OLD MUTUAL SUPERFUND PENSION AND PROVIDENT FUNDS

INVESTMENT POLICY STATEMENT

TRUNCATED VERSION – NO ANNEXURES

DATE APPROVED: 15 JUNE 2021

NOTE TO THE READER

This is a truncated version of the approved SuperFund Investment Policy Statement, with the Annexures removed. The full Investment Policy Statement was approved by the Management Board of the Old Mutual SuperFund Pension and Provident Funds on 15 June 2021.

CHANGES TO THE IPS DURING THE 2020/2021 FINANCIAL YEAR

The Investment Policy Statement (IPS) sets out the investment objectives and strategy of the Old Mutual SuperFund Pension and Provident Funds. The Management Board reviews the IPS at least once a year, or more frequently as required. Regular review is necessary within the ever-changing socio-economic and regulatory environment within which Old Mutual SuperFund operates. It enables us to ensure that the SuperFund investment strategy remains relevant and up-to-date.

During the Financial Year ending 30 June 2021, the Management Board conducted two reviews of the IPS, in October 2020 and June 2021. Several changes were made to the IPS during these reviews, which are described below. (Certain sections were rearranged during these reviews. Where reference is made to a particular numbered section, the numbering used is based on the IPS version approved on 15 June 2021).

1. *Changes were made throughout the IPS to simplify wording and improve clarity.*
2. *Section 1.3, which addresses the impact of COVID-19 on Old Mutual SuperFund's investments, was updated in response to the continuously developing effects of the pandemic.*
3. *Section 2 was extensively revised to:*
   - *Simplify details regarding the object and nature of the Funds, in Section 2.1.*
   - *Include new detail regarding the Management Board's investment beliefs, in Section 2.2.*
   - *Simplify and clarify detail regarding the governance of the investment process, as detailed in Section 2.3.*
   - *Consolidate detail regarding the Funds' approach to Regulation 28 asset limits and reporting, in Section 2.4.*
4. *Section 3.3 (SuperFund Investment Options) was changed to reflect the amalgamation of the SuperFund Connect Investment Option into the SuperFund Customised Investment Option.*
5. *Sections 4.2 and 4.3 (which address default investment portfolios) were updated to reflect the default investment strategy in respect of Deferred Retirement members, and to expand on the strategy in respect of Preserver members. Changes were also made to reflect the amalgamation of the SuperFund Connect Investment Option into the SuperFund Customised Investment Option.*
6. *Section 5.1 (Criteria for Assessing Investment Portfolios) was restructured and simplified to better reflect the criteria and assessments used by the Management Board.*
7. *Revisions and additions were made throughout the IPS (and in particular in Section 5.2) to clarify and expand on the powers of the Management Board to make changes and replace investment portfolios.*

8. *Section 5.4 (Investment Portfolios used for Reserve Accounts) was updated to improve alignment with the Management Board's practice notes.*
9. *Section 5.5 (Investment Portfolios used in Special Circumstances) was expanded to address the treatment of Section 37D claims, Section 14 transfers, liquidations and unclaimed benefits.*
10. *Section 5.7 was expanded to address the exercising of votes in respect of segregated investment portfolios within SuperFund Customised.*
11. *The Responsible and Sustainable Investment Policy (Section 7) was extensively revised and expanded. Changes include the following:*

- *Definitions were added to improve clarity and understanding.*
- *The fiduciary duty of the Management Board towards both the Funds and the membership has been detailed.*
- *The Funds' overall approach to responsible and sustainable investment and active ownership has been expanded on.*
- *Extensive changes have been made to respond more directly to the specific requirements of Guidance Note 1 of 2019. This includes additional detail regarding the Funds' active ownership approach, requirements regarding voting, monitoring of stewardship, and mechanisms of intervention, engagement and escalation.*
- *The requirements in respect of directly owned assets (for Customised clients which utilise segregated investment portfolios) have been expanded on.*

12. *The Funds' Transformation and Broad Based Black Economic Empowerment policy (Section 8) will be extensively revised and developed during the coming financial year. This review will be done by the Transformation Sub-Committee in collaboration with the Investment and Actuarial Sub-Committee.*
13. *The Annexures to the IPS are not included in the version distributed to members and published on the web. These Annexures provide additional operational detail regarding SuperFund Easy, SuperFund Choice and SuperFund Customised. Changes to the Annexures include the following:*

- *Detail regarding the default investment portfolios used for Preserver and Deferred Retirement members was added in Annexure 2.*
- *The table considering member characteristics in Annexure 2 was expanded to address the likelihood of a member annuitising at retirement.*
- *Annexure 3 was extensively revised to reflect the amalgamation of SuperFund Connect into SuperFund Customised.*

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1 INTRODUCTION

1.1 CONTEXT

Old Mutual Life Assurance Company (South Africa) Limited ("Old Mutual") has established 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.

The Old Mutual SuperFund Pension and Provident Funds are multi-employer funds in which Participating Employers and their Eligible Employees can participate. Each employer and its employees are linked to a separate sub-fund.

This IPS document applies to the Old Mutual SuperFund Pension and Provident Funds ("the Funds" or "Old Mutual SuperFund").

1.2 INTRODUCTION TO THE SUPERFUND IPS

This Investment Policy Statement sets out the investment objectives and strategy of Old Mutual SuperFund. Old Mutual SuperFund offers a range of Investment Options[1] to Members and Participating Employers. The options span the full spectrum from investment into a board-chosen and board-managed Investment Portfolio where Members have no choice, through to options where Members, the Participating Employer, and/or a mandated Management Committee have a wide degree of choice of Investment Portfolios.

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

This IPS sets out the Funds' overall investment philosophy and objectives. It guides the approval of Investment Portfolios available, in which the various accounts of the Funds can be invested. It

[1] In other SuperFund documentation and marketing material, the term "Investment Package" or "Investment Package Option" is used interchangeably with the term "Investment Option".

prescribes the guidelines, terms, and conditions applying to any right given to a Participating Employer and / or Member to choose an Investment Portfolio or an Investment Option.

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 furthermore gives effect 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.

1.3 COVID-19 IMPACT

The IPS was reviewed in Q2 of 2020 light of the significant investment market falls during March 2020 and the ongoing impact of COVID-19 on the South African and international socio-economic environment. The Management Board considers that the Funds' investment philosophy, objectives and structure remain appropriate.

The COVID-19 pandemic resulted in a significant economic contraction during 2020 (following a period of several years of very low economic growth), and it is anticipated that economic recovery in South Africa may be a protracted process. While investment markets have recovered quickly from market falls in March 2020, it is possible that in the near term the Investment Portfolios utilised by the Funds may not achieve the CPI-related objectives (over relevant terms) that are set out in this IPS. The Management Board will continue to monitor the appropriateness of the CPI-related objectives, taking into account expected long-term investment conditions.

The Management Board will continue to monitor the relevance and accuracy of this IPS as social and economic conditions unfold in light of COVID-19.

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 benefits to Members on retirement or withdrawal;
- to provide benefits to the Dependants and nominees of Members in the event of death of such a Member; and
- to provide a benefit in the event of the Disablement of a Member, where applicable.

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. The Funds are Type A umbrella funds.

The Old Mutual SuperFund Pension Fund is a registered pension fund. At retirement, Members are required to annuitise at least 2/3rds of their Member Account balance, unless their Member Account balance falls below the *de minimis* level of R247,500.

The Old Mutual SuperFund 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[2], and does not apply if the non-vested portion falls below the *de minimis* level of R247,500.

2.2 INVESTMENT BELIEFS, STRATEGY AND OBJECTIVES

2.2.1 Investment Beliefs

2.2.1.1 Investment governance

The Management Board is guided by the following beliefs regarding <u>investment governance</u>:

- 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.
- 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.

[2] The "vested portion" 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).

- The Funds should seek to achieve alignment of interests between Old Mutual SuperFund, our beneficiaries and those acting on our 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.

2.2.1.2 Investment markets, asset allocation and risk management

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

- A typical Member's long-term investment horizon (which includes both the retirement accumulation and decumulation process) 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 our Member's investments.
- Risk is multi-faceted and not fully quantifiable. Investment Managers should 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 with the reality that Members are able to withdraw their benefits on termination of employment (e.g. due to retrenchment or resigning).
- 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/or active tactical asset allocation can add value, after accounting for costs. Nonetheless, a low-cost index-tracking approach can 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. Building partnerships with managers can be a source of value.

