Investment Policy Statement – PetroSA Retirement Fund

Effective date: 1 July 2018

Updated: October 2018

1. Preamble

1.1. The PetroSA Retirement Fund exists primarily to provide members with reasonable and competitive retirement benefits.

1.2. For members this means that:

- A member with an average career progression and 35 years of service, with retirement funding contributions of 12.5% of pensionable salary[1], should ideally retire with a capital sum of some 8 to 9 times pensionable salary at the normal retirement age of 65.

- If investment conditions are favourable, the Fund should be able to provide benefits in excess of the above.

1.3. Given the defined contribution nature of the Fund, the above benefit is only a target and is not guaranteed.

2. Investment philosophy

2.1. The Trustees believe that over long measurement periods (typically 5 years and longer) investment markets are efficient and so the price of a traded asset is the most accurate indication of its underlying value.

2.2. However, over shorter time frames investment markets may be materially inefficient resulting in **big and non-random disparities** which cause the price of an asset to deviate from its underlying value. Such mispricing arises *inter alia* from:

- Many investment managers adopt too short an investment horizon, which results in decision-making based largely on forecasting (which is notoriously difficult to get right consistently)

- Many investment managers are over-confident of their abilities and will use short term results (which may be random or fashion driven) to predict long term trends

[1] Members can elect their contribution rate from the following contribution categories on every salary review date: 7.5% / 10% / 12.5% / 15% / 17.5% / 20% / 22.5% / 25% / 27.5% of pensionable earnings. New employees who make no election are defaulted into the 12.5% contribution category.

- Most investment managers are subject to agent/principal conflicts. Often an investment manager will invest close to the benchmark as this minimizes the risk of under-performing the peer group (and ensures job preservation).

- Some investment managers are so large that they are unable to exploit the full opportunity set, thus leaving opportunities for their smaller competitors.

2.3. If markets are efficient over the long term, it follows that an intelligent and patient investor can earn superior returns over the long term by exploiting these short-term mispricings through active investment management.

2.4. No single investment approach is necessarily superior to another and accordingly the Fund will invest with a number of investment managers in order to diversify by investment approach e.g. value, growth, momentum and quality investment styles.

2.5. The Trustees believe in the benefits of diversification and that the risk of poor investment outcomes can be mitigated by allocating the investments of the Fund between different asset classes. Further diversification is also achieved within a more risky asset class by allocating the assets to more than one investment manager.

2.6. The Trustees accept that in order to make provision towards retirement a member needs to earn a reasonable return compared to inflation on his/her retirement savings. The success of the investment strategy will therefore primarily be measured relative to inflation as opposed to the performance of the peer group.

3. Investment programme

3.1. The Trustees recognize that the majority of members are uncertain in relation to investments and therefore have designed a “life stage model” according to which the member’s retirement savings will be invested.

3.2. In terms of the Life Stage model, the members’ retirement savings will be transitioned from the Market-linked Portfolio to the Stable Portfolio over a 5-year period in 5 more or less equal tranches starting 10 years before the member’s normal retirement age of 65. Starting two years before normal retirement age, the members’ retirement savings will then be transitioned in two annual tranches to the Money Market Portfolio.

3.3. Members will have the choice to invest differently from the default Life Stage Portfolios irrespective of their age. In addition, from time to time the Trustees may introduce an Own Choice Portfolio, in addition to the three life stage portfolios. The Trustees introduced a Shari'ah Portfolio in the Fund with effect from 1 June 2012 as an Own Choice Portfolio.

3.4. The Trustees emphasise that the life stage model is not the optimal investment strategy for each member; it simply represents a reasonable trade-off between investment risk and return, with a greater allocation to more risky assets, with a higher expected investment return, the longer the members' expected investment term. The main assumptions underlying the life stage model are:

- The member will retire at age 65 – if the member plans to retire at a different age, he/she may need to adjust the life stage model
- The amount of risk a member should take-on depends almost entirely on his or her investment horizon – the shorter the investment horizon, the more conservatively the assets should be invested
- The member has an "average" risk appetite and the Fund represents a large component of the member's total wealth.
- A member will fund for a cash benefit at retirement. The life model stage may not be appropriate if the member plans on taking a living annuity at retirement.

