

Investment Policy Statement

Universiteit van Stellenbosch Aftredefonds

Updated October 2020



The document is sub-divided into two sections namely Principles and Implementation.

Section 1: Founding principles

Preamble

This document is the Investment Policy Statement of the Universiteit van Stellenbosch Aftredefonds (“the Fund”). The Statement has been developed by the Board of Trustees and will be reviewed at least annually.

Fund mission

The mission of the Fund is to meaningfully assist members in providing towards their retirement. The Fund will do this by:

1. Establishing portfolios with differentiated return and risk payoffs that aim to deliver superior risk-adjusted returns.
2. Keeping costs low by using the bulk buying power of the membership to secure “wholesale pricing”.
3. Providing a default investment strategy for members that are unwilling or uncomfortable to exercise investment choice - the so-called life stage model.
4. Providing guidance to members at retirement in relation to how best they may apply their retirement capital to secure a pension.

Core investment beliefs

The Board has adopted the following core investment beliefs:

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

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

Investment belief 2: Risk is different from volatility

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

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

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

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

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

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

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

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

The Board believes that Environmental, Social and Governance (ESG) factors can have a material impact on investment returns, especially in a world of much greater transparency. Accordingly, ESG considerations need to be integrated into the Fund’s investment strategy.

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

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

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

Investment belief 6: The Board believes that investment manager skill is scarce

The Board considers investment management to be a highly competitive industry and as in all competitive environments there are relatively few consistent winners. In order to identify such skill a strong qualitative approach is required which focuses on identifying managers that have a meaningful and relatively easy to understand competitive edge to the market.

Such a competitive edge may be found in an intellectual edge, better quality of research than other market participants and exploiting the mistakes most other investors make. The investment firm’s organisational culture is also a key driver of allowing skilled managers to ply their trade successfully.

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

Investment belief 7: Member Investment Choice

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

1. A member aged 53 or older will be allowed to select an “own portfolio” from the range of investment portfolios offered by the Fund in order to integrate his or her pre-retirement investment strategy with how he or she intends to apply his or her benefit to secure an income in retirement. [WTW drafting note – we may wish to provide a motivation for choice of age 53 – presumably it comes from a time when NRA was 60]
2. A member will be permitted to switch into the Shari’ah Portfolio at any time as this is choice based on religious belief.

Investment model

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

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

Portfolio construction

Active versus passive investing

Given the Board’s belief that markets are inefficient and that the investment model is that of an “alpha seeker”, it naturally has implemented an active manager investment strategy.

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

Multi-asset class versus specialist mandates

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

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

Alternative asset classes

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

Manager selection

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

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

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

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

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

1. Rapid growth or decline in assets under management
2. Change in the investment philosophy and approach or a material change in the investment process
3. The manager increasing the risk profile of the portfolio significantly without being able to provide good reasons for doing so
4. Poor performance over a period if such poor performance cannot reasonably be explained by market mispricing or a once-off "extreme event" error
5. Loss of key personnel, including a situation where a key decision-maker is "promoted" to a different role
6. Perceived loss of passion and focus by key decision-makers
7. Material change in the shareholding structure of the manager
8. Perceived adverse changes in the ethics of the manager
9. Poor policies in respect of ESG issues, especially if the manager adopts a long-term investment horizon

Choice of indices

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

1. The index should be a publicly available and investable market capitalisation index; and
2. The Board prefers more diversified indices.

Accordingly, the Board has adopted the following indices for the different asset classes:

Asset class	Index
SA equities	FTSE/JSE Capped Shareholder Weighted Index (J433T)
SA property	South African Property Index (SAPY – J253T)
SA bonds	BESA SA All Bond Index (JAPI05)
SA inflation bonds	SA Government Inflation Linked Bond Index (IGOV)
SA cash	SteFi Composite
Global equities (including private equity)	MSCI All Country World Index (MSCI ACWI ND)
Emerging market equities	MSCI Emerging Market Index (MSCI EM ND)
Global bonds	FTSE World Government Bond Index (FTSE WGBI)
Global listed infrastructure	FTSE Global Core Infrastructure Index (50/50) Net
Global listed property	FTSE EPRA NAREIT Developed Index (Net)

ESG Policy

Preamble

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

Negative screening

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

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

Nevertheless, the Board is supportive of a transition plan to reduce the country's carbon footprint. To this end, the Fund will require the local investment managers that invest in fossil fuel companies to engage with the management of investee companies to improve their carbon footprint. The managers will be required to report at least annually to the Board on the outcome of such engagement.

