



Sentinel Retirement  
Fund  
Sentinel House  
1 Sunnyside Drive  
Sunnyside Park

# **INVESTMENT POLICY STATEMENT ("IPS")**

**2021**

**SENTINEL RETIREMENT FUND  
("The Fund")**

<b>Version</b>	<b>Board Approval</b>
V1	November 2008
V2	September 2009
V3	September 2011
V4	March 2013
V5	October 2014
V6	March 2016
V7	March 2017
V8	November 2018
V9	April 2020
V10	November 2021

## CONTENTS

1.	INTRODUCTION.....	4
2.	BACKGROUND OF THE FUND .....	4
3.	ROLE PLAYERS.....	4
4.	INVESTMENT STRATEGY AND APPROACH .....	7
5.	PORTFOLIO CONSTRUCTION AND MANAGER ALLOCATION .....	9
6.	INVESTMENT GUIDELINES AND CONSTRAINTS .....	12
7.	INVESTMENT MONITORING.....	15
8.	REVIEW OF THE INVESTMENT POLICY STATEMENT .....	15
	Appendix 1: Asset Allocation and Rebalancing.....	16
	Appendix 2: Manager Selection and Investment Structure .....	21
	Appendix 3: Responsible Investment Policy .....	36
	Appendix 4: Securities Lending Policy .....	71
	Appendix 5: Risk Management.....	73

# 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	<ol style="list-style-type: none"> <li>1. Ensure due diligence in the execution of their fiduciary responsibilities;</li> <li>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;</li> <li>3. Approve and annually review the investment strategy and policies;</li> <li>4. Ensure that Fund Rules are adhered to and all applicable legislation followed;</li> </ol>

Role Player	Responsibilities
	<ol style="list-style-type: none"> <li>5. Ensure compliance with Codes of Conduct and commitment to the Fund's Ethics Charter;</li> <li>6. Delegate, within the Rules of the Fund, certain duties to the Investment Committee, Chief Executive Officer, Principal Officer, Chief Investment Officer, Chief Financial Officer or Investment Consultants, but retain full responsibility for those functions;</li> <li>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;</li> <li>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</li> <li>9. Review default investment choices annually.</li> </ol>
Investment Committee	<ol style="list-style-type: none"> <li>1. Recommend investment strategy and policies to the Board;</li> <li>2. Ensure compliance with the IPS and regulatory requirements;</li> <li>3. Ensure the inclusion of appropriate investment specialists and continuity of the investment process;</li> <li>4. Appoint investment managers to implement the investment strategy, includes decision on size of allocation, mandate, and if required reduction or termination of mandates;</li> <li>5. Recommend appointment of investment consultants and custodians to the Board;</li> <li>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</li> <li>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.</li> </ol>
Chief Executive Officer	<ol style="list-style-type: none"> <li>1. Ensure that decisions of the Board and Investment Committee are implemented;</li> <li>2. Liaise with service providers to the Fund, unless there is direct contact between the Board and the service provider;</li> <li>3. Contribute at Board and Investment Committee meetings even though, as CEO, the incumbent does not have a vote in any decisions;</li> <li>4. Ensure that the Fund meets global best performance standards;</li> <li>5. Liaise with Investment Committee on all investment related issues; and</li> <li>6. Management of the Fund.</li> </ol>
Principal Officer	<ol style="list-style-type: none"> <li>1. Ensure that decisions of the Board are implemented;</li> <li>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</li> <li>3. Contributing at Board and Investment Committee meetings even though, as Principal Officer, the incumbent does not have a vote in any decisions.</li> </ol>
Chief Investment Officer	<ol style="list-style-type: none"> <li>1. Facilitate IPS formulation and review;</li> <li>2. Implement investment strategy and policies;</li> <li>3. Execution of all investment-related legal agreements;</li> <li>4. Day-to-day monitoring of the entire investment structure of the Fund, including liquidity management;</li> <li>5. Primary contact for all investment-related service providers to the Fund;</li> <li>6. Authority to implement strategic or tactical rebalancing after liaising with CEO, Investment Consultant and Tactical Asset Allocator;</li> </ol>

Role Player	Responsibilities
	<ol style="list-style-type: none"> <li>7. Authority to implement hedging strategies, as approved by the Investment Committee, after liaising with the CEO, Investment Consultant and Tactical Asset Allocator;</li> <li>8. Authority to appoint transition manager and manage transitions in conjunction with the transition manager and in accordance with the decision of the Investment Committee;</li> <li>9. Ensure global best practice is followed with regard to pension fund investment management; and</li> <li>10. Quarterly reporting to the Investment Committee and Board.</li> </ol>
Investment Managers	<ol style="list-style-type: none"> <li>1. Invest the capital allocated to them according to their respective mandates;</li> <li>2. Employ sound operational standards, including governance, systems, administration, auditing, compliance, insurance and risk management;</li> <li>3. Report back to the CEO, CIO, Investment Consultant and Investment Committee when necessary; and</li> <li>4. Prepare portfolio reports as directed.</li> </ol>
Investment Consultant	<ol style="list-style-type: none"> <li>1. Assist in formulating Fund investment strategy;</li> <li>2. Conduct an asset liability modelling exercise upon request;</li> <li>3. Perform investment manager research and make recommendations in this regard;</li> <li>4. Review investment manager mandates and assist in setting appropriate benchmarks;</li> <li>5. Conduct risk budgeting analysis on an ongoing basis; and</li> <li>6. Provide training, monitoring and reporting on an agreed upon basis.</li> </ol>
Actuary	<ol style="list-style-type: none"> <li>1. Provide certification in terms of the Act that assets are appropriate to the liabilities of the Fund;</li> <li>2. Provide interim and statutory valuations as required;</li> <li>3. Recommend discount rate to be used in valuing liabilities; and</li> <li>4. Sign off on investment strategy.</li> </ol>
Custodians	<ol style="list-style-type: none"> <li>1. Maintain the investment custody records of the Fund;</li> <li>2. Ensure settlements are met and corporate and other cash flow events are actioned as instructed; and</li> <li>3. Ensure registration of investments in the name of the Fund (where applicable).</li> </ol>
Securities Lending Desks	<ol style="list-style-type: none"> <li>1. Manage the securities lending process on behalf of the Fund;</li> <li>2. Manage the investment of cash collateral in conjunction with the CIO;</li> <li>3. Minimise the credit risk of these activities;</li> <li>4. Ensure the Fund is not prejudiced through this activity, in particular with regard to corporate events; and</li> <li>5. Provide detailed reporting as agreed.</li> </ol>
Engagement Consultant	<ol style="list-style-type: none"> <li>1. Assist in formulating and implementing the Fund's responsible investment policies;</li> <li>2. Assist in formulating and implementing the Fund's focused engagement programme on an annual basis; and</li> <li>3. Provide detailed reporting as agreed.</li> </ol>

## 4. INVESTMENT STRATEGY AND APPROACH

### 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 payout 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);
- 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 3 details the principles, measurement and goals with regard to the Fund's responsible investment policy.

## 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:

<b>Wealth Builder</b>	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.
<b>Inflation Protector</b>	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.
<b>Pension Protector</b>	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.
<b>Pensioner</b>	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.
<b>Money Market</b>	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.
<b>Shari'ah</b>	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.
<b>Risk</b>	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:

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

Portfolio Name	Portfolio Type	Term to NRA	Return Benchmark	Target Solvency Risk Tolerance
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 mis-pricing.

## 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:

- Commitment 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 cover for this eventuality a minimum of 25% of the Fund's assets will be in liquid form at all times, i.e. convertible to cash within 14 days.

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 4.

## **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.

**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.

Uncovered (naked) derivative positions:

- Call options written, put options bought and futures sold on components of the portfolio and/or indices must be fully covered by physical assets in the portfolio. Where the underlying asset is a basket of shares, reasonable correlation should exist between the basket and a similarly sized (in terms of effective exposure) component of the portfolio.
- Put options written, call options bought and futures bought must be fully covered by the portfolio's cash and/or money market instruments.

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.

## 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

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	-1.40	13.41
SA Money Market	0.00	1.80
Foreign Bonds	-0.76	12.94
SA Nominal Bonds	2.69	5.59
SA Medium Term ILB	3.11	5.94
SA Long Term ILB	4.21	8.19
Foreign Property	5.80	18.59
SA Property	5.40	19.81
Foreign Equity	6.60	17.02
SA Equity	6.50	16.51
Africa Equity	7.25	25.90
EM Equity	6.85	19.07
China Equity	7.25	34.62

\*Measured as 1 standard deviation.

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	40	36 – 44	Capped SWIX
SA Property	7	3 – 11	ALPI
SA Nominal Bonds	0	0 – 5	ALBI
SA Medium Term ILB	0	0 – 5	R202
SA Long Term ILB	14	9 – 19	CILI 12+
SA Money Market	2	1 – 3	STEFI
Africa Equity	7	4 – 10	70% MSCI EFM Africa (ex SA) / 30% S&P All Africa (ex SA) Capped
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 Libor
Emerging Market Equity	6	2 – 10	MSCI EM (ex SA)
China Equity	3	0 – 7	65% MSCI China A Onshore / 35% MSCI China

**PORTFOLIO: INFLATION PROTECTOR**

Asset Class	Strategic Asset Allocation (%)	Asset Allocation Range (%)	Benchmark
SA Equity	34	30 – 38	Capped SWIX
SA Property	7	3 – 11	ALPI
SA Nominal Bonds	4	0 – 9	ALBI
SA Medium Term ILB	0	0 – 5	R202
SA Long Term ILB	16	11 – 21	CILI 12+
SA Money Market	2	1 – 3	STEFI
Africa Equity	7	4 – 10	70% MSCI EFM Africa (ex SA) / 30% S&P All Africa (ex SA) Capped
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 Libor
Emerging Market Equity	6	2 – 10	MSCI EM (ex SA)
China Equity	3	0 – 7	65% MSCI China A Onshore / 35% MSCI China

**PORTFOLIO: PENSION PROTECTOR**

Asset Class	Strategic Asset Allocation (%)	Asset Allocation Range (%)	Benchmark
SA Equity	23	19 – 27	Capped SWIX
SA Property	7	3 – 11	ALPI
SA Nominal Bonds	4	0 – 9	ALBI
SA Medium Term ILB	0	0 – 5	R202
SA Long Term ILB	28	23 – 33	CILI 12+
SA Money Market	2	1 – 3	STEFI
Africa Equity	7	4 – 10	70% MSCI EFM Africa (ex SA) / 30% S&P All Africa (ex SA) Capped
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 Libor
Emerging Market Equity	5	1 – 9	MSCI EM (ex SA)
China Equity	3	0 – 7	65% MSCI China A Onshore / 35% MSCI China

**PORTFOLIO: PENSIONER**

Asset Class	Strategic Asset Allocation (%)	Asset Allocation Range (%)	Benchmark
SA Equity	22	18 – 26	Capped SWIX
SA Property	7	3 – 11	ALPI
SA Nominal Bonds	3	0 – 8	ALBI
SA Medium Term ILB	0	0 – 5	R202
SA Long Term ILB	29	24 – 34	CILI 12+
SA Money Market	2	1 – 3	STEFI
Africa Equity	7	4 – 10	70% MSCI EFM Africa (ex SA) / 30% S&P All Africa (ex SA) Capped
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 Libor
Emerging Market Equity	6	2 – 10	MSCI EM (ex SA)
China Equity	3	0 – 7	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	CILI 12+
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

**Notes**

- 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, hedge fund and private equity exposure is incorporated into the above allocations based on an estimate of 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.

**SA UNLISTED PROPERTY**

	Strategic Allocation (%)	Allocation Range (%)
Overall	3	1 – 5
- Regional Retail	60	50 – 100
- Industrial & Commercial	20	0 – 25
- Residential	20	0 – 25

Both the strategic allocations as well as the ranges applicable to unlisted property are long-term objectives

<b>HEDGE FUND</b>			
	<b>Strategic Asset Allocation (%)</b>	<b>Asset Allocation Range* (%)</b>	<b>Benchmark*</b>
<b>SA Hedge Fund</b>	4	2 – 6	Capped SWIX
<b>Foreign Hedge Fund</b>	1	0 – 2	50% MSCI ACWI / 50% 1m USD Libor

\*Subject to mandates

<b>PRIVATE EQUITY</b>		
	<b>Strategic Allocation (%)</b>	<b>Allocation Range (%)</b>
<b>Overall</b>	8	6 – 10
<b>Regional</b>		
- South Africa	35	30 – 40
- Africa	50	45 – 55
- Foreign	15	10 – 20
<b>Structure</b>		
- Fund of funds*	80	75 - 85
- Single funds	15	5 – 15
- Co-investments	5	0 - 5

\*Split as follows: 60% pooled / 40% managed account. Managed account to allow Fund to manage vintage and Regulation 28 exposure.

Both the strategic allocations as well as the ranges applicable to private equity are long-term objectives.

#### **Direct investments\***

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

- Chairman of the Board
- Chairman of the Investment Committee
- Nominated Trustee (Mrs HH Hickey)
- CEO
- CFO
- CIO
- Investment Consultant

*\*This represents direct, unlisted investment in specific companies and is not included in the private equity limit.*

For Regulation 28 compliance purposes hedge fund and private equity exposure is limited to 15% combined. Given the limited liquidity within private equity, hedge fund exposure is set as the “balancing” number. Hedge fund, private equity and unlisted combined exposure are limited to 35% as per Regulation 28 limits.