2.2.1.3 Responsible and Sustainable investment

The Management Board is guided by the following beliefs regarding responsible and sustainable investment:

- Environmental, social and governance (ESG) factors and sustainability considerations are important within the context of optimising net long-term risk-adjusted returns.
- In the South African context, ESG factors include, but are not limited to, the manner in which transformation and Broad-Based Black Economic Empowerment are advanced.
- 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.

2.2.2 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. Nonetheless, the Management Board is cognisant that many Members may not traverse a uniform accumulation-decumulation path, for the following reasons:

- Contribution rates will depend on the decision by the Participating Employer as well as the 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.
- At retirement, Members may elect to take some or all of their Member Account in cash to the extent permitted. The amount taken in cash will depend on the Fund (i.e. Pension or Provident Fund), the value of the Member Account relative to the *de minimis* level, and the vested portion (in respect of the Provident Fund with effect from March 2021).
- In respect of annuitisation at retirement, Members can select from a range of different investment approaches, such as a conventional Life Annuity (whether level, increasing, inflation-linked or with-profit) or a Living Annuity with various underlying investment options to select from. 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 and Participating Employers.

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

- The Funds shall offer a range of Investment Options to cater for the varying needs of the Funds' diverse range of participating employers and members.
- Recognising that diversification is an effective method of risk mitigation, the Funds shall enable investment in a suitable blend of asset classes, investment styles and Investment Providers.
- The Investment Options and Investment Portfolios made available shall seek to enable the close matching of Members' pre- and post-retirement investment risk profiles.
- The Investment Options made available (with the exception of SuperFund Easy and SuperFund Choice Trustee Choice) shall provide Members with a range of Investment Portfolios from which a selection/choice can be made. The extent of choice shall vary depending on the Investment Option, but in respect of SuperFund Choice shall generally include, where appropriate:
    - A range of different risk profiles.
    - A range of different investment styles and philosophies.
    - Both active management and index tracking options.
- Within certain Investment Options, the Funds shall offer access to both Old Mutual and non-Old Mutual Investment Portfolios. In line with the Governance Agreement, and subject to robust due diligence and governance processes, the Funds will typically select Old Mutual Investment Portfolios as default options if they are competitive and suitable for the needs of the membership and the profile of the liabilities.
- Within SuperFund Easy and SuperFund Choice, and as a general rule within SuperFund Customised[3], the Funds shall utilise only pooled unitised daily-priced Investment Portfolios (either constituted as collective investment schemes or policies of insurance) with appropriate levels of liquidity which allow daily switching. The rationale for this approach is as follows:
    - As a flexible Member investment choice offering, the Funds require daily priced unitised portfolios, high levels of liquidity, the option of daily switching, and detailed investment fact sheets. Pooled portfolios offer these features.
    - Old Mutual SuperFund spans a diverse range of Participating Employers and Members, and therefore needs to cater for a wide range of investment needs and preferences. Utilising pooled portfolios enables the Funds to offer Investment Portfolios spanning a broad range of investment styles and risk-return profiles. If segregated portfolios were used, this range would be too complex for the Management Board to provide proper oversight.

[3] In isolated cases, the Management Board permits very large Participating Employers within SuperFund Customised to use segregated Investment Portfolios where a strong motivation is made by the Management Committee, which must demonstrate robust governance, adequate capacity to manage the structure, and appropriate support from the appointed Investment Consultant.

- The overall cost of offering a wide range of pooled portfolios is expected to be lower than it would be if a similar range of segregated portfolios were used (taking into account all costs, including the expertise, oversight and governance required).
- Subject to following a robust due diligence and governance process, utilising pooled portfolios from well-recognised and reputable Investment Providers increases the marketability of the Funds, enabling increased membership and therefore driving down overall costs per Member.
- Utilising pooled portfolios increases the Funds' ability to access illiquid asset classes, such as alternative investments, 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 and selected other Investment Portfolios.

- The Funds shall seek to utilise Investment Providers which prioritise a responsible and sustainable investment approach, and which prioritise Broad-Based Black Economic Empowerment. The Funds shall regularly and actively engage with Investment Providers to ensure sustainability of assets.[4]
- Every Investment Portfolio[5] utilised must comply individually with the requirements and asset limits set out in Regulation 28 made under the Pension Funds Act.

2.2.3 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 each Investment Portfolio. This is the Funds' primary investment objective.
- To incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.
- To act as active owners of the Funds' assets within the practical constraints experienced in context of the Funds' pooled Investment Portfolios.
- To utilise Default Investment Portfolios which are appropriate for the categories of members invested in such defaults.
- To ensure that the investment structure and the range of Investment Portfolios offered are appropriate for the liabilities and needs of the membership.
- To ensure appropriate investment management costs which are lower than a typical Member would pay if they had to make provision for retirement in their personal capacity.

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[4] The Funds' prioritisation of a responsible and sustainable investment approach is expanded on in the Responsible and Sustainable Investment Policy (Section 7). The Funds' prioritisation of transformation and B-BBBEE is expanded on in Section 8.

[5] Or combination of Investment Portfolios, where applicable

- To ensure that all investments are appropriately overseen and directed by the SuperFund Management Board.

2.3 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:[6]

(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.

[6] Numbering follows that of Regulation 28(2)(c)

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.

2.4 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 interest 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 Management Board has determined that every Investment Portfolio (or combination of Investment Portfolios, where applicable) made available for the investment of a Members' Member Account must be Regulation 28 compliant. The Management Board requires that every Investment Portfolio (or combination of Investment Portfolios, where applicable) 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 or Investment Consultant who manages each Investment Portfolio (or combination of Investment Portfolios, where applicable). Nonetheless, the Management Board recognises that it retains an overarching responsibility to uphold the requirements and principles of Regulation 28.

2.4.1 Regulation 28 compliance by pooled Investment Portfolios

With the exception of a portion of assets in the SuperFund Customised section, the Funds utilise only Regulation 28 compliant pooled products. All Investment Providers managing pooled Investment Portfolios are required to:

- Operate the Investment Portfolios 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 (which are not as a result of a change in the fair value of assets) to SuperFund on a monthly basis.
- Provide certificates of Regulation 28 compliance on request.
- Provide audited certificates of Regulation 28 compliance at their financial year end.
- Stipulate to the extent applicable compliance in accordance with Regulation 28(2)(c)(ix).

Old Mutual SuperFund is only required to report non-compliance for purposes of Regulation 28 on a quarterly basis and where such breach is not as a result of a change in the fair value of assets, unless such breach has been unresolved for 12 months from date of breach. This will be verified and monitored by quarterly certificates provided by the various asset managers.

- In respect of market movement breaches: if a breach is picked up, 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.
- A quarterly summary will be provided to the Management Board which details any breaches as well as the remaining months left for those who need to correct the non-compliance. The affected asset managers will be monitored monthly to confirm if everything is still on track to resolve the breach.

The Funds' annual audit process includes a review that certificates are received from each of the issuing entities as follows (where the confirmation received must be at the end of the respective financial year end and must not exceed 18 months from the year-end of the Funds):

- CIS: A certificate issued by the scheme at the end of the financial year of the Investment Portfolio, confirming that the assets of the scheme relevant to the Funds have complied with the limits as set out in the regulations. The auditor of the scheme must confirm the accuracy of the certificate to the Funds on request.
- Linked Insurance Policies: A certificate issued by the insurer at the end of the financial year of the Investment Portfolio, confirming that the assets held by the insurer in respect of the net liabilities under said policy have complied with the limits as set out in the regulation. The auditor of the insurer must confirm the accuracy of the certificate to the Funds on request.
- Guaranteed Policies: A certificate issued by the statutory actuary of the insurer that the guarantees (full or partial) are consistent with guidance issued by the relevant regulator.

2.4.2 Regulation 28 compliance i.r.o. segregated Investment Portfolios

Where specialised mandates are utilised as part of a Sub-Fund Investment Plan, the Management Committee of the Sub-Fund and its appointed Investment Consultant must undertake to monitor and ensure compliance with Regulation 28 at Sub-Fund and portfolio[7] level. The requirements set out in Section 2.4.1 shall apply, *mutatis mutandis*, to any segregated Investment Portfolio or combination of Investment Portfolios (as applicable).

- Any Investment Portfolio (or combination of Investment Portfolios, as applicable) offered to Members must be administered in such a way as to be compliant with the principles and quantitative measures and aggregate exposures in Regulation 28 in its individual capacity.
- The Sub-Fund Investment Consultant is responsible to ensure compliance of the Investment Portfolio (or combination of Investment Portfolios) to Regulation 28 and forex reporting to the Reserve Bank and provide the reporting requested by the Management Board.

[7] I.e. at the level of each Investment Portfolio or combination of Investment Portfolios that a Member can select.

