Investment Policy Statement

OUTvest Retirement Annuity Fund

(“the Fund”)

Contents

1.1 Purpose of the OUTvest Retirement Annuity Fund

The OUTvest Retirement Funds are designed to help our members achieve a measure of financial security when they decide to stop working.

We as the Board of the Funds aim to manage a personalised retirement solution for each of our members that uses a combination of financial planning and investment at low fees to give our members a greater chance of reaching their desired retirement objectives.

A personalised retirement solution consists of an efficient and appropriate unit trust and a retirement plan that is constantly updated. The result is a personalised retirement solution that is constantly updated to reflect the estimated retirement position of our members so that the member's post-retirement expectations are managed on an ongoing basis. In other words, an Outcomes based investment approach.

The value of each member's benefit at any time will be determined by the total contributions made by each member, plus the return from the unit trust, net of any fees charged.

The returns from the unit trust will result from the underlying investments, which will be a combination of shares listed on a stock exchange, bonds and cash. These underlying investments will be held in a unit trust on behalf of the member.

1.2 Purpose of the Investment Policy Statement (IPS)

The purpose of this document is to describe in detail how the Fund plans to invest the assets of the Fund for the benefit of our members. This document is known as the Investment Policy Statement or IPS. It is a document that is required by regulation and must be made available to members and adhered to by the Board.

The IPS outlines the approach that the Board of the Fund will use to ensure the investment solution performs in the best interests of our members. It is a document that the members are able to read and understand the investment approach undertaken by the Funds. It covers the following items:

1. How the Board thinks about investing for retirement.
2. The design of the investment strategy composed of four unit trusts that will provide returns required to achieve the retirement objectives for our members.
3. The criteria the Board will monitor to ensure that the unit trusts are performing as expected.

1.3 Criteria used to determine the appropriate investment strategy

There are many factors that the Board have taken into account to determine the appropriate investment strategy, including well-established investment principles, and the latest thinking around investment. In addition to this, the Board must take into account regulation and the profile of the members in the Funds and the needs of the Funds.

1.3.1 Well-established investment principles and the latest thinking.

Cost is an extremely important guiding point for the Board to ensure that our members get more out of their retirement and it is one of the most important determinants of a member's benefit at retirement. The Board have used this as an important contributor to the design of the investment strategy.

The Board realise that a successful retirement strategy requires a personalised retirement plan that is closely linked to the member's investment portfolio and kept updated at all times.

Furthermore, we as the Board, believe the administration of investments should be kept as simple as possible and allow a high degree of automation to lower costs and increase service levels for members.

The Board aim to use an evidence-based approach in the design and management of the investment strategy for the Funds. The idea is to ensure that our decisions are based on research and evidence rather than just using accepted practice.

1.3.2 Regulation

South Africa has very well developed regulation to ensure that the management of the funds are in the best interests of its members, in particular, Regulation 28 of the Pension Funds Act. Regulation 28 provides prudential principles and regulation that governs how a Fund may invest on behalf of members. This regulation describes what investment types are suitable for members' investments or benefits and how much of each investment type is permitted to be held. It also sets out principles that will guide how Board make decisions about their investment strategy.

1.4 Objectives of the Funds

Our objectives for the Funds can be described as the following:

1. Provide members with evidence-based efficient, low-cost investment portfolios that are well-diversified, compliant with applicable regulation to allow them to be offered in retirement funds.

2. Use information about the member's retirement objectives and the member's investment portfolio to provide an instant expectation of the value of their benefit at retirement.

3. Where applicable, aim to incorporate Environmental, Social and Governance (ESG) factors into the investment strategy offered to members, where it can be proven that the return and risk characteristics to members retirement portfolios are improved.

1.5 Our investment beliefs

Our investment philosophy, also known as our investment beliefs, are important factors in determining the investment strategy used by the Funds. We will briefly outline them in this section:

1.5.1 Historical evidence suggests that the greatest probability of outperforming inflation over longer investment periods can be provided by an allocation to listed equities.

The Board refer to a study done by the E Dimson, M Staunton and P Marsh covering over 115 years of market returns[1] and indicates that over longer investment time horizons equities have, on average delivered returns that are greater than inflation more reliably than bonds or cash. The result is an investment strategy where the longer a member's time to retirement, the greater the allocation to equities.

