

# **MUNICIPAL GRATUITY FUND**

## **INVESTMENT POLICY STATEMENT**

**JULY 2022**



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## INTRODUCTION

The purpose of this Investment Policy Statement ("IPS") is to set out the investment policy of the Municipal Gratuity Fund (MGF) and to document the investment strategy that the MGF has decided to implement, in accordance with this policy. The IPS is drawn up in accordance with the Principles of Circular PF No. 130 of the Financial Services Board ("PF 130") and Regulation 28 of the Pensions Fund Act of 1956 ("Act").

The objective of the Management Board of the Fund ("The Board") in drafting this document is to:


- ❖ Document the MGF's investment policy and summarize the investment strategy established in accordance with this policy.
- ❖ Clearly set out the decision-making responsibilities relating to the MGF's assets.
- ❖ Provide a framework for the effective implementation and review of all components of the investment strategy.
- ❖ Assist stakeholders, including the Board themselves, in understanding the investment policy and strategies of the Fund, to be able to communicate a summarized version of this investment policy to all stakeholders.
- ❖ Demonstrate adherence to PF 130, as far as this is appropriate and practical, and the Act.
- ❖ Provide a mechanism to ensure continuity of decision making across generations of Board members.


The governance body of the MGF in terms of the Fund Rules is the Management Board (Board of Fund), hereinafter referred to as the Board. This policy was developed by the Board. The investment strategy was designed in consultation with the MGF's investment advisors (SMMI), the Fund's actuary and the Principal Officer.

The Board reviews the IPS annually after the financial year-end. Where a material change to either the legislative, regulatory, economic or capital market environment takes place, or should there be a material change in the MGF member profile, or should the Board become aware of the potential for a material change in the member profile, the Board will review this IPS as soon as is practically possible.

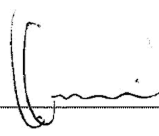
The first IPS was implemented during July 2005 and is reviewed annually. This document is the latest review of the IPS approved by the management Board on 21 September 2022.

Signed at Pretoria on this 21th day of September 2022

Chairperson:   
On behalf of the Board

Principal Officer: 

I hereby confirm that I am satisfied that the investment policy recorded herein is consistent with the objectives of the MGF and the management of the risks to which the Fund is exposed, and that this policy should result in an appropriate relationship between the assets and the liabilities of the Fund.

Actuary: 



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## DUTIES AND RESPONSIBILITIES OF PARTIES TO THE FUND

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The Board is ultimately responsible for the MGF's assets, the investment of those assets and the assets' investment performance. The Board cannot relinquish or cede these responsibilities but is permitted to delegate certain of the actions and activities relating to the management of the MGF's assets.

The Board is aware that they are in a position of trust, looking after money that belongs to members who can reasonably expect the Board to act prudently. Whenever the Board is required to make a decision, the decision is always taken in utmost good faith towards the MGF and in the best interests of all members rather than any third party or the Board members themselves.

The Board acknowledges the complexity of investment matters. Accordingly, and as is permitted in terms of PF130, circulars and the Act, the MGF has appointed investment advisors to assist the Board in its deliberations. The Board will critically evaluate the advice of the advisors before making any decision.

The roles and responsibilities of the different parties involved in establishing an investment policy and implementing the investment strategy can be summarized as follows:

### **Board and Principal Officer**

- ❖ Determine the investment philosophy.
- ❖ Establish an appropriate investment policy with assistance from specialists where necessary.
- ❖ Design a Fund-specific investment strategy with the assistance of specialists where necessary.
- ❖ Review the investment policy annually, and amend as appropriate.
- ❖ Make adjustments to the investment strategy when necessary to ensure adherence to the investment policy and achievement of investment objectives.
- ❖ Oversee the implementation of investment decisions.
- ❖ Monitor performance of the investment strategy on a regular basis
- ❖ Appoint investment advisers and utilize their services as and when deemed necessary
- ❖ Determine return objectives, tactical asset allocation and other permissible asset allocation bands
- ❖ Appoint or terminate investment administrators and determine contractual arrangements

### **Investment Advisor**

- ❖ Provides advice to the Board on the formulation of the MGF's investment policy
- ❖ Provides advice to the Board on the formulation of the investment strategy to be implemented
- ❖ Implement the MGF's investment strategy
- ❖ Provide advice to the Board on tactical asset allocation and implement the MGF's tactical asset allocation strategy, both within the asset class ranges, as well as between the underlying discretionary financial services providers.
- ❖ Provide daily cash flow management of the MGF's investment portfolios, ensuring compliance with Regulation 28 of the Act
- ❖ Report to the Board on compliance of the MGF's investment portfolios with Regulation 28 of the Act.

### **Actuary**

- ❖ Confirms that the investment policy is appropriate considering the liabilities of the MGF, and that the chosen investment strategy will result in an appropriate relationship between the assets and the liabilities of the MGF.

### **Investment administrators**

- ❖ Manage assets within legislative requirements and in the best interests of the MGF.
- ❖ Achieve the investment return objectives set by the Trustees, relative to appropriate investment benchmarks.
- ❖ Adhere to the investment mandate agreed with the MGF.

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## BACKGROUND

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The MGF is a defined contribution fund, with slightly less than 30 000 active members employed by local authorities as defined in the Fund Rules, in the provinces of Mpumalanga, Gauteng, North West and Limpopo.

Being a defined contribution fund, the members' fund credits accumulate through employee and employer contributions plus the investment returns earned thereon. The members' final fund credits are based on the underlying market value of their investment portfolios at the time of retirement or their exit from the MGF. The Board recognizes that the members of the MGF bear the investment risk and also the return. In order to provide for the different needs of the members of the MGF, the Board has established an appropriate range of investment portfolios.

### OBJECTIVE

- ❖ The primary objective of the MGF is to provide members with an efficient vehicle through which they can make effective and adequate provision towards their retirement.
- ❖ The MGF therefore targets to achieve sufficient investment returns to enable a member to buy a pension equal to 75% of his/her pensionable salary at retirement (Net Replacement Ratio (NRR)), which pension is based on a life annuity at age 65 with a 5% annual escalation and a 10-year certain term, and a spousal pension of 75% (age of spouse in the event of female 4 years younger), assuming the following member characteristics:

Retirement Age:	65
Saving Years:	35 years in aggregate during the member's career
Marital Status:	Married with the husband being 4 years older than the wife
Post-Retirement Spouse Pension:	75% of an annuity income in the event of death
Retirement Savings:	29.5% of pensionable salary (7.5% member's contribution and 22% employer's contribution) for members joining before 1 August 2012 and 25.5% for members joining after 1 August 2012 (7.5% member's contribution and 18% employer's contribution). An employer's contribution of 4.0% of salary is utilized to finance risk benefits (3.6%) and administration costs (0.4%). For members older than 65 years of age, only administration costs of 0.4% of salary are utilized from the employers' contribution with no risk benefits provided for those members.
Salary and Promotion Progression:	3% above inflation up to the age of 40, 2% above inflation between the ages of 40 and 49 and 1% above inflation from age 50.
Weighted annual average investment return until retirement	4.5% per annum above inflation net of fees

- ❖ In order to have a reasonable chance of achieving the targeted NRR, a real return of 5.0% per annum is required until 10 years before retirement, thereafter reducing gradually to a real return of 4.0% some 5 years before retirement and to a real return of 3% some 2 years before retirement. The required real return reduces to 1% in the year immediately preceding retirement. Since the MGF uses a four-phase life stage model, the Fund will be targeting a weighted real return of 4.5% until the age of 65 years.
- ❖ The table below shows the required real returns needed over a 30 and 35-year savings period for a member of the MGF to achieve a NRR of 75%. It stands to reason that the higher the members' contribution rate, the higher the NRR will be. Similarly, the longer a member contributes to a pension fund, the lower the required real return will be. From the calculations below, it is evident that a 4.5% weighted real return will conservatively achieve a 75% NRR.

Required Real Return for a 75% Net Replacement Ratio		
Member Retires at 65	100% of CPI	5% Guaranteed Escalation
Male – Before 1 August 2012	4.54%	3.13%
Female - Before 1 August 2012	4.28%	2.92%
Male – After 1 August 2012	5.65%	4.30%
Female – After 1 August 2012	5.40%	4.09%

Required Real Return for a 75% Net Replacement Ratio		
Member Retires at 60	100% of CPI	5% Guaranteed Escalation
Male – Before 1 August 2012	5.04%	3.48%
Female - Before 1 August 2012	4.85%	3.31%
Male – After 1 August 2012	6.13%	4.61%
Female – After 1 August 2012	5.94%	4.45%

Assumptions include a 75% spousal income, a 5% annual escalation and a 10-year certain term. For comparative purposes, the required real return for a 100% inflation-linked annuity and a 5% annual escalation annuity is shown in the table. In addition, the required real return is shown for members retiring at 60 years of age rather than 65 years of age.

- ❖ It is emphasized that the investment strategy as contained in this IPS cannot cater for the individual circumstances of each member individually. The IPS provides an investment policy and renders an investment strategy for the Fund members as a collective to be universally applied to all members. This means that certain assumptions have to be made in respect of contribution rates and the contribution term, also referred to as saving years, as alluded to above. In the event that a member does not contribute according to the assumed rate and term, that is contributing at a lower rate or for a shorter period, the projected outcome of a 75% NRR cannot be expected. Some members join the Fund at a later stage in life and if they do not transfer the savings from their previous retirement fund to the MGF or transfer an inadequate portion in relation to the number of past years, a lower NRR will follow. When it comes to investment, time is an irreplaceable resource. It is not up for sale and can't be bought. The shorter the term of retirement savings, the more one needs to invest and vice versa. By way of illustration, if investing for retirement starts at the age of 25 with R1 000 a month until retirement age, one would have R6,324,080 by 65 (assuming a net 10% annual return). The remarkable story here is that 92.4% of the final sum comes from compounding growth (interest on interest), which means a member would only have paid R480,000 over forty years to reach the total amount of R6.3million. The following table illustrates the impact of the lost savings years.

Starting Investment Age	Value at 65 years of age	% Less
25	R6,324,080	
30	R3,796,638	40.0% less
35	R2,260,488	64.3% less
40	R1,326,833	79.0% less
45	R759,369	88.0% less
50	R414,470	93.4% less

Assumptions: The investor invests R1000 pm for a specified period and earns a net return of 10% p.a

- ❖ In view thereof that a 4-phase life stage model is applied, de-risking commences at age 55 from the AP to the MP but is done in a more incremental manner than that of a 3-phase life stage model. This means that over the 5-year period from age 55 to 60 in the MP, a higher exposure to growth assets is retained than would be the case in a 3-phase life stage model. Therefore, although de-risking begins at a relatively early age of 55, it is not done in an aggressive manner but rather in a slower 2-phased approach between the ages of 55 and 60. More pronounced de-risking is done with the life stage switch from the MP to the CP at age 60, with complete de-risking at 63 taking place with the switch to the PP. Having regard for such phased de-risking as well as the membership profile of the Fund, de-risking from age 55 is regarded as appropriate in these circumstances.

- ❖ The MGF offers a life stage model (LSM) as the default investment strategy. The MGF's default investment strategy has been designed to be consistent with the above investment return objectives.
- ❖ Members can elect not to form part of the default life stage portfolio and rather make their own individual choice in terms of underlying portfolio selection within the range of investment portfolios offered, subject thereto:
  - ❖ that the selection is not limited to any number of the investment portfolios at any given time and
  - ❖ that the contributions shall follow the elected investment portfolios in the same proportion as the initial election
- ❖ Wherever appropriate, the Fund uses the aggregate buying power of the membership to reduce costs compared to what a member would be able to achieve were they to make their own retirement provision.
- ❖ In terms of the default regulations issued in terms of section 36 of the Pensions Funds Act (No. 24 of 1956), the MGF must offer a default in-fund preservation arrangement to members who leave the participating employer before retirement, and also a default investment portfolio to contributing members who do not exercise a choice. To give effect to the new regulations, the MGF will use its existing risk-profiled life stage model portfolios as its in-fund default options for members.
- ❖ For retiring members, the legislation requires that a fund must have an annuity strategy with annuity options, either in-fund or out-of-fund, and can only default retiring members into a particular annuity product after a member has made a choice (i.e. members must opt-in). The MGF has taken the decision to provide an out-of-fund life annuity for its members, whereby the MGF will facilitate and negotiate on behalf of members favourable take-on fees with a life insurer given its pool of assets. The default opt-in option envisages a guaranteed life annuity with a 5% escalation per annum with an option of a nil, 5-year or 10-year certain term. An option of a 50% or 75% spousal pension will also be offered to the retiree. Access to retirement benefits counselling to members, at least 3 months before retirement, will be facilitated by Sanlam's Individual Member Services, a basic counselling service provided to members free-of-charge. Members will also have the option of transferring their benefits to a living annuity, again provided outside of the fund. In this instance, the MGF will again negotiate favourable fees with FSP's licensed to provide investment advice.

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## CURRENT MEMBERSHIP STRUCTURE

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### MEMBERSHIP AGE PROFILE

The active member age profile of the MGF as at 30 June 2022 is reflected in the table below. A comparison is made with the age profiles of members in prior years.

Age Group	% Members 30/06/2022	% Members 30/06/2021	% Members 30/06/2020	% Members 30/06/2019	% Members 30/06/2018
Age < 30	3.0%	3.5%	6.1%	4.9%	5.9%
30 <= Age < 40	26.4%	27.6%	26.4%	29.0%	31.6%
40 <= Age < 45	17.8%	17.6%	17.6%	17.8%	15.9%
45 <= Age < 50	18.2%	17.8%	17.5%	17.0%	18.1%
50 <= Age < 55	15.7%	14.1%	14.1%	13.8%	11.8%
Age >= 55	18.9%	18.6%	18.4%	17.5%	16.7%

The table shows that most of the members are still relatively young and have a long-term investment horizon. Since the last IPS review, the age profile of the MGF membership has increased, with members aged less than 50 years now making up 65.4% of the total members as opposed to 66.5% previously. The age profile of members is generally still tilted towards younger members although the percentage younger than 50 years of age has now dropped below 70%, a dominant characteristic of the Fund since 2007. Since most of the members are still relatively young, the MGF must focus on capital growth (those aged < 50 years), while the balance (members aged >=50 years) must have a dual focus of capital growth as well as capital preservation.

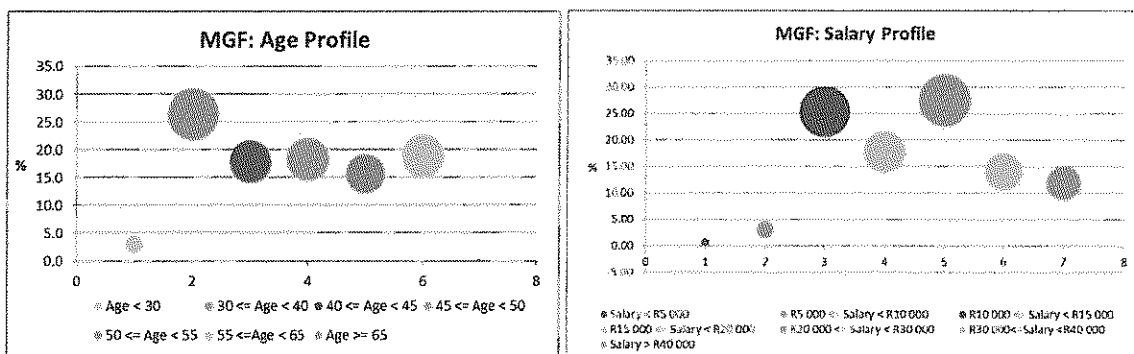
## MEMBERSHIP SALARY PROFILE

The active member salary profile of the MGF as at 30 June 2022 is given in the table below. A comparison is made with the salaries of members in prior years. It must be noted, however, that above-inflation salary adjustments have lifted members into higher salary brackets over time. As a consequence, the salaries will be skewed towards higher brackets and are therefore not comparable with those in previous years. In general, members' salaries are higher as a result of annual wage escalations, with members earning proportionally more than a year earlier. Those members earning less than R15,000 per month has now declined to 29.031.6% from 31.6% the year before. At the other end of the spectrum, those members earning in excess of R30,000 per month has increased to 25.9% from 24.0% the year before.

Monthly Salary*	% Members 30/06/2022	% Members 30/06/2021	% Members 30/06/2020	% Members 30/06/2019	% Members 30/06/2018
Salary < R5 000	0.7%	0.4%	0.4%	0.5%	0.5%
R5 000 <= Salary < R10 000	3.0%	3.6%	11.5%	15.6%	21.7%
R10 000 <= Salary < R15 000	25.3%	27.6%	26.0%	26.7%	25.6%
R15 000 <= Salary < R20 000	17.7%	16.2%	17.7%	18.4%	17.6%
R20 000 <= Salary < R30 000	27.4%	28.2%	24.7%	22.4%	22.3%
R30 000 <= Salary < R40 000 *	14.0%	13.4%	11.3%	9.8%	7.5%
Salary >= R40 000	11.9%	10.6%	8.4%	6.6%	4.9%

\* No adjustment for inflation has been made to the salary brackets.

As a result of the number of active members, monthly liquidity considerations are not of great concern. Investment portfolios for members close to retirement hold sufficient cash to fund the exits. For members that exit before retirement, monthly contributions and cash available within the investment portfolios are usually sufficient to meet the MGF's liquidity requirements.



## FUND CREDITS VS PENSIONABLE SALARY (COVER RATIO)

The table and figures below show the ratio of fund credits to pensionable salary (the cover ratio) by age and gender as at 30 June 2021. Although the actual years of service of the members fall well short of the targeted 35 to 40 years of service, male members at age 65 have on average 25.3 years of service and a cover ratio of some 6.8 times pensionable salary. Similarly, female members at age 65 have on average 22.1 years of service and a cover ratio of 6.2 times pensionable salary.

- Given the MGF's own member experience, an extrapolation of the trend lines shown in the figures below suggest that if members contribute towards their retirement for 35 years, their cover ratio will be around 11.1 times, slightly higher than the 11.0X times the previous year. The increase in the cover ratio can be attributed to the market recovery in 2021 following the Covid-pandemic induced market crash the previous



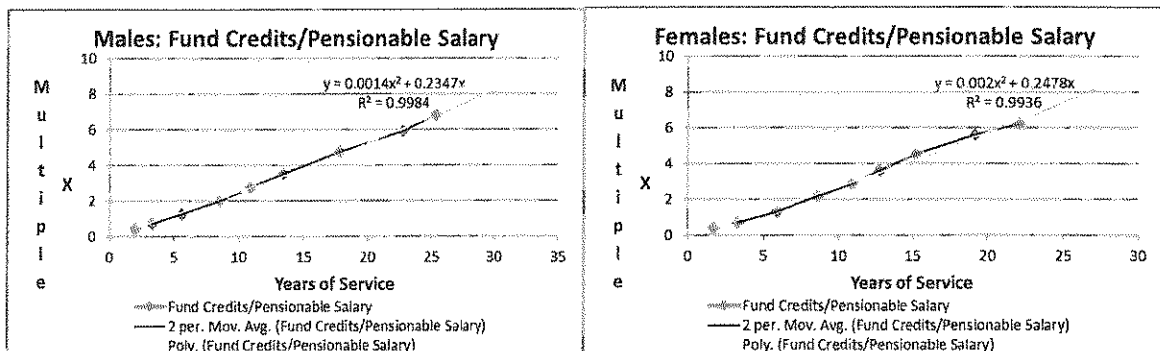
year. If members contribute towards their retirement for some 40 years, the cover ratio increases to 13.1 times, slightly higher than the 13.0 times the year before.

- ❖ A cover ratio of between 10 and 12 times is widely considered adequate to replace some 75% of pensionable salary.

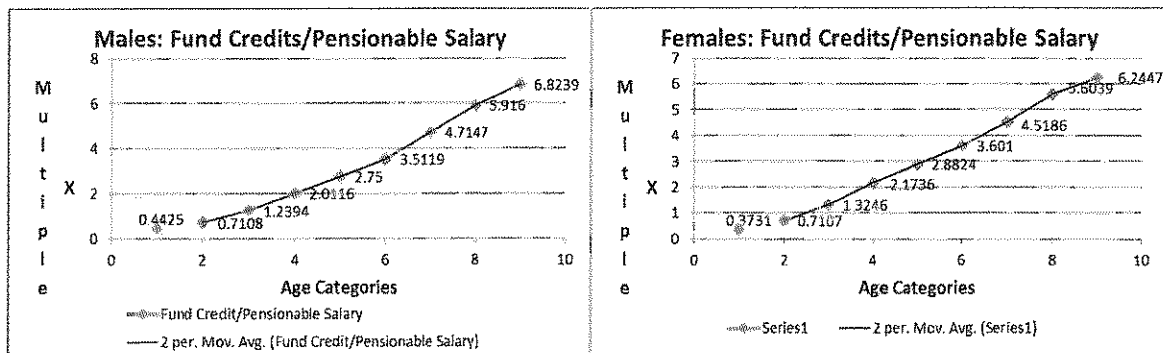
#### Fund Credits vs. Pensionable Salary (Cover Ratio)

Categories	Age	Male Members: Total Fund Credits/Pensionable Salary	Male Members: Years Service	Female Members: Total Fund Credits/Pensionable Salary	Female Members: Years Service
1	20 - 24	0.4425	2	0.3731	1.7
2	25 - 29	0.7108	3.3	0.7107	3.3
3	30 - 34	1.2394	5.6	1.3246	5.9
4	35 - 39	2.0116	8.5	2.1736	8.6
5	40 - 44	2.75	10.9	2.8824	10.9
6	45 - 49	3.5119	13.4	3.601	12.8
7	50 - 54	4.7147	17.8	4.5186	15.2
8	55 - 59	5.916	22.7	5.6039	19.2
9	60 - 65	6.8239	25.3	6.2447	22.1
10	65 >	7.2976	30.5	6.0295	23.5
	Total	3.7367	14.1	3.2547	11.7

Alexander Forbes: Actuarial Valuation - June 2021



\* Members older than 65 years of age are excluded from the analysis



\* Members older than 65 years of age are excluded from the analysis



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## INVESTMENT PHILOSOPHY (BELIEFS)

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The investment philosophy of the Board is summarized below:

1. The Board acknowledges that past performance is not a predictor of future returns.
2. Markets are generally efficient but may from time to time price an asset inefficiently resulting in a significant deviation from its intrinsic or fair value. The implication of this belief is that in order to achieve above-market returns, the MGF will need to take on a greater degree of calculated risk.
3. Markets generally mean-revert – this implies that over the long term, asset class returns will revert back to the historical average. While the average returns will be a function of a number of drivers (GDP growth, inflation, yield curve movements, earnings growth etc.) there may be fundamental shifts in the averages over time due to structural changes in these drivers.
4. Superior investment returns can be realized if the MGF adopts a long-term investment horizon, typically 5 years and longer. The Board further accepts that this may be difficult over shorter time horizons if the MGF is underperforming the market.
5. Equities are likely to be the best performing asset class over the long term. In general, a buy and hold equity strategy should generate higher returns over time provided that entry level multiples are not stretched.
6. Risk is best managed by holding a diversified and uncorrelated portfolio of assets, with a certain proportion of the assets providing returns that are linked to inflation over the long term.
7. While the primary objective for the MGF is to achieve the targeted returns in excess of inflation for each risk-profiled portfolio, the Board is aware that the medium term returns of each portfolio should be competitive when compared against the performance of appropriate peer group portfolios. For the sake of clarity, peer group returns are not the main driver of the MGF's investment strategy.
8. True investment skill is rare and the majority of active investment administrators are likely to underperform an appropriate benchmark net of fees and after having adjusted for risk.
9. Together with its investment advisors, skillful managers can be selected that will outperform an appropriate benchmark over the long term. The Board also accepts that over measurement periods of as long as 2 to 4 years, a skillful manager may underperform the benchmark. In certain cases, the underperformance could be substantial.
10. It is not possible to be 100% certain about the skill of an investment administrator and to mitigate the risk of being incorrect in the assessment of a manager's skill, the Board will seek to appoint more than one investment administrator within the major asset classes.
11. Where the MGF appoints active managers, the manager mix will be weighted towards achieving a more style-agnostic balance of managers, with value, momentum, growth and quality managers included as levers to tilt the manager mix in a certain direction if and when needed.
12. Importantly, the Board believes it has the courage and patience to stay with an under-performing manager provided it is satisfied with the due diligence process and the manager's explanation for his/her underperformance and is convinced performance will recover if market conditions change and the manager remains true to his/her investment style.
13. Since skill is rare and because the Board acknowledges that the compounding effect of even seemingly low costs does have a material impact on the accumulation of members' capital over long time horizons, it may at times be appropriate to utilize so called "passive" investment strategies, designed to track an explicit capital market index at low cost (see Appendix 3 for "active vs. passive" discussion). Consideration may also be given to smart beta strategies, which follow a rules based quantitative approach to pure passive

investment. In the passive space, the MGF has adopted momentum and value smart beta strategies, along with a Capped All Share Index tracker as a new building block in the AP and the MP.

- 14 The MGF endorses the principles of sustainable investing which includes ESG and climate change considerations (environmental, social and governance). The MGF however believes that the FSCA's Guidance Note of 14 July 2019 should provide the retirement industry with a consistent framework of factors that need to be considered when applying the ESG principles (see Appendix 4: ESG Guidance Note). Ultimately, it is the primary obligation of the MGF to render the best possible sustainable returns for its members.
- 15 Active tactical asset allocation is part of the investment philosophy of the Fund and contributes to investment returns.

## RISK PREMIA, ASSET CLASSES, CAPITAL MARKET ASSUMPTIONS AND BENCHMARKS

### RISK PREMIA

An asset's risk premium is the additional return that an investor should receive for taking on the additional risk of investing in that asset class as opposed to the "risk-free" asset. The quantum of the premium offered by various asset classes relative to the assessed risk of earning that premium should be considered when making any investment decision. Risk-adjusted returns therefore also form an integral part of the investment strategy. A list of the various premia on offer is given below:

- ❖ Inflation risk premium – The premium investors earn for taking on inflation risk by investing in nominal bonds as opposed to inflation-linked bonds
- ❖ Equity risk premium – The premium investors earn for being last in queue in benefiting from company profits and the first in line for losing money if the company makes losses.
- ❖ Credit premium – The premium investors earn for investing in corporate debt rather than the lower risk government debt. The credit premium compensates for default risk.
- ❖ Illiquidity premium – The premium an investor earns for investing in illiquid assets such as private equity; renewable energy projects
- ❖ Volatility premium – the premium investors receive for investing in volatile or risky assets
- ❖ Sovereign risk premium – the premium investors receive for investing in higher risk SA government debt as opposed to lower risk US Treasuries.
- ❖ Term premium – the premium investors receive for committing to long term investments that carry a greater degree of risk than short term investments.

