INVESTMENT POLICY STATEMENT

OF THE

DURBAN PENSION FUND

2024

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1. INTRODUCTION

The Investment Policy Statement has been prepared to record the issues considered by the Board of Trustees of the Durban Pension Fund ('the Fund') in establishing an appropriate investment policy and strategy for the Fund, and to record that policy and strategy.

The primary purpose of the Investment Policy Statement is to document the investment strategy of the Fund, in its entirety, together with the relevant governance processes, in one accessible document. Such documentation is intended to improve and facilitate the good governance of the management of the Fund's investments and is crucial to achieving appropriate transparency and facilitating effective communication with all stakeholders as well as promoting consistency of and accountability for the investment decisions made.

The Investment Policy Statement has been developed in compliance with the current legislative environment and specifically the requirements of Regulation 28 of the Pension Funds Act No. 24 of 1956 and the Rules of the Fund. In addition, consideration has also been given to compliance with the following, where applicable:

- The requirements and guidelines of PF Circular No. 130 (PF 130);
- Applicable provisions contained in the Financial Sector Conduct Authority's (FSCA, previously Financial Services Board) Treating Customers Fairly (TCF) Roadmap;
- King IV Report on Corporate Governance for South Africa, 2016 (King IV);
- The latest version of the Code for Responsible Investing in South Africa (CRISA) (effective 1 February 2023);
- Regulations 37, 38, 39 and 40 of the Pension Funds Act No. 24 of 1956 as amended, referred to as the Default Regulations; and
- Guidance Notice 1 of 2019 issued by the FSCA;
- FSCA Conduct Standard 1 of 2023 – Conditions for Investment in Derivative Investments for Pension Funds.

The current version of Regulation 28 of the Pension Funds Act, 1956, is effective 3 January 2023. To the extent that the latest version of Regulation 28 differs from PF 130, Regulation 28 will apply.

In managing the Fund's investments, the Board of Trustees takes the following into account:

- the nature of the Fund and its liabilities;
- the investment objectives of the Fund's various stakeholders, including defined benefit active members, defined benefit pensioners and the sponsoring employer (who provides an underlying guarantee in respect of the liabilities of the active defined benefit members and for pensions in payment). These stakeholders may also have an interest in the Pensioner Surplus Reserve Account and the Employer Contribution Reserve Account;
- the available asset classes and investment opportunities and their potential risk / return profiles; and
- the various investment risks that require management and their inter-relationships, as well as the investment strategy and portfolio management techniques used to manage these risks while seeking to enhance returns when appropriate.

The Board of Trustees acknowledges that the Fund is regarded as a "firm" (as defined), and that members are regarded as customers in terms of the TCF Roadmap. The Board of Trustees has undertaken to embed TCF in its culture, operations and decision-making processes, including this Policy.

Six fairness outcomes	Restated for the retirement fund context
1	Members* are confident that the Fund has the fair treatment of its membership central to its **culture**, and the way it is managed.
2	The **needs** of the members are considered thus informing the benefit design of the fund, including investment, annuity, group insurance and preservation strategies.
3	Members receive **clear information** and are kept appropriately informed before and during membership, as well as upon exiting the Fund as required.
4	Any **advice** that may be provided to a member should be suitable and take account of their changing circumstances. The Fund does not however provide advice.
5	The Fund attempts to ensure that benefits are provided as members have been led to expect, and all associated service levels are of an acceptable standard.
6	Members **experience no unreasonable barriers** throughout their membership, including during times of complaints, benefit claims, or changing products, benefits or providers if relevant.

** Members in this context would include beneficiaries (for example, in the event of death in service of a member).*

The Fund's investment strategy is consistent with the principles of Treating Customers Fairly. The Board focuses on keeping costs low and there are no hidden costs or lock-in clauses. The regular review of investments aims to ensure that performance and service is of an acceptable standard as members have been led to expect.

This Investment Policy Statement is prepared by the Investment Committee and is reviewed annually. The Investment Committee is assisted by its appointed asset consultants and the Fund's actuary, prior to review and formal approval by the Board of Trustees. The Investment Policy Statement may also be updated more regularly, if circumstances such as legislative changes so dictate.

This update replaces the previous version of the IPS signed on 29 May 2023.

2. Nature of the Fund

The Fund is a defined benefit pension fund that is closed to new entrants with effect from 1 November 2001. Remaining active members continue to accrue benefits on a defined benefit basis. The Rules provide for the employer and member contribution rates to be adjusted depending on the Fund's financial position, meaning that active members share investment and certain other Fund risks with the employer.

The assets and liabilities of the Fund are managed in two separate pools, namely an active member pool and a pensioner pool. The Rules provide for surpluses to be ring-fenced within each of these pools. Transfers occur from the active member pool to the pensioner pool for the retirement of active members, when their accrued reserves are transferred to the pensioner pool. Transfers may also occur between the two pools on instruction by the Board to fulfil the obligations in respect of the Fund rules, having considered the advice from the Fund's asset consultants and/or actuary.

3. The Investment Committee

The Board is responsible for directing, controlling and overseeing all aspects of the Fund. The Board cannot relinquish or cede these responsibilities but is permitted to delegate certain functions to a properly appointed subcommittee. An Investment Committee has accordingly been established to:

- Review the investment strategy and related policies and recommend changes as necessary.
- Monitor the Fund's investment managers and overall performance on an ongoing basis against Fund-specific objectives.
- Oversee and monitor the operational activities relating to the investment of the Fund's assets in terms of the strategies approved by the Board.
- Ensure that the Fund complies with all legal and regulatory requirements relating to the investment of Fund assets.
- Monitor the investment manager fees and satisfy itself that the fees are reasonable and appropriate relative to market norms.

- Consider and review the adequacy of the level of fidelity and professional indemnity insurance of the Fund's investment service providers.
- Establish, implement and annually review the investment mandates of all asset managers.
- Report on its activities to the Board.

The Board must review and (if appropriate) approve the investment policy statement and resultant strategy developed by the Investment Committee. The Board remains ultimately accountable for all Fund decisions and for legislative compliance.

4. Roles and Responsibilities of Stakeholders and Service Providers

The table below details the roles and responsibilities of the different Stakeholders and Service Providers of the Fund:

