

**UFG Insurance**

**Investment Policy Statement**

**As of February 14, 2025**



## 1. Introduction

This Investment Policy Statement ("IPS") applies to United Fire Group, Inc., its subsidiaries and affiliates (as referenced in Appendix A) collectively referred to as the "Company," and individually as "Member Insurance Company," and establishes guidelines for the management of the external firm's investment portfolio (the "Portfolio").

## 2. Investment Philosophy

Insurance and investment risk are inextricably linked. Consequently, the assumption of risk in either area has a significant impact on the Company's ability to assume risk in the other. As a result, the IPS provides a framework to manage and adjust investment portfolio risk to accommodate present and future corporate insurance risk preferences. These guidelines apply on a consolidated basis unless stated otherwise.

The Company will manage its Portfolio so that at all times there are fixed income securities of adequate amount and duration to meet the cash requirements of current operations and longer-term liabilities. To the extent that there are funds available for investment beyond these requirements, the investment objective for such funds will be to maximize long-term risk adjusted return (ROE, using long-term economic capital target as denominator).

Investments are to be made in such a way as to reflect the investments of a prudently managed insurance company with a broad base of quality-oriented securities assuring the confidence of its policyholders and stakeholders. Additionally, it is important to consider environmental, social and governance (ESG) factors. Our investment manager integrates ESG factors, as well as other relevant considerations, in the monitoring, due diligence, and investment decision making process.

Portfolio management will be informed and governed by the following:

- **Asset allocation:** Target asset allocation will be informed by an annual enterprise optimization analysis that considers the Company's current and future insurance risk portfolio, return, and volatility objectives informed by enterprise risk appetite and capital management framework.
- **Compliance:** Compliance with the IPS will be reported quarterly.
- **Investment Policy Statement:** The IPS will be reviewed and approved at least annually by the Company's board Investment Committee. The Chief Financial Officer is responsible for the execution of this IPS. The Chief Financial Officer may recommend revisions of this IPS through a formal presentation at any quarterly Investment Committee meeting. The Investment Committee shall strive to provide a response to approve or disapprove proposed revisions no later than the next consecutive Investment Committee meeting.

### 3. Portfolio Characteristics

Portfolio assets shall be invested according to the following objectives:

- Regulatory: All investments must satisfy regulatory requirements under the Company's respective states of domicile.
- Liquidity: Maintain appropriate cash and fixed income assets to satisfy the cash requirements of current operations and longer-term obligations.
- Risk: Adjust investment risk to complement insurance risk based on annual modeling of enterprise risk- return profile.
- Return: Subject to the foregoing objectives and specific guidelines set forth below, maximize long-term risk adjusted return (ROE, using long-term economic capital target as denominator) while minimizing risk to near-term book value.
- Benchmark Portfolio: Bloomberg US Intermediate Aggregate.
- Duration: The consolidated portfolio duration range is +/- 1 year around the benchmark duration. The calculation is to include cash and cash equivalents.
- Quality: Consolidated average credit quality will be "A+" or better.
- Tax: Both federal income and state premium taxes will be considered in determining asset allocation.

The following are prohibited investments/transactions without prior approval of the Investment Committee. Additionally, applicable state regulations should be reviewed for eligibility prior to investing:

- Real Estate, Collateral Loans, Derivatives, Building Loans, Real Property, Participation Certificates, Wraparounds, Securities Lending, Repurchase/Reverse Repurchase Agreements, Dollar Roll transactions, Loans to Officers and Directors, Subsidiary Investing, and investments in Tangible Personal Property.

In aggregate, portfolio assets will be invested within the following allocation guidelines.

		% of Book Value of Invested Assets		
		<u>Max</u>	<u>Minimum Rating</u>	<u>Notes</u>
Fixed Income	Governments	100	AA	
	Agencies (debt and discount notes)	50	AA	
	Corporates (including Yankees)	50	BBB-	
	MBS/CMO/ABS/CMBS	45	See below	
	Agency MBS/CMO	30	AA	
	Non-Agency MBS/CMO	10	AAA	
	CMBS	10	AAA	
	ABS	15	AAA	(a)
	Tax Exempt Municipals	40	A-	(b)
	Taxable Municipals	20	A-	
	Foreign	20	BBB-	(d)
	144A Securities	30	See above	(e)
Equity	Private Placements	25	BBB-	(f)
Equity	Common Stock incl Mutual Funds/ETFs	15	N/A	
	Preferred Securities	10	BB-	(c)
Alternative	LP's, other alternative assets	15		(g)

## Notes

- (a) CLOs allowed up to 10%.
- (b) Capacity to be determined based on Company's profitability and tax position.
- (c) Preferred securities include preferred stocks, hybrid securities, and other subordinated instruments.
- (d) US dollar only.
- (e) Must be a Qualified Institutional Buyer (QIB).
- (f) *S&P, Moody's, Fitch, Kroll, DBRS, Morningstar, and the NAIC can be utilized for minimum rating purposes. Unrated securities are permitted at time of purchase, as long as the expectation is that the security will eventually get an NAIC rating of 1 or 2.*
- (g) Includes commercial mortgage loans

Beyond asset class allocations defined above, the following limitations on the amount of assets owned of any one issuer (except U.S. Government and U.S. Agency securities and pre-refunded municipals) at time of purchase is as follows using the lowest rating by Moody's, S&P or Fitch.

