



29 November 2023

# Investment Policy Statement

**OUTvest Provident Preservation Fund**  
(‘the Fund’)

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## 1. Purpose of the OUTvest Provident Preservation Fund

The OUTvest Provident Preservation Fund (12/8/38214) is designed to help our members achieve a measure of financial security when they decide to stop working.

We, as the Board of the Fund, aim to manage a personalised retirement solution for each of our members that uses a combination of financial planning and investment at low fees to give our members a greater chance of reaching their desired retirement objectives.

A personalised retirement solution consists of an efficient and appropriate unit trust and a retirement plan that is constantly reviewed and updated. The result is a personalised retirement solution that is constantly updated to reflect the estimated retirement position of each member so that the member's post-retirement expectations are managed on an ongoing basis. In other words, an outcomes based investment approach.

The value of each member's benefit at any time will be determined by the total contributions paid by each member, plus the return from the unit trust, net of any fees charged.

The returns from the unit trust will result from the underlying investments, which will be a combination of shares listed on a stock exchange, bonds, property and cash. These underlying investments will be held in a unit trust on behalf of the member.

## 2. Purpose of the Investment Policy Statement (IPS)

The purpose of this document is to provide a high-level overview of how the Fund plans to invest the assets of the Fund for the benefit of our members. This document is known as the Investment Policy Statement, or IPS. It is a document that is required by regulation and must be made available to members and adhered to by the Board.

The IPS outlines the approach that the Board of the Fund will use to ensure the investment solution performs in the best interests of our members. It is a document that the members are able to read and understand the investment approach adopted by the Fund. It covers the following items:

- 2.1 How the Board thinks about investing for retirement.
- 2.2 The design of the investment strategy composed of four unit trusts that are constructed to help target returns required to achieve the retirement objectives for our members.
- 2.3 The criteria the Board will use to monitor the performance of the investments to ensure that the unit trusts are performing as expected.

## 3. Criteria used to determine the appropriate investment strategy

There are many factors that the Board has taken into account to determine the appropriate investment strategy, including well-established investment principles, and the latest thinking around investment. In addition to this, the Board must take into account regulation and the profile of the members in the Fund and the needs of the members.

### 3.1 Well-established investment principles and the latest thinking.

Cost is an extremely important guiding principle for the Board to ensure that our members get more out of their retirement savings and it is one of the most important determinants of the value of a member's benefit at retirement. The Board has used this as an important factor in the design of the investment strategy.

The Board realises that a successful retirement strategy requires a personalised retirement plan that is closely linked to the member's investment portfolio and kept updated at all times.

Furthermore, we as the Board, believe the administration of investments should be kept as simple as possible and allow a high degree of automation to lower costs and improve service levels for members.

The Board aims to use an evidence-based approach in the design and management of the investment strategy for the Fund. The idea is to ensure that the Fund's decisions are based on research and evidence rather than just relying on accepted traditional practice.

### 3.2 Regulation

South Africa has very well-developed regulations to ensure that the management of the Fund is in the best interests of its members, in particular, Regulation 28 of the Pension Fund Act. Regulation 28 provides prudential principles and processes that govern how a fund may invest on behalf of its members. This regulation describes what investment types are suitable for members' investments and how much of each investment type is permitted to be held. It also sets out principles that will guide how Boards make decisions about their investment strategy.

### 3.3 Use of derivatives and unregulated Collective Investment Schemes for speculative investment purposes

Derivatives may be utilised for efficient portfolio management but the Board has decided that it will not make use of derivatives or unregulated Collective Investment Schemes for speculative investment purposes.

## 4. Objectives of the Fund

Our objectives for the Fund can be described as the following:

- 4.1 Provide members with evidence-based efficient, low-cost investment portfolios that are well-diversified and compliant with applicable regulation.
- 4.2 Use information about the member's retirement objectives and the member's investment portfolio to provide an estimated expectation of the value of their benefit at retirement.
- 4.3 Where applicable, aim to incorporate Environmental, Social and Governance (ESG) factors into the investment strategy offered to members, where it can be proven that the return and risk characteristics of member's retirement portfolios are improved and do not detract from the above objectives, in particular the cost structure and simplicity of the investment offering.

## 5. Our investment beliefs

Our investment philosophy, also known as our investment beliefs, are important factors in determining the investment strategy used by the Fund. These are:

- 5.1 Historical evidence suggests that the greatest probability of outperforming inflation over longer investment periods can be provided by an allocation to listed equities (shares in companies listed on a stock exchange).