Positive screening

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

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

ESG integration

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

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

Active ownership

The Board recognises that as opposed to becoming an active shareholder, the investment manager has the option to sell if the firm becomes concerned about the ESG characteristics of any investee company.

However, where the manager is a large shareholder with the consequence that it will only be able to trade out of the position over an extended period, it should be a more active owner. Naturally, an investment manager whose investment thesis is part based on improving the ESG profile of the firm also needs to take an active owner role.

The Board is of the view that a key element of active ownership is effective engagement with the company's management. Accordingly, the Board places less emphasis on the voting record of the investment manager (although this is still important) and greater store on engagement that delivers positive results.

At this time the Board will delegate the voting rights to its appointed investment managers, without issuing any voting guidelines. Nevertheless, the Fund's investment managers will be required to report at least annually on their engagement with investee companies and how they have voted on the company resolutions where at least 10% of the shareholders have voted against the matter.

Impacting investing

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

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

ESG reporting

The Board will rely on its appointed investment managers to provide at least annual reporting on company engagement and voting. Specific reporting is required in respect of companies whose activities impact

negatively on climate. In addition, where the investment has a clear social return, the manager is required to report on these social returns.

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

Fee Principles

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

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

Conflicts of interest

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

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

All service providers are required to receive their entire remuneration from the Fund and so may not receive any direct or indirect benefit or remuneration from any other service providers associated with the Fund.

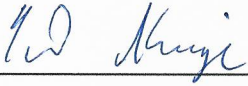
Review of the Statement

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

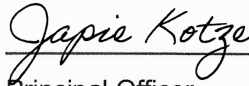
1. A change in exchange control regulations affecting retirement funds
2. A change in the tax basis affecting the investment strategy of the Funds
3. A change in Pension Funds Act or the Long Term Insurance Act that affects investments

4. A change in the economic policy regarding inflation targeting or the mandate of the South African Reserve Bank
5. An indication that the Funds will have significant cash flow requirements (particularly outflows)
6. Any extreme market event in which case the Principal Officer may convene a special meeting of the Investment Sub-Committee

Adopted by the Board on 10 November 2020



Chairperson: Board



Principal Officer



Date

9 December 2020

Date

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



Valuator

22/02/2021

Date

Effective date of implementation:

Section 2: Implementation

Investment choice framework

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

- (a) A member may elect to invest in the Shari'ah Portfolio at any time
- (b) Members aged 53 or older may opt out of the life stage so as to integrate his or her pre-retirement and post-retirement investment strategy and may invest in the following investment channels in which case they become own choice members:
 - 1. Growth Portfolio;
 - 2. Aggressive Absolute Return Portfolio;
 - 3. Conservative Absolute Return Portfolio;
 - 4. Capital Protection Portfolio;
 - 5. Shari'ah Portfolio; or
 - 6. Portfolio offering hedging against interest rate fluctuations.
- (c) Living annuitant and deferred retirees who have the same choice of portfolio as a member aged 53 or older.