2.5 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 material change in the applicable tax laws, 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; e.g. 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 OVERVIEW OF THE SUPERFUND INVESTMENT STRUCTURE

3.1 MEMBERSHIP PROFILE

Old Mutual conducts regular research regarding the needs, characteristics and preferences of retirement fund members. Elements of this research are included in the Old Mutual Retirement Monitor. The Management Board utilises this research and conducts further analysis of its own to inform the degree of investment choice offered to Members and Participating Employers, and to better understand Member needs and preferences regarding smoothed bonus and market linked investments.

The Funds' consultants have also derived distributions of earnings level for the Members of the Funds. This distribution shows substantial proportions of the Funds' membership earning at relatively low levels, and then a spread across the income spectrum. The Funds are of the view that risk tolerance is directly correlated to income levels:

- At lower income levels, there is a preference for investment management by trusted professionals, smoothing of investment returns and capital guarantees (often expressed as intolerance of capital losses close to retirement).
- At middle income levels, there is frequently a limited desire to get involved in the investment decision making – this could be expressed either as a preference for a life-stage portfolio of different style or choice from a limited range of Investment Portfolios.
- At higher income levels, where Members have easier access to professional personal financial planners, there is a desire by some Members to be more involved in putting together an appropriate investment mix.

A more detailed analysis of the profile and characteristics and needs of different member groupings is set out in Annexures 1 and 2 in respect of SuperFund Easy and SuperFund Choice; and in the relevant Sub-Fund Investment Plans in respect of SuperFund Customised.

The Management Board is cognisant that the decision at retirement to annuitise (i.e. purchase an annuity with part or all of one's retirement savings) or take a cash lump sum is influenced by:

- whether a Member belongs to the Pension or Provident Fund (because of the different regulatory requirements applicable to the Provident Fund in respect of vested portions); and
- whether a Member's applicable balance[8] at retirement falls above or below the *de minimis* threshold for annuitisation.

Given the changes to annuitisation requirements for Provident Funds which were implemented from March 2021, and given that the Funds do not have knowledge of a Member's other retirement

[8] Or non-vested balance, where applicable

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 SuperFund 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.

3.2 PARTICIPATING EMPLOYER PROFILE

There are more than 5,900[9] Participating Employers in Old Mutual SuperFund, spanning a very wide range of circumstances. Participating Employer schemes vary by the following factors (as well as many other factors):

- Number of employees: *From 5 employees to more than 20,000 employees*
- Value of assets: *From zero to more than R20 billion*
- Contribution rate structure
- Benefit structures and benefits offered
- Geographic location and spread: *From single-location employers to employers with hundreds of branch locations across the country*
- Industry
- Financial literacy of members & ability for members to access a computer or digital interface
- Intermediation
- HR and payroll systems

As a result of this diversity of Employer needs and circumstances (when considered together with the diversity of Member needs and circumstances), SuperFund encompasses several different Investment Options. The range of Investment Options enables Participating Employers (with the assistance of their intermediary, where appropriate) to select the structure which best suits their circumstances and the needs of their Members.

3.3 SUPERFUND INVESTMENT OPTIONS

The overarching SuperFund investment structure is summarised in the table which follows. This provides a summarised definition of the Investment Options made available to Members. Note that in other SuperFund documentation and marketing material, the term “Investment Package” or “Investment Package Option” is used interchangeably with the term “Investment Option”.

The investment structure has developed over time taking into account historic structures, regulatory changes, Sponsor proposals and market needs in respect of the Funds’ very diverse range of Participating Employers and Members. The rationale for the extent of investment choices made available and the applicable Default Investment Portfolios is expanded on in the relevant Annexures of this IPS which address each Investment Option.

[9] As at 30 June 2020

TABLE: OVERVIEW OF INVESTMENT OPTIONS

<table>
<tr><th rowspan="2">INVESTMENT OPTION[10] →</th><th rowspan="2">SUPERFUND EASY</th><th colspan="4">SUPERFUND CHOICE</th><th rowspan="2">SUPERFUND CUSTOMISED</th></tr>
<tr><th>TRUSTEE CHOICE</th><th>LIFESTAGE</th><th>STRATEGY</th><th>EXTENDED</th></tr>
<tr><td rowspan="6"><u>Extent of investment choice available</u> (Employer specifies which Investment Options will be available within the given framework)</td><td rowspan="6">Trustee Choice only</td><td>Trustee Choice</td><td></td><td></td><td></td><td rowspan="6">Management Committee (with their investment consultant) designs the structure and selects which Investment Portfolios will be available (subject to certain constraints). Management Board must approve the structure and Investment Portfolios.</td></tr>
<tr><td colspan="2">Trustee Choice + Life-stage</td><td></td><td></td></tr>
<tr><td colspan="3">Trustee Choice + Life-stage + Strategy</td><td></td></tr>
<tr><td colspan="4">All SuperFund Choice Investment Options available</td></tr>
<tr><td colspan="4">Within SuperFund Choice, the Participating Employer’s selection defines the Investment Options applicable to a Member, and whether the Member has any right to move between Investment Options within SuperFund Choice. The Employer can elect to exclude Investment Options with a broader range of investment choice, as depicted above. If the Employer excludes an Investment Option, then active Members will not be able to access it.</td></tr>
<tr><td><u>Trustee Choice:</u>
No investment choices</td><td><u>Lifestage:</u>
Limited choice between life-stage portfolios with different styles:
– Smoothing
– Single Manager
– Multi-Manager
– Index Tracking</td><td><u>Strategy:</u>
Wider choice: A select range of Investment Portfolios from the Old Mutual Group.</td><td><u>Extended:</u>
Widest choice: A range of Investment Portfolios from the Old Mutual Group and other Investment Providers</td></tr>
<tr><td><u>Default portfolio</u> (Employer or Management Committee decision once the Investment</td><td>Trustee Choice default</td><td>Trustee Choice default</td><td>If Life-stage is made available to members. The Employer selects the default from either Trustee</td><td colspan="2">If Strategy and Extended are made available to members. The Employer selects the default from either Trustee Choice or the Life-stage options, or a Shariah default.</td><td>Management Committee (with assistance from their investment consultant) proposes a default or selects the default from a list of Board-approved defaults.</td></tr>
</table>

[10] Note that in other SuperFund documentation and marketing material, the term “Investment Package” or “Investment Package Option” is used interchangeably with the term “Investment Option”

INVESTMENT OPTION[10] →	SUPERFUND EASY	SUPERFUND CHOICE				SUPERFUND CUSTOMISED
		TRUSTEE CHOICE	LIFESTAGE	STRATEGY	EXTENDED	
Option has been selected)			Choice or the Life-stage options, or a Shariah default.			Board reviews and approves the default.
Member and Investment Portfolio characteristics	Detailed in Annexure 1	Detailed in Annexure 2.				Detailed in the Sub-Fund Investment Plan.
Range of options available when Member moves to **Preserver** or **Deferred Retirement**	All SuperFund Choice options					All SuperFund Choice options. On transfer into Preserver or Deferred Retirement, Member remains in original Customised Investment Portfolio(s), but can only select Choice options for subsequent switches.
Default portfolio when Member moves to **Preserver** or **Deferred Retirement**	Same default as applied when Member was active (i.e. Trustee Choice default)	Same default as applied when Member was active (i.e. Trustee Choice or one of the Life-stage options or Shariah)				Member remains in the same Investment Portfolio(s) as before transfer to Preserver or Deferred Retirement. However, if a Member switches out of such Investment Portfolio(s), they cannot switch back in.

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."

A Member's Member Account will be invested in the applicable Default Investment Portfolio from the date of joining the Fund, unless the Member has submitted an active election to invest in different Investment Portfolio(s) (where this is permitted).

Within the context of SuperFund's overall investment structure, the Management Board may utilise different Default Investment Portfolios for different Investment Options. In certain circumstances, the Management Board has given the Participating Employer or Management Committee the ability to select the default for that group of Members from a small range of Management Board-approved Investment Portfolios.[11] In the case of the Customised option, the Management Committee can propose a different default which meets the particular needs of that Sub-Fund, subject to Management Board review and approval.

4.1.1 SUPERFUND EASY

Within SuperFund Easy, the Management Board utilises only the Trustee Choice portfolio as the Default Investment Portfolio. This is a one-size-fits-all default. The underlying Investment Portfolio provides a high growth expectation, smoothed returns and a capital guarantee.

[11] This is permitted in terms of paragraph 4.2(a) of Guidance Note 8/2018.

