1. This Investment Policy document is a formal statement of the main principles underlying the investment strategy of the Government Employees Pension Fund (the "Fund").

2. It 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:

   - Communicate the investment philosophy to the stakeholders and investment managers;
   - Describe the overall investment objectives, the risk philosophy, the design of the portfolios into which the investments will be divided and in respect of which different mandates will be issued, the benchmarks against which performance will be reviewed, and the risk parameters associated with each of these portfolios;
   - Describe the role of the investment consultant, and investment managers, particularly the Public Investment Corporation ("PIC"), in managing the assets of the Fund. This will include the selection of investment managers other than the PIC, the determination of the remuneration of the external managers, and any decision to replace an investment manager.
   - Inform the Principal by which Investment Statement will be measured.
   - Communicate the investment strategy for evaluation purposes.

3. While the investment managers have complete discretion in the acquisition or disposal of any type of investment, subject to the terms of their mandates, the Trustees expect such decisions to be taken within the overall framework of this document. The performance of the investment managers will also be evaluated relative to the considerations herein.

Background of the Fund

4. 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 Trustees have decided that the Fund should be compliant with the terms of Regulation 28.

5. The Fund provides its active members, who are primarily employees working within National and Provincial government (including the armed forces and correctional services departments), with death, ill-health, retirement and withdrawal benefits in terms of the rules. The fund includes a number of closed groups of employees 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, 1999.

6. 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 1/55th of pensionable earnings over the last 12 months for each year of pensionable service and the gratuity is a cash amount of 6,72% of pensionable earnings over the last 12 months for each year of pensionable service. The withdrawal benefit is defined in relation to contributions paid by the member, but, if a member chooses to preserve his / her benefit through transfer to an approved preservation fund, the member will receive his / her actuarial interest in the fund 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.

7. Pensions are paid from the Fund. Increases are given annually with effect from 1 April in terms of a 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 average rate of inflation over the 12 months ending 30 November as compared to the average rate of inflation over a similar period in the previous year subject to affordability), a top-up increase 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 approves and the Minister of Finance is informed on the level of increase prior to its approval.

8. The members pay 7, 5% of pensionable earnings to the scheme.

9. Benefits and the member contribution rates are negotiated in the Public Sector Coordinated Bargaining Council ("PSCBC") in which both the Government, as employer, and the major trade unions operating in the public service are represented. The Board of Trustees is obliged to implement the resolutions of the PSCBC. 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 in the PSCBC.

10. The employer contributes the balance of the cost of the benefits, currently 13% of pensionable remuneration for members employed by branches 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 will take account of the funding level policy adopted by the Board of Trustees and approved by the Minister of Finance. The funding level policy has set long term objectives for determination of the contribution rate, and includes a range outside of 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 has been taken into account in the asset-liability modelling which has driven the establishment of contingency reserves and determination of an optimal asset mix.

11. 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, 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.

Objectives

12. The principle long-term objectives of the Fund are as follows:
    12.1. To provide members and their dependants with the benefits promised in the Rules.

12.2. To target the granting of full inflationary increases to pensions. While increases at this level are not promised, the Trustees aim to provide such increases subject to their affordability and have set contingency reserves at a level designed to facilitate such targeting.

12.3. To keep the employer contribution rate as stable as possible with any changes to the employer contribution rate being introduced gradually.

12.4. As a very substantial fund within the South African market and in accordance with its responsibility as a signatory to the United Nations Principles for Responsible Investment and the founders and signatories of the Code for Responsible Investing in South Africa, to invest responsibly for the long-term and, therefore, where compatible with its other objectives, to take account of extra-financial information[1] when making investments.

Investment Strategy

13. The investment strategy has been designed, taking these long-term objectives into account, using a liability driven approach after an extensive asset liability modelling exercise which takes account of the size of the assets of the Fund within the South African and the African investor universe. The Fund also invests some of its assets in markets outside Africa. Given the size of the offshore markets, and the small offshore allocation, size is not a consideration in these markets. The major features of this strategy are as follows:

13.1. The broad allocation of the Fund's assets between investment classes, as set out in the table below, was determined after considering the expected future benefit payments of the fund, the current financial position of the fund, and the risk to that financial position represented by investing in differing asset classes. In broad terms, there should be a probability of less than 10% of an actuarial deficiency at the next statutory actuarial valuation of the Fund (i.e. at the end of a 3 year period[2]) as a result of volatility in the value of the assets which is consistent with past market

[1] Extra Financial information (about companies) can be characterized as information which is not explicitly of a financial nature, but which does have – directly or indirectly – financial consequences for investors. This type of information mostly relates to company-specific characteristics in the areas of environmental policy ("E"), social policy in a wider sense ("S") and the management of the company (governance and ethics "G"). Collectively these are known as "ESG" issues.

[2] Longer periods were also considered, but there was little practical difference in the strategies identified.

performance. The projection of liabilities has assumed payment of the current rate of employer contribution and full inflationary increases being granted to pensioners, although the model permits both of these factors to be varied. In deriving the strategic allocation percentages, active member liabilities and pensioner liabilities were considered separately, and then combined to give a single view for the Fund as a whole. No investment decision-making is delegated to member level.

Strategic Asset Allocation percentages

	Minimum	Strategic allocation percentage	Maximum
Domestic equities	45%	50%	55%
Domestic property	2%	5%	8%
Domestic bonds	22%	31%	40%
Cash / money market instruments	0%	4%	8%
Foreign equities	1%	3%	5%
Foreign bonds	0%	2%	4%
Africa (excluding South Africa)	0%	5%	5%
Total		100%	

13.2. The Minister of Finance was consulted prior to the adoption of these strategic allocation percentages.

13.3. Because of its size relative to the investment market in South Africa, the Fund will follow a core – satellite approach when establishing portfolios for which separate mandates will be issued to the investment managers appointed to manage those portfolios:

13.3.1. Within the major asset classes, a substantial proportion of the assets will be passively managed using an enhanced index tracker approach with regard to equities, and a liability-duration matching approach to bonds, within a core portfolio. This recognises that, in a fund of this size, it is impossible to generate returns in excess of market performance on a substantial proportion of the assets. Benchmarks and risk parameters will be selected that are appropriate for these passively managed core portfolios. The passively-managed core portfolios will be managed by the PIC.

