Strictly Private & Confidential

Actuarial Report (non-triennial valuation) of

F.A. ALBIN & SONS

PRE-ARRANGED FUNERAL TRUST

As of 31 March 2022 (Valuation Date)

Prepared for
The Trustees.

by

TrustActuarial Limited

This report complies with Technical Actuarial Standards TAS 100 (Principles for technical actuarial work) and the Framework for FRC technical actuarial standards plus TAS 400 (July 2020 Version) concerning the determination, calculation and verification of the assets and liabilities of a funeral plan trust.

4 August 2022

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1. RESULT, BACKGROUND AND SCOPE

The investigations show that the relationship between the Scheme's assets and the present value of its future liabilities (on a Regulatory Activities Order basis as chosen by the Trustees following actuarial advice) on 31 March 2022 is as follows:

	Category	£'000
(a)	**RAO Liabilities (including expenses)**	**5,538**
(b)	*Assets (at market) of investments + cash	**6,190**
	Surplus {(b)-(a)}	**652**
	Funding Level {(b)/(a) x 100%}	**112%**

The corresponding level on 31 March 2021 was 116%.

[The chosen RAO calculation involves discounting projected future funeral costs using interest, inflation, and mortality on a prudent basis.]

Another equally important funding level is on a Best Estimate (BE) basis, i.e., 126%

[The Best Estimate basis strips away margins for prudence, see Section 8].

Category	£'000
BE Liabilities (including expenses)	**4,915**
*Assets (at market) of investments + cash	**6,190**
Surplus {(b)-(a)}	**1,275**
Funding Level {(b)/(a) x 100%}	**126%**

The funding level increases by 14% (126%-112%) compared with the results of the chosen RAO basis above. This difference gives an indication of the margin taken for caution and adverse experience (last year a 15% margin).

Discontinuance measures:

The funding level on "hiving off" discontinuance is 126% (see Section 8) (was 122% last year).

[The hiving off liability to another provider type Discontinuance is taken as the number of plans multiplied by the anticipated average cost a competitor would be prepared to pay to accept the liabilities.]

The funding level on "returning deposits" is 116% (previously 115%, see Section 8). [number of plans multiplied by their related original funeral price].

IMPORTANT NOTE: The Trust is "merely" a financial resource, the real responsibility to deliver the funeral promise lies with the Plan Provider F.A. Albin & Sons.

The F.A. ALBIN & SONS PRE-ARRANGED FUNERAL TRUST ("The Fund")

F.A. Albin & Sons (The "Plan Provider") markets a pre-paid funeral plan ("The Plan") mainly under the Laurel Payment Plan brand name. The Plan provides a facility whereby individuals Plan Holders are able to make advance payment for their funeral. This allows fully paid members the flexibility to plan any kind of funeral. The Fund is a trust fund established about 30 years ago by The Plan Provider to receive payments from Plan-Holders in respect of the Plan. The Plan Holder pays for the funeral at the price applicable and estimated at the time of application. There is a guarantee of the funeral cost at the price at application (subject to certain rules and guidelines) see Appendix II for further details and relevant legislative/guidance background. It must be emphasised that the Trust is merely a vehicle to reserve the cost of future funerals when required. It is F.A. Albin & Sons (the Plan Provider) who is the final backer of the absolute guarantee to provide the funerals to the highest standard as initially promised to Plan-Holders.

Funeral costs

The Trustees and F.A. Albin & Sons (the Plan Provider) have agreed that when a funeral takes place F.A. Albin & Sons will be entitled to charge to the Fund 50% of the fee; and the disbursements (e.g., cost of minister and organist) which are applicable at the time of the funeral.

The cost of the funeral is projected forward in this valuation and then discounted to the Valuation Date and is below full retail cost because it provides a net contribution to F.A. Albin's profit results. Twenty-five per cent of the fee remains in the Fund and the final 25% of the fee is accrued; the latter earmarked to be drawn down by F A Albin by agreement with the Trustees on an annual basis (provided the Fund's assets are sufficient and that the depositors' money is safeguarded). I.e., the accrued 25% represents current contingently distributable profit to the Plan Provider. There is a provision to cover any increase in the cost of disbursements. The rate at which profit is transferred from The Fund to the Plan Provider will be affected by the Trustees' appetite for risk and the strength of the financial covenant (financial strength) of the Plan Provider. Any Trust surplus is protected to a certain extent by not overdrawing the drawdown to the Plan Provider.

TrustActuarial Limited’s Assignment (purpose and scope)

TrustActuarial Limited (“TA Ltd”) has been appointed by the Trustees of The Fund (“The Client”) to carry out an actuarial valuation of The Fund as of 31 March 2022, in accordance with Article 60(1)(b) of the RAO, namely the verification and valuation of the assets and liabilities of The Trust. This exercise produces the actuarial cost of providing the funerals for members who have paid in advance expressed as a single lump sum at the valuation date; that is the liability of the Trust. The liability arises from the terms of the Trust which impose on the Trust the obligation to maintain the funds they receive in order to undertake the various funerals for the members. The obligation of the Trustees is to pay for the funerals and to account to F.A. Albin & Sons for any surplus, dealt with on a yearly basis.

The main purpose of the valuation is to establish the degree to which The Fund is capable of making the payments required under the Trust Deed and this is tested by the funding level on the trustee chosen RAO funding basis and the Best Estimate basis. In addition, it considers the financial position of The Fund on discontinuance. The exercise seeks to calculate any contributions necessary by the Plan Provider (which is essentially a planning exercise). The valuation(s) will therefore provide the Trustees with information to assist them in such a way so as to reasonably ensure that costs of future funerals can be met from The Fund; in addition, they will help facilitate the choice of the rate at which profit transfers from The Fund to the Plan Provider.

Reliance’s and Limitations

The Client supplied much of the information upon which TA Ltd has based this report. TA Ltd has relied upon the accuracy of such information and cannot accept any responsibility for any inaccuracies or omissions. The accuracy of the electronically supplied funeral costs is vital to the valuation results and it is the trustees’ responsibility to convince themselves of the legitimacy of these inputs.

TA Ltd personnel are available to expand upon the comments in this report to The Client, if required. In particular, it is essential that the Trustees are confident that the funeral costs for each Plan-Holder at the Valuation Date and as supplied to the actuary are adequate to cover the current cost of the funeral. Actuaries play a limited but important role in valuing Trusts but the primary responsibility rests with the plan Trustees.

2. THE PREVIOUS VALUATION

I previously carried out a triennial actuarial valuation of The Fund as of 31 March 2021**.

In particular, the aforementioned report dated 4 October 2021 noted the following:

The Fund appears very adequately funded on the assumptions chosen by the Trustees.

