Investment Policy Statement

Cape Peninsula University of Technology Retirement Fund

Updated: October 2023

Preamble

The Cape Peninsula University of Technology Retirement Fund's investments must be conducted in a manner that is honest, transparent and ethical.

Purpose of the Fund

The Cape Peninsula University of Technology Retirement Fund exists primarily to provide members with reasonable retirement benefits.

For members this means that:

- A member with an average career progression and 35 years working lifetime, with retirement funding contributions of 19.024% of pensionable salary, should retire with a capital sum of some 11 to 13 times pensionable salary at retirement.

- If investment conditions are favourable, the Fund should be able to provide benefits in excess of the above.

The important points to note in respect of this definition of a reasonable retirement benefit are:

(a) The target benefit is achievable provided that the Fund delivers an average net real return of <u>4.0% to</u> <u>4.5% per annum above consumer price inflation</u>, and salary inflation is 1% per annum higher than consumer price inflation on average. The Fund's investment strategy has been designed to have the potential to deliver this investment return.

(b) Given the defined contribution nature of the Fund, the above benefit is *only a target and is not guaranteed*. Specifically if investment conditions are poor the Fund will not be able to provide the target benefit.

(c) In practice this definition of a reasonable retirement benefit differs widely among individual members. It depends *inter alia* on the extent of their own personal assets and liabilities at retirement, their state of health, their age, their marital status, the extent of their financial dependents, the levels of interest rates and inflation at retirement, and the extent of any post-retirement medical aid subsidy from their employer.

Investment philosophy

1. Having considered the arguments for active investment management and passive investment management, the Trustees believe that over long measurement periods (typically 7 years and longer) investment markets are efficient and so the "price" and "value" of a particular asset is very likely to converge.

2. However, over shorter time frames investment markets may be materially inefficient resulting in **big and non-random disparities** between the "price" and "value" of a particular asset. This "price" and "value" gap arises *inter alia* from:

a. Many investment managers adopt too short an investment horizon, which results in decision-making based largely on forecasting (which is notoriously difficult to get right consistently)

b. Many investment managers are over-confident of their abilities and will use short term results (which may be random or fashion driven) to predict long term trends

c. Most investment managers are subject to agent/principal conflicts. Often an investment manager will invest close to the benchmark as this minimizes the risk of under-performing the peer group (and ensures job preservation).

d. Some investment managers are so large that they are unable to exploit the full opportunity set, thus leaving opportunities for their smaller competitors.

3. If markets are efficient over the long term, it follows that an intelligent and patient investor can earn superior returns over the long term by exploiting these short-term mispricings.

4. No investment approach is necessarily superior to another and accordingly the Fund will invest with a number of investment managers in order to diversify by investment approach e.g. value, growth, momentum and quality investment styles.

5. The Trustees believe in the benefits of diversification and that the risk of poor investment outcomes can be mitigated by allocating the investments of the Fund between different asset classes. Further diversification is also achieved within a more risky asset class by allocating the assets to more than one investment manager.

6. The Trustees accept that in order to make provision towards retirement a member needs to earn a reasonable return compared to inflation on his/her retirement savings. The success of the investment strategy will therefore primarily be measured relative to inflation as opposed to the performance of the peer group.

7. Primarily the Trustees have adopted a *long-term time horizon* in formulating the Fund's investment strategy. This means that the overall success of the strategy will be measured over periods of at least 7 years.

8. The *main risks* carried by members of the Fund are:

   a. *Inflation risk*- this is the risk that the Fund does not earn a sufficient return to be able to provide a reasonable retirement benefit. The Fund will therefore measure its success by comparing its return relative to inflation over periods of 7 years.
   b. *Loss of capital* - it is important that members are provided with a high degree of capital security for the 7-year period leading up to retirement age.

9. Importantly the Fund must monitor investment-related expenses, since these reduce the overall returns and impact on the final benefits.

10. The Trustees have assumed that the most appropriate indicator of investment risk is the time to retirement of the member. The further assumptions are made that age is a proxy for the time to retirement and members will take their benefits in the form of a cash lump sum at retirement. Younger members are assumed to place priority on management of inflation risk and older members on protection against loss of capital close to retirement.

