

(Translated document)



Notification of the Government Pension Fund Committee on Investment Governance Policy B.E.2560 (2017)

Whereas it is expedient to announce the investment policy of the Government Pension Fund following good governance to the public;

By virtue of Section 26 of the Government Pension Fund Act B.E. 2539 (1996) and the resolution of the Government Pension Fund Committee meeting No. 6/2017 on May 11, 2017, the committee issued the following Notification:

Clause 1. This Notification is called the Notification of the Government Pension Fund Committee on Investment Governance Policy 2017.

Clause 2. The statement of investment policy according to the resolution of the Board of Directors No. 8/2550 dated August 17, B.E. 2550 (2007) shall be repealed.

Clause 3. The investment governance policy as attached hereto shall come into force from this time forth.

Announced on the 18 Day of May B.E. 2560(2017)

(signature)

Mr. Somchai Sujjpongse

Permanent Secretary

Chairman of the Government Pension Fund

(Translated document)



Investment Governance Policy

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Investment Governance Policy

1. Introduction

The Government Pension Fund (GPF) was established under the Government Pension Fund Act B.E. 2539 (1996). Its objectives are to guarantee pension payments to government officials upon retirement, promote member savings, and provide welfare and other benefits to members.

The primary mission of GPF as a Long-Term Retirement Savings Fund is to manage the savings of its members with care and prudence according to the laws and policies established. It shall focus on risk diversification to maintain a balance between the security of the principal and the growth of the rate of return under an acceptable level of risk. It includes management that is transparent and consistent with good governance. It shall be audited to ensure members that long-term retirement savings are managed to grow continuously and efficiently.

2. Objectives of the Investment Governance Policy

This Investment Governance Policy intends to compile rules, policies, and operational guidelines for the Board, Subcommittees, Secretary General, Executives, and Employees. They shall uphold the practice of fund management and remind those involved to be aware of the responsibility for care management, coupled with using knowledge and skills as a professional fund manager. In addition, the essence of this Investment Governance Policy is to enable members and related parties to know and understand GPF's investment management process, thereby enhancing member confidence.

GPF establishes the principle that the investment governance policy will be reviewed when there is a change in investment policy, including significant rules. It provides members and stakeholders with knowledge of the investment policies that are up-to-date and consistent with the operational plans in each period. The rules, policies, and operating guidelines of the GPF are under the international best practices for managing retirement savings funds, which the GPF adheres to as operating guidelines.

3. Investment Approaches

(1) Investment Governance Structure

GPF separates roles and responsibilities to achieve balance in fund management. It starts from the committee that determines the policy and supervises the management of the Fund. The Investment Management Subcommittee is an investment advisor, and the Secretary General manages the Fund under the applicable laws, regulations, rules, and policies with decentralized investments as appropriate as the case may be. GPF also provides organizational structure and segregation of duties between departments at the office level, and neither party has absolute power to achieve check and balance.

The powers and duties of the Board, the Investment Management Subcommittee, and the Secretary General as stipulated in the Government Pension Fund Act B.E.2539 (1996) can be summarized as follows:

Board of Directors: has the authority to set policies, regulations, announcements, and orders to manage the Fund's affairs. It determines the Fund's investment policy following the rules prescribed in the ministerial regulations, including delegating to financial institutions to manage the Fund. In addition, there are other important roles in overseeing the Fund's management to achieve the Fund's objectives as required by law.

