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INVESTMENT POLICY STATEMENT
(“IPS”)

2024

SENTINEL RETIREMENT FUND
(“The Fund”)

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V8	November 2018
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1. INTRODUCTION

This Investment Policy Statement (IPS) is a formal statement of the main principles underlying the investment policies and strategies of the Board of Fund. It provides a framework in which the Fund can take investment decisions.

The purpose of the IPS is to:

- Describe the investment objectives, strategy and risk philosophy;
- Communicate the investment philosophy of the Fund to role players;
- Identify those involved in the investment process and the expectations of these role players;
- Identify investment guidelines and constraints;
- Describe portfolio construction and investment manager selection processes;
- Provide sufficient investment flexibility in the face of changes in capital market conditions; and
- Describe how the investments of the Fund will be monitored.

While investment managers have complete discretion in the acquisition or disposal of any type of investment, subject to the terms of their mandates, the Board of Fund expect such decisions to be taken within the overall framework of this document. The performance of the investment managers will also be evaluated relative to the considerations herein.

2. BACKGROUND OF THE FUND

The Fund is registered in terms of the Pension Funds Act (No 24 of 1956) and the Income Tax Act (No 58 of 1962). The Fund is structured as a self-administered type A umbrella pension fund that also provides in-house self-insured risk benefits and monthly pensions. The Fund is a defined contribution scheme for active members and a defined benefit scheme for pensioners.

Members and employers contribute a variable rate of pensionable salary. Members and employers can make additional contributions if desired.

The Fund provides its members with modern flexible benefit options. Lump sums can either be converted to a lump sum benefit on early withdrawal or an annuity income on retirement (purchased from the Fund itself or from a third-party provider).

An individual member's retirement benefits are dependent on total contributions and investment returns, i.e., individual member's carry the investment risk (and reward), while the employer's liability is limited to making regular contributions.

3. ROLE PLAYERS

The main role players involved with the Fund's investments are detailed below, together with their core responsibilities in relation to the Fund. The below list is not exhaustive in terms of all the responsibilities.

Role Player	Responsibilities
Board of Fund	1. Ensure due diligence in the execution of their fiduciary responsibilities; 2. Ensure that the Board of Fund are sufficiently educated or assisted by investment specialists to carry out their duties and responsibilities, including selection of investment-related service providers; 3. Approve and annually review the investment strategy and policies; 4. Ensure that Fund Rules are adhered to and all applicable legislation followed;

Role Player	Responsibilities
	5. Ensure compliance with Codes of Conduct and commitment to the Fund's Ethics Charter; 6. Delegate, within the Rules of the Fund, certain duties to the Investment Committee, Chief Executive Officer, Principal Officer, Chief Financial and Investment Officer, Head: Investments or Investment Consultants, but retain full responsibility for those functions; 7. Ensure that expert advice is given independently. Advice given must not be compromised by the relationship of the expert or firm to any service provider, employer or sponsor as the case may be; 8. Communicate relevant aspects of the investment risk and return to members and beneficiaries and periodically reminding members of the need to review the investment choices made by them; and 9. Review default investment choices annually.
Investment Committee	1. Recommend investment strategy and policies to the Board; 2. Ensure compliance with the IPS and regulatory requirements; 3. Ensure the inclusion of appropriate investment specialists and continuity of the investment process; 4. Appoint investment managers to implement the investment strategy, includes decision on size of allocation, mandate, and if required reduction or termination of mandates; 5. Recommend appointment of investment consultants and custodians to the Board; 6. Recommend the investment risk appetite and the limit of the potential loss that the Fund has the capacity to tolerate to the Board; and 7. Advise Board on the risks relating to the responsibility enjoyed by the Investment Committee and the processes or controls necessary to mitigate these risks.
Chief Executive Officer	1. Ensure that decisions of the Board and Investment Committee are implemented; 2. Liaise with service providers to the Fund, unless there is direct contact between the Board and the service provider; 3. Contribute at Board and Investment Committee meetings even though, as CEO, the incumbent does not have a vote in any decisions; 4. Ensure that the Fund meets global best performance standards; 5. Liaise with Investment Committee on all investment related issues; and 6. Management of the Fund.
Principal Officer	1. Ensure that decisions of the Board are implemented; 2. Ensure that the Fund carries out the formal requirements of the law, including those of the Registrar, SARS and any other regulatory authority; and 3. Contributing at Board and Investment Committee meetings even though, as Principal Officer, the incumbent does not have a vote in any decisions.
Chief Financial and Investment Officer	1. Together with the CEO, ensure that decisions of the Board and investment Committee are implemented; 2. Provide oversight on the IPS formulation and review; 3. Implement investment strategy and policies; 4. Monitoring of the entire investment structure of the Fund, including liquidity management; 5. Authority to implement strategic or tactical rebalancing after liaising with CEO, Investment Consultant and Tactical Asset Allocator; 6. Authority to implement hedging strategies, as approved by the Investment Committee, after liaising with the CEO, Investment Consultant and Tactical Asset Allocator;

Role Player	Responsibilities
	7. Authority to appoint transition manager and manage transitions in conjunction with the transition manager and in accordance with the decision of the Investment Committee; 8. Quarterly reporting to the Investment Committee and Board.
Head: Investments	1. Facilitate IPS formulation and review; 2. Together with the CFIO, implement investment strategy and policies; 3. Execution of all investment-related legal agreements (supported by the Legal Department); 4. Day-to-day monitoring of the entire investment structure of the Fund, including liquidity management; 5. Primary contact for all investment-related service providers to the Fund; 6. Together with the CFIO, implement strategic or tactical rebalancing after liaising with relevant key stakeholders; 7. Together with the CFIO, implement hedging strategies, as approved by the Investment Committee, after liaising with relevant key stakeholders; 8. Manage transitions in conjunction with the transition manager and in accordance with the decision of the Investment Committee; 9. Together with the CFIO, ensure global best practice is followed with regard to pension fund investment management; and 10. Quarterly reporting to the Investment Committee.
Investment Managers	1. Invest the capital allocated to them according to their respective mandates; 2. Employ sound operational standards, including governance, systems, administration, auditing, compliance, insurance and risk management; 3. Report back to the CEO, CFIO, Head: Investments, Investment Consultant and Investment Committee when necessary; and 4. Prepare portfolio reports as directed.
Investment Consultant	1. Assist in formulating Fund investment strategy; 2. Conduct an asset liability modelling exercise upon request; 3. Perform investment manager research and make recommendations in this regard; 4. Review investment manager mandates and assist in setting appropriate benchmarks; 5. Conduct risk budgeting analysis on an ongoing basis; and 6. Provide training, monitoring and reporting on an agreed upon basis.
Actuary	1. Provide certification in terms of the Act that assets are appropriate to the liabilities of the Fund; 2. Provide interim and statutory valuations as required; 3. Recommend discount rate to be used in valuing liabilities; and 4. Sign off on investment strategy.
Custodians	1. Maintain the investment custody records of the Fund; 2. Ensure settlements are met and corporate and other cash flow events are actioned as instructed; and 3. Ensure registration of investments in the name of the Fund (where applicable).
Securities Lending Desks	1. Manage the securities lending process on behalf of the Fund; 2. Manage the investment of cash collateral in conjunction with the CFIO and Head: Investments; 3. Minimise the credit risk of these activities;

Role Player	Responsibilities
	4. Ensure the Fund is not prejudiced through this activity, in particular with regard to corporate events; and 5. Provide detailed reporting as agreed.
ESG Specialist	1. Formulate and implement the Fund's responsible investment policies; 2. Formulating and implement the Fund's focused engagement programme on an annual basis; and 3. Provide detailed reporting as agreed.
Engagement Consultant	1. Assist in formulating and implementing the Fund's responsible investment policies; 2. Assist in formulating and implementing the Fund's focused engagement programme on an annual basis; and 3. Provide detailed reporting as agreed.

4. Investment Philosophy

Our investment strategy encompasses patience, discipline and perspective; focus on the long term and income protection. Our asset allocation process is designed to achieve optimal sustainable long-term investment returns at a level of risk, which the Board considers acceptable, and which is cognisant of our pay-out obligations. We manage risk through diversification across geographies, asset classes, within asset classes and through position sizing. We approach investments in a responsible manner incorporating sustainability considerations, including the environmental, social and governance impact of our investments.

Core Investment Beliefs

- Market inefficiencies provide an opportunity to add value through active management;
- Investment managers should be appropriately evaluated and incentivized to ensure alignment with the interests of the Fund;
- Long-term performance is the culmination of various short-term outcomes. We seek to enhance long-term results by also understanding when shorter term mispricing provides opportunities and ensuring implementation in a risk-controlled manner; and
- Long-term investments should be used to contribute to the transformation of the investment industry, the broader economy and society.

Fund Investment Objectives

The objective of the Fund, in terms of its Rules, is to provide retirement and other benefits for members and pensioners.

The principal long-term goal of the Fund is to optimise the benefits of our members and pensioners, having due regard to the term and nature of obligations and the associated investment risks.

In reaching this primary long-term goal, we strive to achieve the following associated secondary goals:

- Active members achieving a pension on retirement, which has a maximum reasonable size, i.e., able to purchase an annuity of 75% of the member's salary at retirement for a person that has contributed at least 15% of salary for 40 years to the Fund, based on the following assumptions;
    - Future annual salary increases of CPI.
    - Fund credits would grow at expected SAA returns.
    - Members buy joint-life annuity at retirement, guaranteed for five years with 75% spousal reversion.
- Appropriate benefits and inflationary growth in pensions during retirement, targeting a minimum increase of 80% of headline inflation, while protecting income;

- Provision for disability and any dependants in the event of death;
- Ensuring that, at the time of leaving the services of an employer, members are not prejudiced through short-term risk or adverse pricing;
- Optimal choice of investment portfolios, given dynamic markets and the changing member risk profiles; and
- Being a responsible investor.

Key Inputs

Key inputs used in the development of the investment strategy of the Fund include:

- The nature of the Fund, being defined contribution for active members and defined benefit for pensioners;
- The Rules of the Fund;
- Characteristics of membership derived from member data and mortality assumptions provided by the Actuary;
- Statutory requirements, in particular the Pensions Fund Act;
- The funding level of the pensioner portfolio; and
- Limitations placed on asset classes, either by the Rules of the Fund or Regulation 28.

Liability Driven Investment Strategy

The Fund has a stream of potential cash flows that are required to meet future liabilities. These liabilities are the primary driver of the Fund's asset profile.

The Fund pursues a Liability Driven Investment (LDI) strategy that is tailored specifically to meet future cash flow needs (i.e., Fund liabilities). This provides a level of confidence that the Fund will be adequately funded to meet its liabilities over the long-term, while addressing shorter term cash flow needs. The LDI strategy seeks to minimise the volatility in the funding level (ratio of assets to liabilities) of the Fund's portfolios. By implication any external investment shock on the asset side is matched by a similar, but offsetting, impact on the liability side. The net effect is a funding level that is largely immune to shock.

Asset Liability Modelling

Asset Liability Modelling (ALM) enables the Fund to gain valuable insight into the liability structure of the different portfolios and stochastically models an asset structure to suit these liabilities. The ALM results provide a solid platform from which to make informed decisions regarding an appropriate investment strategy for the different portfolios.

Inputs into the ALM process include:

- Detailed member and pensioner information;
- Prevailing Fund Rules; and
- Actuarial valuation.

This information is used to model detailed Fund dynamics in order to obtain an accurate and representative collective liability profile for Fund portfolios.

The Fund performs an ALM process at least every 18 months or when deemed necessary due to changing circumstances.

Strategic Asset Allocation and Manager Selection

The goals of the Fund, taking into account the risk tolerance, investment risks and expected market conditions will determine the appropriate strategic asset allocation as well as manager and mandate selection. The strategic asset allocation as well as the manager and mandate selection may be amended from time-to-time. The strategic asset allocation and rebalance process is recorded in Appendix 1. The manager and mandate selection is recorded in Appendix 2.

Responsible Investing

The Fund and its role players should be cognisant of the environmental, social and governance factors that impact its operating environment. The Board of Fund recognises responsible investing (including proxy voting and high impact investments) as part of the Fund's investment strategy and will review it from time-to-time.

All investments should meet responsible investment guidelines. Investment managers in particular are expected to consider and apply responsible investment principles. Investment managers will be expected to provide a written report, on request, on their responsible investment approach.

Appendix 5 details the principles, measurement and goals with regard to the Fund's ESG stewardship investment policy and framework.

5. PORTFOLIO CONSTRUCTION AND MANAGER ALLOCATION

Fund Portfolio Objectives

In recognition of the consequences of a defined contribution scheme, different member profiles and the existence of substantially different pensioners, a variety of different portfolios are defined and created for members in the form of a 'life-stage' range, where members will migrate to different portfolios as they approach and reach retirement.

Portfolio Construction

The Board of Fund follows a multi-portfolio approach for the various members of the Fund, each portfolio designed for specific members or purpose. Each portfolio therefore has different risk and return characteristics. Implicit to this selection is a component designed as a default 'life-stage' approach to pension funding for members, the balance used to ensure complete investment choice options.

With this approach the Board has selected:

1. Three distinct market-linked "life-stage" portfolios as the default for active members;
2. A Shari'ah compliant portfolio and a money market portfolio that, together with the three "life-stage" portfolios provides a diverse set of investment choice options; and
3. A portfolio designed to deal specifically with pensioners.

The Board of Fund approved two approaches in determining how members will be allocated to portfolios:

i. ***The first is default portfolio choice:*** in the absence of any specific member instructions, the Fund allocates members into one of three portfolios depending on their age and term to retirement. This approach ensures that the individual member's risk reduces as the member approaches his/her retirement date. "Life stage" switches are carried out in the month of the member's birthday in the year of a switch as determined by the life stage portfolio's term to retirement. At retirement date, the market value of a member's accumulated contribution, less any lump sum taken, is moved to the Pensioner portfolio, where such assets are used to provide an annuity income, in terms of the Pensioner Income Choice options, determined by the ruling pension conversion rates indicated by the scheme. Alternatively, a member may withdraw from the Fund up to one day before normal retirement date, transfer to an approved fund and then purchase a pension from an external provider of pension annuities.

ii. ***The second is member investment choice:*** the member can elect any of the portfolios available. While this option is available to all members, it is intended for the more sophisticated members with a better understanding of their specific circumstances and risk preferences. Returns earned by members are dependent on the investment portfolio choice. This allows recognition of the risk taken by the members in the different products. Under flexible investment choice, members are allowed full discretion in switching between portfolios. Two free investment choice switches per annum are allowed. All subsequent switches for the year attract a switching fee of 10 basis points, subject to a maximum of R5000.

Each market portfolio is managed by allocating a different weight to each of the asset classes using the same underlying investment managers as building blocks. The asset allocation differences are used to adjust the risk and return profiles for the different portfolios. The current asset allocation is reflected in Appendix 1. The risk budget quantifies the acceptable amount of risk that the Fund is willing to take in its investment decisions, without compromising its ability to meet current and future liabilities.

The following describes, in broad terms, portfolio objectives:

Wealth Builder This portfolio is designed to deliver (but does not guarantee) a net investment return of 5.0% per annum above headline inflation over the long-term. This portfolio has an aggressive risk/return profile and is appropriate for members wishing to capture strong market performance over and above merely maintaining purchasing power.

Inflation Protector This portfolio is designed to deliver (but does not guarantee) a net investment return of 4.75% per annum above headline inflation over the long-term. This portfolio has a moderate risk/return profile and is appropriate for members with a clear purchasing power outperformance goal, but who has a concern for performance substantially below these levels.

Pension Protector This portfolio is designed to deliver (but does not guarantee) a net investment return of 4.5% per annum above headline inflation over the long-term. This portfolio has a low risk/return profile and is appropriate for members wishing to protect capital, returns and purchasing power.

Pensioner This portfolio is designed to deliver (but does not guarantee) a net investment return of 4.0% per annum above headline inflation over the long-term. This portfolio has a low risk/return profile and aims to meet inflation-adjusted pension payments.

Money Market This portfolio is designed to deliver (but does not guarantee) a net investment return of 1% per annum above headline inflation. This portfolio has a very low risk/return profile (investing exclusively in cash or near cash instruments) and is appropriate for members wishing to avoid market volatility over the very short-term. It is not appropriate for medium to long-term investment horizons.

