

Stakeholder Investment Bulletin

September- October 2011

An update from your Investment Managers

Not Trusting the Politicians

Greece, the Cradle of Democracy, totters on the brink of financial meltdown. How might it raise capital? By selling the beautiful island of Euboea, plus the Cyclades and Dodecanese to the highest bidder? It is worth examining how Greece arrived at its current parlous condition. One plausible answer is that politicians are anxious of the next election, and are incentivised by the electoral system to gain re-election at virtually any short-term cost, hoping that those costs don't become apparent until they no longer need to seek re-election. Since many of them are career politicians with no marketable skills other than their ability to introduce the powerful to the influential of the day, they naturally fear such days of reckoning.

The Legacy of Overpromises

Examine carefully the finances of any of the G7 nations, and you will find a mass of public sector liabilities in the form of unfunded pension promises, future healthcare obligations, and contract obligations to private sector suppliers who have already provided the relevant services. All of these are disguised borrowing, that need to be added to the explicit amounts of outstanding government debt. An old saying states that: 'Trust arrives on foot, but departs on horseback.' Trust in the creditworthiness of some nations has been departing more at the speed of light than that of a stallion. The press of a computer key can generate a plethora of 'sell' orders, transmitted to all sorts of market venues. Indeed, some organisations (not this one) will entrust the whole decision-making process to a hyperactive algorithm, without moderation by a human.

Rationing – but by whom?

What happens when there are more claims on resources than the quantum of those resources? The blunt answer is that some form of rationing needs to be imposed – but by whom? The vocal demonstrators of the Occupy Wall Street movement, and their affiliates across the Western world rather miss the point when they blame financial markets for their respective plights. The very essence of a free market is that it enables two parties to exchange something for something else that, to them, is of greater value. Markets enable people to make these decisions for themselves, allocating scarce resources efficiently according to their best judgements. One citizen might prefer better housing, whilst another would prefer better food. Markets enable the populace to make decisions on a personal and meaningful fashion.

Are Markets Moral?

Contrast this with the situation where a government official makes a rationing decision. Everybody suffers cutbacks in all areas. There is a cogent philosophical argument that markets – despite some bad publicity – are in reality more moral and ethical than the politicians who ritually condemn them. Whether or not you subscribe to that viewpoint, you might wish to direct the attentions of the 'Occupy' movement away from the 'Temples of Mammon' whose activities are free exchange, towards those politicians who rashly made promises that were not, realistically, capable of fulfilment. And their central bankers, who by printing banknotes, are effectively debasing the coinage. Such activity was once a capital offence, but is now the gateway to a peerage!

Responsible Capitalism

A recurring theme underlying the very real crisis is that important decision-makers were given completely the wrong incentives. In particular, many chief executives and bankers were granted valuable options that paid multi-millions if things went well, without comparable losses should the opposite occur. This encouraged them to take huge business risks, and we are all suffering the consequences. As your stewards, we have been unhappy about the asymmetry of risk and reward from executives' point of view, so have been voting against the majority of directors' remuneration packages. But we go further: if we vote against a company's remuneration report, we vote against the re-election of **every** member of the remuneration committee. Few institutional investors are so committed to extracting value from company executives.

Outlook

Much as we would like to see a credible resolution of the Eurozone debt crisis, none is yet apparent. There is so much uncertainty around that a balanced strategy holds great attractions. Over recent months we have been increasingly concerned over the possibility of renewed inflation, so have bought large quantities of index-linked gilts, keeping equity holdings below their usual benchmark levels. Nobody can be certain how markets will settle down, but our well-established practice of seeking long-term value appears to have added value on a reliable basis over time. We seek to continue meriting your confidence – it is our reason for existing.

Stakeholder Managed Funds

Fund Objective

The Forester Life Stakeholder Managed Funds follow a conservative investment philosophy, which aims to achieve steady medium to long-term growth consistent with stakeholder standards for 'risk-controlled' investment. The Funds invest in different types of securities to reduce fluctuations in market values.

Normally between 50% and 60% of the Funds are invested in shares, which provide the opportunity for long-term growth. The balance of the Funds consists mainly of stocks which, by providing more stable, if generally lower investment returns, help to offset the investment risk from fluctuations in share values. A large proportion of these stocks (gilts) are guaranteed by the British Government, whilst some are index-linked gilts, which help protect against the effects of inflation.

Finally, the Funds hold a small proportion of cash in order to have the flexibility to take advantage of investment opportunities at short notice.

