University of South Africa Retirement Fund

Investment Policy Statement

May 2026

Table of Contents

Section 1: Introduction

This document represents the Investment Policy Statement (IPS) of the University of South Africa Retirement Fund (the Fund) and has been adopted by the Board of the Fund (the Board). The IPS is consistent with the governance principles set out in PF130 issued by the Financial Sector Conduct Authority (the FSCA) and Regulation 37 of the Pension Funds Act, 1956 (Act 24 of 1956). The chart below sets out the investment strategy control process of the Fund. The IPS sets out the key principles adopted in respect of each control process.

Regulation 37 of the Pension Funds Act requires that retirement funds implement a default investment portfolio for members who do not exercise any choice on how their retirement savings should be invested. The life stage model design refers to the default investment strategy for members who are either uncomfortable or unwilling to choose their own investment strategy. A separate investment objective and risk budget is set for each investment channel that makes up the life stage model.

The Fund’s investment strategy needs to comply with various statutory and guidance provisions. Compliance with these requirements is confirmed in Appendix A. The document is supplemented by several annexures, which provide more detail on the derivation of the core principles and also cover the more operational aspects of the strategy.

Section 2: Fund overview

2.1. Nature of the Fund

The Fund is primarily a defined contribution arrangement, meaning that the member's benefits depend solely on the contributions set aside as retirement savings plus investment growth thereon, but with a modest defined benefit underpin for most members who joined the Fund on or before 1 September 1996. On retirement from the Fund, the member may elect to receive any combination of a life and/or living annuity from the Fund or to secure a pension from a registered insurer.

The Fund is open to new entrants, and the membership consists of employees of the University of South Africa (Unisa), Universities South Africa (USAf) and the Purchasing Consortium Southern Africa (PURCO SA). These are all universities or organisations that operate in higher education in South Africa and any other employer permitted in terms of the Rules of the Fund. A summary of the key characteristics of the Fund's membership is set out in Annexure 2.

2.2. Governance by the Board

The Board of Trustees retains ultimate fiduciary responsibility for the governance and oversight of the Fund and its assets. The Board shall at all times act in the best interests of members and beneficiaries and shall exercise due care, diligence and good faith in the execution of its duties.

The Board is responsible for determining the Fund's investment objectives, risk tolerance and long-term strategic asset allocation. It shall approve this Investment Policy Statement and review it at least annually, or more frequently if circumstances require. The Board shall ensure that the investment strategy is consistent with the Fund's liabilities, regulatory requirements and the overall best interests of members.

The Board shall appoint appropriately qualified service providers, including investment consultants, asset managers, custodians and administrators, and shall formally document the terms of such appointments. The Board shall monitor the performance and compliance of all appointed service providers and take corrective action where necessary.

The Board shall ensure that appropriate risk management frameworks are in place, including the monitoring of market, credit, liquidity, concentration and operational risks. The Board shall also ensure that the Fund remains compliant with all applicable legislation and regulatory requirements.

The Board has delegated the responsibility for the oversight of the Fund's investments to its Investment Committee, subject to the mandate set out in Annexure 1. The Investment Committee's powers are limited to making recommendations to the Board. The Board retains control over strategic issues related to the investment strategy and has the authority to implement the strategy and deal with operational matters. The Board also appoints the Fund's custodian, investment consultant, investment administrator and investment managers.

The Board recognise that they are not experts in the field of investments. To deal with this position the Fund has appointed external advisors and investment managers. Among other functions the investment consultant will assist and advise the Board to bridge the gap between them and the investment managers as well as investment matters. The investment consultant holds the "trusted advisor" position and will be selected based on their expertise and commitment to operate free from any conflict of interest in advising the Fund. The investment consultant is required to disclose any conflict of interest, the implications of which must be fully considered by the Board.

2.3. Principal Officer

The Principal Officer (and by implication the Office of the Principal Officer) shall be responsible for ensuring that the Board's decisions are implemented effectively and in accordance with applicable legislation.

In fulfilling this role, the Principal Officer shall ensure that all Board resolutions are properly executed and that the Fund operates in accordance with the principles set out in this Investment Policy Statement and the approved investment strategy. The Principal Officer shall further ensure that the Fund remains compliant with all applicable legal and regulatory requirements, including any directives issued by the regulatory authority.

The Principal Officer shall coordinate matters requiring Board consideration, prepare, and submit appropriate recommendations and supporting documentation to facilitate the Board's informed decision-making. The Principal Officer shall maintain regular engagement with the Fund’s investment consultants, asset managers and other service providers, overseeing their day-to-day interactions with the Fund and ensuring that accurate, complete and timely reports are submitted to the Board to enable effective oversight.

The Principal Officer shall not exercise discretionary investment authority unless such authority has been formally delegated by the Board.

2.4. Investment Consultants

The Investment Consultant shall provide independent, objective and professional advice to the Board in relation to the Fund’s investment objectives, strategy and implementation.

The Investment Consultant shall advise the Board on the formulation and periodic review of the Fund’s investment objectives, strategic asset allocation and risk parameters. Where appropriate, the Investment Consultant shall conduct asset-liability modelling and other analyses to support strategic decision-making.

The Investment Consultant shall conduct research and due diligence on prospective and existing asset managers and funds, and shall make recommendations regarding the appointment, retention or termination of such managers and or funds. The Investment Consultant shall monitor the performance of appointed asset managers and funds against agreed benchmarks and risk parameters and shall provide the Board with regular written performance and risk reports. The Investment Consultant will also provide relevant market information that may affect the investment strategy.

The Investment Consultant acts in an advisory capacity and shall not exercise discretionary control over Fund assets.

2.5. Investment Managers

Assets shall be allocated to professional investment managers in accordance with the manager configuration set out in Annexure 7: “Manager Configuration” of this document, and in alignment with the approved Investment Strategy of the Fund. Each Investment Manager shall be assessed against performance benchmarks that reflect the objectives, risk profile and strategic role that the respective portfolio is intended to fulfil within the overall asset allocation framework.

In recognition of their fiduciary responsibilities to the Fund, the Investment Managers shall invest the assets under their control in accordance with the applicable mandate agreement, this Investment Policy Statement, prevailing regulatory requirements and prudent investment practice. Investment Managers shall exercise due care, skill and diligence in the management of portfolio risk and shall ensure appropriate diversification, liquidity management and adherence to mandate constraints at all times.

Investment Managers shall implement investment decisions, execute transactions and manage the portfolios on a continuous and discretionary basis within the scope of their mandates. They shall monitor ongoing compliance with mandate guidelines and applicable regulatory limits and shall promptly report any material breaches or deviations to the Board or its duly appointed representatives.

Each Investment Manager shall provide regular performance and risk reports, including portfolio returns, benchmark comparisons, risk metrics and performance attribution analysis. Representatives of the Investment Managers shall be available to attend Board meetings or investment committee meetings as reasonably required.

2.6. Custodian

The Custodian shall hold all securities and cash in segregated accounts in the name of the Fund and shall maintain accurate records of ownership. The Custodian shall ensure the proper settlement of transactions executed by the Asset Managers and shall process all corporate actions, income distributions and related entitlements.

The Custodian shall maintain cash accounts, facilitate payments and ensure accurate reconciliation of holdings with the Asset Managers and the Investment Administrator. The Custodian shall provide independent reports of holdings and valuations and shall notify the Fund of any discrepancies or irregularities identified. The Custodian shall not make discretionary investment decisions on behalf of the Fund.

2.7. Investment Administrators

The Investment Administrator shall be responsible for the Fund's investment administration functions. In this capacity, the Investment Administrator shall unitise the portfolio to assist the Fund in accurately calculating and determining member fund credits and allocating liabilities.

The Investment Administrator shall further support the Fund and the asset consultant in reporting on the underlying investment portfolios, including providing data for the preparation of investment reports and monitoring compliance with Regulation 28 and any other applicable regulatory requirements.

In addition, the Investment Administrator shall assist the Fund in implementing its cash flow management processes to ensure the efficient execution of investments and disinvestments, as well as the timely rebalancing of the portfolios in accordance with the approved investment strategy.

Section 3: Mission

3.1. Mission statement for in-service members

The Fund's purpose is threefold:

- Primarily the Fund exists to provide long serving members who have preserved their benefits throughout their working lifetime with reasonable retirement benefits. Specifically, the Fund targets (but does not guarantee) that a member with an average career progression[1] and 35 years of service, and who set around 18% of pensionable salary aside as retirement savings, should retire with a pension of around 75% of his/her pensionable salary at retirement at age 65.

- The secondary purpose of the Fund is to provide a vehicle whereby employees can make provision towards retirement on a cost and tax effective basis, using the bulk buying power of the membership and with oversight by the Board.

- Finally, the Fund aims to guide the investment strategy for members who are uncomfortable or unwilling to make investment decisions by offering a life stage model which is the Fund's default investment strategy. The aim of the life stage model is to provide an investment strategy that represents a reasonable balance between risk and return and that increases the chance of a member who meets specific conditions relative to length of service, retirement age and salary increase progression achieving a target net replacement ratio (NRR) of 75% at retirement age 65.

  The life stage model will be designed in such a manner that, under normal market conditions, members who invests their retirement savings according to this model should retire with a benefit close to that which they could reasonably expect allowing for any previous benefits for those members who joined the Fund later in their career.

  The Fund will engage with its members by providing helpful communication so that members can better understand their expected pension benefit and how their retirement savings can be applied to secure an income at retirement.

In addition, the Board aims to direct the Fund's investment strategy in a manner that is supportive of sound environmental, social and governance (ESG) principles with motivation of securing positive financial outcomes. The Board has outsourced the on-going ESG oversight to its appointed investment managers but requires the managers to report on how they are complying with ESG best practice and principles.

3.2. Mission statement for life annuitants

The Fund's guided annuity strategy as required in terms of Regulation 39 to the Pension Funds Act, is a life annuity. For these retirees, the Fund has a pension increase policy which targets pension increases of 50% of inflation over the long term, subject to affordability. Thus, the Fund's mission in respect of pensioners in receipt of a life annuity is to deliver the targeted pension increases of at least 50% of inflation over the long term. The same principles of seeking superior risk adjusted returns and low costs will apply to the life annuitant investment strategy.

Retirees also have the option to secure a pension that provides for future pension increases of 100% of inflation. A retiree who elects this option will receive about a 25% lower initial pension than a retiree who

[1] Members who have an above average career progression are likely to retire with a lower benefit than the target and *vice versa*.

elects the 50% of inflation option. The Fund will transition to a position whereby its guided annuity strategy (a life annuity) targets 100% of inflation by 2032.

3.3. Mission statement for living annuitants

The Fund also offers retirees a living annuity option or a combination of a life and living annuity from the Fund. A retiree who elects to receive any part of his/her pension as a living annuity is opting out of the Fund's guided annuity strategy.

The Income Tax Act limits remain applicable. The Fund limits the drawdown percentage of living annuitants on an age-related basis in order to reduce the risk of the retiree and his/her beneficiaries running out of the money. In addition, the Fund offers a default investment strategy for living annuitants.

Living annuitants may elect an own investment strategy and in this regard are allowed to invest in the same investment channels as in-service members.

Finally, the Board aims to oversee the Fund's overall investment strategy in respect of each of the membership categories above in a manner that is supportive of sound ESG principles with motivation of securing positive financial outcomes.

The mission for the living annuitants may thus be summarised as a design which is supportive of the sustainability of their income achieved through set drawdown limits and low costs, with investment options and guidance for retirees who are uncomfortable or unwilling to make investment choices.

Section 4: Core Investment beliefs

As described above, the mission of the Fund is to deliver superior risk adjusted real returns for each of the investment channels it offers. The strategy to deliver such returns is underpinned by several key beliefs that the Board has adopted in respect of how markets work.

Investment belief 1: Markets are broadly efficient, but pockets and periods of inefficiency exist

The price of an asset reflects the collective wisdom of many market participants, all of whom aim to maximise their return.[2] This means that most of the time, the price of an asset is a very good estimate of its intrinsic or fair value. However, markets are characterised by complexity and subject to human decision-making.

The complexity may cause many investors to avoid certain strategies as “too difficult,” which, in turn, may result in less efficient fair price discovery. Human decision-making is vulnerable to behavioural biases such as overconfidence, a lack of courage/boldness (since failing conventionally is more acceptable than succeeding unconventionally, where the cost of being wrong is heavy criticism), recency bias, etc. At times, these biases can intermingle in a crowded trade, resulting in an inefficient market (e.g., the Dotcom bubble of the late 1990’s).

This inefficiency in markets provides the opportunity for skilled managers to outperform, but it is not easy to do so because the manager is taking on the collective wisdom of all market participants, which is an effective pricing machine most of the time. Nevertheless, this broad belief in the efficiency of markets is why the Fund has allocated 35% of its South African (SA) equities, 45% of its global equities, and 100% of its emerging market equities and global listed infrastructure to passive (or index-tracking) strategies.

Investment belief 2: The Board believes that the investment market is a complex adaptive system

The complexity arises from multiple drivers of investment returns, e.g., interest rates, government and central bank policy, demographics, and political dynamics, whereas the adaptive component arises from market participants aiming to earn high returns and incorporating new information into their decision-making.

Complex adaptive systems are characterised by uncertainty and ignorance rather than risk.[3] Given complexity, the most productive approach is likely to be one that focuses on the simplest component of the system, namely the individual company. In addition, there is information available to do in-depth analysis and research on individual companies to form proprietary insights, rather than for the macro economy, where the same information is available to all the market participants. This characteristic improves the odds of outperforming the market for skilled stock pickers.

Investment belief 3: Uncertainty and ignorance describe the nature of markets rather than risk

[2] There are exceptions such as Central Banks that have different objectives such as managing inflation or stimulating economic growth and such different objectives may create an inefficient market where more than one party can be achieve their desired outcome

[3] Risk exists when the form of the underlying statistical distribution is known and remains stable over time.

Investment returns do not follow a known and reasonable stable statistical distribution; rather they evolve and adapt based on new information, which is uncertainty and at times unknown. This means that the widely used classic "mean variance optimisation" approach does not work well, and the investment puzzle is better characterised by better decision making under the conditions of uncertainty and ignorance.

In addition, the Board believes that there is a material difference between volatility and risk. Volatility is the variation of market prices because of changes in the collective wisdom of the market participants. In some cases, this variation arises for irrational reasons, but volatility may also arise because legislative requirements which may result in some investors being forced sellers; in other cases, the variation correctly reflects new information. The Board believes that volatility that arises for irrational reasons or because there are forced sellers in the market represents an opportunity for the Fund to buy assets at cheap prices and so are capable of being exploited.

Risk on the other hand is overpaying for an asset – the risk may manifest itself in a partial or total loss of capital in real terms. The Board believes that one of the better ways to assess the risk of a particular asset is to consider the expectation that is implicit in the current market price. In general, the higher these expectations the greater the risk and so the Fund will have a bias to invest in a contra-cyclical manner.

Investment belief 4: Diversification and resilience are useful tools in dealing with uncertainty and risk

Diversification arises to the extent that the returns of assets classes or instruments have different return drivers. In a world of uncertainty and risk, it makes sense to blend asset classes and instruments that offer such diversification benefits. However, diversification must be limited to a process that contributes positively to the return and risk payoff, noting that adding to diversification inevitably adds poorer investment ideas to the portfolio. In addition, the return drivers of a particular asset class / instrument may change over time and what was once a good diversifier may no longer be so. It is thus vital to review return drivers on an on-going basis. Resilience is the deliberate redundancy built into the system to deal with unexpected events. Most often resilience comes at too a high cost to be included in the investment strategy. However, there are times when the portfolio's resilience can be improved at a low cost at which time the Board will actively look to exploit this opportunity.

Investment belief 5: The Board believes in long term investing

- The Board believes that adopting a long-term investment horizon represents a significant advantage compared to most other investors in that such a long-term horizon allows the Fund to: Ride out short-term fluctuations in returns and so benefit from the value of time diversification – as per belief 4, asset returns are noisy or volatile in the short term. Long-term investors have the luxury of knowing there are no short-term funding or liability issues and can earn risk premiums that manifest more reliably but only over longer measurement periods.
- Being able to profit from periods of elevated risk aversion or short-term mispricing – over long measurement periods risk is usually reasonably stable. When prices are low, risk aversion is high and so investors bid down prices in order to receive higher future investment returns. For a long-term investor, the risk aversion remains reasonably constant and so it can take advantage of periods of low prices within acceptable risk levels.

- Take advantage of illiquid investment opportunities. However, it is noted that acquiring illiquid assets comes at the cost of not being able to reduce exposure if the asset has performed well (although liquidity improves when an asset has done well because pro-cyclical investors want a part of the action) and not having “dry power” to buy distressed assets during bad times. It also limits the ability of the Fund to exit a mistake.

Having said the above, the Board believes that it is essential to have the flexibility to exploit short term opportunities as and when they arise and so the Board will also invest in strategies which are more opportunistic in nature.

Investment belief 6: The investment strategy must target a return which is in excess of inflation

The member needs to plan for a benefit related to his or her pensionable salary at retirement. Pensionable salary is closely correlated to inflation and therefore the liabilities of the Fund are inflation related. Accordingly, the primary objective of the various investment channels offered by the Fund must be set relative to inflation. Out-performance relative to a strategic asset allocation or peer group is an important secondary objective.

In the same vein, the primary requirement of a retiree is to receive a lifetime income that retains at least part its purchasing power.