Stakeholders / Service Providers	Roles and Responsibilities
Board of Trustees	• The operation of the Fund shall be overseen and controlled, subject to the provisions of the Act, by the Board of Trustees. The Board of Trustees shall consist of twelve trustees, of whom six shall be appointed trustees and six shall be elected trustees. • The members of the Board of Trustees appointed or elected in terms of the Fund's Rules shall not be entitled to any remuneration for their services as such, provided that they shall be reimbursed for any expenditure incurred in connection with the performance of their duties as determined by the Board of Trustees from time to time. • The Board of Trustees shall have the power in the name of the Fund to enter into and sign any contracts or documents and to institute, conduct, defend, compound or abandon any legal proceedings by or against the Fund, or to acquire, hold and alienate property, movable and immovable. The Board of Trustees shall also have power in the name of the Fund to make, amend and rescind policies in respect of any matter concerning the Fund, provided that any such policy shall not conflict with the Rules, and to take, generally, such steps as are, in its discretion, conducive to the attainment of the operation of the Fund. • Appoints or terminates the appointment of asset managers in accordance with changes in the Fund's investment strategy or as a result of factors such as poor performance, deteriorating service levels or unacceptable fees. • Enters into and reviews agreements with asset managers and ensures that these agreements are subjected to due consideration and input by specialist advisors as required.
Investment Committee	• Acts in accordance with its mandate as documented in the Investment Committee's Terms of Reference. • Recommends to the Board of Trustees the appointment of asset consultants to the Fund and manages the relationship between the Fund and the asset consultants in terms of agreed service levels. • Regularly reviews the Fund's Investment Policy Statement and recommends the adoption of any changes to the Board of Trustees. In reviewing the Investment Policy Statement, cognisance must be taken of the Fund actuary's assessment of the appropriateness of the Fund's investment strategy, as set out in the Investment Policy Statement, in relation to its liabilities. • Employs mechanisms to monitor the Fund's investment performance on an ongoing basis, seeks advice and information as required and takes corrective action as appropriate. • Monitors and evaluates the Fund's appointed asset managers with regard to investment performance and service levels and ensures that their appointment remains appropriate in the context of the investment strategy and risk profile of the Fund. • Ensures that investment management agreements with asset managers are implemented in accordance with industry best practice.

Stakeholders / Service Providers	Roles and Responsibilities
	• Ensures that the Fund complies with Regulation 28 of the Pension Fund Act and any other relevant legal or regulatory requirements (including any appropriate codes of best practice adopted by the Fund) in relation to its investments and associated processes by employing adequate mechanisms to ensure ongoing compliance monitoring and corrective action as required. • Seeks expert advice on matters where the Investment Committee lacks sufficient expertise. • Approves the movement and allocation of assets within the Fund and between the appointed asset managers in accordance with the Fund's investment strategy or for operational reasons. • Monitors current economic conditions and market opportunities and, with the assistance and advice of the relevant advisors, recommends tactical investment changes in order to maximise the possibility of achieving the Fund's investment objectives. • Monitors and evaluates on an ongoing basis the service provided by all the Fund's other investment related service providers (i.e. the asset consultant and the custodian) with regard to service levels and ensures that they remain appropriate in the context of the investment strategy, risk profile and operational requirements of the Fund. This includes quarterly presentations by the Fund's investment service providers. • Ensures that an acceptable control environment is maintained in relation to the Fund's overall investment process and ensures that sound governance is applied, maintained, monitored and reviewed on an ongoing basis. • Identifies and evaluates risks associated with the investment process and recommends appropriate mitigation measures to the Board of Trustees. • Recommends policies and / or guidelines in connection with the adoption or otherwise of any codes of best practice in relation to the Fund's investments, for example CRISA, for incorporation in the Investment Policy Statement. • Investigates and advises on any investment related matters referred to the Investment Committee by the Board of Trustees. • Authorises investment instructions, contracts or agreements on behalf of the Fund in accordance with its Terms of Reference. • Ensures that the Board remains appropriately informed regarding the activities of the Investment Committee, including decisions taken and investment performance.
Principal Employer	• Nominates employer-appointed trustees to the Board of Trustees. • Contributes towards and provides guarantees for the benefits funded on behalf of members. • Receives notice of the overall financial soundness of the Fund from the Trustees. • Approves alterations to the Fund rules
Member	• Contributes towards the defined benefits in terms of the Rules • Is the beneficiary of the benefits provided in the Fund Rules. • Understand that the Fund Rules, including any alterations, are binding. • Is entitled to vote on any proposed alteration to the Fund Rules, unless the amendment is required by legislation or required to ensure that the Fund will be able to meet its obligations per the valuator's advice. Members are further bound by the result of any vote. • Participates in election of elected trustees.
Asset Managers	• Manage assets in accordance with the specific mandates set out by the Fund, within legislative requirements, according to their best investment view and in the best interests of the Fund. • Provide the Investment Committee and the Fund's asset consultants with monthly and quarterly statements of the Fund's assets, with a quarterly report on actions

Stakeholders / Service Providers	Roles and Responsibilities
	and future intentions and with the details of any changes to the investment process. • Reconcile their record of Fund assets held with those of the custodian. • Report to the Investment Committee and the Board of Trustees as required. • Co-operate with the asset consultant and actuary by providing whatever Fund-related information is requested accurately and promptly.
Asset Consultant *(The asset consultants act as advisors to the Board of Trustees and the Investment Committee)*	• The roles and responsibilities of the asset consultant are reflected in detail in the relevant service provider agreement. • Provides investment advice and assists the Investment Committee and Board of Trustees with understanding the investment industry product developments and the opportunities for implementation of these within the Fund. • Assists the Investment Committee and the Board of Trustees in setting the Fund's investment philosophy and objectives and with the development and implementation of the investment strategy to achieve these goals. • Provides recommendations on strategic asset allocation decisions. • Provides recommendations on tactical, short-term strategy decisions. • Assists with the monitoring of investment performance, asset managers and other aspects of the investment strategy. • Assists the Investment Committee and the Board with the appointment and termination of asset managers, formulation and maintenance of investment management agreements and mandates, sourcing and management of transition management services and asset manager continuation policies. • Provides updates on asset managers including qualitative and quantitative reviews. • Provides educational input for Investment Committee members and Board of Trustees as required. • Assists the Investment Committee and the Board of Trustees in setting relevant policies relating to responsible investment and active ownership and for the delegation or otherwise of these responsibilities to the Fund's asset managers and monitors and reports on the implementation of these policies to the Investment Committee. • Prepares ad-hoc investment-related communication to members as required by the Fund. • Reviews the Investment Policy Statement in conjunction with the Investment Committee and Board of Trustees to provide recommendations and/or advice in modifying the Investment Policy Statement where necessary. • Assists the Investment Committee in setting an appropriate rebalancing policy for the Fund. Instructs the finance team to implement the transactions required to rebalance the Fund's investment portfolios in line with this policy and notifies the Investment Committee. • Monitors existing hedging strategies (cash flow matching annuities and deposits) and recommends and implements additional liability driven investment solutions as appropriate. • Assists with the monitoring of compliance with the requirements prescribed in Regulation 28 and provides advice or recommendations on how any breaches can be resolved. • Provides such information to the Fund's actuary as is required for the actuary to complete the periodic valuation of the Fund and to certify that the Investment Policy Statement is appropriate for the nature of the liabilities of the Fund.
Actuary	• Acts as the appointed Valuator to the Fund in terms of the Pension Funds Act.

Stakeholders / Service Providers	Roles and Responsibilities
	• Provides advice on the Fund's financial position (by determining the value of the Fund's liabilities) and the affordability of any pension increases in accordance with the Fund's Pension Increase Policy. • Assists the Fund in implementing any surplus distribution in accordance with relevant legislation and the Fund's Rules. • Provides comment on the appropriateness of the investment strategy in relation to the nature and term of the Fund's liabilities. • Assesses and advises regarding the appropriateness of the current Fund investment structures. • Prepares the annual pension increase review and performs such other calculations and prepares such other documentation as is required by the Board, Investment Committee or Employer from time to time.
Custodian	• Responsible for the recording and safekeeping of all the directly held assets of the Fund. • Undertakes all appropriate administration relating to the directly held assets of the Fund.
External Auditor	• Audits the investments of the Fund on an annual basis for regulatory purposes or from time to time for any other purpose required by the Fund. • Advises the Fund regarding regulatory reporting requirements. • Signs off on classification of asset classes in terms of Regulation 28. • Reviews and signs off on the SARB return.

