INVESTMENT POLICY STATEMENT
POLITICAL OFFICE-BEARERS PENSION FUND

Last updated, June 2025

(Latest changes are marked in blue.)

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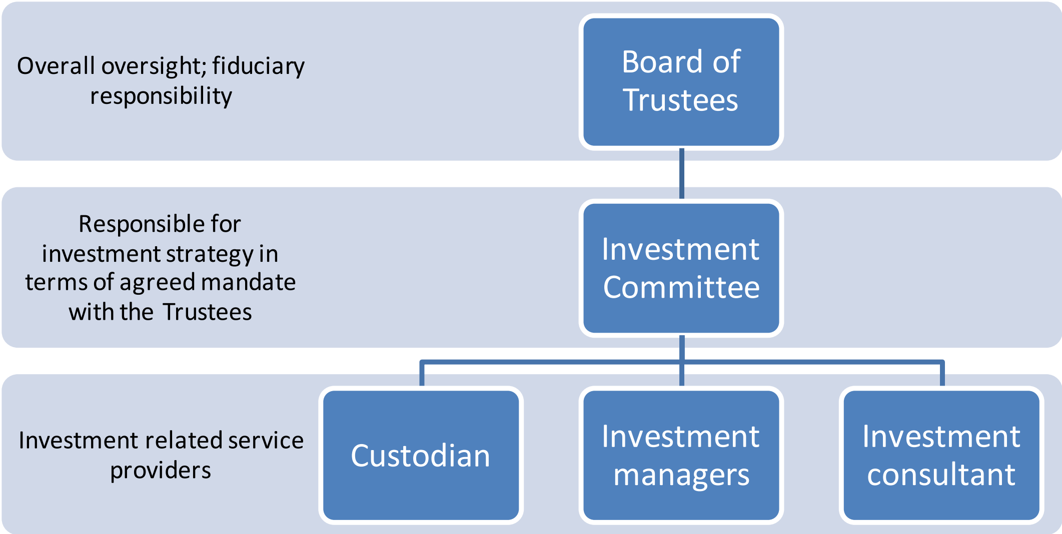
1. Introduction

Nature of the Fund

This document is the Investment Policy Statement (IPS) of the Political Office-Bearers Pension Fund. The Fund is a defined contribution arrangement established with effect from 27 April 1994 primarily for members of Parliament and the Provincial Legislatures. As at 31 March 2024 there were 909 in-service members and 29 deferred (paid-up) members. The Fund does not pay pensions.

Roles and responsibilities

The chart below sets out the structure of the Fund in relation to investment matters:



The Fund is managed by a Board of Trustees that is constituted in terms of the Fund's Rules. The Board has the ultimate responsibility for the Fund's investment strategy. The Board acts as fiduciaries in the best interests of the members at all times.

The Board has appointed an Investment Committee to direct and oversee the investments of the Fund subject to the mandate set out in section 5 below. The members of the Investment Committee are appointed by the Board on the basis of their knowledge, interest and/or experience in investment related matters.

The Investment Committee makes recommendations to the Board of Trustees regarding the investment strategy and the appointment of the Fund’s custodian, investment consultant, and investment managers (and/or choice of investment products). The Board may at times delegate specific matters to the Investment Committee, i.e. may give the Committee power to decide and act on such matters without reference back to the Board. Regulatory oversight is undertaken by the Financial Sector Conduct Authority (FSCA), and the Fund will at all times comply with legislative and regulatory provisions.

The Trustees have appointed Willis Towers Watson (WTW) as their Investment Advisors to assist the Investment Committee in its deliberations.

The Fund’s investment managers are detailed in paragraph 10 below.

2. Relevant background information

Liquidity and cash flow requirements

The Fund is generally slightly cashflow-positive except at times following a National Election during which large benefit payment outflows are likely. Consideration must be given to anticipating and planning for such outflows, as the time of an Election approaches. However, the Fund does not have significant holdings of highly illiquid investments and therefore it will be possible to realize large cash sums by disinvesting even at relatively short notice.

Accounting structure of the Fund

The Fund Rules as amended provide for the following accounts:

- The Members' General Account housing members' Fund Credits (savings balances);
- A Living Annuitants' Account to hold assets backing in-Fund living annuities where these have been selected as a pension option by retiring members – added in 2024;
- A Risk Reserve Account that will house any reserves held against increases in the premiums for the insured benefits;
- An Administration Reserve Account that will house any reserves held against fluctuations in the cost of operating the Fund;
- Accounts designated the Employer Surplus Accounts No.s 1 and 2, holding surplus that arose in respect of the former Equalisation Amount and Additional Service Benefit (ASB) benefits, which may be used to offset Employer contributions due in terms of the Rules;
- An Employer Surplus Account (no.3) to be used to house any surplus allocated to the Employer(s);
- A Member Surplus Account in which will be held any surplus allocated for the benefit of current and former members (until it is so applied);
- A Data Reserve (contingency reserve account) to provide for any losses arising as a result of data errors.

Financial position of the Fund

The latest actuarial valuation of the Fund was performed as at 31 March 2023. This valuation showed the Fund to be in a sound financial position, with assets equal to the value of the liabilities (including reserves) on a best-estimate basis.

3. Nature of liabilities

Benefit design, actuarial valuation basis and funding targets

The need for retirement and other benefits for political office-bearers is considered by the Independent Commission for the Remuneration of Public Office-Bearers. The Commission makes recommendations to the President. The President considers these recommendations, taking account of other specified factors including affordability, and determines the benefits by proclamation in the Government Gazette. If necessary, the Trustees of the Fund will then be required to amend the Fund Rules in consultation with the Minister of Finance (as Principal Employer) in order to give effect to the Proclamations.

Since 1 March 2016, the Fund has operated as a pure Defined Contribution (DC) arrangement under which members are entitled to the the savings balance held as their Fund Credits when they leave office:

1. A member's "Fund Credit" comprises the member's own 7.5% contributions plus the State's 17% contributions for retirement funding, plus net Fund returns. This is a pure DC benefit and no actuarial assumptions are required in valuing the Fund's liability for this benefit. The funding target is to ensure that the Fund always holds sufficient assets to cover the accrued liability for the Fund Credits, plus such contingency reserves as the actuary deems necessary (e.g. in case of data errors).
2. Included in the Fund Credit, *for members who were members of the Fund on* ***29 February 2016***, are extra amounts relating to these members' former Additional Service Benefit (ASB) and, where applicable, Equalisation Amount or Terminal Gratuity benefits, as accrued for service up to that date (adjusted downwards in the case of certain long-serving members to ensure that their Fund Credits were not expected to exceed what their total benefits would have been on exit at the 2019 Election, in terms of the Rules applying prior to 1 March 2016). Reference should be made to the Fund Rules and historic member communication material for explanations of these benefits that applied prior to 1 March 2016.