The rate at which profit is transferred from The Fund to the Plan Provider will be affected by the Trustees' appetite for risk and the strength of the financial covenant (financial strength) of the Plan Provider (who is the final backer of the absolute guarantee to provide the funerals to the highest standard initially promised to Plan Holders). I have been informed by the trustees that the employer covenant is strong.

The Plan Provider may ask for additional advice over and above that given to the Trustees in this report but given the involvement from F.A. Albin & Sons in the production of this report, this is unlikely to be necessary. The RAO assumptions are on a prudent basis, the Trustees should aim at a minimum funding level of 100% in order to be able to withstand unanticipated adverse circumstances.

Note:

**The previous (31 March 2021) funding level on the chosen RAO basis was 116%.

3. CHANGES SINCE THE 31 MARCH 2021 VALUATION

Changes to Funeral Plan

The Plan Provider implemented the following changes in respect of plans purchased from The Plan Provider:

None

Provision of Expenses

Various additional costs are charged to The Fund, including

- Salary costs
- Administration costs
- Insurance premiums
- Bank charges
- Management fees due to F.A. Albin & Sons (i.e., an extraction of profit)
- Audit fees
- Accountancy fees
- Actuarial fees
- Regulator fees

Investment Policy

This is set out in the final Appendix, there have been no changes.

Trust Deed

There were no changes to the valuation date but there will need to be future amendments to reflect the new FCA regulatory regime being applied from 29 July 2022.

4. FACTORS AFFECTING THE VALUATION

The Plan gives an absolute guarantee undertaking whereby, in return for a payment equal to the then current cost of the selected funeral (plus any administration fees levied at outset) no further payment, other than any outstanding instalments, will be required to meet the cost of a Plan-Holder's funeral as planned irrespective of any future increase in funeral costs. Plan-Holders may pay by instalments.

The Fund does not provide an explicit guarantee. This valuation exercise provides the actuarial cost of providing the funerals for members who have paid in advance expressed as a single lump sum at the valuation date because that is the liability of the Trust; however, the Plan Provider gives the guarantee. The RAO valuation on a prudent basis as chosen by the trustees following actuarial advice is the RAO 60(1)(b)(v) (i.e., statutory) valuation.

The funeral arrangement has a contract with The Plan Provider, with whom the liability for providing the funeral ultimately rests. The Fund is simply a financial resource available to The Plan Provider, through the auspices of the Trustees. It is for the Trustees to decide, from time to time, what proportion of funeral costs come from The Fund and what proportion should be borne directly by The Plan Provider. TA Ltd understands that The Plan Provider accepts that it is responsible for any difference between the actual cost of a funeral and any amount that the Trustees decide, from time to time, to release.

Plan-Holders are entitled to withdraw from The Fund, at any time, a refund equal to the whole of the deposit less the administration fee.

For the purposes of this valuation the "funeral cost" is less than the full retail cost of the selected funeral as charged by The Plan Provider. In previous years, funeral costs were assumed to increase at the rate of increase disclosed from time to time by The Plan Provider.

It is assumed in this valuation future years funeral costs increase at the Retail Prices Index (RPI) using the 10-year point on the spot curve as published by the Bank of England. As a second stage, the Plan Provider and trustees agree an incremental percentage over inflation that reflects that historically funeral cost inflation has been higher than RPI.

It is the understanding of TA Ltd that the estimate of funeral costs supplied does not allow for any discretionary increments to the amount payable from the funeral plan trust.

In respect of the employer covenant, F.A. Albin & Sons has been trading for over 200 years and it has a more than adequate financial position in relation to its commitments. The net assets of the company total circa £2m, which illustrates that the covenant is strong.

5. SUMMARY VALUATION DATA

Summary of Plan-Holder's data

The Plan Provider has supplied membership data for TA Ltd's investigations of the Trust's financial position in electronic format. As of 31 March 2022, there were:

- 1225 Plans (1,206 on 31 March 2021); with
- Total original deposits paid of £5,355,000 (£5,089,000 on 31 March 2021)

Summary membership movements:

Opening plans 31/3/2021	1,206
New Plans 2021/22	138
Funerals disbursed 2021/22	(107)
Withdrawals 2021/22	(12)

Closing Plans 31 March 2022 1,225 (ignores some minor requests records)

The membership position at the current Valuation Date is set out below:

	Active as at 31 March 2022	Average age (un-weighted)	Estimated Present Funeral Costs at 31 March 2022
Total	**1,225**	**78.1**	**£4,433,000***

* Includes (£,000):

3,520	basic amount
405	past inflation reserve
508	expenses reserve
4,433	

The outstanding deposits (payable by instalments) are £136,000, these were not added to the assets for the purposes of this report.

More details about the valuation data are included in Appendix III, particularly under the heading **Current Funeral Cost Data.**

6. ANALYSIS OF EXPERIENCE SINCE LAST TRIENNIAL VALUATION

Introduction

An integral part of any actuarial valuation is an analysis of the experience of the Fund / Trust in the period preceding the valuation.

This process gives an insight into the workings of The Fund, whilst at the same time providing justification, or otherwise, for the valuation assumptions. It also serves as a means of checking the robustness of the data.

Funeral Cost Inflation

There is no one index measuring the rate of growth of funeral expenses. Funeral costs are subject to price inflation acting on the various constituent parts of the funeral product. Funeral costs are also subject to market competition.

The client reported that the funeral cost inflation rate experienced by the Plan Provider for the 1-year period was circa 3.5%. Over broadly the same year period, the All Items RPI increased by 8% p.a., but on average 4.7% p.a. over the last 2-year period. For many years “Albins” had kept their own funeral expense inflation at 2.5% p.a.

Taxation

TA Ltd’s updated advice obtained by the Trustees (Robert Arnfield, Lincoln’s Inn, 18 September 2018) is that the tax position of the Fund reflects that of a bare trust. The tax rates burden falls on the Company.

Mortality Assumptions

The mortality basis assumed at the 2022 valuation was 150% (200% previously) ELT 17 for males and female’s mortality. Improvements allowed for are CMI 2015 Core Projection with a long-term improvement rate of 1.5%.

The average age at the valuation date for the members was 78.1 years. The average expectation of life at the current Valuation Date for the male members was 9.0 years (10.0 years for females). Due to assumed improvements in mortality at 1.5% p.a. these expectations of life increase by 0.7 years in 9.6 years hence.

The table below sets out a comparison of the actual deaths over the most recent years with the numbers expected p.a.

	Actual deaths from Plan Holders in 2021/2022	Approximate expected deaths 150% ELT 17 for males and female's mortality. Improvements: CMI 2015 Core Projection with a long-term improvement rate of 1.5%
Total	**107**	**103**

The expected deaths are over the previous year. Whilst not using a strictly scientific comparison it does give a good indication of the actual versus expected mortality experience ignoring spurious accuracy.