Investment belief 7: The Board believes that investment manager skill is rare and that a qualitative approach is best for assessing manager skill

The Board considers investment management to be a highly competitive industry and as in all competitive environments there are relatively few consistent winners. In order to identify such skill a strong qualitative approach is required which focuses on identifying managers that have a meaningful and relatively easy to understand competitive edge to the market. Such a competitive edge may be founded in an intellectual edge, better quality of research than other market participants and exploiting the mistakes most other investors make. The investment firm’s organisational culture is also a key driver of allowing skilled managers to ply their trade successfully.

The Board further believes that it is not sufficient for the manager to have a discernible competitive edge and sound organisational culture; the firm must also strongly align their interest with that of the Fund.

Environmental Social Governance (“ESG”) beliefs

This section sets out the Board’s ESG beliefs which are a subset of its core investment beliefs.

ESG matters

The Board firmly believes that society needs to ascribe to a system in which “what we take from the land must be given back” and that the structure of society must promote fairness and transparency.

Investee companies whose business models don’t incorporate these principles are more likely to fail over the long term. However, company management is not tone deaf and to survive almost all will adapt their models to incorporate ESG considerations. The key issue for companies that face significant ESG headwinds is whether they can transition their business models successfully to compete in a world that will examine ESG practices closely. On the other hand, there is a significant upside for companies that are able to solve climate change problems and/or whose business model leads the market on ESG factors.

Naïve ESG themed investing is unlikely to result in superior long-term returns

The market is efficient and any information related to ESG consideration is likely imputed into the price. It also seems somewhat unlikely that an investment thesis that is easy to adopt (i.e. “invest in good”) is likely to be a source of long-term out-performance.

The belief that naïve ESG themed investment is unlikely to deliver superior long-term returns is supported by the research of the highly rated team of Dimson, Marsh and Staunton.

No exclusions applied

It follows that, considering the above, the Board believes that ESG considerations are vital in assessing the intrinsic value of a company. The Fund outsources this analysis to its investment managers who are expected to handicap or advantage companies on the basis of how they evaluate ESG factors to impact on intrinsic value. Given the limited opportunity set for South African equities and the economy’s current dependence on fossil fuels, no exclusions will be applied. Nevertheless, as per the below, the manager is expected to engage with its investee companies on ESG issues, particularly where the manager is likely to hold the counter for a lengthy period.

Importance of engagement

The Board believes that active engagement with company management adds value. This responsibility, together with voting on the companies that the Fund owns directly or indirectly via collective investment schemes, is delegated to the Fund’s investment managers. Active engagement includes pushing management on ESG issues as positive changes in ESG practices beyond the market consensus view is likely to translate into positive price performance. The failure to achieve positive results through engagement may also be a factor that leads to the manager selling their holding.

Most managers provide a Stewardship Report on an annual basis and this report, together with periodic manager meetings will be used to evaluate the quality of the manager’s engagement process.

Openness to invest in opportunities that offer fair risk adjusted returns and definite social benefits

The Board is receptive to investing in more complex investment strategies that have clear social benefits, but that also offer fair risk adjusted returns.

The Board believes that it is possible to earn at least fair risk adjusted returns and deliver positive social benefits. This outcome arises because most local investors are uncomfortable or unfamiliar with investing in private market opportunities in areas such as renewable energy, commercial farming, transport, water, and digital assets. There is thus a dearth of capital for such assets, which improves the return and risk payoff.

Actively seek out climate change solutions and other innovation

The Board believes that global accords on climate change will prove to be insufficient to deal with the climate change challenge. Rather history shows that to solve the problem, a combination of legislation and innovation is needed. The Board believes that there is a significant upside to being early investors in innovations that contribute to tackling the issue. The Board will actively seek to make an allocation to such strategies, be they in the public or private markets.

It bears emphasis that capital allocated in this way focuses on the innovation characteristics of the opportunity rather than being ESG themed.

Section 5: Life stage model and guided annuity strategy

The Board has designed a default investment strategy for members who are uncomfortable or unwilling to choose their own investment strategy, the so-called life stage model. This is consistent with the requirements of Regulation 37 of the Pension Funds Act. In addition, each investment channel will comply with the requirements of Regulation 28 on a look through basis.

Consistent with the requirements of Regulation 39, the Board has also developed a guided annuity strategy which forms part of the Fund's Default Regulations Policy.

5.1. Beliefs underlying the design of the life stage model

- Most members feel that they are not equipped or alternatively not willing to make their own investment decisions; hence the need for a default investment strategy (the life stage model). This belief is backed by empirical evidence which suggests that in excess of 90% of retirement fund members in South Africa simply follow the Board default strategy.
- The Board aims to provide a reasonably balanced risk and return strategy, which under normal investment conditions, should result in satisfactory outcomes for most long serving members who retire at or around their normal retirement age. However, the Board accepts that the life stage model may not meet the financial needs of all members and hence members may exercise investment choice.
- This philosophy of a default investment strategy designed to be efficient for the majority of members, but with an "own choice" provision is called libertarian paternalism. In this instance the term "paternalism" is used in the positive sense – the Board takes actions on behalf of the member that, for most members, is expected to be in his or her best interest. The libertarian principle gives the member the choice to opt out of the paternal solution and self-select an investment strategy from the range of portfolios that the Fund offers.
- The life stage model is designed on the basis that the longer the member's investment horizon, the more risk the member can take on. The six key reasons that underpin this logic are:

  a) Whilst the member is young, he or she has relatively little money in the Fund and so the effect of a large negative return has a relatively small Rand impact on his or her retirement provision. The effect of future contributions and investment returns will swamp the effect of a large negative return whilst the member is still young.

  b) On the other hand, when the member is close to retirement, he or she has the most money in the Fund and any negative return has a large Rand amount impact which reduces the member's retirement income. In technical terms the member's retirement benefit is determined by the money weighted return (i.e. the return considering the incidence of the contributions) rather than the time weighted return. Generally, this risk becomes more acute as the member approaches retirement, but the extent of this risk depends almost entirely on the form of the pension the member elects at retirement.

  c) The life stage model is designed to be consistent with the Fund's guided annuity strategy and the pricing basis of the Fund's life annuity. The return and risk profile of the Fund's Stable Portfolio is most consistent although not a perfect match, with this pricing basis. Accordingly, the model allocates the member's money to a combination of the Stable and Income Protection Portfolios pre-retirement, with the latter portfolio considering that retirees typically take part of their benefit in cash.

d) The level of investment risk a member should take is related in part to the flexibility the member has. A member who is a long way from retirement can increase his or her retirement savings if he / she considers that his / her retirement provision is inadequate. Alternatively, the member can plan to work longer. On the other hand, a member closer to retirement has much less flexibility to change his / her retirement plans and therefore a more certain investment return is desirable.

e) The benefits of time diversification – the argument here is that over the long term “things average out” and provided that a member does not buy assets at a price far in excess of fair value, then over time the premium for a riskier asset will come through thus reducing the cost of providing for retirement.

f) It facilitates easier retirement planning if the member’s expected investment return in the period just before retirement is more certain.

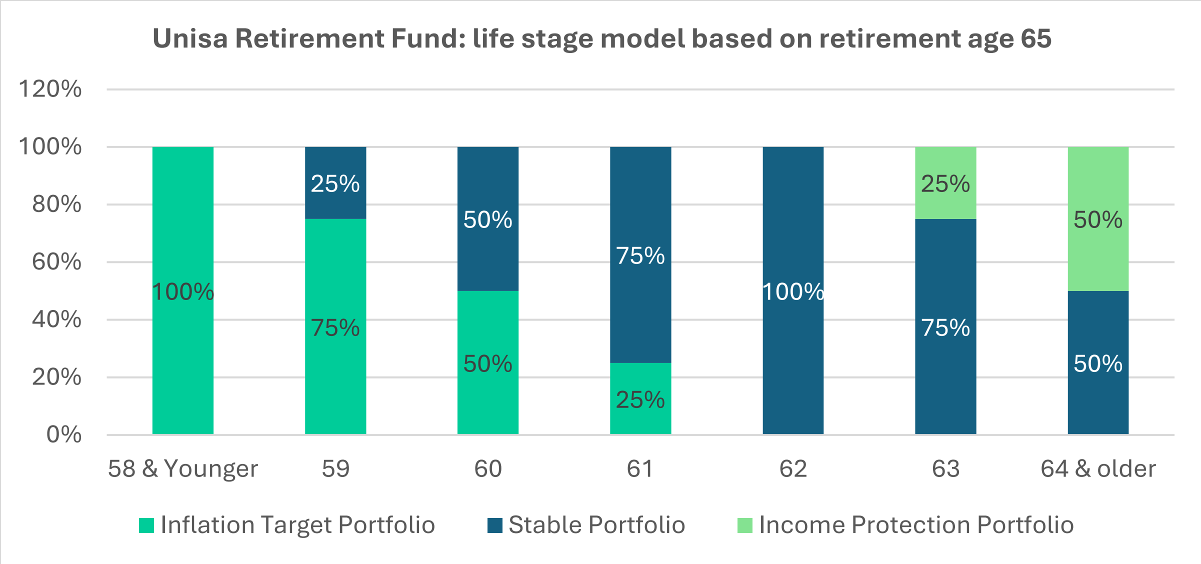
The implication of the above is that the life stage model will follow a glide path from a higher expected return and riskier strategy at younger ages to a conservative strategy closer to retirement.

- Consistent with the above, whilst the member is some way from retirement, the main risk he / she faces is that his / her retirement savings do not earn a sufficiently high return compared to inflation (“inflation risk”) to secure his / her targeted benefit at retirement whereas the closer he / she gets to retirement protecting the terms on which he / she has to secure a pension becomes more important (“pension conversion risk”).

5.2. Life stage model design

The Fund has adopted a three-portfolio life stage model with the three channels being:

- Inflation Target Portfolio – investment horizon at least 7 years and a targeted real return of 6.0% p.a. over rolling 7-year periods, net of investment management fees and charges.
- Stable Portfolio – investment horizon of 2 to 5 years and a targeted real return of 3.5% p.a. over rolling 3-year periods, net of investment management fees and charges.
- Income Protection Portfolio – investment horizon 1 year or less and a targeted real return of 1.5% p.a. over rolling 1-year periods, net of investment management fees and charges.
- The diagram overleaf sets out the structure of the life stage model of the Fund which is based on the principal employer’s normal retirement age of 65. Please note that in respect of USAf members (a participating employer in the Fund) and disability income claimants arising up to 30 June 2015, normal retirement age is 60 and so the life stage model is rolled back five years to be consistent with this earlier normal retirement age. Each investment channel will comply with the requirements of Regulation 28 on a look through basis.



Notes:

- The life stage model as per the diagram was implemented effective 1 August 2022. However, for members that were within two years of normal retirement age at this date, the pre 1 August 2022 ("old") life stage model will still apply. This period has expired on 1 August 2024.
- The model is designed around the normal retirement age of the member as notified by the employer.
- The member's accumulated savings will be transitioned according to this model at the end of the month in which he or she has a birthday.
- On-going retirement saving contributions will be invested in the same proportion as the Member's accumulated retirement savings (i.e. according to the model above) starting one month prior to the month in which the member has his or her birthday.
- During the transition period, the member's accumulated retirement savings (or Fund Credit) will be invested more or less in the percentages set out above (depending on the relative performance of the portfolios).

Members can also elect the life stage model with a retirement age of 55, 60 or 65. The default retirement age for members who don't nominate their retirement age is age 65 except in respect of USAf members and disability claimants who became disabled before July 2015, where it is age 60. Deferred pensioners (also referred to as paid-up members in the regulations) that resign but who retain their money in the Fund will also default to life stage 65, unless they elect otherwise.

In addition, retirees who elect to defer the receipt of their pension to a later date will remain invested according to their investment strategy applicable at their retirement date unless they elect otherwise.

The life stage model is not intended to be the optimal investment strategy for each member. Rather it aims to provide a fair balance between return and risk and should under normal market conditions result in a reasonable benefit at retirement for a long serving member. The investment risk and return payoff of the model has been designed around what the Board has assumed to be the risk appetite of the average member.

5.3. Investment choice

The Board accepts that some members may be comfortable electing their own investment strategy – they are the so-called “own choice” members. Such members may select any combination of the three life stage portfolios and the Shari’ah compliant portfolio. Members may elect a different investment strategy for their accumulated retirement savings and their ongoing (and future) retirement savings contributions, in which case they become “own choice” members. Members may apply different strategies to their Main and Supplementary Accounts. Members may change their investment strategy monthly, thereby meeting the requirements of Regulation 37 of the Act.

A member entitled to the minimum benefit underpin at retirement will forfeit this benefit if he/she becomes an “own choice” member, but retains the underpin guarantee if he/she elects a life stage model with a retirement age different from his / her normal retirement age. This restriction is required to mitigate the member's anti-selection.

The member’s investment will remain as chosen unless the member elects to invest differently. Similar to the own choice members, the living annuitants can select any combination of the Inflation Target, Stable, Income Protection, and Shari’ah Portfolios should such a retiree elect to opt-out of the Fund’s default investment strategy for this membership category.

5.4. Guided annuity strategy in terms of Regulation 39 of the Act

The Fund’s guided annuity strategy is a life annuity provided by the Fund. This life annuity provides a retiree and his or her spouse(s) with a life-long pension at a lower cost than the equivalent product from an Insurer. The life annuity provides an initial higher pension because future pension increases are expected to be 50% of inflation.

Retirees also have the option to secure a pension that provides for future pension increases of 100% of inflation. A retiree who elects this option will receive about a 25% lower initial pension than a retiree who elects the 50% of inflation option. The Fund plans to move to a position whereby its guided annuity strategy becomes a life annuity targeting 100% of inflation by 2032.

5.5. Two-pot Retirement System

The Two-pot Retirement System is implemented with effect from 1 September 2024, creating the vested, savings, and retirement pots for members on their member credit accounts in the Fund. The investment strategies that are available to members pre-1 September 2024 remain available after 1 September 2024. In time, the available investment strategies will be considered to decide whether different investment portfolios should be made available for members’ savings pot investment than for their other pots. This will also be dependent on the Fund administrator’s administration system capabilities.

Section 6: Investment return objectives

As set out in section 5, the Fund operates a three-portfolio life stage model consisting of the Inflation Target, Stable and Income Protection portfolios. In addition, the Fund offers a Shari'ah compliant portfolio for in-service members and a Pensioner Portfolio in which the assets backing the Fund's pensioner liabilities are invested.

6.1. Principles and objectives for the three life stage model portfolios

As described in section 2, the Fund has four broad categories of membership, namely defined benefit and defined contribution in-service members, paid-up members which may arise as a consequence of in-service members terminating service with the employer prior to retirement or, deferred retirees which may arise as a consequence of retirees who elect to defer receipt of their retirement benefits and pensioners (which includes life and living annuitants).

The paragraphs below set out the principles adopted in setting the investment objective for each of these categories. Note that the investment objective in each case is set relative to normal market conditions and a long-term inflation rate of 4.5% p.a., which is broadly consistent with inflation expectations embedded in South African government bond yields.

6.2. Asset class returns

The return objective and risk constraint for each investment channel is set with reference to observed long-term investment returns, the associated risk and correlation matrix for the three principal asset classes being cash, bonds, and equities, together with a subjective overlay to take due account of current market conditions. The derivation of the assumptions is detailed in Annexure 2 and is currently as follows:

Asset class	Expected real investment return p.a.	Volatility[4]
SA Private Equity	10.3%	23.2%
SA Equities	8.0%	15.1%
SA Listed Property	6.5%	18.9%
SA Private Debt	5.5%	15.5%
SA Infrastructure PE	7.6%	19.1%
SA Infrastructure PD	4.6%	11.2%
SA Nominal Bonds	5.4%	7.3%
SA Cash (Money Market)	2.8%	0.6%
Global Equities (ZAR)	6.8%	14.7%
Global Listed Infrastructure (ZAR)	5.8%	19.7%
Global Listed property (ZAR)	2.0%	27.3%

[4] As measured by standard deviation

If achieved, the above investment return objectives would, for the *characteristic member*, result in a replacement ratio at normal retirement age of some 75% of the member's pensionable salary at that time. The assumptions made regarding the characteristic member are also detailed in Annexure 4.

6.3. Objectives for in-service member portfolios

A separate investment objective is set for each of the life stage investment channels offered by the Fund. The objective for a specific channel is driven primarily by its investment horizon. Portfolios with a long-term investment horizon will have a higher expected return target as a higher proportion of riskier but expected higher returning growth assets can be allocated to such portfolios.

The investment objective for the channels will also be sufficiently differentiated to be appropriate for members with different time horizons and risk appetites. The table below sets out the typical asset allocation and associated investment horizon for the three investment channels offered:

Investment channel	Typical asset allocation	Investment horizon
Inflation Target Portfolio	70% to 80% growth assets (e.g. equities and property) and 20% to 30% fixed interest assets (mainly bonds)	At least 7 years
Stable Portfolio	45% to 55% growth assets and 45% to 55% fixed interest assets being mainly cash and enhanced cash strategies	2 to 5 years
Income Protection Portfolio	Invested only in cash and enhanced cash strategies	1 year or less

Inflation Target Portfolio – objective and risk constraint

Investment return objective: a real investment return of 6% p.a. net of all charges over a rolling measurement period of 7 years with a risk budget as measured by standard deviation of 14% p.a.

The table below shows the modelled 10% to 1% (probability column) poorest *real returns* which may be expected over a 1-year and 7-year period for this channel, assuming that the portfolio's return signature follows a normal distribution.