The table below shows the performance of the Forester Life Balanced Fund, launched in October 1995, within the Mixed Investment 20-60% Shares Sector over 1, 3, 5 and 10 years. As the Forester Life Stakeholder Managed Funds are invested in the same pool of assets as the Forester Life Balanced Fund, we believe that the past performance of the Forester Life Balanced Fund will help you understand how the Forester Life Stakeholder Managed Funds 1 and 2, launched in January 2005, might have performed over the same period.

Sector comparison to 31 October 2011 - Mixed Investment 20-60% Shares				
Period	1 Year	3 Years	5 Years	10 Years
Forester Life Balanced Fund Ranking	99/294	82/245	45/154	5/25

Source: Citywire

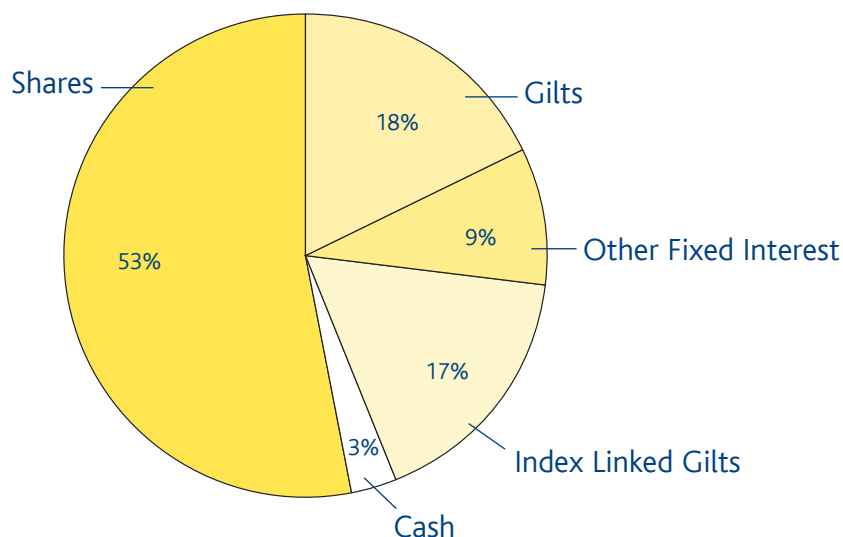
Please note that past performance should not be seen as an indication of future performance.

Fund Profile (at 31 October 2011)

Association of British Insurers (ABI) Classification

Sector: Mixed Investment 20-60% Shares

Asset Allocation (% Fund)



Top Ten Shares Holdings %

Company	Percentage
Royal Dutch Shell 'B'	7.9
BP	5.3
HSBC Holdings	5.0
Vodafone Group	4.8
Rio Tinto	4.1
AstraZeneca	3.9
BG Group	3.8
BHP Billiton	3.5
GlaxoSmithKline	3.3
Standard Chartered	2.5

Fund Performance (at 31 October 2011)

Stakeholder Managed Fund 1

Fund Size: £361.9m Launch Date: 1 January 2005

Growth to 31 October 2011			
1 Year	3 Years	5 Years	10 Years
2.3%	34.2%	14.3%	57.1%

Stakeholder Managed Fund 2

Fund Size: £47.4m Launch Date: 1 January 2005

Growth to 31 October 2011			
1 Year	3 Years	5 Years	10 Years
1.1%	30.7%	11.0%	44.9%