11. To this end the Fund will establish three separate default portfolios. Younger members will be allocated a portfolio that has the potential to earn returns sufficiently higher than inflation to achieve a reasonable retirement benefit, and older members will be

allocated a portfolio that offers a degree of capital protection close to retirement. The degree of protection will increase in the last two years before retirement. In principle the Fund will allow members to choose to invest differently from the default portfolios.

Risk profiling of members

1. Consistent with the purpose and philosophy of the Fund, the default will be to invest the younger members' retirement savings in a portfolio that focuses on managing the member's inflation risk, and older members' retirement savings will be invested in portfolios that focus on capital protection.

   The default portfolios are referred to as the Life Stage Portfolios. There are three such Life Stage Portfolios comprising the Long-term Growth Portfolio, the Medium-term Protection Portfolio and the Money Market Portfolio.

2. In terms of the Life Stage model, the members' retirement savings will be transitioned from the Long-term Growth Portfolio to the Medium-term Protection Portfolio over a 5-year period in 5 more or less equal tranches starting 7 years before the member's normal retirement age of 65. One year before normal retirement age, the members' retirement savings will then be transitioned to the Money Market Portfolio.

Month-end following birthday	**Allocation of Member Share**			**Allocation of future contributions**		
	Long-term growth	**Medium-term protection**	**Money Market**	**Long-term growth**	**Medium – term protection**	**Money Market**
58 and younger	100%	0%	0%	100%	0%	0%
59	80%	20%	0%	80%	20%	0%
60	60%	40%	0%	60%	40%	0%
61	40%	60%	0%	40%	60%	0%
62	20%	80%	0%	20%	80%	0%
63	0%	100%	0%	0%	100%	0%
64	0%	0%	100%	0%	0%	100%

3. The average net real investment return in respect of a member who transitions through the three default portfolios in accordance with the Life Stage model is expected to be about 4.5% per annum above consumer price inflation, which is consistent with the return required to meet the target retirement benefit.

   Members will have the choice to invest differently from the Life Stage model irrespective of their age on an "own choice" basis.

   The Own Choice Portfolios comprise the Long-term Growth Portfolio, the Medium-term Protection Portfolio, the Money Market Portfolio and the Shari'ah Portfolio.

4. For members who wish to take a living annuity from the Fund, the Trustees acknowledge that the Life Stage model may not be appropriate for the needs of these members. Accordingly these members have the choice to opt out of the Life Stage model and can select from the Own Choice Portfolios.

5. Members who choose to become in-fund Living Annuitants may select any combination of the Long-term Growth, Medium-term Protection, Money Market or Shari'ah portfolios as an investment choice.

Investment objectives

Long-term Growth Portfolio

The investment objective of the Long-term Growth Portfolio is to provide a net real return of 4.5% p.a. over any rolling 7-year period, with a less than 15% chance of a net real return less than 0% over the same 7-year measurement period. If this objective is met, then the portfolio will tend to afford some protection, but no guarantees, against negative returns in weak markets.

Medium-term Protection Portfolio

The investment objective of the Medium-term Protection Portfolio is to earn a net real return of 2.5% p.a. relative to inflation over any rolling 3-year period, subject to the constraint that there is less than a 5% chance of a negative investment return over any rolling 1-year period.

Money Market Portfolio

The primary investment objective of the Money Market Portfolio is to achieve maximum capital protection but without guarantees, with potential to earn a net real return of 1.5% p.a. relative to inflation over any rolling 1-year period.

Shari'ah Portfolio

The investment objective of the Shari'ah Portfolio is to provide a net real return of 4.0% p.a. over any rolling 5-year period. The portfolio will be invested in a balanced, Shari'ah compliant product and will aim to meet the dual goal of providing a reasonable return with lower risk. The underlying portfolio will be weighted slightly towards Shari'ah compliant equities relative to Islamic bonds and similar instruments, and aims to be suitable for investors with a short or long time horizon.

Portfolio construction principles

Long-term Growth Portfolio

1. The Trustees have determined that the *strategic asset allocation* (i.e. the mix of South African and international equities, bonds and cash) that optimises the chances of the Fund being able to achieve its investment objectives for members invested in the Long-term Growth Portfolio is consistent with the strategic asset allocation of the Willis Towers Watson Global Balanced Benchmark.