	1 year		7 years	
Probability	**VaR**[5]	**CvaR**[5]	**VaR**	**CVaR**
10.00%	-11.70%	-17.80%	-1.30%	-3.60%
5.00%	-16.40%	-21.80%	-3.10%	-5.10%
2.50%	-20.50%	-25.30%	-4.60%	-6.50%
1.00%	-25.20%	-29.50%	-6.40%	-8.10%

Thus, there is a 10% chance (i.e. once in every 10 years) that the real return over any 1 year will be worse than -11.7% ($VaR_{10\%}$) and should such an event occur, the expected real return is -17.8% ($CVaR_{10\%}$).

[5] The returns of all the portfolios follow a statistical distribution. In framing their risk budget, the Board is concerned about how poor outcomes can be over different measurement periods. For example, the Board may wish to estimate what the cut-off point is for the worst 10% of the returns (i.e. there is a 10% chance of the return being worse than this cut-off point). This point is called the Value at Risk for the 10% worst returns, abbreviated to VaR*10%* which is -11.7% over one year. Arguably it is not sufficient to just know what the cut-off point is, it is more complete to estimate if one ends up with amongst the worst 10%, on average, how bad could it be. This statistic is called Conditional Value at Risk. The CVaR*10%* is -17.8% over 12 months.

However, over 7 years, there is a 10% chance that the real return over any 7-year period will be worse than -1.3% p.a., and once in this tail, the expected real return is -3.6% p.a.

Stable Portfolio – objectives and risk constraint

Investment return objective: a real investment return of 3.5% p.a. net of all charges over a rolling measurement period of 3 years with a risk budget as measured by standard deviation of 7% p.a. Furthermore, the portfolio aims, but does not guarantee, to avoid a negative nominal return over any 12-month period.

The table below shows the modelled poorest *real returns* which may be expected over a 1-year and 3year period for this channel, assuming that the portfolio's return signature follows a normal distribution:

	1 year		3 years	
Probability	**VaR**	**CVaR**	**VaR**	**CvaR**
10.00%	-6.00%	-9.30%	-2.20%	-4.10%
5.00%	-8.50%	-11.40%	-3.60%	-5.30%
2.50%	-10.70%	-13.40%	-4.90%	-6.40%
1.00%	-13.30%	-15.70%	-6.40%	-7.80%

In addition, there is about a 10% chance that the nominal return over any 12-month period will be negative, and if such an event occurs, the expected nominal return is -3.5%.

Income Protection Portfolio – objectives and risk constraint

Investment return objective: a real investment return of 1.5% p.a. net of all charges over a rolling measurement period of 12 months with a risk budget as measured by standard deviation of 2.0% p.a.

The portfolio aims to provide a high degree of certainty about the return over the next 12 months and has an extremely low risk of a nominal capital loss over any 12-month period.

Shari'ah Portfolio – objectives and risk constraint

Investment return objective: a real investment return of 3.5% p.a. net of all charges over a rolling measurement period of 7 years with a risk budget as measured by standard deviation of 14% p.a.

The Shari'ah portfolio must comply with Islamic law. This investment channel does not form part of the default investment strategy and is an own choice portfolio.

6.4. Investment objective for the Pensioner Portfolio

The Pensioner Portfolio is only applicable to pensioners in receipt of a life annuity from the Fund.

Investment objective: The Pensioner Portfolio aims to out-perform the present value of the expected pension payments, making provision for pension increases of 60% of inflation (i.e. higher than the 50% of inflation as per the Fund's pension increase policy) priced off the South African government bond yield curve by 1% p.a. over a 10-year period with a tracking error of less than 4% p.a. Should this objective be achieved, the Fund should be able to afford pensioner increases of closer to 75% of inflation, noting that the Fund will retain its current pension increase policy of 50% of inflation.

The Pensioner Portfolio is managed employing a liability driven investment (LDI) approach. This means that rather than consider the absolute level of investment return, the focus is on the funding level of the Pensioner Portfolio. This means for example, if the assets of the Portfolio are 100 units and the liabilities are also 100 units, it is of no consequence to the Fund if the assets earn a negative return of 10%, provided that the value of the liabilities also fall by 10%.

80% of the Pensioner Portfolio assets are allocated to the Matched Portfolio ("MP"). This portfolio is invested to deliver 60% of inflation increases on 1 April each year. However, the same 80% of the assets should aim to hedge 100% of the interest rate risk on the full pensioner liability. To illustrate what is meant by interest rate hedging, assume that at a time the value of the pensioner liabilities (providing for pension increases of 60% of inflation) is 100 units and the MP has assets of 80 units. Assume now that interest rates increase and the value of the liabilities reduces to 97 units; the expectation is that the value of the MP units will fall to 77 units, by more or less the same 3 units. Conservative yield enhancement strategies are applied to a maximum of 35% of the MP. These strategies are expected to enhance the total yield of the MP by 0.4% p.a.

The remaining 20% of assets are allocated to global growth assets (i.e. equities and property). It is assumed that these growth assets will deliver an equity risk premium (excess returns to government fixed assets) of 3% p.a., which if achieved would add 0.60% p.a. (i.e. 20% x 3%) to the portfolio's return over the risk free government bond yields. The aggregate of the yield enhanced strategies plus the 20% allocation to growth assets represent the targeted 1% p.a. out performance of the liabilities over 10 years.

The tail risk associated with the MP is the moral hazard of the South African government under-stating inflation to limit their interest cost if inflation is very high. The 20% investment offshore provides some hedge against such an outcome because the ZAR is likely to weaken significantly in such a scenario.

The LDI manager (Old Mutual) must structure the MP assets in such a way that it delivers the monthly schedule of pension payments as provided by the Fund. In this way sequencing risk is managed as the Pensioner Portfolio will not be a forced seller of assets to meet pension payments. Note: For retirees who elect to target 100% of inflation increases, the LDI strategy will be adjusted to target such a level of pension increase.

Section 7: Asset classes and benchmarks

7.1. Preamble

As per Section 6, the investment return objectives for the three investment channels have been set with reference to the three principal asset classes, namely equities, bonds and money market instruments. These asset categories have much more granularity – for example, equity type assets include *inter alia* listed and private equity, property, infrastructure assets and agriculture. Similarly, bonds consist of both listed and unlisted debt issued by sovereigns or companies. Furthermore, categorisation by region is possible, e.g. domestic, global developed world, emerging markets, and frontier markets.

7.2. Principles for inclusion of a particular asset class

The Board has applied the following principles in deciding whether to include a particular asset class in the Strategic Asset Allocation Portfolio or not:

- The Board must have a good understanding of the asset class and, in particular, of the factors driving returns and the risk premiums the specific asset class offers.
- The market price of a particular asset class is driven by a number of factors. The Fund looks to invest in asset classes whose prices are driven by different factors or more likely a different weighting to a specific factor so as to target good diversification benefits. Thus, asset classes which offer good diversification benefits will generally be an allowable asset class for investment. The factors driving the investment returns of the main asset classes are set out in Annexure 5.
- In addition to selecting asset classes on the basis of their returns being driven by different factors, the Board will seek to build a diversified portfolio by allocating assets to a wide range of risk premiums. The possible nature of the premium per asset class is also set out in Annexure 5.
- The allocation to a particular asset class needs to comply with the restrictions of the Pension Funds Act and, in particular, Regulation 28 of the Act.
- A maximum of 15.0% of the Fund will be invested in unlisted equity, hedge funds, property, and private equity arrangements (The maximum investment in any private equity and hedge fund is limited to 5% of the portfolio market value).
- For investments in long term themes, a thorough due diligence and risk assessment needs to be undertaken.

7.3. Benchmarks per asset class

In the case of listed assets, a published market capitalisation index will be available. The Board will select a market capitalisation benchmark that is a reasonable representation of the universe from which investments can be made.

In the case of unlisted assets, a suitable published benchmark may not be available. In this case, the Board will set the benchmark with reference to the underlying nature of the assets (i.e. equity, bond, or money market) plus an appropriate premium to reflect the specific risks taken on. The current asset class benchmarks adopted by the Fund are set out in Annexure 5.

Section 8: Asset allocation

8.1. Strategic Asset Allocation

The Board has set a Strategic Asset Allocation (SAA) for each investment channel. The strategic asset allocation represents the mix of asset classes expected to generate returns over the long term, consistent with the investment objective of that investment channel. The expected risk for the Strategic Asset Allocation also sets the risk budget for the relevant investment channel.

The Strategic Asset Allocation reflects a "do nothing" or passive approach, and the calculated investment return and risk for a particular investment channel (using the benchmark return for each asset class) represents the return that would have been earned had the Fund simply invested in accordance with its Strategic Asset Allocation.

For the Pensioner Portfolio, the Liability Benchmark Portfolio is calculated based on the life expectancy of the pensioners (and their beneficiaries), allowing for 60% pension increases on 1 April each year and the South African government nominal and inflation linked bond curve.

8.2. Methodology for deriving the Strategic Asset Allocation

In deriving the Strategic Asset Allocation for an investment channel, the Fund has used a combination of quantitative techniques (re-sampled mean variance optimisation) and subjective judgement.

The Board believes that a quantitative technique is based on too many assumptions and therefore the results of such a model should be interpreted with a common-sense overlay. The Strategic Asset Allocation set for each investment channel is therefore not positioned as the optimal solution; rather, it represents a sensible approach which is expected to deliver reasonable outcomes under normal market conditions over the measurement period of the channel.

However, if the Board assesses a particular asset class to be very expensive or very cheap, it could revise the Strategic Asset Allocation materially on the basis that there is an assessed high probability that the specific asset class will move towards its fair value over a period of around three to five years. This medium-term approach to asset allocation is called dynamic asset allocation and taken with at least a three year view because it may take a long time to revert to their normal state.

Section 9: Portfolio construction

9.1. Active versus passive management

The Board believes that the market is broadly efficient and for this reason it has allocated 35% of South African, 45% of global equities and 100% of emerging market equities to index strategies. In addition, the Fund's exposure to global listed infrastructure is managed on a passive basis.

In respect of the active manager component of the strategy, the Board takes the view that it, together with the investment consultant appointed, have a reasonable chance of identifying skilled investment managers that can exploit market inefficiency.

9.2. The asset allocation decision

The Board recognises that if it was possible to get the asset allocation decision right, significant value can be added in the form of higher return and/or reducing risk.

The Board will seek to add value via asset allocation in the following ways:

- The Board via its Investment Committee will review the Strategic Asset Allocation for each investment channel on at least an annual basis to assess whether the allocations remain appropriate considering the Fund's objectives, liability profile, risk tolerance, liquidity requirements, and prevailing market conditions. The review process will consider, inter alia, changes in the Fund's liabilities, membership profile, cash flow requirements, expected risk and return assumptions, regulatory developments, and the broader economic and investment environment. Where necessary, the Board may amend the Strategic Asset Allocation to ensure continued alignment with the Fund's long-term investment objectives and the interests of members
- Within a particular asset class, the mandate given to the specialist manager could allow investment of a specified percentage of the assets in cash if the manager regards the asset class as expensive.

Having dealt with the asset allocation decision in the manner described above, the Board will appoint specialist asset managers for each asset class, but it may use multi-asset class products if this represents the best implementation route.

Given the difficulty in getting the asset allocation decision right on a consistent basis, the Board will maintain an asset allocation quite close to the strategic asset allocation (except at assessed market extremes) and as such most of the value add and risk reduction is expected to be generated from instrument selection rather than asset allocation.

9.3. Specialist asset managers

The Board believes that specialisation in a particular asset class is likely to be a competitive advantage in a field as diverse and complex as investments. Hence, as described above, the Board has appointed specialist asset class managers for almost all mandates.

It is noted that if the amount to be invested in a particular investment channel is small, the Board will prefer multi-asset class mandates on the basis that the associated implementation difficulties argue against the use of specialist mandates.

9.4. Investment approach blending

There are three principles which inform the Board's approach to blending different investment approaches, namely:

- A portion of the South African and global equity allocation will be managed on a passive basis, thus reducing the "tracking error" to the benchmark and keeping costs low.
- The most robust approach to blending managers that constitute the active management component of the strategy is to combine skilled managers that approach the market differently and where there is little overlap in their shareholdings. In this way, each manager can hold a portfolio that is very different from the benchmark (called a high "active share" portfolio), with the aggregate blend having a high active share but the combination of the managers being largely neutral on factors such as country exposure, sector exposure and style. In this way, stock picking rather than macro factors drive the portfolio returns.

It is possible to follow this approach in relation to global equities where there is a deep opportunity set; this is the approach that the Fund has adopted. However, in narrow markets like South Africa the efficacy of such blending is reduced.

- Selecting skilled investment managers is difficult and to diversify against selection error the Fund will appoint more managers rather than fewer. The constraint on diversification is that one reaches a point where the blend represents an enhanced index strategy but at a very high cost. Accordingly, blending of active managers should be done to the extent that it keeps the active share high. Naturally, in the deep global markets the Fund can appoint more managers than in the narrow South African market.

It is highlighted that the above principles apply to the equity asset class, noting that the same principles can be used, but to a lesser extent, in appointing fixed interest managers. The current specialist mandates and the blending of investment approaches per investment channel are set out in Annexure 7.

Section 10: Manager Selection, Review and Termination

10.1. Qualitative assessment of managers

The Board will place a higher weighting on qualitative considerations in appointing its investment managers and so assign a lower weighting to past performance. The reason for this approach is that in a highly competitive industry only a small proportion of managers have exceptional skill and given the uncertainty in anticipating future returns, the very good observed performance by a particular investment manager could just as well be attributed to luck as opposed to skill, particularly over shorter measurement periods.[6]

The qualitative analysis must however be supplemented with a good quantitative analysis to better understand how the manager generates its performance and to check that the manager's holdings are consistent with the investment approach the manager claims to follow. The quantitative analysis will include an understanding of whether the manager's performance is due to getting a few big decisions right (less attractive) or more ideas contributing to the performance (a better outcome), the manager's performance under different market conditions (upside capture and downside protection), risk taken on (tracking error) for return generated, consistency between the counters held in the manager portfolio to their stated investment approach, etc.

10.2. Criteria for selecting managers

The Board has adopted the following criteria for the selection of an investment manager:

- The manager's Black Economic Empowerment credentials which must be consistent with the Fund's Transformation Policy. This applies to South African asset managers.
- The manager must be assessed to have a discernible competitive edge to the market. This edge could take form of inter alia an intellectual edge, superior research giving rise to an information advantage and/or avoiding the mistakes other investors routinely make (i.e. a behavioural advantage). The competitive edge should be expressed via superior idea generation and portfolio construction.
- The assessed skill of the key investment professionals together with the diversity of opinion and constructive challenge within the team. The empirical evidence suggest that different perspectives and diverse opinion improve the quality of decision-making for complex adaptive problems.
- The manager should be part of a firm that has superior investment driven culture which has at its core the objective of delivering outstanding investment results for its clients. Characteristics of a superior investment culture may include a meritocracy that is regarded as fair, the ability to work together as a team, openness and transparency, and importantly giving power to the individuals that drive strong performance to clients as opposed to gathering assets.
- The manager must have strong portfolio construction skills which includes position sizing, buying and selling disciplines and careful management of risk to limited unintended aggregation of risks within the total portfolio.

[6] Over longer measurement period the luck starts to even out and a greater weighting can be attached for past performance in assessing manager skill. There are however very few managers with a long enough track record investing with the same approach and the same key decision-makers with materially similar assets under management.

- The firm should have an impeccable standard of ethics and should align their interest with that of the Fund. This includes a consideration of the investment management fees.
- Where the manager adopts a long-term investment horizon, they must allocate sufficient time and thought to the consideration of ESG factors in selecting the instruments included in its portfolio.
- The investment approach of the manager must be reasonably consistent with the beliefs of the Board and add to the intended diversification characteristics of the portfolio taking into account risk and returns.
- Fees should form a key criterion in the selection of managers and not be only negotiated once the selected managers have been identified.

The Board accepts that it will be rare to find managers that comply with all the above criteria, but the appointed managers should meet a significant percentage of the listed criteria. Furthermore, the Board understands that assessing managers against the above criteria necessarily is somewhat subjective and therefore there is a risk that the Board could over-rate a manager's skill. In order to diversify against this risk, the Fund will appoint a number of asset managers for each asset class that constitute a significant percentage of the asset allocation of the particular investment channel.

10.3. Manager Review

A formal review of an investment manager may be initiated where one or more of the following conditions are identified:

- A manager underperforms the agreed benchmark over 3 and 5-year rolling periods
- A manager performs in the bottom quartile (75th percentile) of its peer group over any annual period.
- A manager falls within the high-risk and low-return quadrant of the risk/return scatter plot for 3 and/or 5-year time periods.
- A manager has a 3-year risk-adjusted return that falls below that of the median manager within the appropriate peer group.
- Major organisational changes warrant an immediate review of a manager, including a change in professionals, significant account losses, significant growth of new business, change in ownership, regulatory issues or evidence of wrongdoing.
- Poor performance over an extended period (over rolling 3 and 5 years) if such poor performance cannot be reasonably explained by market mispricing, poor luck or a once-off "extreme-event" error. Monitoring will be conducted using the Fund's investment reports.

Should a manager not meet the Fund's requirements as set out above and the criteria established by the Fund, the manager will be reviewed in accordance with the criteria outlined in section 10.4 below.