The small numbers inherent in a valuation of this size means that any analysis of mortality experience needs interpreting with caution and that Covid19 (see Appendix VII (ii)) can be expected to have contributed to the number of deaths over this period. Mortality experience appears to be a factor of 1.5 that expected of the general population of England and Wales. The Plan-Holders mainly come from (and around) Bermondsey. A population analysis is set out in Appendix VII (i). It is interesting to note that over the last 10 years the factor has reduced from 3 to 1.5 as those born in the nineteen thirty's depression years have been replaced by a healthier post war constituency of Plan-Holders.

Withdrawals

Plan Holders who took out a plan are entitled, at any time, to cancel their plan and request repayment (the refund is the whole of the deposit less the administration fee.)

12 Plan Holders withdrew over the year. Withdrawals are likely to remain at this exceptionally low level.

Trust Expenses

Certain costs came directly from The Fund in the inter-valuation period. The running expenses (termed 'everyday expenses', see Section 3 for an items breakdown) have been skewed by the one-off costs of the preparation for FCA regulation and anticipated higher (i.e., £50,000 p.a.) on-going costs in the future. At the 2021 valuation an allowance was made for only £32,000 p.a.

Investment Surplus

The surplus on valuation of investments (from the Statement of Financial Activities) showed a net loss of £745 over the year (previously a gain of £502,261) .

7. VALUATION METHODOLOGY AND ASSUMPTIONS

Introduction

The valuation process involves comparing the discounted value of future estimated funeral costs with the current value of The Fund. In particular the present value of expected future funeral costs was calculated for each individual by applying a whole life assurance factor to the funeral cost estimate at Valuation Date; this produces a valuation reserve similar to that of a single premium whole of life insurance policy.

The rate at which The Fund accumulates depends on future investment returns, after allowing for any expenses met by The Fund. The cost of future funerals will depend on the rate at which funeral costs increase in the future. The incidence of payments from The Fund will depend on the mortality rates experienced by Plan- Holders.

The basic valuation process takes the typical projected outflows illustrated in Appendix 1 (but for the whole future time period) and answers the question "what would I need in the Trust pot now earning interest at the assumed rate, in the light of future funeral cost inflation and expense inflation and assumed mortality to discharge the liabilities of the trust". I.e., the liabilities at the valuation date have been derived by discounting the projected cash flows over the lifetime of the Trust to the valuation date, using the valuation discount rate.

A fundamental principle of an actuarial valuation is that the valuation of assets and liabilities should be consistent; thus, the valuation is on the market value of the assets held by The Fund and in TA Ltd's opinion, the future rates of return reflecting relevant market related conditions at the Valuation Date.

The level of solvency of The Fund is determined by comparing the actuarial value of the benefits with the current value of The Fund. The Fund is 100% solvent (or funded) if the actuarial value of benefits equals the value of The Fund.

The Fund would be in deficit if the actuarial value of future benefits plus expenses, including some assumed level of future funeral costs increase, when discounted at the assumed future investment rate were more than the current value of The Fund.

In order to carry out an actuarial valuation, it is necessary to make a number of assumptions. Some of these are of a statistical nature, such as estimates of the future rates of mortality. Others are of an economic nature, such as the rate at which funeral costs are going to increase due to inflation, and the rates of return, expected on various asset classes.

The derivation of each of the main financial assumptions is set out in Appendix IV.

Financial Assumptions

The assumption as to the relationship between the rate at which funeral costs escalate and the return achieved on the assets supporting the choice of these assumptions is critical in determining the financial condition of The Fund. It would be reasonable to assume The Fund would normally earn a margin over RPI. However, where funeral costs escalate at a rate, which exceeds RPI, this margin, will shrink and could become negative.

The weighted return before expenses was 2.1%. See Appendix IV for details.

Mortality Assumptions

This valuation has used 150% ELT 17 for males and female's mortality; improvements: CMI 2015 Core Projection with a long-term improvement rate of 1.5%. If mortality is to continue to improve as in the recent past (the rate of improvement very recently has slowed considerably) there needs to be a "new thing" to augment the impact of say giving up smoking/statins/healthier lifestyles.

Covid-19 may well have a longer-term impact particularly on the less wealthy, directly, and indirectly by a fall in economic activity (exacerbated by the impact of the "Special Operation" in Ukraine); for example, there may be an anticipated reduced scope for increases in healthcare spending after the initial Covid boost in spending. If there is a higher rate of Plan-Holder's deaths then the funding level improves, see Appendix VII (ii).

Withdrawal Assumptions

I ignored withdrawals for the purposes of the valuation, as per the previous year.

Tax Treatment

Council's Opinion was that the Trust is not subject to tax, this burden is on the Company (which incidentally has a strong covenant).

Summary Main Assumptions – (previous year in square brackets)

- Discount Rate: 2.1% [1.7%}
- Rate of inflation of funeral costs: 4.5% [4.5%]
- Mortality assumption: ELT 17 for males and females but mortality multiplied by 1.5 [2 last year]. An improvement rate of 1.5% p.a. was used (long cohort, CMI Mortality Projections Model 2015) as per last year.
- 'Everyday expenses': £50,000 p.a. [£32,000] inflating at 5% [4.3%] p.a., 50% [50%] allocated to current Plan Holders.

Associated Risks

The Trustees need to be aware of the potential impact upon The Trust of the actuarial assumptions failing achievement. To illustrate this, some of the relevant risks, together with their likely impact upon several key characteristics of the Scheme's financial position is in the table below:

	Impact of risk factor upon		
Risk Factor	**Solvency Position**	**Stability of Contributions**	**Subsequent Funding level**
1) Inability to pay shortfall contributions.	Worsened	n/a	Reduced
2) Future investment returns insufficient.	Worsened	Any shortfall contributions will increase.	Reduced
3) Mismatching (fall in asset values not matched by fall in liabilities)	Worsened / Little impact	Any shortfall contributions will increase.	Reduced
4) Unanticipated changes in mortality	Worsened if mortality lighter	Any shortfall contributions will increase if lighter.	Reduced
5) Funeral cost inflation higher than anticipated	Worsened	Any shortfall contributions will increase.	Reduced

If the everyday expenses of running the arrangement are higher than assumed then the solvency position will worsen leading to an increase in any shortfall contributions and a fall in the funding level all else being equal. It has been assumed in the ongoing valuations that 50% of future 'everyday expenses' will be paid by existing Plan Holders and 50% by new Plan Holders after the Valuation Date, clearly the closing of the arrangement to new Plan-Holder's will adversely affect the funding level.

Many of the above the above risks are illustrated for numerical impact in Appendix V.

There are inter-actions of these elements, e.g., increasing longevity extends the duration between the receipt of the pre-payment and the date of the funeral, increasing the exposure of the trust to the inflation of funeral costs, perhaps not being matched by asset returns.