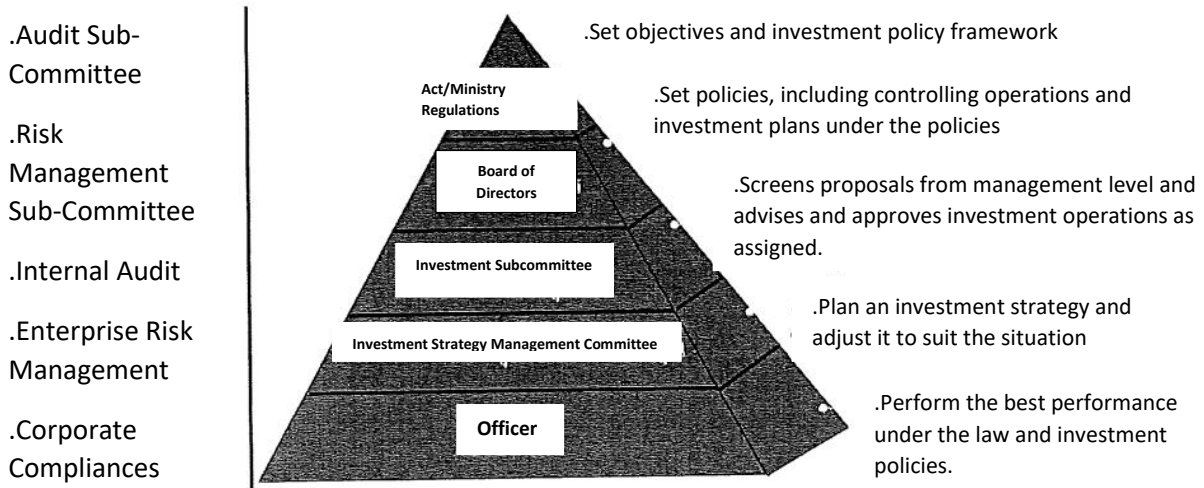
Investment Management Sub-Committee: has the authority to provide advice to the Board on investment, formulate criteria, select financial institutions assigned to fund management, and follow up and supervise the operations of such financial institutions. It includes approving investment actions as assigned by the Board and reporting investment performance to the Board.

Secretary General: has the authority and responsibility to administer the Fund's affairs following the Fund's objectives, laws, regulations, and policies. It is also responsible for the committee for the administration of the Fund and supporting the committee's operations and sub-committees following the fiduciary duty.

The Secretary General has appointed an investment strategy management committee to screen office-level investment work. In addition, the responsibilities

of investment-related departments are structured to achieve check and balance, transparency, and accountability.

The investment decision-making process and audit process of GPF



(2) Investment Philosophy

GPF conducts investments with responsibility both as a trustee for its members and as a good citizen of the country, concerning the members' best interests and the overall interests of the country and society. The GPF also considers enhancing the quality of market participants, such as encouraging investment in companies with good governance and collaborating with market participants in setting standards, guidelines, and codes of ethics for those involved in investment.

(3) Investment Principles

(a) GPF manages investments with a long-term goal by balancing the safety of the principal and the growth of the rate of return within an acceptable level of risk. It plans long-term capital allocations that are most in line with the goals under the requirements of laws, regulations, and investment policies. It also

includes maintaining short-term returns without excessive volatility to reduce the Fund's risk of returns will not meet the goals set.

(b) GPF manages investments with knowledge, competence, care, prudence, and thoroughness by laying out a control framework to supervise operations under the requirements of laws, regulations, and investment policies. It monitors the performance by measuring and controlling the level of risk appropriately, defining a work process with segregation of duties and responsibilities, and diversifying the investment risks of various types of securities, both high liquidity, and high return, according to the investment allocation plan. In addition to diversifying risks, it also helps increase efficiency in investment management by comparing performance, exchanging investment perspectives, and increasing the potential for broad and in-depth international market access. GPF also seeks new investment channels domestically and internationally, including allocating part of the Fund to external fund managers.

(c) GPF manages the Fund with honesty and integrity by stipulating measures to prevent potential conflicts of interest from trading for its benefit based on insider information. It prevents the use of undisclosed inside information in general with measures to keep business secrets from leaking to uninvolved people to avoid causing unfairness to outsiders. It establishes ethical principles, disclosure principles that may cause conflicts of interest or interests, and a code of conduct for all employees of the Fund to know and strictly comply with. In addition, there is a process for supervision and inspection of compliance with such measures and systems regularly and channels for complaints or whistleblowing to further enhance the effectiveness of prevention.

(d) GPF operates with transparency and accountability without acknowledging all forms of corruption and misconduct. It will not transact with any person, company, or entity investigated by a government agency for fraud and misconduct.

(e) GPF manages the responsible investment, focusing on environmental, social, and corporate governance (ESG) factors of companies GPF invests. It will conduct an ESG analysis and a financial analysis to see if the company values ESG. GPF believes that ESG-focused companies will conduct business with integrity, transparency, risk management, optimize opportunities, build capabilities and

create sustainable growth for the company itself and shareholders, and create benefits for the country and society.