2. The Long-term Growth Portfolio currently uses three balanced managers, where the allocation to each balanced manager is set out in Annexure 2. The allocations to the three managers will be reviewed from time to time by the trustees.

3. The investment performance of the three balanced managers will be measured against the Willis Towers Watson Global Balanced Benchmark.

4. The strategic asset allocation for the Long-term Growth Portfolio, consistent with the Willis Towers Watson Global Balanced Benchmark, is as follows:

Asset class	Strategic allocation
SA equities	32.0%
SA bonds (nominal)	13.0%
SA bonds (inflation-linked)	5.0%

SA cash	5.0%
SA listed property	5.0%
International equities	33.0%
International property	3.0%
International bonds	4.0%

5. Consistent with the philosophy of this portfolio, the Fund will invest with a number of investment managers in order to diversify by investment approach e.g. value, growth, earnings revision, momentum and quality investment styles.

6. The benchmark and strategic asset allocation for each asset class is set out in the table below:

Asset class	% Investment	Benchmark
SA equities	32.0%	FTSE/JSE Capped Shareholder Weighted Index Free Float *
SA bonds (nominal)	13.0%	BE ASSA ALBI
SA bonds (inflation-linked)	5.0%	JSE IGOV index
SA cash	5.0%	STeFI Composite
SA listed property	5.0%	ALPI (J803T)
International equities	33.0%	MSCI All Countries World Index (including emerging markets)
International property	3.0%	FTSE EPRA/NAREIT Developed listed property index
International bonds	4.0%	JP Morgan Global Government

* The index is a modified form of the Shareholder Weighted Index, where the free float includes only those shares that are registered on the South African share register. The market capitalization of any counter is limited ("capped") to 10% of the index. This index avoids undue stock- specific risk.

Medium-term Protection Portfolio

1. The following types of investment structures are potentially consistent with the investment objective of the Fund:

- An insured smoothed bonus product (commonly called a guaranteed fund);
- An absolute mandate product (this product will not provide a capital guarantee).

2. As part of the review of investment strategy the Trustees will assess the suitability of these products (as well as any future products that may be offered that are consistent with the investment objective of the Fund).

3. The Trustees may elect to invest in an **absolute mandate product** subject to the following requirements:

(a) The Trustees must be satisfied that the product provider has the skill and the risk control to ensure that the assets are managed in line with a strategy that seeks to avoid loss of capital over measurement periods of 1 year.

(b) The Trustees must communicate to members that the product does not have a capital guarantee and that over short measurement periods the return may indeed be negative.

Money Market Portfolio

1. The Money Market Portfolio will use collective investment schemes regulated in terms of the Collective Investment Schemes Control Act 45 of 2002 or pooled life portfolios regulated by the Long-term Insurance Act 52 of 1998.

2. The investment performance of the portfolio will be measured against pre-defined benchmarks. The benchmark will be published indices.

3. The benchmark for the Money Market Portfolio is set out in the table below:

Asset class	Benchmark
SA cash	STeFI Composite

Shari'ah Portfolio

1. The Shari'ah Portfolio is a market related portfolio that complies with Islamic law or Shari'ah and has an asset allocation that is somewhat more conservative than that of the Long-term Growth Portfolio. It is expected to give a return that is lower than the Long-term Growth Portfolio over the long term due to the lower allocation to equities, and correspondingly the return on the Shari'ah Portfolio is not expected to fluctuate as widely as that of the Long-term Growth Portfolio from year to year.

   The key feature of the Shari'ah Portfolio is that it adheres to the following Shari'ah principles:

   i. The ban on interest: Interest must not be charged or paid on any financial transaction, as interest is deemed unlawful by Shari'ah.
   ii. The ban on financing certain economic sectors: Companies involved in the following activities are not Shari'ah compliant:
      - Conventional financial services;
      - Alcohol and tobacco;
      - Non-halaal food production or processing activities;
      - Entertainment (casinos, gambling and pornography);
      - Weapons and arms manufacturing.

   The portfolio can be expected to deliver a negative return over short measurement periods (e.g. 1 year) from time to time.

