Investment Policy Statement: Cape Municipal Pension Fund

Updated July 2022

1. Purpose of the Fund

The Fund varies its purpose by categories of membership as follows:

1.1. In-service members on a defined benefit (DB) structure

For this category of membership, the purpose of the Fund is to provide the benefits as set out in the Fund rules. Broadly this is a pension of 1.961% (2.12% including 13th pension) of the pensionable salary for each year of service and a gratuity of 7.0% of pensionable salary for each year of service. (Pensionable salary is defined as the average pensionable salary over the last 12 months prior to retirement.)

1.2. In-service members on a defined contribution (DC) basis

For this category of membership the Fund's purpose is to allow employees to make provision towards their retirement in a tax efficient vehicle that is governed by a Board of Trustees and where the bulk buying power of the membership is used to secure "wholesale" as opposed to "retail" prices.

The life stage model Fund targets (but does not guarantee) that member with an average career progression and 35 years of service retires with a pension of 90% to 100% of his/her pensionable salary at retirement.

1.3. Defined benefit section pensioners

In terms of the Fund Rules these pensioners are entitled to a minimum increase on 1 January each year of 75% of headline inflation rate[1] for the 12 months ending 30 June immediately preceding the increase date. The Fund targets (but does not guarantee) to provide these pensioners with annual increases that match "headline inflation" on a consistent basis.

1.4. Defined contribution section pensioners

The contractual liability in respect of these pensioners is their current pension. Again the Fund aims to grant such pensioners an annual increase that matches "headline inflation" over the long term.

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[1] The minimum increase is 80% of "headline inflation" to the preceding 30 June for pensions that came into payment prior to 1 January 1980.

2. Investment philosophy

2.1. Having considered the arguments for active investment management and passive investment management, the Trustees believe that over long measurement periods (typically 5 years and longer) investment markets are efficient and so the price of a traded asset is the most accurate indication of its underlying or intrinsic value.

2.2. 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 mispricing arise *inter alia* from:

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

2.3. 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 mispricings through active investment management.

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

2.4. Although the Trustees believe that there is the scope to add value via the active management approach, as characterised above, for most (but not all) asset classes, this belief is founded on the assumption that one can identify skilful investment managers with a high degree of confidence and also that the Fund has a sufficiently large "governance budget"[2] to allow for the work involved in choosing skilful managers and reassessing the manager appointments on an ongoing basis.

2.5. The Fund has adopted a passive (indexation) approach for a part of the Fund's investment in SA Equities.

2.6. 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 a more risky asset class by allocating the assets to more than one investment

[2] The governance budget of the Trustees is set out in Annexure III to this document.

manager.

2.7. The Trustees accept that in order to make provision towards retirement a member needs to earn a reasonable return compared to inflation on his/her 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*.

2.8. The Fund's philosophy as regards **responsible investing** (RI) is set out in Annexure IV to this document.

3. Investment choice programme for DC members

3.1. The Fund offers member investment choice, with a life stage model (see paragraph 4) being available for those members that don't wish to exercise a choice.

3.2. The Fund currently offers members the choice of four portfolios designed around investment horizon and risk aversion. There is also a fifth portfolio (the Stable Portfolio) but this portfolio has been closed to new investments (i.e. new contributions and switches in) since early 2009.

3.3. The table below sets out the "top line" features of the five portfolios:

Portfolio	Investment objective	Investment horizon	Broad strategy
Market Portfolio (MP)	5% p.a. (net of costs and taxes) above "headline inflation" over any rolling 8 years	8 years +	This portfolio takes a long term view and has a significant exposure to equities on the assumption that this asset class will provided the best return compared to inflation over the long term. However, large positive and negative returns are possible over short measurement periods.
Low Equity Balanced (LEB) Portfolio – introduced in 2011	3.5% p.a. (net of costs and taxes) above "headline inflation" over rolling 5 years	1 to 5 years	This portfolio aims to meet the dual goal of providing a reasonable return with a low chance of capital loss over reasonably short measurement periods. Unlike the Stable Portfolio, the LEB Portfolio does not include any explicit capital guarantees.

Stable Portfolio (SP) – **closed** to new inflows (contributions and switches) in early 2009	3.5% p.a. (net of costs and taxes) above "headline inflation" over rolling 5 years	0 to 5 years	This portfolio aims to meet the dual goal of providing a reasonable return with a low chance of capital loss over reasonably short measurement periods. This portfolio includes explicit capital guarantees from the insurer that provides the underlying investment product, in specific defined circumstances.
Money Market (MM) Portfolio	1.5% p.a. (net of costs and taxes) above "headline inflation" over any 12-month period, with minimal risk of capital loss over the same period	0 – 2 years	About 75% of the portfolio will be invested in money market instruments and other short duration instruments with high credit quality as being the best way to deliver a positive return with minimal risk of capital loss and the remaining 25% will be invested in high quality investment grade credit (with an average credit rating AA).
Shari'ah Portfolio – introduced w.e.f. 1 July 2012	4% p.a. (net of costs and taxes) above "headline inflation" over any rolling 8 years	8 years +	The portfolio will be invested in a balanced, Shari'ah compliant product and will aim to meet the dual goal of providing a reasonable return with lower risk. 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 to long* time horizon.

4. Life Stage model for DC members

4.1. The reason why the Fund operates a Life Stage model is that the Trustees recognize that the majority of members are uncertain in relation to investments.

4.2. The Life Stage model is designed around the assumed liability profile of a DC member, which is assumed to be as follows:

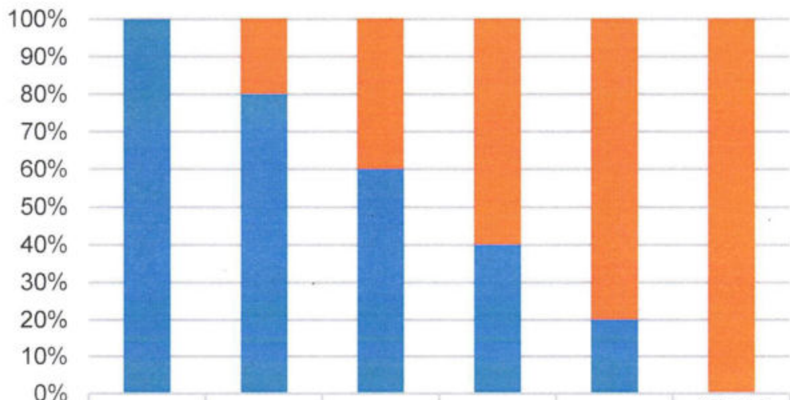
- When a member is a long way from retirement, the key risk is inflation. At this time the member has relatively little money in the Fund and the impact of negative returns, in Rand terms is less.
- As the member gets closer to retirement capital preservation becomes more important. At this time the member has the most money in the Fund and the impact of negative returns, in Rand terms, is largest.

4.3. The member's retirement savings will be invested according to the Life Stage model (based on his/her assumed retirement age) unless he/she makes a positive choice to invest his/her money otherwise.

4.4. During 2011 the Trustees agreed on a new Life Stage model to be implemented in 2012. As the old Life Stage model will remain in place for members already in transition, it is also described here.

Previous Life Stage model (superseded in 2012)

4.5. Given the above liability profile and the fact that the Fund has reasonable information about the member's period to retirement the Life Stage model simply varies the member's investment strategy according to the period to retirement as shown in the diagram below. At the time of implementation, the Life Stage model assumed that all members retire at age 60 (although it is recognised that all DC members have a normal retirement age of 65 from 1 June 2017, and also that the actual retirement experience of the Fund shows that members may and do retire at ages anywhere between 55 and 65).



	Up to 52	53	54	55	56	57 and over
Money Market	0%	20%	40%	60%	80%	100%
Market	100%	80%	60%	40%	20%	0%

Notes:

- During the transition period (ages 53 to 57), the member's accumulated retirement savings will be invested more or less in the percentages set out above (depending on the relative performance of the portfolios and the contribution history).
- From age 53 the member's future retirement saving contributions will be allocated to the Money Market portfolio (which replaced the Stable portfolio in early 2009 – this means that certain members aged 53 and over will have investments in both the Stable and Money Market portfolios, as well as residual investments in the Market portfolio).