The asset allocation decision therefore takes into account the premia on offer when investing in certain types of asset classes. If the premium is considered unattractive relative to the risk taken, the investment is unlikely to be made and vice versa.

### ASSET CLASSES

The following are considered appropriate asset classes (and investment strategies) for investment by the MGF.

ASSET CLASS	PRIMARY CHARACTERISTIC
SA Cash	Asset class with lowest absolute risk but real return is dependent on SARB monetary policy
SA Nominal Bonds	Exposure to term and inflation risk premium
SA Inflation Linked Bonds	Hedge against inflation risk plus term premium
SA Credit	Exposure to credit and illiquidity premiums
Mezzanine Debt	Exposure to default risk and the illiquidity premium
Infrastructure (Renewable Energy)	Exposure to the illiquidity premium and legislative risks
SA / Global Listed Property	Exposure to equity risk premium and hedge against inflation by virtue of the "real asset" nature of listed property
SA / Global Corporate Bonds	Default risk premium plus term premium
SA Listed Equity	Exposure to the equity risk premium



ASSET CLASS	PRIMARY CHARACTERISTIC
SA Alternatives / Hedge Funds	Exposure to various asset class risk premia plus manager skill
Global Sovereign Bonds	Hedge against extreme market events plus term premium
Emerging Market Sovereign Bonds	Country default risk premium plus term premium
Global / Emerging Market Equity	Exposure to equity risk premium as well as economic drivers not prevalent in SA
Currency	Hedge against SA country and currency risk

## EXPECTED LONG AND SHORT TERM RETURNS OF ASSET CLASSES VS RISKS (VOLATILITY)

The tables below set out the actual and long term (10-years) expected annualized real return assumptions, the resampled TAA (12-18 month) expected return assumptions, the variability of returns (volatility) and the correlations between the various asset classes listed above. These assumptions form the basis for any modeling to determine the optimal long term strategic asset allocation for each investment portfolio, given the different investment objectives and risk tolerances.

Asset Class	Expected long Term Return above CPI (2019)	Expected long Term Return above CPI (2020)	Expected long Term Return above CPI (2021)	Expected long Term Return above CPI (2022)	TAA (Real Return)	Expected long Term Volatility
SA Equities	7.00%	7.00%	6.00%	7.00%	9.0%	20.49%
SA Bonds	3.50%	4.50%	4.50%	5.00%	5.6%	7.05%
SA ILB	3.00%	3.50%	3.50%	4.00%	6.7%	6.21%
SA Property	6.50%	7.50%	6.50%	7.50%	9.2%	17.32%
SA Cash	1.50%	0.50%	0.50%	-1.00%	0.5%	1.32%
DM Equity	5.50%	5.00%	5.50%	5.00%	7.4%	16.44%
EM Equity	7.00%	7.00%	6.50%	7.00%	-5.7%	18.79%
Global Bonds	1.00%	1.00%	1.00%	1.50%	-5.3%	15.52%
Global ILB	1.00%	0.50%	0.50%	1.00%	-4.4%	15.34%
Global Property	3.50%	4.50%	4.50%	5.50%	2.0%	20.23%
Global Cash	0.50%	-0.20%	1.00%	0.00%	-3.1%	13.62%

## CORRELATION MATRIX

	Domestic Equity	Foreign Equity	Domestic Bonds	Domestic Hedge	Foreign Bonds	Domestic Property	Foreign Property	Domestic Cash	Domestic ILBs	Foreign Cash
Domestic Equity	1.00	0.49	0.25	0.24	-0.03	0.52	0.30	-0.15	0.44	-0.14
Foreign Equity	0.49	1.00	-0.27	0.55	0.60	0.09	0.75	-0.03	0.09	0.57
Domestic Bonds	0.25	-0.27	1.00	-0.16	-0.52	0.51	-0.10	0.01	0.60	-0.54
Domestic Hedge	0.24	0.55	-0.16	1.00	0.61	-0.07	0.58	0.00	0.15	0.56
Foreign Bonds	-0.03	0.60	-0.52	0.61	1.00	0.38	0.58	0.10	0.27	0.34
Domestic Property	0.52	0.09	0.51	-0.07	-0.38	1.00	0.25	-0.16	0.51	-0.43
Foreign Property	0.30	0.75	-0.10	0.58	0.58	0.25	1.00	-0.02	0.14	0.52
Domestic Cash	-0.15	-0.03	0.01	0.00	0.10	-0.16	-0.02	1.00	-0.13	0.04
Domestic ILBs	0.44	0.09	0.60	0.15	-0.27	0.51	0.14	-0.13	1.00	-0.35
Foreign Cash	-0.14	0.57	-0.54	0.56	0.34	-0.43	0.52	0.04	-0.35	1.00

## ASSET CLASS BENCHMARKS

Asset Class	Benchmark
SA Cash	STeFI Composite Index (STeFI)
SA Nominal Bonds	FTSE/JSE All Bond Index (ALBI)
SA Inflation Linked Bonds (SA Govt)	Composite SA ILB Index (CILI)
SA Credit	STeFI + 1.5% - 4% (credit quality dependent)
SA Infrastructure	3 Month JIBAR + 3.5% / CPI +4.3%
Mezzanine Debt	Stefi + 8%



Asset Class	Benchmark
SA Listed Property	FTSE / JSE SA All Property Index (J253T)
SA Listed Equity	FTSE / JSE All Share Index (J203T)
SA Alternatives / Hedge Funds	STeFI + 3% to 4% / Capped SWIX Index
Global Sovereign Bonds	JP Morgan Global Bond Index
Global Equity	MSCI All Country Index / MSCI World Index
Emerging Market Equity	MSCI Emerging Markets Index / MSCI EM Ex SA Index
Africa Listed Equity	MSCI EFM Africa ex SA Index
Global Listed Property	EPRA/NAREIT Developed Markets Property Index
Global Cash	3 Month US\$ LIBOR

The MGF invests in specialist mandates and multi-asset class strategies where the appointed investment administrator is responsible for both the asset allocation as well as the security selection decisions. The portfolios typically have an explicit real return target over a rolling three to five-year time horizon. In such instances, the MGF will use an appropriate composite of the above asset class benchmarks for the purposes of determining short term portfolio benchmark returns.

## ASSET ALLOCATION

The above asset class assumptions, together with the relevant performance objectives and risk constraints, are used to assist in determining the appropriate strategic asset allocations for the MGF's individual investment portfolios. These strategic asset allocations represent the long term combination of various asset classes deemed appropriate for each portfolio, assuming normal capital market conditions. These strategic asset allocations are used as the benchmark for determining the strategic asset allocation returns. Since the Great Recession of 2008 and the Covid-19 recession of 2020, the investment landscape has become increasingly uncertain supporting the construction of a diversified portfolio across a multitude of uncorrelated asset classes.

The MGF has mandated its Investment Advisor to advise the Board on tactical asset allocation matters. Tactical asset allocation entails the deliberate or explicit deviation away from the long term strategic asset allocation, with the aim of enhancing performance, and is based on the expected shorter term (12-18 month) risk and return outlook for the various asset classes. While mean variance optimization is used to establish which combination of assets would maximize both nominal and real returns with the least amount of risk, the analysis is premised on long term expected returns (10 years) for the underlying asset classes. As a consequence, the optimised asset class combinations could be biased towards specific asset classes that have experienced secular (long term) bull or bear trends. Once the long term strategic asset allocation per risk-profiled portfolio has been determined, the current asset class weightings are compared to the long term optimised asset allocation weights (see Appendix 8).

The figures shown in Appendix 8 below highlight the long term optimised weights for the underlying asset classes relative to the current portfolio weights (the so-called tactical asset allocation decision), the portfolio's benchmark (on a look-through basis) and a "What if" scenario that minimizes risk within the portfolio. It must be stressed that the current weightings in the portfolio – the tactical asset allocation decision – may differ from the long term optimised weights because the TAA decision is premised on the 12 to 18-month expected returns from the underlying asset classes. Appendix 8 shows the optimised solutions for the AP, MP and CP.

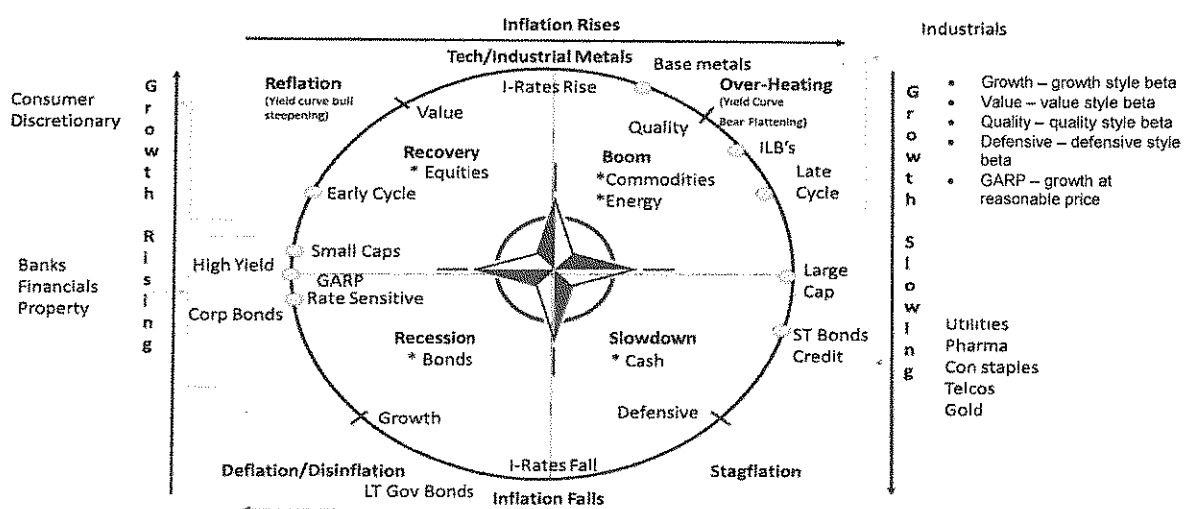
For the AP, it can be seen that the current portfolio is not that closely aligned with the optimised long term strategic asset allocation, suggesting the portfolio could marginally improve expected returns with less risk. In order to do so, the model proposes reducing domestic equity exposure and increasing the allocation to domestic bonds, foreign equity and alternative investments (including investments in hedge funds, private equity funds and renewable energy). In light of the recent amendments to Regulation 28 of the Pension Funds Act, which now permits an offshore allocation of 45% - up from 30% previously - the allocation to foreign equities will be increased. Similarly, since drawdowns on the Stanlib Infrastructure FoF are expected to commence over the coming year, the allocation to alternatives will also increase. In order to fund these changes, the domestic equity allocation will be reduced, in line with the optimised solution. Similarly, by optimising the portfolio for expected returns over the coming 12 to 18-months, the model again suggests reducing exposure to domestic equities and increasing the allocation to foreign equities, domestic bonds and alternative investments.

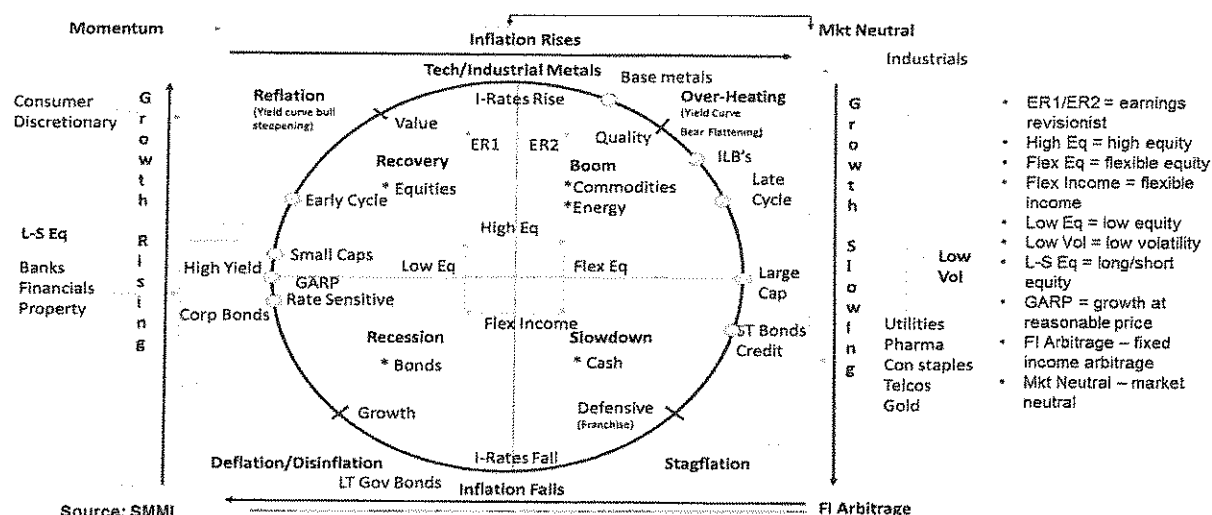
With respect to the MP, the optimised portfolio relative to the long term strategic asset allocation calls for reducing exposure to domestic equities, domestic listed property and domestic inflation linked bonds. The model also calls for a higher allocation to domestic nominal bonds, foreign equities and alternative investments. In contrast, by optimising the portfolio for expected returns over the coming 12 to 18-months, the model suggests

reducing exposure to domestic equities, domestic bonds and inflation-linked bonds, while increasing the allocation to foreign equities, foreign bonds and domestic cash. The latter is premised on a sharp rise in money market rates (Fra's) which will enhance cash returns over the coming year. Envisaged changes to the MP will however be more aligned with the long term strategic asset allocation and will include adding to foreign equities, foreign bonds and alternative investments (both local and global), while reducing exposure to domestic equities and inflation-linked bonds. The allocation to domestic nominal bonds will be retained given the risk of recession over the coming year.

With respect to the CP, the optimised portfolio relative to the long term strategic asset allocation calls for increasing the allocation to domestic bonds and to domestic cash, while reducing exposure to domestic equities and alternative investments. In contrast, the optimised portfolio for expected returns over the coming 12 to 18-months suggests increasing the allocation to domestic cash and alternative investments, while reducing exposure to domestic equities. Since there is limited scope for tactical asset allocation decisions within the CP given the use of absolute return funds, the cash weighting will be increased and the absolute return allocation reduced.

The Investment Advisor is responsible for the implementation of any tactical asset allocation decisions the Board determines should be implemented. The Board uses a propriety Investment Framework to assist with the tactical asset allocation decision. The Investment Framework overlays investment strategies onto risk-profiled portfolios and is dependent on a country's positioning relative to its own historical inflation and trend growth. It is important to note that the figures below are a simplified depiction of complex analysis. With the global economy slowing as a result of high inflation and tighter monetary conditions, growth is expected to be below trend and inflation above trend over the coming year. This stagflation environment typically favours more defensive equities, credit and short duration bonds in portfolios. With the world economy transitioning away from a fossil fuel based economy to a green economy, the on-shoring of global supply chains to mitigate against geopolitical risks and the retention of higher inventory levels as companies reduce their dependency on just-in-time manufacturing, inflation could be structurally higher over the coming years. Higher wage growth is expected to accompany this shift, with the costs of transitioning to a net carbon neutral emissions economy also expected to keep prices higher for longer. In the event that the global economy tips into a recession, long duration bonds and growth style equities would be favoured since monetary conditions will be loosened in order to shore up economic growth.





## INVESTMENT STRATEGY

### LIFE STAGE MODEL (LSM)

The MGF offers four different risk profiled investment portfolios to its members: The Aggressive Portfolio ("AP"), Moderate Portfolio ("MP"), Conservative Portfolio ("CP") and the Protected Portfolio ("PP"). These portfolios are default portfolios into which a member will be defaulted according to age unless otherwise elected as per member investment choice.

The investments of the Fund comply with the provisions of Regulation 28 on a look-through basis.

The Board has adopted the LSM as the MGF's default investment option as substantial research indicates that retirement fund members are either not equipped or are unwilling to make their own decisions with regards to retirement fund investment choices.

The LSM is designed to balance a member's risk and return from the time that they join the fund to the time that they retire or choose to preserve their benefits.

The primary risk that members face is that their retirement savings do not earn a sufficient real return (a return in excess of inflation) to adequately provide for retirement, the so-called inflation risk. Whilst a member still has a reasonable number of years until his/her normal retirement age, emphasis should be placed on earning a high real return. Although this does require the member to take on higher levels of risk, the lengthy period until retirement affords the member the opportunity to do so. As the member approaches retirement, he/she requires a greater level of capital protection.

The LSM is explicitly designed to give members with a reasonably long investment time horizon, a higher than average level of exposure to asset classes which are expected to deliver high long-term real returns. As the member's retirement date approaches, the member is automatically transitioned into portfolios that provide greater levels of capital preservation. The return potential will also be lower.

The design of the LSM assumes that members will take cash at retirement and typically buy a monthly pension (life annuity). Alternatively, members with larger fund credits are expected to buy a living annuity, subject to drawdown limits.

The table below shows how the assets of an individual member are allocated to the four life stage portfolios based on the member's age at his/her next birthday. The monthly contributions of each member are invested as shown below.



Age	% in Aggressive	% in Moderate	% in Conservative	% in Protected
Younger than 55	100%	0%	0%	0%
55 to 60	0%	100%	0%	0%
61 to 63	0%	0%	100%	0%
Older than 63	0%	0%	0%	100%

## LIFE STAGE SWITCHES

Members in the different life stage portfolios are transferred in four quarterly batches, starting one year ahead, to the next life stage portfolio. The rationale for the quarterly transfers is to ensure that members are not prejudiced due to fluctuating investment markets. This applies to life stage switches between the AP and MP, the MP and the CP, and the CP and PP. A member may, however, exercise a choice in writing that is different from the life stage default model, subject to the four risk profiled portfolios.

For the sake of clarity, quarterly switches are performed according to members' age at next birthday (ANB) on 1 July of each year. The Fund Administrator therefore assesses which of the members will be turning 55, 61 and 64 years of age respectively. The Fund Credits (FC) of members in the different Life Stage portfolios will be transferred quarterly to the next Life Stage phase (MP, CP and PP respectively). The member's FC will be switched as follows:

- ❖ During July FC/4 will be switched
- ❖ During October FC portion remaining in old portfolio/3 will be switched
- ❖ During January FC portion remaining in old portfolio/2 will be switched
- ❖ During April the full FC portion remaining in the old portfolio will be switched

To ensure there is no ambiguity as to how the life stage model is interpreted, Appendix 7 contains a letter signed off by the MGF detailing the administrator's interpretation and implementation of the life stage switches. The letter serves to absolve the administrator from any interpretational differences between itself and the MGF.

## LIFE STAGE 1: AGGRESSIVE PORTFOLIO (AP)

The AP currently targets a real return of 5.0% per annum (CPI + 5.0%) over a rolling 7-year period. Since inception from July 2005 until 30 June 2022, the AP has delivered a real return of CPI + 5.3%. It must be noted, however, that past performance is not necessarily an indication of future returns. The portfolio is suitable for members with a long investment horizon but it carries a higher degree of risk than the other portfolios offered.

The AP focuses primarily on capital growth but risk management remains an integral part of the portfolio construction process. The following table highlights the long term strategic asset allocation as well as the tactical asset allocation ranges for the AP. The current exposure per asset class is calculated as at 30 June 2022 on a strategic as well as a look-through basis and is provided for reference purposes. It should be noted that the tactical asset allocation limits apply at the strategic level and not at the look-through level.

Aggressive Portfolio	Strategic Asset Allocation as at 30 June 2022	TAA Range as at 30 June 2022	Asset Allocation as at 30 June 2022	Look-through Allocation as at 30 June 2022
SA Equity	43.0%	18% - 63%	45.9%	46.7%
SA Long-Short Equity	1.4%	0% - 3%	1.4%	1.4%
SA Bonds	10.0%	5% - 20%	11.5%	17.3%
Mezzanine Debt	2.5%	0% - 2.5%	1.0%	-
SA Infrastructure	5.0%	0% - 5%	1.9%	-
SA Credit	3.0%	0% - 5%	5.1%	-
SA Listed Property	4.0%	0% - 8%	3.9%	4.5%
SA Cash	3.0%	0% - 10%	1.2%	0.1%
International Exposure	28.0%	0% - 30%	28.2%	28.7%
- Equities	21.0%	0% - 30%	23.9%	23.3%
- Bonds	4.0%	0% - 8%	1.6%	2.9%
- Property	3.0%	0% - 6%	1.9%	-
- Cash	-	-	0.7%	2.5%
<b>Total</b>	<b>100.0%</b>			



It must be noted that the GreenX Note III investment has not been implemented yet due to delays in the financial close of the Round 5 projects. There are however concerns that a number of these projects will not see financial close given surging input costs which were not expected at the time of the bids, much higher bond yields, and inflation that is now substantially higher than the Jibar rate. As a consequence, these projects may no longer be viable given the low tariffs that bidders agreed to. It is therefore likely that bidders will opt to lose their bond deposits and resubmit bids under Bid Window 6. Financial close for the Stanlib Infrastructure Equity Fund was also delayed but was subsequently completed in August 2022 with the first drawdown expected by the end of the month. Lastly, the investment in the iShares Global Impact ETF has also been delayed due to the fact that it is not a UCITS compliant fund is therefore subject to withholding tax. This creates a large tracking error relative to the benchmark. As a consequence, the MGF is looking at alternative ETF's that are UCITS compliant. The tactical ranges and accompanying strategic asset allocation for the AP is shown in Appendix 9 below.

## LIFE STAGE 2: MODERATE PORTFOLIO (MP)

The MP currently targets a return of CPI + 4.0% over rolling five year periods. Since inception from July 2005, the MP has delivered a real return of CPI + 4.4%. It must be noted, however, that past performance is not necessarily an indication of future returns. The portfolio is suitable for members with a shorter investment horizon (closer to retirement) and on a risk-adjusted basis, carries less risk than the AP.

The MP focuses on a combination of capital growth as well as capital protection and is in essence a hybrid of an absolute return fund and that of a balanced fund. The portfolio does not carry any capital protection guarantees but risk management remains an integral part of the portfolio construction process.

For younger members with a long investment horizon, capital growth is the most important investment objective. However, considering that closer to retirement a member's assets must be protected, this protection comes at a potential opportunity cost in terms of capital growth.

The following table highlights the long term strategic asset allocation as well as the tactical asset allocation ranges for the MP. The current exposure per asset class is as at 30 June 2022, calculated on a strategic as well as a look-through basis and is provided for reference purposes. It should be noted that the tactical asset allocation limits apply at the strategic level and not at the look-through level.

Moderate Portfolio	Strategic Asset Allocation as at 30 June 2022	TAA Range as at 30 June 2022	Asset Allocation as at 30 June 2022	Look-through Allocation as at 30 June 2022
Absolute Return Funds (Global Mandate)	20.5%	15% - 35%	22.2%	-
SA Equity	21.0%	10% - 30%	21.4%	30.5%
SA Fund of hedge funds (FoHF)	8.0%	5% - 10%	10.1%	10.1%
SA Bonds	13.0%	5% - 25%	14.4%	26.0%
Mezzanine Debt	2.5%	0% - 2.5%	2.1%	-
SA Infrastructure	5.0%	0% - 5%	2.7%	-
SA Listed Property	4.0%	0% - 8%	3.8%	4.3%
SA Cash	4.0%	2% - 20%	6.9%	5.5%
Fixed Property	0.0%	0% - 2.5%	0.1%	-
International exposure	25.0%	0% - 30%	16.4%	23.6%
- Equity	15.0%	0% - 25%	13.0%	16.2%
- Bonds	4.0%	0% - 8%	1.6%	4.3%
- Property	3.0%	0% - 6%	0.6%	-
- Cash	-	-	1.2%	3.1%
<b>Total</b>	<b>100.0%</b>			

It must be noted that the GreenX Note III investment has not been implemented yet due to delays in the financial close of the Round 5 projects. There are however concerns that a number of these projects will not see financial close given surging input costs which were not expected at the time of the bids, much higher bond yields, and inflation that is now substantially higher than the Jibar rate. As a consequence, these projects may no longer

be viable given the low tariffs that bidders agreed to. It is therefore likely that bidders will opt to lose their bond deposits and resubmit bids under Bid Window 6. Financial close for the Stanlib Infrastructure Equity Fund was also delayed but was subsequently completed in August 2022 with the first drawdown expected by the end of the month. Lastly, the investment in the iShares Global Impact ETF has also been delayed due to the fact that it is not a UCITS compliant fund is therefore subject to withholding tax. This creates a large tracking error relative to the benchmark. As a consequence, the MGF is looking at alternative ETF's that are UCITS compliant. The tactical ranges and accompanying strategic asset allocation changes for the MP are shown in Appendix 9 below.

### LIFE STAGE 3: CONSERVATIVE PORTFOLIO (CP)

The CP currently targets a return of CPI + 3% over a rolling 3-year period. Since inception from July 2005, the CP has delivered a real return of CPI + 3.6%. It must be noted, however, that past performance is not necessarily an indication of future returns. The portfolio is suitable for members with a short investment horizon (close to retirement) and on a risk-adjusted basis, the portfolio carries less risk than the AP or MP. Since absolute return mandates target inflation + 5%; Fund of Hedge Funds (FoHF's) cash + 3 to 4%; and AA credit cash + 1.5%, the CP is positioned to achieve returns in excess of inflation + 3% given current portfolio weightings. The underlying assumption of course is that the investment administrators achieve their mandated targets.

The CP focuses on a combination of capital growth as well as capital protection where the emphasis on capital protection is greater than that of the MP. The portfolio also does not carry any express capital protection guarantees but risk management remains an integral part of the portfolio construction process.

