PROTEKTOR PRESERVATION PENSION AND PROVIDENT FUNDS

INVESTMENT POLICY STATEMENT

DATE APPROVED: 14 SEPTEMBER 2021

NOTE TO THE READER: RECENT CHANGES TO THE IPS

This Investment Policy Statement (IPS) was approved by the Management Board of the Protektor Preservation Pension and Provident Funds on 14 September 2021. The IPS sets out the investment objectives and strategy of the 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 the Funds operate. It enables us to ensure that the Protektor investment strategy remains relevant and up-to-date.

The Management Board has conducted two recent reviews of the IPS, in October 2020 and September 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 14 September 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 Protektor's investments, was included and 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, and include detail regarding the Management Board's investment beliefs, in Section 2.2.*

4. *Section 3, regarding the Funds' approach to Regulation 28 asset limits and reporting, was updated to clarify the audit review process.*

5. *An introduction to Section 5.2 (Default Structure and Compliance) was included.*

6. *Section 6.1 (Criteria for Assessing Investment Portfolios) was restructured and simplified to better reflect the criteria and assessments used by the Management Board. Section 6.5 (Investment Portfolios used in Special Circumstances) was expanded to address the treatment of unclaimed benefits. Section 6.7 was expanded to address the exercising of votes.*

7. *The Responsible and Sustainable Investment Policy (Section 8) 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.*

8. *The Funds' Transformation and Broad Based Black Economic Empowerment policy (Section 9) 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.*

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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.

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

1.2 INTRODUCTION TO THE PROTEKTOR IPS

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

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

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

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

1.3 COVID-19 IMPACT

The IPS was reviewed in Q3 of 2020 in 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 OF THE FUNDS

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

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

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

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

2.2 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 investment governance:

- Investment strategy and decisions should give precedence to the fiduciary duty owed to Members and the Funds, but should also consider the interests of other stakeholders.
- Managing money on behalf of other people requires high standards of openness and transparency. The Funds take this responsibility seriously and seek to meet best practice standards and be at the forefront of disclosure within our industry.
- The Management Board, administrators, investment managers and all other fiduciaries are accountable for their actions, and must transparently perform their duties to the highest ethical standards.
- The Funds should seek to achieve alignment of interests between the Funds, 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:

- The typical Member's long-term investment horizon can be a source of advantage, because it enables a long-term investment strategy.
- Risk and return are strongly related. There are various investment risks that carry advantages. Illiquidity risk is one such advantage which, as long-horizon investors, Members can benefit from in respect of certain investment approaches.
- Diversification is a key tool for risk reduction, which improves the risk-adjusted returns of 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.
- 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 also form an important component of investment strategies.
- Maximising net returns is more important than fees in their own right. The Funds should be fee conscious and aim to capture benefits from scale to achieve fee reductions on behalf of Members over time. It is appropriate to pursue "value for money" in respect of investment management fees, bearing in mind market comparatives.
- Disciplined and rigorous manager selection is a source of value. 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

The Funds' investment philosophy, as informed by the Rules and the Management Board in consultation with the Sponsor, can be summarised as follows:

- Protektor is offered as a straightforward preservation vehicle appropriate for the institutional market. Members seeking a more flexible Old Mutual preservation option with wider choice can utilise alternative retail-focused preservation vehicles. Over time, the Protektor structure has therefore been simplified, and with effect from September 2019, Members are not granted a choice of Investment Portfolios in Protektor. The Funds shall only offer a smoothed bonus Investment Portfolio with a high level of guarantee which will be open to new business. This Investment Portfolio must have appropriate "one-size-fits-all" characteristics to address the varying requirements of the Funds' diverse range of Members.
- Recognising that diversification is an effective method of risk mitigation, the selected Investment Portfolio shall consist of a blend of asset classes, investment styles and investment managers.
- The Investment Portfolio utilised must comply individually with the requirements and asset limits set out in Regulation 28 of the Pension Funds Act.
- The Investment Portfolio made available shall seek to enable the close matching of Members' pre- and post-retirement investment risk profiles
- The Funds support the use of smoothing (i.e. smoothed bonus Investment Portfolios) as a way to manage volatility without sacrificing long-term investment returns.
- Wherever possible, the Funds shall seek to utilise Investment Providers which prioritise Broad Based Black Economic Empowerment and Responsible Investing. The Funds shall regularly and actively engage with Investment Providers to ensure sustainability of assets.
- **Protektor endowment policy members**: The Funds incorporate a historic Individual Choice option which consists of a very small number of endowment policies which have been closed to new business for many years. As a result of legal constraints, the Management Board is unable to unilaterally amend these endowment policies, or to change the Investment Portfolio selected by the Member. All the Management Board can do is communicate to Members and make them aware of alternatives.