4.6. The member's Fund credit will be transitioned according to the following table

Attained age (month following birthday)	Percentage of Member Credit in MP transferred to MMP (formerly SP)
53	20%
54	25%
55	33%
56	50%
57	100%

4.7. The Life Stage model makes five important assumptions, namely that:

- Members will retire close to age 60.
- Members are investing (saving) for his/her ultimate retirement, and that if a member were to resign, he or she would most likely preserve his or her money for their ultimate retirement.
- Members are comfortable to accept negative investment returns over reasonably short measurement periods whilst they are still some way off retirement.
- Members wish to fund for a lump sum at retirement and/or will purchase a life annuity that will provide future pension increases after retirement (i.e. not a living annuity) – this would include a normal pension from the DC section of the Fund.
- Members have "normal risk aversion", meaning that their risk appetite reduces as the time horizon for their investments diminishes, and that they have a strong aversion to capital losses in the last few months before retirement.

4.8. This (previous) Life Stage model will remain in force for all members who were in transition under it at the date of implementation of the new model described below – this means all members to whom Life Stage applied, who were not invested 100% in the Market Portfolio at the date the new Life Stage model was implemented.

4.9. With effect from 1 June 2017, all DC active members can retire at age 65. The Fund has transferred members aged 61 and younger from the (previous) Life Stage model to the new Life Stage model (described below) on 28 February 2019.

New Life Stage model implemented in 2012

4.10. A new Life Stage model was implemented in 2012 and applies for all members to whom Life Stage applies, who were still 100% invested in the Market Portfolio at the date in 2012 when the new Life Stage model took effect.

4.11. The new model recognises that it is not ideal to transition all members 100% to the Money Market Portfolio at age 57, given that many of these members will serve until a normal retirement age of 65.

4.12. The new model has two key features:

- Members will be transitioned first from the Market portfolio into the Low Equity Balanced (LEB) portfolio (in two steps), and then later from the LEB portfolio to the Money Market portfolio (also in two steps)
- The timing of the transitions is driven not by the member's current age but by the *number of years remaining until the member's Normal Retirement Age of 65.*

4.13. The operation of the new Life Stage model is as follows:

Years remaining until member's Normal Retirement Age	New Life Stage transitions
More than 6 years:	100% invested in Market.
6 years (month-end following the member's birthday 6 years before NRA):	Switch 50% to LEB. Contributions go to LEB.
5 years:	Switch balance in Market to LEB.
Between 5 years and 2 years:	All invested in LEB.
2 years (month-end following the member's birthday 2 years before NRA):	Switch 50% from LEB to Money Market. Contributions go to Money Market.
1 year:	Switch balance in LEB to Money Market.
Less than 1 year:	All invested in Money Market.

4.14. The assumptions underpinning the new Life Stage model are the same as for the old model except that it is no longer necessary to assume that members will retire at or about age 60.

4.15. Members that were invested in the new Life Stage model based on a retirement age of 60 or 62 were transferred on 28 February 2019 to the underlying investment portfolio/s as shown in the table in 4.13, based on their new retirement age of 65.

5. **Market Portfolio**

5.1. Portfolio overview

The Market Portfolio (MP) is a market related portfolio that aims to provide a reasonable return relative to inflation over the long term (measurement periods of at least 8 years). The portfolio will deliver a negative return over short measurement periods (e.g. 1 year) from time to time.

5.2. Investment objective

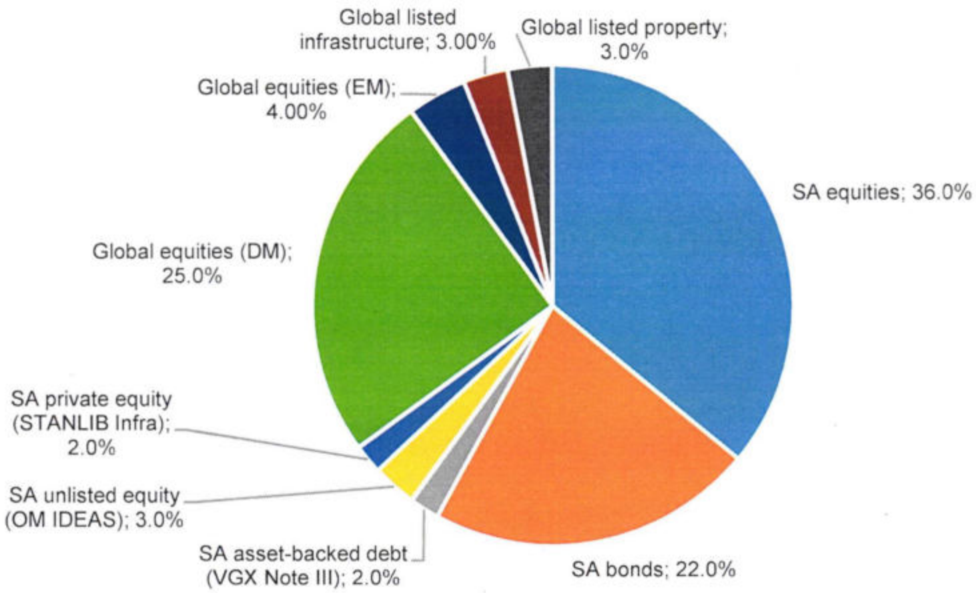
The MP aims to deliver 5% p.a. (net of fees) out-performance of "*headline inflation*" (or CPI) over any rolling 8-year period.

5.3. Risk constraints

Based on the long-term capital market assumptions and level of investment manager skill (detailed in Annexure I), the MP seeks to target a risk constraint that the probability of the net real return being less than 0% over any rolling 8-year period is less than 10%.

5.4. Asset allocation

The *strategic asset allocation* of the portfolio is shown in the chart below:



Variation to the asset allocation:

- The strategic asset allocation for global assets will be increased to 45%. However, this will be a phased transition to 45% targeted for completion by the end of Q1 of 2023 and timed as follows:

(a) The phased increase will commence with an increase in the offshore allocation from 30% to 35% as soon as possible after the 27 May 2022 Board of Fund meeting.

(b) This will be followed by an additional 5% increase in the second half of 2022.

(c) The remaining 5% increase is targeted for Q1 of 2023.

- In general the MP will re-balance the asset allocation using pre-defined rules. If the MP breaches the lower limit of the permissible range then re-balancing will generally take it to the mid-point between the lower limit and the strategic allocation. Similarly if the MP breaches the upper limit of the permissible range then re-balancing will generally take it to the mid-point between the upper limit and the strategic allocation. Exchange control restrictions (prudential limit) requires that the offshore assets of the MP be limited to 45%. However, re-balancing to this ceiling will only be carried out when required by Regulation 28 (i.e. within 12 months after the first breach of the ceiling at Fund level, if the breach persists for that period). In this regard the following parameters apply:

Asset class	Strategic allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
SA equities	36.0%	40.0%	38.0%	32.0%	34.0%
SA bonds	22.0%	24.0%	23.0%	20.0%	21.0%
SA asset-backed debt (VGX Note III)	2.0%	No cash inflows or outflows will take place for purposes of rebalancing			
SA unlisted equity (OM IDEAS)	3.0%				
SA private equity (STANLIB Infra)	2.0%				
Global equities (DM)	25.0%	29.0%	27.0%	21.0%	23.0%
Global equities (EM)	4.0%	5.0%	4.5%	3.0%	3.5%
Global listed infrastructure	3.0%	4.0%	3.5%	2.0%	2.5%
Global listed property	3.0%	4.0%	3.5%	2.0%	2.5%

At times the portfolio may have less than 45% offshore because of exchange control restrictions or other practical considerations. In this scenario, the strategic asset allocation for SA equities will be approximately 55% of total SA assets and the strategic asset allocation for global equities (DM, EM and Listed Infrastructure combined) will be 91% of total global assets. The strategic asset allocation for total equities (local and global) is 68%.