5. Governance Principles

The ongoing maintenance and review of good standards of governance should ensure that the Fund's investments are managed appropriately and will collectively reduce the risk of material failure of the investment strategy. Governance principles therefore define the framework of an investment policy statement.

The Fund is firstly governed by the Pension Funds Act No. 24 of 1956, as amended. Regulation 28 of the Act is concerned with retirement fund investment principles and limits. A number of principles that pension funds and their boards are expected to follow include the adoption of a Responsible Investment Approach, including the consideration of Environmental, Social and Governance (ESG) factors in addition to financial considerations. By law, the Fund must adhere to Regulation 28. The Fund is also required to act in accordance with the registered Rules of the Fund.

Whilst FSCA circulars are not currently legally binding on retirement funds, the Board of Trustees recognises these as recommended practices. The Fund therefore aims to adhere to PF 130 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 Board of Trustees and implemented by the Fund.

6. Investment Philosophy and Strategy

INVESTMENT PHILOSOPHY

The Board of Trustees accepts and acknowledges the inherent relationship between risk and reward (return) and the resulting "conflict" within the investment objective of seeking to maximise return while minimising the risks taken. The Board of Trustees makes all investment decisions in the full awareness of this trade-off and uses asset liability modelling to better understand the likely trade-offs.

The Board of Trustees accepts and acknowledges that taking some risk is necessary to achieve the investment returns required. However, risk management is an express objective of the Fund and unnecessary or excessive risks are expressly avoided. The Board of Trustees acknowledges that a responsible investment approach whereby material non-financial factors, such as sustainable ESG factors, are incorporated into long-term investment strategies, processes and activities is expected to contribute to decreasing investment risk and improving risk adjusted returns.

The Board delegates the implementation of these factors to the investment managers of the underlying mandates deployed. As such the manager selection process considers the manager approach to ESG factors, including active ownership on behalf of the assets that are managed.

The Board of Trustees also accepts the diversification benefits of holding a variety of uncorrelated asset classes, in order to reduce risk without compromising expected returns.

In general, prudent investment choices are made in all sections of the Fund, with the intent of seeking to achieve the investment objectives specific to that section. Asset liability modelling is used to help understand the likelihood of achieving the investment objectives of the Fund.

The Board considers the following general investment beliefs in formulating the Fund's investment strategy:

i) Skilled, active investment management has the potential to outperform passive management over time, providing significant benefits to the Fund and its members. Passive investment alternatives may, however, be considered from time to time;
ii) Adopting a predominantly specialist approach in the investment of the assets required to fund benefits in the active member and pensioner pool of assets allows asset managers to focus on the asset class or investment philosophy best suited to their expertise. However, balanced mandates may be appropriate in some circumstances where a specialist approach may be deemed too restrictive and difficult to implement, as may be the case with offshore investing;
iii) Asset managers with comprehensive governance structures and robust investment processes are preferred (these are typically found within more established managers);
iv) High value is placed on the quality of management of investment businesses and investment teams;
v) Investment decisions should be taken in the context of the broader strategy (i.e. best blend) and not only based on manager specific factors such as performance and fees (i.e. best manager);
vi) Diversification of strategies, styles and managers adds value over time and reduces risk within portfolios;
vii) Concentrated investment positions in single company or sector at a strategy and manager level could introduce unrewarded idiosyncratic risk and such risks should be monitored, interrogated and timeously addressed as need be;
viii) Liability Driven Investment strategies manage the investment risks associated with meeting defined benefit liability payments. For the Fund, these include interest rate and inflation rate risk associated with the benefit payments for members and the associated active member liability. These strategies also manage the liquidity risk associated with having sufficient funds available to meet expected benefit payments when they fall due;
ix) Investment in growth assets classes; for example, equity, global assets and property, assists in generating the real return required on assets to fund the benefit obligations and potentially enhance Fund benefits for members.

Given the predominantly specialist approach, the manager allocations are set by the Board after input from the Fund's asset consultant. Rebalancing (if required) back to strategic asset allocations is done on a quarterly basis as per the Fund's rebalancing policy.

The Fund may wish to take advantage of investment opportunities that deviate from the strategic asset allocation through temporary tactical asset allocation (TAA) decisions, from time to time. The implementation of any TAA decision is subject to approval by the Board of Trustees.

INVESTMENT STRATEGY

In line with the investment philosophy, the Fund uses a combination of Liability Driven Investment (LDI) strategies and a Growth investment strategy for the assets in the different liability pools.

The LDI strategy is a strategy to mitigate the interest rate and inflation risks for a specific liability profile in each of the separate pools. This strategy takes cognisance of the skill and experience of the LDI manager (or managers) used to manage the strategy for each pool as well as efficiencies across the pools.

The Growth strategy has been determined (in conjunction with the LDI strategy) from the results of an asset liability modelling exercise that optimises the expected benefit and funding outcomes over the future of the Fund. The

Growth strategy has the following allocation to growth asset classes:

Growth Asset Class	Allocation
Domestic Equity	40%
Domestic Property	10%
Global Equity	50%

The Board considers the Fund assets in 4 separately identified pools, each with a specific investment strategy:

- **Active Member Assets**. This pool allocates 70% of the pool assets to the LDI strategy and 30% to the Growth strategy.
- **Pensioner Assets.** This pool allocates 90% of pensioner liability to the LDI strategy and the balance of assets in the Growth strategy.
- **Employer Contribution Reserve Account (ECRA).** This pool is a separately identified sub-set of the pensioner assets. The Fund actuary and Investment Consultant advise the amount to allocate to the LDI strategy. The remaining assets are allocated to the Growth strategy.
- **Pensioner Surplus Reserve Account (PSRA).** This pool is another separately identified sub-set of the pensioner assets. The Fund actuary and Investment Consultant advise the amount to allocate to the LDI strategy. The remaining assets are allocated to the Growth strategy.

7. INVESTMENT OBJECTIVES OF THE FUND AND STRATEGY IMPLEMENTATION

INVESTMENT OBJECTIVES

The Fund has a long-term investment objective to ensure that there are sufficient assets to meet the benefit obligations of the Fund to beneficiaries. There is a reporting requirement of the funding position of assets relative to the liabilities determined by the Fund's actuary. There is a related investment objective to ensure that the Fund remains financially solvent in relation to this reported funding position.

The benefit obligations are linked to an annual inflationary increase and the Fund needs to mitigate interest rate risk associated with meeting these benefit obligations and the calculated liability value. The Fund takes cognisance of these risks in implementing the investment strategy.