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 the 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 utilise a Default Investment Portfolio which is appropriate for all Members.
- To ensure that the investment structure and the Investment Portfolio offered are appropriate for the 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.
- To ensure that all investments are overseen and directed by a Management Board that acts in the best interest of the Members.

2.3 GOVERNANCE OF THE INVESTMENT PROCESS

The Management Board has responsibility for:

1. Defining the Funds' general investment philosophy and objectives considering the Funds' liability profile and risk characteristics.
2. Analysing the membership profile of the Funds as a whole.
3. Selecting Investment Portfolios suited to that membership profile and in the best interests of the Funds and the Members.
4. Considering the investment objectives and appropriateness of each Investment Portfolio.
5. Considering the type of investments which the Funds are prepared to make and those which it is not prepared to make.
6. Expressing the result in this Investment Policy Statement for the Funds.

In addressing these responsibilities, the Management Board shall:

1. Determine one or more appropriate benchmarks of performance for each Investment Portfolio which is relevant for the assessment of its performance, and measure the performance of each Investment Portfolio in terms of these benchmark(s) over appropriate periods.
2. Review the appropriateness of the Investment Portfolios with reference to their stated objectives in light of their performance, new product offerings and continued compliance with the criteria as set out in Section 6.
3. Ensure that provision is made of one or more Default Investment Portfolios as per the Default Regulations, Section 37(1).
4. For every Investment Provider and in respect of each Investment Portfolio, ensure that the Funds enters into an investment agreement.

The Management Board's approach to the investment governance principles of Regulation 28(2) is set out in Section 3.

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 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: e.g. a change of 20% or more in the Membership of the Fund;
- Major change in the Funds' benefit structure;
- Change in legislation affecting the Funds or investment conditions: e.g. a change in tax structure, or a relaxation of exchange control;
- Change in economic factors affecting investment conditions: e.g. a significant change in inflation, or a major market correction i.e. decline by 20% or more from its most recent peak;
- Major change in asset structure: e.g. introduction of new investment channels if applicable;
- Major change in the Management Board: e.g. a change of 50% or more in the Management Board composition so as to ensure continuity of information.

3 REGULATION 28 GOVERNANCE AND COMPLIANCE

3.1 GOVERNANCE IN TERMS OF REGULATION 28

Section 2(c) of Regulation 28 requires the Funds and the Management Board to comply with the set of principles listed in that section. The Management Board has incorporated these principles into its governance processes and investment strategy. The Management Board shall[1]:

(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 9 to this IPS;
(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 6 (*Technical Matters*) of this IPS;
(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 6 (*Technical Matters*) of this IPS;
(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

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

(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 8 (*Responsible Investing*).

3.2 REGULATION 28 ASSET LIMITS AND REPORTING

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

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

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

3.2.1 Protektor endowment policies:

The remaining Protektor endowment policies include one Investment Portfolio which is not Regulation 28 compliant, but which has grandfathered status.

3.2.2 Regulation 28 compliance by pooled Investment Portfolios

The Funds utilises only Regulation 28 compliant pooled Investment Portfolios (with the exception of the one grandfathered endowment policy investment). The mandate for the Investment Portfolios require the Investment Provider to:

- Operate the Investment Portfolio in accordance with Regulation 28 limits.
- Have systems in place to monitor such compliance on a daily basis.
- Have procedures in place to address any breaches of compliance.
- Report breaches (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).

Protektor 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 asset manager.