Shari'ah This portfolio is designed to deliver (but does not guarantee) a net investment return of 4% per annum above headline inflation over the long-term. This portfolio has a low risk/return profile and caters specifically for those members who do not want to compromise Islamic laws.

Risk This portfolio is designed to provide active members with death and disability benefits. It has a low risk/return profile.

The risk/return objectives may be amended from time to time due to changes in liability profile, long-term capital market risk / return expectations or the investment outlook and environment.

The characteristics of the different portfolios are as follows:

Portfolio Name	Portfolio Type	Term to NRA	Return Benchmark	Target Solvency Risk Tolerance
Wealth Builder	Life stage - Aggressive	12+ years	CPI + 5.0%	10%
Inflation Protector	Life stage – Moderate	5 to 12 years	CPI + 4.75%	9%
Pension Protector	Life stage - Conservative	-5 years	CPI + 4.5%	8%
Pensioner	Annuity Income	At and post-retirement	CPI + 4.0%	7%
Money Market	Member Choice	Unspecified	CPI + 1.0%	1%
Shari'ah	Member Choice	Unspecified	CPI + 4.0%	4%
Risk	Death and Disability Benefit Cover	Unspecified	CPI + 2.0%	2%

The Fund employs a 'building block approach' whereby a variety of specialist investment managers are selected based on perceived skill and potential benchmark out-performance for mandates selected for each asset class. This approach includes considering the merits of active and passive investments.

Diversification is applied across and within asset classes, is considered prudent and decreases portfolio risk. Cost considerations that apply to diversification is taken into account and a balance is struck between the mitigation of risk and the cost associated with diversification.

The Fund employs the services of a tactical asset allocation (TAA) expert to enhance the performance of the Fund through positioning the asset allocation of the Fund slightly differently to the strategic asset allocation in order to benefit from short-term market mispricing.

Manager Selection

Manager choice risk is taken to add additional alpha (i.e., to make up the difference between expected asset class returns and targeted portfolio returns).

The Fund's assets will be managed by appointed investment managers, with best-in-class managers selected for all mandates. Each of the appointed managers pursues their own strategies and controls the investments of their particular portfolio only. Each investment manager is expected to exercise judgement in choosing appropriate investments.

Investment managers are monitored and managed dynamically for maximum management and performance efficiency.

The approach to the selection of investment managers and the fees paid to current managers are outlined in Appendix 2.

Mandate Selection

The approach applied by the Fund is that of mandate blending, which recognises distinct style components in the portfolio and manages them separately, in order to reduce the implicit risks and biases resulting within each mandate.

Benchmarks provide the rational anchor for the long-term investment strategy of each portfolio. Benchmarks are set for each asset class and each mandate. In addition, a performance target is set for each mandate, which require the manager to add performance alpha over and above the benchmark return.

All portfolio, asset class and investment manager risk and return are also subject to a peer group review. Listed asset class performances are calculated on a Time Weighted Rate of Return basis and private equity performance is calculated on a Since Inception Internal Rate of Return basis.

Benchmarks selected per asset class is reflected in Appendix 1 and benchmarks selected per mandate is reflected in Appendix 2.

Portfolio performances are measured against both an inflation-linked long-term performance objective as well as against an asset-based performance benchmark. The asset-based performance benchmark is the weighted average performance of the strategic allocation to underlying asset classes.

While long-term performance is measured over 60-month cycles, it is recognised that sound long-term performance is dependent upon an accumulation of sound short-term performances. Shorter term performances are therefore monitored and used to assess the impact of change.

6. INVESTMENT GUIDELINES AND CONSTRAINTS

Regulatory, Tax and Legal

The Fund must comply with all the relevant provisions of the Pension Funds Act and the Fund's investments must at all times be managed within the framework as set out in the principles of Regulation 28 (the prudential investment guidelines). These provisions govern the maximum permitted exposures to, and within, various asset classes and establishes the legal framework in which the Fund, its investment managers and its advisors should operate.

Section 19(5D) of the Pension Funds Act states that a fund shall not without the prior approval of the Registrar, directly or indirectly, acquire or hold shares or any other financial interest in another entity which results in the fund exercising control over that entity. The approval may be given subject to such conditions as the Registrar may prescribe.

The Fund has no intention to exercise control over any entity in which it has invested and as such the pre-investment process review includes measures to ensure compliance with Section 19(5D). To ensure post investment compliance two additional controls will be applied:

- Commitments will be subject to a limit of 49% of total capital raised by a fund (condition added to monetary value of commitment)
- Funds will be required to issue drawdowns on a proportional basis (Sentinel drawdown limited to its percentage of total commitments)

To the extent that any changes occur in the regulatory framework, the Board of Fund will need to contemplate changes to the strategy and/or the IPS.

Currently retirement funds attract no tax. Any changes in tax which affect the Fund will require a revision of the investment strategy. The Board of Fund will need to consider the implications of any tax changes on member's benefits and the portfolios when these changes occur.

With the introduction of dividend withholding tax (DWT), withholding agents have the responsibility to ensure that the Fund is refunded / treated as an exempt entity under all circumstances. It is the responsibility of Management to ensure all measures are in place to effect this arrangement.

Time Horizon

The time horizon for the Fund's pensioner portfolio is determined by the longevity of the pensioners, while the time horizon for each of the "life stage" portfolios is dependent on the term to retirement of the particular portfolio's members. Investments and risk are structured around the consequent goals and risks.

The investment time horizon of the overall Fund, in common with all retirement funds, is long-term. The effective time horizon for investment managers is likely to be shorter, given the need to demonstrate performance on a regular basis. Short-term performance considerations should not outweigh the need to provide for the long-term in the selection of assets. However, it should be recognised that sound long-term performance is dependent upon an accumulation of sound shorter-term performances.

Liquidity

The Fund faces liquidity constraints as a consequence of members exiting the scheme and large monthly pensioner payments. Short-term cash requirements may arise from time to time and are raised by the Fund's administrator with the knowledge of the Board as they arise.
To ensure that adequate liquidity is maintained to cover for this eventuality, the Fund sets two broad liquidity requirements:

1. A minimum of 35% of the Fund's assets will be in liquid form at all times, i.e., convertible to cash within 15 days.
2. A maximum of 25% of the Fund's assets will be in illiquid form, i.e., not readily convertible to cash.

Cognisance is taken of the liquidity of the Fund's investments as a matter of prudence. The magnitude of the Fund's holdings in an investment should not cause the Fund difficulty in liquidating the holding. Furthermore, the Fund's activities should not significantly affect the price of the relevant investment under normal market conditions.

Guidelines are also provided for specific asset classes and investment managers to ensure that liquidity risk is managed within constraints set by the Fund.

The Fund does not borrow against assets in order to meet short-term cash flow requirements.

Counterparty and Credit Risk

It is important to ensure that counterparties to all transactions are able to fulfil their obligations to the Fund. To this end counterparty risk management policies must be drawn up by investment managers. Counterparties may include banks, brokers and parties to derivative contracts among others.

Manager mandates sets credit limits for cash, fixed interest and structured products from time-to-time. Managers must adhere to these restrictions and must apply in writing for any relaxation.

While the minimum credit rating is set at "BBB", it may happen from time-to-time that, due to rating changes and market conditions, lower rated assets are included in portfolios. These positions are to be liquidated in an orderly fashion.

For the purposes of this IPS the following ratings agencies are recognised – Standard & Poor's, Moody's Investor Services and Fitch Ratings.

Securities Lending

The Fund uses multiple agents to carry on securities lending activities. This activity is carried out with due process to ensure the assets are not prejudiced through poor credit risk of the agents dealing on behalf of the Fund. Counterparty risk is managed by the lending agent.

Limits are established with due consideration to regulatory compliance, voting policy, liquidity, size and anticipated direction of trade of positions of the managers' holdings.

All securities lending arrangements must comply with Regulation 28 – conditions for securities lending transactions.

The process does not impact on the management of the assets by the investment managers.

The current limits applicable to the different agents are specified in Appendix 3.

Fees

Performance-based fee structures, to align investment manager interest with that of the Fund, is preferred. Calculation methodology is clearly defined within investment mandates and provides for managers to "share in losses" as well. In case of agreement termination, pro-rata fees will be paid.

All fees (including management fees, performance fees where applicable, custody fees and transaction cost) is taken into account when considering the choice of investment manager and mandate.

All service providers to the Fund must fully disclose any commissions, rebates, discounted rates or fees received.

The Fund has a mechanism in place to ensure proper monitoring of fees.

Permitted Investments

Details relating to permissible investments are set out in investment mandates. Deviations are subject to prior approval by the Fund.

Private equity investments are subject to the following:

- Performance is measured on a since inception internal rate of return (SI-IRR) basis.
- Compliance with Regulation 28 conditions for investment in private equity funds by pension funds.
- Valuations of private equity investments should be done in line with the International Private Equity and Venture Capital Valuation Guidelines. The objective is to ensure that private equity investments are reported at fair value.

Utilisation of derivatives

In general, derivatives may be used as follows:

Asset Allocation - derivatives may be used to allocate funds effectively across different asset classes.
Duration Matching - derivatives may be used to match the duration of the Fund liabilities.
Hedging - derivatives may be used to hedge the portfolio without having to dispose of or accumulate the underlying assets.
Insurance - derivatives may be bought to insure against specific events.
Yield Enhancement - the investment manager may take advantage of anomalies in the derivative market pricing in order to enhance the portfolio's investment returns.
Product Construction - the investment manager may use derivatives in the construction of specialist products.

In general, derivatives may not be used to:

Speculate - under no circumstances may the investment manager speculate in the derivative market.
Gear - the use of derivatives may not cause the portfolio's aggregate economic exposure to exceed its market value, i.e., there must be no leverage or gearing of any nature in the portfolio.
Circumvent portfolio restrictions - the total effective exposure (physical plus effective derivative) in the portfolio of any asset restricted in terms of the mandate, must be within the limits prescribed.

Call options written, put options bought, and futures/ forwards sold on components of the portfolio and/or indices must be fully covered by appropriate reference assets. Where the underlying asset is a basket of shares, high correlation should exist between the basket, leaving no material residual risk.

Put options written, call options bought, and futures/ forwards bought must be fully covered by the portfolio's cash, money market instruments or liquid assets (i.e., convertible to cash within 0 to 15 days)

Implementation of derivative overlays for the purposes of asset allocation and hedging by management is limited to 17.5% of the combined value of the life stage and pensioner portfolios.

Both listed and OTC derivatives are permissible, provided that, there is a consistent, transparent, and recognised derivative instrument valuation methodology to value the derivative instrument.

Investment managers must disclose their strategy for the use of derivatives, and those used in the portfolio on a physical and effective basis, in their reports.

Derivatives must at all times comply with the conditions for the use of derivatives by pension funds as set out in Regulation 28 of the Pension Funds Act.

Total direct derivative exposure, excluding derivative instruments used for the purpose of duration matching, is limited to 35% of the combined value of the life stage and pensioner portfolios.

Implementation

The Fund's investments are managed by appointed firms of investment managers.

7. INVESTMENT MONITORING

Performance and risk within asset classes and for portfolios will be monitored on a monthly basis.

Investment managers should aim for consistent long-term outperformance while making sure that there are no major performance draw downs in the short-term. As a measure of this, investment managers will also be measured on a rolling 12-month basis as well as over 3-year time frames.

In order to ensure that the principles set out in this IPS are being adhered to, and to evaluate the performance of the appointed investment managers and the overall investment structure, regular reports are submitted to the Investment Committee.

8. REVIEW OF THE INVESTMENT POLICY STATEMENT

The Investment Policy Statement (IPS) is treated as a "living" document and as such the Board will review components of the IPS of the Fund on an ongoing basis. Fundamental changes in the Fund's liabilities and/or the long-term investment risk/return outlook will trigger a review of the Investment Policy.

Any changes to this document are approved within the discretion of, and in terms of, the defined roles and responsibilities outlined in section 3 above.

APPENDIX 1: ASSET ALLOCATION AND REBALANCING

Risk and Return Objectives

The risk/return objectives of the Fund and market conditions determine the appropriate asset allocation over time. Risk/return assumptions are converted into assumptions relative to those implicit in liabilities (the latter is quantified in terms of inflation-linked bonds). The underlying risk/return assumptions, per asset class, used in modelling the appropriate asset allocation, as reflected in this IPS, are as follows:

Asset Class	Expected Real Return (%)	Expected Real Risk* (%)
Foreign Money Market	1.15	12.59
SA Money Market	1.25	1.83
Foreign Bonds	1.79	12.78
SA Nominal Bonds	4.84	5.59
SA Medium Term ILB	4.93	5.69
SA Long Term ILB	4.94	7.89
Foreign Property	5.00	17.81
SA Property	6.00	19.22
Developed Market Equity	6.75	15.50
SA Equity	7.90	15.13
Emerging Market Equity	7.90	17.29
Frontier Market Equity	8.00	24.48
Africa Equity	8.05	23.96
China Equity	8.20	32.41

**Measured as 1 standard deviation.*

Current Asset Allocation

Given the risk and return parameters described in the Investment Policy Statement, the current asset structure required to meet the Fund's objectives is as follows:

PORTFOLIO: WEALTHBUILDER			
Asset Class	**Strategic Asset Allocation (%)**	**Asset Allocation Range (%)**	**Benchmark**
SA Equity	39	35 – 43	Capped SWIX
SA Property	5	1 – 9	ALPI
SA Nominal Bonds	2	0 – 7	ALBI
SA Medium Term ILB	0	0 – 5	R202
SA Long Term ILB	13	8 – 18	50% I2046 / 50% I2050
SA Money Market	2	1 – 3	STEFI
Africa Equity	7	4 – 10	MSCI EFM Africa (ex SA)
Foreign Equity	17	13 – 21	MSCI ACWI
Foreign Property	4	0 – 8	EPRA NAREIT Developed
Foreign Bonds	0	0 – 5	BGABI
Foreign Money Market	0	0 – 3	1m USD SOFR
Emerging Market Equity	6	2 – 10	MSCI EM (ex SA)
Frontier Market Equity	0	0 – 7	MSCI FM
China Equity	5	1 – 9	65% MSCI China A Onshore / 35% MSCI China

PORTFOLIO: INFLATION PROTECTOR			
Asset Class	**Strategic Asset Allocation (%)**	**Asset Allocation Range (%)**	**Benchmark**
SA Equity	33	29 – 37	Capped SWIX
SA Property	6	2 – 10	ALPI
SA Nominal Bonds	4	0 – 9	ALBI
SA Medium Term ILB	0	0 – 5	R202
SA Long Term ILB	16	11 – 21	50% I2046 / 50% I2050
SA Money Market	2	1 – 3	STEFI
Africa Equity	7	4 – 10	MSCI EFM Africa (ex SA)
Foreign Equity	17	13 – 21	MSCI ACWI
Foreign Property	4	0 – 8	EPRA NAREIT Developed
Foreign Bonds	0	0 – 5	BGABI
Foreign Money Market	0	0 – 3	1m USD SOFR
Emerging Market Equity	6	2 – 10	MSCI EM (ex SA)
Frontier Market Equity	0	0 – 7	MSCI FM
China Equity	5	1 – 9	65% MSCI China A Onshore / 35% MSCI China

PORTFOLIO: PENSION PROTECTOR			
Asset Class	**Strategic Asset Allocation (%)**	**Asset Allocation Range (%)**	**Benchmark**
SA Equity	22	18 – 26	Capped SWIX
SA Property	6	2 – 10	ALPI
SA Nominal Bonds	4	0 – 9	ALBI
SA Medium Term ILB	0	0 – 5	R202
SA Long Term ILB	27	22 – 32	50% I2046 / 50% I2050
SA Money Market	2	1 – 3	STEFI
Africa Equity	7	4 – 10	MSCI EFM Africa (ex SA)
Foreign Equity	17	13 – 21	MSCI ACWI
Foreign Property	4	0 – 8	EPRA NAREIT Developed
Foreign Bonds	0	0 – 5	BGABI
Foreign Money Market	0	0 – 3	1m USD SOFR
Emerging Market Equity	6	2 – 10	MSCI EM (ex SA)
Frontier Market Equity	0	0 – 7	MSCI FM
China Equity	5	1 – 9	65% MSCI China A Onshore / 35% MSCI China

PORTFOLIO: PENSIONER			
Asset Class	**Strategic Asset Allocation (%)**	**Asset Allocation Range (%)**	**Benchmark**
SA Equity	21	17 – 25	Capped SWIX
SA Property	6	2 – 10	ALPI
SA Nominal Bonds	4	0 – 9	ALBI
SA Medium Term ILB	0	0 – 5	R202
SA Long Term ILB	28	23 – 33	50% I2046 / 50% I2050
SA Money Market	2	1 – 3	STEFI
Africa Equity	7	4 – 10	MSCI EFM Africa (ex SA)
Foreign Equity	17	13 – 21	MSCI ACWI
Foreign Property	4	0 – 8	EPRA NAREIT Developed
Foreign Bonds	0	0 – 5	BGABI
Foreign Money Market	0	0 – 3	1m USD SOFR
Emerging Market Equity	6	2 – 10	MSCI EM (ex SA)
Frontier Market Equity	0	0 – 7	MSCI FM
China Equity	5	1 – 9	65% MSCI China A Onshore / 35% MSCI China

PORTFOLIO: MONEY MARKET (MIC)			
Asset Class	**Strategic Asset Allocation (%)**	**Asset Allocation Range (%)**	**Benchmark**
SA Money Market	100	N/A	STEFI

PORTFOLIO: DEATH AND DISABILITY#			
Asset Class	**Strategic Asset Allocation (%)**	**Asset Allocation Range (%)**	**Benchmark**
SA Nominal Bonds	10	5 – 15	ALBI
SA Medium Term ILB	0	0 – 5	R202
SA Long Term ILB	10	5 – 15	50% I2046 / 50% I2050
SA Money Market	80	75 – 85	STEFI

#Portfolios will maintain a minimum R15 million money market exposure. The remainder of the portfolio will be allocated as per the asset allocation.

