Government Employees Pension Fund Investment Policy Statement

2020

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1. Introduction

1.1. The Investment Policy Statement ("the IPS") of the Government Employees Pension Fund ("the Fund") is a statement of the key policies and principles underlying the investment strategy of the Fund.

1.2. The IPS is intended to provide a framework within which the Fund's management, Investment Committee and Board of Trustees can take investment decisions. Furthermore, the document is designed to:

1.2.1. Provide a brief background of the Fund's investments;

1.2.2. Articulate the Fund's investment objectives;

1.2.3. Identify key role-players involved in the governance, management and compliance of the investments of the Fund and communicate its investment policy to them;

1.2.4. Demonstrate how the Fund intends to put its Investment Beliefs into practice;

1.2.5. Set out how the Fund's investment objectives should be met through the process of determining and implementing its investment strategy;

1.2.6. Describe the Fund's approach to setting investment strategy to meet its long-term liabilities and to implementing the investment strategy;

1.2.7. Explain the Fund's risk budgeting process and its mitigation strategies for managing investment-related risks;

1.2.8. Demonstrate how the Fund implements responsible investment practices to ensure the sustainable long-term performance of its assets;

1.2.9. Demonstrate how the Fund integrates Environmental, Social and Governance (ESG) factors so as to better manage risk and generate sustainable, long-term returns.

1.2.10. Set out how the Fund's investments are measured and monitored to ensure compliance with *inter alia* the investment policy statement;

1.2.11. Demonstrate how the Fund contributes towards Broad-Based Black Economic Empowerment (B-BBEE) and transformation through its investment management practices.

1.3. The Board of Trustees, acting in consultation with the Minister of Finance, determines the investment policy of the Fund.

2. Background of the Fund

2.1. The Fund is a defined benefit fund established in terms of the Government Employees Pension Law, 1996. The Fund is not subject to the Pension Funds Act, 1956, and is therefore not subject to Regulation 28 issued in terms of that Act, However, the Fund aligns its policies and asset allocation with the provisions of Regulation 28 where possible.

2.2. The Fund provides its contributing members, with death, ill-health, retirement and withdrawal benefits in terms of the Fund Rules. The Fund includes closed groups of various employers who have been admitted as participating employers where those employees were previously members of the Fund and transferred to their current employment in terms of section 197 of the Labour Relations Act 66 of 1995.

2.3. The retirement, death and ill-health benefits are defined in relation to pensionable remuneration and service, consisting of a gratuity available in cash and, after ten years' service, a pension. For members who retire at normal retirement age, the pension is $1/55^{th}$of average pensionable earnings over the last 24 months for each year of pensionable service. The gratuity is a cash amount of 6.72% of average pensionable earnings over the last 24 months for each year of pensionable service. In the case of *Services* members, the pensionable service is enhanced by 25% for each year of pensionable service completed in excess of ten years. The withdrawal benefit is determined according to a fixed formula using the average pensionable earnings over the last 24 months and pensionable service, subject to a minimum of the member's actuarial interest. Actuarial interest in the Fund is determined in terms of a formula approved by the Trustees and the Minister of Finance which broadly approximates the accrued actuarial liability that the Fund holds in respect of the member.

2.4. Pensions are paid from the Fund. Increases are given annually with effect from 1 April in terms of the pension increase policy which, broadly, provides a basic increase which is related to inflation (and which may not be less than 75% of the change in the year-on-year rate of inflation over the 12 months ending 30 November as compared to the year-on-year rate of inflation over a similar period in the previous year). Subject to affordability, a top-up increase may be granted to a maximum of the rate of inflation since the pensioner retired or the member died in the case of a pension arising from the death of a member, and a supplementary increase over and above the basic and top-up increase. The rates of increase are at the discretion of the Trustees subject to the minimum basic increase. The Trustees approve and the Minister of Finance is informed on the level of increase prior to its implementation.

2.5. Benefits and the member contribution rates are negotiated with organized labour in which both the Government, as employer, and the major trade unions operating in the public service are represented. . It is expected that the employer will consult the Board of Trustees on the funding implications of any benefit or contribution changes before the decision is taken.

2.6. The members pay 7.5% of pensionable earnings to the scheme.

2.7. The employer contributes the balance of the cost of the benefits, currently 13% of pensionable remuneration for qualifying members employed by of government other than the uniformed services, and 16% for members employed in the uniformed services. The contribution rates are reviewed after the actuarial valuation of the Fund which occurs at least once every three years. The rates take into account the funding level policy adopted by the Board of Trustees as approved by the Minister of Finance. The funding level policy has set long term objectives for determination of the contribution rate. It includes a range which triggers additional contributions from government or consideration of benefit improvement or a contribution holiday, depending upon whether the result is below or above the range, respectively. The Board of Trustees recognises that any changes to the employer contribution rate should reflect long-term changes in the anticipated cost of benefits and changes can only be introduced gradually because of the impact on government's budgetary process. This is taken into account in the asset-liability modelling process which has driven the establishment of contingency reserves and determination of an optimal asset mix.

2.8. Members are not exposed to investment risks prior to their retirement because of the defined benefit nature of the Fund. Once they are in receipt of a pension, pensioners, (or survivors enjoying dependants' pensions after the death of a member or pensioner) are exposed to investment risks to the extent that such risks may adversely impact the Fund's ability to afford pension increases above the minimum set out in the pension increase policy.

2.9. Investment decision-making is not delegated to individual members.

2.10. The Fund's investment strategy is designed, using a liability-driven investment (LDI) approach. This approach ensures that the primary drivers of the Fund's investment strategy are its future cash liabilities and investment objectives (together known as "liabilities"). See Section 6 below for further details on how this is done.