The Board referred to a study done by the E Dimson, M Staunton and P Marsh covering over 120 years of market returns,<sup>1</sup> which report indicates that over longer investment time horizons equities have, on average, delivered returns that are greater than inflation and more reliably so than bonds or cash. The result is an investment strategy, where the longer a member's time to retirement, the greater the allocation to equities will be.

- 5.2 Diversification of investment types helps reduce the impact of short-term price movements in the underlying investments, and will lessen the impact of a permanent capital loss.

Asset spreading, or diversification as it is also known, is a well-known effective investment principle that is designed to reduce the impact of a loss in value of a single, or series of underlying investment securities in the portfolio. This principle also protects the value of the portfolio during short term price movements of the underlying securities.

As the value of each investment security (like cash, bonds, equities, etc) is driven by a number of factors, changes in these factors will affect the price of the security. Increasing the number of securities in a portfolio will increase the number of factors driving the value of the overall portfolio.

For example, a rise in inflation may reduce the value of a bond portfolio, but may lead to a short-term increase in the value of the equity portfolio. If you combine equities and bonds in a single portfolio, these two changes in value may cancel each other out, protecting the value of the portfolio.

- 5.3 Cost is an important determinant in the value of a member's benefits at retirement, or withdrawal.

The fees charged by service providers to the Fund, including asset consultants, asset managers and administrators are an important determinant of the Fund's ability to deliver on the promise of adequate retirement benefit to members. The difference between 3% and 1.5% in fees over 30 years of retirement savings could mean that an individual retires with close to 40% more in his/her retirement savings.

The Board of the Fund will ensure that the total fees payable by members for the provision of all services will be disclosed. Furthermore, the Board will use its skills and expertise to keep the costs as low as possible.

- 5.4 Use evidence to select between a passive (rules-based), or active approach to portfolio construction.

Portfolio construction is the method used by a fund manager to select and combine the securities that are most appropriate to the requirements of the Fund. This decision is made after the Board has decided on an appropriate investment allocation between equity, bonds, cash and property.

1. The indices are published and described in E Dimson, PR Marsh and M Staunton, *Triumph of the Optimists: 101 Years of Global Investment Returns*, Princeton University Press, 2002, as updated in E Dimson, PR Marsh and M Staunton, *Credit Suisse Global Investment Returns Sourcebook 2016*, Zurich: Credit Suisse. Additional information is given in E Dimson, PR Marsh and M Staunton, *The worldwide equity risk premium: a smaller puzzle*, Chapter 11 of R Mehra (Ed), *Handbook of the Equity Risk Premium*, Elsevier, 2008.

One of the most common decisions that the Board needs to make is between an active or passive approach to portfolio construction. Active portfolio construction is a term that is used to describe an approach that relies on a fund manager (of a unit trust) to use his/her experience and discretion to decide on the mix of the investment securities to achieve the risk and return objectives set out by the Board. This approach typically aims to outperform a financial benchmark through buying and selling investment securities on a short-term basis. A passive approach to portfolio construction uses a set of pre-agreed rules that will determine whether an investment security is held in the portfolio, and typically involves less short-term trading than an active approach.

Currently the Board uses active management for the short-term money market exposure in the portfolios and passive (or rules-based portfolio construction) for the equities, bonds and property exposure in the portfolios.

Below is an example of evidence that is compiled by S&P Dow Jones Indices that shows the proportion of actively managed funds that underperform a rules-based approach. Over five years a significant proportion of South African active equity managers underperform a rules-based approach. For short-term bonds (money market) the result is reversed.