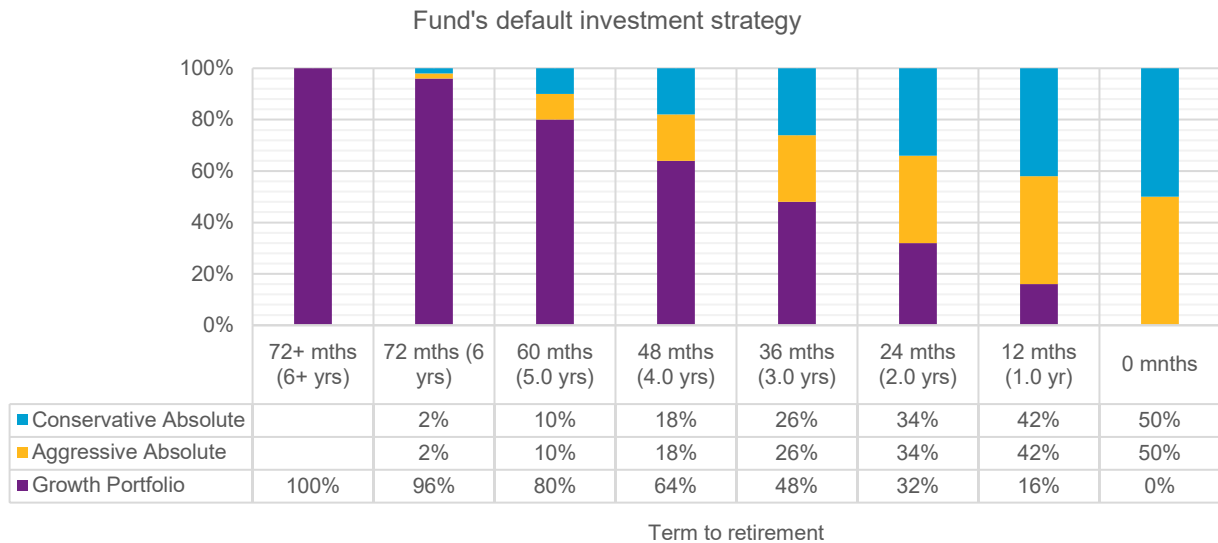
The Fund also has an annuity strategy in place and complies with the requirements of Regulation 39. The Fund's annuity strategy consists of two alternative annuity strategies, namely an inflation linked life annuity (provided externally) or the Fund's in-fund living annuity, depending upon the member's Fund Credit at retirement. Retiring members have the opportunity to "opt in" into the Fund's annuity strategy and select either the external inflation linked life annuity or the in-fund living annuity.

The in-fund living annuity entails a customised option with investment choice and limited flexibility regarding drawdown rates which meets the Regulation 39 requirements. The Fund provides a default investment strategy for retirees electing a living annuity which is a 50%:50% allocation to the Aggressive Absolute and Conservative Absolute Portfolios. This is the same investment strategy as that of the default investment strategy at the end of the calendar year in which a member attains 65 years. This design enables a member invested in the default investment strategy to seamlessly transfer part or all of his/her fund credit to this in-fund living annuity.

Please refer to Appendix II for more details about the Fund's annuity strategy. [WTW drafting note - this section will be updated with the final document provided by Simeka.]

Life stage model and portfolios

The chart below sets out the design of the Fund's default investment strategy (the life stage model); the horizontal axis reflects the period to normal retirement age using only whole years.



In practice, the transition is done on a quarterly basis with the first switch made on 1 January in the year of the member's 60th birthday.

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

Growth Portfolio

Investment objective

The primary investment objective of the Growth Portfolio is to achieve at least 75th percentile performance relative to the "Global Balanced" peer group as represented by the Willis Towers Watson Industry Median Survey over a measurement period of five years. [WTW drafting note - we would argue for seven years as this is more consistent with the long term nature of this portfolio.]

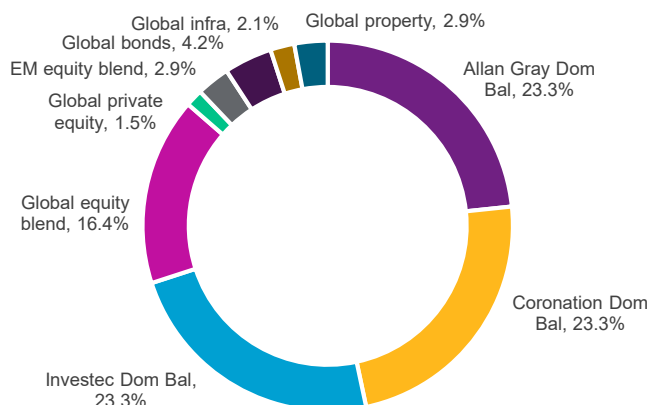
The secondary objective of the Growth Portfolio is to deliver a real return of 5% p.a. (net of all costs) over rolling seven-year periods. The risk budget consistent with this objective (expressed as standard deviation) is 13% p.a. Based on Capital Market Assumptions set out in Appendix I, the expected real return is closer to 6% p.a., but the risk is also higher at 14.5% p.a., reflecting the fragility of the South African economy. The Board has decided to retain the current real return target of 5% p.a. for consistency in member communication.