2.11. The Fund applies prudent investing by giving appropriate consideration to any factor that could materially affect the sustainable, long-term performance of the fund's assets, including environmental, social and governance (ESG) factors.

2.12. The Fund is a founding signatory to the United Nations Principles for Responsible Investment in 2006 and supports of the Code for Responsible Investing South Africa (CRISA).

3. Governance of the Investments: Duties and responsibilities of Role Players

The main role players involved with the Fund's investments are detailed below together with their core responsibilities in relation to the Fund. This is not an exhaustive list of all responsibilities and does not constitute the terms of reference of these role players, which terms are defined elsewhere as appropriate.

<table>
<tr><th>Roles</th><th>Duties and Responsibilities</th></tr>
<tr><td>Board of Trustees (“Board”)

Defined according to Section 6 of The Government Employees Pension Law, 1996</td><td>
Use reasonable endeavours to ensure due diligence in the execution of their fiduciary responsibilities
Use reasonable endeavours to ensure that Trustees are sufficiently informed or assisted by investment specialists to carry out their duties and responsibilities, including the selection of asset managers, investment advisors and other service providers
Use reasonable endeavours to ensure that Fund Rules are adhered to and all applicable legislation followed
Act in consultation with the Minister of Finance, to determine the investment policy of the Fund
Provide for the investment of amounts standing to the credit of the Fund and for the periodic valuation by an actuary of the assets and liabilities of the Fund
Use reasonable endeavours to ensure the proper and efficient management of the Fund
Employ personnel or make any other suitable arrangements to administer the Fund and to manage its investments
Appoint or terminate discretionary fund managers. mandates to manage the investments of the Fund
Monitor the Fund’s investments and ensure they are being managed in accordance with the provisions of the Fund’s IPS
Ensure that the employer contributes the balance of the cost of the benefits in terms of the rules and as determined by the Actuary
</td></tr>
<tr><td>Investment Committee (“INV-C”)

Established as a sub-committee of the Board</td><td>
The INV-C is authorised to take such steps as are in its opinion appropriate and reasonable to give effect to the Fund's Investment Policies and strategies determined by the Board subject to such conditions as may be imposed by the Board from time to time
The INV-C must use reasonable endeavours to keep under review all aspects of the Fund's investment activities and shall advise the Board and make recommendations to the Board regarding the management of Fund assets or any other issue related to the Investment Policies, strategy procedures and management of the Fund's assets and any recommended changes thereto
For this purpose the INV-C must use reasonable endeavours to consider various factors including any changes in the Fund's liabilities as reported by the Fund's Valuator, and any changes in the expected return on the Fund assets, the likely volatility of the value of the Fund's assets and any implications those changes may have on the funding level of the Fund, contribution requirements, or benefits of the Fund, including but not limited to:

Researching, compiling, and recommending investment policy, strategy and procedures, risk and return objectives, guidelines, asset allocations, asset and performance benchmarks and portfolio structures that will direct investment activities of the Fund in accordance with the GEP Law
Advising and recommending on the selection and appointment of external investment professionals and service providers

</td></tr>
</table>

	including current Investment Manager(s) and alternatives available to the Fund and the terms of such appointments • Monitoring and reviewing the performance of Investment Manager(s) to assure compliance with policy, procedures, risk and return objectives as set out in their mandate(s) • Monitoring investment performance. The INV-C must ensure that an independent review of the performance of the investment portfolio is conducted at least quarterly • Reviewing quarterly investment reports and reporting where appropriate to the Board on issues that are considered important or relevant for Board deliberation • The INV-C must use reasonable endeavours to develop, implement and give oversight to the Fund's responsible investment and developmental investment policies, ensuring that environmental, social and governance aspects are considered throughout the investment decision making process • The INV-C shall constitute the Advisory Board of the Private Equity Funds (under the private placement memorandums managed by the PIC) and shall have as its primary function the review of the Fund Manager's compliance to investment objectives and the investment mandate and to monitor and review performance

Principal Executive Officer
Appointed by the Board
	• Manage the review and development of Fund policies, processes and procedures
	• Align Fund policies and procedures with relevant laws and legislation
	• Provide technical support to the Board and Committees
	• Ensure the Board is kept abreast of organisational issues that impact the Fund e.g. investment managers
	• Ensure annual valuations of funds and assets take place
	• Oversee the development and implementation of an investment mandate for the PIC
	• Review and implement plans to improve the Fund's exposure to risk factors
	• Ensure appropriate systems and processes and resources are available to protect the Funds and assets of the Fund
	• Monitor the conducting and reporting of compliance and risk audits
	• Ensure non-compliance issues are reported to the Board for corrective action
	• Manage the Financial Viability of the Fund to deliver on its strategic objectives inter alia
	    • Managing assets and liabilities of the Fund
	    • Ensuring Funds and assets are valuated accurately
	• Oversee the planning and development of the investment strategy
	• Ensure the review and revision of investment and developmental strategies and mandates of the Fund, including the application of the asset liability model

