

# INVESTMENT POLICY STATEMENT

## OF THE

### **PERSONAL PORTFOLIOS RETIREMENT ANNUITY FUND PERSONAL PORTFOLIOS PRESERVATION PENSION FUND PERSONAL PORTFOLIOS PRESERVATION PROVIDENT FUND**

(collectively referred to herein as “the Funds”)

#### **1. INTRODUCTION**

- 1.1. This Investment Policy Statement has been prepared to record the investment philosophy and principles underlying the Funds’ investment strategy.
- 1.2. It aims to provide a framework within which the Funds, members and its appointed investment managers (which shall include reference to discretionary investment managers as contemplated in the Financial Advisory and Intermediary Services Act, 2002 (“DFM”) as well as managers as defined in the Collective Investment Schemes Control Act, 2002, (“collective investment managers”), can take investment decisions.
- 1.3. It is furthermore intended to:
  - 1.3.1. facilitate and enhance the proper management of the Funds’ investments;
  - 1.3.2. manage the Funds in compliance with Regulation 28 to the Act;
  - 1.3.3. facilitate the investment decision made by the member in conjunction with the appointed financial intermediary (where applicable); and
  - 1.3.4. ensure effective communication with all stakeholders.
- 1.4. This Investment Policy Statement has been developed to comply with the legislative requirements as set out in the following legislation:
  - 1.4.1. Pension Funds Act No. 24 of 1956 (“the Act”), including Regulation 28;
  - 1.4.2. The Financial Sector Conduct Authority’s Guidance Notice: Sustainability of investments and assets in the context of a retirement fund’s investment policy statement (2019) (“FSCA Guidance Notice”);
  - 1.4.3. The King IV Report on Corporate Governance for South Africa (2016); and
  - 1.4.4. The Code for Responsible Investing in South Africa (CRISA).

## **2. BACKGROUND OF THE FUNDS**

- 2.1 The Funds are non-underwritten, defined contribution funds established in terms of the Act.
- 2.2 The main purpose of the Funds is to provide retirement benefits to members.
- 2.3 The typical member is an individual with access to financial advice from appointed intermediaries.
- 2.4 Individual member choice is provided to all members from approved of investment managers and investment portfolios provided by the Administrator from an appropriate investment universe.
- 2.5 Active members' bear all the investment risk and benefits are determined by contributions allocated to retirement funding plus net investment returns.

## **3. PRIMARY OBJECTIVES OF THE FUNDS**

- 3.1 The primary investment objectives of the Funds are:
  - 3.1.1 To provide members with an opportunity to elect investment portfolios that are suitable for their personal risk profile and investment horizon within the regulatory environment, by providing quality investment portfolios which cover the risk spectrum;
  - 3.1.2 to ensure that sufficient assets are available to provide members' benefits, taking into account that liabilities are based on the members' fund values and will therefore be linked to contributions and investment performance, net of costs;
  - 3.1.3 to give appropriate consideration to any factor which might materially affect the sustainable long-term performance; and
  - 3.1.4 to remain financially sound at all times.

## **4. INVESTMENT STRATEGY**

- 4.1 The investment strategy has been designed taking into account the following:
  - 4.1.1 The Fund's long-term objectives, liquidity requirements and investment objectives;
  - 4.1.2 The financial literacy and decision-making abilities of the members and their access to financial advice; and
  - 4.1.3 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.
- 4.2 The Funds believe that the variety of portfolios offered to members provides sufficient scope for appropriate diversification to manage the investment risk for members of the Funds, regardless of individual members' ages or risk tolerance.
- 4.3 The specific risk profiles and return objectives for each investment portfolio are detailed in the investment guidelines or mandate of the respective portfolios.
- 4.4 The Funds will allow the members to run separate investment accounts. Members will be provided a range of risk profiled portfolios from which to choose appropriate portfolios according to their personal risk and return appetite.
- 4.5 For the portfolios that the Funds allow on the investment menu, the expected return and risk profile will be considered during the due diligence of such portfolio to ensure that it is appropriate to include as part of the investment menu.

## **5 INVESTMENT OPTIONS**

- 5.1 The Board is responsible for making available a suitable range of investment portfolios.
- 5.2 The actual range of investment portfolios that are available for member choice are identified in the

applicable product application forms.

5.3 Changes to members' investment choices may be made at any time by way of a valid switch instruction supplied to the Administrator.

5.4 There is no default option, as each member has to select his/her investment portfolios when joining the Funds.

## **6 RISK MANAGEMENT WITHIN THE INVESTMENT OPTIONS**

6.1 The Funds have not categorized the available portfolios in terms of appropriateness with reference to levels of risk. The choice of the specific investment option(s) is solely up to the specific member. The member retains the risk and remains responsible for the selection between the various portfolios at all times whether he/she invests with or without the assistance of a financial advisor. Accordingly, members are responsible for deciding whether or not they require advice and for taking such advice where they consider it necessary.

