



OLDMUTUAL

# PROTEKTOR PRESERVATION PENSION AND PROVIDENT FUNDS INVESTMENT POLICY STATEMENT

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## VERSION CONTROL SECTION

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# 1 INTRODUCTION

## 1.1 CONTEXT

Old Mutual Life Assurance Company (South Africa) Limited (“Old Mutual”) currently sponsors a number of retirement funds within the ambit of its Old Mutual Corporate business unit. These retirement funds (the Old Mutual SuperFund Pension and Provident Funds, the Protektor Preservation Pension and Provident Funds, and the Old Mutual SuperFund Unclaimed Benefit Preservation Pension and Provident Funds) are each defined contribution funds. Old Mutual is the Administrator and Sponsor of these retirement funds.

Each fund is governed by a Management Board, where each Management Board is constituted of the same board members. **An overarching investment strategy has been developed by the Management Boards for all the funds in order to ensure consistency across the different funds.** This strategy is encapsulated in the various Investment Policy Statements (“IPS”) of the funds.

**This IPS document addresses the issues relevant to the membership of the Protektor Preservation Pension and Provident Funds (“the Funds” or “Protektor”).**

## 1.2 INTRODUCTION TO THE PROTEKTOR IPS

This Investment Policy Statement (“IPS”) sets out the investment strategy of the Protektor Preservation Pension and Provident Funds.

The Rules of the Funds set out the general powers of the Management Board in relation to investments. These powers include the selection of Investment Portfolios and Investment Providers, monitoring of their performance, and review of these Investment Portfolios. The Management Board has the power in terms of the Rules to add new Investment Portfolios, close existing ones to new investment, make changes to Investment Portfolios or remove Investment Portfolios.

This IPS guides the selection of Investment Portfolios offered, in which the various accounts of the Funds can be invested.

Subject to the Rules of the Funds and any consultation required with the Sponsor, this IPS provides for any matters that the Management Board deems appropriate in relation to the investments of the Funds. The IPS responds to the requirements of Regulation 28, Regulation 37, Regulation 38 and Section 36 of the Pension Funds Act and any other regulatory requirements such as but not limited to Circular PF No 130 and Guidance Note 1/2019.

## 2 STRATEGIC AND GOVERNANCE CONSIDERATIONS

### 2.1 OBJECT AND NATURE OF THE FUNDS

The object of the Funds as set out in the Rules is primarily:

- To provide for the preservation of benefits and the payment thereof (on retirement or withdrawal) to Members, where applicable;
- To provide benefits to the Dependants and nominees of Members in the event of death of such a Member;
- To provide a benefit in the event of the Disablement of a Member, where applicable; and
- To provide for the payment of the Savings Component as contemplated in the Two Pot Retirement System.

The Funds are therefore aimed foremost at meeting the needs of the Members and their Dependants. They seek to be transparent in respect of fees and expenses, competitive in the benefits they provide, and characterised by good governance, integrity, responsibility and accountability.

The Funds are defined contribution in nature, and are registered under section 4 of the Pension Funds Act and approved under the Second Schedule to the Income Tax Act.

### 2.2 TWO POT LEGISLATION: INVESTMENT STRATEGY IMPLICATIONS

#### 2.2.1 Previous regulatory context

The Protektor Preservation Pension Fund is a registered pension fund. Prior to 1 September 2024, Members were required to annuitise at least 2/3rds of their Member Account balance, unless their Member Account balance fell below the *de minimis* level of R247,500.

The Protektor Preservation Provident Fund is a registered provident fund. With effect from 1 March 2021, Members are required to annuitise at least 2/3rds of their Member Account at retirement. However, this annuitisation requirement does not apply in respect of the vested portion<sup>1</sup>, and does not apply if the non-vested portion falls below the *de minimis* level of R247,500.

#### 2.2.2 Proposed Two-Pot legislation

Since 1 September 2024, which is the implementation date for the new Two-Pot Retirement System, the Member Account is made up of three components:

- A Vested Component: This component contains all retirement savings accumulated before the system's implementation, together with any growth thereon. A Member's credit in this component will be subject to the same restrictions as applied prior to implementation date. The vested component is made up of the vested pension and vested provident portions.

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<sup>1</sup> The "vested portion" here refers to the retirement savings made prior to 1 March 2021, as well as growth thereon. For members aged 55 and older on 1 March 2021, "vested rights" also includes savings made after 1 March 2021 (subject to certain conditions).

- **A Retirement Component:** This component is accessible only at retirement. From implementation date, two-thirds of retirement fund contributions and growth thereon were allocated to the Retirement Component.
- **A Savings Component:** This component is accessible at any point prior to retirement (subject to some limitations<sup>2</sup>). From implementation date, one-third of retirement fund contributions and growth thereon were allocated to this component. Additionally, a starting balance of 10% of the member's fund value (up to a maximum of R 30,000) on 31 August 2024, was transferred (seeded) on a once-off basis into this component. Withdrawals from this component before retirement will be subject to taxation at the member's marginal tax rate.

The amount to be annuitised from the vested pot is then added to the retirement component. If this sum is less than R165,000 (2/3rds of R247,500) then the full amount can be taken in cash.

The Two-Pot system will not automatically apply to provident fund members aged 55 or older on 1 March 2021. These members will have the opportunity to opt into the Two-Pot System for a period of 12 months after 1 September 2024. Those who choose not to participate will not have the Savings Component and Retirement Component but will continue to operate under the existing rules for all their savings. If they transfer to another fund after 1 September 2024, they will automatically be switched into the Two-Pot system.

The various components and details thereof are shown in the table below:

Component	Vested Component		Savings Component	Retirement Component
	Pension	Provident (pre-2021 benefits and over-55's at March 2021)		
<b>Access before NRA upon resignation, retrenchment and disability</b>	100%	100%	100% (subject to availability rules)	None
<b>Retirement Lump Sum</b>	1/3	100%	100%	None
<b>Retirement Monthly Pension</b>	2/3	No requirement	No requirement	100%
<b>Future Contributions from implementation date</b>	None	Only for members age 55+ on 1 March 2021 <sup>3</sup>	1/3	2/3

From a Protektor perspective, the major impact at implementation date will be in respect of the amount seeded into the Savings Component. Because Protektor Members are non-contributory, only Members transferring into Protektor after the implementation date will have balances in the Retirement Component.

<sup>2</sup> A withdrawal from the Savings Component can only be made once per tax year. The minimum withdrawal amount is R2 000.

<sup>3</sup> The Two-Pot system will not automatically apply to provident fund members aged 55 or older on 1 March 2021. Those who choose not to participate will not have the Savings Component and Retirement Component, continuing to operate under the existing rules for all their savings.

## 2.2.3 Investment implications of the Two-Pot system

The implementation of the Two-Pot system will have several investment implications for Protektor Members:

- The compulsory preservation of 2/3rds of future contributions in the Retirement Component will result in a significant change to a Member's investment horizon for those Members who transfer into Protektor after implementation date. **This change will extend the investment horizon for this component at least until retirement** for new Members after implementation date.
- Further, the 2021 annuitisation changes to provident funds mean that, at retirement, affected Members<sup>4</sup> will be required to annuitise their Retirement Component (together with the applicable portion of their Vested Component). Although a Member's annuity selection may follow a different investment approach to their pre-retirement investment approach (e.g. if a Member selects a Life-Guaranteed Annuity), nonetheless for many Members their **investment horizon is effectively extended beyond retirement to their full life-time**. This emphasises the very long-term nature of the Member's Retirement Component, as well as the Vested Component.
- The investment horizon of the Savings Component is harder to define. For those Members who elect to take withdrawals from their Savings Component, the investment timeframe may be relatively short-term. However, the optimal use and the underlying intention<sup>5</sup> of the Savings Component is to keep this amount invested until retirement and beyond. The Management Board therefore considers that **the default investment approach for the Savings Component should be to invest with the same long-term time horizon as the rest of a Member's retirement savings**.

The Management Board will continue to monitor the relevance and accuracy of this IPS and the appropriateness of the default investment strategies as conditions unfold in light of this legislation.

## 2.3 INVESTMENT BELIEFS, STRATEGY AND OBJECTIVES

### 2.3.1 Investment Beliefs

#### 2.3.1.1 Investment governance

The Management Board is guided by the following beliefs regarding investment governance:

- Investment strategy and decisions should give precedence to the fiduciary duty owed to Members and the Funds, but should also consider the interests of other stakeholders.
- Managing money on behalf of other people requires high standards of openness and transparency. The Funds take this responsibility seriously and seek to meet best practice standards and be at the forefront of disclosure within our industry.

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<sup>4</sup> Except those aged 55 and older on 1 March 2021 who opt out of the Two-Pot system; and those for whom the retirement component plus applicable portion of the vested component is less than the *de minimis* level at retirement.

<sup>5</sup> Taking into account the tax treatment of pre-retirement withdrawals, the low average contribution rates, the low projected replacement ratios, and the fact that Protektor is by definition a retirement fund – i.e. aimed at providing for retirement.

- The Management Board, administrators, investment managers and all other fiduciaries are accountable for their actions, and must transparently perform their duties to the highest ethical standards.
- The Funds should seek to achieve alignment of interests between the Funds, the beneficiaries and those acting on their behalf.
- Good governance, including the allocation of appropriate resources to investment governance, is in the best interests of Members. It is appropriate for the Funds to invest resources in respect of stewardship and the integration of good practice regarding sustainable investment.

### **2.3.1.2 Investment markets, asset allocation and risk management**

The Management Board is guided by the following beliefs regarding investment markets, asset allocation and risk management:

- The typical Member's long-term investment horizon can be a source of advantage, because it enables a long-term investment strategy.
- Risk and return are strongly related. There are various investment risks that carry advantages. Illiquidity risk is one such advantage which, as long-horizon investors, Members can benefit from in respect of certain investment approaches.
- Diversification is a key tool for risk reduction, which improves the risk-adjusted returns of Member's investments.
- Investment risk is multi-faceted and not fully quantifiable. Investment Managers should demonstrate the ability to identify, avoid or seek to manage risks that are uncompensated.
- It is important to manage volatility in an appropriate way that balances the long-term investment horizon of the typical Member.
- The use of smoothing (via smoothed bonus Investment Portfolios) is a valuable way to manage volatility without sacrificing long-term investment returns.
- Active management and active tactical asset allocation can add value, after accounting for costs. Nonetheless, a low-cost index-tracking approach can also form an important component of investment strategies.
- Maximising net returns is more important than fees in their own right. The Funds should be fee conscious and aim to capture benefits from scale to achieve fee reductions on behalf of Members over time. It is appropriate to pursue "value for money" in respect of investment management fees, bearing in mind market comparatives.
- Disciplined and rigorous manager selection is a source of value. There is value in proactive engagement with managers alongside in-depth annual due diligence to ensure best of breed managers are maintained.

### **2.3.1.3 Responsible and Sustainable investment**

The Management Board is guided by the following beliefs regarding responsible and sustainable investment. More details are provided in Section 7:

- The Funds' investment activities are undertaken in the dynamic triple context of economy, society and environment. All three contexts must be considered in the Funds' investment approach.