## **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

- 1) To ensure portfolios remain within the guidelines set out in the IPS, the asset mix is reviewed on a monthly basis.
- 2) The asset allocation range limits the extent to which portfolio can deviate, in terms of exposure, from the long-term strategic asset allocation.
- 3) 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.
- 4) 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.
- 5) 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.
- 6) Investment manager rebalancing is incorporated into each asset class rebalancing based on advice received from the Investment Consultant.
- 7) 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.
- 8) Rebalancing may occur either by redirecting cash flows or transfers between asset classes or managers. Occasionally the use of futures will be considered.
- 9) The benchmark is fixed at the asset allocations provided above.
- 10) This fixed asset allocation guideline is also used for tactical asset allocation (TAA) purposes.
- 11) 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.
- 12) 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.
- 13) Private equity exposure may only be reduced in the event that investment realisations permits 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:



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

### COMPANY DETAILS

- |           |                                  |
|-----------|----------------------------------|
| ➤ Name    | ➤ Key Individuals                |
| ➤ Address | ➤ FSP license number and details |

### COMPANY STRUCTURE AND BUSINESS RELATED ISSUES

- |   |  |
|---|--|
| ➤ Founding date                                       | ➤ Details of legal judgments, convictions, court cases |
| ➤ Company registration details                        | ➤ Corporate social responsibility policy               |
| ➤ Company history                                     | ➤ Signatory of UNPRI/CRISA code                        |
| ➤ Company structure                                   | ➤ Staff details  |
| ➤ Shareholders and shareholding                       | ➤ Staff turnover                                       |
| ➤ Ownership   | ➤ Key man risk   |
| ➤ Governance/management structure                     | ➤ Remuneration/Incentive structure                     |
| ➤ BEE credentials                                     | ➤ Gift policy  |
| • Ownership   | ➤ Staff training and development strategy              |
| • Board representation                                | ➤ Regulatory oversight                                 |
| • Management  | ➤ Transparency   |
| • Staff   | ➤ Investment structure                                 |
| • Procurement   | ➤ Public availability of information                   |
| ➤ Details of conflicts of interest                    | ➤ Life cycle of company                                |
| ➤ Nature of business                                  | ➤ Document verification                                |
| ➤ Assets under management                             | ➤ Review of legal arrangements/documentation           |
| ➤ Breakdown of client base (% exposure) and products. | ➤ Background checks                                    |
| ➤ Sources of income                                   |  |

### OPERATIONS

- |  |                                    |
|--|------------------------------------|
| ➤ GIPS Compliance                      | ➤ Administrator                    |
| ➤ Systems                              | ➤ Outsourced partners              |
| • Admin                                | ➤ Turnaround times                 |
| • Reporting (Customization capability) | ➤ Auditors                         |
| • Accounting                           | • Internal                         |
| • Dealing                              | • External                         |
| • Compliance                           | ➤ Compliance procedure description |
| • Risk                                 | ➤ Insurance                        |
| • Attribution                          | ➤ Disaster recovery plan           |
| • Portfolio management                 | ➤ Dealing                          |
|  | ➤ Broker allocation and brokerage  |

### PRODUCT / STRATEGY (PER MANDATE)

- |                                       |   |
|---------------------------------------|---|
| ➤ Objectives                          | ➤ Key performance drivers   |
| ➤ Assets under management             | ➤ Investment universe   |
| ➤ Inception date                      | ➤ Idea generation   |
| ➤ Capacity                            | ➤ Research  |
| ➤ Investment vehicle                  | ➤ Models used   |
| ➤ Investment/disinvestment conditions | ➤ ESG / Sustainability consideration                              |
| ➤ Fee structure                       | ➤ Portfolio construction, optimization and implementation process |
| ➤ Portfolio manager/team              | ➤ Risk factors, including credit and market                       |
| ➤ Risk profile                        | ➤ Liquidity   |
| ➤ Benchmark                           | ➤ Use of derivatives  |
| ➤ Net flows                           | ➤ Evaluation of effectiveness                                     |
| ➤ Regulatory compliance               | ➤ Compliance review   |
| ➤ Decision making process             | ➤ Performance attribution   |
| ➤ Investment style                    | ➤ Stress testing  |
| ➤ Investment philosophy               | ➤ Risk management and monitoring                                  |
| ➤ Investment process                  | ➤ Measurement of style drift                                      |
| ➤ Investment time horizon             |   |

### TECHNICAL ANALYSIS

- |  |                                 |
|--|---------------------------------|
| ➤ Absolute and relative performance (also impact of increase in AUM) | ➤ Active share analysis         |
| ➤ Risk statistics  | ➤ Portfolio construction review |
| ➤ Quantitative and qualitative                                       | ➤ Sell discipline review        |
| ➤ Style analysis   | ➤ 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:

<b>Step 1</b>	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.
<b>Step 2</b>	The Investment Consultant performs a detailed due diligence on all investment managers considered for a specific mandate.
<b>Step 3</b>	<p>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:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• If the brief includes a further requirement to address the Fund’s BEE manager exposure the universe of managers reduces even further.</li> <li>• 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.</li> </ul> <p>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.</p>
<b>Step 4</b>	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.
<b>Step 5</b>	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.
<b>Step 6</b>	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.
<b>Step 7</b>	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 outweighs 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 (SWIX). 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):**

- Prudential investment guidelines, adjusted for mandate exposure.
- 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.
- 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.
- Cash holdings will be limited to 5% of the portfolio, unless otherwise agreed to by the Fund.
- 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.
- Manager termination has a 24-hour notice period.
- 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 JSE Composite Inflation Linked 12yr+ Term Split Total Return Index (CILI 12+).

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 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 a combination of 70% MSCI EFM Africa (ex SA) Total Return Index and 30% S&P All Africa (ex SA) Capped 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 an investment manager incubation programme, which seeks to identify and assist start-up BEE investment managers as part of the Fund's BEE policy. Details of the investment manager incubation programme are contained in Appendix I 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/CIO in consultation with the Investment Consultant and the TAA manager.

## APPENDIX I: INVESTMENT MANAGER INCUBATION POLICY

### 1. Purpose

This policy represents the framework for the Fund's Investment Manager Incubation Programme.

### 2. Incubation Process

The incubation process involves the following:

- Identifying individuals with the potential to perform and assisting them in creating their own ventures, including assisting with licensing requirements;
- Work with these individuals to extract the best performance from their skills base and mandates granted;
- Assist these businesses to build a robust operational risk management framework;
- Assist these businesses to build excellent corporate governance and compliance procedures;
- Assist these businesses to build an ethical culture and business structure;
- Graduate these businesses into emerging and ultimately developed investment manager businesses.

### 3. Value Added

Value-added support to the development of these businesses include the following:

- Assist the manager with fund raising efforts;
- Provide middle office support with regard to risk management, compliance and portfolio construction;
- Provide outsourcing guidance for back office support;
- Assist the manager with the development of their environmental, social and governance frameworks.

### 4. Definition of an Emerging Black Investment Manager

The Fund defines emerging Black Investment Managers as investment managers who:

#### Have:

- a minimum of 51% Black ownership and where Black people hold at least 50% of the exercisable voting rights and hold at least 51% of the economic interest in the investment manager; and
- a minimum of 51% Black representation at Board level; and
- a minimum of 51% Black individuals in Senior Fund Management positions; and
- the investment manager is successfully registered as an investment manager with the Financial Sector Conduct Authority; and
- the investment manager qualifies for at least a Level 3 B-BBEE recognition level as verified by an accredited ratings agency measured according to the Financial Sector Code provided for in the Codes of Good Practice in terms of Section 9(5) of the Broad-Based Black Economic Empowerment Amendment Act (Act 46 of 2013) or any future amendments.

#### Where:

- Black people means African, Coloured, and Indian people who:
  - (a) are citizens of the Republic of South Africa by birth or decent; or
  - (b) became citizens of the Republic of South Africa by naturalisation-
    - i. Before 27 April 1994; or
    - ii. On or after 27 April 1994 and who would have been entitled to acquire citizenship by naturalisation prior to the date.

#### Are emerging in the sense that the manager:

- has total assets under management of **less than R5 billion and/or have less than a 5 year performance track record**;
- has an annual turnover of less than R35 million;
- are individuals wishing to start their own investment management business or start-up teams. In these cases, the manager must have successful (verifiable) performance history of generating consistent risk adjusted alpha at their current employer.

### 5. Strategic Objectives of the Programme

- to provide an efficient mechanism for identifying, accessing and supporting emerging Black talent;

- to support start-up and emerging Black investment management companies in South Africa and to implement a sustainable model to create new capacity in the investment management industry by growing and nurturing Black investment skill and talent;
- to position Black talent for success through partnerships within a highly controlled risk framework;
- to build Black expertise and track records;
- lowering the barriers to entry and facilitating healthy competition, thereby promoting better performance, service, innovation and cost reduction;
- job creation and skills development;
- to develop a better understanding of the characteristics, trends, capabilities and potential of emerging Black investment management firms;
- to stimulate growth and development within the sector;
- to grow the pool of intellectual capital in the sector by attracting new entrants and continually investing in skills development and training of Black professionals and managers;
- to actively work towards graduation out of the incubation portfolio and into the mainstream investment management industry;
- to ensure that potential managers have a backdrop of sufficient turnover and income to lay the foundation for business success.

## 6. Implementation of the Programme

### Management of the Incubation Programme

The Fund appointed 27four Investment Managers to manage the implementation of the Incubation Programme for the following listed asset classes: equities, properties and nominal bonds. Within this component of the Incubation Programme no private equity, hedge funds, unlisted real estate or global assets will be allowed.

The Fund, in conjunction with its Investment Consultant, will directly manage the implementation of the Incubation Programme for the following asset classes: passive equities, passive fixed income, LDI, Shari'ah, SRI, hedge funds, infrastructure, real estate, offshore listed and Africa listed.

The management of the respective components includes, the sourcing of premium Black investment talent, creating seeding opportunities for start-up Black managers and allocating assets to emerging Black managers and assisting these managers in growing their businesses and achieving the critical mass required to build long-term sustainable businesses. This includes monitoring and managing the investment risks of the allocated assets, as well as monitoring and managing the operational risks that are inherent in start-up organisations.

### Allocation Limit

The total capital allocated to any individual investment manager **may not exceed 20% of the overall incubator portfolio** during their participation in the Incubation Programme. This is not a prescriptive limit as managers may perform very well and as a result breaches of the limit may occur. Rebalancing is considered on a case-by-case basis, whilst ensuring that the overall portfolio delivers consistent returns designed to outperform their respective benchmarks.

### Graduation of Managers

Investment managers hired into the Programme are continuously evaluated and monitored against a set of fundamental criteria listed below that dictate their graduation from the Programme. **The manager should preferably meet all the criteria for graduation to occur.** When a manager graduates from the Programme, capacity is released to accommodate new emerging managers that qualify for inclusion into the Programme. This ensures that a continuous stream of emerging managers enter the Programme while mature managers exit the Programme. The core purpose of the Incubator is to support Black managers in their early stages of development and once they have achieved sustainable levels to move the assets to newcomers seeking support.

### Criteria that Dictate Graduation from the 27four Managed Incubation Programme

27four applies a Benchmark Scorecard to monitor and measure the performance and progress of the investment managers and to determine the stage of the life cycle within which the managers are positioned. This provides a structured decision making framework to establish the graduation status of the managers. The Benchmark Scorecard measures a number of key performance indicators, which covers all the critical areas of the business and provides an indication of the firm's stability:

Performance Indicators	Factors	Weighting
<b>Investment Professionals</b>	Direct product experience	20%
	Manager/team skill	
	Portfolio knowledge	
	Depth (backup)	
	Research capabilities	
<b>Investment Process</b>	Consistent application	20%
	Well thought out/disciplined	
	Portfolio consistent with process	
	Portfolio construction review process	
<b>Portfolio Risk</b>	Diversification	15%
	Style drift	
	Liquidity	
	Sell discipline	
	Capacity	
<b>Performance – Risk/Reward</b>	Performance relative to benchmark	15%
	Performance relative to peers	
	Absolute/relative standard deviation	
	Drawdown	
	Consistency	
<b>Organisation</b>	Size	15%
	Diversification of client base	
	Turnover	
	Profitability	
	Succession plan	
	Accommodation of growth	
	Ownership/incentive	
	Backup/recovery	
	Computer systems	
	Compliance	
<b>Operations</b>	Reconciliation/administration	15%
	Reporting	
	Client service	
	Quality/quantity of people	

Each factor is given a score between 0 and 5 and weighted equally. A score is determined for each of the six performance indicators. This is then weighted as per the weightings in the last column of the table above to determine the overall score for the investment manager. While not prescriptive, the overall score achieved provides a good indication of the stage of the life cycle the manager is in. In the table below we provide indicative scores that define each of the stages of the life cycle. A score above 50% signals a graduation review.

Emerging	Growth	Maturity	Decline
45%	60%	80%	50%

27four will score the managers in the Incubation Programme on an annual basis based on due diligences conducted and interactions with the managers during the course of the year. Managers that enter the Programme will initially score low on many criteria. They should systematically progress over time and their scores improve. The Benchmark Scorecard will be shared with the investment managers to allow the investment managers to recognise and improve on low scoring areas. Comfort must be reached that the business is on a sound footing and that exiting the business will not compromise the stability of the investment manager.

### Criteria that Dictate Graduation from the Fund Managed Incubation Programme

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

- Size – reaching a level of R5 billion in assets under management;
- Firm stability – considering elements such as business risk management, established operational processes, profitability, established compliance management and infrastructure, employee critical mass;
- Performance and track record – investment offering managed to institutional quality standards.

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

- Size – reaching a level of R10 billion in assets under management;
- Client base – diversified with no dependence on any single large investor;
- Firm stability – considering elements such as business risk, operational issues, profitability and infrastructure have been well developed;
- 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.

Guidelines are set to allow the Fund to evaluate investment managers objectively.

## 7. Termination of Managers

Criteria used to determine termination from the Programme:

- a. **Graduation:** The manager satisfies the criteria for graduation as defined above;
- b. **B-BBEE requirements:** The manager no longer satisfies the minimum B-BBEE requirements;
- c. **The manager falls foul of any of the following:**
  - Continuous breaches of mandate;
  - Continuous underperformance and inconsistency of investment returns;
  - Changes in 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 Incubation Programme.

## 8. 27four Responsibilities

The key responsibilities of 27four include (but are not limited to):

- Continuously seek out Black emerging managers;
- Be accessible to the investment managers;
- Maintain a comprehensive database of information on emerging Black managers;
- Ensure availability of sufficient resources (both human and systems) to administer several small mandates;
- Negotiate mandates, contracts and fees.
- Provide on-going support to emerging managers to grow sustainable businesses. This responsibility includes provision of advice where sought and portfolio/risk management support, and assist with long-term business plan development. Advice will also be provided on the investment manager's positioning within the industry and current trends in product development.
- Conduct on-going investment manager due diligences;
- Recommend retention, graduation or termination of managers to management of the Fund;
- On-going monitoring and evaluation of managers;
- Daily mandate compliance;
- Daily performance and risk monitoring;
- Monitor regulatory compliance;
- Portfolio construction and rebalancing of the Fund's Incubation portfolio;
- Daily and monthly reporting to the Fund;
- Regularly holding face to face report backs with management of the Fund.

## 9. Investment Consultant Responsibilities

The key responsibilities of the Investment Consultant include (but are not limited to):

- Continuously seek out Black emerging managers;
- Conduct on-going investment manager due diligences;
- Negotiate mandates, contracts and fees;
- Ensure availability of sufficient resources (both human and systems) to administer several small mandates;
- Provide on-going support to emerging managers to grow sustainable businesses. This responsibility includes provision of mentoring and coaching solutions in the following areas:
  - Strategies to extract value out of investment analysis skills;
  - Portfolio construction and risk management support
  - Trading and trading activity analysis to ensure optimal trading;
  - Operational structuring to lower operational risk, including remuneration of employees, segregation of duties and outsourcing decisions;
  - Assist with long-term business plan development, including positioning within the industry and current trends in product development.
- Recommend retention, graduation or termination of managers to management of the Fund;
- Mandate compliance monitoring;
- Performance and risk monitoring;
- Monitor regulatory compliance;
- Daily and monthly reporting to the Fund.

## Appendix 3: Stewardship and Sustainable Investment Policy

### Background and Purpose

The purpose of this policy is to set out Sentinel Retirement Fund (The Fund)'s approach, principles and guidelines to sustainability and stewardship. 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 maximise 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 sustainability (ESG) issues are relevant to its investments and can potentially impact the long-term investment returns of its assets. Incorporating ESG factors into our policies and activities, and within investee companies, helps us to identify both potential sources of risk, and opportunities to add value for the Fund's beneficiaries. In support of this goal and objective, a stewardship and sustainable investment policy on responsible investing and ownership, as contained herein, has been adopted and approved by the Board of Trustees.

### Scope

The Fund invests on a global scale across investment asset classes in developed, developing and frontier markets. This policy is applicable to all asset classes and investment vehicles the Fund is invested in.

International assets in pooled investment vehicles may limit the full application of ESG factors, sustainability criteria or the full application of the Fund's active ownership policy. This limitation is caused by the fact that the Fund does not have direct ownership rights in these pooled investment vehicles. As a remedial action, the Fund will ensure that the investment managers of these asset classes take into account ESG factors and sustainability criteria through its due diligence and investment manager selection processes. The Fund will hold the underlying asset managers to account on their ESG integration, sustainability considerations and stewardship activities.

The Fund has outsourced the investment of its assets to a range of investment managers. To ensure integration of a responsible investment approach, the Fund has the following expectations of its investment managers and investment consultant:

- Review of responsible investment incorporation as part of due diligence and manager selection.
- Managers to consider ESG factors and sustainability prior to making investment decisions.
- Adherence to the Fund's reporting requirements, including formal report back on how ESG factors and sustainability 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.