STRATEGY IMPLEMENTATION

Manager mandates

The Board have appointed several managers to manage the assets of the Fund. Mandates put in place have application across the 4 identified pools of assets. The table below outlines the mandate awarded to each manager:

Manager	Mandate
Allan Gray	Domestic Equity
Coronation	Domestic Equity
Ninety One	Domestic Equity
Futuregrowth	Domestic Property
Futuregrowth	Infrastructure Bonds
Orbis	Global Equity
Ninety One	Global Equity
Colourfield	Matched Liability Driven Investment (LDI) strategy

The two Futuregrowth mandates are considered for the diversification that these strategies bring to the Fund assets, as well as to specifically address a desire to meet socially responsible investment (SRI) outcomes. Futuregrowth is required to provide regular feedback on the social impact of their investment mandates.

The allocation to the Infrastructure Development Bond Fund is specifically included as part of the LDI strategy for the Fund.

The allocation to the Community Property Fund exclusively addresses the strategic asset allocation of the Growth strategy to property.

The mandates are a combination of segregated mandates and pooled mandates.

Benchmarks

The Fund uses the following benchmarks to measure the performance of the Fund managers. The benchmarks consider the objectives of the Fund and the individual mandates:

Manager	Mandate	Primary Performance Benchmark
Allan Gray	Domestic equity	Capped SWIX
Coronation	Domestic equity	Capped SWIX
Ninety One	Domestic equity	Capped SWIX
Futuregrowth	Domestic Property	CPI + 4%
Futuregrowth	Infrastructure Bonds	ALBI
Orbis	Global equity	MSCI World Index
Ninety One	Global equity	MSCI World Index
Colourfield	Liability driven investment	Fund liabilities

Asset Allocation

Each separately identified group of assets uses a Growth strategy component and a LDI strategy component.

The allocation to the Growth strategy and the LDI strategy is summarised as follows

Strategic Asset Allocation	Active Member Pool	Pensioner Pool	Employer Contribution Reserve Account	Pensioner Surplus Reserve Account
LDI Strategy	70% of assets	90% of Pensioner Liability*	Advised by Fund actuary and Fund asset consultant	Advised by Fund actuary and Fund asset consultant
Growth Strategy	30% of assets	Balance of assets	Balance of assets	Balance of assets

* Where the Pensioner Liability is determined using the valuation basis set out by the Fund's actuary. This basis was changed in 2020 from one where the liability valuation incorporated an equity risk premium into the discount rate, to one where the equity risk premium is ignored, i.e., it equals 0% per annum.

The LDI allocation includes an allocation to the Futuregrowth Infrastructure Bond Fund.

The following table outlines the LDI asset allocation in each pool.

LDI Allocation	Active Member Pool	Pensioner Pool	Employer Contribution Reserve Account	Pensioner Surplus Reserve Account
Colourfield LDI	95%	95%	100%	100%
Futuregrowth Infrastructure Bond Fund	5%	5%	0%	0%

The asset allocation in underlying Growth strategy is the same for each separate pool, as follows.

Asset Class	Manager	Allocation
Domestic Equity (40%)	Allan Gray	12%
	Coronation	12%
	Ninety One	16%
Global Equity (50%)	Allan Gray	25%
	Ninety One	25%
Domestic Property (10%)	Futuregrowth	10%
Total		**100%**

Asset Transfers and Rebalancing

Assets are reviewed, for potential transfer from the active member pool to the pensioner pool in respect of new retirees/beneficiaries, on a quarterly basis.

The actuarial team supporting the Fund advises on the amount to transfer following the end of each quarter.

Unless otherwise approved by the Investment Committee on the advice of the asset consultant, this transfer will take place from the active pool LDI mandate to the pensioner pool LDI mandate.

The Board of Trustees on the advice of the Fund's actuary and asset consultant will approve transfers from the Pensioner Surplus Reserve Account and Employer Contribution Reserve Account from time-to-time. The Investment Committee on the advice of the asset consultant and Actuary may make a recommendation to the Board of Trustees on any asset allocation changes to these accounts.

The asset allocation for the active member and pensioner pool is monitored on a quarterly basis. The asset allocation is allowed to vary within tolerance bands. These bands are as follows:

		Pensioner Pool	Active Member Pool
LDI Target		Best Estimate Pensioner Liability	70% of Assets
LDI	Maximum	95.0%	75%
	Target	90.0%	70%
	Minimum	85.0%	65%
Growth	Maximum	Balance	35%
	Target	Balance	30%
	Minimum	Balance	25%

If any of maximum or minimum bands is breached, the asset consultant will rebalance to the target asset allocation for the assets in breach.

In addition, the asset consultant will notify the Fund if the asset allocation to the Growth strategy for pensioners falls below 25% of pensioner assets.

In the Growth strategy, the asset allocation is allowed to vary between the following bands.

Asset Class	Manager	% of Asset Class	% Total Growth Strategy
Domestic Equity			35% to 45%
	Allan Gray	25% to 35%	
	Coronation	25% to 35%	
	Ninety One	35% to 45%	
Global Equity			45% to 55%
	Allan Gray/Orbis	45% to 55%	
	Ninety One	45% to 55%	
Property	Futuregrowth	100%	7.5% to 12.5%

If any of maximum or minimum bands is breached, the asset consultant will rebalance to the target asset allocation for the assets in breach.

8. Risks to be Recognised

In terms of the Fund's investment strategy, the Board of Trustees views risk primarily as the likelihood that the chosen strategy will result in the Fund's investment return objectives not being met. The investment strategy adopted is designed to maximise the likelihood of meeting these objectives, while controlling, as far as is possible, and managing those factors which may result in the investment return objectives not being met.

In general, greater expected returns can only be achieved by accepting greater risk. The management of one type of risk is often only achieved at the expense of another. Developing an appropriate investment strategy will largely be a matter of achieving the most appropriate balance between the various risks, given the objectives and liability profile of the Fund.

Risk and return will therefore typically imply a trade-off. The control of one of the aspects of risk is often at the expense of another. For example, investing in cash will reduce the risk of a decrease in fund value (capital loss), but will increase the risk of the member's assets being eroded by inflation (negative real returns).

In arriving at the Fund's investment strategy, the Board of Trustees has considered the following specific investment risks:

8.1 Negative Real Returns

This arises if the nominal returns fall below the rate of inflation and the real value of assets declines over time. This risk is reduced over the long term by investing in growth assets such as equities, which can, as an asset class, be expected to produce the highest returns in the long term. Due to the volatility of the equity market, it may not be possible to eliminate this risk over the short-term. Inflation-linked bonds provide some real capital protection, if held to maturity, but the real yields they offer may be low.

8.2 Capital Loss

This risk of capital loss can be reduced in the short-term by investing in cash and shorter-dated fixed interest securities, where the future nominal capital value is known (although it may still be uncertain). The returns on these assets are however, expected to be lower than that on growth assets over the long term.

8.3 Volatility

The different asset classes experience different levels of volatility of return. Diversifying portfolios between asset classes that have a low correlation of returns and investing a greater proportion in assets typically displaying lower volatility, such as cash and shorter-dated fixed interest securities, may reduce this risk.

8.4 Liquidity Risk

Liquidity risk is the risk of not having enough liquid assets to meet current liabilities or being unable to realise assets on a reasonable basis when cash is required. The Board of Trustees recognises that illiquidity is an investment risk which is "rewarded" by potentially increased expected returns and that the Fund is a long-term investor with somewhat predictable cash flows and can therefore afford to take on some risk of illiquidity.