[1] The indices are published and described in E Dimson, PR Marsh and M Staunton, Triumph of the Optimists: 101 Years of Global Investment Returns, Princeton University Press, 2002, as updated in E Dimson, PR Marsh and M Staunton, Credit Suisse Global Investment Returns Sourcebook 2016, Zurich: Credit Suisse. Additional information is given in E Dimson, PR Marsh and M Staunton, The worldwide equity risk premium: a smaller puzzle, Chapter 11 of R Mehra (Ed), Handbook of the Equity Risk Premium, Elsevier, 2008.

1.5.2 Diversification of investment types helps reduce the impact of short term price movements in the underlying investments, and will reduce the impact of a permanent capital loss.

Asset spreading, or diversification as it is also known is a well-known investment principle that is designed to reduce the impact of a loss in value of a single, or series of underlying investment securities in the portfolio. This principle also protects the value of the portfolio during short term price movements of the underlying securities.

As the value of each investment security is driven by a number of factors, changes in these factors will affect the price of the security. Increasing the number of securities in a portfolio will increase the number of factors driving the value of the overall portfolio.

For example, a rise in inflation may reduce the value of a bond portfolio, but may lead to a short term increase in the value of the equity portfolio. If you combine equities and bonds in a single portfolio, these two changes in value may cancel each other out, protecting the value of the portfolio.

1.5.3 Cost is an important determinant in the value of a member's benefits at retirement or withdrawal.

The fees charged by service providers to the Fund, including asset consultants, asset managers and administrators are an important determinant of the Fund's ability to deliver on the promise of a retirement benefit to members. The Board of the Funds will ensure that the total fees payable by members for the provision of all services will be disclosed. Furthermore, the Board will use their skills and expertise to keep costs low where possible.

1.5.4 Use evidence to select between a passive (rules-based) or active approach to portfolio construction.

Portfolio construction is the method used by a fund manager to select and combine the securities that are most appropriate to the requirements of the Fund. This decision is made after the Board have decided on an appropriate investment type (equities, bonds, property).

One of the most common decisions that the Board needs to make is between an active or passive approach to portfolio construction. Active portfolio construction is a term that is used to describe an approach that relies on a fund manager to use their experience and discretion to decide on the mix of investment securities to achieve the risk and return objectives set out by the Board, this approach typically aims to outperform a financial benchmark through buying and selling investment securities on a short term basis. A passive approach to portfolio construction uses a set of pre-agreed rules that will determine whether an investment security is held in the portfolio, and typically involves less short term trading than an active approach.

Currently the Board use active management for the short term money market exposures in the portfolios and passive (or rules based portfolio construction) for the equities, bonds and property exposure in the portfolios.

Below is an example of evidence that is compiled by S&P Dow Jones Indices that shows the proportion of actively managed funds that underperform a rules based approach. You will note that over five years a significant proportion of South African equity managers underperform a rules based approach. For short-term bonds (money market) the result is reversed.

Percentage of South African Funds outperformed by benchmarks

Fund Category	**Comparison Index**	**Five year (%)**
South African Equities	South African DSW Capped Index	74%
Global Equities	S&P Global 1200	96%
Short term Bond (Money Market)	STeFI Composite	13.%
Aggregate Bond	S&P South Africa Sovereign Bond 1+ Year Index	70%

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2019. Outperformance is based on equal-weighted fund counts. Index performance is based on total return in ZAR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

1.6 Investment

The Board has worked with their asset consultant to design a series of graduated investment portfolios using four portfolios that aim to cover the vast majority of investment types in the South African and global investment universe, suitable for our member's pre-retirement needs and compliant with applicable regulation.

Each of the investment portfolios are managed as a single unit trust and governed by a single index, or in the case of the money market fund, actively managed. Each retirement goal for a client will consist of one of the four unit trusts rather than a blend of the unit trusts. This aids the simplicity of administration and ensures the main driver of the investment returns, in this case the asset allocation, is identical to all members in the same unit trust.

The four unit trusts are designed to operate as a spectrum of investment return and risk, graduating from low risk and low return (Granate SCI Money Market Fund) to high risk and high return (CoreShares OUTmoderate Index Fund) in four steps. It is for this reason the portfolio construction of the investment portfolios are linked, and the underlying investment types are closely related.