	<b>UFG Consolidated</b>	<b>Member Insurance Co.</b>	<b>UFG Consolidated</b>	<b>Member Insurance Co.</b>
	Aggregate Limit	Aggregate Limit	Per Issuer Limit	Per Issuer Limit
Ratings Constraints	(% of Admitted Assets)	(% of INSCO Admitted Assets)	(% of Surplus)	(% of INSCO Surplus)
AAA/Aaa	100%	100%	5%	5%
AA-/Aa3	100%	100%	4%	4%
A-/A3	40%	40%	3%	3%
BBB-/Baa3	20%	20%	2%	2%
Below Investment Grade	5%	5%	1%	1%
Common Stock	15%	15%	1%	1%

## **Notes**

Money market holding(s) are excluded from the per issuer limits.

No purchases of BB+ or below rated securities.

Excludes Agency MBS which are permitted at 5% per pool.

## 4. Statutory Guidelines

The limits set forth below are based on the Company's interpretation of each state's insurance regulations. These limits will be assigned to each entity indicated on a standalone basis.

### Iowa Statutory Guidelines (% of Admitted Assets, unless otherwise noted)

Entity: Addison Insurance Co., United Fire & Casualty Co., UFG Specialty Insurance Co.

	<u>Aggregate Limit</u>	<u>Per Issuer Limit</u>	<u>Per Country Limit</u>
Obligations of a Single Person (US & Canada) <sup>(a)</sup>		5%	
Below Investment Grade Securities (US and Canada)	5%		
Common Stock, Convertibles, Mutual Funds, Preferred Stock (US and Canada)	100% *	10%*	
International Development Banks	10%	5%	
Foreign Government Obligations (excl Canada)			2%
Foreign Corporate Obligations (excl Canada)			2%
Common Stock, Convertibles, Mutual Funds, Preferred Stock (Foreign)			2%
Foreign Investments (excl Canada) **	20%		
United Kingdom Obligations	4%		
Limited Partnerships	10%*	2%*	
Venture Capital Funds	5%*		
Real Estate (all types)	25%		
Real Estate (Income-Producing)	10%		
Leeway Basket	5%		

(a) excludes US Treasury, US agencies (debentures, MBS, CMO, CMBS)

\* % of Surplus

\*\* No limit on investments in a foreign country if backing business in that country

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## California Statutory Guidelines (% of Admitted Assets, unless otherwise noted)

Entity: Financial Pacific

	Aggregate <u>Limit</u>	Per Issuer <u>Limit</u>	Per Country/ <u>State Limit</u>
International Development Banks <sup>(a)</sup>	25%*		
International Development Banks <sup>(a)</sup>	2.5%		
Foreign (excl Canada) <sup>(b)</sup>	5%		
Foreign in country with sovereign debt rating of SVO 1			10%
Foreign in country with sovereign debt rating of SVO 2 or below			3%
Investments denominated in Foreign currency <sup>(c)</sup>	3%		3%
Canadian Corporates	10%*		
Investment Companies (Mutual Funds, ETFs)	25%	3% <sup>(d)</sup>	
Investment Companies (Mutual Funds, ETFs)	100%*		
Money Market Funds	25%	10%	
Participation Certificate	4%		
NAIC 3 and below	20%	1%	
NAIC 4 and below	10%	0.5%	
NAIC 5 and below	3%		
NAIC 6	1%		
Common and Preferred Stock		10%	

(a) the lesser of 25% of surplus or 2.5% of admitted assets

(b) limit increases to 20% of admitted assets if entities admitted assets > \$500mm

(c) limit increases to 10% of admitted assets if entities admitted assets > \$500mm

(d) 3% limit in one fund and a 7% limit on an affiliated group of funds

\* % of Surplus

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## Louisiana Statutory Guidelines (% of Admitted Assets, unless otherwise noted)

Entity: Lafayette

	<u>Aggregate Limit</u>	<u>Per Issuer Limit</u>	<u>Per Country/ State Limit</u>
Obligations of a Single Person <sup>(a)</sup>		5%	
Non-Agency RMBS and Real Estate	45%	10%	
Asset-Backed and Commercial-Mortgage-Backed Securities <sup>(b)</sup>		5%	
Preferred Stock <sup>(c)</sup>	25%	3%	
Foreign Investments (excl Canada)	20%		
Foreign (excl Canada) in country with sovereign debt rating of SVO 1			10%
Foreign (excl Canada) in country with sovereign debt rating of < SVO 1			5%
Foreign (excl Canada) Government Obligation if OECD member and rated SVO 1			5%
Investments denominated in foreign currency	10%		
Investments denominated in foreign currency (sovereign debt rating of SVO 1)			10%
Investments denominated in foreign currency (sovereign debt rating of < SVO 1)			3%
Canadian Government Obligations (incl Provinces)	40%		
Canadian Corporates	25%		
International Development Banks		10%	
Common Stock (excl Mutual Funds and ETFs) on qualified exchange	50%		
Common Stock (excl Mutual Funds and ETFs) not on qualified exchange	5%		
Mutual Funds and ETFs <sup>(d)</sup>	50%	10%	
Mutual Funds and ETFs <sup>(d)</sup>	100%*	10%	
Venture or Seed Capital Investments	1%	0.1%	
Short Term Investment Pool	25%	10%	