The following table highlights the long term strategic asset allocation as well as the tactical asset allocation ranges for the CP. The current exposure per asset class is as at 30 June 2022, calculated on a strategic as well as a look-through basis and is provided for reference purposes. It should be noted that the tactical asset allocation limits apply at the strategic level and not at the look-through level.

Conservative Portfolio	Strategic Asset Allocation as at 30 June 2022	TAA Range as at 30 June 2022	Asset Allocation as at 30 June 2022	Look-through Allocation as at 30 June 2022
Absolute Return (Domestic mandate)	59.0%	39% - 79%	62.6%	-
SA Fund of Hedge Funds (FoHF)	10.0%	5% - 10%	9.7%	9.8%
SA Equity	-	-	-	23.5%
SA Bonds	3.0%	1% - 5%	3.2%	42.6%
SA AA-Rated Credit	10.0%	5% - 25%	14.0%	-
Infrastructure	4.0%	0% - 5%	1.2%	-
SA Cash	14.0%	9% - 19%	9.2%	22.0%
SA Property	-	-	-	1.2%
International exposure	-	-	-	0.8%
<b>Total</b>	<b>100.0%</b>			

It must be noted that the GreenX Note III investment has not been implemented yet due to delays in the financial close of the Round 5 projects. There are however concerns that a number of these projects will not see financial close given surging input costs which were not expected at the time of the bids, much higher bond yields, and inflation that is now substantially higher than the Jibar rate. As a consequence, these projects may no longer be viable given the low tariffs that bidders agreed to. It is therefore likely that bidders will opt to lose their bond deposits and resume bids under Bid Window 6.

### LIFE STAGE 4: PROTECTED PORTFOLIO (PP)

The Protected Portfolio is the fourth of the LSM portfolios and is the default option for members two years away from retirement. The rationale for this portfolio is to prevent a repeat of 2008 when members close to retirement lost capital by virtue of the collapse in asset prices. In line with the PP's strong focus on capital preservation, this portfolio targets a return of cash (STeFI) + 1.0% over a rolling 12-month period. The portfolio invests

predominately in money market instruments but does include some exposure to credit and short term fixed income instruments. In view of the return expectation, it must be noted that the portfolio will carry slightly more risk than a vanilla money market portfolio. The portfolio may lag the money market returns when interest rates reach an inflection point i.e. when rates rise or fall. To combat the conversion risk from pre- to post retirement, the PP focuses on capital preservation rather than income generation.

Protected Portfolio	Strategic Asset Allocation as at 30 June 2022	TAA Range as at 30 June 2022	Asset Allocation as at 30 June 2022	Look-through Allocation as at 30 June 2022
SA Cash	100%	100%	100%	100%
<b>Total</b>	<b>100%</b>			

#### Investment Returns for the period 01 July 2005 to 30 June 2022

Portfolio	Return objective		Actual return	Objective outperformance	Inflation outperformance
AP	CPI + 5%	10.68%	10.93%	0.26%	5.26%
MP	CPI + 4%	9.68%	10.12%	0.44%	4.44%
CP	CPI + 3%	8.68%	9.23%	0.55%	3.55%

#### Investment Returns for the period 01 September 2011 to 30 June 2022

PP	Cash	6.08%	6.80%	0.73%	1.62%
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#### Indices Returns for the period 01 July 2005 to 30 June 2022

CPI	5.68%
ALSI	12.85%
ALBI	7.91%
STeFI	6.91%

- The PP started in August 2011

## MEMBER INVESTMENT CHOICES

The Fund Credits of members are automatically invested in accordance with the Life Stage Model (LSM) which consists of the relevant life stage portfolios based on member age as the default investment portfolio. However, members may exercise a written choice if they wish to invest contrary to the LSM age groupings, which comprises the AP, MP, CP and PP portfolios. The LSM is an integrated investment model in accordance with the IPS (Investment Policy Statement). The probability of achieving the targeted return over the long term is high if the LSM is followed. Members should therefore be very cautious of chasing short-term returns by electing options contrary to the life stage portfolios, with possible disastrous results. Younger members should be careful not to be overly conservative and forfeit returns in the long run. In the event of a member investment choice being exercised, the Fund Credit will follow the members' new selection. Members can therefore elect to invest in all of the risk profiled portfolios currently offered by the MGF. The monthly contributions will be divided between the chosen portfolios in the same proportion as the splits chosen.

Members who exercised a member investment choice will remain invested according to their selection until written notification of a change is received by the Fund. If a member elects to split his/her investment between two portfolios, the different returns of each investment portfolio will cause a drift from the chosen percentage split. Members' fund credits will not automatically be rebalanced to the original chosen percentage split between the two portfolios. A new option form must be submitted when a member wants to do such a rebalancing.

Member investment choices may be done at any time. One choice per rolling 12-month period is free of charge but subsequent choices require a switching fee. A member investment choice is usually implemented within three to five business days from receipt.



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## SELECTION OF INVESTMENT ADMINISTRATORS

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The Board recognises the importance of performing reasonable due diligence in the manager selection process, taking into account all applicable risks, prior to appointing any investment administrator or investing in any pooled investment vehicle.

The Board follows a stringent and disciplined process before an investment administrator is awarded a mandate. This process includes market research, quantitative and qualitative analysis, a review of the performance track record and a due diligence process all of which may take some time to complete. Conversely, the Board will consider terminating an existing mandate if there have been material changes to the managers' investment philosophy and process, or if key individuals have left the employ of the investment administrator. Other considerations include long periods of underperformance or if the managers' style betas no longer fit in with the overall blend of managers. The Board is, however, aware that mandates can be terminated at exactly the wrong time, typically when a manager has been underperforming, thereby monetising the "loss" to the Fund. The key aspects of the manager selection process are briefly discussed below.

### QUALITATIVE ANALYSIS

The manager selection process focuses on qualitative factors with emphasis placed on the:

- Organisation
- People
- Investment philosophy and process

### ORGANISATION

It is imperative that the firm's aim and structure are supportive of, and aligned to, the investment administrator's investment proposition and hence aligned with the interests of the firm's clients. Factors taken into account when making an assessment in this regard include, but are not limited to, shareholding structure, financial stability, size of assets under management, business model, remuneration structure of investment professionals and governance and compliance frameworks. The MGF will not invest in obscure investment administrators but will invest with large reputable managers with low institutional risk.

### PEOPLE

Asset management is a people business. Intellectual capital represents the biggest asset of any investment administrator. The MGF requires trustworthy managers with committed, experienced and respected investment professionals. Team dynamics and staff turnover are vital aspects that encompass the essence of the investigation.

### INVESTMENT PHILOSOPHY AND PROCESS

The investment administrator must have a clearly defined and understandable investment philosophy and process and an established track record of applying this philosophy and process both consistently and successfully. Factors taken into account when making an assessment in this regard include the robustness of the manager's own investment beliefs, the process that results in security selection and portfolio construction and risk management. The manager's biases ("Style Beta") are typically identified during this stage of the assessment. When considering the termination of a manager's mandate, factors considered are not limited to the manager's short term performance but rather its performance through the cycle. Additional factors include whether or not the manager has deviated from its style beta, whether there have been material changes to the risk metrics and whether the manager's style beta still blends with the style betas of the underlying managers comprising the building block.

### QUANTITATIVE ANALYSIS

The quantitative analysis is conducted to confirm the qualitative understanding of the prospective manager. Included in this analysis is relative performance analysis, style analysis, and performance and risk attribution

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analysis. Quantitative analysis is performed on both the investment administrator's performance track record as well as the portfolio holdings which lead to the historical returns.

The Board will consider terminating an appointed investment administrator or disinvesting from a pooled investment vehicle if, in the opinion of the Board, a material enough change has taken place that may negatively impact the investment administrator's ability to deliver on the investment proposition, or should the investment performance achieved by the manager not be adequately explained, or should a question arise about the investment management's integrity and ethics.

## **TERMINATING MANDATES**

For the sake of completeness, the section below presents a check-list of factors considered when a mandate is terminated. These include:

- Underperformance of benchmarks over extended time periods
- A deterioration in the manager's risk metrics i.e. Sortino Ratio, Information Ratio, Tracking Error
- Significant growth or decline in AUM that impedes the ability of a manager to generate excess returns, or results in financial stress in the business
- Changes in culture if teams grow too quickly
- The manager's integrity is compromised by unethical behaviour
- Negative changes in the management company's ownership structure or where the viability/sustainability of the management company is unclear
- The introduction of non-complementary new investment products/services
- Changes in the portfolio management structure of the business i.e. a move away from a single portfolio manager to a multi-counsellor approach
- Excessively high employee turnover
- Evidence of a lack of focus on human resource development – poor team dynamics, lack of succession planning, or the departure of key individuals
- Changes in the remuneration structure of investment professionals
- Evidence of a lack of focus on investment strategy – key individuals become less involved in idea generation and research due to a lack of interest or having to spend more time on operational/business development issues, or the investment process lacks efficiencies and enhancements
- Changes/deviations in the manager's investment style (i.e. the style beta) – performance is inconsistent with the investment approach or the investment style
- A change in the investment process with the intention of increasing capacity, experience, or key man risk
- Excessive ownership in individual stock positions which is in conflict with the manager's investment philosophy.

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## **INVESTMENT ADMINISTRATORS**

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### **SA EQUITIES**

Since resource shares currently make up only around 26.2% of the market capitalization of the FTSE/JSE All Share Index, down from 54.3% in 2008, the concentration risk in resources has fallen materially in recent years. Rather, rand-hedge industrial shares increased their concentration of the market with Richemont, Naspers and Prosus amongst those counters with the largest market capitalizations.

Historically, given the concentration risk inherent in the resources sector, alternative indices were used to benchmark performance. These included the CAPI and SWIX indices, both of which downweight resources in their construction. Similarly, the CAPI and the Capped SWIX indices have constrained the market capitalization of individual shares at 10% of the total market capitalization. The table below compares the different weightings of the largest shares in the AlsI against their weights in the CAPI and Capped SWIX indices. Since the CAPI and the AlsI indices are very similar, a case can be made for adopting the CAPI as the appropriate benchmark against which managers' should be measured. Since the MGF does not impose tracking error limits on its underlying managers, the managers have full discretion in which shares they can invest in, subject to Regulation 28 limits. These limits cap exposure to individual shares at 15%, somewhat ahead of the 10% constraint

imposed by the CAPI and Capped SWIX indices. Since the MGF has allocated around 15% of the domestic equity building block to a passive CAPI investment, concentration risk is already well managed. As a consequence, the MGF retains the Alsi as the Fund's appropriate domestic equity benchmark.

Name	Code	Alsi Weight	Name	Code	CAPI All Share Weight	Name	Code	Capped SWIX Weight
Richemont	CFR	12.6	Richemont	CFR	10.5	Naspers	NPN	9.1
Anglo American	AGL	10.1	Anglo American	AGL	8.4	Firststrand	FSR	5.6
Naspers	NPN	7.1	Naspers	NPN	7.6	Anglo American	AGL	4.4
Firststrand	FSR	4.4	Firststrand	FSR	4.6	MTN	MTN	4.3
MTN	MTN	3.4	MTN	MTN	3.6	Prosus	PRX	4.1
<b>Total</b>		<b>37.6</b>			<b>34.7</b>			<b>27.5</b>

Long term tracking errors do however give an indication of the potential outperformance that a manager can generate, but by the same token, also the potential losses that a manager can generate. The MGF has learnt over time that a very high tracking error can result in substantial losses over long periods of time. As a consequence, tracking errors in the mid-teens fall within the MGF's acceptable risk universe of domestic equity managers. Since the managers are benchmarked against the All Share Index, the outperformance shown in the table below is viewed as the potential return objective for the managers appointed by the MGF.

Manager	Investment Approach	Allocation Building Block	Outperformance target over 5 years	Tracking error*
Allan Gray	Contrarian/Relative Value/Defensive	10 - 30%	ALSI + 2.5%	6.8%
Aluwani	Relative Value	12.5 - 22.5%	ALSI + 1.5%	4.9%
Argon	Relative Value	12.5 - 22.5%	ALSI + 1.5%	3.4%
Fairtree	Style Agnostic/Multi-Factor	10 - 30%	ALSI + 4.0%	8.4%
Abax	GARP/Growth	10 - 20%	ALSI + 2.0%	4.6%
Truffle	Valuation-Driven/Quality	5 - 15	ALSI + 3.0%	5.3%

- \* Ex-ante holdings based tracking error

## SA FUND-OF-HEDGE FUNDS

Similarly, in the case of hedge fund managers, managers with a moderate tracking error are expected to generate higher returns relative to cash over time. The combination of the Amplify FI and Amplify Multi-Strat FoHF's in the MP and CP has resulted in a well-diversified FoHF even though there is some overlap between the FoHF managers. The combination of the fixed income and multi-strategy FoHF strategies is used to enhance risk-adjusted returns. In the AP, the Edge Matador Fund, a Long-Short Equity FoHF benchmarked against the Capped SWIX Index, is expected to have a lower tracking error relative to the Capped Swix benchmark than a cash + 4% benchmark.

Manager	Investment Approach	Allocation Building Block	Outperformance target over 5 years	Tracking error
Amplify Fixed Income FoHF	Fixed Income FoHF	50% in MP, CP	Stefi + 4%	6.6%
Amplify Multi-Strat FoHF	Multi-Strat FoHF	50% in MP, CP	Stefi + 4%	5.1%
Edge Matador Fund	Long-Short Equity FoHF	100% in AP	Capped SWIX + 2.5%	4.6%

- \* Ex-post returns based tracking error



## SA ABSOLUTE RETURN FUNDS

The Board believes that it is possible to obtain some diversification benefits in the SA absolute return space by investing in a combination of managers that adopt different strategies. Coronation (a deep value absolute return manager) blended with both Sanlam and Abax (tactical asset allocation managers) are expected to offer diversification benefits, which should smooth out returns through the cycle. The return objective for these managers is inflation (CPI) + 5% over rolling three-year periods, with the secondary objective being to preserve capital over a rolling 12-month period. Coronation however amended its return objective to target CPI + 4% (from CPI + 5%) on the domestic fund and CPI + 5% (from CPI + 6%) on the global mandate. The secondary objective of preserving capital over a rolling 12-month period was extended to a rolling 18-month period. Due to these changes, the manager's weighting was reduced from 35% to 25% in the absolute return building block, whereas Sanlam and Abax were upweighted. A fourth manager – the Alusi Managed Fund – was brought into the mix in order to add to diversification and to protect downside risk in the building block by including commodity exchange traded funds in the blend. Alusi is a long-only TAA/SAA manager investing primarily in low-cost ETF indices. Given its higher SAA equity exposure of 57.5% (both domestic and foreign equity), the fund is expected to have a higher tracking error, which should translate into higher returns in up markets. Given the downside risk in a declining equity market, however, the SAA for the fund was set at 10% of the building block.

Manager	Investment Approach	Allocation Building Block	Outperformance target over 5 years	Tracking error**
Coronation (domestic-only and global mandates)	Deep Value Absolute Return	20% - 30%	CPI + 4/5%	7.3%/7.1%
Sanlam (domestic-only and global mandates)	TAA/SAA*	20% - 40%	CPI + 5%	5.2%/4.9%
Abax (domestic-only and global mandates)	TAA/SAA*	20% - 40%	CPI + 5%	5.1%/4.6%
Alusi Managed Fund	TAA/SAA	10% - 20%	CPI + 4%	8.1%

\* \* Tactical Asset Allocation/Strategic Asset Allocation

\* \*\* Ex-post returns based tracking error

## SA BONDS

The FTSE/JSE All Bond Index (ALBI) is currently used as the benchmark for the local bond managers. This is a composite of the 20 largest and most liquid listed bonds. The index comprises mostly government bonds with a small allocation to non-government/credit bonds.

As the corporate bond market has increased in size over the past number of years, bond mandates currently allow managers to hold a higher weighting in corporate bonds than is the case in the FTSE/JSE All Bond Index. Despite the need to enhance returns, it is deemed prudent to retain the cap on corporate bond exposure at 50%, in line with the revised Regulation 28.

The Ninety One Triple Alpha Bond Fund is a combination of the Ninety One Dynamic Fund, their Relative Value Fund and their Credit Fund. As such it is a higher risk fund and is therefore expected to achieve a return in excess of the ALBI + 1% (net of fees). In contrast, the Sanlam Bond Fund is a lower risk duration fund and is therefore expected to achieve a lower return of ALBI + 0.75% over a rolling 3-year period, in line with the lower risk profile.





Manager	Investment Approach	Allocation: Building Block	Outperformance target over 5 years	Tracking error
Ninety One Triple Alpha	Duration, Relative Value, Credit	40% - 60%	ALBI + 1.0%	0.9%
Sanlam	Duration, Credit	40% - 60%	ALBI + 0.75%	0.6%

## SA CREDIT

The MGF is currently invested in SA credit with Futuregrowth as the underlying manager. The MGF investment is in both a AA- rated portfolio as well as a more risky BBB-rated portfolio. The BBB-rated portfolio is used in the Aggressive Portfolio, whereas the AA-rated portfolio is used in the Conservative Portfolio. The benchmarks for the two portfolios are the Stefi index + 1.5% (AA-rated) and the Stefi index + 4% (BBB-rated), respectively.

Manager	Investment Approach	Allocation: Building Block	Outperformance target over 5 years	Tracking error
Futuregrowth AA-	SA Credit	5% - 25%	Stefi + 1.5%	0.4%
Futuregrowth BBB	SA Credit	0% - 5%	Stefi + 4%	1.4%

## SA INFRASTRUCTURE

The MGF is invested in the Vantage GreenX Note I and Note II Renewable Energy Funds, infrastructural investments that are South African based. The contractual return on Note I is the 3-Month Jibar Rate + 3.5%, while the Note II Fund targets CPI + 4.25% to 4.5%. Last year, the MGF allocated a further R350m to the GreenX Note III Fund but this investment has not been drawn down yet due to delays in the financial close of the Round 5 projects. Note III has a similar structure and mandate to Note II with Vantage issuing Asset Backed Notes to investors, the proceeds of which are used to invest in CPI-linked senior debt and/or BEE debt funding in an underlying portfolio of projects. Note III targets a net margin of CPI + 425-450 bps and CPI + 650-750 bps on the BEE debt funding (after the fund manager fee). The holding period for the investment is between 15-18 years, with the Note Manager fee set at 50/70 basis points. It must be stressed that Vantage will only get paid on funds lent and not on committed capital, thereby avoiding fee drag. The Note Manager (Vantage) will also not earn any carry or incentive fees over and above the 50/70 bps.

Manager	Investment Approach	Allocation: Building Block	Outperformance target over 5 years	Tracking error
Vantage GreenX	Senior debt in renewable energy projects	2.5%	3 Month Jibar + 3.5%	1.4%
Vantage GreenX Note II	Senior debt in renewable energy projects	2.0%	CPI + 4.3% to 4.5%	1.6%

## SA LISTED PROPERTY

SA listed property was included in the AP and MP as a diversifier with Absa and Sesfikile the underlying managers. The strategic weighting between the two managers is a 50:50 weighting but drift is permitted if one of the managers is outperforming the other at any point in time.

Manager	Investment Approach	Allocation: Building Block	Outperformance target over 5 years	Tracking error
Sesfikile	Listed Property	50%	J253 + 2.0%	4.1%
Absa Property Fund	Listed Property	50%	J253 + 3.0%	9.5%





## INTERNATIONAL EQUITIES

The MGF currently uses the MSCI World Index as the international benchmark for the offshore equity managers. This index includes exposure mostly to developed equity markets and reflects the current composition of the MGF's offshore equity allocation. The MGF follows both an active and passive approach by investing in active managers as well as in exchange traded funds (ETF's) when it is considered prudent to do so. The passive investment universe, may include smart-beta products, a rules based quantitative approach to pure passive investment.

Despite the high weighting in the AP and MP towards domestic equities – broadly grouped as an emerging market - the MGF diversifies risk even further by investing in the emerging markets universe that is 12X-15X the size of the SA market. Exposure to the broader emerging market universe allows for greater exposure to the world's fastest growing economies, which now account for 55% of global growth. Furthermore, with per capita incomes rising rapidly but still well behind the levels in developed markets, the opportunities for stellar returns are vast. For any investment in emerging markets, the MSCI Emerging Markets Index or the MSCI Emerging Markets Ex SA Index are considered appropriate benchmarks.

The MGF currently has exposure to emerging markets via the Coronation Global Emerging Markets Fund and the Edge All Seasons Emerging Markets Fund. The respective benchmarks for these investments are the MSCI Emerging Market Index and the MSCI Emerging Markets Ex SA Index respectively.

Given the MGF's endorsement of both active and passive management, the Fund is permitted to invest in both global and emerging market ETF's that track the performance of the MSCI World and Emerging Markets Indices. The most liquid of these are the BlackRock, iShares and Vanguard ETF's.

It should be noted that in general, the tracking errors of global equity managers are high given the number of shares held in their portfolios versus the thousands included in the underlying MSCI indices. While Franklin Templeton, Veritas, Hosking, Investec and Morgan Stanley are pure global equity managers, Allan Gray/Orbis is a global balanced fund manager benchmarked against a composite index comprising 60% of the MSCI World Equity Index and 40% of the JP Morgan Global Government Bond Index. The mandate with Orbis was changed in December 2015 from a combination of Orbis' Global Equity Fund and its Optimal Fund, a cash plus equity-alpha overlay fund. In contrast, the Veritas Global Focus Fund, a thematic concentrated global equity fund, targets an absolute return of OECD CPI + 6%. Hosking Partners' capital cycle approach to investing suggests the manager will deliver returns of MSCI ACWI + 3% through the cycle. Since it is value-orientated benchmark-agnostic manager, its monthly returns can be very different from those of the benchmark return. In 2017, the MGF included Morgan Stanley's Global Opportunity Fund and Ninety One's Global Franchise Fund as diversifiers into the portfolio. The Ninety One Global Franchise Fund is a defensive global-brands biased fund, whereas the Morgan Stanley Fund is a technology-biased fund. A mandate with Sands Capital was also concluded during the year giving the equity building block access to a global growth manager.

Manager	Investment Approach	Allocation: Building Block	Outperformance target over 5 years	Tracking error
Allan Gray/Orbis	Global Balanced Fund	10% - 20%	60% MSCI World Index + 40% JP Morgan Global Gov Bond Index + 2%	6.7%
Franklin Templeton	Deep Value	4% - 14%	MSCI World + 1%	7.0%
Veritas	Thematic Absolute Return Equity Manager	12% - 22%	OECD CPI + 6%	5.4%
Hosking Global Equity Fund	Capital Cycle/Value Investment administrator	10% - 20%	MSCI ACWI + 3%	23.0%
Morgan Stanley Global Opps	Technology Biased	10% - 20%	MSCI World + 5%	10.1%
Ninety One Global Franchise	Global Brands Biased	10% - 20%	MSCI World + 3%	7.5%
Sands Capital	Growth Manager	4% - 14%	MSCI World + 4%	9.1%



Edge Emerging Markets Fund	MSCI EM Ex SA Investment Multi-Manager	2% - 6%	MSCI EM Ex SA Index + 2.0%	10.6%
Coronation Global Emerging Market Fund	Active Emerging Market Manager	5% - 15%	MSCI Emerging Market Index + 3.0%	9.4%

- The Morgan Stanley Global Opportunities Fund and the Ninety One Global Franchise Fund were included in the global equity building block on 1 July 2017 and Sands Capital on 1 October 2021.

## INTERNATIONAL BONDS

The Board uses the JP Morgan Global Bond Index as the international bonds benchmark due to its accessibility and wide use. Due to the tightening of monetary conditions globally as a result of inflationary pressures, and the fact that international bond managers generally track the global bond index in varying degrees, a back-up in bond yields will expose the MGF to capital losses. It is in light of this risk that the MGF amended the global bond mandate to a global absolute return mandate (long-short fund), targeting the USD-Libor rate + 2%. The underlying manager is Brandywine, a top-down global bond manager that is expected to outperform the absolute return benchmark by some 2% p.a. through the cycle.

Manager	Investment Approach	Allocation: Equity Building Block	Outperformance target over 5 years	Tracking error
Brandywine	Macro/Top-Down	100%	USD Libor + 2% p.a.	6.7%

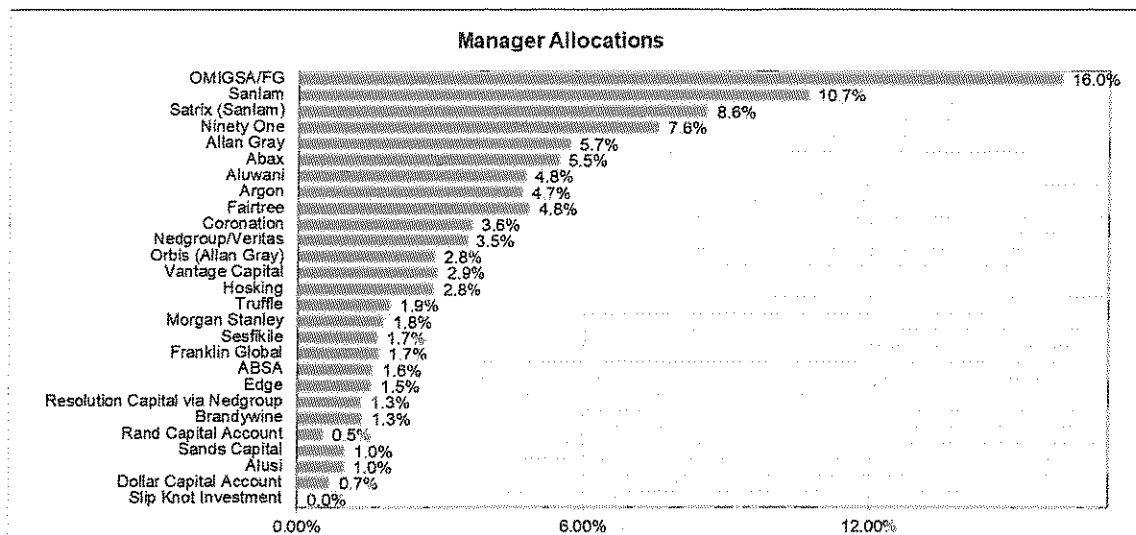
## FUND LIMITS

The Board seeks to manage the numerous risks that the MGF is exposed to. To this end, the MGF's investment strategy has been designed to maximize the likelihood of it meeting each LSM portfolio's investment objective, and hence the MGF's overall return objective, while also controlling as far as possible those risks which may prevent the MGF from achieving its objectives. One of the tools the Board utilizes in its risk management efforts is the imposition of certain exposure limits to the underlying investment administrators.