PORTFOLIO: OTHER			
Asset Class	**Strategic Asset Allocation (%)**	**Asset Allocation Range (%)**	**Benchmark**
SA Money Market	100	N/A	N/A

<u>Notes</u>

1) Asset allocation is revised as the market outlook, Fund circumstances or member goals change through time.
2) The asset allocation ranges are determined within an entire risk budgeting exercise, which includes the impact of mandate and manager selection. Asset allocation introduces risk; this increases the further the portfolio deviates from the long-term strategic portfolio. Asset manager selection and mandate construction introduces further risk. Given a fixed amount of risk, the Fund needs to trade off manager risk in favour of asset allocation risk. The two decisions are therefore linked and any decisions concerning one affect the other.
3) Credit, infrastructure, unlisted property, hedge fund and private equity exposure is incorporated into the above allocations based on their underlying asset class risk exposure.
4) Structured products, where used, reflect the exposure as determined by their effective exposure.
5) The various reserves all have their own unique investment strategies drawn up and is managed with the building blocks best suited to the commitments of each such pool.
6) All portfolios must comply with Regulation 28 limits at all times.

Direct investments*

Subject to the approval of the following sub-committee R500m is approved for direct unlisted investments:

- Chairman of the Board
- Chairman of the Investment Committee
- Nominated Trustee
- CEO
- CFIO
- Head: Investments
- Investment Consultant

**This represents direct, unlisted investment in specific companies.*

Rebalancing

The strategic asset allocation is the main driver of the long-term investment return and risk. This allocation typically offers the highest expected risk-adjusted return consistent with the willingness of the member to take on risk relative to their objectives. Over time allocations tend to drift away from the strategic allocation - the main reasons for this drift are:

- Relative performances of the different asset classes in the portfolio;
- Relative performances in investment styles;
- External cash flows; and
- Relative market and currency performances.

Three common arguments why rebalancing makes sense:

1) Portfolio performance is compared to the strategic asset allocation benchmark. Any deviation from this target allocation may result in an outperformance or underperformance of the strategic benchmark.
2) Rebalancing tends to enforce a “sell high / buy low” discipline. The maintenance of the strategic asset allocation may lead selling or down weighting outperforming asset classes, managers and markets and buying or up weighting underperforming asset classes, managers and markets.
3) If a portfolio is left to drift according to market movements, it may become inefficient. This may lead to a potential shortfall in meeting member investment objectives or a higher level of risk than what was originally approved by the Board in their choice of portfolios. Rebalancing ensures that the risk levels remain in line with the original objective, restoring the portfolio to its desired position on the efficient frontier.

An asset allocation rebalance, normally entails “switching” between asset classes to change the Fund structure to reflect the new asset and liability structure of the Fund. This process usually entails some degree of “market timing” to avoid locking in losses, i.e., to avoid purchasing into “expensive” asset classes in extreme market conditions. The objective in this process is therefore to minimize any loss of moving out of and into asset classes that are over or undervalued. However, one must bear in mind that rebalancing has its own costs, both explicit transaction and impact costs. The Fund applies centralised transition management to reduce costs and risks. This is necessary to avoid inefficiencies, such as investment managers buying and selling the same assets and thereby impacting prices to restructure portfolios.

Rebalancing Guidelines

- To ensure portfolios remain within the guidelines set out in the IPS, the asset mix is reviewed on a monthly basis.
- The asset allocation range limits the extent to which portfolio can deviate, in terms of exposure, from the long-term strategic asset allocation.
- To this end, the asset allocation is rebalanced whenever the exposures are in breach of these ranges, unless the Investment Committee specifically approves deviation from this procedure.
- Recognising the cost of such rebalancing as well as the nature of investment markets, rebalancing involves transacting in the asset class in breach. When an asset class moves beyond the range limit, that specific asset class is increased or reduced to move its exposure to halfway between the outer limit and the target exposure. The increase or reduction in exposure to one or more asset class must be offset by an equivalent reduction or increase in exposure to one or more other asset class.
- Where no single other asset class has an equivalent over or under exposure the decision which asset class or classes is increased or reduced is taken in conjunction with the Tactical Asset Allocator and the Investment Consultant.
- Investment manager rebalancing is incorporated into each asset class rebalancing based on advice received from the Investment Consultant.
- In order to facilitate the decision-making on where to invest or disinvest, and to rebalance the Fund’s portfolios accordingly where necessary, the Investment Consultant provides an optimal portfolio structure report.

- Rebalancing may occur either by redirecting cash flows or transfers between asset classes or managers.
- Occasionally the use of futures will be considered.
- The benchmark is fixed at the asset allocations provided above.
- This fixed asset allocation guideline is also used for tactical asset allocation (TAA) purposes.
- The Resi/Findi sector split is maintained within 5% (as a % of equity) of the SWIX weighting when mandates are measured as the composite of all equity.
- The Resi/Findi mandates are maintained within 2% of the SWIX weighting, as this allocation needs to be broadly maintained. Once rebalancing is triggered these mandates are rebalanced to a neutral position.
- Private equity exposure may only be reduced in the event that investment realisations permit such a move.

APPENDIX 2: MANAGER SELECTION AND INVESTMENT STRUCTURE

Introduction

A “building block” approach forms the framework within which the Fund will implement various mandates. By implication the Fund will use specialist mandates rather than balanced mandates. The Fund believes that inefficiencies exist in certain asset classes and markets, which provide opportunity to add value through active management. Passive management will be used in asset classes or markets where the prospect of adding value is limited, for an interim mandate or where significant cost savings may be achieved for similar performance.

Base fees will be set as low as possible. The Fund will ensure that the manager’s interest is aligned with its own through an appropriate performance fee structure. In this regard careful consideration will be given to establishing an appropriate benchmark, performance hurdle, incorporation of a high-water mark, suitably long measurement period and introduction of a total fee cap.

Manager Selection

In broad terms mandate allocation will be based on the following factors:

1. Expected contribution to overall portfolio outcome (how it fits into the overall investment structure)
2. Style / mandate blending
3. Correlation analysis
4. Risk diversification

Best in class managers are selected for all building blocks. This is determined through a rigorous process of both quantitative and qualitative evaluation of managers. Qualitative evaluation of the manager includes understanding the investment philosophy and processes of the manager, the people employed by the manager, risks introduced by the manager and the management of those risks, investment style and the administrative support provided to the manager. Administrative support refers to the strength of the administration team and the systems used for various investment-related functions and reporting.

The manager’s investment philosophy and process should be distinctive, logical, consistently applied, understood, believed and adhered to across the organization. Quantitatively the manager must be capable of achieving performance targets. Amongst other things “active share” and peer comparisons will be used to assess manager ability to add value. Style drift will be used to assess consistency of application. Stress testing and sell discipline will be assessed as key measures in risk management.

The diagrams below represent broad factors, which are evaluated:

Qualitative Factors	Quantitative Factors
• Organisational Structure	• Investment Style
• Investment Team	• Investment Performance
• Investment Process	• Risk Management
• Investment Philosophy	• Fee Structure

The detailed due diligence consists of a questionnaire as well as an on-site visit which covers at least the following:

COMPANY DETAILS	
➢ Name ➢ Address	➢ Key Individuals ➢ FSP license number and details
COMPANY STRUCTURE AND BUSINESS-RELATED ISSUES	
➢ Founding date ➢ Company registration details ➢ Company history ➢ Company structure ➢ Shareholders and shareholding ➢ Ownership ➢ Governance/management structure ➢ BEE credentials • Ownership • Board representation • Management • Staff • Procurement ➢ Details of conflicts of interest ➢ Nature of business ➢ Assets under management ➢ Breakdown of client base (% exposure) and products. ➢ Sources of income	➢ Details of legal judgments, convictions, court cases ➢ Corporate social responsibility policy ➢ Signatory of UNPRI/CRISA code ➢ Staff details ➢ Staff turnover ➢ Key man risk ➢ Remuneration/Incentive structure ➢ Gift policy ➢ Staff training and development strategy ➢ Regulatory oversight ➢ Transparency ➢ Investment structure ➢ Public availability of information ➢ Life cycle of company ➢ Document verification ➢ Review of legal arrangements/documentation ➢ Background checks
OPERATIONS	
➢ GIPS Compliance ➢ Systems • Admin • Reporting (Customization capability) • Accounting • Dealing • Compliance • Risk • Attribution • Portfolio management	➢ Administrator ➢ Outsourced partners ➢ Turnaround times ➢ Auditors • Internal • External ➢ Compliance procedure description ➢ Insurance ➢ Disaster recovery plan ➢ Dealing ➢ Broker allocation and brokerage
PRODUCT / STRATEGY (PER MANDATE)	
➢ Objectives ➢ Assets under management ➢ Inception date ➢ Capacity ➢ Investment vehicle ➢ Investment/disinvestment conditions ➢ Fee structure ➢ Portfolio manager/team ➢ Risk profile ➢ Benchmark ➢ Net flows ➢ Regulatory compliance ➢ Decision making process ➢ Investment style ➢ Investment philosophy ➢ Investment process ➢ Investment time horizon	➢ Key performance drivers ➢ Investment universe ➢ Idea generation ➢ Research ➢ Models used ➢ ESG / Sustainability consideration ➢ Portfolio construction, optimization and implementation process ➢ Risk factors, including credit and market ➢ Liquidity ➢ Use of derivatives ➢ Evaluation of effectiveness ➢ Compliance review ➢ Performance attribution ➢ Stress testing ➢ Risk management and monitoring ➢ Measurement of style drift
TECHNICAL ANALYSIS	
➢ Absolute and relative performance (also impact of increase in AUM) ➢ Risk statistics ➢ Quantitative and qualitative ➢ Style analysis	➢ Active share analysis ➢ Portfolio construction review ➢ Sell discipline review ➢ Holdings and exposure review ➢ Peer comparison

The operational due diligence, conducted by management of the Fund through a questionnaire and on-site follow-up visit (if required), will cover the following:

- **Detailed systems review**
- **Detailed administration review**
- **Detailed legal review covering contracts, investment structures and licenses**
- **Assessment of unlisted valuations process (where applicable)**

Manager Appointment

The Investment Committee has the delegated authority from the Board of Fund ("Board") to appoint investment managers. The following process is followed in the appointment of a new manager or the addition of a new mandate:

Step 1	As part of their service level agreement the Investment Consultant continuously screens the investment manager landscape for new ideas or developments. Management of the Fund simultaneously engages with investment managers and may refer any of these to the Investment Consultant for formal review. The Investment Committee may, based on its own assessment of the investment structure, provide input or guidance with regards to the manager search process.
Step 2	The Investment Consultant performs a detailed due diligence on all investment managers considered for a specific mandate.
Step 3	In general, recommendations made to the Committee represent an attempt to address specific requests made by the Committee, to fill a specific gap in the investment structure or to employ a "unique" product offering. In this context, compiling a shortlist of managers to present to the Committee may be problematic for the following reasons: • When a manager needs replacement due to performance concerns, the challenge is to find suitable "second tier" managers with the skills set to match the top tier managers. It should be borne in mind that the Fund will attempt to maintain a specific style blend in the structure, and it may not want to add to existing managers given size concerns. • If the brief includes a further requirement to address the Fund's BEE manager exposure the universe of managers reduces even further. • It would be inappropriate to expect members of the Investment Committee to rate a short list of managers without some level of "training" on rating investment managers, even more so when all the work was done by the Investment Consultant and management of the Fund. As a result, the Investment Consultant may recommend only a single manager for a new mandate under consideration. The size of the allocation may be determined by performing an optimization exercise within the relevant asset class or may be left up to determination by the Investment Committee. The recommendation must include a brief summary of managers considered and the reasons for the specific recommendation. The Investment Consultant must, as part of this submission, disclose all and any conflicts of interest that may exist between it and either the recommended manager or any of the other managers considered.
Step 4	Management of the Fund will complete an operational due diligence on the selected manager. All appointed investment managers must be licensed in terms of Financial Sector Conduct Authority requirements (FAIS category I, II, II (A) or III depending on the nature of the Financial Service Provider). Licenses are to be confirmed by the Investment Consultant prior to the investment manager presenting to the Investment Committee. Should any significant issues be identified during the operational due diligence this will be referred back to the Investment Consultant before any recommendation is submitted to the Investment Committee.
Step 5	Submission of a recommendation, including supporting documents, to the Investment Committee. The selected investment manager is required to make a presentation to the Investment Committee.
Step 6	The decision of the Investment Committee is recorded in the minutes of the relevant meeting and filed, together with the relevant supporting documentation. The decision is submitted for notice to the next Board meeting. As part of the Board submission the Chief Compliance and Risk Officer is required to confirm to the Board that due process was followed in terms of the IPS appointment process.

Step 7	For segregated mandates detailed investment guidelines need to be contracted with the approved manager. For pooled mandates the investment guidelines as per the private placement memorandum or similar document will be applicable. Mandates should cover category of investments, risk profile, performance expectations, termination conditions, ethics, reporting etc. Where appropriate, investment management agreements will also be concluded. The Chief Executive Officer of the Fund will negotiate the fee structure with the investment manager, subject to any specific instructions from the Investment Committee. Agreements / structures which deviate from the "template" (agreements / structures previously formally reviewed) are subject to the following process: • Legal review by external legal advisor • Structure review by external structuring expert • Internal review • Investment guideline review by the Investment Consultant

Each step in the above process requires formal sign off.