- 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, 11 months from the month in which the breach occurred the 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 asset manager 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 applicable 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)

- Linked Insurance Policies: A certificate issued by the long term insurer at the end of the financial year of the 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 long-term insurer that the guarantees (full or partial) are consistent with guidance issued by the relevant regulator.

4 PROTEKTOR INVESTMENT STRATEGY

4.1 OVERVIEW OF THE PROTEKTOR INVESTMENT STRUCTURE

The Protektor Pension and Provident Funds are preservation funds aimed at preserving retirement benefits for members of the Old Mutual SuperFund Pension and Provident Funds and other retirement funds. The Funds are underwritten funds and must comply with the requirements of Regulation 2 of the Pension Funds Act.

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

The Management Board is cognisant that the decision at retirement to annuitise (i.e. purchase an annuity with part or all of a Member's retirement savings) or take a cash lump sum is influenced by whether a Member belongs to the Protektor Preservation Pension or Provident Fund (because of the different regulatory requirements currently applicable to each Fund). However, given the planned alignment between Pension and Provident Funds set out in National Treasury's retirement reform proposals, it is assumed that the most appropriate target outcome at retirement is for a typical Member to purchase an annuity. As a result, a consistent investment strategy is utilised for both Funds.

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

- The **Protektor Guaranteed Option** is a smoothed bonus investment portfolio with a high level of guarantee which is open to new business.
- The **Protektor Individual Option** consists of fund member insurance policies (**endowment policies**) issued to the Fund by Old Mutual in terms of which the premium is the member's net investment amount and this is applied to an Investment Portfolio offered by the Old Mutual through its fund member policies. However, as a result of the contractual nature of the individual endowment policies, the Management Board cannot unilaterally change these policies. The Management Board is therefore limited in what actions can be taken in respect of this Option, and is restricted to determining what options are available to Members if they wish to switch out of their existing Investment Portfolios. All the Management Board can do is communicate to Members and make them aware of the alternatives.

4.2 PROTEKTOR MEMBERSHIP PROFILE ANALYSIS

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

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

4.2.1 Member Characteristics

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

MEMBER CHARACTERISTICS: PROTEKTOR GUARANTEED OPTION	
Desire to be involved in the investment decision-making	None – happy to leave the investment decision-making to the Board Limited ongoing use of financial planning & investment advisors.
Earnings levels	Low to Medium
Retirement savings outside own home	From none to some
Age	Wide range
Need for inflation-beating investment returns	High
Tolerance of volatility risk	Low. Members prefer a low risk investment with little likelihood of investment losses and less volatile investment returns than experienced in the market.
Exposure to interest risk[2] on retirement	Moderate to high, with a reasonable chance that a conventional (life) annuity policy will be selected where the law requires an annuity to be purchased.
Exposure to inflation risk[3]	High
Need for capital protection	High

[2] Interest risk is the risk that the cost of purchasing a pension rises shortly before a Member's retirement as a result of a drop in long-term interest rates.

[3] Inflation Risk is the risk that over the long term the investment does not outperform inflation to expected levels

Use of financial planners and consultants	Limited

4.2.2 Characteristics of Investment Portfolio(s)

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

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

The range of individual endowment policy portfolios has not been included in this categorisation, since they have been withdrawn and are no longer offered to new Members. Where existing Members are invested in these policies, they have the option to remain invested. Each policy is uniquely allocated to a Member and only one Investment Portfolio can be chosen in respect of each policy.

4.3 SELECTION OF AN APPROPRIATE INVESTMENT PORTFOLIO

1. **Protektor Guaranteed Option** *(only one smoothed bonus Investment Portfolio with a high level of guarantee; open to new business)*

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

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

- Members will not be granted a choice of Investment Portfolio.

- Only one Investment Portfolio (i.e. a single default Investment Portfolio) will be offered. A life-stage investment approach is not considered appropriate because the Management Board has no knowledge of when a Member will elect to take a cash withdrawal or retire from the Fund (and a life-stage investment approach could result in an inappropriately long period invested in a lower-return/lower-volatility investment portfolio).
- There must be a high level of guarantee. The Management Board is satisfied that a guarantee that capital values will not fall by more than 20% is reasonable.
- The Investment Portfolio should utilise smoothing to protect Members against volatility, because a Member may require their benefit to be paid out at any point in time. As such, the portfolio will be constructed as a policy of insurance.