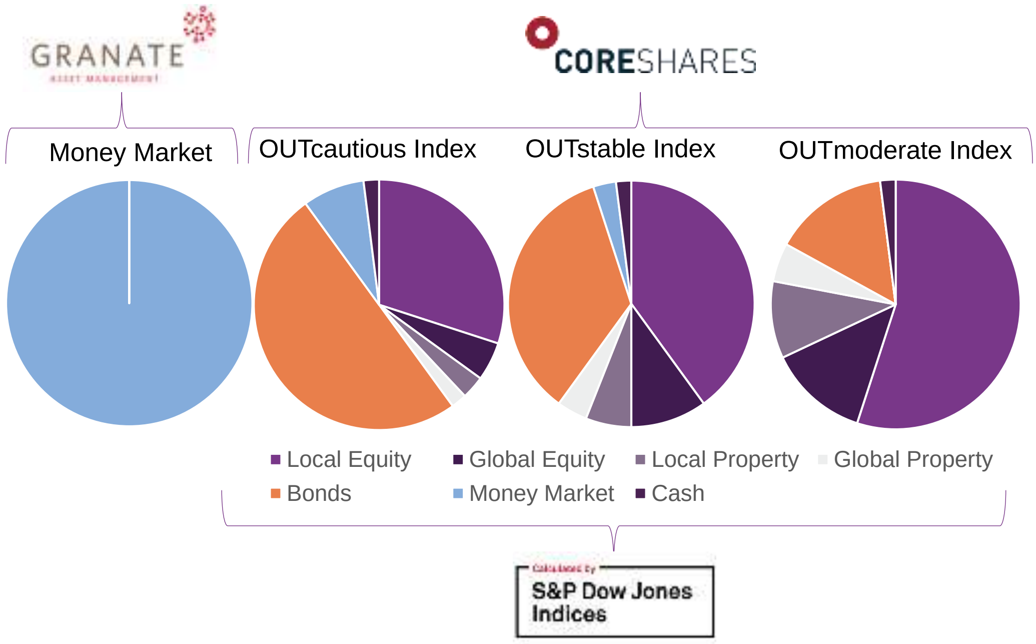
The first portfolio is a money market fund that is actively managed, by Granate Asset Management, a specialist Fixed Income Manager.

The following three portfolios, managed by CoreShares Asset Management, are constructed by following a set of multi-asset indices designed by OUTvest in conjunction with CoreShares and S&P Dow Jones Indices[2]. Each of these indices contain a collection of sub-indices representing different asset types. For example, the Local Equity allocation in the OUTcautious Index is represented by the S&P SA Top 50 Index.

Each of the three multi-asset indices contain similar sub-indices. For example, the OUTcautious, OUTstable and OUTmoderate Index all contain the S&P SA Top 50 Index (the 50 largest listed companies in South Africa) in increasing allocations.

The allocations within the multi-asset indices will drift in line with the performance of the underlying sub-indices and rebalanced twice per year in March and September, the aim is to minimise transaction costs, which negatively impact performance.

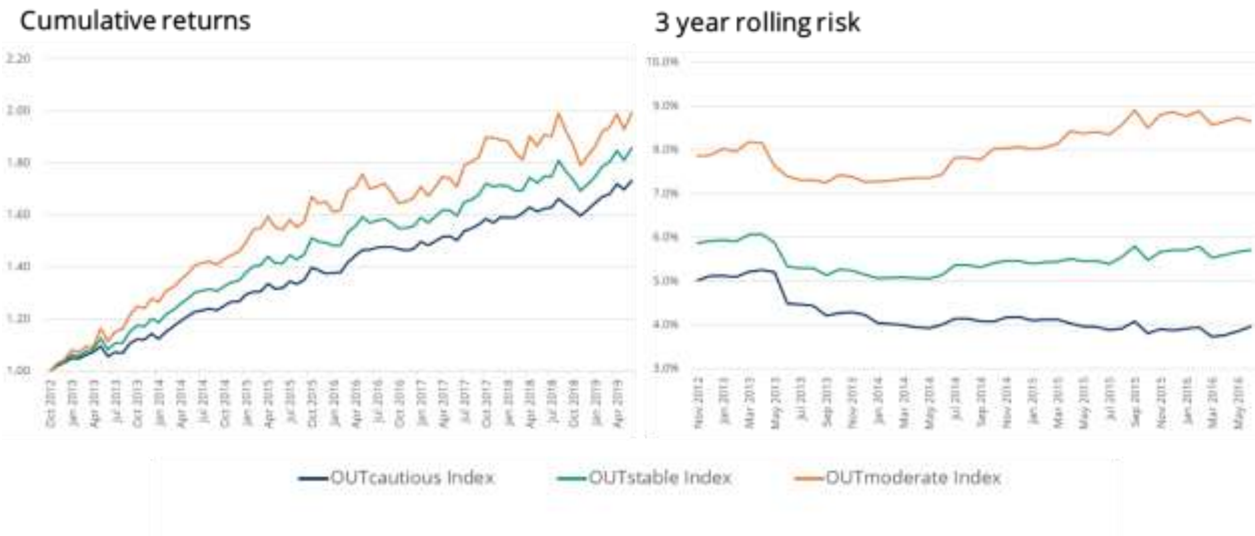
[2] An index is a set of rules that set out what investments are purchased, and their proportions. It is common in passive investment strategies. The rules, or methodology as they are commonly known also set out what criteria need to be met by each investment to be included in the index.