There could be a need to sell assets to meet claims, potentially exposing the trust to market risk. The trustees are wary of this risk and so maintain a prudent investment policy including keeping some cash in hand. A pandemic unexpectedly requires a liquidation of assets, exposing the trust to liquidity risk. In addition to the above, if The Trust closes to new Plan-Holders the expense reserve will double and the solvency position will worsen.

The current business model operated by the Plan provider insulates the Fund from New Business strain.

8. VALUATION REPORT

Value of Assets

The total value was £6,190,000, which comprised 26.4% equities, 21.5% fixed interest and 52.1% cash. See Appendix III for details

Value of Liabilities – Discontinuance of the Trust

In the event the Trust discontinues for any reason, the Trustees are required to arrange for all the funerals provision. The ability of the Trustees to fulfil this obligation depends on the value of The Fund at the time and the price charged by alternative providers. In 2022 TA Ltd understands that In the opinion of the trustees a prudent estimate for an alternative provider to take over the portfolio is at an average of £4,000 per plan (see Appendix III part ii).

The hiving off cost of funerals in respect of all proper funeral Plan-Holders as at the Valuation Date was £4.9m (1,225 x £4,000). Based on the asset value above of £6.2m this represents a surplus of approximately £1.3m (6.2-4.9) or, expressed another way, a discontinuance solvency level of 126%. This ignores any costs incurred by the Trustees (and charged to The Fund) on winding up of the Trust.

The position at the 2021 valuation reported a hiving off funding level of 122%, based on £4,000 per funeral.

As an alternative, a return of deposits liabilities would total £5,355,000, compared to the assets of £6,190,000 giving a "return of deposits" funding level of 116% (ignoring winding up expenses) previously 115%.

Value of Liabilities – Ongoing Position

The future solvency of The Fund i.e., the extent to which the surplus/deficit increases or decreases, is dependent on whether The Fund is able to generate a net return, after all expenses and taxation, that is lower or higher than the rate at which funeral costs increase.

In order that the Trustees can appreciate the extent to which future surpluses/deficits may change in the light of the experience of The Fund, TA Ltd carried out a series of sensitivity tests. The results of the various sensitivity tests are set out in Appendix V.

The results on a "going concern" valuation (Article 60(1)(b) of the RAO basis) is set out in the table below. This valuation assesses the extent to which the Scheme met the funding objective as at 31 March 2022 calculated on the basis as chosen by the Trustees after actuarial advice. The Trustees chose a prudent basis. The valuation assesses the extent to which the assets of the Scheme covered its liabilities (funding future funerals). My investigations show that the relationship between the Scheme's assets and the present value of its future liabilities is as follows:

	Category	£'000
(a)	**RAO Liabilities (including expenses)**	**5,538**
(b)	*Assets (at market) of investments + cash	**6,190**
	Surplus {(b)-(a)}	**652**
	Funding Level {(b)/(a) x 100%}	**112%**

Analysis of the Change in Surplus (major elements only)

The surplus in 2021 (£795,000) has reduced £652,000 in 2022; it had been anticipated to grow to £809,000 on the assumption made. The main factors leading to the loss of £157,000 (£809,000-652,000) are set out below:

0.4% increase in discount rate	+£249,000
Offset by:	
reducing mortality assumption	-£127,000
Increasing expenses assumption	-£218,000
Increasing past inflation reserve	-£68,000

A more comprehensive analysis will be set out in the 2023 triennial report.

Best Estimate Basis- Level of Prudence in Technical Provisions

The assumptions for the chosen RAO valuation are prudent i.e., containing margins for risk and adverse experience. It will be helpful to see what the ongoing basis reserves would be if calculated using assumptions with those margins removed to illustrate the additions for prudence. Clearly, there is an element of subjectivity in estimating the actuarial assumptions without any margins but using best estimates in the light of historical averages and current trends seems a useful starting point, however different actuaries will reach different conclusions. One margin is in the future rate of funeral costs inflation; Albin's tend to be successful at controlling their funeral cost inflation rate, and 3.5% p.a. is a best estimate (4.5% p.a. assumed to be prudent). The rate of return on equities has been assumed at 2.5% p.a. over Gilts (best estimate 3.5% premium).

On the revised assumptions, the funding level increases by 14% compared with the results of the chosen ongoing basis above. This difference gives an indication of the margin taken for caution and adverse experience [last year 15%].

Conclusions and Recommendations

The Fund appears very adequately funded on the assumptions chosen by the Trustees.

The rate at which profit is transferred from The Fund to the Plan Provider will be affected by the Trustees' appetite for risk and the strength of the financial covenant (financial strength) of the Plan Provider (who is the final backer of the absolute guarantee to provide the funerals to the highest standard initially promised to Plan Holders). The employer covenant is strong.

The Plan Provider may ask for additional advice over and above that given to the Trustees in this report but given the involvement from F.A. Albin & Sons in the production of this report, this is unlikely to be necessary. The assumptions are on a prudent basis, the Trustees should aim at a minimum funding level of 100% in order to be able to withstand unanticipated adverse circumstances.

Significant Post Valuation events - Although noncash assets have fallen in value, they only represent 48% of the assets, liabilities have fallen by an estimated 5%, offsetting any (muted) negative asset movements, see **Appendix VI.**

Geoff Arnold FIA

Fellow of the Institute of Actuaries

For TrustActuarial Limited 4 August 2022

APPENDIX I

The projected undiscounted Funeral Costs / ‘everyday expenses’ from the Trust Fund over the next 10 years, assuming an “open to new Plan-Holders” fund but excludes the cash flow from any future Plan-Holders; similarly, the impact of withdrawals are ignored.

Basis

Funeral Inflation 4.5% p.a., mortality 150% ELT 17 for males and females. The improvements allowed for are CMI 2015 Core Projection with long-term improvement rates of 1.5%.

The expected cash flows arising from funeral costs calculated by multiplying the expected funeral cost (increased by inflation) by the expected number of deaths in each projection year.

Year	Funeral Costs £'000 (existing members only)	Projected expenses £'000	Total £'000
2022	290	50	340
2023	277	51	328
2024	266	52	318
2025	257	53	310
2026	249	54	303
2027	242	55	297
2028	235	56	291
2029	229	57	286
2030	223	58	281
2031	217	59	276

I have omitted the impact of new business, so the projections are not comprehensive, also, an increasing funnel of doubt about the future exists whereby the projections move from useful guidance to unhelpful speculation. I have somewhat arbitrarily chosen this crossover point to be 10 years in line with that mandated for defined benefit pension schemes.