## **7. CONSTRAINTS**

7.1 The Funds will at all times adhere to all applicable legislation, in particular the prescribed asset requirements as set out in Regulation 28 of the Act. Investment guidelines will be set which guidelines must at all times adhere to the applicable legislation, specifically Regulation 28 of the Act.

## **8. RESPONSIBLE INVESTING**

8.1 Regulation 28 of the Act requires that boards of funds consider environmental, social and governance (ESG) factors before investing in an asset. In its preamble it specifically states that "prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an environmental, social and governance character. This concept applies across all assets and all categories of assets and should promote the interests of a fund in a stable and transparent environment".

8.2 Paragraph 4 of the FSCA Guidance Notice provides that in order to comply with Regulation 28(2)(b) read with regulation 28(2)(c)(ix), a fund should reflect in its investment policy statement how its general investment philosophy and objectives seeks to ensure the sustainability of its assets, including (but not limited to) how the fund intends to monitor and evaluate the ongoing sustainability of the asset which it owns and which it is intending to acquire, including the extent to which ESG factors have been considered by the fund, and the potential impact thereof on the assets of the fund.

8.3 The King IV report of Corporate Governance as launched on 1 November 2016 contains 16 principles on good governance with an additional 17th principle which is applicable to institutional investors such as retirement funds. According to the 17th principle "the board should ensure that responsible investment is practiced by the fund to promote the good governance and the creation of value by the companies in which it invests." Accordingly, King IV provides that the principles and practices of responsible investing as advocated in the Code for Responsible Investing in South Africa ("CRISA") should be applied by all retirement funds as a matter of good governance.

8.4 CRISA applies to institutional investors such as pension funds and insurance companies as the owners of assets, and their service providers including asset managers and consultants. It encourages institutional investors and service providers to adopt its principles and practice recommendations on an "apply or explain" basis.

8.5 CRISA gives guidance on how the institutional investor should execute investment analysis and investment activities and exercise rights so as to promote sound governance.

8.6 There are five key principles, namely:

- 8.6.1 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;
- 8.6.2 An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities;
- 8.6.3 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;
- 8.6.4 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; and
- 8.6.5 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.

8.7 The Funds have outsourced the investment of its assets to a range of investment managers. To ensure integration of a responsible investment approach, the Funds have the following expectations of its investment managers:

- 8.7.1 Review of responsible investment incorporation as part of due diligence and manager selection;
- 8.7.2 Managers to consider ESG factors prior to making investment decisions; where ESG factors have been incorporated into investment processes;
- 8.7.3 Adherence to the Funds' reporting requirements, including formal report back on how ESG factors have been integrated into their investment processes and how this has impacted on their portfolios; and
- 8.7.4 Annual disclosure of any conflict of interests.

8.8 The Funds (or the Administrator on its behalf) will engage with its investment managers to understand the level of responsible investment applied and requires managers to provide information in this regard.

## 9. ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

### 9.1 Board of Trustees

9.1.1 The Board has a fiduciary duty to invest the Funds' assets for the benefit of the members in a responsible and prudent manner. This duty includes:

- 9.1.1.1 Instituting and reviewing the Investment Policy Statement; and
- 9.1.1.2 Devising and reviewing the investment objectives of the Funds.

9.1.2 Notwithstanding the fact that the Board remains ultimately responsible for the investment of Fund assets, it is permitted to and has so chosen to delegate certain of the actions and activities related to the management of the Funds' investments to the appointed Administrator.

### 9.2 Administrator

9.2.1 The Administrator is tasked with, amongst other things, executing the investment authority delegated by the Board, specifically:

- 9.2.1.1 Identifying the investment portfolios that are available for member choice.
- 9.2.1.2 Reporting back to the Board on all investment matters as agreed from time to time.
- 9.2.1.3 With regards to DFM's appointed in terms of investment management agreements entered into with the Fund:

- 9.2.1.3.1 Evaluating a range of criteria in determining whether to appoint, retain or terminate the appointment of a DFM.
- 9.2.1.3.2 Monitoring the DFM's performance and ensuring that they comply with their investment mandates.
- 9.2.1.3.3 Establishing, implementing and reviewing investment mandates.
- 9.2.1.3.4 Ensuring that the DFM agreements adhere to the investment principles and objectives of this Investment Policy Statement and that such agreements are correctly implemented.
- 9.2.1.3.5 Monitoring the investment performance on an on-going basis and deliberating on whether it is necessary to propose adjustments to the investment strategies to achieve the Funds' investment objectives.
- 9.2.1.3.6 Agreeing and monitoring the basis upon which DFM's are appointed; and
- 9.2.1.3.7 Implementing and adhering to all policies.