It is also recognised that cashflows (in or out of the MP) will provide a regular opportunity for ad-hoc rebalancing, which will be done in line with the broad principles set out above, although the exact extent of rebalancing using cashflows will depend on the amount involved. It is likely that the use of cashflows for ad-hoc rebalancing will mean that it is seldom necessary to initiate transfers between asset classes (or manager portfolios within asset classes) specifically in order to rebalance.

- At market extremes (e.g. when the market is assessed to be either very expensive or cheap by historical measures) the Trustees may adopt an asset allocation outside the strategic range.

5.5. Investment approach

- The portfolio will use specialist investment managers for each asset class.
- No single investment approach is necessarily superior to another and accordingly the Fund will invest with a number of investment managers in order to diversify by investment approach i.e. value, growth, momentum and quality investment styles.
- The Global equities (EM), global listed property and global listed infrastructure assets are invested in the Sygnia Willis Towers Watson Emerging Market Equity, Global Listed Property and Global Listed Infrastructure Portfolios respectively on the Sygnia Life platform. Each Sygnia portfolio consists of one or more Willis Towers Watson "preferred"[3] rated global investment managers as advised by Willis Towers Watson (managers that employ different investment styles are used where multiple managers have been appointed, particularly within the global equities asset class).
- About 2/3rd of the SA bonds will be managed by investment managers that make an "intrinsic value" decision in relation to this asset class. The remaining 1/3rd of the SA bonds will be managed by an investment manager that will aim to capture the credit risk premium and to a larger extent, the illiquidity risk premium.
- The SA asset backed debt investment in Vantage GreenX Note III is a senior-secured debt fund that will lend to sustainable energy projects in South Africa. The Fund's commitment amount for this investment is R171 million (or 2% of the market value of assets of the Market, DB actives and Reserves Portfolios as at 31 August 2020). No cash inflows or outflows will take place for purposes of rebalancing.

[3] The Sygnia Life policy document makes allowance for a manager that has been downgraded from a Preferred rating by the WTW global research team to be retained in the portfolio for some period.

- The investment in the Old Mutual Infrastructural, Developmental, & Environmental Assets Fund (IDEAS Managed Fund) is a predominantly unlisted equity mandate[4] which invests in infrastructure assets across the SADC region, with a focus on South Africa. The Fund's commitment amount for this investment is R300 million (or 3% of the market value of assets of the Market, DB actives and Reserves Portfolios as at 31 July 2021). No cash inflows or outflows will take place for purposes of rebalancing.

- The investment in the STANLIB Infrastructure Fund of Funds is a private equity[5] investment in infrastructure assets in South Africa. The Fund's commitment amount for this investment is R206 million (or 2% of the market value of assets of the Market, DB actives and Reserves Portfolios as at 28 February 2022. No cash inflows or outflows will take place for purposes of rebalancing.

5.6. Probability of achieving investment objective

Based on the assumed level of capital market returns and investment manager skill (see Annexure I) there is about a 65% to 70% probability of the portfolio achieving the stated investment objective consistent with the risk constraint.

If manager skill were excluded from the capital market assumptions, the probability of meeting the stated investment objective is about 50%.

[4] The IDEAS Managed Fund mandated asset allocation limits are: infrastructure equity (60% - 100%), the SADC region (0% - 25%), property (0% - 25%), debt (0% - 25%) and venture capital (0% - 5%).
[5] The STANLIB Infrastructure Fund of Funds is structured as a long dated and open ended *En Commandite* Partnership under the laws of South Africa.

6. DB In-service members

6.1. Portfolio overview

The DB In-service portfolio is a market related portfolio that aims to provide a reasonable return relative to inflation over the long term (measurement periods of at least 8 years). The portfolio will deliver a negative return over short measurement periods (e.g. 1 year) from time to time.

6.2. Investment objective

The portfolio aims to deliver 5% p.a. (net of tax and fees) out-performance of "*headline inflation*" (or CPI) over any rolling 8-year period

6.3. Risk constraints

Based on the long-term capital market assumptions and level of investment manager skill (detailed in Annexure I) the DB In Service portfolio targets a risk constraint that the probability of the net real return being less than 0% over any rolling 8-year period is less than 10%.

6.4. Asset allocation

The portfolio will follow the same strategic asset allocation and re-balancing rules as the MP.

7. Low Equity Balanced (LEB) Portfolio

7.1. Portfolio overview

The Low Equity Balanced Portfolio (LEB) is a market related portfolio that aims to provide a reasonable return relative to inflation over the medium to long term (measurement periods of at least 5 years). The portfolio will deliver a negative return over short measurement periods (e.g. 1 year) from time to time. The portfolio was introduced in early 2011.

7.2. Investment objective

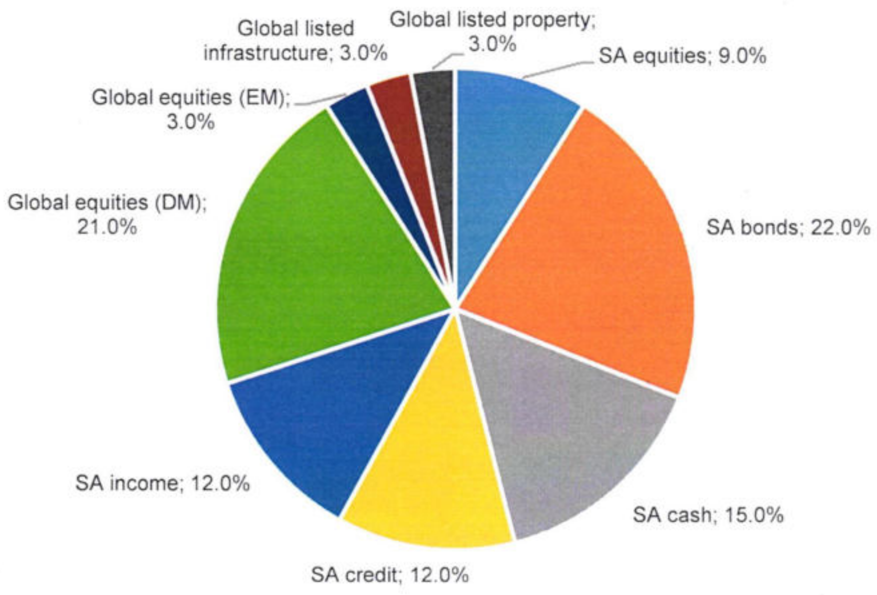
The LEBP aims to deliver 3.5% p.a. (net of fees) out-performance of "*headline inflation*" (or CPI) over any rolling 5-year period

7.3. Risk constraints

Based on long-term capital market assumptions and level of investment manager skill (detailed in Annexure I) the LEBP seeks to target a risk constraint that the probability of the net nominal return being less than 0% over any 12-month period is less than 2.5%.

7.4. Asset allocation

The *strategic asset allocation* of the portfolio is shown in the chart below:



Variation to the asset allocation:

- The same principles will apply as set out for the MP in paragraph 5.4 above. In this regard the following parameters apply:

Asset class	Strategic allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
SA equities	9.0%	11.0%	10.0%	7.0%	8.0%
SA bonds	22.0%	24.0%	23.0%	20.0%	21.0%
SA cash	15.0%	17.0%	16.0%	13.0%	14.0%
SA credit	12.0%	14.0%	13.0%	10.0%	11.0%
SA income	12.0%	14.0%	13.0%	10.0%	11.0%
Global equities (DM)	21.0%	25.0%	23.0%	17.0%	19.0%
Global equities (EM)	3.0%	4.0%	3.5%	2.0%	2.5%
Global listed infrastructure	3.0%	4.0%	3.5%	2.0%	2.5%
Global listed property	3.0%	4.0%	3.5%	2.0%	2.5%

7.5. Investment approach

- The portfolio will use specialist investment managers for each asset class.
- No single investment approach is necessarily superior to another and accordingly the Fund will invest with a number of investment managers in order to diversify by investment approach i.e. value, growth, momentum and quality investment styles.
- The Global equities (EM), global listed property and global listed infrastructure assets are invested in the Sygnia Willis Towers Watson Emerging Market Equity, Global Listed Property and Global Listed Infrastructure Portfolios respectively on the Sygnia Life platform. Each Sygnia portfolio consists of one or more Willis Towers Watson "preferred" rated global investment managers as advised by Willis Towers Watson (managers that employ different investment styles are used where multiple managers have been appointed, particularly within global equities).
- About 2/3rd of the SA bonds will be managed by investment managers that make an "intrinsic value" decision in relation to this asset class. The remaining 1/3rd of the SA bonds will be managed by an investment manager that will aim to capture the credit risk premium and to a larger extent, the illiquidity risk premium.