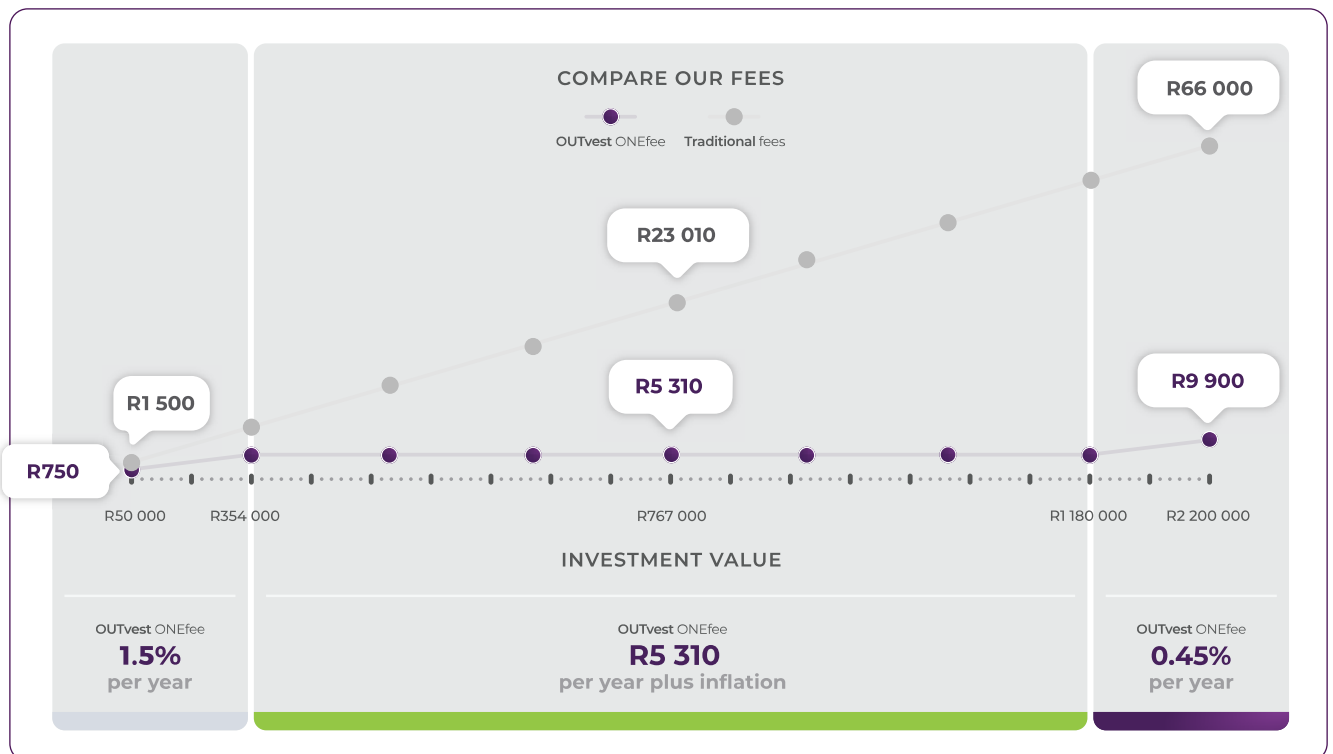
**Percentage of South African fund that underperform a rules based approach over a 5 year period**

Fund Category	Comparison Index denoting a rules based approach	Percentage of fund (%)
South African Equities	South Africa Top 50 Index	91%
Global Equities	S&P Global 1200	96%
Short term Bond (Money Market)	STeFI Composite	13%
Aggregate Bond	S&P South Africa Sovereign Bond 1+ Year Index	71%

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending 31 December 2022. Outperformance is based on equal-weighted fund counts. Index performance is based on total return in ZAR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**5.4 OneFee**

OUTvest introduced the innovative ONEFee model, which currently charges a fixed fee of R 5 310 for investments between R354 000 and R 1.18m. The aim is to give investors a simple, transparent and low fee. The fee scale below is subject to annual inflationary adjustments. A separate fee table applies to Independent Financial Advisors (IFA) using the OUTvest platform.



## 6. Investment

The Board has worked with its asset consultant (OUTvest FSP (47234)) to design a series of graduated investment portfolios using four portfolios that aim to cover the vast majority of investment types in the South African and global investment universe, which portfolios are suitable for our members' pre-retirement needs and are compliant with applicable regulation.

Each of the investment portfolios are managed as a single unit trust and governed by a single index (rules-based passive investment approach), or in the case of the money market fund, actively managed. Each retirement goal for a member will consist of one of the four unit trusts rather than a blend of the unit trusts. This aids the simplicity of administration and ensures that the main driver of the investment returns, in this case the asset allocation, is identical to all members in the same unit trust.

