

FORESTERS  
FINANCIAL



# Responsible Investment Policy

3 April 2023

OP-17 Responsible Investment Policy

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## DOCUMENT SUMMARY

Description of Policy	Responsible Investment Policy
Policy Purpose	Outline Foresters Financial's Responsible Investing Principles
Policy Application	Board, Management, Staff
Revision Frequency	Triennial
Description of Revision	Improvement and update of previous policy
Approval Authority	Board
Review Authority	Investment Committee
Policy Owner	CFO

Modification Date	Modified By	Reason for Modification
3 April 2023	Board	Policy review
29 August 2022	CFO	Addition of grandfathering and divestment on page 7
28 February 2022	CFO	Revision to policy objective and scope, proxy voting process, definitions of ESG and Ethical Investment, addition of guiding principles and use of the MSCI index for positive screening.
24 December 2021	IA	Policy Revision and Update
1 October 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	Unit Pricing & Investment 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 strategy decisions pertaining to our Sustainable Fund investment option (or equivalent named options as described in our PDS from time to time).

The policy establishes the parameters for reporting and compliance regarding:

- 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 to each organisation's investment strategy and resources. The Principles are suitable to diversified, institutional investors that operate within a fiduciary framework.

Foresters is cognisant of guidance issued by other influential organisations such as the Responsible Investment Association Australasia ("RIAA"). Additionally, it is supportive of the UN Sustainable Development Goals 2, 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.

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 outline prudent practises 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. MSCI3 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.

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<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.

## GRANDFATHERING

Where investments are identified as a breach of policy parameters, the Committee may approve the 'grandfathering' of such investments to allow for sufficient time for a realignment with policy parameters.

## DIVESTMENT

Assets may be divested in order to correct a breach, or to avoid a potential breach, of policy parameters.

Considerations for a divestment of an investment shall include policy compliance and as well as a portfolio's investment strategy noting that both are determined with regard to the best interests of members.

## 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/>