The Fund will engage with its investment managers to understand the level of ESG integration and requires managers to report as required in this regard.

### Legal Framework

The relevant legislation and industry codes that provide the basis for the Fund's Responsible Investment Policy are:

- A. *Regulation 28 of the Pension Funds Act 24 of 1956*
- B. *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)*
- C. *The King IV Report on Corporate Governance for South Africa (2016)*
- D. *Principles for Responsible Investment (PRI)*
- E. *The Code for Responsible Investing in South Africa (CRISA)*

### Regulation 28

Regulation 28(2)(b) of the regulations to the Pension Funds Act 24 of 1956 requires all funds to have an investment policy statement.

Regulation 28(2)(c)(ix) requires that boards of funds consider environmental, social and governance (ESG) factors before investing in an asset.

In its preamble, Regulation 28 provides as follows:

*A fund has a fiduciary duty to act in the best interest of its members whose benefits depend on the responsible management of fund assets. This duty supports the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk-adjusted returns suitable for the fund's specific member profile, liquidity needs and liabilities. Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and all categories of assets and should promote the interests of a fund in a stable and transparent environment.*

## **FSCA GN**

The GN provides some guidance on how funds must comply with Regulation 28(2)(b) read with Regulation 28(2)(c)(ix), particularly how the fund's investment philosophy and objectives, as reflected in its investment policy statement, seeks to ensure the sustainability of its investments and assets.

Paragraph 4 of the GN provides that in order to comply with Regulation 28(2)(b) read with regulation 28(2)(c)(ix), a fund should reflect in its investment policy statement how its general investment philosophy and objectives seeks to ensure the sustainability of its assets, including (but not limited to) the following:

- when the investment policy statement was approved and by whom
- how often the investment policy statement will be reviewed
- how the fund intends to monitor and evaluate the ongoing sustainability of the asset which it owns and which it is intending to acquire, including the extent to which ESG factors have been considered by the fund, and the potential impact thereof on the assets of the fund
- its active ownership policy

A fund's investment policy is also expected to stipulate that the above matters will, to the extent applicable, be reflected in the relevant investment mandate(s).

Paragraphs 5 and 6 of the GN provide for the disclosure and reporting requirements relating to sustainability. The FSCA encourages every fund to:

- make its investment policy statement or an abridged version thereof available on request and at no cost to each member
- make a copy of its investment policy statement available on the website and, if applicable, to each participating employer
- at least annually, provide a copy of or inform stakeholders that the investment policy statement, and any changes thereto is available on its website
- transparently disclose to stakeholders on all matters relating to sustainability

## **King IV**

Principle 17 of King IV provides that the governing body of an institutional investor organization should ensure that responsible investment is practiced by the organization to promote the good governance and the creation of value by the companies in which it invests.

## **PRI**

While the Fund has considered the principles of the UN Principles for Responsible Investment (UNPRI) in the formulation of its Responsible Investment Policy, the Fund has elected not to become a signatory to the UNPRI.

## **CRISA**

The Fund endorses CRISA and, therefore, subscribes to the following five key principles of responsible investing:

1. An institutional investor should incorporate sustainability considerations, including environmental, social and governance (ESG), into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
2. An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
3. Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
4. An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should proactively manage these when they occur.
5. Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

The Fund aims to achieve these principles by:

- Engaging with all investment-related service providers on their responsible investment approach.
- Ensuring that its investment managers incorporate ESG considerations in the analysis of any potential investment through annual and regular monitoring and due diligences.
- Actively engaging with company boards, attending annual general meetings and proactively exercising its voting rights.
- Engaging with institutional investors and investor bodies to leverage resources in an effective way to encourage improved transparency and performance on sustainability factors.
- Insisting on full disclosure of potential and actual conflicts of interest and managing these where they exist.
- Disclosing to stakeholders, on request, the Fund's policies and their implementation.
- Engaging service providers whom the Fund believes will assist it in attaining these goals.

## **Implementation Framework**

### **Framework**

The Fund's Stewardship activities is underpinned by a global Stewardship and Sustainable Investment Policy. This is further supported by three pillar policies; Engagement Policy, Proxy Voting Policy and Guidelines and Impact Investing Policy. At the core of the stewardship policy framework is the Fund's Engagement and Implementation Plan.

### **Implementation Activities**

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 which are applied, in a prudent and constructive manner, to express the Fund's responsible investment position on environmental, social and governance (ESG) issues with the intention of encouraging entities to act in a manner that safeguards and unlocks 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. The Fund's engagement entails exercising active ownership rights, in line with its Engagement Policy and Guidelines, and interacting with investee entities in order to correct existing problems, reduce future risks, or enable the entity to seize future opportunities.

### **Proxy Voting**

The Fund's proxy voting entails the voting of its shares at shareholders meetings of investee companies, attending shareholders meetings and holding the managers of assets held in the Pooled Portfolios responsible for voting. The Fund exercises proxy voting in a manner that is consistent with its Proxy Voting Policy and Guidelines that are designed to safeguard long-term shareholder value by promoting good practices by investee entities.

## ESG Integration

The Fund defines ESG Integration as the explicit and systematic inclusion of ESG considerations in its 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 responsible investment program. It is specifically responsible for:

- Reviewing and approving the Responsible Investment Policy and programs.
- Reporting on all aspects of the Responsible Investment Policy to the members and stakeholders in the Fund's annual reports.
- Reporting on all aspects of the Responsible Investment Policy to the FSCA annually.
- Providing the Fund's Responsible Investment Policy to the members and stakeholders upon request.

### ***Investment Committee (IC)***

The IC is responsible for:

- Reviewing the Responsible Investment Policy and recommending it for approval by the Board.
- Reviewing and approving the annual focused Engagement Program.
- Evaluating the Policies for modifications and making recommendations for consideration by the Board.
- Establishing and monitoring strategy parameters and goals for corporate engagement activities.
- Evaluating high-level engagement proposals as needed and making recommendations for consideration by the Board.
- Appointing the Fund's Engagement Consultant.
- Reporting to the Board on the Fund's responsible investing activities.
- Assist the Board in preparing Member Communications on the Fund's responsible investment activities.

### ***Chief Investment Officer (CIO)***

The CIO has an overarching responsibility for the implementation of the Fund's Responsible Investing Policy and programs.

- Reviewing the Responsible Investment Policy and recommending it for approval by the IC.
- Preparing and reviewing the annual focused Engagement Program.
- Evaluating the Policies for modifications and making recommendations for consideration by the IC.
- Assist in the process of selecting and appointing the Fund's ESG Consultant.
- Assist in the implementation of the responsible investing program by the Investment Consultant and the ESG Consultant.
- Monitoring the implementation of the responsible investing activities of the Investment Consultant, the Engagement Consultant and the investment managers.
- Reporting to the IC on the Fund's responsible investing activities.

### ***Investment Consultant***

The Investment Consultant will be responsible for:

- Drafting and recommending changes to the Fund's Investment Policy Statement taking into account sustainability factors.
- Incorporating ESG considerations in the investment manager research, selection and appointment process.
- Reflect ESG considerations in the relevant investment mandates.
- Incorporating ESG in the annual investment manager due diligences.
- Collaborate with the Fund and the Engagement Consultant in the monitoring of ESG integration by the investment managers.
- Reflect ESG considerations and impact in the investment reporting to the Fund.

### ***Investment Managers***

The Investment Managers will be responsible for:

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

### ***ESG Consultant***

The Engagement Consultant provides the Fund with a fiduciary overlay, which includes implementing the Fund's stewardship program. The Engagement Consultant will be responsible for:

- Implementing the Engagement Program in compliance with the Stewardship and Sustainable Investment Policy and Guidelines.
- Implementing proxy voting in line with the Proxy Voting Policy and Guidelines.
- Proposing changes to the Stewardship and Sustainable Investment Policy and Guidelines as well as the Proxy Voting Policy and Guidelines, as appropriate.
- Proposing engagement activities in line with the Fund's engagement objectives.
- Actively researching the relevant ESG issues and provide background prior to each engagement.
- Providing research to support the Fund's engagement and proxy voting activities.
- Handling the day-to-day administration of the engagement and proxy voting program.
- Active participation in Annual General Meetings and other shareholders meetings called by investee companies.
- Engaging with company boards and management in line with the Fund's Engagement Policy and Guidelines.
- Designing effective engagement programs to facilitate implementation of the Fund's engagement objectives.
- Implementing focused engagement strategies approved by the IC, where mandated.
- Ensuring that stewardship activities comply with all aspects of the Fund's Responsible Investment Policy.
- Collaborating with the Investment Consultant and the Investment Managers in implementing the Fund's Responsible Investment policy and program.
- Setting and reviewing the Fund's ESG integration monitoring and reporting framework in line with the Fund's objectives.
- Collaborating with the Investment Managers in implementing the Fund's ESG integration monitoring and reporting.
- Reporting on a quarterly and annual basis on how the Fund integrated ESG considerations in its investment processes and activities.
- Reporting stewardship activities on a quarterly and annual basis.
- Reporting on engagement triggers on a case-by-case basis.

## **Disclosure and Reporting**

The Fund will have the following reporting responsibilities:

- Reporting on all aspects of the Responsible Investment Policy to the members and stakeholders in its annual reports.
- Reporting on all aspects of the Responsible Investment Policy to the FSCA annually.
- Providing the Fund's Responsible Investment Policy to the members and stakeholders upon request.

- Disclosing the Fund's Responsible Investment Policy available on its website.

The Fund is committed to transparency of its responsible investment activities, which includes the four pillars of engagement, proxy voting, ESG integration and impact investment. An *Annual Report on Responsible Investment Activities* will be produced to consolidate a detailed review of activities.

## 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 Responsible Investment Policy will be reviewed annually in line with developments in local and international ESG risks.

## Underlying Policies and Guidelines

In pursuit of its fiduciary obligation to responsible investing, the Fund has set the following policies:

- A. *Impact Investment Policy*
- B. *Engagement Policy and Guidelines*
- C. *Proxy Voting Policy and Guidelines*

### A. Impact Investment Policy

#### Background

As a large institutional investor, the Fund leverages its significant assets to advance core social and sustainability goals through impact investing. 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. This policy places an explicit focus on positive impact. 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.

#### Our Approach

The Fund recognises 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

The adoption of the Sustainable Development Goals (SDGs) by many impact investors has provided a systematic framework for measuring and managing investments for impact. The Fund will consider the SDGs and other goals as a reference point in selecting and categorising its impact focus. The following sectors will be specifically targeted:

- Clean Energy
- Infrastructure Development
- Inclusive Finance

- Health and Wellness
- Affordable Housing
- Education
- Environmental Preservation
- Natural Resources and Conservation
- Sustainable Agricultural Development

#### 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

#### Impact Measurement and Reporting

The measure of impact, as expressed by an impact rating, for each investment will be determined based on the respective metric(s) of each impact investment allocation or portfolio. It should be noted that one of the main challenges faced by the impact investing community is how to evaluate impact, report overall returns and establish effective benchmarking. To this end, the Fund will employ best practices in measuring impact as such practices evolve.

The Fund, in consultation with its Investment Consultant, ESG Consultant and in collaboration with impact investing asset managers, will establish the format and principles to be used in reporting. Impact investing is monitored as a component of the Investment Committee's oversight function.

## B. Engagement Policy and Guidelines

### Definition of Engagement

The Fund defines engagement as all activities, actions and approaches which are applied, in a prudent manner, to express the Fund's responsible investment stance on environmental, social and governance (ESG) issues 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 will only be applied where it seeks to safeguard or grow long-term value for its beneficiaries.

### Objectives

The primary objective of the Fund's engagement program is to preserve and improve the long-term value of its investments. Its purpose is to correct existing problems, reduce future risks, or enable the entity to seize future opportunities.

**i. *Fiduciary duty***

The program seeks to enable the Board of Trustees to fulfill their fiduciary duty. Consistent with this duty, the Fund will engage to optimize sustainable long-term value.

**ii. *Governance risk***

The Fund recognizes that governance risk is a material risk in the performance of the entities it is invested in. Investment in an entity can be undermined or damaged by actions that exploit weak or inadequate governance mechanisms. The Fund will use its engagement program to improve or challenge weak or poor governance practices.

**iii. *Sustainable practices***

As a long-term investor, the Fund recognizes that entities that actively recognise and manage ESG risks can deliver sustainable long-term risk-adjusted returns to investors. Engagement will, therefore, seek to influence and note any tangible improvements in ethics, social, environmental and governance practices. This will include disclosure on the ESG practices or issues. It will also include the integration of the relevant United Nations Sustainable Development Goals into corporate practice and reporting.

**iv. Regulatory environment**

The Fund's voting and engagement practices are invariably affected by the regulatory environment and voluntary initiatives. Where possible, through its Engagement Consultant, appointed investment managers or directly by management of the Fund, the Fund will engage in activities that seek to improve the exercise of ownership rights.

## Engagement Themes and Triggers

The Fund's Proxy Voting Guidelines provide key positions and expectations on corporate behavior. Against votes will trigger engagement as detailed in the Proxy Voting Policy and Guidelines. The Engagement Consultant will provide research to identify key engagement themes and prioritisation in line with the Fund's engagement objectives. Annually, the Fund will identify key engagement areas to focus on and monitor progress. The Engagement Consultant will actively monitor entities and deterioration of ESG indicators will trigger engagement. The level and intensity of engagement will be determined by the materiality of the ESG risk factor.

## Engagement Approaches

The Fund will consider the following approaches to engagement:

- **Proxy Voting**

Proxy voting is an important component of the Fund's engagement process. The Fund will utilise engagement to support its proxy voting activities. It will, in this regard, use the proxy voting platform to seek clarification on particular issues relating to resolutions tabled for vote at AGMs or other shareholders meetings. The Fund will also use proxy voting to support its engagement objectives. The Fund's Proxy Voting Policy and Guidelines set out how the Fund will vote on specific issues. In some cases, company boards are inclined to discuss potentially contentious resolutions with shareholders prior to tabling those resolutions at the relevant shareholders meeting. In other cases, company boards do approach shareholders after the relevant shareholders meeting where a significant percentage of shareholders voted against particular resolutions in order to understand the concerns of shareholders in regard to those resolutions. The Fund will avail itself to such engagement opportunities which are linked to its proxy voting activities.

- **Direct Engagement**

The Fund will contact company boards and/or management teams directly to discuss concerns with transparency and/or performance on ESG factors. Direct engagement might be done privately or publicly, depending on the issues to be raised. Private engagement will include writing carefully considered letters to the board of directors, board chairman, board committees, company secretary or investor relations; meeting with the board of directors, board committees, management, investor relations, specific directors or specific members of executive management; and, where possible, making representations to the board of directors. Public engagement will include attending and raising carefully considered questions or issues at AGMs or other shareholders meetings and, where possible, at results presentations and road shows.

- **Engagement intensity**

The Fund will utilise the following engagement strategies:

**Light engagement**, which will involve the pursuit of engagement opportunities that are linked to the day-to-day proxy voting activities. The Fund will, in this regard, utilise the proxy voting platform to seek clarification on particular issues relating to resolutions tabled for vote at AGMs or other shareholders meetings. Light engagement will also involve written or telephonic communications with investor relations or the company secretary to seek clarification on specific matters.

**Moderate engagement**, which will involve the writing of formal and carefully considered letters to the board of directors, board chairperson, board committees, chairpersons of board committees, company secretary or investor relations.

**Heavy engagement**, which will involve attending shareholders meetings, and raising carefully considered questions or issues at such meetings. Proxy voting may also be used to support heavy engagement, particularly where the issues in question are related to resolutions that are put to shareholder vote.