4. Market-linked Portfolio

4.1. Portfolio overview

The Market-linked portfolio is a market related portfolio that aims to provide a reasonable return relative to inflation over the long term (measurement periods of at least 7 years). The portfolio will deliver a negative return (which may be significantly negative) over short measurement periods (e.g. 1 year) from time to time.

4.2. Investment objective

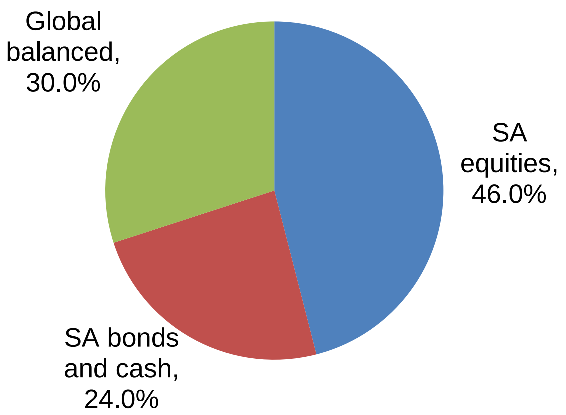
The Market-linked portfolio aims to deliver 5% p.a. (net of fees) out-performance of “headline inflation” over any rolling 7-year period

4.3. Risk constraints

Based on the long-term capital market assumptions and level of investment manager skill (detailed in Annexure I) the following risk constraints apply:

- Probability that the real return (relative to headline inflation) will be less than 0% p.a. over any rolling 7-year period is less than 5%
- Probability of a nominal return of less than 0% p.a. (i.e. a loss of capital) over any rolling 7-year period is less than 1%

4.4. Asset allocation



Notes:

- The Fund will re-balance back to its strategic asset allocation using pre-defined rules, which will be implemented by the Fund's investment administrator, Sygnia.
- The Global Balanced portfolio is a diversified, multi-asset class offshore strategy combining multiple Willis Towers Watson "1" rated global investment managers with different investment styles, as advised by Willis Towers Watson. The central allocation for benchmarking is 60% global equities (developed world market), 10% global equities (emerging market), 15% global property and 15% global bonds.

4.5. Investment approach

- The Fund will invest with a number of investment managers in order to diversify by investment approach e.g. value, growth, momentum and quality investment styles for the SA and global equity component of the portfolio.

4.6. Probability of achieving investment objective

Based on the assumed level of long-term capital market returns and investment manager skill (see Annexure I) there is about a 70% to 75% probability of the portfolio achieving the stated investment objective consistent with the risk constraints.

5. Stable Portfolio

5.1. Portfolio overview

The Stable Portfolio (SP) is a conservative market related portfolio that aims to provide a reasonable return relative to inflation over medium investment terms (3 to 5 years), whilst at the same time reducing the risk of losing capital over short measurement periods.

5.2. Investment objective

The SP aims to deliver 3% p.a. (net of fees) out-performance of "headline inflation" over any rolling 3-year period.

5.3. Risk constraints

Based on the long-term capital market assumptions and level of investment manager skill (detailed in Annexure I) the following risk constraints apply:

- Probability of a nominal return of less than 0% p.a. (i.e. a loss of capital) over any rolling 3-year period is less than 1%

- There should be less than a 5% chance that the return over any one year is less than 0%

5.4. Investment approach

The following types of investment structures are potentially consistent with the investment objective of the Fund:

- An absolute return mandate product (this product will not provide a capital guarantee)
- A low equity, balanced fund.

As part of the review of investment strategy the Trustees will assess the suitability of these products (as well as any future products that may be offered that are consistent with the investment objective of the Fund).

The Trustees may elect to invest in an absolute return mandate product subject to the following requirements:

(a) The Trustees must be satisfied that the product provider has the skill and the risk control to ensure that the assets are managed in line with a strategy that seeks to avoid loss of capital over measurement periods of 1 year.