APPENDIX II

Further Arrangement Details and Relevant Legislation and Actuarial Guidance

Instalments can be negotiated to cover the funeral cost. In addition, the Plan Provider offers the Foresight Plan. The Foresight Plan is not a funeral plan but provides the opportunity for Plan-Holders to say and record their funeral instructions.
This will ensure that the funeral is in accordance with the wishes of the Plan-Holders. When a foresight plan is completed, no money is paid. The preparation of a foresight plan is a free service offered by F. A. Albin & Sons.

The latest Trust Deed date is 20 June 2015, as amended on 2 October 2019. If Plan Holders pay in a sum, which is more than the amount paid out on the day of the funeral, then there is a built-in surplus. The assets are managed by Stewart Wealth Management Ltd and INFIBA AG.

A trust-Based Pre-Paid Funeral Plan is an arrangement established by a Plan Provider to support the sale of contracts of the type defined in article 59(2) and exempted from Financial Conduct Authority regulation under article 60(1) (b) of the RAO. The RAO is the Financial Services and Markets Act 2000 (regulated Activities) Order 2001. Chapter XIV of The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001 No.544) ("RAO"), covering the activity and exclusion of funeral plan contracts as defined in article 59(2), came into force on 1st January 2002 and applies to contracts entered into on, or after, that date unless excluded under Chapter XIV of the RAO. There is a requirement for a Fellow of the Actuarial Profession to determine, calculate, and verify the assets and liabilities of the pre-paid Funeral Plan Trust at least every 3 years.

An industry body, the Funeral Planning Authority ("FPA"), acts as a non-statutory regulator for providers of funeral plan contracts excluded by virtue of articles 60(1)(a) and 60(1)(b) of Chapter XIV of the RAO and monitors the operations of funeral plan providers registered with it. Membership of the Authority is optional. Providers must either arrange to meet the exclusion provisions (through registration with the FPA or separately) or seek authorisation from the Financial Services Authority ("FSA"). It is a criminal offence to carry on a regulated activity as specified under the RAO without taking such action. Under the FPA rules, there is a requirement for annual assessments. The Financial Conduct Authority regulates this type of arrangement on and after 29 July 2022. Continuing with regulated activity without appropriate authorisation is a criminal offence.

Article 60(1)(a) of the RAO relates to plans supported by whole life assurances and is outside the scope of guidance issued by the Board for Actuarial Standards. Article 60(1)(b) of the RAO relates to plans (whether or not The Plan Provider is registered with the FPA) supported by funds held under trusts, whose liabilities and assets must be "determined, calculated and verified" at least triennially by an actuary who is a fellow of the Actuarial Profession.

The actuarial profession requires actuaries to ensure they:

- have the requisite skills and documentation to take on the appointment to undertake the valuation of the funeral plan trust.
- have the right information-gathering and escalation measures available to them to undertake appropriately the valuation of the assets and liabilities of the funeral plan trust.
- are aware of plan holders' contractual entitlements, to ensure that there are adequate systems of control in place intended to ensure that plan holders are not misled as to their expectations.
- report any concerns to the most appropriate regulator and/or to other professionals who may be involved in advising funeral plan trustees and plan providers if they discover:

  1) there is a material shortfall in the assets held by the trustees to cover the liabilities, or

  2) the plan provider's contractual obligations significantly exceed the liabilities of the funeral plan trust.

This report is required to and does comply with This report is prepared in accordance with professional standards established by the Financial Reporting Council. In particular, this report is compliant with Technical Actuarial Standards TAS 100 and TAS 400.

The report complies with the Actuaries' Code, which takes precedence.

Appendix III

i) Detailed Main Valuation Data

Documentation

TA Ltd has read the following documentation:

- Governing Documents, including:
- Trust Deed dated 20 June 2015 and the 2 October 2019 Deed of Assignment.
- The current and historical marketing literature
- Contracts or terms and conditions between the Plan Provider and the funeral director, the funeral director and the Trustees and the Plan Provider and the Plan-Holder
- The Investment Policy
- A letter signed by a Trustee dated 11 April 2022 confirming that The Fund has been administered in accordance with the Trust Deed since the last actuarial valuation.

Accounting Information

TA Ltd was given a copy of the audited financial statements for the year ended 31 March 2022.

The last meeting of the Trustees took place on 10 January 2022

Plan-Holder's Data

TA Ltd was given spreadsheets containing the following information in respect of each active Plan-Holder:

- Plan No.
- Name (Surname & Christian name)
- The original payment for the plan
- Current Funeral Cost Estimate
- Date of Birth
- Sex

The data provided was of an extremely high standard, a few members were allocated the average date of birth.

Current Funeral Cost Data

TA Ltd was given spreadsheets containing details of the estimated cost of each Plan-Holder's bespoke funeral arrangement as of 31 March 2022.

The following breaks the member data into more detail:

The number of live plans categorised by payment method/ total plan value in relation to undrawn or live plans categorised by payment method:

	PLANS TOTAL	VALUE TOTAL	% NUMBER	% VALUE
SINGLE PAYMENT PLANS	987	4,441,360	81%	79%
INSTALMENT PLANS PAID	152	734,187	12%	13%
INSTALMENT PLANS OUTSTANDING	86	435,559	7%	8%
	1,225	5,611,106	100%	100%

Average Plan Values by payment method

SINGLE PAYMENT PLANS: £4,500

INSTALMENT PLANS PAID: £4,830

INSTALMENT PLANS OUTSTANDING: £5,065

At the Review Date the amounts still to be received by the Trust in relation to partly paid instalment plans were £136,000.

Asset Data

TA Ltd relied on the list of investments appearing in the Trust's audited Financial Statements on 31 March 2022. At this date, the assets were taken as comprising the following:

Assumed Asset Class	Market Value £'000
Equities	1,632.5
Gilts	90.0
Corporate Bonds	1,239.5
Cash	3,228.0
Total	**6,190.0**

ii) Details of the Hiving off valuation

In 2022 TA Ltd understands that the Trustees are confident that an alternative provider would take on the Plan-Holder portfolio at an average £4,000 per Plan-Holder's as a prudently high estimate. On this basis a healthy surplus (£1.3m) would be generated. Please note the below:

- a) The number of undrawn plans held within the Trust is small as compared with those held by other larger providers and therefore the transfer of plans would be relatively straightforward to manage
- b) The funerals are planned to take place in a localised area which will pose fewer management issues for any provider
- c) The plans are of good quality, the majority of which are cremations
- d) The high level of deposits received per plan (£4,400) which results in less administration in collecting outstanding balances from Plan-Holders
- e) Transfer of these plans will not necessitate any selling or promotion resulting in a significant cost saving for any interested party looking to take on the portfolio

Appendix IV

Valuation Assumptions, rationale

Retail Prices Inflation

At the Valuation Date, the Bank of England published a 4.27% RPI rate at the 10-year point of the UK implied inflation spot curve.

