Investments

Alexander Forbes Retirement Fund

Reviewed and approved by the board of trustees on 5 December 2023

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1. INTRODUCTION

This document has been prepared to record the issues considered by the trustees of the Alexander Forbes Retirement Fund (Pension and Provident Sections), in establishing an appropriate investment policy for the fund, as well as to record the investment strategy that the trustees have decided to implement, in accordance with this policy.

This investment policy adheres to the requirements of Regulation 28 of the Pension Funds Act, 1956, and was established in accordance with Pension Fund Circular 130, issued by the Financial Sector Conduct Authority ("PF 130") as far as this was practical and appropriate. Copies of Regulation 28 and Annexure B to PF130 are appended hereto as Appendices 1 and 2 respectively.

Regulation 28 states that "investment policy statement" means a document which, at least:

- Describes a fund's general investment philosophy and objectives as determined by its liability profile and risk appetite
- Addresses the principles referred to in sub-regulation (2)(c) and
- Complies with conditions as may be prescribed.

The current version of Regulation 28 of the Pension Funds Act, 1956, is effective 1 July 2011. To the extent that this amended Regulation 28 differs from PF130, Regulation 28 will apply.

This policy was developed by the board of trustees together with their appointed fund asset consultant and the fund's actuary.

The fund is a defined contribution fund. The members therefore carry the investment risk associated with the returns produced. The investment policy followed by the fund is therefore of great importance for the level of benefits and security ultimately enjoyed by the members. The main purpose of the fund is to provide retirement benefits. Benefits are paid out in lump sums but should ideally be used to purchase post retirement annuity income

The trustees' objectives in drafting this document are to:

- Document the fund's investment policy statement and summarise the investment strategy established in accordance with this policy.
- Clearly set out the decision-making responsibilities relating to the fund's assets.
- Provide a framework for the effective implementation and review of all components of the investment strategy.
- Assist stakeholders, including the trustees themselves, in understanding the investment policy and strategies of the fund, and to enable them to communicate a summarised version of this investment policy to all stakeholders.
- Document the principles raised in Regulation 28 of the Pension Funds Act, 1956 that are required to be documented in the fund's investment policy statement.
- Demonstrate adherence to PF 130, as far as this is appropriate and practical, and the Pension Funds Act, 1956.
- Provide a mechanism to ensure continuity of decision making across generations of trustees.

This investment policy document will be updated from time to time, as circumstances dictate, but at least annually as required by Regulation 28. All material changes and updates will be captured in this policy document.

2. GOVERNANCE PRINCIPLES

Good standards of governance should ensure that the fund's investments are managed appropriately and will collectively reduce the risk of material failure of an investment strategy. Governance principles define the framework of an investment policy.

The fund is governed by the Pension Funds Act, 1956. Regulation 28 of this Act is concerned with pension fund investments. By law, the fund must adhere to Regulation 28.

The trustees have taken note of Pension Fund Circular 130 (PF 130) issued by the Financial Sector Conduct Authority. Whilst Financial Services Board circulars are not legally binding on retirement funds, the trustees recognise these as "recommended practice" and aim to adhere to PF130 as far as it is deemed appropriate to do so.

A number of principles of good governance that specifically relate to investments have been identified by the trustees. Many of these are contained in Annexure B of PF130.

The trustees' views and actions pertaining to each of these governance principles are summarised below, together with extracts from PF130 (where applicable). The principles are split between those over which the trustees have a direct influence, and those over which the trustees have an indirect influence. For the latter, the trustees will review the principles applied by the multi-manager. Where these principles are not in line with the principles that the trustees would wish to have applied, the trustees will engage with both the administrator and the multi-manager.

The governance principles set out in this section are taken into account when considering and evaluating investment portfolios.

2.1 Matters over which the trustees have direct influence

2.1.1 Investment policy statements

PF 130 states that "every fund should have an investment policy statement." This document forms the investment policy statement for the fund, and also records the investment strategy that the fund has implemented in accordance with the policy.

2.1.2 Default Regulations

Regulations 37 to 40 of the Pension Funds Act came into effect on 1 March 2019. This document records the investment decisions taken to comply with these Regulations.

The Alexander Forbes Retirement Fund selects the Alexander Forbes Active Balanced Life Stage solution as the default investment strategy under Regulation 37.

2.1.3 Conflicts of interest

PF 130 states that "the trustees should distinguish between conflicts of interest which may be structural, and therefore unavoidable, and those conflicts that can be avoided or, if this does not compromise the credibility of the governance arrangements, managed appropriately."

The trustees agree that conflicts of interest should be avoided where possible. However, the trustees realise that not all conflicts can be avoided, and that certain unavoidable conflicts will thus need to be managed. Further, the trustees are of the opinion that the benefits to be gained from completely avoiding certain conflicts of interest can be overshadowed by the resulting costs or complexities.

Each conflict situation should thus be considered independently. The trustees will require all service providers to highlight any areas of conflict of interest in their operations, as far as it relates to the fund.

Similarly, trustees and fund officers will be expected to disclose where they have a conflict of interest so that these conflicts can be managed appropriately.

The trustees recognise that a potential conflict of interest exists between the administrator and the multi-manager and the fund asset consultant as they are all companies that are part of the Alexander Forbes Group. The conflict will be managed through the fund's risk management framework.

2.1.4 Pooled or segregated investment portfolios

PF130 states that "the investment policy statement should (state) whether the investments of the fund are in the form of an insurance policy or a segregated mandate, and the reasons therefor."

The fund is an underwritten fund and therefore the assets of the fund are invested through policies of insurance. The trustees choose to invest in pooled portfolios due to the liquidity requirements associated with an open umbrella fund in which unrelated participating employers can participate.

2.1.5 Pledging and borrowing of assets, and lending against the fund

Both of the above activities are envisaged by PF130, although the circular states in both instances that "extreme care and caution should be taken when considering the possibility of such activities."

The fund may engage in securities lending practices for the purpose of enhancing returns for the members; but subject to all the conditions prescribed under Regulation 28 (3) of the Pension Funds Act.

The trustees, with the guidance of the asset consultants, will review the securities lending policy of the multi-manager at least annually or as and when there is a material change in the programme. The policy should provide a framework within which lending takes place, and should address the following:

- Agents
- Counterparties
- Collateral management
- Liquidity
- Disclosure

2.1.6 Expert skills

PF 130 states that "board members are not obliged to have all the expert skills necessary ... It is reasonable for the board to engage professional accounting, actuarial, investment, legal and other experts... and pay the professionals involved appropriately for that advice."

The trustees recognise investment matters require skill, experience and time. The trustees have contracted with the administrator to provide asset consulting services to the fund and management committees where applicable. These services are provided by the asset consultant.

The trustees with the guidance of the asset consultants have appointed the professional investment managers working at multi-managers to construct investment portfolios and appoint underlying asset managers for the different portfolios. The multi-managers are responsible for the ongoing monitoring of the appointed asset managers and are required to make changes to the portfolios as and when circumstances dictate. The trustees are aware that the multi-managers have been awarded full discretion mandates and are responsible for the management of the portfolios. The multi-managers are responsible for the asset allocation of the portfolios they manage on behalf of the fund and can therefore introduce new asset classes (for example hedge funds) in their solutions whilst the trustees will monitor the exposure to these asset classes.

The fund's assets are invested in pooled portfolios managed by the selected multi-managers and single managers.

2.1.7 Member investment choice

PF 130 states that "where a fund has member investment choice, the board is responsible for ensuring that the investment portfolios from which members may make their selection is appropriate for the profile of the fund membership. If there is a default portfolio, it must be reviewed regularly for appropriateness in relation to the membership profile of the fund." Any default investment strategy would need to comply with the legislation.

All members are able to choose to opt out of the default investment strategy chosen by their management committee and instead invest in either the Alexander Forbes Goals-based LifeStage model or invest in a range of selected portfolios. These portfolios have different risk and return profiles to accommodate different investment time horizons and risk appetites.

The portfolios offered to fund members and management committees are reviewed by the trustees at least annually in terms of an overall strategy review as well as triennially on an in-depth basis.

2.1.8 Certification by fund's actuary

The Pension Funds Act requires that the fund's actuary must certify that he or she is satisfied that the fund's investment policy is consistent with the objectives of the fund and the management of the risks to which the fund is exposed, and that the chosen investment strategy will result in an appropriate relationship between the assets and the liabilities of the fund.