2. The Shari'ah Portfolio will be invested primarily in a balanced, Shari'ah compliant investment product. To diversify against single manager risk, the Trustees have decided to appoint a multi-manager.

3. The benchmark and strategic asset allocation for the Shari'ah Portfolio are set out in the table below:

Asset class	% Investment	Benchmark
SA equities	40%	FTSE / JSE Shari'ah ALSI – total return index
SA money market	31%	STeFI Composite Index

Global equities	24%	Dow Jones Islamic Market World Index – total return index
Global bonds (sukuks)	5%	Dow Jones Global Sukuk Index – total return index

* The table above sets out the benchmark per asset class for the Shari'ah Portfolio – for SA and global equities, a "free float" market capitalization index is used. Some of the domestic indices used to create this benchmark are not Shari'ah compliant indices, namely the STeFI Composite Index (there is no suitable Shari'ah compliant index for the money market instruments in which the Fund is invested) and the JSE Shari'ah ALSI has a significant weighting to Resources. The Trustees recognise that this benchmark is only for comparison of performance and should not be published for information to members. In this case a composite benchmark will be calculated, rebalanced quarterly at each quarter end.

Reserves and Member and Employer surplus accounts

1. The Contingency Reserve Account is held to meet the operating costs of the Fund and is typically a transaction account with an amount (up to six months administration expenses) held to assist in smoothing the expense allowance and as a protection for admin expenses being larger than the allowance deducted. It is expected that the need to draw on the Contingency Reserve Account (above the expense contribution allowance) is in the medium term, hence the Contingency Reserve Account will be invested in the Medium-term Protection Portfolio.

2. The Processing Error Reserve account is held to protect the Fund against any temporary mismatches between assets (invested with the underlying investment managers) and liabilities (on the administration system which are backed by the underlying investments) which may occur when member records are updated, contributions are allocated or investment switches are implemented. Such mismatches may be exacerbated when investment markets are volatile, and hence the Processing Error Reserve will be invested in the Long-term Growth Portfolio which has the largest allocation to assets which have historically experienced significant volatility over short measurement periods (i.e. equities).

3. Should any amounts be allocated to the Member Surplus Account, then these amounts will be invested in the Money Market Portfolio as it is expected that these amounts will be needed in the short term (i.e. amounts are allocated to this Portfolio only once surplus amount and allocation has been determined).

4. Should any amounts be allocated to the Employer Surplus Account, then these amounts will be invested in the Medium-term Protection Portfolio as this Portfolio provides an element of capital growth (via the equity exposure in this Portfolio) and is balanced against the risk of earning negative returns over short measurement periods (due to the low equity weighting). The investment strategy for the Employer Surplus Account will be approved by the Employer-appointed Trustees, acting on behalf of the Employer.

Default investment portfolio/s

1. Regulation 37 (1) of the Pension Funds Act, 1956 states that retirement funds must have a default investment portfolio/s for DC active members in the Fund.

2. The default investment portfolio for the active members is the Life Stage model.

3. Deferred members will remain in the investment portfolio or investment strategy in which they are invested in at the time that they become deferred members. To avoid confusion, this means that if these categories of members are invested in the Life Stage model then they will follow the transition phases of the Life Stage model until their NRA in the Fund.

4. The retirement benefit for an active member or deferred member is the choice of either:

- a living annuity from the Fund or an external provider, or
- a life annuity from an insurer (allowing for any cash lump sum commutation).

5. For in-Fund living annuities, the Trustees-preferred post-retirement investment strategy for the living annuitants is the Medium-term Protection Portfolio.

Mandate restrictions

This section deals with the principal risk areas the Trustees will seek to control – the assets of the Fund will be invested in pooled investment vehicles and the Fund cannot impose any restrictions on the investment mandate. Nevertheless, the Trustees shall get details of the investment restrictions imposed by the pooled arrangement.

Before entering into an agreement to invest in a particular investment, the Trustees will perform (or require their mandated investment managers to perform) a due diligence of the investment taking into account the risks relevant to the investment including, but not limited to, credit, market and liquidity risks, and where relevant risk relevant to a foreign (offshore) investment including but not limited to country and currency risk, as well as operational risks for assets not listed on an exchange. ("Operational risk" is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.) Similarly the Trustees or their mandated investment managers will consider any factor which may materially affect the sustainable long term performance of the asset including, but not limited to, those of an environmental, social and governance [ESG] character.