10.4. Terminating or reducing exposure to an investment manager

The following events would lead to a review and the possible termination of the manager's appointment or the down-weighting of exposure to the manager:

Criteria which may lead the Fund to terminate or reduce exposure to an investment manager or possibly termination if the Board believes it is warranted after thorough review:

- Rapid growth or decline in assets under management.
- The manager is increasing the risk profile of the portfolio significantly without being able to provide good reasons for doing so;
- Loss of key personnel, including a situation where a key decision-maker is "promoted" to a different role.
- Perceived loss of passion and focus by the key decision-maker.
- Material changes in the shareholding structure of the manager.
- Perceived adverse changes in the ethics of the manager.
- Poor policies in respect of ESG issues, especially if the manager adopts a long-term investment horizon.
- A significant exposure to a specific investment sector that cannot be reasonably justified.
- A negative change in the manager's Black Economic Empowerment rating.
- Any other matter that is perceived to affect the ability of the investment manager to carry out its mandate effectively or is considered by the Board to necessitate a review.
- Perceived changes in the alignment of interest, including the competitiveness of management fees.
- Managers who consistently perform below the median of their peer group over rolling annual periods.
- Managers who perform below the median of their peer group over three years.
- Managers with negative alphas for 3 and/or 5-year periods.
- Managers who perform below the median of their peer group over three years.
- Change in the investment philosophy and approach or a material change in the investment process.
- Change in market conditions or regulatory environment, which has the effect that the manager's investment approach may no longer be effective.

Section 11: Social responsibility

The Fund's investments will be managed in a manner that is consistent with the FSCA Guidance Note 1 of June 2019 and the King V principles.

11.1. ESG policy

The Board believes that part of its social responsibility is to manage and oversee the Fund in such a manner that it delivers superior risk adjusted returns as this outcome will increase the chances of members being able to retire with reasonable benefits.

Negative screening

The Board draws a distinction between investments that have far-reaching social implications (e.g. climate change, child labour) and investments that may have negative ethical characteristics depending on the view of the investor (e.g. tobacco, alcohol and gambling).

The Board has decided not to apply any negative screening. The most likely candidate for negative screening is a ban on investing in fossil fuel companies on the basis that their outputs are primarily responsible for climate change. However, currently, the local economy's energy supply is generated almost entirely by coal. Consequently, the economy would face enormous difficulty if all investors banned capital allocation to this sector, an outcome that the Board believes is not in the best interest of South African society.

Nevertheless, the Board is supportive of a transition plan to reduce the country's carbon footprint. To this end, the Fund will look to invest in clean energy forms (e.g. renewable energy) and will require the local investment managers that invest in fossil fuel companies to engage with the management of investee companies to improve their carbon footprint. The managers will be required to report at least annually to the Board on the outcome of such engagement. The Fund has exposure to the debt of local renewable energy projects.

Positive screening

Whilst the Board believes that positive ESG characteristics generally result in better company performance, it also takes the view that these characteristics are largely priced in by the market. Accordingly, the Board believes that investing in companies with positive ESG characteristics is unlikely to result in sustained market out-performance, although it accepts that there may be a short-term momentum effect.

ESG integration

The Board believes that investment managers need to take proper account of ESG factors in assessing the fair value of any instrument. The thoughtful inclusion of such factors is particularly important if the manager intends to hold the position for a reasonably lengthy period or owns a significant stake in the company.

Consequently, when selecting investment managers that adopt a long-term investment horizon, the extent to which the manager integrates ESG into their research process and assessment of fair value will be an important criterion.

Active ownership

The Board recognises that, as opposed to becoming an active shareholder, the investment manager has the option to sell if their firm becomes concerned about the ESG characteristics of any investee company. However, where the manager is a large shareholder, with the consequence that it will only be able to trade out of the position over an extended period, it should be a more active owner. Naturally, an investment manager whose investment thesis is partly based on improving the ESG profile of the firm also needs to take an active owner role.

The Board is of the view that a key element of active ownership is effective engagement with the company's management. Accordingly, the Board places less emphasis on the voting record of the investment manager (although this is still important) and greater store on engagement that delivers positive results. At this time, the Board delegates the voting rights to its appointed investment managers, without issuing any voting guidelines. Nevertheless, the Fund's investment managers will be required to report at least annually on their engagement with investee companies and how they have voted on the company resolutions where at least 10% of the shareholders have voted against the matter. They will also be required to report on the extent to which their voting complies with King V Principles, CRISA 1 and 2.

In addition, the Fund has exposure to a shareholder activist South African equity manager (Value Capital Partners).

Impacting investing

The Board believes that impact investing is an important social responsibility. As per the above, given the fiduciary responsibility of the Board, it will allocate capital only to investment opportunities that offer the prospect of a fair, risk-adjusted return aligned to the Fund's investment objectives. Accordingly, the Fund will not compromise investment returns in pursuit of social returns. The Board is of the view that fair investment returns and positive social returns are not irreconcilable if the current inefficiency and multiple agents sometimes observed in such investments can be eliminated.

To date the Fund has invested in the debt of renewable energy programmes in South Africa. The manager will be required to report annually on the social impact of these investments.

ESG reporting

The Board will rely on its appointed investment managers to provide at least annual reporting on company engagement and voting. Specific reporting is required for companies whose activities negatively impact the climate. In addition, where the investment has a clear social return, the manager is required to report on it.

Furthermore, the Board requires the investment consultant to report on the efficacy of the Fund's investment managers in integrating ESG into their research process.

11.2. Voting policy

The Board is of the view that the Fund's voting rights are a very important contractual right to protect its interest.

At this time, the Board has delegated its voting rights to the appointed investment managers who are expected to exercise these rights in the best long-term interest of the Fund. The Board will require its investment managers to report the following items on a periodic basis:

- How it has voted on the resolutions of all the companies in which it has invested on behalf of the Fund.
- Which annual general meetings or special shareholder meetings it has attended.
- The extent to which they subscribe and comply with the principles of the Code of Responsible Investing in South Africa (CRISA 1 and 2) and King V governance principles.

Section 12: Governance principles

12.1. Conflicts of interest

The Board accepts that conflicts of interest, whether actual or potential, is part and parcel of any investment strategy and that such conflicts, if left unmanaged, represent a material risk to the success of the Fund's investment strategy.

The Board requires full and transparent disclosure of actual and potential conflicts of interest from all its service providers and from Board members. Any breach of this requirement of full disclosure will be regarded in a serious light and may lead to the termination of the service provider's appointment or the Board member being required to resign.

All service providers are required to receive their entire remuneration from the Fund and so may not receive any direct or indirect benefit or remuneration from any other service providers associated with the Fund. Although difficult to assess accurately the Board will evaluate what the key motivator of a service provider is – the Board is looking to appoint service providers where the staff are driven by intrinsic motivators like "doing the right thing for the client", "continuous improvement", rather than financial reward.

The Board will look to appoint Investment Committee members who have the ability to challenge the advice and investment strategies of their service providers. As a further risk mitigation factor, the Fund will only invest in strategies that the Board, after due consideration, has a reasonable understanding of.

In addition, the Board and sub-committee members will comply with the conditions of Directive PF No. 8 of 2018, which deals with the prohibition of the acceptance of gratuitous benefits.

12.2. Manager fees

The Board has adopted the following principles in relation to investment manager fees:

- Costs are certain, whereas manager out-performance is only an expectation. As such, the Board aims to keep costs low but recognises that in certain circumstances it is worth paying a premium fee in order to access high skill and alignment of interest.
- The fee arrangement must reflect and promote a clear alignment between the interests of the Fund and those of the investment manager.
- The manager's fee can be structured either on a fixed fee or a performance fee basis. Where a performance fee structure is used, it must be designed in such a way that the option value of the performance fee to the manager is nil (or very close thereto). This would generally require the fee system to operate on a high-water mark basis with the reward for out-performance measuring manager skill and not capital market returns.
- As a general guideline, the manager's fee (including any performance fee) should allocate about 75% to 80% of the expected value added by the manager to the Fund (with the manager's share being 20% to 25%). There are circumstances in which a lower sharing ratio to the Fund may be appropriate, but even in these circumstances, the Fund would seek to benefit from at least 65% of the expected value added by the manager.

- All fees and costs charged by managers and or incurred in the management of portfolios (indirect fees and costs) must be fully and consistently disclosed by all managers, according to local and global standards and best practice.

12.3. Manager mandates

The Board will agree a mandate with each investment manager it appoints. The mandate will set out the performance target, measurement period and risk constraints for the manager and will also contain specific provisions to deal with potential conflict of interest situations. The various mandate conditions per asset class are set out in Annexure 8.

12.4. Use of derivatives

The Fund may utilise derivative instruments only in accordance with the provisions of Regulation 28 of the Pension Funds Act and FSCA Conduct Standard 1 of 2023. Derivatives may be used for efficient portfolio management, including risk management, hedging, and reducing investment costs, but not for speculative purposes or to create undue leverage within the portfolio.

The Board will require each of its asset managers to ensure that appropriate risk management processes, controls, reporting, and monitoring mechanisms are in place and that ongoing compliance with applicable regulatory requirements is ensured.

12.5. Monitoring

The performance of the Fund's investment channels, and the underlying investment managers will be monitored on a quarterly basis. The manner in which the Fund's investments will be monitored is set out in Annexure 9.

The investment administrator is responsible for compiling the quarterly Regulation 28 and SARB reports, while the investment consultant is responsible for verifying them and providing corrections where applicable.

The Board will obtain confirmation from its investment managers that they will, at all times, manage the Fund's assets in accordance with FSCA Conduct Standard 1 of 2023 applicable to the use of derivative instruments.

12.6. Registration of the Fund's assets and scrip lending

The Board is comfortable for the assets to be registered in the name of the Fund or to access investments via comingled (pooled) funds (e.g. insurance policies or collective investment schemes). The use of comingled funds is however subject to the conditions set out in Annexure 10.

The Fund will not engage in scrip lending where the assets are registered in its name. The Board however recognises that where the investment is via a pooled vehicle, the investment manager may be allowed in terms of the founding documents to scrip lend – in this case scrip lending is permitted provided that the terms of such lending are disclosed to the Fund before the date of the investment manager's appointment and the manager warrants that its scrip lending programme complies with the relevant legislation.

12.7. Treating Customers Fairly

The Fund's investment strategy complies with the Treating Customers Fairly principles. Specifically, the Fund provides an appropriate range of options so that individual members can meet their investment needs in most instances. Furthermore, the Board focuses on keeping costs low and provides members with complete and transparent disclosure of costs. There are no hidden fees. In addition, there are no lock-in clauses, and any limits on member choice are included only to the extent required for administrative purposes and to mitigate against anti-selection.

Section 13: Review of statement

In the normal course of fulfilling it's fiduciary duties, the Board will review the investment strategy at least annually or at shorter intervals if required. The investment strategy must be reviewed within 3 months of any of the following events occurring:

- A change in exchange control regulations affecting retirement funds.
- A change in the tax basis affecting the investment strategy of the Fund.
- A change in the Pension Funds Act or the Long-Term Insurance Act that affects investments.
- A change in the economic policy regarding inflation targeting or the mandate of the South African Reserve Bank.
- An indication that the Fund will have significant cash flow requirements (particularly outflows).
- Any extreme market event in which case the Principal Officer may convene a special meeting of the Investment Committee.

Adopted on: 18 June 2026

Prof Muthundine Sigwadi (2026-06-29 17:36:04 GMT+2)		Mr Levi Orometswe Moleme (2026-06-30 15:11:51 GMT+2)
Chairperson: Board	Principal Officer	Trustee
Date 2026-06-29	Date 2026-07-01	Date 2026-06-30

I have reviewed the investment strategy of the Fund and am satisfied that it is appropriate in relation to the nature of the Fund's liabilities.

Valuator GREG HATZKILSON

Date 7 JULY 2026

Appendix A: Checklist of compliance with legislative requirements

Compliance with Regulation 28 Principles

Clause	Requirement	Compliance	IPS /other reference
2(a)	Fund must comply with limits of Regulation 28	✓	Annexures 6 and 8
2(b)	Fund must have an IPS which is reviewed at least annually	✓	Section 13
2(c) (i)	Education of board members in relation to investments must be promoted	✓	Fund trustee training program
2(c) (ii)	Monitor compliance with Regulation 28	✓	Annexure 9.4
2(c) (iii)	In contracting Fund must consider the need to promote board based black economic empowerment	✓	Section 10.2, Fund's transformation policy
2(c) (iv)	Assets must be appropriate to liabilities	✓	Signing page and Annexure 12
2(c) (v)	Fund must do proper due diligence of processes, risk control and liquidity risk when appointing a third party manager	✓	Sections 10.1 and 10.2; Fund's DD process in selecting managers
2(c) (vi)	For foreign assets the due diligence should extend to an understanding of currency and country risk	✓	As per above
2(c) (vii)	Credit ratings may be considered in assessing risk, but the Fund's investment managers should do independent credit analysis	✓	As per above
2(c) (viii)	Board must understand how the risk profile of the Fund may change over time	✓	Annexure 9.2 plus quarterly performance report
2(c) (ix)	Sustainability and ESG factors must be considered before making an investment	✓	Sections 4 and 11 read with Annexure 8.2

Compliance with requirements of Regulation 37 – default investment strategy

Clause	Requirement	Compliance	IPS /other reference
37.1	The Fund must have a default investment strategy for DC members	✓	Section 5.2
37.2 (a)	The design of the default investment strategy must include (a) objective (b) underlying asset allocation (c) fee principles and (d) risk profile.	✓	Section 6 read with annexures
37.2 (b)	The composition of the assets and performance must be communicated to members	✓	Monthly fact sheet

37.2 (c)	Fees and charges must be reasonable and competitively priced	✓	Section 12.2 read with annexure 9.3
37.2 (d)	Fees and charges must be disclosed	✓	Monthly fact sheet
37.2 (e)	Passive and active strategies must be considered	✓	Section 9.1
37.2 (f)	No loyal bonus or other complex fee structure are permitted	✓	Section 12.3
37.2 (g)	Members must not be locked into the default portfolios	✓	Sections 5.3 and 12.6
37.2 (h)	Default strategy must be reviewed	✓	Done annually with IPS review

Compliance with requirements of Regulation 39 – guided annuity strategy

Clause	Requirement	Compliance	IPS / other reference
39.1 (b)	Provident Funds that allow a member to elect an annuity must have a guided annuity strategy	✓	Section 5.4
39.2 (a)	Guided annuity strategy must be appropriate and suitable for membership	✓	Guided strategy is a life annuity / members can opt out and elect a living annuity
39.2 (b)	Objectives, asset class composition and performance must be communicated to members	✓	Options at retirement guide and annual pension increase
39.2 (c)	Annuities have reasonable and competitive fees	✓	Section 12.3, fees much lower than insurer costs
39.2 (d)	Fees and charges and impact on benefits must be disclosed	✓	Retirement guide
39.2 (e)	Members must be given access to retirement benefit counselling	✓	Retirement guide, retirement seminar
39.2 (f)	Guided annuity strategy must be reviewed	✓	Done annually with IPS review
39.3 (a)	Permits the Fund to provide a living annuity as part of the guided annuity strategy	n/a	Fund provides the option of a living annuity, but it is not the guided annuity strategy
39.3 (b)	Sustainability of drawdowns must be monitored and communicated	✓	Fund limits drawdown on an age related basis; annual review of drawdown with living annuitant

Compliance with Guidance Note 1 of 2019 (PFA) – Sustainability of investments

Please note that the provisions of clauses 5 and 6 are advisory and not a statutory requirement

Clause	Requirement	Compliance	IPS / other reference
4.1 (a)	When IPS was approved and by whom	✓	Signature page
4.1 (b)	Frequency of the IPS reviewed	✓	Section 13
4.1 (c)	IPS must set-out policy in respect of ESG including how monitoring will be done	✓	Section 11.1
4.1 (d)	Active ownership policy	✓	Section 11.2
4.3	Investment manager mandates and reporting requirements should include provisions around ESG	✓	Section 11, read with annexure 8.2
5.1 (a)	Make a copy of IPS or an abridged version thereof on request and at no cost to any member and the participating employer	✓	
5.1 (b)	IPS should be available on the Fund's website	✓	
5.1 (c)	Annual inform members that the IPS is available on the website, noting material changes	✓	
6.3	Annual financial statements should include confirmation members that have requested a copy of the IPS have received such, material changes to the IPS should be noted, which of the Fund's asset comply with this guidance note and market value of such assets	✓	

King V Principles – Supplement for Retirement Funds as it relates to investments. The principles below are embedded in the IPS.

Principle	Requirement	Compliance
1.3	The board should ensure that the retirement fund is a responsible corporate citizen	✓
2.1	The board should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements	✓
2.2	The board should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the retirement fund and its ability to create value in a sustainable manner	✓

University of South Africa Retirement Fund

Annexures to the Investment Policy Statement

Annexure 1: Investment Committee mandate

The Board has delegated the responsibility for the oversight of the Fund's investments to its Investment Committee, subject to the Investment Committee Terms of Reference approved by the Board on 20 June 2022 and as amended from time to time. The Investment Committee's powers are limited to making recommendations to the Board, and the following is an extract of the key duties of the Investment Committee's Terms of Reference.

1.1 General

The Investment Committee, established in terms of Rule 17 of the Rules of the Fund, permanent advisory committee of the Board and fulfils the role of an objective, independent overseer and a maker of recommendations to the Board for its approval and final decision. The Investment Committee cannot enforce any decisions unless the decision is mandated by the Board in terms of Rule 17 of the Rules of the Fund. All decisions made by the Committee shall be ratified by the Board. The duties and responsibilities of the members of the Committee as set out in the Terms of Reference in addition to those duties and responsibilities that they may have as members of the Board or as independent professional Committee members.