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

Manager blend

The chart below sets out the manager blend for the Growth Portfolio. Note the global managers are accessed via the Sygnia Life platform with the manager blend being based on advice received from Willis Towers Watson. The manager blend below incorporates the Board's decision to invest the maximum allowable amount of 30% offshore. The offshore allocation is thus an active decision by the Board and will be reviewed over time.

Growth Portfolio: Manager Blend



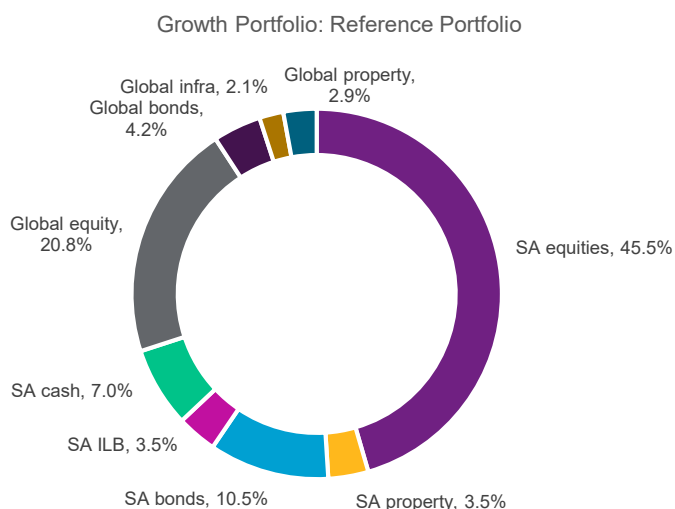
The table below sets out the investment approach of the managers:

Investment manager	% Allocation	Investment approach	Target out-performance
Allan Gray	23.3%	Multi-asset class; local only. Long term investing with an absolute return focus. The manager has a contrarian bias and the portfolio is likely to have value characteristics. Portfolio turnover around 20% p.a.	1.5% p.a.
Coronation	23.3%	Multi-asset class; local only. Long term investing with an absolute return focus. The manager tends to have a quality value bias. Portfolio turnover around 35% p.a.	1.5% p.a.
Investec	23.3%	Multi-asset class; local only. Earnings revision momentum approach. Portfolio turnover close to 100% p.a.	1.5% p.a.
Blend on global equity managers advised by Willis Towers Watson (WTW)	16.4%	Diversified blend of global equity managers that approach the market differently. Aim is to construct a portfolio that has a high active share (i.e. very different from the index), but a low tracking error i.e. risks such as style, sector, country and currency are largely neutralized and stock selection the main driver of performance.	1.5% p.a.
Global private equity	1.5%	Oxford Sciences Innovation which is a portfolio of circa 75 spin-out companies with an additional allocation to selected opportunities.	4.5% p.a.
Blend of emerging market equity managers advised by WTW	2.9%	Diversified blend of emerging equity market managers with a quality growth bias to capture the assumed higher economic growth in emerging markets.	1.5% p.a.
Global bonds advised by WTW	4.2%	A bond manager or a blend of two bond managers that follow the value approach to bond investing (i.e. allocate more capital to countries the offer the highest assessed real return). The portfolio also has some exposure to EM debt.	1.5% p.a.
Global listed infrastructure	2.1%	Maple Brown Abbott is the only manager; the firm follows an absolute return quality approach	1.5% p.a.
Global listed property advised by WTW	2.9%	Resolution Capital is the only manager; the firm follows a quality growth approach.	1.5% p.a.

Note whilst the performance target for each strategy (other than global private equity) has been set at 1.5% p.a. out-performance it is unlikely that all the managers will achieve the target and so the out-performance target compared to the Reference Portfolio has been set at 1.0% p.a.