The Trustees must communicate to members that the product does not have a capital guarantee and that over short measurement periods the return may indeed be negative.

6. Money Market Portfolio

6.1. Portfolio overview

The Money Market (MM) is a portfolio constructed from short-term interest rate instruments (maximum term 12 months) of high credit quality. The portfolio aims to provide a return related to short term interest rates with a high degree of capital security.

6.2. Investment objective

The aim of the MM portfolio is deliver investment performance at least in line with the STEFI (Composite) Index over a measurement period of 12 months or more. The portfolio also aims to provide a return that is 1.0% p.a. in excess of inflation (net of fees) over any 12-month period.

6.3. Risk constraints

Less than 0.5% chance of a capital loss over a measurement period of 1 month or more - possible reasons for a capital loss include:

- Failure of one of the institutions where money is invested; and / or
- Very significant increase in short-term interest rates resulting in capital losses on instruments that have duration close to 12-months.

7. Shari'ah Portfolio

7.1. Portfolio overview

The Shari'ah Portfolio is a market related portfolio that complies with Islamic law or Shari'ah and has an asset allocation that is somewhat more conservative than that of the Market-linked Portfolio. It is expected to give a return that is lower than the Market-linked Portfolio over the long term due to the lower allocation to equities, and correspondingly the return on the Shari'ah Portfolio is not expected to fluctuate as widely as that of the Market-linked Portfolio from year to year.

The key feature of the Shari'ah Portfolio is that it adheres to the following Shari'ah principles:

1. The ban on interest: Interest must not be charged or paid on any financial transaction, as interest is deemed unlawful by Shari'ah.
2. The ban on financing certain economic sectors: Companies involved in the following activities are not Shari'ah compliant:
    - Conventional financial services;
    - Alcohol and tobacco;
    - Non-halaal food production or processing activities;
    - Entertainment (casinos, gambling and pornography);
    - Weapons and arms manufacturing.

The portfolio can be expected to deliver a negative return over short measurement periods (e.g. 1 year) from time to time.

7.2. Investment objective

The Shari'ah Portfolio aims to deliver 4% p.a. (net of investment fees and expenses) out-performance of "headline inflation" (or CPI) over any rolling 5-year period.

7.3. Risk constraints

The level of market risk taken by the Shari'ah Portfolio is expected to be significantly lower than that of the Market-linked Portfolio.

7.4. Asset allocation

The Shari'ah Portfolio will be invested in a global balanced, Shari'ah compliant investment product.

8. Default investment portfolio/s

8.1. Regulation 37 (1) of the Pension Funds Act, 1956 states that retirement funds must have a default investment portfolio/s for members in the Fund.

8.2. The default investment portfolio for active members is the Life Stage model.

8.3. The default investment portfolio for paid-up members and phased retirees is the investment strategy or portfolio/s in which the member is invested when the member exits the Fund. For the avoidance of doubt, paid-up members and phased retirees who are invested in the Life Stage model when they exit the Fund will follow the transition phases of the Life Stage model.

8.4. The default investment portfolio for in-Fund living annuitants is the Stable Portfolio.

9. Re-balancing rules

9.1. Consistent with the belief that it is very difficult to add value consistently via asset allocation, except at extreme market pricing, the Fund will re-balance according to the following rules – in this way the benefits of diversification are maintained. The Finance and Investment sub-committee will monitor the asset class/strategy allocations on a quarterly basis. In the event of a breach of the upper and/or lower limits, the Fund's investment administrator, Sygnia, will implement the re-balancing rules on the Market-linked Portfolio and Stable Portfolio specified below.

Market-linked Portfolio

Asset class	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
SA equities	46.0%	50.0%	48.0%	42.0%	44.0%
SA bonds and cash	24.0%	26.0%	25.0%	22.0%	23.0%
Global balanced *	30.0%	32.0%	31.0%	28.00%	29.0%

* The offshore exposure cannot breach 30% for longer than a consecutive 12 month period from date of first breach, as required by Regulation 28 of the Pension Funds Act. The Fund will rebalance back to 30% if the Market-linked Portfolio is still in breach after 12 consecutive months from date of first breach.

