Foresters
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Quarterly Stakeholder Investment Bulletin

First Quarter 2009 Investment Review

Regaining the Saving Habit

The British public are rediscovering the virtues of thrift. For several years preceding the Credit Crunch they had been increasing mortgage debt – thus boosting their annual spending capacity by around 7%. Now they are repaying that debt at a rate equivalent to 3% of their net income. This swing of 10% over a short period explains why many retailers are suffering – money saved is not available to spend in the High Street. Within London, this effect is cushioned by tourists taking advantage of the cheap pound, but across the country, boarded-up shopfronts bear testament to a harsher economic environment.

Priming the Pumps

Governments across the globe sought to cushion the effects of the recession on their electors, but this is not easy to do in a sustainable fashion. In the 19th century the economist David Ricardo argued that increased government spending is futile, since savvy people will realise that tax rates will soon go up, and rein in their own spending accordingly. Time will tell.

The Bank of England cut the Bank Rate to 0.5% - this was comfortably the lowest rate since the Bank's foundation in 1694.

Battle of the Currencies

When a country's economy turns down, a standard policy response is to permit its currency to cheapen, so as to improve its exporters' competitiveness. Other things being equal, cutting interest rates normally achieves that goal. But not all countries can do this at the same time – some nation's currency has to become more expensive relative to the others. Sterling has become much cheaper against the US Dollar and the Euro since summer 2008, and this will tend to boost the domestic economy. There is some comfort from figures showing that UK companies have already run down their stock inventories, so may soon have to reorder.

However, the so-called PIGS (Portugal, Italy, Greece and Spain) are in a difficult position. Each of them has large deficits in trade, and in their government finances. Having joined the Eurozone currency union, they cannot respond in the same way as the UK by devaluing, and a painful adjustment period of high unemployment and wage cuts seems inevitable.

Forecasting

Even the most bearish pundits have been surprised by the scale of the recession. Economists in HM Treasury were the slowest to recognise the new economic order. The consensus estimate for 2009 is for GDP to fall 3.8%, with little recovery in 2010. Public finances are in a dire condition, with rising commitments and falling revenues. In order to return to balance, the Chancellor of the Exchequer will need to combine tax hikes with reduced benefits ... and maintain this posture for many years.

Evolution and Capitalism

There is a Darwinian aspect to capital markets. The weakest firms go to the wall, and their assets sold to stronger, better-run enterprises. Whilst those associated with the failures pay a high price, the fear of failure sharpens up the skills and efforts of the survivors. 'Experience is the Best Teacher' (and also the most expensive.)

Economic Triage

After the battlefield conditions of the Credit Crunch, companies can be categorised as: Morgue (Northern Rock), Priority Care (e.g. Cookson, Xstrata), and Walking Wounded (most others). Companies in the middle category are repairing their balance sheets by issuing new shares. Already in 2009 £24bn has been raised by such 'rights issues', including £12bn by HSBC. This level of issuance affects the supply/demand balance of equities, subduing market levels for a while.

Our Approach

In the first quarter of 2009 we continued our policy of seeking to buy equities at bargain basement prices, and were heavy buyers, as we had been at the bottom of the market in 2003. As mentioned in earlier investment reviews, we kept our equity holdings well below the 55% benchmark level in the second half of 2008. We now feel more confident for the future of the equity market, and bought enough equities in the recent market dip to take our holdings to the 55% level.
Conversely, we have been heavily overweight in bonds for the last year. Recent cuts in Bank Rate have helped bond prices, providing a partial counterbalance to the heavy falls of the equity market.

We continue to believe in the benefits of holding a mixed-asset portfolio, rebalancing by selling high and buying low. We hope you do too.

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.

This table shows the performance of the Forester Life Balanced Fund, launched in October 1995, within the Cautious Managed Funds 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 March 2009 - Cautious Managed Funds				
Period	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Forester Life Balanced Fund Ranking	91/267	28/134	12/57	3/19