- **Collaborative Engagement**

Where appropriate, the Fund will consider a collaborative approach 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.

Current collaborative engagement initiatives in South Africa include the following:

- Council of Responsible Institutional Investors SA (CRISA)
- UN PRI Engagement Network
- ESG INSIGHT current clients and engagement pool

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 Engagement Policy and Guidelines. Before collaborating or engaging on any ESG concerns relating to the Fund’s investee companies with other investors, the Engagement Consultant will consult the Fund to ensure that any collaboration or engagement is not seen as collusion or acting in concert with the other investors.

- **Industry Dialogue**

The Fund will participate in broader local and international discussions about definitions, priorities, standards and best practices in responsible investing and ownership. Through these industry platforms the Fund can share the costs of shareholder engagement by joining organisations made up of other similar institutional investors who are also concerned about creating and improving economic value for investors.

- **Focused Engagement Areas**

Annually, in consultation with the Engagement Consultant, the Fund will identify focus areas of engagement. ESG issues for engagement are set out across the total Fund’s portfolios not only on the equity holdings. Nevertheless, interim ESG deterioration in some holdings will trigger prioritisation. The Fund will also take into consideration its idiosyncratic factors as influenced by its beneficiaries and the socioeconomic pressures facing South Africa. The following ESG issues have been identified as relevant to the Fund:

1. **Governance (G) Issues**

- General Corporate Governance
- Executive Remuneration
- Audit issues
- Risk Management (including Anti-corruption, Reputational and Legal Risks)
- Director Affairs
- Investor Communication
- Governance issues relating to company groups
- Governance issues relating to corporate transactions (Amalgamation or Mergers, Schemes of Arrangement and Disposal of Assets or Undertakings)
- IT governance

2. **Sustainability (Environmental and Social) Issues**

- Housing and Infrastructure
- Education and Skills Shortage
- Health and Safety
- Broad-Based Black Economic Empowerment
- Responsible Mining Activities
- Environmental Practices
- Energy and Power
- Water Risks
- Community and Employee Relations
- Regulatory policy developments
- United Nations Sustainable Development Goals

- **Divestment**

The Fund is a large institutional investor and cannot walk away from investments or employ a negative screening approach. 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.

## C. Proxy Voting Policy and Guidelines

### 1. Introduction

#### a. Proxy Voting Framework

The Guidelines will be employed by the Fund to monitor the voting fiduciary's proxy voting procedures and decisions. The Fund will exercise its proxy voting in line with these Proxy Voting Policy Guidelines. Where necessary, the Fund will appoint a Proxy Voting Agent to effectively manage its proxy voting program. Proxy voting will also be used as a form of engagement.

#### b. The Fund's Indicators of Shareholder Democracy

- The principle of one share, one vote - no preferential voting structures.
- The right of shareholders to direct questions at directors at shareholders meetings and to receive immediate and public answers.
- The right of shareholders to address shareholder meetings.
- The right of shareholders to nominate directors.
- The right to vote separately on the appointment of each director.
- The right to table resolutions for voting at shareholder meetings. Companies should have mechanisms for incorporating these in advance of the meeting and at meetings (within reasonable limits). When answers have to be researched these should be disseminated to all shareholders in writing post the meeting.
- The right of the press to attend shareholder meetings in the case of JSE listed companies.
- The right to demand that board elections are not staggered in order to prevent takeovers.

#### c. Rights of proxy holders

- Holders of proxy votes should have the right to attend shareholder meetings.
- Holders of proxy votes should be allowed to vote at the meeting.
- Holders of proxy votes should be allowed to speak at the meeting.
- Holder of proxy votes should be able to initiate/demand a vote by poll instead of by a show of hands.
- There should be no provision in a company's Memorandum of Incorporation that prevents shareholders from doing the above and any amendments to remove these rights will be opposed by the Fund.

#### d. Time and location of shareholder meetings

The Companies Act 71 of 2008 provides that a notice of a shareholder's meeting must be delivered to shareholders at least 15 business days before the date of the meeting. A company's Memorandum of Incorporation may provide for a longer notice period.

- Shareholder meetings should not be held during weekends or public holidays.
- Companies should always adhere to the minimum notice period of 15 business days and the Fund will hold management accountable for this.
- Shareholder meetings should be held during business hours.
- Shareholder meetings should be held in larger urban areas or near the head office of the company.
- Companies with a listing on a foreign stock exchange, such as the London Stock Exchange, and with a large number of South African shareholders, should make provision by means of electronic screens at their South African offices for South African shareholders to participate at all the meetings that are held in a foreign jurisdiction.

#### e. Electronic shareholder meetings

The Fund supports the practice of holding shareholder meetings electronically, in line with the provisions of the Companies Act 71 of 2008. Electronic meetings should be conducted in a manner that protects shareholder rights, including informed and meaningful shareholder participation in the meetings. The meetings should not be symbolic or merely insulate the board and management from shareholder

scrutiny. Each meeting should address all the business of the meeting in an effective manner. The electronic communication employed must enable concurrent discussion and reasonably effective participation in the meeting by all persons attending. The notice of meeting must inform shareholders that the meeting will be held electronically and must provide the necessary information to enable the shareholders or their proxies to access the available medium or means of electronic communication. Companies should provide adequate disclosure regarding shareholder participation at electronic meetings, guidelines for shareholder participation and the asking of questions during the meeting as well as the addressing of technical issues related to accessing the electronic meeting. Companies should make provision for shareholders to submit questions to the meeting in advance if the shareholders wish to do so and for those questions to be read and addressed during the meeting. Companies should also provide for the disclosure of questions or issues raised during the meeting as well as the company's response to those questions and issues.

**f. Provision of explanations for shareholder resolutions**

Resolutions should have at least the minimum statutory disclosures. The more detailed explanations provided the more informed the shareholders would be. Inadequate provision of information in this regard will be communicated to management by the Fund.

**g. Transact other business**

All shareholders should be provided with sufficient disclosure and time to make appropriate decisions on matters tabled at shareholder meetings. The Fund will, as a matter of principle, vote against all proposals seeking approval for unspecified "other business" that may be conducted at shareholder meetings without advance information being provided to shareholders.

**h. Form of Voting**

Although voting by a show of hands happens seldom, the practice should be opposed, particularly in the context of JSE listed companies. Where possible electronic voting systems should be used at shareholder meetings, especially those of larger companies where there are numerous shareholders attending the meeting.

## Summary Resolution Matrix

Resolution	FUND votes in favour:	FUND votes against:
<b>1. Presentation/approval of the company's audited annual financial statements for the year under review and the reports of the directors, the board committees and the auditors</b>	<ul style="list-style-type: none"> <li>• If the audit report is not qualified.</li> <li>• If there are no significant concerns regarding the correctness and transparency of information on the performance and solvency of the company.</li> </ul>	<ul style="list-style-type: none"> <li>• If the audit report is qualified.</li> <li>• If negative issues that shareholder is aware of that should have been part of the financial statements as per IFRS.</li> <li>• If the integrity of the annual financial statements or other reports is in issue.</li> <li>• If the annual financial statements or other reports have not been issued in compliance with applicable legal requirements.</li> <li>• If the financial statements or other reports have not been made available.</li> <li>• Any other relevant and material issues of concern.</li> </ul>
<b>2. Appointment and re-appointment of external auditors</b>	<ul style="list-style-type: none"> <li>• If the auditors are free from conflicts of interest.</li> <li>• If the designated audit partner/manager has complied with the statutory requirements relating to audit partner rotation.</li> <li>• If the audit firm is deemed to have the size, skills, resources and track record to perform the audit successfully.</li> <li>• If audit quality and auditor independence are not an issue.</li> </ul>	<ul style="list-style-type: none"> <li>• If the answer to any of the questions in the opposite column is negative.</li> <li>• If the tenure of the audit firm or audit partner/manager has not been disclosed.</li> <li>• If the company has had material restatements or has delayed the filing of financial statements as a result of fault on the part of the auditor.</li> </ul>

Resolution	FUND votes in favour:	FUND votes against:
		<ul style="list-style-type: none"> <li>• If there is poor disclosure or lack of transparency in the company's financial statements.</li> <li>• If there is evidence of aggressive accounting practices.</li> <li>• If there is evidence of conflicts of interest on the audit partner/manager or audit firm.</li> <li>• If, in the case of joint auditors, two or more audit firms are elected or re-elected by way of a single resolution.</li> </ul>
<p><b>3. Authorisation of directors to determine the remuneration of external auditors or approval of the actual remuneration payable to external auditors</b></p>	<ul style="list-style-type: none"> <li>• If there has been no previous experience of excessive remuneration of auditors.</li> <li>• If the proposed remuneration is reasonable and not excessive in view of the magnitude of the audit.</li> </ul>	<ul style="list-style-type: none"> <li>• If the remuneration of external auditors has in the past been an issue and may be in this case.</li> <li>• If there is lack of transparency regarding the remuneration of external auditors.</li> <li>• If there is lack of clarity regarding once-off payments for corporate actions.</li> <li>• If the remuneration for non-audit services is greater than audit and audit-related fees and, as such, poses a conflict of interest.</li> </ul>
<p><b>4. Election and/or re-election of members of the audit committee</b></p>	<ul style="list-style-type: none"> <li>• If the members of the committee are elected and/or re-elected by way of separate resolutions and shareholders are given an opportunity to evaluate each candidate individually.</li> <li>• If the member has appropriately been classified as an "independent non-executive director" of the company.</li> <li>• If the member has the necessary qualifications or skills and experience to execute his/her duties effectively.</li> <li>• If a brief professional profile of the member, including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.</li> <li>• If the member's attendance record at the committee's meetings held during the reporting period justifies his/her continued membership on the committee.</li> </ul>	<ul style="list-style-type: none"> <li>• If 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.</li> <li>• If the member is not an independent non-executive director of the company or if the member's classification as an "independent non-executive director" of the company is not in line with this policy.</li> <li>• If the member does not have the necessary qualifications or skills and experience to execute his/her duties effectively.</li> <li>• If no information on the member's background and professional profile is available.</li> <li>• If the member's attendance record at the committee's meetings held during the reporting period does not justify his/her continued membership on the committee.</li> <li>• If the audit committee has failed to table the resolution for the election of the external auditor for shareholder approval, as required by the law.</li> <li>• If accounting fraud occurred at the company whilst he/she was a member of the audit committee.</li> <li>• If severe accounting irregularities resulting in a qualified audit opinion occurred at the company whilst he/she</li> </ul>

Resolution	FUND votes in favour:	FUND votes against:
		<p>was a member of the audit committee.</p> <ul style="list-style-type: none"> <li>• If the company's financial statements have been restated due to fraud or negligence whilst he/she was a member of the audit committee.</li> </ul>
<p><b>5. Election and/or re-election of members of the social and ethics committee</b></p>	<ul style="list-style-type: none"> <li>• If the members of the committee are elected and/or re-elected by way of separate resolutions and shareholders are given an opportunity to evaluate each candidate individually.</li> <li>• If, in the case of a member who serves as the chairperson of the committee, the member has appropriately been classified as an "independent non-executive director" of the company.</li> <li>• If the member has the necessary qualifications or skills and experience to execute his/her duties effectively.</li> <li>• If a brief professional profile of the member, including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.</li> <li>• If the member's attendance record at the committee's meetings held during the reporting period</li> </ul>	<ul style="list-style-type: none"> <li>• If 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.</li> <li>• If, in the case of a who serves as the chairperson of the committee, the member is not an independent non-executive director of the company or if the member's classification as an "independent non-executive director" of the company is not in line with this policy.</li> <li>• If the member does not have the necessary qualifications or skills and experience to execute his/her duties effectively.</li> <li>• If no information on the member's background and professional profile is available.</li> <li>• If the member's attendance record at the committee's meetings held during the reporting period does not justify his/her continued membership on the committee.</li> </ul>
<p><b>6. Election and/or re-election of executive directors</b></p>	<ul style="list-style-type: none"> <li>• If the director has the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>• If the director's attendance record at board and committee meetings held during the reporting period justifies his/her continued membership on the board of directors.</li> <li>• If the remuneration package (base salary, incentives and any other means of remuneration) provided by the company to the director is justified.</li> <li>• If a brief professional profile of the director, including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.</li> </ul>	<ul style="list-style-type: none"> <li>• If the director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>• If the director's attendance record at board and committee meetings held during the reporting period does not justify his/her continued membership on the board of directors and no sound explanation has been provided for such non-attendance.</li> <li>• If no information on the director's background and professional profile is available.</li> <li>• If the board has confirmed in a statement that it does not support the particular director's or individual's re-election or election.</li> <li>• If the director serves as a member on the audit committee, nomination committee and/or remuneration committee of the company.</li> </ul>
<p><b>7. Election and/or re-election of independent non-executive directors</b></p>	<ul style="list-style-type: none"> <li>• If the director has appropriately been classified as being both "independent" and "non-executive" in line with this policy.</li> </ul>	<ul style="list-style-type: none"> <li>• If the director's classification as being "independent" and/or "non-executive" is not in line with this policy.</li> </ul>

Resolution	FUND votes in favour:	FUND votes against:
	<ul style="list-style-type: none"> <li>• If the director has the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>• If the director's attendance record at board and committee meetings held during the reporting period justifies his/her continued membership on the board of directors.</li> <li>• If the remuneration package provided by the company to the director is justified.</li> <li>• If the director is not overcommitted (i.e. does not sit on more than 5 listed company boards) and has sufficient time available to fulfil his/her responsibilities to the company.</li> <li>• If a brief professional profile of the director, including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.</li> </ul>	<ul style="list-style-type: none"> <li>• If the director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>• If the director's attendance record at board and committee meetings held during the reporting period does not justify his/her continued membership on the board of directors and no sound explanation has been provided for such non-attendance.</li> <li>• If no information on the director's background and professional profile is available.</li> <li>• If the board has confirmed in a statement that it does not support the particular director's or individual's re-election or election.</li> <li>• If the director is overcommitted and does not have sufficient time available to fulfil his/her responsibilities to the company.</li> <li>• If the remuneration package provided by the company to the director is unjustified.</li> </ul>
<p><b>8. Election and/or re-election of non-executive directors</b></p>	<ul style="list-style-type: none"> <li>• If the director has the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>• If the director's attendance record at board and committee meetings held during the reporting period justifies his/her continued membership on the board of directors.</li> <li>• If the remuneration package provided by the company to the director is justified.</li> <li>• If the director is not overcommitted (i.e. does not sit on more than 5 listed company boards) and has sufficient time available to fulfil his/her responsibilities to the company.</li> <li>• If a brief professional profile of the director, including his/her existing professional commitments, has been disclosed to enable shareholders to evaluate the director.</li> </ul>	<ul style="list-style-type: none"> <li>• If the director does not have the appropriate qualifications or skills and experience to function effectively as a member of the specific company's board.</li> <li>• If the director's attendance record at board and committee meetings held during the reporting period does not justify his/her continued membership on the board of directors and no sound explanation has been provided for such non-attendance.</li> <li>• If no information on the director's background and professional profile is available.</li> <li>• If the board has confirmed in a statement that it does not support the particular director's or individual's re-election or election.</li> <li>• If the director is overcommitted and does not have sufficient time available to fulfil his/her responsibilities to the company.</li> <li>• If the remuneration package provided by the company to the director is unjustified</li> <li>• If the director is a member of the audit committee.</li> </ul>
<p><b>9. Authority to place unissued shares under the control of directors</b></p>	<ul style="list-style-type: none"> <li>• If the purpose of the envisaged issue of shares is to raise funds for corporate actions already in the implementation stage and/or BBEE deals.</li> <li>• If the dilutive effect on shareholder value of the envisaged issue of shares will, if future, be</li> </ul>	<ul style="list-style-type: none"> <li>• If no compelling reason is provided for the proposal.</li> <li>• Issues that are not compelling are: <ul style="list-style-type: none"> <li>• Provision of flexibility.</li> <li>• A need to award an indeterminate number of shares to directors.</li> </ul> </li> </ul>