The trustees have sought and received certification from the fund's actuary before implementing the investment strategy.

2.1.9 Existing investment portfolios

PF 130 states that "consideration must be given to existing investment portfolios when formulating the investment policy statement."

The trustees interpret this section of PF130 to mean that any proposed change to the investment policy or strategy must be considered in conjunction with the current investment portfolios.

2.1.10 Member default investment portfolio(s)

The regulations require trustees to offer a default investment portfolio(s) to contributing members who do not exercise any choice regarding how their contributions should be invested.

The investment defaults should be relatively simple, cost-effective and transparent. The regulations require that boards assist members during the accumulation and retirement phases.

The trustees have formulated an investment strategy such that the fund offers a choice of a standard offering or customised offering to management committees of the participating employers. As detailed in section 7, the offerings make provision for the management committee to select a default investment strategy depending on the offering selected

2.2 Matters over which the trustees have indirect influence

2.2.1 Socially responsible investments

PF 130 states that "(the investment policy statement must) state whether the fund has a socially responsible investment policy, and its definition of such investment type" and "the primary obligation of funds is to provide optimum returns for its beneficiaries. However, once these returns have been met, funds should consider socially responsible investments."

The trustees have applied their minds to the issue of socially responsible investments and realise the importance of targeted investments, socially responsible investing and black economic empowerment investing.

The trustees have adopted a Responsible Investment Policy which is to be read in conjunction with this policy and which sets out the Fund's beliefs, governance, policies and activities regarding responsible investment

The trustees have considered the following in formulating its Responsible Investment Policy:

- Regulation 28 of the Pension Funds Act 24 of 1956
- The FSCA's Guidance Notice 1 of 2019
- Pension Fund Circular 130 and its Annexures ("PF130")
- The King IV Report on Corporate Governance for South Africa (2016)
- Principles for Responsible Investment (PRI)
- The Code for Responsible Investing in South Africa (CRISA)
- And other relevant legislation and industry codes

The Responsible Investment Policy is consistent with the CRISA 2.0 framework which was launched in November 2022 and is centred around the following 5 pillars:

1. Integration of ESG factors

2. Active ownership and stewardship
3. Collaboration and capacity building
4. Governance
5. Transparency

2.2.2 Shareholder activism and voting rights

PF130 states that "... the voting rights attached to shares of the companies in which funds are invested should be considered an asset of the fund. Accordingly, the board of the fund would be expected to apply the same fiduciary care and consideration to this asset as it does to the financial investments it makes. The board should formulate and develop appropriate voting policies and incorporate these into their mandates to the investment managers including monitoring and reporting of the same."

To the extent that the fund invests in policies of insurance which participate in pooled investment portfolios, the trustees realise that they cannot directly influence the voting policies of the underlying investment managers, as these assets are not held in the name of the fund. The Responsible Investment policy of the Fund sets out the trustees' approach to proxy voting.

2.2.3 Liquidity risk / termination conditions

PF 130 states that "investments should be made taking into account the cash flow needs of the fund for the coming year.... it might not be necessary for a portfolio to hold unnecessary amounts of cash or low yielding liquid assets."

Certain investment products such as structured products and insurance company smoothed bonus policies include termination conditions in their contracts, which might result in lower values being paid when fund participants wish to realise their investments. The trustees do not therefore believe that these portfolios should be available except where returns are declared monthly and any bonuses are fully vesting.

The trustees do not believe it is appropriate for the fund to be tied to portfolios for an extended period of time after a decision is taken to replace such a portfolio. The fund will generally request notice periods of no more than 30 days when including portfolios in the range to be made available. It is recognised that longer termination periods may apply to alternative assets which may be less liquid. Some alternative assets, for example private equity, are long term in nature and are suited to match the long-term liability of the fund. The liquidity requirements of the fund will be taken into account when considering exposure to these less liquid asset classes.

2.2.4 Strategic investments

This is not a governance principle discussed specifically in PF130, or in Regulation 28. Strategic investments can be defined as any investments held for strategic purposes, in other words not held solely with the intention to generate investment performance.

The fund will not hold any direct strategic investments. As the fund only invests in pooled portfolios, the investment managers have full discretion as to when they buy, hold or sell any investments.

2.2.5 Derivative instruments

PF130 states that "... investment in derivatives by investment managers should be clearly and properly regulated. Should they decide to permit this form of investment, trustees of funds should have a clear understanding of the use and risks of derivatives and how they will be measured."

The trustees believe that the responsible use of derivative instruments has become a necessity to ensure the optimal implementation and management of investment portfolios. Derivatives are also highly efficient instruments to reduce investment risk in portfolios. The trustees therefore allow the responsible use of derivative instruments by investment managers, such as to reduce risk and change the tactical asset allocation, within limitations set out as per Regulation 28 of the Pension Funds Act.

The trustees recognise that hedge funds, which are classified as a separate asset class under Regulation 28, and alternative assets may make extensive use of derivatives, leveraging and short selling. Where hedge funds and alternative assets are included in the investment portfolios offered through the fund, this is through the discretion and expertise of the multi-manager, with disclosure of the underlying risk and exposure to the fund.

The Trustees have taken into account the conduct standard on derivatives which was brought into practice on 11 May 2023. A policy on the usage and reporting of derivatives is included in Appendix D

2.2.6 Custodians

PF130 states that "the appointment of the custodian of the fund investments should be made directly by the fund to enable the board to have direct access to the custodian information about the fund investments."

As the fund is invested in pooled portfolios via an insurance policy, the custodian is appointed by the multi-manager.

2.2.7 Investment management fees

PF 130 states that "the board must decide between active and passive investment management and determine whether the concomitant fees of investment management are justified by the returns achieved." Furthermore, the regulations require boards to offer member defaults which should be relatively simple, cost-effective and transparent.

The trustees recognize that active and passive investment strategies have different costs. The trustees allow both management committees and members to choose which investment philosophy they prefer. The trustees will monitor the investment fees in relation to other portfolios available in the market.

2.3 Regulation 28 principles

Regulation 28 contains a number of principles that pension funds are required to address and document in their investment policy statement.

2.3.1 Compliance with Regulation 28

The trustees of the fund have considered the limits in Regulation 28 and do not think that these constrain them in any way from achieving what is in the best interests of the majority of the fund members. There may be instances where strict compliance with the limits in Regulation 28 may not be in members' interests, in which case the trustees will consider these instances and engage with the relevant authorities.

The trustees obtain quarterly reports from the multi-manager, confirming compliance, or lack thereof, with Regulation 28. These quarterly reports are reviewed by the fund and submitted to the Regulator where there are instances of non-compliance

2.3.2 A fund must have an investment policy statement, which must be reviewed at least annually

The trustees will review this policy at least annually.

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

Education of the board

The trustees of the fund recognise the importance of promoting the education of the board in all matters related to the management of the fund, but specifically, investments, governance and other related matters.

The fund employs professional trustees who are employed to contribute specific skills and experience required by the board.

Investment issues are covered at each meeting as well as at the annual investment workshop. The workshop including an education element to assist in trustees' investment knowledge and understanding of the investment framework of the fund and components thereof.

Compliance monitoring

The trustees require regular reporting from the administrator which includes:

- Quarterly breach exception reporting based on any breaches that may have occurred in the quarter. The reporting will extend to include the actions taken to rectify the breach, or where not rectified, the actions to be taken to rectify the breach and the timeframe for this process.
- Quarterly certification by multi-manager for South African Reserve Bank reporting and consolidated South African Reserve Bank report prepared by the administrator.
- Quarterly reporting on changes in the portfolio construction.

- Annual fee disclosure reporting.
- Annual certificate for the fund financial statements.

Promote broad-based black economic empowerment

The trustees of the fund recognise the importance of promoting broad-based black economic empowerment and the fund's ability to assist in this initiative.

A limited number of service providers are appointed directly by the fund. Broad-based black economic empowerment is taken into account with these appointments. Where the fund does not employ service providers directly, it will encourage its service provider making the appointment to recognize the importance of broad-based black economic empowerment in such appointment.

Assets appropriate for the liabilities

The trustees of the fund recognise the importance of the fund's liabilities in designing an investment strategy taking into account the interactions between the assets and the liabilities with respect to nature (whether real or nominal), term (from short-term, to long-term), currency (rand or foreign exchange), and certainty (with respect to timing and amount of receipts and payments).