- Sustainability plays a crucial role in ensuring the longevity and growth of investments. Sustainable investments consider all stakeholders including: the environment which they utilise, the society which they serve and the systems in which they operate. Through responsible investments, investors and asset owners can contribute to the protection of the environment and sustainability of social systems.
- In the South African context, the advancement of transformation goals and Broad-Based Black Economic Empowerment (BBBEE) is imperative in ensuring national economic equality but also improves decision-making capabilities through diverse thinking.
- Investees and the long-term returns they generate are more likely to be sustainable when the investee is well governed, meets customers' needs, treats employees equitably, pays fair taxes and respects their environment and community. This applies across all asset classes.
- Investment risks associated with climate change and the related economic transition will materially impact the value of the Funds' investments in future. It is appropriate to pursue a just transition, which seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically, including industries, communities, workers and consumers.

### **2.3.2 Investment Philosophy/Strategy**

Within a defined contribution context, investment risk is borne by Members. Given the very long-term timeframe of a typical Member's retirement savings journey (which includes both the accumulation stage within a retirement fund, as well as the decumulation stage within an annuity or other investment vehicles), it is appropriate to prioritise a long-term investment approach which pursues meaningful returns in excess of inflation. However, the Management Board is cognisant that many Members may not traverse a uniform accumulation-decumulation path, for the following reasons:

- Contribution rates towards retirement savings (outside of Protektor) will depend on the employment and financial circumstances of each Member (and their ability to make higher contributions).
- Members may commence their retirement savings journey at various ages.
- On changing jobs or on loss of employment, Members may elect not to preserve their benefit, but may take some or all of their benefit in cash.
- The proposed Two-Pot system enables (future) Members to access up to 1/3<sup>rd</sup> of future contributions from their Savings Component, with withdrawals permitted annually.
- At retirement, Members may elect to take some or all of their Vested and Savings Components in cash to the extent permitted. This will depend on the regime applicable in respect of historic contributions (i.e. whether historic contributions were made to a pension or provident fund prior to March 2021); the Member's age on 1 March 2021 (for Provident Fund Members); and the value of the amount to be annuitised relative to the *de minimis* level.
- In respect of annuitisation at retirement, Members can select from a range of different investment approaches, such as a conventional Life-Guaranteed Annuity (whether level, increasing, inflation-linked or with-profit) or a Living Annuity with various underlying investment options, or a combination thereof. Each annuity option has a different liability profile and may be impacted differently by market movements.

The Funds' investment strategy must therefore balance all of these factors, given the diverse range of Members.

**Taking this context into account, the Funds' investment philosophy/strategy can be summarised as follows:**

- Protektor is offered as a straightforward preservation vehicle appropriate for the institutional market. Members seeking a more flexible Old Mutual preservation option with wider choice can utilise alternative retail-focused preservation vehicles. Over time, the Protektor structure has therefore been simplified, and with effect from September 2019, Members are not granted a choice of Investment Portfolios in Protektor. The Funds only offer a smoothed bonus Investment Portfolio with a high level of guarantee which is open to new business. This Investment Portfolio must have appropriate "one-size-fits-all" characteristics to address the varying requirements of the Funds' diverse range of Members.
- The Funds shall utilise a pooled unitised daily-priced Investment Portfolio (either constituted as a collective investment scheme or policy of insurance) with appropriate levels of liquidity.
- The overall cost of offering a pooled portfolio is expected to be lower than it would be if a similar segregated portfolio were used (taking into account all costs, including the expertise, oversight and governance required).
- Utilising a pooled portfolio enables the Funds to access illiquid asset classes such as alternatives, impact investments and direct property which provide valuable diversification, as well as achieving positive targeted investment outcomes. These asset classes are utilised in the Funds' Default Investment Portfolio.
- Recognising that diversification is an effective method of risk mitigation, the selected Investment Portfolio should consist of a blend of asset classes, investment styles and investment managers.
- The Investment Portfolio utilised must comply individually with the requirements and asset limits set out in Regulation 28 of the Pension Funds Act.
- The Investment Portfolio made available shall seek to enable the close matching of Members' pre- and post-retirement investment risk profiles.
- The Funds support the use of smoothing (i.e. smoothed bonus Investment Portfolios) as a way to manage volatility without sacrificing long-term investment returns.
- The Funds shall seek to utilise Investment Providers which prioritise a responsible and sustainable investment approach, and which prioritise BBBEE and other transformation imperatives. The Funds shall regularly and actively engage with Investment Providers to ensure sustainability of assets.

- **Protector endowment policy members**: The Funds incorporate a historic Individual Choice option which consists of a very small number of endowment policies which have been closed to new business for many years. As a result of legal constraints, the Management Board is unable to unilaterally amend these endowment policies, or to change the Investment Portfolio selected by the Member. All the Management Board can do is communicate to Members and make them aware of alternatives. The last remaining endowment policy matured on the 1<sup>st</sup> September 2023.

### **2.3.3 Investment Objectives**

The Funds' investment objectives can be summarised as follows:

- To achieve sustainable and optimal risk-adjusted returns in excess of inflation over periods appropriate to the Investment Portfolio and appropriate to the nature of the liabilities. This is the Funds' primary investment objective.
- To incorporate environmental, social and governance (ESG) factors into investment decisions, to act as responsible asset custodians, better manage risk and generate sustainable, long-term returns.
- To act as responsible active owners of the Funds' assets within the practical constraints experienced in context of the Funds' pooled Investment Portfolios.
- To ensure that the Investment Portfolio offered is appropriate for the liabilities and needs of the membership.
- To ensure appropriate investment management costs which are competitive and lower than a typical Member would pay if they had to make provision for retirement in their personal capacity.
- To ensure that all investments are overseen and directed by the Management Board.

### **2.3.4 Investment Risk Management Strategy**

- The Funds' approach to risk management of investments must be guided by the Funds' overall risk management policy; the requirements of Regulation 28 and other applicable regulation; and the Funds' broader investment beliefs and investment philosophy.
- The Funds shall continuously assess risk exposure and opportunities in investments over the short, medium and long term by following a comprehensive and systematic approach. This should include continuous evaluation of market risk, credit risk and liquidity risk (as well as other risks as appropriate) to understand how these risks may impact the Funds' investment strategy. Such assessment may include consideration of historical data, economic indicators and market trends.
- The Funds shall continuously monitor investments and regularly review the investment strategy to ensure that Investment Portfolios offered are aligned with the Funds' objectives and risk tolerance.

## 2.4 GOVERNANCE OF THE INVESTMENT PROCESS

Regulation 28(2)(c) requires the Funds and the Management Board to comply with the set of principles listed in that Regulation. The Management Board has incorporated these principles into its governance processes and investment strategy. The Management Board shall<sup>6</sup>:

(i)	promote the education of the Management Board with respect to pension fund investment, governance and other related matters;
(ii)	monitor compliance with Regulation 28 by the Funds' advisors and service providers;
(iii)	in contracting services to the Funds or the Management Board, consider the need to promote Broad-Based Black Economic Empowerment of those providing services, as described in Section 8;
(iv)	ensure that the Funds' Investment Portfolios are appropriate for its liabilities;
(v)	before making a contractual commitment to invest in an Investment Portfolio or making an Investment Portfolio available to Members, perform reasonable due diligence taking into account risks relevant to the investment including, but not limited to, credit, market and liquidity risks, as well as operational risk for assets not listed on an exchange, as described in Section 5;
(vi)	in addition to (v), before making a contractual commitment to invest in a third party managed foreign asset or investing in a foreign asset, perform reasonable due diligence taking into account risks relevant to a foreign asset including but not limited to currency and country risks, as described in Section 5;
(vii)	in performing a due diligence exercise, the Management Board may take credit ratings into account, but such credit ratings shall not be relied on in isolation for risk assessment or analysis of an asset, shall not be to the exclusion of the Funds' own due diligence, and the use of such credit ratings shall in no way relieve the Management Board of its obligation to comply with all the principles set out here;
(viii)	in selecting Investment Portfolios to make available, understand the changing risk profile of assets of the Funds over time, taking into account comprehensive risk analysis, including but not limited to credit, market, liquidity and operational risk, and currency, geographic and sovereign risk of foreign assets; and
(ix)	consider any factor which may materially affect the sustainable long-term performance of an asset including, but not limited to, those of an environmental, social and governance character, as described in Section 7.

The Management Board has established and mandated the Investment and Actuarial Sub-Committee to oversee certain elements of the investment governance process. The roles and responsibilities of the Investment and Actuarial Sub-Committee are set out in this Sub-Committee's mandate.

<sup>6</sup> Numbering follows that of Regulation 28(2)(c)

## **2.5 REGULATION 28 ASSET LIMITS AND REPORTING**

Regulation 28 of the Pension Funds Act highlights that a retirement fund has a fiduciary duty to act in the best interests of its members, whose benefits depend on the responsible management of fund assets. It sets out a schedule of assets in which a retirement fund may invest, with limits defining the maximum allocations permitted to different asset classes.

The Funds require that the Investment Portfolio made available for the investment of a Members' Member Account must be Regulation 28 compliant. The Investment Portfolio must comply in its own capacity with all of the asset limits and aggregate exposures set out in Regulation 28(3).

The primary responsibility for compliance with much of the detail of Regulation 28 asset limits will rest with the Investment Provider who manages the Investment Portfolio. Nonetheless, the Management Board recognises that it retains an overarching responsibility to uphold the requirements and principles of Regulation 28.

### **2.5.1 Regulation 28 compliance by pooled Investment Portfolios**

With effect from January 2023, Investment Providers must provide such information as is required to enable the Funds to comply with the amendments to Regulation 28 gazetted in July 2022.

All Investment Providers are required to:

- Operate the Investment Portfolio in accordance with Regulation 28 limits.
- Have systems in place to monitor such compliance on a daily basis.
- Have procedures in place to address any breaches of compliance.
- Report breaches to the Funds as and when they occur.
- Provide proof or certification of Regulation 28 compliance on request.
- Timeously provide all information required by the Funds to submit reporting on compliance with Regulation 28 and any applicable regulatory reporting standard, both for regular submissions and for audited financial statements.
- Stipulate, to the extent applicable, compliance in accordance with Regulation 28(2)(c)(ix).
- In respect of market movement breaches, the details of the breach will be put on file and the Management Board notified by the Funds' Administrator. The Investment Portfolio will be tracked to confirm if the breach has been corrected.

These requirements may be developed further when the relevant Prudential Standards regarding Regulation 28 reporting are finalised.<sup>7</sup>

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<sup>7</sup> On 2 April 2024, the FSCA published Prudential Standard 1 of 2024, which outlines the quarterly reporting requirements under Regulation 28 of the Pension Funds Act. This standard mandates that funds submit detailed quarterly reports electronically, within the time periods stipulated, in respect of any non-compliance with or breaches in terms of Regulation 28. If no non-compliance or breaches occurred, a fund does not have to submit such a report. However, the FSCA will proceed to publish a new draft Prudential Standard for public consultation which will incorporate both non-compliance reporting and reporting on assets held in compliance with Regulation 28. The latter Prudential Standard will ultimately then replace the aforementioned Prudential Standard. Reporting on Regulation 28, as per the draft Regulation 28 Reporting Standard, may commence in 2024, but this is still under consideration.