The assumed long-term rate of ***price inflation*** *is therefore indicated as 4.3% per annum but increased to 4.5% per annum to reflect funeral price inflation (see below).*

Funeral Cost Inflation

For many recent years Albin's funeral cost inflation has been circa 2.5% p.a., lately a higher 3.5% p.a. To produce a prudent basis (more likely to produce a higher liability than less) I assumed that the long-term funeral cost inflation rate equals 4.5% p.a. as chosen by the Trustees.

Management Fees

The Fund (see section 3) met all costs during the inter-valuation period.

To calculate a broad-brush reserve for 'everyday expenses' I have assumed expenses of £50,000 p.a. payable for 16.5 years escalating at 5% p.a. (thus making allowance for RPI inflation and earnings inflation). Circa 80% of the current members will have had funerals at the 16.5 year point on the assumptions made.

However, TA Ltd has assumed in the ongoing valuation that new Plan-Holders will continue to enter the Trust and shoulder half of future expenses so that only half of the reserve is required (as a rough and ready measure).

The Trustees need to inform TA Ltd as soon as practically possible if the Trust is ever closed off to new Plan Holders for this expenses reserve to be reassessed.

Investment Returns

Fixed Interest

As at the Valuation Date, relevant market yields were approximately as follows:

- UK Government stock (Gilts) - 1.64% p.a. (10 years) (Financial Times)
- 7 to 10-year corporate bonds -2.5% p.a. (provided by iBoxx)
- 10 year plus corporate bonds – 2.7% p.a. (provided by iBoxx)
-

To calculate the global discount rate, these discount interest rates are factored proportional to the nature of the assets held at the Valuation Date to produce a best estimate investment yield.

Equities

In determining an appropriate discount interest rate relevant to the equity holding, a useful starting point is the yield on long-term gilts (15-year term) as they are virtually risk-fee investments. At the Valuation Date, there were yielding circa 1.8% p.a. It is then necessary to consider the additional long-term return that might be available from equities relative to gilts - the "Equity Risk Premium". The assumed Equity Risk Premium was 2.5% per annum, which implies an assumed long-term return for equities of 4.3% per annum rounded (1.8+2.5). This return is after any management charges levied on the unit funds.

Deposits

TA Ltd (after consulting the Trustees) has assumed a cash deposit rate of 0.75% before tax.

Adopted weighted return assumption: The table below implicitly assumes the Valuation Date proportional holdings maintained in the future.

Assumed Asset Class	**% of Fund**	**Assumed Gross Return**
Equities	26.4	4.3%
Gilts (Fixed Interest)	1.5	1.6%
Corporate Bonds	20.0	2.6%
Cash	52.1	0.75%
Average Weighted Return	100.0	2.07%
	Rounded	**2.10%**

Mortality Assumptions

The same approach was that used at the last valuation in setting the mortality assumption. The valuation of the liabilities allows for the expected future timing of plan holder deaths, using the English Life Tables No. 17 ('ELT 17') mortality tables. The ELT 17 tables are based on the mortality experience of the population of England and Wales during the years 2010, 2011 and 2012. The mortality tables are adjusted to reflect the experience of the Scheme relative to population mortality. This adjustment is calculated in an experience investigation which has been set out in the main report above.

Appendix V

Sensitivity Results (All else being equal basis)

If the cost of funeral inflation rate reduces by 0.5% then the funding level increases by 5.8% (surplus increases by £275,000).

If the discount rate reduces by 0.5% then the funding level falls by 6.0% (surplus falls by £315,000).

If the mortality is only 100% of the ELT17 table then the funding level reduces by 5.6% (surplus reduces by £294,000). If the rate of improvement in mortality reduces to 1% pa (from 1.5% pa) the funding level decreases by 0.3% (surplus reduces by £14,000).

If the plan closes to new entrants, then the funding level reduces by 9.5% (surplus reduces by £520,000).

If there is a pandemic (say 10 times general population normal mortality) then the funding level rises by 18.6% (surplus increases by £793,000) and the expectation of life falls to circa 25% of "1.5 times normal" population expectation. For example, the average expectation of life of 9.6 years at the valuation date falls to 2.4 years.

If Climate change reduces the return on equities by 1% p.a., then the funding level falls by 3.8% and the surplus falls by £197,000.

Notes:

Expenses Basis: It has been assumed in the ongoing valuations that 50% of future 'everyday expenses' will be paid by existing Plan Holders and 50% by new Plan Holders after the Valuation Date.

In my opinion the neutral basis is to have a 50/50 chance of attaining its target; the role of the Trustee is to overlay their judgement of what is prudent (in the manner required by Trust Law of a prudent person in the exercise of his own affairs).

Appendix VI

Capital Market Movements post valuation date to 20 July 2022

Post Valuation Date General Equity Market Movements - Source IG Markets	
US 500	-14%
FTSE 100	-3%
EU stocks 50	-8.5%

Post Valuation Date Bond Price Market Movements - Markit iBoxx

Corporate Bonds 7-10-year term -5.5%

Estimated revised yield assumption to calculate the liabilities 2.5% **(was** 2.1% **on 31 March 2022)**

Estimated reduction in liabilities due to yield increase assumption, an estimated reduction of 5% **in liability**

Estimated reduction in assets over the same period approximately 4%

Bearing in mind the 52% cash holding that "halves" any impact of reduced assets implied above, it is very unlikely indeed the funding level has deteriorated over the period 31 March 2022 to 20 July 2022. The 5% reduction in liability affects 100% of the liability of course.

APPENDIX VII

(i) Population analysis

Those averaged age Plan Holders dying now were born around the start of the post war years. During their adulthood in the 1960s and 1970s the upstream wharves of Bermondsey rapidly declined as the port of London could not compete with more modern ports; As deprivation set in the more affluent residents moved out to those areas with better facilities (e.g. schools).

Deprivation is often associated with mental health issues, alcohol/drug related problems, poor health care, obesity and cramped housing. The Bermondsey and surrounding area “violence against the person” rates are typically twice the national average (Crown crime figures). The main issues are youth anti-social behaviour and drug abuse in the Blue and surrounding estates. The majority of households in Bermondsey are (from Urban Intelligence) “average health, not especially active, have reasonably high alcohol consumption, and a significant number may smoke and are “Welfare Borderline” (i.e. do not to eat well; many will be heavy smokers, a significant proportion will drink”).

The amount of wealth a person has affects their expectation of life. The demographic group of persons to whom funeral expenses are a significant sum (and thus more likely to be a Plan-Holder) are more likely to be less wealthy and thus have a lower expectation of life. For example, there is no question that smoking is one of the most prominent causes of premature mortality. Members of lower social classes are increasingly more likely to smoke. Furthermore, some Plan-Holders know they are about to die shortly due to terminal illness and arrange a Funeral Plan to take the administrative/financial burden off their family.

