

## PROFESSIONAL PROVIDENT SOCIETY RETIREMENT ANNUITY FUND

### INVESTMENT POLICY STATEMENT

#### 1. Introduction

- 1.1. This Investment Policy Statement ('IPS') records the general investment philosophy and objectives adopted by the board of trustees of the Fund ('the Trustees'), as determined by the liability profile and risk appetite of the members of the Fund ('the Members'). The IPS further addresses the principles as prescribed in terms of Regulation 28 and Regulation 39 of the Pension Funds Act, and the Financial Sector Conduct Authority ('FSCA') guidance note on the sustainability of investments, and details the various investment options that are made available to Members.
- 1.2. The Professional Provident Society Holdings Trust ('the Sponsor') has established this Fund to provide Members with a range of retirement products that offer affordable and transparent access to a focused range of investment options.
- 1.3. It is acknowledged that members of the Professional Provident Society may choose to become a Members of this Fund. This is a retirement savings vehicle which is voluntary.
- 1.4. Members must make their own choice regarding the investment options. The Members may exercise their investment choice with or without the assistance of an accredited financial advisor.
- 1.5. The Trustees will oblige the administrators of the Fund to ensure that the Member's retirement capital is invested according to the Member's written instruction to the Fund.
- 1.6. The key principles adopted by the Trustees:
  - 1.6.1. As far as possible all investment options are to have clearly defined benchmarks, and if applicable, published performance tables.
  - 1.6.2. All investment options are to be clearly described by documentation that is readily available in the public domain or on the Sponsor's website.
  - 1.6.3. All investment options are to be regulated in terms of the provisions of the Pension Funds Act (24 of 1956), the Collective Investment Schemes Control Act (45 of 2003), the Long-term Insurance Act (52 of 1998), the Financial Markets Act (19 of 2012), and any other applicable legislation.

- 1.6.4. All information that pertains to the management and performance fees of each investment option, that would be required for a Member to make appropriate investment choices, must be readily available to Members and potential members.
- 1.6.5. Members will be permitted to switch investment options at their discretion (there may be a charge for this option), subject to any minimum contribution limits imposed on a particular investment option.
- 1.6.6. The Trustees, with the assistance of the Sponsor, will strive to provide continuous information to Members.
- 1.6.7. The Trustees, with the assistance of the Sponsor, must seek to ensure the sustainability of its investments and assets. The objective of sustainability being to ensure that the Fund conducts business in such a way as not to compromise the ability of future generations to meet their needs.

## **2. Available range of investment options**

2.1. The Fund invests in:

- 2.1.1. long-term insurance policies ('Underwritten Policies');
- 2.1.2. collective investment scheme portfolios ('CIS Portfolios') that are approved by the FSCA; and
- 2.1.3. share portfolios managed by an independent discretionary financial services provider ('the Share Portfolios').

2.2. Members may no longer invest in new Underwritten Policies.

2.3. The investment options offered to Members are proposed by the Sponsor and approved by the Trustees. The investment options are as follows:

### **2.3.1. PPS Preferred Funds**

These investment options are CIS Portfolios (commonly referred to as unit trusts) that are available to all Members. The CIS Portfolios and the respective managers have been assessed by the Sponsor's Product Forum, a body appointed by the Sponsor's executive committee, and which comprises the Chief Executive Officer, Chief Operations Officer, Chief Investment Officer and Executives of Business Development and Product departments. The objective of the Product Forum is to ensure that additional layers of governance and processes are incorporated into the development and implementation of products and services.

The methodology of the analysis of these CIS Portfolios is documented in the workings of the Product Forum meetings, and includes the assessment of

qualitative and quantitative factors, as well as an assessment of the applicable fee structures. This working documentation will be provided to the Trustees on request. By including these CIS Portfolios in the PPS Preferred Fund range, the Product Forum confirms its provision of an oversight assurance that Members' assets are being managed with appropriate rigour. The Product Forum monitors the extent to which all appropriate types of CIS Portfolios are available within the range. The number of available CIS Portfolios in this range is deliberately restricted to ensure that Members are not confronted with an excessive list of choices.

### 2.3.2. **Limited Access Funds**

The Fund has approved the introduction of an additional range of CIS Portfolios, access to which is limited to clients of specific financial advisors. These CIS Portfolios are made available to Members who have appointed specific financial advisors, and will not be made available to other Members.

The CIS Portfolios and the respective managers have been assessed by the Sponsor's Product Forum.

### 2.3.3. **Share Portfolios**

All Members may invest in the Share Portfolio, subject to minimum investment amounts as may be determined from time to time. Members are offered limited options within a choice of discretionary mandates. These Share Portfolios will be managed by financial services providers who have been registered with the FSCA as category II discretionary financial services providers, and have been approved by the Trustees following a due diligence process conducted by the Sponsor's Product Forum.