Liquidity risk is managed with a liability driven investment (LDI) strategy that specifically funds the anticipated cash flows for expected benefit payments. Notwithstanding this and the previous paragraph, most of the remaining assets are invested in liquid and/or highly tradable assets in order to raise any funds that may be required for less predictable outflows.

8.5 Asset Failure

Asset failure is the risk of investing in an institution that fails. The risk of asset failure is typically reduced by diversifying the investment portfolios between the different asset classes, by only investing through highly regarded asset managers and by making cash deposits only with institutions with high credit ratings (although, the Investment Committee understands that ratings from credit rating agencies may not in themselves provide sufficient assurance). It is expected of the asset managers that they will, in turn, diversify equity, listed property and fixed income investments between well-researched companies, real estate investment trusts and a range of RSA government bonds (which are underwritten by the RSA Government and can therefore be considered to have a low risk of failure). The Board acknowledges that the sovereign risk of a default by the RSA Government is subject to ongoing scrutiny. Regulation 28 prescribes certain limits on the amounts which may be invested in any single entity or in any single asset class.

8.6 Market Timing

Market timing is when the investor seeks to improve long-term returns by correctly anticipating major moves in investment markets. Evidence suggests that, in practice, attempts at market timing often impact negatively on returns. Investors who actively attempt to time investment markets face the risk of failing in these attempts. In addition, the frequency of trading will result in higher accumulated trading costs, which will further reduce any returns, even when negative.

The Board of Trustees manages the risks associated with market-timing by fully delegating such decisions to the Fund's professional asset managers.

8.7 Tracking Error

It is often accepted that in South Africa active portfolio management can add additional value over passive management (index tracking). Active management does, however, introduce the risk of significant underperformance of indices if excessively divergent positions are taken. Risk management techniques can be employed by active managers to measure and monitor this tracking error risk, which will be monitored by the asset consultant and the Investment Committee to ensure that the degree of tracking error for each mandate is appropriate and that excessive tracking error (or active risk) is not taken.

8.8 Manager Risk

The risk exists that a particular asset manager employed by the Fund could underperform its relevant benchmark and / or peers, resulting in poor relative returns. In addition, the manager might cease to operate and / or could act contrary to the agreement with the Fund.

Manager specific risk is reduced by investing across a range of well-researched investment managers. This research should, amongst other factors, consider the long-term sustainability of the investment team and process, as well as the historical track record and size of the manager.

8.9 Benchmark Risk

The performance of a fund's asset managers is measured against different relevant benchmarks in order to determine whether they are performing their function adequately. The choice of benchmark against which an asset manager is measured is therefore important.

The responsibility for selecting an appropriate benchmark rests with the Fund's Board in consultation with the Fund's asset consultant and actuary. The development and maintenance of an investment strategy (refer to Section 7) based on the advice of professional investment advisors, reduces the risk of the Board selecting inappropriate benchmarks.

8.10 Foreign Investments and Currency Risk

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 Fund's liabilities and the members' retirement expectations are denominated in Rands and therefore investing in foreign investments introduces a currency-mismatch risk in that the currency invested in could weaken against the Rand.

The volatility risk associated with offshore investments is managed within offshore limits set by the South African Reserve Bank. The actual allocation for each portfolio depends on the risk characteristics of the portfolio and the optimal strategic allocation is reviewed from time to time.

8.11 Derivative Instruments

Derivatives serve a useful purpose in investment portfolio management when derivatives are used for asset allocation or hedging purposes. Derivative instruments can also be useful when used to insure against specific events, or when the asset manager seeks to enhance the portfolio's return through taking advantage of anomalies in derivative market pricing.

Where derivatives are used to speculate or gear performance, the Fund could be exposed to unacceptable levels of risk. The risks associated with derivative instruments are managed by including derivative investment guidelines in asset managers' mandates which explicitly exclude speculation and gearing and by reviewing the managers' derivative policy statements when the Fund invests in pooled investment products.

8.12 Mismatch Risk

A mismatch risk arises if the return earned on the assets backing defined benefit liabilities is out of line with the assumptions used by the actuary when determining the value of the Fund's liabilities. A consequence of this may result in assets not being sufficient to meet the benefit liabilities defined in the Fund Rules.

This risk is mitigated by investing in strategies that aim to match the investment risk associated with the liabilities, so that the assets and liabilities change value in a similar way over time.

8.13 Credit Risk or Counterparty Default Risk

Credit risk or counterparty default risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This risk may be mitigated by setting credit risk limits with asset managers with mandates that are allowed to invest in credit instruments.

8.14 Sustainability Risk

This is the risk of compromising the future sustainability of investments and potentially of the Fund itself due to various possible increased risk factors that could result from the neglect of environmental, social or governance responsibilities. The Board has adopted policies regarding the Fund's approach to socially responsible investing as well as active ownership responsibilities to ensure that the Fund meets its obligations in respect of environmental, social and governance responsibilities.

9. CONSTRAINTS

The Board acknowledge that there may be constraints imposed on the investment strategy by legislation, liquidity, cash flow requirements and or any other factor that may impact on the Fund's investment strategy. The Board will guide the strategy, being cognisant of these constraints and the advice of the Fund's asset consultant.

10. ASSET MANAGER AND SERVICE PROVIDER SELECTION / APPOINTMENT / TERMINATION

The responsibility for the selection and appointment of asset manager may be delegated by the Board to the Investment Committee. This responsibility is to be performed in conjunction with and on the advice of the Fund's asset consultant and on the basis of the criteria set out below:

- Investment management philosophy, style and process;
- Quality of investment professionals employed;
- Business management skills and reputation of the organisation;
- Broad based black economic empowerment credentials
- Customer relationship management;
- Risk management employed by the organisation;
- Reporting and administration capabilities;
- Size of assets under management;
- Past investment performance;
- Fees and other costs;
- Corporate governance;
- The application of the CRISA principles;
- Key man risk; and
- Operational capabilities (including back up and disaster recovery capabilities)

Based on quantitative assessment, the following, in addition to any other issues highlighted by the asset consultant, are factors that would cause the Board to consider terminating the appointment of a manager, or to restrict cash flows to the manager:

1. Failure to consistently meet or exceed the specified benchmark;
2. Poor risk-adjusted excess return (indicating a lack of manager skill in delivering consistent value-added performance);

3. Unfavourable peer group ranking; and / or
4. Negative feedback regarding other relevant appointment criteria listed above.

The Board of Trustees retains the right to add to, change or waive any of these criteria if it deems that such addition, change or waiver is in the best interest of the Fund.

11. Review of Investment Policy Statement

The Fund's investment policy is not static. It is appropriate as it relates to the Fund's membership and liabilities at a particular point in time and will be reviewed by the Investment Committee and Board of Trustees at least annually.

A significant change in the Fund's liabilities, member profiles and / or the investment environment will initiate an immediate review of the policy. Any change to this policy document must be approved by the full Board of Trustees.

12. Approval

This document represents the investment policy of the **Durban Pension Fund** and records the issues considered by the Board of the Fund in establishing an appropriate strategy for the management of the Fund's investments.

Chairperson
On behalf of the Board of Trustees of **Durban Pension Fund**

Date: 10 June 2024

APPENDIX 1 – 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 the Fund's investment strategy. Governance principles hence define the framework of an investment policy.

