THE LA RETIREMENT FUND
(The Fund)

INVESTMENT POLICY STATEMENT AND PROCEDURES SUMMARY FOR THE ACTIVE MEMBERS

Last updated July 2021

A. INVESTMENT POLICY STATEMENT

1. INTRODUCTION

This Investment Policy Statement (IPS) is a formal statement of the main principles underlying the long term Investment Policy of the LA Retirement Fund (the Fund). It is intended to provide a dynamic framework for long-term investment decisions taken by the Fund's Board of Trustees (BoT) and the selected investment managers. While the investment managers may in most cases have complete discretion in the acquisition or disposal of any type of long-term investment, subject to the terms of their mandates, the Trustees expect such decisions to be taken within the framework of the IPS. The performance of the investment managers will also be evaluated relative to the considerations herein.

2. BACKGROUND OF THE FUND

The Fund is a Defined Contribution (DC) retirement fund that was created specifically to help permanent, contract and part-time local government employees save effectively towards the retirement they deserve. The Fund has been delivering on this mandate for over 70 years and has a proven track record of strong investment returns. The Fund also has a number of Defined Benefit (DB) pensioners to whom pension payments are made in terms of the Fund's separate pension increase policy and IPS for pensioners.

- The first component of the DC Fund was established in July 2014 when a Moderate Risk Profiled Portfolio namely the Consolidation Risk Profiled Portfolio was implemented.
- Life Stage investing was introduced in the DC section with effect from 1 August 2014 and all members have been invested according to this new structure. The default Life Stage Programme transitioned members from the Accumulation to the Consolidation to the Preservation Risk Profiled Portfolios. Flexibility was also provided allowing members to select any one of the original 3 specific portfolios in the Life Stage Portfolio as well as to opt out of the Life Stage and to invest in a Cash Plus portfolio or Shari'ah Balanced Fund option.
- With effect from 1 July 2016, the default Life Stage Programme was enhanced to automatically transition members from the Accumulation Portfolio only to the Consolidation Portfolio as they approach normal retirement age. The Consolidation Risk Profiled Portfolio aligns with the Fund's annuitisation strategy (i.e. the In-Fund Living Annuity).
- The Fund became a PRI signatory on 1 January 2016. At the time, it was one of the first South African retirement funds to do so. The PRI provides a high-level framework for integrating Environment, Social and Governance (ESG) issues into investment decision-making and ownership practices within the boundary of the Board of Trustees' fiduciary duties.
- A suitable, cost-effective and prudent In-Fund Living Annuity option was implemented with effect from 1 July 2016.
- With effect from 1 July 2020, the Life Stage Programme was further enhanced to ensure a smoother de-risking path when moving from the Accumulation Portfolio to Consolidation Portfolio.

3. THE VISION OF THE FUND

"To provide the best possible retirement outcome for all its members, retirees and pensioners."

4. THE MISSION OF THE FUND

The Fund is a trusted financial and investment partner to its members, retirees and pensioners and helps them to achieve positive retirement outcomes through:

1. Innovative, cost-effective and risk-managed retirement investments that grow our members savings, thereby maximising the chances that they will receive the lifelong pension income they need;
2. Ethical retirement fund management, good governance and responsible investment that protects the Fund from external factors that could negatively impact members' retirement savings;
3. Clear communication and ongoing education that helps members to keep their retirement journey on track; and
4. Affordable risk cover, preservation and at-retirement solutions that enable financial security for members, retirees, pensioners and their loved ones.

5. PRIMARY INVESTMENT GOALS OF THE FUND

The Trustees have a fiduciary duty to invest the Fund's assets for the benefit of members in a responsible and prudent manner. For this purpose the Board of Trustees relies on the expertise of the Fund's Investment Consultant.