Resolution	FUND votes in favour:	FUND votes against:
<b>10. Authority to issue shares for cash</b>	<p>compensated for by an increase in shareholder value arising from the particular corporate actions or BBBEE deals.</p> <ul style="list-style-type: none"> <li>• If the purpose of the envisaged issue of shares is to raise funds for corporate actions already in the implementation stage and/or BBBEE deals.</li> <li>• If the dilutive effect on shareholder value of the envisaged issue of shares will, if future, be compensated for by an increase in shareholder value arising from the particular corporate actions or BBBEE deals.</li> <li>• If the company informs shareholders that it needs to raise cash and no other avenue for raising cash is available.</li> </ul>	<ul style="list-style-type: none"> <li>• If no compelling reason that will enhance shareholder value is advanced by management.</li> </ul>
<b>11. Authority for the company and/or any of its subsidiaries to repurchase or purchase, shares in the company</b>	<ul style="list-style-type: none"> <li>• The Fund will generally support proposals to repurchase shares as share repurchases are generally beneficial to shareholders.</li> <li>• If the proposed repurchase or purchase of shares is in line with the requirements of the Companies Act 71 of 2008 and the applicable Listings Requirements of the JSE.</li> <li>• If there are no worthwhile investable projects available in the opinion of management.</li> </ul>	<ul style="list-style-type: none"> <li>• If this is deemed to be against creating shareholder value (this is a very rare occurrence).</li> <li>• If the resolution does not comply with the minimum statutory disclosure requirements and the Listings Requirements of the JSE.</li> <li>• If 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.</li> </ul>
<b>12. Approval of a new directors remuneration structure or incentive scheme</b>	<ul style="list-style-type: none"> <li>• If it is reasonable and the structure is rational.</li> <li>• If there is transparency regarding the terms of the structure or scheme, including adequate disclosure of the performance criteria, the specific metrics and targets utilised as well as an explanation for such performance for the performance criteria utilised.</li> <li>• If it correctly aligns the interests of management and shareholders.</li> <li>• If it contains appropriate performance measures</li> </ul>	<ul style="list-style-type: none"> <li>• If the structure is considered to be biased in favour of management, rather than the alignment of the interests of both shareholders and management.</li> <li>• If material information in relation to the rules of the structure or scheme has not been provided.</li> <li>• If the structure or scheme gives a lot of discretion to the remuneration committee in regard to the determination of performance-based remuneration.</li> </ul>
<b>13. Approval of the directors' remuneration policy</b>	<ul style="list-style-type: none"> <li>• If there is transparency regarding the objectives of the policy on fair, responsible and transparent remuneration and the manner in which the policy seeks to achieve those objectives.</li> <li>• If there is transparency regarding all the components of directors' and executive remuneration packages and termination payments as well as the fees for non-executive directors.</li> <li>• If the policy adequately addresses the basis for the determination of the remuneration of directors and executives.</li> <li>• If the policy correctly aligns the interests of management and shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>• If there is lack of transparency in the policy.</li> <li>• If the policy fails to properly align the interests of management and shareholders.</li> <li>• If, in the event that the policy and/or the remuneration report (implementation report) was voted against by 25% or more of the voting rights exercised during the preceding reporting period, the policy has not appropriately addressed the reasonable concerns raised.</li> <li>• If the remuneration committee is not constituted in line with this policy.</li> </ul>

Resolution	FUND votes in favour:	FUND votes against:
<b>14. Approval of the directors' remuneration report (Implementation report)</b>	<ul style="list-style-type: none"> <li>• If the report contains all the information that must be disclosed pursuant to the Companies Act 71 of 2008.</li> <li>• If there is transparency regarding all the components of the remuneration packages received or receivable by each executive director or prescribed officer of the company during the reporting period.</li> <li>• If there is transparency regarding the performance measures used in the determination of variable remuneration, including the specific targets used and how the company and each executive director or prescribed officer performed in relation to the targets.</li> <li>• If there is transparency regarding any termination payments awarded during the reporting period.</li> <li>• If there is transparency regarding compliance with the remuneration policy.</li> <li>• If the total remuneration packages received by the directors are fair and reasonable in view of the company's and individual directors' performance, market trends, peers and good pay-for-performance practices.</li> <li>• If the remuneration report correctly aligns the interests of management and shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>• If 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 company during the reporting period.</li> <li>• If there is lack of transparency regarding the performance criteria used to determine variable remuneration as well as the linkage with the company's strategic objectives, performance and long term value.</li> <li>• If there is lack of transparency regarding any termination payments awarded during the reporting period.</li> <li>• If there is no clear linkage between the remuneration policy and the implementation report.</li> <li>• If the total remuneration packages received by the directors are considered to be excessive in view of the company's and individual directors' performance, market trends, peers and good pay-for-performance practices.</li> <li>• If the remuneration report fails to properly align the interests of management and shareholders.</li> <li>• If, in the event that the policy and/or the remuneration report (implementation report) was voted against by 25% or more of the voting rights exercised during the preceding reporting period, the company has not addressed the reasonable concerns raised.</li> </ul>
<b>15. Approval of non-executive directors' remuneration for their services as directors</b>	<ul style="list-style-type: none"> <li>•</li> <li>• If there is transparency regarding all the fees awarded to individual non-executive directors and the basis for the computation of such fees during the relevant reporting period.</li> <li>• If the fees consist of an annual fee and fees for attending the board and committee meetings.</li> <li>• If the fees are fair and reasonable in view of the size of the company and the responsibilities of the non-executive directors</li> <li>• If the fees are in line with industry norms and those payable by peers.</li> <li>• If the fees are not excessive as to compromise the independence and objectivity of the non-executive directors.</li> <li>• If the non-executive directors do not receive share options.</li> </ul>	<ul style="list-style-type: none"> <li>• If there is lack of transparency regarding all the fees awarded to individual non-executive directors and the basis for the computation of such fees during the relevant reporting period.</li> <li>• If the fees are out of line with industry norms.</li> <li>• If the fees are excessive and may influence the non-executive directors' independence and objectivity.</li> <li>• If the non-executive directors receive share options.</li> <li>• If the non-executive directors receive ad hoc fees.</li> <li>• If the fees include ex gratia payments.</li> <li>• If the fees include retirement benefits for non-executive directors.</li> </ul>
<b>16. Authority to declare a final dividend</b>	<ul style="list-style-type: none"> <li>• The Fund will generally support the board's proposals regarding the payment of dividends.</li> </ul>	<ul style="list-style-type: none"> <li>• If the dividend is deemed to be unjustifiably low.</li> </ul>

Resolution	FUND votes in favour:	FUND votes against:
	<ul style="list-style-type: none"> <li>• If there is sufficient explanation and justification in the event of dividend policy changes.</li> <li>• If the dividend payout ratio is supported by the financial performance of the company and is sustainable.</li> </ul>	<ul style="list-style-type: none"> <li>• If there is no explanation or disclosure when dividend policy changes.</li> </ul>
<b>17. Authority to offer shareholders dividends in shares instead of cash</b>	<ul style="list-style-type: none"> <li>• The Fund will generally support scrip dividends as they are beneficial to the company and shareholders.</li> <li>• If the shareholders have been given an option to receive the dividend in cash.</li> </ul>	<ul style="list-style-type: none"> <li>• If the shareholders have not been given an option to receive the dividend in cash.</li> </ul>
<b>18. Amendments to the Memorandum of Incorporation of the company</b>	<ul style="list-style-type: none"> <li>• This depends on the specific issues, be they valuation or otherwise.</li> <li>• Inputs from equity managers to be sought if the issues relate to equity valuation or directly affect the investment case.</li> <li>• If the purpose of the amendments is to comply with the law and applicable Listings Requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• This depends on the specific issues, the inputs from equity managers as well as the applicable legal and regulatory requirements.</li> <li>• If the proposed amendments are in violation of, or inconsistent with, the law or applicable Listings Requirements.</li> </ul>
<b>19. Odd lot offers</b>	<p>The Fund will generally support odd lot offers.</p>	<ul style="list-style-type: none"> <li>• Generally, the Fund will not vote against these resolutions, unless there are exceptional circumstances.</li> </ul>
<b>20. To authorise the company to provide shareholders with shorter than 15 business days' notice of shareholder meetings</b>	<ul style="list-style-type: none"> <li>• There is seldom, if ever, justification to vote in favour of resolutions such as these. There has to be very exceptional circumstances to vote in favour of this resolution.</li> </ul>	<ul style="list-style-type: none"> <li>• The Fund will generally vote against these resolutions.</li> </ul>
<b>21. Authority to provide financial assistance</b>	<ul style="list-style-type: none"> <li>• If the financial assistance is to be provided to the company's subsidiaries and/or other companies or entities that are related or inter-related to the company in compliance with section 45 of the Companies Act 71 of 2008.</li> <li>• If the financial assistance is to be provided to specified persons for subscription of the company's securities in compliance with section 44 of the Companies Act 71 of 2008.</li> <li>• If the purpose of the financial assistance has been specified.</li> <li>• If the company has disclosed that the provision of financial assistance complies with the applicable legal and regulatory requirements.</li> <li>• If the provision of the financial assistance is in line with shareholder interests.</li> </ul>	<ul style="list-style-type: none"> <li>• If the financial assistance is to be provided to any of the present or future directors or prescribed officers of the company.</li> <li>• If the recipients or category of the recipients of the financial assistance have not been specified.</li> <li>• If the purpose of the financial assistance has not been specified.</li> <li>• If the provision of financial assistance is against the legal and regulatory requirements.</li> <li>• If the provision of the financial assistance is not in line with shareholder interests.</li> </ul>
<b>22. To authorise management to implement the resolutions tabled at the same meeting</b>	<ul style="list-style-type: none"> <li>• If the Fund has voted in favour of the proposals to which this resolution pertains.</li> </ul>	<ul style="list-style-type: none"> <li>• If the Fund has voted against the proposals to which this resolution pertains.</li> </ul>
<b>23. Debenture Holders scheme meeting as per a High Court ruling</b>	<ul style="list-style-type: none"> <li>• This depends on the specific issues, be they valuation or otherwise. Inputs from equity managers to be sought.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as for in favour.</li> </ul>

Resolution	FUND votes in favour:	FUND votes against:
	<ul style="list-style-type: none"> <li>Refer to specific procedure to be followed.</li> </ul>	
<b>24. Authority to issue convertible securities</b>	<ul style="list-style-type: none"> <li>This depends on the specific issues, be they valuation or otherwise. Inputs from equity managers to be sought if it is deemed to be a valuation issue.</li> <li>Refer to specific procedure to be followed.</li> </ul>	<ul style="list-style-type: none"> <li>If this is deemed to be a way for the board to circumvent the Fund's Policy relating to the issuing of shares.</li> </ul>
<b>25. Authority to increase the authorised share capital</b>	<ul style="list-style-type: none"> <li>If the company has provided an appropriate justification for increasing the authorised share capital.</li> <li>If the company wants to have enough shares to enable it to issue shares to finance a transaction that is in the interests of the shareholders and that is in line with the Fund's Policy regarding corporate actions and the issuing of shares.</li> <li>If the company wants to have enough shares to enable it to issue shares as scrip dividends.</li> </ul>	<ul style="list-style-type: none"> <li>If the company has not provided any appropriate justification for increasing the authorised share capital.</li> </ul>
<b>26. Resolutions relating to corporate actions requiring shareholder approval</b>	<ul style="list-style-type: none"> <li>This depends on the specific issues, be they valuation or otherwise. Inputs from equity managers to be sought.</li> <li>Refer to specific procedure to be followed.</li> </ul>	<ul style="list-style-type: none"> <li>Same as for in favour.</li> </ul>
<b>27. Resolutions relating to BBBEE deals</b>	<ul style="list-style-type: none"> <li>This depends on the specific issues, be they valuation or otherwise. Inputs from equity managers to be sought.</li> <li>Refer to specific procedure to be followed.</li> </ul>	<ul style="list-style-type: none"> <li>Same as for in favour.</li> </ul>

## 2. Standard Resolution Guidelines

The resolutions most commonly put forward to shareholders to vote on:

- 1.1 Shareholder approval of the company's annual financial statements.
- 1.2 Shareholder approval for appointment of auditors.
- 1.3 Approval of directors' remuneration.
- 1.4 Election and/or re-election of directors.
- 1.5 Approval of a new directors' remuneration structure.
- 1.6 Shareholder approval for unissued shares to be placed under the control of the directors until the next annual general meeting.
- 1.7 Shareholder approval for the issuing of shares to raise cash.
- 1.8 Shareholder approvals for the company to buy back some of its own shares.
- 1.9 Dividends, odd lots and capitalization issues.
- 1.10 Renouncement of pre-emptive rights.
- 1.11 Issuing new share classes.
- 1.12 Amendment to the Memorandum of Incorporation of the company.
- 1.13 Providing financial assistance to related or inter-related companies or corporations.

### **Policy and procedure followed by the Fund in regard to these issues:**

*Since these are standard resolutions, the agent appointed by the Fund will proceed with the voting on these without any specific consultation with management of the Fund. Voting guidelines on these issues should be clear in terms of which way to vote.*

### 3.1 STANDARD MEETING AGENDA ITEMS

- **Shareholder approval of meeting formalities**

Generally, shareholders are requested to facilitate the proceeding of the meeting by approving the following:

- a. The opening of the meeting.
- b. The presence of a quorum.
- c. The agenda.
- d. Regulatory filings.
- e. The signing of the minutes of the previous meeting.
- f. The publication of the minutes.
- g. The closing of the meeting.

*Voting Guideline: The Fund will VOTE FOR routine resolutions listed above, to facilitate the conduct of the meeting.*

- **Shareholder approval of the company's annual financial statements**

The following issues will be considered:

- Is the audit report qualified and/or are there matters of emphasis? A qualified audit opinion will tend to attract a negative vote depending on the reasons for the qualification. The same holds for matters of emphasis.
- If there is a qualification? Does it relate to managerial failures? Or is it one of very rare situations where the audit qualification relates to a matter outside the control of the Board of Directors?
- How does the report of the chairman, the CEO and the financial statements compare to that published in the previous annual report and do they realistically relate to the results of the annual financial statements?
- Are the notes and explanations sufficient to judge important issues facing the company or are they designed to skip or to minimize potential issues? Incompleteness affecting material issues that are potentially detrimental to shareholder value may be grounds for a negative vote. This also relates to non-financial information provided to shareholders.
- Have the Annual Financial Statements been prepared in accordance with International Financial Reporting Standards? If not, why?
- Has IFRS been conservatively or aggressively applied? The first instance being viewed as more positive than the latter.
- Are there any important issues, which may have a materially detrimental effect on the company, hidden away in footnotes? If the effect of this is indeed material the recommendations will be made on a case-by-case basis. The Fund could vote against approving the Annual Financial Statements, engage management on the issue beforehand or engage management directly at the meeting in front of the other shareholders.
- Any other relevant and material issue where it is felt that disclosure is lacking.

### 3.2 AUDIT AFFAIRS

- **Shareholder approval for the appointment of auditors**

- There should be no relationships between the proposed audit firm and senior members of the company's management team creating actual or potential conflicts of interest.
- Consideration should be given to whether the firm appointed as auditors have a history of audit failures. The most important potential failures facing auditors are threefold:
  1. Stating an incorrect audit opinion.
  2. Reluctance to state an opinion which reflects negatively on management, but which is essentially a correct audit opinion.
  3. Conflict of interest situations because of present and previous relationships.