The Fund is firstly governed by the Pension Funds Act No. 24 of 1956. Regulation 28 of the Act regulates the principles, rules and limits applicable to assets invested in by retirement funds. By law, the Fund must adhere to Regulation 28. The Fund is also bound by the Rules of the Fund.

The Board of Trustees has taken note of PF Circular 130 (PF 130) issued by the FSCA (previously FSB) in June 2007. Whilst FSCA circulars are not legally binding on retirement funds, the Board of Trustees recognises these as "recommended practice". The Fund therefore aims to adhere to PF 130 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 Board of Trustees, including those responsible investment principles contained in the Code for Responsible Investing in South Africa (CRISA), as reflected in the respective local equity managers' mandates.

1. PF 130 PRINCIPLES

The Fund's policy and actions pertaining to each of these governance principles are summarised below together with extracts from PF 130 (where applicable).

1.1 Investment Policy Statements

PF 130 states: *"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.

1.2 Conflicts of Interest

PF 130 states: *"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 Board of Trustees agrees that conflicts of interest should be avoided where possible. However, the Board of Trustees realises that not all conflicts can be avoided, and that those that cannot be avoided will thus need to be identified and carefully managed. Further, the Board of Trustees is of the opinion that the benefits to be gained from completely avoiding certain conflicts of interest may be overshadowed by the resulting costs or complexities. Each conflict situation should thus be considered independently. The Board of Trustees requires all service providers to highlight any areas of conflict of interest in their operations as far as it relates to the Fund.

The Board of Trustees understands that some Trustees have an inherent conflict of interest by virtue of being active members or pensioners of the Fund.

Similarly, Trustees will be expected to disclose conflicts of interest and to refrain from participating in any related decision. Trustees are formally required to disclose any conflicts of interest on an annual basis and are reminded to disclose any new conflicts of interest at each Investment Committee and Board of Trustees meeting.

1.3 Responsible Investment ("RI") and Ownership

The Board of Trustees will consider the principles contained in CRISA. The local asset managers integrate environmental, social and corporate governance (ESG) considerations into their investment management processes and ownership practices. This is included in the relevant discretionary investment mandates. The Fund believes that these factors can have an impact on the financial performance of the companies in which the Fund may be invested.

The Fund's active ownership responsibilities relating to engagement with investee companies and proxy voting have been delegated entirely to the relevant asset managers and such delegation will be set out in the managers' respective mandates.

1.4 Socially Responsible Investments ("SRI")

PF 130 states: *"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 SRI."*

Members of the Board have applied their minds to the issue of SRI, and have established a SRI policy for the Fund. This SRI policy is considered to form an integral part of the Investment Policy Statement, and hence is appended hereto as Appendix 2.

1.5 Shareholder Activism and Voting Rights

PF 130 states: *"... 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 asset managers including monitoring and reporting of the same."*

The Board delegates responsibility for shareholder engagement and voting in respect of shares in the companies in which it is invested, to the investment manager managing assets on behalf of the Fund. The Board views the investment manager as the expert on activism matters that may negatively impact the value of the shares in which it invests.

1.6 Liquidity Risk / Termination Conditions

PF 130 states: "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."

The Board recognises that there are occasions where investors can be rewarded for holding illiquid investments, but such investments should be limited to ensure that liquidity does not become a constraint within the investments made by the Fund. The Fund should generally be able to meet all cash flow needs (benefit payments) without having to sell illiquid instruments.

Being a long-term investor, a retirement fund can take some liquidity risk in order to earn the associated liquidity premium offered, however this must be done keeping cash flow requirements in mind and must also be monitored to ensure that any liquidity risk taken is not excessive and that liquidity risk in different parts of the Fund does not accumulate across the Fund.

The Board does not believe it is appropriate for the Fund to be tied to an asset manager (or in fact any service provider) for an extended period of time after a decision is taken to replace such an asset manager. Hence the Fund will generally request notice periods of no more than 30 days when appointing asset managers, unless market conditions or other circumstances dictate that more onerous termination conditions must be accepted.

1.7 Use of Derivative Instruments

PF 130 states: *"... investment in derivatives by asset 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 Board believes that the responsible use of derivative instruments may be used to ensure the optimal implementation and management of investment portfolios. When used appropriately and with due care, derivatives can also be highly efficient instruments to reduce or manage investment risk in portfolios. The Board and the asset consultants do have a clear understanding of the use and risks of derivatives. The Board therefore allows the responsible use of derivative instruments by their asset managers, within specified risk limits (refer to Section 8: Risks to be Recognised). The use of derivative instruments is subject to the requirements of FSCA Conduct Standard 1 of 2023.

1.8 Pooled or Segregated Investment Portfolios

PF 130 states: *"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 therefore."*

The Board has considered the advantages and disadvantages of both approaches, being to hold the assets in the name of the Fund (via segregated mandates), or to invest in pooled investment portfolios through which the Fund's interests are represented by the value of an insurance policy or some other investment vehicle.

The Board believes that the Fund's interests would be better served through investing mostly in segregated portfolios locally and pooled portfolios globally. However, the Investment Committee recognises that in some cases the local pooled portfolios may be more suitable for liquidity reasons and therefore makes limited use of these in such instances. Whether a particular portfolio is segregated, pooled or an insurance policy will be clearly indicated in all reporting on portfolios.

1.9 Appointment of Custodians

PF 130 states: *"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."*

Where funds are held in segregated portfolios, the assets will be held in the custody of the custodian appointed by the Fund.

Where the Fund makes use of pooled portfolios, i.e. via an insurance policy, the ownership of the underlying investments does not vest in the name of the Fund, and hence the Fund is not required to appoint a custodian in these instances.

1.10 Pledging and Borrowing of Assets, and Lending against the Fund

Both of the above activities are envisaged by PF 130, although the Circular states in both instances that *"extreme care and caution should be taken when considering the possibility of such activities."*

Regulation 28 also places limits on borrowing, and the Board of Trustees will ensure that these are not breached, by aiming to ensure that the Fund always has sufficient cash for benefit payments and liquidity within the investment strategy. The Fund may consider the use of a repurchase agreement (repo) strategy as part of the LDI portfolio in order to gain access to yield enhancing debt investments of shorter duration. This consideration requires Board approval before implementation.

The Board of Trustees is aware of a few other circumstances when such actions might be appropriate, or indeed desirable:

- Pledging Fund assets under pension-backed lending arrangements, but exclusively for housing purposes as envisaged by the Pension Funds Act;
- Borrowing assets on overdraft to meet short-term cash flow needs, instead of liquidating assets;
- Securities lending transactions; and
- Pledging Fund assets under certain derivative transactions (futures contracts).

The Fund does not currently provide housing loan facilities or engage in securities lending transactions.

1.11 Management Fees and Compensation for Active Fund Management Services

PF 130 states: *"The Board of the fund must decide between active and passive asset management and determine whether the concomitant fees of active asset management are justified by the returns achieved."*

The Board has considered the arguments for and against active asset management, and the associated costs. The Board believes that, generally, skilled active asset management, undertaken with the benefit of professional advice on all aspects of the investment strategy, can over time achieve returns in excess of passive (benchmark tracking) investments, net of all investment related costs. The Board will continuously consider passive investment options where appropriate in consultation with its advisors.

