

University of Cape Town Retirement Fund

Investment Policy Statement

Effective date: 1 Sept. 2005 as revised 2/2007, 11/2008, 4/2010, 10/2010, 07/2011, 07/2012, 04/2013, 07/2013, 11/2015, 06/2017, 07/2018, 11/2020, 07/2022, 07/2023, 07/2024 and 07/2025.

Glossary of terms

B-BBEE	Broad-Based Black Economic Empowerment
Capital market assumptions	The capital market consists of the share (or equity), bond and cash markets, both in South Africa and offshore. These markets will deliver a return, which commonly can be measured by an index (e.g. the <u>FTSE/JSE</u> Capped All Share Index for SA equities). Investment managers may be able to improve the returns from capital markets if they are skillful.
CPI (Consumer Price Index)	With effect from January 2013, headline inflation is represented by CPI for All Urban Areas (Base December 2012 = 100,0) as published from time to time by Statistics SA.
ESG	Environmental, Social and Governance - is a 3-pillar framework that helps stakeholders understand how a company is managed and conducts its business through corporate governance policies as well as the environmental and societal impacts of its operations.
FTSE	Financial Times Stock Exchange. The FTSE group was originally a joint venture between the Financial Times newspaper and the London Stock Exchange to create and manage financial indices.
Fund	University of Cape Town Retirement Fund
Retirement Savings	The total money contributed since joining the <u>Fund</u> minus costs, plus investment returns earned.
JSE	Johannesburg Stock Exchange. South Africa's primary securities exchange and the largest on the African continent, facilitating the buying and selling of financial instruments such as shares within a regulated and

secure platform.

IPS

Investment Policy Statement

Market Capitalization

The price of a particular security multiplied by the number of shares in issue. A market capitalization index is calculated by adding each constituent's market capitalization to the index. A "free-float" market capitalization index is calculated by excluding any part of a company's market capitalization deemed to represent shares not available for trade (i.e. "strategic investments" in the company held by certain investors, e.g. the controlling shareholders of family-owned businesses).

Peer Group

The investment return earned by the typical retirement scheme usually measured as a "global balanced mandate" in published investment surveys.

1. Preamble

The Fund is a defined contribution provident fund, which exists primarily to provide members with reasonable and competitive retirement benefits.

The Fund/Employer also provides death, funeral and disability benefits via insurance arrangements.

The contribution to the Fund is elected by the members with a contribution rate of between 12% and 40% of Cost of Employment (CoE) and members may also select an approved death benefit of between 1x and 5x CoE. The premiums for this benefit, as well as the compulsory unapproved death and capital disability cover, the income disability cover and the optional funeral cover are all deducted from the members contribution prior to investment.

At retirement the member may elect to apply the benefit received to secure a pension from an Insurer in their own name or a living annuity from the Fund or from an external provider (in which case the member takes on the investment and mortality risk/reward). Alternatively, the member may receive part of the retirement benefit in cash, the amount of which depends on whether the member joined before or after 1 March 2021 and how much they had saved prior to September 2024.

With the introduction of retirement reforms from September 2024 and specifically the “Two-Pot” system, members’ contributions from the 1st of September 2024 onwards will be allocated one-third to a savings pot, which members can access on an annual basis and two-thirds to a retirement pot, which will have to be preserved until retirement and then converted into a pension.

Members’ vested benefits prior to 1 September 2024 will remain.

A glossary of terms is included at the end of the Statement. – terms that are explained in the glossary are underlined and in italics when they first appear in the text.

2. Purpose and objective of the Fund

The Fund's purpose is to safeguard members’ Retirement Savings, to aim for a sustainable level of real investment growth, commensurate with appropriate (moderate) risk taking, and to do so on a cost-effective basis (aligned to “wholesale” investment fees and costs).

The Fund's primary investment objective is to achieve sustainable returns over measurement periods of (generally) 7 years and longer, that exceed inflation by a margin that is commensurate with the risk profile of the investment portfolio available to the member. This implies that the Fund's different investment portfolios may have different objectives, since they will have different levels of risk.

3. Investment philosophy

The Trustees believe that over extended measurement periods (typically 7 years and longer) investment markets are efficient and so the price of a traded asset is the most accurate indication of its underlying value.

However, over shorter time frames investment markets may be materially inefficient resulting in **big and non-random disparities** which cause the price of an asset to deviate from its underlying value. Such mispricings arise *inter alia* from:

- (a) Many investors tend to adopt too short an investment horizon, which results in decision-making based largely on forecasting (which is notoriously difficult to get right consistently).
- (b) Many investors are over-confident of their abilities and will use short term results (which may be random or fashion driven) to predict long term trends.
- (c) Many investors are subject to agent/principal conflicts. For example, an investment manager will invest close to the benchmark as this minimizes the risk of under-performing the Peer Group (and ensures job preservation).
- (d) Some investment managers are so large that they are unable to exploit the full opportunity set, thus leaving opportunities for their smaller competitors.