Please note that this is a simplified summary of the benefit structure - e.g. the Rules have been amended w.e.f. 1 September 2024 to allow for the "Two Pots" pensions reforms, in terms of which a member's Fund Credit is split across three "pots" labelled the Vested Component, Retirement Component and Savings Component, with different rights attaching to each in line with the requirements of the (amended) Income Tax Act. Reference should be made to the Rules and valuation reports for full details.

Employer's financial obligations to the Fund

Since 1 March 2016, the Employer's obligation has been as follows:

1. To contribute in terms of the Rules (22.5% of members' pensionable salaries in total, currently split as 17% for retirement funding, 4.8% for insured benefits and 0.7% for Fund administration and other expenses), and to ensure that these amounts and members' own contributions (7.5% of pensionable salaries, in most cases) are paid timeously to the Fund in terms of the Rules and the Pension Funds Act.

This means the Trustees are expected to “budget” 4.8% of pensionable salaries (plus any accumulated Risk Benefit Reserve) for the cost of the insured benefits, and also to “budget” 0.7% of pensionable salaries (plus any accumulated Admin Reserve) for the costs of operating the Fund. The State has no obligation to make extra contributions for insured benefits and Fund expenses if these amounts are insufficient. The Trustees have the option of reducing the level of the insured benefits (e.g. the salary multiple Group Life benefit) if necessary, to stay within their budget.

4. Investment strategy of the Fund – key result areas

Key result areas

The performance of the Fund will be measured against the benchmarks of:

(a) The net real return target of a minimum of 4.0% p.a. over periods of 7 years, as suggested below;

(b) A composite benchmark created using the asset-class benchmarks as set out below, weighted in accordance with the strategic asset allocation agreed for the Fund (also set out below);

(c) The ability of the Fund to provide benefits in terms of the Rules to the in-service members, without at any time requiring additional unbudgeted funding from the Employer.

5. Composition / mandate of the Investment Committee

Composition

The Investment Committee will consist of five Trustee members, or such other number as the Board of Trustees may deem reasonable. The members of the Committee commit themselves to:

(a) Proper preparation before the meetings;

(b) Active participation in the meetings;

(c) A continuous process of learning about investments;

(d) A review of their own contribution to the Committee and the performance of the Committee as a whole.

It is accepted that the Chairperson of the Committee has a critical role as he or she will play a large role in determining how effectively members of the Committee interact and to what issues the greatest amount of time will be allocated. The Chairperson of the Committee will be chosen by the Board.

There is no fixed term of office for Committee members, but it is expected that, when a new Board takes office after an Election, the membership of the Committee will be entirely renewed. However, members who have served previously on the Committee are eligible for re-appointment if the new Board so chooses, and this is encouraged in the interests of continuity.

The Board of Trustees shall have the right to appoint new members to the Investment Committee when vacancies arise.

Mandate

The Investment Committee is mandated to review and make recommendations regarding the following issues, but any final decision will be made by the Trustees:

(a) The Investment Policy Statement, including:

- The purpose of the Fund;
- Investment beliefs;
- Investment objectives;
- Strategic Asset Allocation;

- Performance Targets;
- Benchmarks;
- Measurement of performance;

(b) Measurement of risk;

(c) Appointment of the investment service providers such as Custodian, Investment Managers and Investment Consultant;

(d) Monitoring performance;

(e) Contractual and fee arrangements with the Fund's managers;

(f) Market trends, practices and new products; and

(g) Investment and disinvestment decisions.

The Trustee Board may at times delegate specific matters to the Investment Committee, i.e. may give the Committee power to decide and act on such matters without reference back to the Board.

6. Investment Philosophy

It is proposed that the beliefs of the Investment Committee should include the following:

(i) Investment markets are efficient most of the time (typically 5 years and longer), but periodically the price of an asset deviates significantly from its intrinsic value and the market becomes inefficient. This may occur because *inter alia* investors have a too short term horizon, investment managers tend to follow fashion, and investors are vulnerable to emotions.

(ii) The Committee believes that the odds of earning superior investment returns are improved if the Fund adopts a long investment horizon. The Committee accepts that maintaining a long term horizon in the face of possibly adverse outcomes in the short term is difficult, but a necessary condition for long term superior returns.

(iii) Equities are likely to be the best performing asset class over the long term. In general a strategy of intelligently buying and holding equities should generate the highest return over the long term.

(iv) However, this does not mean that a strategy of <u>only</u> investing in equities is likely to be suitable – even if this were permitted by Regulation 28 – because the strategy also needs to take due account of investment risks and risk diversification, and the risks associated with undiversified equity investment are significant. The Fund's investment strategy should take account of the investment objective set out in section 7 below and should generally not take more risk than is required to meet this objective.

(v) The Committee believes that the primary risk that the Fund needs to manage is to earn a sufficient return in excess of inflation – the risk of under-performing the "peer group" over short measurement periods is not regarded as being of primary importance. (Performance vs. the peer group will nonetheless be monitored.)

(vi) The Committee believes that risk should be managed by holding a diversified portfolio, with a large proportion of the assets providing returns that offset the effects of inflation over the long term.

(vii) The belief that investment markets are efficient most of the time, when coupled with the belief that investment manager skill is rare (because the competition is tough) results in the conclusion that most managers will not out-perform the benchmark net of fees. Nonetheless the Committee will generally favour active managers, provided that it is able to contract with such managers at reasonable fees. The Committee will make some use of passive (index-tracking) strategies, at a very low cost, in order to: reduce benchmark-relative risk, diversify away from active "value" managers and to get the overall average fees down. In this regard the Committee will rely on the Fund's investment consultant to assist both in choosing active managers expected to demonstrate skill and index-tracking managers with the necessary technical expertise, and in negotiating fee levels with these managers.

(viii) If the Fund is to appoint active managers, the Committee considers that the better investment strategy is often to select shares that have strong "value" characteristics (i.e. low price / earnings ratio, high dividend yield, low price to book ratio), although the Committee may also include managers with somewhat different philosophies to achieve a manager blend that is somewhat more "style neutral" than a focus only on "value" managers would be. Managers of "quality" portfolios that focus on investing in high-quality businesses (even when the shares of such businesses are not demonstrably cheap) are an example. Index-tracking strategies, which may be considered as having a "momentum-following" bias, are another example. Alternatively the Fund could appoint a Multi-Manager who is believed to have the ability to select a number of skillful investment managers, if the Committee is satisfied that the philosophy and process used by the multi-manager are appropriate.

(ix) The Committee believes that not only is investment manager skill rare, it comes in waves rather than in a straight line. This means that even skillful investment managers may under-perform the benchmark for periods that can be as long as 3 to 5 years.

(x) Importantly the Committee believes that it has the courage and patience to stay with an under-performing manager for a lengthy period (which may be as long as 3 to 5 years, depending on the nature of the investment mandate being considered), provided that it is satisfied that there are no adverse qualitative aspects and the manager can deal with and rebut robust questioning on his/her strategy.