4.1.2 SUPERFUND CHOICE

Within SuperFund Choice, the Participating Employer is able to select the Default Investment Portfolio structure in respect of their employees from a very limited range of Management Board-specified options. Members who do not make an investment election will be placed in the Employer-selected Default Investment Portfolio. There are only two Investment Options from which the Default Investment Portfolio can be selected:[12]

- Trustee Choice: This is a one-size-fits-all default. The underlying Investment Portfolio provides a high growth expectation, smoothed returns and a capital guarantee. Where the Participating Employer does not wish to make an alternative selection, this is the 'master default' which the Management Board has selected for the Sub-Fund linked to such Participating Employers and their Members.
- Life-stage (if the Life-stage Investment Option is made available to employees): The Life-stage Investment Option includes a small number of smoothed and market-linked life-stage Investment Portfolios which can be selected as the default for a Participating Employer's employees. Members are automatically transitioned from a primarily growth-focused Investment Portfolio to a less volatile Investment Portfolio as they approach retirement.
- Within SuperFund Choice, a Participating Employer cannot select the Default Investment Portfolio from the Strategy or Extended options.[13]

4.1.3 SUPERFUND CUSTOMISED

The SuperFund Customised section provides the investment flexibility required by large or uniquely structured Participating Employers. This has enabled the consolidation of previously stand-alone funds into Old Mutual SuperFund. Participating Employers in this section have additional discretion as to the Default Investment Portfolio utilised for their in-service Members (subject to Management Board oversight).

- In respect of Sub-Funds falling below a given threshold[14] in respect of total assets and/or contributions, a Participating Employer's Management Committee can select from a range of pre-approved Default Investment Portfolios[15], based on analysis conducted by that Sub-Fund's accredited Investment Consultant.
- For very large Sub-Funds, the Management Board enables an accredited Investment Consultant to assist that Participating Employer's Management Committee to motivate its

[12] All of the available options within these two Investment Options are considered by the Management Board as appropriate to be selected as the Default Investment Portfolio by the Participating Employer

[13] Currently, a small number of Participating Employers have been permitted to utilise a Shariah-compliant Investment Portfolio from the Strategy range as the default, where there is a strong motivation that the Sub-Fund's Members favour a Shariah-compliant Investment Portfolio. The Management Board has approved this as the default Investment Portfolio in these isolated cases. It is under consideration to create a Shariah life-stage solution in the future.

[14] The thresholds are set by the Management Board in consultation with the Sponsor, and may vary from time to time. Participating Employers which have begun participation within SuperFund Customised under a particular dispensation may be permitted to continue, even if the threshold changes.

[15] The approved options are set out in Annexure 3**Error! Reference source not found.**.

own Default Investment Portfolio to the Management Board (which the Management Board shall consider and, if appropriate, approve).

4.2 DEFAULT STRUCTURE AND COMPLIANCE

This sub-section addresses 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 all smoothed bonus Investment Portfolios utilised by the Funds (whether as a default or otherwise) are compliant with the relevant criteria.

4.2.2 Compliance with Regulation 37(2)

DEFAULT REGULATION *"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –*	**SUPERFUND EASY / CHOICE / PRESERVER / DEFERRED RETIREMENT**	**SUPERFUND CUSTOMISED**
Default investment portfolio(s) are appropriate for the members who will be automatically enrolled into them: *(a) The design of the default investment portfolio, including its* *I. Objective;* *II. Underlying asset allocation;* *III. Fees and charges; and* *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);*	The analysis of the needs and characteristics of Members in SuperFund Easy and SuperFund Choice (which includes SuperFund Preserver and Deferred Retirement) is set out in Annexures 1 and 2. Regarding the defaults used: • The Investment Portfolio objectives are carefully considered for different categories of Members. • The underlying asset allocation is specified in the mandate by the Investment Provider (subject to Regulation 28). The Management Board carefully selects Portfolios which have a mandate appropriate for the needs of each category of Members. • Fees and charges are monitored closely by the Management Board for reasonability and competitiveness, and disclosed regularly. • Risk and return expectations are considered at the time of determining portfolio objectives and assessed on an ongoing basis.	• The Fund-accredited Investment Consultant assisting the Management Committee of a Participating Employer in SuperFund Customised is required to carefully analyse the needs and characteristics of the active membership of that scheme. • The analysis must consider factors such as the age profile, earnings levels, contribution rates, projected replacement ratios, level of understanding of investment matters, tolerance for volatility and staff turnover rates of that Sub-Fund. • Such analysis is then used to recommend the most appropriate Default Investment Portfolio(s) and overall investment structure and strategy for the in-service Members of that particular Sub-Fund. This recommendation is then set out and clearly motivated in the Sub-Fund Investment Plan. • The Sub-Fund Investment Plan must be reviewed and approved by the Management Committee and then the Management Board before it is implemented, and the Management Board continues to monitor the

DEFAULT REGULATION *"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –*	**SUPERFUND EASY / CHOICE / PRESERVER / DEFERRED RETIREMENT**	**SUPERFUND CUSTOMISED**
		performance and appropriateness of all Investment Portfolios utilised.
The composition of assets and performance of the default investment portfolio are adequately communicated to members (b) *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;*	• Investment returns and asset allocations are set out in the Investment Portfolio fact sheets which are published monthly on the SuperFund website and can be sent to a Member upon request.	• *For Investment Portfolios from the SuperFund Choice Extended range*: Investment returns and asset allocations are set out in the Investment Portfolio fact sheets which are published monthly on the SuperFund website and can be sent to a Member upon request. • *For bespoke Investment Portfolios*: Investment returns and asset allocations are set out in the investment communication which the Sub-Fund investment consultant is required to prepare, for communication to Members.
Default investment portfolios are reasonably priced and competitive (c) *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;*	• Investment fees and charges are negotiated based on the large pool of assets in respect of Old Mutual SuperFund, enabling lower costs than what would be paid if negotiated separately. • The Management Board reviews the fees and charges regularly to ensure competitiveness.	• *For Investment Portfolios from the SuperFund Choice Extended range*: Investment fees and charges are negotiated based on the large pool of assets in respect of Old Mutual SuperFund, enabling lower costs than what would be paid if negotiated separately. The Management Board reviews the fees and charges regularly to ensure competitiveness. • *For bespoke Investment Portfolios*: The Management Board reviews investment fees and charges for all Investment Portfolios (including defaults) offered under

<u>DEFAULT REGULATION</u> *"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –*	**SUPERFUND EASY / CHOICE / PRESERVER / DEFERRED RETIREMENT**	**SUPERFUND CUSTOMISED**
		Customised for reasonability and competitiveness on an annual basis
<u>All fees and charges are disclosed</u> (d) *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;*	• Fees and charges are disclosed to the Management Board on an ongoing basis and reviewed annually. • An Investment Portfolio Fee List is disclosed to Members on the SuperFund website and also available upon request and reviewed on an ongoing basis. • Investment Portfolio fact sheets must include the Total Expense Ratio and Transaction Costs, which sum to the Total Investment Charges.	*For Investment Portfolios from the SuperFund Choice Extended range*: • Fees and charges are disclosed to the Management Board on an ongoing basis and reviewed annually. • An Investment Portfolio Fee List is disclosed to Members on the SuperFund website and also available upon request and reviewed on an ongoing basis. • Investment Portfolio fact sheets must include the Total Expense Ratio and Transaction Costs, which sum to the Total Investment Charges. *For bespoke Investment Portfolios*: • The Sub-Fund's appointed Investment Consultant must provide investment returns and relevant fee disclosures to the Management Committee, which must be communicated to Members. • Where Investment Portfolio fact sheets are prepared, these are required to include the Total Expense Ratio and Transaction Costs, which sum to the Total Investment Charges.

DEFAULT REGULATION *"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –*	**SUPERFUND EASY / CHOICE / PRESERVER / DEFERRED RETIREMENT**	**SUPERFUND CUSTOMISED**
Both passive and active investment must be considered as investment options (e) *It considers both passive and active investment strategies as part of the default investment portfolio;*	The Management Board has included both index-tracking and active investment management styles within the available Default Investment Portfolios: • The Trustee Choice option utilises an index-tracking building block as part of its local equity mandate. • Within the Life-stage option there is a pure Index Tracking strategy which can be selected as a default.	The Sub-Fund Investment Plan must set out details regarding how active and passive investment strategies have been considered, and how the Sub-Fund will implement the agreed-upon approach.
No loyalty bonuses or other complex fee structures (f) *No fees or charges deducted from or amounts credited to members' retirement savings or retirement funding contributions or otherwise 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;*	There are no loyalty bonuses associated with any of the default (or other) Investment Portfolios.	There are no loyalty bonuses associated with any of the default (or other) Investment Portfolios.