## INVESTMENT ADMINISTRATOR LIMITS

Since the Board wishes to manage the impact that any single investment administrator may have on both the overall Fund as well as within each risk-profiled portfolio, it has put in place a maximum investment administrator exposure limit of 25% for a single manager. The CP is the exception, where the cash weighting in the portfolio, managed by Omigsa/Futuregrowth, is permitted to breach the manager exposure limit. The table below sets out the investment administrator exposures, at the total Fund level, as at 30 June 2022.

MGF per Manager (R')					
Manager	Market Value 30 Jun 2022	% of Fund	Manager	Market Value 30 Jun 2022	% of Fund
OMIGSA/FG	5 076 093 174	16.0%	Truffle	606 346 235	1.9%
Sanlam	3 387 906 305	10.7%	Morgan Stanley	563 162 884	1.8%
Satrix (Sanlam)	2 718 397 206	8.6%	Sesfikile	525 633 876	1.7%
Ninety One	2 397 825 043	7.6%	Franklin Global	536 250 143	1.7%
Allan Gray	1 805 884 792	5.7%	ABSA	495 101 610	1.6%
Abax	1 730 519 734	5.5%	Edge	484 107 245	1.5%
Aluwani	1 508 865 346	4.8%	Resolution Capital via Nedgroup	422 000 575	1.3%
Argon	1 488 311 197	4.7%	Brandywine	427 092 344	1.3%
Fairtree	1 531 520 161	4.8%	Rand Capital Account	170 198 362	0.5%
Coronation	1 152 358 299	3.6%	Sands Capital	310 612 711	1.0%
Nedgroup/Veritas	1 117 290 950	3.5%	Alusi	308 604 253	1.0%
Orbis (Allan Gray)	901 249 171	2.8%	Dollar Capital Account	215 023 969	0.7%
Vantage Capital	920 413 860	2.9%	Slip Knot Investment	7 062 983	0.0%
Hosking	891 256 114	2.8%			



The Board has also established explicit target ranges within which each individual manager's exposure must be restricted. The table below sets out the investment administrator ranges at the portfolio level. The actual exposure as at 30 June 2022 is given for information purposes.

Investment administrator	Allowable Range - %	Current Weightings - %			
SA Equities		Aggressive	Moderate	Conservative	Protected
Allan Gray	10 - 30	23.4	22.5	-	-
Aluwani Equity	12.5 - 22.5	19.4	19.9	-	-
Truffle	5 - 15	8.2	5.2	-	-
Argon Equity	12.5 - 22.5	19.0	20.2	-	-
Fairtree Capital	10 - 30	19.4	21.8	-	-
Abax	10 - 20	10.6	10.3	-	-
SA Bonds	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
Ninety One Triple Alpha	40 to 60	50.6	50.5	-	-
Sanlam Investment Management	40 to 60	49.4	49.5	-	-
Ninety One Inflation Linked Bond Fund	100		100	100	

SA Infrastructure	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
GreenX Note I	100	100	100	-	-
GreenX Note II	100	100	100	100	
• GreenX Note III drawdowns are expected to place after 30 June 2022					
SA Credit	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
Futuregrowth AA-	100	-	-	100	-
Futuregrowth BBB	100	100	-	-	
SA Money Market	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
Futuregrowth	100	100	100	100	100
Absolute Return Funds (Global Mandate)	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
Sanlam Global	20 to 40	-	32.7	-	-
Coronation Global	20 to 30	-	22.7	-	-
Abax	20 to 40	-	28.7		
Alusi Managed Fund	10 to 20	-	15.9		
Absolute Return Funds (Domestic-Only)	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
Sanlam Domestic	20 to 40	-	-	34.7	-
Coronation Domestic	15 to 35	-	-	26.3	-
Abax Domestic	20 to 40	-	-	33.8	
Alusi Managed Fund	5 to 15	-	-	5.1	
Fund of Hedge Funds	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
Amplify Fixed Income FoHF	40 to 60	-	57.4	54.9	-
Amplify Multi-Strat FoHF	40 to 60		42.6	45.1	
Edge Matador Long-Short Equity FoHF	100	100	-	-	-
Foreign Portfolios: Equity	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
Allan Gray/Orbis	10 - 20	15.9	17.7	-	-
Franklin Templeton	4 - 14	9.6	9.4	-	-
Hosking Partners	10 - 20	16.0	15.8	-	-
Edge All Seasons EM Fund & Coronation GEM Fund	2 - 6	3.9	3.7	-	-
Veritas	12 - 22	20.0	20.1		
Ninety One Global Franchise	10 - 20	10.9	10.7		

Foreign Portfolios: Equity	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
Morgan Stanley Global Opportunity	10 - 20	10.1	10.1		
Sands Capital	4 - 14	5.5	5.9		
Foreign Portfolios: Fixed Income Absolute Return	Allowable Range - %	Aggressive	Moderate	Conservative	Protected
Brandywine	100	100	100	-	-

## ASSET CLASS AND SECURITY LIMITS

The Board sets out in the investment guidelines (mandate agreements) put in place for each appointed investment administrator appropriate limits within which the appointed manager must manage the Fund's assets.

These limits supplement the asset class and security limits set out in Regulation 28 of the Act (See Appendix 9) and cover issues such as investing in associated companies, "off benchmark" exposure, liquidity requirements, credit worthiness, tracking error and modified duration limits (for bond portfolios).

The limits put in place are specific to each individual mandate.

Where the MGF invests in pooled investment vehicles, the Board reviews the investment guidelines pertaining to the specific investment vehicle to ensure the limits set in place by the investment administrator are appropriate for the specific investment product.

## DERIVATIVE LIMITS

The Board may permit any of the appointed investment administrators or the MGF's investment consultant, to utilize derivative instruments in the execution of their investment mandates.

Where such permission is granted, the following principles will be incorporated into the relevant investment guidelines within which the mandate must be executed.

Derivatives may only be used for the purposes of asset allocation, hedging, insurance, efficient portfolio implementation or to capitalize on mispricing opportunities.

Derivative instruments may not be used in order to speculate or gear.

The portfolios must hold sufficient cash or securities to cover the full net exposure (i.e. no "naked" positions may be taken). Typical instruments would include futures contracts, traded options, warrants, over-the-counter ("OTC") options, swaps and repurchase agreements.

Other than OTC contracts, all other derivative instruments must be traded on a recognized or designated investment exchange.

OTC contracts may only be entered into with counter-parties that have a minimum national short-term credit rating of F1 or an equivalent rating from a recognized rating agency. For instruments with more than one year's duration, the counter-party must have a minimum national long-term credit rating of AA or an equivalent rating from a recognized rating agency.

The managers may only sell futures, write call options and buy put options if the assets underlying the instruments, or a reasonable proxy thereof, are held in the portfolios for the full duration of the instrument.

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## VOTING RIGHTS

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The MGF recognises that proper governance, capital allocation decisions and the alignment of interests between all stakeholders is essential if a company in which the MGF is invested is to create value for shareholders over the long term. The MGF expects its appointed investment administrators to take all actions related to governance, capital allocation decisions and the alignment of stakeholder interests into account when assessing investment opportunities on behalf of the MGF. The MGF also acknowledges that its appointed investment administrators are best positioned to provide the required level of oversight in this regard. Accordingly, the MGF's appointed investment administrators are mandated to exercise the MGF's vote in accordance with the manager's proxy voting guidelines, taking into account the United Nation's Principles on Responsible Investing and the King IV principles and to always act in the best interests of the members.

To the extent that the MGF invests in pooled investment portfolios, the Board acknowledges that they cannot influence the manager's voting policies as the assets are not held in the name of the MGF.

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## SCRIP LENDING

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The MGF is currently of the view that the additional return that the Fund could achieve through engaging in scrip lending is not sufficiently attractive given the additional risks (primarily default and counterparty risks) that the MGF would be exposed to. Accordingly, scrip lending is not permitted by any investment administrator appointed by the MGF.

Should any investment administrator wish to engage in scrip lending, the investment administrator would need to approach the MGF in writing for its (the MGF's) consideration. The overriding principle must be that scrip lending is in the interests of the members of the MGF.

The Board recognises that where an investment has been made via a pooled investment vehicle, such as a collective investment scheme or a policy of insurance, the investment guidelines governing the management of the pooled investment vehicle may permit the manager to engage in scrip lending activities. This should be disclosed to the MGF prior to the MGF making the initial investment.

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## CUSTODIANS

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Standard Chartered Bank is the Custodian of the MGF's assets. With respect to Allan Gray/Orbis, Allan Gray Nominees (Pty) Ltd is the custodian of these assets. The Custodian must hold all the share certificates or other documents proving title to the investments in the portfolios, in safe custody, on behalf of the client.

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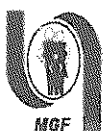
## COMPLIANCE

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The Board recognises the importance of the MGF adhering to the regulatory framework. Different aspects of compliance are monitored at appropriate intervals by the MGF's various service providers. From an investment perspective, the most important is adherence to Regulation 28 of the Act as well as the MGF's appointed investment administrators' investment guidelines and mandates as well as the South African Reserve Bank's restrictions in terms of international exposure.

The MGF's appointed investment administrators' compliance functions are responsible for the monitoring and reporting of compliance with all aspects of the managers' investment guidelines on a daily basis. The MGF's investment advisor is responsible for the monitoring and reporting of compliance at an investment portfolio and overall fund level on a monthly basis. Where breaches are detected, corrective actions should be taken within a reasonable time frame, taking into account the MGF's best interests.

The MGF's investment administrators are required to report to the Board on an annual basis regarding how they comply with the requirements of Regulation 28.



The MGF's investment advisor reports to the Board on a monthly basis the individual investment portfolios' compliance with the regulations.

The MGF's administrator reports to the South African Reserve Bank with regards the Fund's compliance with the relevant international exposure.

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### **BROAD BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE)**

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The MGF endorses and supports broad based black economic empowerment as an integral part of the transformation of the South African corporate landscape.

The Board recognises the importance of promoting broad-based black economic empowerment, and the MGF's ability to assist in this initiative.

While the Board will first and foremost consider service providers that are more likely to provide higher quality advice or service to the MGF, the Board does explicitly consider the empowerment credentials of these service providers, preferring service providers with more broad-based black economic empowerment credentials to those service providers that are otherwise seen as providing an equivalent level of service and advice.

The Board has appointed BEE investment administrators to manage a portion of the Fund's assets.

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### **SOCIALLY RESPONSIBLE INVESTMENT ("SRI")**

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The Board recognises the increasing importance of environmental, social and governance ("ESG") factors in social society and the important role that retirement funds, as large institutional investors, are able to play in ensuring responsible corporate behaviour.

The MGF supports The Code for Responsible Investing in South Africa (CRISA) and has integrated its five principles, listed below, into the investment decision-making process.

- ❖ Principle 1 – An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
- ❖ Principle 2 – An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
- ❖ Principle 3 – Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
- ❖ Principle 4 – An institutional investor should recognise the circumstances and relationships that hold a potential for conflicts of interest and should pro-actively manage these when they occur.
- ❖ Principle 5 – Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments.

SRI can be undertaken through a number of different strategies ranging from the MGF allocating capital directly to investment opportunities which are directly associated with having a positive benefit to society ("Positive Screening"), or to the MGF explicitly excluding investment opportunities from its investable universe where they are associated with having a negative impact on society ("Negative Screening").

The Board will consider positively screened SRI opportunities for potential inclusion in the MGF within the context of the MGF's investment strategy.

The Board does not impose negative screening requirements on the MGF's appointed investment administrators. The Board chooses to rather engage with appointed investment administrators on their ESG policies. The MGF's investment advisor has been instructed to obtain the ESG policies from the MGF's investment administrators on an annual basis.

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## BOARD EDUCATION

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The Board recognises the importance of promoting the education of Board members in all matters related to the management of the MGF, more specifically investments, governance and other related matters. To this end, the Board members are expected to maintain and expand their knowledge and experience as part of their duties.

Interaction with the MGF's service providers enhances the Board members' understanding of matters affecting the Fund.

Formal board education is provided to Board members by the MGF's existing service providers or by specialist external parties on a regular basis.



## APPENDIX 1: Current Investments

The tables below reflect the structure of the Fund's investment portfolios as at 30 June 2022.

### AGGRESSIVE PORTFOLIO (AP)

Life stage 1	Default Age	Risk Profile	Objective	Performance Objective
	≤ 55 years	High	100% Capital growth	OP + 5%
<b>MGF Aggressive Portfolio</b>			<b>R 19 694 665 290.51</b>	<b>62.1%</b>
<b>Foreign Equity</b>			<b>R 3 965 177 228.79</b>	<b>20.1%</b>
Coronation Global Emerging Markets	R 380 842 045.94	1.9%		
Edge All Seasons Emerging Markets Fund	R 183 205 100.23	0.9%		
Franklin Global Fund	R 454 614 468.44	2.3%		
Hosking Global Class A	R 479 879 475.27	2.4%		
Hosking Global Class E	R 274 159 643.83	1.4%		
Ninety One Global Franchise	R 515 830 231.49	2.6%		
Morgan Stanley	R 475 327 098.89	2.4%		
Sands Capital	R 259 155 309.04	1.3%		
Veritas via Nedgroup	R 942 163 855.66	4.8%		
<b>Foreign Balanced</b>			<b>R 747 235 809.43</b>	<b>3.8%</b>
Orbis Global Balanced Fund	R 747 235 809.43	3.8%		
<b>Foreign Fixed Income Absolute Return</b>			<b>R 320 396 035.86</b>	<b>1.6%</b>
Brandywine	R 320 396 035.86	1.6%		
<b>Foreign Property</b>			<b>R 381 180 163.11</b>	<b>1.9%</b>
Resolution Capital via Nedgroup	R 381 180 163.11	1.9%		
<b>Foreign Cash</b>			<b>R 136 235 666.43</b>	<b>0.7%</b>
Dollar Capital Account	R 136 235 666.43	0.7%		
Unsettled Orders	R 0.00	0.0%		
<b>Total Foreign</b>			<b>R 5 550 224 903.62</b>	
<b>Mezzanine Debt</b>			<b>R 191 336 277.90</b>	<b>1.0%</b>
Vantage Pan African	R 189 576 872.15	0.9%		
Vantage Southern African	R 21 759 405.75	0.1%		
<b>SA Cash</b>			<b>R 244 232 425.65</b>	<b>1.2%</b>
OMGSA Cash	R 144 678 211.90	0.7%		
Rand Capital Account	R 99 554 213.75	0.5%		
Unsettled Orders	R 0.00	0.0%		
<b>SA Equity</b>			<b>R 6 698 825 111.65</b>	<b>34.0%</b>
Abax Equity	R 708 865 105.91	3.6%		
Allan Gray Equity	R 1 566 765 016.87	8.0%		
Aluwani Equity	R 1 297 539 912.80	6.6%		
Argon Equity	R 1 274 412 491.36	6.5%		
Fairtree Equity	R 1 300 018 734.71	6.6%		
Truffle Equity	R 551 223 850.00	2.8%		
<b>SA Equity Passive</b>			<b>R 2 340 445 724.74</b>	<b>11.9%</b>
Capped All Share Tracker Fund	R 1 206 080 104.35	6.1%		
Momentum Tracker Fund	R 671 689 550.08	3.4%		
Value Tracker Fund	R 462 676 070.31	2.3%		
<b>SA Credit</b>			<b>R 995 942 152.69</b>	<b>6.1%</b>
Futuregrowth BBB	R 995 942 152.69	5.1%		
<b>Renewable Energy</b>			<b>R 379 307 187.00</b>	<b>1.9%</b>
Vantage Capital / Green X	R 141 109 354.92	0.7%		
Vantage Capital / Green X II	R 238 197 832.08	1.2%		
<b>SA Bonds</b>			<b>R 2 257 413 060.92</b>	<b>11.5%</b>
Ninety One Triple Alpha	R 1 142 181 167.31	5.8%		
Sanlam Bonds	R 1 115 231 893.61	5.7%		
<b>SA Listed Property</b>			<b>R 768 189 661.36</b>	<b>3.9%</b>
ABSA SA Property	R 365 155 083.59	1.9%		
Sesikile Property	R 403 034 577.77	2.0%		
<b>SA Hedge</b>			<b>R 268 648 784.98</b>	<b>1.4%</b>
Edge RCIS Matador RHF	R 268 648 784.98	1.4%		
			<b>R 19 694 665 290.51</b>	<b>100.0%</b>



# MODERATE PORTFOLIO (MP)

Life stage 2	Default Age	Risk Profile	Objective	Performance
	55 - Age 60	Moderate	45% Capital Growth 55% Capital protection & Income enhancement	CPI+4%
<b>MGF Moderate Portfolio</b>			<b>R 6 703 969 435.99</b>	<b>21.1%</b>
<b>Foreign Equity</b>			<b>R 715 796 420.76</b>	<b>10.7%</b>
Coronation Global Emerging Markets	R 57 010 862.61	0.9%		
Edge All Seasons Emerging Markets Fund	R 32 253 359.57	0.5%		
Franklin Global Fund	R 81 635 674.31	1.2%		
Hosking Global Class A	R 137 172.79	0.0%		
Hosking Global Class E	R 137 079 821.92	2.0%		
Ninety One Global Franchise	R 93 259 248.00	1.4%		
Morgan Stanley	R 87 835 785.39	1.3%		
Sands Capital	R 51 457 401.84	0.8%		
Veritas via Nedgroup	R 175 127 094.33	2.6%		
<b>Foreign Balanced</b>			<b>R 154 013 361.67</b>	<b>2.3%</b>
Orbis Global Balanced Fund	R 154 013 361.67	2.3%		
<b>Foreign Fixed Income Absolute Return</b>			<b>R 106 696 308.44</b>	<b>1.6%</b>
Brandywine	R 106 696 308.44	1.6%		
<b>Foreign Property</b>			<b>R 40 820 411.44</b>	<b>0.6%</b>
Resolution Capital via Nedgroup	R 40 820 411.44	0.6%		
<b>Foreign Cash</b>			<b>R 78 788 302.08</b>	<b>1.2%</b>
Dollar Capital Account	R 78 788 302.08	1.2%		
Unsettled Orders	R 0.00	0.0%		
<b>Total Foreign</b>			<b>R 1 096 114 804.39</b>	
<b>Mezzanine Debt</b>			<b>R 140 826 110.22</b>	<b>2.1%</b>
Vantage Pan African	R 125 336 622.75	1.9%		
Vantage Southern African	R 15 489 487.47	0.2%		
<b>SA Listed Property</b>			<b>R 259 608 808.10</b>	<b>3.9%</b>
Slip Knot Investment	R 7 062 983.00	0.1%		
ABSA SA Property	R 129 946 526.75	1.9%		
Sesikile Property	R 122 599 298.35	1.8%		
<b>SA Cash</b>			<b>R 460 689 407.27</b>	<b>6.9%</b>
OMIGSA Cash	R 430 145 635.01	6.4%		
Rand Capital Account	R 30 351 621.88	0.5%		
Unsettled Orders	R 192 150.38	0.0%		
<b>SA Equity</b>			<b>R 1 060 710 732.18</b>	<b>15.8%</b>
Abax Equity	R 109 743 007.10	1.6%		
Allan Gray Equity	R 239 119 775.43	3.6%		
Aluwani Equity	R 211 325 432.97	3.2%		
Argon Equity	R 213 898 705.84	3.2%		
Fairtree Equity	R 231 501 425.84	3.5%		
Truffle Equity	R 55 122 385.00	0.8%		
<b>SA Equity Passive</b>			<b>R 377 951 481.48</b>	<b>5.6%</b>
Capped All Share Tracker Fund	R 194 763 973.53	2.9%		
Momentum Tracker Fund	R 108 575 123.77	1.6%		
Value Tracker Fund	R 74 612 384.18	1.1%		
<b>Renewable Energy</b>			<b>R 182 523 525.09</b>	<b>2.7%</b>
Vantage Capital / Green X	R 98 059 086.44	1.5%		
Vantage Capital / Green X II	R 84 464 438.65	1.3%		
<b>SA Bonds</b>			<b>R 781 226 379.61</b>	<b>11.7%</b>
Ninety One Triple Alpha	R 394 198 758.07	5.9%		
Sanlam Bonds	R 387 027 623.54	5.8%		
<b>SA Inflation Linked Bonds</b>			<b>R 178 687 090.80</b>	<b>2.7%</b>
Ninety One ILB	R 178 687 090.80	2.7%		
<b>Absolute Return Global</b>			<b>R 1 486 085 319.84</b>	<b>22.2%</b>
Abax Absolute Prescient Global	R 427 042 040.85	6.4%		
Alusi Managed Fund	R 236 048 748.33	3.5%		
Coronation Absolute Global	R 337 068 250.20	5.0%		
Sanlam Absolute Global	R 485 926 280.46	7.2%		
<b>SA Hedge</b>			<b>R 679 545 777.01</b>	<b>10.1%</b>
Amplify - MGF MultiStrategy FOHF	R 289 438 226.60	4.3%		
Amplify - Sanlam Fixed Income FOHF	R 390 107 550.41	5.8%		
			<b>R 6 703 969 435.99</b>	<b>100.0%</b>



### CONSERVATIVE PORTFOLIO (CP)

Life stage 3	Default Age 61 - Age 63	Risk Profile Low	Objective 100% of STeP	Performance CP+3%
<b>MGF Conservative Portfolio</b>				<b>R 2 287 097 095.26 7.2%</b>
				<b>Target range</b>
SA Absolute Return			R 1 432 465 518.43 62.6%	39% - 79%
Abax Absolute Prescient	R 484 869 579.64	21.2%		
Alusi Managed Fund	R 72 555 505.11	3.2%		
Coronation Absolute Return	R 377 437 139.97	16.5%		
Sanlam Absolute Return	R 497 623 293.71	21.8%		
SA Credit			R 321 204 409.48 14.0%	5% - 25%
Futuregrowth AA-	R 321 204 409.48	14.0%		
SA Inflation Linked Bonds			R 73 668 548.93 3.2%	1% - 5%
Ninety One ILB	R 73 668 548.93	3.2%		
Renewable Energy			R 26 420 759.45 1.2%	0% - 5%
Vantage Capital / Green X II	R 26 420 759.45	1.2%		
SA Cash			R 210 766 422.25 9.2%	9% - 19%
OMIGSA Cash	R 203 303 538.69	8.9%		
Rand Capital Account	R 7 462 883.56	0.3%		
Unsettled Orders	R 0.00	0.0%		
SA Hedge			R 222 551 436.72 9.7%	5% - 10%
Amplify - MGF MultiStrategy FoHF	R 100 427 278.15	4.4%		
Amplify - Sanlam Fixed Income FoHF	R 122 124 158.57	5.3%		
				<b>R 2 287 097 095.26 100.0%</b>

### PROTECTED PORTFOLIO (PP)

Life stage 4	Default Age Older than 63	Risk Profile Low	Objective 100% of STeP	Performance STeP
				<b>R 1 291 630 700.12 4.1%</b>
SA Cash			R 1 291 630 700.12 100.0%	
OMIGSA Cash	R 1 301 701 621.71	100.8%		
Rand Capital Account	-R 27 986 180.14	-2.2%		
Unsettled Orders	R 17 915 058.55	1.4%		
				<b>R 1 291 630 700.12 100.0%</b>

### RESERVE PORTFOLIO (RP)

The MGF has a Reserve Portfolio, which is only invested in cash. This portfolio is used to finance other fund-related cash flows. This product does not form part of the LSM nor is it available as a member choice portfolio.

Allocation by Manager				
<b>Reserve Portfolio</b>				<b>R 532 884 044.79 1.7%</b>
SA Cash			R 532 884 044.79 100.0%	
OMIGSA Cash	R 490 294 152.60	92.0%		
Rand Capital Account	R 7 047 658.66	1.3%		
Unsettled Orders	R 35 542 233.53	6.7%		
				<b>R 532 884 044.79 100.0%</b>

### EXIT PORTFOLIO (EP)

The MGF has an Exit Portfolio, which is only invested in cash. This portfolio is used to protect members' fund credits upon termination of their membership until payment of benefits. This portfolio does not form part of the LSM nor is it available as a member choice portfolio.

Allocation by Manager				
<b>Exit Portfolio</b>				<b>R 1 188 941 973.74 3.6%</b>
SA Cash			R 1 188 941 973.74 100.0%	
OMIGSA Cash	R 1 188 823 252.25	100.0%		
Rand Capital Account	R 118 721.49	0.0%		
				<b>R 1 188 941 973.74 100.0%</b>
<b>TOTAL PORTFOLIO VALUE</b>				<b>R 31 699 088 540.41 100.0%</b>



## APPENDIX 2: Returns and Risk Measures

### 12-MONTH RETURNS AND RISK MEASURES

In accordance with Principle 8 of Circular PF 130, 12-month returns data, risk measures and the targeted benchmarks for each investment administrator and fund portfolio are included in the tables below.