(f) GPF acts as a share-owner business in a company GPF invests. It regularly monitors the operations of the said company on a regular basis, including transactions, dissemination of company information, and factors affecting the company's value and risk. Suppose there is an issue that the said company should improve or require additional clarification such as strategy, turnover, risk management, good governance, social and environmental impact, etc. In that case, GPF will engage with the company's management to give management suggestions on how to resolve issues or support operations that prioritize the company's ESG factor. GPF will also attend and exercise the right to vote at the shareholders' meetings of all companies in which GPF invests in accordance with the Proxy Voting Guideline. GPF established it under the principles of good governance to ensure that the companies in which GPF invests are competitive, operate under good governance, do not take advantage of shareholders, and can grow sustainably.

(g) GPF cooperates with other investors (collective engagement) as an institutional investor with a large amount of money under the country's management. It aims to enhance the country's investment governance as part of its good corporate citizen function, for example, by supporting the establishment and implementation of the policy and cooperating in raising corporate governance concerns with investment firms to resolve and gain confidence in investors, etc.

(h) GPF constantly studies new investment opportunities, new instruments, and new investment markets domestically and internationally. It reviews the allocation of funds to diversify investments into various instruments or new markets to increase investment efficiency. GPF's funds are continuously expanding and also being managed under globalization. To prepare for the new investments mentioned above, GPF shall periodically review and revise the laws, regulations, rules, and policies that restrict such investments to be appropriate and consistent with the investment conditions for the members' best interests.

(4) Investment Allocation

(a) GPF sets the return of objective in line with the characteristics of retirement savings investments that emphasize the sufficiency of retirement savings. Therefore, it forms a long-term return policy for members at a high rate

than inflation and compares the annual rate of return (before management fees) with the rate of return of an appropriate benchmark within the framework of laws, ministerial regulations, regulations, and investment regulations.

(b) GPF has developed a strategic asset allocation (SAA) plan to generate appropriate long-term returns. In other words, it can beat inflation while still keeping the Fund's risk level at an acceptable level. Currently, GPF has developed the concept of formulating an investment allocation plan under the investment environment. It adjusts the management process to be more flexible by categorizing securities that have qualifications to respond to each economic cycle into four groups:

- (1) Safety Assets
- (2) Diversifiers Assets
- (3) Inflation-Sensitive Assets
- (4) Growth Asset

It is imperative to determine the right balance between achieving long-term return targets and reducing the likelihood of some short-term negative returns. The investments aimed at long-term returns can cause high volatility in the short term. While too much focus on short-term positive returns can miss out on long-term targets. Therefore, the GPF has established a short-term risk statement and a long-term risk statement as a risk framework. It aims to be clear and apply the principles of risk budgeting management as a guideline for oversight of investment risks.

(c) GPF has developed a medium-term strategic asset allocation (MTAA) plan to allocate investments in each group of securities to cope with various economic cycles. It includes the recovery period, high economic growth period, high inflation period, and economic recession period. In addition, tactical asset allocation (TAA) is allocated as a tool to increase the chances of generating returns or reducing risks in the short term. It will help the GPF to allocate investments most efficiently.

(d) GPF establishes a member investments choice: MIC plan that allocates different investments to meet each member's different return targets and acceptable risk levels, including:

1) The EQ35 Plan is an investment plan that invests in different types of securities just like the core plan. But the EQ35 Plan has more investment in Equity Instruments than the core plan.

2) The Fix Income plan is a plan to invest only in securities that are or are related to deposits, debt instruments, and other financial transactions related to such securities.

3) The Money Market plan is a plan to invest only in securities that are or are related to deposits, debt instruments, and other financial transactions related to such securities with a maturity of not more than one year from the investment date.

4) The Life Path Plan is an investment plan containing the same securities types as the core plan. However, the investment ratio has been adjusted to increase the proportion of Bond instruments according to the membership's age. It will increase the opportunity to generate returns at a young age and focus on the stability of the capital fund during retirement.

4. Diversification

(1) GPF manages risks by considering all risks in all dimensions, not giving importance to one type of risk to neglecting another kind of risk. According to international risk management principles, risks are classified into three types: Risk of loss, Risk of not meeting the objective, and Risk of opportunity loss. These three types of risks will affect long-term investments.