Overall, the Board of Trustees has the following as its primary investment objectives:

- to provide a competitive long-term real return taking into account appropriate and acceptable risk levels and costs;
- give appropriate consideration to any factor which may materially affect the sustainable long-term performance, including Environmental, Social and Governance (ESG) considerations;
- to protect and enhance where possible, members' retirement benefits against the effect of inflation, based on calculated and acceptable risk levels;
- to provide members closer to retirement with an appropriate mechanism to meet their retirement needs;
- to provide members who wish to retire in the Fund with an In-Fund option to meet their post retirement needs and
- to remain financially sound at all times.

The Fund aims to maintain adequate diversification across asset classes, investment strategies and investment portfolios. The Fund therefore provides the appointed investment managers with discretion to manage the assets to meet these objectives within the constraints as per Regulation 28 of the Pension Funds Act on an individual member level.

6. PRE RETIREMENT : LIFE STAGE INVESTING

Life Stage investing is an investment strategy that attempts to provide an appropriate balance of risk and expected return at different stages in a member's working life. The retirement savings are invested according to each member's investment horizon (how many years left until normal retirement date).

The Life Stage strategy sees to it that a member's share is automatically invested according to how many years the member has left until his/her normal retirement age.

The younger the member, the longer the member has to invest until retirement. As a result, the investment can be exposed to more risk and is placed in more aggressive strategies in an effort to earn higher returns. The older and closer to retirement the member, the more protection of retirement savings is needed. As such, the investment is shifted to a less risky strategy, which may deliver lower growth, but aims to keep the capital safe.

Regulation 37 states that all DC retirement funds must have a default investment portfolio which is appropriate, reasonably priced, well communicated to members and offers good value for money. While the Life Stage strategy is the default investment portfolio for the Fund, members are allowed to choose not to invest in such and can instead invest in any of the Risk Profiled Portfolios.

The Fund introduced the Life Stage Programme to –

- Provide members with a cost effective retirement savings mechanism;
- Simplicity of design that requires minimal intervention from the members;
- Protect and enhance where possible, members' retirement benefits against the effect of inflation, based on calculated and acceptable risk levels;
- Provide members closer to retirement with an appropriate mechanism to meet their retirement needs.
- Access to mandates / funds managed by top investment managers which are identified through a rigorous quantitative and qualitative due diligence process.

Importantly, the Life Stage Programme ensures an easy transition at retirement, enabling members to choose to have their retirement savings automatically invested in the In-Fund Living Annuity when they retire. The In-Fund Living Annuity provides members with a pension income during their retirement years.

With effect from 1 July 2016, members automatically move from the growth strategy to a moderate strategy within 5.5 years of their normal retirement age in order to align the investment of their Member Shares with the required longer term investment strategy associated with the Fund's In-Fund Living Annuity.

The Fund's Preservation portfolio (i.e. the conservative investment strategy) has been retained as an option for members not wanting to be part of the Life Stage investment strategy and who wish to opt out into a more conservative Risk Profiled Portfolio.

A Cash Plus Portfolio is also offered for members close to retirement who wish to preserve their capital and wish to opt out of the Life Stage Programme. The Cash Plus Portfolio aims to outperform money market rates and therefore includes a low allocation to growth assets as well as offshore assets. The Portfolio may lose capital over any month but should provide a positive return over any six month rolling period

With effect from 1 July 2016, members participating in the default Life Stage investment strategy are automatically moved through the following two phases as they approach normal retirement age:

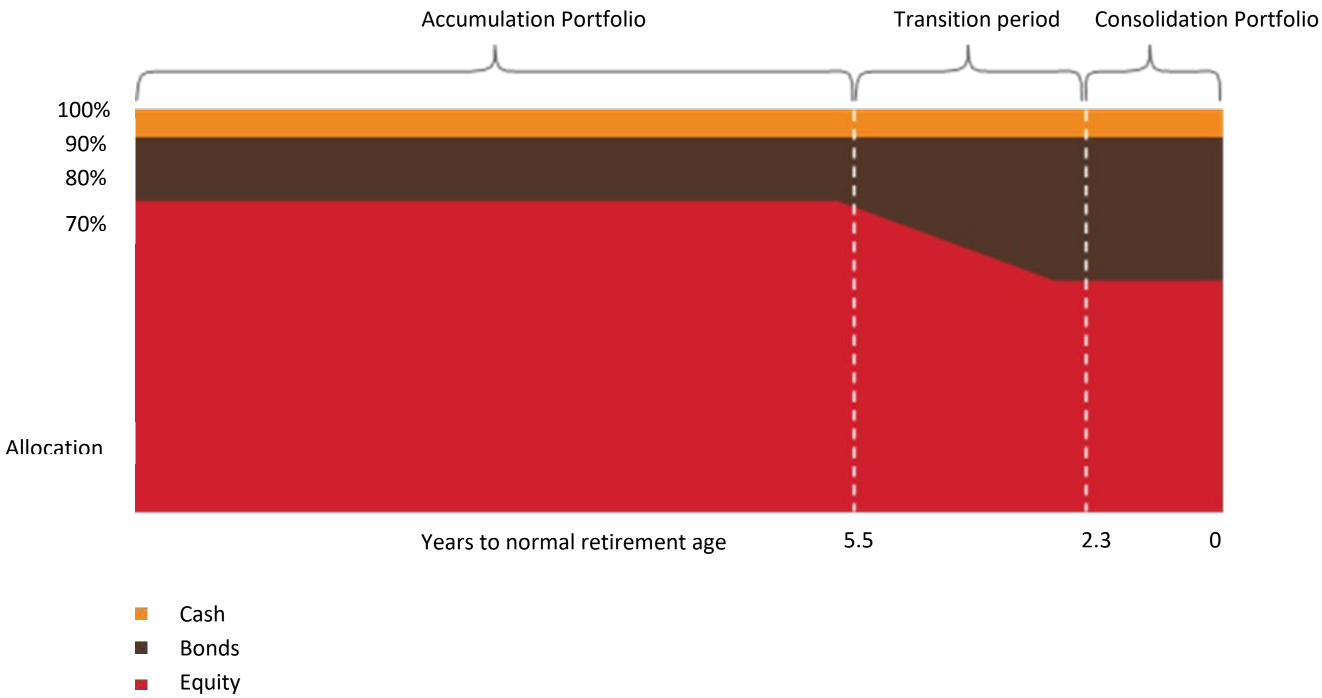
- Accumulation Portfolio - up to 5 years before normal retirement age
- Consolidation Portfolio - within 5 years before normal retirement age

With effect from 1 July 2020 an enhanced transition period will be implemented for members moving from the Accumulation to the Consolidation Portfolio.

- The number of transition tranches will be increased from 2 over 6 months to 14 tranches over 3.5 years (i.e. quarterly over a period of 3.5 years).
- The conversion from the Accumulation Portfolio to the Consolidation Portfolio will still commence at age 59.5 years (i.e. 5.5 years before normal retirement age of 65).
- The conversion will be processed once every 3 months over a period of 3.5 years (i.e. in 14 tranches). This means that the member share will be fully invested in the Consolidation Portfolio exactly 2 years and 3 months from the member's normal retirement age (i.e. 3 months before turning age 63).

Transition period tranches	Accumulation Portfolio	Consolidation Portfolio	Total	Age
0	100.00	0.00	100.00	
1	92.86	7.14	100.00	59.50
2	85.71	14.29	100.00	59.75
3	78.57	21.43	100.00	60.00
4	71.43	28.57	100.00	60.25
5	64.29	35.71	100.00	60.50
6	57.14	42.86	100.00	60.75
7	50.00	50.00	100.00	61.00
8	42.86	57.14	100.00	61.25
9	35.71	64.29	100.00	61.50
10	28.57	71.43	100.00	61.75
11	21.43	78.57	100.00	62.00
12	14.29	85.71	100.00	62.25
13	7.14	92.86	100.00	62.50
14	0.00	100.00	100.00	62.75

- All contributions made during the 3.5 years transition period will be invested in the Consolidation Portfolio.