The investment offering of the fund is structured to provide a wide range of options to allow management committees and members the opportunity to align an appropriate investment strategy with their liabilities.

Due diligence of risks

The trustees believe it is necessary to assess the systems, processes and methodologies used by the multi-manager as well as understand their approach to the investment risks as outlined in this document. They are assisted in this aspect by the asset consultants who provide an assessment of both the solutions and the underlying investment managers available through the investment framework.

Regular reporting of changes in any of the above are required from the investment service providers. If the trustees are uncomfortable with any aspect of their investment service providers' due diligence capabilities, this will be addressed with the administrator.

With regard to unlisted investments, in the event of a corporate action resulting in a listed instrument becoming unlisted, the fund manager has the discretion to retain the investment for a reasonable period to mitigate any short-term impact on the portfolio.

Foreign asset risk assessment

The trustees recognise the additional importance of assessing country and currency risks, when deciding to invest in foreign assets. Currency risk is especially important in the context of a pension fund's liabilities which are denominated in South African rand.

The trustees assess the systems, processes and methodologies used by the multi-manager as well as understand their approach to the investment risks as outlined in this document.

Credit ratings

The trustees recognise that credit rating agencies may be somewhat useful, but also recognise that there are major weaknesses in relying on these ratings in isolation. The trustees assess the systems, processes and methodologies used by the multi-manager as well as understand their approach to the investment risks as outlined in this document.

Changing risk profile

The trustees recognise that the risk profile of individual securities, groups of securities and whole asset classes change over time, as do the liabilities of pension funds. The trustees therefore recognise that the investment process is a continuous process requiring constant and continual reassessment of the risks of assets and their appropriateness in isolation and in combination with all the other assets and the liabilities of the fund.

The trustees require ongoing education, information on markets and ongoing evaluation of the changing risk profile of the assets invested in from the multi-manager.

Sustainable long term performance

The trustees believe that an investment approach that includes environmental, social and corporate governance (ESG) factors and broader systemic issues is required to promote sustainable long-term returns. As indicated under 2.2.1 above, the trustees have formulated a Responsible Investment Policy which sets out the approach and application of their beliefs in this regard..

Appointment of third parties

The trustees recognise that they retain the responsibility for compliance with Regulation 28 principles, even when appointing third parties to manage the fund's investments. The trustees will therefore require that third parties manage the fund's investments to take into account the fund's investment related policies and report annually on compliance or any breaches that may have occurred.

3. LIABILITIES OF THE FUND

When deciding on appropriate portfolios to be offered, the objectives of the members of the fund need to be considered.

The Alexander Forbes Retirement Fund is a defined contribution fund. The member's credit in the fund is the contribution remaining after the deduction of costs, together with the investment return (after costs). The fund's liabilities are mostly the members' credits in the fund that are linked to investment performance.

The fund passes investment returns earned directly on to members' fund credits. The individual members assume the investment risk.

The main purpose of the fund is to provide retirement benefits. The investment time horizon for most members will be long term and the investment strategy will generally focus on the long term.

The trustees consider the requirements of members who might have a shorter investment time horizon and different risk appetite. Members do not necessarily all retire at their normal retirement age. Some members will leave service prior to retirement and be entitled to withdrawal benefits.

The membership is diverse with varying income, knowledge levels and risk profiles.

Suitable communication and education are critical to enable members to understand the volatility of investment market performance.

The management committees make decisions about the investment portfolios to be made available to their members. Management committees must therefore receive suitable communication and education to understand the issues.

4. INVESTMENT OBJECTIVES

4.1 Trustees’ duties

The trustees have a statutory and fiduciary duty to invest the fund’s assets for the benefit of members in a responsible and prudent manner.

4.2 Trustees’ objectives

The trustees aim to:

- Provide members with the greatest likelihood of securing a reasonable pension at retirement, by providing acceptable investment returns, at acceptable risk.
- Provide the members with less volatile returns particularly close to retirement with the objective to generate an income stream to maintain the standard of living after retirement.

The trustees’ objectives are taken into account in the investment strategy of the fund.

5. INVESTMENT BELIEFS

The fund's investment strategy is underpinned by a set of beliefs about how investment markets work:

Belief 1: The main purpose of the fund is to invest members' fund values in a manner that targets the purchase of a retirement income at retirement.

Belief 2: Due to the long-term nature of retirement funds, the investment time horizon for most members will be long term, and the investment strategy should generally focus on the long term. Instead of fixating on short-term price fluctuations, the focus on enduring, long-term themes remains the key to achieving sustainable and desired investment outcomes.

Belief 3: The trustees view risk primarily as the risk of not meeting the fund's investment return objectives required to achieve its purpose. The investment strategy adopted is designed to maximise the likelihood of meeting the fund's objectives, while controlling, as far as is possible, those factors which may result in the investment return objectives not being met. Unrewarded risk is to be avoided as far as possible. In general, greater expected returns can only be achieved by accepting greater risk. Reducing one risk factor is often only achieved at the expense of increasing another. Developing an appropriate investment strategy will largely be a matter of achieving the most appropriate balance between the various risks taken to give the best chance of achieving the fund's return objectives.

Belief 4: Both passive and active investment strategies are valid investment strategies and are used, where appropriate, for different asset classes

Belief 5: Highly-rated asset managers have a higher likelihood of outperforming market indices. With the aid of a thorough forward-looking multi-manager, it is possible to assess the likelihood of an asset manager to deliver performance that optimizes targeted investment outcomes.

Belief 6: Asset allocation is the biggest contributor to the variability in portfolio returns.

Belief 7: ESG considerations can contribute to the long-term risk-adjusted performance of portfolios.

Belief 8: The fund has an important role to play in the development and transformation of the South African economy.

6. INVESTMENT RISKS

In arriving at their investment strategy, the trustees have considered the following specific risks:

6.1 Negative real returns

If the net return is below the rate of inflation, the real value of assets declines over time. This risk is reduced over the long term by investing in assets that are assumed to provide net returns above inflation over the long term. Due to the volatility of returns on most of these asset classes, for example shares, this risk may not be reduced over the short term.

6.2 Capital loss

This risk can be avoided in the short term by investing in cash and fixed interest, where the future capital value is largely certain. The long term returns on these assets are expected to be materially lower.

Negative annual returns may occur in the market-related portfolios offered. The danger of switching into a portfolio that offers capital protection too soon before retirement is that a member's expected replacement ratio will be reduced, particularly if the member's retirement is unexpectedly delayed.

6.3 Volatility

Different asset classes experience different volatilities of return. This risk is reduced by ensuring that the portfolios have diverse allocation of assets between asset classes, including investment of a portion of assets into assets typically displaying lower volatility, such as cash and fixed interest.

6.4 Liquidity

Liquidity risk involves not having liquid assets to meet liabilities as they fall due, or being unable to realise assets on a reasonable basis when cash is required. This risk has been avoided by only making pooled investment portfolios available.

6.5 Asset failure

The risk of asset failure is reduced by ensuring that portfolios offered are well diversified.

6.6 Market timing

Market timing is where the investor seeks to improve returns by correctly anticipating moves in asset class prices.

6.7 Tactical asset allocation

Tactical asset allocation is a portfolio management technique where assets are moved between asset classes to take advantage of moves in asset class pricing. Tactical asset allocation by competent investment managers can be expected to enhance returns in the long term, but in the short term the possibility exists that a degree of additional risk can be introduced.

6.8 Investment manager risk

The risk exists that a particular investment manager could underperform its peers. There is also a risk that the manager undergoes changes affecting the people, process and philosophy of the manager. This risk is reduced by investing in more than one investment manager or a multi-manager that uses a range of underlying investment managers.

Investment managers often display a style bias (growth versus value, or small cap versus large cap). The different investment styles each go through periods when they are rewarded or penalised by investment markets.

6.9 Benchmark risk

The performance of a fund's investment managers must be measured against a suitable benchmark in order to determine whether they are performing their function adequately. It is important that the benchmark itself is suitably constructed for the risk / return profile being targeted. Investment managers will often be cognisant of their benchmarks, even if they are not given tracking error restrictions. The choice of benchmark can therefore be very important.

6.10 Exchange rate volatility

Investors seek to reduce volatility of returns and dependence on the South African economy by investing a portion of their assets in foreign investments. The great majority of the members' liabilities are however denominated in rands. Investing in foreign investments therefore introduces currency-mismatch risk. The volatility risk associated with foreign investments is reduced when only a limited portion of a portfolio's assets is invested offshore.