The following table represents the broad factors to be considered by the Investment Consultant in making a recommendation:

Investment philosophy and process	Quality of investment professionals
Key man risk	Past investment performance and consistency relative to benchmark and peers
Commitment to transformation across the organisation	Business management skills and reputation of organisation
Application of and commitment to responsible investment practices within the entire investment process and organisation	Confirmation of appropriate FAIS credentials and licensing
Risk management	Size of assets under management
Fees and other costs	Appropriateness of portfolio within Fund strategy
Reporting and administration capabilities	Customer relationship management

Manager Monitoring

Ongoing monitoring of investment managers is essential in ensuring that the Fund's expectations are met. Performance of each manager is measured regularly, and any poor performance by a manager is highlighted. While the Fund recognizes the importance of looking at performance over the long-term, short-term underperformance may highlight internal staff or process problems at managers. Long-term performance will be measured over 60 months. Short-term performance will be measured over any 3 consecutive quarters. Returns are measured gross and net of fees. Investment managers are monitored on an ongoing basis on the following:

- Performance relative to objective, benchmark and peer group
- Appropriateness of benchmark
- Risk relative to objective and benchmark
- Significant change in assets under management
- Change in investment style or philosophy
- Mandate and regulatory compliance
- Portfolio manager / key staff changes (including staff turnover levels)
- Legal issues

Manager Review

Each investment manager is expected to:

- Participate in reviews of its mandate.
- Make presentations to the Investment Committee as requested. This may be done to review investment philosophy, strategies in the context of market expectations, performance and risk management.
- Make investments within its mandate to meet objectives.
- Manage assets with the care, diligence, sustainability considerations and skill appropriate in dealing with pension fund money.
- Advise management of the Fund of any significant changes in terms of staff, policies or procedures.
- Submit compliance reports, at least quarterly. In the event of non-compliance, the investment manager is expected to notify management of the Fund of the nature of the non-compliance, any losses arising out of the non-compliance and recommend an appropriate course of action to rectify the situation.
- Disclose details and application of any relevant Code of Ethics on request.
- Disclose any conflict of interest on request.
- Provide proof of professional indemnity cover at least annually.
- Confirm, at least annually, that they have the required licenses to operate as investment manager within the Republic of South Africa.

Manager Termination

The Investment Committee has the delegated authority from the Board to terminate any investment manager mandate.

Both quantitative and qualitative factors may lead to manager termination.

Qualitative factors that could potentially accelerate the decision to review and/or terminate a manager mandate include, but are not limited to, any change in the factors considered in the selection of managers. Some examples are:

- Continued violation of investment mandate guidelines.
- Significant change investment team.
- Change in philosophy or style drift.
- Breaches of the terms of any agreement.
- Changes in the overall structure of the Fund’s investments resulting in the managers’ services no longer being required.
- Any other criteria deemed appropriate by the Investment Committee.

Quantitative factors that could potentially accelerate the decision to review and/or terminate a manager mandate include, but are not limited to:

- Failure to consistently meet or exceed the specified benchmark.
- Unfavourable peer group ranking.
- Poor risk-adjusted excess returns (as a measure of manager skill to deliver consistent value-added performance).
- Risk statistics.

The Board retains the right to add, change or waive any of these factors if it deems that such action is in the best interest of the Fund and/or its members.

The measurement period for quantitative assessment will typically be three consecutive quarters (short term) or 60 months (long term), unless adverse qualitative factors lead to a shortening of the evaluation period.

- If a manager underperforms by a significant margin over any of these time periods, management of the Fund and the Investment Consultant will engage with the manager.
- The manager will be afforded an opportunity to explain the reasons for underperformance. The goal is to determine if the manager has consistently applied their style, philosophy and process.
- The Investment Committee will then issue the manager with a warning “yellow card” and a timeframe within which to show improvement. Monitoring efforts will be increased over this time period.
- After this period (and should insufficient improvement be evident) the Investment Committee has two options:
    - Issue a “red card” – in case of no improvement the Committee will deliberate on whether to retain, reduce or terminate the investment mandate.
    - Issue a further “yellow card” – follow the same process as described above (in case of too little improvement).

Where managers, that have underperformed over the longer term, have presented to the Committee and the Committee was satisfied at the time, that the explanation given for underperformance falls into one of the following categories; structural issues, regulatory changes or significant events; and the manager has taken corrective measures to the extent possible, manager performance is then assessed only on the shorter term basis until such time as the “event” impacting long term performance falls away.

Prior to a decision to terminate a mandate, the Investment Committee will consider the following:

- Fundamental changes at the investment manager to determine whether this is significant and the ramifications thereof.
- Determine whether the cost of terminating the mandate outweigh the potential benefits.
- Determine whether the Fund would hire the manager, as a new mandate, given current circumstances.

Under **exceptional circumstances** (i.e., where a delayed decision will put the Fund at risk) a mandate may be terminated without the approval of the full Investment Committee. Under such circumstances, the Chairman of the Investment Committee will decide (based on an assessment of the time required to implement the decision and the potential cost of such a delay):

- If possible, at short notice, to convene a special meeting of the full Investment Committee.
- If a special meeting of the full Investment Committee is not possible, whether an approval by round robin should be sought.
- If approval by round robin cannot be obtained, whether a conference call would be required.
- If approval by conference call cannot be obtained, whether a core group consisting of the Chairman of the Investment Committee, the Chairman of the Board, the Investment Consultant, the CEO and one or two Trustees would be empowered to make the decision on behalf of the full Committee.
- In the event of the full Committee not being involved in the decision, what the appropriate way would be to inform other members of the Committee of the decision taken.

Once the Investment Committee has made a decision to terminate a mandate, every effort is made to be as judicious as possible in managing the transition. The decision of the Committee is communicated to the investment manager immediately to ensure both the Fund and the manager can manage the process effectively.

Investment Structure

Preference is given to specialist mandates, rather than balanced mandates. Alternative investments will be included as these are seen to provide value add net of costs. Cost optimization is important and therefore fees and transaction costs are kept to a minimum. The Fund believes that there is a value premium embedded in markets and as such, given the long-term nature of the Fund’s liabilities, the assets are managed with a value bias. Due to the underlying nature of the liabilities of the Fund, the assets should mostly comprise liquid assets.

SA Equity

The Fund believes that the most appropriate multi manager approach to use is that of style blending which recognizes distinct style components in the portfolio and manages them separately, in order to reduce implicit risks and biases resulting within each style. The equity investment structure aims to manage three styles:

- Sector based (Resources, Financials, Industrials, Property)
- Value/Growth based
- Size based (large cap, medium cap and small cap)

The objective of the portfolio construction of the equity segment is to implement a core of low cost, stable return mandates and active (high risk/high return) satellite mandates. When combined these should deliver an average active risk (tracking error) of approximately 4% relative to the equity benchmark. The first objective in blending mandates is to ensure that the total equity portfolio is neutral to the equity benchmark in terms of sector exposure. A secondary objective is to combine managers that would lead to the total equity portfolio being style neutral. The total equity portfolio should have similar size-based characteristics to that of the benchmark. As part of the blending process the listed property component has been excluded, as this asset, despite being listed, is treated as a separate asset class.

The benchmark for South African Listed Equity is the Capped FTSE/JSE Shareholder Weighted Total Return Index (Capped SWIX).

The benchmark for South African Listed Property is the FTSE/JSE SA All Property Total Return Index (ALPI).

Broad constraints for equity managers (segregated mandates):

(a) Prudential investment guidelines, adjusted for mandate exposure.
(b) From time to time the Fund may need to restrict the activity of managers due to compound asset holdings, compound risk or the Fund's own circumstances. The relevant managers will be instructed on the desired course of action.
(c) Managers will be given a tracking error for their mandates and an indicated success ratio of 60% of any risk budget allocation. Hence if a manager is given a 4% risk budget, the managers' outperformance target will be 2.4% above the benchmark.
(d) Cash holdings will be limited to 5% of the portfolio, unless otherwise agreed to by the Fund.
(e) Technical breaches need to be rectified within 12 months from date of first breach. Any other breach needs to be rectified within 7 days and costs related to such breach will be for the account of the manager.
(f) Manager termination has a 24-hour notice period.
(g) Managers may not enter into any arrangements to hold assets for any length of time, without prior approval from the Fund.

SA Interest Bearing

Given its characteristic of being a natural hedge to pension fund liabilities the Fund's interest-bearing exposure is largely to inflation-linked bonds. This asset class is also considered to be the "risk-free" asset within the Fund.

There are no structural inefficiencies in the nominal bond market with as large effects as in the equity market. However, risk in terms of duration, convexity, liquidity and credit need to be finely balanced to avoid unnecessary loss or risk. Opportunities within credit (i.e., yield enhancement) will be explored by the Fund. Credit is typically priced poorly in the South African market, and a very skilled manager needs to be chosen for this purpose. Furthermore, the liquidity of credit-enhanced products is poor and allocation to this type of mandate will be limited.

The building block approach has money market mandates split into a specialist but exclusive function. In terms of money market exposure, the most important issues to assess are price stability, performance, risk and fees.

In defining the inflation-linked bond strategy of the Fund three important issues are considered:

1. Duration	The Fund is split into portfolios with a very long duration (Wealth Builder) and a much shorter duration (Pensioner). It is important from a cash flow immunisation point of view to match the ILB exposure of these portfolios as closely as possible to the portfolio duration.
2. Opportunity for active management	Given limitations with regard to asset diversity, active trading opportunities and pricing differentials, opportunities for active management is limited.
3. Pricing	Supply and demand mismatches have a major impact on pricing over a long period of time.

The benchmark for South African Nominal Bonds is the JSE All Bond Total Return Index (ALBI).

The benchmark for South African Long-term Inflation-linked Bonds is the equal combination of two long dated RSA inflation linked bonds (50% I2046 / 50% I2050).

The benchmark for South African Money Market (Cash) is the Alexander Forbes Short-term Fixed Interest Composite Index (STeFI).

Broad constraints for interest bearing managers:

a) Core ILB portfolio to have fairly tight duration, liquidity and credit guidelines to ensure the fund performs broadly in line with the benchmark.
b) Satellite ILB portfolios are given more scope with regards to duration, liquidity and credit guidelines.

Broad constraints for money market managers:

a) Limited duration, credit risk and interest rate risk
b) High liquidity

Foreign Assets

The Fund follows a core / satellite approach. The core aims to predominantly deliver returns similar to the index. The satellite managers are specialists in nature and will have specific biases. An efficient structure should have no long-term biases but should blend different styles to broadly match the index. Such a structure will also have exposure to a wide range of factors (i.e., it will have a good spread when measured through a bi-plot).

The first step in allocating risk to different mandates is to decide how much will be invested in core and how much in satellites. The extent of core exposure will depend on total level of risk required, the active risk of satellite mandates and the correlation between satellites. The Fund aims for an overall 2.31% active risk on foreign listed equity portfolios.

Given liquidity constraints, costs and risks within frontier and emerging markets, pooled vehicles rather than segregated mandates are considered most appropriate.

In implementing the satellite structure, the Fund aims for the following:

- Use specialist managers that focus on a specific niche
- The combination of specialists should deliver a better, more consistent, return than generalists and with lower volatility
- While individual managers will have specific tilts, the overall structure should not have any biases, unless such biases are intentional. Any bias should change proactively with the investment environment
- Avoiding over diversification

- A broad mix of value, growth and quality managers that are expected to deliver different patterns of returns over the course of a full economic cycle
- Low correlation in returns between managers
- High active risk
- Mandates must offer breadth of opportunities
- Diversification may be favoured where beta is more important than alpha
- Sufficient cross-sectional volatility
- Managers must have experience with specific mandates

Based on these criteria the Fund may include the following:

- Style-based mandates (value, growth and momentum)
- Size-based mandates (small, medium and large cap)
- Regional mandates
- Thematic mandates
- Alpha transport mandates

The benchmark for Developed Market Listed Equity is the MSCI All Country World (Net) Total Return Index (MSCI ACWI).

The benchmark for Foreign Listed Property is the FTSE EPRA NAREIT Developed Rental Total Return Index.

The benchmark for Foreign Bonds is the Barclays Global Aggregate Bond Index.

The benchmark for Emerging Market Listed Equity is the MSCI Emerging Market (ex SA) (Net) Total Return Index.

The benchmark for China Listed Equity is a combination of 65% MSCI China A Onshore Net Total Return Index and 35% MSCI China Net Total Return Index.

The benchmark for African Listed Equity is the MSCI EFM Africa (ex SA) Total Return Index.

The benchmark for Frontier Market Listed Equity is the MSCI Frontier Market Total Return Index.

Alternative Strategies

The Fund uses two types of hedge funds:

- Traditional balanced fund-of-funds - aims for absolute returns.
- Alpha transport fund-of-funds - aims to outperform a specific asset class.

The Fund gives preference to fund-of-funds due to its diversification and risk management benefit. Where possible tailor-made solutions are employed. The hedge fund exposure forms part of the style blending process employed by the Fund. Two key risks, the ability to sell short and to leverage, are also expected to be the primary sources of alpha generation.

The Fund invests in private equity to enable a better utilization of its investment risk budget. Over the long-term private equity is expected to return 15% per annum, a 5% to 10% premium to listed markets.

The Fund gives preference to fund-of-funds for the following reasons:

- Additional layer of governance
- Continual due diligence of underlying managers
- Diversification
    - Vintage

  - Geography
  - Asset sub-class
  - Fund manager
  - Industry
- Access to primary, secondary and co-investment opportunities
- ESG management

This structure provides the Fund with:

- Diversification
- Access to the top managers in the industry
- BEE and SRI investment opportunities
- A core and satellite investment structure, similar to all other areas of the investment function.

All existing, previously approved, private equity managers (single or through fund-of-fund structure) are approved for follow on investments into next vintage funds, subject to performance and notification to the Investment Committee. Where any significant change in exposure, strategy, team or structure occurs, the manager will have to present to the Committee as if this represents a new manager.

New managers are subject to approval by the Investment Committee.

Given the limited opportunities in the listed property sector the Fund may also include unlisted property mandates.

The Fund offers a structured product to members, providing them with the choice of having investments with a specific capital guarantee.

The Fund runs a Black Asset Manager Development Programme, which seeks to identify and assist start-up and emerging BEE investment managers. Details of the Black Asset Manager Development Programme are contained in Annexure 1 to this Appendix 2.

The Fund offers a Shari'ah compliant multi-managed balanced investment product to those members who are subject to Shari'ah law.

The Fund may include exposure to dedicated infrastructure, energy and commodity funds as part of its alternative investment strategy.

The Fund has appointed a tactical asset allocation manager in order to extract value from short-term asset allocation bets around the Fund's strategic asset allocation. Prudential has been appointed for this purpose both locally and abroad.

From time-to-time the Investment Committee may implement foreign exchange hedge structures to mitigate return volatility relative to liabilities. The Investment Committee may also from time-to-time make use of derivative overlays to hedge specific asset class exposures or to convert one asset class exposure to another. This will depend on market conditions and will be considered by the CEO/CFIO/Head: Investments in consultation with the Investment Consultant and the TAA manager.

ANNEXURE 1: BLACK ASSET MANAGER DEVELOPMENT PROGRAMME

Purpose

This policy represents the framework for the Fund's Black Asset Manager Development Programme.

Investment Objectives

- To support start-up and emerging Black (as defined by the Financial Sector Code and the DTI Codes of Good Practice) asset management companies in South Africa and to implement a sustainable model to grow and to nurture Black investment skill and talent.
- To increase the current low levels of Black participation in fund management in South Africa.
- To position Black talent for success through partnership within a highly controlled risk framework.
- To build Black expertise and track records.
- Lowering the barriers to entry and facilitating healthy competition - promoting better performance, service, innovation, and cost reductions.
- Job creation and skills development.
- To help develop a better understanding of the characteristics, trends, capabilities, and untapped potential of these emerging firms.
- To grow the pool of intellectual capital in the sector by focusing on attracting new entrants and continually investing in the skills development and training of existing and new black professionals and managers.
- To stimulate growth and development within the sector.
- To actively work towards graduation out of the Black Asset Manager Development Programme into the mainstream pool.
- To advocate that even graduated Black asset managers continue to receive support and assets, as disinvesting then is detrimental to their business.
- To increase the current low levels of Black women/female participation in fund management in South Africa.

Qualifying Criteria

The minimum criteria for selecting underlying investment managers to participate in the Black Asset Manager Development Programme is set out below:

- A minimum of 51% Black ownership and
- A minimum of 51% Black representation at Board level and
- A minimum of 51% Black individuals in Senior Management
- The firm must be South African based.
- The firm must meet the FAIS fit and proper requirements.
- The investment manager qualifies for at least a Level 3 B-BBEE recognition level.

The term "Black" in this case shall be defined as set out in the Broad-Based Black Economic Empowerment Act, 2003 (as amended).

The programme will be able to invest into two categories of asset managers:

Start-up Asset Managers

- Total assets under management of less than R5 billion or have less than 5 year’s performance track record
- An annual turnover of less than R35 million
- A firm with a new investment strategy and a start-up team

Emerging Asset Managers

- Total assets under management of less than R20 billion
- An annual turnover of less than R150 million
- A firm with a new investment strategy and a start-up team

Investment managers that fall outside of the above criteria may still be considered by the Fund’s Black Asset Manager Development Programme Investment Committee.