## **2.6 APPROACH TO THE USE OF DERIVATIVE INSTRUMENTS**

The responsible and efficient use of derivative instruments can be used for effective portfolio management, and as such, the Management Board have established the following guidelines:

- Derivatives may be employed by investment managers but are subject to limits as defined in the relevant regulations. Their utilisation must strictly adhere to the requirements set forth in FSCA Conduct Standard 1 of 2023 (RF) concerning derivatives.
- Derivatives can be employed for asset allocation, stock selection and hedging purposes, but not for speculation.
- A derivative position can only be initiated if the mandate to that manager allows the use of derivatives explicitly including guidelines on their valuation methodology, specification on limits regarding the use of leverage and position size.
- Every investment manager mandated to use derivatives must have a track record demonstrating their ability to execute efficient management of positions.
- Every investment manager mandated to use derivatives is required to maintain a formal derivative policy, available upon request to the Management Board.
- Investment managers of Default portfolios are prohibited from using derivatives to bypass the asset exposure limits specified in Regulation 28. If an asset comprises underlying assets other than market index derivatives, the investment manager must disclose these underlying assets in the relevant category specified in Table 1 of Regulation 28 to align with the economic exposure of the underlying assets.

To facilitate proper oversight and adherence to Regulation 28 limits and reporting requirements, the Management Board must receive timely and relevant information from investment managers on a quarterly basis, specifically regarding exposures created or managed via derivative instrument positions.

## **2.7 REVIEW OF THE IPS**

The Management Board shall review the IPS at least once a year, as stipulated by Regulation 28 of the Pension Funds Act. However, the IPS may need to be reviewed more frequently if any of the following changes occur:

- Major change of Member profile;
- Major change in the Funds' benefit structure;
- Change in legislation affecting the Funds or investment conditions: e.g. a change in tax structure, or a relaxation of exchange control;
- Change in economic factors affecting investment conditions: e.g. a significant change in inflation, or a major market correction i.e. decline by 20% or more from its most recent peak;
- Major change in asset structure: e.g. introduction of new investment channels if applicable;
- Major change in the Management Board – so as to ensure continuity of information.

## 3 PROTEKTOR INVESTMENT STRATEGY

### 3.1 OVERVIEW OF THE PROTEKTOR INVESTMENT STRUCTURE

The Protektor Pension and Provident Funds are preservation funds aimed at preserving retirement benefits for members of the Old Mutual SuperFund Pension and Provident Funds and other retirement funds. The Funds are underwritten funds and must comply with the requirements of Regulation 28 of the Pension Funds Act.

The Protektor Funds cater primarily for members who do not want to exercise a high degree of choice over investment portfolios used in respect of their retirement capital, but want to leave this discretion with the Management Board.

The Management Board is cognisant that the decision at retirement to annuitise (i.e. purchase an annuity with part or all of a Member's retirement savings) or take a cash lump sum is influenced by whether a Member belongs to the Protektor Preservation Pension or Provident Fund (because of the different regulatory requirements historically applicable to each Fund). Given the March 2021 changes to annuitisation requirements for Provident Funds, and given that the Funds do not have knowledge of a Member's other retirement savings outside the Funds, it is assumed that the most appropriate target outcome at retirement is for a typical Member to purchase an annuity with their Protektor retirement savings, while taking cognisance that some Members may still elect to take their full retirement benefit in cash (where permitted). As a result, a consistent investment strategy is utilised for both Funds.

The overarching Protektor investment structure has developed over time taking into account historic structures, regulatory changes, Sponsor proposals and market needs in respect of the Funds' range of Members. The rationale for the extent of investment choices made available and the applicable Default Investment Portfolio is expanded on in this IPS.

- The **Protektor Guaranteed Option** is a smoothed bonus investment portfolio with a high level of guarantee which is open to new business. This remains now the only investment choice available within Protektor.
- The **Protektor Individual Option** consisted of fund member insurance policies (endowment policies) issued by the Fund by Old Mutual in terms of which the premium was the member's net investment amount and this was applied to an Investment Portfolio offered by Old Mutual through fund member policies. The last remaining endowment policy in this category matured during September 2023.

## 3.2 PROTEKTOR MEMBERSHIP PROFILE ANALYSIS

The Protektor Pension and Provident Funds are preservation funds aimed at preserving retirement benefits for members of the Old Mutual SuperFund Pension and Provident Funds and other retirement funds.

The Protektor Funds cater for members who do not want to exercise choice over Investment Portfolio(s) used in respect of their retirement capital, but want to leave this discretion with the Management Board. These Members have the following profile and are catered for within the “Protektor Guaranteed Option”:

### 3.2.1 Member Characteristics

The Management Board has attempted to define the typical Membership profile as follows:

MEMBER CHARACTERISTICS: PROTEKTOR GUARANTEED OPTION	
<b>Desire to be involved in the investment decision-making</b>	None – happy to leave the investment decision-making to the Board Limited ongoing use of financial planning & investment advisors.
<b>Earnings levels</b>	Low to Medium
<b>Retirement savings outside own home</b>	From none to some
<b>Age</b>	Wide range
<b>Need for inflation-beating investment returns</b>	High
<b>Tolerance of volatility risk</b>	Low. Members prefer a low-risk investment with little likelihood of investment losses and less volatile investment returns than experienced in the market.
<b>Exposure to interest risk<sup>8</sup> on retirement</b>	Moderate to high, with a reasonable chance that a life-guaranteed annuity policy will be selected where the law requires an annuity to be purchased.
<b>Exposure to inflation risk<sup>9</sup></b>	High
<b>Need for capital protection</b>	High
<b>Use of financial planners and consultants</b>	Limited

### 3.2.2 Characteristics of Investment Portfolio(s)

The membership profile as described above suggests that the Investment Portfolios should offer the following characteristics:

<sup>8</sup> Interest risk is the risk that the cost of purchasing a pension rises shortly before a Member's retirement as a result of a drop in long-term interest rates.

<sup>9</sup> Inflation Risk is the risk that over the long term the investment does not outperform inflation to expected levels

Group	PROTEKTOR GUARANTEED OPTION
<b>Features:</b>	Board selected and managed Investment Portfolio Low volatility of returns High level of guarantees High liquidity No choice
<b>Inflation Risk</b>	Should have a reasonable exposure to assets that are expected to outperform inflation except in the period immediately before retirement.
<b>Age</b>	Wide range

### 3.3 SELECTION OF AN APPROPRIATE INVESTMENT PORTFOLIO

#### 1. **Protector Guaranteed Option** *(only one smoothed bonus Investment Portfolio with a high level of guarantee)*

After considering the membership profile as set out above, the Management Board has determined that while Members may range across income groups, they are likely not to be financially sophisticated, are likely to be risk averse, and to welcome the low volatility of returns and high level of guarantees provided by a smoothed bonus product.

The investment structure utilised for the membership of the Protector Funds should have the following features:

- Members will not be granted a choice of Investment Portfolio.
- Only one Investment Portfolio (i.e. a single default Investment Portfolio) will be offered. A life-stage investment approach is not considered appropriate because the Management Board has no knowledge of when a Member will elect to take a cash withdrawal or retire from the Fund (and a life-stage investment approach could result in an inappropriately long period invested in a lower-return/lower-volatility investment portfolio).
- The underlying portfolio should be a moderate-risk portfolio which aims at returns of the order of CPI plus 4.5% to 6.5% over the long term (after capital charges but before investment management fees).
- There must be a high level of guarantee. The Management Board has determined that a guarantee that capital values will not fall by more than 20% will satisfy this concern.
- The Investment Portfolio should utilise smoothing to protect Members against volatility, because a Member may require their benefit to be paid out at any point in time. As such, the portfolio will be constructed as a policy of insurance.
- The Investment Portfolio must satisfy any criteria specified by the Financial Services Conduct Authority in respect of a smooth bonus Investment Portfolio utilised as a default investment in terms of Regulation 37;
- The Investment Portfolio must be managed according to principles that are transparent, including, inter alia, the method of smoothing;
- The asset management fees should be institutional fees and not retail based fees;

- The Insurer must be adequately capitalised, with capital levels materially exceeding the statutory capital requirements;
- The Insurer must report at least annually on the level or range of the bonus stabilisation reserve; and
- The product design should be such that the smoothed bonus Investment Portfolio would be expected to deliver returns equal to the full earnings on the underlying assets over the long-term (before considering management fees and guarantee charges)

The Old Mutual Absolute Stable Growth Portfolio has been selected by the Management Board in consultation with the Sponsor (taking cognisance of the Governance Agreement).

## 4 DEFAULT INVESTMENT PORTFOLIOS

### 4.1 OVERVIEW OF DEFAULTS

Regulation 37 of the Pension Funds Act requires the Funds' IPS to include provision of one or more Default Investment Portfolios. A "default investment portfolio" is defined as:

*"an investment portfolio(s) in which the retirement funding contributions of a Member must be invested unless the fund has been instructed by the Member in writing to invest them in another investment portfolio provided in terms of the investment policy statement of the fund or options available to members of the fund, and which portfolio(s):*

*a) complies with the requirements set out in Regulation 37;*

*b) may differ in composition from Member to Member depending on:*

*(i) the age or likely date of retirement from service of each member;*

*(ii) the value of the retirement savings of the Member in that fund,*

*(iii) the actual or expected retirement funding contributions of the member; or*

*(iv) any other factor reasonably considered by the board to be appropriate in respect of that member; and*

*c) complies with any conditions that may be prescribed."*

Regulation 37 does not apply to Pension and Provident Preservation Funds; however, in the spirit of the Act, the information that follows reflects the compliance of the Old Mutual Absolute Stable Growth Portfolio.

### 4.2 DEFAULT STRUCTURE AND COMPLIANCE

This sub-section address the compliance of the Funds' default investment approach with the specific provisions of Regulation 37(2) and Conduct Standard 5 of 2020.

#### 4.2.1 Compliance with Conduct Standard 5 of 2020

Conduct Standard 5 of 2020 sets out conditions with which a smoothed bonus policy must comply to be utilised as a Default Investment Portfolio. The Management Board is satisfied that the smoothed bonus Investment Portfolio utilised by the Funds (whether as a default or otherwise) is compliant with the relevant criteria.

<b><u>DEFAULT REGULATION</u></b>	<b>PROTEKTOR GUARANTEED OPTION</b>
<p><i>"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –</i></p> <p><i><u>Default investment portfolio(s) are appropriate for the members who will automatically enrolled into them:</u></i></p> <p><i>(a) The design of the default investment portfolio, including its</i></p> <ol style="list-style-type: none"><li><i>I. Objective;</i></li><li><i>II. Underlying asset allocation;</i></li><li><i>III. Fees and charges; and</i></li></ol>	<p>The analysis of the needs and characteristics of Members is set out in Section 4. Regarding the default used:</p> <ul style="list-style-type: none"><li>• The Investment Portfolio objectives are carefully considered for different categories of Members.</li></ul>