(2) GPF manages investment risk by classifying financial risk as financial risk and clearly defines the definition of each sub-risk such as market risk, credit risk, liquidity risk, money and capital market mechanism risks, inflation risks, etc. It also provides systematic, effective, and efficient measures to manage each type of risk, for example, credit risk management by defining a credit risk control framework and investment limit, etc.

(3) GPF allocates some funds to external fund managers for administration. Diversifying investments' benefits reduce risk by allowing money and capital markets expertise to manage the funds. In addition, there is competition among

themselves which increases the efficiency of management, and it also provides opportunities for technology transfer between each other. Section 69 of the Government Pension Fund Act B.E. 2539(1996) empowers the Board of Directors to assign financial institutions or juristic persons specialized in investment to manage their investments. Currently, GPF allocates some funds to external fund managers to manage the capital fund at least 30% of the capital invested in Thai equity instruments. It may consider allocating the capital not more than 30 percent of the capital invested in domestic Bonds securities to an external fund manager for management. For overseas investments, GPF has mainly assigned external fund managers to manage.

5. Securities Price Adjustments

GPF regularly assesses the fair value of investment securities so that members know the correct value of their investments. The net asset value of the Fund must reflect the market price that is fair, standardized, and comparable. It also ensures fairness between new and former members who have retired. It shall be following the Ministerial Regulation stipulating the Fund's rules and money management methods. Regarding domestic investment, securities price adjustments must be under the accounting standards issued by the Federation of Accounting Professions to enforce the fund business. It adheres to the rules and procedures for adjusting the securities prices as prescribed by the Board. For overseas investments, the price adjustments for investment securities will follow international practice standards concerning the efficiency of risk control as a priority.

6. Investment Benchmark

The Investment Benchmark is a tool to measure the performance of a fund manager's investment and reflect the objectives of investing in various securities. For example, real estate is security for consistent good returns and can win inflation. GPF adheres to the following principles of investment benchmarks as follows:

(1) Determine the benchmark used to track the fund manager's performance by the invested securities. It enables members to compare the return of their investments to the annual performance goals of each fund manager or assess the fund manager's performance in the event of hiring a fund manager. For example, investing in stock market equity instruments might compare the investment performance with the stock market index to see if it performs better than its benchmark.

(2) Set a benchmark that reflects the investment's risk profile and aligns with the investment objectives set forth, as the benchmark is crucial to risk management.

Current Investments Benchmark

Securities group	Investments Benchmark
Safety Asset	
Thai Government Bonds	Thai BMA Government Bond Index 0-10 yr.
Global Government Bonds	Barclays Global Treasury Index
Diversifiers	
Thai Cooperate Bonds	Thai BMA Investment Grade Cooperate Bond Index(BBB+up)
Global Cooperate Bonds	Barclays Global Aggregate ex-Treasury Index
Inflation-Sensitive Assets	
Thai real estate	5-year historical average of TH CPI + 3%
Commodity	DJ UBS Commodities TR Index
Growth Assets	
Thai Equity	SET 50 Total Return Index
Developed Market Equity	MSCI World Total Return Index
Emerging Market Equity	MSCI Emerging Market Total Return Index

7. Disclosure of information

GPF shall disclose information following the following criteria:

(1) Disclose information about the Fund's operations to members accurately and entirely following the relevant standards within the time limit prescribed by law. The member can know the progress of the Fund's operations continuously, such as investment management results, rules, regulations, and policies.

(2) Publicize the rules for appointing representatives to attend and vote for the shareholders' meetings of companies in which GPF invests and voting guidelines, including quarterly results of voting exercises for general information on the GPF website. It aims to inform stakeholders of the results of the exercise of voting rights and the details of the important exercise of voting rights.

(3) Provide communication channels for members to receive both personal information and other news movements that members should have the opportunity to know in various forms. It covers GPF news, benefits, members' personal information, service notification of changing investment plans or increasing savings rates, etc. It provides members with information and news about GPF, corporate governance policies, investments, results of operations, financial positions, fund receipts, welfare services, and members' personal information. It also allows members to inquire about the operations of GPF through various channels such as the membership relations project, Multi-Channel Contact Center, GPF website (www.gpf.or.th), the Annual General Meeting of Member Representatives, etc. In addition, GPF has developed modern communication channels such as instant service, GPF web service via the internet, and GPF mobile application on iOS and Android operating systems. It allows members to receive information and conveniently use GPF's various services.