### 9.3 DFM's

9.3.1 The Board recognises that they themselves are not sufficiently skilled to manage investment portfolios on behalf of the Funds, and that professional experts should be employed to fulfil that function, where applicable.

9.3.2 The Funds' assets will thus be managed by appointed DFM's in accordance with approved mandates and/or such mandates as agreed to by the Board and contained in written agreements with such manager, where applicable.

9.3.3 The investment management agreements and mandates negotiated with the appointed DFM's will clearly define the Funds' expectations and reporting requirements relating to the performance of the investments and will reflect the objectives and principles as set out in this Investment Policy Statement.

9.3.4 The DFM's will:

- 9.3.4.1 Manage the Funds' assets in accordance with the specific mandates, within legislative requirements, according to their best investment view and in the best interest of the Funds;
- 9.3.4.2 Employ sound investment management and risk management principles; and
- 9.3.4.3 Report back to the Administrator.

#### 9.4 Collective investment managers

9.4.1 Where collective investments are made available to members the collective investment manager will ensure that the collective investments are administered in accordance with the Collective Investment Schemes Control Act, 2002.

#### 9.5 Custodian

- 9.5.1 The Funds have appointed Axis Nominees (Pty) Ltd as custodian to hold the assets of the Funds or such other nominee company as agreed.

### **10. INVESTMENT MANAGER APPOINTMENTS AND TERMINATIONS**

- 10.1 . The Administrator makes available, a wide range of collective investment funds, with exposure to a variety of asset classes, as well as other investment options, managed by DFM's, for investment.
- 10.2 The Administrator's research team will conduct ongoing, collective investment fund research and provides valuable insights to enable financial advisers and clients to make informed investment choices. Based on the research , a biannual reference guide will be produced to identify superior collective investments funds.
- 10.3 The following factors will be taken into account when conducting the research :
  - 10.3.1 The investment management philosophy and process followed by the investment manager, including their sustainable investment philosophies and approaches;
  - 10.3.2 The quality of the investment team responsible for the investments;
  - 10.3.3 The business management skills and reputation of the investment manager;
  - 10.3.4 Reporting and administration capabilities;
  - 10.3.5 Past investment performance;
  - 10.3.6 The investment charges and other costs;
  - 10.3.7 Corporate governance, including proxy voting guidelines; and
  - 10.3.8 Conflicts of interest at personal and corporate levels.
- 10.4 In order to ensure that the principles set out in this Investment Policy Statement are being adhered to and to evaluate the performance of the investment managers, the performance of the investment managers will be measured and evaluated from time to time.
- 10.5 The following are factors which would cause the Administrator and/or the Board to consider terminating an agreement with an investment manager:
  - 10.5.1 Failure to meet reporting deadlines (where applicable);
  - 10.5.2 Failure to timeously correct a breach of the agreement or persistent breaches of a similar nature;
  - 10.5.3 Repeated violation of investment policy guidelines and/or restrictions; and
  - 10.5.4 Other criteria as deemed appropriate by the Board.
- 10.6 The Board retains the right to add, change or waive any of the above criteria if it deems that such addition, change or waiver is in the best interest of the Funds and/or its members.

## 11. DECLARATION OF INTEREST

The Trustees are required to annually disclose any actual or potential conflicts of interests that may arise out of the actual or potential placement of the Funds' assets.

## 12. BALLOTING

12.1 It is noted that the Funds are required to vote as the owner of the investments and not the members. The Trustees have however agreed to delegate this function to Members. Members will exercise their vote by submitting their ballots within the time provided for submission. In the event of such ballots, the Administrator will communicate with the Funds members' who have exposure to the portfolio(s) in question to inform them of the proposed changes and their right to vote.

12.2 In certain instances, appointed investment managers are authorised to attend, vote at and otherwise take part in all meetings in relation to the investments managed by it pursuant and to sign proxies for the purpose of voting there at or for any other purpose connected exercise all voting power that the Funds may hold in respect of an investment, save for those voting rights specifically reserved by the Funds in terms of the applicable investment mandate.

## 13. PROFESSIONAL INDEMNITY COVER

13.1 The Fund's appointed Administrator and its managers are required to have adequate professional indemnity and fidelity insurance cover so that the Funds' right of recourse against service providers, where required to be invoked, is safeguarded.

13.2 The Funds have fidelity insurance cover, which cover is reviewed and renewed annually.

## 14. REVIEW OF THIS POLICY

This policy was prepared by the Board together with the appointed Administrator and will be reviewed at least annually (or more frequently where circumstances necessitates a review) to ensure that it remains appropriate in terms of the needs of the Funds.

## 15. COMMUNICATION TO STAKEHOLDERS

A copy of the Investment Policy Statement will be made available to members of the Funds on request.

This revised policy was adopted by the Board of Trustees of the Funds on 16 February 2022.



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CHAIRPERSON



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TRUSTEE



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PRINCIPAL OFFICER