TFG Retirement Fund

Investment Policy Statement

May 2021

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Section 1: Founding principles

Preamble

This document is the Investment Policy Statement (IPS) of the TFG Retirement Fund (“the Fund”). The Statement has been developed by the Board of Trustees (“the Trustees”) to comply with relevant regulations and will be reviewed at least annually.

The TFG Retirement Fund is a hybrid fund that consists of a defined contribution section in respect of the active members and deferred retirees and deferred pensioners and a defined benefit section in terms of those members who have purchased a guaranteed pension within the TFG Retirement Fund.

Fund mission

The mission of the Fund is to meaningfully assist members in achieving a reasonable income when they retire. The Fund will do this by:

- Targeting a sufficient real rate of return over a member’s full lifetime in the Fund.
- Establishing portfolios with differentiated return and risk payoffs that aim to deliver superior risk-adjusted returns.
- Keeping costs low by using the bulk buying power of the membership to secure “wholesale pricing”.
- Providing a default investment strategy for members that are unwilling or uncomfortable to exercise investment choice - the so-called life stage model.
- Providing guidance to members at retirement in relation to how best they may apply their retirement capital to secure a pension.
- Allowing members to purchase a guaranteed pension from the Fund at retirement on favourable terms compared to the retail market.

Core investment beliefs

The Trustees have adopted the following core investment beliefs:

Investment belief 1: The asset allocation must be consistent with the portfolios’ objectives

A portfolio that targets a real return of say 5% to 6% p.a. will of necessity need to have a high exposure to growth assets (i.e. equities and property). These asset classes are also volatile, particularly over short measurement periods, as their valuation depends on multiple factors which extend a long way into the future and are therefore uncertain. Accordingly, the investment objective for a portfolio that has a high exposure to growth assets should also reference a long investment horizon.

Investment belief 2: Risk is different from volatility

Markets are noisy because of human bias and short-termism. They are also noisy because their valuation depends on multiple factors which extend a long way into the future and so small changes on assumptions can change prices significantly.

Volatility in investment returns should not be an issue for investors provided that they have a suitably long investment horizon. Nevertheless, in practice volatility is a major problem for most investors because they tend to focus on the short-term position. Although risk in investing is often measured in terms of volatility (e.g. the standard deviation of returns), the Trustees believe that risk is different and should rather be defined as a permanent loss of capital; both in absolute and real terms.

Risk can arise from multiple sources; natural catastrophes, fundamental changes and more commonly errors in judgement. Errors in judgement is inevitable when investing because one is making decisions based on incomplete information and an uncertain future.

Investment belief 3: Diversification is a sound way of reducing risk

Not having "all your eggs in one basket" is the obvious way to mitigate against the inevitable errors in judgement permanently impairing the Fund's portfolios.

However, diversification is not always the "free lunch". As one adds more diversification to a portfolio one may well be adding weaker ideas. This could, of course, dilute future returns but at the same time, whilst the first order risk (standard deviation) may be reducing, the second order risk (negative skew) may be increasing, because if things go wrong there are weaker ideas in the portfolio.

Accordingly, the best form of diversification is to add new "good ideas" to the portfolio, ideally where such new ideas have different return drivers from the other asset classes included in the portfolio. Some of the best diversifiers will naturally exist outside the mainstream asset classes; investing in these opportunities may be expected to improve the portfolio construction, but of course imposes a higher governance burden on the Investment and Strategy Committee (ISC).

Investment belief 4: Environmental, Social and Governance (ESG) factors can have an impact on investment returns

The Trustees believe that ESG factors can have an impact on investment returns, especially in a world of much greater transparency. Accordingly, ESG considerations need to be integrated into the Fund's investment strategy. The Fund's ESG policy is detailed in Appendix C.

Investment belief 5: Although the market is efficient much of the time, it will be inefficient periodically (i.e. the price of an asset is not necessarily also its value)

The Trustees believe the market inefficiency is caused by investors who have material agent / principal conflicts, get caught up in popular investment trends, have a too short investment horizon and are often over-confident.

The belief that markets are inefficient from time to time means that the Fund will appoint investment managers that actively seek to out-perform the market by exploiting the mistakes made by other investors. Whilst the Trustees adopt the view that markets are inefficient periodically, it recognises that in practice it is very difficult to apply this belief. Markets will always provide a conflict between "this time is different" supported by a compelling narrative at the time and "things revert to their long-term average". Whilst it is the case that markets often "mean revert", they don't always do so, and the Trustees accept that it needs to have the adaptability to assess each market circumstance on its merits.

Investment belief 6: The Trustees believe that investment manager skill is scarce

The Trustees consider 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 found 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 Trustees further believe 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.

Investment belief 7: Member Investment Choice

In general terms, members are too short-term focused in decision-making and tend to be vulnerable to the emotions of fear and greed. This bias often results in poor outcomes where members are allowed frequent investment choice. Accordingly, the Trustees believe that the life stage model is appropriate for most members and will only permit investment choice under the following circumstances:

- A member with less than six years to retirement will be permitted to remain in the Balanced Portfolio with no automatic de-risking.
- Two years prior to retirement, a member may choose to opt out of the life stage model (or disinvest fully from the Balanced Portfolio) and invest fully in the only Member Choice Portfolio, the Money Market Portfolio.

Investment model

The Trustees have adopted an investment model which is primarily that of an "alpha seeker" (i.e. appointing managers that are expected to out-perform the market), although it also aims to be a diversifier.

As an "alpha seeker" the Trustees must have a high degree of confidence that it can identify skilled investment managers and blend these managers in a sensible manner. Whilst the Trustees look to construct suitably diversified portfolios, the Fund has not yet invested in more complex and unlisted asset classes.

Portfolio construction

Active versus passive investing

Given the Trustees' belief that markets are inefficient and that the investment model is that of an "alpha seeker", it naturally has implemented an active manager investment strategy.

However, the Trustees recognise that the active versus passive debate is finely balanced and finding skilled managers is difficult. Accordingly, the Trustees will look to appoint several investment managers (to diversify manager selection risk) and will focus on constructing a blend of managers that approach the market differently. As a general principle, the Trustees will seek to avoid any strong investment style bias.

Multi-asset class versus specialist mandates

The Trustees believe that in a market that has a limited opportunity set (like South Africa), multi-asset class mandates are appropriate and easier to implement. However, in markets with a much deeper opportunity set specialisation is required.

Accordingly, the Trustees will appoint managers on a multi-asset class basis for the local assets and on a specialist basis for its global investment strategy.

Alternative asset classes

The Trustees will consider making an allocation to unlisted asset classes on an opportunistic basis if it is assessed that these asset classes offer the prospect of a superior risk adjusted return. In making this decision the Trustees will consider the impact of such investments on the liquidity profile of the Fund.

Portfolio construction limits

In order to mitigate the risk of capital loss as a result of stock specific risk, the Trustees have decided, where the Fund has segregated mandates, to cap the exposure to a single stock to 12% of the equity portion of the portfolio. Upon written approval from the Fund, a manager may invest up to 15% of the equity portion of the portfolio in a single stock. In the case of Naspers and Prosus, the manager should consider the two stocks' combined exposure when testing against this cap.

Pooled portfolios

Any investment in a pooled vehicle is subject to the Investment and Strategy Committee being satisfied that:

- The organisation in whose pooled vehicle the Fund's assets are invested is one of high reputation;
- The assets are 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, at least on a biannual basis, that the pool holds the said assets and the market value thereof is fairly reflected; and
- There are adequate 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.