1.2 Objectives

The Investment Committee has the following objectives outlined in the Terms of Reference:

- Supervise the investment management processes and provide reports and recommendations to the Board on investment matters.
- Assist the Board in forming its own independent and objective opinion on the effectiveness of the investment process.
- To assist the Board in reviewing the overall quality, integrity and reliability of the Fund's investment management process.
- Ensure compliance with the Financial Sector Conduct Authority (the FSCA) Conduct Standards and Guidance Notices.
- Ensure that the investment strategy of the Fund is appropriate for the Fund members.
- Ensure that the investment objectives and benchmarks are in line with the aim to ensure that members earn inflation-beating returns and reach their post-retirement outcome.

1.3 Role and Responsibilities

The Investment Committee has the following objectives outlined in the Terms of Reference:

- The Committee shall assist the Board in discharging its duties relating to the investments of the members of the Fund, the safeguarding of assets and the operation of adequate systems and control processes.
- The Committee shall assist the Board in ensuring that a formal risk assessment is undertaken at least annually to identify the various investment risks and to develop a risk mitigation strategy to ensure that the Fund manages the risks in an optimal manner.

- The Committee shall be responsible for the formulation of the Fund's investment philosophy, investment strategy and investment policy to align it with the investment objectives of the Fund and its members for approval by the Board.
- The Committee shall monitor the performance of the Fund's appointed investment consultants and managers against the Fund's investment philosophy, investment strategy and investment policy.
- In carrying out its responsibilities, the Committee shall pay due regard to the principles of governance and codes of best practice as contained in, amongst others, the King V Code on Governance in South Africa, the Treating Customers Fairly principles, PF Circular 130 and the Pension Funds Act.
- If the Committee considers it necessary, it is authorised to obtain expert advice from professional external advisors on any matters of importance to the Committee and invite such persons to attend the meetings of the Committee, subject to the prior written approval of the Board and provided further that the cost of obtaining such advice will be borne by the Fund.
- The Board has delegated the following specific powers to the Committee:
    - Overseeing the processes, procedures, decisions and resolutions in respect of investment matters of the Fund.
    - Ensuring that investments made by the Fund always meet the requirements as prescribed in the applicable legislation and regulations.
    - Examining and reviewing all investment related compliance reports, including the South African Reserve Bank (the SARB) Report prior to its submission.
    - Subject to the Board's approval, putting in place the Fund's investment policies and guidelines, including those relating to the asset classes, asset allocation ranges, credit, concentration and liquidity exposures and prohibited and unduly risky investments.
    - Assisting the Board in its evaluation of the adequacy and efficiency of the Fund's Investment Policy Statement ("IPS") and making recommendations to the Board for approval of the IPS and investment strategy of the Fund.
    - Assisting the Board in its evaluation of the adequacy and efficiency of the Fund's investment strategy and its implementation to ensure that it is appropriate for the Fund members.
    - Reviewing the Fund's investment philosophy, IPS and investment strategy at least annually or in the light of changed market and or economic circumstances and confirming such review to the Board and whether it still considers it appropriate or recommends changes to it for Board approval.
    - Developing, implementing and giving oversight to the Fund's policy and to the United Nations' Principles of Responsible Investment, ensuring that environmental, social and governance aspects are considered throughout the investment decision-making process, and with specific reference to South African and African initiatives.
    - Reviewing the performance of the Investment Consultant and Investment Managers against their mandates, and making recommendations on their appointment, retention or dismissal and negotiating and recommending to the Board the service conditions and fees of these service providers.

  - Assisting the Board in identifying and regularly monitoring investment managers, investment strategy and investment related policies and key performance indicators to ensure that its decision-making capability and the accuracy of its reporting are maintained at a high level.
  - Consulting with and seeking any information it requires from any relevant service provider who can provide appropriate information, but may not incur any fees or costs without the prior approval of the Board.
  - Meeting with the Fund's Investment Consultants and Investment Managers as and when required.
  - Reviewing all investment reports provided by the Fund's Administrator to the Board.
  - Monitoring Regulation 28 compliance where portfolios are supposed to be compliant.
  - Making recommendations to the Board for approval of the B-BBEE and transformation policy of the Fund.
  - Advising the Board on the asset and liability management of the Fund and reporting on any significant mismatches.
- The Committee is encouraged to attend training relating to investments that allow the Committee members to acquire a level of knowledge which allows them to execute their responsibilities effectively.

The Committee is independent of any of the Fund's other committees, and its members are required to always act impartially.

Annexure 2: Investment Return Objectives Setting

2.1 Process for setting the investment objectives

As per the Fund's Investment Policy Statement the return objective and risk constraint for each investment channel is set with reference to observed long term investment returns, the associated risk and correlation matrix for the main asset classes with a subjective overlay to take due account of current market conditions.

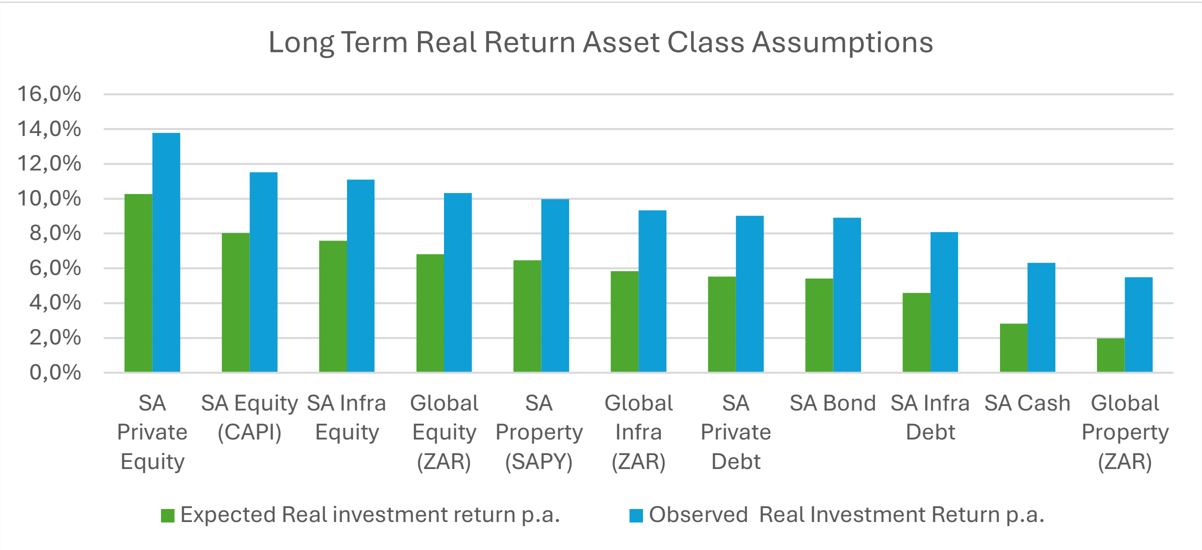
The three principal asset classes are equities, bonds and cash. All other asset classes are a derivative of one (or more) of these asset classes together with an appropriate risk premium (which could be positive or negative depending on the riskiness of the asset class compared to its South African equivalent).

2.2 Long-term investment returns

The chart below shows a rolling 5-year history for major listed asset classes over 40 years, ending 31 December 2025. The data for private markets is shorter, going back 20 years, and the global assets are in local currency (ZAR).

The historical asset class risk and returns are adjusted, where applicable, to reflect future outcomes by considering current pricing levels and asset risk premia relative to historic levels and trends:

- Testing whether the level of returns is consistent with long-run growth and inflation.
- Adjusting to changing term premiums of various asset classes.
- Factoring additional country risk premium because of rating migration assumption for investment grade (IG) and credit/liquidity risk premia and expected default loss.
- Adjusting return calculation to reflect the normalisation path to the equilibrium interest rate.
- Adjusting for changes in the macro-economic environment.
- Where applicable, sourcing from investment managers and reputable annual papers published by industry leaders.



Data for inflation-linked bonds is unavailable for this period, and it is assumed that such bonds will deliver a real return of 5.4% p.a. over the long term (i.e., inflation is assumed to be 3% p.a.).

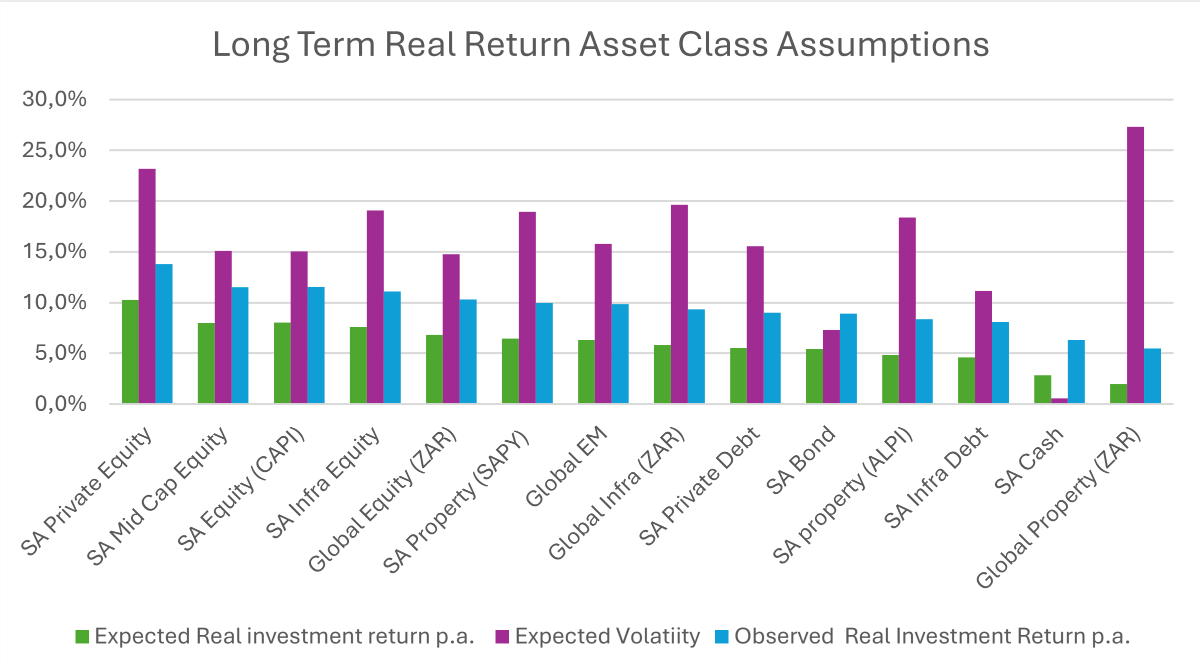
The Investment Committee has assumed that, over the long term, local and global equities (i.e., developed and emerging market equities, excluding South Africa) will deliver real returns of some 8.0% and 7.0% p.a., respectively. The Board has taken the view that historical returns, for these two asset classes, with adjustments for structural changes. are a reasonable estimate of future returns.

The Investment Committee has assumed a higher real return of 4.5% p.a. from longer-dated SA government bonds, versus the historically observed real return of 4.1% p.a. This assumption reflects a view that the political and social risks inherent in South Africa are higher and that investors will demand a higher sovereign risk premium for SA bonds.

The assumed future real return on SA cash at 1.5% p.a. is slightly higher than the historic observation (1% p.a.).

2.3 Volatility

The chart below shows the updated historical volatility over 40 years, ending 31 December 2025, for different local and global equities, as well as the expected and observed real return.



The Investment Committee is of the view that the observed level of cash volatility is likely to persist. The more extensive use of monetary policy, with the concomitant application of more stable real cash returns, has resulted in greater stability in the inflation rate, which should reduce the volatility of cash returns. The observed volatility of global equities in rand terms is 15.0% p.a. The volatility of the ZAR plays a significant role in returns expressed in local currency.

2.4 Correlations

The table below sets out the historical correlations between the different asset classes (over 40 years to December 2025):

	SA Private Equity	SA equities	SA listed property	SA Private Debt	SA Infra PE	SA Infra PD	SA bonds	SA Cash	Global equities (ZAR)	Global listed Infra (ZAR)	Global listed property ZAR)
SA Private Equity	1.000	0.965	0.422	0.265	0.995	0.265	0.247	-0.099	0.487	-0.221	0.127
SA equities	0.965	1.000	0.460	0.267	0.985	0.272	0.266	-0.103	0.510	-0.204	0.110
SA listed property	0.422	0.460	1.000	0.514	0.429	0.538	0.553	0.003	0.100	0.105	0.042
SA Private Debt	0.265	0.267	0.514	1.000	0.256	0.990	0.903	0.012	-0.146	-0.377	-0.380
SA Infra PE	0.995	0.985	0.429	0.256	1.000	0.258	0.244	-0.100	0.508	-0.204	0.133
SA Infra PD	0.265	0.272	0.538	0.990	0.258	1.000	0.954	0.031	-0.148	-0.370	-0.370
SA bonds	0.247	0.266	0.553	0.903	0.244	0.954	1.000	0.069	-0.140	-0.335	-0.330
SA Cash	-0.099	-0.103	0.003	0.012	-0.100	0.031	0.069	1.000	-0.130	-0.147	-0.008
Global equities (ZAR)	0.487	0.510	0.100	-0.146	0.508	-0.148	-0.140	-0.130	1.000	0.611	0.781
Global listed Infra (ZAR)	-0.221	-0.204	0.105	-0.377	-0.204	-0.370	-0.335	-0.147	0.611	1.000	0.909
Global listed property (ZAR)	0.127	0.110	0.042	-0.380	0.133	-0.370	-0.330	-0.008	0.781	0.909	1.000

The Board has generally assumed a higher correlation between the asset classes prospectively for the following reasons:

- The quantum of financial assets (i.e. money that individuals have to invest) has increased over time and is expected to increase in future. As more money flows into public markets in search of returns, the correlation between asset classes is likely to increase.
- With globalisation, correlations are also likely to increase as the world becomes more interconnected.

Annexure 3: Characteristic member

The investment objectives adopted by the Fund should translate into the characteristic member receiving a retirement benefit of around 75% of his / her pensionable salary. The specific assumptions made in respect of the characteristic member are:

Retirement age:	65 years, except in respect of the USAf members and disability claimants, until 30 June 2015, where the normal retirement age is 60
Service years:	35 years
Marital status:	Married with the husband being 3 years older than the wife
Spouse pension:	50% of a member's pension before commutation of any pension
Retirement savings:	18% of pensionable salary
Salary progression:	4.0% p.a. above inflation up to age 40, 2% p.a. higher than inflation ages 40 – 49 and 1% p.a. above inflation from age 50 onwards
Basis retirement capital to pension:	Based on current market pricing, 6% p.a. investment returns (expected provision for pension increases 50% of inflation)

Annexure 4: Asset class features, expected return and risk

4.1 Factors affecting Asset Class Prices

Cash offers clear diversification benefits because of the largely non-directional nature of its return. The return on cash is determined almost entirely by government policy around stimulating economic growth and/or managing inflation.

Government bonds offer diversification benefits because of their "flight to quality status" when there are significant concerns about economic growth provided that investors have confidence in the creditworthiness of the sovereign. The return from government bonds is primarily driven around government policy in the short to medium term as firstly government, via the Reserve Bank, can print or take money out of the economic system and thus set the level of interest rates. Secondly, the size of the government's budget deficit (i.e. spending over taxation revenue) determines the amount of debt the country needs to raise, with a higher deficit resulting in higher interest rates, except in the USA, which is a reserve currency.

Over the long term, interest rates are set by the economic performance of the country, with poorer performing countries having to offer higher interest rates to attract investment.

Whilst equity returns also depend on the level of interest rates, the return is more directly linked to economic growth. Economic growth is a function of government policy (e.g. taxation, labour law, ease of conducting business, competition law, etc.), natural resources, infrastructure, demographics, productivity gains and innovation. Within the equity asset class further diversification is possible because the fortunes of companies are driven by different factors (e.g. labour intensity, capital required, nature of the demand for the product and services, competition etc.) Furthermore, the equity return of a specific company will be influenced by the quality of its management.

4.2 Risk Premiums

In addition to asset class prices being driven by different factors, asset class prices are affected by the premium the market offers for taking on specific risks. The various economic risk premiums are described in the table below:

Premium	Description
Inflation risk premium	Compensation against the risk of having bought a fixed rate bond, interest rates rise as a consequence of an expectation of higher inflation.
Term premium	Compensation against the risk that interest rates rise for a bond that has been issued at a fixed interest rate for reasons other than an increase in inflation expectations. In general, the longer the term of the bond, the higher the term premium required.
Sovereign risk premium	This is the extra return that needs to be offered for the risk that the government will default on its debt. The more creditworthy the government is assessed to be, the lower the sovereign risk premium
Credit premium	Compensation for the risk that the corporate counterparty who issued the bond defaults on its debt. The quantum of the credit premium depends on the security provided against the debt and the market's assessment of the ability of the corporate to repay its debt. The credit premium is also linked to economic growth – in times when economic growth is strong, company profits make it more likely that the company will repay its debt.