<b><u>DEFAULT REGULATION</u></b> <i>"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –</i>	<b>PROTEKTOR GUARANTEED OPTION</b>
<p><i>IV. The expected risks and returns to which it exposes members whose retirement savings in that fund are or will be invested in the default investment portfolio, is appropriate to that category of members whose retirement funding contribution and retirement savings are or will be invested in the default investment portfolio(s);</i></p>	<ul style="list-style-type: none"> <li>• The underlying asset allocation is specified in the mandate by the Investment Provider (subject to Regulation 28). The Management Board has carefully selected the Portfolio which has a mandate appropriate for the needs of the Members.</li> <li>• Fees and charges are monitored closely by the Management Board for reasonability and competitiveness, and disclosed regularly.</li> <li>• Risk and return expectations are considered at the time of determining portfolio objectives and assessed on an ongoing basis.</li> </ul>
<p><i><u>The composition of assets and performance of the default investment portfolio are adequately communicated to members</u></i>            (b) <i>The composition of assets and performance of the default investment portfolio(s), and fund returns are communicated to members on a frequency and format which may be prescribed;</i></p>	<ul style="list-style-type: none"> <li>• Investment returns and asset allocations are set out in the Investment Portfolio fact sheet which is published monthly on the Protektor website and can be sent to a Member upon request.</li> </ul>
<p><i><u>Default investment portfolios are reasonably priced and competitive</u></i>            (c) <i>The fees and charges in respect of the default investment portfolio(s) or the assets held in respect of the default investment portfolio(s) are reasonable and competitive, taking account of the size, asset allocation and other characteristics of the fund;</i></p>	<ul style="list-style-type: none"> <li>• Investment fees and charges are negotiated based on the large pool of assets in respect of Protektor, enabling lower costs than what would be paid if negotiated individually.</li> <li>• The Management Board reviews the fees and charges regularly to ensure competitiveness.</li> </ul>
<p><i><u>All fees and charges are disclosed</u></i>            (d) <i>All fees and charges, whether borne directly or indirectly by the fund, implicit or explicit, are disclosed on a regular basis to boards and the relevant information is appropriately disclosed to members, in a clear and understandable language, and in formats which may be prescribed;</i></p>	<ul style="list-style-type: none"> <li>• Fees and charges are disclosed to the Management Board on an ongoing basis and reviewed annually.</li> <li>• A detailed fund fact sheet is disclosed on the Protektor website and also available upon request and reviewed on an ongoing basis.</li> <li>• Funds fact sheets are required to include the Total Expense Ratio and Transaction Costs, which sum to the Total Investment Charges.</li> </ul>
<p><i><u>Both passive and active investment must be considered as investment options</u></i>            (e) <i>It considers both passive and active investment strategies as part of the default investment portfolio;</i></p>	<ul style="list-style-type: none"> <li>• Both index-tracking and active investment management styles are incorporated within the available Default Investment Portfolio.</li> </ul>
<p><i><u>No loyalty bonuses or other complex fee structures</u></i>            (f) <i>No fees or charges deducted from or amounts credited to members' retirement savings or retirement funding contributions or otherwise</i></p>	<ul style="list-style-type: none"> <li>• There are no loyalty bonuses associated with the default Investment Portfolio.</li> </ul>

<p><b><u>DEFAULT REGULATION</u></b></p> <p><i>"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –</i></p>	<p><b>PROTEKTOR GUARANTEED OPTION</b></p>
<p><i>paid to members by any service provider in respect of the default investment portfolio may depend on the length of time that an individual has been a Member of the fund, the number of contributions made by the Member or any similar measure;</i></p>	
<p><u>Members are not locked into the default investment portfolio</u></p> <p><i>(g) Where Member investment choice is provided in the rules, members may, at least once every twelve months, instruct the fund to transfer their retirement savings from the default investment portfolio into any other investment portfolios offered in terms of the investment policy statement, in respect of which transfer the fund may deduct reasonable administration costs;</i></p>	<ul style="list-style-type: none"> <li>• The Protektor Guaranteed Option does not provide Member investment choice.</li> <li>•</li> </ul>
<p><u>The default investment portfolio is reviewed</u></p> <p><i>(h) It reviews the default investment portfolio(s) on a regular basis to ensure that it continues to comply with this regulation;</i></p>	<ul style="list-style-type: none"> <li>• The Management Board reviews the investment strategy and Default Investment Portfolio continually, and formally reviews the IPS on an annual basis.</li> </ul>

## 5 TECHNICAL MATTERS

### 5.1 CRITERIA FOR ASSESSING INVESTMENT PORTFOLIOS

The due diligence process and regular review of Investment Portfolios shall include an assessment of each Investment Provider's policies, processes and controls to ensure appropriateness of such Investment Portfolio, and that the Investment Provider is able to implement the principles and limits set out in Regulation 28.

The following criteria shall be utilised to assess Investment Portfolios.

#### 5.1.1 Investment Provider requirements:

1. The Investment Provider must be registered with the Financial Sector Conduct Authority (for South African Investment Providers).
2. The Investment Provider must have a clearly defined investment philosophy and must have an established track record of applying this philosophy successfully.
3. The Investment Provider must be a UNPRI signatory and/or must have adopted the principles and practices set out in CRISA 2 (the Code for Responsible Investing in South Africa), and must provide appropriate information to the Funds regarding how their approach to responsible investment is applied.
4. The Investment Provider must have a well-defined investment process off which the investment decisions are made.
5. The Investment Provider must have a sound business and remuneration structure that allows it to attract and retain suitably qualified investment professionals.
6. There must be clear alignment between the interests of the Funds and the interests of the Investment Provider in respect of the Investment Portfolio in question.
7. The Investment Provider must maintain a high standard of ethics.
8. The Investment Provider and anyone to whom the Investment Provider delegates part of the investment function must have adequate systems and controls.
9. The Investment Provider must be prepared to enter into a contract or policy and service level agreement which will enable the Funds to meet commitments to Members.
10. The unit price mechanism required by the Funds' administration platform must be supported by the Investment Provider (or outsourced to an investment platform).
11. The Administrator and the Funds must be satisfied with the information flow to and from the Investment Provider. This includes sufficient information to enable the correct calculation of any fees and assignment to Members.
12. Where the Investment Provider subcontracts any part of the investment management to third parties, these parties must be identified and must be given mandates which are consistent with the overall strategy of the Investment Portfolio.
13. The Investment Provider must manage sufficient assets so as to have, in the opinion of the Management Board, a business that is sustainable relative to the investment universe.
14. The Investment Provider must have appropriate fidelity cover in place.
15. The Investment Provider must inform the Management Board about any change of investment strategy or significant changes in the team making the investment decisions.

16. The Investment Provider must present to the Management Board or its Investment Sub-Committee on issues including but not limited to, portfolio performance, responsible investing and Broad-based Black Economic Empowerment, should they so request a presentation.

### **5.1.2 Investment Portfolio requirements:**

1. The Investment Portfolio must have an investment strategy which:
  - Sets out the objective of the Investment Portfolio and the approach towards risk that will be adopted by the Investment Provider.
  - Describes the asset classes within which the Investment Portfolio may be invested, and any maxima set on the investment in the asset class by the Investment Provider.
  - Describes the Investment Portfolio's approach to responsible investment, sustainability and active ownership.
  - Limits the use of derivative instruments to the management of risk in the Investment Portfolio – in particular, no position may be taken using derivative instruments if the Investment Portfolio doesn't hold an asset similar to the investment underlying the derivative.
  - Limits investment in any single investment to an appropriate proportion of the fair value of the assets of the Investment Portfolio in line with the requirements of Regulation 28. (Where asset-class-specific portfolios are combined by a Sub-Fund Investment Consultant and the combined entity is Regulation 28 compliant, this requirement will be applied to the combined entity rather than the asset-class specific portfolios.)
  - Has an appropriate benchmark or return objective. The performance of the Investment Portfolio will be measured against such benchmark or objective. The objective should increase as the volatility increase.
2. The Investment Portfolio must be of a meaningful size. The Investment Portfolio must be big enough in terms of cash flow that there must be no liquidity problems (or alternatively, the Insurer must be able to cover any payments of benefits required).
3. Charges must be competitive.
4. The Investment Provider must disclose fully any amounts to be charged to the Investment Portfolio including performance fees, fees, soft-dollar arrangements, use of in-house brokers, and other related issues.
5. The Investment Portfolio's performance track record (or, in exceptional circumstances, a proxy or back-tested track record) must be acceptable over a period determined by the Management Board.
6. The communication material prepared for the Investment Portfolio must set out the investment strategy, historic investment performance and investment fees clearly in a language that Members can be expected to understand.
7. The Investment Portfolio must comply with Regulation 28 of the Pension Funds Act in its own capacity, and must comply with all of the asset limits and aggregate exposures set out in Regulation 28(3).
8. The relevant Investment Provider or investment platform must confirm at least annually that the product is compliant with Regulation 28 and provide the requisite reporting as the Management Board may require to demonstrate compliance to the regulatory

authorities. Where breaches of Regulation 28 occurred during the quarter for reasons other than market movements, the Investment Provider or investment platform must inform the Management Board of the actions taken to remedy the breach.

9. There must be no form of penalty if disinvestment occurs because of Member benefit payments (noting that there may be pay-out conditions imposed by the Investment Provider on partial or full termination), or if disinvestment occurs because the contract is terminated at the request of the Investment Provider in circumstances other than material non-compliance by the Funds with the terms of that contract.
10. The Investment Portfolio must comply with the requirements of FSCA Conduct Standard 1 of 2023 (RF) regarding derivatives.
11. Any terms and conditions relating to disinvestment by the Funds in respect of a Member must be transparent in terms of any marketing literature or communication provided to Members.
12. Termination conditions must be explicit and regarded as fair.
13. Where the Investment Portfolio considered is a smooth bonus product:
  - The Insurer must be adequately capitalised, with capital levels materially exceeding the statutory capital requirements.
  - The Investment Portfolio must comply with the criteria of Conduct Standard 5 of 2020 (regardless of whether it used as a Default Investment Portfolio or not), unless there is a compelling reason to waive this requirement.
  - The smooth bonus product must be managed according to principles that are transparent, including the method of smoothing.
  - The Insurer must report at least annually on the level or range of the bonus stabilisation reserve.

## **5.2 INVESTMENT PORTFOLIO CHANGES**

### **5.2.1 Where a Protektor Investment Portfolio is closed or replaced**

The Management Board may decide to close or replace an Investment Portfolio from time to time, in accordance with the Rules.

Where an Investment Portfolio is closed or replaced, the Management Board will consider the following factors (amongst others) when identifying a replacement Investment Portfolio:

- An Investment Portfolio which preserves capital (in nominal terms); or
- An Investment Portfolio, which the Management Board considers a good match for the Investment Portfolio to be closed.

The Management Board will consider the following factors when identifying an Investment Portfolio which provides a good match:

- The investment approach of the Investment Provider of the Investment Portfolio to be closed (looking at issues such as style and process);
- Categorisation of the Investment Portfolio within this IPS;
- Sustainability, responsible investment and BBBEE factors;
- Expected long-term investment returns;
- Volatility;

- Downside protection;
- Reward for risk; and
- Investment fees.

The Management Board is open to considering motivations from an Investment Provider to replace an existing Investment Portfolio with another Investment Portfolio managed by the same Investment Provider, provided the proposed Investment Portfolio is a good match to the existing Investment Portfolio using the criteria set out in this section.

The existing assets of the Members will be switched from the old Investment Portfolio to the new Investment Portfolio using a strategy considered by the Management Board to be appropriate in terms of market conditions at the time, and which complies with the terms of the contract with the Investment Provider of the old Investment Portfolio.

### **5.2.2 Other changes or switches**

- The Management Board shall have the right to implement any Investment Portfolio change or switch or disinvestment that it considers necessary or appropriate.
- The Management Board shall have the right to alter the underlying investments or change the underlying mandate of an Investment Portfolio as it considers appropriate. Such alteration may include moving any investment from one Investment Portfolio to another Investment Portfolio. Any such alteration shall be subject to the Rules, and take into account any contracts in place in respect of the affected Investment Portfolio(s).
- Such change or switch or disinvestment or alteration may be required for the following reasons (but is not limited to these reasons):
  - to effect a transfer of any sort;
  - to effect a transition or any sort;
  - to effect an in-specie transaction of any sort; or
  - to protect the interests of a group or category of Members (without prejudicing any other group or category of Members).
- The change or switch or disinvestment or alteration shall be conducted using a strategy considered by the Management Board to be appropriate in terms of Member circumstances and market conditions and the structure and complexity of the relevant Investment Portfolios, and which complies with the terms of any applicable contracts.
- The Management Board shall have the right to use a transition portfolio and to appoint a transition manager in order to effect a change or switch or disinvestment or alteration, if this is deemed appropriate.
- The Management Board shall have the right to allocate costs related to the change or switch or disinvestment or alteration in the manner which they consider equitable and pragmatic.