The multi-asset indices are managed as a strategic asset allocation, and it is unlikely the allocations will be changed unless there is a change in market structure, market conditions or regulatory requirements that will require amendment. The breakdown of the multi-asset indices is available in the appendix.

The objective of this portfolio construction approach is to create a low cost investment allocation where the performance and risk characteristics of the portfolios show clear differentiation from one another.

Historical, back tested performance of the multi-asset indices



Source: S&P Dow Jones Indices. Indicative historical performance (backtested) of the multi-asset indices. Annual rebalancing, gross of all fees.

1.6.1 Responsible Investing

The Board believe that Environmental, Social and Governance (ESG) factors are an important consideration in the investment portfolios, where it can be evidenced that incorporating such factors will benefit the investment returns available to members.

The investment portfolios, at this early stage, do not contain a specific focus on ESG factors, however it will remain an item for the Board to continue to investigate.

1.6.2 Voting rights

As the assets of the Funds are held in a series of unit trusts on behalf of each of the Funds there is currently no opportunity to engage in active shareholder participation. The Board will continue to review opportunities to become more active shareholders on behalf of the members of the Fund, when appropriate.

As the Fund makes use of unit trusts, voting rights do not accrue directly to the Fund. However, the asset manager investing directly in equities must exercise their voting rights and have written voting policies and be prepared to share these with the Funds.

The Board must exercise the votes attaching to any units owned in any Collective Investment Schemes by the Fund, where

- there is a merger of collective investment schemes or alteration of the nature of those collective investment schemes, or

- it may promote the objectives of the Financial Sector Charter, or
- it may enhance the value of the investment.

1.7 Member's investment strategy

The primary guiding principle that will determine which of the four unit trusts are suitable for members will be based on the expected time remaining until the date of the member's withdrawal from the Fund. The Board will use time remaining until the estimated retirement date of the member to select one of the four portfolios to be used as the source of investment returns.

The Board, with the help of the asset consultant have conducted an intensive modelling exercise to provide a conservative estimate of the performance of each portfolio, before fees, over an investment time horizon. The table below indicates the expected probability a portfolio will outperform the return target over the investment time horizon. We have deliberately used a conservative approach to providing estimates of the expected return from the unit trusts, and hence the high probability that a fund will outperform the indicated performance target.

	Investment time horizon							
Return Target	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years +
CPI + 0%	60%							
CPI + 1%		67%	68%					
CPI + 2%				68%	69%			
CPI + 3%						67%	67%	67%
	Money Market	OUTcautious Index		OUTstable Index			OUTmoderate Index	

Source: OUTvest.

The Board have decided not to automatically switch members into a fund with a higher probability of a short-term loss based only the members remaining age until retirement. The Board will, with the help of the sponsor and advice provider, discuss the suitability of the member's investment portfolio on an annual basis with each member. This will occur in circumstances where a member has less than 5 years remaining until their expected retirement date.

1.8 Investment administration

One of the most tangible experiences for a member is the experience of effective investment administration. The ability to manage the process of investing, collection of contributions, ensuring statements are accurate, instructions processed are critical to the positive experience of a member.

To achieve this the trustees have aimed to keep investment administration as simple as possible with manual intervention only where necessary.

1.9 Governance

1.9.1 Review of the Investment Policy Statement

The Investment Policy Statement is considered by the Board to be a living document and will be reviewed at least annually.