### 2.3.4. **Model Portfolios**

The Sponsor has approved the use of Model Portfolios to assist Members with implementing a particular investment strategy. The Model Portfolios consist of a number of underlying CIS Portfolios wrapped into a single portfolio. These Model Portfolios will be managed by financial services providers who have been registered with the FSCA as category II discretionary financial services providers, and have been approved by the Trustees following a due diligence process conducted by the Sponsor through the Product Forum.

- 2.4. All Preferred Funds investment fund options are included on the Investment Option Schedule which is available on the Sponsor's website, with the exception of Limited Access Portfolios, Share Portfolios and Model Portfolios which will only be presented to clients of the specific financial advisor as an annexure to the application form listing all the other investment options.

- 2.5. The investment options are selected by the Trustees in accordance with the rules of the Fund, Pension Fund Circular 130 and FSCA guidance note on the sustainability of investments.

### **3. Sustainability of investments**

- 3.1. The Sponsor will endeavour to integrate environmental, social and governance ('ESG') risk factors into the assessments conducted on the investment options and managers as outlined in paragraph 2.3, to ensure that environmental and social risks are identified and mitigated in existing and future investment portfolios.
- 3.2. The Fund will implement a process to monitor and evaluate the ongoing sustainability of its current and future assets, including the extent to which ESG factors have been considered by the Fund and the potential impact of the Fund as part of the annual investment option reviews.
- 3.3. The majority of the investment options offered by the Fund are CIS Portfolios, and therefore no direct active ownership policy is possible. The active ownership policies of the managers of the CIS Portfolios will be reviewed under paragraphs 3.1 and 3.2 above.

### **4. Default investment option and default preservation option**

No default investment option is currently offered to Members. Although no investment advice is provided by the Sponsor, a tool is provided on the Sponsor's website to ensure that a Member's individual investment choices are compliant with Regulation 28. Should legislation require a default investment option and/or a preservation option, the Trustees will review this and implement an appropriate default option.

### **5. Default annuity option**

- 5.1. The Fund offers a default annuity option to Members, as required in terms of Regulation 39 of the Pension Funds Act. The Member must elect to have this option, and the Trustees recommend that this choice be made with the assistance of his or her financial advisor. The annuity option has the following features:
  - 5.1.1. The annuity option is a living annuity policy issued by PPS Insurance Company Limited, in the name of the retiring Member.
  - 5.1.2. No investment options are offered to the retiring Member. The underlying CIS Portfolios will be determined by the Trustees from time to time.
  - 5.1.3. The initial drawdown rate is either a rate determined by a table based on the retiring Member's gender and age, or a lower rate as selected by the retiring Member.
  - 5.1.4. The amount of the annuity escalates annually on the anniversary of the policy at the rate prescribed by the Trustees from time to time.
  - 5.1.5. The Member may elect to cancel this default option. In such a case he or she will be required to select an annuity provider, investment portfolio/s and drawdown rate of his or her choice.

- 5.2. All Members are offered retirement benefit counselling at least three months before their retirement date.

## **6. Changes to Members' investment options**

- 6.1. Changes to a Member's investment options may be made at any time by way of a valid switch instruction supplied to the Fund on any business day. Minimum investment limits apply to Members who switch to the Share Portfolio.
- 6.2. Members who are invested in Underwritten Policies may switch between underlying investment options within the Underwritten Policies, but may be charged an early termination penalty if they switch from the Underwritten Policy to a CIS Portfolio or the Share Portfolio.

## **7. Regulation 28 compliance**

- 7.1. The Fund will be managed to comply with the prudential investment guidelines incorporated in Regulation 28. It is accepted that market movement may from time to time result in the Fund's composition being beyond the limitations of Regulation 28 at a specific date, however all Member activity will be governed by the principles of Regulation 28.
- 7.2. All Members' investments will be tested for compliance with the Equity, Property and International asset allocation limits of Regulation 28 at the time of investment (be this a lump sum investment or a regular investment). A Regulation 28 'compliance tool' has been designed by the Sponsor to assist Members and financial advisors in testing their desired CIS Portfolio allocation against these limits prior to submitting their instruction. This tool is available for use on the Sponsor's website.
- 7.3. Whenever subsequent instructions are submitted by a Member, a similar asset allocation check will be conducted on the resultant asset allocations and the transaction will be processed only in the event that this is Regulation 28 compliant. The objective is at all times that the Fund should remain in compliance and there will therefore be no limitations on future Members and their own investment choice, other than compliance with these Regulation 28 asset allocation limits. The compliance, where applicable, within each CIS Portfolio, is managed by the respective managers.
- 7.4. Members who select the Share Portfolio have the option of either a Regulation 28 managed Share Portfolio or a non-Regulation 28 managed Share Portfolio. Members who have selected the latter, will be required to select additional CIS Portfolios to ensure that overall the Member complies with Regulation 28.
- 7.5. The insurer who underwrites the Underwritten Policies has a similar tool and process where a Member wishes to switch to another underlying investment option within the Underwritten Policy.