Source: Citywire

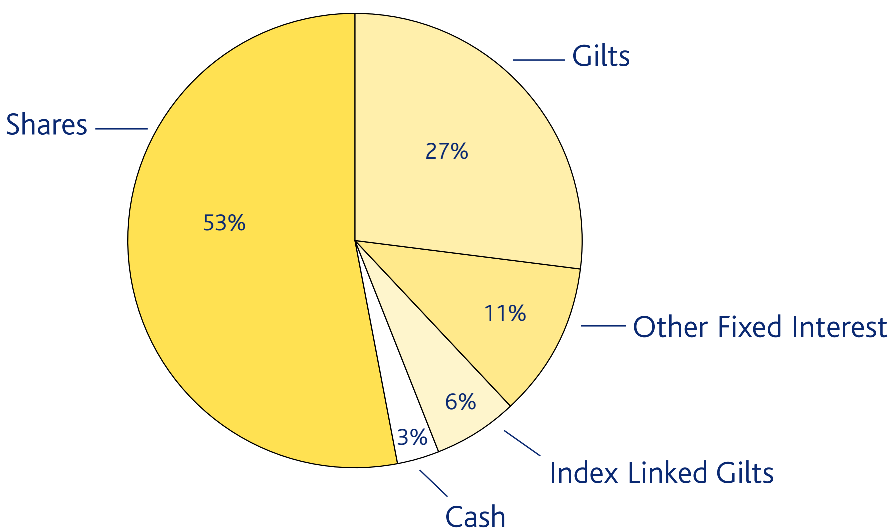
Please note that past performance should not be seen as an indication of future performance.

Fund Profile (at 31 March 2009)

Association of British Insurers (ABI) Classification

Sector: Cautious Managed

Asset Allocation (% Fund)



Top Ten Shares Holdings

Top Ten Shares Holdings	%
GlaxoSmithKline	6.2
Vodafone Group	5.9
BP	5.5
BG Group	5.5
Royal Dutch Shell 'B' Shares	5.2
AstraZeneca	4.7
HSBC Holdings	4.4
BHP Billiton	3.5
Reckitt Benckiser	3.4
Unilever	3.2

Fund Performance (at 31 March 2009)

Stakeholder Managed Fund 1

Fund Size: £145.9m Launch Date: 1 January 2005

Growth to 31 March 2009			
1 Year	3 Years	5 Years	10 Years
-11.9%	-10.5%	15.6%	18.6%

Stakeholder Managed Fund 2

Fund Size: £24.2m Launch Date: 1 January 2005

Growth to 31 March 2009			
1 Year	3 Years	5 Years	10 Years
-13.4%	-11.8%	8.8%	12.2%

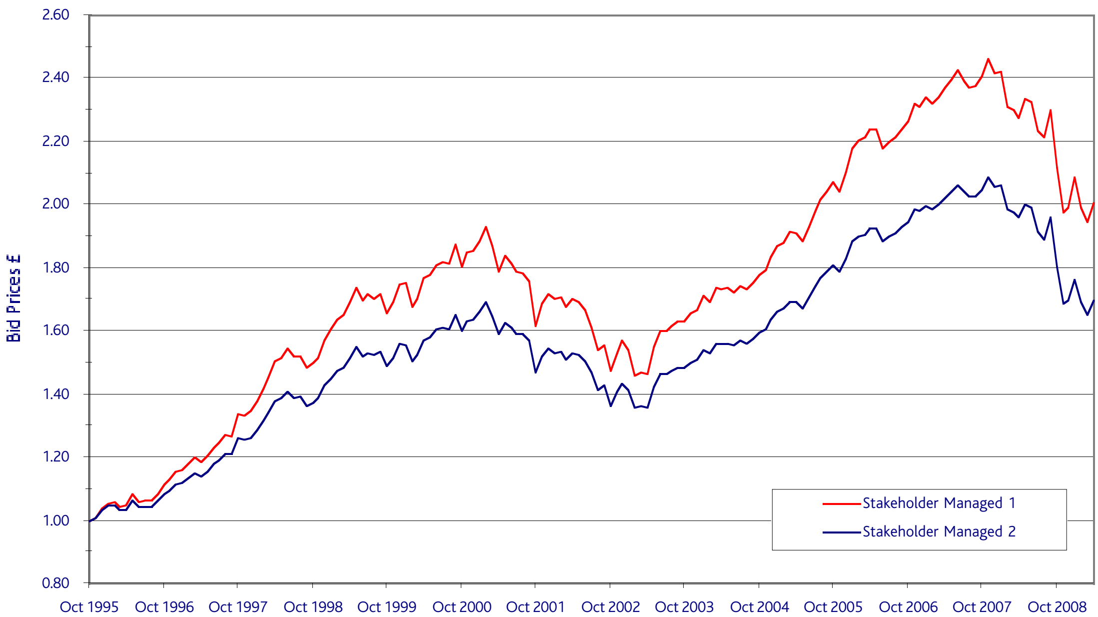
Single Year Performance

This table 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 March:					
Period	2009	2008	2007	2006	2005
Stakeholder Managed Fund 1	-11.9%	-3.9%	5.8%	17.4%	10.0%
Stakeholder Managed Fund 2	-13.4%	-2.9%	4.9%	13.9%	8.3%

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.**

First Quarter 2009 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).

STAKEHOLDER PRODUCTS

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

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