The Board of Trustees is of the opinion that increasing the number of transition tranches can decrease the probability of a member being prejudiced by sudden or adverse market movements. This is also very much in line with most of the retail umbrella funds and municipal competitor funds. The phasing process is automated and is handled by the Fund Administrator so no actions are required from members.

Risk Profiled Portfolio	Target	Peer Group
Accumulation Portfolio	CPI + 6% (Net of Fees) 60% of the time (probability) over ten year rolling periods with no cognisance of capital protection over shorter periods	GraySwan Balanced Fund Average
Consolidation Portfolio	CPI + 4% (Net of Fees) 60% of the time (probability) over five year rolling periods with cognisance of capital protection over any twenty-four month rolling periods	GraySwan Global Absolute Return CPI + 4% to 5% Average

The Preservation Risk Profiled Portfolio is no longer part of the Life Stage investment strategy from 1 July 2016 but may be chosen by members opting out of the Life Stage investment strategy.

Risk Profiled Portfolio	Target	Peer Group
Preservation Portfolio	CPI + 2% (Net of Fees) 75% of the time (probability) over five year rolling periods with cognisance of capital protection over any twelve month rolling period	GraySwan Global Absolute Return CPI + 2% to 3% Average

A Cash Plus Portfolio is also offered for members close to retirement who wish to preserve their capital and wish to opt out of the Life Stage investment strategy. As noted, the Cash Plus Portfolio aims to outperform money market rates and therefore includes a low allocation to growth assets as well as offshore assets. The Portfolio may lose capital over any month but should provide a positive return over any six month rolling period

Risk Profiled Portfolio	Target	Peer Group
Cash Plus Portfolio	SteFI + 1% (Net of Fees) over twelve month rolling periods with cognisance of capital protection over any six month rolling period	GraySwan Money Market Average / GraySwan Enhanced Money Market Average

A Shari'ah compliant Balanced Fund is also offered for members who wish to opt out of the Life Stage investment strategy and wish to invest in a single manager Regulation 28 compliant Fund. The Fund is managed in accordance with Islamic investment principles and therefore does not invest in shares of companies whose core business includes the sale of alcohol, gambling, non-halaal foodstuffs or interest-bearing instruments.

The risk profile of this Fund is moderate aggressive and can therefore be compared to the Fund's Consolidation and the Accumulation Risk Profiled Portfolios. The Shari'ah compliant Balanced Fund is not utilised for the Fund's default Defined Contribution or Pensioner investment strategies and is a stand-alone Fund for members wishing to invest in this specific strategy.

Risk Profiled Portfolio	Target	Peer Group
Shari'ah Balanced Fund	45% Customised SA Shari'ah Equity Index, 10% S&P Developed Markets Large and Mid-Cap Shari'ah Index, 40% STeFI Composite – 0.5% & 5% Three-month US Dollar LIBOR over rolling 3-year periods	GraySwan Shari'ah Balanced Fund Average

Unitisation services and Regulation 28 compliance reporting has been implemented to facilitate the Life Stage Programme.

6.1 STRATEGIC ASSET ALLOCATION

The long-term Strategic Asset Allocation (SAA) sets the baseline weights per asset class required to produce the investment objectives within the risk tolerance of each of the Life Stage phases. The SAA is based on the long-term risk and return expectations of asset classes and does not take short-term market movements into account.

The Fund is rebalanced periodically when the allocations deviate significantly from the SAA due to short-term market movements.

6.2 TACTICAL ASSET ALLOCATION

Market movements and changes to investment managers may cause the Fund's allocation to move away from the SAA as set out above. This requires the Fund to rebalance back to the SAA.

However, the Fund has implemented the services of a Tactical Asset Allocation (TAA) investment manager to assist with the active management of such tactical decisions which deviate from the SAA (as set out above) in order to take advantage of short-term market movements for the benefit of members.

The TAA investment manager makes tactical asset allocations as well as hedging decisions within the short-term TAA limits as defined by the Trustees.

The Trustees review the SAA and TAA limits on at least a 3 year basis or when there is a material change to the Fund or in anticipation of a major change.

