provider who will retain it. The amount shown on the voucher will be used to open the Child Trust Fund account. In this way, only one Child Trust Fund can be opened in the child's name.

The parent/guardian controls the Child Trust Fund throughout the child's childhood, by being the 'Registered Contact'. The parent/guardian does not necessarily have to contribute any money to the fund, but they are responsible for making sure that the total contributions do not exceed the maximum allowed – £1,200 per policy year which runs to the child's birthday excluding any Government contributions.

What makes the Child Trust Fund ethical?

The Ethical Child Trust Fund invests in the ethical section of the with profits fund. The fund will exclude investments in a company (equities or fixed interest) and renting properties to a company that does not meet the fund's ethical criteria. The ethical section of the with profits fund will exclude a company:

Animal Testing

- which has tested (or not disclosed otherwise) its cosmetics products on animals in the last five years, or since they had a fixed cut-off date policy
- which has tested (or not disclosed otherwise) its cosmetic intermediates on animals in the last five years

Gambling

- which derives more than 10% of their annual turnover from gambling

Health and Safety Convictions

- where any part of the company has been convicted following Health and Safety Executive prosecutions more than once in the last three years

Human Rights

- with operations in at least five countries listed in EIRIS 'Category A'*

Intensive farming

- which derives any turnover from intensive pig or poultry farming

Military – nature of involvement

- where its products or services constitute strategic parts of a weapons system
- which have been involved in the sale or production of strategic goods or services for products or services which constitute nuclear weapons systems
- where its products or services constitute the sale or production of nuclear weapons systems
- which have been involved in the supply of strategic services for nuclear bases
- which is a major international provider with military sales (or sales activities) in specific countries

Nuclear Power

- which owns or operates nuclear power stations

Pornography and Adult Films

- which publishes or wholesales pornographic magazines or newspapers
- which distributes cut 18 certificate films or videos

Tobacco

- which derives more than 10% of their annual turnover from the production or sale of tobacco

Sustainable Timber

- which EIRIS identified as having an annual usage of over 100,000 cubic metres of timber with limited evidence of sustainable timber sourcing standards

Water Pollution

- which has breached a discharge consent for a 'Red List' substance during the last three years**
- which has exceeded their discharge consents in the last year more than 10 times

Where is the money invested?

Any money put into the Ethical CTF is invested in the ethical section of Foresters Friendly Society's with profits fund. By spreading the money paid into the fund across a number of different types of investments the child benefits from the exposure to a range of asset classes which may include stocks and shares, property, fixed interest and cash. A further advantage of this approach is that if the return of any one particular asset type is very poor, the child's investment may be protected from the full impact of

* EIRIS is a leading global provider of independent research into the human rights, social, environmental and ethical performance of companies operating within countries with oppressive regimes.

** Environmental Protection (Prescribed Processes and Substances) Regulations 1991. Sets out a list of prescribed substances requiring close monitoring and control before they can be discharged to water.

this fall as the other assets forming part of the overall investment may perform better. Thus the fall in value of one asset class (e.g. shares) may be cushioned by the potentially better performance in another asset class (e.g. property). Further details are available from page 6 onwards.

Who can make contributions into the Ethical CTF?

Anybody can make contributions into the Ethical CTF whether they are directly related to the child or not. This could be grandparents, parents, friends, aunts/uncles, godparents or later even the child him or herself. There are no restrictions on who contributes, providing the total yearly contribution is not exceeded.

How much can be contributed into the Ethical CTF?

The maximum contribution in any one policy year is currently £1,200, excluding any government contributions. The Ethical CTF is designed to be as flexible as possible. It can accept either regular monthly contributions from any number of contributors subject to a minimum of £5 per month, per contributor by Direct Debit or ad-hoc lump sum contributions subject to a minimum payment of £50 by cheque. As an example, any money a child receives at Christmas or on a birthday could be pooled by the parent(s) and provided it totals at least £50 it can be sent to us to be added into the child's Ethical CTF – thus ensuring the gift has a lasting benefit for the future.

How are Bonuses decided?