The Investment Portfolio must satisfy any criteria specified by the Financial Services Conduct Authority in respect of a smooth bonus Investment Portfolio utilised as a default investment in terms of Regulation 37;

The Investment Portfolio must be managed according to principles that are transparent, including, inter alia, the method of smoothing;

The Insurer must be adequately capitalised, with capital levels materially exceeding the statutory capital requirements; and

The Insurer must report at least annually on the level or range of the bonus stabilisation reserve.

- The underlying asset allocation should be a moderate-risk portfolio which is expected to deliver gross real returns (i.e. gross of fees, in excess of inflation) of 5% or greater over rolling 5-year periods.
- The product design should be such that the smoothed bonus Investment Portfolio would be expected to deliver returns equal to the full earnings on the underlying assets over the long-term (before considering management fees and guarantee charges)

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

An inflation-related benchmark has been set at CPI + 5.5% before investment management fees, but after capital charges have been deducted, to be determined over rolling 5-year periods.

2. Protektor Individual Choice *(closed to new business)*

As a result of legal constraints, the Management Board is unable to unilaterally amend these endowment policies, or to change the Investment Portfolio selected by the Member. All the Management Board can do is communicate to Members and make them aware of alternatives.

5 DEFAULT INVESTMENT PORTFOLIOS

5.1 OVERVIEW OF DEFAULTS

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

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

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

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

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

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

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

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

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

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

The Protektor Individual Option does not include a Default Investment Portfolio, since this option is closed to new Members and it required an active investment election when Members entered this option.

5.2 DEFAULT STRUCTURE AND COMPLIANCE

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

5.2.1 Compliance with Conduct Standard 5 of 2020

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

DEFAULT REGULATION *"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –*	**PROTEKTOR**
Default investment portfolio(s) are appropriate for the members who will 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 is set out in Section 4. Regarding the default 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 has carefully selected the Portfolio which has a mandate appropriate for the needs of the 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 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 sheet which is published monthly on the Protektor website and can be sent to a Member upon request.
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 Protektor, enabling lower costs than what would be paid if negotiated individually. • The Management Board reviews the fees and charges regularly to ensure competitiveness.
All fees and charges are disclosed (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*	• Fees and charges are disclosed to the Management Board on an ongoing basis and reviewed annually. • A detailed fund fact sheet is disclosed on the Protektor website and also available upon request and reviewed on an ongoing basis.

DEFAULT REGULATION *"37.(2) The board must ensure, and be able to demonstrate to the Registrar on request, that –*	**PROTEKTOR**
language, and in formats which may be prescribed;	• Funds fact sheets are required to include the Total Expense Ratio and Transaction Costs, which sum to the Total Investment Charges.
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 Portfolio.
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 the default Investment Portfolio.
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;*	• The Protektor Guaranteed Option does not provide Member investment choice. • Members are allowed one withdrawal after joining Protektor.
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 Portfolio continually, and formally reviews the IPS on an annual basis.

6 TECHNICAL MATTERS

6.1 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.

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.
12. Where the Investment Provider subcontracts any part of the investment management to third parties, these parties must be identified and must be given mandates which are consistent with the overall strategy of the Investment Portfolio.

13. The Investment Provider must manage sufficient assets so as to have, in the opinion of the Management Board, a business that is sustainable relative to the investment universe.
14. The Investment Provider must have appropriate fidelity cover in place.
15. The Investment Provider must inform the Management Board about any change of investment strategy or significant changes in the team making the investment decisions.
16. The Investment Provider must present to the Management Board or its Investment Sub-Committee on issues including but not limited to, portfolio performance, responsible investing and Broad-based Black Economic Empowerment, should they so request a presentation.

