

# FORESTERS

F I N A N C I A L



## Investment Policy

OP-6

Board Approved: 29 May 2023

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## DOCUMENT SUMMARY

Description of Policy	Investment policy
Policy Purpose	To provide a framework for the governance of investments, reporting and associated obligations.
Policy Application	Board
Revision Frequency	Triennial
Description of Revision	Reformatting and inclusion of strategy, stress testing and updates to investment objectives.
Approval Authority	Board
Governing Authority	Investment Committee
Policy Owner	Chief Executive Officer

Modification Date	Modified By	Reason for Modification
22 May 2023	CFO	Change investment parameters in Appendix B.
27 February 2023	CFO	Policy update following Fund closures.
10 May 2022	CFO	Policy review.
28 February 2022	CFO and Investment & Unit Pricing Analyst	Policy revision and update.
21 July 2021	Financial Controller	Reformatting and inclusion of strategy, stress testing and updates to investment objectives.
26 October 2020	Financial Controller	To increase the Group C single counterparty exposure allowable limit to 30%.
27 May 2013		Policy Adoption.

## DEFINITIONS

Board	Foresters Financial Board of Directors
CEO	Chief Executive Officer of Foresters
CFO	Chief Financial Officer of Foresters
Committee	Foresters Financial Investment Committee
CRO	Chief Risk Officer of Foresters
Foresters	Foresters Financial Limited
Fund	Benefit or Management Fund
IA	Investment & Unit Pricing Analyst of Foresters
Investment Manager	Foresters appointed Investment Adviser and Portfolio Manager
Investment Portfolio	Investment Assets held by a Benefit Fund or the Management Fund

## POLICY STATEMENT

The purpose of this policy is to document Forester's approach to the sound and prudent management of investments.

This policy forms part of the investment framework and is to be read in conjunction with:

- RM1 Risk Management Policy, Framework & Strategy
- RM-3 Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement
- BO4 Investment Committee Charter
- BO8 Delegation of Authority
- OP16 Unit Pricing Policy; and
- OP17 Responsible Investment Policy.

## POLICY SCOPE & OBJECTIVE

The policy applies to all investment decisions made by Foresters.

The Board, through advisement by the Committee, will ensure that systems are in place for the effective management of each investment portfolio. It will satisfy itself that Foresters staff and investment managers are aware of the investment objectives, strategy, and parameters for each portfolio and that the investments are being managed to ensure the best possible return relative to the authorised investments of each portfolio.

The investment objectives are detailed within the investment objective section below.

## RESPONSIBILITIES & ACCOUNTABILITIES

Appointed Actuary	<ul style="list-style-type: none"> <li>• Provide advice on policy and investment strategy.</li> <li>• Monitor compliance with APRA prudential standards, Benefit Fund Rules, and Foresters' investment policies.</li> </ul>
Board	<ul style="list-style-type: none"> <li>• Approve investments and strategic commitments that may have a material effect on the assets, profits, or operations of Foresters.</li> <li>• Assess the performance of the Investment Committee against its Charter.</li> </ul>
CEO	<ul style="list-style-type: none"> <li>• Oversee compliance with the policy.</li> <li>• Assess investment recommendations per BO8 Delegation of Authority.</li> </ul>
CFO	<ul style="list-style-type: none"> <li>• Maintain investment and related policies.</li> <li>• Manage relationship with Investment Managers.</li> <li>• Perform internal and external reporting obligations.</li> <li>• Assess investment recommendations per BO8 Delegation of Authority.</li> </ul>
CRO	<ul style="list-style-type: none"> <li>• Ensure maintenance of the Risk Management Framework and monitoring and reporting.</li> </ul>

IA	<ul style="list-style-type: none"> <li>• Maintain investment and related policies.</li> <li>• Assist in management of relationship with Investment Managers.</li> <li>• Assess investment recommendations provided by Investment Managers.</li> <li>• Assist the CFO in performing internal and external reporting obligations.</li> </ul>
Committee	<ul style="list-style-type: none"> <li>• Consider any matters related to the investments of Foresters and its controlled entities.</li> <li>• Examine any matters referred to it by the Board.</li> </ul>
Investment Manager	<ul style="list-style-type: none"> <li>• Adhere to the Investment Management Agreement.</li> <li>• Advise on investment policies and strategy.</li> </ul>

## INVESTMENT MANAGER

### Appointment

Foresters will utilise the services of licensed Investment Managers unless otherwise authorised by the Board. The appointment of a new Investment Manager will only be approved by the Board following:

- The completion of a request for proposal process involving at least two Investment Managers; and
- The interview of potential Investment Managers by the Investment Committee.