If markets are efficient over the long term, it follows that an intelligent and patient investor can earn superior returns over the long term by exploiting these short-term mis-pricings.

No investment approach is necessarily superior to another and accordingly the Fund will invest with a number of investment managers in order to diversify risks by investment approach, e.g. value, growth, momentum and quality investment styles.

Although the Trustees believe that there is the scope to add value via the active management approach, as characterized above, for most (but not all) asset classes, this belief is founded on the assumption that one can identify skillful investment managers on a consistent basis with a high degree of confidence. Markets have evolved over time. Information and analytical advantages that may have existed for active investment managers in the past may not be true going forward with the rise of automation and machine learning. The Fund may consider adopting a passive investment approach or combine both active and passive management, taking account of investment cost considerations and a view on market efficiency (for that relevant asset class) as well as other factors.

The Trustees believe in the benefits of diversification and that the risk of poor investment outcomes can be mitigated by allocating the investments of the Fund between different asset classes. Further diversification is also achieved within more risky asset classes by allocating the assets to more than one investment manager, being cognisant of the risk of over-diversification.

The Trustees accept that, in order to make provision towards retirement, a member needs to earn a reasonable return compared to inflation on their retirement savings. The success of the investment strategy will therefore primarily be measured relative to inflation as opposed to the performance of the Peer Group.

The *Fund's* philosophy as regards **Responsible Investing** ("RI") is set out in Annexure 1 to this document.

4. Investment choice programme

The *Fund* offers member investment choice, with a life stage model (see paragraph 5) available for those members that don't wish to exercise such a choice.

The table below sets out the "top line" features of the three portfolios offered:

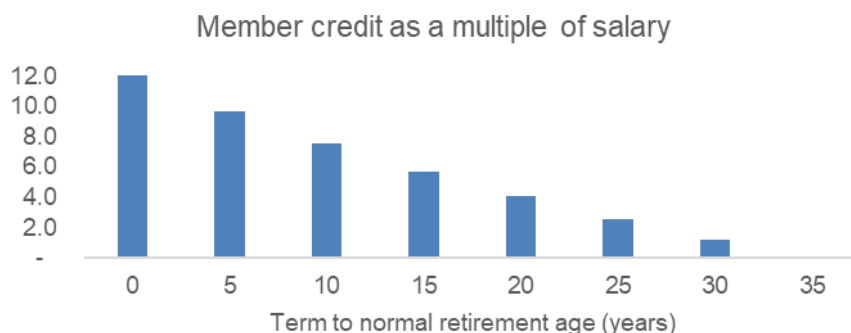
Portfolio	Investment objective	Investment horizon	Broad strategy
Balanced Portfolio	5% p.a. (net of costs and taxes) above <u>CPI</u> over rolling 7 years	7 years +	Assets such as equities offer the best inflation protection and real return prospects <i>over the long term</i> , and investors with a long time horizon can expect to be compensated via higher real returns for the volatility risk associated with such investments. Markets are inefficient over short measurement periods, but tend towards efficiency over the long term, thus providing the long-term active investor with the opportunity to earn superior returns.
Capital Preservation Portfolio	1% - 3% p.a. (net of costs and taxes) above <u>CPI</u> over any 12-month period, with minimal risk of capital loss over the same period. For performance measurement purposes, the target will be 2% (net of costs and taxes) above <u>CPI</u> over any 12-month period.	0 – 2 years	The portfolio will be invested in money market and primarily fixed income instruments with high credit quality, being the best way to deliver positive returns with minimal risk of capital loss over any 12-month period <i>for those investors with a short time horizon and/or who have a very low appetite for volatility and capital risk</i> . In order to increase the likelihood of achieving real returns and/or preserving capital, the portfolio has the ability to include other asset classes or strategies such as smooth bonus funds and, to a limited extent, hedged equity or offshore asset classes. It is possible to achieve negative returns on a monthly basis but generally, the portfolio targets positive returns over any 12-month period.

Shari'ah Compliant Balanced Portfolio – introduced w.e.f. 1 April 2010	4% p.a. (net of costs and taxes) above <u>CPI</u> over rolling 5 years	5 years +	The portfolio will be invested in a balanced, Shari'ah compliant product with a medium equity / moderate risk profile. The underlying portfolio will be weighted slightly towards Shari'ah compliant equities relative to Islamic bonds and similar instruments and aims to be suitable for investors with a medium time horizon.
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- The member has the flexibility to invest their Retirement Savings in the Fund in any combination of these portfolios. In addition, an active member may choose to invest their existing Retirement Savings in the Fund and future contributions differently. Similarly, an in-fund living annuitant may also choose to invest their existing Retirement Savings in the Fund in a different portfolio relative to the portfolio that will be used to fund their drawdowns.
- Investment switches are permitted at any time, but a fee is levied if there is more than one switch in a financial year. Members should refer to the Fund rules for further information on switches. Where discrepancies arise between the IPS and the rules, the rules will apply.