(xi) Choice of investment managers (for SA investments) and the allocations to such managers will be influenced by the targets and other requirements set out in the Fund’s B-BBEE Policy for Investments document, as adopted in principle by the Board in June 2018 and as modified from time to time.

A key condition for many of the above beliefs is that the Committee has the necessary time, expertise and organizational capacity to implement what is a more difficult strategy to implement successfully. The Committee believes it has such a capacity.

7. Investment objectives and overview of strategy

The Investment Committee aims to achieve an efficient trade-off between risk and return, taking due account of the time, expertise and organizational structure that the Committee can bring to bear on the strategy.

Investment objective

The Fund aims to earn a net real return of (at least) 4.0% p.a. over the long term. If this target is achieved, then on the assumption that a member's salary growth over her/his term of office exceeds inflation by 1.0% p.a. on average, the benefits provided by the Fund are projected to be broadly as follows:

- After 3 terms in office (15 years): a Fund Credit of some **4.7** times the yearly pensionable salary, which on current annuity pricing should be enough to provide an inflation-linked pension annuity for a 65-year-old of about **33% (one-third)** of the member's pensionable salary;
- After 4 terms in office (20 years): a Fund Credit of some **6.7** times the yearly pensionable salary, which on current annuity pricing should be enough to provide an inflation-linked pension annuity for a 65-year-old of about **50% (one-half)** of the member's pensionable salary;
- After 5 terms in office (25 years): a Fund Credit of some **9.1** times the yearly pensionable salary, which on current annuity pricing should be enough to provide an inflation-linked pension annuity for a 65-year-old of about **67% (two-thirds)** of the member's pensionable salary.

We assume that the pension annuity will increase in line with inflation and will make some provision for a pension to be paid to the member's spouse if she/he survives the member. As the pricing of such annuities varies over time, however, the actual annuity purchase terms when members retire may be worse (or better) than those assumed here.

The Fund should not take greater investment risk than is consistent with this return target.

The <u>actual</u> net real return earned by the Fund on its investments over the 7 years to 31 March 2024 was some 3.8% p.a. This is slightly behind the target, although the Committee notes that the market-linked portfolios of typical South African retirement funds would generally not have performed better over this specific period.

Key pillars of the investment strategy

The key pillars of the investment strategy are asset class diversification such that the Fund targets a range of "return drivers", i.e. "risk premia" (not limited to just the "equity risk premium"), and manager skill (active management). The range of risk premia may include:

- The **equity risk premium** – this rests on the belief that, over the long term, investors will be compensated for investing in equities (being a “risky asset class”, where risk is defined as price volatility and the risk of capital loss) by receiving positive real returns that are higher than the returns on other asset classes that are less risky by these measures.
- The **credit risk premium –** this rests on the belief that, over the long term, fixed-income investors will be compensated for investing in corporate bonds and similar credit instruments (which are also exposed to the risk of both price volatility and capital loss) by receiving returns that are higher than the returns on fixed-income assets that are not exposed to credit risk, e.g. RSA Government bonds.
- The **term premium** - this rests on the belief that, over the long term, fixed-income investors will be compensated by higher returns for investing in longer-dated fixed-income instruments (e.g. long-dated bonds are expected, over the long term, to produce higher returns than cash).
- The **liquidity premium –** this rests on the belief that many investors have a bias toward more liquid investments and therefore will pay a premium to hold such investments. Investors (like many retirement funds) who, on the other hand, have less need for liquidity are able to receive this liquidity premium by investing in instruments that are less liquid, although they may be similar in other respects.
- The **skill premium –** this rests on the belief that there are investment managers (and that the Fund is able to identify them) who have the skill to generate extra returns, particularly by “stock selection” (i.e. by deciding which specific shares or bonds to invest in, out of the whole universe of possible investments, known as the “opportunity set”).

Investment portfolios of the Fund

Until 31 March 2022, a single strategy was followed for all the Fund’s long-term investments, regardless of which liability account they relate to. The Committee considered that it was not necessary or beneficial to differentiate the strategy for the different liability accounts (although it would be possible to do so).

Following discussions with the representative of the National Treasury on the Committee, the Board agreed that in future the assets backing the Employer Surplus accounts (totalling just over R 1 billion at the time of this decision) should be invested separately, in a portfolio of SA Bonds managed by the Public Investment Corporation (PIC). This took effect as from 1 April 2022, with the effect that (from that date onwards) there will be two portfolios comprising the Fund’s long-term investments:

- The **main (or member) portfolio,** in which members’ Fund Credits (retirement savings in the Fund) are invested; and
- The **PIC portfolio (SA Bonds),** in which the assets backing the Employer Surplus accounts are invested.

The Fund also has a **money-market investment portfolio** (currently managed by Prowess Investment Management) which in the past has been used to back some current liabilities of the Fund such as unclaimed benefits that attract cash or money-market returns. Since there will in future be an explicit money-market allocation in the main portfolio (also to be partially invested in the Prowess money-market portfolio), the Prowess portfolio is unitized so that the portion that forms part of the main portfolio can be tracked separately, for reporting/accounting and return calculation purposes.

8. Investment strategy – main investment portfolio (members' retirement savings)

Approach used in developing strategy

The Fund's investment consultants (Willis Towers Watson) carried out an updated asset modeling exercise during 2021 to develop an asset allocation for the Fund consistent with a net real return target of 4.0% p.a. over any rolling 7 year period. (The measurement period was chosen to indicate that this is a fairly long-term target. Similar results would be obtained if the measurement period had been chosen to be the Parliamentary term of 5 years.)

It was agreed in 2021 that foreign exposure should be increased to 30%, as the Trustees agreed that diversifying the Fund's investments (not putting all the Fund's "eggs" in one basket – be that South Africa or any other economy) would be the prudent and sustainable approach. Following the relaxation of exchange controls announced in the 2022 National Budget, the Trustee Board agreed to a further increase in foreign exposure, to **35%**, with possible further increases to be considered in future given that the new exchange control ceiling is now set at 45%.

The Committee accepted the view that most managers lack skill in tactical asset allocation and that finding managers who have this skill is difficult. Consequently the Committee agreed that the focus would be on choosing managers expected to show skill in stock selection, and that specialist mandates should be awarded (e.g. specialist SA Equity and SA Bonds mandates).