Municipal Gratiuity Fund				Periods to 30 June 2022						Notes	
	Apr 22	May 22	Jun 22	Financial YTD	12 months	36 months	60 months	84 months	120 months	Annualised	
Performances per Manager											
SA EQUITY											
Abax Equity	-2.81%	0.05%	-6.70%	9.76%	8.1%	2.47%	4.46%			3.30%	Note 37
Alan Gray Equity	-0.54%	0.09%	-5.51%	12.97%	12.5%	7.61%	6.02%	6.44%	19.1%	15.90%	
Aluwani Equity	-3.98%	-0.17%	-7.47%	3.39%	7.1%	6.61%	9.69%	6.80%	10.5%	14.70%	
Argon Equity	-3.28%	1.05%	-7.16%	8.47%	8.4%	9.37%	8.1%	7.2%	11.2%	11.78%	Note 6
Fairtree Capital	-2.62%	0.14%	-2.93%	2.49%	2.4%	18.4%				12.40%	Note 39
Trufile Equity	-1.54%	1.34%	-7.40%	10.81%	12.8%					6.57%	Note 46
AL SI	-3.66%	-0.36%	-8.01%	4.68%	4.63%	8.19%	8.74%	7.00%	10.45%		
SA Private Equity											
Satrix Capped All Share Tracker Fund	-3.65%	-0.34%	-7.78%	8.03%	8.83%	8.92%				7.64%	Note 43
Capped AL SI	-3.65%	-0.34%	-7.77%	8.78%	6.78%	9.02%					
Satrix Momentum Tracker Fund	-3.75%	0.02%	-8.35%	8.21%	8.1%	8.7%				5.43%	Note 43
Satrix Value Tracker Fund	-4.55%	0.97%	-9.23%	14.66%	14.1%	8.2%				6.24%	Note 43
Capped SWIX	-3.95%	0.54%	-7.48%	6.94%	6.94%	6.7%					
SA Bonds											
Ninety One Triple Alpha Bonds	-1.71%	1.12%	-3.13%	1.77%	1.7%	3.3%	3.3%	3.3%	3.3%	6.03%	Note 4
Sanlam Bonds	-1.77%	1.09%	-3.08%	1.79%	1.8%	3.3%	3.3%	3.3%	3.3%	9.14%	
AL RI	-1.67%	1.01%	-3.06%	1.25%	1.25%	5.78%	7.78%	7.4%	7.19%		
RENEWABLE ENERGY											
Vantage Capital Green X Renewable Energy	0.63%	0.66%	0.66%	8.25%	8.2%	8.3%	9.17%	9.82%		9.40%	Note 25
JBAR +3.5%	0.6%	0.6%	0.7%	7.9%	7.9%	8.4%	9.45%	9.8%			
SA CASH											
Futuregrowth	0.43%	0.46%	0.42%	4.87%	4.6%	5.3%	5.3%	5.3%	5.3%	7.79%	
ABSA Settlement	0.39%	0.43%	0.40%	4.58%	4.5%	5.3%	5.3%	5.3%	5.3%	5.77%	Note 7
STeFI	0.36%	0.39%	0.40%	4.18%	4.16%	5.01%	5.93%	6.30%	6.11%		
SA CREDIT											
Futuregrowth AA-	0.47%	0.63%	0.35%	5.45%	5.45%	6.47%	7.6%	8.3%	8.3%	7.94%	Note 8
STeFI +1.5%	0.48%	0.51%	0.51%	5.68%	5.6%	6.51%	7.43%	7.80%	7.61%		
Futuregrowth BBB	0.23%	0.97%	-0.03%	7.25%	7.2%	7.3%	8.95%	9.3%	9.54%	9.34%	Note 8
STeFI +4%	0.68%	0.70%	0.71%	8.18%	8.1%	9.01%	9.93%	10.50%	10.11%		
MEZZANINE DEBT											
Vantage Mezzanine II Southern African	1.51%	-14.73%	-0.85%	-21.20%	-21.3%	-4.14%	6.4%	8.21%		8.87%	Note 29
Vantage Mezzanine II Pan African	7.61%	-1.06%	8.21%	23.51%	23.5%	14.1%	14.1%	10.61%		10.64%	
STeFI +8%	0.98%	1.01%	1.01%	12.18%	12.18%	13.01%	12.93%	14.30%			
SA PROPERTY											
Sesifile Property	-1.45%	-0.63%	-10.24%	0.38%	0.38%	5.01%	-4.30%	-0.56%		-1.14%	Note 30
ABSA SA Property	-2.10%	-2.98%	-10.04%	-8.20%	-8.2%	6.2%	6.2%	0.21%		-0.22%	Note 31
FTSE/JSE All Property Index	-1.41%	0.05%	-10.31%	0.22%	0.22%	9.0%	-7.3%	-3.4%			Note 42
FOREIGN PORTFOLIO											
Franklin Mutual Global Fund	3.27%	3.80%	-6.04%	3.12%	3.1%	7.4%	8.52%	7.16%	13.1%	11.97%	Note 9
Hoskings Global Fund PLC Class A	8.64%	-8.89%	5.66%	0.64%	0.6%	10.0%	11.6%	11.07%		11.72%	Note 33
Hoskings Global Fund PLC Class E	8.63%	-8.90%	5.66%	0.53%	0.5%	10.0%	11.6%	10.97%		11.95%	Note 33
Morgan Stanley	-5.79%	-9.56%	-7.54%	-39.03%	-39.0%	3.81%	1.00%			9.04%	Note 41
Ninety One Global Franchise	2.90%	-3.52%	-2.56%	-3.08%	-3.0%	11.5%				13.35%	Note 40
Sands Capital	-11.22%	-7.45%	-8.47%							-48.28%	Note 46
Ventus via Nedgroup	-0.09%	-2.03%	-1.89%	-1.00%	-1.0%	11.49%	11.52%	12.19%		13.35%	Note 32
MSCI World	-0.79%	-1.40%	-3.98%	-1.72%	-1.7%	12.46%	12.59%	12.23%	17.39%		
Coronation Global Emerging Markets	-4.80%	2.47%	-1.49%	-36.01%	-36.0%	3.61%	2.8%	4.4%		6.78%	
MSCI EM Index	2.23%	-1.02%	-1.84%	-14.23%	-14.2%	5.7%	6.87%	7.31%			
Resolution Capital via Nedgroup	5.64%	-8.82%	-5.27%	2.37%	2.3%	7.3%				7.35%	Note 44
FTSE EPRA/NAREIT Developed Index	2.34%	-5.70%	-3.87%	0.09%	0.09%	4.92%				5.70%	
International Cash *	7.68%	-1.10%	4.41%	21.37%	21.3%	-21.63%	-23.4%	-15.0%	-17.1%	-0.06%	
USD Libor	8.28%	-1.40%	5.23%	15.03%	15.0%	5.86%	5.84%	5.45%	8.02%		
Orbis Global Balanced Fund	2.72%	0.53%	-3.31%	6.94%	6.9%	13.6%	8.41%			11.75%	Note 5
60% MSCI World / 40% JP Morgan Global Bond	0.48%	-1.43%	-1.64%	-2.19%	-2.1%	8.13%	9.23%	9.27%	12.90%		
Brand/Mine	4.56%	-1.38%	1.19%	1.99%	1.9%	4.6%	4.2%			3.75%	Note 34
USD Libor + 2%	8.51%	-1.19%	5.47%	17.89%	17.6%	8.08%	8.04%				
Edge All Seasons Emerging Markets Fund	1.80%	-1.47%	-1.85%	-19.92%	-19.92%	4.23%	5.13%	6.33%		7.05%	Note 17
MSCI EM Index excl SA	2.76%	-1.09%	-1.37%	-13.85%	-13.85%	5.98%	6.98%	7.15%			Note 38
SA HEDGE											
Amplify - Sanlam Fixed Interest FOF	-0.45%	2.27%	0.15%	3.75%	3.7%	10.3%	10.3%	10.3%		8.53%	Note 22
Amplify - MultiStrategy FOF	0.26%	0.99%	-1.08%	5.81%	5.81%					10.50%	Note 45
STeFI +4%	0.68%	0.70%	0.71%	8.18%	8.18%	9.01%	9.93%	10.30%			
Edge Malador	-2.88%	0.80%	-7.42%	3.42%	3.4%					5.88%	Note 20
FTSE/JSE Capex Swix Index	-3.99%	0.54%	-7.40%	4.16%	4.16%	6.02%					
SA Absolute Return											
Abax Absolute President Fund	-0.45%	0.84%	-2.60%	6.72%	6.7%					6.95%	Note 44
Aluwani Managed Fund	-0.87%	-0.94%	-3.08%	2.64%	2.6%						
Sanlam Absolute Return	-1.21%	0.91%	-2.83%	5.05%	5.0%	6.28%	6.93%	7.20%	9.50%	10.47%	
Coronation Absolute Return	-0.61%	-0.17%	-4.29%	6.32%	6.3%	6.79%	6.17%	5.53%	7.51%	10.27%	Note 3
CPI + 5%	0.97%	1.06%	1.43%	12.40%	12.40%	8.81%	9.69%	9.97%	10.17%		
ABSOLUTE RETURN GLOBAL											
Abax Absolute President Global Fund	0.62%	0.60%	-2.00%	6.31%	6.31%					7.68%	Note 44
Coronation Absolute Return Global	-0.79%	-0.66%	-4.08%	0.69%	0.6%	7.03%	6.81%	6.62%	9.9%	8.97%	Note 2
Sanlam Absolute Return Global	-0.30%	0.12%	-2.82%	4.38%	4.3%	6.43%	7.6%	7.67%	9.3%	9.29%	
CPI + 5%	0.97%	1.06%	1.43%	12.40%	12.40%	8.81%	9.69%	9.97%	10.17%		

\* Large cash flows can distort the returns of the International cash account. The JP Morgan foreign cash account is managed to ensure that the balance is kept at a minimum.

\* Large cash flows can distort the returns of the International cash account. The JP Morgan foreign cash account is managed to ensure that the balance is kept at a minimum.

Performing above benchmark  
Performing below benchmark



Municipal Gratiuity Fund	Periods to 30 June 2022									
	Financial Year			Annualised						
	Apr 22	May 22	Jun 22	12 months	36 months	60 months	84 months	108 months	120 months	Since Inception
TOTAL RETURN	0.8%	0.5%	1.4%	1.8%	1.8%	1.8%	7.4%	10.2%	8.3%	10.7%
<b>Aggressive Portfolio</b>	1.2%	0.0%	1.7%	0.8%	1.8%	1.2%	7.8%	10.0%	9.4%	10.8%
SA Cash	0.39%	0.43%	0.40%	4.58%	4.58%	7.53%	7.81%	7.68%	6.93%	7.73%
SA Bonds	-1.74%	1.10%	-3.11%	1.78%	1.78%	6.76%	8.70%	8.31%	7.89%	9.15%
SA Equity	-2.49%	0.33%	-0.01%	7.51%	7.51%	8.41%	7.31%	5.69%	8.79%	13.37%
SA Passive Equity	-3.86%	0.02%	-8.23%	8.59%	8.59%	7.86%				5.71%
SA Property	-1.77%	-1.77%	-10.14%	-2.92%	-2.92%	-5.58%	-4.70%	-0.51%		-1.06%
SA Credit	0.23%	0.97%	-0.03%	7.25%	7.25%	7.81%	8.90%	9.52%	9.44%	9.34%
Africa	7.91%	-1.06%	6.21%	19.74%	19.74%	4.78%	6.30%	3.23%		1.33%
SA Hedge	-0.82%	-0.54%	0.14%	5.38%	5.38%	9.49%	7.78%	4.95%		5.25%
Mezzanine Debt - Southern African	1.51%	-14.73%	-0.85%	-21.20%	-21.20%	-4.24%	6.46%	8.21%		8.87%
Mezzanine Debt - Pan African	7.91%	-1.06%	6.21%	23.51%	23.51%	14.17%	14.13%	10.81%		10.64%
Foreign Portfolios	0.95%	-3.05%	-1.87%	-11.46%	-11.46%	7.43%	7.72%	8.53%	12.02%	10.30%
CPI + 5%	0.97%	1.06%	1.43%	12.40%	12.40%	9.81%	9.69%	9.97%	10.17%	10.88%
<b>Modest Portfolio</b>	0.1%	0.1%	0.2%	0.8%	0.8%	0.8%	7.2%	9.2%	8.9%	10.1%
SA Cash	0.39%	0.43%	0.40%	4.58%	4.58%	7.83%	7.83%	7.63%	7.03%	7.78%
SA Bonds	-1.74%	1.10%	-3.11%	1.78%	1.78%	6.76%	8.70%	8.42%	7.95%	9.19%
SA Equity	-2.49%	0.33%	-0.01%	7.51%	7.51%	8.41%	7.31%	5.62%	8.78%	13.28%
SA Passive Equity	-3.86%	0.02%	-8.23%	8.59%	8.59%	7.80%				6.67%
SA Property	-1.77%	-1.77%	-10.14%	-2.92%	-2.92%	-5.58%	-4.77%	-0.37%		-0.92%
Africa	7.91%	-1.06%	6.21%	19.74%	19.74%	4.78%	5.65%	2.70%		0.88%
SA Hedge BB	-0.82%	-0.54%	0.14%	5.38%	5.38%	8.49%	7.78%	6.97%	7.89%	8.57%
Mezzanine Debt - Southern African	1.51%	-14.73%	-0.85%	-21.20%	-21.20%	-4.24%	6.46%	8.21%		8.87%
Mezzanine Debt - Pan African	7.91%	-1.06%	6.21%	23.51%	23.51%	14.17%	14.13%	10.81%		10.64%
Foreign Portfolios	0.95%	-3.05%	-1.87%	-11.46%	-11.46%	7.43%	7.56%	8.26%	12.11%	9.80%
Absolute Return Global	-0.13%	0.07%	-2.92%	4.00%	4.00%	5.39%	5.91%	6.22%	8.77%	8.70%
CPI + 4%	0.90%	0.99%	1.36%	11.40%	11.40%	8.81%	8.69%	8.97%	9.17%	9.68%
<b>Conservative Portfolio</b>	0.1%	0.2%	0.3%	0.8%	0.8%	0.8%	7.2%	9.2%	8.9%	10.1%
SA Cash	0.39%	0.43%	0.40%	4.58%	4.58%	7.83%	7.84%	7.85%	7.23%	7.50%
SA Credit	0.47%	0.83%	0.35%	5.45%	5.45%	8.47%	7.64%	8.26%	8.02%	7.94%
SA Hedge BB	-0.82%	-0.54%	0.14%	5.38%	5.38%	8.49%	7.78%	6.99%	8.02%	8.53%
Absolute Return	-0.79%	0.30%	-2.15%	5.36%	5.36%	6.11%	6.39%	6.25%	8.13%	10.19%
CPI + 3%	0.82%	0.91%	1.29%	10.40%	10.40%	7.81%	7.69%	7.97%	8.17%	8.68%
<b>Private Portfolio</b>	0.1%	0.1%	0.2%	0.8%	0.8%	0.8%	7.2%	9.2%	8.9%	10.1%
Future growth	0.43%	0.48%	0.42%	4.87%	4.87%	5.78%	6.82%	7.22%	6.97%	6.95%
STeFi	0.38%	0.39%	0.40%	4.18%	4.18%	5.01%	5.93%	6.11%	6.11%	6.08%
<b>Reserve Portfolio</b>	0.1%	0.1%	0.2%	0.8%	0.8%	0.8%	7.2%	9.2%	8.9%	10.1%
Future growth	0.43%	0.48%	0.42%	4.87%	4.87%	5.78%	6.82%	7.22%	6.97%	6.95%
STeFi	0.38%	0.39%	0.40%	4.18%	4.18%	5.01%	5.93%	6.11%	6.11%	6.08%
<b>ESG Portfolio</b>	0.1%	0.1%	0.2%	0.8%	0.8%	0.8%	7.2%	9.2%	8.9%	10.1%
Future growth	0.43%	0.48%	0.42%	4.87%	4.87%	5.78%	6.82%	7.22%	6.97%	7.70%
STeFi	0.38%	0.39%	0.40%	4.18%	4.18%	5.01%	5.93%	6.11%	6.11%	6.87%

\* The ABSA cash account is included in the return of the portfolios. Large cash flows can distort the returns and result in small differences between the OMGSA Cash and the total portfolio returns.

The risk metrics included in the analysis below include the Tracking Error, Information Ratio and the Sortino Ratio per manager. An internal rating system is also shown alongside the manager watch list. The tracking error is the standard deviation percentage difference between the fund's return and its benchmark. A tracking error of 5% implies that if the market goes up by 10% a year, the portfolio performance is expected to be between 5% and 15% over the next 12 months. Alternatively, the tracking error is the excess return divided by the standard deviation.

The Information Ratio is a measure of manager skill and is defined as the excess return a manager generates divided by the amount of risk taken relative to a benchmark. Alternatively, the information ratio is the excess return divided by the tracking error. The ratio therefore shows the risk-adjusted excess return of a fund over the benchmark. In general, the information ratio should be positive indicating manager skill. A benchmark information ratio of 0.4 typically points to consistency of manager skill.

The Sortino Ratio is a measure of the risk-adjusted return of a portfolio where the downside deviation (i.e. the variation or standard deviation of negative returns) is used as the denominator, the use of which penalises down or bad volatility. Alternatively, the ratio is the actual rate of return in excess of the investor's target rate of return, per unit of downside risk.

The risk statistics shown in the schedule below are calculated over the since-inception period. As a consequence, strict comparisons between managers should not be made given differences in the performance history. This is particularly true of new managers brought into the mix viz. the Amplify Multi-Strat Fund, Alusi Managed Fund, Ninety One Inflation Linked Bond Fund and the Truffle Equity Fund where returns data are less than 3 years. Where possible, historic data is sourced to back-fill the data series. In certain instances, mandate changes have also skewed returns vis-à-vis the new benchmarks, making strict comparisons difficult.



In general, a number of observations can be made. At the manager level, the absolute return managers – particularly the domestic-only mandates – delivered good risk-adjusted returns even if those returns fell short of the CPI + 5% benchmark. This has been due to unfavourable market conditions over the past decade and is reflected in the negative information ratios for the underlying global-mandate absolute return managers. Despite Coronation being a higher equity absolute return manager, its returns have lagged those of Sanlam through the cycle. The Abax absolute return fund, brought into the portfolio 56 months ago, follows a similar low equity approach to Sanlam but more expressly utilizes derivative instruments to protect against downside risk in the portfolio. Despite the costs associated with derivative instruments, Abax has outperformed all the other absolute return managers over the past year, and with lower risk. Since the inception period, however, the Abax Fund has yielded a negative information ratio, although this is due to its shorter investment history. The Alusi Managed Fund, brought into the mix following the termination of the Prudential absolute return mandate, has lagged the returns of the other managers largely due to its higher equity exposure. In up markets, however, the Alusi Fund is expected to outperform its more conservative counterparts.

Within the FoHF space, the Amplify Fixed Income FoHF recorded a negative information ratio on account of its marginal underperformance of the Stefi + 4% benchmark. This was due to significant bond market disruptions in 2013 (taper tantrum) and 2015 (the firing of Nene as Finance Minister) that negatively affected the returns from the manager. However, over 3 and 5 years, the Amplify fund has outperformed the benchmark. Similarly, the Amplify Multi-Strategy FoHF has underperformed the Stefi + 4% benchmark, generating a negative information ratio but positive risk-adjusted returns. In the case of the Edge Matador RHF, a long-short equity FoHF benchmarked against the Capped Swix Index, the manager has outperformed the benchmark by 4.5% since its inception period and has shown skill given the high 0.79 information ratio.

In the domestic credit space, Futuregrowth exhibited skill, particularly with respect to the AA- credit portfolio. The manager recorded an information ratio of 0.86 in the AA-credit space but a disappointing -0.54 in the BBB-credit space. Despite underperforming the Stefi + 4% benchmark on account of weak economic conditions, the absolute returns yielded by the BBB-portfolio were still attractive relative to other asset classes. The AA-credit portfolio, benchmarked against Stefi + 1.5% yielded some 8.3% p.a over the past seven years, while the more aggressive BBB-portfolio yielded some 9.5% p.a over the comparable period.

In general, the risk metrics for the domestic equity managers were positive, with all of the managers recording positive information ratios and relatively high Sortino ratios. The manager that lagged its peers was Abax with a -0.9 information ratio, and although it did generate positive risk-adjusted returns, these too lagged the peer group. Since quality and intrinsic value as an investment style have been out of favour in recent years, Abax has a low weighting in the equity building block.

As expected, the Capped All Share Index tracker fund yielded a negative information ratio on account of its tracking error relative to the benchmark. The momentum and value tracker funds, in turn, benchmarked against the Capped Swix Index, reported positive information ratios with the value fund recoding the highest information ratio of 0.25. The rationale for including a passive equity component into the equity building block is discussed in detail in Appendix 3 below.

While the alpha signature for domestic bond managers is generally lower than that for equity managers, both the Ninety One Triple Alpha Bond Fund and the Sanlam Bond Fund recorded positive information ratios showing manager skill in managing these mandates. The Sortino ratios were also high suggesting good risk-adjusted returns by both managers. Similarly, the domestic listed property managers showed alpha generation and positive information ratios, again pointing to manager skill in managing these mandates. In contrast, the GreenX Note 1 Fund, benchmarked against Stefi + 3.5%, recorded a negative information ratio of -0.3 and an alpha signature of -0.5%. The reason for the underperformance of the benchmark is due to returns being captured after month-end. In contrast, the GreenX Note II Fund yielded a positive information ratio of 0.2 and an alpha signature of 0.4%.

The risk metrics for the offshore equity managers were generally mixed with value managers such as Franklin Templeton and Hosking Partners recording negative information ratios. This is due to the relative underperformance of value as an investment style over a number of years. Despite the underperformance of value as an investment style, both Franklin Templeton and Hosking Partners have outperformed the MSCI World Index over the past year, as value stocks have been rewarded in a rising interest rate environment. Since global interest rates are expected to rise further over the coming year due to rampant inflation, value is likely to continue outperforming the overall market as it did over the past year.

The best performing of the managers included the Morgan Stanley Global Opportunities Fund (growth manager) and the Ninety One Global Franchise Fund (defensive manager) both of which recorded positive information

ratios of 0.43 and 0.3 respectively. Both managers also recorded high Sortino ratios highlighting their ability to effectively manage downside risk relative to the benchmark. While Sands Capital (growth manager) also recorded a small positive information ratio, the manager has materially underperformed the benchmark on account of the sharp increase in interest rates. Since growth as an investment style is out of favour, the allocation to Sands Capital is small within the global equity building block. Veritas, the thematic global manager, also recorded a positive information ratio of 0.09 despite its investment style also having been out of favour over the past few years. Since these managers exhibit skill, they are retained in the manager blend.

Brandywine, the MGF's global bond manager recorded a negative information ratio of -0.39 over the since inception period. The underperformance has largely been due to the change in its benchmark, away from a global bonds benchmark (which it has outperformed) to an absolute return benchmark, targeting USD Libor + 2%. A notable feature of the mandate is that it is a long-short bond mandate, allowing the manager to short bonds in a rising global interest rate environment. The attraction of the manager is that it is a risk diversifier within the offshore building block.

The global balanced fund mandate with Allan Gray/Orbis yielded a positive information ratio of 0.46 and a relatively high Sortino ratio, highlighting its ability to generate excess risk-adjusted returns relative to its composite benchmark. The mandate was changed from an equity-only mandate to a balanced fund mandate in December 2015 as a means of diversifying risk in the MGF's offshore building block. As a consequence, the historical data set of 15+ years is not comparable with the 60:40 equity/bonds composite benchmark. If performance is measured since the date of the mandate change, the Allan Gray/Orbis Fund has outperformed the composite benchmark.

Despite outperforming the benchmark over 1 and 3 years, Resolution Capital recorded a negative information ratio of -0.41 yet a relatively high Sharpe Ratio suggesting good risk-adjusted returns. The negative information ratio is due to Resolution Capital being benchmark agnostic and having underperformed the benchmark over the since inception period. The Edge Emerging Markets Fund and the Coronation Emerging Markets Fund also recorded negative information ratios (-0.11 and -0.18) on account of their relative underperformance of the MSCI Emerging Market Ex SA Index and the MSCI Emerging Markets Index. Exposure to Russia weighed on the managers – particularly Coronation – as holdings were written down to zero following the imposition of sanctions on Russia and its exclusion from the emerging markets index.