## **5.3 UNITISATION OF INVESTMENTS**

### **5.3.1 Unitisation of pooled Investment Portfolios**

Each Investment Portfolio available (other than a smoothed bonus Investment Portfolio) will be unitised on the basis described here, as required by the Funds' administration system.

- Any amount invested in a Unitised Investment, purchases a number of units at the purchase price per unit, as determined by the Investment Provider, coincident with or next following the date of the investment; provided that an amount which is invested in a Unitised Investment at a date other than at the date of investment shall accrue interest as earned by the Fund less any expenses from date of receipt by the Funds to the date on which units are purchased.
- The value, at any time, of the portion of an account invested in a Unitised Investment is the number of units held by the account in that Unitised Investment multiplied by the sale price per unit, as determined by the Investment Provider.
- When an amount is to be disinvested from a Unitised Investment, the number of units sold must be the amount to be disinvested divided by the sale price per unit as determined by the Investment Provider.
- The sale price in respect of a unit in a Unitised Investment must be determined by the Investment Provider as the fair value of all the assets held in that Unitised Investment on the date on which the sale of units is fixed by the Investment Provider in terms of the Funds' instruction to dispose of those units (before any disinvestments of units), less any expenses payable (including the expenses involved in the sale of any underlying investments in order to make the payment in respect of any units to be disinvested, any provision for tax where tax is levied on the investments managed by the Investment Provider and the fees to which the Investment Provider is entitled), and thereafter divided by the number of units in issue, including the number to be disinvested at that date.
- For the purposes of this unitisation process, where the last day of the month is different from the last working day of that month, any reference to the last day of the month means the last business day of the month (i.e. any day other than a Saturday, Sunday or public holiday).
- A certificate issued by the Investment Provider of the value of a unit in a Unitised Investment on any date constitutes prima facie proof of the market value of such unit on that date.
- The unitised return as determined by the Investment Provider will be allocated directly to the Member Accounts invested in Unitised Investments, less investment charges and any other expenses determined by the Investment Provider and/or the Management Board, as the case may be for each Investment Portfolio.
- Where the Investment Portfolio, in which the Member Account is invested, is a Unitised Investment, the value of a Member Account is based on the proceeds that are due when the units in each Investment Portfolio comprising that Member Account is realised or switched.

## **5.4 INVESTMENT PORTFOLIOS USED FOR RESERVE ACCOUNTS**

- Where administrative constraints allow, monies held to back the Fund-level Reserve Accounts of the Funds, other than transactional Reserve Accounts, will be invested in the Coregrowth 100 Investment Portfolio, unless otherwise approved by the Management Board

and the Administrator. This Investment Portfolio provides both a capital guarantee and a reasonable chance of real returns.

- Where administrative constraints do not allow this to be implemented, an appropriate Investment Portfolio of the Administrator's choosing with features similar to those of a bank account will be utilised.

## **5.5 INVESTMENT PORTFOLIOS USED IN SPECIAL CIRCUMSTANCES**

### Period from disinvestment to payment of a benefit:

- The Administrator will retain the relevant moneys in an Investment Portfolio similar in nature to a bank account, where the moneys will earn the corresponding call rate as determined by the Administrator.

### Benefits payable in the event of a Member's death:

- After a Member's death has been advised to the Administrator, the Member Account will remain invested in the Investment Portfolio. Once the benefit has been allocated and payment method confirmed, the amount will be disinvested and invested in an Investment Portfolio similar in nature to a bank account until payment becomes due.

### Benefits payable to former spouses

- Where a divorce court order is received and approved as binding on the Fund, the divorce award shall remain invested in the Investment Portfolio(s) that the Member Account is invested in until the fully completed exit documentation from the ex-spouse is received. At that time the divorce award is disinvested and paid.

### Unclaimed Benefits

- In the event where the Funds are prevented from paying a benefit, if such benefit remains unpaid and becomes classified as an unclaimed benefit after 24 months, it will be transferred to the Unclaimed Benefits Account and invested in Coregrowth 100.

## **5.6 SAFE CUSTODY AGREEMENTS**

The Management Board of the Funds requires that where applicable the Funds shall appoint a banking institution for the safekeeping and handling of securities as well as the financial and administrative services in accordance with the provisions of such agreement.

The Management Board of the Funds requires that the banking institution comply with the following minimum set of requirements and where applicable provide certified copies thereof:

- A mandate must be in place between the banking institution and the Fund;
- The banking institution must provide:
  - Audit reports for the three-year period leading up to the appointment of the banking institution;
  - Proof or Assurance that Disaster Recovery ("DRP") and Business Continuity Plans ("BCP") are in place;

- Confirmation whether the DRP and/or the BCP plan have been evoked over the past three years leading up to the appointment of the banking institution and annual confirmation thereafter. Full details of the incidents must be provided.
- Confirmation of any third-party dependence in terms of functions or systems;
- Confirmation of key staff and staff turnover associated with the banking institution.
- The Management Board must consider, when appointing such a banking institution, the need to promote BBEE.

## **5.7 EXERCISING OF VOTES**

The Investment Sub-Committee must consider all matters where the Funds are offered an opportunity by an entity in which the Funds hold an interest (such as a collective investment scheme), to exercise their right to vote on a resolution or other matter and to determine the Funds' response and must exercise the votes attaching to any Units owned by the Funds, where:

- In the case of a collective investment scheme, there is a merger of collective investment schemes or alteration of the nature of those collective investment schemes, or
- Such exercise may enhance the value of the investment.

## 6 MONITORING AND REPORTING

### 6.1 PERFORMANCE ANALYSIS AND MONITORING

#### 6.1.1 Annual investment review

The Funds' investment consultant shall conduct a detailed annual review of all Investment Portfolios utilised by the Funds. This review shall include:

- Analysis of the appropriateness of the Default Investment Portfolio.
- Analysis of the Investment Portfolios available to Members, considering both qualitative factors (such as historic risk-adjusted performance) and quantitative factors (such as investment philosophy and approach, systems, research, ownership structures, remuneration, and team dynamics).
- Analysis to ensure that the Investment Portfolio continues to comply with the due diligence requirements set out in Section 5.1.
- Analysis of factors such as BBBEE (as per Section 9) and responsible investing and sustainability considerations (as per Section 7).
- Confirmation that the Investment Provider has complied with the investment mandate of the Investment Portfolio across the period since its inclusion or the last review, whichever is the later.

#### 6.1.2 Regular performance monitoring

The Management Board shall, with the assistance of the Funds' investment consultant, monitor the performance of the Investment Portfolio against benchmarks on a quarterly basis.

Two sets of benchmarks will typically be monitored:

- An internal benchmark which will be used for review of the Investment Portfolio by the Investment Sub-Committee, and
- Inflation related return objectives which will be used for communication to Members.

The internal benchmark will be that specified by the Investment Provider in relation to the portfolio. In both cases the benchmark return will be before deduction of investment management fees and any tax payable.

If performance of the Investment Portfolio persistently fails to satisfy the benchmark or objectives established by the Management Board and no satisfactory explanation is provided by the Investment Provider, or the Investment Provider has breached the investment mandate for that Investment Portfolio, or the Investment Provider fails to satisfy the qualifying criteria, or other material concerns are identified, the Management Board will review the continued inclusion of the Investment Portfolio.

#### 6.1.3 Monitoring of responsible investment and sustainability factors

The Funds' approach to analysing and monitoring responsible investment and sustainability factors is set out in Section 7.

## **6.2 REPORTING AND DISCLOSURE**

The Funds will make the following investment communication and reporting material available to Members and other stakeholders via the Protektor website:

- Monthly performance summaries (without benchmarks).
- Quarterly performance summaries (with benchmark comparisons and risk measures).
- Detailed investment fact sheet of the Investment Portfolio on offer including detailed management fee disclosures.
- The Protektor Investment Policy Statement is available to all stakeholders. On an annual basis, the Funds will publish a summary of material amendments to the IPS.
- The Investment Policy Statement includes details regarding the Management Board's approach to issues including BBBEE and sustainability of investments and assets.

In addition, the Funds distribute regular investment communications to Members and other stakeholders via email to update them on topical investment matters.

The Funds shall include details as set out in Guidance Note 1 of 2019 in the annual financial statements regarding the approach to the sustainability of investments and assets and how this is addressed in the IPS.

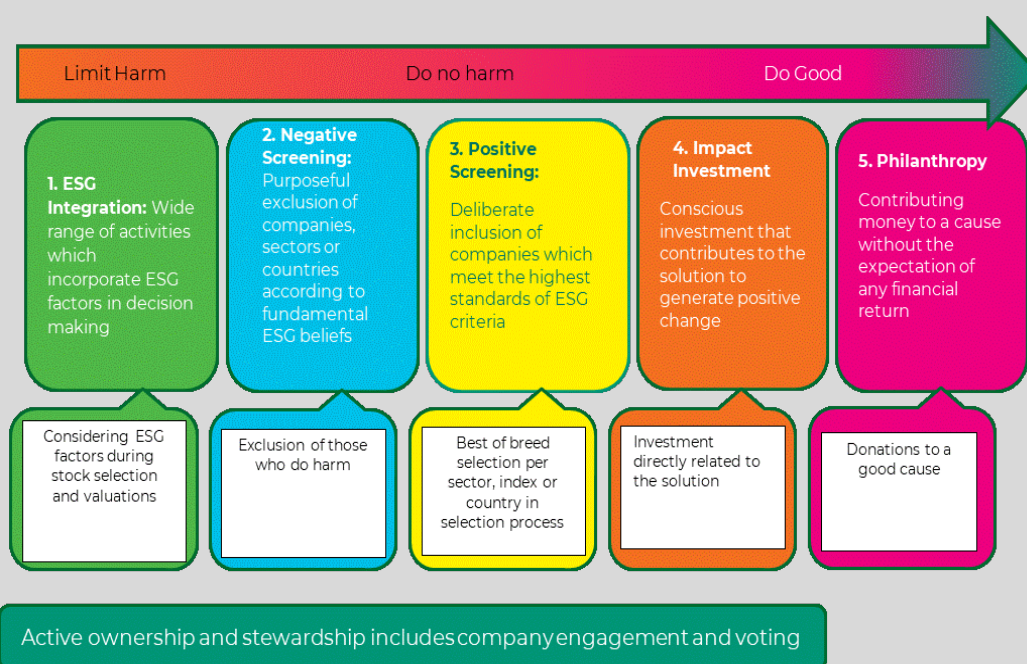
## 7 RESPONSIBLE & SUSTAINABLE INVESTMENT POLICY

### 7.1 DEFINITIONS

This Responsible and Sustainable Investment Policy summarises the Funds' strong commitment to a responsible and sustainable investment approach. It should be read in conjunction with the Funds' investment governance approach, beliefs and objectives (as set out in Section 2 of the Investment Policy Statement) for additional context.

Definitions and explanations of key concepts considered in this Responsible and Sustainable Investment Policy are detailed in the text box below.

**Responsible investment**<sup>10</sup> is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns. Responsible Investment can be achieved through the following investment approaches which range from limiting harm of existing investments to doing good and actively contributing to sustainable solutions.