(a) excludes US Treasury, US agencies (debentures, MBS, CMO, CMBS), State GOs, Listed Bond Funds

(b) must be rated NAIC 1 or 2. Per issuer limit is based on a single deal or Master Trust

(c) If not a US issuer, must be listed on a qualified exchange

(d) Greater of 50% of admitted assets or 100% of surplus



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## New Jersey Statutory Guidelines (% of Admitted Assets, unless otherwise noted)

Entity: Mercer Insurance Company of New Jersey

	<u>Aggregate Limit</u>	<u>Per Issuer Limit</u>	<u>Per Country/ State Limit</u>
Obligations of a Single Person <sup>(a)</sup>		5%	
Foreign Investments (excl Canada)	20%		10%
Foreign (excl Canada) in country with sovereign debt rating of < SVO 2	3%		
Common Stock	15%	2%	
Leeway Clause	10%		
Real Estate	10%		
Mortgage Loans	60%	2%	

(a) excludes US Treasury, US agencies (debentures, MBS, CMO, CMBS)

## Pennsylvania Statutory Guidelines (% of Admitted Assets, unless otherwise noted)

Entity: Mercer Insurance, Franklin Insurance

	<u>Aggregate Limit</u>	<u>Per Issuer Limit</u>	<u>Per Country/ State Limit</u>
Obligations of a Single Person		10%	

## Texas Statutory Guidelines\*\* (% of Admitted Assets, unless otherwise noted)

Entity: United Fire & Indemnity, United Fire Lloyds

	Aggregate <u>Limit</u>	Per Issuer <u>Limit</u>	Per Country/ <u>State Limit</u>
Obligations of a Single Issuer/Borrower <sup>(a)</sup>		5%	
Savings Deposits, Time Deposits, CDs, NOW Accounts, Money Market Accounts <sup>(b)</sup>		20%*	
Foreigns (excl Canada) <sup>(c)</sup>	20%		
Foreign Corporates (excl Canada) <sup>(c)</sup>	10%		
Foreign in country with sovereign debt rating of SVO 2 or above			10%
Foreign in country with sovereign debt rating of SVO 3 or below			5%
Mutual Funds		15%*	
Common Stock of US National or State Bank <sup>(d)</sup>		35%	
Leeway Clause	5%	5%*	
Limited Partnerships			

(a) excludes Treasuries, Agency Debentures, Agency MBS/CMO, TX Munis)

(b) limit of 20% per bank

(c) all foreign securities must be rated NAIC 1 or 2

(d) if UFG entity owns 35% of the outstanding stock, no other UFG entity can invest in the bank's remaining stock

\* % of Surplus

\*\* all limits are at Time of Purchase

## 5. Glossary

### Rating System

#### Fixed Income Investments

<u>NAIC Class</u>	<u>Description</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
1*	Highest Quality	Aaa; Aa 1,2,3; A 1,2,3	AAA, AA+, AA, AA-, A+, A, A-
2*	High Quality	Baa 1,2,3	BBB+, BBB, BBB-
3	Medium Quality	Ba 1,2,3	BB+, BB, BB-
4	Low Quality	B 1,2,3,	B+, B, B-
5	Lowest Quality	Caa 1,2,3; Ca, C	CCC+, CCC, CCC-, CC, C
6	In or near default	Caa 1,2,3; Ca, C	C, D

#### Commercial Paper

<u>NAIC Class</u>	<u>Description</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
1*	Highest Quality	P-1	A1+, A-1

\* *Investment Grade Quality*

### Member insurance companies of United Fire Group

<u>Company Name</u>	<u>NAIC #</u>	<u>Registered Office</u>	<u>Domicile State</u>
United Fire & Casualty Company (UFC)	0248-13021	Cedar Rapids	Iowa
Addison Insurance Company (ADD)	0248-10324	Cedar Rapids	Iowa
Lafayette Insurance Company (LAF)	0248-18295	Metairie	Louisiana
United Fire & Indemnity Company (UFI)	0248-19496	Webster	Texas
United Fire Lloyds (UFL)	0248-43559	Webster	Texas
Mercer Insurance Company (MIC)	0248-14478	Harrisburg	Pennsylvania
Mercer Insurance Company of New Jersey, Inc. (MNJ)	0248-43540	Pennington	New Jersey
Franklin Insurance Company (FIC)	0248-10728	Harrisburg	Pennsylvania
Financial Pacific Insurance Company (FPIC)	0248-31453	Rocklin	California
UFG Specialty Insurance Company (TGI)	0248-19526	Cedar Rapids	Iowa