Asset Class	Fund Name	History (Months)	Alpha	Tracking Error*	Information Ratio	Sortino Ratio	Rating	Manager Watch
SA Equity	Allan Gray Equity	215	7.89%	5.79%	1.13	6.65	AA	▶
	Aluwani Equity	215	6.48%	4.88%	1.33	6.45	A	▶
	Argon Equity	155	0.28%	3.36%	0.08	6.01	A	▶
	Fairtree Equity	66	3.83%	8.43%	0.45	4.33	AA+	▶
	Truffle Equity	139	2.92%	5.26%	0.55	6.12	AA+	▶
	Abax Equity	70	-4.19%	4.60%	-0.91	1.28	AA	▶
	Capped All Share Tracker	47	-0.30%	0.32%	-0.93	2.70	AA	▶
	Momentum Tracker Fund	47	0.90%	5.24%	0.17	1.67	AA	▶
SA Bonds	Value Tracker Fund	47	1.71%	6.71%	0.25	1.81	AA	▶
	Ninety One Triple Alpha Bonds	179	0.93%	0.91%	1.02	8.25	AA	▶
SA Bonds	Sanlam Bonds	215	2.46%	0.64%	3.85	7.72	AA	▶
SA Cash	QMIQSA Cash	215	1.95%	0.57%	3.43	Undefined	AAA	▶
SA Credit	Futuregrowth AA-	135	0.37%	0.43%	0.86	Undefined	AAA	▶
	Futuregrowth BBB	135	-0.73%	1.35%	-0.54	Undefined	AAA	▶
Mezzanine Debt	Vantage Mezzanine III Southern African	78	-5.41%	12.58%	-0.43	Undefined	AA	▶
	Vantage Mezzanine III Pan African	86	-3.67%	17.95%	-0.20	Undefined	AA	▶
Infrastructure	Green X Renewable Energy I	102	-0.49%	1.41%	-0.34	Undefined	AA	▶
	Green X Renewable Energy II	42	0.36%	1.62%	0.22	Undefined	AA	▶
SA Property	Seafkile Property	87	3.08%	4.11%	0.75	-0.28	AAA	▶
	ABSA SA Property	66	4.05%	9.48%	0.43	-0.05	AA	▶
Foreign Portfolios	Orbis Global Balanced Fund	215	3.09%	6.66%	0.46	6.57	AA	▶
	Franklin Mutual Global Discovery	156	-4.52%	6.99%	-0.65	5.85	A-	▶
	Veritas via Nedgroup	102	0.47%	5.43%	0.09	6.14	AA+	▶
	Haskings Global Fund PLC Class A	94	-1.15%	22.99%	-0.05	3.18	AA	▶
	Haskings Global Fund PLC Class E	94	-0.92%	23.26%	-0.04	3.23	AA	▶
	Morgan Stanley Global Opportunity	169	4.36%	10.08%	0.43	5.77	AA+	▶
	Investec Global Franchise	182	2.24%	7.54%	0.30	6.69	AA	▶
	Sands Capital Global Growth	144	0.28%	9.14%	0.03	6.57	AA	▶
	Dodge & Cox Worldwide Global Stock *	170	-0.17%	7.55%	-0.02	4.63		
	Schroder Global Recovery *	80	-2.58%	12.16%	-0.21	2.82		
	Resolution Capital Global Property	127	-2.61%	6.41%	-0.41	6.71	AAA	▶
	Coronation Global Emerging Markets	113	-1.69%	9.43%	-0.18	2.42	AA	▶
	Edge BRIC Fund	113	-1.16%	10.59%	-0.11	2.40	AA	▶
	International Cash	215	-5.30%	17.65%	-0.30	-0.01	A	▶
	Brandywine	82	-2.60%	6.68%	-0.36	2.00	AA	▶
Hedge Funds	Amplify Fixed Interest FOHF	112	-1.78%	6.56%	-0.27	7.32	AA	▶
	Amplify MultiStrategy FOHF	129	-2.29%	5.13%	-0.44	9.46	AA	▶
	Alusi Managed	124	-1.46%	6.05%	-0.16	6.29	AA	▶
	Edge Matador	55	3.61%	4.55%	0.79	2.93	AA	▶
Absolute Return Funds	Sanlam Absolute Return	215	1.34%	5.23%	0.26	13.42	AA	▶
	Coronation Absolute Return	202	0.51%	7.32%	0.07	8.45	AA	▶
	Abax SA Absolute	56	-3.37%	5.07%	-0.66	7.21	AA	▶
Absolute Return Global Funds	Sanlam Absolute Return Global	124	-0.90%	4.86%	-0.18	13.75	AA	▶
	Coronation Absolute Return Global	124	-1.22%	7.05%	-0.17	9.07	AA	▶
	Abax Absolute	149	-0.78%	4.57%	-0.17	19.25	AA	▶

\* New managers for consideration included for comparative purposes





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## APPENDIX 3: Active vs. Passive Investing

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The merits of active versus passive investing is discussed in the section below and whether the fees paid to the managers justify the current concentration of active managers in the building block. While it may seem obvious that given the lower fees charged by passive managers to track an index, this may not in fact be the case, especially if active managers outperform the benchmark by wide margins. The fees paid relative to the investment return (in rands) is calculated for both the active managers and an Alsi passive investment.

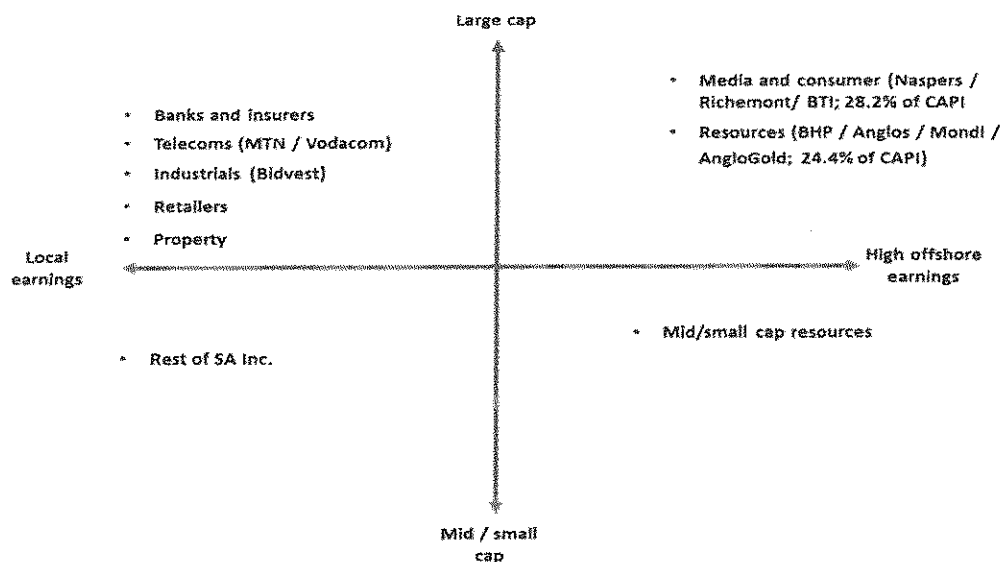
### Discussion

The figure below classifies the broad market sectors on the basis of their offshore earnings concentration as well as their size by market capitalization. Accordingly, it is clear that those sectors that are most insulated against benign domestic growth and a rise in the country's sovereign risk premium, include media and consumer stocks, resource counters and select mid and small cap counters. The risk though is that there may be a mispricing of SA Inc. counters because investors extrapolate the recent past to be a reflection of what the future is going to look like. Given this risk, a barbell strategy biased towards rand hedge counters would be the most appropriate strategy to diversify against SA-specific risk.

The table below shows the market capitalization weightings of the All Share Index bucketed into clusters of 10 shares each, ranked from the largest to the smallest. From the table below it can be seen that some 49.7% of the All Share Index comprises the largest 10 shares by market capitalization, down from 59.9% a year earlier. This suggests that value stocks increased their market capitalization relative to growth stocks over the past year, with small cap stocks the relative outperformers. The shares held by the active managers in the building block have been mapped to those of the All Share Index and represent a like-for-like comparison with the index. From the table, it can be seen that Fairtree Capital, Aluwani, Truffle and Argon had a greater degree of exposure to rand hedge counters than the likes of Abax and Allan Gray, with Allan Gray the only manager to have less rand hedge exposure than the Alsi benchmark. Relative to their market capitalization exposure from a year earlier, Fairtree Capital, Truffle, Allan Gray and Abax increased their top 10 concentration, whereas Argon and Aluwani reduced their top 10 holdings. On net, the equity building block – including the Fund's passive investment - had a 48.0% exposure to the largest 10 shares on the stock exchange, only marginally less than the 49.7% for the Alsi Index.

It is important to note that the best performing of the active managers viz. Allan Gray, had a relatively high exposure to mid- and small-cap stocks, whereas the second best performer – Truffle - had relatively high exposure to large and mid-cap stocks. It is therefore not clear that an additional allocation to passive would necessarily have resulted in better returns, given Allan Gray's 8.3% alpha and Truffle's 6.1% alpha over the 1-year period to end June. To further make the point, Aluwani and Fairtree Capital had high exposure to the top 30 shares (96.5% and 95.7% respectively) which did not result in outperformance of the benchmark. Their alpha totalled some -1.3% and -2.2% respectively. While Argon was also overweight the top 30 shares and underweight the small cap shares – albeit to a lesser extent - the manager nonetheless outperformed the Alsi benchmark, adding some 3.8% in alpha. What the analysis suggests is that while small cap stocks should have been overweighted over the past year, stock selection was equally important.

It must also be noted that one important feature of market capitalisation indices is that they have momentum characteristics (i.e. the weighting to winners increases, whereas the weighting to losers reduces). In this way, passive investments capture the future trend in the market i.e. the winners of tomorrow. In contrast, the argument in favour of active managers is that of "price discovery" in that they determine the intrinsic value of companies, and accordingly determine whether stocks are cheap or not.



Market Cap Weights: 30 June 2022

Market Cap Weights	ALSI	Abax	Allan Gray	Aluwani	Argon	Fairtree	Truffle	Equity Building Block
1-10	49.73%	52.12%	49.48%	57.51%	55.37%	62.67%	56.03%	48.01%
11-20	17.44%	22.43%	20.62%	24.70%	18.42%	20.86%	20.81%	19.21%
21-30	10.67%	12.79%	12.07%	14.32%	10.90%	12.21%	14.14%	11.37%
31-40	6.81%	7.55%	7.82%	3.48%	7.79%	4.26%	6.35%	6.91%
Balance	15.35%	5.12%	10.00%	0.00%	7.52%	0.00%	2.68%	14.50%

Market Cap Weights: 30 June 2021

Market Cap Weights*	ALSI	Abax	Allan Gray	Aluwani	Argon	Fairtree	Truffle	Equity Building Block
1-10	59.89%	42.65%	23.35%	65.14%	57.32%	38.78%	42.41%	44.84%
11-20	13.77%	21.25%	13.62%	16.62%	16.18%	18.53%	18.37%	16.88%
21-30	7.98%	10.97%	12.87%	8.35%	7.91%	14.33%	6.91%	10.66%
31-40	5.76%	3.78%	16.94%	1.77%	5.80%	8.83%	8.49%	8.09%
The Rest	12.60%	20.26%	29.09%	6.58%	11.94%	18.86%	23.16%	17.84%

\* Market capitalisation weights are mapped to the underlying shares in the All Share Index

## Fees

In order to calculate the fees paid by the MGF relative to the investment returns (in rands) for both the active managers and the Alsi passive investment, Appendix A below sets out the fee-to-investment return ratio for each of the managers. For the year ending June 2022, Fairtree Capital and Aluwani delivered the highest fee-to-investment return ratio, consistent with the absolute fees charged and their underperformance of the Alsi benchmark. In contrast, Truffle delivered the lowest fee-to-investment return ratio, consistent with its relative outperformance of the benchmark. In this instance, Truffle delivered better value for money relative to the passive investment. For the year ending June 2021, the fee-to-investment return ratio was the lowest for the passive investment, whereas in 2020, Allan Gray's fee-to-investment return ratio trounced that of the passive investment. In 2019, Fairtree Capital delivered the lowest fee-to-investment return ratio, only marginally higher than the passive investment ratio. In conclusion, while passive investing does generally offer better value for money relative to active managers, there are periods where the active managers deliver better value for money, especially where they outperform the benchmark.

## Conclusion

There is no definitive evidence to suggest that passive investment is always superior to active management after adjusting for fees.



## Appendix A: Fee-to-Investment Return Ratio

Financial Year to June 2021	Opening Market Value 1 Jul 2020	Net cash flow financial year to date	Net cash flow for the month of June 2021	Closing Market Value 30 Jun 2021	Investment Movements %	Fee financial year to date	Fees / %	Investment
<b>SA Equity</b>								
ABAX	760 365 323 -	16 666 667	-	818 608 113	74 909 457	2 670 384	3.6%	Sep-16
Argon	1 388 953 286 -	19 423 868	-	1 488 311 197	118 781 779	7 066 696	5.9%	Jul-09
Allan Gray	1 618 264 414 -	22 263 374	-	1 805 884 792	209 883 752	8 255 579	3.9%	Aug-04
Aluwani	1 476 569 822 -	19 423 868	-	1 508 865 346	51 719 392	6 692 828	12.9%	Aug-04
Fairtree	1 514 588 058 -	22 222 222	-	1 531 520 161	39 154 325	6 266 858	16.0%	Jan-17
Truffie	547 192 646	-	-	606 346 235	59 153 589	1 187 685	2.0%	May-21
ALSI	1 606 999			1 682 306	75 307	1 682	2.2%	

Financial Year to June 2021	Opening Market Value 1 Jul 2020	Net cash flow financial year to date	Net cash flow for the month of June 2021	Closing Market Value 30 Jun 2021	Investment Movements %	Fee financial year to date	Fees / %	Investment
<b>SA Equity</b>								
ABAX	633 659 664	-	-	760 365 323	126 705 659	2 210 338	1.7%	Sep-16
Argon	1 136 264 003	-	-	1 388 953 286	252 689 283	5 847 255	2.3%	Jul-09
Allan Gray	1 246 481 187	-	-	1 618 264 414	371 783 227	6 560 729	1.8%	Aug-04
Aluwani	1 220 251 930	-	-	1 476 569 822	256 317 893	5 645 129	2.2%	Aug-04
Fairtree	1 138 633 144	-	-	1 514 588 058	375 954 914	37 231 304	9.9%	Jan-17
First Avenue	569 623 396 -	657 647 747	-	-	88 024 351	-	-	Dec-13
Truffie	-	550 000 000	-	547 192 646 -	2 807 354	-	-	May-21
ALSI	1 284 880			1 606 999	322 119	1 607	0.5%	

Financial Year to June 2021	Opening Market Value 1 Jul 2020	Net cash flow financial year to date	Net cash flow for the month of June 2021	Closing Market Value 30 Jun 2021	Investment Movements %	Fee financial year to date	Fees / %	Investment
<b>SA Equity</b>								
ABAX	544 523 139	135 370 851	-	633 659 664 -	46 234 326	1 716 184	-4%	Sep-16
Argon	1 079 348 519	73 663 939	-	1 136 264 003 -	16 748 455	4 763 818	-28%	Jul-09
Allan Gray	1 391 797 165	58 794 171	-	1 246 481 187 -	204 110 149	2 784 601	-1%	Aug-04
Aluwani	1 135 593 941	113 296 518	-	1 220 251 930 -	28 638 530	2 962 709	-10%	Aug-04
Fairtree	724 411 391	314 175 346	-	1 138 633 144	100 046 407	13 273 633	13%	Jan-17
First Avenue	733 054 035 -	91 536 489	-	569 623 396 -	71 894 150	3 553 684	-5%	Dec-13
ALSI	1 328 711			1 284 880 -	43 831	1 285	-3%	

Financial Year to June 2021	Opening Market Value 1 Jul 2020	Net cash flow financial year to date	Net cash flow for the month of June 2021	Closing Market Value 30 June 2021	Investment Movements %	Fee financial year to date	Fees / %	Investment
<b>SA Equity</b>								
ABAX	498 789 856	57 500 000	-	544 523 139 -	11 766 717	1 607 535.00	-14%	Sep-16
Argon	1 033 202 765	-	-	1 079 348 519	46 145 753	4 730 370.00	10%	Jul-09
Allan Gray	1 441 666 363	-	-	1 391 797 165 -	49 869 198	3 917 436.00	-8%	Aug-04
Aluwani	1 082 741 677	-	-	1 135 593 941	52 852 264	4 880 167.00	9%	Aug-04
Fairtree	525 267 201	137 500 000	-	724 411 391	61 644 190	1 607 535.00	3%	Jan-17
First Avenue	885 617 366 -	115 000 000	-	733 054 035 -	37 563 331	4 638 956.00	-12%	Dec-13
ALSI	1 272 510			1 328 711	56 201	1 329	2%	

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## APPENDIX 4: Retirement Reform

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The Minister of Finance announced proposals as far back as the 2013 Budget Speech to reform the retirement industry, with a focus on governance, preservation, annuitisation and harmonization of retirement funds. The retirement fund reform proposals were contained in discussion papers released by National Treasury. A series of delays in the implementation of the tax treatment of retirement funds resulted in the annuitisation of provident fund contributions being postponed until March 2021. The Taxation Laws Amendment Act of 2015 did however pass some of Government's retirement reform proposals into law, which became effective on 1 March 2016. These new laws are briefly summarized below.

From 1 March 2016, the deduction cap for retirement fund contributions increased to 27.5% of the greater of remuneration or taxable income subject to a maximum of R350,000, including the cost of risk benefits. This rate applies to the aggregate of contributions made to an individual's pension, provident and RA funds. Previously, different contribution caps and deduction bases applied to the three types of funds. Individuals who contribute more in any one year can carry forward any unclaimed amount and deduct these from tax in subsequent years, subject to the deduction limits in those years. Any unclaimed contributions are returned untaxed at withdrawal or retirement.

Only the employee may claim contributions (both in respect of the employer and the employee contributions). The employee's PAYE deduction must be adjusted to reflect these contributions. If the employer makes the contribution, this must be neutralized by way of a fringe benefits tax charge levied on the employee.

The reforms initially included a provision that provident fund members must, from 1 March 2016, use two-thirds of their fund benefit to purchase an annuity at retirement. However, the implementation of this requirement only became effective on 1 March 2021. Following the change in legislation, provident fund and provident preservation funds will now be treated in the same manner as pension, pension preservation, and retirement annuity funds. This means that after 1 March 2021, up to one-third of the gross lump sum can be withdrawn as cash while the remaining two-thirds must be used to pay a pension or purchase an annuity, including a living annuity. The annuitisation threshold for retirement fund members increased to R247,500 on 1 March 2016 (previously R75 000). Due to the alignment of the mandatory annuitisation requirements between all retirement funds, a more flexible system of free portability is now allowed. As of 1 March 2021, the transfer of retirement savings to provident and provident preservation funds from other funds will not attract tax.

With respect to the implementation of retirement fund default regulations, made in terms of section 36 of the Pensions Funds Act (No. 24 of 1956), the final regulations were gazetted on 25 August 2017 following two drafts released on the 22 July 2015 and the 9 December 2016. These revised regulations took effect on 1 September 2017. In brief, the regulations can be summarized as below:

Retirement funds must offer a default in-fund preservation arrangement to members who leave the participating employer before retirement, and also a default investment portfolio to contributing members who do not exercise a choice. The MGF will use its existing risk-profiled life stage model portfolios as its in-fund default options for members. For retiring members, the legislation requires that a fund should have an annuity strategy with annuity options, either in-fund or out-of-fund, and can only default retiring members into a particular annuity product after a member has made a choice. The MGF has taken the decision to provide an out-of-fund life annuity to its members, whereby the MGF will facilitate and negotiate on behalf of members favourable take-on fees with a life assurer given its pool of assets.

Retirement benefits counselling to members, at least 6 months before retirement, will be facilitated by Sanlam's Individual Member Services, a basic counselling service provided to members free-of-charge. The retirement benefits counselling will need to explain the differences between non-inflation linked annuities, inflation guaranteed annuities, with-profit annuities targeting inflation, smoothed with-profit

annuities and dynamically hedged with-profit annuities. Since the MGF is a provident fund with average member fund credits of around R2.1m for men and R1.9m for women aged 60 to 65 years of age, most members are expected to take their full fund credit in cash at retirement, subject to the R500,000 tax exemption. The balance of the benefit will be subject to normal tax. Alternatively, members may opt to take their tax free portion in cash and purchase an annuity with the remaining fund credit. Members will also have the option of transferring their benefits to a living annuity, again outside of the fund. In this instance, the MGF will negotiate favourable fees with licensed FSP's to provide investment advice. The importance of minimizing drawdown rates so as to better manage longevity risk will need to be adequately communicated to members.

All new default arrangements that came into operation on or after the 1 September 2017 date of the regulations must comply with the requirements set out in the regulations, whereas existing default arrangements had an 18-month period in which to become aligned with the regulations i.e. 1 March 2019.

In light of the Covid-19 pandemic that has resulted in certain employers' and employees' being unable to comply with the full or any payment of contributions in terms of section 13A of the Pension Funds Act, the FSCA in Communication 11 of 2020 (RF) requested funds that did not yet have the relevant rules in place that make provision for financially distressed employers and/or employees, to submit such rule amendments urgently. Notwithstanding the provisions of section 13A of the Act, which obliges employers participating in funds to pay full contributions in respect of their employees/members of the fund within the stipulated time-frame (seven days after month end), most funds have rules in place that make provision for temporary absence from work (with or without pay), or a break in service (in instances where employees are not working), and/or the postponement of contribution payments, and/or the reduction of pensionable service (in respect of employees who are working reduced hours). Following formal requests by employers for the suspension or reduction of contributions, the Boards of funds are required to consider such requests and apply the relevant rule/s given the particular circumstances of the employer. Funds must, however, attempt to ensure that full risk benefit premiums continue to be paid in full in respect of the affected employees/members in order to ensure that the fund risk benefits will continue to be provided. Funds are required to keep a proper record of affected members of the fund, which they will be required to produce upon request by the Conduct Authority. Funds are also required to inform affected members of employers' requests to reduce or suspend contributions, and of proposed rule amendments.

Notices on Expanding Access to Living Annuity Funds were published in GN No.618, Government Gazette No. 43379 of 1 June 2020. Included in the tax measures was the expansion of access to living annuity funds from 1 June 2020 to 30 September 2020. Individuals who received funds from a living annuity would temporarily be allowed to immediately either increase their drawdown rate up to a maximum of 20% from 17.5%, or decrease their drawdown rate to a minimum of 0.5% from 2.5%. This would assist individuals who either needed cash flow immediately or who did not want to be forced sellers after their investments had underperformed. As a result, living annuity members could now approach their financial sector providers to adjust the proportion they receive as annuity income, instead of waiting up to one year until their next contract anniversary date. Furthermore, the minimum value of the annuity was amended and replaced with a single threshold of R125 000.

Due to the economic hardship created by Covid-19 on members of retirement funds, the National Treasury announced details on a proposal to allow for greater preservation of benefits with limited pre-retirement withdrawals from retirement funds on 11 August 2021. Even before the advent of COVID-19, the government recognised that many members may need to access part of their savings in particular unexpected circumstances. It was for this reason that the Minister of Finance noted in the 2020 Medium Term Budget Policy Statement (MTBPS) and the 2021 Budget that consideration be given to allow limited pre-retirement withdrawals from retirement funds under certain conditions, provided that this was accompanied by mandatory preservation upon resignation from a job. The government has been engaging with trade unions, retirement funds, regulators and other stakeholders to discuss how to increase savings and improve preservation, while allowing for limited withdrawals, without creating liquidity and investment risks.



On 29 July 2022 the National Treasury (NT) and the South African Revenue Service (SARS) released for public comment the 2022 draft Revenue Laws Amendment Bill (Bill). This Bill contains proposed amendments dealing with the "two pot" retirement system. On 28 February 2023, all contributions and growth up to that date will have to be valued and put into a vested pot. Contributions must be paid into the retirement pot and savings pot from 1 March 2023. There will be no seeding finance in either of these pots. These pots can be housed in pension funds, pension preservation funds, provident funds, provident preservation funds or retirement annuity funds. The new two-pot system will retain the principle of tax deductibility of contributions to the fund, subject to certain limits, and exempting growth in the fund, while taxing withdrawals and benefits. The tax treatment for withdrawals will be amended. Any withdrawals from the savings pot before retirement and annuity income from the retirement pot will be included in that year's taxable income and taxed at marginal tax rates. Members can access their savings pot once in a 12-month period and can access a minimum of R2,000. A maximum of one-third of the total monthly contribution can go into the savings pot, with the remaining amount going into the retirement pot.

Amounts contributed to the retirement pot cannot be accessed before retirement. At retirement date, the total value in the retirement pot must be paid in the form of an annuity (including a living annuity). The current minimum amount for purchasing an annuity (de minimis of R165 000) will apply to the retirement pot. In the legislation, this is defined as the "retirement withdrawal benefit". In contrast, amounts contributed to the savings pot can be accessed without any conditions, but only one withdrawal can be made during any 12-month period. If a member does not make any withdrawal from the savings pot in a 12-month period, the funds will still be available for withdrawal after the 12-month period. Permissible withdrawals from the vested pot will be taxed according to the withdrawal tax tables.

For divorce orders, the court order must specify the amount to be paid to the non-member spouse from each of the three pots. On emigration, full withdrawals from the retirement, savings and vested pots can take place if an individual ceases to be a tax resident for a period of at least 3 years. The vested pot will be taxed in accordance with the pre-1 March 2023 tax provisions, the savings pot will be included in gross income and the retirement pot will be taxed in accordance with the lump sum withdrawal tables. On retirement or death, the savings pot can either be withdrawn in full or transferred to the retirement pot. Where the member withdraws money from the savings pot as a lump sum on retirement, it will be taxed according to the retirement lump sum table. This could result in a tax-free withdrawal of up to R500 000 upon retirement. There is nothing specific about retrenchment and whether members can access the retirement pot if they are retrenched. This omission is expected to be addressed during the public submissions process.

Individuals cannot transfer amounts out of the retirement pot but can only transfer to another retirement pot tax-free. Transfers can be made into the retirement pot tax-free from any other pot. However, no transfers can be made into the savings pot, unless they are from another savings pot and subject to fund rules. It is proposed that retirement pots and savings pots cannot be split between funds, so members cannot transfer a savings pot to another fund without also transferring the relevant retirement pot to that same fund. The proposed amendments will come into effect on 1 March 2023, but Treasury have noted that this implementation date is optimistic, as fund rules need to be changed, there will be system changes to enable the administration of the two-pot system and SARS also needs to create capacity to cater for the new pots and track withdrawals.

It must be stressed that the MGF does not endorse the early withdrawal of retirement savings since such actions will result in a reduced fund credit that will severely limit the ability of a member to achieve a minimum cover ratio of 10-12X pensionable salary or a net replacement ratio of 75% of pensionable income at retirement.

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## APPENDIX 5: ESG Guidance Note

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### Preamble to Guidance Note 1 of 2019 (PFA)

The Financial Sector Conduct Authority (FSCA) published a Guidance Notice (GN) on the 14 June 2019 relating to the "Sustainability of investments and assets in the context of a retirement fund's investment policy statement". This followed the FSCA's publication of a draft Directive relating to "Sustainability and Reporting and Disclosure requirements for pension funds" (draft Directive) for public comment in March 2018. The content of the GN is largely based on the draft Directive, subject to certain amendments emanating from the comments received on the draft Directive. The change in the Directive to a Guidance Note means it is merely advisory and not mandatory i.e. legally binding.

The intension of the GN is to guide the boards of retirement funds on how to comply with regulation 28(2)(b) of the Pension Funds Act, read together with regulation 28(2)(c)(ix). In terms of regulation 28(2)(b) all funds must have an investment policy statement, while regulation 28(2)(c)(ix) requires that a fund must "*before making an investment in and while invested in an asset consider any factor which may materially affect the sustainable long term performance of the asset including, but not limited to, those of an environmental, social and governance character*".

The Guidance Notice aims to guide boards of funds on how its investment philosophy and objectives, as specified in its investment policy statement, should seek to ensure the sustainability of the fund's investments and assets. The Guidance Notice also sets out the FSCA's expectations for reporting and disclosure on issues of sustainability.