The following questions are considered relevant:

1. Did the audit committee in recommending the specific audit firm to shareholders follow due process? Would an unbiased outsider consider the process to have been independent and objective?

2. Are there any relationships between any board member and the proposed audit firm, which might give rise to possible conflict of interest issues?
3. Does the audit firm have a history of audit failures? Does that relate to stating incorrect opinions or caving in to management demands not to state a negative audit opinion?
4. Has the company previously had material restatements or delayed the filing of its financial statements as a result of fault on the part of the auditor?
5. Does the auditor have the required resources for performing the audit adequately? Would a medium sized firm have the resources to manage a quality audit of large company?
6. Has one of the audit partners or managers served as director or prescribed officer of the company, or an employee or consultant of the company involved in the maintenance of the company's records or preparation of its financial statements, or a director or officer or employee of the Company Secretary, or a book keeper or accountant of the company at any time during the previous financial years?
7. Does the firm perform any non-audit related work for the company?
  - If so, how material is the work in monetary terms?
  - Has this relationship been disclosed in an adequate and transparent manner?
  - Was the tender process for the said non-audit work independent, transparent and fair?

8. Has the tenure of the audit firm or audit partner/manager been disclosed?

- There should be a rotation of audit partners/managers. The term of audit partners/managers should be a maximum of five consecutive years (section 92 of the Companies Act 71 of 2008). Thereafter new partners/managers or audit firm should be appointed.
- Where the company terminates the services of the auditors, especially if this is done only a year or two after appointment, the auditors should be allowed to address the shareholders at the following shareholder meeting. This is to provide shareholders with some comfort that the reason for the termination was not due to the auditors finding embarrassing irregularities during their audit process. Management should also provide reasons for the termination if the reason is not the normal end of an audit term. A copy of a written notification that the auditors are of the opinion that there were no material irregularities in terms of the requirements of the Companies Act 71 of 2008 should be included in the documentation sent to shareholders in the information pack before the meeting.
- In the case of appointment of joint auditors, two or more audit firms should be elected by way of separate resolutions.
- The answers to questions such as these will all be evaluated in order for the Fund to cast a positive or negative vote for the appointment or reappointment of auditors.
- **Audit fees and remuneration**
  - Auditor's remuneration is sometimes put on the 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 AGM an opportunity to raise appropriate questions in this regard to management. The resolution usually states that management be provided with the authority to negotiate fees with the auditors. Unless there is evidence casting doubt on either the audit committee members' integrity or the committee's processes and independence, shareholders should vote for this resolution.

The Fund will take the following into consideration:

1. Remuneration relative to prior year and other benchmarks (e.g. competitors, similar audits, inflation).
2. The level of disclosure for non-audit work performed by the company's auditors.
3. The remuneration for all the non-audit work performed and whether such remuneration is reasonable given its nature and extent.
4. Whether the audit committee has issued a statement with respect to the scope and extent of non-audit work performed by the auditor, with an understanding that measures were taken to ensure that conflicts of interest did not occur.
5. Any issues highlighted during the current year that could call into question the appropriateness of prior audit opinions (e.g. restatement of prior year results due to errors).

- **Indemnification of external auditors**

- Companies and their external auditors may enter into an indemnity agreement, protecting the external auditor from liability. The Fund will vote against proposals to indemnify external

auditors. The role of the auditor is to remain objective and provide independent professional oversight. An indemnity agreement may pose a conflict of interest in this regard.

### 3.3 DIRECTORS AFFAIRS

- **Election and/or re-election of directors**
  - **Directors have a duty to manage the company on behalf of the shareholders.** They are responsible for the creation of sustainable, long-term shareholder value. They are the implementers of corporate governance within the company, just as shareholders are the final arbiters on what corporate governance should be practiced in a company.
  - **The Board is responsible for the creation of sustainable shareholder value.** They are ultimately accountable to shareholders in this regard. That is why the election of directors is one of the most important decisions of shareholders.
  - **Board composition and diversity**
    1. An important issue to consider is whether there is an appropriate balance between executive non-executive and independent non-executive directors presently on the board and the balance of these in the various board committees.
    2. The board should comprise a majority of non-executive directors, the majority of whom should be independent.
    3. There should be a sufficient number of directors that qualify to serve on the various committees of the board (Principle 7 of King IV).
    4. The board should have a sufficient number of directors in order to comply with all applicable legal and regulatory requirements.
    5. The board should have an appropriate mix of knowledge, skills and experience, age, background, race and gender in order to promote better decision making and effective governance (Principle 7 of King IV).
    6. The board or the nomination committee must have a gender diversity policy or targets for gender diversity at board level (Paragraph 3.84(k) of the JSE Listing Requirements and Principle 7 of King IV).
    7. The statutory and other demands on boards of directors in South Africa are growing daily. This relates even to a greater extent to specialized board positions such as audit committees. It makes it even more important that boards should constantly be on the lookout for promising candidates to train for board positions to maintain a ready supply of expert and competent board members who satisfy the growing demands placed on directors.
    8. It is however imperative that senior executives, such as the CEO and the CFO, attend board meetings to inform the board on operational and strategic issues facing the company.
    9. Every director should have sufficient time available to fulfil his/her responsibilities to the company. Independent non-executive directors should preferably not sit on more than five boards of directors of listed companies. While many people are intellectually capable they cannot be considered experts on the business and technical challenges of so many dissimilar companies and industries, even though they may have very good general management skills. With the growing demands associated with fiduciary responsibilities of boards the effectiveness of some individuals spread across too many boards may be challenged.
    10. Executive directors should not sit on the board of any other company. The exception would be in the case of subsidiary companies of the group, if such a group of companies exists within the institutional structure. In such case it would be preferable to only sit on a maximum of two subsidiaries boards.
    11. There should be a systematic evaluation and rotation of directors as well as board refreshment so as to introduce directors with fresh expertise and new perspectives while retaining valuable skills and experience, and maintaining the necessary continuity.
  - **Independent director**
    - An independent director is a director who has no material interest, position, association or relationship which is reasonably 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.

The absolute **minimum** requirements for an **independent director** is someone who:

- i. Is not a representative of a shareholder who has the ability to control or significantly influence management.

- ii. Does not have cross directorships which may influence his/her approach to managing this company.
- iii. Receives no remuneration from the company apart from directors' fees.
- iv. Has not been employed by the company or the group of which it currently forms part, in an executive capacity in any of the preceding three financial years.
- v. 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.
- vi. Is not a professional advisor to the company or the group other than in a director capacity.
- vii. Has not been a significant supplier to, or customer of the company or group either in own capacity or through a related party for the past three years.
- viii. Has no significant contractual relationship with the company or group.
- ix. Does not hold securities in the company, the value of which is material to his/her personal wealth.
- x. Has not been the designated external auditor of the company or a key member of the audit team of the external firm during the past three years.
- xi. 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.
- xii. Has not been a member of the board for more than nine years, unless his independence has been assessed and confirmed by the board. Independent non-executive directors serving on the board for longer than nine years should be subjected to an assessment of their independence by the board every year and the board should provide a summary of its views on the independence of the particular director (Principle 7 of King IV). Such directors may continue to serve in an independent capacity if the board concludes that the particular director exercises objective judgment and there is no interest, position, association or relationship which is likely to unduly influence their decision making (Principle 7 of King IV). If the board fails to do this, the Fund will raise the matter with the company, with a view to affording the company an opportunity to provide a reasonable motivation for the re-election of the director concerned.

*Voting Guideline: The Fund will vote to maintain a majority of directors on the board and board committees, who are both independent and non-executive.*

*Voting Guideline: The Fund will VOTE AGAINST any executive or non-executive directors who serve on the audit and/or remuneration committees.*

*Voting Guideline: The Fund will VOTE AGAINST individual directors who are deemed, either through research or engagement, to be overcommitted and who do not have sufficient time available to fulfil their responsibilities to the specific company.*

*Voting Guideline: The Fund will VOTE AGAINST the chairman of the nomination committee (or the chairman of the social and ethics committee) if the company has not adopted a gender diversity policy or gender diversity targets as required by the JSE Listing Requirements and/or if the company does not have at least one female director on its board.*

*Voting Guideline: The Fund will VOTE AGAINST individual directors who are deemed, either through research or engagement, to have lost their independence or who are not effective in executing their independent position.*

- **Private equity directors**

Directors of private firms, by nature of the role they are expected to play, are considered insiders. In such cases the Fund will take into account factors such as the qualifications, skills and experience of the director; the individual directors' track record; the directors' independence of mind; and whether the election or re-election of the director concerned will add value to the board and enhance shareholder value.

*Voting Guideline: The Fund will vote on a case-by-case basis for the election or re-election of private equity firm directors.*

- **Extra-ordinary board affairs**

There may be issues that cannot be voted on, such as problems with board structures that cannot be directly related to the election of individual board members but which impact on corporate governance. On these matters an engagement with senior management will be followed by the Fund before shareholders meetings. If the issues persist stronger measures such as addressing the board at the shareholders meetings and voting against resolutions will be followed.

- **Blanket appointment of directors**

*Voting Guideline: The appointment of each director should be by way of a separate resolution put to shareholder vote. The Fund will VOTE AGAINST any blanket resolutions.*

- **Blanket appointment of board committee members**

*Voting Guideline: The appointment of members of committees should be a separate resolution put to shareholder vote. The Fund will VOTE AGAINST any blanket resolutions.*

- Directors should be elected by means of a secret ballot and not a show of hands.
  - A brief CV of each candidate, indicating relevant experience and qualifications should be provided to shareholders at least 15 business days before the date of the shareholders meeting at which directors are elected.
  - The appointment of any director by the board during a financial year should be confirmed by a resolution of the shareholders at the following shareholders meeting.
  - There should be a nominations committee to assist the board with the formal and transparent procedures leading to board appointments; to review and evaluate the board's mix of skills, experience and diversity; and to review and evaluate all board committees and the contribution of each director. The nomination committee should conduct its own research and vetting on possible board candidates, including candidates nominated by a shareholder.
  - Issues that cannot always be raised directly when voting on the appointment / reappointment of specific directors, such as when the CEO and the chairman of the board is the same person, may in addition to a pre-meeting engagement with the company also be put onto the agenda under general. If these kinds of issues persist year after year it could result in the Fund eventually voting against the chairman when his/her re-appointment as director is due.
  - The chairperson should preferably not sit on more than two of the JSE top 40 listed company boards and should be the chairperson of only one. Questions will be directed to the board at shareholders meetings by the Fund if this is not the case. Directors should always have enough time to devote to the business of the company. This is done with the acknowledgement that listed company board director experience is relatively scarce in South Africa.
  - The chairperson or any independent non-executive director should not sit on more than a total of five boards of listed companies. As with the previous issue, questions will be raised at shareholder meetings. It will be particularly pertinent if the chairman does not attend a sufficient number of board meetings. Specialised board members such as the chairman of the audit committee should also guard against sitting on too many boards as chairman of the audit committee.
  - There should always be a mechanism whereby shareholders may nominate candidates for director positions. A clear process for the nomination of directors by shareholders should be laid out in a company's Memorandum of Incorporation.
  - A conflict of interest scenario where directors not only profit directly from the company in the form of directors fees and bonuses but also receive income from business dealings with the company must be avoided. This does not only relate to direct business in the director's personal capacity but also applies to relatives and close personal friends profiting from the director's association with the company. Whenever this occurs there must be full transparency to shareholders and board approval. If the shareholders consider it problematic, this issue should be raised at shareholders meetings.
  - There must always be a register of interests to be completed at the start of each meeting, where a director declares any new outside interests in addition to those completed when he/she joined the Board. This is especially necessary when business, which is part of the agenda, pertains to appointments or potential court cases. If one of the directors happens to be an employee of that particular firm the board has to be informed of this fact and the director has to recuse herself/himself from all deliberations relating to the issue. This also applies to the copy of the minutes of the meeting supplied to the director in subsequent meetings.
  - The board must never be denied the resources to discharge their functions properly. The company, with senior management receiving instructions from the board in this regard, must provide the board with the resources to conduct their own investigations independently of senior management.
  - All the above are taken into consideration when evaluating whether to appoint or re-appoint the board and its members.
- **Independent chairman**  
The chairman of the board should be an independent non-executive director. In order to qualify as independent, the chairman should have met the criteria for an independent non-executive director upon appointment and should have continued to do so. The chairman should not be a member of

the audit committee. Although the chairman may be a member of the remuneration, risk and/or social and ethics committees, he/she may not chair these committees (Principle 7 of King IV).

*Voting Guideline: The Fund will VOTE FOR resolutions that support the election of an independent non-executive chairman, as this should ensure that the board represents the interest of shareholders, not management.*

*Voting Guideline: The Fund will actively monitor the independence of the chairman and will VOTE AGAINST a chairman who is not effective or overwhelmed by management.*

- **Separation of chairman and CEO positions**

The position of chairman and CEO should be separate to ensure a clear distinction between operations and governance oversight (Principle 7 of King IV). The separation of chairman and CEO positions has been endorsed in Schedule 22 of the JSE Listing Requirements, which points to the importance of the separation of responsibilities at the head of a company to ensure a balance of power and authority. The JSE Listing Requirements call for the public justification of a decision to combine the position (JSE Listings Requirements Schedule 22.2). Reasons for non-separation of the position of chairman and CEO will be carefully examined and the decision should be justified each year in the annual integrated report. The former CEO should not be appointed as the chairman of the same company until the lapsing of three complete years after the end of his/her tenure as CEO (Principle 7 of King IV).

*Voting Guideline: The Fund will VOTE AGAINST proposals to combine the role of chairman and CEO.*

*Voting Guideline: The Fund will VOTE AGAINST the election of a former CEO as chairman of the board before three years have lapsed after the end of the CEO's tenure.*

*Voting Guideline: The Fund will discourage the practice of the CEO becoming the chairman upon reaching retirement and in general will VOTE AGAINST such proposals*

- **Lead independent director**

The board should appoint an independent non-executive director as the lead independent non-executive director (Principle 7 of King IV). The company should report the appointment of the lead independent non-executive director and the role and responsibilities assigned to the position. The lead independent non-executive director should be able to lead the board in the absence of the chairperson of the board, and to fulfil the functions of lead independent non-executive director in an objective and effective manner. The Fund will evaluate the lead independent non-executive director to establish if the latter is truly independent and effective. It is preferable, where the chairman of the board is not independent, that a lead independent non-executive director should be accompanied by a majority of independent non-executive directors on the board and key committees of the board. The lead independent non-executive director should also attend shareholder meetings and make him/herself accessible to shareholders.

*Voting Guideline: The Fund will VOTE FOR the election of a lead independent non-executive director in cases where the chairman is not independent.*

*Voting Guideline: The Fund will VOTE AGAINST the chairman of the nominations committee where a company has failed to appoint an independent chairman or a lead independent director in cases where the chairman of the board is not independent.*

- **Non-executive directors' minimum shareholding requirements**

The board should develop and adopt minimum shareholding requirements for non-executive directors to align the non-executive directors' interests with the shareholders' interests. Once a non-executive director has met the minimum shareholding requirements, he/she should comply with the minimum shareholding for the entire term as non-executive director of the company. The consequences that will apply if a non-executive director fails to achieve or maintain the minimum shareholding requirements should be clearly set out. Non-executive directors should hold no more than 5% of the total number of votes associated with the company's voting shares before their independence may be considered to be affected. The board should systematically review the non-executive directors' minimum shareholding policy and disclose it to the shareholders.