Graduation Criteria

The key graduation criteria for moving from being a start-up manager to an emerging manager are:

Traditional investments

- Size – reaching a level of R 15 billion in assets under management for the firm;
- Client base – diversified with no dependence on any single large investor;
- Improved firm stability – considering elements such as business risk, operational issues, profitability, and infrastructure;
- Performance and track record – maturity of the investment team and investment process; ability to deliver consistent investment performance; minimum level of risk-adjusted relative performance; reaching a five-year track record.

Alternative investments

- Size – reaching a level of R 2 billion in assets under management for the firm, the business is profitable, and the team has successfully deployed their first fund.
- Client base – diversified with no dependence on any single large investor;
- Improved firm stability – considering elements such as business risk, operational issues, profitability, and infrastructure;
- Performance and track record – investment offering being managed to institutional quality standards.

The key graduation criteria for moving from being an emerging manager to a developed manager are:

Traditional investments

- Size – reaching a level of R 40 billion in assets under management for the firm;
- Client base – diversified with no dependence on any single large investor;
- Performance and track record – maturity of the investment team and investment process; ability to deliver consistent investment performance; minimum level of risk-adjusted relative performance; built an appropriate track record.

Alternative investments

- Size – reaching a level of R5 billion in assets under management for the firm, the business is profitable, and the team has successfully deployed several funds.
- Client base – diversified with no dependence on any single large investor;
- Improved firm stability – considering elements such as business risk, operational issues, profitability, and infrastructure;
- Performance and track record – investment offering being managed to institutional quality standards.

Investment Guidelines

- Investments are only allowed in portfolios managed by underlying investment managers that satisfy the Black Asset Manager Development Programme qualifying criteria.
- Investments may be in all asset classes and investment strategies within the Funds broader investment strategy.
- Investments must comply with the Funds regulatory requirements
- No investment may take place without the completion of a due diligence by the Funds Investment Consultants investment research team.
- Investments managed by underlying investment managers would not form part of the mandate once the Black Manager Development Programme graduation criteria are satisfied.

Termination Criteria

Investment in investment manager portfolios are terminated under the following criteria:

- The underlying investment manager fails to satisfy some or all of the criteria for graduation, to the extent it is deemed to not be able to do so going forward post an initial three-year investment period.
- The underlying investment manager no longer satisfies the minimum B-BBEE requirements.
- The underlying investment manager falls foul of any of the following:
    - continuously in breach of mandate
    - continuous underperformance and no consistency of return or alignment with their stated investment strategy
- Has changed their investment process without consultation or any unexplained shift in portfolio structure that is inconsistent with the stated investment process.
- The departure of key decision makers and/or senior investment professionals.

- Any other reason which is deemed adverse in terms of the Black Asset Manager Development Programme.
- No longer meets the FAIS requirements to be being fit and proper.
- Any elements of fraud within the organisation.
- Significant operational inefficiencies or issues which proves to be too risky.
- Any other reason that may be stipulated by the Funds Black Asset Manager Development Programme Investment Committee.

Black Asset Manager Development Programme Investment Committee

The Black Asset Manager Development Programme Investment Committee will be responsible for reviewing any investment, graduation, and disinvestment decisions based on:

- Investment due diligence performed by the Investment Consultant.
- Operational due diligence performed by the Fund in conjunction with the Investment Consultant.
- Legal review performed.

The Black Asset Manager Development Programme Investment Committee will consist of representatives from the Fund and the Investment Consultant.

APPENDIX 3: SECURITIES LENDING POLICY

The Fund may engage in securities lending transactions subject to compliance with this Investment Policy Statement, liquidity requirements and the principles set out in Regulation 28(3) to provide additional income for the benefit of Fund members.

General Requirements

- Any securities lending transaction is undertaken in terms of a legally binding Global Master Securities Lending Agreement (GMSLA). Such agreement must set out rights and obligation of all parties to the agreement, at least including:
  - Identification of the parties
  - Description of securities forming part the lending agreement
  - Description of types of acceptable collateral and required margin
  - Details of the fee income split between the lending agent and the Fund
- Securities lending transactions must be undertaken in a safe and prudent manner.
- Securities lending transactions are subject to comprehensive and sound controls and procedures.
- Adequate collateral must be held at all times. Margins must provide adequate protection against volatility and liquidity concerns for both securities lent out and for securities held as collateral.
- Securities lending transactions are limited to reputable and credit worthy counterparties. Due diligence on counterparties will include credit risk, credit rating and liquidity and volatility of collateral provided.
- Where counterparty defaults or becomes insolvent, the Fund's right of execution without a court order is reserved and all collateral (ownership and rights attached thereto) is immediately transferred to the Fund.
- Loans are limited to listed equity, debt or money market instruments.
- All loans are subject to an unqualified right of recall by the Fund.
- The recall period for any individual loan is subject to the standard settlement cycle for such securities. Deviation from this recall period is only allowed on written approval from the Fund.
- The lending agent will endeavour to borrow recalled instruments from another lender. Should the agent be successful in substituting the loan, the instruments will be returned prior to the 9 business day recall period.
- Any securities that are subject to a securities lending transaction remains assets of the Fund and must be disclosed as such in the annual financial statements of the Fund.
- The Fund allocates to each lending agent any combination of segregated share and bond portfolios for discretionary lending purposes. This combination of portfolios is subject to change from time-to-time upon written instruction from the Fund.
- These portfolios are housed at Standard Bank in Custody Accounts.
- The lending agent will ensure that all payments due in respect of dividends, interest, distribution and/or any other amount, is paid on payment date into the relevant account as nominated by the Fund.
- Where the shares were on loan as at the last day to register, any capitalisation shares and/or any other shares, which are due in respect of a corporate event, will be deemed to be out on loan as at payment date. A new loan will be set up on payment date at the same fee rate applicable to the original loan.

Securities Lending Limits

Counterparty Open Loan Limits

The limit for each counterparty is based on the following parameters:

- Maximum percentage of Core Tier 1 CAR Ratio based on long-term credit rating:

Rating	Maximum % of Core Tier 1 CAR Ratio
AAA	70
AA	60
A	50
BBB	40
BB	30
B	20

- Maximum percentage of lendable assets based on Core Tier 1 Capital:

Core Tier 1 Capital	% of Lendable Assets
Below R75 billion	40
Between R75 billion and R150 billion	50
Above R150 billion	60

Based on the above parameters, the Investment Committee approves counterparty limits on an annual basis.

Securities Lending Transaction Limits

Loans on any specific security in any individual portfolio are limited, as agreed from time-to-time to a percentage of the nominal value of that security in that portfolio at all times. Breaches of this limit are only allowed with specific approval from the Fund and subject to Regulation 28(3).

The aggregate value (measured at Fund level) of any individual security that is the subject of securities lending transactions may not at any time exceed the following Regulation 28 limits:

Security Description	Maximum percentage of fair value of security
Listed equities – top 100 companies by market cap	75%
Listed equities – other	50%
Listed debt – government bonds	75%
Listed debt – other	50%
Money market instruments issued by a SA Bank	75%

Collateral Management

- Collateral is maintained as per Securities Lending Agreement and applicable regulations, but subject to the following minimum levels:

Security Description	Margin percentage of fair value of total securities lent
Listed equities	115%
Listed debt	110%
Cash or money market instruments issued by a SA Bank	105%

- Collateral must be held for the benefit of the Fund.
- Cash collateral management:
    - To further enhance investment income, the Fund engages in cash collateral management. This allows the Fund to better manage the risks associated with cash collateral by diversifying the cash collateral across multiple counterparties.
    - This process involves investing the cash collateral into approved money market / income funds.
    - Allocation to each of the funds will depend on the diversification benefit to the aggregate underlying exposure as well as the margin earned above the lending rate.
    - Exposure to any single fund will be limited to a maximum of 15% of the total assets under management of that particular fund.
    - Rates earned and interest paid to borrowers is monitored on a daily basis to ensure sufficient profit margins are maintained.
    - Overall credit exposure is assessed on a monthly basis.

Fees

- Lending agents charge market-related lending fee rates at all times.
- Income will be split in the ratio 65% to the Fund and 35% to the lending agent (unless otherwise agreed in the Scrip Lending Agreement).
- Fees are payable by the 15th of the month.
- Fees to be paid into account nominated by the Fund.
- The Head: Investments is responsible for collection of the fees due to the Fund.

Monitoring, Appointment and Termination

- The CFIO and/or Head: Investments is responsible for monitoring securities lending activities of the Fund.
- The CFIO and/or Head: Investments is authorised to appoint new lending agents or terminate lending agent agreements and to approve the use of money market / income funds in the management of cash collateral. The appointment of new lending agents is subject to the parameters set out in this appendix.

Reporting

- Daily:
    - Details of open loans and collateral held.
    - Details of cash collateral invested, including balances, interest rate earned interest rate paid and net interest margin.
- Monthly:
    - Details of fee income earned.
    - Total interest earned on cash collateral and total interest paid on cash collateral.
    - Detailed counterparty exposure.

    - Regulatory and mandate compliance breaches.
- Quarterly:
    - Details of scrip utilisation per lending agent and at Fund level.
    - Details of income (fee and interest) earned per lending desk and at Fund level.
- Annual:
    - Counterparty exposure relating to the Fund loans on an annual basis (for FSB annual report purposes).
- Any other reporting as agreed with the Fund from time to time.

Policy Review

The Investment Committee will review and approve this policy on an annual basis.

APPENDIX 4: RISK MANAGEMENT

The risk budget quantifies the acceptable amount of risk that the Fund is willing to take in its investment decisions, in order to meet its current and future liabilities. It indicates the degree to which the Fund's returns could deviate from the growth in projected liabilities. The choice of risk budget demonstrates how risk tolerant or risk averse the Board of Fund is (i.e., it allows the Board to formally quantify the level of risk they are willing to take to meet future liabilities).

The strategy of the default portfolios is constructed with recognition that various homogenous groups of members have different returns requirements and risk tolerances. Life stage categories are used due to the statistical importance of the investment horizons involved.

The Board of Fund, in consultation with the Actuary and Investment Consultant, determine the extent to which investment risks can be taken to achieve superior returns. While the restrictions imposed by the Pension Funds Act are generally quite modest, Regulation 28 of the Act imposes greater responsibility on funds to manage risk, and therefore the goal of maximising returns must be offset by the risk taken. This strategy document attempts to strengthen the risk management environment of the Fund.

As indicated above the appropriate risk tolerances in terms of tracking error (or active risk) for the different portfolios are as follows:

Portfolio	Active risk (tracking error)
• Wealth Builder	10% above or below benchmark
• Inflation Protector	9% above or below benchmark
• Pension Protector	8% above or below benchmark
• Pensioner Portfolio	7% above or below benchmark
• Money Market	1% above or below benchmark
• Shari'ah	4% above or below benchmark
• Risk Benefits	2% above or below benchmark

This tracking error provides a guideline for performance variation both above and below the benchmark returns, which in turn, reflects the performance needs of members. The tracking error calculation is a universally used measure of risk in the investment management field. However, it does NOT represent a worst-case scenario, which, even though unlikely, may be greater than three times the tracking error in any one-year period.

The risk as indicated could come from three sources:

- asset allocation differences;
- mandates defined for each asset class, and
- manager selection for each mandate.

These three risk sources may lead to asset-based performance risk, relative to asset class benchmarks, and needs to be managed carefully.

Members face a wide variety of risks. The Fund is cognisant of these member risks. While the most important risks are listed below it should be noted that the list is not exhaustive.

Adequate Benefit Risk

The most important risk faced by any pension fund member is that of benefit shortfall. This risk is realised if the benefits at retirement or early death are insufficient to meet the needs or expectations of the member or his/her family. To avoid this from materialising, careful planning throughout the member's working life is required, with appropriate assets being held given clear investment goals. It is important to distinguish between the different benefit types:

- **Pension annuity on retirement**: these annuities have a price, from an insurer, which varies as long-term interest rates and inflation expectations change.
- **Lump sum on retirement**: these may be used, for example, to pay off debt.
- **Early retirement benefits**: similar to the above points.
- **Disability retirement**.
- **Death benefits**: to spouses and dependants.
- **Withdrawal benefits**.

Risks associated with benefits can be split into two types:

1. Investment risk
2. Asset / liability risk

We discuss a number of these and other non-financial risks, indicating briefly the steps to mitigate the consequences of such risks.

Investment Risks

These risks relate to asset values and hence affect the level of asset growth.

Risk	Control
Market Risk: The possibility of losses due to factors that affect the overall performance of financial markets (also known as systemic risk). This risk cannot be eliminated through diversification. Market risk may involve changes to interest rates, exchange rates, geopolitical events or recessions.	Market exposure guidelines are put in place. These are monitored on an on-going basis, and asset classes are rebalanced when they move out of line. In addition, hedging strategies may be used for protection against volatility and market risk.
Credit Risk: The risk of default on a debt that may arise from a borrower failing to repay the debt on maturity date. This includes sovereign risk and counterparty risk. While cash is considered a risk-free asset, if held at a bank which subsequently is liquidated, the investor will also get less than the capital value for the asset.	Managed through diversification, yield spreads, collateral requirement or covenants.
Currency Risk: The possibility that currency depreciation will negatively affect the value of assets (also known as exchange rate risk). This includes both the capital and related interest and dividend payment streams. Corporations with operations in overseas markets are also exposed to this risk.	Managed through diversification and hedging strategies.
Manager Risk: Encompasses all losses arising from the mistakes, negligence or incompetence of the investment manager. This risk occurs at the manager level relative to investment benchmarks provided to them.	Managed through investment and operational due diligence pre manager appointment and thereafter compliance management and ongoing monitoring of relative risk and return.
Manager Choice Risk: The extent to which manager choice fails to exceed composite benchmarks. The Fund appoints a mix of managers or multi-managers with the aim to outperform selected benchmarks at an asset class level.	The Investment Committee meets regularly to assess investment managers (including a formal annual investment manager feedback session). Where performance is poor, extensive communication and interaction is held with the managers, and where this fails to deliver the desired results, managers may have agreements terminated or portfolio sizes reduced to limit any further impact of underperformance.

Risk	Control
Aggregation Risk: The extent to which the combining of investment managers either duplicate or completely disregard desired exposure.	Managed through appropriate blending of mandates or manager mix, as well as continuous monitoring of managers and the composite asset structure.
Liquidity Risk: This risk is introduced by holding assets that cannot be bought or sold for a reasonable value on demand. It occurs when the Fund cannot meet short-term cash flow requirements.	Managed through cash flow analysis, modelling and management. An adequate pool of high-quality liquid assets maintained at all times. Mandates set strict minimum liquidity profiles.
Governance Risk: The extent to which losses may occur due to poor governance or non-compliance with regulatory or strategy defined guidelines	This is managed through compliance monitoring and rules for correcting breaches at all manager and product levels.

Asset / Liability Risks

Liability risks are introduced by holding assets that do not completely meet the pay-out obligations of the Fund. These risks are therefore judged relative to the value of the liabilities as defined by the investment policy. The Asset Liability Modelling process is specifically designed to assess these risks, and employ in the pursuit of outperformance, only as much risk as is necessary to optimize payoff benefits to members. The asset allocation and rebalance policy is designed to ensure these risks are controlled.

Risk	Control
Risk of Negative Returns: This occurs when assets lose value. Also known as the risk of capital loss or absolute risk.	The risk is managed by purchasing fixed interest instruments such as money market instruments or zero-coupon bonds. While the risk is reduced over the appropriate term, generally ownership of low risk assets reduces performance potential.
Risk of Negative Real Returns: The risk that the assets grow by less than inflation.	The risk is managed by purchasing risk free inflation-linked bonds or inflation beating assets, such as equity, which should also provide positive real returns over the long term.
Risk of Negative Relative Performance: The risk of underperforming a benchmark. Also known as active risk.	The risk is managed through mandate restrictions. Narrowing the active bets in the portfolio, taking the portfolio holdings closer to the benchmark, reduces this risk.
Pension Conversion Risk: The risk arises at retirement when a member exits the scheme and purchases an annuity from a life office. The price of an annuity fluctuates for a variety of reasons (including interest and inflation expectations).	This risk is considered in the portfolio construction process. While in-fund annuities are managed through the floating discount rate (i.e., both the asset and liability side is managed), any lump sum the member believes will satisfy his income needs, may be diminished as the price of that income changes despite the capital being on target.
Price Volatility: The risk that asset prices do not meet the return objective (e.g., capital or inflation). This risk occurs when one does not use risk free assets (with the expectation that such risk will lead to out-performance) or hold risk free assets for intervals shorter than the risk-free term. Holding assets over shorter intervals introduces price volatility.	This risk is managed through a well-diversified asset allocation.
Benchmark Choice Risk: This risk is introduced by the extent to which the Fund defines benchmarks at investment strategy	The Investment Committee follows a rigorous process in choosing benchmarks to ensure appropriate choices are made. Benchmark choices are re-evaluated as market developments dictate.