Investment Managers will be appointed and governed through Investment Management Agreements (IMAs). IMAs will adhere to Prudential Standard CPS 231 – Outsourcing as required.

An IMA will not offer discretionary mandates to Investment Managers unless authorised by the Board.

The Investment Manager's reporting obligations are outlined in the Reporting section of this Policy.

### Review

On an at least an annual basis:

- Management will conduct a review of performance of the Investment Manager and submit a report to the Investment Committee.

## RISK MANAGEMENT

Foresters' risk management strategy is documented in RM1 Risk Management, Policy, Framework & Strategy. Foresters' risk appetite and tolerance are documented in Appendix D – Risk Appetite Statement and Scorecard in RM-1 Risk Management Policy. Foresters' capital management framework is documented in RM3 ICAAP Summary Statement.

The society's risk management framework addresses investment related risks by providing for a target level of capital in recognition of risk charges applicable under:

LPS110 Capital Adequacy

LPS114 Capital Adequacy: Asset Risk Charge

LPS117 Capital Adequacy: Asset Concentration Risk Charge

Investment parameters are formulated in consultation with the Appointed Actuary in order to achieve the investment objectives of the portfolios, manage risk and ensure compliance with Benefit Fund Rules.

### Investment Risks

The following details individual investment risks and how they are to be addressed.

#### Liquidity Risk

Liquidity of the investment portfolios will be maintained in consideration of:

- Advice received from the Appointed Actuary
- Liability profiles including projected benefit fund claims
- Meeting cash flow requirements independently of other funds
- Approved budgets and forecast expenditure; and

- The identification of a liquidity event.

## Market Risk

- Foresters' assets, income and operating cash flows are exposed to changes in market interest rates. Investment Parameters for each portfolio are set in consideration of capital requirements and mark to market valuation principles.
- Equity price risk will be managed through diversification of a portfolio and security selection.
- Foreign exchange risk arises when transactions are denominated in a currency that is not the entity's functional currency. Refer Foreign Exchange section of this policy.

## Credit Risk

Assets subject to credit risk must be assigned a counterparty grade.

The assignment of counterparty grades is essential to the capital adequacy assessment process.

Counterparty grades are assigned following Prudential Standard LPS001 Attachment A.

## INVESTMENT OBJECTIVES

The objectives of a portfolio will be determined by the Committee in consultation with the advice of the Appointed Actuary, the Investment Manager and management.

The objectives of a portfolio will give consideration to fund obligations and characteristics.

The objectives of a portfolio will be designed to drive long-term financial performance, manage risk and meet regulatory obligations.

The objectives of a portfolio will be designed to provide a reasonable match between assets and liabilities.

Compliance with the APRA Capital Standards is ensured by adherence to other elements of the risk management framework, including RM-1 Risk Management Policy and particularly RM-3 Internal Capital Adequacy Assessment Process.

The Committee may seek further advice to ensure sound investment objectives are determined.

## INVESTMENT PARAMETERS

Portfolio Investment Parameters will be determined under the advice of the Appointed Actuary and in consideration of:

- Benefit Fund Rules.
- Foresters ICAAP; and
- Foresters Risk Appetite.

## INVESTMENT STRATEGY

The Investment Manager shall advise on strategy alternatives to achieve the objectives of a portfolio relative to the parameters of a portfolio.

Considerations in setting investment strategy include:

- Any constraints imposed or implied by the APRA Prudential Standards and Foresters' ICAAP
- Security of investments and the need to preserve capital
- Liquidity of investments required to meet short-term liabilities
- Volatility and the variability of investment returns; and
- Diversification so as to reduce risk.

The Committee will monitor compliance with the investment strategy on a quarterly basis.

## STRATEGIC ASSET ALLOCATION

Is a long-term asset allocation derived to provide a reasonable match between assets and liabilities, while meeting fund objectives and meeting or exceeding target returns. The strategic assets allocation (SAA) will be optimized according to the investment objectives and fund parameters.

## TACTICAL ASSET ALLOCATION

The Committee may approve a deviation from the SAA as Tactical Asset Allocation (TAA). The parameters of the TAA will be determined by the Committee.

## LEVERAGE

No leverage is permitted within the investment portfolios.