<u>Investment Portfolio requirements</u>:

17. The Investment Portfolio must have an investment strategy which:
    - Sets out the objective of the Investment Portfolio and the approach towards risk that will be adopted by the Investment Provider.
    - Describes the asset classes within which the Investment Portfolio may be invested, and any maxima set on the investment in the asset class by the Investment Provider.
    - Limits the use of derivative instruments to the management of risk in the Investment Portfolio – in particular, no position may be taken using derivative instruments if the Investment Portfolio doesn’t hold an asset similar to the investment underlying the derivative.
    - Limits investment in any single investment to an appropriate proportion of the fair value of the assets of the Investment Portfolio in line with the requirements of Regulation 28. (Where asset-class-specific portfolios are combined by a Sub-Fund Investment Consultant and the combined entity is Regulation 28 compliant, this requirement will be applied to the combined entity rather than the asset-class specific portfolios.)
    - 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 the volatility of returns expected from the different Investment Portfolios 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 performance 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. The Investment Portfolio must comply with Regulation 28 of the Pension Funds Act in its own capacity, and must comply with all of the asset limits and aggregate exposures set out in Regulation 28(3). The relevant Investment Provider or investment platform must confirm at least annually that the product is compliant 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.
24. 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.
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), 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. 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 smooth bonus product must be managed according to principles that are transparent, including, inter alia, the method of smoothing; ideally the smooth bonus product must deliver returns equal to the full earnings on the underlying assets less management fees and any charges for guarantees over a ten year period.
    - The Insurer must report at least annually on the level or range of the bonus stabilisation reserve.

6.2 PROCESS FOR INVESTMENT PORTFOLIO CHANGES

6.2.1 Where a Protektor Investment Portfolio is closed or replaced

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

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

- An Investment Portfolio which preserves capital (in nominal terms); or
- An Investment Portfolio, which the Management Board considers a good match for the Investment Portfolio to be closed. The Management Board will consider the following factors when identifying an Investment Portfolio which provides a good match:
  - the investment approach of the Investment Provider of the Investment Portfolio to be closed (looking at issues such as style and process);
  - categorisation of the Investment Portfolio within this IPS;
  - sustainability, responsible investment and BBBEE factors;
  - expected long-term investment returns;
  - volatility;
  - downside protection;
  - reward for risk; and
  - investment fees.

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

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

6.2.2 Other changes or switches

- The Management Board shall have the right to implement any Investment Portfolio change (except in the case of the Protektor Individual Option) or switch or disinvestment that it considers necessary or appropriate.
- The Management Board shall have the right to alter the underlying investments or change the underlying mandate of an Investment Portfolio as it considers appropriate. Such alteration may include moving any investment from one Investment Portfolio to another

Investment Portfolio. Any such alteration shall be subject to the Rules, and take into account any contracts in place in respect of the affected Investment Portfolio(s).

- Such change or switch or disinvestment or alteration may be required for the following reasons (but is not limited to these reasons):
  - to effect a transfer of any sort;
  - to effect a transition or any sort;
  - to effect an in-specie transaction of any sort; or
  - to protect the interests of a group or category of Members (without prejudicing any other group or category of Members);
- The change or switch or disinvestment or alteration shall be conducted using a strategy considered by the Management Board to be appropriate in terms of Member circumstances and market conditions and the structure and complexity of the relevant Investment Portfolios, and which complies with the terms of any applicable contracts.
- The Management Board shall have the right to use a transition portfolio and to appoint a transition manager in order to effect a change or switch or disinvestment or alteration, if this is deemed appropriate.
- The Management Board shall have the right to allocate costs related to the change or switch or disinvestment or alteration in the manner which they consider equitable and pragmatic.

6.3 UNITISATION OF INVESTMENTS

6.3.1 Unitisation of pooled Investment Portfolios

Each Investment Portfolio available (other than a smoothed bonus Investment Portfolio) will be unitised on the basis described here.

- Any amount invested in a Unitised Investment, purchases a number of units at the purchase price per unit, as determined by the Investment Provider, coincident with or next following the date of the investment; provided that an amount which is invested in a Unitised Investment at a date other than at the date of investment shall accrue interest as earned by the Fund less any expenses from date of receipt by the Funds to the date on which units are purchased.
- The value, at any time, of the portion of an account invested in a Unitised Investment is the number of units held by the account in that Unitised Investment multiplied by the sale price per unit, as determined by the Investment Provider.
- When an amount is to be disinvested from a Unitised Investment, the number of units sold must be the amount to be disinvested divided by the sale price per unit as determined by the Investment Provider.