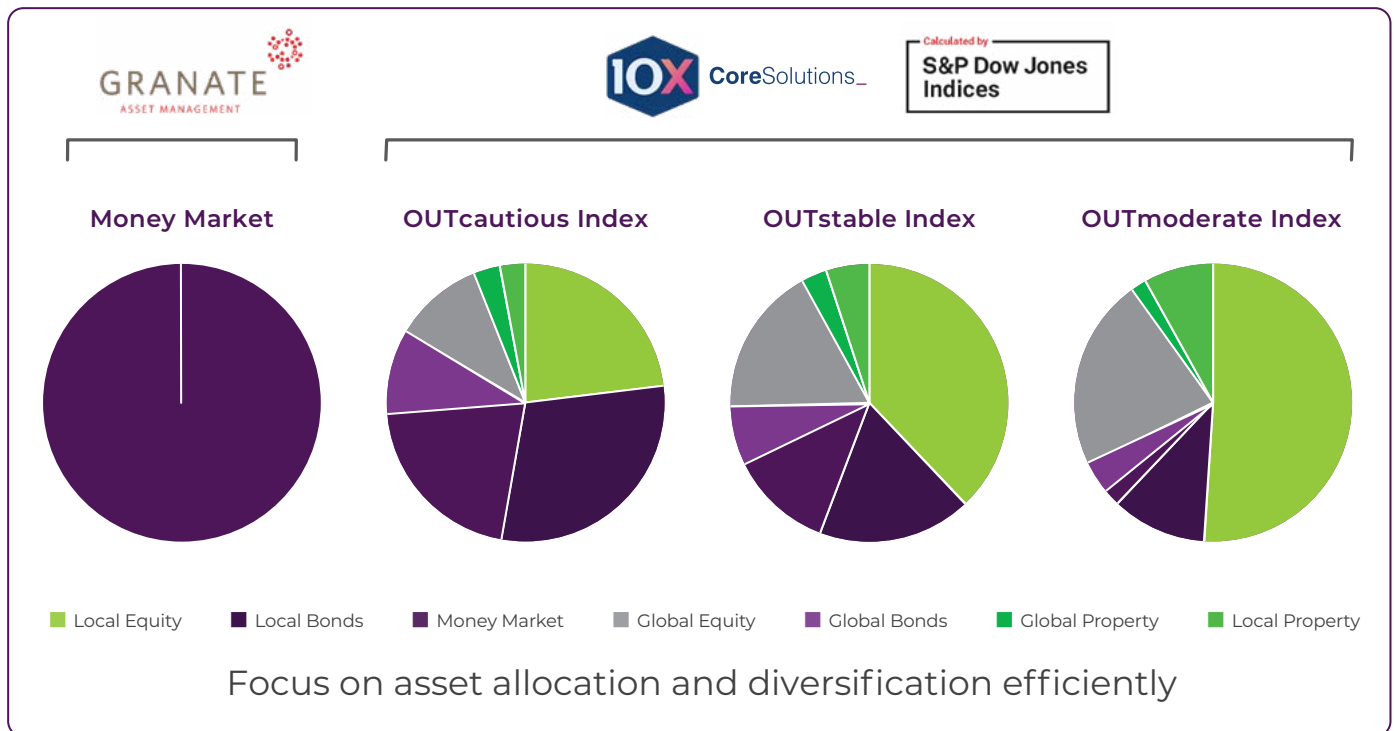
The four unit trusts available to members are designed to operate as a spectrum of investment returns and risks, graduating from low risk and low return (Granate BCI Money Market Fund) to high risk and high return (CoreSolutions OUTmoderate Index Fund) in four steps. It is for this reason that the portfolio construction of the investment portfolios is linked, and the underlying investment types are closely related.

The first portfolio is a money market fund that is actively managed, by Granate Asset Management, a specialist Fixed Income Manager.

The three portfolios, managed by 10X Index Fund Managers (RF) (Pty) Ltd, are constructed by following a set of multi-asset indices (equities, bonds, cash, property), designed by OUTvest in conjunction with 10X, and S&P Dow Jones Indices<sup>2</sup>. Each of these indices contains a collection of sub-indices representing different asset types. For example, the Local Equity allocation in the OUTcautious Index is represented by the S&P SA Top 50 Index (the 50 largest listed companies in South Africa).