Strategic asset allocation and portfolio construction

The strategic asset allocation (SAA) set in 2015, and implemented during Q1 of 2016, as well as subsequent changes approved by the Trustee Board, are as follows:

	"Old" strategic asset allocation (1 March 2016 onwards)[1]	**Strategic asset allocation as from 1 April 2022**	**Strategic asset allocation as from 1 July 2022**
SA Equities	**32%**	**20%**	**15%**
SA Property	**7%**	**5%**	**7.5%**
SA Bonds (nominal)	**31%[2]**	**25%**	**21%**
SA Bonds (inflation-linked)	**5%[2]**	**10%**	**7%**
SA Money Market		**10%**	**10%**
SA Infrastructure			**4.5%**
Offshore	**25%**	**30%**	**35%**
Global Equities	20%	24%	28%
Global Bonds	5%	6%	7%

Notes:

1. From August 2018 until September 2018 (inclusive) the SAA included an explicit 35% allocation to SA Money Market investments, to provide liquidity over the period around the 2019 Election. This allocation was funded by reducing the allocations to SA Equities and SA Bonds (nominal

and inflation-linked) to 18% and 20% respectively, and by reducing the Offshore allocation to 20%. (See below – "*Changes to investment strategy in advance of a National Election*".)
2. For benchmarking purposes, the 5% allocation to SA inflation-linked bonds was only formalized in August 2018.
3. See the section "***Changes to investment strategy in advance of a National Election***" below, for further changes made in anticipation of the 2024 National Election.

This portfolio construction captures the following elements which the Investment Committee believes will, *over the long term* (i.e. measurement periods of at least 5 to 7 years), translate into a superior return and risk payoff:

- Exposure to a number of active investment managers that the Committee believes to be skillful and that generally follow a valuation-focused approach in selecting shares (including listed property investments) and bonds;
- A core exposure to an index-tracking manager for SA Equities, in order to reduce the volatility of the overall SA Equities component relative to the market for SA Equities represented by the All-Share Index, and also to reduce the overall investment fees in respect of SA Equities;
- An element of long term "value" investing which is inherent in the style of Oasis and Camissa. The inclusion of unlisted property in the form of the Futuregrowth Community Property Fund investment, and also the inclusion of infrastructure investments via the Old Mutual IDEAS Fund, adds to the long term investing horizon;
- Good portfolio risk and return diversification characteristics brought about by the inclusion of property, credit, international assets, and infrastructure investment (e.g. via the Futuregrowth Infrastructure and Development Bond Fund investment and the new investment in the Old Mutual IDEAS Fund, an infrastructure investment vehicle).

Benchmarks

The available opportunity sets are defined by market capitalization-weighted indices and accordingly the Investment Committee will generally choose benchmarks constructed in this manner. The benchmarks for the main asset classes used by the Fund are:

Asset class	Benchmark
SA money-market instruments with highest credit rating	Alexander Forbes STEFI Composite Index
SA nominal bonds	JSE All Bond Index (ALBI)
SA inflation-linked bonds	JSE IGOV inflation-linked bond index
SA direct property	Inflation (CPI) + 5% p.a.
SA listed property	JSE SA All Property Index (ALPI)

SA listed equities (actively managed)	JSE Capped Shareholder-Weighted total-return index (Capped SWIX)
SA listed equities (index-tracking)	FTSE / JSE All Share total-return index (ALSI)
SA Infrastructure	Inflation (CPI) + 7% p.a.
Global equities in ZAR currency	MSCI World Equity total-return index (developed markets), net of dividend withholding taxes
Global bonds in ZAR currency	Bloomberg Global Aggregate bond index, unhedged

Cashflow management and portfolio rebalancing

The Fund is generally slightly cashflow-positive except in the periods after national Elections, when the experience has been that relatively large amounts are paid out as benefit payments.

Cashflows will generally be invested or disinvested in proportion to the strategic weights of the domestic portfolios, unless otherwise agreed as part of a rebalancing strategy (e.g. after a change in the Strategic Asset Allocation). Any additional offshore investments (or any disinvestments) will be on an ad-hoc basis only.

Rebalancing to the strategic weights will be done on an ad-hoc basis either by temporarily redirecting cashflows or by moving assets between portfolios, if the actual portfolio weights deviate from the strategic weights by a significant margin – "significant" would typically be +-10% of the target weight (i.e. if the target weight is 25%, actual exposure within a band of 22.5% to 27.5% would be regarded as not requiring rebalancing). The need for rebalancing will be monitored through the quarterly investment reporting process.

Since rebalancing in accordance with these principles is largely formulaic and does not involve any questions of strategy or policy, the Board will mandate the Investment Committee under guidance of the investment consultant to give rebalancing instructions to the Fund's administrator and/or investment managers.

In preparation for post-Election benefit payments (as noted below), the Committee may consider a strategy of increasing the cash holdings of the Fund (by holding back cash inflows and also possibly by phased disinvestments to cash), but the Committee considers that the investment portfolios in general have sufficient liquidity that it will not be difficult to raise cash at short notice by requiring the managers to disinvest, without prejudicing the Fund in any material way.

Changes to investment strategy in advance of a National Election - principles

The Committee should consider a strategy of making the Fund's strategic asset allocation more conservative in the months approaching a National Election. The main reasons for doing this are:

- Many Fund members have no certainty as to whether they will return to office after the Election, and some will be planning to retire, and a more conservative strategy will reduce the risk that members who do not return suffer significant short-term investment losses in the event of adverse market conditions (such as a stock market crash) over this period.
- A further reason is to raise the liquidity of the Fund so that liquid assets are readily available to cover benefit payments in the weeks and months following the Election.

At the extreme, the Committee could consider liquidating all the Fund's assets and holding only cash and money-market investments over this period. However, the Committee should usually adopt a more moderate approach and refrain from "de-risking" the Fund's investments to such an extent. (An exception might be if real returns over the preceding years, e.g. over the current term of office to date, had been so high as to easily exceed the Fund's net real return target for the 7 years preceding the Election and indeed for the current term of office, and the Committee and its advisors are concerned that such strong returns are unsustainable in the short term. This would be an unusual situation however.)

In more normal market conditions the Committee should consider a partial de-risking of the strategy, e.g. by increasing the proportion of money-market and other interest-bearing assets held, but without eliminating "return-seeking" investments (such as equities) altogether.

At the other extreme, if the Committee is considering what the pre-Election strategy should be in the immediate aftermath of a market crash or similar "crisis event", the Committee should consider carefully the risk that de-risking the investments (e.g. selling equities for cash) may simply lock in losses.

If the Committee and Board do decide to de-risk the investments, consideration should also be given as to what further changes should be made in the weeks and months following the Election. Since a new Board will take office after the Election and it may take several months before the new Trustees feel confident to make major decisions, it is preferable that the outgoing Board should decide in advance on such post-Election changes and issue the necessary instructions or investment mandates so that these can be given effect to automatically, in the absence of any contrary decisions by the new Board.

Changes to investment strategy in advance of the 2019 Election

In anticipation of the 2019 National Election, the Fund's strategic asset allocation changed as follows over Q3, 2018:

	Previous target allocation	**Revised target allocation**	Actual allocation – 30 June 2018	**Actual allocation – 30 Sept. 2018**
SA Equities	32%	**18%**	30%	**18%**
SA Property	7%	**7%**	7%	**7%**

SA Bonds	36%	**20%**	35%	**19%**
SA Cash	-	**35%**	2%	**34%**
Offshore	25%	**20%**	26%	**21%**

The Committee accepted advice from the consultant that the proposed new strategic allocation was consistent with a real-return target of some 3.0% p.a. over rolling 3-year periods, and (more importantly) with a reasonably high probability of capital preservation over 12-month periods.