	• Oversee the planning, development and implementation of a responsible investment approach through the United Nations principles for responsible investing (UNPIR) strategy and policy to ensure integration of ESG into all investment activities • Represent the Fund at national and international Boards, committees, conferences, workshops, seminars and other events to discuss and report on investment and actuarial matters. • Ensure all instructions of the Board of Trustees and the Investment Committee are implemented • Liaise with service providers on behalf of the Board, unless there is direct communication between the service provider and the Board • Oversee the management of the mandate signed with the Public Investment Corporation (PIC) • Oversee the development of monitoring and evaluation system and framework for assessing the performance of the Administrator, PIC and other service providers • Approve, review all contracts entered into with service providers and check service provider compliance to contract • Ensure the performance of service providers is reported to the Board timeously inclusive of risk, service delivery level, quality and impact on ROI of the Fund • Manage Relationships with Key Stakeholders • Ensure the Board and committees comply with governance framework and code • Ensure conflicts of interest are declared timeously • Manage the execution and implementation of all the decisions/resolutions of the Board • Provide leadership in the effective integration of Environmental, Social justice and Corporate Governance issues (ESG) in investment activities • Ensure all staff members are equipped with the necessary skills and resources to fulfil their responsibilities • Ensure that the Fund administration has capacity in terms of positions and skills to execute the mandate.
Minister of Finance	GEP Law 1996: Section 6(7): Management of Fund by Board of Trustees "The Board, acting in consultation with the Minister, shall determine the investment policy of the Fund." GEP Law 1996: Section 31: Binding of the State "This Law shall bind the State and the Government shall be responsible for meeting the obligations of the Fund, whether properly funded or not, in favour of its members, pensioners and beneficiaries: Provided that any change in the investment policy of the Fund referred to in section 6 (7) or the benefit structure of the Fund, as provided for in the rules which may have an effect on the Government's financial obligation towards the Fund, shall be subject to the approval of the Minister"
The Public Investment	• Manage and administer the allocated investments of the Fund, subject to the portfolio design, mandates and risk parameters

Corporation (PIC) The GEPF entered into an Investment Management Agreement with the Public Investment Corporation (PIC) in 2007	specified in the investment mandate • Appoint and monitor external asset managers to manage certain mandates on behalf of the Fund • Ensure that their investment discretion is exercised within the framework of the IPS and specific mandates • Exercise any shareholder votes on behalf of the Fund acting on the instructions of the Fund, or, if no such instructions are given, in terms of the PIC's own proxy voting policy as approved by the Fund. This is as per the Fund's Proxy Voting Policy (Annexure 5) • Report back to the Fund according to agreed timeframes • Prepare portfolio reports as directed
Investment Managers (other than those managed by the PIC) Investment Management agreements entered into directly by the GEPF and separate from the agreement with the PIC	• Exercise their discretion in investing the capital allocated to them according to the agreed terms and constraints of the respective investment management agreements and mandates entered into with the Fund which set out the investment guidelines, objectives and parameters relevant to the appointed asset manager • Ensure that their investment discretion is exercised within the framework of the IPS • Report back to the Fund according to agreed timeframes • Prepare portfolio reports as directed
Actuary Appointed by the Board in terms of Clause 4.8 of the Rules set out in Schedule 1 of the Government Employees Pension Law, 1996	• Provide certification in terms of the Government Employees Pension Law (1996), that assets are appropriate to the liabilities of the Fund • Review and comment on appropriateness of the investment strategy • Produce valuation reports as and when required by the Board • Calculate and notional portfolio index based on the reported returns of the Fund
Master Custodian Appointed agent to manage the registration and safekeeping of securities in terms of Clause 4.7 of the Rules set out in Schedule 1 of the Government Employees Pension Law, 1996	• The safekeeping, custody and maintenance of records of Securities held on behalf of the Fund physically or electronically • Maintain the investment accounting records of the assets of the Fund and any transactions affecting those assets • Ensure the clearing and settlement of the Fund's securities transactions • Ensure the collection of interest, dividends, allotments, income, redemption proceeds and other distributions and payments, relating to securities and attending to all corporate actions concerning any of the securities held pursuant to the agreement and in accordance with the Fund's Instructions • Ensure the registration of the Fund's securities in the name of a nominee or a central securities depository's nominee (in terms of applicable law) • Perform the investment performance reporting function for the Fund • Perform the post trade compliance monitoring of fund manager

	mandates • Act as the main source of investment data for the Fund • Facilitate the processing of securities transactions, bank charges and other transactions arising from the custody services through an account held and operated by the Fund at the Bank

4. Investment Beliefs

4.1. The Board has adopted a set of investment belief statements reflecting the Fund's investment philosophy and approach.

4.2. The GEPF Investment Beliefs are contained in Annexure 2.

5. Investment Objectives

5.1. Taking into account relevant laws and regulations, the rules of the Fund and the investment beliefs, the Fund has determined a number of investment objectives which drive the investment strategy of the Fund. These objectives are as follows:

5.2. To provide benefits to members and their dependants as promised in the Fund Rules and more specifically:

5.2.1. Provide sufficient liquidity to pay benefits to its members and their dependants in the amounts and at the times called for;

5.2.2. Be able to grant a minimum of annual increases equal to at least 75% of inflation to pensioners, as provided for in the rules. The Fund further aspires to grant full annual inflationary increases whenever it is affordable.

5.2.3. Keep the employer contribution rate, as determined by the Fund's Actuary, as stable as possible with any changes to the employer contribution rate being introduced gradually;

5.2.4. Ensure that the probability of the Fund becoming insolvent, as a result of investment volatility, is less than 10% over a three-year time horizon.

5.3. To exercise care in taking measured levels of investment risks through a well-considered risk budgeting process (see section 6 below) and to manage those risks appropriately at all times (See section 9 below).

5.4. To include in its investment strategy-setting process, the appreciation of the GEPF's long-term investment horizon afforded to the Fund on account of its liability profile (See section 7 below).

5.5. To employ a Liability Driven Investment (LDI) approach through the use of Asset Liability Modelling (ALM) in reviewing its investment strategy, as set out more fully in Section 7 below, the investment strategy is captured in the Strategic Asset Allocation (SAA) as set out in Annexure 1.

5.6. To outperform the investment returns of the Strategic Benchmark as captured in Annexure 1, by employing a variety of investment implementation techniques as set out more fully in Section 8 below.

5.7. To apply a responsible investment approach by ensuring the integration of Environmental, Social and Governance factors into investment processes, so as to better manage risk and generate sustainable, long-term returns (see Section 10 below).