7. POST RETIREMENT : IN-FUND LIVING ANNUITY

Members of the Fund have the option of moving a portion of or all their retirement savings into the In-Fund Living Annuity (as provided by the Fund) when they retire. Investing in the In-Fund Living Annuity is effectively the same as 'buying' a pension. The nature of a Living Annuity is such that the member bears the investment and longevity risk in full.

The income over the annuitant's lifetime will ultimately depend on the length of his/her lifespan, drawdown rates selected and the investment performance of the selected fund/s.

The major advantage for members is the cost benefit, as the fee structure of the Fund's In-Fund Living Annuity is extremely low compared to products available from external providers (life insurance companies or investment platforms). There will be a low charge for administration services and the investment management fees will be at the same rates as for the existing pre-retirement portfolios.

The Board of Trustees has determined the annuity strategy by taking into account the level of income payable to retiring members, investment risks, inflation risks and other relevant risks. The investment choices must be limited to a maximum of 4 portfolios and such must comply with Regulation 28 and 39.

The Fund has the responsibility of monitoring the sustainability of the rates at which retirees are withdrawing benefits and notifying retirees if their drawdowns are not sustainable.

At retirement when a member invests in the In-Fund Living Annuity, the member can select one of two options which will determine the investment of their retirement capital and the amount of their monthly pension:

- Trustee Endorsed Option: The member's savings is invested in the Consolidation Risk Profiled Portfolio of the Fund. The amount of money the member can take (draw down) from the retirement capital as a pension income is a fixed percentage of the retirement capital. The fixed percentages were set with sustainability in mind. This percentage then increases every five years.

- Customised Option: The member can choose to invest in any one or more of the Fund's three Risk Profiled Portfolios (i.e. the Accumulation, Consolidation or Preservation). This flexibility also allows the member to choose the investment option from where their monthly income must be paid. In addition, the member is required to select the draw down rate from a range applicable to their age band. This effectively allows the member to choose the percentage of their total retirement savings they can access as their pension income. The member can then adjust this draw down rate every year by selecting the appropriate rate to meet their needs from the range provided.

The minimum amount that can be invested in the In-Fund Living Annuity is R300,000. The Board of Trustees will review the minimum from time to time.

As an In-Fund Living Annuitant, the member may elect to switch from the Trustee Endorsed Option to the Customised Option and vice versa on the anniversary of their retirement.

Members don't have to invest their retirement savings in the In-Fund Living Annuity when they retire. Members also have the option of investing their savings in any other annuity they choose, or taking some, or all, of their savings in cash.

Members will receive retirement benefit counselling namely, the disclosure and explanation in clear and understandable language of the Fund's Risk Profiled Portfolios, annuity strategy and how preserved benefits are handled (the risks, the costs and charges of these options must be explained).

Members should have access to such counselling no less than 3 months before their normal retirement date and the Trustees must review the annuity strategy at least annually.

8. RESPONSIBLE INVESTMENT

The core objective of Responsible Investment (RI) is to act in the best interests of the Fund's members by recognising that Environmental, Social and Governance (ESG) factors can influence both investment risk and return, and must therefore be considered by the Trustees in all investment decisions. Protecting and enhancing financial returns by incorporating such factors is consistent with their fiduciary duty.

The Board of Trustees aspires to the PRI's six Principles for Responsible Investing that provides a number of ways for the Fund to incorporate ESG issues into its investment decision making framework. The six PRI principles to which the Fund is committed are as follows:

- The Fund will incorporate ESG issues into investment analysis and decision-making processes;
- The Fund will be active owners and incorporate ESG issues into our ownership policies and practices;
- The Fund will seek appropriate disclosure on ESG issues by the entities in which we invest;
- The Fund promote acceptance and implementation of the Principles within the investment industry;
- Then Fund will work together to enhance our effectiveness in implementing the Principles;
- The Fund will report on our activities and progress towards implementing the Principles.