Derivatives

The Trustees recognise that the use of derivatives can enhance the returns targeted by the Fund and contribute to the protection of capital for members close to retirement. Therefore, the Trustees have approved or prohibited the use of derivatives for the following purposes:

- derivatives **may not** be used to circumvent any principle, regulation or limit as set out in Regulation 28 on an effective economic exposure basis;
- it **may only** be used in a manner consistent with the Fund's investment objectives, as contained in this Investment Policy Statement;
- the sum of the effective exposures to derivative instruments, together with the market value of all the physical underlying assets of the investments of the Fund, **may not** exceed the relevant asset limits as set out in Table 1 to Regulation 28;
- it **may not** involve the use of leverage or gearing, or result in net short positions at a Fund level;
- it **must be** covered by sufficient liquid assets to meet the Fund's forthcoming obligations, taking into consideration the Fund's liability position;
- it **must be** subject to reliable, independent and verifiable valuation on a regular basis;
- at the Fund's initiative, derivative holdings **must be** capable of being sold, liquidated or closed out by an offsetting transaction at any time.

Hedge Funds

The Fund will not invest directly in hedge funds but may allow the appointed asset managers to do so if the asset manager motivates the use of a hedge fund to the Trustees.

Manager selection

The Trustees will use a combination of the qualitative and quantitative factors in assessing manager skill. However, the Trustees understand that past performance is generally a poor predictor of future performance and so an understanding of the decision-making process that has driven the performance is more valuable than the observed performance.

The Trustees have adopted the following criteria for the selection of an investment manager:

- The manager must be assessed to have a discernible competitive edge to the market. This edge could take the form of inter alia an intellectual edge, superior research giving rise to an information advantage or avoiding the mistakes other investors routinely make (i.e. a behavioural advantage).
- The manager should be part of a firm that has a superior investment driven culture. Characteristics of a superior investment culture may include a meritocracy, the ability to work together as a team, and importantly giving power to the individuals that drive strong performance to clients as opposed to gathering assets.
- The firm should have an impeccable standard of ethics and should align their interest with that of the Fund.
- Where the manager adopts a long-term investment horizon, the firm must allocate sufficient time and thought to the consideration of ESG factors in selecting the instruments included in its portfolio.
- In assessing the above qualitative factors, the Trustees will consider the rating, if any, as provided by the Fund's investment consultant.

The Trustees accept 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 Trustees understand that assessing managers against the above criteria is necessarily somewhat subjective and there is therefore a risk that the Trustees could over-rate a manager's skill. In order to diversify against this risk, the Fund will appoint a number of asset managers.

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:

- Rapid growth or decline in assets under management
- Change in the investment philosophy and approach or a material change in the investment process
- The manager increasing the risk profile of the portfolio significantly without being able to provide good reasons for doing so
- Poor performance over a period if such poor performance cannot reasonably be explained by market mispricing or a once-off "extreme event" error
- 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 key decision-makers
- Material change 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

Choice of indices

The two principles that underlie the choice of index for a particular asset class are:

- The index should be a publicly available and investable market capitalisation index; and
- The Trustees prefer more diversified indices.

Accordingly, the Trustees have adopted the following indices for the different asset classes:

Asset class	Index
SA equities	FTSE/JSE Capped Shareholder Weighted Index (J433T)
SA property	South African Property Index (ALPI – J803T)
SA bonds	BESA SA All Bond Index (JAPI05)
SA inflation bonds	SA Government Inflation Linked Bond Index (IGOV)
SA cash	STeFI Composite
Global equities	MSCI All Country World Index (MSCI ACWI)
Global bonds	FTSE World Government Bond Index (FTSE WGBI)
Global listed property	FTSE EPRA NAREIT Developed Index

Fee principles

The Trustees have adopted the following principles in relation to investment manager fees:

- Costs are certain whereas manager out-performance is only an expectation. As such the Trustees aim 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 that of the investment manager.
- The manager's fee can be structured either on a fixed fee or 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% of the expected value added by the manager to the Fund (with the manager's share being 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.

Conflicts of interest

The Trustees accept 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. Where it is not feasible to avoid conflicts of interest, the Trustees will require that the conflict is raised before the Trustees and the Trustees will decide how to manage the conflict.

The Trustees require full and transparent disclosure of actual and potential conflicts of interest from all its service providers and from Trustee 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 Trustee 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.

Governance issues

Securities lending

The Trustees have resolved that the Fund will not conduct securities lending directly. However, where the appointed asset managers deem it appropriate and it will potentially result in an enhancement to Fund returns, the Trustees will consider allowing the managers to conduct securities lending with Fund assets. The Trustees will require the asset manager to approach the Trustees for approval of securities lending.

Custody of assets

The Trustees have appointed a multi-manager to administer a portion of the Fund assets and has segregated mandates for some of the larger investments. The multi-manager and asset managers for the segregated mandates have direct relationships with asset custodians which the Trustees believe benefits the Fund due to the advantages of scale. The Trustees expect that these relationships are conducted at arm's length and on a best price and execution basis.

Review of the Statement

In the normal course of events the Investment and Strategy Committee and the Board of Trustees will review the investment strategy annually or at shorter time intervals where investment opportunities may also arise. The investment strategy must be reviewed within three 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 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 Funds 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 Sub-Committee

Adopted on: 11 May 2021

Chairperson: Board of Trustees

Date: 26 July 2021

Principal Officer

Date: 23 July 2021

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

Date: 26 July 2021

Effective date of implementation: 11 May 2021

Section 2: Implementation defined contribution section

Investment choice framework

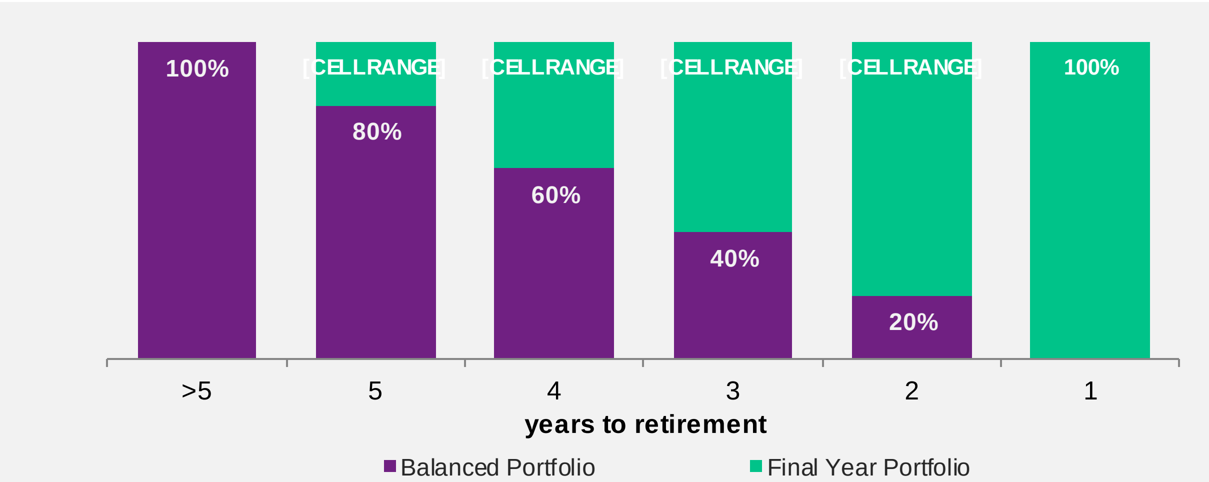
As required by Regulation 37 of the Act, the Fund has a default investment strategy, the so-called life stage model for members who have not yet purchased a pension at retirement. The Fund does not offer full member investment choice. Members are however allowed to make investment choices as described below, and where choice is allowed, members have one free switch available annually.

(a) A member with less than six years to retirement will be permitted to remain in the Balanced Portfolio with no automatic de-risking.

(b) Two years prior to retirement, a member may choose to opt out of the life stage model (or disinvest fully from the Balanced Portfolio) and invest fully in the only Member Choice Portfolio, the Money Market Portfolio.