Depending on how the underlying assets in the fund perform, and the costs incurred, at the end of each year we aim to declare an annual bonus. In addition, when your Foresters Friendly Society Ethical CTF matures we may add a final bonus depending on the overall investment growth that has been achieved and expenses incurred. This is different from a Bank or Building Society account where only interest is added because the growth of the investment depends on the performance of the underlying fund and not the interest rate on the account. Although in some investment conditions the growth in the Foresters Friendly Society Ethical CTF might not be as great as that of an interest only account, investing in this way means that there is the potential for growth over and above the level which might be achieved on interest only accounts.

What happens if anyone stops making contributions?

Any money already invested will remain in the child's Ethical CTF until the child's 18th birthday. Anyone making monthly contributions into the fund can stop and start their payments at any time, without restriction. However, you should be aware that the more money that is invested, the higher the amount the child will get back at age 18.

An example of how the Ethical CTF could work out:

This depends on the amount of money that is saved into the fund between now and the child's 18th birthday and the tax-exempt status of the investment. A typical example of how the Ethical CTF could work out for the child is shown below.

The example given is for a child aged 6 months when the Ethical CTF is started and assumes that monthly contributions of £25 are received until the child reaches age 18.

Initial Government contribution (via CTF voucher):	**£250**
210 Monthly contributions of £25	**£5,250**
Additional Government contribution at age 7	**£250**
Total contributions received	**£5,750**
Minimum amount guaranteed at age 18	**£5,750**
If investments grew at 5 % a year the child would get back	£8,030
If investments grew at 7 % a year the child would get back	£9,800
If investments grew at 9 % a year the child would get back	£12,000

- The above figures are shown after deduction of our charges. To illustrate the effect of our charges on your benefits, if no charges whatsoever were made under your policy then, assuming 7 % per annum growth, the projected Maturity Value would increase from £9,800 to £11,400.
- These figures are only examples and are not guaranteed. They are not minimum or maximum amounts. What the child could get back depends on how much is actually invested and for how long, how the investment grows and on the tax treatment of your investment.
- The child could get back more or less than this.
- The guarantee is that, subject to scheduled contributions being paid when due, at maturity the child will not get back less than the basic sum assured which will be at least the sum of

contributions.

- All Friendly Societies use the same rates of growth for illustration but their charges vary.
- Do not forget that inflation would reduce what the child could buy in the future with the amounts shown.

What charges are made in the Ethical CTF?

There is an annual charge currently of 1.5% of the value of the funds you accumulate. If the fund is valued at £250 throughout the year, this means that we will deduct £3.75. If your fund is valued at £500 throughout the year, this means we deduct £7.50 that year. Charges are deducted before bonuses are declared. The deductions include the cost of our expenses and charges associated with running the Ethical CTF.

What are the differences between a stakeholder and non-stakeholder Child Trust Fund?

The Ethical CTF is a non-stakeholder Child Trust Fund. Stakeholder Child Trust Funds do exist but are not currently provided by the Ethical CTF. The differences between the requirements of a stakeholder Child Trust Fund and the Ethical CTF are summarised below:

What happens if someone paying into the Ethical CTF dies?

Any money already invested will remain in the child's Ethical CTF until the child's 18th birthday. If anyone contributing dies before the child reaches 18, then their contributions simply stop and when the child turns 18 he or she benefits from the contributions already made. Alternatively contributions can be maintained by another person.

What happens if the child dies or becomes terminally ill?

If the Department of Work and Pensions informs us that the child has died before they reach the age of 18, an amount not less than the contributions paid will be paid to the child's estate.

If the Department of Work and Pensions informs us that the child is diagnosed as terminally ill before the age of 18, special rules mean that the child can get

STAKEHOLDER CTF REQUIREMENTS	FEATURES OF THE ETHICAL CTF
Only certain types of investments can be included in stakeholder CTFs.	As the Ethical CTF is a with profits investment it cannot be stakeholder.
Management charges cannot exceed 1.5% per year.	Our management charges are currently 1.5% per year.
Minimum contribution level must be no higher than £10.	Our minimum regular monthly contribution is £5 and our minimum lump sum contribution is £50.
Contributions must be accepted by Direct Debit, cheque, standing order or direct credit.	Monthly contributions must be paid by Direct Debit. Lump sum contributions must be paid by cheque.
The stakeholder CTF must have some exposure to equities (shares).	Our fund contains a spread of investments, some of which are linked to the stock market.
The stakeholder CTF must offer a spread of investment risk.	The nature of this with profits investment means that this CTF offers a spread of risk.
From age 13-18 a reduction in risk in the underlying portfolio must normally take place to reduce exposure to potentially adverse effects of investment volatility.	As a with profits investment, exposure to investment volatility is reduced by the smoothing of bonus rates. In adverse investment conditions, should you wish to transfer to another provider, it may be necessary to apply a Market Value Reduction to the contract. The value of the fund will never fall below the total of all contributions paid.