The large cash and money-market holdings were drawn down after the 2019 Election to pay benefits, and the strategic allocation then reverted to the long-term allocation ("previous target allocation" as shown in the above table), after the necessary rebalancing.

Changes to investment strategy in advance of the 2024 Election

In anticipation of the 2024 National Election, the Trustees agreed that the Fund should build up a money-market allocation of some R 1 billion, or some 30% of the member investment portfolio, by the time of the Election. Amounts will be drawn from the other portfolios (including the offshore portfolios) as proposed by the Investment Sub-committee and approved by the Board, to fund this allocation. On the assumption that the disinvestments are made broadly proportionately across the asset classes, this would result in a target asset allocation for the member portfolio as follows, by the time of the Election:

	(A) Long-term target allocation	**(B) Pre-Election target allocation (rounded)**	**Actual allocation – 30 Apr 2024** (compare to (B))	**Actual allocation – 30 Sept 2024** (compare to (A))
SA Equities	15%	**12%**	11.6%	15.8%
SA Property	7.5%	**6%**	6.7%	9.2%
SA Infrastructure	4.5%	**3.5%**	1.6%	5.9%
SA Bonds	28%	**21.5%**	21.2%	29.2%
SA Cash	10%	**30% (R 1 bn)**	28.4%	4.0%
Offshore	35%	**27%**	30.5%	35.9%

As previously, the intention was that the member portfolio asset allocation will revert to the previous target allocation (first column in the above table) after the Election, pending any revisions to the strategy agreed by the Board at that time. By the end of September 2024, by which time the bulk of the immediate post-Election benefit claims had been settled, the actual asset allocation was reasonably similar to the long-term target allocation (agreed by the Board in 2022).

Money Market portfolio

With effect from September 2017, the Fund established a separate Money Market portfolio (not forming part of the main investment strategy) to back liabilities such as pending benefits that attract a cash or money market return in terms of the Rules. The portfolio is benchmarked against the STEFI Composite index, and the performance target is to out-perform the benchmark by 0.5% p.a. before fees.

As noted above, w.e.f. 1 July 2022 this Money Market investment portfolio is being unitized, as there is now an explicit allocation to this Money Market portfolio as part of the main (member) investment strategy. This allocation is invested in the same investment portfolio as the assets backing the pending benefits (etc.) – the purpose of the unitization is to enable easier tracking of the portion of the Money Market portfolio that forms part of the main (member) portfolio.

PIC bonds portfolio (Employer Surplus portfolio)

With effect from 1 April 2022, the assets comprising the Employer Surplus in the Fund are invested separately, in a portfolio of SA Bonds managed by the Public Investment Commission (PIC) . The portfolio is benchmarked against the All-Bond Index.

9. Manager selection

The Committee believes that an in depth qualitative analysis of the investment manager provides more reliable information about skill than past performance, but the management time and skill required in selecting a range of investment managers may be too onerous. For this reason the Committee will rely on its investment consultant to assist in the selection of investment managers. The Committee may also appoint a multi-manager whom it believes has the ability to appoint skilful investment managers.

The Committee, together with the investment consultant, will consider the following attributes in selecting a multi-manager or underlying investment manager:

- Asset management philosophy and process
- Quality of Investment Professionals
- Business management skills and reputation of the organisation
- Customer relationship management
- Risk management
- Reporting and administration capabilities
- Size of assets under management
- Past investment performance
- Fees and other costs
- Corporate governance, including proxy voting guidelines

The manager must have a clearly defined investment philosophy and must have an established track record of applying this philosophy successfully. The manager must also have a well-defined investment process off which the investment decisions are made. In particular the process should provide high quality information, contain risk controls and allow investment decisions to be made by a few key decision-makers. Finally the manager must have a sound business and remuneration structure that allows it to attract and retain the best investment managers.

The investment manager must demonstrate an ability to comply with the due-diligence requirements for investing set out in Regulation 28 to the Pension Funds Act, specifically principles (v) to (ix) in paragraph 2 of the Regulation.

The Committee will consider the need to promote broad-based black economic empowerment when selecting investment managers and other service providers (as required by Regulation 28). Specifically, choice of investment managers (for SA investments) and the allocations to such managers will be influenced by the targets and other requirements set out in the Fund's B-BBEE Policy for Investments document, as adopted in principle by the Board in June 2018 and as modified from time to time.

10. Mandates

The section details the principal risk areas the Investment Committee will seek to control per asset class – the specific limitations and conditions will be detailed in the mandate given to the appointed Investment Manager. (If the Fund invests in a pooled investment product such as a collective investment scheme (unit trust) or a pooled life-insurance investment fund, it will not be possible for the Fund to negotiate specific terms and conditions with the investment manager, but the terms and conditions applicable to the pooled product will be reviewed to ensure that, as far as reasonably possible, they are consistent with the principles and requirements set out below.)

The mandate given to each local investment manager will require that the particular mandate be managed on a Regulation 28 compliant basis where applicable.

Actively managed SA equities portfolios (including SA Listed Property)

The mandate given to the Investment Managers that manage active investment portfolios in the SA equity class for the Fund will include restrictions on:

- The maximum allowed deviation from the benchmark and tracking error
- Investment in off-benchmark positions (shares that are not benchmark constituents)
- No borrowings (or leverage) will be allowed, where "leverage" means that the Fund can incur a loss greater than the amount it has invested
- Use of derivatives (incorporating Regulation 28 requirements when these are known)
- Minimum requirements in terms of liquidity of the portfolio
- Maximum exposure to any one share in the portfolio
- Holdings where the Investment Manager holds more than 25% of the issued share capital of the company across its entire client base
- Investment in the shares of the Investment Manager and its associated companies
- Investment in unlisted securities
- Underwriting of new issues
- Scrip lending

Index-tracking SA equities portfolios)

The mandate given to the Investment Managers that manage index-tracking SA Equities portfolios for the Fund will include restrictions on:

- The maximum allowed deviation from the benchmark and tracking error
- Investment in off-benchmark positions (shares that are not benchmark constituents, including unlisted securities)
- No borrowings (or leverage) will be allowed, where "leverage" means that the Fund can incur a loss greater than the amount it has invested
- Use of derivatives (incorporating Regulation 28 requirements when these are known)
- Underwriting of new issues
- Scrip lending

SA bonds and money-market investments

The mandate given to the Investment Managers that manage SA Bonds and SA Money Market mandates on behalf of the Fund will include restrictions on:

- Use of derivatives (incorporating Regulation 28 requirements when these are known)
- No borrowings (or leverage) will be allowed, where "leverage" means that the Fund can incur a loss greater than the amount it has invested
- Minimum liquidity of the portfolio
- Investment in non-benchmark (unlisted) debt instruments
- Maximum exposure to a particular instrument varying by credit quality
- Maximum exposure to a particular issuer
- Deviation (in years) from the modified duration of the benchmark
- Investment in the instruments of the Investment Manager and its associated companies
- Underwriting of new issues
- Scrip lending

Global equities

The Fund's investment in global equities will be via a collective investment scheme (i.e. a pooled arrangement) because the assets are too small to negotiate a segregated portfolio. The consequence of this is that the Fund can only rely on the risk constraints and limitations set out in the Prospectus of the relevant CIS (collective investment scheme). The Fund will seek to ensure that *inter alia* the following matters are covered in the prospectus:

- Maximum exposure to emerging markets
- Restrictions on the exchanges in which the manager may deal
- Investment in unlisted securities
- Maximum exposure to any one Company (this may vary by market capitalization)
- Maximum exposure to a particular country (or geographic region)
- Maximum exposure to a particular industry or sector
- Maximum exposure to a particular currency
- No borrowings (or leverage) will be allowed, where "leverage" means that the Fund can incur a loss greater than the amount it has invested
- Restrictions on the use of derivatives and currency hedging
- Restrictions on scrip lending (including restrictions on counterparty risk)

The Prospectus must provide a maximum notice period of 30 days should the Fund wish to terminate the appointment.

Global bonds

The Fund's investment in global bonds will also be via a collective investment scheme (i.e. a pooled arrangement) because the assets are too small to negotiate a segregated portfolio. The consequence of this is that the Fund can only rely on the risk constraints and limitations set out in the Prospectus of the relevant CIS (collective investment scheme). The Fund will seek to ensure that *inter alia* the following matters are covered in the prospectus:

- Maximum exposure to emerging markets
- Restrictions on the exchanges in which the manager may deal
- Investment in non-benchmark (unlisted) debt instruments
- Maximum exposure to a particular instrument varying by credit quality
- Maximum exposure to a particular issuer / counterparty

- Deviation (in years) from the modified duration of the benchmark
- Maximum exposure to a particular country (or geographic region)
- Maximum exposure to a particular industry or sector
- Maximum exposure to a particular currency
- No borrowings (or leverage) will be allowed, where "leverage" means that the Fund can incur a loss greater than the amount it has invested
- Restrictions on the use of derivatives and currency hedging
- Restrictions on scrip lending (including restrictions on counterparty risk)

The Prospectus must provide a maximum notice period of 30 days should the Fund wish to terminate the appointment.

Self-investment in participating employer(s)

The Pension Funds Act restricts self-investment in the shares of, or any loans to, the Fund's participating employer(s) and its/their subsidiaries and direct or ultimate holding companies to no more than 5% of the total Fund balance sheet, subject to the requirement that such self-investment is in the best interest of the Fund.

The Fund Rules state that the Minister of Finance is the principal employer. Investments in debt instruments issued by the Republic of South Africa have in the past been argued to be self-investment in the forms of loans to the principal employer, although the Committee does not accept this (on the grounds that the bonds are issued by the Republic of South Africa and not by the Government of the day, the National Treasury or the Minister of Finance). The Committee notes in any event that Regulation 28 permits retirement funds to invest up to 100% in RSA Government bonds should their trustees deem it prudent and suitable to do so. The Committee therefore does not regard such investments as representing self-investment in the Fund's participating employer(s). The only reason to change this view would be if the Minister of Finance or his representatives on the Trustee Board were to exert pressure on the Fund to invest in RSA Government bonds or similar debt instruments for reasons other than the best interests of members of the Fund. The Committee does not consider that there is any likelihood that this will happen, but will guard against this.

11. Voting rights

The Committee recognizes that proper governance, capital allocation decisions and the alignment of interest between shareholders and management is essential if a Company in whose shares the Fund is invested is to create value for shareholders over the long term. It therefore expects the Fund's appointed Investment Managers to take all actions related to the governance, allocation of capital and alignment of interest in order to optimise the expected long-term return for shareholders such as the Fund.

The Committee accepts that where the Investment Manager only holds a small percentage in a Company whose shares are highly tradeable, the manager always has the option to sell out if it perceives governance, capital allocation or alignment issues. However in cases where there is limited liquidity in the selected company's share, the Committee expects a high degree of oversight from the Investment Manager.

12. Derivatives

Use of derivatives will be consistent with the requirements of Regulation 28 and the FSCA Conduct Standard 1 of 2023 dealing with the Conditions for Investments in Derivative Instruments for Pension Funds.

The Board recognizes that it does not have specialist knowledge in this field and will therefore take specialist legal and technical advice in respect of derivative investments, where needed.

Both listed and OTC derivative instruments are allowed, and the conditions under which derivative instruments may be used, and the valuation methodology required will be at the discretion of the investment manager (who will be required to comply with the Regulation 28 and the FSCA Conduct Standard 1 of 2023) – but subject to the overall requirements of the investment mandate as to the return objectives and risk parameters for the mandate.

Derivative instruments may at no time be used for the purpose of speculation or to leverage or gear the assets within the mandate.

The Board will require each of its investment managers to identify, measure and take steps to manage and mitigate, as appropriate, the exposure to and risks of derivative instruments, and the contribution of these to the overall risk profile of their mandate and at all times to comply with the provisions of Regulation 28 and the Conduct Standard in relation to use and valuation of derivative instruments. The Board will therefore seek confirmation from its investment managers that at all times the manager will manage the Fund’s assets in accordance with the Conduct Standard.

The Fund will require its investment managers to provide regular reporting to the Board in order to monitor the risks to the Fund of using derivative instruments, and to ensure that such risks are appropriate in terms of the solvency and liquidity position of the mandate.

13. Scrip lending

At this time the Committee has decided that the Fund should not engage in scrip lending activities for the following reasons:

- Scrip lending is not risk free and the expected fees generated are relatively low in relation to the risk and the administrative burden imposed by such a lending programme.

- It is possible for some of the Fund's SA equity Investment Managers to hold a significant percentage of the issued capital of a company for its entire client base. If this scrip is lent and then needs to be re-called (because the Investment Manager wants to sell down their holding) it is possible that the parties to whom the scrip is lent (mainly hedge funds) could use this inference to trade against the Fund.

- There is evidence that from time to time, transactions need to be delayed by a few days as the scrip is re-called; which may hinder the trading activity of the manager.

The Committee however recognizes that where the investment is via a pooled vehicle, the investment manager may be allowed in terms of the founding documents to lend scrip – in this case scrip lending is permitted provided it is disclosed to the Investment Committee before the date of the investment manager's appointment.

14. Custodians and registration of assets

Where practically possible, the Committee will require the assets to be registered with the Fund as the beneficial owner.