In addition to asset class prices being driven by different factors, asset class prices are affected by the premium the market offers for taking on specific risks. The various economic risk premiums are described in the table below:

Premium	Description
Inflation risk premium	Compensation against the risk of having bought a fixed rate bond, interest rates rise as a consequence of an expectation of higher inflation.
Term premium	Compensation against the risk that interest rates rise for a bond that has been issued at a fixed interest rate for reasons other than an increase in inflation expectations. In general, the longer the term of the bond, the higher the term premium required.
Sovereign risk premium	This is the extra return that needs to be offered for the risk that the government will default on its debt. The more creditworthy the government is assessed to be, the lower the sovereign risk premium
Credit premium	Compensation for the risk that the corporate counterparty who issued the bond defaults on its debt. The quantum of the credit premium depends on the security provided against the debt and the market's assessment of the ability of the corporate to repay its debt. The credit premium is also linked to economic growth – in times when economic growth is strong, company profits make it more likely that the company will repay its debt.
Equity risk premium	This is the compensation that equity holders receive for standing last in line to share in the profits of the company and for being exposed to all the economic, social and legislative factors that will affect equity returns.

Premium	Description
Illiquidity premium	If an asset is less easily traded, investors need to be compensation for the risk that if they were forced to sell the asset, it would need to be at a low price because there would be very few buyers.
Insurance premium	If the Fund is prepared to provide insurance, it needs to earn an insurance premium as compensation for the risk that the claims under the insurance it provides are higher than expected.

The table below shows the risk premiums that are a function of the “governance budget” of the Board and so are more qualitative in nature

Premium	Description
Long term premium	This is the compensation that investors may receive for adopting a longer term investment horizon than other investors. It is sometimes also called the discomfort premium because of the patience and fortitude the investor requires to maintain a long term focus in spite of significant short term under-performance.
Complexity premium	Investors that allocate capital to more complex and/or less well-known asset classes need to be compensated for greater risk of making an error.
Skill premium	Investors that appoint what is assumed to be skilful investment managers need to be compensated for the risk that they assess the skill of the manager incorrectly.

4.3 Allowable Asset Classes – Factors Driving Returns and Risk Premiums

The table below sets out the Fund's allowable asset classes, assumptions and primary risk factors driving returns. Also shown is whether the asset class is included in the Reference Portfolio:

Asset Class	Key Assumptions	Primary Risks
SA Equities	Earnings growth follows the re-rating. Reform momentum continues.	Commodity price collapse. Reform fatigue.
SA Bonds	Fiscal consolidation continues. Inflation stays within the new target range.	Political shock leading to fiscal slippage. Global rate shock.
SA Property	Rental growth and lower rates drive dividend recovery. Balance sheets remain strong.	Weaker-than-expected economic growth hitting tenant health.

SA Private Equity	Exit environment improves with stronger IPO market. Value creation remains key.	Prolonged high interest rates. Difficulty in sourcing quality management.
SA Private Debt	Growing demand for bespoke funding. Attractive yield pick-up over public markets.	Credit cycle deterioration. Inaccurate pricing of default risk.
SA Infrastructure	Strong policy support. Stable, inflation-linked cash flows.	Regulatory delays. Municipal payment issues.
Global Assets	Quality growth in infrastructure/property. Manage currency risk via separation of views.	Sticky global inflation. "Higher-for-longer" rates in DM.

4.4 Risk, Return and Correlation Assumptions

The table below sets out the revised expected real return vs the observed real return over 40 years to the end of 31 December 2025, and the expected risk (measured by volatility) for each asset class:

Asset class	Expected real investment return p.a.	Observed Real Investment Return p.a.	Expected Volatility
SA Private Equity	10.3%	13.8%	23.2%
SA Equities	8.0%	11.5%	15.1%
SA Listed Property	6.5%	10.0%	18.9%
SA Private Debt	5.5%	9.0%	15.5%
SA Infrastructure PE	7.6%	11.1%	19.1%
SA Infrastructure PD	4.6%	8.1%	11.2%
SA Nominal Bonds	5.4%	8.9%	7.3%
SA Cash (Money Market)	2.8%	6.3%	0.6%
Global Equities (ZAR)	6.8%	10.3%	14.7%
Global Listed Infrastructure (ZAR)	5.8%	9.3%	19.7%
Global Listed Property (ZAR)	2.0%	5.5%	27.3%

The table below sets out the assumed correlation between the asset classes (over 40 years to December 2025), based on a combination of historical correlations and a subjective overlay. In almost all cases the assumed correlation is slightly higher than the observed statistic.

	SA Private Equity	SA Equity	SA Listed Property	SA Private Debt	SA Infra PE	SA Infra PD	SA bonds	SA Cash	Global Equity (ZAR)	Global Listed Infra (ZAR)	Global Listed Property ZAR)
SA Private Equity	1.000	0.965	0.422	0.265	0.995	0.265	0.247	-0.099	0.487	-0.221	0.127
SA Equity	0.965	1.000	0.460	0.267	0.985	0.272	0.266	-0.103	0.510	-0.204	0.110
SA Listed Property	0.422	0.460	1.000	0.514	0.429	0.538	0.553	0.003	0.100	0.105	0.042
SA Private Debt	0.265	0.267	0.514	1.000	0.256	0.990	0.903	0.012	-0.146	-0.377	-0.380
SA Infra PE	0.995	0.985	0.429	0.256	1.000	0.258	0.244	-0.100	0.508	-0.204	0.133
SA Infra PD	0.265	0.272	0.538	0.990	0.258	1.000	0.954	0.031	-0.148	-0.370	-0.370
SA Bonds	0.247	0.266	0.553	0.903	0.244	0.954	1.000	0.069	-0.140	-0.335	-0.330
SA Cash	-0.099	-0.103	0.003	0.012	-0.100	0.031	0.069	1.000	-0.130	-0.147	-0.008
Global Equity (ZAR)	0.487	0.510	0.100	-0.146	0.508	-0.148	-0.140	-0.130	1.000	0.611	0.781
Global Listed Infra (ZAR)	-0.221	-0.204	0.105	-0.377	-0.204	-0.370	-0.335	-0.147	0.611	1.000	0.909
Global Listed Property (ZAR)	0.127	0.110	0.042	-0.380	0.133	-0.370	-0.330	-0.008	0.781	0.909	1.000

4.5 Return and risk assumptions for alternative asset classes

The table below sets out the real return and risk assumptions for the alternative asset classes that will be included in the Strategic Asset Allocation:

Asset class	Expected real return	Volatility
Emerging Market Equities	6.3%	15.8%
Africa ex-SA equities	2.6%	19.3%
SA credit (average credit A+)	2.1%	3.6%

The mandate given to the equity managers allows for the investment in commodities and, in certain circumstances, unlisted equities. Allocations to such asset classes are limited and allowable as “off-benchmark” allocations, on the expectation that they will improve the manager's risk-adjusted return.

Managers with multi-asset-class mandates (applicable to the Stable Portfolio) may also allocate a small portion to hedge funds.

The above asset class will be updated once the revised SAA contained in this policy document has been adopted by the Board.

Annexure 5: Asset Class Benchmarks

As per the IPS, for listed assets, a published market capitalisation index that reasonably represents the opportunity set will be used. For unlisted assets, the benchmark will be set in reference to the underlying nature of the asset class. The table below sets out the benchmark adopted for each allowable asset class:

Asset class	Benchmark
SA Equities	FTSE / JSE Free Float Capped All Share Index (CAPI) (J303T) other than for the SA equity activist manager where the benchmark is the FTSE / JSE Mid Cap Index.
SA Listed Property	SA listed property index (ALPI) (J803T) *
SA Nominal Bonds	Bond Exchange South Africa: JSE ASSA All Bond Index (ALBI)
SA Inflation-linked Bonds	Bond Exchange South Africa: JSE ASSA Total Return Government Bond Index (IGOV)
SA Cash (in Money Market Portfolio)	STEFI Composite Index
SA Private Equity	Public market equivalent (PME) *1.25
SA Private Debt	Stefi plus 2%/ Public market equivalent (PME) *1.1
SA Infrastructure PE	Stefi plus 3%/ Public market equivalent (PME) *0.9
SA Infrastructure PD	Stefi plus 2%/ Public market equivalent (PME) *0.8
Global Equities	MSCI All Country World Index ND (MSCI ACWI ND) from 1 January 2013 onwards**
Emerging Market Equities	MSCI Emerging Market Index ND (MSCI EMI ND)
Global Listed Property	FTSE / EPRA NAREIT Developed Index (Net)
Global Listed Infrastructure	FTSE Global Core Infrastructure (50/50) Net
SA Credit (average credit A^{+})	STEFI 3-month index plus 1.0% p.a.
African ex-SA equity	MSCI EFM Africa ex-SA index ND

* The benchmark was previously the SA listed property index (SAPY) (J253T) (for Meago until 1 February 2019 and Ninety One until 1 October 2018)

** prior to 1 January 2012 MSCI World Index

Annexure 6: Default Life Stage Portfolios

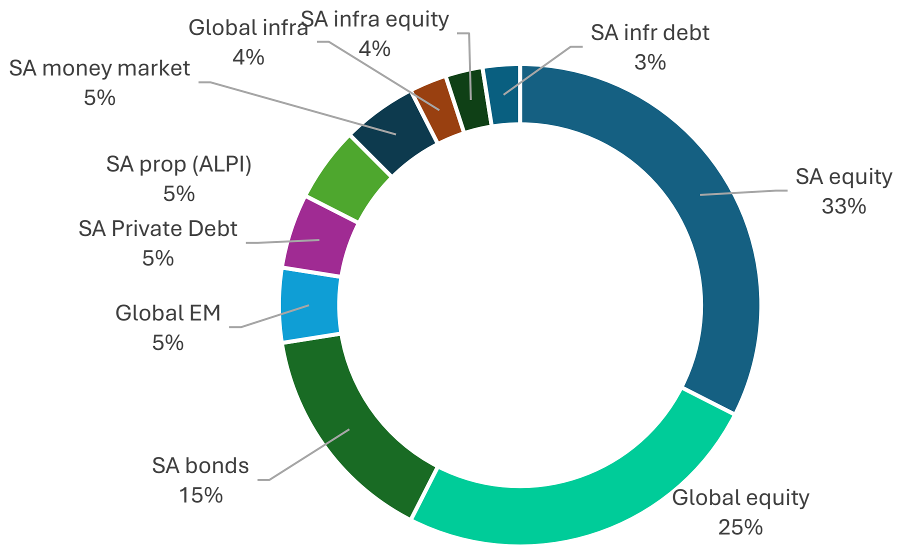
6.1 Inflation Target Portfolio

6.1.1 Investment Objective

The investment objective of the Inflation Target Portfolio is to earn a return that exceeds headline inflation by 6% p.a. net of all manager fees over rolling measurement periods of 7 years. The portfolio will be managed with an estimated variability as measured by standard deviation of 14.0%.

6.1.2 Strategic Asset Allocation and Re-balancing Rules

The chart below sets out the strategic asset allocation of the Inflation Target Portfolio.



Note: 2.5% of the SA equities is allocated to the shareholder activist strategy.

The various asset classes will be managed according to the manager configuration described in Annexure 7. The portfolio will re-balance to its strategic asset allocation according to the following rules:

Asset class	Central allocation	Allowable range
SA equity	30,0%	25.0% - 35.0%
SA equity activist	2,5%	1.5% - 3.5%
Global equity	25,0%	20.0% - 30.0%
SA bonds	15,0%	10.0% - 20.0%
Global EM	5,0%	2.5% - 7.5%
SA prop (ALPI)	5,0%	2.5% - 7.5%
SA prop (SAPY)	5,0%	2.5% - 7.5%
SA money market	5,0%	2.5% - 7.5%
Global infra	2,5%	1.5% - 3.5%
SA infra equity	2,5%	1.5% - 3.5%
SA infra debt	2,5%	1.5% - 3.5%
	100,0%	

The international exposure (including Africa ex-SA) is limited to a maximum of 45% of the total Fund assets, although temporary breaches are allowed on account of market movements, provided that they are corrected within 12 months of first having occurred (unless the SARB grants an extension). The exposure to equities is limited to 75% of the Inflation Target Portfolio.

6.1.3 Allowing for manager skill

As per the IPS the Fund will employ some active managers. The asset class manager blends are set out in Annexure 7 and are updated upon the conclusion of any strategy review. Based on the assumed level of manager skill and the strategic asset allocation (SAA), the actual performance of the portfolio is expected to out-perform the SAA by 0.60% p.a. with a tracking error of no more than 3.0% p.a. to the SAA. Thus, the target Information Ratio ("alpha ÷ tracking error) is 0.20 or 0.20% return for every 1% of risk taken relative to the SAA. These assumptions and targets will be reviewed upon completion of the manager configuration process.

6.1.4 Key result areas for Inflation Target Portfolio

- Out-perform inflation by 6% p.a. after fees over a rolling 7 year period with a variation of return of no more than 14.0%.
- Out-perform the strategic asset allocation by 0.60% p.a. after all charges, with a tracking error to the SAA of no more than 3.0% p.a., implying an information ratio of 0.20.

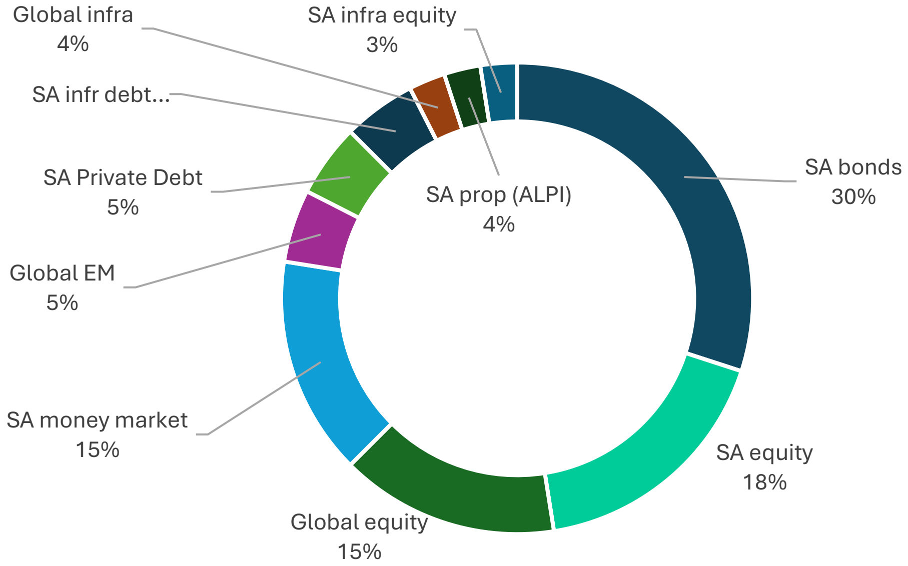
6.2 Stable Portfolio

6.2.1 Investment Objective

The investment objective of the Stable Portfolio is to earn a return that exceeds headline inflation by 3.5% p.a. net of all manager fees over rolling measurement periods of 3 years. The portfolio will be managed with an estimated variability as measured by standard deviation of 7%.

6.2.2 Strategic Asset Allocation and Re-balancing Rules

The chart below sets out the strategic asset allocation of the Stable Portfolio.



Notes: * 2.5% of the SA equities is allocated to the shareholder activist strategy. ** The enhanced cash allocation will be invested some 20% in vanilla cash strategies and 80% in enhanced cash using credit with an average credit rating of at least A+

The portfolio will be re-balanced to its strategic asset allocation according to the following rules:

Asset class	Central allocation	Allowable range
SA equity	15,0%	10.0% - 20.0%
SA Equity Activist	2,5%	1.5% - 3.5%
SA bonds	30,0%	20.0% - 40.0%
Global equity	15,0%	10.0% - 20.0%
SA money market	15,0%	10.0% - 20.0%
Global EM	5,0%	2.5% - 7.5%
SA Private Debt	5,0%	2.5% - 7.5%
SA infr debt	5,0%	2.5% - 7.5%
Global infra	2,5%	1.5% - 3.5%
SA prop (ALPI)	2,5%	1.5% - 3.5%
SA infra equity	2,5%	1.5% - 3.5%
	100,0%	

The international exposure (including Africa ex-SA) is limited to a maximum of 45% of the total Fund assets, although temporary breaches are allowed on account of market movements provided that they are corrected within 12 months of first having occurred.

The various asset classes will be managed in accordance with the manager configuration described in Annexure 7.

6.2.3 Allowing for manager skill

The Fund will employ active managers for most of the assets in this portfolio. The asset class manager blends are set out in Annexure 7 and is updated upon the conclusion of any strategy review. Based on the assumed level of manager skill and the strategic asset allocation (SAA), the actual performance of the portfolio is expected to out-perform the SAA by 0.5% p.a. with a tracking error of no more than 2.5% p.a. to the SAA. Thus, the target Information Ratio ("alpha ÷ tracking error) is 0.20.

6.2.4 Key result areas for Stable Portfolio

- Out-perform inflation by 3.5% p.a. net of fees over a rolling 3 year period with a variation of return of no more than 7%.
- Out-perform the strategic asset allocation by 0.5% p.a. after all charges with a tracking error to the SAA of no more than 2.5% p.a. implying an information ratio of 0.20.

6.3 Income Protection Portfolio

6.3.1 Investment Objective

The investment objective of the Income Protection Portfolio is to earn a return that exceeds headline inflation by 1.5% p.a. net of all manager fees over rolling measurement periods of 12 months with a risk measured by standard deviation of 2.5% p.a.

6.3.2 Strategic Asset Allocation and Re-balancing Rules

The portfolio will be invested in high quality money market instruments, and the benchmark is the STEFI Composite Index. 30% of the Portfolio will be invested in more illiquid credit instruments that have an average credit rating of AA.