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

6.4 INVESTMENT PORTFOLIOS USED FOR RESERVE ACCOUNTS

- Where administrative constraints allow, monies held to back the Fund-level Reserve Accounts of the Funds, other than transactional Reserve Accounts, will be invested in the Coregrowth 100 Investment Portfolio, unless otherwise approved by the Management Board and the Administrator. This Investment Portfolio provides both a capital guarantee and a reasonable chance of real returns.
- Where administrative constraints do not allow this to be implemented, an appropriate Investment Portfolio of the Administrator's choosing with features similar to those of a bank account will be utilised.

6.5 INVESTMENT PORTFOLIOS USED IN SPECIAL CIRCUMSTANCES

<u>Period from disinvestment to payment of a benefit:</u>

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

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

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

Benefits payable to former spouses

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

Unclaimed Benefits

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

6.6 SAFE CUSTODY AGREEMENTS

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

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

- A mandate must be in place between the banking institution and the Fund;
- The banking institution 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.

6.7 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.

7 MONITORING AND REPORTING

7.1 PERFORMANCE ANALYSIS AND MONITORING

7.1.1 Annual investment review

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

- Analysis of the appropriateness of the Default Investment Portfolios for the applicable Member categories.
- Analysis of the Investment Portfolios available to Members, considering both qualitative factors (such as historic risk-adjusted performance) and quantitative factors (such as investment philosophy and approach, systems, research, ownership structures, remuneration, and team dynamics).
- Analysis to ensure that the Investment Portfolio continue to comply with the due diligence requirements set out in Section 6.1.
- Analysis of factors such as Broad-Based Black Economic Empowerment (as per Section 9) and Responsible Investing and sustainability considerations (as per Section 8).
- Confirmation that the Investment Provider have complied with the investment mandates of each Investment Portfolio across the period since its inclusion or the last review, whichever is the later.

7.1.2 Regular performance monitoring

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

Two sets of benchmarks will be monitored:

- an internal benchmark which will be used for review of the Investment Portfolio by the Investment Sub-Committee, and
- inflation related return objectives which will be used for communication to Members.
- The internal benchmark will be that specified by the Investment Provider in relation to the portfolio. In both cases the benchmark return will be before deduction of investment management fees and any tax payable.

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

7.1.3 Monitoring of responsible investment and sustainability factors

The Funds' approach to analysing and monitoring responsible investment and sustainability factors is set out in Section 8

7.2 REPORTING AND DISCLOSURE

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

- Monthly performance summaries (without benchmarks).
- Quarterly performance summaries (with benchmark comparisons and risk measures).
- Detailed investment fact sheet of the Investment Portfolio on offer including detailed management fee disclosures.
- An abbreviated copy of the Protektor Investment Policy Statement is available to all stakeholders. On an annual basis, the Funds will publish a summary of material amendments to the IPS.
- The 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.

8 RESPONSIBLE & SUSTAINABLE INVESTMENT POLICY

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

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

Responsible investment[4] 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:

<table>
<tr><th colspan="3">CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO (known as ESG incorporation)</th><th colspan="2">IMPROVING INVESTEES' ESG PERFORMANCE (known as active ownership or stewardship)</th></tr>
<tr><td colspan="3">ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic.</td><td colspan="2">Investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices</td></tr>
<tr><td><u>Integration</u></td><td><u>Screening</u></td><td><u>Thematic</u></td><td><u>Engagement</u></td><td><u>Proxy voting</u></td></tr>
<tr><td>Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.</td><td>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</td><td>Seeking to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.</td><td>Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors.</td><td>Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.</td></tr>
</table>

ESG factors[5] 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
- Externalities (costs borne by other firms or by society at large) not well captured by market mechanisms

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

[5] Definition from the Responsible Investment and Ownership Guide

• 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[6] 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[7] 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[8] 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[9] means the prudent fulfilment of responsibilities relating to the ownership of, or an interest in, an asset. These responsibilities include, but are not limited to: • guidelines to be applied for the identification of sustainability concerns in that asset; • mechanisms of intervention and engagement with the responsible persons in respect of the asset when concerns have been identified and the means of escalation of activities as a holder or owner of that asset if these concerns cannot be resolved; and

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

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

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

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

- 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.