Manager or product selection

1. The following criteria will be used in *selecting* an investment manager or investment product:

    (a) The manager must have a *clearly defined investment philosophy* and must have an established track record of applying this philosophy successfully.

    (b) The manager must have a *well-defined investment process* off which the investment decisions are made. In particular the process should provide high quality information, contain complete risk controls and allow the investment decisions to be made by a few key decision-makers that are held accountable.

    (c) The manager must have a *sound business and remuneration structure* that allows it to attract and retain the best investment managers.

    (d) The Fund has a preference for appointing investment managers that have experienced personnel that are committed to the manager's business.

    (e) There must be clear *alignment between the interests* of the Fund and the interests of the investment manager. Specifically there must be an open and transparent fee structure, associated with full disclosure of all sources of the manager's economic interest in the relationship with the Fund.

    (f) The investment manager must maintain a *high standard of ethics*.

    (g) The investment manager must have a clear and cohesive strategy on *black economic empowerment* and *employment equity*, and must be able to demonstrate success in implementation.

    (h) There must be no material financial interest between the investment manager or product provider, and the administrator or consultants or actuaries to the Fund.

    (i) The investment manager must demonstrate an ability to comply with the due-diligence requirements for investing set out in the revised Regulation 28 to the

Pension Funds Act, specifically principles (v) to (ix) in paragraph 2 of the Regulation.

2. The questions set out in Annexure 1 provides a framework for the Trustees in their assessment of asset managers.

3. The following events would lead to a *review* of the investment manager's appointment:

   (a) Rapid growth in assets under management

   (b) Change in the investment philosophy and approach

   (c) Material change in the investment process

   (d) Loss of key personnel, including a situation where a key decision-maker is "promoted" to a different role

   (e) Material change in the shareholding structure of the manager

   (f) Evidence of lowering of the ethics of the manager

Performance, risk and compliance monitoring

1. The Finance, Investment and Audit Committee of Fund will review the performance of the Fund quarterly. The Committee will meet on a formal basis at least four times a year in relation to investment matters. Short-term variations in performance relative to the Fund's benchmarks will not necessarily be a trigger to review the construction of the portfolio.

2. The terms of reference for the Committee in relation to investments is as follows:

   (a) Monitor the overall performance of the Fund.

   (b) Monitor the performance of the selected investment managers/ product providers relative to their mandate.

   (c) Review the overall risk inherent in the portfolio to ensure that there is not an unacceptable aggregation of risk.

   (d) Make a qualitative assessment of the investment managers/product providers on an annual basis.

   (e) Review the overall investment strategy on at least an annual basis.

   (f) Assist the board of trustees in the process for the selection and removal of the investment managers/product providers.

   (g) Monitor compliance with the constraints and restrictions as set out in the investment manager mandates, as well as compliance with the investment limits contained in the revised Regulation 28 to the Pension Funds Act

   (h) Ensure that proper contractual arrangements are in place for all the investment managers/product providers.

   (i) Produce a report on a quarterly basis for all the participants in the Fund.

3. Given the number of investment managers appointed by the Fund, each investment manager/product provider will be required to present to the Trustees at least once in each 24-month period to report on developments or changes in investment philosophy and process, the growth of assets under management, their investment professionals, ownership structure, investment performance, feedback on the due diligence they perform before investing in any particular investment taking into account the 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 and further specific and topical information that may be requested by the Trustees. On an annual basis, the

Trustees will ask the Fund's investment managers to report formally on how they comply with the due-diligence principles for investing set out in the revised Regulation 28, specifically principles (v) to (ix).

Trustee training

Each year as part of the Fund's calendar of Trustee business, the Fund will develop a formal training programme for the year. The purpose of this training is to assist the Trustees in ensuring that they are adequately trained to perform the tasks required of them as Trustees.

This programme may cover investment issues, general Fund governance issues and such other matters that the Trustees believe to be important.