The portfolio will be re-balanced to its strategic asset allocation according to the following rules:

Asset class	Central allocation	Allowable range
SA cash	60,0%	50.0% - 70.0%
SA bond	40,0%	30.0% - 50.0%
	100,0%	

The various asset classes will be managed in accordance with the manager configuration described in Annexure 7.

6.3.3 Allowing for manager skill

The Fund will employ active managers for all the assets in this portfolio. The asset class manager blends are set out in Annexure 7. Based on the assumed level of manager skill and the strategic asset allocation (SAA), the actual performance of the portfolio is expected to out-perform the SAA by 0.5% p.a. with a tracking error of 1.0% p.a. to the SAA. Thus, the target Information Ratio (“alpha ÷ tracking error) is 0.5.

6.3.4 Key result areas for Income Protection Portfolio

- Out-perform inflation by 1.5% p.a. over any one year with a variation of return of no more than 2%.
- Out-perform the strategic asset allocation by 0.5% p.a. after all charges. with a tracking error to the SAA of 1.0% p.a. implying an information ratio of 0.50.

6.4 Pensioner Portfolio
6.4.1 Investment Objective

The investment objective for the Pensioner Portfolio is to track the pensioner liability priced off the SA government nominal and real bond curve allowing for future pension increases on 1 April each year of 60% of inflation with a tracking error of no more than 4.0% p.a. This 60% is higher than the 50% of inflation set out in the Fund's pension increase policy; to maintain the principle of conservatism, the policy will remain 50% of inflation. The same objective applies to retirees that elect a pension with targeted pension increases of 100% of inflation, except that the 60% target is replaced by a 100% of inflation target.

The risk budget of 4.0% p.a. is used mainly to fund investments in global growth assets, with the expected additional return from these asset classes, together with yield enhancements on the Matched Portfolio, being sufficient so that the Fund can target pension increases of 75% of inflation over a 10 year period (110% of inflation for retirees that elect a target of 100% of inflation increase), which is well above the communicated increase policy of 50% (and 100%) of inflation.

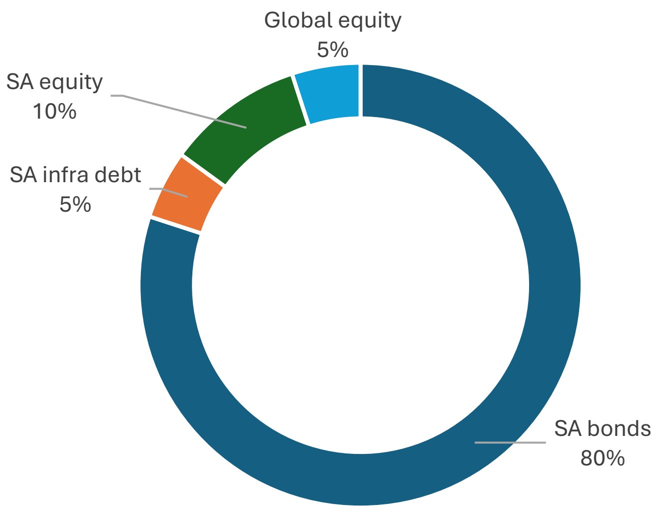
6.4.2 Liability Benchmark Portfolio

The Liability Benchmark Portfolio is a mix of SA government issued nominal and inflation linked bonds which will closely match the schedule of pensioner cash flows allowing for future pension increases of 60% of inflation on 1 April each year.

6.4.3 Strategic Asset Allocation

The Strategic Asset Allocation is apportioned 80% to the Matched Portfolio and 20% to the Growth Portfolio.

Within the Matched Portfolio up to 35% may be invested in renewable energy debt (which may be Zaronia, or inflation related) and high quality credit JIBAR linked instruments to enhance the yield. The Growth Portfolio will include an allocation to developed world and emerging market equities, global listed infrastructure, and property. The chart below sets out the SAA;



The targeted return above the Liability Benchmark Portfolio by the above described use of the risk budget is expected to be 1.0% p.a. If achieved, the Fund should be able to grant pensioners increases of 75% (or 110% for retirees who chose the target 100% of inflation increases) of inflation over periods of 10 years, noting that this outcome is not guaranteed.

6.4.4 Re-balancing Rules

The various asset classes will be managed according to the manager configuration described in Annexure 7. In cases of over- or underweight, the allocation will be rebalanced back to the midpoint between the central allocation and upper or lower limit. The portfolio will be re-balanced to its strategic asset allocation according to the following rules:

Asset class	Central allocation	Allowable range
Matched Portfolio – SA government bonds	56.0%	52.0% - 60.0%
Matched Portfolio – yield enhancement	24.0%	18.0% - 22.0%
SA equity	10.0%	5.0% - 15.0%
SA infra debt	5.0%	2.5% - 7.5%
Global equity	5.0%	2.5% - 7.5%
	100.0%	

The minimum allocation to the Matched Portfolio (SA government and yield enhancement) is 77%. The maximum exposure to global growth assets is 5%.

6.4.5 Key result areas for Pensioner Portfolio

- Out-perform of the Liability Benchmark Portfolio by 1% p.a. after fees with a tracking error of no more than 4% p.a. over a 10-year period.

Annexure 7: Manager Configuration

7.1 Approach

The approach of the Board is to use a blend of active and passive management. Where the Fund appoints active managers, the aim is to achieve diversification between the investment theses of the managers.

The limited opportunity set for SA equities inevitably results in manager configuration for this asset class where there is limited differentiation in the manager approach. It is for this reason that the Fund has made a 35% allocation to passive investing for this asset class.

Active managers for the global equity asset class tend to be under-weight to large cap stocks. To mitigate this risk and to manage the risk of under-performing the benchmark, the Board has decided to invest 45% of global equities in a passive strategy that tracks the MSCI World ND index. In addition, the Board takes the view that, given the low allocation to emerging market equities and global listed infrastructure, a passive approach for these asset classes is the most efficient implementation route.

Importantly the above also means that the manager configuration is not a pure "core / satellite" approach, nor a style (or market capitalization) blended approach, although the particular mix of managers at a point in time may give the portfolio some core / satellite or style blended characteristics.

Furthermore, the extent to which the Board will allow active managers to deviate from the benchmark (i.e., take tracking error risk) depends on the extent to which the Board has confidence in the skill of the managers – high tracking error mandates will only be awarded to managers where the Board has a high degree of confidence in the manager's skill. Furthermore, the Board will allocate less capital to managers where the tracking error is expected to be very high.

It should be noted that the risk targets set for the asset classes below are determined at the Fund level and will be reviewed periodically to ensure continued alignment with the Fund's investment objectives, risk profile, and manager mandates.

7.2 SA Equity Class

The table below describes the manager investment thesis, target allocation, performance target (expected annualised alpha net of fees relative to the CAPI over five years) and budgeted annual tracking error of the South African equity managers excluding Value Capital Partners (see below).

Investment approach	Manager	Allocation	Allowable range	Alpha target (5 years)	Tracking error
Indexation	Sanlam	35.0%	30% - 40%	0.0%	0.1%
Fundamental stock picking including mid cap shares	Mazi Asset Management	10.0%	8% – 12%	1.5%	6.0%
Relative value approach controlling risk back to the benchmark	Truffle Asset Management	30.0%	25% – 35%	1.5%	6.0%
SA equity multi-manager mandate. All the managers in the blend must be at least 50% + 1 black owned. 65% active managers[7] and 35% passive via Lodestar	27Four	25.0%	21% - 29%	1.0%	4.5%
Aggregate return and risk budget after assumed manager diversification benefits				**0.85%**	**2.7%**

Note on a look through basis the allocation to passive investing is 43.75% being 35% to the Sanlam tracker and 8.75% of the 27Four allocation.

The SA equity building block is expected to achieve an Information Ratio (“alpha” ÷ tracking error) of some 0.30 on account of the value of diversification between different investment approaches. A 5-year measurement period is chosen as empirical evidence (Fama and French) suggests that there is about a 90% chance that the company’s share price will cycle through its intrinsic value within 5 years. In addition, the Fund has appointed an activist SA equity manager in the form of Value Capital Partners.

Value Capital Partners (VCP)

The Fund also has an allocation to Value Capital Partners (VCP). This manager follows a shareholder activist approach, and their performance is benchmarked against the FTSE / JSE Mid Cap Index. The portfolio is concentrated and will consist of 10 to 12 counters and as such no tracking error constraint will be imposed.

The performance objective for VCP is to out-perform the FTSE / JSE Mid Cap Index by 4% p.a. net of fees. The strategy is currently accessed via a Qualified Investor Hedge Fund structure.

7.3 Global Equities

Here the opportunity set of long term intrinsic value managers is much greater and all the offshore equities will be managed by intrinsic value managers, noting that the underlying investment thesis of the managers will differ. The table below sets out the manager configuration for the global equity building block – again the annualised alpha target is net of fees and over 5-years and the tracking is the annual rate

---

[7] Aeon, Aluwani, All Weather, Mianzo

Investment approach	Manager	Allocation	Allowable range	"Alpha" target over 5 Yrs	Tracking error (annual)
Indexation (MSCI World ND)	State Street	45.0%	40.0% to 50.0%	0.0%	0.1%
Fundamental research, intrinsic value assessment, long term focus, contrarian bias, some illiquidity, low portfolio turnover (± 30% p.a.)	Orbis	10.0%	7.0% to 13.0%	1.5%	8.0%
Ultra-high quality firms who are assessed to have earnings above that which the market expects	Lindsell Train	17.5%	14.5% to 20.5%	1.5%	8.0%
This manager seeks to add value by investing on a thematic basis in high quality companies with above average earnings growth prospects. The manager can have a significant cash holding if they cannot identify companies with an expected return in the 12% to 15% p.a. range	Veritas	17.5%	14.5% to 20.5%	1.5%	6.0%
Fundamental research, intrinsic value assessment through assessment of the capital cycle, exposure to mid-cap and small-cap shares in a highly diversified fund, long-term time horizon and low portfolio turnover	Hosking Partners	10.0%	7.0% to 13.0%	1.5%	6.0%
Aggregate return and risk budget after assumed manager diversification benefits				**0.80%**	**2.0%**

The global equity building block is expected to achieve an Information Ratio (" alpha" ÷ tracking error) of around 0.40 on account of the value of diversification between different investment approaches.

7.4 Emerging Market Global Equity Manager

The portfolio will be indexed to MSCI EM ND index and will be managed on a passive basis by State Street.

7.5 Listed Global Property

The investment manager for the listed real estate is Resolution Capital and the target performance for this investment is the FTSE EPRA/REIT Developed Index + 1.0% net of fees (i.e. alpha of 1% p.a. in excess of the benchmark after fees) with a tracking error of 5% p.a. The manager follows an absolute return approach with a focus on investing in higher quality assets with favourable ESG and corporate governance characteristics.

7.6 Global Listed Infrastructure

The Fund is invested in a Blackrock EFT with Sanlam buying the ETF on behalf of the Fund. The manager invests in core infrastructure assets and is an index (or tracker) manager. The portfolio is benchmarked against the FTSE Global Core Infrastructure (Net) Index.

7.7 SA Bonds

The Board has appointed two managers that can add value across a wide range of fixed interest strategies (i.e., duration, credit, curve shape changes and pricing anomalies) and a third that will focus on infrastructure investing where part of the excess return will arise from the illiquidity and credit premia.

Investment approach	Manager	Allocation	"Alpha" target net of fees over 3 Yrs	Tracking error (annual)
Flexible mandate allowing manager to exploit opportunities in duration (value based approach to interest rate movements), credit, limited off benchmark fixed interest (up to 10%), trading and pricing anomalies	Ninety One	33.3%	0.75%	2.00%
Mainly a credit mandate, but with limited discretion to take off benchmark fixed interest (up to 10%)	M&G	33.3%	0.75%	2.00%
Focus on SA infrastructure investing where the return will be driven mainly by illiquidity and credit premia	Futuregrowth	33.4%	1.25%	3.00%
Aggregate return and risk budget after assumed manager diversification benefits			0.90%	1.75%

A 3-year measurement period is chosen as this represents the typical bond cycle.

7.8 SA Cash and Enhanced Cash Mandates

The Fund uses the following cash and enhanced cash strategies:

Investment approach	Manager	"Alpha" target net of fees over 1 Yr	Tracking error (annual)
Standard (or vanilla) cash strategies	Ninety One	0.5%	1.00%
Enhanced cash using credit with average credit rating AA	Ninety One Credit Income	0.5%	2.00%

7.9 SA Listed Property

Investment approach	Manager	Allocation	"Alpha" target net of fees over 5 Yrs	Tracking error (annual)
Fundamental research and in-depth knowledge of the property market	Ninety One	65%	0.75%	3.0%
Fundamental research and in-depth knowledge of the property market	Ninety One Credit Income	35%	0.75%	3.0%

A five year measurement period has been chosen for the same reasons as for SA equities.

7.10 SA Absolute Return

The Investment Committee has decided to appoint an investment manager that targets a real return of 4% p.a. whilst aiming to avoid a negative return over any 24 month period. The manager will aim to select the asset class combination that they assess to have the best chance of meeting this performance and risk constraint objective, the so-called target return approach.

Investment approach	Manager	Allocation	Real return	Capital protection target over 5 Yrs
Multi-asset class strategy, with the aim of avoiding a negative return over any 18 month period	Coronation	100%	4% p.a.	No negative return over any 24 month period

The return of this portfolio is benchmarked against a composite index which consists of a 60% exposure to SA equities (CAPI benchmark) and 40% SA cash (SteFi Composite benchmark). The manager is expected to out-perform this composite benchmark by 0,75% p.a. with a tracking error of no more than 5%.

7.11 High Yield Debt

The Fund has a legacy investment in the Ninety One Credit Opportunities Fund which is in the wind-down phase with capital being returned to investors.

7.12 Africa EX-SA Equity

The investment manager for this mandate is Steyn Capital and the target level of out-performance of the benchmark (the MSCI EFM Africa ex-SA index) is 3% p.a. net of fees. The manager follows an absolute return approach with a focus on buying high quality companies. The tracking error is expected to be in the range of 10% to 12% p.a.

7.13 Liability Driven Investment for the Pensioner Portfolio

Old Mutual has been appointed as the investment manager for the liability driven investment strategy of the Pensioner Portfolio. Old Mutual will manage 80% of the Pensioner Portfolio assets (the Matched Portfolio), with the key mandate clauses being:

- The manager must hedge 60% of inflation pension increases on each 1 April for the 80% of asset allocated to them (i.e. the portfolio is hedging 60% of the inflation risk on 80% of the assets). The 60% is replaced by 100% for retirees that elect to target pension increases of 100% of inflation.

[8] Note this is not guaranteed

- They are required to hedge 100% of the interest rate risk with 80% of the assets with a target tracking error of no more than 2% p.a. To illustrate the point, assume that at a time the value of the pensioner liabilities (providing for pension increases) is 100 units and Old Mutual has assets of 80 units. Assume now that interest rates increase, and the value of the liabilities reduces to 97 units; the expectation is that the value of the Old Mutual units will fall to 77 units (by more or less the same 3 units).
- Old Mutual must deliver the monthly pension payments as per the pensioner payment schedule the Fund has provided to them.
- A minimum of 65% of the Matched Portfolio must be invested in SA government bonds; The balance of the portfolio may be invested in yield enhanced strategies. The table below describes the allowable strategies

Manager	**Strategy**	**Allocation % of MP**	**Expected yield pick-up (net of all costs)**
Old Mutual LDI	SA government nominal and inflation linked bonds(1)	65%	0% p.a.
<u>Yield enhancements</u>			
Vantage Green-X Note I	Portfolio of renewable energy debt assets with a JIBAR related return (2)	2% - 4%*	2.5% p.a.
Vantage Green-X Note II	Portfolio of renewable energy debt assets with an inflation linked return (2)	2% - 4%*	1.0% p.a.
Old Mutual Credit Fund	Diversified portfolio of high quality credits	0%-20%	0.5% p.a.
Credit bonds	SOE inflation linked bonds with government guarantee / 3-10 year bank replica notes / high quality corporate inflation linked bonds	0% - 10%	1.0% p.a.
Targeted yield enhancement			0.4% p.a.

Notes:

(1) The Fund will receive the last pension payment proceeds from the Nedbank swap in December 2023 but will continue to hold the R202 and pay the coupon and repayment proceeds to Nedbank until this bond matures. The swap will be valued as the present value of the pension payment proceeds priced off the bond curve. These notes are collateralised by SA government bonds and are therefore counted as government debt.

(2) The Vantage Green-X Note 1 is fully drawn, and the investment is close to new money. The 3.5% allocation is at 31 March 2022 and it will decrease as a percentage of the Pensioner

Portfolio over time. The Vantage Green-X Note II is still in the draw down stage and the 2.2% allocation is as of 30 June 2023. Vantage Green is in the process of altering the Jibar-linked notes to Zaronia to comply with the relevant legislation.

The maximum allocation to renewable energy debt is 15% of the Matched Portfolio, with the maximum exposure to any instrument being limited to 5%.

Annexure 8: Investment Manager Mandates

8.1 Mandate Restrictions

This section deals with the principal risk areas the Board will seek to control – the specific limitations and conditions will be detailed in the agreement with the appointed investment manager. The mandate given to each local investment manager will require that the particular mandate be managed on a Regulation 28 compliant basis for the particular asset class.