DEFAULT REGULATION *"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –*	**SUPERFUND EASY / CHOICE / PRESERVER / DEFERRED RETIREMENT**	**SUPERFUND CUSTOMISED**
Members are not locked into the default investment portfolio (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;*	• For Investment Options which include more than one Investment Portfolio, switching is permitted at any time. • A market value adjustment may apply in certain cases to switches out of smoothed bonus Investment Portfolios, but Members can still switch at any point time. Further, Members have two opportunities a year to switch without any market value adjuster being applied. All smoothed bonus Investment Portfolios used as defaults comply with the requirements of Conduct Standard 5 of 2020.	• Where the Participating Employer allows Member investment choice, switching is permitted at any time. • A market value adjustment may apply in certain cases to switches out of smoothed bonus Investment Portfolios, but Members can still switch at any point time. Further, Members have two opportunities a year to switch without any market value adjuster being applied. All smoothed bonus Investment Portfolios used as defaults comply with the requirements of Conduct Standard 5 of 2020.
The default investment portfolio is reviewed (h) *It reviews the default investment portfolio(s) on a regular basis to ensure that it continues to comply with this regulation;*	The Management Board reviews the investment strategy and Default Investment Portfolios continually, and formally reviews the IPS on an annual basis.	The Management Committee must review the investment strategy and Default Investment Portfolio(s) at least annually, and provide the Management Board with an updated Sub-Fund Investment Plan for approval annually.

4.3 DEFAULT FOR PAID-UP AND DEFERRED RETIREMENT MEMBERS

The Management Board strongly supports the objective of encouraging preservation and portability in a way that does not prejudice the Member, as set out in Regulation 38. SuperFund Preserver is a separate section within SuperFund Choice (a separate scheme as set up on the Funds' administration system) for all paid-up Members. Similarly, SuperFund Deferred Retirement is a separate scheme within SuperFund Choice for all Members who have retired from their employers but do not yet wish to retire from the Fund.

4.3.1 Investment needs of paid-up Members

The Management Board has carefully considered the circumstances and needs of paid-up Members who are transitioned into Preserver. The Management Board believes the following factors make it appropriate to consider paid-up Members as a separate category of Members with unique needs, and influence the Default Investment Portfolio(s) used for paid-up Members.

a. With effect from August 2020, paid-up Members transferring into Preserver will be left unchanged in the Investment Portfolio(s) they were invested in at date of exit from their employer[16]. The Default Investment Portfolio(s) that had previously applied to a Member in their Participating Employer's sub-fund will therefore not be changed as a result of the transition from in-service Member to paid-up Member.

– IMPLICATIONS: There will be a wide range of Default Investment Portfolio(s) applicable to Preserver Members. It is not unreasonable to consider that for the short- to medium-term the 'previous' Default Investment Portfolio(s) (i.e. that which applied while the Member was in-service) may remain appropriate for a paid-up Member. However, each Default Investment Portfolio will need to be regularly reviewed for appropriateness for the paid-up Member's circumstances, as required by Regulation 37(2)(h).

b. Paid-up Members stop making any contributions to their retirement funding within Old Mutual SuperFund. Further, SuperFund no longer has any knowledge of their employment status or their income level.

– IMPLICATIONS: The cessation of contributions and potential lack of information about the paid-up Member means that the Management Board considers it appropriate to utilise an investment approach which can address a very wide range of Member needs and circumstances for paid-up Members.

c. The Funds have no knowledge of the investment term of the paid-up Member. Paid-up Members can take a cash withdrawal benefit or transfer their benefit at any point in time, and can retire at any point from age 55. However, paid-up Members can also leave their paid-up benefit in the Funds for as long as they want to (e.g. into their 70's or longer).

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[16] Prior to August 2020, Preserver members from SuperFund Connect and Customised sub-funds were transferred into AGP Stable as a new Default Investment Portfolio 180 days after exit, if they had not made an alternative active investment selection in their exit form. The Funds received an extension from the Authority in respect of this approach.

– IMPLICATIONS: Where this is not in conflict with other factors, it is preferable for Default Investment Portfolio(s) for paid-up Members to combine low volatility (to allow for the withdrawal/ transfer/ retirement benefit to be paid at any point in time) with high long-term expected real growth (to allow for the fact that the investment term could be 30 or 40 years or even longer).

d. A Member who has 'defaulted' into paid-up status (i.e. they have not completed any exit forms) may not have made use of the retirement benefit counselling service offered by the Funds, and may have a very low awareness and understanding of the Funds and its benefits and options.

– IMPLICATIONS: The Default Investment Portfolio(s) must cater for those Members who may have a low awareness and understanding of investments. This category of Members is very unlikely to match their pre-and post-retirement investment strategy, and therefore the Default Investment Portfolio(s) must provide a good fit for all possible retirement selections (i.e. take cash / purchase a fixed annuity / purchase a with-profits annuity / purchase a living annuity).

e. Paid-up Members have no further relationship with their Participating Employer. This introduces several challenges:

i. Communication with these Members is significantly harder, because the Funds can no longer rely on the employer to provide updated contact details or to provide communication to the Member. If the Member has not completed exit documentation, they have not provided the Funds with updated contact details.

ii. The Participating Employer or Management Committee for a Customised Sub-Fund no longer takes any responsibility for paid-up Members who have left their employment. The Participating Employer, Management Committee and their Investment Consultant have no right to receive any information regarding such paid-up Members. It is therefore difficult for the investment strategy for that particular Sub-Fund to take paid-up Members into account over the long-term.[17]

– IMPLICATIONS: The Default Investment Portfolio(s) utilised for active Members by a particular Customised Sub-Fund may become inappropriate over time for the needs of a paid-up Member.

f. Sub-funds can undergo extensive changes at any point in time.

i. A Participating Employer may at any point in time elect to transfer to an alternative retirement fund or terminate participation in a retirement fund, in which case the Sub-Fund will be liquidated.

ii. The Sub-Fund may at any point in time undergo significant changes (e.g. splitting or partial transfers as a result of Section 197 transfers).

[17] There is an additional layer of oversight applied regarding the default options for in-service members of SuperFund Customised, where the Management Committee together with their appointed accredited investment consultant also monitors the appropriateness of the default Investment Portfolio for that particular group of employees in that Sub-Fund. When a Member from SuperFund Customised becomes paid-up, this additional layer of oversight falls away in respect of that member, and therefore the Management Board is required to increase its oversight applied in respect of the default for these paid-up members.

iii. Within the Customised framework, a Sub-Fund may make changes to their Default Investment Portfolio and investment structure at any point in time (subject to approval by the Management Board).

– IMPLICATIONS: Given how SuperFund is administered, the Management Board is concerned that it is not appropriate to leave a paid-up Member within a particular Sub-Fund, because that Sub-Fund may be liquidated or changed at any point in time.

4.3.2 Default investment approach for paid-up Members

The Management Board has sought to implement consistent principles and a consistent approach when selecting Default Investment Portfolio(s) for every category of Members, including paid-up Members, while taking into account the unique characteristics of each category of Members.

After taking these factors and implications into account, the Management Board has implemented the following approach for paid-up Members:

- Paid-up Members are transferred to the Preserver section of Old Mutual SuperFund, either immediately on completion of the necessary form requesting participation in Preserver, or else 120 days after termination of service with their employer if they have not completed exit documentation within this timeframe.
- To properly account for the tension between the requirements of Regulation 37 and the requirements of Regulation 38(1)(c):
  - The requirements of Regulation 38(1)(c)[18] have the practical implication that paid-up Members transferring into Preserver will be left unchanged in the Investment Portfolio(s) they were invested in at date of exit from their employer.[19] The Default Investment Portfolio(s) that had previously applied to a Member in their Participating Employer's sub-fund will not be changed as a result of the transition from in-service Member to paid-up Member, and investment management fees will remain unchanged.
  - Regulation 37(2)(h) requires that the Default Investment Portfolio(s) must be reviewed on a regular basis to ensure that they continue to comply with all the requirements of Regulation 37. The Management Board will therefore review the Default Investment Portfolio(s) applicable to each Preserver Member at least annually. Where appropriate, a Member may be transferred to a different Default Investment Portfolio if the existing default is no longer appropriate for their circumstances (based on the information available to the Funds). In such circumstances, it is likely that the investment

[18] Regulation 38(1)(c) says that "*Investment fees and charges in respect of the portfolio of retirement savings that is invested in the default investment portfolio may not differ on the basis of whether members are paid-up member or are still in the service of the participating employer*"

[19] This is not the only way to comply with the requirements of Regulation 38(1)(c), but it is considered the most practical and cost-effective way to achieve compliance in light of how the Funds are structured.

management fee will change, since a different Investment Portfolio (with a different mandate and fee structure) will be utilised.