6.11 Administrator risk

As the fund's investments are via a policy of insurance with the administrator the trustees recognize a potential further risk to the fund if the administrator's balance sheet is impaired in any way. This risk is managed by confirmation to the trustees of the risk measures put in place by the administrator.

6.12 Legislative environment risk

Changes in the legislative environment can impact on investment decisions. The implications of any changes in legislation will be reviewed and where necessary, the appropriate changes will be made.

7. FUND'S INVESTMENT STRATEGY

Taking into account the governance principles set out in this document, the liabilities and nature of the fund as well as the investment objectives and risks, the trustees have formulated an investment strategy for the fund. The fund offers a choice of a standard offering or customised offering to management committees.

7.1 Standard investment offering

7.1.1 Trustee default investment strategy

Regulation 37 requires that trustees of funds have a default investment strategy in place for members who do not actively make an investment choice.

The requirements set out in Regulation 37 for a default offering have been addressed as follows:

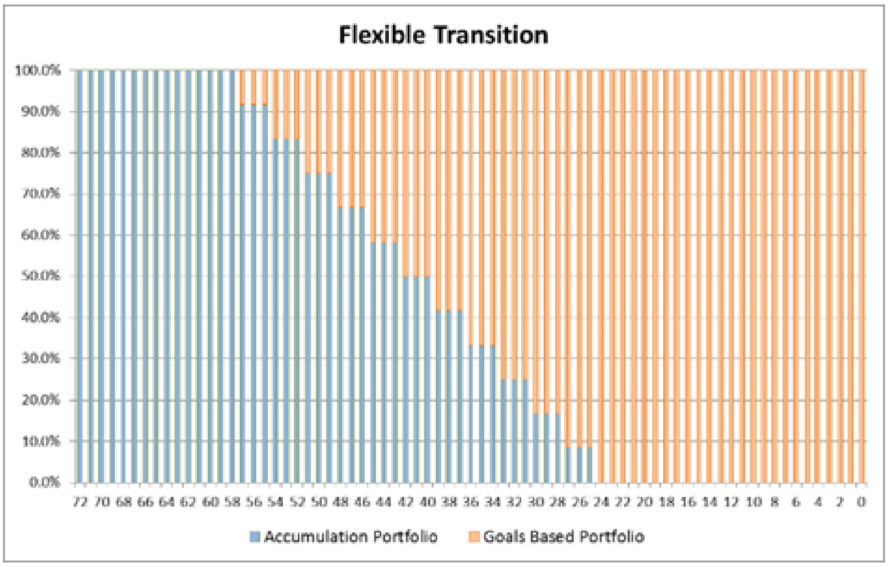
- *The default investment portfolio must be suitable for members with reference to their portfolio objectives, asset allocation, charges, risks and returns.*

The fund has a default investment strategy in place which is designed to achieve the objectives of the fund and is deemed suitable for most members' needs, taking charges, risk and returns into account.

The fund uses a goals-based lifestage investment strategy which:

- targets higher investment growth (CPI + 5%) when members are more than five years from retirement (also known as the accumulation portfolio)
- then gradually assumes less risk (and lower expected investment growth) by investing in a portfolio that has a closer match to the cost of buying a pension as members approach retirement. (also known as the goals based portfolio)

This is achieved by investing in portfolios with more growth (volatile) assets when members are more than five years from retirement. From five years from retirement the lifestage model allocates a larger portion of a member's fund credit to cash and bond-like assets. The transition from accumulation to goals based is performed on a quarterly basis and covers a period of three years, after which members are fully invested in their selected goals based portfolio until retirement, as depicted in the graphic below. The trustees believe that the investment charges, as well as the risk and return profiles associated with the goals-based lifestage model are appropriate.



For Base option members, the trustees have chosen the AF Retirement Navigator portfolio as an additional default portfolio as a low-cost option to allow members access to retirement savings and risk benefits at competitive prices. This portfolio is a low volatility investment portfolio that provides an opportunity to investors who seek longer term growth, but also desire more stability of returns in the short term.

Members can opt out of the default investment strategy if their investment needs differ.

The composition of the assets and the performance of the portfolio must be adequately communicated to members.

The trustee default investment strategy will be summarised in the annual trustee report, setting out the default investment portfolios, their asset allocations and the investment performance of these portfolios. This information is also included in the portfolio fact sheets which members can access online.

- *The default investment portfolio must be reasonably priced and competitive.*

The trustees assess the competitiveness of investment fees as part of the manager and portfolio selection criteria. The expected net of fee investment performance as well as risk profile of relevant investment portfolios are assessed when selecting investment portfolios. The trustees are satisfied that the investment portfolios offered by the fund (including the default portfolios) are reasonably and competitively priced.

- *All fees and charges must be disclosed to the board who must, in turn, ensure that they are appropriately disclosed to members – the format may be prescribed by the Financial Services Conduct Authority (the authority).*

The trustees require that all investment portfolio fees and charges be fully disclosed to them. The fees and charges are also disclosed to the management committees at least annually, depending on their service offering, as part of the investment review or commentary. They are also included in the portfolio fact sheets which members can access online. The trustees will communicate the default portfolio investment fees in the annual trustee report.

Passive default investments must be considered – they don't have to be adopted, but boards must consider them. Passive strategies have been and will continue to be considered by the trustees.

The trustees have outsourced the selection of different strategies to the appointed multi-manager who may make use of both passive and active investment strategies in structuring their relevant portfolios.

- *No loyalty bonuses or other complex fee structures – fees charged cannot depend on the length of time that an individual has been a member of the fund or the number of contributions made or any similar measure.*

The fund does not use any portfolios that offer loyalty bonuses or any similar fee structures.

- *Members must be permitted to transfer from the default portfolio at intervals not exceeding 12 months and no excessive administration costs may be charged for these transfers.*

Members are allowed to transfer between the default and other member investment choice portfolios with no switching fee charged.

- *Regular review by boards of the default investment portfolio to ensure compliance with the regulation.*

The trustees regularly review the investment portfolios to ensure compliance with all regulations.

7.1.2 Management committee investment strategy

All management committees must select a default investment strategy for the members of the sub-fund, failing which the trustees' investment default will be implemented. The committee can choose to offer the Alexander Forbes Goals-based LifeStage model invested in either specialist, balanced or passive investment portfolios, Alexander Forbes Investments Clarity™ or a "management committee choice" from the portfolios offered by the fund.

The default investment strategy aims to:

- Generate income from retirement savings to maintain the standard of living after retirement.
- Protect retirement savings from capital loss and inflation.
- Grow the retirement savings.

If the management committee opts to provide the "management committee choice" portfolio or combination of portfolios, the fund asset consultants will assist with the investment strategy unless only one portfolio is used and this portfolio is likely to meet the fund's replacement ratio target.

If there is a combination of portfolios used, if single managers are used or if a portfolio is selected that will not be likely to meet the replacement ratio target, then it is compulsory for the fund asset consultants to assist the client.

If one of the following portfolios is used as the only investment portfolio for all members, the fund asset consultants' involvement will not be compulsory, although their services can be used.

- AF High Growth
- AF Balanced High Growth
- AF Passive Bold
- AF Passive Moderate
- AF Performer
- AF Spectrum
- AF Accelerator
- AF Shar'iah High Equity
- AF Shar'iah Medium Equity

7.1.3 Options available to members

The member can select a LifeStage model

Members can choose to invest in the Alexander Forbes Goals-based LifeStage model invested in either specialist, balanced or passive investment portfolios regardless of the default investment strategy chosen by the management committee.

Portfolios offered for member choice

Members can choose to invest in one of more of the portfolios in the range of other portfolios selected by the fund trustees.

7.1.4 Annuity strategy

Regulation 39 requires that funds must have an annuity strategy with annuity options, either an in-fund or out-of-fund annuity or annuities.

The Trustees are aware of the following responsibilities with regards to the annuity strategy:

- The annuity options should be appropriate for members.
- The annuity options should be well communicated to members.
- Trustees must ensure that fees and charges are reasonable and competitive.
- The investment options underlying a “default” living annuity should be restricted to no more than four options.
- Both passive and active investment philosophies should be considered.