5. Life Stage model

- The reason the Fund has a Life Stage model is that the Trustees recognize that the majority of members are uncertain in relation to investments appropriate to their age and/or time horizon.
- The Life Stage model is designed around the assumed liability profile of a defined contribution (DC) member, which is shown in the diagram below:



Thus, when a member is a long way from retirement, the key risk is inflation. At this time the member has relatively little money in the Fund and the impact of negative returns, in Rand terms, is less.

As the member gets closer to retirement (deemed to be the point at which the member will “consume” their Retirement Savings in the Fund), capital preservation becomes more important. At this time the member has the most money in the Fund and the impact of negative returns, in Rand terms, is largest. However, the Fund is also cognisant that any returns greater than expected at this point could significantly reduce the probability of exhausting the member’s savings during retirement.

- Given the above liability profile and the fact that the Fund has information about the member’s period to normal retirement date, the Life Stage model simply varies the member’s investment strategy according to the period to retirement. The life stage model assumes that members retire at 31 December of the year in which the member reaches the age of 65.
- The Life Stage model involves investing the Retirement Savings in the Fund of members younger than 59 in the Balanced Portfolio and then automatically switching the member’s Fund balance into a lower risk portfolio from age 59 onwards. The lower risk portfolio is the Capital Preservation Portfolio.
- The member’s Retirement Savings will be invested according to the Life Stage model unless they make a positive election to invest their money otherwise.
- The table sets out the Life Stage model based on retirement age of 65 with effect from 1 July 2026. This model will apply to pre-retirement members who choose the Life Stage model or are defaulted to the Life Stage model. Members cannot split their existing Retirement Savings in the Fund between the Life Stage model and other options i.e. they are either 100% in the Life Stage model or they elect to make their own investment choices from the investment portfolios available.

AGE*	Rebalance by 1.25% per month per below
Up to the year in which you turn 59	100% Balanced Portfolio
By the year in which you turn 60	85% Balanced Portfolio 15% Capital Preservation Portfolio
By the year in which you turn 61	70% Balanced Portfolio 30% Capital Preservation Portfolio
By the year in which you turn 62	55% Balanced Portfolio 45% Capital Preservation Portfolio
By the year in which you turn 63	40% Balanced Portfolio 60% Capital Preservation Portfolio
By the year in which you turn 64	25% Balanced Portfolio 75% Capital Preservation Portfolio

- The Life Stage model makes three important assumptions, namely the member:

- invests for their ultimate retirement date of the end of the year in which they reach age 65 (rather than for life expectancy);
- requires greater capital preservation from age 59 to 65;
- has “above average risk aversion”, meaning that they vary their risk appetite around their retirement age.

6. Balanced Portfolio

- Portfolio overview

The Balanced Portfolio is primarily a market-linked portfolio with a relatively high exposure to growth assets, which aims to provide a reasonable return relative to inflation over the long term (measurement periods of at least 7 years).

The portfolio can be expected to deliver a negative return over short measurement periods (e.g. 1 year) from time to time.

- Investment objective

The Balanced Portfolio aims to deliver 5% p.a. (net of investment fees and expenses) above inflation as represented by CPI over any rolling 7-year period. This is the primary target of the Balanced Portfolio. The secondary target of the Balanced Portfolio is the median of the AF Large Manager Watch, which is an industry survey of institutional managers.