5.8. To contribute to the development of the South African and other African economies allocating in an appropriate risk-controlled way to developmental investments in these regions (see Section 8 below).

5.9. To contribute to B-BBEE and the transformation of the South African economy and its investment industry.

5.10. To manage costs by ensuring that investment management fees, trading costs, administrative and other expenses are monitored and controlled (see section 11 below).

5.11. To comply with all applicable laws and regulations governing the Fund and its investments at all times, including but not limited to Government Employees Pension Law, 1996.

5.12. To take into account the provisions of Regulation 28 of the Pensions Fund Act, 1956, in the determination of policies and strategic asset allocation and thereby aligning with the investment practices determined by the broader Pensions regulatory regime in South Africa.

5.13. To at all times strive to uphold the reputation of the Fund through high levels of professionalism, accountability, ethics and transparency throughout all Fund investment structures and processes.

6. Risk Budgeting

6.1. The Fund has adopted a well-considered risk budgeting process which budgets for the risk which the Fund takes on during the determination, implementation and on-going management of its investment strategy.

6.2. The Fund recognises that the two major areas where risk can be taken are:

6.2.1. the investment strategy determination process (See Section 7 below); and

6.2.2. the investment strategy implementation process (See Section 8 below).

6.3. The risk budgeting process begins during the asset-liability modelling process (See 7.1 below) and is continued through the determination of the asset allocation ranges and the implementation of the investment strategy (see Section 8 below).

7. Determining Investment Strategy

7.1. Taking the Funds long-term investment objectives (see section 5 above) into account, the Fund determines the investment strategy following a liability-driven investment (LDI) approach. This approach ensures rigorous methodology is implemented around that part of the investment process which takes up the largest proportion of the risk budget, namely the process of selecting a blend of asset classes which best ensure that the Fund continues to meet its future liabilities.

7.2. Implementing an LDI approach requires the Fund to conduct an Asset Liability Modelling (ALM) process. ALM refers to the process of determining the liabilities and then statistically modelling (using stochastic methods) the optimal asset strategy to best meet these liabilities as they fall due.

7.3. The ALM process serves to ensure that the asset allocation strategy determined during the process, is one which is optimal from a risk and return point of view for the determined liabilities.

7.4. In addition to the Investment objectives set out in Section 5 above, the following are inputs into the ALM process:

7.4.1. Detailed member information of the Fund, which should be supplied by either the Fund itself or the Fund administrator and should include date of birth, gender, salary, contribution rate and retirement age – these help to determine the expected future cash inflows and outflows for each member in the Fund;

7.4.2. Rules of the Fund – provides important information about key parameters relating to contribution rates and benefits;

7.4.3. The actuarial valuation report – informs the funding level status and serves to highlight Fund structures relevant to modelling the liabilities;

7.4.4. Limitations placed on asset classes or categories of assets - includes restrictions on foreign exposure, also takes into account the size of the assets of the Fund within the South African and the African investor universe;

7.4.5. The current asset allocation of the existing Fund assets - provides a reference point for the determination of a revised asset allocation;

7.4.6. The expectations for future return and risk levels of all the potential asset classes the Fund can invest into - provides the basis for the optimization of risk and return when combining the asset classes to get the optimal strategic asset allocation strategy;

7.4.7. Input from the trustees and Fund management regarding the challenges faced by the Fund in servicing its members - can help to frame the risk appetite and return optimization of the asset model; and

7.4.8. Risks to the Fund as are set out more fully in Section 9 on Investment Risk Management below.

7.5. Outputs of the ALM process should include:

7.5.1. a set of projected cash flows (representing the modelled liabilities), for both the pensioner and active member pools of members and for the combined membership as a whole;

7.5.2. proposed Strategic Asset Allocation (SAA) percentages indicating expected real liability risk and return of each;

7.5.3. results of stress testing of the strategy by performing sensitivity analyses on any of the key inputs used in the modelling process such as: level of contribution rates, level of expected replacement ratios and mortality expectations.

7.5.4. The investment strategy as captured in the Strategic Asset Allocation (SAA) approved by the board and contained in Annexure 1 of the IPS. The SAA is expressed as a percentage of the total Fund which should be allocated to each asset class during the construction of the investment portfolio (see section 8 below).

7.5.5. The SAA also lists the appropriate benchmarks against which the performance of the assets of each asset class is measured.

7.6. Following an LDI approach necessarily requires that the investment strategy be reviewed utilising the ALM process on at least a 24-month basis following the actuarial valuation of the Fund or when there is:

7.6.1. a fundamental change in the Fund's liabilities (e.g. a large structural change in membership through transfer of members into or out of the Fund); or

7.6.2. a large correction of asset prices which would affect the long-term investment prospects of any of the asset classes the Fund may invest in (e.g. global financial crisis of 2008)

7.7. A review of the Fund investment strategy may require a change of the SAA but is independent of a review of the IPS (see Section 12 below).

8. Implementing the Investment Strategy

8.1. The starting point for implementing the investment strategy is the Strategic Asset Allocation (as determined in Section 7 above and set out in Appendix 1).

8.2. Implementing the investment strategy is the second key area identified in the risk budgeting process as being a significant contributor to the investment risk taken on by the Fund. As a consequence, implementation involves the following processes:

8.2.1. Determining asset allocation ranges around each asset class in the SAA (See Annexure 1);

8.2.2. Selecting appropriate benchmarks against which to measure the performance of the assets in each asset class (See Annexure 1);

8.2.3. Considering the appropriate selection and blending of investment mandates within each asset class – the so-called Portfolio Construction (See below).

8.3. The following factors and concepts guide the portfolio construction part of the implementation of the investment strategy.