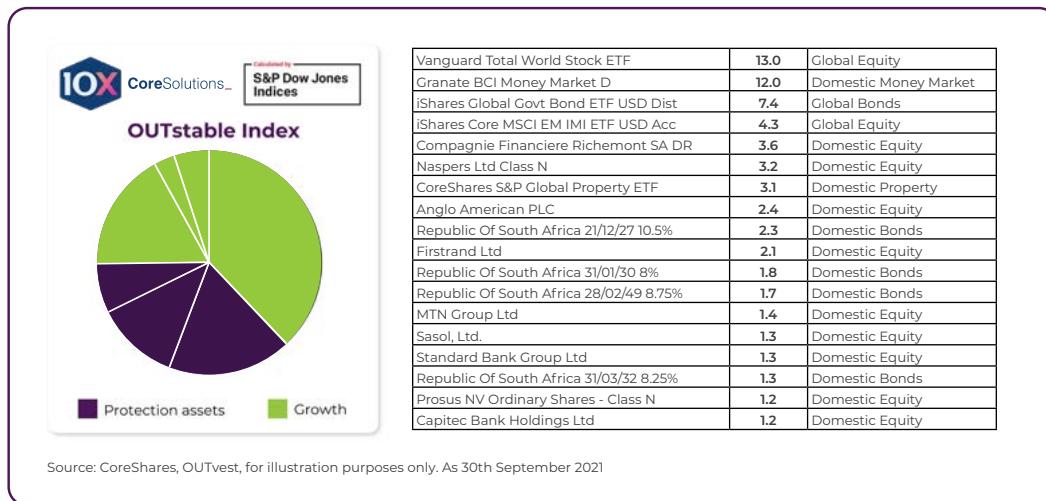
Each of the three multi-asset indices contains similar sub-indices. For example, the OUTcautious, OUTstable and OUTmoderate Indices all contain the S&P SA Top 50 Index in increasing allocations.

The allocations within the multi-asset indices will move in line with the performance of the underlying sub-indices and are rebalanced twice per year in March and September, with the aim to minimise transaction costs, which necessarily negatively impact performance.



<sup>2</sup> An index is a set of rules that set out what investments are purchased, and their proportions. It is common in passive investment strategies. The rules, or methodology as they are commonly known also set out what criteria need to be met by each investment to be included in the index.

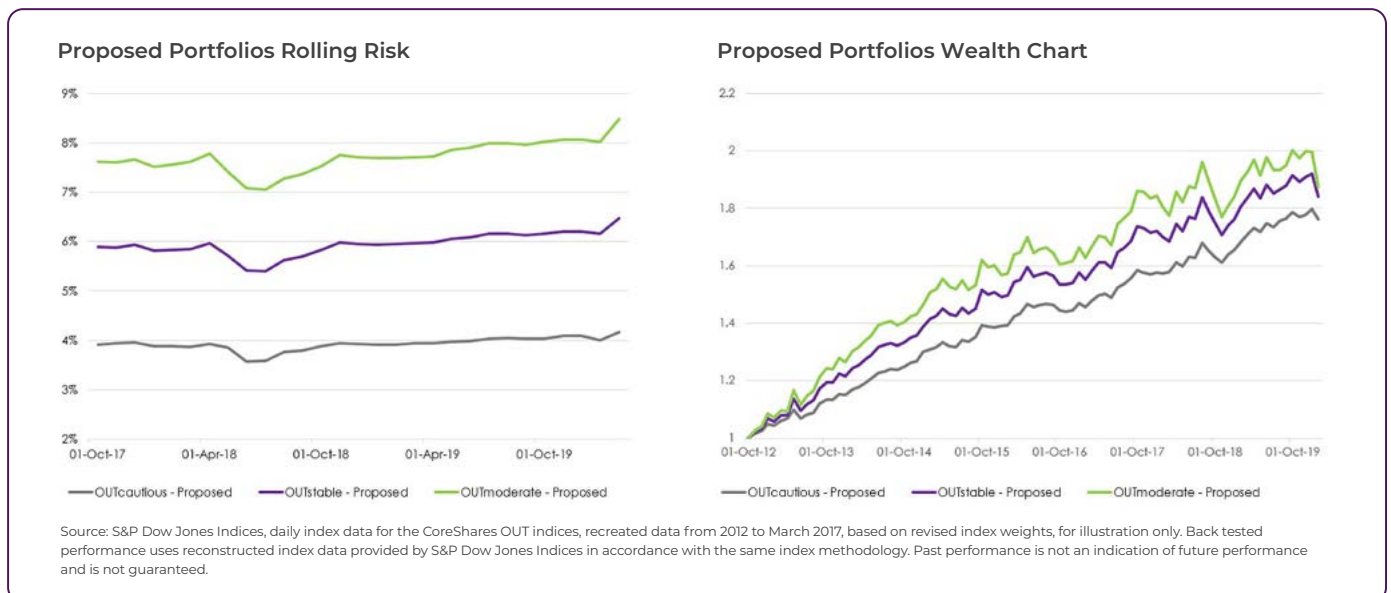
Below is an illustration of the index and security selection. The CoreSolutions OUTstable Index is a combination of different indices, each of them contains a list of holdings. When the various indices are blended together, the result is a list of index holdings of many different securities. IOX Index Fund Managers (RF) (Pty) Ltd then uses this index as a mandate and aims to replicate the holdings and performance of the index as closely as possible