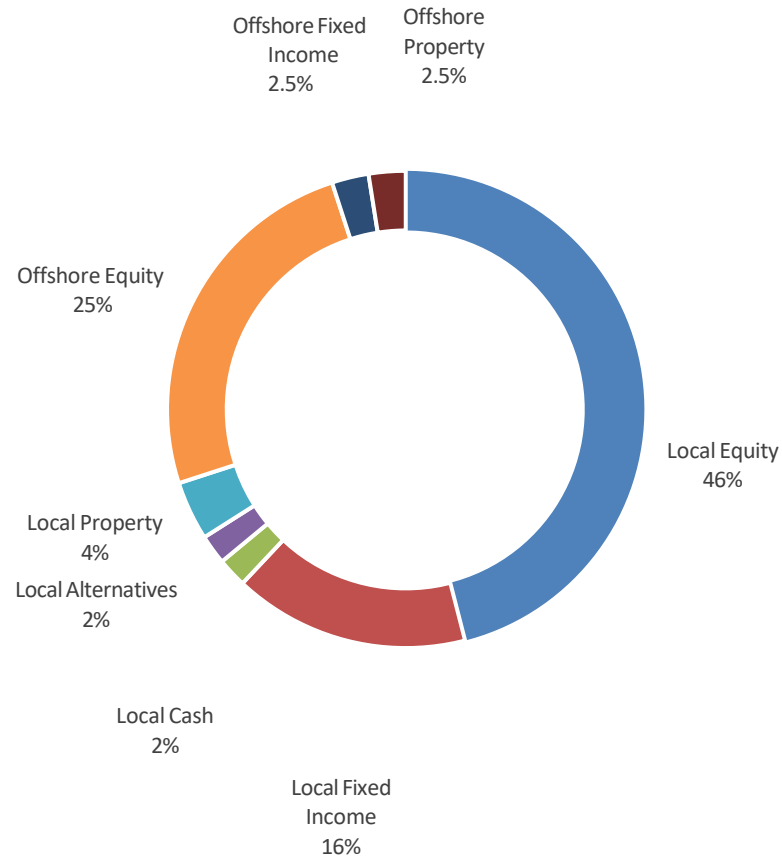
- Risk constraints

Based on the long-term capital market assumptions, the Balanced Portfolio targets a risk constraint that the probability of the return being less than inflation over any rolling 7-year period is less than 10%.

- Asset allocation

In 2022, the Fund adopted a hybrid approach for the Balanced Portfolio, which includes balanced and specialist mandates. As a result, the strategic asset allocation of the Balanced Portfolio is less relevant, given that global balanced managers may adjust their asset allocation according to their best views and judgement. At market extremes (e.g. when the market is judged to be either very expensive or cheap by historical measures) or during a transition period, as determined by the Investment Committee, the Portfolio may adopt an asset allocation outside the strategic range.

The strategic asset allocation of the portfolio is shown in the chart below (the strategic asset allocation in respect of the offshore investments is shown on a look-through basis):



Variation to the asset allocation:

- In general, the Balanced Portfolio will re-balance back to its strategic asset allocation using pre-defined rules unless otherwise decided by the Investment Committee. In this regard the following parameters apply:

<u>Asset class</u>	<u>Strategic allocation</u>	<u>Permissible range</u>
<u>Local Equity</u>	<u>46%</u>	<u>30% - 65%</u>
<u>Local Fixed Income</u>	<u>16%</u>	<u>10% - 22%</u>
<u>Local Cash</u>	<u>2%</u>	<u>0% - 5%</u>
<u>Local Alternatives</u>	<u>2%</u>	<u>0% - 5%</u>
<u>Local Property</u>	<u>4%</u>	<u>3% - 6%</u>
<u>Local Commodities</u>	<u>0%</u>	<u>0% - 5%</u>
<u>Offshore investments</u>	<u>30%</u>	<u>20.0% - 45.0%*</u>
<u>Offshore Equity</u>	<u>25%</u>	<u>10% - 45%</u>
<u>Offshore Fixed Income</u>	<u>2.5%</u>	<u>0% - 10%</u>
<u>Offshore Cash</u>	<u>0%</u>	<u>0% - 10%</u>
<u>Offshore Property</u>	<u>2.5%</u>	<u>0% - 10%</u>
<u>Offshore Commodities</u>	<u>0%</u>	<u>0% - 5%</u>

* Rebalancing to the underlying components of the foreign exposure (international equities and international balanced) will be carried out if the exposure to these components moves outside the ranges indicated unless otherwise decided by the Investment Committee.

- By arrangement with the administrator, cashflows into and out of the Balanced Portfolio will be directed to / withdrawn from the Local Cash portfolio (where liquidity is greatest)². Where possible, member switches between the Balanced and Capital Preservation portfolios will be facilitated through unit switches of the Income fund to avoid unnecessary cash flows. The investment consultant will check on a monthly basis whether any of the asset-class limits have been exceeded and, if so, will prepare a switch instruction to be signed by the Fund to rebalance the Balanced Portfolio. The consultant will apply judgment in this regard - typically, since rebalancing will require disinvesting from one portfolio and investing in another, the rebalancing will not be to the midpoint of the strategic range but will be to a point approximately half-way between the midpoint and the limit that has been exceeded, as this is generally regarded as a more efficient way to rebalance.

² Currently (2023 onwards) the Prescient SA Income portfolio is used for liquidity purposes.

- Investment approach
 - The portfolio will use a combination of specialist investment managers for individual asset classes, as well as balanced funds, while hybrid approaches may be considered from time to time.
 - In awarding mandates to SA bond managers, the Trustees will allow the managers significant freedom to invest in cash and short-dated instruments (i.e. to take a very short duration position) where possible, while continuing to measure performance relative to the bond market as represented by the All Bond Index. This allows the managers significant scope to express a short- or longer-term view that investors are not being compensated for taking on interest rate risk - the Trustees regard this as consistent with an overall *intrinsic value* investment philosophy.
 - The intention of the Trustees is to diversify global equity exposure with an allocation to global fixed-income assets and global listed property assets.
- Probability of achieving investment objective

Based on long-term capital market assumptions, there is about a 60% to 70% probability of the portfolio achieving the stated investment objective consistent with the risk constraints.