Life stage model and portfolios

The Fund's default investment strategy for the defined contribution section of the Fund (pre-retirement members) is the life stage model which has been designed to target a certain replacement ratio for members should they purchase at retirement a pension from the Fund. The replacement ratio and the assumptions underlying the calculation thereof are detailed in Appendix E. The chart below sets out the design of the life stage model for pre-retirement members, which includes active members as well as deferred pensioners; the horizontal axis reflects the period to normal retirement age using only whole years.



In practice, the transition is done on an annual basis with the first switch made in a member's birthday month five years prior to retirement age. One year before retirement, a member is invested 100% in the Final Year Portfolio.

The life stage model is designed on the principle that the primary determinant of the amount of risk a member can accept is his or her investment horizon. Accordingly, members that are some way from retirement are invested fully in the Balanced Portfolio.

The same investment strategy applies to any deferred retiree except where such deferred retiree is invested in the life stage model at normal retirement age, then he shall remain in the Final Year Portfolio indefinitely unless he chooses the alternative life stage option (the Money Market Portfolio). Importantly the Fund only models the investment strategy for members up to normal retirement age and it is assumed that any deferred retiree will act on advice from an accredited financial advisor.

The investment objectives for the various portfolios have been set with reference to inflation as measured by “headline” CPI. The term “headline inflation” means the weighted average of the consumer price index as published from time to time by Statistics South Africa, and which is referred to as “Headline CPI (for all urban areas)” in Statistical Release P0141.

Balanced Portfolio

Investment objective

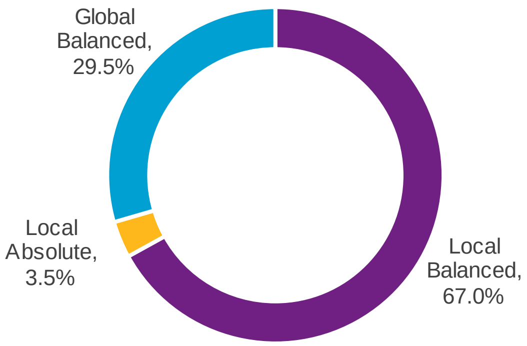
The primary investment objective of the Balanced Portfolio is to achieve a real return of 5.5% p.a. (net of all costs) over rolling five-year periods. The risk budget consistent with this objective is 14% p.a. (expressed as standard deviation), although the historic volatility has been closer to 7% p.a. since 2011. This means that the Trustees accept that during the normal course of events (68% of the time), the annual returns will fall within a real return range of 5.5% ±14%.

The secondary investment objective of the Balanced Portfolio is to achieve at least 75th percentile performance relative to the “Global Balanced” peer group as represented by the Willis Towers Watson Single Manager Industry Median Survey, excluding managers with less than R1 billion in assets, over a measurement period of five years.

The performance of the Portfolio is also assessed relative to its Reference Portfolio (RP). The RP is an objective measure of whether the Portfolio’s active managers add value (which could also be in the form of risk reduction) over longer periods. The target out-performance of the RP is 1% p.a. (net of all costs) with a tracking error of 4% p.a. and this statistic is also assessed over five years.

Mandate allocation

The chart below sets out the mandate allocations for the Balanced Portfolio and incorporates the Trustees’ decision to invest close to the maximum allowable amount of 30% offshore. The offshore allocation is thus an active decision by the Trustees and will be reviewed over time.



The Local Balanced and Offshore Composites are set out in Section 4.

Tactical mandate allocation

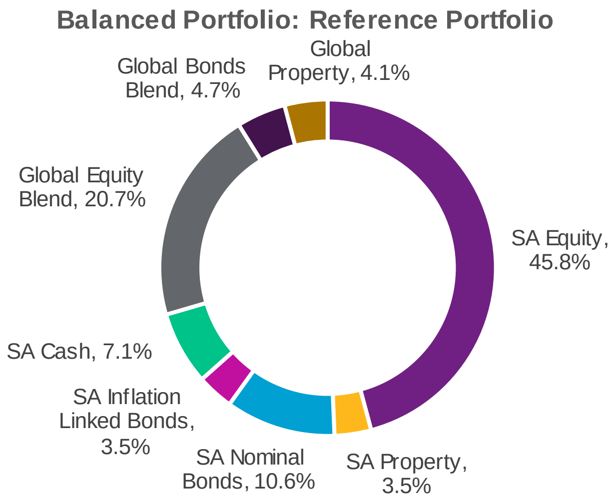
A tactical mandate allocation is a decision to deviate significantly from the portfolio's strategic mandate allocation on the basis that an asset class is assessed to be expensive (cheap) compared to its long-term average or that the Fund would like to take a specific position as a result of market conditions (e.g. a more defensive position than the long term strategic allocation). The Fund may implement a tactical manager or asset allocation overlay from time to time.

The Fund has made the tactical decision to invest in a more defensive domestic absolute portfolio for a period of six to twelve months, from the initial investment in June 2020, until markets stabilise following the Covid-19 pandemic. The Fund has decided to make an investment in the Abax Domestic Absolute portfolio to effect this decision and will review the appropriateness thereof at the quarterly meetings.

Investment manager	Investment approach	Target out-performance
Abax	Multi-asset class; local only. Absolute return focus over the medium term (three years) and downside protection.	3% p.a. (real)

Reference Portfolio (Aggregate)

The performance objective of the Balanced Portfolio is to out-perform the Reference Portfolio (RP), set out below, that has been developed to target a real return of 5.5% p.a. over five years with a risk budget of 14.0% p.a. based on the long-term asset class assumptions set out in Appendix D.



The appropriate index for each asset class is set out in Section 1.

Cash flow allocation and rebalancing rules

Cash flows will be invested to or disinvested from the local assets only in a manner to maintain the strategic mandate and manager weights . Any additional offshore investments (or any disinvestments) will be on an ad-hoc basis only.

The need for rebalancing will be monitored by AFI and through the investment reporting process administered by the investment consultants. Rebalancing to the strategic portfolio weights and rebalancing of the offshore allocation will be done on an ad-hoc basis by moving assets between portfolios, under the recommendation from the investment consultants and approval from the Trustees.

Final Year Portfolio

Investment objective

The primary investment objective of the Final Year Portfolio is to achieve a real return of 2.0% p.a. (net of all costs) over rolling 12-month periods. The risk budget consistent with this objective is 2.0% p.a. (expressed as standard deviation), which is slightly lower than the historic volatility while Prescient Positive Return was the underlying investment.

The secondary investment objective of the Final Year Portfolio is capital preservation, i.e. no negative returns, over any 12-month period.

The performance of the Portfolio is also assessed relative to its Reference Portfolio which is a 100% SA cash portfolio.

Prescient Income Provider is the only underlying investment of the Final Year Portfolio.

Money Market Portfolio

Investment objective

The primary investment objective of the Money Market Portfolio is to achieve a real return of 1.0% p.a. (net of all costs) over rolling 12-month periods. The risk budget consistent with this objective is 2.0% p.a. (expressed as standard deviation).

The secondary investment objective of the Money Market Portfolio is capital preservation, i.e. no negative returns, over any 12-month period.

The performance of the Portfolio is also assessed relative to its Reference Portfolio which is a 100% SA cash portfolio.

AFI Banker is the only underlying investment of the Money Market Portfolio.

Unclaimed benefits

The benefits of members who have left the services of the Employer before 1 March 2019 without claiming their benefit, are categorised as unclaimed benefits. These unclaimed benefits will be invested in the Money Market Portfolio until it is claimed by the member.

Reserve accounts

The Fund has established the following reserve accounts, which are all invested in the Balanced Portfolio:

- Processing Error Reserve
- Risk Reserve
- Expense Contingency Reserve

Section 3: Implementation defined benefit section

Pensioner Portfolio

The assets attributable to all members who have purchased at retirement a pension from the Fund, are invested in the Pensioner Portfolio.