1.9.2 Review of the investment portfolios

The Board will review the portfolios on a quarterly basis. The following performance and risk information will be reviewed as part of this process:

- Absolute performance of the unit trusts, net of fees over periods including 6 months, 12 months, 2 years, 3 years, 5 years and Since Inception where relevant.
- Performance of the unit trusts against their inflation-linked targets, net of fees over periods including 6 months, 12 months, 2 years, 3 years, 5 years and Since Inception. The inflation targets are the following":
    - Money Market: Consumer Price Inflation (CPI) over every year.
    - CoreShares OUTcautious Index Fund: CPI + 1% per year over periods of less than 3 years.
    - CoreShares OUTstable Index Fund: CPI + 2% per year over periods of between 3 and 6 years.
    - CoreShares OUTmoderate Index Fund: CPI + 3% per year over periods of more than 6 years.
- Peer group performance comparison of the portfolios against relevant peers over 6 months, 12 months, 2 years, 3 years, 5 years and Since Inception.
- Tracking error performance of the portfolios against each of the three net of fees over periods including 6 months, 12 months, 2 years, 3 years, 5 years and Since Inception.
- Review of the Minimum Disclosure Documents for each of the unit trusts
- Performance and risk characteristics of the custom multi-asset indices

1.9.3 Reviewing the appointment of a manager

During the annual IPS review by the Board, the following events and actions may cause the Board to consider evaluating whether or not a manager remains suitable for member's retirement portfolios:

- Change in the team (fund manager leaves, team members leave)
- Change in shareholder structure of the manager
- Change in the investment philosophy of the firm or the fund
- Change in the investment process
- Ethical considerations and concerns
- Lack of oversight capability by the asset manager and or manager
- Breach of fund risk constraints, for example a consistent breach of tracking error objectives, fund holdings that are not in line with strategy
- Consistent and unsubstantiated breach of investment objectives
- Change in the governance structure of the manager

1.9.4 Broad-based Black economic empowerment

1. Regulation 28(2)(c)(iii) requires that when contracting services to the Fund or its Board, the Board should consider the need to promote broad-based black economic empowerment of those providing services.

2. The Fund shall take into account principles of broad-based economic empowerment when outsourcing services to service providers. Where the Fund is not satisfied with a service provider's progress in attaining a score acceptable to the Fund, the Fund will engage with the service provider in question to reach a satisfactory outcome.

1.9.5 Regulation 28 Compliance

The Fund will only invest in Regulation 28 compliant Collective Investment Schemes. Such asset manager of such a portfolio must:-

- Manage the portfolio in accordance with the Regulation 28 limits;
- have systems in place to monitor compliance with Regulation 28 on a daily basis;
- have procedures in place to address any breaches of compliance;

- report breaches, including breaches which are as a result of a change in the fair value of assets, to the Funds on a monthly basis;
- provide certificates of Regulation 28 compliance.

The Fund may exclude participatory interests in a collective investment scheme in respect of which the Fund has obtained a certificate issued by the collective investment scheme at the end of the financial year of the Fund, confirming that the assets of the collective investment scheme have complied with the limits as set out in Regulation 28, provided that:-

- the auditor of the collective investment scheme confirms the accuracy of the certificate at the financial year end of the scheme; and
- the confirmation is made available to the Fund.

The Fund 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.

The Fund will verify and monitor the quarterly certificates provided by the asset managers.

If a market movement breach is picked up, the Board will track the breach to confirm that it has been corrected and will take the necessary corrective action or apply for exemption where it has not been corrected.

This Policy will be kept under review (at least annually) by the Board, and in no way restricts the ability of the Board to make decisions as allowed under the Fund Rules. It will remain in force until such time as it is rescinded or altered by the Board.

Adopted by the Board [at a meeting of the Board held on 8 November 2019 by written resolution] as good practice with effect from 8 November 2019

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CHAIRPERSON OF THE FUND	**PRINCIPAL OFFICER**

1.10 Appendix: Investment allocation breakdown

		Money Market	OUTcautious Index	OUTstable Index	OUTmoderate Index
Local Equity	S&P South Africa 50		25%	35%	55%
Local Equity	S&P South Africa Preference Share Index		5%	5%	
Global Equity	S&P 500		3%	6%	8%
Global Equity	S&P Global Ex-US BMI		2%	4%	5%
Local Bonds	S&P South Africa Sovereign Bond		15%	10%	
Local Bonds	S&P South Africa Sovereign Inflation Linked Bond		30%	20%	10%
Global Bonds	S&P Global Developed Sovereign Bond Index		5%	5%	5%
Local Property	S&P South Africa Composite Property Capped		3%	6%	10%
Global Property	S&P Global Property 40		2%	4%	5%
Money Market	Money Market Fund (SteFI Composite Index)	100%	8%	3%	
Cash	Cash (SABOR)		2%	2%	2%
	Total	**100%**	**100%**	**100%**	**100%**