8.3.1. The Fund follows a core - satellite approach in the construction of its South African investment portfolio.

8.3.2. Within the major South African asset classes, a substantial proportion of the assets are managed within a core portfolio, using an enhanced index tracker approach with regard to equities, and a duration-matching approach to bonds and inflation-linked bonds. Benchmarks and risk parameters are selected based on appropriateness for these passively managed core portfolios. The passively managed core portfolios are managed by the PIC.

8.3.3. A portion of the assets are allocated to satellite portfolios which are managed actively and with higher risk parameters to seek excess returns relative to the index. These actively managed portfolios include portfolios with a focus on a particular style, industry, sector or region. It also may include allocation to hedge funds, absolute return strategies and structured products. The performance of these portfolios is measured relative to appropriate benchmarks.

8.3.4. A portion of the Fund's assets is invested in property, either directly or indirectly through listed or unlisted property companies.

8.3.5. A portion of the Fund's assets is allocated to investments in other African countries outside South Africa. The portfolios comprise both listed and unlisted mandates.

8.3.6. A portion of the Fund's assets is invested in foreign equity both developed and emerging markets. These investments are made using a combination of active and passive management approaches in a core-satellite style.

8.3.7. A portion of the Fund's assets are invested in foreign bonds using a combination of active and passive management approaches in a core-satellite style.

8.3.8. In line with the GEPF's investment beliefs, and in support of Broad-Based Black Economic Empowerment, a portion of the assets of the Fund are designated for established and emerging Black-owned asset managers.

8.3.9. A portion of the Fund's assets is allocated to developmental investments, in accordance with the Fund's Developmental Investment Policy Statement (see Annexure 6). The objective of the developmental investments is to earn returns above benchmark for the Fund while supporting positive, long-term economic, social and environmental outcomes and thereby contributing towards transformation for South Africa. The developmental investment policy has four key pillars:

i. Economic infrastructure

ii. Social infrastructure

iii. Environmental Infrastructure

iv. Job creation, new enterprises and broad based black economic empowerment

In order to align with the Strategic Asset Allocation of the Fund, developmental investments should be classified into the asset class of the instrument invested into. Developmental investments are not considered to be an asset class in and of themselves.

8.3.10. The requirement to contribute towards B-BBEE and economic transformation of South Africa through including *inter alia*, the financing of B-BBEE initiatives, the allocation of assets to and the incubation of black managers and through targeted investments as defined in the Financial Sector Charter.

8.3.11. Financial derivatives may only be used for the purposes of implementing asset allocation tilts (See 8.4 below), hedging against downward asset class valuation corrections, insuring against specific events and in product construction which involve derivatives (e.g. structured products, hedge funds etc.). Derivatives may not be used to speculate (particularly through the use of uncovered derivative positions), gear a portfolio or to circumvent portfolio restrictions. Further detail on the use of derivatives is covered in Annexure 8.

8.4. The Fund utilises Tactical Asset Allocation (TAA) as a further tool for enhancing investment performance. This process involves positioning the asset class weights of the Fund slightly away from the SAA so as to enhance returns of the Fund. The Fund outsources this role to the PIC and the performance effects of the process are measured as part of performance attribution reporting.

8.5. The Fund undertakes the practice of scrip lending for the enhancement of Fund returns. This practice is managed on behalf of the Fund by the PIC.

9. Investment Risk Management

9.1. The Fund has identified a number of risks relevant to the investments, which risks, and their concomitant mitigations, are set out in full in Annexure 3 below.

9.2. The investment risk management process ensures that adequate risk controls are an integral part of all steps in the investment process from the determination of the investment beliefs, the formulation of the investment objectives, the setting of investment strategy through to implementation and reporting on the investments.

9.3. Investment risk is managed through a number of interventions (See Annexure 3 for further detail) including:

9.3.1. Implementing the risk budgeting approach to the investment strategy and investment implementation as set out in section 6 above.

9.3.2. Following a liability driven investment approach and conducting regular asset liability modelling exercises to check that investment strategy as captured in the SAA is on track and adjust where necessary.

9.3.3. Determining asset allocation ranges around the SAA which limit the extent to which the actual asset allocation of the Fund can deviate from its SAA over time;

9.3.4. Blending of investment mandates within each asset class to ensure optimal return and managed risk (e.g. core-satellite approach, active-passive split, style blending, sector or currency balancing);

9.3.5. Regulating the number and size of investment mandates;

9.3.6. Ensuring diversification across asset classes, geographic regions, sectors, capital structures;

9.3.7. Applying a Responsible Investment approach in line with the GEPF Responsible Investment Policy (Annexure 4).

9.3.8. Analysing the liquidity or lack thereof in the proposed blend of asset types;

9.3.9. Setting risk parameters for investment mandates against their asset class benchmarks;

9.3.10. Accommodating the time horizon of investment mandates and strategic investments;

9.3.11. Defining the authorised investment universe which can be considered;

9.3.12. Monitoring investments and investment compliance closely;

9.3.13. Implementing a rigorous process of selection and monitoring of investment service providers to the Fund (managers, actuary, custodian, consultants) including regular review of risk management processes and controls at those providers;

9.3.14. Interpreting the regulatory and legal constraints on the investments in the context of the Fund;

9.3.15. Considering the effects of any mooted or impending tax, regulatory or legal changes.

10. Responsible Investment Practices

10.1. The Fund is committed to investing responsibly by integrating environmental, social and governance (ESG) issues in investment decisions and ownership practices.

10.2. The Fund has set out its policies and practices regarding investing responsibly in the GEPF Responsible Investment Policy (Annexure 4) and its accompanying Responsible Investment Management Framework.

10.3. The Fund's active ownership practices including proxy voting and corporate engagement are guided by the GEPF Proxy Voting Guidelines and Corporate Governance Principles (Annexure 5).