Investment objective

The primary investment objective of the Pensioner Portfolio is to achieve a real return of 4.5% p.a. (net of all costs) over rolling three-year periods. The risk budget consistent with this objective is 8% p.a. (expressed as standard deviation), although the historic volatility has been closer to 6% p.a. since 2011.

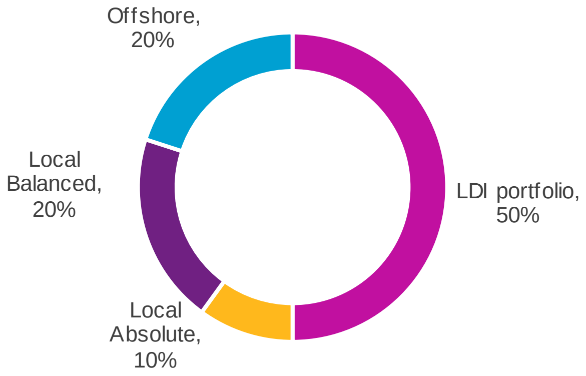
The investment objective is determined by the post-retirement interest (PRI) rate set by the Actuary and agreed to by the Trustees for the Pensioner liabilities. As such, the investment objective is forward looking only and in evaluating the portfolio's past performance against the investment objective, the portfolio's historic PRI should be considered:

Period	PRI
Inception to 31/12/2012	3.5%
1/1/2013 to 31/12/2014	3.0%
1/1/2015 to 31/12/2017	3.5%
1/1/2018 to 31/12/2018	3.75%
1/1/2019 to 31/03/2020	4.0%
1/4/2020 onwards	4.5%

The secondary investment objective of the Pensioner Portfolio is capital preservation, i.e. no negative returns, over any 12-month period.

Mandate allocation

The chart below sets out the mandate allocations for the Pensioner Portfolio and incorporates the Trustees' decision to invest 20% offshore. The offshore allocation is thus an active decision by the Trustees and will be reviewed over time.



The Local Balanced and Offshore Composites are set out in Section 4.

The table below sets out the investment approach of the managers:

Investment mandate	% Allocation	Investment approach
Old Mutual	50.0%	Liability driven investment (LDI) which comprises interest-bearing investments using both interest rate and credit management to out-perform the benchmark.
Local balanced	20.0%	Multi-asset class; local only. Long term investing with a performance objective of around 5% p.a. real over a five years or longer measurement period.
Abax	10.0%	Multi-asset class; local only. Absolute return focus over the medium term (three years) and downside protection.
Offshore	20.0%	Global diversified balanced blend of specialist offshore managers.

Cash flow allocation and rebalancing rules

The Trustees have resolved to net cash flows in respect of the Pensioner Portfolio off against each other and split all cash flows in the following proportion across the local mandates and to rebalance according to the rebalancing rules below as and when necessary.

Manager / Mandate	Target allocation	Max allocation	Rebalanced to	Min allocation	Rebalance to
Abax	33.3%	36.5%	35.0%	30.0%	31.5%
Local balanced	66.7%	70.0%	68.5%	63.5%	65.0%

The need for rebalancing the offshore allocation will be monitored through the investment reporting process administered by the investment consultants. Rebalancing of the offshore allocation will be done on an ad-hoc basis by moving assets between portfolios, under the recommendation from the investment consultants and approval from the Trustees.

Section 4: Composite Portfolios

The Trustees have set up a local balanced manager and an offshore composite that are utilised by both the Balanced and Pensioner Portfolios.

Local Balanced Composite

The table below sets out the manager allocation and investment approach of the local balanced managers utilised in the Local Balanced Composite:

Investment manager	% Allocation	Investment approach
Ninety One	27.5%	Multi-asset class; local only. Earnings revision momentum approach. Portfolio turnover close to 100% p.a.
Coronation	27.5%	Multi-asset class; local only. Long term investing with an absolute return focus. The manager tends to have a quality value bias. Portfolio turnover around 35% p.a.
Allan Gray	22.5%	Multi-asset class; local only. Long term investing with an absolute return focus. The manager has a contrarian bias and the portfolio is likely to have value characteristics. Portfolio turnover around 20% p.a.
Prudential	13.5%	Multi-asset class; local only. Benchmark cognisant with a relative value investment approach.
Niche Manager Portfolio	9.0%	Multi-asset class; local only. Smaller managers with the ability to invest in mid and small cap shares.

The current managers used in the Niche Manager Portfolio (NMP) and their strategic allocations within the NMP are as follows:

Underlying Portfolio	Allocation
Kagiso Domestic Balanced	50.0%
Laurium Domestic Balanced	50.0%
Total	**100.0%**

Reference Portfolio (local assets only)

The table below sets out the RP for the local balanced managers. The RP is included in the investment guidelines of Ninety One, Coronation and Allan Gray.

Asset class	RP allocation
SA equities	65.0%
SA property	5.0%
SA nominal bonds	15.0%

Asset class	RP allocation
SA inflation linked bonds	5.0%
SA cash	10.0%

In addition to measuring the local balanced managers against the RP, these mandates will also be measured against a local balanced manager peer group.

Offshore Composite

The table below sets out the mandate allocation of the Offshore Composite:

Investment mandate	Interim allocation %	Strategic allocation %	Investment approach
Global equity	70%	70%	Diversified blend of global equity managers that approach the market differently. Aim is to construct a portfolio that has a high active share (i.e. very different from the index), but a low tracking error i.e. risks such as style, sector, country and currency are largely neutralized and stock selection the main driver of performance.
Global bonds	8%	16%	Blend of two bond managers that follow the value approach to bond investing (i.e. allocate more capital to countries the offer the highest assessed real return). The portfolio also has some exposure to EM debt.
Global listed property	8%	14%	Resolution Capital is the only manager; the firm follows a quality growth approach.
Global absolute return	14%	-	Seeking positive absolute returns with low volatility.

Blend of global equity managers

The global equity manager line-up is as follows:

Underlying Portfolio	Interim allocation %	Strategic allocation %	Investment approach
Orbis Global Equity	20.0%	20.0%	Quality and value focus. Diversified portfolio of 80 – 120 stocks.
Lansdowne Long Only Global Equity	28.6%	20.0%	Mega cap growth with a concentrated portfolio of 15-25 holdings.
Ardevora Global Equity	20.0%	20.0%	Eclectic investment style, exploiting of behavioural errors. Diversified portfolio of 150 - 200 stocks equally weighted within a region.
Lindsell Train Global Equity	11.4%	20.0%	Focuses on ultra-high quality, capital-light, companies with sustainable business models. Very low portfolio turnover. Concentrated portfolio of 20-35 stocks.
GQG Partners Global Equity	20.0%	20.0%	Quality growth focusing primarily on the liquid securities of large-cap issuers. No thematic overlay.

Underlying Portfolio	Interim allocation %	Strategic allocation %	Investment approach
			Concentrated portfolio of 40-60 stocks.
Total	**100.0%**	**100.0%**	

As a result of significant under-performance from Lansdowne up to December 2020, the Trustees have decided, as a short-term tactical allocation, to initially only allocate 11.4% to Lindsell Train while keeping Lansdowne's allocation at the previous allocation of 28.6%. The manager position to be assessed at quarterly Trustee meetings with a view to move to the strategic allocation over time.

Blend of global bond managers

Two global bond managers have been approved for the strategic bond allocation. As a result of global bond yields reducing dramatically during the COVID-19 pandemic, the Trustees have decided to allocate the reduced global bond exposure to Brandywine only. The strategic bond manager allocation is as follows:

Underlying Portfolio	Interim allocation %	Strategic allocation %	Investment approach
Brandywine Global Opportunistic Fixed Income Fund	50.0%	50.0%	Fundamentally-driven value manager investing in sovereigns and corporates with attractive combination of high real yields and durable fundamentals.
Colchester Global Bond Fund	50.0%	50.0%	Value orientated global fixed-income manager that invests primarily in high quality sovereign bond markets that offer attractive real yields and sound finances.
Total	**100.0%**	**100.0%**	

Global asset class performance measurement

The global equity, bond and listed property managers will be measured against the appropriate index for the asset class, as set out in Section 1.