7. Capital Preservation Portfolio

- Portfolio overview

The Capital Preservation Portfolio aims to provide a return that is in excess of that available from short-term interest rate instruments. The portfolio will invest into money market and predominantly bond instruments of high credit quality where the duration will not exceed 3 years (excluding government bonds), to limit the risk of capital loss. To increase the likelihood of achieving real returns and preserving the purchasing power of capital, the portfolio has the ability to include other asset classes or strategies such as smooth bonus funds and, to a limited extent, hedged equity or offshore asset classes. It is possible to achieve negative returns on a monthly basis but generally, the portfolio targets positive returns over any 12-month period.
- Investment objective

The aim of the Capital Preservation Portfolio is to deliver investment performance that exceeds CPI by 1% - 3% p.a. after allowing for manager fees.
- Risk constraints

The Capital Preservation Portfolio may hold RSA bonds and money market instruments where the weighted duration will not exceed 3 years, excluding government bonds where utilised.

The modified duration of the Capital Preservation Portfolio will not deviate from that

of the benchmark by more than 4 years.

Exposure to any single Bank is limited to 25%.

Up to 15% may be invested offshore.

Possible reasons for a capital loss include:

- failure of one of the institutions where money is invested; and / or
- a significant increase in short-term interest rates, resulting in mark-to-market capital losses on instruments that have duration of 12 months and longer.

8. Shari'ah Compliant Balanced Portfolio

- Portfolio overview

The Shari'ah Compliant Balanced Portfolio is a market related portfolio that complies with Shari'ah law and is externally managed by a multi-manager.

The key feature of the Shari'ah Compliant Balanced Portfolio is that it adheres to the following Shari'ah principles:

1. The ban on interest: Interest must not be charged or paid on any financial transaction, as interest is deemed unlawful by Shari'ah.
2. The ban on financing certain economic sectors: Companies involved in the following activities are not Shari'ah compliant:
 - Conventional financial services;
 - Alcohol and tobacco;
 - Non-halaal food production or processing activities;
 - Entertainment (casinos, gambling and pornography);
 - Weapons and arms manufacturing.

The portfolio can be expected to deliver a negative return over short measurement periods (e.g. 1 year) from time to time.

- Investment objective

The Shari'ah Compliant Balanced Portfolio aims to deliver 4% p.a. (net of investment fees and expenses) above CPI over any rolling 5-year period.

- Risk constraints

The level of market risk taken by the Shari'ah Compliant Balanced Portfolio is largely in line with that of the Balanced Portfolio but can change at the discretion of the multi-manager.

- Asset allocation

The Shari'ah Compliant Balanced Portfolio will be invested primarily in a balanced, Shari'ah compliant investment product.

9. Default investment portfolio/s

- Regulation 37 (1) of the Pension Funds Act, 1956 states that retirement funds must have a default investment portfolio/s for members in the Fund.
- The default investment portfolio for active members is the Life Stage model. Full details are set out in section 5.
- Members who remain members of the Fund on leaving service and ceasing contributions, will remain in the investment portfolio or investment strategy in which they are invested at the time that they become paid-up members or phased retirees unless such members elect different portfolio options at a later stage. To avoid confusion, this means that if these categories of members are invested in the Life Stage model, then they will follow the transition phases of the Life Stage model until their Normal Retirement Age in the Fund.

10. Benchmarks

- The table below sets out the benchmark per asset class for the Balanced and Capital Preservation Portfolios – for SA and global equities, a “free float” Market Capitalization index is used.

Asset class	Benchmark
SA equities	<u>FTSE / JSE</u> Capped All Share – total return index
SA bonds	<u>JSE</u> All Bond Index (ALBI)
SA listed property	<u>JSE</u> All Property Index (ALPI)
SA money market	STEFI Composite Index
Global equities (Developed world Market)	Morgan Stanley Capital International (MSCI) World Equity Index – total return index
Global equities (Emerging Market)	MSCI Emerging Market Equity Index – total return index
Global bonds	<u>FTSE</u> World Government Bond Index (unhedged)
Global listed property	<u>FTSE</u> European Public Real Estate Association (EPRA) / National Association of Real Estate Investment Trusts (NAREIT) Global Index (unhedged)

- The table below sets out the benchmark per asset class for the Shari'ah Compliant Balanced Portfolio – for SA and global equities, a “free float” Market Capitalization index is used. The Trustees recognise that this benchmark is only for comparison of performance and should not be published for information to members.

Asset class	Weight	Benchmark
SA equities	38%	Average of SA Shari'ah General Equity Funds.
SA money market	31%	STEFI Composite Index - there is no suitable Shari'ah compliant index for the sukuku in which the <u>Fund</u> is invested
Commodities	5%	NewPlat Exchange Traded Fund – linked to the platinum price
Global equities	19%	MSCI World Islamic Index Net– total return index
Global bonds	5%	Dow Jones Global Sukuk Index – total return index
Global listed property	2%	<u>FTSE</u> EPRA/NAREIT Global Real Estate

In this case a composite benchmark will be calculated, and rebalanced monthly.