## DERIVATIVES

Foresters' policy is not to invest directly in derivatives and that derivatives will not be used for trading or speculative purposes.

At the Board's discretion, Foresters may consider utilising derivatives to reduce the risk inherent in the investment portfolio, subject to the receipt of advice from the Actuary.

Exposure via investment vehicles domiciled in Australia is permissible per the respective Benefit Fund Rules.

## FOREIGN EXCHANGE

Foresters will only invest in foreign investment vehicles as permitted by the respective Benefit Fund Rules.

## POOLED INVESTMENT FUNDS

Pooled investment funds may be utilised in compliance with Benefit Fund Rules and investment policy parameters.

If required by the Actuary, look through data must be available to assess the underlying holdings.

A lack of look through data may result in the application of higher risk charges and a breach of investment policy parameters and APRA capital requirements.

Pooled investment funds should not be used where a lack of look through data increases risk charges unless approved by the Committee.

## REPORTING

### Investment Manager

The Investment Manager will provide a monthly performance and compliance report for each portfolio detailing compliance with the IMA and Foresters Investment Policy.

Investment performance will be measured against benchmarks. Benchmarks will be weighted according to the asset allocation of each portfolio and are the minimum required performance as the expectation is that returns are maximised relative to a portfolio's investment parameters.

Unless specifically overridden by a Benefit Fund's rules or by the Committee, the benchmarks will include:

- Bloomberg Ausbond Bank Bill Index
- Bloomberg Ausbond Composite Bond Index
- Bloomberg Ausbond Semi-Government Bond Index
- Bloomberg/Barclays Aggregate Global Treasuries Index, \$A hedged
- Bloomberg/Barclays Aggregate Global Credit Index, \$A hedged
- MSCI ACWI ex Australia Index, Net Divs AUD Unhedged
- S&P/ASX 200 Accumulation Index.

#### Unitised products:

- Benchmarks weighted based on the asset allocation of each portfolio.

### Internal Reporting

The Investment Committee shall receive the following reports quarterly:

- Compliance Confirmation Statement (CEO and CFO)
- OP-6 Investment Policy report

- OP16 Unit Pricing and Discretions Policy report; and
- OP17 Responsible Investment Policy report.

## INVESTMENT VALUATION

LPS112 Capital Adequacy: Measurement of Capital requires that investment assets be reported at fair value.

This includes term deposits in order to reflect their yield to maturity at the balance date.

## STRESS TESTING

Stress testing is an important element of determining and assessing investment strategy.

Stress testing will be performed periodically that aligns with the settings determined under the Risk Management Framework or as requested by the Investment Committee.

The Appointed Actuary will be engaged, or management will have access to necessary tools, to conduct stress testing and deliver the outcomes to the Investment Committee.

The Committee will review the stress testing results and recommend any changes required to the Board.

## REBALANCING

A fund's investment portfolio may vary from its strategic asset allocation due to market movements, contributions to or withdrawals from a portfolio, or a change in the nature of an investment.

The portfolio will be rebalanced to its strategic asset allocation using the following guidelines:

- A 2.5% plus or minus deviation for funds 53A and 53B; or
- In compliance with the IMA and investment policy parameters or as approved by the Committee.

## GRANDFATHERING

Where asset allocations move outside investment parameters, the Committee may approve the 'grandfathering' of investments to allow for sufficient time for the investments to realign with policy parameters.

## REGULATORY & GOVERNANCE REQUIREMENTS

Benefit Fund Rules	APRA approved Benefit Fund Rules
<i>Corporations Act 2001</i>	Requirements for Friendly Societies and Benefit Funds
PDS	Product Disclosure Statement prepared under the <i>Corporations Act 2001</i>

## REVIEW OF POLICY

The Board will review this policy triennially or more frequently if required, including when there are:

- changes in relevant legislative requirements, prudential standards and guidance materials;
- significant changes to the product offerings of Foresters;
- significant changes to the financial position of Foresters, its management fund and/or its benefit funds; and/or
- significant changes in financial market conditions.