In some circumstances it may not be possible or optimal for the assets to be registered with the Fund as beneficial owner – such situations include:

- Where the amount that the Fund has to invest is too small and the selected Investment Manager is only prepared to offer a pooled arrangement;
- Where there are benefits in using the bulk buying power of a much larger group (e.g. money market investments);
- Where the assets only come in large units (e.g. direct property) and to achieve sufficient diversification the Fund needs to invest in a pooled arrangement;
- Where the Fund has appointed a multi-manager, in which case the multi-manager will select its own custodian.

Any investment in a pooled vehicle is subject to the Committee being satisfied that:

(a) The organization in whose pooled fund the Fund's assets are invested is one of high reputation;

(b) The assets are ring-fenced for the exclusive benefit of the investors in the pool and there is no risk that losses elsewhere can impact on the returns of the pool;

(c) Independent reporting, at least on a half yearly basis, that the pool holds the said assets and the market value thereof is fairly reflected;

(d) There are sufficient protections in place to protect investors from large inflows and outflows – specifically there is a requirement that the future investment returns of the remaining investors should not be adversely affected by large scale redemptions.

15. Monitoring

Review of investment managers: qualitative process

The Committee places greater store on an assessment of the qualitative aspects of the manager as per paragraph 10 above rather than past performance (particularly when this performance is short term).

To this end the Committee, together with its investment consultant, will follow an approach of engaging with its Investment Managers or Multi-Manager rather than being passive recipients of the manager's feedback. This means that the Committee will:

- Challenge the manager to explain his or her positions in the portfolio;
- Look for coherence in the investment strategy;
- Get insight into what the manager assesses the intrinsic as opposed to market value of the portfolio to be;
- Test the key qualitative aspects of the manager, focusing on aspects which the Committee regards as the "edge" of the manager;
- Ensure that proper contractual arrangements are in place for all the investment managers.

Review of investment managers: quantitative process

The following backward looking quantitative analysis will be done to aid understanding of the Fund's performance on a quarterly basis:

- Performance and observed risk levels of the Fund relative to its benchmark as well as inflation;
- Performance and observed risk levels of each Investment Manager relative to his or her benchmark;
- Other statistics that aim to measure manager skill (e.g. upside and downside capture).

The following forward looking quantitative analysis will be done to aid understanding of the current positioning of the SA Equity portfolios:

- Prospective tracking error of the Investment Manager
- Key over-weight and under-weight positions in the Manager

Reporting requirements

Quarterly performance reporting is provided to the Committee by the investment consultant, covering both Fund level and manager level performance.

Investment managers will report back to the Committee on a rotational basis, typically with one manager presenting at each meeting of the Committee.

Each investment manager will be asked to provide a summarised formal report on request by the Committee, to indicate how they comply with the due-diligence principles as set out in Regulation 28. Managers will also be asked to cover these issues when they report back to the Committee (i.e. as part of the manager's presentation). These include, but are not limited to, the following aspects:

- Confirmation of the due diligence process followed prior to making any investments, 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.

- Report formally on how they comply with the due-diligence principles for investing in Regulation 28, specifically principles (v) to (ix).

- Clarification regarding the extent to which the investment manager has relied on credit ratings in performing such due diligence.

- A detailed description of the current economic environment in order to highlight any changes in the risks to which the Fund's assets are exposed to. These include credit, market, liquidity, operational, currency, geographic and sovereign risks.

- Confirmation of the extent to which the investment manager has taken, and continues to take, Environmental, Social, Governance and related factors into account when making and holding investments on behalf of the Fund.

16. Socially responsible and Sustainable investing

The Committee recognizes that a key risk to long term investing is the under-estimation of factors that ultimately adversely affect the intrinsic value of a company (e.g. a change in environmental legislation or even just the stricter application of existing laws). Consistent with this, the Committee will challenge its active managers on the economic sustainability of their investment decisions and the extent to which they have allowed for low probability but high adverse impact events in the assessment of intrinsic value.

Socially responsible investing (SRI) can be considered from two aspects, namely:

(a) *Imposition of constraints (negative screening)* – in this case the Investment Manager is precluded from investing in businesses that are considered to have a negative impact on society. Businesses that are typically included under this heading are tobacco, alcohol, gambling and defence. This approach may also apply a political level (e.g. not investing in countries that have a poor human rights record).

While the Committee will challenge its Investment Managers on sustainability issues, the Fund will allow its managers to invest in any business that is legal and will not impose ethical judgements precluding certain investments.

(b) *Positive screening* – here the aim is to allocate capital to those businesses which are assumed to hold positive benefits for society. In the South African context the focus is largely on positive SRI investing. The Fund will consider investing in such opportunities, but subject to the requirement that the expected return from the investment must be at least fair compared to the associated risk, taking into account diversification benefits. (The mission of the Fund is to provide superior risk adjusted returns over the long term and so any investment must meet this criterion.)

The Fund has made investments in the Futuregrowth Infrastructure and Development Bond Fund and the Futuregrowth Community Property Fund as part of its overall investment strategy. These investment vehicles use “positive screening” as envisaged here to achieve social benefits as well as competitive investment returns. The same applies to the recent investment in Old Mutual’s IDEAS Fund, a pooled vehicle for SA infrastructure investments.

The incorporation of ESG (Environmental, Social and Governance) considerations into the investment decision-making process is another aspect of socially responsible investing. The Committee will expect the investment managers to report on how they take account of ESG factors, as part of the process to ensure the sustainability of the portfolios they manage for the Fund.

17. Trustee training

Each year, as part of its calendar of activities, the Trustees should undergo formal training (covering investment issues, general Fund governance and other matters that the Trustees believe to be important). The Fund will also monitor the implementation of this training programme in order to assess and address the training needs of the individual Trustees.

18. Compliance with Regulation 28 made under the Pension Funds Act

Revised Regulation 28

Regulation 28, which deals with the investment limits for SA retirement funds, was revised with effect from 1 July 2011.

The revised Regulation has three major implications for retirement funds, namely:

- Greater investment freedom has been introduced, and funds can consider investments such as private equity, hedge funds and commodities whose status under the old regulation was uncertain.
- Where a fund has different investment portfolios or "channels" backing different sub-sections of its member liabilities, each investment channel must comply with the Regulation 28 limits, in its own right. *(*In addition to the main "member portfolio", the Fund also has a money market investment portfolio which, among other things, back some of the unpaid/unclaimed benefits held by the Fund. As the persons to whom these benefits are due are in legal terms also still "members" of the Fund, the money market portfolio should also comply with the Regulation 28 limits.*)*
- Paragraph (2)(c) of the Regulation requires that the Trustees apply a set of stated principles when they exercise oversight of the Fund's investments.

The Regulation sets out limits per asset class and the various sub-categories per asset class – these limits are wide and should not cause major compliance problems for most funds. However, quarterly reporting of any breaches of the new limits is required.