Stable Portfolio

Asset class / strategy	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Low equity global balanced (Allan Gray Global Stable Fund)	50.0%	55.0%	52.5%	45.0%	47.5%
Low equity global balanced (Investec Cautious Managed Fund)	25.0%	28.0%	26.5%	22.0%	23.5%
Inflation targeted short-term absolute return (Coronation Inflation Plus Fund)	25.0%	28.0%	26.5%	22.0%	23.5%

10. Benchmarks

10.1. The table sets out the benchmark per asset class – in all cases a free float market capitalization index is used

Asset class	Benchmark
SA equities	FTSE / JSE Capped Shareholder Weighted Index (J433T) which limits the maximum exposure to any one counter to 10%
SA nominal bonds	BE ASSA All Bond Index
SA cash	STEFI Composite Index
Global balanced	60% MSCI All Country World Index, 10% MSCI Emerging Markets Index, 15% FTSE/EPRA NAREIT Index and 15% Citi World Government Bond Index

10.2. The table below sets out the benchmark per asset class for the Shari'ah Portfolio – for SA and global equities, a "free float" market capitalization index is used. The domestic indices used to create this benchmark are the JSE Shari'ah ALSI which has a significant weighting to Resources and there is no suitable Shari'ah compliant index for the sukuks in which the Fund is invested. The Trustees recognise that this benchmark is only for comparison of performance and should not be published for information to members.

Asset class	Weight	Benchmark
SA equities	45%	FTSE / JSE Free Float Shari'ah ALSI
SA money market	32%	STEFI Composite Index
Global equities	18%	Dow Jones Islamic Market World Index – total return index
Global bonds	5%	Dow Jones Global Sukuk Index – total return index

In this case a composite benchmark will be calculated, rebalanced quarterly at each quarter end.

11. Mandate restrictions

11.1. This section deals with the principal risk areas the Trustees will seek to control – the specific limitations and conditions will be detailed in the agreement with the appointed investment manager where the assets are registered in the Fund's name. In the case where the assets are invested in a pooled investment vehicle the Fund cannot impose such restrictions. Nevertheless, the Finance and Investment Committee shall get details of the investment restrictions imposed by the pooled arrangement and be satisfied that such restrictions are broadly consistent with the restrictions that the Fund would impose if the assets were registered in its name.

11.2. Before entering into an agreement to invest in a particular investment, the Trustees will perform (or require their mandated investment managers to perform) a due diligence of the investment taking into account the risks relevant to the investment including, but not limited to, credit, market and liquidity risks, and where relevant risk relevant to a foreign (offshore) investment including but not limited to country and currency risk, as well as operational risks for assets not listed on an exchange. ("Operational risk" is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.) Similarly the Trustees or their mandated investment managers will consider any factor which may materially affect the sustainable long term performance of the asset including, but not limited to, those of an environmental, social and governance [ESG] character.

12. Criteria for selecting investment managers

12.1. The following criteria will be used in *selecting* investment managers:

- The manager must have a clearly defined investment philosophy and must have an established track record of applying this philosophy successfully.
- The manager must have a well-defined investment process off which the investment decisions are made. In particular the process should provide high quality information, contain risk controls and allow the investment decisions to be made by a few key decision-makers.

- The manager must have a sound business and remuneration structure that allows it to attract and retain the best investment managers.
- There must be clear alignment between the interests of the Fund and the interest of the investment manager.
- The investment manager must maintain a high standard of ethics.
- The investment manager must demonstrate an ability to comply with the due-diligence requirements for investing set out in the revised Regulation 28 to the Pension Funds Act, specifically principles (v) to (ix) in paragraph 2 of the Regulation.
- The Trustees will consider the need to promote broad-based black economic empowerment.