1.12 Expert Skills

PF 130 states: *"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 Board of Trustees recognises that they do not have the requisite skill, experience or time to spend on all detailed investment matters. As a result, the Board of Trustees selects and appoints, in accordance with a defined selection process, expert professional service providers to assist and support the Board of Trustees in the development and implementation of each aspect of the investment strategy. The professional expert services used include but are not limited to asset consultancy, investment management, transition management, custodial and actuarial services. Each service provider appointed is properly mandated in terms of a documented agreement and their performance is regularly assessed.

While the Board of Trustees recognises the need for the involvement of expert service providers, they also recognise the risk of becoming too dependent on any professional service provider. To this end the Board of Trustees prefers service providers who offer a genuinely independent service and also reserves the right to seek a second opinion in any circumstance.

The Board of Trustees however recognises that they retain all the responsibilities contained within Regulation 28, even when using professionals, including the requirement to ensure that advisors and service providers comply with Regulation 28.

1.13 Member Investment Choice Structure

PF 130 states: *"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."*

The Fund is a defined benefit fund and does not have member investment choice.

1.14 Certification by Fund Actuary

The Fund's actuary, as part of the actuarial valuation, must certify whether he or she is satisfied with the Fund's asset structure and confirm that the matching of the assets with the liabilities of the Fund is adequate.

The Board will obtain such certification from the Fund's actuary from time to time as changes are made to the investment strategy.

1.15 Existing Investment Portfolios

PF 130 states: *"...consideration must be given to existent investments when formulating the IPS."*

The Board interprets this section of PF 130 to imply that any proposed change to the Investment Policy or strategy must be considered in conjunction with the costs that the Fund may incur as a result of such changes. The Board recognises that changes to investment portfolios may incur substantial direct and indirect costs and will aim to achieve the most efficient implementation of such changes in order to reduce such costs as far as possible. This can often be achieved by using the services of a transition management service provider. The Fund in the past had appointed a transition manager and utilisation of this service will be considered by the Board in appropriate circumstances.

The governance principles set out above will be used as a checklist when considering and evaluating any new investments. Other principles may be added to the above list over time, as appropriate.

1.16 Decision-Making Structure

The Board of Trustees has delegated the responsibility for specific investment-related issues in terms of documented terms of reference to its Investment Committee but will note the minutes of all decisions taken and the reviews of investment performance and relevant investment related information at each regular Board of Trustees meeting. The Board of Trustees however recognises that it ultimately remains responsible for all of the decisions taken and has the right to veto or overturn decisions taken by the Investment Committee.

The Principal Officer is invited to attend Investment Committee meetings but does not have any voting rights.

Day-to-day decision-making and management of the Fund's assets is delegated to the relevant professional and expert service providers including the asset managers and the custodian.

Current and new investments are to remain within the guidelines of relevant legislation and the current Investment Policy Statement.

1.17 Monitoring and Reporting of the Fund's Investment Strategy

The Board of Trustees will ensure that the investment strategy, and the performance thereof, is monitored. The Fund's asset consultant and investment managers report back on performance on a quarterly basis.

2. REGULATION 28 PRINCIPLES

The preamble to Regulation 28 and a number of principles that pension funds and their boards are expected to follow include reference to the adoption of a responsible investment approach that encompasses consideration of ESG factors. In addition, Regulation 28 includes a clear regulatory instruction to funds to consider ESG issues in addition to financial considerations, although this instruction does not include detailed guidance on how to do this (refer to Appendix 2).

Regulation 28 includes a number of principles that pension funds are required to address and document in their Investment Policy Statement. The Board of Trustees has considered these principles and adopted the policies as listed below. To the extent that many of the issues raised previously in PF 130 (Pension Fund Circular 130, issued by the Financial Services Board) have been replaced by Regulation 28, they have been removed from the relevant sections in the Investment Policy Statement, and have been included in the section below.

2.1 "A fund must comply at all times with the limits set out in Regulation 28"

The Board of Trustees of the Fund has considered the limits in Regulation 28 and do not believe that these constrain them in any way from achieving what is in the best interests of its members. The Board of Trustees will comply with the limits in Regulation 28, and will monitor compliance by investing in a combination of pooled and / or segregated portfolios that may not be Regulation 28 compliant on a standalone basis, but which will be Regulation 28 compliant when used in combination.

2.2 "A Fund must have an investment policy statement, which must be reviewed at least annually"

This document represents the Fund's Investment Policy Statement, and the Board of Trustees will review this document at least annually where the underlying principles raised in Regulation 28 will be discussed to establish whether any changes are required to the policies, given the changing profile of the membership and the environment in which the Fund operates. The policies relating to the specific principles raised in Regulation 28 are addressed below.

2.3 "A Fund and its board must at all times apply the following principles"

2.3.1 Promote the education of the board with respect to pension fund investment, governance and other related matters

The Board of Trustees of the Fund recognises the importance of promoting the education of the Trustees in all matters related to the management of the Fund, but specifically investments, governance and other related matters. It is compulsory for all Trustees to complete the FSCA Trustee Training Toolkit.

Furthermore, formal training sessions are held by independent training providers and Trustees are encouraged to attend. The Trustees are encouraged to read industry publications regularly (including newsletters, magazines, newspapers, journals and to attend relevant industry conferences and workshops).

2.3.2 Monitor compliance with this regulation by its advisors and service providers

The Board of Trustees of the Fund recognises the importance of this regulation in providing a framework that will assist pension fund boards to govern their pension funds. They also recognise that it is therefore important to ensure that their advisors and service providers should be monitored in relation to compliance as these parties are relied on by the Board of Trustees. Specifically, the Board of Trustees will require their service providers to initially provide a detailed account of how compliance with the regulation is undertaken where applicable. The Board of Trustees will then require a regular report from their service providers on their compliance throughout the period since the last report where applicable. Any breaches of compliance with the regulation will be reported to the Board of Trustees.

2.3.3 In contracting services to the Fund or its board, consider the need to promote broad-based black economic empowerment of those providing services

The Board recognises the importance of promoting broad-based black economic empowerment, and the Fund's ability to assist in this initiative. The Board will first and foremost consider appointing service providers that meet their requirements to assist in managing the Fund, preferring those service providers that are more likely to provide higher quality advice or service. The Board will however prefer service providers with more broad-based black economic empowerment credentials from the service providers that are otherwise seen as providing an equivalent level of service and advice.

2.3.4 Ensure that the Fund's assets are appropriate for its liabilities

The Board recognises the importance of the Fund's liabilities in designing an investment strategy i.e. the considerations of 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 currency), and certainty (with respect to timing and amount of receipts and payments). The Board also recognises that in order to evaluate whether the investment strategy (and hence the assets) is appropriate for its liabilities, an ALM study should be undertaken.

Finally, the Board recognise that the assets, the liabilities, the membership profile of the Fund, and the legislation and regulations change over time, and that these could have a significant impact on the investment strategy. The Board will therefore require an ALM study to be performed every time there is a significant change with respect to any of the items highlighted above, or consider whether an ALM may be required at least every 5 years.