8.1 PROTEKTOR STRONGLY SUPPORTS RESPONSIBLE INVESTMENT

The Management Board strongly supports the position reflected in Regulation 28, that the Funds have a fiduciary duty to act in the best interest of their Members, whose benefit 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. I

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 Funds' 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 9 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 ESG factors into investment decisions is expected to enable better management of risk and generate 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 represents a very wide range of Members across South Africa and beyond. It is therefore appropriate to pursue a positive impact on environmental, societal and governance-related matters in the context in which it operates.
- Old Mutual as Sponsor places a high emphasis on responsible investment, recognising that it has a responsibility to constructively contribute to creating a sustainable and inclusive future for all, without sacrificing return outcomes for its clients.

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

8.2 FACTORS LIMITING ACTIVE OWNERSHIP PRACTISES

The Funds have a long-established practice of utilising pooled unitised Investment Portfolios, which are constituted as policies of insurance. As a result, Protektor is limited in its ability to directly implement a responsible investing approach in respect of the pooled Investment Portfolio, because the Funds does not directly own these investments.

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

The Management Board has carefully considered whether the limitation introduced by utilising pooled Investment Portfolios (i.e. the fact that the Funds is not the direct owner of the assets) is justifiable. The Management Board has concluded that, in light of the approach set out in Section 8.3, the benefits of utilising pooled Investment Portfolio are sufficiently great to justify the limitations.

8.3 PROTEKTOR'S APPROACH TO RESPONSIBLE AND SUSTAINABLE INVESTMENT AND ACTIVE OWNERSHIP

8.3.1 Responsible and sustainable investment approach

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

- Investment Providers appointed by the Funds are required to adopt the principles and practice recommendations set out in CRISA, and/or be signatories to the UNPRI. The Funds seeks to utilise investment providers that operate responsibly and sustainably, and which have fully integrated sustainability and criteria for responsible investment practices in their investment decisions.
- Investment Providers are required to provide the Funds' investment consultant with detailed information about their responsible investment policies and practices, 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, <u>and</u> on an annual basis when

the Funds conducts its annual investment review. A summary of this analysis is set out in Section 8.3.3.

- The investment mandate for an Investment Portfolio must specify the Investment Portfolios responsible and sustainable investment approach. Where existing mandates do not include such details, the Investment Provider shall be engaged to incorporate this detail in the mandate, or to provide a satisfactory alternative solution.
- Investment Providers must report regarding their approach to climate risk, and how this is accounted for in managing the Investment Portfolio. Investment Providers are encouraged to report in accordance with the Task force on Climate-related Financial Disclosures (TCFD) recommendations
- Investment Providers must report regarding the potential impact of ESG risks and ESG factors on the assets of the Investment Portfolio
- Investment Providers are required to report back in person on the implementation of responsible and sustainable investment factors when they present to the Investment Sub-Committee. .
- The Investment Sub-Committee shall engage actively with Investment Providers where concerns are identified regarding their responsible and sustainable investment approach (including their prioritisation of transformation).
- Non-compliance or matters of concern are tracked by the Funds' investment consultant and reported on to the Investment Sub-Committee.
- The Investment Sub-Committee shall engage with Investment Providers regarding areas of concern and remedial actions required.
- If the Investment Provider does not take appropriate action to address concerns within a reasonable period of time, the relevant Investment Portfolio(s) may be removed from the SuperFund offering.
- The Management Board has defined additional requirements in respect of the Protektor Guaranteed Option Investment Portfolio with regard to responsible investment, set out in Section 8.3.4.
- The Funds shall provide all Investment Providers with details of the Funds' views and requirements regarding responsible and sustainable investment, to ensure they are familiar with the Funds' priorities.
- 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.

8.3.2 Active ownership approach

As noted in Section 8.2, the Funds primarily invest in pooled Investment Portfolios which are constituted as a policy of insurance. The "assets" in which the Funds invest are therefore the 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.