4.3.3 Investment needs of Deferred Retirement Members

The circumstances and needs of Deferred Retirement Members are similar to those of paid-up Members (as set out in Section 4.3.1), but with the following key differences:

- Members must actively select the Deferred Retirement option by completing an application form. There is no automatic transfer into Deferred Retirement. As a result, the Funds typically have more up-to-date contact information for these Members.
- Members can only select Deferred Retirement from age 55 onwards (or in select circumstances, if they are eligible for ill-health early retirement)

4.3.4 Default investment approach for Deferred Retirement Members

After taking these factors and implications into account, the Management Board has implemented the following approach for Deferred Retirement Members:

- Deferred Retirement Members will be left unchanged in the Investment Portfolio(s) they were invested in at date of retirement from their employer. The Default Investment Portfolio(s) that had previously applied to a Member in their Participating Employer's sub-fund will not be changed as a result of the transition from in-service Member to Deferred Retirement Member, and investment management fees will remain unchanged.
- Regulation 37(2)(h) requires that the Default Investment Portfolio(s) must be reviewed on a regular basis to ensure that they continue to comply with all the requirements of Regulation 37. The Management Board will therefore review the Default Investment Portfolio(s) applicable to each Deferred Retirement Member at least annually. Where appropriate, a Member may be transferred to a different Default Investment Portfolio if the existing default is no longer appropriate for their circumstances (based on the information available to the Funds). In such circumstances, it is likely that the investment management fee will change, since a different Investment Portfolio (with a different mandate and fee structure) will be utilised.

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.[20]

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 (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 the best 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.

[20] For Investment Portfolios offered under the SuperFund Customised framework, selected criteria may be adapted to address the particular structure of the Sub-Fund. Where relevant, the criteria may be applied to the combination of Investment Portfolios which is made available to the Member, rather than the building blocks of that combination.

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 or the relevant Management Committee on issues including portfolio performance, responsible investing and Broad-based Black Economic Empowerment, should they so request.

Investment Portfolio requirements

17. Each 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 with regard 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.
    - Where appropriate, states an objective (in line with its approach towards risk and the overall objective of the Investment Portfolio) in terms of the real return to be earned over an appropriate rolling period. The performance of the Investment Portfolio will be measured against such objective. The objective should increase as volatility increases.
18. 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).
19. Charges must be competitive.
20. The Investment Provider must disclose fully any amounts to be charged to the Investment Portfolio including performance fees, fees, softing arrangements, use of in-house brokers, and other related issues.

21. 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.
22. 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.
23. Each Investment Portfolio (or combination of Investment Portfolios) 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).
24. The relevant Investment Provider or investment platform must confirm at least annually that the product is compliant with Regulation 28 and provide the requisite audit certificate (where applicable) and must on a quarterly basis supply such reports 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.
25. 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[21]), 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.
26. 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.
27. Switching and termination conditions must be explicit and regarded as fair.
28. 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 is 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.

Additional criteria in respect of Investment Portfolios utilised within SuperFund Customised are set out in Annexure 3**Error! Reference source not found.**.

[21] Partial termination occurs when a Participating Employer ceases participation.

5.2 INVESTMENT PORTFOLIO CHANGES

5.2.1 Management Board powers to make changes

- The Management Board shall have the right to implement changes to all Investment Options available within Old Mutual SuperFund. The Management Board shall have the right to transition a Sub-Fund from one Investment Option to another Investment Option where it considers it necessary or appropriate (for example, where such change of Investment Option is required to protect the interests of the Members of that Sub-Fund, or where the Management Committee of such Sub-Fund is not functioning in accordance with the requirements of the Rules or this IPS).
- The Management Board shall have the right to implement any Investment Portfolio change or switch or disinvestment or alteration that it considers necessary or appropriate. The right to effect a change or switch or disinvestment or alteration shall apply to all Investment Options.
- The Management Board shall have the right to alter the underlying investments or change the underlying mandate of any 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), and any specific written agreements in place with affected parties (e.g. a Participating Employer).
- A 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 of 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);
- A 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 and/or Sub-Fund 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.

- In the event of a change or switch or disinvestment or alteration of any Investment Option or Investment Portfolio, the Management Board shall not be liable should the changed investment render a lower return than the previous investment.

5.2.2 Factors considered when identifying a replacement Investment Portfolio

The Management Board may decide to close or replace an Investment Portfolio from time to time, in accordance with the Rules and the powers set out in 5.2.1.

Where an Investment Portfolio available under SuperFund Easy or Choice is closed or replaced, the Management Board will typically 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;
    - expected investment risk (e.g. volatility; downside protection; reward for risk); and
    - investment fees.

The existing assets for SuperFund Easy or Choice 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.

The change of Investment Portfolio and reasons therefore will be communicated to affected SuperFund Customised Sub-Funds (i.e. those making use of an Investment Portfolio from the SuperFund Choice range which is due to be changed). Such Sub-Funds will be required to make any change to remain compliant at their next annual review of the Sub-Fund Investment Plan.

5.3 UNITISATION OF INVESTMENTS

5.3.1 Unitisation of pooled Investment Portfolios

Each Investment Portfolio available (other than a smoothed bonus Investment Portfolio or a Cash Investment) is expected to 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 bank interest as earned on the Funds' bank account 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.

5.3.2 Unitisation of segregated Investment Portfolios

- Where the Sub-Fund Management Committee elects (with Management Board approval) to utilise a segregated Investment Portfolio (made up of building blocks which are not each unitised), the Management Board requires the Sub-Fund Management Committee to recommend the appointment of a service provider to administer the underlying Sub-Fund's Investment Portfolios and unitise whatever mix of portfolios is accessed at Member level.

- For example, the Sub-Fund might invest in asset-class specific Portfolios A, B and C at Sub-Fund level, but offer Members a choice between Portfolios X and Y where X is a Portfolio comprising 55% Portfolio A, 35% Portfolio B and 10% Portfolio C and Portfolio Y comprises 45% Portfolio A, 40% Portfolio B and 15% Portfolio C. The Funds then require a daily unit price for Portfolios X and Y. The service provider, selected by the Management Committee but appointed by the Funds, must manage the cash flow going into Portfolios A, B and C and the calculation of Unit prices for Portfolios X and Y.
- The service provider must be a registered company duly incorporated in terms of the law of South Africa which is able to perform the required service, which is licensed to render this service by the Financial Sector Conduct Authority, and which has been approved and appointed by the Funds.
- The Management Board must consider, when appointing such a service provider, the need to promote Broad-Based Black Economic Empowerment.
- The unitisation process must, *mutatis mutandis*, satisfy the requirements for the unitisation of pooled Investment Portfolios as set out above.

5.4 INVESTMENT PORTFOLIOS USED FOR RESERVE ACCOUNTS

- The Fund-level Processing Reserve Account shall be invested in the Coregrowth 100 Investment Portfolio, unless otherwise approved by the Management Board. 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, and in respect of short-term cashflow requirements, the Bank Account and/or Cash Investment will be utilised.
- The Fund-level Expense Reserve Account shall be invested in the Bank Account and/or other Cash Investment.
- Where a Sub-Fund Reserve Account or Employer Surplus Account is operated, the Management Committee or Participating Employer will be responsible to select the Investment Portfolio utilised for investment of the monies of such Sub-Fund Reserve Account. A duly authorised person (i.e. by the Participating Employer or Management Committee) must provide signed confirmation of the selection to the Funds. The Management Committee or Participating Employer can select from any of the Investment Portfolios available for selection by the Members of that Sub-Fund.
- Should the Participating Employer fail to make such an election:
    - Any Sub-Fund Expense Reserve Account shall be invested in the Bank Account and/or other Cash Investment

- Any Participating Employer Surplus Account shall be invested in the Coregrowth 100 Investment Portfolio, unless otherwise approved by the Management Board.

5.5 INVESTMENT PORTFOLIOS USED IN SPECIAL CIRCUMSTANCES

Period from disinvestment to payment of a benefit:

- The Administrator will retain the relevant moneys in a Bank Account or Cash Investment or similar Investment Portfolio (or combination thereof) where the moneys will earn the rate as determined in terms of the Cash Management Policy.

Period from receipt of Section 14 transfer-in amounts until receipt of complete data enables investment:

- In respect of transfer amounts received for Section 14 transfers in, the Administrator cannot allocate amounts to Member Accounts until complete member data has been provided by the transferor fund. The Administrator will invest the relevant moneys in a Bank Account or Cash Investment or similar Investment Portfolio (or combination thereof) where the moneys will earn the rate as determined in terms of the Cash Management Policy.