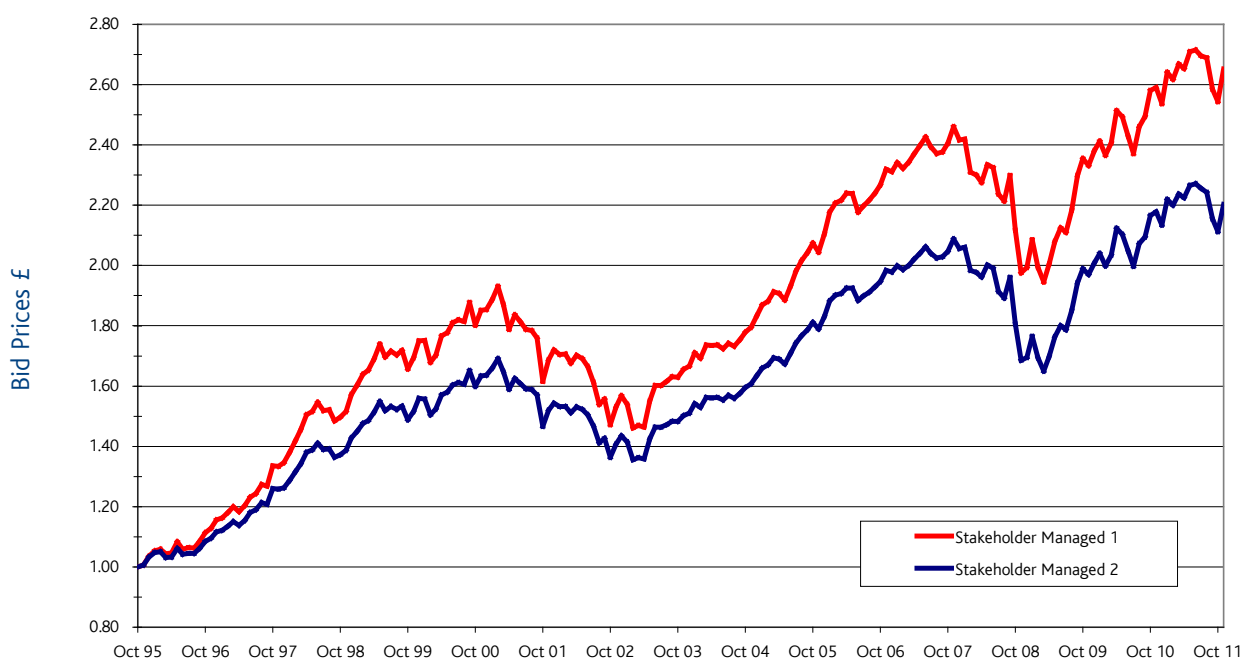
Single Year Performance

The table below shows the annual growth rate over the past 5 years. The intention is to help you assess and compare performance between funds. Please refer to the important notes below.

Change in price of units over one year periods to end of October					
Period	2011	2010	2009	2008	2007
Stakeholder Managed Fund 1	2.3%	11.0%	18.0%	-19.7%	6.1%
Stakeholder Managed Fund 2	1.1%	10.5%	16.9%	-19.3%	5.2%

Cumulative Performance

This shows the growth in unit prices of the Funds. Please refer to the important notes below.



Important Notes

- As the Stakeholder Managed Funds were launched on 1 January 2005, the above graph and tables are based on the performance of the Forester Life Balanced Fund which follows an identical investment strategy and philosophy. In order to give an indication of how the Stakeholder Managed Funds could have performed, we have shown the change in prices of the Forester Life Balanced Fund since it was launched on 1 October 1995, re-based and adjusted to reflect the 1.5% annual charge of the Stakeholder Managed Funds 1 and 2. We believe that the past performance of the Forester Life Balanced Fund gives a good indication of how the Forester Life Stakeholder Managed Funds 1 and 2 might have performed over the same period.
- The figures shown are calculated on a bid price basis (the price at which units are sold) with net income reinvested. However, with the Stakeholder Managed Funds, there is no difference between the prices at which units are bought or sold.
- Please remember that, with a unit-linked investment, the value of your investment may go down as well as up, and you should remember that past performance should not be seen as an indication of future performance.

September - October 2011 Update

Stakeholder Standards

One of the disciplines of successful investment is the determination to see beyond short term turbulence.

Driven by Foresters conservative investment policy, our experienced investment managers continue to focus on leading UK equities and high quality bonds, aiming to achieve sustainable growth for the future. In addition, investors have the reassurance of knowing that Forester Life's Stakeholder Funds meet the following stakeholder standards for 'risk-controlled' investment:

- Investments selected and managed to achieve a balance between risk and reward.
- Investments diversified across a range of different asset classes, markets, sectors and securities, and suitable for the scheme.
- Maximum 60% invested in shares and property (applies to ISA and Savings & Investment Plan only).
- Lifestyling strategy to reduce the investment risk in your plan's later years by redirecting contributions and switching units to the Stakeholder Protection Fund 1 (applies to Child Trust Fund and Personal Pension Plan only).



Schemes that meet stakeholder conditions are not necessarily suitable investments nor do they offer any guarantee of performance.



Further Information

For further information please speak to your Forester Life adviser or contact our Customer Services Team:

Phone: 08457 990011

E-mail: customer.services@foresters.co.uk

Address: Freepost RSKL-ATSJ-JHYS, Customer Services Team, Forester Life Ltd, Foresters House, 2 Cromwell Avenue, Bromley, BR2 9BF

To check current unit prices simply visit our website www.foresters.co.uk or phone the Unit Price Information Line free on 0800 990011.