Reference Portfolio (Aggregate)

The Reference Portfolio (RP) for the Growth Portfolio targets a real return of 5% p.a. over seven years with a risk budget of 13.0% based on the long term asset class assumptions set out in Appendix 1. [WTW drafting note – amended to be consistent with global strategy and RP for domestic managers; SA equity reduces from 47.5% to 45.5% and SA bonds and cash increase slightly]



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

Reference Portfolio (local assets only)

The table below sets out the RP for the local assets (i.e. this RP is used to assess the performance of Allan Gray, Coronation and Investec) [WTW drafting note consistent with performance fee arrangement]

Asset class	RP allocation	Index
SA equities	65.0%	FTSE/JSE Capped SWIX
SA property	5.0%	SAPY
SA bonds	15.0%	All Bond Index
SA ILB	5.0%	IGOV
SA cash	10.0%	SteFi Composite

Reference Portfolio global assets

The table below shows the RP for the global assets

Asset class	RP allocation	Index
Global equities	60.0%	MSCI ACWI ND
Emerging market equities	10.0%	MSCI EM ND
Global bonds	13.0%	FTSE WGBI
Global listed infrastructure	7.0%	FTSE Global Core Infrastructure (50/50) Index Net
Global property	10.0%	FTSE EPRA NAREIT Dev Net

Aggressive Absolute Portfolio

Investment objective

The investment objective of the Aggressive Absolute Portfolio is to achieve a real return of 6% p.a. net of fees over three-years, whilst having a secondary objective of avoiding a capital loss over any 12-month period.

Reference Portfolio

This Portfolio has a higher inflation return objective as the Growth Portfolio. Accordingly, its performance should be assessed against a Reference Portfolio that has a higher exposure to growth assets and higher risk budget. However, the objective of this portfolio also includes capital protection which reduces the targeted risk budget. For purposes of simplicity and to compare performance to the Growth Portfolio the same Reference Portfolio will be used as for the Growth Portfolio.

Investment manager

The portfolio is managed on a multi-manager basis by Sanlam Multi-Manager Investments (SMMI).

Conservative Absolute Portfolio

Investment objective

The investment objective of the Conservative Absolute Portfolio is to achieve a real return of 3% p.a. net of fees over three-years, whilst having a secondary objective of avoiding a capital loss over any 12-month period.

Reference Portfolio

The RP for the Conservative Absolute Portfolio targets a real return of 3% p.a. over three years with a risk budget of 6.0% based on the long term asset class assumptions set out in Appendix 1. The table below shows the RP for this investment channel.

Asset class	RP allocation	Index
SA equities	17.5%	FTSE/JSE Capped SWIX
SA property	5.0%	SAPY
SA ILB	5.0%	IGOV
SA cash	50.0%	SteFi Composite
Global equities	17.5%	MSCI ACWI ND
Global listed infrastructure	2.0%	FTSE Global Core Infrastructure Index (50/50) Net
Global property	3.0%	FTSE EPRA NAREIT Dev Net

Investment manager

The portfolio is managed on a multi-manager basis by Sanlam Multi-Manager Investments (SMMI).

Capital Protection Portfolio

Investment objective

The investment objective of the Capital Protection Portfolio is to achieve a real return of 1.5% p.a. net of fees over any 12-month period. The achievement of this objective will depend largely on the South African Reserve Bank following a real interest regime.

The portfolio also aims to out-perform the SteFi Composite Index by 0.75% p.a. net of fees.

Investment manager

Investec Asset Management

Shari'ah Portfolio

Investment objective

The primary investment objective of the Shari'ah Portfolio is to perform in line with its Reference Portfolio over rolling three-year periods. The Portfolio has a secondary objective of achieving a real return of 4.0% p.a. net of fees over any five-year period.

Reference Portfolio

The table below shows the RP for the Shari'ah Portfolio:

Asset class	RP allocation	Index
SA equities	45.0%	OMIG Customised SA Shari'ah equity index
Global equities	10.0%	S&P Developed Markets Large and Mid-Cap Shari'ah Index
SA cash and conduits	40.0%	SteFi Composite less 0.5% p.a.
Global cash and conduits	5.0%	3-month US\$ LIBOR rate

Contingency Reserve Accounts

The investment strategy for the Fund's Cost Reserve is the Conservative Absolute Portfolio. The investment strategy for the Fund's Processing Error Reserve is the Growth Portfolio.

Appendix I – Capital Market Assumptions

The following long term assumptions have been made in respect of the real returns and risk (standard deviation) per asset class. These assumptions, together with a correlation matrix are used to determine the Reference Portfolio for the various investment channel. All expected returns shown are gross returns.