In addition to being a signatory to the UNPRI, the Board of Trustees supports the voluntary Code for Responsible Investing in South Africa (CRISA). CRISA came into effect in February 2012 and provides guidance on how institutional investors should execute investment analysis and investment activities and exercise rights to promote sound governance. Its principles are aligned with those of the UNPRI.

In addition to the UNPRI and CRISA the Trustees take into account and implement the governance principles in King IV. King IV states that "sustainable development can be understood as development that meets the needs of the present without compromising the ability of future generations to meet their needs." and is a primary ethical and economic imperative.

The FSCA published Guidance Notice 1 of 2019 to provide guidance to Boards of retirement funds on how a Board's investment philosophy, as encompassed in its IPS, aims to ensure the sustainability of its investments and assets. It also sets out the FSCA's expectations regarding disclosure and reporting on issues of sustainability.

The Fund meets such requirements -

- The Fund has a standalone IPS which is reviewed at least annually;
- The Fund communicates the IPS (in summary form) on the Fund's website. The detailed IPS is accessible by any member of the Fund upon request from the Principal Officer;
- Before making any investment, the Trustees of the Fund consider any factor which may materially affect the sustainable long term performance of the Fund's assets including, but not limited to, those of an Environmental, Social and Governance (ESG) character;

- ESG is a standard agenda item on every Board of Trustees meeting agenda;
- As part of the Fund's Responsible Investment (RI) project plan, the Fund will consider best practice in terms of the adoption of sustainable reporting practices;
- In the context of considering social factors, the Fund also considers the broad based black economic empowerment of the investment managers who manage the Fund's assets.

9. PROXY VOTING

The Trustees delegate their voting power and responsibilities to their selected investment managers. Such proxy voting then formally expresses an approval or disapproval on relevant matters with regards to the Fund's investment in any company, particularly regarding corporate governance and responsible investment issues.

The Fund has implemented this Proxy Voting Policy in order to document the Fund's position with regard to voting practices to ensure that the selected investment managers understand the position of the Fund and thus can be held accountable for the decisions that are made in proxy.

10. CONFLICTS OF INTERESTS

In accordance with Circular PF No. 130 it is the fiduciary duty of the Board of Trustees and the Principal Officer to avoid (rather than manage) conflicts of interest. The Board not only deals with conflicts of interest amongst the members of the Board but also with respect to any service provider of the Fund. Conflicts of interest will be avoided, removed or if not possible, resolved transparently. The Fund discloses how it manages conflicts of interest through its Conflicts of Interest Policy.

11. ACHIEVEMENT OF INVESTMENT OBJECTIVES

The principal long-term investment objective is to optimise investment returns whilst taking into account the level of acceptable risk and liquidity in relation to all members' benefit liabilities. This is achieved primarily as follows:

11.1 DIVERSIFICATION

Diversification is fundamental to risk minimization and it is therefore the fiduciary duty of the Board of Trustees to diversify the investments of the Fund.

Diversification is managed in a number of ways such as:

- Asset class composition (i.e. equities, bonds, cash, property etc.);
- Geographical allocation (i.e. local versus offshore assets);
- Portfolio construction (i.e. the optimal combination of asset classes and investment managers, investment styles, specialist mandates and multi asset class mandates);
- Security selection (i.e. the investments which the selected investment managers purchase within their mandates).

Such diversification is further achieved by:

- Investing in uncorrelated assets;
- Controlling the absolute exposure to individual assets classes by setting ranges;
- Robust portfolio construction;
- Selecting investment managers with different but complimentary investment styles and approaches.

11.2 RISK TOLERANCE

Although the risk of fluctuating returns of market related investment portfolios is borne by members, the Board of Trustees has adopted an investment strategy which allows the Board to make use of derivative instruments on an overall Fund level within the prescribed limits of Regulation 28.

This may be used to protect any Risk Profiled Portfolio against adverse short-term market fluctuations.