- **Executive directors' shareholding requirements**

The board should develop and adopt a minimum shareholding requirement and a post-employment shareholding policy for executive directors in order to align the interests of executive directors with the company's long-term strategy and the shareholders' interests. The remuneration committee should require executive directors to hold a minimum number of shares and to hold shares for a further period after leaving the company. Executive directors should be encouraged to purchase shares in the company using their own resources in order to promote the alignment of their interests with shareholder interests. The remuneration committee should also set out the consequences that will apply if an executive director fails to achieve the minimum shareholding requirement within the required period. The remuneration committee should review the executive directors' shareholding requirements and disclose them to the shareholders in the remuneration report or policy.

- **Directors' indemnification**

Requests to indemnify directors against personal liability in the execution of their duties to the company will be treated on a case-by-case basis. A few issues should be highlighted:

- There is a need to distinguish between losses that are the result of "errors of judgement" or "oversight" and those that are the result of "gross negligence". The former two may be acceptable, but the latter is not.
- There should be no clause in the Memorandum of Incorporation dealing with indemnification issues. There should rather be an insurance policy covering the issues that may include public liability issues. The payment for this should be disclosed in the Financial Statements thereby explicitly quantifying the costs involved. The insurance company would then also make a call on the robustness and quality of the corporate governance in their risk assessment when calculating the fees involved.

- **Amendments to clauses relating to the borrowing powers of directors**

A balance needs to be struck between the boards' ability to raise debt for expansion and the board putting the company at risk through over indebtedness. Some restrictions should be in place. This will have to be evaluated on a case-by-case basis. Inputs from financial analysts will be used by the Fund to make the relevant distinction in the financial policy of the company.

- **Clauses in the Memorandum of Incorporation that release executive directors from re-election by rotation**

The office of director is separate from that of employee. It is the shareholders who should bear the ultimate responsibility for monitoring the board's composition.

*Voting Guideline: The Fund will VOTE AGAINST any resolution releasing any director from re-election while remaining on the board.*

### 3.4 REMUNERATION ISSUES

Companies should prepare and disclose a remuneration report for each reporting period. The remuneration report should be segmented into three parts (i.e. a background statement, a remuneration policy and an implementation report) in line with Principle 14 of King IV and best practice so as to make the report easy to read and comprehend.

- i. **Approval of the director's remuneration policy**

Company boards should approve clear and rational remuneration policies which should be disclosed separately in the annual reports. Where only a shortened version or brief overview of the remuneration policy is provided in the annual report, a reference to an electronic link where the full report may be accessed should be provided. The director's remuneration policy should provide guidelines that determine the company's approach to all aspects of fair, responsible and transparent remuneration. The remuneration policy should be tabled every year for a non-binding advisory shareholder vote at the annual general meeting (Principle 14 of King IV).

The following considerations will inform the Fund's vote:

- The remuneration policy should sufficiently disclose the company's objectives on fair, responsible and transparent remuneration and the manner in which it seeks to achieve those objectives.
- The remuneration policy should contain a clear description of all elements of the remuneration package, including the total amount of salary and fees; all benefits; performance related

payments and awards; pension related benefits; termination payments; sign-on, retention and restraint payments; commissions and allowances; as well as *malus* and claw-back provisions.

- The remuneration policy should correctly align the interests of company management and shareholders. Appropriate emphasis should be placed on performance-based incentives that are aligned with the company's strategic objectives.
- There should be detailed disclosure of the framework used to assess performance, including the performance measures used, the weighting of the performance measures, and the period of time over which the performance is measured.
- There should be an accompanying explanation for the performance measures applied and the use of remuneration benchmarks.
- The use of performance measures should support positive outcomes across the economic, ethical, social and environmental context in which the company operates.
- There should be a clear illustration, in a graphic or tabular form, of the total remuneration receivable by each executive director in accordance with the remuneration policy under minimum, on-target and maximum performance outcomes.
- The remuneration policy should set out the company's approach to the determination of termination payments, including the details of obligations in contracts of service that could give rise to termination payments and an indication of how each component of the termination packages will be calculated.
- The remuneration policy should adequately address the basis for the determination of non-executive directors' remuneration.
- There should be an explanation of how fair and responsible executive remuneration is addressed in the context of overall employee remuneration.
- If the resolution for the adoption of the implementation policy is not adopted by 75% or more of the voting rights exercised, the company should take steps to address shareholders' concerns, and should disclose in the following year the steps taken to address the shareholders' legitimate and reasonable concerns, and should disclose the outcomes thereof.

**ii. Approval of the director's remuneration report (Implementation report)**

The implementation report should set out, in clear and sufficient detail, how the remuneration policy was implemented during the relevant reporting period. This includes a detailed breakdown of the total remuneration paid and accrued to each director and prescribed officer as well as a clear explanation of how each component thereof has been calculated. The implementation report should be tabled every year for a non-binding advisory shareholder vote at the annual general meeting (Principle 14 of King IV).

The following considerations will inform the Fund's vote:

- Companies must provide full disclosure of various components of directors' and prescribed officers' remuneration, including fixed and variable short-term and long term components of the remuneration package as required by section 30(4) of the Companies Act 71 of 2008. This must be done per individual director or prescribed officer.
- There must be full disclosure on all earnings from the company, including those from subsidiaries.
- Assessing executive compensation will include financial indicators as well as social and environmental criteria and performance on the part of both the board and the individual directors.
- Companies must disclose, with respect to performance related payments and awards that have been made, the performance measures used, including their weightings and performance targets. The details of how the company and the individual executives actually performed against the set targets and the resulting levels of awards or payments must also be disclosed.
- The disparities between the salary levels of senior management and lower level employees will be analysed to ascertain whether they are excessive.
- With regard to financial indicators, cognizance should be taken of the relationship between the performance of the firm relative to its competitors in the industry as well as the performance of management relative to the current economic climate.
- The Fund will assess the appropriateness of the performance measures used and whether a clear link has been established between remuneration and performance.
- The Fund will not support adjustments to performance conditions without clear identification and explanation as well as valid justification.

- The Fund will consider the potential misalignment of remuneration objectives of boards with those of shareholders. Poorly designed, disclosed or implemented remuneration schemes will be opposed.
- The Fund does not support the awarding of options instead of shares. When directors are issued with options these may be subject to financial engineering which defeats the purpose of their issuance. When directors are direct shareholders, their interests are aligned with those of shareholders.
- The Fund will not support the re-pricing of options. In cases where share options have already been issued there should be no re-pricing of the options. Any re-pricing to increase director remuneration from options is counter to the objectives normally stated to justify the awarding of options.
- The Fund will not support share options being issued for bonus purposes. Directors should be issued with shares, which vest over a period of at least three years.
- The implementation report must also disclose termination payments made during the reporting period to any person who has served as a director or prescribed officer of the company. In addition to complying with the requirements of section 30(4) of the Companies Act 71 of 2008 regarding termination payments, companies must disclose the total amount of the payment, broken down into each component comprised in that payment, the value of each component and an explanation of how each component has been calculated.
- The Fund will oppose the acceleration of the vesting of unvested incentives of departing directors or executives before the lapsing of the vesting period and without the achievement of the required performance.
- There should be transparency regarding the independence and objectivity of the process used to determine remuneration during the reporting period, including the composition and independence of the remuneration committee and any external consultants whose services may have been utilized in making decisions on remuneration.
- There must be disclosure of information regarding compliance with the remuneration policy during the reporting period. Any deviations from a remuneration policy that has been approved by shareholders must be sufficiently disclosed and motivated.
- If the resolution for the adoption of the implementation report is not adopted by 75% or more of the voting rights exercised, the company should take steps to address shareholders' concerns, and should disclose in the following year the steps taken to address the shareholders' legitimate and reasonable concerns, and should disclose the outcomes thereof.

**Where a share option scheme is already in place the following considerations should be noted:**

- The share option scheme beneficiaries should be clearly identified.
- Schemes where the aggregate number of shares that may be used for all existing schemes is in excess of 5% of the total issued share capital will be voted against.
- Any scheme that is earmarked for only the top executive levels of management should not have an allocation of more than 5% of total issued share capital.
- Schemes where more than 1% of total issued share capital is earmarked for one individual will be voted against.
- Any scheme whose trustees are executive directors, employees or service providers of the company, or whose independence may be compromised will be voted against.
- Any scheme where the expiry period is more than ten years and/or the vesting period are less than three years will be voted against.
- Any scheme where the options allocated to an individual are not cancelled upon that person leaving the employ of the company will be voted against.
- Any scheme that does not stipulate the terms of loans made to employees will be voted against.

Management may be warned in advance of voting to inform them that:

1. Votes will be cast against some resolutions, not directly related to the issue of poorly disclosed director's remuneration, as a symbolic vote, due to the lack of alternative to register shareholder displeasure at insufficient disclosure.
2. Alternatively, the displeasure of the Fund might be registered with a letter to the board, or discussions with the board on the issue which might be followed up with negative voting on director's appointments for example if the situation does not improve by the following shareholders meeting.

### iii. **Approval of non-executive directors' remuneration**

In terms of section 66(8) and (9) of the Companies Act 71 of 2008 a company may, subject to its Memorandum of Incorporation, pay remuneration to its directors for their service as directors. Such remuneration may be paid only in accordance with a special resolution approved by the shareholders **within the previous two years**. According to King IV, the above provision applies to fees for non-executive directors for their services as directors. It is, accordingly, common for companies to submit the proposed remuneration of non-executive directors for approval by special resolution of shareholders at the annual general meeting.

The Fund will apply the following principles regarding non-executive directors' remuneration, including the non-executive chairman's remuneration:

#### **Non-executive directors' fees**

- The level of transparency with regard to director's fees and the basis for the determination of these fees.
- The fees must be reasonable in view of the role and responsibilities of the non-executive directors.
- The fees should consist of an annual fee and fees for attending the board and committee meetings.
- There should be an evaluation of board meeting attendance. When remuneration levels do not correspond to attendance of board meetings no full directors fee should be payable. A director should have attended at least 75% of all board meetings during the year under review to receive full director's fees. The fees must be in line with industry norms and those payable by peers.
- The fees must not be excessive so as to potentially compromise the independence and objectivity of the non-executive directors.
- Non-executive directors should not receive ex gratia payments as these may influence their independence and objectivity.

#### **Share options for non-executive directors**

- Non-executive directors should not receive share options and should not be part of any share incentive scheme.
- Participation in share incentive schemes may influence the non-executive directors' independence and objectivity.
- The Fund will vote against non-executive directors' remuneration that includes share options or shares.

#### **Compensation for loss of office for non-executive directors**

- Compensation for loss of office (termination payments) arrangements may influence the independence and objectivity of non-executive directors.
- The Fund will vote against non-executive directors' remuneration that includes any compensation for loss of office.

### iv. **Approval of a new director's remuneration structure or incentive scheme**

- It is generally difficult to judge these schemes, except for those that are patently unfair to either the shareholders (and by implication the company) or to senior management.

The following may raise concerns:

- When a new proposed scheme is presented every three to five years. The reason usually provided is that top talent is scarce and that in order to retain talent it is necessary to adopt a new director (and senior executive) remuneration scheme to account for changing circumstances.
- A new scheme coinciding with a new economic cycle. The new scheme being designed to take maximum advantage of the characteristics of the new cycle.
- Capital structures skewed in order to maximise bonus structures.
- Complicated structures - not included in the notice to the Annual General Meeting. Shareholders are usually informed that the complete document is available for viewing at the company's head office or registered office.
- Increases in remuneration, which is excessive in relation to broad economic indicators such as inflation etc.
- The basis for calculating a director's remuneration in any scheme should be transparent and part of the documents forwarded to the shareholders before annual shareholder meetings.

Setting up a complicated document, which tends to be to the advantage of management ensuring a bonus irrespective of the financial performance of the company will be opposed.

## 2.5 CAPITAL AND SHAREHOLDER STRUCTURE ISSUES

### a. Shareholder approval for unissued shares to be placed under the control of the directors until the next annual general meeting

- The inclusion of this resolution requires more substantive reasons than providing the board with financial flexibility.
- Complete control, even only on an annual basis over unissued shares is a key risk area, especially in a weak corporate governance environment.
- The Fund will vote against this type of resolution unless the company has provided a substantive and appropriate motivation to shareholders.
- The Fund will only support this resolution if shares are required for a corporate action approved by shareholders.

### b. Shareholder approval for the issue of shares to raise cash

Companies usually table the following resolutions:

1. Resolution to issue new shares.
2. Resolution to issue new shares to raise cash for the company.
  - The inclusion of these resolutions requires more substantive reasons than providing the board with financial flexibility.
  - The Fund will vote against this type of resolution unless the company has provided a substantive and appropriate motivation to shareholders.
  - While providing management with flexibility sounds reasonable, the perception that management does not have a clear sense of what strategy to follow in the next year is a larger negative issue.
  - Since share issuance dilutes current shareholders, management should only issue shares if there are strategic plans in place to enhance shareholders return with the funds so obtained, for example a specific acquisition or capital investment. In the event that such a resolution is approved there should be a definite cap limiting issuance of shares up to a maximum 10% of unissued shares.

**With regard to resolutions on shareholder approval to issue shares for cash, the Fund will consider the following:**

- The resolution needs to have substantive motivation to be considered for a positive vote.
- Issuance of shares could lead to a dilution of existing shareholders.
- The Fund will only vote for resolutions that provide sound reasons for enhancing shareholder value by the proposed action.

### c. Shareholder approval for the company to buy back its own shares

- The Fund will generally vote for this resolution as share buy backs are often beneficial to the company and shareholders.
- A company may buy back its own shares for various reasons, including increasing the company's share price or providing shares for employee share schemes. The company may also utilise share buy backs as a way of distributing excess cash to shareholders.
- This resolution should at least be subject to the provisions of the Companies Act 71 of 2008 and the JSE Listings Requirements relating to share buy backs.
- This resolution becomes an issue when it is tabled for approval together with a proposal to issue shares for cash or to put unissued shares under the control of directors.
- The following could attract negative votes:
  - The shares to be repurchased belong to a company or subsidiary whose shares have poor liquidity.
  - The company will suffer from a material decline in its free float by buying back shares.
  - Share repurchases in a pyramid structure, especially when separate share classes are not provided with an opportunity to vote separately.
  - Where the company wants to repurchase shares off-market and the maximum price at which it is to repurchase such shares has not been specified.
  - The Fund should also vote against the proposal if the free float of the company is already very small.

#### **d. Dividends, odd lots and capitalisation issues etc.**

##### **i. Dividends**

When the board proposes a dividend, the following should be **considered**:

- Whether the dividend is warranted in light of the company's performance and whether the company has the cash resources to pay for the dividends without putting a burden on the capital base of the company.
- When no dividends are proposed then management should 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.
- In addition to the items discussed above, the Fund will apply a case-by-case analysis of the dividend proposals of management at each shareholder meeting where applicable.
- Companies may offer shareholders the option of taking a declared dividend in the form of shares rather than cash (i.e. a scrip dividend). This enables the company to retain more cash and may enhance shareholder value in the long term. Scrip dividends may also benefit shareholders as they are an expedient and cost effective way for them to acquire additional shares in company. Scrip dividends are also common in unbundling and other corporate actions. A scrip dividend may, however, have a dilution effect and therefore needs to be evaluated on a case-by-case basis.
- The Fund will generally vote for resolutions regarding the payment of dividends.
- The Fund will, however, vote against scrip dividend proposals which do not provide shareholders with an option to receive the dividend in cash.

##### **ii. Odd lots**

The Fund will generally vote in favour of odd lot offers, but each resolution will be evaluated on a case-by-case basis.