11. Mandate restrictions

Note that the intention is to avoid imposing excessively restrictive requirements on the Fund and its investment manager portfolios, where in practice the Trustees may be willing to relax these for specific investments.

- This section deals with the principal risk areas the Trustees will seek to control – the specific limitations and conditions will be detailed in the agreements with the appointed investment managers.

Before entering into an agreement to invest in a particular investment, the Trustees will perform (or require their mandated investment managers to perform) a due diligence of the investment, taking into account the risks relevant to the investment including, but not limited to, credit, market and liquidity risks, and where relevant risk relevant to a foreign (offshore) investment including but not limited to country and currency risk, as well as operational risks for assets not listed on an exchange. “Operational risk” is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Similarly, the Trustees or their mandated investment managers will consider any factor which may materially affect the sustainable long-term performance of the asset including, but not limited to, those of an ESG character as per Regulation 28 of the Pension Fund Act and the FSCA’s Notice on Sustainability of Investments.

- SA equities and listed property

The mandate given to the investment managers that manage the SA equity and

SA listed property classes on behalf of the Fund should generally include restrictions on:

- the maximum deviation from the benchmark;
- use of borrowing (leverage) where applicable;
- use of derivatives;
- minimum liquidity of the portfolio;
- holdings where the investment manager holds more than 25% of the issued share capital of the company across its entire client base;
- investment in the shares of the investment manager and its associated companies;
- scrip lending;
- investment in unlisted securities;
- underwriting of new issues.

- SA bonds and money-market portfolios

The mandate given to the investment managers that manage the SA bond and money-market asset classes on behalf of the Fund should generally include restrictions on:

- the maximum deviation from the benchmark;
- use of derivatives;
- use of borrowings (or leverage) where applicable;
- minimum liquidity of the portfolio;
- investment in unlisted debt instruments;
- credit quality;
- deviation (in years) from the modified duration of the benchmark;
- investment in the instruments of the investment manager and its associated companies;
- scrip lending;
- underwriting of new issues.

- Global equities and global listed property

The Fund's investment in offshore equities and listed property will be via pooled arrangements, which include collective investment schemes such as Undertakings for the Collective Investment in Transferable Securities (UCITS) funds, life policies or other acceptable forms of pooling.

The consequence of this is that the Fund can only rely on the risk constraints and limitations set out in the Prospectus of the relevant pooled fund, rather than impose its own set of requirements on the investment manager. The Fund will require that, *inter alia*, the following matters are covered in the prospectus, or will otherwise

engage with the relevant investment managers or the investment consultant to ensure that these issues will be dealt with in the management of the pooled fund in a way that is acceptable to the Fund:

- maximum exposure to emerging and frontier markets;
 - restrictions on the exchanges in which the manager may deal;
 - restrictions on investment in unlisted securities;
 - maximum exposure to any one Company (this may vary by Market Capitalization);
 - maximum exposure to a particular country (or geographic region) for a non-regional product;
 - maximum exposure to a particular industry or sector;
 - maximum exposure to a particular currency for a non-regional product;
 - restrictions on the use of borrowings (or leverage) where applicable;
 - restrictions on the use of derivatives;
 - restrictions on scrip lending (including restrictions on counter-party risk).
- Global bonds

The Fund's investment in global bonds will be via pooled funds.

The consequence of this is that the Fund can only rely on the risk constraints and limitations set out in the Prospectus of the relevant pooled fund, rather than impose its own set of requirements on the investment manager. The Fund will require that *inter alia* the following matters are covered in the prospectus, or will otherwise engage with the relevant investment managers or the investment consultant to ensure that these issues will be dealt with in the management of the pooled fund in a way that is acceptable to the Fund:

- maximum exposure to emerging and frontier markets;
- restrictions on the exchanges in which the manager may deal;
- limitations on credit risk;
- deviation (in years) from the modified duration of the benchmark;
- maximum exposure to a particular country;
- maximum exposure to a particular industry or sector;
- use of borrowings (or leverage) where applicable;
- maximum exposure to a particular currency;
- restrictions on the use of derivatives;
- restrictions on scrip lending (including restrictions on counter-party risk).

12. Decision making framework

- In 2021, the Trustees adopted a decision-making framework to better comply with Regulation 28, the IPS and the Fund's Critical Success Factors. The Trustees agreed on 6 factors / priorities, which will be considered as part of its decision-making framework, which are set out below in order of importance:
 1. achieve CPI return targets consistently (using the middle net replacement ratio return scenario);
 2. consider governance risks, in particular the risk of corruption;
 3. consider social risks, in particular income inequality and issues such as B-BBEE;
 4. optimise costs;
 5. manage risks;
 6. consider environmental risks, in particular climate change.
- The six factors were informed by member surveys and have incorporated issues that were deemed important by Fund members, which include climate change, income inequality and corruption. The decision-making framework will be utilised when assessing existing managers and screening new managers / opportunities.