### Regulation 28

The Guidance Notice refers to the preamble to regulation 28, and in particular, the fact that prudent investment requires that appropriate consideration should be given to any factor that may affect the sustainable long-term performance of the fund's assets, including environmental (and climate change), social and governance (ESG) considerations. The preamble to regulation 28 provides as follows:

*"A fund has a fiduciary duty to act in the best interest of its members whose benefits depend on the responsible management of fund assets. This duty supports the adoption of a responsible investment approach to deploying capital into markets that will earn adequate risk adjusted returns suitable for the fund's specific member profile, liquidity needs and liabilities. Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's 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 a fund in a stable and transparent environment."*

The following guidelines are provided in the Guidance Notice with regards to a fund's investment policy statement (IPS):

A fund should in its IPS reflect how its investment philosophy and objectives will ensure the sustainability of its assets, including, among others:

- When the IPS was approved and by whom;
- How often the IPS will be reviewed;
- How the fund intends to monitor and evaluate sustainability of its assets, including the extent to which ESG factors have been considered, and the potential impact thereof on the assets;
- The fund's active ownership policy, meaning the prudent fulfilment of responsibilities relating to the ownership of, or an interest in, an asset.
- The IPS should state that the matters referred to above will also be reflected in the relevant investment mandate(s)
- If a fund holds assets that limit the application of ESG factors, sustainability criteria or the application of an active ownership policy, the reasons why this is to the advantage of the fund and its members should be stated.

The Guidance Notice states that, in the interest of transparency, accountability and the fair treatment of members, every fund is encouraged to:



- Make the IPS or an abridged version thereof available on request, and at no cost, to each member;
- Make the IPS available on the fund's website;
- Annually provide a copy of the IPS and any changes thereto to stakeholders, or inform them that these are available on the fund's website.

## Sustainability and ESG Factors

Although sustainability is not defined in Regulation 28, the GN defines it as *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.* The idea of inter-generational fairness is central to the wording above, implying that investments in fossil fuels (coal, oil and gas) that contribute to global warming would be detrimental to future generations. However, in the context of society and South Africa in particular, where unemployment is at 34.5%, investments in coal not only provide much-needed jobs but are critical for the generation of electricity. While sustainability not only includes ESG factors but also the *economy*, electricity generation, of which coal currently accounts for 88% of the total, is critical for the advancement and growth of the economy. ESG considerations therefore require a range of subjective factors that Boards would need to consider when formulating a sustainable ESG policy. Furthermore, ESG, in the South African context, and specifically in respect of assets located in South Africa, includes the manner in which broad based black economic empowerment is advanced. This not only applies to companies or assets in which managers invest, but also to the MGF itself. To this end, the MGF appoints B-BBEE investment administrators to its mix of underlying investment administrators.

While it appears that the central theme of the GN is that funds should ideally invest in assets with positive ESG characteristics, such a limitation would reduce the opportunity set in which funds can invest domestically, removing some of the diversification benefits that members would otherwise be exposed to. It is for this reason that most South African investment administrators' approach to ESG is to include companies with negative ESG characteristics in the investable universe, but to take account of these factors in their assessment of the value of each company. This approach would still be consistent with Regulation 28 which states that a fund's *fiduciary duty is to act in the best interest of its members whose benefits depend on the responsible management of fund assets.*

Although ESG principles may be applied differently in the case of South African assets given the country's social and economic challenges, one of the MGF's investment beliefs is to be more ESG cogniscent and to transition to low-carbon investments over the medium term, typically five years. To this end, the MGF has been a pioneer in renewable energy investments, having invested in round 1 to round 5 wind and solar projects. In instances where offshore passive investments are mooted by the Fund, the choice of two MSCI low carbon indices will be considered rather than investments in traditional MSCI indices, such as the ACWI. Alternatively, investments can be made in ESG exchange traded funds. Research conducted by BlackRock in February 2019 showed that sustainable indices had the same risk-return characteristics as traditional benchmark indices. Similarly, research done by GMO showed that over the 5-year period to end 2016, the two low-carbon MSCI indices yielded returns that were slightly better than the ACWI index.

A further ESG consideration is one of practical implementation. Given the frequency with which the MGF Board meets, it would be impractical for the Board to be actively involved in individual stock selection and the decision-making process surrounding which factors to consider when applying ESG principles. Accordingly, the most practical approach would be to outsource the decisions to the appointed investment administrators. The requirements of each fund would need to be clearly set out in the mandates with the investment administrators, which would include reporting obligations. Currently, a number of the MGF's underlying managers do sustainability reporting, such as Coronation and Investec. Importantly, investment administrators unable to comply with the policy guidelines specified by the MGF would be compelled to not accept an appointment.

## Resolutions

In order to comply with the principles of GN1 of 2019, the MGF has resolved as follows:

- 1) To outsource the ESG decision-making policy to the underlying investment administrators
- 2) That the MGF's mandates with the managers' permit both positive and negative screening, acknowledging that there will be a degree of subjective judgement in the decision-making process





- 3) That the managers report on the criteria used in applying ESG principles
- 4) That the MGF's active ownership policy and voting decisions be outsourced to the underlying managers and that these voting decisions be reported to the MGF annually
- 5) Where the Fund's assets are invested in pooled vehicles, the Board report "non-compliance" with ESG principles where the prospectus does not specify ESG investment criteria
- 6) Where the MGF is invested in offshore passive investments, consideration be given to investments in low carbon MSCI indices or ESG exchange traded funds.
- 7) The IPS, as revised annually, is available upon request by members and is also posted on the MGF's website.

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## APPENDIX 6: Pooled Investment Vehicles

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The MGF's assets are invested in pooled investment vehicles (unit trusts) except for the following investments:

Domestic Bond Managers  
Sanlam Bond Fund

Absolute Return Managers  
Sanlam

Domestic Equity Managers  
Allan Gray Equity  
Aluwani Equity  
Argon Equity  
First Avenue Equity  
Fairtree Equity

Limited Liability Partnerships  
GreenX Renewable Energy Fund  
Vantage Mezzanine Debt Fund

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## APPENDIX 7: LSM Interpretation and Implementation

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Our ref: NS00189.1  
Date: 26 March 2018

The Principal Officer  
The Municipal Gratuity Fund  
Private Bag X14  
Highveld Park  
0169

Dear Sir

### MUNICIPAL GRATUITY FUND: LIFE STAGE MODEL

We refer to the Investment Policy Statement review of 2017 and in specific the changes to the Member Investment Choice limit.

This letter aims to include these changes and obtain agreement in this regard.

#### 1. Interpretation of the Life Stage Model

The Life Stage Model ("LSM") is the default option for members. Fund credits of members are automatically invested in the relevant life stage portfolio according to age. The phasing between ages is based on age next birthday. Members may however exercise a written choice if they wish to invest contrary to the applicable Life Stage Model.

Unrestricted member investment choices will be allowed in respect of the fund credit as well as the contributions subject to the following conditions:

- (i) The contributions shall follow the investment choice in respect of the fund credit unless a specific choice is exercised that the contributions be invested in a specific investment portfolio in which event 100% of the monthly contribution shall be invested in that specific chosen investment portfolio, in other words a contribution member investment choice may not be split over various investment portfolios.

Once a member investment choice is exercised, be it in respect of the fund credit or the contributions or both, it shall at all times be maintained and shall not automatically revert to the default position when reaching the default age bracket or for any other reason whatsoever and the only manner to get back to the default arrangement is to make a written selection accordingly on the prescribed form.

The Aggressive Portfolio ("AP"), Moderate Portfolio ("MP"), Conservative Portfolio ("CP") and the Protected Portfolio ("PP") are the only four portfolios that form part of the LSM. The LSM also assumes that members retire at age 65 although members may voluntarily retire from age 50 onwards, until no later than 69 with consent of the Employer if after age 65.

#### 2. Definitions relating to the Life Stage Model

Default option	The option into which members will default, should they not make a specific investment choice joining the Fund.
Normal retirement age	Normal retirement age as defined in the Fund rules.
Normal retirement date	The last day of the month in which a member reaches their normal retirement age.
Age next birthday	It is an annual calculation. If the members' age on calculation date (31 July) is not a full year, the system will generate these members' next full year age.
Non-Rebalance	The member's total fund credit will not be re-distributed 100% into the specific portfolios but will phase over 4 quarters.
Calculation of years to normal retirement	The calculation performed at the end of the month in which the member turned the applicable age.



New member install – Life Stage	The member will be evaluated according to age next birthday on join date and future contributions will be invested 100% in the relevant portfolio until the next phasing cycle July. The member will start phasing when he/she qualifies.
Existing member choice individual switch to Life Stage model	The member will be evaluated according to age next birthday on switch date and total fund value plus future contributions will be invested 100% in the relevant portfolio until the next phasing cycle July. The member will start phasing when he/she qualifies.
System calculation date – phasing cycle	July – system calculates as at 31 July member age next birthday and switches the qualifying member during July. The next quarterly phasing will take place in October, January and April.
Life Stage run	It is an automated switch process that is initiated quarterly. The Life Stage run takes into account the members' actual age, age next birthday or period to retirement, and based on the Life Stage Model's parameters, the applicable portion of the fund credit is switched.

### 3. Fund credit and contribution allocation: end stage

The table below shows how the assets of an individual member is allocated to the four life stage portfolios, based on the member's age at his/her next birthday. The Life Stage phasing is done according to age next birthday in order for the member's fund credit to be fully switched into the relevant portfolio at the switching age. The monthly contributions of each member will be invested as shown below from 1 July 2015.

Age	% Aggressive	% Moderate	% Conservative	% Protected
Younger than 55 ( $\geq 16$ <55)	100%	0%	0%	0%
55 to 60 ( $\geq 55$ <61)	0%	100%	0%	0%
61 to 63 ( $\geq 61$ <64)	0%	0%	100%	0%
Older than 63 ( $\geq 64$ )	0%	0%	0%	100%

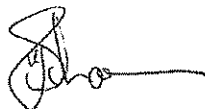
### 4. Life Stage Switches

Members in the different life stage portfolios are transferred in four quarterly batches starting one year ahead to the next Life Stage portfolio. The rationale for the quarterly transfers is to ensure that members are not prejudiced due to fluctuating investment markets. This applies to Life Stage switches between the AP and MP, the MP and the CP, and the CP and PP. A member may, however, exercise a choice in writing that is different from the Life Stage default model, subject to a maximum of two portfolios at any given time.

The member's fund credit (FC) will be switched as follows:

- During July FC/4 will be switched.
- During October FC portion remaining in old portfolio/3 will be switched.
- During January FC portion remaining in old portfolio/2 will be switched.
- During April the full FC portion remaining in the old portfolio will be switched.

Yours sincerely



Yolandie Schoeman  
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 Sanlam Employee Benefits: Retirement Fund Administration  
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The Board of Trustees agreed with the information contained herein and confirmed Sanlam's interpretation



on ..... 2018

SIGNATURE FOR THE FUND	
The signatory warrants that he/she is duly authorised to sign this document	
Signature	Place
	Date
Surname and full first names of signatory	
Capacity of signatory	

An example of how a member will be treated in the Life Stage run depending on age next birthday

Member's date of birth: 21/01/1962

Normal retirement Age: 65 years

Life Stage calculation date	Period to Planned Retirement Age in years		Current age	What to setup on the system									
	Life Stage rule to use: Planned retirement age												
	Future contributions will be invested in					% of Fund credit that will be phased from the remaining balance on the date of run (calculation date *)							
	From	To		Contribution Indicator must change	Aggressive Portfolio	Moderate Portfolio	Conservative Portfolio	Protected Portfolio	RUN - First week in July, calculation date 31 July* (Phase 1)	RUN - First week in October, calculation date 31 October* (Phase 2)	RUN - First week in January, calculation date 31 January* (Phase 3)	RUN - First week in April, calculation date 30 April* (Phase 4)	
2029/07/31*	≥ 64		63	Yes				100%	25%	33.33%	50%	100%	
2026/07/31*	61	64	60	Yes			100%		25%	33.33%	50%	100%	
2016/07/31*	55	61	54	Yes		100%			25%	33.33%	50%	100%	
2015/07/31*	<54		53	Yes	100%								

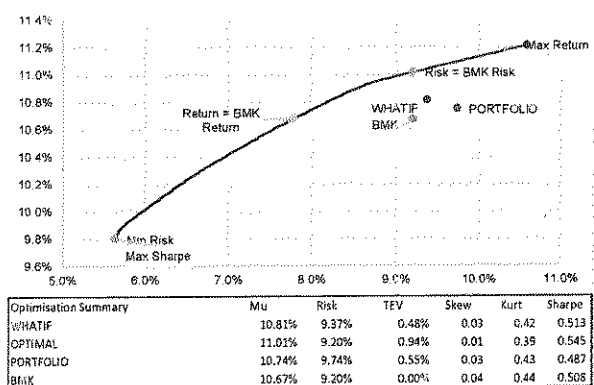
\* The portions of the fund credit will remain in the different portfolios (while earning investment return) until the month in which the fund credit is switched to the next phase.

New member investment allocation. Future contribution and fund credit will be invested according to below schedule					Next Phasing period included
	Aggressive Portfolio (younger than 55)	Moderate Portfolio (55 to 60)	Conservative Portfolio (61 to 63)	Protected Portfolio (older than 63)	
2029/07/31				100%	Phase to Protective
2026/07/31			100%		Phase to Conservative
2016/07/31		100%			Phase to Moderate
2015/07/31	100%				Aggressive



## APPENDIX 8: Asset Class Optimization and Tactical Asset Allocation

### Aggressive Portfolio (Long Term Returns)

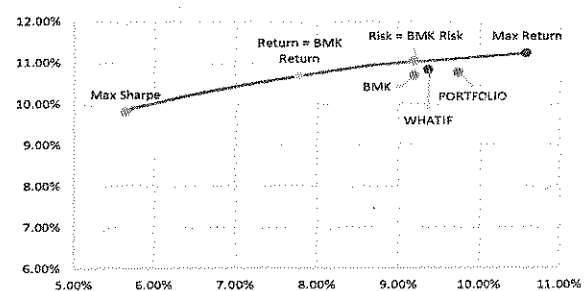


Constraints	PORTFOLIO	BMK	Optimal
Domestic Equity	45.06%	43.00%	37.02%
Foreign Equity	21.47%	21.00%	25.48%
Domestic Bonds	18.43%	13.00%	20.00%
Domestic Hedge*	3.29%	9.00%	12.50%
Foreign Bonds	2.77%	4.00%	0.00%
Domestic Property	4.48%	4.00%	5.00%
Foreign Property	1.91%	3.00%	0.00%
Domestic Cash	0.00%	3.00%	0.00%
Domestic ILBs	0.00%	0.00%	0.00%
Foreign Cash	2.59%	0.00%	0.00%

\* Includes hedge funds, private equity (infrastructure, renewable energy)



### Aggressive Portfolio (12-Month Returns)



Optimisation Summary	Mu	Risk	TEV	Skew	Kurt	Sharpe
WHATIF	10.81%	9.37%	0.48%	0.03	0.42	0.513
OPTIMAL	11.01%	9.20%	0.94%	0.01	0.39	0.545
PORTFOLIO	10.74%	9.74%	0.55%	0.03	0.43	0.487
BMK	10.67%	9.20%	0.00%	0.04	0.44	0.508

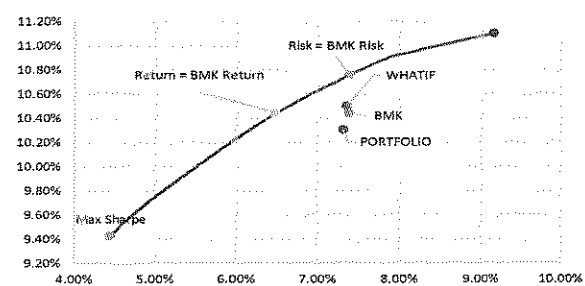
Constraints	PORTFOLIO	BMK	Optimal
Domestic Equity	45.06%	43.00%	37.02%
Foreign Equity	21.47%	21.00%	25.48%
Domestic Bonds	18.43%	13.00%	20.00%
Domestic Hedge*	3.29%	9.00%	12.50%
Foreign Bonds	2.77%	4.00%	0.00%
Domestic Property	4.48%	4.00%	5.00%
Foreign Property	1.91%	3.00%	0.00%
Domestic Cash	0.00%	3.00%	0.00%
Domestic ILBs	0.00%	0.00%	0.00%
Foreign Cash	2.59%	0.00%	0.00%

\* Includes hedge funds, private equity





### Moderate Portfolio (long Term Returns)



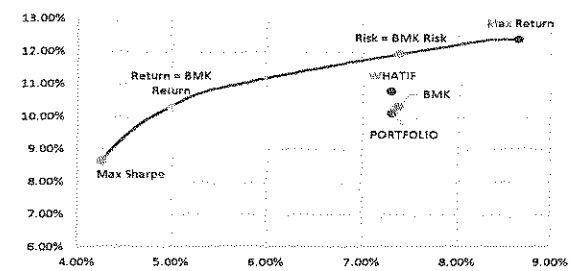
Optimisation Summary	Mu	Risk	TEV	Slew	Kurt	Sharpe
WHATIF	10.50%	7.36%	0.22%	-0.05	0.18	0.612
OPTIMAL	10.75%	7.39%	0.63%	-0.04	0.11	0.643
PORTFOLIO	10.30%	7.32%	0.47%	-0.04	0.23	0.588
BMK	10.44%	7.39%	0.00%	-0.06	0.18	0.601

Constraints	PORTFOLIO	BMK	Optimal
Domestic Equity	27.72%	24.50%	21.16%
Domestic Bonds	23.12%	23.00%	30.00%
Foreign Equity	15.27%	18.00%	25.00%
Domestic Hedge*	12.89%	15.50%	17.50%
Domestic Cash	5.58%	5.00%	0.00%
Domestic Property	4.45%	4.00%	3.01%
Foreign Bonds	4.17%	4.00%	0.00%
Domestic ILBs	2.67%	3.00%	1.25%
Foreign Property	0.96%	3.00%	0.00%
Foreign Cash	3.17%	0.00%	2.09%

\* Includes hedge funds, private equity



### Moderate Portfolio (12-Month Returns)



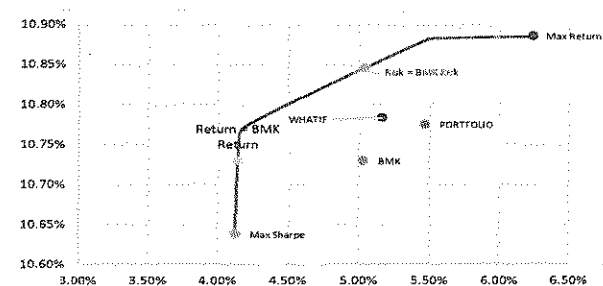
Optimisation Summary	Mu	Risk	TEV	Skew	Kurt	Sharpe
WHATIF	10.76%	7.31%	0.56%	-0.05	0.13	0.651
OPTIMAL	11.91%	7.39%	1.83%	-0.04	-0.04	0.800
PORTFOLIO	10.07%	7.32%	0.47%	-0.04	0.23	0.556
BMK	10.31%	7.39%	0.00%	-0.06	0.18	0.583

Constraints	PORTFOLIO	BMK	Optimal
Domestic Equity	27.72%	24.50%	21.18%
Domestic Bonds	23.12%	23.00%	8.82%
Foreign Equity	15.27%	18.00%	25.00%
Domestic Hedge*	12.89%	15.50%	20.00%
Domestic Cash	5.58%	5.00%	10.00%
Domestic Property	4.45%	4.00%	7.50%
Foreign Bonds	4.17%	4.00%	7.50%
Domestic ILBs	2.67%	3.00%	0.00%
Foreign Property	0.96%	3.00%	0.00%
Foreign Cash	3.17%	0.00%	0.00%

\* Includes hedge funds, private equity



### Conservative Portfolio (Long Term Returns)



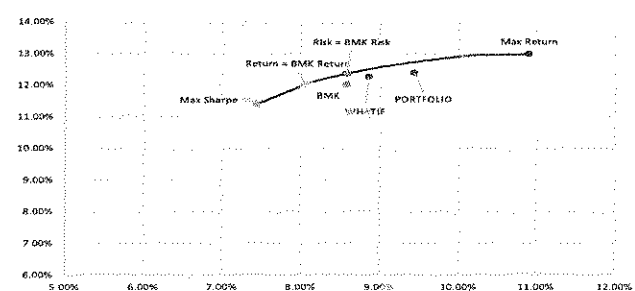
Optimisation Summary	Mu	Risk	TEV	Skew	Kurt	Sharpe
WHATIF	10.78%	5.17%	0.38%	-1.05	6.24	0.925
OPTIMAL	10.84%	5.04%	0.83%	-0.99	5.11	0.961
PORTFOLIO	10.77%	5.47%	0.55%	-1.00	6.32	0.873
BMK	10.73%	5.04%	0.00%	-1.12	7.27	0.939

Constraints	PORTFOLIO	BMK	Optimal
Domestic Bonds	39.48%	35.00%	44.30%
Domestic Cash	21.10%	25.00%	30.00%
Domestic Equity	23.96%	20.00%	20.89%
Domestic Hedge*	11.03%	14.00%	4.81%
Domestic Property	1.21%	3.00%	0.00%
Domestic ILBs	3.22%	3.00%	0.00%
Foreign Equity	0.00%	0.00%	0.00%
Foreign Bonds	0.00%	0.00%	0.00%
Foreign Property	0.00%	0.00%	0.00%
Foreign Cash	0.00%	0.00%	0.00%

\* Includes hedge funds, private equity



### Conservative Portfolio (12-Month Returns)



Optimisation Summary	Mu	Risk	TEV	Skew	Kurt	Sharpe
WHATIF	12.25%	8.85%	0.34%	0.02	0.30	0.706
OPTIMAL	12.36%	8.58%	1.08%	0.03	0.29	0.741
PORTFOLIO	12.38%	9.43%	0.55%	0.02	0.30	0.677
BMK	12.02%	8.58%	0.00%	0.01	0.31	0.701

Constraints	PORTFOLIO	BMK	Optimal
Domestic Bonds	39.48%	35.00%	38.90%
Domestic Cash	21.10%	25.00%	30.00%
Domestic Equity	23.96%	20.00%	16.10%
Domestic Hedge*	11.03%	14.00%	15.00%
Domestic Property	1.21%	3.00%	0.00%
Domestic ILBs	3.22%	3.00%	0.00%
Foreign Equity	0.00%	0.00%	0.00%
Foreign Bonds	0.00%	0.00%	0.00%
Foreign Property	0.00%	0.00%	0.00%
Foreign Cash	0.00%	0.00%	0.00%

\* Includes hedge funds, private equity

## APPENDIX 9: Strategic Asset Allocation Changes

The schedules below highlight the MGF's strategic asset allocation, per risk-profiled portfolio. Those items marked in red are manager changes that still need to be implemented in the coming year.