## **8. Foreign exchange compliance**

- 8.1. Compliance with South African Reserve Bank ('SARB') foreign asset limits is also controlled on each Member's investment options in the same manner as the Regulation 28 checks detailed above and using the same compliance tool.
- 8.2. The manager of the Share Portfolio will monitor compliance with foreign asset limits.

## **9. Regulation 28 and foreign exchange escalation of non-compliance**

- 9.1. There may be instances where, despite the implementation of the above measures, market and currency movement may cause the extent by which the Fund is not in compliance with either Regulation 28 or foreign asset limits to become significant and that consequently the Fund has received explicit instruction from the FSCA or SARB to address the issue because the measures described in paragraphs 7 and 8 above have not been effective. In this case, the Trustees will need to implement the following process around a possible re-balancing exercise. The Trustees will advise all affected Members of the situation and the legal imperative on the Fund to resolve it. This consultation program will include detailed analysis of the Member's asset allocation, the extent to which changes need to be made with the assistance of the Regulation 28 compliance tool and a reasonable time frame for the Member to affect a switch to address the concern. Should the Member not comply with the request in the required time, the Trustees will instruct the administrator to redeem the necessary units and re-invest the proceeds into an appropriate CIS Portfolio, which is determined by the Trustees from time to time.
- 9.2. The Trustees may build in a margin-of-safety into the assessment of the Fund's allocation and restrict access to specific CIS Portfolios prior to the prescribed levels being breached. This margin-of-safety will be determined by the Trustees from time to time and recorded in the minutes of the meetings of the Trustees. The rules of the Fund empower the Trustees in this regard.
- 9.3. The Trustees will monitor any foreign over-exposure by the Fund due to Underwritten Policies with full international exposure, that were issued prior to the effective date of Regulation 28 in 2011.

## **10. Investment strategy for unclaimed benefits**

Although there is no retirement age specified in the rules of the Fund, some members may have an Underwritten Policy with a contractual maturity date. Where a Member fails to make an election regarding his or her maturing Underwritten Policy, the proceeds of the Underwritten Policy are invested into a CIS Portfolio, as determined by the Trustees from time to time. This process is referred to as 'auto-continuation'.

Where a death benefit payable to a beneficiary in terms of s37C is not paid within 24 months of the Fund becoming aware of the death of the member, and the underlying investment is an Underwritten Policy, the proceeds of the Underwritten policy will be

invested in a CIS Portfolio, as determined by the Trustees from time to time. This process is referred to a "death benefit auto-continuation".

## **11. Investment strategy for death benefits**

The Trustees have decided that where the Fund has been notified of a valid death claim, and pending the decision of the Trustees as to whom payment of the benefit is to be made, the Member's investments in the Fund will be switched from the Member's selected CIS Portfolio, and/ or Share Portfolio, to an appropriate CIS Portfolio as determined by the Trustees from time to time, or in the case of an Underwritten Policy, interest at a rate determined by the trustees from time to time shall be applied to the investment value from date of death until date of payment.

## **12. Management of investment risk within the range of investment options**

- 12.1. The range of CIS Portfolios that are available for Member choice are identified in the product application forms in terms of the risk profile of the portfolio as specified by the managers of each portfolio.
- 12.2. The Trustees believe that the variety of portfolios offered to Members provides sufficient scope for appropriate diversification to manage the investment risk for Members, regardless of individual Members' ages or risk tolerance.
- 12.3. The Trustees have not categorised the available portfolios in terms of appropriateness with reference to investment term.
- 12.4. The choice of specific investment options is solely up to the Member. The Member retains the risk of, and remains responsible for, the selection of the various portfolios at all times whether he or she invests with or without assistance of a financial advisor. As such, Members are responsible for deciding whether they require advice and for taking such advice. The application form will alert the Member to the investment risk and encourage the Member to seek advice. The Trustees are not authorised by financial services legislation to provide financial advice to Members.

## **13. Fees**

- 13.1. Fees that may be payable in respect of the investment options include, but are not limited to:
  - 13.1.1. Annual investment management fees.
  - 13.1.2. Performance related management fees
  - 13.1.3. Administration fees.
  - 13.1.4. Financial advisor fees.