The multi-asset indices are managed as a strategic asset allocation, and it is unlikely the allocations will be changed, unless there is a change in market structure, market conditions, or regulatory requirements that will require amendment. The breakdown of the multi-asset indices is available in the appendix to this document.

The objective of this portfolio construction approach is to create a low-cost investment allocation where the performance and risk characteristics of the portfolios show clear differentiation from one another.

#### Historical, back tested performance of the multi-asset indices



## 6.1 Responsible Investing (ESG)

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The Board believes that Environmental, Social and Governance (ESG) factors are important considerations in the investment portfolios, where it can be evidenced that incorporating such factors will benefit the investment returns available to members.

The Fund will take a phased approach towards the implementation of an ESG focused strategy. The Board has been in the process of obtaining a deeper understanding of the ESG characteristics of the underlying investments within the Fund. When appropriate, the Board will aim to investigate suitable implementation of an ESG focused investment strategy where needed and where practically possible given the structure of the investment portfolios used in the strategy detailed in this Policy document.

With the assistance of the Fund's asset consultant, further research was conducted into ESG as part of the 2022/ 2023 portfolio construction update. No compelling investment, or return-based, reasons to include ESG indices into the investment framework were found. The conclusion was that proxy voting, coupled with previous external Morningstar Sustainability ratings on the Funds, was an initial area where ESG considerations could be introduced into the Fund. The net result is that ESG factors are being considered in the overall framework of the Fund without necessarily changing the investment direction. A summary of the research conducted is annexed to this Policy.

The Board, as part of the aforementioned process, investigated the ESG rating of the Fund using the Morningstar Sustainability rating in 2021.

Due to the methodology of Morningstar Sustainability rating, which requires that 67% of the Assets under Management must be invested in equities in order to get a rating, the only fund which has a rating is the OUTmoderate Fund. This fund has a 4/5 globe sustainability rating. The fund ranks well against its peers globally.

The following paragraph sourced from the report explains the rating in more detail:

### **Morningstar Sustainability Rating™**

*The Morningstar Sustainability Rating™ is intended to measure how well the issuing companies of the securities within a fund's portfolio holdings are managing their environmental, social, and governance, or ESG, risks and opportunities relative to the fund's Morningstar Global Category peers. The Morningstar Sustainability Rating is depicted by globe icons where High equals five globes and Low equals one globe.*

## 6.2 Voting rights

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As the assets of the Fund are held in a series of unit trusts on behalf of the Fund via OUTvest Nominees, there is currently no opportunity to engage in active shareholder participation. The Board will, when appropriate, continue to review the opportunities available to become more active shareholders on behalf of the members of the Fund.

Through 10x, the asset manager on the CoreSolutions OUT Index Range of funds, proxy voting takes place through ISS (Institutional Shares Services). ISS provides a proxy voting service on all the eligible holdings in the fund. Voting on South African listed entities is governed by the ISS South Africa Proxy guidelines.

OUTvest Nominees must exercise the votes attaching to any units owned in any Collective Investment Schemes by the Fund, where

- there is a merger of collective investment schemes, or an alteration to the nature of those collective investment schemes, or
- it may promote the objectives of the Financial Sector Charter, or
- it may enhance the value of the investment.

The Board has the ability to make a more concerted and meaningful impact via proxy voting on ESG factors as well, where the Board can take guidance from the Code for Responsible Investment South Africa (CRISA) and the United Nations' Principles for Responsible Investment. This is something that the appointed asset consultant will investigate and provide feedback to the Board in due course.

## 7. Member's investment strategy

The primary guiding principle that will determine which of the four unit trusts are suitable for a member will be based on the expected time remaining, until the date of the member's retirement from the Fund. The Board will use the time remaining, until the estimated retirement date of the member, as well as the risk profile of the member to recommend to the member which one of the four portfolios should be used.

