

KeyInvest Ltd

ABN 74 087 649 474

('KeyInvest')

Notice of restructure of the AFS Funeral Benefit Fund (Non-Assessable), AFS Funeral Benefit Fund (Taxable) and KeyInvest Funeral Bond Fund

31 March 2023

1. **Background**

- 1.1 This notice applies to members of:
- 1.1.1 the AFS Funeral Benefit Fund (Non-Assessable);
  - 1.1.2 the AFS Funeral Benefit Fund (Taxable),  
(together, the '**AFS Funds**'); and
  - 1.1.3 the KeyInvest Funeral Bond Fund (the '**KeyInvest Fund**').
- 1.2 On 22 December 2022, KeyInvest applied to the Australian Prudential Regulatory Authority ('**APRA**') to restructure the AFS Funds (currently administered by KeyInvest), such that all policies referable to the AFS Funds would instead become referable to the KeyInvest Fund (the '**Restructure**').
- 1.3 KeyInvest wishes to notify the members of the AFS Funds and the KeyInvest Fund that:
- 1.3.1 APRA approved the Restructure on 31 March 2023; and
  - 1.3.2 the Restructure will take effect on and from 31 March 2023 ('**Effective Date**').

2. **Reasons for Restructure**

- 2.1 On 31 October 2022, KeyInvest merged with Australian Friendly Society Ltd ABN 29 087 648 851 ('**AFS**') by way of a voluntary total transfer of business under the *Financial Sector (Transfer and Restructure) Act 1999* (Cth) (the '**Merger**'). In connection with the Merger, AFS transferred the benefit funds it administered (including the AFS Funds), and all assets and liabilities referable to those benefit funds, to KeyInvest.
- 2.2 Following the Merger, KeyInvest determined to undertake the Restructure because:
- 2.2.1 the AFS Funds were administered under a set of benefit fund rules that predated the Merger, separate and distinct from the KeyInvest benefit fund rules pursuant to which the KeyInvest Fund and other funds are administered; and

2.2.2 the AFS Funds were administered with their own investment management, custodian, accounting and reporting framework, separate and distinct from the existing framework operated by KeyInvest,

and consolidating the AFS Funds, through the Restructure, under the same set of benefit fund rules as applicable to the KeyInvest Fund and the existing framework operated by KeyInvest, would simplify administration of these benefit funds and reduce operational costs and inefficiencies.

### 3. Impact of Restructure

3.1 The Restructure affects the whole of each AFS Fund.

3.2 On the Effective Date:

3.2.1 the assets of each AFS Fund were transferred to the KeyInvest Fund; and

3.2.2 each member of the AFS Funds became a member of the KeyInvest Fund; and

3.2.3 all existing policies referable to the AFS Funds became referable to the KeyInvest Fund.

3.3 The Restructure does not result in any unfairness to members and owners of policies referable to the AFS Funds and KeyInvest Fund. In connection with the Restructure, the approved benefit fund rules of the KeyInvest Fund were amended (**'Amended Rules'**) to include transitional provisions that:

3.3.1 preserve and maintain the rights of each member of the AFS Funds upon becoming members of the KeyInvest Fund; and

3.3.2 modify the operation of the KeyInvest Fund (including in relation to product features) to ensure consistency with the historical operation of the AFS Funds.

3.4 There is a significant difference in practice between the benefit fund rules that were applicable to the AFS Funds before the Restructure and the Amended Rules in relation to the ranges of permitted investment allocations that applied under these respective rules. These differences include a higher permitted investment allocation to fixed interest, first registered mortgage and listed mortgage trust investment categories, which reflects KeyInvest's broader commercial strategy. Refer to the Appointed Actuary's report in respect of the Restructure (**'Actuary Report'**) for more information in relation to these changes.

3.5 A copy of the executive summary describing the changes in the Amended Rules (which was provided with the application to APRA) is available here: <https://keyinvest.com.au/wp-content/uploads/2023/04/Executive-Summary.pdf>.

3.6 KeyInvest will provide members with a copy of KeyInvest's constitution and the Amended Rules free of charge upon request.

3.7 KeyInvest's Appointed Actuary considered that the Restructure does not result in any unfairness to the members and owners of policies referable to the AFS Funds and

KeyInvest Fund. A summary of key extracts of the Actuary Report and a link to access a full copy are set out in the annexure to this notice.

4. For further information regarding the Restructure or any other KeyInvest products, please contact KeyInvest on 1300 658 904.

## Extracts of Actuary Report

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This annexure summarises key extracts of the Actuary Report. A full copy of the Actuary Report is available here: <https://keyinvest.com.au/wp-content/uploads/2023/04/Actuarial-Opinion-Restructure.pdf>

### 1. **Capital Guarantee**

*All benefit funds involved in the restructure are capital guaranteed funeral benefit funds whereby members' benefits are based on their accumulated account balances. As all benefit funds involved in the restructure include this capital guarantee, the restructure does not result in any unfairness to members.*

### 2. **Fees**

*The fee rates for the former AFS Funds' members are reflected in the Amended Rules. There is no change to the fee rates applicable to the KeyInvest Fund members or for new members who join the fund after the restructure. There is no unfairness to these members as a result of the restructure.*

### 3. **Investments**

*There are significant differences between the rules of the AFS Funds and the KeyInvest Fund relating to investments, as shown in Appendix A to the report. The impact of the change in rules on investments for AFS Funds' members are:*

- *a large reduction in allocation to term deposits;*
- *an increase in allocation to other asset sectors with a higher risk profile and, in practice, predominantly to mortgages and investment grade corporate debt; and*
- *the introduction of the use of derivatives for non-speculative investment.*

*The change in investments is expected to enhance returns to AFS Funds' members, with an increase in the expected volatility of returns as there is greater exposure to market movements. Given the long term nature of the liabilities, it is considered that the restructured fund and KeyInvest will be able to withstand the increased volatility of investment returns and that the proposed change to investments for AFS Funds' members does not result in unfairness to those members.*

### 4. **Financial position**

*There are significant differences in the financial position between the groups of members of the AFS Funds and KeyInvest Fund. To maintain equity between each group of members, the Amended Rules provide a mechanism such that KeyInvest maintains a separate revenue account for each group. As a result, there is no unfairness to members of any of the funds involved in the restructure.*

5. ***Other terms and conditions***

*Other rule changes that preserve existing provisions that existed in the benefit fund rules for the AFS Funds prior to the restructure are incorporated into the Amended Rules. These changes do not adversely affect the existing KeyInvest Fund members or new members, therefore there is no unfairness to existing or prospective members as a result of the proposed restructure.*