Source: OMCC Modification of UNPRI on Basic Techniques in Responsible Investment and Bridges Fund Management and Impact Management. Project on *Impact and the SDG's*

- **ESG factors**<sup>11</sup> refers to the environmental, social and corporate governance issues that investors are considering in the context of corporate behaviour. No definitive list of ESG issues exists as this concept continues to evolve and mature. These factors include but not limited to
- **Environmental Factors:** Considers factors which impact the planet such as reducing emissions, waste, water usage, biodiversity considerations, etc.

<sup>10</sup> Definition from [UN Principles of Responsible Investing \(UNPRI\)](#)

<sup>11</sup> Definition from the [Responsible Investment and Ownership Guide](#)

- **Social Factors:** Considers factors which influence society such as labour standards and diversity, community partnerships, worker safety, etc.
- **Governance Factors:** Considers factors which affect the standards of running a company such as board composition, committee structures, bribery and corruption, executive compensation structures, political contributions, etc.

In defining ESG factors, Guidance Note 1 of 2019 highlights that in the South African context, and specifically in respect of assets located in South Africa, these factors include, but are not limited to, the manner in which Broad Based Black Economic Empowerment is advanced.

**Sustainability**<sup>12</sup> refers to the ability of an entity to conduct its business in a manner that primarily meets existing needs without compromising the ability of future generations to meet their needs. Conducting business sustainably includes managing the interaction of the business with the environment, the society and the economy in which it operates towards a better long-term outcome. Evaluating the sustainability of the business of an entity includes the consideration of economic factors and ESG factors. The 'sustainability of an asset' implies the sustainability of the entity giving rise to the underlying value of the asset.

**Sustainable finance**<sup>13</sup> encompasses financial models, services, products, markets and ethical practices to deliver resilience and long-term value in each of the economic, environmental and social aspects and thereby contributing to the delivery of the sustainable development goals and climate resilience. This is achieved when the financial sector:

- Evaluates portfolio as well as transaction-level environmental and social risk exposure and opportunities, using science based methodologies and best practice norms;
- Links these to products, activities and capital allocations;
- Maximises opportunities to mitigate risk and achieve benefits in each of the social and environmental and economic aspects; and
- Contributes to the delivery of the Sustainable Development Goals.

**Sustainable investing**<sup>14</sup> is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact.

**Active ownership**<sup>15</sup> means the prudent fulfilment of responsibilities relating to the ownership of, or an interest in, an asset. These responsibilities include, but are not limited to:

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

<sup>12</sup> Definition from Guidance Note 1 of 2019 issued by the [FSCA](#)

<sup>13</sup> Definition from National Treasury's Draft [Technical Paper on Financing a Sustainable Economy](#), May 2020.

<sup>14</sup> Definition from the [US Forum for Sustainable and Responsible Investment](#)

<sup>15</sup> Definition from Guidance Note 1 of 2019 issued by the [FSCA](#)

**Impact Investment:** means *“investments” made with the intention to generate positive, measurable social and environmental impact alongside a financial return* Global Impact Investing Network (GIIN)

**Infrastructure Investment:** *“...any asset that has or operates with a primary objective of developing, constructing and/or maintaining physical assets and technology structures and systems for the provision of utilities, services or facilities for the economy, businesses, or the public;”.* (Regulation 28 of the Pension Funds Act)

## 7.2 PROTEKTOR STRONGLY SUPPORTS RESPONSIBLE INVESTMENT

The Management Board strongly supports the position reflected in Regulation 28, that the Funds have a fiduciary duty to act in the best interest of their Members, whose benefits depend on the responsible management of Fund Assets. This fiduciary duty supports the adoption of a sustainable and responsible investment approach to deploying capital into markets that will earn adequate risk adjusted returns suitable for the Funds' specific member profile, liquidity needs and liabilities.

The Funds believe that all responsible investment approaches can drive positive change and therefore do not prescribe the approach followed by the underlying asset managers. The Funds aim to understand, through research and engagement, the rationale for the approach, how it fits with existing strategy and is implemented through investment processes. The Funds do, however, expect managers to consider the responsible investment approaches available and be active stewards of the assets they manage through active engagement and considered proxy voting.

The Management Board affirms that prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of the Funds' assets, including factors of an environmental, social and governance character. This concept applies across all assets and categories of assets and should promote the interests of the Funds in a stable and transparent environment.

The Management Board has sought to address the sustainability issues highlighted in Regulation 28, Guidance Note 1 of 2019 and CRISA 2 in this Responsible Investment Policy (which is a sub-section of the Funds' Investment Policy Statement). The Funds' specific approach to BBBEE and transformation (which is an important component of ESG factors in the South African context) is addressed in Section 8 because it is a key consideration in and of itself.

The Management Board supports a responsible investment approach which prioritises the sustainability of assets for the following reasons:

- Incorporating environmental, social and governance factors into investment decisions is expected to enable better management of risk and generate sustainable, long-term investment returns.
- Investment decisions must be taken with due regard for both short- and long-term sustainability risks in the Funds' investment approach.
- The Management Board has a fiduciary duty towards both the Funds and the Members, and must exercise its powers in the best long-term interests of the Funds. Investment decisions must be taken with due regard for both short- and long-term risks. It is therefore imperative

to consider environmental, social and governance factors (including specific factors such as climate risk and transformation) in the Funds' investment approach.

- The Funds represent a wide range of Members across South Africa and beyond. It is therefore appropriate to pursue a positive impact on environmental, societal and governance-related matters in the context in which it operates.
- Old Mutual as Sponsor places a high emphasis on responsible investment, recognising that it has a responsibility to constructively contribute to creating a sustainable and inclusive future for all, without sacrificing return outcomes for its clients.

The Management Board does not place preference over which Responsible Investment Approach is adopted by asset managers, but rather seeks to understand how intentionally responsible investment is integrated within the overall investment philosophy and process and resulting effect it has on the investment portfolios.

The Management Board affirms that responsible and sustainable investment requires a collaborative approach and is committed to working jointly with other stakeholders including Old Mutual as the Funds' Sponsor and other service providers, regulators, investment managers and ultimately the Funds' members and beneficiaries to promote acceptance and implementation of responsible investment, sustainability and sound governance.

### **7.3 FACTORS LIMITING ACTIVE OWNERSHIP PRACTISES**

The Funds use pooled unitised Investment Portfolios, which are either constituted as collective investment schemes or policies of insurance. One characteristic of such structure is that the Fund owns units within the pooled fund as opposed to owning the investments directly in the Funds' name. From an active owner context, proxy voting responsibilities rest with the owner of the pool being the asset manager and not the Fund.

As a result, the Funds have adopted active ownership practises to best suit this feature of the current structure.

The Management Board considers that the robust responsible investing approach adopted by the Funds despite this limitation is able to achieve the key goal of incorporating ESG factors into investment decisions to enable better management of risk and generate sustainable, long-term investment returns.

The Management Board has carefully considered whether the limitation of voting rights introduced by utilising pooled Investment Portfolios is justifiable. The Management Board has concluded that, in light of the approach set out in Section 7.4, appropriately addresses active ownership by the Funds.

## **7.4 PROTEKTOR'S APPROACH TO RESPONSIBLE AND SUSTAINABLE INVESTMENT AND ACTIVE OWNERSHIP**

### **7.4.1 Responsible and sustainable investment approach**

The statements below describe the Funds' responsible and sustainable investment approach in respect of pooled Investment Portfolios and address the implementation of active ownership as delegated to Investment Providers:

- Investment Providers appointed by the Funds are required to adopt the principles and practice recommendations set out in CRISA 2, and/or be signatories to the UNPRI. The Funds seeks to utilise investment providers that operate responsibly and sustainably, and which have fully integrated sustainability and criteria for responsible investment practices in their investment decisions.
- Investment Providers are required to provide the Funds' investment consultant with detailed information about their responsible investment policies and practices<sup>16</sup>, and how these are implemented. This information is analysed and included in scoring when a due diligence is conducted to consider the addition of an Investment Portfolio, and on an annual basis when the Funds conducts its annual investment review. A summary of this analysis is set out in Section 7.3.3.
- The investment mandate for an Investment Portfolio must specify the Investment Portfolios responsible and sustainable investment approach. Where existing mandates do not include such details, the Investment Provider shall be engaged to incorporate this detail in the mandate, or to provide a satisfactory alternative solution.
- Investment Providers must report regarding their approach to climate risk, and how this is accounted for in managing the Investment Portfolio. Investment Providers are encouraged to report in accordance with the Task force on Climate-related Financial Disclosures (TCFD) recommendations and standards set out by the International Sustainability Standards Board (ISSB).
- Investment Providers must report regarding the potential impact of ESG risks and ESG factors on the assets of the Investment Portfolio.
- Investment Providers are required to report back on the implementation of responsible and sustainable investment when they present to the Investment Sub-Committee.
- The Investment Sub-Committee shall engage actively with Investment Providers where concerns are identified regarding their responsible and sustainable investment approach (including their prioritisation of transformation).
  - Non-compliance or matters of concern are tracked by the Funds' investment consultant and reported on to the Investment Sub-Committee.
  - The Investment Sub-Committee shall engage with Investment Providers regarding areas of concern and remedial actions required.
  - If the Investment Provider does not take appropriate action to address concerns within a reasonable period of time, the relevant Investment Portfolio(s) may be removed from the SuperFund offering.
- The Management Board has defined additional requirements in respect of the Protektor Guaranteed Option Investment Portfolio with regard to responsible investment, set out in Section 7.3.4.
- The Funds shall provide all Investment Providers with details of the Funds' views and requirements regarding responsible and sustainable investment, to ensure they are familiar with the Funds' priorities.

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<sup>16</sup> The Funds shall apply an ESG lens when considering the practices of the Investment Provider. In other words, the Funds will assess how the Investment Provider applies environmental, social and governance practices in how they run their own business.

- Where possible, the Funds shall collaborate with industry stakeholders to develop, share and promote best practice, and to engage with business and/or policy makers on strategic (macro) issues.

## **7.4.2 Active ownership approach**

As noted in Section 7.2, the Funds primarily invest in pooled Investment Portfolios and the Funds' active ownership approach is therefore focused on ensuring that Investment Providers in turn apply an active ownership approach in respect of these pooled portfolios through adequate strategic policies, processes and reporting.

There is significant overlap between the Funds' approach to responsible and sustainable investment and its active ownership approach. The points below highlight key actions which are specifically related to active ownership, but these must be read in conjunction with the Funds' overall approach to responsible and sustainable investment.

### Guidelines and requirements

1. The Funds shall provide all Investment Providers with guidelines which set out the Funds' views and requirements regarding active ownership, to ensure they are familiar with the Funds' priorities.
2. Investment Providers are expected to implement active ownership practices in respect of Investment Portfolios utilised by the Funds, in respect of all asset classes.<sup>17</sup>
3. The investment mandate for an Investment Portfolio must specify the Investment Portfolio's active ownership approach. Where existing mandates do not include such detail, the Investment Provider shall be engaged to incorporate this detail in the mandate, or to provide a satisfactory alternative solution.

### Voting and monitoring of stewardship

4. Investment Providers must provide the Funds with their voting policies and annual stewardship reports as well as additional detail regarding the implementation of responsible and sustainable investment in their Investment Portfolios.
5. Stewardship reports and related reporting must set out details of how active ownership has been applied in respect of the Investment Portfolio, and provide details of how votes have been exercised.