13.1.5. Transaction fees (applicable to the Share Portfolio)

13.1.6. Model Portfolio Administration Fees.

13.2. The Fund is committed to the treating its Members fairly. In seeking to achieve this commitment, the Fund shall make available to Members an Effective Annual Cost ('EAC') disclosure which displays the above fees in relation to the Member's investment options. Members may use the EAC to determine the impact of fees in relation to the investment returns within Members' investment options.

#### **14. Monitoring the range of investment options**

14.1. The Trustees, with the assistance of the Sponsor and the administrators, will on a regular basis monitor the investment options with reference to the Members' use of the investment options (i.e. Membership and assets of the Fund invested in the different options). The Sponsor will present the results of their annual review together with a portfolio performance report-back to the Trustees at least annually at a Trustees' meeting.

14.2. The Sponsor may propose additional portfolios and will provide the Trustees with the necessary information for the Trustees to make an informed decision prior to approval and implementation.

14.3. In the event that the Sponsor intends recommending the removal of a portfolio from the available list of investment options, the Sponsor will provide prior notification to the Trustees.

14.4. In the event that any of the CIS Portfolios are merged, such merger shall be advised to the Trustees.

#### **15. Balloting**

Where required by the FSCA in terms of legislation, the Sponsor will seek approval from the Trustees on behalf of the Members for CIS Portfolio mergers and other material changes to the CIS Portfolios. It is noted that the Fund is required to vote as the owner of the investments and not the Members. Furthermore, the Trustees will generally follow an active voting policy and will exercise their vote by submitting their ballots within the time provided for submission. In the event of such ballots, the Trustees may elect to communicate with the Members who have exposure to the CIS Portfolio(s) in question to inform them of the proposed changes prior to the effective date of such proposed changes. The result of the ballot will be communicated to Members by way of a text addition to the normal quarterly statements made available to Members.

#### **16. Website**

16.1. The Fund, with the assistance of the Sponsor, commits to provide comprehensive, current information to Members through the Sponsor's website in language that is



reasonable understandable to the average layperson, avoiding technical terminology and explaining such terms fully in the event that its usage is unavoidable.

- 16.2. The Sponsor will publish on its website, the minimum disclosure documents as required in terms of legislation.

## **17. Investment consultants**

The Trustees have considered that the services of an external investment consultant to the Fund will not generally be required because the Fund provides for Member-choice investment from the Sponsor's investment range, and because the Sponsor has engaged considerable professional expertise in selecting the range within its staff as well as the Sponsor's Product Forum. Should the Trustees at any time require specific expertise, they may employ the services of a suitable qualified service provider.

## **18. Communication of the IPS**

- 18.1. The IPS will be disclosed to Members as follows:

- 18.1.1. The IPS will be referred to on the application forms.

- 18.1.2. The IPS will be available on the Sponsor's website.

- 18.1.3. A copy of the IPS will be made available to Members or any member of the public on request.

- 18.1.4. A copy of the IPS will be made available to the regulatory authorities on request.

- 18.2. There will be no regular reporting to Members on CIS Portfolio performance and risk/return matters other than specified in paragraph 16.2, due to:

- 18.2.1. the nature of the Fund as Member-choice Fund offering access to the Sponsor's portfolios,

- 18.2.2. the fact that the Trustees will not perform ongoing monitoring of the specified portfolios with reference to performance and risk/return matters, and

- 18.2.3. the fact that Members retain the risk of and remain responsible for the selection of the various portfolios at all times.

## **19. Closure of a Collective Investment Scheme / CIS Portfolio**

- 19.1. Should the Fund be advised by the Sponsor that any CIS Portfolio in which Members have invested is to be closed to new inflows ('soft-closed'), appropriate communication is to be addressed to Members on the closure and options available to the Members.

- 19.2. Should the Fund be advised by the Sponsor that any CIS Portfolio in which Members have invested is to be closed by the manager ('hard closed'), appropriate communication is to be addressed to Members on the closure and options available to the Members. After due notice has been given to Members, the money remaining in the affected CIS Portfolio is to be transferred to the CIS Portfolio which has the most similar mandate, as

selected and approved by the Trustees, if the Member has not elected to switch to a similar CIS Portfolio by the expiry of the notice period.

**20. Review of the IPS**

The Trustees will review this IPS at least annually. If changes are required, the Trustees will make the necessary amendments, in consultation with the Sponsor, and will alert Members to significant changes in the next annual Member communication.

**IPS REVIEWED AND ADOPTED BY THE BOARD ON 11 AUGUST 2020**