I will continue to monitor closely the future mortality experience. The media savvy management has turned the Plan Providers into a niche premium brand beyond their traditional geographical Plan Holder area, which is likely to have knock- on effects on the future mortality experience. Furthermore, the Bermondsey area is becoming white collar / office orientated with prestige dockside developments and this may influence the future Plan Holder base.

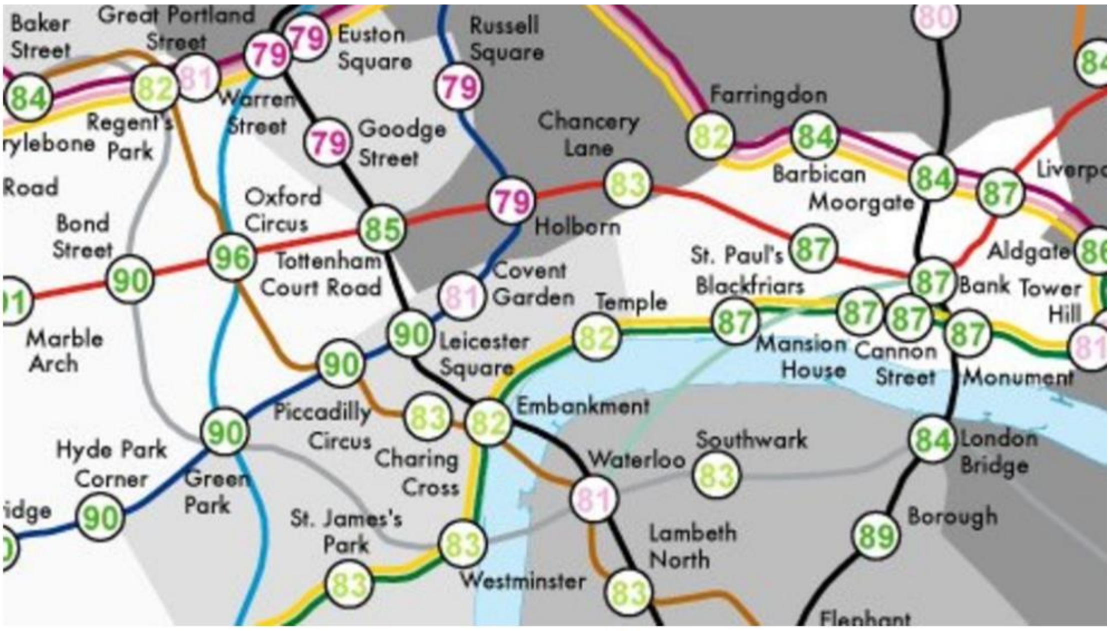
(ii) Covid

The current and long-term impacts of the COVID-19 crisis are highly uncertain but have the potential to affect the financial position of the Trust (more deaths imply a higher funding level all else being equal). In the short term, it is likely that COVID-19 will have an impact only on the life expectancy of less wealthy. During the pandemic there has been an increase in UK mortality rates well above rates that which would have been expected in the absence of the pandemic. This is particularly true for those contracting COVID-19, but there is also evidence of wider 'excess deaths', probably attributable to secondary effects of the pandemic, e.g., economic/hospitals' dislocation. Longer term, there are fears that the drop-in economic activity as a result of the pandemic will lead to a prolonged global recession. Any recession will have a recognisable impact on future life expectancies, irrespective of whether someone contracts COVID-19, through the effects on individuals and a reduced scope for increases in healthcare spending (e.g., longer hospital waiting lists etc).

Key drivers to impact mortality

The probability of catching COVID-19 is influenced by the geographic location, age, gender, and occupation. For example, Plan-Holders who are concentrated in highly impacted areas, e.g., densely populated areas with high case rates, are likely to have a greater probability of catching COVID-19. The impact on mortality during the pandemic i.e., those who have a higher risk of dying from COVID-19 are those members who are males, older in age, in ill-health and living in deprived areas. The impact on longevity after the pandemic is influenced by the socioeconomic group of the membership, and whether members did or did not contract COVID-19 in the pandemic; the impact of any resulting recession is likely to be greater on those from more deprived areas.

The importance of being wealthy on life expectancy (some 17 years at the extreme) is starkly demonstrated below:



The map shows life how life expectancy varies between different Tube stations

A version of the Tube map has been produced to show how life expectancy varies from station to station.

The contrast it depicts between Tube stops is stark, with the variation in life expectancies of children born near stations only minutes apart being years different.

APPENDIX VIII

Climate Change

The pre-paid funeral plan arrangement is exposed to climate-related risks through its investment arrangements. Furthermore, the parties directly involved in the burial/cremation process have prospects which depend on current and future developments in relation to climate change. Climate change will affect all parties in the economy across all sectors and geographies. Impacts could be large, widespread, and diverse. The concentration of greenhouse gas emissions determines the impact of climate change in the atmosphere, and there is currently no mature technology to reverse this process. Above a certain threshold, scientists have shown with a high degree of confidence that climate change will have irreversible consequences on our planet, though uncertainty remains about the exact severity and time horizon.

The risks that arise from climate change are for example, physical risks (e.g. fire and flood) and transition risks (e.g. some investments may eventually just become worthless). Climate policies may not achieve their goals in a sufficiently timely fashion, leading to temperature rises and policy dislocations that would have large and detrimental impacts on global economies, society, and investment portfolios. There is thought to be a tipping point where high global temperatures lead irreversibly to even higher temperatures.

Trustees in the schemes may find that embedding consideration of climate change in their investment and scheme governance could have a positive impact on expected returns or the capacity to reduce risk. For example, there may be opportunities to access new markets and new technologies related to the transition to a low-carbon economy.

Consideration should be given to setting out the trustees' policy on engaging with asset managers, including how their arrangements with asset managers incentivise the managers to align their investment strategy with the Trustees' aspirations on climate change (e.g. to have a net zero investment portfolio by a certain date). Central to this would be the calculation of the greenhouse gas emissions of the investment portfolio. Trustees will also have the opportunity to set climate-related targets and identify carbon-intensive hotspots in portfolios. Their progress to net zero could be minuted, say annually.

The impact of climate change could be very significant, and integration of covenant, actuarial and investment risk is an important factor to achieve successful Plan-Holder outcomes for pre-paid funeral plan arrangements.

Appendix IX

An alternative method to arrive at a funeral cost is to use the full deposit as the funeral cost, but to ignore the past reserve for inflation. On this basis the result is as follows:

	Category	£'000
(a)	**Liabilities (including expenses)**	**7,547**
(b)	*Assets (at market) of investments + cash	**6,190**
	Surplus {(b)-(a)}	**(1357)**
	Funding Level {(b)/(a) x 100%}	**82%**

Appendix X

F A ALBIN &SONS LIMITED

PRE-ARRANGED FUNERAL TRUST

INVESTMENT POLICY

(approved by the Trustees at a meeting held on 10 January 2022

1. Scope

This policy applies to the investment of all operating funds of the F.A Albin & Sons Limited Pre-Arranged Funeral Trust.