The trustees have considered the following factors in selecting an appropriate annuity strategy:

- The actual annuity type being selected by the majority of members;
- The need to blend the pre-retirement and post-retirement investment strategies;
- The level of income payable to members;
- The investment, inflation and other risks in the annuity; and
- The level of income payable to beneficiaries.

Taking the above into account, the trustees implemented the following annuity strategy effective 1 March 2019, as a first step:

- An in-fund living annuity for fund credits less than R2 million utilising the majority of the same portfolios in the Alexander Forbes Goals-based LifeStage models available to members pre-retirement to allow a smooth transition at retirement date, that is:

    - AF High Growth
    - AF Balanced High Growth
    - AF Passive Bold
    - AFRF Houseview Income Target

- Access to an out-of-fund retirement income solution through Alexander Forbes which provides annuities at institutional pricing for fund credits greater than R2 million as the flexibility and pricing is better at these levels in this solution.

7.1.5 Preservation and portability strategy

Regulation 38 requires that trustees must offer a default in-fund preservation arrangement to members who leave the service of the participating employer before retirement. However, members have the right to opt out of the fund and withdraw their fund credit in cash or to transfer to another fund for which they are eligible.

The Trustees are aware of the following responsibilities with regards to the preservation strategy:

- Investment fees for default portfolios must be the same for paid-up members and active members.
- The Fund's administrator complies with all administration requirements.
- To provide access to retirement benefits counselling to paid-up members before withdrawal benefits are processed.

The fund will apply the same investment strategy for preservation members that it applies for active members and will also provide access to retirement benefit counselling to paid-up members before withdrawal benefits are processed.

7.2 Transfers from the Alexander Forbes Core Plan

Participating employers and members of the AF Core Plan Fund who have transferred to the Alexander Forbes Retirement Fund will have their transfer values and ongoing contributions invested in a strategy available to them in the Core Plan Fund. The Trustees agree that these transferring participating employers and members can retain the investment strategies that they were using in the Core Plan Fund.

Note that these strategies and portfolios are not available to participating employers and members who were not already investing in the identified strategy prior to the transfer date of transfer. No participating employer or member will be allowed to select this as a new strategy after this date.

The strategies and the portfolios identified are:

- Alexander Forbes Real Return LifeStage model

7.3 Customised investment offering

The fund allows a customised investment option that provides a framework for management committees who want to further personalise the retirement fund's investment offering.

7.3.1 Investment portfolios

Management committees using this option can use any investment portfolios, including bespoke portfolios, provided these are approved for use by the trustees and are offered on the Alexander Forbes Investments Limited platform. To be able to offer this, the proposed portfolio must be able to be accepted by Alexander Forbes Investments Limited.

Full details of the portfolio (for example the nature, risk, fees, term and Regulation 28 compliance) must be provided to the trustees before the administrator can provide confirmation to the proposed client. Any portfolio offered to members must be Regulation 28 compliant.

Monthly smooth bonus funds may be allowed but not traditional guaranteed funds. There may be conditional switching requirements that will need to be addressed with the fund administrators.

A prospective client must be advised in the tender / proposal process that Alexander Forbes Investments Limited and the trustees must first accept the proposed portfolio in writing before this can be offered.

7.3.2 Investment strategy and member choice

The management committees can design a default investment strategy of their choice and can customise the portfolios offered for member investment choice.

The trustees will look to the fund asset consultants to confirm that they don't have any issues with the default investment strategy and this will be subject to the trustees' approval. Additional portfolios or fewer portfolios can be offered for member investment choice.

7.3.3 Asset consultant

An asset consultant must be used for this customised investment option. Irrespective of the asset consultant appointed, the employer must contract with the asset consultant to provide the asset consultant services. The fund will not have a contractual relationship with the asset consultant but will need to be provided with confirmation of the contract. The fund rules provide that the fees for the asset consultant will be paid from the contributions to the fund. The fee can be deducted from the gross contribution before this is paid to the fund.

7.4 Employer surplus account

The employer management committee representatives have the option to invest the employer surplus into the portfolios selected by the trustees as set out in this document.

7.5 Termination of membership groups

7.5.1 Transfer out of the fund

When members transfer out of the fund, the assets will remain invested in the portfolios in which they were invested immediately before the transfer date up until section 14 transfer approval is obtained, unless the management committee directs otherwise. The fund will continue to allow members to switch until approval for the transfer is obtained.

7.5.2 Liquidation of the fund

In the event of the liquidation of a participating employer, the assets relating to those members will remain invested in the portfolios in which they were invested immediately before the liquidation up until the approval of the appointed liquidator. After that, the assets will be invested according to the instruction of the liquidator.

7.6 Factors taken into account when setting the investment strategy

7.6.1 Meeting the investment objective

The trustees' default investment strategy aims to:

- Generate income from retirement savings to maintain the standard of living after retirement.
- Protect retirement savings from capital loss and inflation.
- Grow the retirement savings.

The default investment strategy is decided by each management committee, taking into account advice from the management committee consultant / fund asset consultant.

The Alexander Forbes Goals-based LifeStage model has been established taking the above objectives into account. All members in the standard offering have member investment choice as they might have other objectives which differ from the default chosen by the management committee.

It is recommended that management committees use a target replacement ratio at retirement as their investment objective.

7.6.2 Managing the investment risks

The trustees acknowledge the risks of investing.

To mitigate the risk of capital loss for members close to retirement, members invested in the Alexander Forbes Goals-based LifeStage model have their exposure to volatile assets reduced as they approach normal retirement date with the objective to generate an income stream from the accumulated assets to maintain the standard of living after retirement.

The risk of volatility is addressed by reducing the exposure to volatile assets as members approach their normal retirement date. Within the standard offering, the members can choose to invest in the Alexander Forbes Goals-based LifeStage model in either the specialist, balanced or passive investment portfolio or a portfolio(s) of their choice.

Liquidity risk is managed in that the assets of each sub-fund represent a small portion of the total assets of a pooled portfolio and liquidation terms will therefore not be onerous.

The trustees manage the risk associated with market timing by having asset allocation targets that are determined by either the portfolio mandate if a predominantly fixed asset allocation portfolio is selected or by the investment manager if a balanced mandate portfolio is selected. Members receive appropriate communication that discourages switches that try to time the market. The management committees are provided with advice from the management committee consultant and, if applicable, the fund asset consultant.

There is a risk of being exposed to investment managers whose style is not in favour with investment markets. The trustees are aware of this and take this into account in the review and monitoring process. Communication to members and management committees highlights the need to diversify to reduce this risk.

The fund has limited, if any, influence on the benchmarks that the multi-manager will use to benchmark its underlying investment managers. However, the trustees will still seek to understand fully the rationale for the multi-manager's selection of benchmarks, and will take some comfort if it is clear that the benchmarks used are fairly common in the investment industry.

7.6.3 Asset allocation

Allocation between different asset classes affects the investment returns that will be earned on the portfolios in which fund assets are invested. Asset allocation targets will either be determined by the portfolio mandate if a predominantly fixed asset allocation portfolio is selected or by the investment manager if a balanced mandate portfolio is selected.

7.6.4 Portfolio construction

The management committee, under the guidance of the management committee consultant or fund asset consultant, will select the default investment strategy. The strategy can be the Alexander Forbes Goals-based LifeStage model invested in either the specialist, balanced or passive investment portfolios. Alternatively, the management committee can create a default from the portfolios offered by the trustees. The portfolios currently available are set out in Appendix C.

Within the standard offering, members can choose to be invested in one of the Alexander Forbes Goals-based LifeStage model invested in either the specialist, balanced or passive investment portfolios or a portfolio(s) of their choice from the portfolios offered by the trustees. If a member is invested in the Alexander Forbes Goals-based LifeStage model, the existing fund credit as well as future contributions are to be invested in accordance with the member's age. Members can switch between portfolios by following the procedures adopted by the fund administrators.

7.6.5 Investment manager selection

The fund is made up of a large number of small groups of members who have diverse needs. There is therefore a need for a wide range of portfolios to be offered to participants. The trustees have also considered the time required for selecting investment managers and the skills needed to construct portfolios by mandating the selected managers. The trustees believe that the best way to meet this need is to be invested through a multi-manager in pooled portfolios that mitigate risks and optimally combine investment managers.

The fund has entered into a long-term policy of investment with Alexander Forbes Investments Limited. Alexander Forbes Investments Limited is referred to as the multi-manager in this document. Alexander Forbes Financial Services is referred to as the administrator in this document. The fund has appointed Alexander Forbes Asset Consultants (AFAC) to provide investment advice.