13. Criteria for selecting and reviewing investment managers

- The following criteria will be used in *selecting* investment managers:
 - The manager must have a clearly defined investment philosophy and must have an established track record of applying this philosophy successfully and consistently.
 - The manager must have a well-defined investment process off which the investment decisions are made. In particular, the process should provide high quality information, contain risk controls and allow investment decisions to be made by a few key decision-makers.
 - The manager must have a sound business and remuneration structure that allows it to attract and retain the best investment managers.
 - There must be clear alignment between the interests of the Fund and the interest of the investment manager.
 - The investment manager must maintain a high standard of ethics.
 - The investment manager must demonstrate an ability to comply with the due diligence requirements for investing set out in the revised Regulation 28 to the Pension Funds Act, specifically principles (v) to (ix) in paragraph 2 of the Regulation. In this regard the Investment Committee will also consider the manager's alignment with the Fund's RI Policy as set out in

- Annexure 1 to this document and the decision-making framework as set out in section 12 above.
- The Trustees will consider the need to promote broad-based black economic empowerment. This will also be considered when appointing other service providers in line with Regulation 28 of the Pension Funds Act.
- Whenever a new fund manager is appointed, or a new investment is entered into directly by the Fund, the Fund will consider the need for specialist legal advice, and where it is necessary appoint its own suitable legal expert to review the contractual documentation prior to signing the documentation. The same process will be followed if any existing agreements are to be reviewed.
- The following factors would lead to a *review* of the investment manager's appointment:
 - rapid growth or loss in assets under management;
 - change in the investment philosophy and approach;
 - material change in the investment process;
 - loss of key personnel, including a situation where a key decision-maker is "promoted" to a different role;
 - material change in the shareholding structure of the manager;
 - material change in the B-BBEE status of the manager;
 - perceived adverse changes in the ethics of the manager;
 - poor performance;
 - poor risk management practices;
 - any other matter that is perceived to affect the ability of the investment manager to carry out its mandate effectively or is considered by the Trustees to necessitate a review.

14. Performance and compliance monitoring

- An Investment Committee, suitably mandated by the Board, shall monitor the performance of the Fund's investments formally on a quarterly basis. The Investment Committee's responsibilities will be governed by an investment mandate, which will be set and reviewed by the Board on a regular basis.

15. Other governance issues

- The Trustees and the investment consultant shall be required to make a full disclosure of any conflict of interest situation relating to the investments of the Fund at all relevant times.
- The investment manager shall be required to report the amount of brokerage paid to each broker it deals with to the Trustees and the investment consultant. The investment manager must disclose if it receives any commission rebate, service or other benefit from the brokers it deals with.

- The investment consultant shall be required to report on any fees / commissions it receives from investment managers appointed to manage the Fund's investments. If such amounts are received, it shall be repaid to the Fund in full.

16. Review of Investment Strategy and IPS

- In the normal course of events the Trustees will review the investment strategy and IPS annually.
- The investment strategy and IPS must also be reviewed within 3 months of any of the following events occurring:
 - a material change in exchange control regulations affecting retirement funds;
 - a significant change in the monetary policy of the Reserve Bank;
 - a change in the tax basis affecting the investment strategy of the Fund;
 - a change in the Pension Funds Act that affects investments;
 - an indication that the Fund will have significant cash flow requirements (particularly outflows).
- When reviewing the strategy and IPS, the Trustees will consider the appropriate investment objectives and risk constraints (including the range of assets to be used and the allocations and limits applying to these) for the various liability portfolios of the Fund. The Trustees will also seek to ensure that the adopted strategy is appropriate for the liabilities. This will include considering the expected outstanding term of the liabilities, the expected relationship between the liabilities and inflation, and the cash flow needs of the liabilities. The Trustees will also consider any *changes* to the risk profile of the Fund's investments over time, in the course of reviewing the strategy.

17. Investment advisor and custodian

Investment consultant: Sukha and Associates (Pty) Ltd (an authorised Financial Services Provider – Licence No. 42932) from 1 January 2021.

Custodian: Nedbank Limited – The custodian agreement is directly between Nedbank and the Fund.