10.4. Climate change is a pertinent issue on the GEPF's agenda and the Fund recognises that by understanding climate change risks better, the Fund is able to better assess the extent of value at risk in both the listed and unlisted portfolio and take action to mitigate these risks.

11. Measurement and Monitoring of Investments

11.1. Recognising the importance of investment performance to Fund asset valuation, the Board of Trustees monitor Fund assets (including its investments) relative to Fund liabilities as per the Actuarial valuation of the assets and liabilities of the Fund as required by Government Employees Pension Law of 1996 as amended and as stipulated in Clause 4.9 of the Rules of the Fund.

11.2. Investment performance is further monitored through the tracking of investment performance and risk-adjusted investment performances according to the Investment Performance Reporting Policy Statement (Annexure 7). Investment Performance is reported to the Trustees at least on a quarterly basis. The Trustees recognise the need to focus on the long-term performance of Fund investments and not to focus on and respond to short-term performance anomalies to the detriment of the long term.

11.3. The Fund recognises that investment managers cannot always outperform and especially in a multi-manager process some investment managers will underperform under certain market conditions and dependent on their style. Despite this, performance is critical in ensuring members' expectations are met. As a consequence, poor performance will be addressed and extreme underperformance will not be tolerated.

11.4. Investment performance, risk and compliance (to mandate) reporting is scrutinised by Fund management and reported to the Investment Committee according to a framework set out for this purpose. An independent reporting agent and/or the master custodian may be employed by the Fund to consolidate performance and risk reporting on behalf of the management of the Fund.

11.5. The Fund monitors the implementation of the GEPF Responsible Investment Policy as per the policy (see Annexure 4).

11.6. The Fund monitors and evaluates the manner in which B-BBEE is being advanced in the South African economy through targeted investments that address socio-economic imbalances. These investments include the financing of B-BBEE initiatives, targeted investments as defined in the Financial Sector Charter, the National Development Plan and the Sustainable Development Goals through, inter alia, infrastructure investment both within South Africa and the rest of the continent.

11.7. The Board of Trustees has the power in terms of the Law, the Rules and their mandate with the PIC to terminate the investment mandate with the PIC, if the Fund and the PIC cannot resolve breaches of the mandate between the Fund and the PIC to their mutual satisfaction.

11.8. The Board of Trustees recognise that the PIC was established by Government with the specific aim of managing a substantial proportion of the assets of the

Fund. There is therefore a special relationship between the Fund and the PIC and the Board of Trustees will strive to address any differences that may arise between themselves and the PIC in a constructive manner.

12. Review of the Policy

12.1. The Policy will be reviewed at least annually or more frequently as required by significant changes in policy direction, laws or regulations.

12.2. The review of the Policy is a separate process to the review of the investment strategy and SAA. See Section 7 in this regard.

ANNEXURE 1: Strategic Asset Allocation as from 1 March 2020

The following table sets out the weights as a percentage which should be allocated to each asset class. Note that certain so-called "asset classes" such as Private equity, hedge funds, infrastructure, would fall into the true asset class category of the underlying assets in such "asset classes" e.g. an infrastructure investment could be a bond or equity; a private equity investment is equity (of the unlisted kind); Hedge Funds may be a blend of different asset types in which case it should be classified into the below according to the majority of exposure in its underlying instruments.

Asset class	Strategic Asset Allocation (SAA)	SAA range
SA Equity	50%	45 - 55%
SA Property	5%	3 - 7%
SA Local Bonds	31%	26 - 36%
SA Cash	4%	0 - 8%
Africa Equity (ex SA)	5%	0 - 5%
Foreign Bonds	2%	0 - 4%
Foreign Equity	3%	1 - 5%

The following table sets out the benchmarks to be used for the measurement of returns of the assets invested into each asset class. Where the Fund invests into unlisted alternatives of these asset classes, the benchmark doesn't necessarily change at the SAA level. For Fund monitoring purposes specific asset class appropriate unlisted benchmarks may be used. The discrepancy between the SAA and the manager benchmark need to be incorporated in the risk budget.

Asset class	Benchmarks
SA Equity	FTSE / JSE Shareholder Weighted All Share Total Return Index (SWIX) (Excluding Real Estate and Gambling)
SA Property	FTSE / JSE SA Listed Property Index (J253)
SA ILBs	JSE Composite Inflation Linked Index
SA Nominal Bonds	JSE All Bond Composite Total Return Index (ALBI)
SA Cash	SteFi Total Return Index
Africa Equity (ex SA)	FTSE/JSE All Africa ex South Africa 30 Index
Foreign Bonds	JP Morgan Global Bond Index
Foreign Equity	Morgan Stanley World Index (All Country) (MSCI ACWI) Total Return

ANNEXURE 2: GEPF Investment Beliefs

1. The GEPF's investment strategy considers the Fund's risk profile, assets and liabilities. Risk is considered at the asset class, portfolio, and investment levels.
2. Taking well-considered risks is necessary to earn the returns required to meet the Fund's pension obligations, provided that appropriate risk management processes are followed.
3. The Fund's strategic asset allocation is the key determinant of portfolio risk and return, and it may be implemented through a combination of active and passive management.
4. The GEPF integrates Environmental, Social and Governance factors into its investment policies as they are material to the long-term sustainability of the Fund.
5. The Fund's investments should play a developmental role in the South African and broader African economy, and investment decisions may reflect wider stakeholder views.
6. The Fund's reputation must be supported by robust and rational investment decisions, executed by appropriately skilled and competent investment professionals.
7. Minimising the costs of investing is vital for long term investment success, and management fees should promote an alignment of interests between the Fund and its managers.
8. The Fund's trustees, administrators and investment managers are accountable for their decisions, and must perform their duties to the highest professional ethical standards.
9. The Fund's trustees commit to high standards of openness, transparency and appropriate disclosure in line with best practice standards.