Factors that are taken into account in the review of the multi-manager are:

- The financial strength and reputation of the multi-manager.
- The investment style and philosophy of the multi-manager.
- The track record of the multi-manager in managing similar and alternative mandates.
- The ability of the multi-manager to meet the chosen benchmarks.
- The ability of the multi-manager to provide suitable portfolios including single manager portfolios, given the trustees' investment strategy and objectives.

- The fees and policy conditions of the multi-manager.

It is expected that the multi-manager will consider the following factors in selecting investment managers:

- Investment management philosophy and process.
- Quality of investment professionals.
- Business management skills and reputation of the organisation.
- Customer relationship management.
- Risk management.
- Reporting and administration capabilities.
- Size of assets under management.
- Past investment performance.
- Fees and other costs.
- Environmental, social and governance policies, including corporate governance, proxy voting guidelines, and socially responsible investing.

The portfolio provider controls and manages the asset class strategy, the portfolio structure, benchmarks, and investment risks.

The trustees have also selected a range of single investment manager portfolios with input from the fund asset consultant. The trustees considered the following:

- The financial strength and reputation of the investment manager.
- The investment style and philosophy of the investment manager.
- The track record of the investment manager in managing similar and alternative mandates.
- The ability of the investment manager to meet the chosen benchmark.
- The need to avoid a proliferation of investment choices.

The fund asset consultant evaluates and rates the single manager portfolios. Portfolios that are made available are rated as A and B+ managers by Alexander Forbes Investments Limited. If a manager's rating falls from B+ to B, the trustees will be notified, and communication sent to the management committee to distribute to members advising them to consider moving to an alternative portfolio. If a manager then falls to a C rating, the assets will immediately be moved to the AF Performer portfolio.

8. MONITORING AND EVALUATION

The trustees regularly review the multi-manager and the investment offering.

8.1 Portfolio performance review

The performance of the investment portfolios offered to fund participants is monitored quarterly on an ongoing basis against the appropriate benchmarks, taking into account longer term performance. On an annual basis, the portfolios are reviewed to determine their continued suitability. The multi-manager provides quarterly feedback on portfolio performance to meet this requirement.

8.2 Multi-manager peer portfolio performance review

The trustees review the performance of the portfolios against those of other multi-managers at least quarterly. There is a formal review of the multi-manager against other multi-managers at least every three years.

8.3 Action in event of portfolio not meeting investment objectives

When an investment portfolio does not meet the investment objectives set by the trustees, they will seek to understand the reasons for this. If the trustees are not satisfied that the portfolio continues to meet the fund's investment objectives, the trustees will replace the portfolio with an alternative that can be expected to achieve these objectives.

8.4 Monitoring by the multi-manager

The multi-manager is expected to exercise due diligence and judgment in selecting appropriate investment managers for the portfolios. The multi-manager is required to ensure that the investment managers invest the assets in accordance with their mandates.

8.5 Review of the investment strategy

The trustees review the fund's investment strategy annually. Every three years, there is an in-depth review of the overall strategy. The reviews include:

- A review of the governance principles.
- A re-evaluation of the objectives of the fund and the suitability of the asset allocations of the portfolios.
- An evaluation of alternative investment strategies or investment options not currently offered by the fund.

The trustees take into account the following information when the review takes place:

- The profile of fund participants and membership.
- The benefit structure of the fund.
- The tax treatment of the fund.
- Foreign exchange controls.
- The legislative and investment environment.

8.6 Review of investment strategy by management committees

Each management committee is required to review the investment portfolios in which members' monies are invested to ensure that they remain appropriate at least once a year or if there is a material change in the membership profile.

8.7 Review of single manager options

The fund asset consultant evaluates and rates the single manager portfolios available. Single manager portfolios made available must be rated as A or B+ managers by Alexander Forbes Investments Limited.

Where members have chosen to invest with a single manager and the manager's rating falls from B+ to B, the trustees will be notified and communication sent to the management committee to distribute to members advising them to consider moving to an alternative portfolio. If a manager then falls to a C rating, the assets will immediately be moved to the AF Performer portfolio.

If the management committee has used a single manager in their default investment strategy and that manager's rating falls from B+ to B, the trustees will be notified and communication will be sent to the management committee to consider moving out of the affected portfolio to an alternative portfolio. If a manager subsequently falls to a C rating, the assets will immediately be moved to the specified alternative portfolio. If no alternative portfolio is selected or available, the trustees have agreed that the AF Performer portfolio will be used.

8.8 Communication to stakeholders

The trustees will ensure that the fund's investment strategy is communicated to management committees and members. The management committees are provided with information about the investment strategy on a regular basis.

Information about the investment strategy is available to members in the member booklet, annual newsletters and the member investment brochures that also include information about the portfolios. There is information on the investment returns in the quarterly newsletter provided for members.

The management committees are required to distribute the communication material to their members.

9. CONCLUSION

This document forms the investment strategy document of the fund. This document sets out the issues considered by the trustees in establishing an appropriate investment strategy for the fund and records that strategy. This version was approved and accepted at the 5 December 2023 trustee investment meeting subject to reference corrections, which are included in this signed version.

Signed by:John Leon Liackman
Signed at:2024-04-11 07:29:49 +02:00
Reason:Witnessing John Leon Liackman

Chair:
Alexander Forbes Retirement Fund

<u>5 December 2023</u>
Approval Date

Signed by:Nomonde Zwane
Signed at:2024-04-10 22:33:14 +02:00
Reason:I approve this document

Principal officer

<u>5 December 2023</u>
Approval Date

By signing the page, I confirm that:

- I am satisfied that the investment strategy recorded in this document is consistent with the objectives of the fund and the management of the risks to which the fund is exposed
- in my opinion, this strategy will result in an appropriate relationship between the assets and the liabilities of the fund

Gerda Grobler

Actuary name and surname

Date

Signed by:Gerda Grobler
Signed at:2024-04-14 13:56:01 +02:00
Reason:I approve this document

Signature

APPENDIX A: STAKEHOLDERS, ROLES AND RESPONSIBILITIES

The trustees make the decisions about which portfolios can be made available to participants. The trustees cannot relinquish or cede these responsibilities. The trustees can delegate some actions and activities related to the management of the fund's assets.

The trustees are aware that they are in a position of trust, looking after money that belongs to the fund and the fund members, and these members can reasonably expect the trustees to act prudently. When trustees make a decision, it should always be in the interest of the fund and members rather than any third parties or the trustees themselves.

In some cases, the trustees will not be fully conversant with the complexity of investment matters. In this situation the Pension Funds Act requires that the trustees obtain expert advice from for example the fund asset consultant and the fund's actuary. The trustees should critically evaluate this advice before making any decision.

The multi-manager contracts with investment managers to invest according to the mandates provided by the multi-manager.

Each employer group within the fund has established a management committee representing the employer and members.

Stakeholders or service providers	Roles and responsibilities
1. Board of trustees	▪ The trustees establish an appropriate investment policy document with the assistance of specialists where necessary. They put in place a fund-specific investment strategy and decide on the portfolios to be offered to fund participants. The investment strategy can be changed when necessary. The portfolios offered to fund participants can also be changed from time to time. ▪ The trustees review the investment policy annually and triennially, and amend as appropriate. They monitor compliance of the portfolios with the legislative limits. They also monitor performance of the portfolios on a regular basis
2. Management committee	▪ The management committees decide what investment offering will be used from the options made available by the fund trustees. They review the investment strategy once a year. They are required to ensure that communication material is distributed to their fund members.
3. Asset consultant	▪ The fund asset consultant provides investment advice to the trustees and assists in the review of the investment policy and strategy. The fund asset consultant assists with the monitoring of investment performance and other aspects of the investment strategy. They also review the multi-manager relative to alternative multi-managers and provide recommendations to the trustees in respect of portfolios to be offered to fund participants. ▪ The fund asset consultant is able to assist the trustees with the implementation of investment decisions. The fund asset consultant may be required to assist the management committees.
4. Management committee consultant	▪ The management committee consultant assists the management committees with the selection of the investment strategy.
5. Actuary	▪ The actuary certifies that the investment policy is appropriate considering the objectives of the fund, participating employers and members of the fund, having regard to the assets and liabilities of the fund.
6. Multi-manager and investment single managers	▪ The multi-managers and single managers manage assets within legislative requirements and according to the stated mandates agreed with the fund and Alexander Forbes Investments Limited.
7. Alexander Forbes Investment Consulting Committee (AFICC)	▪ The Alexander Forbes Investment Consulting Committee (AFICC) provides oversight on all investment advice and implementation as the Alexander Forbes Group falls under the ambit of AFICC. AFICC plays an important role as an investment governance body within the Group. AFICC is responsible for vetting strategic changes to portfolios used as part of Group solutions. ▪ Alexander Forbes Investments Limited designs, implements and manages some

Stakeholders or service providers	Roles and responsibilities
	portfolios included in the investment strategy. Alexander Forbes Investments Limited monitors the multi-managed and the single manager portfolios

APPENDIX B: CUSTOMISED STRATEGY GUIDELINES

1. Investments

Clients can use any investment portfolios, including bespoke portfolios, provided these are approved for use by the trustees and are offered on the Alexander Forbes Investments Limited platform.