12.2. The following events would lead to a *review* of the investment manager's appointment:

- Rapid growth / decline in assets under management;
- Change in the investment philosophy and approach;
- Material change in the investment process;
- Loss of key personnel, including a situation where a key decision-maker is "promoted" to a different role;
- Material change in the shareholding structure of the manager; and
- Perceived adverse changes in the ethics of the manager;
- Any other matter that is perceived to affect the ability of the investment manager to carry out its mandate effectively, or is considered by the Committee to necessitate a review.

13. Performance, risk and compliance monitoring

13.1. The Trustees shall appoint a Finance and Investment Committee to monitor the performance of the Fund's investments on a quarterly basis. The terms of reference and limitation of authority of the Committee shall be set out in a resolution of the Board of Trustees.

The terms of reference for the Committee shall include *inter alia* to:

- Monitor the overall performance of the Fund's investment channels relative to the particular performance objective and risk constraints on a quarterly basis.
- Monitor the performance of the selected investment managers relative to their mandates on a quarterly basis.

- Receive feedback from the investment managers, including feedback on the due diligence they perform before investing in any particular investment taking into account the risks relevant to the investment including, but not limited to, credit, market and liquidity risks, as well as operational risk for assets not listed on an exchange.
- Review the capital market and manager skill assumptions as set out in Annexure I.
- Make a qualitative assessment of the investment managers on a half yearly basis.
- Responsible for selection and de-selection of the investment managers.
- Monitor compliance with the constraints and restrictions as set out in the investment manager mandates, as well as compliance with the investment limits contained in the revised Regulation 28 to the Pension Funds Act
- Ensure that proper contractual arrangements are in place for all the investment managers.
- Appoint and monitor the performance of the investment consultant appointed to advise on and assist the Committee on matters relating to the Fund's investment activities.
- Review the range of investment choice given to members and the appropriateness of the life stage model on an annual basis.
- Review the Investment Policy Statement on an annual basis.
- On an annual basis ask the Fund's investment managers to report formally on how they comply with the due-diligence principles for investing set out in the revised Regulation 28, specifically principles (v) to (ix).

14. Trustee training

14.1. Each year as part of the Fund's calendar of Trustee business, the Fund will develop a formal training programme for the year. The purpose of this training is to assist the Trustees in ensuring that they are adequately trained to perform the tasks required of them as Trustees.

14.2. This programme may cover investment issues, general Fund governance issues and such other matters that the Trustees believe to be important.

14.3. The training will typically take the form of workshops organised during the course of the year. It will also include relevant seminars/conferences organised by outside parties.

14.4. The training programme will be assessed periodically for effectiveness. This will include keeping records of which Trustees have attended the various training sessions available. It will also include assessment of whether the training has improved the Trustees' ability to manage the Fund.

15. Review of Statement

15.1. The Investment Policy Statement and the default investment portfolio/s will be reviewed annually.

15.2. In the normal course of events, the Trustees will review the investment strategy every 3 years, or at shorter time intervals where investment opportunities may arise, for example due to the mispricing of certain asset classes on a medium to long term view or due to assessed fundamental changes the prospects for future investment returns.

15.3. The investment strategy must be reviewed within 3 months of any of the following events occurring:

- A material change in exchange control regulations affecting retirement funds.
- A change in the monetary policy of the Reserve Bank resulting in it no longer managing the economy around real rates of return on fixed interest instruments.
- A change in the tax basis affecting the investment strategy of the Fund.
- A change in the Pension Funds Act that affects investments.
- An indication that the Fund will have significant cash flow requirements (particularly outflows).

15.4. When reviewing the strategy, the Trustees will consider the investment objectives and risk constraints in order to set a strategy (including the range of assets to be used and the allocations and limits applying to these) for the various liability portfolios of the Fund. The Trustees will also need to ensure that the adopted strategy is appropriate for the liabilities. This will include considering the expected outstanding term of the liabilities, the expected relationship between the liabilities and inflation, and the cash flow needs of the Fund. The Trustees will also consider any changes to the risk profile of the Fund's investments over time, in the course of reviewing the strategy.

16. Signature

Adopted as the Investment Policy Statement for the PetroSA Retirement Fund:

Chairman: Board of Trustees

Date

Trustee: Finance and Investment Committee

Date

I have reviewed the investment strategy of the Fund and am satisfied that it is appropriate in relation to the nature and term of the Fund's liabilities.