APPENDIX A – FUND ATTRIBUTES AND INVESTMENT OBJECTIVES

FUND NAME	FUND TYPE (#)	PHASE	DESCRIPTION	OBJECTIVE	TARGET RETURN	INVESTMENT HORIZON	RISK TOLERANCE
Management	Management (72)	Growth	High liquidity required to provide for business operations, unexpected call on funds and support of benefit funds. Investments represent majority of entities Prescribed Capital Requirement with support from Defined Benefit Funds.	Generate returns at low risk and grow capital in support of business development and to hold capital in excess of minimum requirements in accordance with the entity's risk appetite.	Barclays Aggregate Global Credit Index, \$A hedged, S&P/ASX 200 Accumulation Index, and the Bloomberg AusBond Bank Bill Index after fees proportional to asset allocation.	Short to medium	Low
Bonus Bond No 1	DC - Investment. Bond (9)	Closed – decline	High liquidity required as FUM are low and in run off. Subject to termination.	Minimise risk in accordance with RMF until such time the fund is terminated.	Bloomberg AusBond Bank Bill Index after fees.	Short	Low
Savings & Investment Capital Guaranteed Fund	DC - Investment. Bond (11)	Open – decline	High liquidity required as policies are mature with high sensitivity to increases in duration. FUM is reducing at consistent rate. Subject to restructure with Funds 17 and 36.	Generate returns at low risk and sustain management fees.		Short	Low
Funeral Benefit Fund (Exempt)	DC – Funeral (51)	Closed – decline	Reducing FUM at consistent rate.	Maintain returns and sustain management fees.	Barclays Aggregate Global Credit Index and Treasuries Index, \$A hedged, S&P/ASX 200 Accumulation	Long	Low
Funeral Benefit Fund (Taxable)	DC – Funeral (51C/F)	Open – growth	FUM growing at consistent rate.	Produce market competitive returns and sustain management fees.		Long	Low
State Trustees Funeral (Exempt)	DC – Funeral (53A)	Closed – decline	Reducing FUM at consistent rate. Governed by IMA with STL.	Maintain returns and sustain management fees.		Long	Low

State Trustees Funeral (Taxable)	DC – Funeral (53B)	Open - decline	Reducing FUM at consistent rate. Governed by IMA with STL.	Maintain returns and sustain management fees.	Index, and the Bloomberg AusBond Bank Bill Index after fees proportional to asset allocation.	Long	Low
Savings and Investment – Balanced	DC – Unitised (11C)	Open - Growth	Non-capital guaranteed.	Deliver returns with an asset allocation of Growth (40%) and Defensive (60%) assets.	CPI + 2%	Long	Low to medium
Savings and Investment – Growth	DC – Unitised (11E)	Open – Growth	Non-capital guaranteed.	Deliver returns with an asset allocation of Growth (60%) and Defensive (40%) assets.	CPI + 3%	Long	Medium
Savings and Investment – High Growth	DC – Unitised (11G)	Open – Growth	Non-capital guaranteed.	Deliver returns with an asset allocation of Growth (80%) and Defensive (20%) assets.	CPI + 4%	Long	Medium to high
Savings and Investment – Ethical	DC – Unitised (11J)	Open – Growth	Non-capital guaranteed.	Deliver returns with an asset allocation of Growth (40%) and Defensive (60%) assets with an ESG focus.	CPI + 2%	Long	Low to medium
Funeral Benefit Balanced Fund	DC – Unitised (N/a)	Not launched	Non-capital guaranteed.	Deliver returns with an asset allocation of Growth (40%) and Defensive (60%) assets.	CPI + 2%	Long	Low to medium
Funeral Benefit Growth Fund	DC – Unitised (51E)	Open – Growth	Non-capital guaranteed.	Deliver returns with an asset allocation of Growth (60%) and Defensive (40%) assets.	CPI + 3%	Long	Medium
Funeral Benefit High Growth Fund	DC – Unitised (51G)	Open – Growth	Non-capital guaranteed.	Deliver returns with an asset allocation of Growth (80%) and Defensive (20%) assets.	CPI + 4%	Long	Medium to high
Funeral Benefit Sustainable Fund	DC – Unitised (51H)	Open – Growth	Non-capital guaranteed.	Deliver returns with an asset allocation of Growth (40%) and Defensive (60%) assets with an ESG focus.	CPI + 2%	Long	Low to medium
Sickness & Accident Fund	DB – Premium (20)	Closed – decline	Low FUM with low claim rate. Declining membership and subject to termination.	Preserve capital and maintain returns.	Barclays Aggregate Global	Short	Low