To be able to offer this, the proposed portfolio must be able to be accepted by Alexander Forbes Investments Limited.

Alexander Forbes Investments Limited has minimum fees for creating bespoke portfolios and may have Capital Adequacy Ratio requirements, which will be taken into account in the proposal and quotation stage with clients wanting to use the customised option.

The portfolio must be on-balance sheet.

Full details of the portfolio – nature, risk, fees, term, Regulation 28 compliance, must be provided to the trustees before the business can provide confirmation to the proposed client.

Any portfolio offered to members must be Regulation 28 compliant.

Monthly smooth bonus funds may be allowed but not traditional guaranteed funds. There may be conditional switching requirements that will need to be addressed with the fund administrators.

It is specifically provided that in the tender / proposal process, the prospective client will be advised that Alexander Forbes Investments Limited and the trustees must first accept the portfolio in writing before this can be offered.

The client can design a default investment strategy of their choice.

The trustees will look to the fund asset consultant to confirm that they don’t have any issues with the default investment strategy and this will be subject to the trustees’ approval.

The management committee can customise the portfolios offered for member investment choice.

Additional portfolios or fewer portfolios can be offered to members.

An asset consultant must be used for this option.

Irrespective of the asset consultant appointed, the employer must contract with the asset consultant to provide these services.

The fund will not have a contractual relationship with the asset consultant but will need to be provided with confirmation of the contract.

The fund rules provide that the fees for the asset consultant will be paid from the contributions to the fund. The fee can be deducted from the gross contribution before this is paid to the fund.

2. Communication

The communication for this client’s members may need to be personalised if the generic communication is not suitable.

Any material communication that needs to be customised must be approved by the trustees’ communication sub-committee.

3. Administration

A customised switch form may be required for the client if additional portfolios are offered as member choices.

4. Pricing

The offering will require a “menu” approach to pricing, depending on the customisation that the client requires. Items that will affect the price are:

- Communication material that needs to be tailored
- Administration complexity and use of a customised switch form
- Asset consulting cost or the cost of liaison with an external asset consultant
- Fund consultant involvement.

5. Contract

A personalized contract is available for clients using this option

APPENDIX C: INVESTMENT PORTFOLIO DETAILS

1. Alexander Forbes Goals-based LifeStage model portfolios

AF High Growth: the portfolio is suitable for an investor with a long term investment time horizon. The portfolio is well spread across local and international asset classes. The allocation to each asset class is largely fixed. Specialist investment managers invest each asset class.

AF Balanced High Growth: the portfolio is suitable for an investor with a long term investment time horizon. This is a moderate risk market-related portfolio where the "best pick" investment managers are appointed by the multi-manager. These "best pick" managers are chosen for their preferred skills in timing switches between asset classes through so-called "balanced mandates".

AF Passive Bold: the portfolio is suitable for an investor with a long term investment time horizon. It is invested in a mix of local shares, listed property, traditional bonds, inflation linked bonds and cash. The international assets are a mix of developed market shares, global bonds and cash tracking the relevant indices.

AFRF Houseview Income Target: The portfolio aims to match the post retirement outcome of members by aligning the investment profile with a with-profit annuity.

AFRF Inflation Income Target: The portfolio aims to match the post- retirement outcome of members by aligning the investment profile with an inflation linked annuity.

AFRF Flexible Income Target: The portfolio aims to match the post- retirement outcome of members by aligning the investment profile with a living annuity.

2. Alexander Forbes Investments Clarity™

Alexander Forbes Investments Clarity™ is an investment strategy that utilises a Clarity Growth portfolio and two Clarity de-risking portfolios. These portfolios are dynamically combined at a member level on a quarterly basis to target a member specific income target. This income target and strategy considers:

- The age of the member
- The gender of the member
- The period of potential membership in the fund
- A specific income target – to be secured using a with profit annuity.
- Accumulated investments in the fund
- Future potential contributions in the fund

The Alexander Forbes Balanced LifeStage Model is the default investment strategy should a participating employer or management committee fail to make a default investment choice on commencing participation. Clarity will form part of the standard trustees' choice options currently presented to participating employers when they join the fund.

3. Multi-manager portfolios

AF Performer: a moderate risk market-related portfolio where the "best pick" investment managers are appointed by the multi-manager. These "best pick" managers are chosen for their preferred skills in timing switches between asset classes through so-called "balanced mandates".

AF Real Return Focus: an average risk portfolio, targeting positive real returns over the medium to longer term investment period. The aim of this portfolio is to provide an investment return of 4% per annum above inflation over any rolling three year period, with a low risk of capital loss over the medium term. Offshore exposure is through the Global Conserver portfolio.

AF Conserver: A balanced portfolio managed within conservative investment parameters. Offshore exposure is through the Conserver Balanced portfolio.

AF Accelerator: This is an 'aggressive' multi-manager portfolio that invests in multiple local and international types of investment. The local underlying portfolios are managed by a range of specialist managers.

AF Spectrum: A fully discretionary balanced portfolio split equally among the managers submitted to the Alexander Forbes Investable Global Manager Watch survey. These managers allocate capital to asset classes and select the most attractive securities within each asset class.

AF Stable Focus Combined: The portfolio aims to provide an investment return of 3% per annum above inflation over any rolling three year period. The portfolio is invested in local and offshore assets.

AF Banker: To provide relatively consistent stable returns. The portfolio invests in money market instruments.

AF Shari'ah High Growth portfolio: This is an aggressive multi-manager portfolio that invests according to Islamic investment guidelines.

AF Shari'ah Medium Growth portfolio: This is a moderate growth multi-manager portfolio that invests according to Islamic investment guidelines.

AF Retirement Navigator portfolio**:** this portfolio aims to provide investors access to a diversified multi-asset portfolio that is expected to generate long-term investment growth. It balances a desire for long-term investment growth against the loss aversion associated with short-term capital loss (due to volatile returns). The product uses a framework to distribute returns to reduce the impact of fluctuations in the underlying return. If there is a rapid rise in the value of the underlying assets, the declared portfolio return may be less. If the underlying asset value falls quickly, the portfolio will cushion the impact to some extent.

AF Explorer portfolio: this portfolio aims to maintain a maximum allocation to offshore assets that is allowed by Regulation 28 of the Pension Funds Act. The portfolio is classified as Regulation 28 compliant and follows a specialist approach investing in a range of asset classes locally and globally, spanning over traditional and alternative assets.

AF Passive Explorer portfolio: this portfolio aims to maintain a maximum allocation to offshore assets that is allowed by Regulation 28 of the Pension Funds Act. The portfolio is classified as Regulation 28 compliant and follows a passive approach investing in a range of asset classes locally and globally.

4. Single manager portfolios

The fund asset consultant evaluates and rates the single manager portfolios available. Single manager portfolios made available must be rated as A or B+ managers by Alexander Forbes Investments Limited.

Where members have chosen to invest with a single manager and the manager's rating falls from B+ to B, the trustees will be notified and communication sent to the management committee to distribute to members advising them to consider moving to an alternative portfolio. If a manager then falls to a C rating, the assets will immediately be moved to the AF Performer portfolio.

If the management committee has used a single manager in their default investment strategy and that manager's rating falls from B+ to B, the trustees will be notified and communication will be sent to the management committee to consider moving out of the affected portfolio to an alternative portfolio. If a manager subsequently falls to a C rating, the assets will immediately be moved to the specified alternative portfolio. If no alternative portfolio is selected or available, the trustees have agreed that the AF Performer portfolio will be used.

