

# Responsible Investment Policy

OP-17



Reviewed By:  
Date Reviewed:  
Date of Policy Adoption:  
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Board of Directors  
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## DOCUMENT SUMMARY

Description of Policy	Responsible Investment Policy		
Policy Purpose	Outline Foresters Financial's Responsible Investing Principles		
Policy Application	Board <input checked="" type="checkbox"/>	Management <input checked="" type="checkbox"/>	Staff <input checked="" type="checkbox"/>
Policy Status	Revision of Policy <input checked="" type="checkbox"/>	New Policy <input type="checkbox"/>	
Revision Frequency	Annual <input type="checkbox"/>	Triennial <input checked="" type="checkbox"/>	
Description of Revision	Improvement and update of previous policy		
Approval Authority	Board <input type="checkbox"/>	Committee <input checked="" type="checkbox"/>	Management <input type="checkbox"/>
Governing Authority	Investment Committee		
Responsible Officer	CFO		

Modification Date	Modified By	Reason for Modification
04 February 2022	Investment & Unit Pricing Analyst	Policy Revision and Update
28 September 2020	N/A	Policy Adoption

## DEFINITIONS

AFSL	Australian Financial Services License
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
CEO	Chief Executive Officer of Foresters
CRO	Chief Risk Officer of Foresters
CFO	Chief Financial Officer of Foresters
ESG	Environmental, Social, and Governance
Foresters	Foresters Financial Limited
IA	Investment & Unit Pricing Analyst of Foresters
Investment Manager	Foresters appointed Investment Adviser and Portfolio Manager

## RESPONSIBILITIES & ACCOUNTABILITIES

Investment Committee	<ul style="list-style-type: none"> <li>Review and approve this policy</li> <li>Review the implementation of responsible investment</li> </ul>
CEO	<ul style="list-style-type: none"> <li>Oversee compliance with the policy</li> </ul>
CFO	<ul style="list-style-type: none"> <li>Ensure compliance with responsible investment principles</li> </ul>
Investment Manager	<ul style="list-style-type: none"> <li>Advise on Foresters responsible investment approach</li> <li>Integrate responsible investment when selecting investments</li> <li>Advise on deviations from approved principles</li> <li>Manage the proxy voting process</li> </ul>
Investment and Unit Pricing Analyst	<ul style="list-style-type: none"> <li>Liaise with Investment Manager(s) to implement responsible investing principles</li> <li>Liaise with the Appointed Actuary to assess impact on capital requirements</li> <li>Ensure compliance with responsible investment principles</li> </ul>

## POLICY STATEMENT

The purpose of this policy is to outline Foresters' approach to responsible investment including the framework for the selection of investments with reference to ethical and ESG frameworks.

The policy is to be applied in conjunction with OP-6 Investment Policy.

## POLICY SCOPE AND OBJECTIVE

The policy applies to all investment decisions made by Foresters.

The key objectives are to maintain an investment portfolio that reflects our ethical and ESG principles, recognising that the transition to a fully compliant portfolio is an evolving process, and to meet applicable regulatory obligations.

The policy establishes the parameters for reporting and compliance with regard to:

- Positive screening of ESG investments; and
- Negative screening of ethical investments.

Foresters objective is to drive long-term financial performance and manage investment risk via ethical investment and ESG integration.

# ESG AND ETHICAL INVESTMENT

## Environment, Social and Governance (ESG)

The term ESG refers to the consideration of environmental, social and governance factors alongside financial factors in the investment decision-making process.<sup>1</sup>

## Ethical Investment

The term ethical means whether the business activities of a firm conform to morally accepted or desirable principles. In this specific case Foresters uses JBWere's approach to ethical investment, which is based on negative screening of industries that could be considered problematic.

## GUIDING PRINCIPLES

Responsible Investment is not a legislative requirement however APRA guidance requires that investment decisions are well informed and in compliance with risk management and governance frameworks.

To achieve this, Foresters refers to the objectives of the Principles for Responsible Investment ("PRI").

The PRI is the world's largest network of investors. The objective of this network is to understand the implications of sustainability for investors and support the incorporation of these implications into investment decision-making and ownership practices.

The PRI advocate six aspirational principles:

- Incorporating ESG issues into investment analysis and decision-making processes.
- Incorporating ESG issues into ownership policies and practices.
- Seeking appropriate disclosure on ESG issues by investees.
- Promoting acceptance and implementation of the Principles within the investment industry.
- Enhancing effectiveness in implementing the Principles.
- Reporting on activities and progress towards implementing the Principles.

The principles provide for a range of possible actions for incorporation into investment practices and also recognise that responsible investment is a process that should be tailored in line with an organisation's investment strategy and resources. The Principles are suitable to diversified, institutional investors operating within a fiduciary framework.

Foresters is cognisant of guidance issued by other credible organisations such as the Responsible Investment Association Australasia ("RIAA"). Additionally, it is supportive of the UN Sustainable Development Goals<sup>2</sup>, which are considered as guiding principles.