Risk	Control
level, to define parameters of performance for members.	
Longevity risk: The risk associated with increased life expectancy among pensioners, which could eventually result in higher pay-out ratios than expected and ultimately an underfunded pensioner portfolio.	The risk is managed through actuarial analysis to identify and monitor mortality trends in the Fund and industry. Allowance is made for mortality in the valuation reserve.
Pensioner liability funding risk: The risk that pension payments and pension increases become unsustainable into the future as a result of inappropriate increases granted or overly optimistic assumptions used about long-term rates of return.	The major factors influencing the funding level of the pensioner liability is managed by reviewing the following factors regularly: • Discount rate or real return assumption to value liabilities • Asset allocation of pensioner assets • Mortality assumptions. The risk is managed monthly by reviewing the discount rate used to value liabilities. If the discount rate changes, the annuity tables are also updated to ensure new and current pensioners are treated fairly. The Fund also performs an asset liability analysis at least every 18 months to ensure the appropriate asset allocation mix is maintained to meet the liabilities. Mortality assumptions are also assessed annually to ensure they remain in line with the Fund's actual experience and industry trends. The estimated funding level of the pensioner pool is also calculated and monitored on a monthly basis.
Asset liability mismatch: The risk that the assets held by the Fund will not fully match the liabilities. The risk is therefore measured relative to the liabilities.	The Asset Liability Modelling process is designed specifically to assess the risk of mismatch. The asset allocation and rebalance processes are designed to ensure the Fund maintains an asset allocation that is appropriate to service its liabilities.

Other Risks

The final sets of risks are harder to quantify.

Risk	Control
Fraud risk: The risk of intentional misrepresentation of material fact by one party, inducing another party to act, with a consequential loss or damage suffered by the latter. It includes any act, omission, and concealment of fact or abuse of position with intent to deceive, gain undue advantage or injure the interests of the Fund whether there is any wrongful gain or loss.	This risk is managed by implementation of an effective governance structure and risk management controls and procedures. The Fund has an anti-fraud and corruption policy in place, which is executed through a fraud response plan. The Executive Committee, with the assistance of the internal auditor, has designed an annual fraud risk assessment process that considers the vulnerability of internal processes or external interaction to fraudulent acts. A whistle-blower hotline, managed by an external party, encourages staff members, Fund members or members of the general public, to report any misconduct. The Fund has a procurement and contract management policy and framework in place.
Operational risk: The prospect of loss resulting from inadequate or failed procedures, systems or policies due to human error.	Operational risk is managed as part of routine operations by a system of internal control requiring segregation of duties, training programmes and internal audit reviews. The Board, in consultation with insurance advisers, regularly reviews the insurance cover of the Fund. The disaster recovery and business continuity plan involves a process to identify critical business functions, processes and procedures to be followed in the event of an

Risk	Control
	unforeseen disaster. The plan provides guidance to management for the complete restoration of core business functions and IT facilities. The comprehensive disaster recovery procedure (Business Continuity Plan) incorporates full back-up of all electronic files daily and these are stored off-site. In the event of a disruption in business, the Fund has secured two disaster recovery sites that will ensure the restoration of operations to near full capacity within 24 hours. Both the plan and the recovery facilities are tested at least once a year.
Communication Risk: Poor communication may damage the credibility of the Fund. Member investment choices can potentially have unintended consequences should the communication lead to erroneous changes of strategy by members. Linked to this risk is that of poor education as members may believe they are making the right choice, when in fact the choices opted for are not appropriate.	To mitigate this risk, the Fund has launched a member advisory service, which, amongst other functions, advises members on investment strategy changes and appropriate investment choices.
Moral Risk: Moral hazard is a situation in which one party gets involved in a risky event knowing that it is protected against the risk and the other party will incur the cost. It arises when both the parties have incomplete information about each other.	To mitigate this risk a clear understanding of the potential ‘agendas’ when constructing solutions for the Fund is required and processes should be in place and followed to counter these.

APPENDIX 5: ESG STEWARDSHIP INVESTMENT POLICY AND FRAMEWORK

Introduction

As a responsible intergenerational steward of capital, Sentinel Retirement Fund (the Fund) is committed to maximizing the retirement benefits of its members in a sustainable and accountable manner by incorporating environmental, social and governance considerations into its investment decision-making process.

Purpose

The purpose of this policy is to set out the Fund's approach, principles, and guidelines to Environmental, Social & Governance (ESG) stewardship and responsible investing activities. The Fund defines responsible investment as the "strategy and practice of incorporating environmental, social and governance (ESG) factors in investment decisions and active ownership". As a large institutional investor and asset owner, the Fund takes a long-term, responsible, and sustainable approach to investment and ownership as a way of creating and preserving value for its beneficiaries. The principal long-term goal of the Fund is to maximize the retirement benefits of all its members, having due regard to the term and nature of its obligations as well as the associated investment-related risks. The Fund aims to consistently act in the best interests of its beneficiaries and other stakeholders and believes that ESG matters are relevant to its investments and can potentially impact the long-term investment returns of its assets. Incorporating ESG factors into the Funds policies and activities, and within investee companies, helps to identify both potential sources of risk, and opportunities to add value for the Fund's beneficiaries. In support of this goal and objective, an ESG Stewardship Policy on responsible investing and ownership, as contained herein, has been adopted and approved by the Board of Trustees.

Scope of Application

The Fund invests on a global scale across investment classes in multiple regions and markets. This policy and it's supporting annexures are to be read together and apply to all listed and unlisted investments undertaken for and on behalf of the Fund in respect to externally managed funds. To this end, all the Funds employees, investment managers, investment consultants and service providers acting on behalf the Fund shall apply this policy. To ensure integration of a ESG Stewardship approach, the Fund has the following expectations of its investment managers and investment consultant where applicable:

- Review of responsible investment incorporation as part of due diligence and manager selection.
- Managers to consider ESG factors when making investment decisions.
- Adherence to the Fund's reporting requirements, including formal report back on how ESG factors have been integrated into their investment processes and how this has impacted on their portfolios.
- All investment managers should be active shareholders when investing on behalf of the Fund.
- Quarterly disclosure of any conflict of interests.

Applicable Legislation, Standards and Principles

A. Pension Funds Act of 1956 (Act No. 24), including Regulation 28 and all other relevant subordinate legislation
B. Financial Sector Regulation Act of 2017 (Act. No. 9)
C. The Financial Sector Conduct Authority's Guidance Notice: Sustainability of investments and assets in the context of a retirement fund's investment policy statement (2019) (FSCA GN)
D. Johannesburg Stock Exchange (JSE) Listing Requirements
E. JSE Sustainability and Climate Disclosure Guidance
F. Codes of Good Practice, issued in terms of the Broad-Based Black Economic Empowerment Act of 2003 (Act. No. 53)
G. National Development Plans 2030 (of 15 August 2012)
H. South Africa's Green Finance Taxonomy 1st Edition (of March 2022)
I. The King IV Report on Corporate Governance for South Africa (2016)
J. Principles for Responsible Investment (PRI)

K. The Code for Responsible Investing in South Africa (CRISA)
L. United Nations Sustainable Development Goals 2030 (UNSDG's)
M. United Nations Global Compact (UNGC)
N. Taskforce for Climate-Related Financial Disclosure
O. Climate Change Act of 2024

Commitment

Together with its investment managers, investment consultants, ESG consultants and other services providers the Fund is committed to achieving the applicable legislation, standards, and principles by:

- Engaging with all investment-related service providers on their responsible investment approach.
- Ensuring that ESG considerations are made in the analysis of any potential investment through regular monitoring and due diligences.
- Attending annual general meetings, and proactively exercising its voting rights.
- Making the Fund's responsible investment policies publicly available for all stakeholders.

Implementation Framework

Framework

The Fund's stewardship activities are underpinned by a global ESG Stewardship Policy and further apply the Fund's ESG Engagement, Proxy Voting, ESG Integration and Impact Investing approaches.

The Fund's policies are implemented through four pivotal stewardship activities: Engagement, Proxy Voting, ESG Integration and Impact Investing.

Engagement

The Fund defines engagement as all activities, actions, and approaches prudently and constructively applied to express the Fund's responsible investment stance on environmental, social, and governance (ESG) issues. The aim is to encourage entities to act in ways that safeguard and unlock long-term investment value. The primary objective of the Fund's engagement program is to preserve and improve the long-term value of its investments.

Engagement Practices

The Fund's engagement involves:

- Exercising active ownership rights through its ESG Consultant, in line with its ESG Engagement Policy.
- Interacting with investee companies and investment managers to address existing problems, mitigate future risks, and enable the entity to capitalize on future opportunities.

Proxy Voting

The Fund's proxy voting program entails the voting of its shares at shareholders meetings of investee companies, attending shareholders meetings and holding the managers of investments held in the Pooled Portfolios responsible for voting. The ESG Consultant together with the ESG Specialist exercises proxy voting in a manner that is consistent with the Funds Proxy Voting Policy that is designed to safeguard long-term shareholder value by promoting sustainable and responsible practices by investee companies.

ESG Integration

The Fund defines ESG Integration as the explicit and systematic inclusion of ESG considerations in investment processes and activities. As the Fund utilizes a multi-manager structure, ESG integration is achieved through its investment managers. The Fund monitors and tasks its investment managers to include ESG considerations in the analysis of all material factors in investment analysis and decisions.

Impact Investing
The Board believes that by allocating assets toward companies that generate a positive social and sustainability impact, impact investing has the potential to create real value both for investors and for society. Business and capital markets can be used as a force for positive social change.

Roles and Responsibilities
Board of Trustees
The Board has an overarching responsibility for the Fund's ESG Stewardship program. It is also responsible for:

- Reviewing and approving the ESG Stewardship Policy and programs.
- Reporting on all aspects of the ESG Stewardship Policy to the members and stakeholders in the Fund's annual stewardship report.
- Reporting on all aspects of the ESG Stewardship Policy to the FSCA annually.
- Providing the Fund's ESG Stewardship Policy to the members and stakeholders upon request.

The Investment Committee (IC)
The IC is responsible for:

- Reviewing the ESG Stewardship Policy and recommending it for approval by the Board.
- Reviewing and approving the annual Engagement Plan.
- Evaluating the policies for modifications and making recommendations for consideration by the Board.
- Evaluating high-level engagement proposals as needed and making recommendations for consideration by the Board.
- Appointing the Fund's ESG Consultant, when necessary.
- Reporting to the Board on the Fund's ESG Stewardship activities.
- Assist the Board in preparing Member Communications on the Fund's ESG Stewardship activities.

Executive
The Chief Financial and Investment Officer will have oversight and ultimate operational responsibility of all ESG Stewardship activities of the Fund.

ESG Specialist and ESG Consultants
The ESG Specialist in collaboration with the ESG Consultants have an overarching responsibility for the implementation of the Fund's ESG Stewardship Policy and programs and is responsible for:

- Reviewing the ESG Stewardship Policy and recommending it for approval by the IC.
- Proposing changes to the ESG Engagement Policy, Proxy Voting Policy, the Impact Investing Policy, and Climate Change Position Statement as appropriate and making recommendations for the IC's approval.
- Preparing and reviewing the annual Engagement Program.
- Monitoring the implementation of the ESG Stewardship activities of the Investment Consultant and the Investment Managers.
- Reporting to the IC on the Fund's ESG Stewardship activities.
- Provide an ESG review of all the investment mandates.
- Develop and perform in-house ESG research on disclosures and performance of investee companies and investment managers.
- Report on the SDG's and impact of the Fund's investments.
- Ensure compliance with applicable laws, regulations, ESG principles and standards.
- Proposing engagement activities in line with the Fund's engagement objectives.
- Providing research to support the Fund's engagement and proxy voting activities.
- Managing the day-to-day administration of the engagement plan.
- Engaging with company boards and management in line with the Fund's ESG Engagement Policy.
- Reporting on engagement triggers on a case-by-case basis.
- Ensuring that stewardship activities comply with all aspects of the ESG Stewardship Policy.

- Collaborating with the Investment Consultant and the investment managers in implementing the Fund's ESG Stewardship Policy and program.
- Setting and reviewing the Fund's ESG integration monitoring and reporting framework in line with the Fund's objectives.
- Implementing proxy voting in line with the Proxy Voting Policy.
- Participation in Annual General Meetings and other shareholders meetings called by investee companies.
- Reporting stewardship activities on a quarterly and annual basis.

Investment Managers

The Investment Managers will be responsible for:

- Incorporating ESG considerations in their investment processes.
- Reflect ESG considerations in the relevant investments.
- Collaborate with the Fund, Investment Consultant and the ESG Consultant in implementing the Fund's ESG Stewardship Policy.
- Reflect ESG considerations in the investment reporting to the Fund.
- Submit quarterly and annual ESG Integration reports to the Fund.

Policy Review

The Investment Committee will review, on an annual basis, progress against objectives set out in this policy in order to identify areas where improvement of strategy, policies, principles, practices, and activities are necessary. The Committee will take into consideration that stewardship is a long-term process in evaluating progress on set objectives. The Fund's ESG Stewardship Policy will be reviewed annually in line with relevant local and international ESG developments.

In pursuit of its fiduciary obligation to responsible investing, the Fund has set the following policies to support the ESG Stewardship Policy and activities of the Fund.

- Annexure 1: Impact Investment Policy
- Annexure 2: ESG Engagement Policy
- Annexure 3: Proxy Voting Policy
- Annexure 4: Climate Change Position Statement

ANNEXURE 1: IMPACT INVESTING POLICY

Introduction

The Fund is committed to leveraging its significant assets to advance core social and sustainability goals through impact investing and places explicit focus on positive impact. The Fund defines its impact investments as investments made with the intention to generate measurable positive social, economic, and environmental impact alongside a financial return. The purpose of the Fund's impact investments will be to support, sustain and scale causes that provide sustainable long term social and environmental benefits, while also achieving capital preservation and a positive financial return. Negatively screened investments may be considered for specific member investment choice products.

This policy sets out the Fund's impact investing policy and will be employed by the Fund to monitor and guide its investing decisions.

Our Approach

The Fund recognizes that impact investment is an emerging market and asset class; the quantity and quality of investment opportunities are growing over time. A flexible approach to impact investing will be taken, which balances the need for pragmatic implementation with a careful management of exposure to risk. Over time, this Policy will be reviewed to reflect the Fund's impact investing priorities as well as developments in the impact investment market.

Impact Investing Objectives

Impact investing adds the additional variable of social impact, requiring investors to think along three dimensions:

1. How much financial return to expect.
2. How much social impact to seek.
3. How much risk to accept in pursuit of financial return and social impact.

Impact Sectors and Themes

To support South Africa's sustainable development plans as outlined in the National Development Plan, the Fund has adopted six impact themes where we believe we can make a meaningful difference. These themes align with the UN's Sustainable Development Goals, ensuring our efforts contribute to global sustainability initiatives.
The six impact themes are clean energy, inclusive finance, infrastructure development, sustainable agriculture, health and wellness, and education.
By focusing on clean energy, we aim to reduce carbon emissions and promote renewable energy sources. Inclusive finance ensures that all individuals, particularly underserved communities, have access to financial services that foster economic growth. Infrastructure development is crucial for creating resilient and efficient urban and rural areas, supporting both economic activity and community well-being.
Sustainable agriculture promotes practices that enhance food security while protecting the environment. Health and wellness initiatives aim to improve access to healthcare and promote healthy lifestyles, contributing to overall societal well-being. Lastly, our commitment to education focuses on providing quality education and learning opportunities, empowering individuals and fostering economic growth.