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 be disinvested from the existing Investment Portfolio(s) and invested in the Coregrowth 100 Investment Portfolio. Once the benefit has been allocated and payment method confirmed, the amount will be disinvested from the Coregrowth 100 product and invested in the Bank Account or Cash Investment 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.

Pension Backed Housing Loans

- The portion of the Member Account backing a housing loan surety may be invested in any Investment Portfolio as selected by the member or Participating Employee.

Section 37D claims

- Where a Participating Employer submits a request for a Section 37D claim that satisfies the Funds’ requirements, and no partial payment to the Member is due, the Member Account shall remain invested in the Investment Portfolio(s) applicable at exit date.

- However, where a partial payment to the Member is due, the entire benefit must be disinvested due to tax requirements, and the balance remaining after the payment is made will remain in the in a Bank Account or Cash Investment until the matter is resolved.

<u>Liquidations</u>

- For all Sub-Fund liquidations, all Member Accounts will be disinvested from the existing Investment Portfolio(s) and invested in the Coregrowth 100 Investment Portfolio.

<u>Unclaimed Benefits</u>

- 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 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 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 provides:
    - 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 Broad-Based Black Economic Empowerment.

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.

Where the Funds hold assets in a segregated Investment Portfolio (i.e. where the Funds are the direct owner of the assets) in respect of a small number of SuperFund Customised Sub-Funds, the Sub-Fund Investment Plan of that Sub-Fund must address the following matters:

- The proxy voting policy in respect of such assets;
- Guidelines to ensure that votes are cast in line with such proxy voting policy; and
- How such votes will be recorded and reported.

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 within SuperFund Easy and SuperFund Choice. This review shall include:

- Analysis of the appropriateness of the Default Investment Portfolios for the applicable Member categories.
- Analysis of all 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 all Investment Portfolios continue to comply with the due diligence requirements set out in Section 5.1.
- Analysis of factors such as transformation and Broad-Based Black Economic Empowerment (Section 8) and responsible investing and sustainability considerations (Section 7).
- Confirmation that Investment Providers have complied with the investment mandates of each Investment Portfolio across the period since its inclusion or the last review, whichever is the later.

The Funds' investment consultant shall also conduct a detailed annual review of all Investment Portfolios utilised by the Funds within SuperFund Customised, based on information provided by the relevant Sub-Fund investment consultants. This review shall include similar analysis to that conducted for SuperFund Easy and Choice, but adapted as appropriate to the circumstances of SuperFund Customised.

6.1.2 Regular performance monitoring

SuperFund Easy and Choice:

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

Two sets of benchmarks will 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 any of the Investment Portfolios 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.

SuperFund Customised:

The appointed Sub-Fund Investment Consultant must provide regular performance reporting relative to benchmarks to the Management Committee and the Funds' investment consultant.

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

SuperFund Easy and Choice:

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

- Monthly performance summaries (without benchmarks).
- Quarterly performance summaries (with benchmark comparisons and risk measures).
- Detailed investment fact sheets for each Investment Portfolio on offer in the SuperFund Easy and SuperFund Choice sections.
- Investment management fee summaries for each Investment Portfolio on offer in the SuperFund Easy and SuperFund Choice sections.[22]
- A Member Investment Guide and an Employer Investment Guide.
- A copy of the SuperFund Investment Policy Statement (excluding Annexures) is available to all Members, Participating Employers, intermediaries and representative unions. On an annual basis, the Funds will publish a summary of material amendments to the IPS.

[22] For SuperFund Customised, it is the responsibility to the Sub-Fund's investment consultant to prepare the relevant investment communication and investment performance summaries, and the Management Committee must ensure that this is distributed to Members.

- The Funds’ Responsible Investing Policy includes details regarding the Management Board’s approach to issues including Broad-Based Black Economic Empowerment 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 its annual financial statements regarding the approach to the sustainability of investments and assets and how this is addressed in the IPS.

<u>SuperFund Customised:</u>

Details regarding reporting and disclosure requirements for SuperFund Customised are set out in Annexure 3.

7 RESPONSIBLE & SUSTAINABLE INVESTMENT POLICY

This Responsible and Sustainable Investment Policy summarises Old Mutual SuperFund's 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 2.22 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[23] 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 investing approaches are typically a combination of two overarching areas:

CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO (known as ESG incorporation)			**IMPROVING INVESTEES' ESG PERFORMANCE (known as active ownership or stewardship)**	
ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic.			Investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices	
Integration	Screening	Thematic	Engagement	Proxy voting
Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.	Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor's preferences, values or ethics	Seeking to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.	Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors.	Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.

ESG factors[24] 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, but they typically display one or more of the following characteristics:

- Issues that have traditionally been considered non-financial or not material
- A medium or long-term time horizon
- Qualitative objectives that are not readily quantifiable in monetary terms

[23] Definition from UN Principles of Responsible Investing (UNPRI)

[24] Definition from the Responsible Investment and Ownership Guide

- Externalities (costs borne by other firms or by society at large) not well captured by market mechanisms
- A changing regulatory or policy framework
- Patterns arising throughout a company's supply chain (and therefore susceptible to unknown risks)
- A public-concern focus

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[25] 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[26] 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[27] 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[28] 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;

[25] Definition from Guidance Note 1 of 2019 issued by the FSCA

[26] Definition from National Treasury's Draft Technical Paper on Financing a Sustainable Economy, May 2020.

[27] Definition from the US Forum for Sustainable and Responsible Investment

[28] Definition from Guidance Note 1 of 2019 issued by the FSCA

- 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.

7.1 SUPERFUND SUPPORTS RESPONSIBLE & SUSTAINABLE 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 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 and Guidance Note 1 of 2019 in this Responsible Investment Policy (which is a sub-section of the Investment Policy Statement). The Funds' specific approach to Broad-Based Black Economic Empowerment 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 issue 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 superior sustainable, long-term investment returns.
- 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 very wide range of Members and Participating Employers 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 the Funds operate.

- 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 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, retirement funds and ultimately the Funds' members and beneficiaries to promote acceptance and implementation of responsible investment, sustainability and sound governance.

7.2 FACTORS LIMITING ACTIVE OWNERSHIP PRACTICES

As a Member investment choice offering, the Funds have a long-established practice of utilising pooled unitised Investment Portfolios, which are either constituted as collective investment schemes or policies of insurance.[29] As a result, the Funds experience some limitations in their exercise of active ownership practices in respect of the pooled Investment Portfolios, because the Funds do not directly own these investments.

Nonetheless, the Management Board considers that the robust responsible and sustainable investing approach adopted by the Funds[30] 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 introduced by utilising pooled Investment Portfolios (i.e. the fact that the Funds are not the direct owner of the underlying assets) is justifiable. The Management Board has concluded that, in light of the approach set out in Section 7.3, the benefits of utilising pooled Investment Portfolios are sufficiently great to justify the limitations.

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[29] The rationale and benefits of this practice are set out in Section 2.2.2 of the IPS. In summary, the key benefits are as follows:

- As a flexible Member investment choice offering, SuperFund requires daily priced unitised portfolios, high levels of liquidity, the option of daily switching, and detailed investment fact sheets. Pooled portfolios offer these features
- SuperFund spans a very wide range of Participating Employers and Members, and therefore needs to address a very wide range of investment needs and preferences. Utilising pooled portfolios enables the Funds to offer Investment Portfolios spanning a broad range of investment styles and risk-return profiles. If segregated portfolios were used, this range would be too complex for the Management Board to provide proper oversight.
- The cost of offering a range of pooled portfolios is lower than it would be if segregated portfolios were used, after taking into account all costs including the oversight and expertise required.
- Utilising pooled portfolios from well-recognised investment managers increases the marketability of SuperFund, enabling increased membership and therefore driving down overall costs per Member.
- Utilising pooled portfolios enables the Funds to access illiquid asset classes such as alternatives 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 and selected other Investment Portfolios.

The only exception to this practice is in respect of a portion of assets in the SuperFund Customised section of the Funds, where a Participating Employer may utilise its own unitised segregated portfolios with the assistance of an accredited investment consultant, and where such Participating Employer has negotiated this arrangement prior to joining SuperFund. This portion of directly owned assets in SuperFund Customised is addressed in Section 7.3.2.