7.6. Probability of achieving investment objective

Based on the assumed level of capital market returns and investment manager skill (see Annexure I) there is about a 50% probability of the portfolio achieving the stated investment objective consistent with the risk constraint.

If manager skill were excluded from the capital market assumptions, the probability of meeting the stated investment objective is slightly below 50%.

8. Stable Portfolio

8.1. Portfolio overview

The Stable Portfolio (SP) is primarily invested in an Insurer "smoothed bonus" product. This portfolio aims to provide a moderate return relative to inflation over medium investment terms (2 to 6 years), whilst at the same time providing a guarantee[6] of contributions invested (including lump sum transfers).

The key feature of the Insurer "smoothed bonus" product is that it deals with volatility in investment returns by pooling and smoothing the return. In effect, members who are present when investment returns are very good cross-subsidize the returns of members who are present in times of poor returns.

The Insurer smoothes the return by declaring bonuses – part of the bonus is "guaranteed" (the so-called vesting bonus) and part of the bonus is non-vesting, which means that the Insurer can remove this bonus at its sole discretion.

8.2. Investment objective

The SP aims to deliver 3.5% p.a. (net of tax and fees) out-performance of "headline inflation" over any rolling 5-year period.

8.3. Risk constraints

The Insurer provides a capital guarantee of contributions invested (including lump sum transfers) plus any vested bonuses declared.

8.4. Asset allocation

The SP will be invested in an Insurer "smoothed bonus" product. In the event that the bonus earning power of the Insurer "smoothed bonus" product is impaired (i.e. the Insurer has declared more in bonuses than the underlying assets have earned), new cash flow may be directed to the Money Market portfolio. **(This was done in early 2009, and the Stable Portfolio remains closed to new cash inflows.)**

The SP should ideally be invested in an Insurer Guaranteed Fund that has the following policy conditions:

(a) Any amount invested in this portfolio, plus part of the net-of-fees bonuses declared, must be guaranteed

(b) The assets of the Guaranteed Fund should ideally be managed by a number of different managers and the Trustees need to be satisfied with quality of the underlying managers

[6] The concept of an absolute guarantee is illusionary – the value of a guarantee is only as good as the ability of the Insurer to honour that promise if ever it is called upon.

(c) The investment mandates must specifically preclude investment in strategic assets of the Insurer

(d) The Insurer must have a proper governance structure in place to monitor the performance and risk control of the investments

(e) The Guaranteed Fund must have a transparent charging structure

(f) The policy should ideally be sterilized from losses incurred in other parts of the Insurer's business

(g) The Guaranteed Fund should ideally have a pre-defined smoothing formula, which is used to declare bonuses.

9. Money Market Portfolio

9.1. Portfolio overview

The Money Market (MM) portfolio is a portfolio of which 75% of the portfolio is constructed from short-term interest rate instruments (maximum term 12 months) of high credit quality and the remaining 25% of the portfolio is invested in high quality investment grade credit (average credit rating AA). The portfolio aims to provide a return related to short term interest rates with a high degree of capital security.

9.2. Investment objective

The aim of the MM portfolio is to deliver investment performance ahead of the STEFI (Composite) Index over a measurement period of 12 months. Based on current monetary policy this return is expected to be some 1% to 1.5% p.a. higher than "headline inflation" after the deduction of all fees and taxes.

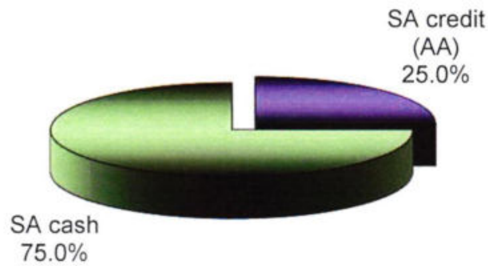
9.3. Risk constraints

Less than 0.5% chance of a capital loss over a measurement period of 1 month or more - possible reasons for a capital loss include:

- Failure of one the institutions where money is invested; and / or
- Very significant increase in short-term interest rates resulting in capital losses on instruments that have duration close to 12 months (occurring at a time when the portfolio is heavily invested in such longer-dated money market instruments).

9.4. Asset allocation

The *strategic asset allocation* of the portfolio is shown in the chart below:



Variation to the asset allocation:

- The same principles will apply as set out for the MP in paragraph 5.4 above. In this regard the following parameters apply:

Asset class	Strategic allocation	Permissible range
SA cash	75.0%	72.0 – 78.0%
SA credit	25.0%	22.0 – 28.0%

10. DB Pensioner Portfolio

10.1. Portfolio overview

The assets backing the Fund's DB pensioner liabilities will be invested in the following notional sub-portfolios.

The De-risking Portfolio will be invested primarily in RSA government-issued inflation-linked bonds of suitable duration and convexity to which the pensioners are exposed via a liability-driven investing (LDI) strategy which aims to hedge the full real-interest-rate risk on 100% of the projected pension cash flows.

The Growth Portfolio will be invested in "growth" type assets and will primarily be invested in equities. This portfolio will deliver a negative return over short measurement periods (e.g. 1 year) from time to time. The asset allocation of the Growth Portfolio is regarded as being consistent with a long-term (8 years+) net-of-fees return objective of 4 – 5% p.a. above inflation.

10.2. Investment objective

The current investment strategy of the DB Pensioner Portfolio aims to deliver net-of-fees real returns of some 2.0% - 2.5% p.a. over the medium to long term (measurement periods of 5 years or longer). Achievement of this objective will allow the Fund to meet its purpose of granting pension increases that match "headline" inflation.

10.3. Risk constraints

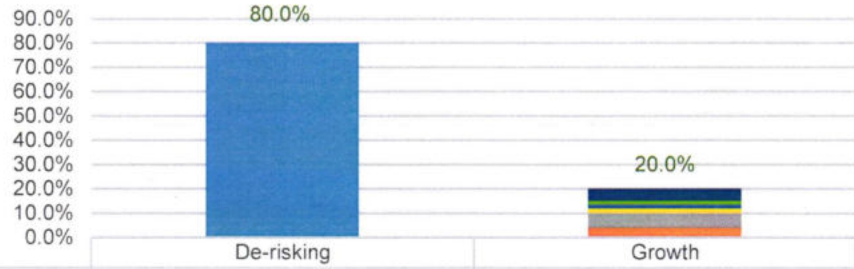
The risk that the Fund has to manage as regards the DB pensioners is the risk that the assets fall below the level required to cover the "contractual" liability for annual increases of 75% (or 80%) of headline inflation.

The Fund aims to mitigate this risk by (a) ensuring that a substantial portion of the DB pensioner assets is at all times invested in a suitable portfolio of secure, inflation-linked assets, and (b) by seeking to maintain a suitable level of contingency reserves in the DB section of the Fund to safeguard against investment market volatility (and the other risks to which the pensioner liabilities are subject, e.g. longevity risk).

10.4. Asset allocation

The Fund will seek to ensure that 80% of the actuarial value of the DB pensioner liabilities on the solvency reserving basis is covered by such inflation-linked assets.