### Mechanism of intervention and engagement and means of escalation

6. Investment Providers are required to report back on the implementation of active ownership when they present to the Investment Sub-Committee.
7. The Investment Sub-Committee shall engage actively with Investment Providers where concerns are identified regarding their active ownership approach.
  - Non-compliance or matters of concern are tracked by the Funds' investment consultant and reported on to the Investment Sub-Committee.
  - The Investment Sub-Committee shall engage with Investment Providers regarding areas of concern and remedial actions required.

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<sup>17</sup> The expectation that all Investment Providers utilised by the Funds should apply an active ownership approach in respect of all asset classes is aspirational. The Funds note that this is not the current practice in respect of some Investment Providers.

- If the Investment Provider does not take appropriate action to address concerns within a reasonable period of time, the relevant Investment Portfolio(s) may be removed from the Protektor offering.

### **7.4.3 Monitoring and evaluation**

The Funds analyse and monitor how Investment Providers consider and apply responsible and sustainable investing policies and active ownership as a factor when selecting or reviewing managers.

As a minimum the Funds, with the assistance of its investment consultant, analyses the following factors when conducting a due diligence and on an annual basis, of which some factors are tracked for information and ongoing engagement and others scored:

- Overarching responsible and sustainable investment aspects at Investment Provider level, such as:
  - Is the Investment Provider a signatory to UNPRI and/or CRISA 2?
  - For UNPRI signatories: analysis of PRI ratings.
  - Any other local and international responsible investment or stewardship codes or principles adopted by the firm.
  - Whether the firm has a responsible investment policy, how comprehensive this policy is, and how the Investment Provider is tracking against their stated policies.
  - Whether the firm employs dedicated responsible investment professionals.
  - How employee performance contracts are structured to prioritise responsible investment.
  - Whether the firm has a written proxy voting policy in place, and how comprehensive this policy is.
  - Whether the firm's responsible investment approach encompasses all asset classes, or only a subset.
  - How the firm engages with investees regarding ESG targets and goals.
  - How the firm incorporates responsible investing practices in respect of any index-tracking assets.
- The Investment Provider's approach in respect of climate risk:
  - Whether the Investment Provider supports/implements the Task Force on Climate Related Financial Disclosures (TCFD) or similar disclosures.
  - How the firm integrates climate risk into their investment processes.
  - Whether the firm has a climate risk policy in place.
  - Whether the firm is able to measure the carbon risk of underlying holdings.
- Whether the Investment Provider is able to report on investments using the South African Green Finance Taxonomy.
- The Investment Provider's approach in respect of infrastructure investment, and whether the firm reports on infrastructure allocations.

- The Investment Provider's approach to transformation and ratings in respect of BBEE (described further in Section 8).
- Portfolio-specific factors, such as whether the investment mandate specifies the Investment Portfolio's responsible and sustainable investment approach and active ownership approach.

This evaluation results in a responsible investment score for each Investment Provider and Investment Portfolio. This enables the Management Board to engage directly with Investment Providers to address any ESG and active ownership shortcomings and improve their responsible and sustainable investment commitment in this regard.

#### **7.4.4 Responsible investing in the Protektor Guaranteed Option**

The Old Mutual Absolute Stable Growth Portfolio is the only Investment Portfolio used by the Funds. The Management Board has established additional requirements with regard to active ownership and responsible and sustainable investment (relative to other Investment Portfolios) and monitors the responsible and sustainable investing focus of this Investment Portfolio in greater detail.

One of the reasons that the Default Investment Portfolio was selected from the Absolute Growth Portfolio range is the strong emphasis placed on both Responsible Investing and development investments. This emphasis is implemented by Old Mutual by monitoring the extent to which asset managers invest responsibly and by directly investing in the building blocks of a sustainable economy, such as housing, education and renewable energy.

- The Investment Provider is required to report twice-yearly to the Investment Sub-Committee regarding the implementation of responsible and sustainable investment and active ownership in the Absolute Growth Portfolio.
- The Investment Sub-Committee is developing measurable responsible and sustainable investment and active ownership targets in place in respect of the Investment Portfolio, and will track progress against these targets on a regular basis.
- The mandate of the currently selected Protektor Guaranteed Option Investment portfolio incorporates detailed responsible and sustainable investment requirements in the investment mandate with the Old Mutual Investment Group (OMIG). OMIG gives effect to its responsible investing commitments through a dedicated team, the Sustainability Research and Engagement Unit, which engages with the boutiques within OMIG, as well as executive committees throughout the Old Mutual Group.
- The mandate incorporates impact investing as follows:
  - Investments in bonds include exposure to assets with an infrastructure and developmental theme. These investments offer commercially acceptable returns while having a positive impact on society, the environment and the economy.
  - Investments in alternative assets including:
    - Infrastructure investments in renewable energy; development finance including low-income housing, schools and finance for micro-enterprises; and allocations to natural resources such as agriculture investments in leased farmland to unlock value.

- The IDEAS Managed Fund (South Africa's largest domestic infrastructure equity fund), which invests in economic infrastructure, social infrastructure and renewable energy.
- Old Mutual Limited (OML) is a member of the UN-convened Net Zero Asset Owner Alliance and Old Mutual Investment Group is a member of the Net Zero Asset Managers Initiative.

#### **7.4.5 Support for responsible and sustainable investment codes**

The Funds fully support the principles set out in King IV Report on Corporate Governance Supplement for Retirement Funds.

The Funds have adopted CRISA 2, launched by the CRISA Committee in September 2022. CRISA 2 contains five voluntary principles for stewardship and responsible investment as a key component of the South African governance framework.

The principles of CRISA 2 are capable of flexible application on a proportionate basis by asset owners, asset managers and service provider organisations within the investment value chain.

The Funds will strive to adopt the specified practises to the best of their ability, and to adopt a tailored approach suitable for the Funds' needs. The Funds will implement these principles incrementally as they gain experience in their application.

### **7.5 DISCLOSURE REGARDING RESPONSIBLE INVESTMENT**

The Funds shall disclose the approach towards responsible investment and sustainability as follows:

- By making the Funds' Investment Policy Statement and Responsible Investment Policy available to all stakeholders on the Funds' website, and regularly informing all stakeholders of its availability and material changes thereto.
- By reporting on compliance with Guidance Note 1 of 2019 in the Funds' Annual Financial Statements.

## 8 INFRASTRUCTURE AND IMPACT IN INVESTMENTS

The Funds support the drive by National Treasury to promote the use of **infrastructure** investments in retirement funds as *infrastructure investment is known to drive measurable positive impact on the economic and social growth of a country while adding diversification to portfolios and producing inflation-beating returns*. The Fund however acknowledges that the definition of infrastructure is broad, and interpretation is varied.

As one of the fundamental objectives for infrastructure is to provide a positive impact for the economy and society, the Funds believe that such infrastructure investment should also be intentional and viewed as impact investments.

**Impact** Investments is defined by the *Global Impact Investing Network (GIIN)*, as “...investments made with the intention to generate positive measurable social and environmental impact alongside financial return.” In addition, the GIIN cite four core characteristics being:

1. **Intentionality:** Investments are intentionally directed toward positive impact;
2. **Return expectations:** Investors seek financial returns while driving meaningful change;
3. **Range of return expectations and asset classes:** Impact investments can span various asset classes and can offer a diverse range of returns; and
4. **Impact measurement:** rigorous assessment of social and environmental progress ensures transparency and accountability.

While listed investments often fulfil the first three requirements their operations are generally diverse, therefore accurately measuring the social and environmental impact resulting from infrastructure investing is currently easier to measure with unlisted investments with singular operations.

As the Funds are currently invested via a pooled, Regulation 28 compliant portfolio, the Management Boards shall continue to:

- Develop understanding of infrastructure investing;
- Stay abreast of the investment manager’s view and approach to infrastructure investing; and
- Where appropriate to engage with asset managers on issues related to infrastructure investment; and
- Where appropriate to encourage asset managers to invest in appropriate infrastructure investments.

The current Old Mutual Absolute Stable Growth Portfolio maintains a strategic weighting of 10% allocation to unlisted impact investments.

## 9 TRANSFORMATION AND BBBEE IN INVESTMENTS

### 9.1 PROTEKTOR STRONGLY SUPPORTS BBBEE

Regulation 28 requires that when contracting services, the Management Board should consider the need to promote BBBEE of those providing services. In defining ESG factors, Guidance Note 1 of 2019 highlights that “*in the South African context, and specifically in respect of assets located in South Africa, these factors include, but are not limited to, the manner in which broad based black economic empowerment is advanced*”.

The Management Board strongly affirms the importance of promoting and integrating BBBEE into its investment approach. Although it is noted that BBBEE is a component of the ESG factors addressed in the Funds’ Responsible Investment Policy, the Funds’ specific approach to BBBEE is addressed separately in this section because it is a key issue in and of itself. **The transformation approach set out here in respect of investments must be considered in the context of the Fund’s overarching transformation approach.**

The Funds take into account principles of BBBEE into account when outsourcing services to service providers, including investment managers. In situations where services are outsourced from parties that do not satisfy BBBEE principles, the Funds shall engage with the service provider in question to reach a satisfactory outcome, taking into account the contractual relationship between the Funds and the service provider.

### 9.2 PROTEKTOR’S APPROACH TO BBBEE IN INVESTMENT

#### 9.2.1 Regulatory framework

The Broad-Based Economic Empowerment Act of 2003 provides a legal framework and road map on how empowerment should be constructed. Schedule 1 to the Amended Financial Sector Code (2017) sets out the “*Voluntary Dispensation for Top 100 Retirement Funds including Umbrella Funds*”. It notes that many aspects of South Africa’s BBBEE dispensation are not relevant to retirement funds, but that funds nonetheless play a critical role in the South African economy by virtue of the quantum of members’ savings. Retirement funds also have a critical role to play in the transformation of the financial sector itself, largely by virtue of the appointment of private sector service providers.

The current applicable (voluntary) scorecard in respect of preferential procurement is structured as follows:

PREFERENTIAL PROCUREMENT SCORECARD	Points	Target (2021+)
BBBEE procurement spend from <b>all empowering suppliers</b> based on the BBBEE procurement recognition levels as a percentage of total measured procurement spend	35	80%
BBBEE procurement spend from <b>empowering suppliers who are QSEs or EMEs<sup>18</sup></b> based on the applicable BBBEE procurement recognition levels as a percentage of total measured procurement spend	10	25%

<sup>18</sup> Qualifying Small Enterprises or Exempted Micro Enterprises

<b>PREFERENTIAL PROCUREMENT SCORECARD</b>	<b>Points</b>	<b>Target (2021+)</b>
BBBEE procurement spend from empowering suppliers that <b>are at least 51% Black owned</b> based on the applicable BBBEE procurement recognition levels as a percentage of total measured procurement spend	25	25%
BBBEE procurement spend from empowering suppliers that <b>are at least 30% Black women owned</b> based on the applicable BBBEE procurement recognition levels as a percentage of total measured procurement spend	10	12.5%

In light of this scorecard, the Funds take cognisance of the following transformation elements when assessing both incumbent and potential investment service providers:

- Overall BBBEE score;
- Whether the service provider is a QSE or EME;
- The percentage Black ownership of the service provider; and
- The percentage Black women ownership of the service provider.

However, **the Funds also consider a wide range of other factors in respect of the transformation approach** of the service provider, as described in the sections which follow.