[30] This is detailed in Section 7.3

7.3 APPROACH TO RESPONSIBLE AND SUSTAINABLE INVESTMENT AND ACTIVE OWNERSHIP

7.3.1 Pooled Investment Portfolios: Approach to responsible and sustainable investment and active ownership

7.3.1.1 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.[31]

1. Investment Providers appointed by the Funds are required to adopt the principles and practice recommendations set out in CRISA, 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 into their investment decisions.
2. Investment Providers are required to provide the Funds' investment consultant with detailed information about their responsible investment policies and practices, 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 monitoring and analysis is set out in Section 7.3.1.3.
3. The investment mandate for an Investment Portfolio must specify the Investment Portfolio's responsible and sustainable investment 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.
4. 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.
5. Investment Providers must report regarding the potential impact of ESG risks and ESG factors on the assets of the Investment Portfolio.
6. Investment Providers are required to report back in person on the implementation of responsible and sustainable investment when they present to the Investment Sub-Committee.

[31] It is noted that some existing Investment Portfolio utilised by the Funds may not be fully compliant with these requirements, in which case the Funds shall engage with the relevant Investment Providers as described in point 7.

7. 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.
8. The Management Board has defined additional requirements in respect of the Trustee Choice Default Investment Portfolio with regard to responsible and sustainable investment, set out in Section 7.3.1.4.
9. 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.
10. 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.

7.3.1.2 Active ownership approach

As noted in Section 7.2, the Funds primarily invest in pooled Investment Portfolios which are constituted as collective investment schemes or policies of insurance. The "assets" in which the Funds invest are therefore the collective investment schemes or policies of insurance (rather than the underlying equities, bonds and other financial instruments). 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.

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.

<u>Guidelines and requirements</u>

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.[32]
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.

<u>Voting and monitoring of stewardship</u>

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.

<u>Mechanism of intervention and engagement and means of escalation</u>

6. Investment Providers are required to report back in person 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.
    - 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.

7.3.1.3 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 their investment consultant, analyse the following factors when conducting a due diligence and on an annual basis:

1. Overarching responsible and sustainable investment aspects at Investment Provider level, such as:

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

a. Is the Investment Provider a signatory to UNPRI and/or CRISA?

b. For UNPRI signatories: analysis of PRI ratings

c. Any other local and international responsible investment or stewardship codes or principles adopted by the firm

d. Whether the firm has a responsible investment policy, how comprehensive this policy is, and how the Investment Provider is tracking against their stated policies.

e. Whether the firm employs dedicated responsible investment professionals.

f. How employee performance contracts are structured to prioritise responsible investment.

g. Whether the firm has a written proxy voting policy in place, and how comprehensive this policy is.

h. Whether the firm's responsible investment approach encompasses all asset classes, or only a subset.

i. How the firm engages with investees regarding ESG targets and goals.

j. How the firm incorporates responsible investing practices in respect of any index-tracking assets.

2. The Investment Provider's approach in respect of climate risk:

    a. Whether the Investment Provider supports/implements Task Force on Climate Related Financial Disclosures (TCFD)

    b. How the firm integrates climate risk into their investment processes

    c. Whether the firm has a climate risk policy in place

    d. Whether the firm is able to measure the carbon risk of underlying holdings

3. The Investment Provider's approach in respect of infrastructure investment, and whether the firm reports in infrastructure allocations using ASISA's infrastructure taxonomy

4. The Investment Provider's approach to transformation and ratings in respect of Broad-Based Black Economic Empowerment (described further in Section 8).

5. 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.

7.3.1.4 Additional requirements i.r.o. the Trustee Choice default portfolio(s)

The Trustee Choice portfolio is the 'primary' default Investment Portfolio used by the Funds (currently the Old Mutual Absolute Stable Growth Portfolio). This Investment Portfolio accounts for a significant proportion of the Funds' total assets. The Management Board has therefore 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.

1. 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 Trustee Choice portfolio.
2. The Investment Sub-Committee is developing measurable responsible and sustainable investment and active ownership targets in place in respect of the Trustee Choice portfolio, and shall track progress against these targets on a regular basis.
3. The mandate of the currently selected Trustee Choice 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.
4. 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.

7.3.2 Directly owned assets: Approach to responsible and sustainable investment and active ownership

Within SuperFund Customised there is a portion of directly owned assets in segregated portfolios, where this has been requested by a Sub-Fund Management Committee and approved by the Management Board. These segregated portfolios are constructed by the Sub-Fund's accredited Investment Consultant in consultation with that Management Committee.

The governance and responsible and sustainable investment approach in respect of these assets can be summarised as follows:

1. The Management Board shall communicate its responsible investment and active ownership approach and requirements to each Management Committee and their appointed Investment Consultant.
2. The Management Committee's approach to responsible investment and sustainability factors must be documented in the Sub-Fund Investment Plan and be approved by the Management Board.
3. Where the Funds makes use of segregated mandates (in which case the assets will be registered in the name of the Funds and the Funds will have voting rights in relation to those investments), the Management Committee must exercise voting rights and have written voting policies which must be disclosed to the Management Board. The Management Committee is expected to implement an active ownership approach.
4. The Management Committee and their appointed Investment Consultant must provide the Funds' investment consultant with details regarding the exercise of voting rights on a regular basis.

7.3.3 Support for responsible and sustainable investment codes

The Funds fully support the principles set out in the King IV Report on Corporate Governance Supplement for Retirement Funds. The Old Mutual SuperFund Annual Integrated Report[33] sets out details regarding the Funds' application of these principles.

While the Funds require Investment Providers to adopt the principles and practice recommendations set out in CRISA, and/or be signatories to the UNPRI, the Funds themselves have not to date formally adopted these codes because of the limitations described in Section 7.2.

The Funds support the proposed amendments the CRISA code ("Draft CRISA 2.0", published as for comment in late 2020) which broaden the applicability to enable universal and flexible application across all types of organisation, including retirement funds such as Old Mutual SuperFund which utilise pooled investment portfolios. It is the Funds' intention to adopt the principles and practice recommendations of CRISA 2.0 once this is published.

7.4 DISCLOSURE REGARDING RESPONSIBLE & SUSTAINABLE INVESTMENT

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

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[33] Old Mutual SuperFund Integrated Report 2020.

1. By making the Funds’ Responsible and Sustainable Investment Policy available to members, participating employers, representative unions, intermediaries and other stakeholders on the Funds’ website, and regularly informing all stakeholders of this.
2. By making the Funds’ Investment Policy Statement (or an abbreviated version thereof) available to members, participating employers, representative unions, intermediaries and other stakeholders on the Funds’ website, and regularly informing all stakeholders of its availability and material changes thereto. It is noted that certain Annexures to the Investment Policy Statement contain confidential information, and such Annexures shall not be published on the Funds’ website.
3. By reporting on compliance with Guidance Note 1 of 2019 in the Funds’ Annual Financial Statements.
4. By including transparent disclosure regarding sustainability issues in the Funds’ integrated Annual Report.

8 TRANSFORMATION AND BBBEE

8.1 SUPERFUND SUPPORTS BBBEE

Regulation 28 requires that when contracting services, the Management Board should consider the need to promote Broad-Based Black Economic Empowerment (BBBEE) of those providing services. In defining ESG (environmental, social and governance) 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 and transformation into its investment approach. While 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 Funds shall take into account principles of Broad-Based Black Economic Empowerment 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 will 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.

8.2 SUPERFUND APPROACH TO BBBEE IN INVESTMENT

The Broad-Based Economic Empowerment Act of 2003 provides a legal framework and road map on how empowerment should be constructed. Codes of Good Practices were gazetted that provided further clarity on what BBBEE is and how an enterprise contribution should be measured.

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. 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 conduct the annual investment review.
2. The factors that the Funds pay particular attention to include:
    - Enterprise development
    - Socio Economic Development
    - Skills Development
    - Black Ownership
    - BBBEE Procurement Recognition levels

- Demographics of the Asset Managers' Investment Teams
- 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 process consider the BBBEE level of the company selected?

3. The Funds' annual investment review includes a detailed section setting out the BBBEE status of each investment manager, addressing the factors described above.
4. Wherever possible within the Funds' overall range of investment offerings and key objectives, the Funds shall seek to include Investment Portfolios managed by black-owned investment managers.
5. Investment managers are required to report back in person on their prioritisation of BBBEE when they present to the Investment Sub-Committee.
6. The Investment Sub-Committee shall engage actively with investment managers 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(s) may be removed from the SuperFund offering.
7. 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.

8.3 DISCLOSURE REGARDING BBBEE

The Funds shall disclose its approach towards BBBEE as follows:

- By making the Funds' Responsible Investment Policy and investment-related BBBEE policy available to members, participating employers, representative unions, intermediaries and other stakeholders on the Funds' website, and regularly informing all stakeholders of this.
- By reporting on the BBBEE status of 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.