These impact themes guide our investment decisions, ensuring that we not only achieve financial returns but also generate significant social, economic, and environmental benefits. Through this strategic approach, we aim to drive positive change and support the broader goals of national and global development. This policy underscores our dedication to responsible investing and will be employed to monitor and guide our investment decisions in alignment with these impact themes.

Impact Allocation

A minimum of 5% of total Fund asset value is targeted to high impact investments. No upper limit is set. Should the overall Fund exposure be lower than 5%, the Fund will embark on a process to find suitable target investments.

In determining the actual exposure at any time, the Fund considers the following:

a) Direct and indirect investments
b) Dedicated pools
c) Application of look-through principle where possible
d) Avoidance of double counting where applicable

ANNEXURE 2: ESG ENGAGEMENT POLICY

Introduction

One of the methods the Fund utilizes to ensure that it's ESG values and principles are incorporated into the investment process is exercising its responsibility as an active owner by engaging with investee companies. Engaging with investee companies is a core principle of responsible investing. ESG Stewardship plays a critical role in preserving and improving the long-term value of investments. The Fund defines engagement as all activities, actions, methods, and approaches which are applied, in a prudent and constructive manner, to express the Fund's responsible investment position of ESG matters with the intention of encouraging entities to act in a manner that safeguards and unlocks long term investment value. Engagement will take the form of a structured approach, based on constructive dialogue and long-term monitoring. The Fund's engagement activities will be applied consistent with its fiduciary duties of due diligence, loyalty, and care. Engagement may only be applied where it seeks to safeguard or grow long-term value for its beneficiaries and in line with the Fund's Annual Engagement Plan. This policy sets out the Fund's ESG Engagement Policy and the processes that will be employed by the Fund to monitor and guide its engagement themes and decisions.

Active Engagement

The Fund has adopted an active engagement approach, which involves direct engagement with investee companies. The engagements may occur privately and/or publicly through the Fund and/or ESG Consultant. Private engagement may include written, telephonic and/or electronic communication and meetings to and with the Board of Directors, Board Chairperson, Board Committee Chairperson, Chief Executive Officer, Executive Management and, where possible, making representations to the Board. Public engagements may include attending and raising questions at shareholder meetings, and where, necessary results presentations and roadshows.

Methods of Engagement

Cordial Engagement

Cordial engagement will be employed by the Fund and/or ESG Consultant when addressing proxy voting matters and matters arising from investee company's published information, for example Annual Financial Statements, reports, communiques, SENS announcements, the Funds internal and external ESG research and media publication in an amiable manner. This approach will also be used to evaluate investee companies' commitment to responsible investing, integration of ESG factors into how they do business, and their ability to manage the ESG risk and opportunities. The goal is to build constructive and sustainable relationships with investee companies. Cordial engagement may occur through letters, phone calls, or meetings with executive management and Board, investor relations and/or the company secretariate of investee companies.

Assertive Engagement

If cordial engagement does not achieve the Fund's desired results or if there are significant ESG failures, the Fund will adopt a more assertive engagement approach. This may involve making public statements on contentious matters and/or collaborating with industry stakeholders and institutional investors to promote responsible and sustainable ESG practices

Hostile Engagement

If sustained assertive engagement does not achieve the Fund's desired results, the Fund will resort to a hostile engagement approach. This involves voting against all relevant resolutions to express dissatisfaction. If the issue is not represented on the proxy form, the Fund will vote against resolutions that reflect concerns about the Board's and/or executive management's handling of the company. Hostile engagement will be reserved for severe ESG violations that threaten the Fund's reputation or investments and only after all other engagement avenues have been exhausted and the investee company has been given adequate time to address the issues.

Collaborative Engagement

Where appropriate, the Fund may consider a collaborative method to engagement with other institutional investors to leverage its own engagement efforts in an effective way to encourage improved transparency and performance on ESG factors across the corporate/public environment.

It should be noted that collaborative engagement should not involve collusion or ‘acting in concert’ with other investors or shareholders. Even though the Fund may discuss ESG concerns of investee entities with other institutional investors, the Fund will independently develop and implement its own plan and course of action that it considers appropriate in line with its ESG Engagement Policy.

Industry Dialogue

The Fund may participate in broader local and international discussions about definitions, priorities, standards and best practices in responsible and sustainable investing and active ownership. Through these industry platforms the Fund may share the costs of shareholder engagement by joining organizations made up of other similar institutional investors who are also concerned about creating and improving economic value for investors. In addition, where possible, the Fund may lobby for ESG matters with legislatures, regulators, and relevant industry bodies.

Engagement Themes and Triggers

Proxy Voting

The Fund and/or ESG Consultant may utilize the proxy voting platform to proactively advocate for voting to be conducted in line with its Proxy Voting Policy and where necessary, seek clarification on particular issues relating to resolutions tabled for vote at AGMs or other shareholder meetings. The Fund may also use proxy voting to support its engagement objectives. The Fund may make itself available to engage directly with investee company Board of Trustees and Executive Management prior to the tabling of resolutions and/or after shareholder meetings where a significant percentage of shareholders voted against particular resolutions, in order to understand the concerns of shareholders in regard to those resolutions.

Internal and/or External ESG Research

The Fund may conduct internal ESG research to measure and monitor the ESG practices, performance, and progress of investee companies. In its research the Fund may consider credible external third-party research.

Public Media

Although the Fund has chosen to be proactive in its ESG engagement approach, there are instances where information regarding investee companies is discovered through public media. The Fund may conduct regular reviews of media publications about investee companies and, where necessary, develop a position and/or utilize the relevant information to engage.

Divestment and Screening

As a large institutional investor, the Fund does not employ a negative screening approach, however negatively screened investments may be considered on an ad hoc basis or for specific member investment choice portfolios. Further to this, the Fund employs a multi-management multi-specialist framework that leverages the use of external investment managers. In the event that sustained engagement does not deliver the desired results and the issue at hand is of great significance the Fund may, after careful consideration and as a last resort, divest from a company. An issue of great significance to the Fund includes, but is not limited to, a serious risk to the reputation of the Fund, a serious risk to the reputation and continued economic viability of the entity in which the Fund is invested, or a serious risk of financial harm to the Fund’s investment.

ANNEXURE 3: PROXY VOTING POLICY

Introduction

One of the methods the Fund utilizes to ensure that it's ESG values and principles are incorporated into the investment process is mandating its ESG Consultant to exercise its responsibility as an active owner through engaging with investee companies and voting at all shareholder meetings. This policy sets out the Fund's proxy voting guidelines and will be employed by the ESG Consultant of Fund to monitor and guide its proxy voting procedures and decisions.

Voting Guidelines

1. Approval of Audited Annual Financial Statements, Annual Integrated Reports, ESG Reports and any other reports

The Fund will support the approval of such reports unless:

- The audit report is qualified.
- There are significant concerns regarding the correctness and transparency of information on the performance and solvency of the company.
- The integrity of the annual financial statements or other reports is questionable.
- The annual financial statements or other reports have not been issued in compliance with applicable legal requirements.
- The financial statements or reports have not been made publicly available.
- The information provided in the reports does not meet corporate governance and/or any financial and non-financial disclosure reporting requirements and/or industry specific standards.
- Any other relevant and material issues of concern.

2. Board of Directors

When voting for the election of individual directors of investee companies the Fund will assess the nominated individual's qualifications, skills, expertise, knowledge, experience, and ethical conduct as well as overall Board composition and Board performance. In terms of Board composition, the Fund will evaluate whether there is an appropriate balance of power, Board independence, gender and racial diversity and the age, skills, experience, and knowledge mix within the Board. In terms of Board performance, the Fund will evaluate the investee company's strategy, financial performance, auditors' report, risk management, remuneration as well as environmental, social, and governance practices. The Fund will, in general, support the election of individual directors who will edify the Board of an investee company, provided that the balance of power between executive directors, non-executive directors and independent non-executive directors will, if such director is elected, be at least as follows:

- The CEO and CFO (or CFO equivalent) serve on the Board.
- The majority (51%) of the Board constitutes of independent non-executive directors.

Independent Non-Executive Director

The Fund will consider the following when classifying an independent non-executive director as follows:

- A director who has no material interest, position, association, or relationship which is likely to influence the director's independence, objectivity, and ability to perform functions and to exercise powers in the best interests of the company. This includes material interests, positions, associations or relationships with the company, persons related to the company, external auditor(s) of the company, or other directors of the company. Personal relationships include friendships and family ties.

- A director who is not a representative of a shareholder who can control or significantly influence management.
- A director who is not a member of immediate family of an individual who is or has been in any of the past three financial years, employed by the company or the group in an executive capacity.
- A director who is not a professional advisor to the company, parent company or subsidiaries other than his/her capacity as a director.
- A director who has not been a significant supplier to, or customer of the company or group either in his/her own capacity or through a related party for the past three years.
- A director who has not been the designated external auditor of the company or a key member of the audit team of the external audit firm during the past three years
- A director who is free from any business or other relationship, which could be seen to materially interfere with the individual's capacity to act in an independent manner.
- A director who has no related party interests and conflicts (e.g., B-BBEE Transactions)
- A director who has not served on the Board for a period longer than 9 years.
- A director who does not receive remuneration from the company apart from director fees.
- A director who does not hold securities in the company, or related company which exceed 1% of the issued share capital.
- A director who does not participate in share schemes within the company, holding company or subsidiaries.

Election/Re-election of Independent Non-Executive Directors

The Fund will support the election/re-election of independent non-executive directors unless:

- The directors are elected/re-elected by way of a single resolution and shareholders have not been given an opportunity to evaluate each candidate individually.
- The director's classification as being an independent non-executive director is not in line with this policy.
- The director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company's Board.
- No information on the director's appointment date, meeting attendance record, other directorships, background, and professional profile is available.
- The director has attended less than 75% of required Board and committee meetings with no sound explanation provided for such non-attendance.
- The director is overcommitted (serves on more than 5 listed Boards) and does not have sufficient time available to fulfil his/her responsibilities to the company.
- The director has served on the Board for a period of exceeding 9 years without an annual, rigorous assessment confirming they exercise objective judgment, free from any conflicts or bias that could unduly influence decision-making.

Election/Re-election of Non-Executive Directors

The Fund will support the election/re-election of non-executive directors unless:

- The directors are elected/re-elected by way of a single resolution and shareholders have not been given an opportunity to evaluate each candidate individually.
- The director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company's Board.
- No information on the director's appointment date, meeting attendance record, other directorships, background, and professional profile is available.
- The director has attended less than 75% of required Board and committee meetings with no sound explanation provided for such non-attendance.
- The director is overcommitted (serves on more than five listed Boards) and does not have sufficient time available to fulfil his/her responsibilities to the company.
- The director is a member of the audit committee.

Election/Re-election Executive Directors

King IV recommends that a minimum of two executive directors be appointed to the Board, being the chief executive officer (CEO) and the director responsible for the finance function (CFO/FD). The Fund will, in general, support the appointment of the CEO and CFO/FD, provided the nominated individual edifies the Board and has the requisite skills, expertise, knowledge, experience, qualifications, and ethical conduct. In addition, the Fund will also consider the individual's past performance and the investee company's performance, including the environmental, social, and corporate governance practices of the investee company during his/her tenure.

The Fund will support the election/re-election of executive directors unless:

- The directors are elected/re-elected by way of a single resolution and shareholders have not been given an opportunity to evaluate each candidate individually.
- The director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company's Board.
- No information on the director's appointment date, meeting attendance record, other directorships, background, and professional profile is available.
- The director has attended less than 75% of required Board and committee meetings with no sound explanation provided for such non-attendance.
- The director is a member of the audit committee, nomination committee and/or remuneration committee.
- The director is not the CEO or CFO and their addition dilutes the overall independence of the Board.

Election/Re-election of the Board Chairperson

The chairperson of the Board should be an independent non-executive director, in instances where the chairperson is not independent, a Lead Independent Director should be appointed. In order to qualify as independent, the chairperson should meet the Fund's criteria for an independent non-executive director upon appointment and should have continued to do so. The chairperson should not be a member of the audit committee. Although the chairperson may be a member of the remuneration, risk and/or social and ethics committees, he/she should not chair these committees.

The Fund will support the election/re-election of the chairperson of the Board unless:

- The Chairperson of the Board is also the CEO of the investee company.
- The Chairperson is not independent, and the Board does not have a lead independent director.

Election/Re-election of Private Equity Directors

Directors of private firms, by the nature of the role they are expected to play, are considered insiders. The Fund will evaluate the election/re-election of private equity directors on a case-by-case basis, taking into consideration factors such as the qualifications, skills, and experience of the director; the individual director's track record; the director's independence of mind; and whether the election or re-election of the director concerned will add value to the Board and enhance shareholder value.

3. Audit Matters

Election/Re-election of Audit Committee Members

One of the responsibilities of the Audit Committee is to provide independent oversight of the Board's affairs. To ensure that the Audit Committee is able to uphold its independence and effectiveness while conducting its duties, the Fund is of the view that the chairperson of the Board should not serve on the Audit Committee and that the Audit Committee should constitute of a minimum of three independent non-executive directors.

The Fund will support the election/re-election of audit committee members unless:

- All the members of the committee are elected and/or re-elected by way of a single resolution and shareholders have not been given an opportunity to evaluate each candidate individually.
- The member's classification as an "independent non-executive director" of the company is not in line with this policy's considerations of independence.
- The director does not have the appropriate qualifications or skills and/or experience to function effectively as a member of the committee.
- No information on the director's appointment date, meeting attendance record, other directorships, background, and professional profile is available.
- The director has attended less than 75% of required Board and committee meetings with no sound explanation provided for such non-attendance.
- Under the director's tenure in the audit committee there has been the following:
- A qualified audit report.
- Significant concerns regarding the correctness and transparency of information on the performance and solvency of the company.
- The annual financial statements or other reports have not been issued in compliance with applicable legal requirements.
- The financial statements have not been made publicly available.
- Any other relevant and material issues of concern that are the responsibility of the audit committee.

Appointment/Re-appointment of External Auditors

The Fund will support the appointment/re-appointment of external auditors unless:

- The tenure of the audit firm or audit partner/manager has not been disclosed.
- The tenure of the audit firm exceeds 10 years.
- The company has had material restatements or has delayed the filing of financial statements because of fault on the part of the auditor.
- There is poor disclosure or lack of transparency in the company's financial statements.
- There is evidence of aggressive accounting practices.
- The audit firm does not comply with section 90(2) of the Companies Act.
- There is evidence of conflicts of interest on the audit partner/manager or audit firm and/or the independence of the audit partner/manager or audit firm is compromised.
- In the case of joint auditors, two or more audit firms are elected or re-elected by way of a single resolution.
- The fees paid to the auditor for any and all services rendered are not sufficiently disclosed.
- The fees paid to the auditors for non-audit fees exceeds 25% of the fees paid for audit services, with the exception of once of fees relating to corporate actions.
- The investee company has agreed to the indemnification of the external auditor.
- The audit firm and/or audit partner is under legal investigation for gross misconduct or contravening applicable law in investee companies' jurisdiction.

Approval of External Auditor Remuneration

The auditor's remuneration is sometimes put on the meeting agenda as a resolution. The remuneration of the auditor is effectively determined by the audit committee (section 94(7)*(b)* of the Companies Act 71 of 2008). If presented to shareholder vote, it affords the shareholders attending the meeting an opportunity to raise appropriate questions in this regard to the Board.

The Fund will support the approval of the external auditor's remuneration unless:

- The Fund does not support the appointment/re-appointment of the auditor.
- The audit committee does not constitute of a minimum of three independent directors.
- The fees paid to the auditor for any and all services rendered are insufficient or not disclosed.
- The fees paid to the auditors for non-audit services exceed 25% of the fees paid for audit services and the justification for exceeding this threshold has not been adequately disclosed or explained.

4. Remuneration Matters

Remuneration Committee

The Fund supports the constitution of the remuneration committee in line with King IV, which recommends that all members of the Committee should be non-executive directors, with the majority being independent non-executive directors. The Chairperson of the Board may be a member of the remuneration committee, but he/she may not chair the Committee.

The Fund will support the election/re-election of remuneration committee members unless:

- The remuneration policy and remuneration implementation have not been tabled for shareholder voting.
- The Chairperson of the Board is also the chairperson of the remuneration committee.
- Executive directors are members of the remuneration committee.
- The committee makes material changes to the remuneration policy and its implementation without shareholder approval.
- The committee implements the remuneration policy in a manner that is inconsistent with the remuneration policy voted for by shareholders.