SA equities and SA property

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

- The maximum deviation from the benchmark and tracking error using a suitable risk model (e.g. BARRA)
- No borrowing (leverage) is allowed where "leverage" means that the Fund can incur a loss greater than the amount it has invested
- Use of derivatives consistent with the requirements of Regulation 28 and the FSCA Conduct Standard 1 of 2023 dealing with the Conditions for Investments in Derivative Instruments for Pension Funds
- Compliance with the Regulation 28 provisions for the asset class
- Minimum liquidity requirements of the portfolio
- Maximum exposure to any one share in the total portfolio (i.e. Inflation Target, Stable and Pensioner Portfolios), taking into account the prudential guideline of Regulation 28 may not exceed 15%
- Holdings where the investment manager holds more than 25% of the issued share capital of the company across its entire client base
- Investment in the shares of the investment manager and its associated companies
- Scrip lending
- Investment in unlisted securities
- Underwriting of issues

SA bonds (excluding the high yield debt)

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

- The maximum deviation from the benchmark and tracking error using a suitable risk model
- Use of derivatives consistent with the requirements of Regulation 28 and the FSCA Conduct Standard 1 of 2023 dealing with the Conditions for Investments in Derivative Instruments for Pension Funds
- Compliance with the Regulation 28 provisions for the asset class
- No borrowings (leverage) are allowed where "leverage" means that the Fund can incur a loss greater than the amount it has invested

- Minimum liquidity requirements of the portfolio
- Investment in non-benchmark and unlisted debt instruments
- Credit quality
- Maximum exposure to a particular issuer
- Deviation (in years) from the modified duration of the benchmark
- Investment in the instruments of the investment manager and its associated companies
- Scrip lending
- Underwriting of issues

Money market instruments

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

- Maximum term of instrument (24-months)
- Credit quality
- Minimum liquidity requirements of the portfolio
- Use of derivatives consistent with the requirements of Regulation 28 and the FSCA Conduct Standard 1 of 2023 dealing with the Conditions for Investments in Derivative Instruments for Pension Funds
- No borrowings (or leverage) are allowed where "leverage" means that the Fund can incur a loss greater than the amount it has invested
- Compliance with the Regulation 28 provisions for the asset class
- Investment in the instruments of the investment manager and its associated companies

Global equities (Developed World and Emerging Markets)

The Fund's investment in global equities will be via a collective investment scheme (i.e. a pooled arrangement) because the assets are too small to negotiate a segregated portfolio. The consequence of this is that the Fund can only rely on the risk constraints and limitations set out in the Prospectus of the relevant CIS (collective investment scheme). The Fund will require that *inter alia* the following matters are covered in the prospectus:

- Maximum exposure to emerging markets
- Restrictions on the exchanges in which the manager may deal
- Investment in unlisted securities
- Maximum exposure to any one company (this may vary by market capitalization)
- Maximum exposure to a particular country (or geographic region)
- Maximum exposure to a particular industry or sector
- Maximum exposure to a particular currency

- Use of borrowings (or leverage) where "leverage" means that the Fund can incur a loss greater than the amount it has invested
- Restrictions on the use of derivatives and currency hedging consistent with the provisions of Regulation 28
- Restrictions on scrip lending (including restrictions on counter-party risk)

Global listed property and core infrastructure

The Fund will be investing in the comingled (or pooled) vehicles and so the Fund would need to accept the specific terms set out in the prospectus of the applicable fund. The Fund will require that *inter alia* the following matters are covered in the prospectus:

- Allowable cash
- Investment in any one company
- Number of holdings
- Overweight/underweight to any country
- Exposure to emerging markets
- Unlisted shares
- Use of derivatives consistent with the provisions of Regulation 28
- Maximum % of the issued share capital of any one company
- Investment in shares of own company or associated company

Absolute return strategies

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

- Compliance with the Regulation 28 provisions as applied to SA asset classes
- No borrowing (leverage) is allowed where "leverage" means that the Fund can incur a loss greater than the amount it has invested
- Use of derivatives consistent with the requirements of Regulation 28 and the FSCA Conduct Standard 1 of 2023 dealing with the Conditions for Investments in Derivative Instruments for Pension Funds
- Credit quality in respect money market and bond holdings
- Minimum liquidity requirements of the portfolio

SA investment grade and non-investment grade specialist credit strategies

The Fund's investment in SA investment grade and non-investment grade credit will be via a pooled arrangement. The consequence of this is that the Fund can only rely on the risk constraints and limitations set out in the Prospectus of the relevant pooled arrangement. The Fund will require that inter alia the following matters are covered in the prospectus:

- Extent of diversification required
- Maximum holding in any one instrument

- Investment in the shares of the investment manager and its associated companies.

High yield debt: Renewable energy

The investments are in specific wind and solar energy projects in South Africa. The returns from these projects have a favourable return and risk profile in that the tariffs (and escalation of these tariffs) are set by legislation, there is Power Purchasing Agreement in place and the demand for energy is reasonable stable. The projects are granted on a 20 year concession basis.

Africa ex-SA equity

The Fund will be investing in the comingled (or pooled) vehicles and so the Fund would need to accept the specific terms set out in the prospectus of the applicable fund. The table below sets out the maximum limits that the Fund would be prepared to accept:

Mandate provision	Restriction (% of market value of asset class where applicable)
Allowable cash	≤ 10%
Investment in any one company	≤ 15%
Number of holdings	≥15 counters
Overweight / underweight to any country	≤ 20%
Unlisted shares	≤ 5%
Off benchmark positions (mainly cash and unlisted shares)	≤ 15%

Derivative usage for all asset classes

Both listed and OTC derivative instruments are allowed, and the conditions under which derivative instruments may be used, and the valuation methodology required will be at the discretion of the investment manager – but subject to the overall requirements of the investment mandate as to the return objectives and risk parameters for the portfolio / investment product.

8.2 Regulation 28 and ESG Requirements

The investment manager must apply the principles set out in Regulation 28, paragraph 2(c) (v) to (ix) which detail the due diligence and ESG considerations the manager must consider before investing in a particular counter.

The obligation of the manager to actively engage with its investee companies including to report on how it has voted and complied with the principles of Code of Responsible Investing in South Africa (CRISA 1 and 2) and King V governance principles.

Annexure 9: Monitoring

9.1 Qualitative assessment of investment managers

The investment consultant will provide their qualitative rating of the Fund's investment managers at each meeting. The rating covers the assessed skill of the manager, soft risk issues (i.e. organisational or personal issues which may affect future performance) and the expected deviation of the manager from the benchmark.

The Board will review the appointment of any manager or the allocation to the manager where it considers that there are material negative events affecting the manager and/or where the investment consultant has downgraded its assessed skill of the manager.

9.2 Performance reporting

The investment consultant will produce a quarterly report covering the following matters:

- An overview of market returns
- Market value of assets and actual asset allocation compared to the strategic asset allocation per investment channel
- Performance of each investment channel relative to its primary investment objective and strategic asset allocation
- Key risk statistics for each of the investment channels (upside and downside capture, downside deviation, tracking error, Sortino ratio and information ratio)
- Assessment of investment manager performance relative to their benchmarks together with key risk statistics (upside and downside capture, downside deviation, tracking error, Sortino ratio and information ratio)
- Any recommended changes to the strategy and/or manager line-up.

9.3 Expense monitoring

At least once per annum the Investment Consultant's report must include details of the direct and indirect manager fees and other portfolio costs, actual trading costs and any statutory fees. This information is converted into a total investment charge ratio (TIC) for each investment channel.

9.4 Compliance monitoring

The Fund will comply with statutory requirements in respect of Regulation 28 and make the necessary submission to the FSCA and SARB.

The Board will obtain confirmation from its investment managers that at all times the manager will manage the Fund's assets in accordance with FSCA Conduct Standard 1 of 2023 applicable to the use of derivative instruments.

The Fund will require its investment managers to provide regular reporting to the Board in order to monitor the risks to the Fund of using derivative instruments, and to ensure that such risks are appropriate in terms of the solvency and liquidity position of the portfolio

Annexure 10: Commingled Vehicles

10.1 Conditions Applicable

The following conditions are applicable to any investment in a comingled vehicle (e.g. collective investment scheme or insurance policy)

- The comingled fund must be registered in a jurisdiction where there is strong regulatory oversight of such arrangements.
- The firm in whose pooled fund the Fund's assets are invested is one of high reputation and who is expected to stand behind the pool.
- The assets must be ring-fenced for the exclusive benefit of the investors in the pool and there is no risk that losses elsewhere can impact on the returns of the pool.
- Independent reporting, on an annual basis, by a reputable auditing firm that the pool holds the said assets and the market value thereof is fairly reflected.
- To the extent that the pooled vehicle holds unlisted instruments these must be valued by an independent expert who has the necessary experience and qualifications to perform such a valuation. Alternatively, the instruments may be valued in accordance with a documented valuation policy provided that the manager's external auditor verifies that the assets have indeed been valued in accordance with this policy. A copy of the valuation policy must be made available to the Fund on request.
- There are sufficient protections in place to protect investors from large inflows and outflows – specifically there is a requirement that the future investment returns of the remaining investors should not be adversely affected by large scale redemptions or inflows.

Annexure 11: Investment of Reserve Accounts

The table below sets out the investment strategy in respect of the various Reserve Accounts the Fund holds:

Reserve Account	Investment strategy
Minimum Guaranteed Reserve	Stable Portfolio
Employer Surplus Account	Stable Portfolio
General Account	Stable Portfolio and/or vanilla money market assets

Annexure 12: Asset Liability Monitoring

The Fund has instituted a process whereby a monthly match of assets and liabilities per investment channel is done between the Administrator and the Fund's unitiser and overseen by the Investment Consultant. The results of this asset / liability process are reported to the Investment Committee meeting quarterly.

Glossary of Terms

Term	Definition
Active Management	An investment approach where a portfolio manager makes specific investment decisions with the aim of outperforming a benchmark index, as opposed to simply replicating it.
Asset Allocation	The process of dividing investments among different asset classes such as shares, bonds, property, and cash to balance risk and return.
Asset Class	A category of investments with similar characteristics, such as equities, fixed income, property, or cash.
Alpha	The excess return generated by an investment manager relative to a benchmark, after accounting for risk. Represents the value added through skill.
Asset Liability Management (ALM)	A process of matching the Fund's investment assets to its projected liabilities to ensure obligations can be met as they fall due.
Broad-Based Black Economic Empowerment (B-BBEE)	A South African government policy framework aimed at advancing economic transformation and promoting the participation of previously disadvantaged individuals in the economy.
Benchmark	A standard index or reference portfolio against which the performance of an investment portfolio or manager is measured.
Board of Trustees	The governing body of the Fund, holding ultimate fiduciary responsibility for its oversight and management
Collective Investment Scheme (CIS)	A pooled investment vehicle, such as a unit trust or mutual fund, where multiple investors' funds are combined and managed collectively.
CVaR	Conditional Value at Risk, also known as Expected Shortfall. A risk measure that estimates the expected loss given that losses exceed the Value at Risk (VaR) threshold.
Code for Responsible Investing in South Africa (CRISA)	A voluntary code providing guidance on how institutional investors should incorporate ESG considerations and exercise ownership responsibilities.
Custodian	An institution, typically a bank, responsible for holding and safeguarding the Fund's securities and cash, and for settling investment transactions.
Defined Benefit (DB)	A pension arrangement where the retirement benefit is predetermined, typically based on salary and years of service, regardless of investment performance.
Defined Contribution (DC)	A pension arrangement where the retirement benefit depends entirely on contributions made and the investment returns earned on those contributions.
Derivatives	Financial instruments whose value is derived from an underlying asset, index, or rate. Examples include futures, options and swaps. Used for risk management, not speculation.

Diversification	A process of spreading investments across different assets to reduce overall risk.
Dynamic Asset Allocation	A medium-term tactical adjustment to the Strategic Asset Allocation is made when asset classes are assessed to be significantly mispriced relative to fair value.
Environmental, Social and Governance (ESG)	A framework for evaluating companies based on their environmental impact, social responsibility, and quality of governance practices.
Financial Sector Conduct Authority (FSCA)	The South African regulatory body responsible for supervising the conduct of financial institutions and protecting financial customers.
Fund Credit	A member's accumulated retirement savings balance held within the Fund.
Growth investing	An investment strategy focused on companies expected to grow earnings faster than the market average.
Guided Annuity Strategy	The default annuity option provided by the Fund to retiring members, as required under Regulation 39 of the Pension Funds Act. The Fund's guided annuity is a life annuity.
Hedge Fund	An alternative investment vehicle employing a range of strategies, including leverage and derivatives, to generate returns. Subject to specific regulatory limits under Regulation 28.
Illiquidity Premium	The additional return an investor expects to earn for holding an asset that cannot be easily or quickly sold without a significant price concession. Examples of assets include private equity, infrastructure, private debt, and unlisted property.
Information Ratio (IR)	A measure of a portfolio manager’s skill calculated as alpha divided by tracking error. A higher ratio indicates more consistent outperformance per unit of active risk taken.
Investment Committee	A sub-committee of the Board is delegated to oversee investment matters and make recommendations to the Board on investment strategy.
Investment Horizon	The time period over which an investment portfolio is expected to be held and assessed. Longer horizons typically allow for greater risk-taking.
Investment Policy Statement (IPS)	A formal statement setting out the Fund's investment philosophy, objectives, strategy, governance framework and risk parameters.
Johannesburg Interbank Average Rate (JIBAR)	A short-term interest rate benchmark used in South Africa for pricing floating-rate financial instruments. Being phased out in favour of ZARONIA.
Liability Driven Investment (LDI)	An investment strategy where the portfolio is constructed to match and hedge the characteristics of the Fund's liabilities, rather than to maximise absolute returns.
Life Annuity	A pension that provides a guaranteed income for the remainder of the retiree's life (and potentially a spouse's life), regardless of investment performance.

Life Stage Model	The Fund's default investment strategy that automatically adjusts the asset allocation as a member approaches retirement, progressively reducing investment risk over time.
Living Annuity	A post-retirement investment product where the retiree draws a regular income from their accumulated capital, bearing the investment and longevity risk themselves.
Matched Portfolio (MP)	The portion of the Pensioner Portfolio invested in SA government bonds and yield-enhancing instruments to closely match and hedge the Fund's pensioner liabilities.
Momentum investing	An investment strategy where an investor buys investments that have had strong recent performance and sells investments that have had weak recent performance because the investor believes that the trend will continue for a period.
Net Replacement Ratio (NRR)	The retirement income is expressed as a percentage of the member's pensionable salary at retirement. The Fund targets an NRR of approximately 75%.
Passive Management (or Indexation)	An investment approach that aims to replicate the performance of a market index rather than outperform it. Typically lower cost than active management.
Pensioner	An in-service member or deferred pensioner who has retired and is in receipt of a pension from the Fund in terms of Rule 6.6, or the qualifying spouse or qualifying child who receives a pension in terms of Rules 6.6 or 7
Pensionable Salary	The portion of a member's remuneration used as the basis for calculating retirement contributions and benefits, as defined in the Rules of the Fund.
Pension Conversion Risk	The risk that unfavourable investment conditions close to retirement reduce the pension that a member's accumulated savings can secure.
PF130	A pension fund circular issued by the FSCA providing guidance on good governance for retirement funds.
Principal Officer	The individual (including their office) responsible for the day-to-day management and administration of the Fund, ensuring Board decisions are properly implemented and regulatory obligations are met.
Private Equity (PE)	Investment in companies that are not listed on a public stock exchange, typically accessed through specialist fund structures.
Private Debt (PD)	Loans or debt instruments issued by private companies or for infrastructure projects, not traded on public markets.
Rebalancing	Adjusting investments back to target allocations.
Regulation 28	A regulation under the Pension Funds Act that prescribes prudential investment limits for retirement funds, including maximum exposures to specific asset classes.
Regulation 37	A regulation under the Pension Funds Act requiring retirement funds to provide a default investment strategy for members who do not make their own investment choices.

Regulation 38	A regulation under the Pension Funds Act, it aims to encourage members who leave the Fund before their normal retirement date to preserve their retirement savings.
Regulation 39	A regulation under the Pension Funds Act requiring retirement funds to have a guided annuity strategy for retiring members.
Risk Budget	The maximum level of investment risk (typically measured by standard deviation or tracking error) that the Board is willing to accept for each investment channel.
Sequencing Risk	The risk that poor investment returns early in retirement (or late in accumulation) have a disproportionately negative impact on outcomes, compared to the same average returns experienced in a different order.
Standard Deviation	A statistical measure of the variability of investment returns around their average. Used as a proxy for investment risk or volatility in this document.
Strategic Asset Allocation (SAA)	The long-term target mix of asset classes for each investment channel is set to achieve the stated investment objectives within the defined risk budget.
Tactical Asset Allocation (TAA)	The short-to medium-term adjustments to the portfolio allocation away from the long-term SAA in order to take advantage of opportunities in the market or manage investment risk
Tracking Error (TE)	The standard deviation of the difference between a portfolio's returns and its benchmark returns. A measure of active risk taken by a manager relative to the benchmark.
Two-Pot Retirement System	The retirement savings framework was implemented on 1 September 2024, dividing member contributions into a savings pot (partially accessible before retirement), a retirement pot (preserved until retirement), and a vested pot for pre-existing savings.
Value at Risk (VaR)	A statistical measure representing the worst expected loss over a given time period at a specified confidence level. For example, VaR at 10% over one year means there is a 10% probability that the return will be worse than the stated figure.
Value investing	An investment strategy focused on buying undervalued assets expected to increase in value over time.
ZAR Overnight Index Average (ZARONIA)	The replacement benchmark interest rate for JIBAR in South Africa, based on actual overnight interbank transactions.