### **9.2.2 Investment managers**

The Management Board prioritises BBBEE when appointing and reviewing investment providers as follows:

1. Investment providers are required to provide the Funds' investment consultant with detailed information about their implementation of BBBEE and transformation statistics. This information is analysed and included in scoring when a due diligence is conducted to consider the addition of an Investment Portfolio, and on an annual basis when the Funds conducts its annual investment review.
2. Where appropriate the Management Board will look through to the BBBEE credentials of the underlying Investment Managers.
3. Wherever possible the Funds shall seek to offer Investment Portfolios managed by Black-owned investment managers.
4. The Investment manager is required to report on their prioritisation of BBBEE when they present to the Investment Sub-Committee.
5. The Investment Sub-Committee shall engage actively with the investment manager where concerns are identified regarding their BBBEE circumstances (including their prioritisation of transformation). Non-compliance or matters of concern are tracked by the Funds' investment consultant and reported on to the Investment Sub-Committee. If the manager does not take appropriate action to address concerns within a reasonable period of time, the relevant Investment Portfolio may be removed from the Protektor offering.
6. Where possible, the Funds shall seek to collaborate with industry stakeholders to develop, share and promote best practice, and to engage with business and/or policy makers on strategic (macro) issues.

### **9.2.3 Analysis methodology**

The Funds' annual investment review (and due diligence process, where applicable) includes a detailed section setting out the BBBEE status of each investment manager. The Funds conduct detailed surveys to obtain information in respect of all eligible investment managers in the market, to ensure appropriate peer comparisons.

The factors that the Funds pay particular attention to are described below.

#### **A. Empowerment Rating**

The overall empowerment rating of the investment manager provides a good proxy measure of the firm's overarching commitment to transformation and BBBEE. The Funds consider the trend in respect of the empowerment rating over a period of 5 years, to identify progress in respect of transformation over time.

#### **B. Transformation Approach**

The Funds consider the following factors to understand the Investment Providers' transformation approach in more detail. Each Investment Provider is scored in respect of each of these factors, and the overall score is analysed against industry peers using percentile rankings.

- Enterprise development
- Whether the firm has a skills development programme in place, and progress in respect of this programme over time, as well as how many staff have been employed as a result of the firm's skills development program over time, and whether the firm has measurable, time specific goals to increase these levels.
- Incorporation of BBBEE into investment decisions, such as:
  - Does the firm encourage companies it invests in, to set BBBEE targets and goals?
  - Does the stock selection or manager selection process consider the BBBEE level of the company selected?
- The percentage of total brokerage transactions allocated to majority Black-owned brokerage firms.

#### **C. Diversity**

To assess the diversity of an investment manager, the Funds consider the following factors (where each Investment Provider is scored in respect of each of these factors, and the overall score is analysed against industry peers using percentile rankings):

- The percentage Black ownership of the investment manager;
- The percentage Black women ownership of the investment manager;
- The percentage make-up of the investment team who are Black;
- The percentage make-up of the investment team who are women; and
- The percentage make-up of the Board of the investment manager who are Black.

### **9.2.4 Other investment-related service providers**

The Funds shall consider BBBEE factors when reviewing or appointing other investment-related services providers (such as investment consultants and unitisation providers), within the framework of the Funds' procurement policy.

## 9.2.5 Practical challenges

### Industry context

The South African investment management industry is dominated by larger asset managers. The top 10 firms account for 65.4% of total assets under management<sup>19</sup>. While 7 of these 10 largest firms are rated as Level 1 BBBEE providers (and the other three were Level 2 providers)<sup>20</sup>, there is still significant scope for improvements in gender and race diversity in their investment teams, and also for increases in Black and Black Women ownership.

In this competitive industry dominated by large managers, it is difficult for emerging majority Black-owned and Black-managed asset managers to grow market share.

### Protektor-specific challenges

In terms of the preferential procurement scorecard, the Funds are working to increase their procurement spend in respect of suppliers:

- Which are QSEs or EMEs;
- That are at least 51% Black owned; and
- That are at least 30% Black women owned<sup>21</sup>.

However, the Funds experience several practical challenges to achieve this in respect of investment-related procurement.

Within the Protektor investment offering, the majority of Funds' assets are invested in the Old Mutual Absolute Stable Growth portfolio which is managed by Sponsor-affiliated asset managers. Whilst these are managed by Level 1 BBBEE providers, there is still scope for improvement in respect of their transformation approach and diversity (as assessed in terms of the Investment manager section above). Further, there may be scope to increase allocations of the underlying assets within this Investment Portfolio to emerging Black-owned and/or Black-managed asset managers.

## 9.3 DISCLOSURE REGARDING BBBEE

The Funds shall disclose their approach towards BBBEE in respect of investment matters as follows:

- By making the Funds' Responsible Investment Policy and investment related BBBEE policy available to ALL stakeholders on the Funds' website, and regularly informing all stakeholders of this.
- By reporting on the BBBEE status of the Investment Providers and progress in respect of BBBEE factors in the Funds' annual integrated report and/or the Funds' Annual Financial Statements.
- By reporting on compliance with Guidance Note 1 of 2019 in the Funds' Annual Financial Statements.

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<sup>19</sup> In respect of managers participating in the 2021 Alexforbes Manager Watch.

<sup>20</sup> As at 31/12/2021

<sup>21</sup> The Funds already score very highly in terms of overall BBBEE recognition levels.

## 10 ROLES AND RESPONSIBILITIES

The table below summarises the roles and responsibilities of various role-players in the Protektor investment framework.

PARTY	ROLES & RESPONSIBILITIES
<b>Management Board</b>	<ul style="list-style-type: none"> <li>• Establish the Funds' investment strategy and IPS, and review it at least annually.</li> <li>• Consider proposals from Old Mutual as Sponsor in respect of the Funds' investment strategy and structure.</li> <li>• Monitor compliance with the IPS.</li> <li>• Ensure compliance of the Funds' investment strategy and investment offerings with regulatory standards.</li> <li>• Approve the inclusion of Investment Portfolios and Investment Providers in the Fund's investment offering.</li> <li>• Monitor Investment Portfolio and Investment Provider performance against relevant benchmarks and measures.</li> <li>• Delegate powers and functions to the Investment Sub-Committee, including to contract with Investment Providers and other service providers to provide specified services required by the Fund's IPS and approved Sub-Fund Investment Plans.</li> </ul>
<b>Investment Sub-Committee</b>	<ul style="list-style-type: none"> <li>• Continuously develop and optimise the Funds' overarching investment strategy and IPS, and make corresponding recommendations to the Management Board for approval. Such recommendations may include the following:               <ul style="list-style-type: none"> <li>○ Investment beliefs and objectives.</li> <li>○ Characteristics of membership profiles and corresponding investment needs.</li> <li>○ Criteria for Investment Portfolios and Investment Providers.</li> <li>○ Criteria for other investment service providers, such as transition managers, custodians, platform providers and unitisation providers.</li> <li>○ Investment Portfolios to be used in special circumstances.</li> <li>○ Culling of Investment Portfolios, where appropriate.</li> <li>○ Categorisation of Investment Portfolios.</li> <li>○ The Funds' approach to responsible and sustainable investment and the Funds' active ownership approach.</li> <li>○ The Funds' approach to transformation and BBBEE (in collaboration with the Transformation Sub-Committee).</li> <li>○ Proxy voting policies.</li> </ul> </li> </ul>

PARTY	ROLES & RESPONSIBILITIES
	<ul style="list-style-type: none"> <li>• Engage in detail with Old Mutual as Sponsor regarding proposals in respect of the Funds' investment strategy and structure.</li> <li>• Establish parameters for the implementation and monitoring of the Funds' investment strategy.</li> <li>• Monitor and analyse Investment Portfolio and Investment Provider performance (including qualitative factors) against relevant benchmarks and measures.</li> <li>• Monitor and manage ongoing compliance with the investment strategy and IPS.</li> <li>• Monitor and manage ongoing compliance of the Funds' investment strategy and investment offerings with regulatory requirements, including Regulation 28.</li> <li>• Communicate regarding investment performance and other investment matters to Members.</li> <li>• Select and contract with the Funds' investment consultant, and ensure appropriate delivery in respect of such contract.</li> <li>• Contract with Investment Providers in respect of the approved Investment Portfolio, and establish reporting requirements.</li> <li>• Determine the Fund's response and exercise votes where the Funds have a right to vote on a resolution or other matter.</li> <li>• In respect of sustainability, stewardship, responsible investing and transformation: <ul style="list-style-type: none"> <li>○ Continuously develop and optimise the Funds' approach.</li> <li>○ Ensure compliance with regulations and guidance.</li> <li>○ Engage with and respond to industry developments.</li> <li>○ Engage with the Funds' appointed Investment Providers and other investment service providers to encourage continued progress.</li> </ul> </li> <li>• Deal with all operational and procedural matters, including the completion and signing of forms and documentation, to enable the execution of the investment-related decisions of the Sub-Committee and Management Board.</li> </ul>

PARTY	ROLES & RESPONSIBILITIES
<b>Old Mutual (Sponsor)</b>	<ul style="list-style-type: none"> <li>• Conduct necessary research and development in order to make proposals to the Funds with respect to enhancements and changes to the features, benefits and investment structure and strategy of the Funds.</li> <li>• Propose new investment products (in conjunction with the Funds' investment consultant) that may be appropriate for the needs of the Funds.</li> <li>• Develop and maintain communication material for Members and Participating Employers regarding the Funds' investment offerings.</li> <li>• After approval by the Funds, implement contracts with investment service providers.</li> </ul>
<b>Fund's appointed investment consultant</b>	<ul style="list-style-type: none"> <li>• Assist the Funds with the preparation and review of the IPS.</li> <li>• Assist with the regular monitoring of Investment Portfolio performance, and continued compliance of the Investment Providers with the qualifying criteria.</li> <li>• Conduct a detailed annual review of all Investment Portfolios utilised by the Funds.</li> <li>• In respect of potential additions or changes to the Funds' investment offering: Research and analyse Investment Portfolios and Investment Providers in terms of the criteria set out in the IPS, and prepare proposals for the Funds.</li> <li>• Prepare and/or review investment communication and Investment Portfolio reports as required.</li> <li>• Assist the Management Board and Investment Sub-Committee with investment related matters.</li> <li>• Provide support in respect of implementation of contracts with investment service providers.</li> </ul>
<b>Fund's Valuator</b>	<ul style="list-style-type: none"> <li>• Ensure asset allocation is consistent with the liability profile of the Fund.</li> <li>• Review and approve the IPS.</li> </ul>
<b>Investment Providers</b>	<ul style="list-style-type: none"> <li>• Invest the Fund's assets in compliance with legislation, the investment mandate, the contract with the Funds and the requirements of the Funds IPS.</li> <li>• Maintain accurate investment files and records, including custodial services for asset scrip.</li> <li>• Employ sound audit and risk management principles.</li> <li>• Prepare Investment Portfolio performance reports as directed by the Fund.</li> </ul>

PARTY	ROLES & RESPONSIBILITIES
	<ul style="list-style-type: none"> <li>Report back to the Management Board, Investment Sub-Committee and Management Committee as required.</li> </ul>
<b>Administrator</b>	<ul style="list-style-type: none"> <li>Develop and maintain the administration system to provide a robust, flexible and user-friendly interface in respect of the Members</li> </ul>

## 11 SIGNATORIES

This Investment Policy Statement was approved by the Management Board on 11 March 2025, via round- robin.



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N. Nene



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Sponsor



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M. Carswell



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F. Reynolds

This Investment Policy Statement has been approved by the Valuator.



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S. Walker