The strategic asset allocation of the DB Pensioner Portfolio (which consists of the notional De-risking Portfolio and Growth Portfolio) is shown in the chart below:



	De-risking	Growth
VGX Note II & FG Power debt		5.0%
Global listed infrastructure		1.5%
Global listed property		1.5%
Global equities (EM)		2.0%
Global equities (DM)		6.0%
SA equities		4.0%
LDI	80.0%	

<u>Variation to the asset allocation – Growth Portfolio:</u>

- The same principles will apply as set out for the MP in paragraph 5.4 above. In this regard the following parameters apply:

Asset class	Strategic allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
LDI	80.0%	85.0%	82.5%	75.0%	77.5%
SA equities	4.0%	5.0%	4.5%	3.0%	3.5%
Global equities (DM)	6.0%	7.0%	6.5%	5.0%	5.5%
Global equities (EM)	2.0%	3.0%	2.5%	1.0%	1.5%
Global listed property	1.5%	2.5%	2.0%	0.5%	1.0%
Global listed infrastructure	1.5%	2.5%	2.0%	0.5%	1.0%
SA asset-backed debt (VGX Note II & Futuregrowth Power Debt)	5.0%	No cash inflows or outflows will take place for purposes of rebalancing			

- The Vantage GreenX Note II investment in CPI-linked renewable energy debt will be a fixed allocation after the committed amount of R250 million (for both DB Pensioners and DC Pensioners) has been invested. No cash inflows or outflows will take place for purposes of rebalancing in respect of Vantage GreenX Note II. The distributions paid from Vantage GreenX Note II will be invested in the Futuregrowth Power Debt Fund, a pooled fund of debt instruments which invests in a diversity of renewable energy deals.

10.5. <u>Investment approach</u>

- The portfolio will use specialist investment managers for each asset class.

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

- Any inflation-linked bond investments other than customised bank deposits will be placed in an actively managed inflation-linked bond portfolio with a suitable fixed-income manager, to be managed against a benchmark of a suitable duration in relation to the portion of the liabilities to which the portfolio relates.

11. DC Pensioner Portfolio

11.1. Portfolio overview

The assets backing the Fund's DC pensioner liabilities will also be invested in the following notional sub-portfolios.

The De-risking Portfolio will be invested in RSA government-issued inflation-linked bonds of suitable duration and convexity to which the pensioners are exposed via a liability-driven investing (LDI) strategy which aims to hedge the full real-interest-rate risk on 100% of the projected pension "unmatched" cash flows.

The Growth Portfolio will be invested in "growth" type assets and will primarily be invested in equities. This portfolio will deliver a negative return over short measurement periods (e.g. 1 year) from time to time. The asset allocation of the Growth Portfolio is regarded as being consistent with a long-term (8 years+) net-of-fees return objective of 4 – 5% p.a. above inflation.

11.2. Investment objective

The DC Pensioner Portfolio aims to deliver net-of-fees real returns of 2.0% p.a. to 2.5% p.a. over the medium to long term (measurement periods of 5 years or longer). Achievement of this objective will allow the Fund to meet its purpose of granting pension increases that match "headline" inflation.

11.3. Risk constraints

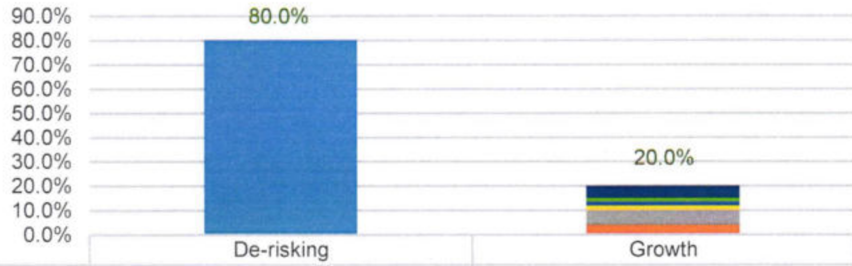
The main risk that the Fund has to manage as regards the DC pensioners is the risk that the assets fall below the level required to cover the "contractual" liability for pensions at their current level (with no future increases). However, the Trustees recognize that there is an additional risk that the Fund is unable to provide the DC pensioners with increases that, over time, broadly keep pace with those granted to the DB pensioners and that this leads to unhappiness among the DC pensioners and a sense that the Trustees are not providing good governance of the Fund's investments and liabilities.

The Fund aims to mitigate these risks by (a) ensuring that a substantial portion of the DC pensioner assets is at all times invested in a suitable portfolio of secure, inflation-linked assets, and (b) by seeking to build up and maintain a suitable level of contingency reserves in the DC section of the Fund to safeguard against investment market volatility (and the other risks to which the pensioner liabilities are subject, e.g. longevity risk).

11.4. Asset allocation

The Fund will seek to ensure that 80% of the actuarial value of the DC pensioner liabilities on the solvency reserving basis is covered by such inflation-linked assets.

The strategic asset allocation of the DC Pensioner Portfolio and the re-balancing rules that will apply to the Growth Portfolio are shown below.



	De-risking	Growth
VGX Note II & FG Power debt		5.0%
Global listed infrastructure		1.5%
Global listed property		1.5%
Global equities (EM)		2.0%
Global equities (DM)		6.0%
SA equities		4.0%
LDI	80.0%	

Asset class	Strategic allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
LDI	80.0%	85.0%	82.5%	75.0%	77.5%
SA equities	4.0%	5.0%	4.5%	3.0%	3.5%
Global equities (DM)	6.0%	7.0%	6.5%	5.0%	5.5%
Global equities (EM)	2.0%	3.0%	2.5%	1.0%	1.5%
Global listed infrastructure	1.5%	2.5%	2.0%	0.5%	1.0%
Global listed property	1.5%	2.5%	2.0%	0.5%	1.0%
SA asset-backed debt (VGX Note II & Futuregrowth Power Debt)	5.0%	No cash inflows or outflows will take place for purposes of rebalancing			

The Vantage GreenX Note II investment in CPI-linked renewable energy debt will be a fixed allocation after the committed amount of R250 million (for both DB Pensioners and DC Pensioners) has been invested. No cash inflows or outflows will take place for purposes of rebalancing in respect of Vantage GreenX Note II. The distributions paid from Vantage GreenX Note II will be invested in the Futuregrowth Power Debt Fund, a pooled fund of debt instruments which invests in a diversity of renewable energy deals.

11.5. <u>Investment approach</u>

- The portfolio will use specialist investment managers for each asset class.

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

- Inflation-linked bond investments other than customised bank deposits will be placed in an actively managed inflation-linked bond portfolio with a suitable fixed-income manager, to be managed against a benchmark of a suitable duration in relation to the portion of the liabilities to which the portfolio relates.

12. **Shari'ah Portfolio**

12.1. Portfolio overview

The Shari'ah Portfolio is a market related portfolio that complies with Islamic law or Shari'ah and has an asset allocation that is somewhat more conservative than that of the Market Portfolio. It is expected to give a return that is lower than the Market Portfolio over the long term due to the lower allocation to equities, and correspondingly the return on the Shari'ah Portfolio is not expected to fluctuate as widely as that of the Market Portfolio from year to year.

The key feature of the Shari'ah 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.

12.2. Investment objective

The Shari'ah Portfolio aims to deliver 4% p.a. (net of investment fees and expenses) out-performance of "*headline inflation*" (or CPI) over any rolling 8-year period.

12.3. Risk constraints

The level of market risk taken by the Shari'ah Portfolio is expected to be lower than that of the Market Portfolio.

12.4. Asset allocation

The Shari'ah Portfolio will be invested in a balanced, multi-managed Shari'ah compliant investment product.

13. Contingency reserves and Member and Employer surplus accounts

13.1. The DB active and DB and DC pensioner contingency reserves will be invested in accordance with the investment strategy for the DB active and DB and DC pensioners.

13.2. Although small calls may be made on the DC reserve account in the shorter term, the reserve exists for the long term and therefore a longer-term investment strategy may be followed. Accordingly, the DC reserve account will normally be invested in the same way as the Market Portfolio.