Foresters has adapted the PRI principles and relevant advice to establish positive and negative investment screening criteria.

## APRA Prudential Standards

Foresters note that individual Prudential Standards regarding investment governance have not been issued for the Life Insurance Industry at this time.

Prudential Guidance Standard CPG 229 Climate Change Financial Risks was issued in November 2021.

The guidance does not create enforceable requirements but aims to assist compliance with Prudential Standards and outlines prudent practices in relation to climate change financial risk management, rather than guiding individual investment decisions.

Whilst this policy establishes measurable principles for investing, it does not establish Foresters' risk appetite for financial risk arising from climate change. Rather, the policy provides a framework for ethical and ESG investing in the context of Foresters' risk appetite.

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<sup>1</sup> <https://www.msci.com/documents/1296102/7943776/ESG+Investing+brochure.pdf/bcac11cb-872b-fe75-34b3-2eaca4526237>

<sup>2</sup> <https://www.un.org/sustainabledevelopment/news/communications-material/>

## ESG INVESTMENTS - POSITIVE SCREENING

The objective of positive screening is to provide a measure of ESG performance by which Foresters can form investment decisions.

The MSCI (Morgan Stanley Capital International) Index of ESG performance has been selected as the appropriate benchmark for Foresters. MSCI<sup>3</sup> provides ESG ratings that assess the economic significance of ESG issues in a peer-to-peer context as opposed to across industries.

The ratings are designed to assist investors understand material industry risk and opportunities when integrating ESG into portfolios.

The ratings assess companies against 35 criteria under the banner of 10 ESG sub-headings as follows:

- Environment
  - Climate Change
  - Natural Capital
  - Pollution & Waste
  - Environmental Opportunities
- Social
  - Human Capital
  - Product Liability
  - Stakeholder Opposition
  - Social Opportunities
- Governance
  - Corporate Governance
  - Corporate Behaviour

Foresters will utilise the MSCI ESG Index to assess investment opportunities and investment holdings.

The MSCI ESG Index rates organisations on ESG performance as follows:

Rating	CCC	B	BB	BBB	A	AA	AAA
Leader/Laggard	Laggard	Laggard	Average	Average	Average	Leader	Leader
Industry/Adjusted Score	0-1.4	1.4-2.8	2.8-4.2	4.2-5.7	5.7-7.1	7.1-8.5	8.5-10

Foresters is aiming to invest in organisations with a score of BBB or higher.

Where an investment below BBB is identified, Foresters will seek to divest of that investment or suitably disclose its reasons for maintaining that investment.

Where an investment is not rated by the MSCI, Foresters will seek advice from its Investment Manager.

## ETHICAL INVESTMENTS - NEGATIVE SCREENING

The objective of negative screening is to prohibit or restrict Foresters' exposure to industries that may raise ethical concerns.

Foresters will consider the advice of its Investment Manager when assessing industries that may raise concerns from an ethical perspective. Whether an exposure is prohibited or restricted will be determined by Management and reviewed and endorsed by the Investment Committee.

<sup>3</sup> ESG Rankings Methodology, M. (n.d.). *ESG Investing: ESG Ratings*. ESG Investing: ESG Ratings - MSCI. <https://www.msci.com/our-solutions/esg-investing/esg-ratings>.

Prohibited investments means that there should be no exposure to an entity whose core business is listed in the table below. A maximum of 5% exposure is permitted through exchange traded or managed funds.

Restricted investments means there can be a limited exposure to an organisation whose revenue does not exceed 10% from restricted activities. The list of prohibited and restricted activities is as follows:

Investment Type	Prohibited Investment	Restricted Investment
Manufacture of Arms and ammunition	X	
Production or Distribution of Pornography	X	
Tobacco		X
Gambling	X	
Alcohol		X
Animal Testing (excluding Medical Purposes)	X	
Thermal Coal	X	
Uranium		X
Conventional / Unconventional Oil & Gas	X	

## PROXY VOTING

Foresters' Investment Manager will provide advice in circumstances where there is a vote on a material issue regarding ESG or ethical issues within our investment holdings. Foresters will either execute a proxy vote for that issue or provide voting instructions to the Investment Manager.

For non-material votes, Foresters will defer to the advice of the Investment Manager.

## REPORTING

The Investment Manager will provide an annual report on ethical exposures and ESG ratings.

Progress reports detailing progression towards compliance, or of significant downgrades of investments, will be provided to Foresters periodically.

## RELATED DOCUMENTS & LEGISLATION OR COMPLIANCE REFERENCES

- Prudential Practice Guide CPG 229 on Climate Change Financial Risks
- Principles for Responsible Investing, PRI. <https://www.unpri.org/>
- Responsible Investment Association Australasia (RIAA). <https://responsibleinvestment.org/>
- MSCI – Powering better investment decisions - MSCI. <https://www.msci.com/>
- United Nations Sustainable Development. <https://www.un.org/sustainabledevelopment/>