The F.A. Albin & Sons Limited Pre-Arranged Funeral Trust, hereinafter referred to as the “Trust”, obtains its funding primarily through the prepayments from its Plan-Holders.

The investment portfolio will be managed by the Trustees who will strive to invest with the judgement and care that prudent individuals would exercise in the execution of their own affairs, to maintain the safety of principal, maintain liquidity to meet cash flow needs and to provide competitive investment returns for the Trust.

From time to time investments will be managed through external programs, facilities and professionals. To constitute compliance these must be managed in a manner consistent with this policy.

2. Investment Objectives

2.1 Safety and Security of assets

The security and maintaining the purchasing power of the fund over the long term is the foremost objective for the investment strategy. Investments will be undertaken in a manner that aim and have the capacity to achieve this objective. The overall portfolio will achieve this by mitigating Risk. There are a number of risks that may apply at any given time. These include Market Risk, Credit Risk, Interest rate Risk, Inflation Risk, Currency Risk, Sovereign Risk, and Liquidity Risk.

2.1.1 Market Risk

The risk arises from the possibility that the whole markets may decline. The most effective method of minimising Market risk is diversification across a variety of asset classes. The Trust will implement a highly diversified portfolio approach to minimise this risk.

2.1.2 Credit Risk

The Trust will minimise credit risk, the risk of loss due to the failure of the security issuer or backer, by:

1. Pre qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the Trust will do business.
2. Diversifying the portfolio so that potential losses on individual securities will be minimised.

2.1.3 Interest Rate Risk

The Trust will minimise the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

2.1.4 Currency Risk

The Trust will minimise the risk of loss resulting from changes in exchange rates by holding its investments in sterling.

2.1.5 Sovereign Risk

In financial theory, financial obligations of governments are often referred to as riskless securities. However, although these obligations constitute the best risk, they have a residual risk for the financial institution holding them. This risk is referred to as the sovereign risk of that country. It is the risk of loss experienced by a financial institution due to changing social, economic, or political factors specific to one country and can range from social or economic deterioration through legal and regulatory harassment, to deep recession, political breakup of the country, or the increase in financial institution income taxes. All such events could reduce the Trust's earnings or capital.

The Trust will minimise the risk of loss resulting from sovereign risk by strategically diversifying its portfolio across countries.

2.2 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. Negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow purposed.

2.3 Yield

The investment portfolio shall be managed with the objective of attaining a competitive rate of return given the constraints of the aforementioned safety and liquidity objectives**.**

3. Standards of Care

3.1 Prudence

Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. The Trust recognises that no investment is totally free from risk and that occasional measured losses are inevitable in a diversified portfolio and will be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Trust.

3.2 Ethics & Conflicts of Interest

Trustees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Trustees shall disclose any material interests in financial institutions in which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

4. Investment Transactions

4.1 Eligible Investment

The trust will invest primarily with authorised Investment Funds and Investment Trusts but will consider direct investments into Cash Deposits, Bonds (Sovereign and Corporate); and Shares. The authorised Investment Funds will incorporate all such assets and also provide possible access to Commercial Property investment.

Fixed Rate Deposits The Trust may invest in fixed rate deposits to meet short-medium term liquidity needs. The maturity of these deposits will vary to coincide with expected cash demands. Except with Trustees approval, holding in any one fund/entity shall not exceed 10% of investment portfolio.

Bonds (Sovereign and Corporate). The Trust may invest in Bonds issued by the local government and by governments in other countries and approved foreign countries, as well as in corporate bonds. Corporate Bonds and Foreign government Bonds may be purchased through authorised broker/dealers and merchant Funds. Except with Trustees approval, bond holding in any government issue shall not exceed 10% of the investment portfolio, and the total bond holding in any corporation shall not exceed 10% of the investment portfolio. Where bonds have been rated, investment will be made only in bonds rated “BBB” and above by S&P or other equivalent rating agency.

Shares (Stocks). The Trust may invest in public and private equity securities and in approved foreign entities. Except with Trustees approval, equity holding in a single entity or a group of related entities shall not exceed 5% of the investment portfolio.

4.2 Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of the Trust's funds, the investment portfolio will be subject to the following restriction:

- Borrowing for investment purposes ("Leverage") is prohibited.
- Investment in any instrument, which is commonly considered a "derivative" investment (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.
- Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

5. Investment Parameters

5.1 Portfolio Diversification

The investments portfolio shall be diversified to minimise the risk of loss resulting from over concentration of assets in specific class, currency, Country, or economic sector. Diversification strategies shall be periodically reviewed. The current policy guidelines are as follows:

Asset Allocation

The Trust shall adopt a flexible weightings approach (strategic asset allocation) involving the periodic adjustments of the weights for each category based either on the market analysis or on technical analysis (i.e., market timing). The allocation is as follows:

Risk	Allocation (Maximum)	Allocation (Minimum)	Allocation (Standard)
Low Risk	75%	40%	60%
Medium Risk	45%	20%	25%
High Risk	15%	0%	15%

5.2 Maturity Limitations

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

To the extent possible, the Trust shall attempt to match its investments with anticipated cash flow requirements. With the exception of those securities that have no specific maturity, all other investments shall mature and become payable in not more than ten (10) years from the date of purchase.

5.3 Portfolio Management

Following the primary objective of preservation of capital, investments shall be actively managed to take advantage of market opportunities. Assets may be sold at a loss only if it is felt that the sale of the security is in the best long-term interest of the Trust.

6. Policy Considerations

6.1 Exception

Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

6.2 Revision

The Trustees shall review the policy annually.

6.3 Adoption

This policy and any changes made during the annual reviews shall be adopted by resolution of the Trustees.

7. Bond Ratings

S&P	Moody's	Definition
AAA	Aaa	High-graded investment bonds. The highest rating assigned, denoting extremely strong capacity to pay principal and interest. Often called "gilt edged" securities.
AA	Aa	High-grade investment bonds. High quality by all standards but rated lower primarily because the margins of protection are not quite as strong.

A	A	Medium-grade investment bonds. Many favourable investment attributes, but elements maybe present that suggest susceptibility to adverse economic changes.
BBB	Baa	Medium-grade investment bonds. Adequate capacity to pay principal and interest but possibly lacking certain protective elements against adverse economic conditions.
BB	Ba	Speculative issues. Only moderate protection of principal and interest in varied economic times. (This is one of the ratings carried by junk bonds.)
B	B	Speculative issues. Generally lacking desirable characteristics of investment bonds. Assurance of principal and interest may be small; this is another junk bond rating.
Source: Moody's Bond Record and Standard & Poor's Bond Guide		