The Reference Portfolio for the Offshore Composite has been set as follows and performance will be measured against this reference portfolio.

Asset class	RP allocation
Global equities	70.0%
Global bonds	16.0%
Global property	14.0%

Appendix A: Roles and responsibilities

The Trustees are responsible for the management of the Fund in its entirety. This includes the administration of members' benefits, the investments of the Fund's assets and compliance with any provisions of the regulatory environment that affect the Fund. However, the Trustees accept that it cannot have expert knowledge of all aspects of the Fund's management.

Therefore, the Trustees have delegated certain tasks to service providers. The Trustees recognise that it can delegate these tasks but not the ultimate responsibility for the tasks.

These service providers include, but are not limited to, an administrator, an actuary (valuator), an asset consultant, investment managers and consultants on other Fund matters.

The Trustees have established an Investment and Strategy Committee (ISC) to monitor and research aspects of the Fund's investments. Both the Trustees and the ISC make use of the services of an asset consultant which has been appointed to assist the Fund on investment matters. The mandate of the ISC is set out in Appendix B. The ISC is a sub-committee of the Board of Trustees and has no executive powers. All actions recommended by the ISC must be referred to the Trustees for approval.

The following table sets out the roles and responsibilities of some of the various parties to the Fund. Many responsibilities may not be the exclusive domain of just one party and the fulfilment of roles may similarly be spread across parties.

Party	Roles and responsibilities
The Board of Trustees	Ultimately responsible for the management of the Fund in its entirety
	Promote the education of the Trustee members
	Monitor compliance with appropriate regulations by advisors and service providers
	Consider the need to promote broad-based black economic empowerment in contracting services
	Ensure that the Fund's assets are appropriate for its liabilities
	Conduct reasonable due diligence when investing
	Conduct an analysis of risks as they apply to the Fund's investments
	Consider the sustainable long-term performance of the assets of the Fund, taking into account the environmental, social and governance characteristics of the investments
	Establish the ISC with an appropriate mandate (Appendix B)
	Formulate the Investment Policy Statement in accordance with the requirements of the Regulations, particularly Regulations 28, 37 and 38 and PF Circular 130.
	Review the Investment Policy Statement at least annually.
	Monitor compliance with Regulation 28
	Monitor the investments of the Fund in accordance with the Investment Policy Statement and effect appropriate changes to the investments when required.
	Design an investment strategy in accordance with the Investment Policy Statement

Party	Roles and responsibilities
	Assess, appoint and monitor asset managers to invest the assets of the Fund Direct the ISC and assume responsibility if the ISC does not meet
ISC	Conduct its affairs in accordance with the ISC mandate (Appendix B) Provide recommendations to the Trustees on investment matters Provide comfort to the Trustees about compliance issues on investment matters Work in partnership with any appointed asset consultant Monitor the performance of the Fund's assets taking into account the risks of achieving the required investment performance
Asset Consultant	Comply with all regulations relevant to its conduct, including but not limited to, the FAIS Act Advise the Trustees and ISC on investment matters, including but not limited to, the appointment and dismissal of asset managers, implementation of investment decisions, strategic asset allocation, target returns, risk profile and asset-liability matching Report on the Fund's performance, asset managers, risk analysis, compliance and any other investment matters Ensure compliance of investment-related service providers with relevant regulation Ensure that the Fund complies with Regulations 28, 37 and 38. Provide reporting in an appropriate format and timespan and at suitable frequencies to enable monitoring of compliance Provide due diligence information and documentation on the asset managers employed by the Fund Interface with the multi-manager on investment administration Attend Trustee and ISC meetings
Actuary	Ensure that the assets of the Fund are appropriate for its liabilities Ensure that the Investment Policy Statement is consistent with the objectives of the Fund Annual valuations Attend Trustee and ISC meetings
Asset managers	Manage the assets of the Fund in accordance with all legislative requirements and relevant regulations Manage the assets of the Fund strictly in accordance with the investment mandate agreed with the Fund Report immediately to the Fund any mandate or legislative breaches Attend Trustee and ISC meetings as requested by the Trustees
Platform provider	Administer the assets of the Fund in accordance with all legislative requirements and relevant regulations Administer the assets of the Fund strictly in accordance with the investment mandate agreed with the Fund

Party	Roles and responsibilities
	Report immediately to the Fund any mandate or legislative breaches Attend Trustee and ISC meetings as requested by the Trustees

Appendix B: Investment and Strategy Committee mandate

The Trustees of the TFG Retirement Fund have established an Investment and Strategy Committee (ISC) which is mandated to carry out the following:

A. <u>Investment Matters</u>

1. The ISC will be responsible for the updating/reviewing of the Fund's Investment Policy Statement. The ISC will review the policy at least annually.

2. The ISC will monitor the Fund's underlying investment strategy for the members on an on-going basis. The main areas the committee will focus on are:

   - Governance;
   - Fund objectives;
   - Default investment strategy (life stage model);
   - Multi-managers / asset managers; and
   - Portfolio construction of the underlying portfolios with the multi-manager.

3. The ISC will review the Fund's investment performance. Although the focus is not on short-term performance it is important for the ISC to understand any underperformance over the short-term and to deal with it accordingly. This review also includes the amount of risk taken within the respective portfolios.

4. The ISC will on an ongoing basis assess/investigate/review alternative investment products, new concepts and possible investment opportunities for possible inclusion at a future date, should it be appropriate given the Fund's overall investment strategy.

B. <u>Housekeeping Matters</u>

1. The ISC will not have any decision-making powers. The ISC will report to and make recommendations to the Board of Trustees.

2. Obtain expert advice on matters where the ISC lacks sufficient expertise to fulfil its mandate, incurring reasonable expenses in doing so.

3. Conflicts of interest should be disclosed at the start of the meeting or at any time when a member of the ISC or service provider becomes aware of a conflict. This issue should be documented and reported to the Trustees.

4. The ISC may not refer matters for legal opinion (except investment contracts and mandates) at the Fund's cost, without the consent of the full Board of Trustees.

5. The ISC will have access to Fund's appointees' i.e. the Fund's Actuary, Consultant and Asset Consultants.

7. The membership of the ISC will consist of at least 4 persons to be appointed by the Board of Trustees.

8. The ISC members will elect a chairman and his role will be to bring order to the meeting.

9. The ISC will endeavour to meet at least four times a year, however they may also meet at any other time should they deem it necessary.

10. The ISC will be guided on the reference to binding legislation and guidelines.

11. The ISC is to review and assess all investment advice given.

12. The ISC will keep minutes of each meeting that will be tabled at the Trustee meetings.

26 July 2021

_________________________________ _______________

Chairperson of the Investment ISC Date:

and chairperson of the Board of Trustees

_________________________________ _______________

Chairperson of the Board of Trustees Date:

23 July 2021

_________________________________ _______________

Principal Officer Date:

Appendix C: ESG policy

Preamble

Core investment belief number 4 is that ESG factors will have an impact on investment returns. In formulating its ESG policy, the Trustees are mindful of its fiduciary duty to restrict capital allocation to investment opportunities that offer the prospect of at least a fair risk adjusted return. Whilst the Trustees will consider investing in strategies that provide strong social returns, such investment is subject to the expected return being at least fair compensation for the risk taken-on.

Negative screening

The Trustees draw 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 gaming).

The Trustees have decided not to apply any negative screening, in part because the opportunity set in South Africa is already limited. 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 Trustees believe in not in the best interests of the South African society.

Nevertheless, the Trustees are supportive of a transition plan to reduce the country's carbon footprint 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 Trustees on the outcome of such engagement.