Guidelines and requirements

1. The Funds shall provide all Investment Providers with guidelines which set out the Funds' views and requirements regarding active ownership, to ensure they are familiar with the Funds' priorities.
2. Investment Providers are expected to implement active ownership practices in respect of Investment Portfolios utilised by the Funds, in respect of all asset classes.[10]
3. The investment mandate for an Investment Portfolio must specify the Investment Portfolio's active ownership approach. Where existing mandates do not include such detail, the Investment Provider shall be engaged to incorporate this detail in the mandate, or to provide a satisfactory alternative solution.

Voting and monitoring of stewardship

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

Mechanism of intervention and engagement and means of escalation

6. Investment Providers are required to report back 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.

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

- 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.

8.3.3 Analysis and monitoring

The Funds analyses and monitors how its Investment Providers consider and apply responsible and sustainable investing policies as a factor when selecting or reviewing managers. As a minimum the Funds, with the assistance of its investment consultant, analyses the following factors when conducting a due diligence and on an annual basis:

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

- o Whether the firm has a climate risk policy in place
- o Whether the firm is able to measure the carbon risk of underlying holdings

- The Investment Provider's approach in respect of infrastructure investment, and whether the firm reports in infrastructure allocations using ASISA's infrastructure taxonomy
- The Investment Provider's approach to transformation and ratings in respect of Broad-Based Black Economic Empowerment (described further in Section **Error! Reference source not found.**).
- 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.

8.3.4 Responsible investing in the Protektor Guaranteed Option

The Investment Portfolio utilised for the Protektor Guaranteed Option is also utilised as a Default Investment Portfolio by Old Mutual SuperFund, which is overseen by the same Management Board. The Management Board has therefore established additional requirements with regard to responsible investment and monitors the responsible investing focus of this Investment Portfolio in greater detail.

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

- The investment manager is required to report twice-yearly to the Investment Sub-Committee regarding the implementation of responsible investment in the Investment Portfolio.
- The Investment Sub-Committee shall put measurable responsible investment targets in place in respect of the Investment Portfolio, and track progress against these targets on a regular basis.
- The mandate of the currently selected Protektor Guaranteed Option Investment portfolio incorporates detailed responsible investment requirements in the investment mandate with the Old Mutual Investment Group (OMIG). OMIG gives effect to its Responsible Investing commitments through a dedicated team, the Sustainability Research and Engagement Unit,

which engages with the boutiques within OMIG, as well as executive committees throughout the Old Mutual Group.

- The mandate incorporates impact investing:
    - 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.

8.3.5 Exercising of votes

The Investment Sub-Committee in terms of the delegation from the Management Board must consider all matters where the Funds are offered an opportunity by an entity, in which the Funds holds an interest, to exercise its 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.

8.4 DISCLOSURE REGARDING RESPONSIBLE INVESTMENT

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

- By making the Funds' Responsible Investment Policy available to all stakeholders on the Funds' website, and regularly informing all stakeholders of this.
- By making the Funds' Investment Policy Statement (or an abbreviated version thereof) available to all 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.
- By reporting on compliance with Guidance Note 1 of 2019 in the Funds' Annual Financial Statements.

- By including transparent disclosure regarding sustainability issues in the Funds' integrated Annual Report

9 BROAD-BASED BLACK ECONOMIC EMPOWERMENT

9.1 PROTEKTOR STRONGLY 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 into its investment approach**.** Although it is noted that BBBEE is a component of the ESG factors addressed in the Funds' Responsible Investment Policy, the Funds' specific approach to BBBEE is addressed separately in this section because it is a key issue in and of itself.

The 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.

9.2 PROTEKTOR'S 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 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 conducts its annual investment review.
2. The factors that the Funds pays 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 shall include 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, the Funds shall seek to offer Investment Portfolios managed by black-owned investment managers.
5. Investment managers are required to report back in person on their prioritisation of BBBE**E** 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.

9.3 DISCLOSURE REGARDING BBBEE

The Funds shall disclose its approach towards BBBEE as follows:

- By making the Funds' Responsible Investment Policy and BBBEE policy available to ALL 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.