Each of the Life Stage Risk Profiled Portfolios are invested according to a long-term set Strategic Asset Allocation with Tactical Asset Allocation ranges which allow the Board of Trustees to fully exploit market opportunities as and when they arrive. The ranges set have both a minimum and maximum allocation to invested asset classes to ensure that in extreme events over the short-term the members' benefit liability is protected and has the best chance of reaching real growth over the long-term.

The Board of Trustees, via the discretionary mandate of the Tactical Asset Allocation (TAA) investment manager, implements tactical asset allocation strategies. Such includes hedging strategies on the local and offshore equity assets as well as the currency exposures, as and when they see fit to do so.

11.3 REBALANCING

The Investment Consultant may at its discretion and as outlined in its Outsourced Chief Investment Officer (OCIO) discretionary mandate implement physical investment manager / mandate rebalancing investment decisions where a selected investment manager / mandate may be reduced or increased as a result of:

- cash flow requirements to fund the Prescient Stable Money Market account for purposes of any derivative overlay management,
- realising profits from good performing managers and structural changes to the asset allocation of the Fund.

11.4 TIME HORIZON

The time horizon of the active members' Risk Profiled Portfolios is short, medium and long-term.

The effective time horizon for the investment managers is medium term, given the need to demonstrate performance on a three year rolling basis. However, medium-term performance considerations should not outweigh the need to provide for the long-term in selection of investment managers. It should nevertheless be recognised that sound long-term performance is dependent on an accumulation of sound short and medium term performances.

11.5 LIQUIDITY

The Fund's investment holdings should provide sufficient liquidity for this purpose. The Fund provides for the cash flow requirements through either the Money Market Portfolio or via monthly withdrawals from identified investment manager/s, or the sale of assets as and when required.

11.6 TAX AND COST CONSIDERATIONS

Investment income as well as capital growth is currently tax-exempt.

When deciding on an investment or an investment manager, the cost of the investment or the investment manager is taken into account. The returns of investments are also measured after taking account of costs.

11.7 LEGAL CONSTRAINTS

Notwithstanding the stated investment objectives, such remain subject to the provisions of relevant legislation, more particularly Regulation 28 of the Pension Funds Act no. 24 of 1956, as amended from time to time, as well as the Financial Advisory and Intermediary Services Act (FAIS.)

11.8 DERIVATIVES

Derivative investments relate to an instrument whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include equities, bonds, commodities, currencies, interest rates and market indices. Futures contracts, forward contracts, options and swaps are the most common types of derivatives.

Investment managers may use derivatives for the following purposes:

- Asset Allocation: derivatives may be used to allocate funds effectively across different classes;
- Hedging: derivatives may be used to hedge the portfolio without having to dispose of the underlying assets;
- Insurance: derivatives may be bought to insure against specific events;
- Yield Enhancement: the investment manager may take advantage of anomalies in derivative market pricing in order to enhance the portfolio's investment returns.

Derivatives may not be used to:

- Speculate: under no circumstances may the investment manager speculate in the derivative market. This includes uncovered derivative positions;
- Gear: under no circumstances may the investment manager borrow money to fund derivative positions.

11.9 SECURITIES LENDING

Securities lending is the practice of lending securities, such as equity and debt securities, from the Fund (the lender) to meet the temporary needs of another party (the borrower). For this transaction the borrower agrees to deliver collateral, pay the lender a fee, and return the securities to the Fund at a point in the future.

The Fund has appointed the Fund's custodian as the Securities Lending service provider to act as principal and to act on behalf of and for the benefit of the Fund. The Board of Trustees has formulated an appropriate Securities Lending Policy (SLP). This SLP provides a dynamic framework within which prudent securities lending transactions can be conducted to provide additional income for the benefit of the Fund. The SLP is reviewed at least annually or as and when there is a material change to the programme.

12. REVIEW OF THE IPS

The Board of Trustees shall review the IPS as well as other complimentary policies on at least an annual basis or when there is a material change to the Fund or in anticipation of a major change.

A material change to the Fund includes a significant change in the membership of the Fund or a significant change in the benefit structure or a significant change in the asset and / or liability values as a result of movement in the market or the transfer of assets and / or liabilities between funds.