The Board, with the help of the asset consultant, has conducted an intensive modelling exercise to provide a conservative estimate of the performance of each portfolio (unit trust), before fees, over an investment time horizon. The table below indicates the expected probability a portfolio will outperform the return target over the investment time horizon. We have deliberately used a conservative approach to providing estimates of the expected return from the unit trusts, and hence the high probability that a fund will outperform the indicated performance target.

	Investment time horizon							
Return Target	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years +
CPI + 0%	60%							
CPI + 1%		67%	68%					
CPI + 2%				68%	69%			
CPI + 3%						67%	67%	67%
	Money Market	OUTcautious Index		OUTstable Index		OUTmoderate Index		

Source: OUTvest, for illustration purposes only.

The Board has decided not to automatically switch members into a lower risk fund, as they approach retirement. An annual review document will automatically be produced, which will be sent to members allowing them to review their progress against their individual retirement objectives. Members can contact the OUTvest call centre to discuss their individual circumstances and investment objectives, or alternatively their own appointed financial advisors for further investment advice.

## 8. Investment administration

One of the most tangible experiences for a member is the experience of effective investment administration. The ability to manage the process of the collection of contributions, investing such contributions, ensuring statements are accurate and that instructions are in fact processed are critical to the positive experience of a member.

In order to achieve this the Board has aimed to keep investment administration as simple as possible with manual intervention taking place only where absolutely necessary.

The Fund invests through OUTvest (PTY) Ltd, a registered Section 13b administrator. The assets of the Fund are registered in the name of OUTvest Nominees (Pty) Ltd and invested into a regulated Collective Investment Scheme.

Money invested in the Fund's dedicated bank account is aggregated every day and invested into the Nominees Bank Account (OUTvest Nominees Pty Ltd) and then deposited into the relevant unit trust.

We do this to ensure that the investment administration process is as efficient as possible, to minimise both cost and errors.



## 9. Governance

### 9.1 Review of the Investment Policy Statement

The Investment Policy Statement is considered by the Board to be a living document and will be reviewed at least annually, or as circumstances dictate.

### 9.2 Review of the investment portfolios

The Board will review the portfolios on a quarterly basis. The following performance and risk information will be reviewed as part of this process:

- Absolute performance of the unit trusts, net of fees over periods including 6 months, 12 months, 2 years, 3 years, 5 years and since Inception where relevant.
- Performance of the unit trusts against their inflation-linked targets, net of fees over periods including 6 months, 12 months, 2 years, 3 years, 5 years and since Inception, where relevant.
- The inflation targets are as follows:
  - Money Market: Consumer Price Inflation (CPI) over every year.
  - CoreSolutions OUTcautious Index Fund: CPI + 2% per year over periods of less than 3 years.
  - CoreSolutions OUTstable Index Fund: CPI + 3% per year over periods of between 3 and 6 years.
  - CoreSolutions OUTmoderate Index Fund: CPI + 4% per year over periods of more than 6 years.
- Peer group performance comparison of the portfolios against relevant peers over 6 months, 12 months, 2 years, 3 years, 5 years and since inception, where relevant.
- Index tracking calculated as relative performance of the portfolios against each of the three CoreSolutions OUT Index Funds net of fees over various periods.
- Review of the Minimum Disclosure Documents for each of the unit trusts.
- Performance and risk characteristics of the custom multi-asset indices.

### 9.3 Comparison of member returns

The Board, in conjunction with the appointed asset consultant, will compare the members' absolute returns, after all fees have been deducted, to the absolute return target for each fund. Each member's returns are calculated taking into account their individual contribution history, fees levied against the account and the performance of the underlying investment funds. The comparisons will be prepared by the asset consultant and reviewed by the Board on a quarterly basis. The target of the Board is that, on average, the individual member returns reach the intended CPI target over the appropriate time horizon for each investment fund, after fees have been deducted.

### 9.4 Reviewing the appointment of a manager

During the annual IPS review by the Board, the following events and actions may cause the Board to re-consider the appropriateness of a manager:

- Change in the investment team (fund manager leaves, team members leave)
- Change in shareholder structure of the manager
- Change in the investment philosophy of the firm or the und
- Change in the investment process
- Ethical considerations and concerns
- Lack of oversight capability by the asset manager and or manager
- Breach of Fund risk constraints, for example a consistent breach of tracking error objectives, or Fund holdings that are not in line with strategy
- Consistent and unsubstantiated breach of investment objectives
- Change in the governance structure of the manager.