The training will typically take the form of workshops organised during the course of the year. It will also include relevant seminars/conferences organised by outside parties.

The training programme will be assessed periodically for effectiveness. This will include keeping records of which Trustees have attended the various training sessions available. It will also include assessment of whether the training has improved the Trustees' ability to manage the Fund.

Review of investment strategy

1. In the normal course of events, the Trustees will review the investment strategy every three years and the Investment Policy Statement and default investment portfolio annually.

2. In any event the investment strategy must be reviewed within 3 months of any of the following events occurring:

   (a) A change in exchange control regulations.

   (b) A change in the monetary policy of the Reserve Bank e.g. a departure from the current policy of inflation targeting.

   (c) A change in the tax basis affecting the investment strategy of the Fund.

   (d) A change in the Pension Funds Act that affects investments.

   (e) An indication that the Fund will have significant cash flow requirements (particularly outflows).

   (f) A material change in the membership profile of the Fund.

When reviewing the strategy, the Trustees will consider the investment objectives and risk constraints in order to set a strategy for the liabilities of the Fund. The Trustees will also need to ensure that the adopted strategy is appropriate for the liabilities. This will include considering the expected outstanding term of the liabilities, the expected relationship between the liabilities and inflation, and the cash flow needs of the Fund. The Trustees will also consider any changes to the risk profile of the Fund's investments over time, in the course of reviewing the strategy.

Signatures

This document represents the Investment Policy Statement for the Cape Peninsula University of Technology Retirement Fund and is adopted with effect from the date of signature.

CHAIRPERSON

PRINCIPAL OFFICER

VALUATOR Joanna Combrink

In my capacity as valuator to the Fund, I certify that that the Investment Policy Statement is consistent with the objectives of the Fund and its liabilities towards its members.

DATE 24 November 2023

Annexure 1: CPUTRF asset manager evaluation questions

To limit subjectivity in selection of asset managers, the following questions will be sent to the investment managers to guide decision-making by the trustees.

- Investment philosophy
    - Can the managers explain why their investment approach is likely to beat the market (i.e. benchmark)?
    - Has the manager applied this approach consistently over a sufficiently long time period (7 years or longer), and how successful has this been?
- Investment process
    - Does the manager have a clear process on how investment decisions are made?
    - What level of investment experience do the key decision-makers have?
    - Is there evidence of adequate risk controls in how the manager constructs the portfolio, in absolute terms and relative to the chosen benchmark?
- Remuneration structure
    - Does the firm have a remuneration structure that allows it to attract and retain the best investment managers?
- Alignment of interests
    - Are the interests of the clients and the investment manager aligned (consider AUM, fee structure)?
    - Do the fees appear to be competitive (relative to, say, what the Fund pays its existing investment managers)?
- Ethics
    - What oversight and governance structures are in place to ensure that a high standard of ethics is maintained?
- Regulation 28 principles
    - How does the investment manager incorporate Environmental, Social and Governance considerations when making investment decisions?
- Broad Based Black Economic Empowerment
    - What is the firm doing to develop Black investment professionals in the investment industry?

Annexure 2: Asset manager strategic allocation, tolerance range and rebalancing rules

The tables below show the asset manager strategic allocation and tolerance range (upper and lower limits) and the midpoints to which rebalancing will be implemented in the event of a breach of the tolerance range in the Long-term Growth and Medium-term Protection Portfolios.

Long-term Growth	Strategic allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Allan Gray Global Balanced	33.33%	36.33%	34.83%	30.33%	31.83%
Coronation Houseview Balanced	33.33%	36.33%	34.83%	30.33%	31.83%
Ninety One Global Balanced	33.33%	36.33%	34.83%	30.33%	31.83%

Medium-term Protection	Strategic allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Allan Gray Global Stable	33.33%	36.33%	34.83%	30.33%	31.83%
Coronation Inflation Plus	33.33%	36.33%	34.83%	30.33%	31.83%
Ninety One Cautious Managed	33.33%	36.33%	34.83%	30.33%	31.83%

With effect from 1 May 2022, the Fund has appointed Alexander Forbes Investments (AFI) as the Fund’s investment administrator. AFI will implement the rebalancing rules as set out above should an underlying asset manager breach the tolerance range.