13.3. It is expected that the Member surplus account will be drawn on in the short term. It is thus appropriate to follow a conservative investment strategy. Hence the Member surplus account will normally be invested fully in the Money Market Portfolio should any amount be allocated to the Member surplus account in terms of the rules.

13.4. Should any amounts be allocated to the Employer surplus account, these amounts will be invested in the LEB portfolio as it is expected that these amounts will only be needed in the medium term.

14. Default investment portfolio/s

14.1. Regulation 37 (1) of the Pension Funds Act, 1956 states that retirement funds must have a default investment portfolio/s for the DC active members in the Fund.

14.2. The default investment portfolio for the DC active members is the Life Stage model (either the previous model or the current model).

14.3. Paid-up members and deferred pensioners will remain in the investment portfolio or investment strategy in which they are invested in at the time that they become paid-up members or deferred pensioners. 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 NRA in the Fund.

14.4. The retirement benefit for a DC active member or deferred pensioner is a life annuity pension (allowing for any cash lump sum commutation). The retiring member can instead choose either:

14.4.1. a living annuity from the Fund or

14.4.2. an annuity from an insurer (allowing for any cash lump sum commutation).

14.5. For in-Fund living annuities, the default investment portfolio for the DC living annuitants is the LEB Portfolio.

15. Benchmarks

15.1. The table below sets out the benchmark per asset class:

Asset class	Benchmark
SA equities	FTSE / JSE Free Float CAPI (maximum exposure to any one counter limited to 10%)
SA bonds	JSE All Bond Index
SA money market	STEFI Composite Money Market Index
Global equities (DM)	MSCI World Equity Index (unhedged)
Global equities (EM)	MSCI Emerging Markets Equity Index (unhedged)
Global listed property	FTSE European Real Estate Association (EPRA) / Nominal Association of Real Estate Investment Trusts (NAREIT)
Global listed infrastructure	FTSE Global Core Infrastructure 50/50 (unhedged)

15.2. The table below sets out the benchmark per asset class for the Shari'ah Portfolio – for SA and global equities, a "free float" market capitalization index is used. The FTSE/JSE Shari'ah ALSI has a significant weighting to Resources and there is no suitable Shari'ah compliant money market index for the murabaha contracts in which the Shari'ah Portfolio is invested. 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	45.0%	FTSE / JSE Shari'ah ALSI – total return index
SA money market	32.0%	STEFI Composite Index
Global equities	18.0%	Dow Jones Islamic Titans 100 World Index – total return index
Global bonds	5.0%	Dow Jones Global Sukuk Index – total return index

In this case a composite benchmark will be calculated, rebalanced monthly at each month end.

15.3. The benchmark for the DB Pensioner Portfolio LDI mandate is constructed from the projected DB Pensioner cashflows on the solvency reserving basis which will be provided to the LDI investment manager on an annual basis (after the latest actuarial valuation has been completed).

15.4. The benchmark for the DC Pensioner Portfolio LDI mandate is constructed from the projected DC Pensioner cashflows on the solvency reserving basis which will be provided to the LDI investment manager/s on a quarterly basis.

16. Mandate restrictions

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

16.2. 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 environmental, social and governance [ESG] character.

16.3. SA equities

The Fund's investment in SA equities will normally be via segregated mandates. The mandate given to the investment managers that manage the SA equity class on behalf of the Fund will include restrictions on:

- The maximum deviation from the benchmark
- Use of borrowing (leverage)
- Use of derivatives
- Minimum liquidity of the portfolio
- Maximum exposure to any one share in 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 issues.

16.4. SA bonds

The Fund's investment in SA bonds will normally be via segregated mandates, although there may be circumstances in which the Fund would benefit by the investment of part or all of the bond portfolios in pooled vehicles, e.g. to gain access to credit or SRI bond investments.

The mandate given to the investment managers that manage the SA bond class on behalf of the Fund will include restrictions on:

- The maximum deviation from the benchmark

- Use of derivatives
- Use of borrowings (or leverage)
- Minimum liquidity of the portfolio
- Investment in non-benchmark 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
- Underwriting of issues

16.5. Money market instruments

The Fund's investment in SA money market instruments will normally be via segregated mandates, although there may be circumstances in which the Fund would benefit by the investment of part of the cash portfolio in pooled vehicles, e.g. to gain access to credit investments. The mandate given to the investment managers that manage the SA money market class on behalf of the Fund will include restrictions on:

- Maximum term of instrument (3 years)
- Credit quality
- Minimum liquidity of the portfolio
- Use of derivatives
- Use of borrowings (or leverage)
- Investment in the instruments of the investment manager and its associated companies

16.6. Global equities (including global listed infrastructure) and global listed property

The Fund's investment in global equities will be via domestic or foreign collective investment schemes, or a domestic insurance policy which in turn invests in such collective investment schemes (i.e. a pooled arrangement).

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 CIS (collective investment scheme). The Fund will require that *inter alia* the following matters are covered in the prospectus:

- Maximum exposure to emerging markets
- Restrictions on the exchanges in which the manager may deal
- 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)
- Maximum exposure to a particular industry or sector
- Maximum exposure to a particular currency
- Use of borrowings (or leverage)
- Restrictions on the use of derivatives and currency hedging
- Restrictions on script lending (including restrictions on counter-party risk)

The Prospectus or policy document must provide a maximum notice period of 30 days should the Fund wish to terminate its appointment

16.7. Global bonds (when applicable)

The Fund's investment in global bonds will be via domestic or foreign collective investment schemes, or a domestic insurance policy which in turn invests in such collective investment schemes (i.e. a pooled arrangement).

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 CIS (collective investment scheme). The Fund will require that *inter alia* the following matters are covered in the prospectus:

- Maximum exposure to emerging 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)
- Maximum exposure to a particular currency
- Restrictions on the use of derivatives and currency hedging
- Restrictions on script lending (including restrictions on counter-party risk)

The Prospectus or policy document must provide a maximum notice period of 30 days should the Fund wish to terminate its appointment

17. Criteria for selecting investment managers

17.1. 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.
- 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 the 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, which are as follows:

  "A fund and its board must at all times apply the following principles:

  (v) "before making a contractual commitment to invest in a third party managed asset or investing in an asset, perform reasonable due diligence, taking into account risks relevant to the investment including, but not limited to, credit, market and liquidity risks, as well as operational risk for assets not listed on an exchange;

  (vi) "in addition to (v), before making a contractual commitment to invest in a third party managed foreign asset or investing in a foreign asset, perform reasonable due diligence taking into account risks relevant to a foreign asset including but not limited to currency and country risks;

  (vii) "in performing the due diligence referred to in (v) and (vi), a fund may take credit ratings into account, but such credit ratings should not be relied on in isolation for risk assessment or analysis of an asset, should not be to the exclusion of a fund's own due diligence, and the use of such credit ratings shall in no way relieve a fund of its obligation to comply with all the principles set out in paragraph 2(c);

  (viii) "understand the changing risk profile of assets of the fund over time, taking into account comprehensive risk analysis, including but not limited to credit, market, liquidity and operational risk, and currency, geographic and sovereign risk of foreign assets; and

  (ix) "before making an investment in and while invested in an asset consider any factor which may materially affect the sustainable long term performance of the asset including, but not limited to, those of an environmental, social and governance character."
- The Trustees will consider the need to promote broad-based black economic empowerment. This will also be considered when appointing other service providers.

17.2. Whenever a new fund manager (or other service provider) 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 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.