Positive screening

Whilst the Trustees believe that positive ESG characteristics generally results in better company performance over the long-term, it also takes the view that these characteristics are priced in by the market. Accordingly, the Trustees believe 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 if other investors take a different view.

Importantly, the belief means that the Fund's investment managers are permitted to invest in companies with poor ESG characteristics, provided that due allowance is made for these poor features in their assessment of the fair value of the opportunity.

ESG integration

The Trustees believe 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 Trustees recognise that as opposed to becoming an active shareholder, the investment manager has the option to sell if the 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 part based on improving the ESG profile of the firm, also needs to take an active owner role.

The Trustees are of the view that a key element of active ownership is effective engagement with the company's management. Accordingly, the Trustees place 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 Trustees will delegate 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.

Impact investing

The Trustees believe that impact investing is an important social responsibility. Given the fiduciary responsibility of the Trustees, it will only allocate capital to investment opportunities that offer the prospect of a fair risk adjusted return. Accordingly, the Fund will not compromise investment returns in pursuit of social returns. The Trustees are 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.

At this time the Fund has not invested in any strategy that includes a social return requirement.

Implementation of ESG policy and reporting

The Fund invests in a combination of pooled and segregated mandates. In the case of pooled mandates, the Fund has no control over the manager's consideration and integration of ESG factors in the portfolio. The Trustees have at this time decided not to require the investment managers of segregated portfolios to apply negative or positive screening when making investment allocations. Nevertheless, it will require the appointed managers to consider the economic sustainability and social and governance factors of their investment decisions and the extent to which they have allowed for long term sustainability in the assessment of intrinsic value. The Trustees will rely on its appointed investment managers to provide at least annual reporting on company engagement and voting. Specific reporting is required in respect of companies whose activities impact negatively on climate. In addition, where the investment has a clear social return, the manager is required to report on these social returns.

The Trustees recognise that a key risk to long-term investing is the under-estimation of factors that ultimately adversely affect the intrinsic value of a company and will therefore assess how the Fund’s appointed investment managers integrate ESG into their research process and assessment of fair value. The Trustees may terminate a manager’s appointment where they do not assess this to be satisfactory. The Trustees will require the Fund’s investment consultants to report on the efficacy of the Fund’s investment managers in integrating ESG into their research process.

Appendix D: Capital market assumptions

The following long-term assumptions have been made in respect of the real returns and risk (standard deviation) per asset class. These assumptions have been derived by Willis Towers Watson as at April 2021 and, together with a correlation matrix, are used to determine the Reference Portfolio for the various investment channels. All expected returns shown are gross of manager fees and does not take manager skill into account.

Asset class	**Expected real return***	**Risk**
SA equities	8.5% p.a.	21.0%
SA property	9.0% p.a.	18.0%
SA nominal bonds	4.0% p.a.	10.0%
SA inflation linked bonds	3.9% p.a.	9.0%
SA cash	1.5% p.a.	2.0%
Global equities (in ZAR)	4.0% p.a.	18.0%
Global bonds (in ZAR)	0.25% p.a.	7.0%
Global property (in ZAR)	5.5% p.a.	16.0%

* This is expected geometric real return.

The Trustees will periodically assess the appropriateness of the Fund's investment strategy and the respect Portfolios' investment objectives in light of changes to the expected long-term real returns on the main asset classes listed above.

Appendix E: Replacement ratio

The primary investment objective of the Fund is to achieve real rates of return for Fund members for a member with 40 years of pensionable service, to retire with an income approximately equal to 70% of their pensionable salary at retirement. This is expressed as a target replacement ratio (RR) that members can aim to achieve, but which is not guaranteed. The assumptions underlying the calculation of the replacement ratio are:

- contribution rate towards retirement funding: 16.8% of pensionable salary,
- normal retirement age: 65 years,
- salary increases: 1.5% above inflation + promotional scale as determined by AFI,
- annuitisation factor: joint with-profit annuity purchased at 4.5% with 75% reversion, pension increase of 100% of inflation (Post-retirement Mortality: PA (90) -2 plus 0.75% improvements p.a.; Male spouse 3 years older)
- the full retirement benefit is used to purchase the annuity (no commutation)

The target real rate of return required to achieve a 70% RR equates to an average net return of 5.3% p.a. over a 40-year Fund membership.

The Trustees will conduct an asset liability modelling exercise on a regular basis, at least once every three years, with a view to determining whether the investment objectives remain valid. The latest asset liability modelling exercise was conducted by Alexander Forbes in January 2020 (based on data as at 31 December 2018) and concluded that the 70% replacement ratio for the active members remain reasonable.

Appendix F: Decision log

The Fund is a defined contribution pension fund. Benefits are paid on retirement, death or withdrawal from the Fund. These benefits are defined in the Rules of the Fund.

The Fund converted from a defined benefit to a defined contribution structure, with effect from **1 April 1992**. All members at the time were provided with a guarantee that that their ultimate retirement benefit would not be less than what they might have enjoyed under the previous structure. Among other liabilities (such as the Fund's pensioners), this guarantee is triennially valued by the actuary, who also conducts annual reviews of the Fund's assets and liabilities and its various reserve accounts.

In **1998**, the Trustees took the strategic decision to maintain the method (aggregate approach) by which active members participate in the investment performance of the Fund, being smoothed returns underpinned by an actuarially monitored investment reserve, rather than to have members' shares participate directly in the Fund's investment returns.

It has also been recognised that there are fundamental differences in approach between the principles of investment management applicable to active members, as opposed to retired pensioners (inclusive of dependants of deceased active members and surviving spouse pensioners). Therefore, with effect from **1 April 1999**, the assets attributable to current pensioners (including disability pensioners, surviving spouse and other dependant pensioners) have been invested in a separate pensioner portfolio.

On **1 January 2002** the valuation basis for pensioners was changed whereby the provision for future increases was increased by 2.5% per annum (on average). This adjustment significantly increased the likelihood of the Fund being able to grant the targeted 100% of inflation increases into the future. This valuation basis change was possible due to the good investment returns achieved in the past. Active members also shared, on a pro-rata basis, in this benefit improvement via good bonus rates allocated to them.

On **7 December 2001** the Pension Funds Second Amendment Act, 2001, better known as surplus legislation, was promulgated. This required, amongst other, that minimum benefits are payable to members who exit the Fund after expiry of 12 months following the first statutory valuation date of the Fund post 7 December 2001. The Trustees decided to vest the pro-rata share of members' Investment Reserve on exits with effect from 7 December 2001 to match the minimum benefits requirement. This resulted in effectively removing the smoothing principle and a move to a market linked return approach for all members who exited the Fund since 7 December 2001. Furthermore, due to negative market movements during 2002 and early 2003, the pro-rata share of the investment reserve effectively reduced to zero and this resulted in the Fund moving to a monthly indexed market linked return allocation to all active members from **1 April 2003** onwards.

The Trustees implemented a default life stage approach for members nearing retirement (55 years and older) during **July 2004**.

The life stage approach satisfies the need to have a range of investment strategies suitable for members of the Fund, without requiring the members to have a high level of financial sophistication. In implementing this approach, members are automatically grouped into risk profile portfolios based on their age/term to retirement. Essentially, they progress from a high-risk profile portfolio to a low risk profile portfolio at retirement. No action will be required by the members as this default action will be performed by the Fund administrator.

However, the member still has the option to remain in the Balanced Portfolio.

The objectives of these risk profile portfolios are to protect members against short-term capital loss. As members approach retirement they typically become more risk averse and the investment strategy that was optimal throughout most of their career may become less appropriate. A member may wish to protect the returns earned in the past to allow a greater degree of certainty in respect of retirement planning, even if this is at the cost of the potential returns that can be earned over the member's remaining membership. It is intended that these portfolios will provide members with significantly lower risk-adjusted returns within conservative parameters. Members within 12 months of retirement will be switched to a cash portfolio.

