MGF
Wealth creator of choice
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INVESTMENT POLICY STATEMENT SUMMARY - JULY 2025

1. 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 Sector Conduct Authority ("PF 130") and Regulation 28 of the Pensions Fund Act of 1956 ("Act").

The objective of the Board in drafting this document is to:

- Document the MGF's investment policy and summarise 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 summarised version of this investment policy to all stakeholders.
- Demonstrate adherence to PF 130, as far as this is appropriate and practical, and the Pension Funds 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 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 material changes to either the legislative, regulatory, economic or capital market environment take 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.

2. DUTIES AND RESPONSIBILITIES OF THE PARTIES OF THE FUND

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 (also known as asset managers)

- ❖ 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.

3. 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, the so-called Net Replacement Ratio (NRR).
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. The shorter the term of retirement savings, the more one needs to invest and vice versa.

4. 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 or living annuity). Alternatively, members with larger fund credits are expected to buy a living annuity, subject to drawdown limits.

The table below shows how the fund credit of an individual member is 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%

4.1 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 2025, the AP has delivered a real return of CPI + 6.1%. 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.

4.2 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 + 5.2%. 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.

4.3 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 + 4.0%. 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.

4.4 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 loss of capital close to retirement by virtue of the possible 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.

5. 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 portfolios currently offered by the Fund. 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 can be done at any time. One choice per calendar year 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 thereof.