Under Government regulations we are required to provide you with a detailed description of a specific stakeholder CTF. You will find this information from Engage Mutual Assurance enclosed.

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access to the money in their Ethical CTF. In these cases, an amount not less than 101 % of the contributions paid, plus any attaching bonuses, will be made available to the child's parent/guardian.

Further Information

Cancellation rights

After your application is accepted you will receive a statutory notice of your right to cancel. You will then have 30 days from the commencement date of the plan, or the date the notice is received whichever is later, in which to change your mind. If you choose to change your mind a full refund of all monies will be paid. You can do this by completing and returning the cancellation form to us at Foresters Friendly Society, Foresters House, 29-33 Shirley Road, Southampton SO15 3EW.

Transfers

You are able to transfer your policy to another CTF provider. The transfer value will be based upon contributions received to date plus any bonuses, less any Market Value Reduction.

Advice

We do not offer financial advice. You should contact an Independent Financial Adviser if you have any doubts about this policy's suitability. You may have to pay a fee for this advice.

Tax

The tax treatment of the proceeds received from this fund is determined by the rules governing the operation of all Child Trust Fund accounts. These rules and the tax legislation may change in the future.

The money invested in this fund is currently invested in a tax-exempt fund, although dividends earned on equities within the fund will have been taxed at source.

On maturity this means that the proceeds of the plan are free from all personal tax such as Income and Capital Gains Tax.

If the child becomes non-UK resident - the CTF cannot be closed. It remains open until the child's 18th birthday, and contributions subject to legal maximums can still be made, although Inland Revenue contributions might cease. You should check the tax treatment of the accumulation of bonuses and the lump sum payment at 18 in any countries which claim an entitlement to tax the child on his or her 18th birthday.

Market Value Reduction (MVR)

This is a deduction we may make if you transfer your CTF to another provider. We will not apply an MVR on death, maturity or terminal illness. Its purpose is to be fair to both members leaving the fund and those staying by ensuring that the transfer value is not unfairly higher than the market value of the policy's assets and that a fair share is left for the remaining members.

Law

The law applicable to the formation and performance of this fund is that of England and Wales. The language of the fund is English. We will communicate with you in English. Our Head Office is in the United Kingdom.

Legislation

All or any of the benefits, the premium or the Plan Conditions may be adjusted as deemed appropriate:

- If there is any change in law or taxation affecting the plan.
- If any levy is imposed on Foresters Friendly Society under statute or statutory authority.

Notice would be given of any such adjustment.

Queries and Complaints

For further information or queries on Foresters Friendly Society products or services please contact the Member Services Department, by Tel: 0800 783 4162, email: memberservices@forestersfriendlysociety.co.uk or at the address at the back of this document.

If you wish to complain about any aspect of the service you have received, please contact Foresters Friendly Society. If a complaint is not dealt with to your satisfaction you can then complain to the Financial Ombudsman Service, South Quay Plaza, 183 Marsh Wall, London, E14 9SR. Tel: 0845 080 1800. Making a complaint will not prejudice your right to take legal proceedings.

Compensation

The Financial Services Compensation Scheme (FSCS) covers this plan. You may qualify for compensation from the Scheme if we are unable to meet our obligations. You can get further information from us or from the FSCS.

Client Categorisation

We are required under the Financial Services Authority (FSA) rules to categorise our clients/members. All of our clients/members are categorised as 'Retail Clients', which affords our clients/members the highest level of protection under the FSA Rules.

A guide to how we manage our with profits fund

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).

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 if 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 OIF and 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).

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How to get in touch

Write to:
Foresters Friendly Society
Foresters House
29/33 Shirley Road
Southampton
SO15 3EW

Tel:
0800 783 4162

Fax:
023 8022 9657

Visit: www.forestersfriendlysociety.co.uk

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

Foresters Friendly Society

Straightforward financial solutions with a human touch

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