During **March 2008** the Minister of Finance announced that pension funds will be allowed to increase their offshore exposure to 20% of total assets, as soon as Regulation 28 of the Pension Funds Act is amended. The Trustees of the TFG Retirement Fund agreed that the Fund should apply for exemption from Regulation 28 in order to obtain the increased exposure as soon as possible. Exemption from Regulation 28 was obtained from the Financial Services Board during July 2008.

In **late 2010**, the Trustees resolved to restructure the offshore investments of the Fund. The historical overweight exposure to Orbis was moderated to 33% and the holding was switched into the Orbis Global Equity Fund. The Vantage Global Investment Fund and Ruffer Total Return Fund replaced the investments in Gartmore and excess investments in Orbis. Stenham was retained as an offshore asset manager.

In **December 2010**, the National Treasury announced a relaxation of exchange controls to allow retirement funds to invest up to 25% offshore. Funds that had previously applied for the exemption referred to in the second paragraph above were automatically granted a further exemption to 25%.

In **early 2011**, the Trustees resolved to increase the Fund's offshore exposure to 25% of assets for the Balanced Portfolio and 15% in the Pensioner Portfolio. At the same time the Stenham Universal Fund was replaced with the Ruffer Total Return Fund.

In **March 2011**, the National Treasury released a new Regulation 28 with which Funds had to comply by 1 July 2011, failing which an extension was granted to 31 December 2011. The updated Regulation 28 has formalised many of the governance issues raised in PF130.

Since **March 2011**, there have been several iterations of the reporting requirements in terms of Regulation 28. The table in section 10 sets out the Fund's intentions to comply fully with the conditions of Regulation 28.

In **February 2012**, the Trustees resolved to replace the Orbis Global Equity Fund with the Vantage World Equity Fund.

In **July 2012**, the Trustees resolved to disinvest from the Sakhisizwe Portfolio. The proceeds were invested with two of their domestic managers, Ninety One and Prudential.

In **August 2014**, the Trustees resolved to invest 10% of the Balanced Fund's domestic composite into the Niche Manager Portfolio. The investment was successfully completed during April 2015.

In **August 2014**, the Trustees resolved to increase the strategic offshore exposure of the Pensioner Portfolio to 20%.

In **February 2015**, the Trustees resolved to remove the Vantage Global Investment Fund and the Vantage World Equity Fund from the Balanced Portfolio and the Pensioner Portfolio. Orbis Global Balanced Fund and Lansdowne Equity Fund was introduced into the offshore construct. The resultant manager allocation for the offshore construct was as follows:

Manager	**Exposure**
Ruffer Total Return	40%
Orbis Global Balanced	40%
Lansdowne Equity Fund	20%

The new offshore construct was successfully invested during July 2015.

In **May 2015**, the Trustees resolved to formally separate the Pensioner Portfolio and the Pensioner Growth Portfolio (portfolio utilised in the life stage model).

The Pensioner Growth Portfolio was renamed the De-Risking Portfolio. The investment objective was revised from a real return of CPI + 3.5% per annum to CPI + 3% per annum. The domestic manager allocation was amended to target the revised real return objective. An offshore allocation of Ruffer Total Return (5%) and Orbis Global Balanced (5%) was introduced at a strategic offshore allocation of 10%. The new De-Risking Portfolio was successfully invested during July 2015.

The Pensioner Portfolio's investment objective was revised from a real return of CPI + 3.5% per annum to CPI + 4% per annum. The domestic manager allocation was amended to target the revised real return objective.

In **May 2015**, the Trustees resolved to replace the IS Banker Portfolio with the Prescient Positive Return Portfolio as the Final Year Portfolio of the life stage model. The IS Banker Portfolio remained a member choice option.

In **November 2016**, the Trustees resolved to invest 25% of the Ruffer Total Return Fund into the Ruffer Total Return USD Fund. The investment was successfully completed during February 2017.

In **February 2017**, the Balanced Portfolio's investment objective was revised from CPI + 7% per annum to CPI + 6.25% per annum (net of costs).

In **May 2017**, the Trusteed resolved to replace Prudential Domestic Balanced Portfolio with the Coronation Domestic Balanced Portfolio in the Balanced Portfolio. In February 2018, the Trustees revised its decision and resolved to initially only allocate 50% of the assets invested with Prudential to Coronation.

In **August 2017**, the Trustees resolved to replace ABSA Absolute Return Fund and the Allan Gray Full Discretion Local Fund with the Allan Gray Domestic Absolute Return Fund in the De-risking Portfolio.

In **November 2017**, the Trustees resolved to adjust the Fund's investment objectives as follows:

Balanced Portfolio:	CPI + 5.5% per annum net of cost over a period of five years from CPI + 6.25% per annum net of cost over a period of three years;
De-risking Portfolio:	CPI + 3.5% per annum net of cost over a period of three years from CPI + 3% per annum net of cost over a period of three years;
Final Year Portfolio:	CPI + 2% per annum net of cost over a period of one year from CPI + 1.5% per annum net of cost over a period of one year.

In **November 2017**, the Trustees resolved to move a number of portfolios off the AFI platform, onto the Fund's balance sheet, namely the Allan Gray, Coronation and Ninety One portfolios within the Balanced Portfolio, and the Allan Gray and Abax portfolios within the Pensioner Portfolio. In **May 2020** the Trustees reversed part of this decision and decided to move all Balanced Portfolio managers on to the AFI platform.

In **January 2018**, the Trustees resolved to replace the Prescient Pensioner Fund with the Abax Domestic Absolute Return Fund in the De-risking Portfolio and to replace the Prescient Pensioner Fund with the Prescient Income Provider Fund in the Final Year Portfolio.

In **February 2018**, the National Treasury announced a relaxation of exchange controls to allow retirement funds to invest up to 30% offshore and up to 10% in Africa ex-SA assets. In March 2018, the Trustees resolved to increase the strategic offshore allocation of the Balanced Portfolio to 29.5%.

In **May 2018** the Trustees resolved to increase the Fund's retirement age from 60 to 65 years.

In **August 2018**, the Trustees agreed to rebalance between the Ruffer funds and split the Ruffer allocation in a 2:3 ratio to the GBP and USD funds respectively. The switch was implemented in October 2018.

In **November 2018**, the Trustees resolved to invest 25% of the Pensioner Portfolio in a Liability Driven Investment (LDI), managed by Old Mutual and to increase this over time to 50%. The LDI portfolio will hedge the interest rate and inflation risk of a portion of the liability. The Trustees resolved to disinvest proportionally from the local managers and this was effected and the investment implemented in October 2019.

In **May 2019,** the Trustees resolved to replace the De-risking portfolio with the Final Year Portfolio in the life stage model and to transition directly from the Balanced Portfolio to the Final Year Portfolio over a period of five years. This was implemented in June 2019.

In **May 2019**, the Trustees approved an investment in Ardevora, a global equity manager, as part of the offshore portfolio utilised in the Balanced and Pensioner Portfolios. The Trustees allocated 10% of the offshore portfolio to Ardevora, funded by a reduction from Ruffer. This was implemented in July 2019.

In **August 2019**, the Trustees resolved to limit the maximum strategic allocation to any local manager of the Balanced Portfolio to 25% of the local composite and to terminate the NMP's allocation to Perpetua. The Trustees approved the following balanced manager allocation in respect of the local composite:

Manager	Allocation
Allan Gray	25%
Ninety One	25%
Prudential	25%
Coronation	17%
NMP	8%

Within the NMP allocation, the assets will be split 50% each to Laurium (previously Tantalum) and Kagiso. This has been implemented September 2020.

In **November 2019**, the Trustees resolved to require Ninety One, Allan Gray and Coronation to combine its exposure both Naspers and Prosus when testing against the maximum single issuer equity exposure limit. This has been implemented by all three managers by November 2020.