An annual review of the investment strategy of the Fund is also undertaken to determine whether the investment strategy adopted by the Fund is still appropriate for the Fund's liabilities and objectives.

2.3.5 Before making a contractual commitment to invest in a third-party managed asset or investing in an asset, perform reasonable due diligence taking into account risks relevant to the investment including, but not limited to, credit, market and liquidity risks, as well as operational risk for assets not listed on an exchange

The Board recognises the importance of following a due diligence process before investing (or committing to invest) in an asset directly or through a third party. The Board however also recognises that they do not have the requisite skills to follow due diligence processes on securities as this is a very specialised function requiring appropriate skills and experience. The Board will therefore delegate the function of performing due diligence on assets to asset managers with the appropriate skills and experience.

The Investment Committee will however retain the responsibility for this due diligence to be performed and will therefore ensure that the asset managers to which the function is delegated, have the appropriate skills, experience and requisite processes in place to perform this function. The Board will do this by performing a due diligence exercise on asset managers contracted to manage the Fund's assets.

The Board may conduct annual due diligence visits at the offices (or remotely) or consider a due diligence report carried out by its asset consultant of all the asset managers/reports. The purpose of the due diligence visits/reports is to acquire in-depth and reliable information on the asset managers in order to assess pertinent risks that could impact the Fund. The due diligence visits/reports are an opportunity for the Board to evaluate the credibility of the asset manager and review their investment philosophy, style, process, staff and monitor the portfolio positioning and performance. The visits/reports also give the Board assurance (to the extent to which this is reasonably possible) that the Fund's asset managers are conducting well-managed businesses and that the Fund's assets are being managed appropriately. The asset consultant may arrange and facilitate these due diligence visits.

In addition, the Board proactively reviews other managers and service providers, in particular when, based upon recommendations made by the Fund's asset consultants when new products, managers or new developments in the industry are under consideration.

The Board will require the Fund's asset managers to report back regularly (at least bi-annually) to the Investment Committee, and will use this opportunity to again query their due diligence and risk management systems, processes and people. If the Investment Committee or the Board is uncomfortable with any aspect of the outcome of the due diligence process, they will take appropriate action.

2.3.6 In addition ..., before making a contractual commitment to invest in a third party managed foreign asset or investing in a foreign asset, perform reasonable due diligence taking into account risks relevant to a foreign asset including but not limited to currency and country risks

The Board recognises 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 Board have decided to follow the same due diligence process as above (i.e. delegating the due diligence to asset managers), with one important difference. The Board will decide on the appropriate overall foreign allocation given the currency mismatch risk inherent when investing in any foreign asset, as the Fund's liabilities or objectives are denominated in South African Rand.

The Board has therefore decided not to invest in portfolios where the third party manager (asset manager, multi-manager, fiduciary manager or implemented consultant) decides on how much to invest offshore. This is also important because the current limit set by the South African Reserve Bank could change in future, making the new limit inappropriate for certain investors. The third-party manager will however be mandated to perform the necessary due diligence before investing (or committing to invest) in any asset, including the assessment of country and currency risk.

The Board of Trustees on the advice of the Asset Consultant and Actuary will therefore decide on how much each portfolio can be invested offshore under the prevailing allowance by the South African Reserve Bank and Pension Fund Regulations allowance.

2.3.7 In performing due diligence referred to in 1.3.5 and 1.3.6, a Fund may take credit ratings into account, but such credit ratings should not be relied on in isolation for risk assessment or analysis of an asset, should not be to the exclusion of a Fund's own due diligence.

The Board recognises that credit rating agencies may be somewhat useful, but also recognise that there are major weaknesses in relying on these ratings in isolation. The Board will again delegate the responsibility to perform due diligence on assets to their asset managers or third party providers. The Board will, however, conduct their own due diligence on their asset managers' and third party providers' credit rating process, to ensure that they have the required skills, systems and processes to assess credit risk and not rely on credit ratings agencies.

2.3.8 Understand the changing risk profile of assets of the Fund over time, taking into account comprehensive risk analysis, including but not limited to credit, market, liquidity and operational risk, and currency, geographic and sovereign risk of foreign assets

The Board recognises 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 Board therefore recognises 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 Board therefore requires ongoing education and information on markets and assets from their asset managers or third party service providers.

They also require the Fund's asset managers to continually evaluate the changing risk profile of the assets invested in. The Board will also require regular ALM studies to understand the changing risk profiles of assets and liabilities.

2.3.9 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 character

Appendix 2 – Responsible Investment Policy

1. Responsible investing

The Board of Trustees will consider the principles contained in the Code for Responsible Investing in South Africa (CRISA), as updated.

There are five key principles:

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

The Board believes that these factors can have an impact on the financial performance of the companies in which the Fund may be invested.

The Fund's managers have various policies in force about:

- incorporating sustainability considerations into their investment decision-making processes (including the identification of sustainability concerns)
- a commitment to the principles of sustainable development
- ownership responsibilities (including shareholder activism guides or proxy voting recommendations)
- conflicts of interest
- how they incorporate or apply the CRISA principles

The Board believes that these factors can have an impact on the financial performance of the companies in which the Fund may be invested.

The Fund's active ownership responsibilities relating to engagement with investee companies and proxy voting have been delegated entirely to the relevant investment managers and such delegation will be set out in the managers' mandates.

2. Active Ownership Policy

The Fund recognises that retirement funds, as institutional investors, are widely recognised as having a major role to play in ensuring that corporate South Africa applies the principles of the latest King Code on Governance for South Africa and recommended practices effectively, including that of being a responsible corporate citizen and integrating sustainability issues: economic, social and environmental – the triple context in which companies operate – in the investment process.

FSCA Guidance notice 1 of 2019 defines active ownership as the:

"...prudent fulfilment of responsibilities relating to the ownership of, and/or interest in, an asset. These responsibilities include, but are not limited to:

(a) Guidelines to be applied for the identification of sustainability concerns in that asset;
(b) Mechanisms of intervention and engagement with the responsible persons in respect of the asset when concerns have been identified and the means of escalation of activities as a holder or owner of that asset if these concerns cannot be resolved; and
(c) Voting at meetings of shareholders owners or holders of an asset, including the criteria that are used to reach voting decisions and the methodology for recording voting,

The UNPRI defines responsible investing as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

The Board has a duty to act in the best interests of the Fund's beneficiaries to whom it is accountable. In this fiduciary role, the Board believes that material extra-financial factors relating to ESG issues can affect the performance of investment portfolios. Responsible investing is an approach that incorporates these material extra-financial factors into investment processes and activities with the objective of decreasing investment risk and improving risk-adjusted returns.

The responsibility for the management of the Fund's assets has been delegated to the asset managers appointed by the Fund and these managers may be interrogated about their active ownership approach including, engagement and proxy voting record, as well as their ESG policies. Asset managers are required to exercise active ownership responsibilities on behalf of the Fund to positively influence the underlying companies in areas such as sustainability through proxy voting and other engagement.

The due diligence process followed in selecting and appointing asset managers takes responsible investing and active ownership criteria into account. The Funds expectations and delegation to investment managers in respect of responsible investment and active ownership activities will, to the extent applicable, be reflected in the relevant investment mandates.