Asset class	Expected real return*	Risk
SA equities	7.50% p.a.	23.0%
SA property	8.50% p.a.	27.0%
SA bonds	4.50% p.a.	11.0%
SA inflation linked bonds	3.75% p.a.	9.0%
SA cash	1.50% p.a.	2.0%
Global equities (in ZAR)	5.00% p.a.	17.0%
Global bonds (in ZAR)	1.50% p.a.	8.0%
Global infrastructure (in ZAR)	5.00% p.a.	16.0%
Global property (in ZAR)	6.00% p.a.	19.0%

* This is expected geometric real return.



University of Stellenbosch Retirement Fund (“USRF”)

Annuity strategy incorporating Regulation 39

The Investment subcommittee was mandated with making a proposal to the Board of Trustees in respect of Regulation 39, which requires the Fund to have an annuity strategy in place effective 1 March 2019. Various presentations, consultations and submissions by product providers were considered. The process also involved a gap analysis of the Fund’s existing in-fund living annuity offering. At the subcommittee meeting held on 21 September 2018 two proposals were discussed and a proposal was presented to the Board. The Board accepted the proposed annuity strategy on 14 November 2018.

The annuity was reviewed at the Board meeting held on 10 November 2020. The Trustees resolved that the current trustee endorsed annuity strategy is still suitable for the membership. The strategy was updated with the following:

- To exclude Old Mutual from the list of [preferred life annuity life insurers until they offer an institutional inflation linked life annuity product.
- To include the Shari’ah portfolio as part of the investment options offered to the in-fund living annuitants.

USRF annuity strategy incorporating Regulation 39.

The Funds’ Regulation 39 annuity strategy consists of two building blocks, namely an inflation linked life annuity and the existing in-fund living annuity. The inflation linked life annuity is suitable to cover members’ basic needs and the in-fund living annuity is suitable to cover additional income above basic needs. The annuity strategy is an opt-in strategy.

The inflation linked life annuity will be provided as a policy in the name of the member from one of the preferred service providers. The in-fund living annuity offers a trustee option and a customised option. The trustee option offers fixed drawdown rates per age group and two underlying investment portfolios without investment choice. The customised option offers flexible drawdown rates which are restricted per age band and access to six underlying investment portfolios. The Fund’s existing in-fund living annuity (trustee option) meets the requirements for this building block and will be adopted as part of the Regulation 39 strategy.

As per current legislation, members will not be able to take a combination of the external life annuity and the in-fund living annuity.

The size of a member’s fund credit at retirement will be used as a guideline to determine which annuity is suitable for the member. The Fund will appoint a service provider to conduct individual face to face retirement benefit counselling sessions at the premises of the University on a regular basis. The Fund also facilitates and pay for individual advice before retirement, which will assist members in this regard.

Individual members’ financial requirements are unique and are impacted by various factors. As part of the written communication, group presentations and individual face to face counselling, Trustee guidance will be provided as follows:

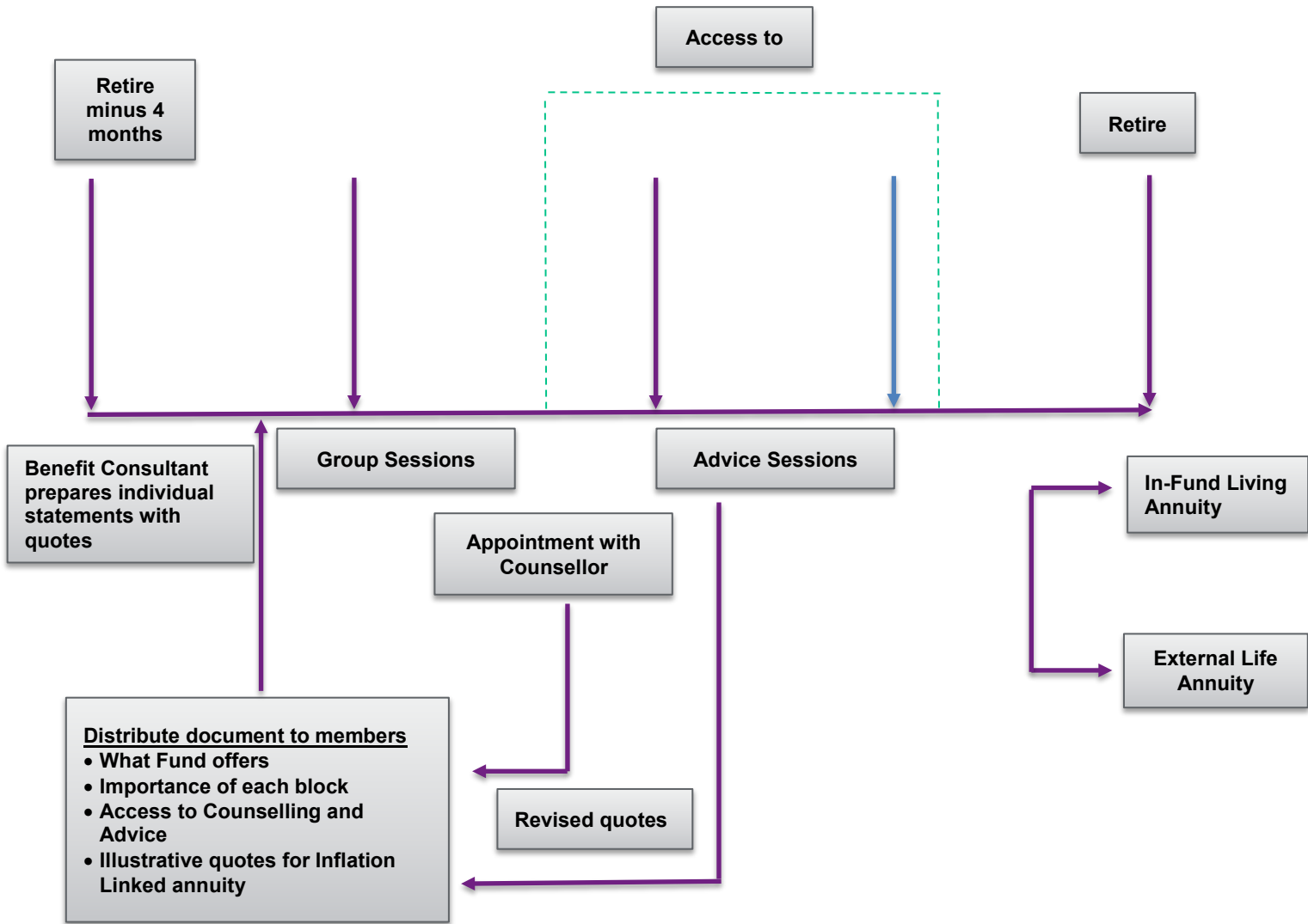
Tiers	Category of members	Annuity building block
Tier 1	Members with a fund credit of less than R2 million	An inflation linked life annuity, which aims to provide a pension for the member's basic needs for life. The life annuity to be purchased outside the Fund.
Tier 2	Members with a fund credit between R2 million and R5million	A combination of an inflation linked life annuity and a living annuity , which offers guaranteed income for basic needs for life and an investment account for further capital growth and additional income, above basic needs. Both annuities must be purchased outside the Fund based on current tax regulations.
Tier 3	Members with a fund credit of more than R5 million	A living annuity. The Fund offers an in-fund living annuity which offers investment building blocks for capital growth and income

The following process is followed at retirement to assist members in choosing a suitable building block:

1. Benefit consultant obtain illustrative inflation linked life annuity quotes, with a spouse's pension of 50% and guaranteed term of five years, from three preferred service providers, namely Momentum, Sanlam and Just SA, four months before retirement.
2. A quote document is prepared for each member, including the four life annuity quotes and illustrative drawdown rates of the in-fund living annuity. The document explains the annuity strategy and the importance of each building block, the Fund options and the access to retirement benefit counselling and individual financial advice.
3. A group information session is held to explain the information in the document.
4. Face to face counselling is facilitated for each retiree to provide factual information regarding the quote document.
5. Free individual financial advice session is provided from the age of 53, which coincides with the age from which investment choice is allowed in the Fund, to assist the retiree in making a decision, taking his/her personal circumstances into account.
6. Revised quotes are requested via the retirement benefit counsellor or the financial advisor.
7. The Benefit consultant assist with co-ordinating the process and providing regular feedback and standard reporting in order for the Trustees to monitor the impact of the strategy and conduct annual reviews

Implementation of the strategy will be delegated to the Principal Officer and will be overseen by the Investment Subcommittee.

Illustration of process



The annuity strategy was adopted by the Board on 10 November 2020.