### 9.5 Asset Manager Selection process

Prior to the selection of the Asset Managers, the Board will issue an RFP (Request for Proposal), for portfolios best suited for the Fund's philosophy.

The Board's evaluation process for the selection of Asset Managers includes the following:

- The Asset Manager's investment philosophy should be aligned to the Fund's philosophy
- The Asset Manager must have appropriate insurance in place.
- The Asset Manager must have the necessary administration systems in place to be able to administer the assets in accordance with this IPS.
- The firm should be a reputable investment firm; and
- The management team should have a strong track record delivering against investment objectives.

## 9.6 Broad-based Black economic empowerment

- 9.6.1** Regulation 28(2)(c)(iii) requires that when contracting services to the Fund, the Board should consider the need to promote broad-based black economic empowerment “(BBBEE)” of those providing services.
- 9.6.2** The Fund shall consider and take into account principles of BBBEE when outsourcing services to service providers where practically possible. Where the Fund is not satisfied with a service provider's progress in attaining a score acceptable to the Fund, the Fund will engage with the service provider in question to reach a satisfactory outcome.

## 9.7 Regulation 28 Compliance

The Fund will only invest in Regulation 28 compliant Collective Investment Schemes. The asset manager of such a portfolio must:

- Manage the portfolio in accordance with the Regulation 28 limits of the Pension Funds Act;
- have systems in place to monitor daily compliance with Regulation 28 ;
- have procedures in place to address any breaches of compliance;
- report breaches, including breaches which are as a result of a change in the fair value of assets, to the Fund on a monthly basis;
- provide certificates of Regulation 28 compliance.

The Fund may exclude participatory interests in a collective investment scheme in respect of which the Fund has obtained a certificate issued by the collective investment scheme at the end of the financial year of the Fund, confirming that the assets of the collective investment scheme have complied with the limits as set out in Regulation 28, provided that:-

- the auditor of the collective investment scheme confirms the accuracy of the certificate at the financial year end of the scheme; and
- the confirmation is made available to the Fund.

The Fund is only required to report non-compliance for purposes of Regulation 28 on a quarterly basis and where such breach is not as a result of a change in the fair value of assets, unless such breach has been unresolved for 12 months from date of breach.

The Fund will verify and monitor the quarterly certificates provided by the asset managers.

If a market movement breach is picked up, the Board will track the breach to confirm that it has been corrected and will take the necessary corrective action, or apply for exemption where it has not been corrected.

## 9.8 Insurance cover by our Asset managers

The appropriateness of the levels of insurance cover will be monitored by the Board on an ongoing basis in relation to the assets invested with the managers.

**This policy will be kept under review (at least annually) by the Board, and in no way restricts the ability of the Board to make decisions as allowed under the Fund Rules. It will remain in force until such time as it is rescinded or altered by the Board.**

**Reviewed and adopted by the Board at a meeting of the Board held on 29 November 2023 as good practice with effect from 29 November 2023.**

DocuSigned by:

*Cheryl Mestern*

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**CHERYL MESTERN**  
Chairperson Of The Fund

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*Mark de Klerk*

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**MARK DE KLERK**  
Principal Officer

## 10. Appendix: Asset and Index allocation breakdown

		Money Market	OUTcautious Index	OUTstable Index	OUTmoderate Index
<b>Local Equity</b>	S&P South Africa 50		20%	35%	48%
<b>Local Equity</b>	S&P South Africa Preference Share Index		3%	3%	3%
<b>Global Equity</b>	S&P Global BMI		6.5%	11.1%	14.3%
<b>Global Equity</b>	S&P Emerging BMI		3.5%	6%	7.7%
<b>Local Bonds</b>	S&P South Africa Sovereign Bond		21.9%	13%	8%
<b>Local Bonds</b>	S&P South Africa Sovereign Inflation Linked Bond		8.1%	4.9%	3%
<b>Global Bonds</b>	S&P Global Developed Sovereign Bond Index		10%	7%	4%
<b>Local Property</b>	S&P South Africa Composite Property Capped		3%	5%	8%
<b>Global Property</b>	S&P Global Property 40		3%	3%	2%
<b>Money Market</b>	Money Market Fund (SteFI Composite Index)	100%	20.5%	11.5%	1.5%
<b>Cash</b>	Cash (SABOR)		.5%	.5%	.5%
<b>Total</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>