MGF		
AGGRESSIVE PORTFOLIO (AP)	SAA/Tactical Ranges	
CH 1	Mgr Weights/ SAA %	Tactical Range %
<b>SA Equity</b>	<b>26.0</b>	<b>12 - 40</b>
Allan Gray Classic Equity	20.00	10 - 30
Argon Equity	17.50	12.5 - 22.5
Aluwani Equity	17.50	12.5 - 22.5
Truffle	10.00	5 - 15
Fairtree Capital	20.00	10 - 30
Abax	15.00	10 - 20
<b>SA Smart Beta Passive Equity</b>	<b>12.00</b>	<b>6 - 18</b>
Satrix Capi	50.00	40 - 60
Satrix Momentum	30.00	25 - 35
Satrix Value	20.00	15 - 25
<b>SA Infrastructure Equity</b>	<b>5.00</b>	<b>0 - 5</b>
Stanlib Infrastructure FoF**		
<b>Long-Short Equity</b>	<b>1.5</b>	<b>0 - 3</b>
Edge Matador RHF (L-S Equity)	1.5%	0 - 100
<b>SA Bonds</b>	<b>10.0</b>	<b>5 - 20</b>
Ninety One Triple Alpha	50.0%	40 - 60
Sanlam Bonds	50.0%	40 - 60
<b>Mezzanine Debt</b>	<b>2.5</b>	<b>0 - 2.5</b>
Vantage Capital		
<b>Infrastructure</b>	<b>5.0</b>	<b>0 - 5.0</b>
GreenX - Note 1	1.5%	0 - 100
GreenX - Note 2	2.0%	0 - 100
GreenX - Note 3	1.5%	0 - 100
<b>SA Credit</b>	<b>3.0</b>	<b>0 - 5</b>
Futuregrowth BSB	3.0%	0 - 100
<b>SA Listed Property</b>	<b>4.0</b>	<b>0 - 8</b>
Absa	50.0%	40 - 60
Seefikile	50.0%	40 - 60
<b>SA Cash</b>	<b>3.0</b>	<b>0 - 10</b>
Futuregrowth Money Market	100.0	0 - 100
MNC Account		
Unsettled Trades		
<b>International</b>	<b>28.0</b>	<b>0 - 30</b>
<b>Equity</b>	<b>18.0</b>	<b>0 - 30</b>
Allan Gray/Orbis: Orbis Global Balanced	15.0%	10 - 20
Franklin Templeton Mutual Discovery	9.0%	4 - 14
Veritas	17.0%	12 - 22
Edge All Season EM Fund	4.0%	2 - 6
Coronation GEMS Fund	10.0%	5 - 15
Hosking & Co	15.0%	10 - 20
Ninety One Global Franchise	15.0%	10 - 20
Morgan Stanley Global Opportunities	15.0%	10 - 20
Sands Capital	9.0%	4 - 14
<b>Bonds</b>	<b>4.0</b>	<b>0 - 8</b>
Brandywine	4.0%	0 - 100
<b>International Property</b>	<b>3.0</b>	<b>0 - 6</b>
Resolution Capital	100.0%	
<b>International Cash</b>		
JP Morgan		
Unsettled Cash		
<b>iShares</b>	<b>3.0</b>	<b>0 - 5</b>
iShares ETF's	3.0%	0 - 5
<b>Total</b>	<b>100.00</b>	
Outstanding manager investments		



MGF			
MODERATE PORTFOLIO (MP)		SAA/Tactical Ranges	
CH 2	Mgr Weights/ SAA %	Tactical Range %	
<b><u>Absolute Return (Global Mandate)</u></b>	20.5%	15 - 35	
Coronation Absolute Return (Global)	25.0%	20 - 30	
Sanlam Absolute Return (Global)	32.5%	20 - 40	
Abax Absolute Return	32.5%	20 - 40	
Alusi (Edge) Managed Fund	10.0%	10 - 20	
<b><u>SA Equity</u></b>	12.0%	6 - 18	
Allan Gray Classic Equity	20.00	10 - 30	
Argon Equity	17.50	12.5 - 22.5	
Aluwani Equity	17.50	12.5 - 22.5	
Truffle	10.0	5 - 15	
Fairtree Capital	20.0	10 - 30	
Abax	15.0	10 - 20	
<b><u>SA Smart Beta Passive Equity</u></b>	5.0%	4 - 8	
Satrix Capi	50.0%	40 - 60	
Satrix Momentum	30.0%	25 - 35	
Satrix Value	20.0%	15 - 25	
<b><u>SA Infrastructure Equity</u></b>	4.0%	0 - 5	
Stanlib Infrastructure FoF™	100.0%	0 - 5	
<b><u>SA Bonds</u></b>	10.0%	5 - 20	
Ninety One Triple Alpha	50.0%	40 - 60	
Sanlam Bonds	50.0%	40 - 60	
<b><u>SA Inflation-Linked Bonds</u></b>	3.0%	0 - 5	
Ninety One	3.0%	0 - 100	
<b><u>Mezzanine Debt</u></b>	2.5%	0 - 2.5	
Vantage Capital	2.5%	0 - 100	
<b><u>Infrastructure</u></b>	5.0%	0 - 5	
GreenX - Note 1	2.5%	0 - 100	
GreenX - Note 2	2.0%	0 - 100	
GreenX - Note 3	0.5%	0 - 100	
<b><u>SA Listed Property</u></b>	4.0%	0 - 8	
Absa	50.0%	40 - 60	
Sesfikile	50.0%	40 - 60	
<b><u>SA FoHF</u></b>	8.0%	5 - 10	
Amplify Multi-Strategy FoHF	50.0%	40 - 60	
Blue Ink Fixed Income Fund	50.0%	40 - 60	
<b><u>Property (Physical)</u></b>	0.0%	0 - 2.5	
MGF Property Loan to Slip Knot			
<b><u>SA Cash</u></b>	4.0%	2 - 20	
Futuregrowth Money Market	4.0%	0 - 100	
MMC Account			
Unsettled trades			
<b><u>International</u></b>	25.0%	0 - 30	
<b><u>Equity</u></b>	15.0%	0 - 25	
Allan Gray/Orbis: Orbis Global Balanced	15.0%	10 - 20	
Franklin Templeton Mutual Discovery	9.0%	4 - 14	
Veritas	17.0%	12 - 22	
Edge All Season EM Fund	4.0%	2 - 6	
Coronation GEMS Fund	10.0%	5 - 15	
Hosking & Co	15.0%	10 - 20	
Ninety One Global Franchise	15.0%	10 - 20	
Morgan Stanley Global Opportunities	15.0%	10 - 20	
Sands Capital	9.0%	4 - 14	
<b><u>International Bonds</u></b>	4.0%	0 - 8	
Brandywine	4.0%	0 - 100	
<b><u>International Property</u></b>	3.0%	0 - 6	
Resolution Capital	100.0%	0 - 100	
<b><u>International Cash</u></b>			
JP Morgan			
Unsettled Trades			
<b><u>iShares</u></b>	3.0%	0 - 5	
iShares ETF's	3.0%	0 - 5	
<b>Total</b>	<b>100%</b>		
Outstanding manager investments			



MGF		30/06/2022
CONSERVATIVE PORTFOLIO (CP)		SAA/Tactical Ranges
CH 3	Mgr Weights/ SAA %	Tactical Range %
<b><u>Absolute Return (Domestic Mandate)</u></b>	69.0%	39 - 79
Coronation Absolute Return (Domestic)	25.0%	15 - 35
Sanlam Absolute Return (Domestic)	32.5%	20 - 40
Abax Absolute Return	32.5%	20 - 40
Alusi (Edge) Managed Fund	10.0%	5 - 15
<b><u>SA Credit</u></b>	10.0%	6 - 26
Futuregrowth AA-	10.00	0 - 100
<b><u>SA Inflation-Linked Bonds</u></b>	3.0%	1 - 5
Ninety One	3.00	1 - 100
<b><u>SA FoHF</u></b>	10.0%	5 - 10
Amplify Multi-Strategy FoHF	50.0%	
Blue Ink Fixed Income Fund	50.0%	
<b><u>Infrastructure</u></b>	4.0%	0 - 5
Vantage GreenX - Note 2	2.0%	0 - 2.5
Vantage GreenX - Note 3	2.0%	0 - 2.5
<b><u>SA Cash</u></b>	14.0%	9 - 19
Omigsa	14.0%	0 - 100
MMC Account		
Unsettled Trades		
<b>Total</b>	100%	
Outstanding manager investments		

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## APPENDIX 10: Regulation 28 – Asset Class, Security Limits and Draft Amendments

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In order to reduce excessive and concentration risk to member savings and ensure protection by limiting the extent to which retirement funds may invest in a particular asset or in particular asset classes, the table below reflects the Regulation 28 limits applied to retirement funds. In order to make it easier for retirement funds to invest in infrastructure, the National Treasury published draft amendments to Regulation 28 of the Pensions Fund Act for public comment in 2021 and the final amendment on 31 July 2022. The proposed review of Regulation 28 is informed by a number of calls for increased investment in infrastructure given the current low economic growth climate. The current regulation does not define 'infrastructure' as a specific category, which is currently spread across a number of asset classes like equity, bonds, loans and private equity. Consequently, current data from retirement funds do not record the exact investment in infrastructure. The proposed amendment therefore introduces a more precise definition of infrastructure to enable much better data and measurement.

To this end, the amendments introduce a definition of infrastructure, and sets a limit of 45% for exposure to infrastructure investment. Infrastructure is defined to mean any asset that has or operates with a primary objective of developing, constructing and/or maintaining physical assets and technology structures and systems for the provision of utilities, services or facilities for the economy, businesses, or the public. Since this is wide definition, investment administrators are arguing that holdings in a number of listed companies – telecommunications, hospital groups – would need to be counted as infrastructure. To further facilitate the investment in infrastructure and economic development, the limit between hedge funds, private equity and "other" assets has been split. There will now be a separate and higher allocation to private equity assets, which increases to 15% from 10% previously. Retirement funds will continue to be prohibited from investing in crypto assets. The excessive volatility and unregulated nature of crypto assets require a prudent approach, as recent market volatility in such assets demonstrates. A limit of 25% has been imposed, across all asset classes, to limit exposure of retirement funds to any one entity (company), not just infrastructure. However, one exception to the per entity limit is debt instruments issued by, and loans to, the Government of the Republic and any debt or loan guaranteed by the Republic.

A new requirement for funds to report on their twenty largest infrastructure investments, in a standardised reporting format, has also been included in the Regulation 28 amendments. While the new table for disclosure of the twenty largest infrastructure investments includes a section for reporting on any such investments in Africa ex-South Africa, it is not clear whether National Treasury expects retirement funds to include in their reporting any infrastructure investments ex-Africa.

The asset allocation to housing loans granted to retirement fund members will be reduced from 95% to 65% in respect of new loans only. This is meant to curb abuse of the housing loan schemes by fund members. The National Treasury is mindful of the important role played by housing ownership in wealth creation and in retirement and will continuously monitor this area of investment.

As part of aligning various regulatory approaches and achieving consistency, only investments in CISA approved hedge funds will be permitted. The reporting exclusion on a look-through basis of CIS and insurance policies has been removed to enable the regulators to collect important statistics on underlying exposures, as part of understanding and monitoring linkages in the financial system and for proactive supervision.





The amendments will take effect on 03 January 2023, to enable regulators and fund managers to comply with the new regulations. The FSCA is in the process of finalising the standard on reporting requirements aligned to the revised Regulation 28 and will issue it for public comment soon.

ITEM	CATEGORY OF ASSETS		Limits being the maximum percentage of aggregate fair value of total assets of fund	
			Per issuer/entity, as applicable	For all issuers / entities
1	CASH			100%
1.1	Notes and coins; any balance or deposit in an account held with a South African bank;  A money market instrument issued by a South African bank including an Islamic liquidity management financial instrument;  Any positive net balance in a margin account with an exchange; and  Any positive net balance in a settlement account with an exchange, operated for the buying and selling of assets.		25%	100%
1.2	Any balance or deposit held with a foreign bank;  A money market instrument issued by a foreign bank including an Islamic liquidity management financial instrument;		5%	
2	DEBT INSTRUMENTS INCLUDING ISLAMIC DEBT INSTRUMENTS			100% for debt instruments issued by or guaranteed by the Republic otherwise 75%
2.1	Inside the Republic and foreign assets			
	(a)	Debt instruments issued by, and loans to, the government of the Republic, and any debt or loan guaranteed by the Republic		100%
	(b)	Debt instruments issued or guaranteed by the government of a foreign country	10%	
	(c)	Debt instruments issued or guaranteed by a South African bank against its balance sheet:		75%
	(i)	listed on an exchange with an issuer market capitalisation of R20 billion or more, or an amount or conditions as prescribed	25%	
	(ii)	listed on an exchange with an issuer market capitalisation of between R2 billion and R20 billion, or an amount or conditions as	15%	



		prescribed		
		(iii) listed on an exchange with an issuer market capitalisation of less than R2 billion, or an amount or conditions as prescribed	10%	
		(iv) not listed on an exchange	5%	25%
	(d)	Debt instruments issued or guaranteed by an entity that has equity listed on an exchange, or debt instruments issued or guaranteed by a public entity under the Public Finance Management Act, 1999 (Act No. 1 of 1999) as prescribed:	10%	50%
		(i) listed on an exchange	10%	50%
		(ii) not listed on an exchange	5%	25%
	(e)	Other debt instruments:	5%	25%
		(i) listed on an exchange	5%	25%
		(ii) not listed on an exchange	5%	15%
3	<b>EQUITIES</b>			75%
3.1	Inside the Republic and foreign assets			
	(a)	Preference and ordinary shares in companies, excluding shares in property companies, listed on an exchange: -		75%
		(i) issuer market capitalisation of R20 billion or more, or an amount or conditions as prescribed	15%	
		(ii) issuer market capitalisation of between R2 billion and R20 billion, or an amount or conditions as prescribed	10%	
		(iii) issuer market capitalisation of less than R2 billion, or an amount or conditions as prescribed	5%	
	(b)	Preference and ordinary shares in companies, excluding shares in property companies, not listed on an exchange	2.5%	10%
4	<b>IMMOVABLE PROPERTY</b>			25%
4.1	Inside the Republic and foreign assets			
	(a)	Preference shares, ordinary shares and linked units comprising shares linked to debentures in property companies, or units in a Collective Investment Scheme in Property, listed on an exchange:		25%
		(i) issuer market capitalisation of R10 billion or more, or an amount or conditions as prescribed	15%	
		(ii) issuer market capitalisation of between R3 billion and R10 billion, or an amount or conditions as prescribed	10%	
		(iii) issuer market capitalisation of less than R3 billion, or an amount or conditions as prescribed	5%	
	(b)	Immovable property, preference and ordinary shares in property companies, and linked units comprising shares linked to debentures in property companies, not listed on an exchange	5%	15%



5	COMMODITIES			10%
5.1	Inside the Republic and foreign assets			
	(a)	Kruger Rands and other commodities listed on an exchange, including exchange traded commodities:		10%
		(i) Gold	10%	
		(ii) each other commodity	5%	
6	INVESTMENTS IN THE BUSINESS OF A PARTICIPATING EMPLOYER INSIDE THE REPUBLIC IN TERMS OF -			
	(a)	section 19(4) of the Pension Funds Act		5%
	(b)	To the extent it has been allowed by an exemption in terms of section 19(4A) of the Pension Funds Act		10%
7	HOUSING LOANS GRANTED TO MEMBERS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 19(5)			65%
8	HEDGE FUNDS			10%
8.1	Inside the Republic and foreign assets			
	(a)	Hedge funds		10%
		(i) Funds of hedge funds	5% per fund of hedge funds	
		(ii) Hedge funds	2.5% per hedge fund	
9.0	(b)	PRIVATE EQUITY FUNDS		15%
		(i) Funds of private equity funds	10% per fund of private equity funds	
		(ii) Private equity funds	5% per private equity fund	
10.0	(c)	OTHER ASSETS NOT REFERRED TO IN THIS SCHEDULE AND EXCLUDING A HEDGE FUND OR PRIVATE EQUITY FUND		2.5%
11.0	(a)	OVERALL LIMIT FOR INFRASTRUCTURE ACROSS ALL ASSET CLASSES (EXCLUDING DEBT INSTRUMENTS ISSUED BY AND LOANS TO THE GOVERNMENT OF THE REPUBLIC AND ANY DEBT OR LOAN GUARANTEED BY THE REPUBLIC)		45%
	(b)	Overall limit for all instruments per entity/issuer (local and or foreign) (excluding debt instruments issued by, and loans to, the government of the Republic and any debt or loan guaranteed by the Republic)	25%	

Regulation 28 is hereby amended by the insertion of the following table

Categories of assets	Percentage (Infrastructure) (%)	Rand value (Infrastructure) (R)	List of Top 20 holdings in respect of Infrastructure (name of issuer/entity in respect of infrastructure)
1. Cash			
2. Debt instruments including Islamic debt instruments:  2.1 Debt instruments issued by, and loans to, the government of the Republic and any debt or loan guaranteed by the Republic  2.2 Other debt instruments:  2.2.1 Listed debt instruments  2.2.2 Unlisted debt instruments			
3. Equities:  3.1 Listed equities  3.2 Unlisted equities			
4. Immovable property (direct & indirect)			
5. Commodities			
6. Investment in the business of the participating employer			
7. Housing loans	n/a	n/a	n/a
8. Hedge funds			
9. Private equity			
10. Other assets not referred to in this table			
11. Infrastructure exposure in the rest of Africa			



TOTAL (Total investment in respect of direct infrastructure, excluding debt instruments issued by, and loans to, the government of the Republic and any debt or loan guaranteed by the Republic)	%	(R)	
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The amendments to Regulation 28 come into effect on 3 January 2023

## APPENDIX 11: Service Provider Contact Details

	Investment advisor	Investment administrator
Full name:	Sanlam Multi Manager International (Pty) Ltd	Abax Investments
Postal address:	Private Bag X8 Tygervally Cape Town 7536	PO Box 23851 Claremont Cape Town 7735
Physical address:	55 Willie van Schoor Avenue Bellville Cape Town 7530	1 Oakdale Road, The Oval 2nd Floor, Colinton House Newlands Cape Town 7700
Date of appointment:	17 August 2006	12 August 2016
Telephone number:	+27 (21) 950 2596	+27 (21) 670 8960
FAIS registration no.:	845	856
FAIS registration no.:		
	Investment administrator	Investment administrator
Full name:	ABSA Asset Management (Pty) Ltd	Allan Gray South Africa (Pty) Ltd
Postal address:	Private Bag X 291509 Melville Johannesburg 2109	PO Box 51318 V & A Waterfront Cape Town 8002
Physical address:	Sandton South Campus, 2nd Floor 15 Alice Lane Sandton 2196	1 Silo Square V & A Waterfront Cape Town 8001
Date of appointment:	01 February 2012	01 March 2001
Telephone number:	+27 (11) 480 5344	+27 (21) 415 2300
FAIS registration no.:	522	27146
	Investment administrator	Investment administrator
Full name:	Alusi Asset Management	Aluwani Capital Partners (Pty) Ltd
Postal address:	PO Box 4188 Tyger Valley Cape Town 7536	EPPF Office Park 24 Georgian Crescent East Bryanston East Johannesburg 2152
Physical address:	Edge House 3 Heuvelkruin Close Tyger Valley Cape Town 7536	EPPF Office Park 24 Georgian Crescent East Bryanston East Johannesburg 2152
Date of appointment:	01 November 2020	01 June 2004
Telephone number:	+27 (21) 976 1012	+27 21 204 3800
FAIS registration no.:	43346	46196



	Investment administrator	Investment administrator
Full name:	Argon Asset Management (Pty) Ltd	Brandywine Global Investment Management, LLC
Postal address:	PO Box 23254 Claremont Cape Town 7735	PO Box 31 Wexford Y35 VY30 Ireland
Physical address:	1 Oakdale Road, The Oval 1st Floor, Colinton House Newlands Cape Town 7700	Riverside Two Sir John Rogerson's Quay Grand Canal Dock Dublin 2 Ireland
Date of appointment:	01 August 2009	01 August 2015
Telephone number:	+27 (21) 670 6570	1-800-822-5544
FAIS registration no.:	835	Not applicable, compliant, see note 1

Note 1: The Fund is invested in a product managed by Brandywine Global Investment Management LLC. It is administered by BNY Mellon Investment Servicing (International) Ltd and BNY Mellon Trust & Depositary (Ireland) Limited is the appointed Custodian.

	Investment administrator	Investment administrator
Full name:	Coronation Fund Managers Ltd	Coronation GEM
Postal address:	PO Box 44684 Claremont Cape Town 7735	JP Morgan House International Financial Services Centre Dublin 1, Ireland
Physical address:	MontClare Place, 7th Floor Cnr Campground & Main Roads Claremont 7708	JP Morgan House International Financial Services Centre Dublin 1, Ireland
Date of appointment:	01 August 2005	01 August 2014
Telephone number:	+27 (21) 680 2000	+353 1 612 4200
FAIS registration no.:	548	Not applicable, compliant, see note 2

Note 2: The Fund is invested in a product managed by Coronation Global Opportunities Fund through the Coronation Global Emerging Markets Fund registered as an open-ended umbrella unit trust established in Ireland and authorised by the Central Bank of Ireland as a UCITS pursuant to the UCITS regulations. It is administered by J.P. Morgan Hedge Fund Services (Ireland) Limited and J.P. Morgan Bank (Ireland) plc is the appointed Custodian.

	Investment administrator	Investment administrator
Full name:	Drakens Capital Fund Managers	Edge Capital (Pty) Ltd
Postal address:	191 Jan Smuts Avenue Parktown North Johannesburg 2193	PO Box 4188 Tyger Valley Cape Town 7536
Physical address:	191 Jan Smuts Avenue Parktown North Johannesburg 2193	Edge House 3 Heuvelkruin Close Tyger Valley Cape Town 7536
Date of appointment:	01 June 2014	01 October 2007
Date of resignation:	01 December 2021	
Telephone number:	+27 (11) 565 2316	+27 (21) 976 1012
FAIS registration no.:	45511 - see note 3	882

Note 3: Drakens Capital is licensed by the South African Financial Sector Conduct Authority (FSCA) as a discretionary fund manager and has authority from the Irish Central Bank to manage European domiciled funds.



	Investment administrator	Investment administrator
Full name:	Fairtree Capital (Pty) Ltd	Franklin Templeton Investment Funds
Postal address:	PO Box 4124 Tyger Valley Cape Town 7536	PostNet Suite 12 Private Bag X1005 Claremont Cape Town 7735
Physical address:	Willowbridge Place Cnr Carl Cronje Drive & Old Oak Road Bellville Cape Town 7530	1 Oakdale Road, The Oval 1st Floor, Kildare House Newlands Cape Town 7700
Date of appointment:	05 January 2017	01 October 2004
Telephone number:	+27 (21) 943 3760	+27 (21) 831 7400
FAIS registration no.:	25917	44475

	Investment administrator	Investment administrator
Full name:	Futuregrowth Asset Management (Pty) Ltd	Hosking Partners LLP
Postal address:	Private Bag X6 Newlands Cape Town 7725	Sanne Fourth Floor 76 Baggot Street Lower Dublin 2 D02 EK81
Physical address:	3rd Floor Great Westerford 240 Main Road Rondebosch Cape Town 7700	Sanne 7 St James's Terrace Malahide Dublin 2, Ireland
Date of appointment:	01 March 2011	01 August 2014
Telephone number:	+27 (21) 659 5300	+353 1 845 8160
FAIS registration no.:	520	45612 - see note 4
FAIS registration no.:		

Note 4: Hosking Global Fund Plc. Operates under UCITS (Undertakings for Collective Investment in Transferable Securities in Europe). The investment is administered by Sanne, the appointed Custodian is Northern Trust Fiduciary Services (Ireland), George's Court, 54-62 Townsend Street, Dublin 2, Ireland.

	Investment administrator	Investment administrator
Full name:	Morgan Stanley Investment Management	Ninety One (Pty) Ltd
Postal address:	25 Cabot Square Canary Wharf, Floor 06 London E14 4QA	PO Box 1855 Cape Town 8000
Physical address:	25 Cabot Square Canary Wharf, Floor 06 London E14 4QA	36 Hans Strijdom Avenue Foreshore Cape Town 8001
Date of appointment:	01 August 2017	01 April 1994
Telephone number:	+44 20 7425-3943	+27 (21) 416 2000
FAIS registration no.:	9752	587





	Investment administrator	Investment administrator
Full name:	Resolution Capital NIF Global Property (Nedgroup Investments Plc)	Sands Capital Funds PLC
Postal address:	GPO Box 553 Sydney NSW 2001	1000 Wilson Boulevard Suite 3000 Arlington VA 22209 United States
Physical address:	Level 38, Australia Square Sydney NSW 2000	1000 Wilson Boulevard Suite 3000 Arlington VA 22209 United States
Date of appointment:	01 March 2019	08 October 2021
Telephone number:	+61 2 8258 9188	+353 638 2440
FAIS registration no.:	Resolution Capital Limited is authorised and regulated by the Australian Securities and Investment Commission (ASIC). FAIS Registration not applicable, compliant, see note 5	48103
<p>Note 5: The Fund is invested in a product managed by Veritas Asset Management LLP through Nedgroup Investments Plc (the Fund was re-demociled from the Isle of Man to Ireland on 14 May 2014 and converted to a European Union approved "undertakings for Collective Investment in Transferable Securities" or "UCITS" vehicle also approved by the FSCA). It is administered by Nedgroup Investments Fund Plc (NIF) and Citibank, N.A. is the appointed Custodian.</p>		

	Investment administrator	Investment administrator
Full name:	Sanlam Investment Management (Pty) Ltd	Sanlam Asset Management Ireland
Postal address:	Private Bag X8 Tyger Valley Cape Town 7536	Beech House, Beech Hill Office Campus Beech Hill Road Clonskeagh Dublin 4 Ireland
Physical address:	55 Willie van Schoor Avenue Bellville Cape Town 7530	Beech House, Beech Hill Office Campus Beech Hill Road Clonskeagh Dublin 4 Ireland
Date of appointment:	01 October 2001	01 October 2015
Telephone number:	+27 (21) 950 2500	+353 1 205 3500
FAIS registration no.:	579	42837 - see note 6
<p>Note 6: Sanlam Asset Management (Ireland) Limited is authorised and regulated by the Central Bank of Ireland as a UCITS IV Management Company and as an Alternative Investment Fund Manager, and is licensed as a Financial Service Provider in terms of Section 8 of the South African FAIS Act of 2002.</p>		

	Investment administrator	Investment administrator
Full name:	Amplify - Sanlam Multi Manager International (Pty) Ltd	Sesfikile Capital (Pty) Ltd
Postal address:	Private Bag X8 Tyger Valley Cape Town 7536	Postnet Suite 334 Private Bag X1 Melrose Arch Johannesburg 2076
Physical address:	55 Willie van Schoor Avenue Bellville Cape Town 7530	1st Floor 30 Melrose Boulevard Melrose Arch Johannesburg 2076
Date of appointment:	01 August 2003	01 April 2015
Telephone number:	+27 (21) 950 2596	+27 (11) 684 2679
FAIS registration no.:	845	39946

	Investment administrator	Investment administrator
Full name:	Truffle Asset Management	Vantage Capital Group
Postal address:	P.O. Box 535 Pinetown Johannesburg 2123	PO Box 280 Parklands Johannesburg 2121
Physical address:	Ground Floor, Lancaster Gate Hyde Park Lane Business Complex Hyde Lane Hyde Park, Sandton 2196	3 Melrose Boulevard 1st Floor, Unit 9B Melrose Arch Johannesburg 2076
Date of appointment:	25 May 2021	01 December 2013
Telephone number:	+27 (11) 325 0030	+27 (11) 530 9134
FAIS registration no.:	36584	Vantage Capital Fund Managers (Pty) Ltd - 28711 Vantage GreenX Fund Advisors (Pty) Ltd - 44668

	Investment administrator	Risk insurer
Full name:	Veritas Asset Management LLP (Nedgroup Investments Plc)	Camague Underwriting Managers (Pty) Ltd
Postal address:	Citibank Europe Plc 1 North Wall Quay Dublin 1	Postnet Suite 250 Bedfordview Johannesburg 2008
Physical address:	Citibank Europe Plc 1 North Wall Quay Dublin 1	Camague House 33 Glenhove Road Melrose Estate Johannesburg 2196
Date of appointment:	01 December 2013	01 December 1998
Telephone number:	+44 1624 645150	+27 (11) 778 9140
FAIS registration no.:	Not applicable, compliant, see note 7	

Note 7: The Fund is invested in a product managed by Veritas Asset Management LLP through Nedgroup Investments Plc (the Fund was re-demolished from the Isle of Man to Ireland on 14 May 2014 and converted to a European Union approved "undertakings for Collective Investment in Transferable Securities" or "UCITS" vehicle also approved by the FSCA). It is administered by Nedgroup Investments Fund Plc (NIF) and Citibank, N.A. is the appointed Custodian.

	Custodian	Custodian
Full name:	Standard Chartered Bank (SCB)	Allan Gray Nominees (Pty) Ltd
Postal address:	PO Box 782080 Sandton Johannesburg 2146	PO Box 51318 V & A Waterfront Cape Town 8002
Physical address:	5th Floor 4 Sandown Valley Crescent Sandton Johannesburg 2196	No 1 Silo Silo Square V & A Waterfront Cape Town 8001
Date of appointment:	01 December 2013	01 March 2001
Telephone number:	+27 (11) 217 6600	+27 (21) 415 2300
FSP approval no.:	9101	24/436

#### PARTICIPATING EMPLOYERS

The list of participating employers is available upon request from the Fund's registered office.