Accident Fund	DB – Premium (23)	Closed – decline	Low FUM with low claim rate. Declining membership and subject to termination.	Preserve capital and maintain returns.	Treasuries Index, \$A hedged and the Bloomberg AusBond Bank Bill Index after fees proportional to asset allocation.	Short	Low
Funeral Transfer Fund	DB – Premium (25)	Open – growth	Low FUM likely to have low claim rate. Ancillary product to Funeral Funds.	Modestly increase capital and maintain returns.	Bloomberg AusBond Bank Bill Index after fees.	Medium	Low
Police Association (Victoria) Benefit Fund	DB – Premium (90)	Open – growth	Moderate FUM with stable premiums and claims.	Modestly increase capital and maintain returns.	Bloomberg AusBond Bank Bill Index after fees.	Medium	Low
Death & Distress Fund	DB – Premium (92)	Open – decline	Low FUM with low claim rate. Candidate for termination if not actively promoted.	Preserve capital and maintain returns.	Barclays Aggregate Global Treasuries Index, \$A hedged and the Bloomberg AusBond Bank Bill Index after fees proportional to asset allocation.	Short	Low
Sick and Funeral Fund	DB – Premium (41)	Closed – stable	Mature Funeral Policies with long-term assets and liabilities in gradual run-off. Supports society capital adequacy through generation of surpluses.	Maintain asset liability matching and generate sustainable returns.		Long	Low

Investment Horizon: Short is < 12 months, Medium 2 to 4 years, and Long > 5 years

## APPENDIX B - INVESTMENT PARAMETERS

Fund #	72	9, 11	51, 51C/F	53, 53B	90 -92	41	20 - 23	25
Less than 1 month	-	-	-	-	-	-	Min 50%	-
Less than 3 months		Min 10%	Min 5% Max 10%	Min 5%	Min 10% - 92	Min 5% Max 10%	-	Min 10%
Less than 12 months	\$2m+ above the liabilities	-	-	-	-	-	-	-
<u>Fixed and Floating rate investments</u>								
Over 1 month term	-	-	-	-	-	-	Max 50%	-
Over 3 months term	-	Max 90%	Max 95%	Max 95%	Max 90%	Max 95%	-	Max 90%
Over 6 months term	-	-	-	-	-	-	-	-
Longest term to maturity	30 years	3 years	15 years	15 years	20 years	30 years	3 years	10 years
<u>Equities</u>	Max 30%	-	Max 5%	Max 15%	-	-	-	-
<u>Bonds</u>	-	-	Max 40%	-	-	-	-	-
<u>Other asset types</u>	In excess of liabilities +\$2m	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Overall average asset duration	Max 2 years	Max 6 months	Min 2 years Max 8 years	Max 8 years	Max 5 years -92 Max 15 years -90	Min 8 years Max 15 years	Max 6 months	Max 5 years
Counterparty Grade 1 & 2	Min 80%	Min 80%	Min 25%	Min 25%	Min 80%	Min 60%	Min 80%	Min 80%
Counterparty Grade 3	Max 20%	Max 20%	Max 75%	Max 75%	Max 20%	Max 40%	Max 20%	Max 20%
Counterparty Grade 4	Max 20%	-	Max 10%	Max 10%	-	-	-	-
Counterparty Grade 5, 6 & 7	Nil	-	Nil	Nil	-	-	-	-
Counterparty Grade 4, 5, 6 & 7	-	Nil	-	-	Nil	Nil	Nil	Nil
Asset risk charge	-	Max 1%	Nil (1)	Nil (1)	Max 5%	Nil (1)	Max 1%	Max 5%
Asset concentration risk charge	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<u>Exposure to single counterparties</u>								
Australian & State Government securities	No limit	No limit	No limit	No limit	No limit	No limit	No limit	No limit
Bank bills & bank deposits combined	Max \$20m	Max \$20m	Max \$20m or 30%, if greater	Max \$20m	Max \$20m	Max \$20m	Max \$20m	Max \$20m
Equities	Max 3%	-	Max 0.50%	Max 2%	-	-	-	-
Other asset types	Max 10%	Max 2%	-	-	Max 4%	Max 4%	Max 4%	Max 4%
Other asset types, counterparty grades 1, 2, 3	-	-	Max 5% <sup>(2)</sup>	Max 4%	-	-	-	-
Other asset types, counterparty grade 4	Max 5%	-	Max 2.5% <sup>(2)</sup>	Max 2%	-	-	-	-

(1) Net of discretionary component of liabilities

(2) The counterparty limits for the Funeral Benefit Fund (exempt), Fund 51 are Counterparty 1,2 & 3 = 4% and Counterparty 4 = 2