Allan Gray Classic Balanced: All investments, irrespective of size and mandate, are invested according to Allan Gray's fundamental value-based investment philosophy, a contrarian manager that has a value tilt. Their investment decisions are based upon exhaustive, proprietary, fundamental research, due to their contrarian approach, they tend to buy stocks early and sell too early as well. Allan Gray's main objectives in the management of a client's assets are not only to deliver superior long-term performance, but also to do so at lower levels of risk of capital loss.

Coronation Fund Managers: a fundamental research-based, bottom-up share selecting investment manager that has a strong valuation bias and takes a long-term view on shares. The portfolio is a medium to high risk multi asset class portfolio where the local and global components are managed by Coronation Fund Managers.

Coronation Managed 1: The Coronation Managed 1 portfolio is an aggressive clean slate balanced portfolio. While the investment strategy is based on the "best investment view", the portfolio manager can deviate from the house view in order to increase the risk profile of the fund and to ensure outperformance of the stated performance objectives. The local and global components are managed by Coronation Asset Managers.

Foord Asset Management: The portfolio managers classify themselves as "empirical pragmatists". This is similar to "value" investing but essentially involves the selection of attractively priced shares wherever the highest returns can be gained. The portfolio is a medium to high risk multi asset class portfolio where the local and global components are managed by Foord Asset Managers.

Ninety One Asset Management: The portfolio managers in Investec Asset Management's moderate balanced silo focus solely on managing balanced portfolios. The investment manager leverages off the company's research platform, however is responsible for making all the asset allocation and share selection decisions. The portfolio is a medium to high risk multi asset class portfolio where the local and global components are managed by Investec Asset Management.

Ninety One Cautious Managed: The portfolio managers in Investec Asset Management's moderate balanced silo focus solely on managing balanced portfolios. The manager leverages off the company's research platform, however the portfolio managers are responsible for making all the asset allocation and share selection decisions. The Investec Cautious Managed Fund aims to grow income and capital over the medium term. The fund is a conservative, balanced fund for cautious investors. The local and global components are managed by Investec Asset Management.

M&G Portfolio Managers: is a relative value investment manager that believes prices in investment markets often do not reflect their fundamental value. Prudential SA is highly integrated with its overseas parent company, whose investment professionals around the world share ideas, information and research. Prudential UK is critical to the process, providing invaluable information that filters through from tactical asset allocation to bottom-up share selecting. The portfolio is a medium to high risk multi asset class portfolio where the local and global components are managed by Prudential Portfolio Managers.

PSG Global Balanced Fund: is a multi-asset/balanced fund. Instrument selection is based on risk-adjusted potential to achieve a target real return. Equity selection is based primarily on quality criteria (competitive advantage, quality of management, balance sheet), while valuation and margin of safety are also important considerations. Non-benchmark cognisant manager.

5. Closed portfolios

These are closed portfolios that hold assets for members who were invested in them historically.

- AF Stable Focus
- AF Allan Gray Best Investment View
- AF FullVest
- AF High/ Medium Growth
- AF Medium Growth
- AF Medium/ Conservative Growth
- AF Conservative Growth
- AF Balanced High/ Medium Growth
- AF Balanced Medium Growth
- AF Balanced Medium/ Conservative Growth

- AF Balanced Conservative Growth
- AF Passive Bold/ Moderate
- AF Passive Moderate
- AF Passive Moderate/ Cautious
- AF Passive Cautious

APPENDIX D: DERIVATIVES POLICY

Guidelines on Uses of Derivative Instruments

Conduct Standard 1 of 2023 on the Conditions for Investment in Derivative Instruments for Pension Funds (‘the Conduct Standard’) sets out the guidelines for the use of derivative instruments by the Fund. The purpose of these guidelines is to ensure responsible and prudent use of derivatives while managing risks and protecting the interests of members.

Uses of Derivative Instruments

The Fund acknowledges the potential benefits of using derivative instruments for efficient portfolio management. However, the use of derivatives must comply with the following guidelines:

1) Avoid Speculation and Excessive Risk:
   Derivative instruments shall not be used for speculative purposes or to leverage or gear the assets of the Fund. The primary purpose of utilizing derivatives shall be for efficient portfolio management.

2) Coverage of Effective Derivative Exposure:
   When using derivative instruments for efficient portfolio management:
   (a) The effective derivative exposure must always be covered by appropriate reference assets, as determined below summary under C – Netting; or
   (b) Alternatively, if appropriate, the Fund must hold assets in accordance with the conditions prescribed in paragraph 7(2) of the Conduct Standard, with a market value at least equal to the effective derivative exposure.

3) Limitation on Effective Derivative Exposure:
   The maximum effective derivative exposure of derivative instruments per asset category held by the Fund shall not exceed the value of the reference asset that the derivative seeks to hedge.

4) Consistency with Investment Policy Statement:
   The use of derivative instruments must be consistent with the Fund's investment policy statement. The statement must stipulate whether both listed and OTC derivative instruments are allowed, the conditions under which derivative instruments may be used, and the required valuation methodology as per below summary under C – Netting.

5) Consideration of Liquidity Risk:
   The Fund shall take into account its liquidity risk in both stressed and unstressed market conditions when using derivative instruments.

6) Reliable Valuation Methodology and Timely Closure:
   Derivative instruments used by the Fund must be subject to reliable and recognized valuation methodology, conducted at least monthly. Additionally, positions in derivative instruments must be sold, liquidated, or closed out within a reasonable time to enable effective closure of the position at the Fund's initiative.

7) Transparent Derivative Instrument Valuation:
   The Fund may only use a derivative instrument if there is a consistent, transparent, and recognized valuation methodology in place. This methodology must be implemented, monitored, and periodically reviewed. It should be ensured that the valuation process takes place independently from the investment management decision-making function of the financial services provider, or alternatively, the valuation must be conducted by an independent third party adopting a consistent and transparent process.

General Guidelines

The Fund must adhere to additional general guidelines:

1. Establish a comprehensive risk management policy for identifying, measuring, and managing derivative instrument risks.
2. Continuously monitor risks associated with derivatives, considering solvency and liquidity.
3. Seek expert advice when the board lacks the necessary skills for informed decisions on derivatives.
4. Transparently report all fees and costs related to derivative trading, including commissions and premiums.

Summary of Guidelines on Counterparties, Calculating Exposure, Netting, Collateral, and Receiving of Information:

A. Counterparties:
The Fund may only invest in listed derivative instruments and OTC derivative instruments with specific counterparties, including authorized users, foreign banks, insurers, OTC derivative providers, South African banks, and any other party declared by the Authority to be a counterparty.

B. Calculating Exposure:
The Fund must ensure that the calculation of assets and categories of assets includes the net derivative exposure, taking into account all transactions relevant to each counterparty, including exposure obtained through derivative instruments. Collateral exposure must also be included, and under certain conditions, the counterparty exposure can be reduced by the value of provided collateral. Transactions traded on an exchange and cleared through a clearing house may be excluded from exposure calculations, subject to reporting to the Authority. Netting with the same counterparty is allowed under specified agreements.

C. Netting:
The Fund may combine the economic exposure of assets with net derivative exposure where the reference asset of the derivative instrument is identical or similar to the asset exposure held by the Fund. Similarity means high correlation, absence of material residual risk, and adherence to specific index criteria. The Fund may also combine derivative exposure for managing debt instruments, provided it meets certain conditions.

D. Collateral:
Collateral arrangements must include bilateral agreements. Collateral assets must be liquid, transparent, identifiable, and capable of daily valuation. Outright transfer or pledge/cession in security may be used for collateral. Collateral held by an independent custodian does not form part of that custodian's assets and is not considered counterparty exposure.

E. Receiving of Information:
The Fund's investment mandates with financial service providers or OTC derivative providers must ensure the timely provision of appropriate information for managing derivative instrument positions, collateral, and compliance with regulation 28 limits. The Fund must receive a full listing of assets and detailed information on all derivative instruments in the portfolio. Information on derivative exposure and valuation methodology must also be provided quarterly.

By adhering to these guidelines, our Fund aims to utilize derivative instruments responsibly, ensuring alignment with regulatory standards and the protection of our members' interests. The Fund's board, investment managers, and other stakeholders shall collectively work towards effective risk management and the prudent use of derivatives to achieve our long-term investment objectives.