13.3.2. The Trustees will allocate a proportion of the assets to satellite portfolios where they believe that opportunities exist to achieve better-than-market performance. These satellite portfolios will be managed by specialists in the identified areas. These portfolios will actively seek better-than-market performance, with appropriate benchmarks and higher-risk parameters than are present in the core portfolio.

13.3.3. A proportion of the assets of the Fund will be designated for newly formed black owned asset managers in order to encourage the development of black professionals in the investment management area, with benchmarks and risk parameters which will be more tightly managed than those applicable to the specialist portfolios until such time as experience has been gained.

13.3.4. A proportion of the Fund's assets will be invested in accordance with the Fund's developmental investment policy, whose objective is to earn good returns for the members and pensioners of the Fund while supporting positive, long-term economic, social and environmental outcomes for South Africa. The developmental investment policy has four key pillars:

13.3.4.1. Economic infrastructure
13.3.4.2. Social infrastructure
13.3.4.3. Sustainable future (green economy)
13.3.4.4. Job creation, new enterprises and broad-based black economic empowerment
13.3.4.5. A proportion of the Fund's assets will be invested in property, either directly or indirectly through listed or unlisted property companies.

13.4. A portion of the Fund's assets will be invested in Africa. The Fund currently has a small allocation in Africa, and is being increased. The Fund recognises that markets in Africa excluding South Africa carry many extra risks that are unique and therefore requires more diversification than locally. The portfolios will comprise both listed and unlisted mandates.

13.5. A proportion of the Fund's assets will be invested offshore. Given the larger universe, the Fund will initially outsource this allocation to external asset managers. The Fund will however still follow the core-satellite approach, with less emphasis on the core than in the local market.

13.6. The Trustees will follow a multi-manager approach in regard to the different specialist investment portfolios. Several investment managers will be used for each specialist portfolio type, recognising that any one investment manager will not make the correct call on market performance all of the time. The PIC will implement the multi-manager approach on behalf of the Fund subject to the portfolio design, whether listed or unlisted, benchmarks, risk parameters and mandates prescribed by the Board of Trustees.

13.7. In furtherance of its duties as a signatory to the United Nations Principles for Responsible Investment and the Code for Responsible Investing in South Africa, the Board of Trustees will encourage its investment managers to integrate environmental, social and governance ("ESG") issues into their decision making on behalf of the Fund. Furthermore the Fund's Policy on Responsible Investing provides guidance on how the Fund, as an institutional investor and asset owner as well as its agents (service providers) should execute investment analysis, investment activities and exercise rights so as to promote sound and responsible governance. The Trustees have adopted a policy on responsible investing in line with the recommendations of CRISA and its commitment to the UN-backed Principles for Responsible Investing.

13.8. The asset-liability modeling conducted by the Fund considered the impact of the investment strategy on the financial position of the Fund (more specifically how much should be held in reserve to protect the Fund against a deficit emerging because of investment value fluctuations), the contribution rate payable by the employer, and the pension increases that are granted (taking account of the contingency reserve set aside to fund pension increases in future). The valuation assumptions adopted by the actuaries to the Fund were built into this model and have been taken into account implicitly in the impact of investment strategy on the financial position of the Fund. As such the Fund has not set an objective for the investment return to be achieved relative to inflation, but expects that, taking account of the solvency and pension increase reserves established by the Trustees, the Fund will be able to maintain its valuation assumptions which assume that the Fund will earn a real return (in relation to price inflation) of at least 4, 5% on the assets backing pension liabilities and 5, 5% on the assets backing active member liabilities.

Relationship with the PIC

14. While the Board of Trustees has the power in terms of the Law, the Rules and their mandate with the PIC to terminate the 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, the 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 Trustees will strive to address any differences between themselves and the PIC in a constructive manner.

15. The Trustees have signed a mandate, with the PIC giving the PIC authority, subject to the portfolio design, mandates and risk parameters specified by the Trustees, to:
    15.1. Manage the passively-managed core portfolios;
    15.2. Exercise the multimanager function as set out in 13.5 above;
    15.3. Manage the Isibaya Fund; and
    15.4. Other unlisted mandates, directly or as a multimanager;

    This mandate will be reviewed regularly.

16. In terms of the Fund’s proxy voting policy, the PIC will 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.

Relationships with other asset managers

17. Assets not managed directly or indirectly by the PIC will require specific and direct agreements and mandates with the GEPF. This will be in accordance with the new mandate and agreement with the PIC in areas where the PIC is still building capacity.

Custodian

18. A custodian will be appointed by the Fund, independent of the investment managers, to hold the physical assets of the Fund.

Other policies

19. The Fund will establish policies governing matters that are not expressly included in the mandates, such as scrip lending and the use of derivatives.

Performance Reporting

20. The mandates will specify benchmarks. Performance against these benchmarks will be reported to the Trustees on at least a quarterly basis. Independent investment consultants will be employed by the Fund to consolidate this reporting on behalf of the Fund.

Investment Guidelines applicable to the Investment Managers

21. The Trustees have approved investment guidelines, as set out in annexure 3 to this policy, which will be applicable to all investment managers, including the PIC.

Review of the Policy

22. The Policy will be reviewed annually.