17.3. The following events would lead to a *review* of the investment manager's appointment:

- Rapid growth 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;
- Change in the dynamics of the investment team
- Material change in the shareholding structure of the manager; and
- Perceived adverse changes in the ethics of the manager;
- 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

18. Performance, risk and compliance monitoring

18.1. The Investment, Audit and Finance (IAF) Committee suitably mandated by the Board of Trustees shall monitor the performance, risk and compliance of the Fund's investments on a quarterly basis (or more often). In this regard the Investment Committee will *inter alia*:

- Monitor the overall performance of the Fund's investment channels relative to the particular performance objective and risk constraints
- Monitor the performance of the selected investment managers relative to their mandates
- Make a qualitative assessment of the investment managers on a regular basis
- Be responsible for making recommendations to the Trustees on the selection and de-selection of the investment managers
- Monitor compliance with the constraints and restrictions as set out in the investment manager mandates, as well as compliance with the investment limits contained in the revised Regulation 28 to the Pension Funds Act
- Receive feedback from the investment managers, including feedback on the due diligence they perform before investing in any particular investment taking into account the sustainability of such investment and the risks relevant to the investment including, but not limited to, credit, market and liquidity risks, as well as operational risk for assets not listed on an exchange (i.e. principles 2 (c) (v) to (ix) set out in the revised Regulation 28).
- Review the overall risk inherent in a particular channel to ensure that there is not an unacceptable aggregation of risk
- Ensure that proper contractual arrangements are in place for all the investment managers

- Appoint and monitor the performance of the investment consultant appointed to advise on and assist the Committee on matters relating to the Fund's investment activities. The Fund's current investment consultants are Towers Watson (Pty) Ltd, a WTW company.
- Review the range of investment choice given to members and the appropriateness of the life stage model on an annual basis
- Review the Investment Policy Statement on an annual basis (or on defined earlier events)
- On a periodic (e.g. annual) basis ask the Fund's investment managers to report formally on how they comply with the due-diligence principles for investing set out in the revised Regulation 28, specifically principles (v) to (ix), and also with the Fund's policy on Responsible Investing as set out in Annexure IV to this document.

19. Other governance issues

19.1. 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.

19.2. Unless otherwise agreed by the Committee, the assets shall be registered in the name of the Fund. In the case that the assets are not registered in Fund's name and in the ownership is via units in a CIS (collective investment scheme) or an insurance policy, the Committee shall define the minimum regulatory and compliance requirements.

19.3. The Fund shall contract separately with a custodian. The Fund has appointed Nedbank Limited as custodian for its South African investments. Since the global equities (including global listed infrastructure) and global listed property investments are all held via collective investment schemes, no custodian is needed for these.

19.4. The Fund may contract with its investment managers on a performance related fee basis provided that there is a high water mark system or trust fee arrangement in place.

19.5. The investment manager shall, on a quarterly basis, provide the Fund with a report setting out the manner in which it voted on resolutions of the companies in which the Fund's assets are invested.

19.6. The investment manager shall be required to report the amount of brokerage paid to the brokers it deals with. The investment manager must disclose if it receives any commission rebate, service or other benefit from the brokers it deals with.

19.7. The investment consultant shall not receive any fees / commissions from investment managers as a consequence of the Fund engaging with or appointing that investment manager.

20. Trustee training

20.1. Each year as part of the Fund's calendar of Trustee business, the Fund will develop a formal training programme for the year. The purpose of this training is to assist the Trustees in ensuring that they are adequately trained to perform the tasks required of them as Trustees.

20.2. This programme will cover investment issues, general Fund governance issues and other matters that the Trustees believe to be important.

20.3. The training will typically take the form of workshops organised during the course of the year. It will also include relevant seminars/conferences organised by outside parties. The workshops will be coordinated by the Fund's training coordinator.

20.4. At the end of each year the training programme will be assessed for effectiveness. This will include keeping record of which Trustees have attended the various training sessions available. It will also include monitoring whether the training has improved the Trustees' ability to manage the Fund.

21. Trustee rights to vary the provisions of this statement

21.1. The Trustees have the right to make tactical changes to any part of the strategy as set out in this Investment Policy Statement in order to take advantage of short-term opportunities.

22. Review of Statement

22.1. In the normal course of events the Trustees will review the Investment Policy Statement annually and the default investment portfolio/s on a regular basis.

22.2. The investment strategy 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 change in the monetary policy of the Reserve Bank resulting in it no longer managing the economy around real rates of return on fixed interest instruments.
- A material change in the tax basis affecting the investment strategy of the Fund
- A material change in the Pension Funds Act that affects investments
- An indication that the Fund will have significant cash flow requirements (particularly outflows).

22.3. When reviewing the strategy, the Trustees will consider the investment objectives and risk constraints in order to set or modify a strategy (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 need 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 Fund to meet 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.

23. Signature

Adopted as the Investment Policy Statement for the Cape Municipal Pension Fund
Updated July 2022

Chairperson: Board of Trustees

Date: 2022-08-01

Chairperson: IAF Committee

Date: 2022-08-01

24. Annexure I – Capital market and manager skill assumptions

24.1. An asset model has been used to simulate the investment returns and risk profile for the different portfolios.

24.2. Whilst the assumptions are reasonable based on historical returns and economic fundamentals, the future may be very different to the past, in which case some of the key assumptions of the model may breakdown. The Committee should therefore regard the statistics quoted in this guide as indicative and not as a statement of fact.

24.3. The charts below shows the assumed long-term risk and return range for the main asset classes (gross of tax and manager fees), as well as the estimate of current market real returns for the next ten years (labelled on the chart) as at 1 May 2022.

Figure 2. **10-year real returns for growth asset classes**

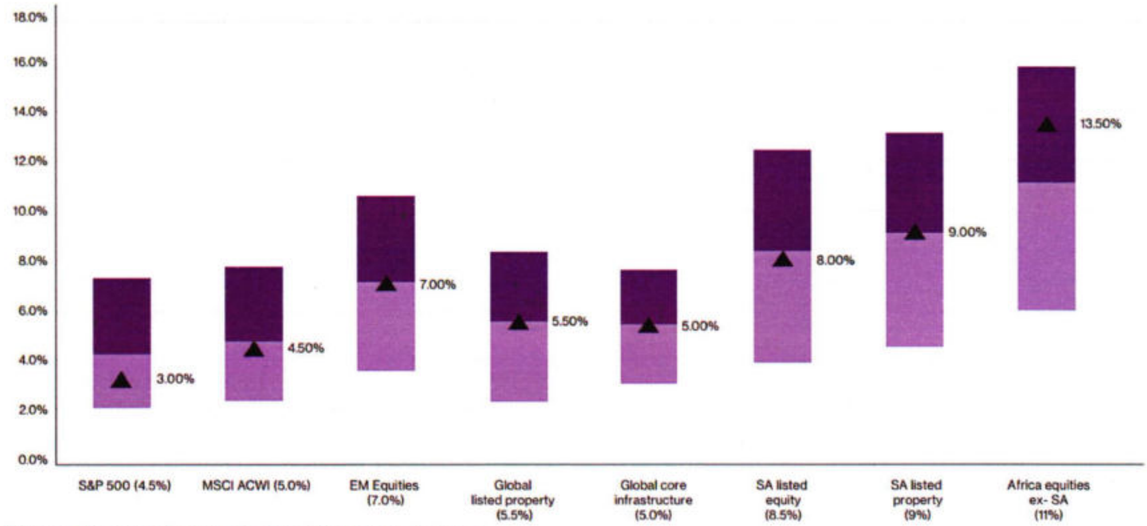
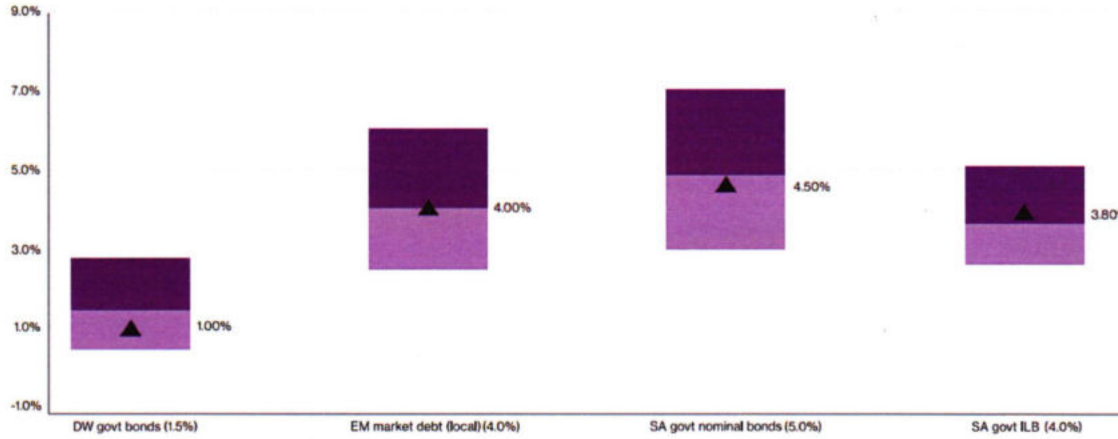


Figure 1. **10-year real returns for fixed interest asset classes**



23.4 The chart below shows the assumed level of investment manager skill for the SA and global equity asset class. The manager skill is reflected net of manager fees. (Please note that we have made no assumption about manager skill for the bond asset class).