In **February 2020**, the Trustees resolved to increase exposure to the Old Mutual LDI investment in respect of the Pensioner Portfolio to 50%, funded through a proportional reduction of the local managers to 10% each. This was implemented in June 2020.

In **May 2020**, the Trustees resolved to start the implementation of a new strategic offshore manager allocation in respect of the Balanced and Pensioner Portfolios and approved investments with GQG and Orbis (global equity) and Brandywine (global bonds) through a reduction in the Fund's exposure to Ruffer and a total disinvestment from Orbis Global Balanced. This was implemented in July 2020.

In **May 2020**, the Trustees resolved to implement a tactical manager allocation in respect of the Balanced Portfolio and invest on a short-term basis in a more defensive local absolute portfolio until markets stabilise following the Covid-19 pandemic. The Fund has decided to reduce the initial investment into the Coronation Domestic Balanced portfolio and invest 5% of the Balanced Portfolio in the Abax Domestic Absolute portfolio. This was implemented June 2020.

In **May 2020** the Trustees resolved to invest all Balanced Portfolio assets on the AFI platform, i.e. to bring Allan Gray in respect of the Balanced Portfolio on platform. The timing of the transition on platform to be agreed later in the year. The transition was completed in February 2021.

In **November 2020** the Trustees resolved to continue with the implementation of the approved offshore manager allocations through the partial implementation of the approved allocation to Lindsell Train and Resolution Capital through a reduction in Ruffer and Orbis Equity. The Trustees furthermore resolved to completely disinvest from Ruffer International (GBP fund) and that the full Ruffer allocation be allocated to the USD fund. This was implemented February 2021.

In **November 2020** the Trustees resolved to create an investable offshore composite for the Balanced and Pensioner Portfolios' manager allocations and thus for offshore performance of the two Portfolios to be the same. This was implemented February 2021. The interim strategic manager allocation in respect of the offshore composite is as follows:

Manager	Interim strategic allocation
Ruffer Total Return (USD)	14.0%
Orbis Global Equity	14.0%
Ardevora Long-Only Equity	14.0%
Lansdowne Long-Only Equity	20.0%
GQG Global Equity	14.0%
Lindsell Train	8.0%
Resolution Capital (property)	8.0%
Brandywine Global Bonds	8.0%
Colchester Global Bonds	-

In **November 2020** the Trustees resolved to implement a local balanced composite in respect of the Balanced Portfolio, consisting of the core local balanced managers as follows:

Manager	Strategic allocation
Allan Gray	25%
Ninety One	30%
Coronation	30%
Prudential	15%

The Trustees furthermore agreed to the following strategic local allocation in respect of the Balanced Portfolio:

Manager	Strategic allocation
Local Balanced Composite	86.0%
NMP	9.0%
Abax	5.0%

This was implemented February 2021.

In **February 2021**, the Trustees agreed to include the two niche managers in the Local Balanced Manager Composite and to replace the Pensioner Portfolio's investments with Prudential Pensioner and Allan Gray with the Local Balanced Manager Composite. This means that the Pensioner Portfolio's Allan Gray investment will be moved on platform. The strategic allocation of the Local Balanced Composite was resolved as follows:

Local Balanced Composite	Strategic allocation
Ninety One	27.5%
Coronation	27.5%
Allan Gray	22.5%
Prudential	13.5%
Kagiso	4.5%
Laurium	4.5%

The Trustees resolved that the Balanced Portfolio will have a 95% local exposure to the Local Balanced Composite and that the remaining 5% will be allocated to Abax on a tactical basis. The Pensioner Portfolio will have a 20% total allocation to the Local Balanced Composite as follows:

Pensioner Portfolio	Strategic allocation
Old Mutual	50.0%
Abax Real Return	10.0%
Local Balanced Composite	20.0%
Offshore Composite	20.0%

As at April 2021, the Fund is still in the process of implementing the decision.

Appendix G: Specific issues required by Regulation 28

It is the stated intention of the Fund to comply with the provisions of Regulation 28 at all times.

The main sections of Regulation governing compliance are as follows:

Regulation 28 section	Fund action
(2)(a) A fund must at all times comply with the limits as set out in this regulation;	The Fund will monitor compliance continually. Practically, this will mean monitoring at every month-end for breaches of any of the limits set out in Regulation 28, section 3(a)-(i). Where a breach is discovered, the Fund will establish when in the previous month, the breach actually occurred. If any intra-month breaches occur but are not discoverable at month-end, then the Fund will still have complied as the breach will have rectified itself within the 12 months allowed by the Regulation.
2(b) A fund must have an investment policy statement, which must be reviewed at least annually.	The Fund has made an Investment Policy Statement part of its governance structure. This document will be reviewed at least annually in a formal manner.
2(c) (i) A fund must promote the education of the board with respect to pension fund investment, governance and other related matters;	The Fund will conduct education sessions on a variety of Fund-related matters before each Trustee meeting. The members of the Board of Trustees and ISC will also be encouraged to attend Trustee training workshops and other appropriate seminars. The Trustees will actively seek opportunities to further its abilities to manage the Fund
2(c) (ii) A fund must monitor compliance with this regulation by its advisors and service providers;	The Fund will require relevant service providers to comply with the Regulation in terms of either a mandate or service level agreement.
2(c) (iii) A fund must in contracting services to the fund or its board, consider the need to promote broad-based black economic empowerment of those providing services;	The Fund will examine the B-BBEE credentials of all of its service providers and will promote B-BBEE in the appointment of service providers to the Fund.
2(c) (iv) A fund must ensure that the fund's assets are appropriate for its liabilities;	The Fund will conduct asset/liability modelling exercises and financial assessments to ensure that the assets are appropriate for its liabilities.

Regulation 28 section	Fund action
2(c) (v)-(viii) A fund must exercise due diligence and assess risks	The Fund will ensure that proper due diligence will be conducted both with incumbent investments and investment managers and before any new investment or investment manager is chosen.
2(c) (ix) A fund must before making an investment in and while invested in an asset consider any factor which may materially affect the sustainable long term performance of the asset including, but not limited to, those of an environmental, social and governance (ESG) character.	The Fund will encourage its appointed asset managers to be signatories to the Code for Responsible Investing in South Africa (CRISA) and/or the United Nations Principles of Responsible Investing (UNPRI). Where this is impractical the Fund recognises the role it has to play as an institutional investor by investing responsibly. It further realises that using third party asset managers puts the Trustees at a remove from the front line of investing. However, the Fund will engage with the appointed asset managers on ESG issues and the principles espoused in CRISA and request them to make specific reference to the issues and the principles in their report backs.
3(a)-(i) These sections detail the limits within which a fund is required to operate in terms of asset class and instrument exposure.	The Fund intends to manage its affairs in a manner compliant with Regulation 28 at all times. The Fund, at its discretion, will not invest in such a manner that causes a breach in the required limits.
3(j) the limits set out in the Regulation may be exceeded where the excess is due to a change in the fair value or characteristic of an asset, and not as a result of discretionary transacting either by the fund or on the fund's behalf, provided that where a fund exceeds any limit: - (i) such fund must inform the Registrar without delay of the limit being exceeded, including the reasons for such excess; (ii) such fund must not, for as long as the excess exists, make any further investments or contractual commitments to invest in those assets or categories of assets; and (iii) the board must ensure compliance with the relevant limits within 12 months from the date of the excess arising or such other period as determined by the Registrar.	The Fund will monitor compliance continually. Practically, this will mean monitoring at every month-end for breaches of any of the limits set out in sections 3(a)-(i). Where a breach is discovered, the Fund will establish when in the previous month, the breach actually occurred. When a breach is discovered the Fund will not invest any assets in those assets or categories that are in breach. The Fund intends to remedy breaches within the 12 months allowed by the Regulation in section 3(j)(iii). If market forces or Trustee action have not effected a remedy, the Fund will correct any breach before the 12 month period expires.