##### **iii. Capitalisation issues**

Whether dividends in cash or in specie should be selected is a decision to be made by the Fund's investment managers. The following should be considered:

- The size of the capitalisation issue relative to the total shares in issue.
- The value of the capitalisation issue relative to the cash dividend offered. If the difference is excessive it might trigger consultation and discussion with management and perhaps other shareholders.

##### **iv. Reductions in capital by way of special dividends**

These should be evaluated on a case-by-case basis.

#### **e. Renunciation of pre-emptive rights**

This resolution allows the company to issue shares without having to make a rights offer to existing shareholders on a pro-rata basis. Generally, this is not viewed as an optimal situation. Resolutions such as these will usually be linked to other resolutions granting directors the right to issue shares or to issue shares for cash. They must be evaluated in totality.

The Fund should generally vote against proposals to issue shares without pre-emptive rights.

#### **f. Creation of new share classes**

The creation of new share classes may affect the interests and rights of the ordinary shareholders. The Fund will vote against proposals to give the board of directors the power to create new share classes and/or determine the terms of such share classes without the approval of the ordinary shareholders. The ordinary shareholders should be given the opportunity to approve the broad terms, rights and preferences associated with the class of shares to be created.

The creation of new share classes will be detrimental to the company as a whole if the effect of this 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 company as a whole. The result is usually the blocking of takeovers or the avoidance of accountability to the shareholders who are providing the major part of the funding for the company.

The Fund will generally vote against proposals to divide the ordinary share capital into two or more classes with **unequal voting and or economic rights**.

**g. Amendments to the company's Memorandum of Incorporation**

Proposed amendments to the Memorandum of Incorporation should always be approached on a case-by-case basis. When a new Memorandum of Incorporation is put up for adoption by shareholders, or substantive changes proposed, then a Memorandum of Incorporation identifying the changes should be made available to shareholders. The Fund will vote for proposals to amend the company's Memorandum of Incorporation if all the proposed amendments are considered to be lawful and in the best interests of the shareholders.

Clauses in the Memorandum of Incorporation enabling electronic communication and voting should be subject to the standards set by institutions such as the JSE. Steps to enhance electronic communication with shareholders and electronic voting should be voted for.

### 3.6 EXTRAORDINARY RESOLUTIONS AND OTHER SHAREHOLDER ISSUES

**These are issues that are put to vote with less frequency than the preceding resolutions.**

**The following procedure will be followed by the Fund in regard to these issues:**

*These resolutions would potentially have a significant impact on the operational / financial functioning of the company. Therefore, the following procedure will be followed in regard to these types of issues:*

- a) *Each vote will be evaluated on a case-by-case basis.*
- b) *Each of the Fund's investment managers holding shares in the specific company will be requested by the appointed agent to provide a detailed proposal on how to vote on the specific transaction / issue (including detailed analysis of how they got to the recommendation).*
- c) *The agent will then summarise these recommendations together with his own and submit it to management of the Fund.*
- d) *Management will consult with the Chairman of the Board as well as the Chairman of the Investment Committee to ascertain the necessity for a meeting to discuss the issues at hand. Once this process is complete, management will communicate the Fund's vote to the appointed agent. In the event that such consultation has taken place, this must be reported to the Board of Trustees to ensure that the decision taken is properly minuted.*
- e) *Once management has signed off, the agent will proceed to vote based on the Fund's approved recommendation.*
- f) *The agent will report back immediately to management on the outcome of the vote.*

**a. Proposals on Corporate Action (takeovers, restructuring, selling part of the company etc.)**

- Analysis of the main issues and considerations should be performed on a case-by-case basis.
- Financial models and analysis are dependent on subjective assumptions made by various analysts on future performance and economic scenarios.
- Each model will incorporate a high level of probabilities rather than certainties.
- This is an area in which extensive research, ranging from pure financial analysis to corporate structuring and activism, by the Fund will be required.
- Case-by-case implies that mechanisms are needed to resolve **unique ad hoc** issues. These are ones usually scheduled for a shareholders meeting outside the normal AGM cycle of a company. In most cases these relate to the consideration of corporate actions and BBBEE deals.

**b. BBBEE deals**

The board must be the main driver of BBBEE and transformation issues. Entering into a BBBEE deal may be a very complex issue. Very often share dilution occurs as a result of the deal with the promise of enhanced shareholder value in the future because of the enhanced BBBEE status of the company. It is assumed that the group of people selected to enter into a deal will be able to enhance shareholder value in future far beyond the short-term dilutory effects.

Boards of directors in most South African companies will have transformation policies relating to three areas:

1. Equity with regard to employment practices.
2. Demographic representation as a diversity of skills and experience criteria in board composition.
3. BBBEE shareholding through specific targeted BBBEE deals.

- The implementation of the first would be mainly the responsibility of executive management. The board will require progress reports from management in this regard.
- The second and third issues are directly a board responsibility from the initiation to the realisation thereof.
- As the nomination committee is responsible for director nominations they should consider diversity and skills at board level. **The Fund will support a board composition that reflects the ability and skills of the larger South African society to contribute toward the growth of all companies and the economy in general.** It will cast its votes at shareholders meetings to reflect this ideal.
- BBBEE transactions voted for should satisfy the following criteria:
  1. Provide clear evidence of enhancement of long-term shareholder value, although it might dilute it initially.
  2. It must be beneficial to the BBBEE stakeholders.
  3. The beneficiaries must be broad-based, with community organizations representing the broader base having at least 60% of profits accruing to it. 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.
  4. There must be clear disclosure on the cost of the deal and the involvement of the company and its advisors.
  5. There should also be clear disclosure of the financial commitments made by BBBEE participants to the deal.

### 3.7 SHAREHOLDER RESOLUTIONS

The Companies Act 71 of 2008 provides a wide scope for shareholders to create resolutions regarding any matter and to submit such resolutions for a vote at a shareholders' meeting. The Companies Act 71 of 2008 also empowers shareholders holding at least 10% of the voting rights to call a meeting of the company and to determine the specific agenda to be dealt with at that meeting. The shareholders' rights to call a meeting and to table resolutions for a vote at shareholders' meetings may serve as crucial mechanisms for strengthening corporate transparency, accountability and discouraging inappropriate corporate practices.

Shareholder resolutions should be clear and specific. They should be accompanied by sufficient information and explanation to enable the rest of the shareholders to make informed decisions in regard to the resolution. Companies should have mechanisms for incorporating these resolutions in advance of the meeting and at meetings (within reasonable limits).

The Fund will evaluate shareholder resolutions on a case-by-case basis. The Fund will support shareholder resolutions that will enhance good corporate governance practices, shareholder rights and shareholder value. The Fund will not support shareholder resolutions that are against the Fund's Policy and that do not advance the interests of the shareholders as a whole.

### 3.8 SUSTAINABILITY (SOCIAL, ETHICAL, WORKPLACE AND ENVIRONMENTAL) ISSUES

Social, ethical, workplace and environmental factors have a material impact on company performance. Boards and company management should demonstrate effective management of ESG risks. There should be sufficient and quality disclosure of ESG issues in the integrated report. Where social, ethical, workplace and environmental factors are material in the company's industry, the company should issue detailed reports on its ESG performance.

These issues should be placed on the agenda at shareholder meetings. The Fund will engage companies on these issues well in advance of shareholders meetings. If satisfactory answers are not obtained, further questions will be raised at shareholders meetings.

### 3.9 DISCLOSURE ISSUES

#### a. Risk Management Disclosures

The Fund requires the board of directors to approve and disclose a sound framework for the governance and management of risk within the company, including risks arising out of financial, regulatory, ethical, social and environmental issues. Although the responsibility for managing risk may be delegated to a sub-committee, the board should exercise ongoing oversight of risk

management (Principle 11 of King IV). The disclosures should include, where applicable, policies clearly setting out the company's approach towards addressing each financial or sustainability area, the key financial or sustainability risks facing the company in relation to the company's risk tolerance levels, the key focus areas during the period under review, the manner in which these have been addressed and the outcomes thereof as well as the key focus areas for the future.

- **Financial Instruments**

With respect to financial instruments the following will apply:

- Full details should be provided in the risk management section on the methods used to assess the financial instrument's risk, and which directors are responsible for this.
- Full explanation should be given on the accounting treatment of financial instruments in the accounting policies.
- Should there be no apparent structure for dealing with financial risks at board level or any clear failings in this respect that could be linked to negligence, the Fund will vote against the directors who occupy positions on the Audit and Risk Committees.

- **Risk management relating to ethical, workplace, social and environmental issues**

The following considerations will apply:

- The company should demonstrate that the board is taking its responsibility regarding ethical, workplace, social and environmental risks seriously in so far as they impact on the company.
- Risk management systems for ethical, workplace, social and environmental risks should be considered on a case-by-case basis.
- Should systems be considered inadequate and there is no leadership from the board with respect to those areas, the Fund will consider voting against directors who are members of the Audit and Risk Committees or the Social and Ethics committee or the Sustainability or Safety Health and Environmental committees in so far as they exist.
- The Fund requires companies to address risk management issues across all operations in all of the geographical areas that it operates. While it is not always practical to disclose all of these issues, the board should be prepared to answer shareholder's questions and concerns with respect to specific risk areas.

**b. Compliance with statutes**

The Fund requires that the companies in which it invests adhere to the letter and principle of the laws applied in countries in which they operate. Companies should adhere to both local and international codes of good practice, sector based codes and guidelines and codes established by multilateral organisations such as the United Nations (UN), International Labour Organisation (ILO), World Health Organisation (WHO), the World Trade Organisation (WTO) and the Organisation for Economic Cooperation and Development (OECD). Such laws and guidelines include some of the following:

- Compliance with the Companies Act 71 of 2008 and all subsequent amendments
- Compliance with labour legislation amongst others:
  - Employment Equity Act
  - Basic Conditions of Employment Act
  - Labour Relations Act
  - Promotion of Equality and prevention of Unfair Discrimination Act
  - Skills Development Act
  - Pay equity (no discrimination in pay to women or previously disadvantaged persons as outlined in the South African Constitution)
  - Compliance and Occupational Health and Safety legislation
  - Environmental Legislation including:
    - ✓ The National Environmental Management Act
    - ✓ The Water Quality Control Act
    - ✓ The Air Quality Control Act
    - ✓ Other environmental legislation as promulgated
- Sector specific legislation
- The Broad-Based Black Economic Empowerment Act and associated national and sectoral charters and codes of good practice.
- JSE listings requirements
- Any other statutes which are applicable to South African (or dual) listed companies.
- International Conventions and guidelines, including those promulgated by the:

- International Labour Organisation
- Organisation for Economic Cooperation and Development
- United Nations
- Compliance with the laws of the countries in which the company operates.
- Companies should declare any contraventions of regulations that have been identified and for which court cases are currently pending or in progress

Where the Fund has perceived material risks relating to financial, economic, social, environmental and ethical issues, the Fund will engage with companies as follows:

- Requesting information regarding the relevant issue so as to provide assurance regarding risk management
- Recommending that the company review activities in the context of best practice.
- Making direct recommendations to adopt best practice.
- Requesting that companies disclose those risks and the policies that have been adopted and measures which the company is taking to reduce them.
- Where the Fund engages with companies and encounters unreasonable resistance from management and directors, and the company continues to desist from providing adequate assurance that material risks are being managed effectively, the Fund will use its voting rights:
  - The Fund will consider not supporting the re-election of any director responsible for disclosure or participating in the relevant sub-committee, which would have responsibility for the concern raised.
  - The Fund could vote against the financial statements, raising issues that it deems to have a material impact on the company and are not disclosed following repeated requests for disclosure.
  - The Fund could also support and participate in the raising of resolutions requiring companies to disclose information on material risk areas.

**The Fund supports companies enhancing their disclosure in the following areas:**

#### **Code of Ethics**

- The core values of a company
- The principles of ethical practice that supports such values
- Means of communicating these to stakeholders

#### **Financial disclosure**

- Annual financial statements
- Segmental reporting
- Geographical analysis
- Consistency of reporting
- Disclosure required in other sections (e.g. remuneration)
- Reporting with respect to related party transactions
- Full reporting on provisions and contingent liabilities

#### **Environmental disclosure**

- Disclosure of environmental policies and management systems
- Disclosure of key environmental risks of the company
- Disclosure of provisions for environmental rehabilitation including mitigation, legal compliance and the implementation of Environmental Management Systems (EMS)
- Disclosure on any instances of legal non-compliance and the measures taken to rectify the situation.
- Disclosure on resource usage, with particular focus on energy and water
- Disclosure on environmental impact, waste and emissions management.

#### **Disclosure on Social and Economic Issues**

##### **1. Labour Force**

- Strategy towards human capital management, succession planning, training, staff retention and skills development.
- Labour turnover
- Fair remuneration and minimum wages
- Training and use of the training levy
- HIV/AIDS and other pandemics

- Occupational health
  - Pension fund obligations
  - Absenteeism rates
  - Workplace deaths/injuries
- 2. Customers**
- Customer/consumer protection
  - Labelling practices
  - Predatory practices and “red lining”
- 3. Suppliers**
- Procurement practices
  - Payment practices
  - Ethical trade
- 4. Human Rights**
- Operations in other countries, particularly countries whose governments have been cited as having poor human rights records, or who are lenient with respect to child labour.
  - Procurement from suppliers that have operations to procure from countries that may have poor human rights records or who are lenient with respect to child labour.
- 5. Society and Community**
- Corporate social investment
  - Adverse and contentious practices
- 6. Government**
- Political donations
  - Disclosure relating to the payment of royalties
  - Tax compliance

## Appendix 4: 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.

### 1. 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.

### 2. 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 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%

### 3. Collateral Management

- Collateral is maintained as per Securities Lending Agreement, 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.

### 4. Policy Review

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

## Appendix 5: 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:

<b><u>Portfolio</u></b>	<b><u>Active risk (tracking error)</u></b>
• 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
<p><b>Market Risk:</b> 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.</p>	<p>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.</p>
<p><b>Credit Risk:</b> 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.</p>	<p>Managed through diversification, yield spreads, collateral requirement or covenants.</p>
<p><b>Currency Risk:</b> 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.</p>	<p>Managed through diversification and hedging strategies.</p>
<p><b>Manager Risk:</b> 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.</p>	<p>Managed through investment and operational due diligence pre manager appointment and thereafter compliance management and ongoing monitoring of relative risk and return.</p>
<p><b>Manager Choice Risk:</b> 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.</p>	<p>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.</p>

Risk	Control
<b>Aggregation Risk:</b> 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.
<b>Liquidity Risk:</b> 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.
<b>Governance Risk:</b> 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 Modeling 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
<b>Risk of Negative Returns:</b> 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.
<b>Risk of Negative Real Returns:</b> 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.
<b>Risk of Negative Relative Performance:</b> 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.
<b>Pension Conversion Risk:</b> 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.
<b>Price Volatility:</b> 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.
<b>Benchmark Choice Risk:</b> 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 reevaluated as market developments dictate.

Risk	Control
level, to define parameters of performance for members.	
<b>Longevity risk:</b> 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.
<b>Pensioner liability funding risk:</b> 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.	<p>The major factors influencing the funding level of the pensioner liability is managed by reviewing the following factors regularly:</p> <ul style="list-style-type: none"> <li>• Discount rate or real return assumption to value liabilities</li> <li>• Asset allocation of pensioner assets</li> <li>• Mortality assumptions.</li> </ul> <p>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.</p>
<b>Asset liability mismatch:</b> 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
<b>Fraud risk:</b> 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.
<b>Operational risk:</b> 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.
<p><b>Communication Risk:</b> 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.</p>	<p>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.</p>
<p><b>Moral Risk:</b> 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.</p>	<p>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.</p>