The Fund must comply with the provisions of Regulation 28 on a look-through basis (e.g. when investing in pooled market-linked vehicles or certain insurance products).

The Fund's compliance with Regulation 28

The Fund will comply with the investment governance principles set out in Regulation 28. This Investment Policy Statement has been drafted so as to facilitate this compliance.

The Investment sub-committee has considered the need for regular (e.g. quarterly) monitoring of the Fund's compliance with the various limits set out in the Regulation and has determined that, while the current investment strategy set out in this Investment Policy Statement remains in place, the chances that the Fund will breach any of these limits are so small that it is no necessary to carry out such quarterly monitoring. In reaching this decision the Investment sub-committee has taken account of the following:

- The Fund operates a single asset and liability pool in respect of its members, i.e. there are no sub-divisions of the Fund's balance sheet with different investment strategies being followed for different categories of member liabilities (except for the unclaimed benefits invested in the money market portfolio). This means that compliance is required at the following levels:
    - The main (member) investment portfolio – the strategic asset allocation and the mandates given to the investment managers will normally ensure compliance at this level.
    - The money market portfolio (which, as noted, partially backs the unpaid/unclaimed benefits) – the mandate given to the SA Money Market manager(s) will require compliance with the Regulation 28 limits..
    - The Fund overall. (However, if the main member investment portfolio complies with the Regulation 28 limits, it is effectively certain that the Fund overall will comply.)

  It should be noted that the SA Bonds portfolio in which the employer surplus is invested is technically not required to comply with the Regulation 28 limits, as it is not a "portion of the fund's total assets [that is] associated with a specific category of **members**". Nonetheless, the mandate given to the SA Bonds manager(s) will require compliance with the Regulation 28 limits.
- The Fund's overall asset allocation and therefore the exposure relative to the major asset-class limits contained in the Regulation (e.g. 75% maximum equity exposure) and relative to exchange-control limits (45% maximum offshore exposure as from March 2022) is monitored through the normal quarterly reporting process.
- The segregated investment mandates awarded to the SA Equities and SA Listed Property managers and to Coronation, Prowess and the PIC (SA Bonds or SA Money Market managers) already contain specific limits that, if complied with by these managers, will help to ensure that the Fund never breaches the various sub-limits contained in the Regulation.
- While the Fund has invested in certain domestic and offshore pooled vehicles that will not in themselves comply with the limits, the Committee considers that the Fund's exposure to these pooled vehicles is relatively small and that, since they will in themselves follow a policy of prudent diversification, the chance that any concentration of exposure inside these pooled vehicles (even when aggregated with other exposures inside the Fund's other investment portfolios) will be large enough to cause the Fund overall to breach any of the limits or sub-limits is negligibly small.
- Compliance is in any event monitored on a yearly basis via the Schedule IB reporting in the Fund's audited financial statements.
- The Committee considers that any undetected breach of the Regulation 28 limits would be extremely unlikely to cause an actual loss to the Fund and its members unless this resulted from negligence or breach of mandate by the Fund's investment managers, in which case the Fund would seek to recover the loss from the manager concerned. The Fund monitors the insurance cover maintained by its managers on an annual basis.

The Investment sub-committee notes that **any material change in the investment strategy described in this Investment Policy Statement will require that the policy on Regulation 28 compliance and monitoring is re-considered**. This policy will also be reviewed as part of the annual process of reviewing the full Investment Policy Statement, as discussed below.

19. Review of IPS

In the normal course of events the Investment Committee will review the investment strategy and the IPS annually or at shorter intervals where investment opportunities also arise.

The investment strategy must be reviewed within 3 months of any of the following events occurring:

(a) A change in exchange control regulations affecting retirement funds

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

(c) A change in the Pension Funds Act, Income Tax Act or the Long Term Insurance Act that affects investments

(d) A change in the economic policy regarding inflation targeting or the mandate of the South African Reserve Bank

(e) An indication that the Fund will have significant cash flow requirements which are not provided for

(f) Any extreme market event

Adopted by Trustee Board on 27 June 2025.

Effective date of implementation: 01 July 2025

Annexure – Asset Class Assumptions (used when new strategy was developed in 2015-16)

Asset classes and expected long-term returns

The table below sets out the asset class assumptions – these assumptions will be reviewed regularly by the Investment Committee. (The table includes only the main asset classes used in the modelling).

Asset class	Expected real return p.a.	Expected real return p.a. – 2023 assumptions	Expected real return p.a. – 2024 assumptions	Expected variability
SA cash with highest credit rating	1.00%	1.5%	1.5%	2.0%
SA nominal bonds with government guarantee	2.50%	6.0%	3.75%	9.0%
SA inflation-linked bonds with government guarantee	n/a	5.0%	4.25%	n/a
SA listed equities	5.50%	9.5%	8.5%	21.0%
Global sovereign bonds in ZAR	1.50%	2.5%	2.75%	15.0%
Global equities in ZAR	4.50%	5.5%	6.25%	17.0%

The key assumptions (from 2015-16) underlying the above table are:

- Inflation in South Africa will be affected by high administered prices, relatively poorly anchored inflation expectations as evidenced by the high wage negotiation settlements, and higher government spending.
- The SA Reserve Bank will target a real return of 1% to 1.5% p.a. on short-dated money market instruments.
- The equity risk premium (excess return on equities compared to bonds) is 3% p.a.
- Finally a sovereign risk premium of 1% p.a. has been assumed for SA bonds and equities relative to global (developed-market) bonds and equities.

In summary these assumptions (from 2015-16) assume a fairly good long term economic outcome for SA, and a central bank (SARB) that is independent of the government, maintaining an inflation target of 3% to 6% p.a.

Standard deviation is a measure of the riskiness of the different asset classes (the higher the number the more risky the asset class). The standard deviations shown above broadly reflect observed experience over the past 20 years (as at 2015-16).

Correlations

The Investment Committee has based the correlations on observed experience over the past 20 years (as at 2015-16). The table below shows the assumed correlation matrix:

	Asset class	1	2	3	4	5
1	SA equities	**100%**	13.2%	44.9%	65.8%	2.2%
2	SA cash	13.2%	**100%**	55.6%	10.0%	-2.6%
3	SA Government bonds	44.9%	55.6%	**100%**	35.3%	-10.4%
4	Global equities	65.8%	10.0%	35.3%	**100%**	56.5%
5	Global bonds	2.2%	-2.6%	-10.4%	56.5%	**100%**

For comparison, these are the observed correlations based on experience over the 20 years to September 2024:

	Asset class	1	2	3	4	5
1	SA equities	**100%**	-13%	27%	43%	-25%
2	SA cash	-13%	**100%**	4%	-16%	9%
3	SA Government bonds	27%	4%	**100%**	-23%	-40%
4	Global equities	43%	-16%	-23%	**100%**	46%
5	Global bonds	-25%	9%	-40%	46%	**100%**