ANNEXURE 3: Investment Risks

The following types of investment risk have been considered by the Fund. Each risk references mitigation strategies specific to that risk. The Fund recognises that the overall mitigation of investment risk is achieved through the comprehensive implementation of the full framework and steps set out in the Fund's Investment Policy Statement.

1. Funding Risk

The defined benefit nature of the Fund and the Government Employees Law, 1996 "GEP Law" places an obligation to retain the Fund in a sound financial position. Should this not be the case (i.e. the Fund is underfunded), Section 18 of the GEP Law makes provision for remedial action to be taken on advice from the actuary but following consultation with key groups of member stakeholders.

Since corrective action would require additional funding from either the members or the employer and given the very large size of the Fund in the South African context, the risk of the Fund becoming underfunded is financially very serious for both or either of the members and or the employer.

Mitigation: The Fund has adopted a comprehensive risk budgeting approach (Section 6 of the IPS) to control for this risk throughout the investment strategy setting and the investment implementation process.

The Fund has further elected to set its investment strategy (Section 7 of the IPS) by following a liability driven investment approach and through performing regular asset liability modelling exercises to determine the optimal blend of assets to maintain or exceed its funding requirements.

2. Sustainability Risk

The risk that the long term sustainability of the Fund is compromised through the manifestation of risk which has arisen steadily over time. The factors that give rise to these sustainability risks are typically grouped as Environmental, Social or Governance (ESG) factors. Though there may be short term manifestations of these risks, the sustainability risk considers what a long term downward trend in these factors would have on the ability of the Fund to meet its beneficiaries needs in retirement in future.

Tied into this is the recognition that it is not only the money during retirement, what matters is also the environment and society in which a future pensioner utilises that money.

Mitigation: The Fund has a Responsible Investment Policy (Annexure 4), this policy governs the Fund's response to the sustainability risk and considers the impact of the active management of ESG factors throughout the investment process. The Fund also has Proxy voting Guidelines and Corporate Governance Principles (Annexure 5) which guide how it engages its investee organisations on ESG matters.

3. Market Risk

Market risk is risk introduced by holding assets, both local and offshore, with prices affected by market movements. Market movements are influenced by an expectation on the returns that those assets will deliver in the future. Market risk is generally most evident in growth and long-term assets such as equity and to a lesser extent in property, bonds and cash. Market risk is often measured using volatility.

Mitigation: The Fund recognises this as the largest potential financial risk long term, and yet it is the very risk-taking of investing into the assets that make up these markets that allows for Fund assets to grow. The Fund therefore devotes significant resources to determining an appropriate blend of market exposures as captured in the output of the asset-liability modelling process as part of setting fund strategy.

Strategic market exposures, as well as guidelines around these are captured in the Fund Strategic Asset Allocation (SAA). The Fund's asset class weights are monitored against the SAA on an ongoing basis, and asset classes are rebalanced as and when they move out of line.

4. Credit Risk

Credit risk is a risk that the issuer of any asset is not able to pay the contracted payments or the final debt back on maturity date i.e. it defaults. For example, cash is the most well-known "risk free" asset. This may be true where the risk is defined as market risk, but if held at a bank which subsequently is liquidated, the investor may get less than the capital value for the asset back from the liquidated bank.

This is defined as default or credit risk. This risk cannot be avoided as even the most "risk free" assets in the world e.g. US govt T-bills carry some kind of credit risk. Given its size and the limitations it faces to investing its assets outside of South Africa, this risk is particularly concentrated for the GEPF in the South African Government and other issuers of assets in the South African market.

Mitigation: The Fund manages this risk by

- appointing investment managers who understand and control for credit risk throughout their investment management processes;
- maximising its regional diversification within the limitations imposed;
- extensive diversification across different issuers of assets;
- on-going monitoring and management of credit risk exposures.

5. Currency Risk

Currency risk is introduced by holding foreign assets priced in a currency other than the South African Rand, given that the Fund's liabilities are priced in Rand. Currency risks may also exist within "local" assets held in the Fund to the extent that they have offshore exposure (e.g. JSE listed shares with significant offshore operations). Currency price is affected by political, country or market specific factors, and is particularly pronounced in South Africa given the Rand's use as a liquid emerging market currency proxy.

Mitigation: Currency is explicitly built into the asset modelling process as part of the asset liability modelling and strategy setting process of the Fund. Currency exposure is reflected in the exposure to offshore asset classes in the strategic asset allocation.

6. Manager Risk

The manager risk is that the asset managers or investment managers fail to meet the investment requirements of their investment mandates. This risk is most often manifest in a manager that is consistently not able to deliver investment returns which meet or exceed their mandated investment benchmark. However, this risk may also be manifest in corporate governance breaches, acts of fraud or misappropriation of assets that occur at a manager level.

Mitigation: For the GEPF, this risk is concentrated in that the majority of Fund assets are outsourced to the PIC. It is thus incumbent on the GEPF to ensure appropriate risk management policies and processes are in place and being adhered to by the PIC. Note further that the PIC itself further outsources some of its investment management responsibilities to third party asset managers, and it is incumbent on the PIC to follow same diligence in ensuring compliance with risk management policies and processes at those managers.

7. Specific Risk

Specific risk is the risk that arises out of owning any single asset in the portfolio. The risk is manifest should there be a major risk event that occurs to the entity giving rise to that asset. E.g. a license for operation is withdrawn in the country of principal operation of a listed share; Major corporate malfeasance is uncovered which has disastrous consequences for the credit worthiness of a bond issuer. Depending on the exposure to the asset in the overall portfolio, the financial impact of the specific risk could vary. Very often, however the reputational risk to the Fund may far outweigh the actual investment impact and this should be carefully considered.