Approval of the remuneration policy

The Fund will evaluate remuneration policies on a case-by-case basis. When evaluating a remuneration policy, the Fund will consider whether the policy sufficiently discloses the investee company's objectives on fair, responsible and transparent remuneration and whether there is a clear description of all elements of the remuneration package, including the total amount of salary and incentives; all benefits; performance related payments and awards; pension related benefits; termination payments; sign-on, retention and restraint payments; commissions and allowances; minimum shareholding requirements; as well as malu*s* and claw-back provisions. The Fund will also assess whether the remuneration policy aligns the interests of management and shareholders and whether appropriate emphasis is placed on performance-based incentives that are aligned with the company's strategic objectives. Furthermore, the Fund will evaluate whether the remuneration policy has clear financial and non-financial weighted KPI's with stretching targets which are appropriate for the nature and size of the investee company.

The Fund will support the approval of the remuneration policy unless:

- There is lack of transparency in the policy.
- The policy fails to properly align the investee company's strategic objectives, performance, and long-term value.
- The policy fails to properly align the interests of management and shareholders.
- The policy fails to include ESG targets as key performance indicators.
- The remuneration committee is not constituted in line with this policy.
- The policy fails to disclose financial and non-financial key performance indicators with stretch targets and weightings.
- The investee company's short-term incentive (STI) scheme and long-term incentive (LTI) scheme do not have performance conditions and/or the investee company does not disclose the performance conditions for the STI and LTI.
- The vesting period for the LTI scheme is less than 3 years.
- Any of the elements of the policy – performance conditions, targets, measures, vesting periods are changed without reason and explanation.
- There are no minimum shareholding requirements for executive directors.
- There are no caps on STI and LTI awards.
- The potential maximum dilution under all share incentive schemes exceeds 5%.
- The allocation per scheme exceeds 5% of total issued share capital and/or the allocation per individual participating in the scheme exceeds 1% of the total issued share capital.

Approval of the implementation of the remuneration policy

The Fund will in general support the implementation of the remuneration policy unless:

- There is lack of transparency regarding all the components of the remuneration packages received or receivable by each executive director or prescribed officer of the investee company during the reporting period.
- There is lack of transparency regarding the performance criteria used to determine variable remuneration as well as the linkage with the investee company's strategic objectives, performance, and long-term value.
- There is lack of transparency regarding any termination payments awarded during the reporting period.
- Executive directors have received any STI and LTI bonus payments and/or awards that are not linked to the performance targets in the remuneration policy.
- Executive directors receive any ex-gratia payments and/or once-off special awards without reason, explanation, and engagement with shareholders.
- There is no clear linkage between the remuneration policy and the implementation report.
- The remuneration report fails to properly align the interests of management and shareholders.

Approval of non-executive director remuneration

The Fund is of the view that non-executive directors should only be paid via Board fees and receive no other form of remuneration from the investee company.

The Fund will support the approval of non-executive director remuneration unless:

- There is lack of transparency regarding all the fees paid to individual non-executive directors and the basis for such fees during the relevant reporting period.
- The fees are significantly higher than the peer group without reason and explanation.
- The non-executive directors receive share options.
- The non-executive directors receive unexplained and unjustified ad hoc fees.
- The fees include ex-gratia payments and/or special once-off payments.
- The fees include retirement benefits for non-executive directors.
- The fees include any compensation for loss of office.

Approval of new incentive scheme/ amendment of existing incentive scheme

The Fund will evaluate proposals for new incentive schemes or amendments to existing incentive schemes on a case-by-case basis in line with the Fund's requirements for the remuneration committee, remuneration policy and remuneration implementation report. In addition, the Fund will evaluate the frequency of such proposals by an investee company, whether the scheme coincides with a new economic cycle, the level of complexity of the scheme and whether capital structures are skewed to maximum bonus structures.

The Fund will in general support this resolution unless:

- The scheme fails to properly align the investee company's strategic objectives, performance, and long-term value.
- Vesting of scheme awards is less than three years and/or performance is measured for a period less than three years.
- The scheme expiry period exceeds 10 years.
- The scheme does not have measurable performance conditions with stretch targets and weightings.
- The scheme only has one performance condition.
- The scheme does not have a cap on individual participation and awards.
- The structure is in favour of management, rather than the alignment of the interests of both shareholders and management.
- Material information in relation to the rules of the structure or scheme has not been provided.

- The structure or scheme gives discretion to the remuneration committee about the determination of performance-based remuneration.
- The potential maximum dilution under all share incentive schemes exceeds 5%.
- Non-executive directors are allowed to participate in the scheme.
- The scheme allows for the awarding of options instead of shares.
- The scheme allows for share options to be issued for bonus purposes.
- The scheme allows backdating and/or discounting and/or re-pricing of options.
- The scheme allows for options allocated to an individual to not be cancelled upon that person leaving the employ of the company.
- The scheme does not stipulate the terms of the loans made to participants.

5. Capital and Shareholder Structure

Authority to place unissued shares under the control of directors

The Fund will support the authority to place unissued shares under the control of directors unless:

- There is no compelling reason provided for the proposal (e.g., provision of flexibility, a need to award an indeterminate number of shares to directors).
- The investee company used the authority in the previous reporting period in a manner that was not in the best interest of shareholders.
- The proposal has a threshold that exceeds 5% of the investee company's issues share capital in any financial year without reason and explanation.

Authority to issue shares for cash

The Fund will support the authority to issue shares for cash unless:

- No compelling reason that will enhance shareholder value is advanced by management.
- The proposal has a threshold that exceeds 5% of the investee company's issues share capital in any financial year without reason and explanation.
- The investee company used the authority in the previous reporting period in a manner that was not in the best interest of shareholders.
- The investee company share price is significantly below its intrinsic value.

Authority to repurchase shares

The Fund will support the authority to repurchase shares unless:

- The repurchase of shares is deemed to be against creating shareholder value.
- The resolution does not comply with the minimum statutory disclosure requirements and the JSE Listing Requirements (e.g., it is above the 20% issued share capital threshold)
- The proposal is to repurchase shares off-market and the maximum price at which the company is to purchase such shares has not been specified.
- The investee company has in the past failed to add value to shareholders through the repurchase of shares (e.g., the repurchase does not return cash to shareholders in a tax efficient manner).
- The investee company does not have sufficient balance sheet and/or cash reserves for the repurchase of shares and/or the repurchase negatively impacts the capital structure.
- The investee company share price is significantly below its intrinsic value at the time of requesting the authority for a repurchase.
- The repurchase negatively impacts the tradability of the shares and/or the rating of the shares.
- The repurchase negatively impacts the liquidity of the investee company.
- The shares to be repurchased belong to a company or subsidiary whose shares have poor liquidity.
- The free float of the investee company is already very small.
- The investee company will suffer from a material decline in its free float by a repurchase of shares.

- Share repurchases are made in a pyramid structure, especially when separate share classes are not provided with an opportunity to vote separately.

Authority to declare a final dividend and capital distribution

The Fund will evaluate such resolutions on a case-by-case basis taking into cognisance whether the dividend is warranted considering the investee company's performance and whether it has the cash resources to pay for the dividend without putting a burden on the capital base of the company. Where no dividend is proposed the Fund expects the investee company to provide sound reasons why this has not been done, especially if the company's performance does not suggest that a dividend would be detrimental to the company.

The Fund will support such resolutions unless:

- The dividend is deemed to be unjustifiably low.
- There is no explanation or disclosure when dividend policy changes.
- The awarding of a dividend negatively impacts the liquidity of the investee company and/or places the investee company under financial distress.
- Shareholders have not been given an option to receive the dividend in cash.

Odd lot offers

The Fund will in general support odd lot offers. However, each resolution will be evaluated on a case-by-case basis.

Disapplication of pre-emptive rights

The disapplication of pre-emption rights allows an investee company to issue shares without having rights offer to existing shareholders on a pro-rata basis. This is not viewed as an optimal situation. The Fund will in general vote against the disapplication of pre-emptive rights and linked resolutions. However, the Fund acknowledges that while pre-emption rights are important, a degree of flexibility is important in circumstances where new equity issuance of shares without the application of pre-emptive rights would be in the best interest of the investee company and shareholders. To this end, it is the responsibility of an investee company to inform the Fund at the earliest opportunity and engage on its intention to seek the disapplication of pre-emptive rights to be reviewed on a case-by-case basis.

Issuing of new share classes

If the effect of issuing new share classes is to consolidate voting power into the hands of a few persons or institutions to a level disproportionate to their percentage of ownership, then it will be to the detriment of the investee company. The result is usually the blocking of takeovers or the avoidance of accountability to the shareholders who are providing a major part of the funding for the company. The Fund will in general vote against proposals to divide the ordinary share capital into two or more classes with unequal voting and/or economic rights.

New memorandum of incorporation (MOI)/amendments to the MOI

The Fund will evaluate resolutions related to the MOI on a case-by-case basis.

The Fund will support such resolutions unless:

- The new MOI/amendments to the MOI are not made available to all shareholders.
- The new MOI/amendments to the MOI are deemed to be unlawful.
- The new MOI/amendments to the MOI take away shareholder rights and/or are not in the best interest of shareholders.
- The new MOI/amendments to the MOI release any executive and/or non-executive director from re-election while remaining on the Board.

6. Authority to provide financial assistance

Section 44 of the Companies Act of 2008 requires investee companies to seek shareholder approval when seeking to provide financial assistance (e.g., loans or loan guarantees) to specific recipients or to a category of recipients for subscription of securities issued by the investee company and/or a related and/or inter-related company. Section 45 of the Companies Act of 2008 requires companies to seek shareholder approval where financial assistance is to be provided to related parties and/or related companies (e.g., holding company or subsidiary), directors or prescribed officers (e.g., executive directors and/or senior executive who are not executive directors) for any purpose.

The Fund will support the authority to provide financial assistance unless:

- The recipients or category of the recipients of the financial assistance have not been specified and/or the recipients are "any person".
- The purpose of the financial assistance has not been specified.
- The financial assistance to directors is for reasons outside the participation in an investee company's share incentive scheme.
- The provision of financial assistance is against the legal and regulatory requirements.
- The provision of the financial assistance is not in line with shareholder interests.

7. Broad-Based Black Economic Empowerment (B-BBEE) Transactions

B-BBEE transaction are often complex and very often lead to share dilution. To this end, the Fund will evaluate B-BBEE transactions on a case-by-case basis taking into consideration the following:

- Whether clear and transparent evidence of enhancement of long-term shareholder value, although it might dilute it initially, has been provided.
- Whether the transaction is beneficial to the B-BBEE stakeholders.
- Whether the beneficiaries are broad-based, with community organizations representing the broader base having at least 60% of profits accruing to them. There should be an extensive profile document of all proposed empowerment partners and groups and a detailed explanation of who will be allocated which profits and who is responsible for what liabilities and the terms of the loans involved to make the deal work financially.
- Whether there is clear and transparent disclosure on the cost of the deal and the involvement of the investee company and its advisors.
- Whether there is clear and transparent disclosure of the financial commitments made by B-BBEE participants to the deal.

8. Political donations

It is common for UK-based investee companies to seek shareholder approval for the Board to make political donations and/or incur political expenditure in line with UK legislation. The Fund is of the view that political donations and expenditure may pose an ethical dilemma of blurred lines between investee companies and government. To this end, the Fund will in general vote against political donations and related resolutions.

9. Environmental, Social & Governance (ESG)

ESG factors have a material impact on investee company performance, and it has become common for investee companies to table ESG related resolutions, in particular climate-change related resolutions for shareholder voting. As a responsible corporate citizen, the Fund welcomes and encourages ESG resolutions to be placed on the agenda at shareholder meetings and will vote on such resolutions on a case-by-case basis.

10. Climate Change Resolutions

The Fund will support climate change resolutions unless:

- The climate change resolution(s) are not linked to measurable time specific carbon emissions reduction targets.
- The carbon emissions reduction targets are not linked to the governance, strategy, and risk management of the investee company.
- The ultimate responsibility for climate change does not reside with the Board of the investee company.

11. Authority for Company to provide shareholders with less than 14 business days' notice for shareholder meeting

The Fund will vote against such a resolution unless there are exceptional circumstances and the authority sought is in line with the company's Memorandum of Incorporation and/or applicable legal requirements.

ANNEXURE 4: CLIMATE CHANGE POSITION STATEMENT

Context

The increasing concentration of greenhouse gases (GHG) in the atmosphere continues to cause significant warming of the Earth's temperature, leading to climate change. This has resulted in devastating physical impacts on businesses and communities globally. In recent years, South Africa has directly felt the effects of climate change through extreme weather patterns, which have had unintended consequences on water supply, food security, health, and livelihoods. As a responsible institutional investor committed to sustainable and transparent investment practices, Sentinel Retirement Fund (the Fund) recognizes its duty to consider climate change risks and opportunities in its investment strategies. The Fund understands that addressing climate change is not only crucial for the environment but also for the long-term financial health and stability of its members' investments.

To this end, the Fund aims to integrate climate change considerations into its investment decision-making process. This includes assessing the potential impact of climate-related risks on its portfolio and identifying opportunities for investing in sustainable and resilient projects. By doing so, the Fund aims to mitigate the adverse effects of climate change while promoting investments that contribute to a sustainable future. The Fund's approach is driven by the belief that incorporating ESG factors, including climate change, into investment practices can enhance long-term returns and reduce risk. By proactively addressing climate change, the Fund not only fulfils its fiduciary duty to its members but also contributes to the broader goal of building a sustainable and resilient global economy. This commitment to responsible investment practices underscores the Fund's role as a leader in sustainability, ensuring that it remains aligned with global efforts to combat climate change and protect the interests of its members for generations to come.

Purpose

This position statement sets out the Fund's approach and commitment to understanding its climate change related risks and opportunities. This statement must read together with the Fund's Stewardship and ESG Policy, Impact Investing Policy, ESG Engagement Policy, Proxy Voting Policy, and the Investment Policy Statement.

Our Commitment

The Fund is committed to exploring how it can leverage its investments towards transitioning into a low-carbon economy, aligning itself with the goals of the National Development Plan and Paris Agreement. The Fund implements its commitment in the following methods:

1. **Policy**
   The Fund is committed to incorporating climate change considerations into its investment and ESG related policies and procedures.
2. **Voting**
   The Fund votes in favour of climate change resolutions that have a positive impact on the environment and communities.
3. **Engagement**
   As an active owner the Fund is committed to utilizing its engagement with investee companies to address climate change risk and opportunity by prioritizing climate change objectives and targets in the Fund's annual Engagement Plan.
4. **ESG Integration**
   The Fund is committed to engaging its investment managers on their climate change investment strategy and engagement approaches to ensure that they are aligned with the Fund's vision to influence investee companies to transition into low-carbon solutions, particularly for investments with high greenhouse gas emissions.
5. **Long-Term Advocacy**
   As a long-term institutional investor, the Fund supports a "Just Transition" and is committed to long-term climate change advocacy to drive investee companies towards a low-carbon future, particularly on

contentious issues like coal. The Fund is of the view that divestment from coal investments does not solve the problem, however, engaging and advocating for greenhouse gas reductions, investment into renewable/ clean energy and low-carbon technology practices and products leads to pathways capable of reducing greenhouse gas emissions.

6. **Impact Investing**
Through its Impact Investing Policy, the Fund has committed to direct 5% of its total Fund asset value to investing in sectors that specifically target clean energy, environmental preservation, natural resourced and conservation and sustainable agriculture development.

7. **Collaborating**
The Fund is committed to working with other investors and organisations to accelerate and amplify its efforts to transition into a low-carbon economy.

8. **Lobbying**
To better understand future climate policy trajectories and their investment impacts, the Fund may engage with policymakers. Such engagement can influence policy outcomes, reduce investment uncertainty, and enhance the resilience of the Fund's portfolios to climate change. Lobbying efforts may include engaging with and submitting input to government bodies, publishing and contributing to climate change research, and participating in industry-wide campaigns. This also involves interacting with standards setters and policymakers, including legislators, regulatory authorities, government entities, independent commissions, and the media as appropriate.