25. Annexure II – Manager re-balancing rules

25.1. The manager allocations will be re-balanced according to the following rules:

SA equities (CAPI)	Strategic allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Coronation	19.0%	22.0%	20.5%	16.0%	17.5%
Allan Gray Limited	19.0%	22.0%	20.5%	16.0%	17.5%
Ninety One (General)	13.0%	16.0%	14.5%	10.0%	11.5%
Abax Investments	19.0%	22.0%	20.5%	16.0%	17.5%
Visio Capital	10.0%	13.0%	11.5%	7.0%	8.5%
Satrix (CAPI)	20.0%	23.0%	21.5%	17.0%	18.5%

SA bonds	Strategic allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Prescient (Flexible)	33.33%	36.33%	34.83%	30.33%	31.83%
Ninety One (Flexible)	33.33%	36.33%	34.83%	30.33%	31.83%
Futuregrowth (IDB)	33.33%	36.33%	34.83%	30.33%	31.83%

Global equities (DM)	Strategic allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Hosking Partners	10.0%	13.0%	11.5%	7.0%	8.5%
Ardevora	16.0%	19.0%	17.5%	13.0%	14.5%
Contrarius	10.0%	13.0%	11.5%	7.0%	8.5%
Lindsell Train	16.0%	19.0%	17.5%	13.0%	14.5%
Veritas	14.0%	17.0%	15.5%	11.0%	12.5%
Lansdowne Partners	12.0%	15.0%	13.5%	9.0%	10.5%
Metropolis	14.0%	17.0%	15.5%	11.0%	12.5%
Sands Capital	8.0%	11.0%	9.5%	5.0%	6.5%

The Global equities (EM) will be invested in the Sygnia Willis Towers Watson-advised Emerging Market Equity Portfolio via Sygnia Life, and Sygnia Life shall utilize any cash flows to each underlying portfolio to limit the deviation from the target strategic manager allocation.

Global equities (EM)	Strategic allocation	Allowable range
Coronation	20.0%	18.0% - 22.0%
GQG Partners	30.0%	28.0% - 32.0%
Pzena	20.0%	18.0% - 22.0%
Sands Capital	30.0%	28.0% - 32.0%

25.2. It is also recognised that cashflows will provide a regular opportunity for ad-hoc rebalancing, which will be done in line with the broad principles set out above, although the exact extent of rebalancing using cashflows will depend on the amount involved. It is likely that the use of cashflows for ad-hoc rebalancing will mean that it is seldom necessary to initiate transfers between manager portfolios (or between asset classes) specifically in order to rebalance.

25.3. At their 25 May 2018 Board of Fund meeting, the Trustees decided to allocate 4.0% of the Fund's SA equities to Value Capital Partners (VCP), a value-orientated activist manager in South African publicly listed equities. The investment is currently available as an open-ended commingled Qualified Investor Hedge Fund (under the name of Value Active PFP H4 QIHF), and therefore the overall allocation to VCP where this investment is made in the Fund's investment portfolios must be less than the 2.5% hedge fund limit in terms of Regulation 28 of the Pension Funds Act. The investment amount committed is R189 million.

26. Annexure III – Governance budget

26.1. The Fund's "governance budget" is a function of the skills, resources, time and processes employed by the Fund to deliver risk-adjusted excess returns over the long term.

26.2. The Trustees believe that the Fund's "governance budget" lies between the "limited" and "mid-range" of the governance framework proposed by Willis Towers Watson which is informed by the following considerations:

(a) Time: six half-day Investment, Audit and Finance Committee meetings per year; modest pre-meeting preparation

(b) Skills and resources: no investment specialists on the Board of Fund; basic knowledge of asset classes

(c) Processes: all decisions made by the Board of Fund.

26.3. The "governance budget" will be taken into consideration by the Trustees when making decisions on matters related to the Fund's investments.

27. Annexure IV – Responsible Investing (RI)

Investment beliefs and approach to RI

27.1. Environmental, Social and Governance (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 issues 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.

27.2. The Trustees will focus on **risk mitigation**, and also on identifying **return opportunities** related (but not limited) to ESG factors when considering the sustainability of the Fund's investments.

27.3. 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.

27.4. 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, subject to the Fund's "governance budget".

27.5. 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.

28. Glossary of terms

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 FTSE/JSE All Share Index for SA equities). Investment managers may be able to improve the returns from capital markets if they are skilful.
FTSE/JSE ALBI	The Financial Times Securities Exchange / Johannesburg Stock Exchange All Bond Index consists of the top 20 South African government and corporate bonds ranked dually by liquidity and market capitalization
FTSE/JSE ALSI	The FTSE/JSE All Share (Free Float adjusted) Index with dividends re-invested
FTSE/ JSE ALSI CAPI	The FTSE/JSE ALSI, but with the market capitalization of any counter limited ("capped") to 10% of the index. This index avoids undue stock- specific risk.
FTSE Global Core Infrastructure 50/50	The FTSE Core Infrastructure Index includes the listed stocks of companies that meet FTSE Russell's definition of core infrastructure, which is that companies must derive a minimum of 65% of their revenue from FTSE Russell-defined core infrastructure activities. The 50/50 Index employs a capping methodology to the parent Core Infrastructure Index to achieve a diverse and balanced index.
Headline inflation or CPI	The Consumer Price Index (CPI) for all expenditure groups Metropolitan and other urban areas (Base December 2021 = 100) as published by Statistics SA in Statistical Release P0141
Intrinsic value	The "true worth" of a particular asset. According to the Efficient Market Hypothesis, the intrinsic value of an asset is also its market value. According to the Theory of Irrational Markets, the market value may be much more or less than its intrinsic value because investors don't always make rational decisions.
Liability-driven investing (LDI)	LDI is about managing investment risk by reference to the ongoing financial position or solvency of the Fund. This compares the value of the relevant Fund investments to the value that the actuary places on the liabilities, particularly those relating to pensioners, and

	then invests in assets (such as inflation-linked bonds) whose value is expected to change in similar ways to changes in the value of the liabilities, e.g. in response to changes in real interest rates.
Long term intrinsic value investment approach	Investment managers that adopt this investment approach believe that from time to time the market over-prices and under-prices assets compared to their assessed intrinsic value. Such managers will only buy assets that sell at a 20% to 30% discount to their assessed intrinsic value (the so-called "margin of safety"). These managers also accept that it may take the market a long time to recognize the correct intrinsic value and therefore they adopt a long term investment horizon.
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
MSCI World Equity Index	The Morgan Stanley Capital International Index of international equity prices (including dividends) for the developed markets only.
MSCI Emerging Markets Index	The Morgan Stanley Capital International Index of international equity prices (including dividends) for large cap and mid cap companies across 26 emerging market countries.
STEFI Composite Index	Short Term Effective Fixed Interest Index designed to measure the return for cash like instruments with a maximum duration of 12 months
Strategic asset allocation	The mix of equities, bonds and cash (local and global) that statistically has the best chance of meeting the stated investment objective. The strategic asset allocation is derived using an asset model.
Specialist investment manager	An investment manager that manages only a single asset class on behalf of the Portfolio