Mitigation: The greatest mitigation of this risk is through diversification of issuers of assets and of the assets themselves. Significant exposures to issuers or any single assets should be closely monitored for potential risks. Mandates with managers include limits on single asset or issuer exposures to further mitigate against this. The Fund's Proxy Voting Guidelines and Corporate Governance Principles (See Annexure 5) also play an important role in preventing specific risks from materialising.

8. Liquidity Risk

Liquidity risk is the risk of holding assets that cannot be liquidated to cash for a reasonable value as and when required. This risk is introduced by holding assets that don't trade frequently or assets which only trade in private markets as and when taken to market. Illiquid assets often trade at a high premium or discount to fair value and so timing of purchase and sale is key. In general, there is a liquidity premium to be earned by buying and holding illiquid assets for the longer term.

Mitigation: This risk is reduced by holding assets that can easily be liquidated at the expected market value when required or by holding assets with few liquidity restrictions. It can thus be managed through effective projection of cash flows in the Fund and careful planning around cash flow requirements.

In this way the Fund can ensure that it holds sufficient assets to meet cash flows as they fall due, but at the same time can take advantage of the liquidity premium gained by allowing long term assets to be invested in illiquid assets that offer a premium.

9. Market Timing Risk

Market timing is an investment process whereby an investor seeks to add additional value through timing investment decisions to best take advantage of turning points in markets. Market turns are driven by changes in sentiment which are very difficult to predict or are the consequence of a previously unforeseen event. This is further compounded by the behavioural biases that make it difficult to sell when market prices are peaking and difficult to buy when markets are depressed.

The risk arises that the timing of an entry or exit will be too early or too late and in the process potentially destroy value for the Fund. Frequent trading to take advantage of market timing opportunities can also lead to higher trading costs.

Mitigation: Investment implementation and thus timing of the execution of investment decisions is fully delegated to the Funds investment managers. The Fund recognises its role in checking that its managers have the required ability to mitigate against bias in investment decision-making. The Fund also measures the value-add of its investment managers in the timing and direction of their investment decisions.

10. Investment Governance Risk

Poor investment governance and oversight can result in losses through poor execution or breach of investment strategy or mandated guidelines.

Mitigation: Ensuring appropriate governance and oversight of investments through all levels of investment decision making, execution and measurement. It is further strengthened by strong investment compliance controls and processes.

11. Risk of Capital Loss

The risk of negative returns is also known as the risk of capital loss or absolute risk. This occurs if, given a capital protection goal, the assets lose value.

Mitigation: The bulk of the Fund's assets are invested to meet the long-term objectives of meeting pension payments of the defined benefits as they fall due. This objective is one of income protection and not capital protection.

The Fund has accepted that there may be risk of short-term mark-to-market capital losses on riskier assets on the path to achieving long term growth. Capital protection goals are present in short term cash flow management practices of the Fund. Here the risk to capital loss is reduced by purchasing fixed interest instruments such as short-term money market instruments.

12. Risk of Negative Real Returns

The risk of negative real returns is a risk that the assets grow by less than inflation. Given the inflationary component captured in the investment objectives of the Fund, this risk is very relevant for the Fund in its considerations of the investment strategy and execution.

Mitigation: This risk can be reduced in the short and long term by purchasing inflation-linked bonds. Over the longer term the risk can be mitigated against by investing in inflation-beating assets such as equity.

13. Active risk

Active risk is the risk of performing differently to a defined benchmark. Whilst outperforming a benchmark is a risk as it implies that underperformance is also possibility, active risk is generally associated with underperformance. It is thus also sometimes referred to as negative relative performance or tracking error.

Mitigation: The Fund has largely mitigated against this risk through the use of Index funds in the investment implementation. The use of index funds does in turn, heighten the benchmark risk that the Fund is exposed to.

14. Benchmark Risk

The Funds investment strategy as captured in the fund's Strategic Asset Allocation (SAA) is measured by monitoring the performance of invested assets for each asset class against an appropriate benchmark for that asset class. The choice of appropriate benchmark thus becomes critical to the eventual outcome of the returns achieved in each asset class. This risk is heightened given the Fund's choice to implement a significant portion of its investments through passive mandates.

Mitigation: The choice of investment benchmarks forms part of the investment strategy setting process of the Fund. Benchmarks are carefully considered as being the best representation of the expected future returns of each asset class. Changes in benchmarks also require careful consideration and planning.

This is especially the case given that a significant portion of the fund is managed passively against these benchmarks and is further compounded by the fact that the GEPF owns a significant portion of all assets in the South African markets.

15. Derivative Risk

This is the risk that could arise through the improper use of derivative instruments in the Fund. For example the IPS prohibits the use of derivatives for speculating, gearing or circumventing portfolio restrictions (see section 8 of the IPS).

Mitigation: This risk is managed through including restrictions on derivative usage in the mandates of investment managers either hired directly by the Fund or those hired indirectly by the PIC. It is further managed by the review of the derivative policies of any managers or investment products utilised by the Fund.

16. Custody Risk

The risk of misappropriation of assets, incorrect delivery of assets, unauthorised use of assets, inadequate segregation of customer assets, failure to collect income, recover tax or respond to corporate events by the Custodian of the Fund's assets.

Mitigation: The implementation of rigorous processes around the selection, implementation, monitoring and compliance of the custodian. Further scrutiny of the risk management processes and controls of the Custodian.

ANNEXURE 4: GEPF Responsible Investment Policy

See attached

ANNEXURE 5: GEPF Proxy Voting Guidelines and Corporate Governance principles

See attached

ANNEXURE 6: GEPF Developmental Investment Policy Statement

See attached

ANNEXURE 7: GEPF Investment Performance Reporting Policy Statement

See attached

ANNEXURE 8: GEPF Derivatives Policy

See attached