Signature

Adopted as the IPS for the Fund



Digitally signed
by Shaun
Parsons
Date: 2026.08.31
09:28:04 +02'00'

Chair: Fund
Date



Digitally signed
by Hardy R Maritz
Date: 2026.08.30
09:06:33 +02'00'

Chair: Investment Committee
Date

18. Annexure 1 – Responsible Investing policy

Investment beliefs and approach to RI

- The Fund believes that RI and stewardship should be an integral part of the general governance of the Fund's investments. The Trustees believe in making a deliberate effort to incorporate RI and stewardship into the governance policies and processes of the Fund.
- ESG factors are a grouping of factors that are often material to the financial performance of investments (both risk and returns) but have historically been outside of traditional financial analysis and are often hard to quantify. In some instances, ESG factors for a potential investee company present a material business risk or opportunity that should be considered. The Trustees believe that ESG factors should not be considered in isolation but should be viewed as part of making prudent investment choices.
- The Trustees recognise that there are areas of improvement and challenges to address as the RI journey continues. Key amongst these challenges is the governance budget available to fully implement the RI strategy, given that Trustees serve on a part-time basis, and keeping abreast with developments in RI practices amongst others. The Board thus continues to explore innovative and pragmatic ways to build capacity given the constraints faced.
- The Trustees will focus on **risk mitigation**, and on identifying **return opportunities**, related (but not limited) to ESG factors, when considering the sustainability of the Fund's investments.
- The Trustees believe that ESG factors must be integrated into the investment analysis and decision-making process related to the Fund's investments. The Trustees do not believe that “negative screening” (exclusions of certain investments on ESG grounds) is a suitable risk mitigation approach in the context of the Fund's directly held local investments, due to the limited opportunity set available to investment managers, particularly for SA Equities.
- In 2021, a decision-making framework was developed by the Board based on 6 key factors. ESG factors form part of the 6 overarching factors and specifically incorporate the key ESG factors identified by Fund members in the ESG Survey conducted in 2020. The Fund therefore integrates ESG considerations in its decision-making processes in this manner. Additionally, this will translate into implementation as the Board and Investment Committee must keep ESG concerns top of mind in reviewing existing and new investment opportunities, as well as in applying the decision-making framework.
- From time to time, the Trustees will consider investment opportunities that are assessed to offer an attractive expected risk-return payoff with a specific focus on delivering positive environmental and / or social outcomes.

The Trustees will continue to engage investment service providers on ESG risks and opportunities as well as proxy voting. The Fund agrees that these stewardship activities should form an integral part of the investment governance and ongoing implementation of the Fund's RI policy. The IC has thus set “ESG engagement” as a standing agenda item for discussion at every IC meeting. The outcomes of the ESG engagement discussions are available to the full Board.
- The Trustees recognise that governance policies and strategies are meaningless without effective implementation. Based on the ESG survey results, the Board has set “climate

change” as its key environmental priority, “inequality” as its key social priority and “anti-corruption” as its key governance priority. These have been explicitly included as key ESG discussion points in the briefs provided to asset managers ahead of report-backs to the Fund. All asset managers will be asked to address these three priorities of the Fund as a minimum and are expected to demonstrate progress in addressing these in the portfolios when reporting back to the Fund.

- Regarding climate change, the Fund has implemented reporting on the carbon footprint of its top equity holdings. The top 10 positions, as well as where the Fund owns positions in the top carbon intensive stocks listed on the JSE have been included in the RI and Stewardship report published by the Trustees.
- The Trustees have developed an approach to stewardship through engagement and proxy voting. Given the constraints in the governance budget and the Fund outsourcing investment management to external asset managers, the IC has prioritised engaging asset managers as a pragmatic starting point.
- The Trustees believe that exercising voting rights and (at times) engaging with investee company management can both protect and enhance the value of an investment. The Trustees will delegate the exercise of its voting rights to its appointed investment managers. The Fund may issue further proxy voting guidelines to its local investment managers in respect of its segregated investment mandates (i.e. directly held investments) but in the interim the Fund has strengthened its proxy voting process, within the governance and resource constraints of the Fund.
- In 2022, the Fund agreed to apply its active ownership responsibilities on a sub-set of 16 shares listed on the JSE. The 16 shares consist of the JSE's top 10 carbon intensive shares and the Fund's top 10 holdings by size as at June 2024 (with an overlap in these two lists resulting in 16 shares). The 16 shares will be reviewed every 24 months and are set out below:

	Company
1	Mondi
2	Sappi
3	British American Tobacco
4	Glencore
5	Anglogold Ashanti
6	Anglo American
7	Sibanye Stillwater

8	Standard Bank
9	MTN
10	Prosus
11	Naspers
12	Impala Platinum
13	BHP Group
14	Northam Platinum
15	Sasol
16	FirstRand

- Asset managers will be required to provide the Investment Committee with their proxy voting recommendations prior to the votes being cast so that the Investment Committee can build up an understanding of the issues at hand, analyse the input received from asset managers and align proxy voting recommendations across the Fund's equity managers, where necessary. An independent view on proxy voting recommendations may also be sourced from an ESG specialist. The Fund may also at times engage directly with company management, either individually or in collaboration with investment management firms, large institutional investors or other organisations.