Valuator to the Fund

Date

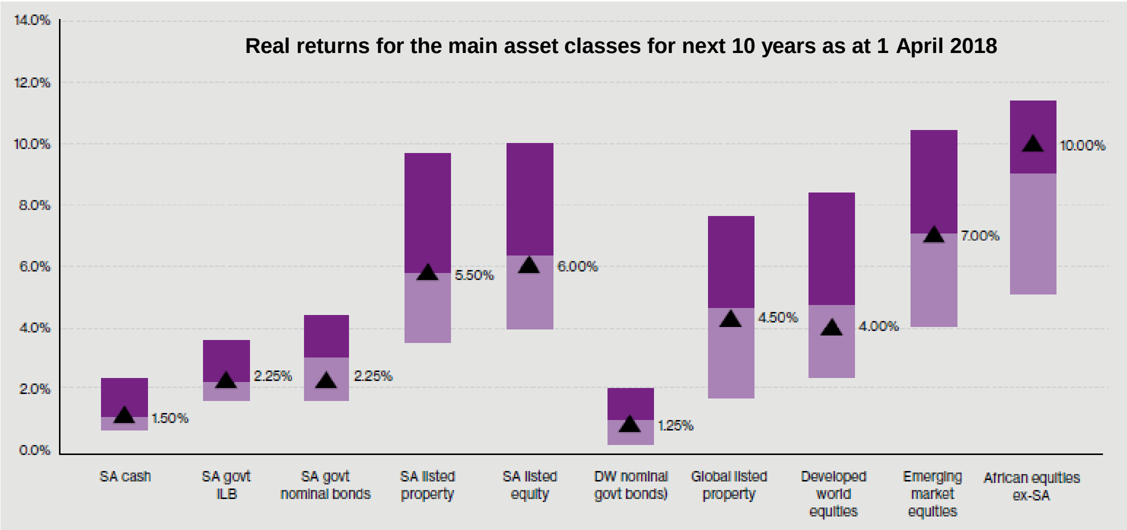
17. Annexure I – Capital market and manager skill assumptions

17.1. The analysis in this Statement is based on a set of assumptions chosen from a reasonable range. Any changes to any of the assumptions used could influence the output and/or our recommendations. The assumptions have been derived by the Fund's investment consultants Willis Towers Watson through a blend of economic theory and historical analysis. They inevitably contain an element of subjective judgement.

17.2. The key component of the study is the way in which the assets are modelled. The structure of the asset model is based on historical analysis of investment returns, although Willis Towers Watson has incorporated its subjective judgement to complement the information provided by historical returns. The model is designed to illustrate the future range of likely returns stemming from different asset classes and their inter-relationship. It should be noted that no economic model could be expected to perfectly capture future uncertainty, particularly the risk of extreme events.

17.3. In particular it should also be noted that the timeframe in establishing the asset model and the assumptions used in this Statement is long-term, and as such it is not meant to be precisely reflective of the likely course of the investment markets in the short-term. Furthermore, Willis Towers Watson's opinions and return forecasts are not intended to imply, nor should they be interpreted as conveying any form of guarantee or assurance by the Willis Towers Watson of the future performance of the asset classes in question, whether favourable or unfavourable. Past performance should not be taken as representing any particular guide to future performance.

17.4. The Trustees, acting on the advice of Willis Towers Watson, have adopted the following long term capital market assumptions, which will be reviewed regularly – these assumptions make no allowance for investment manager skill:



Glossary of terms

BE ASSA ALBI	The Bond Exchange (of South Africa), Actuarial Society of South African All Bond index.
Capital market assumptions	The capital market consists of the share (or equity), bond and cash markets, both in South Africa and offshore. These markets will deliver a return, which commonly can be measured by an index (e.g. the FTSE/JSE All Share Index for SA equities). Investment managers may be able to improve the returns from capital markets if they are skilful.
FTSE/JSE SWIX	The Financial Times Securities Exchange / Johannesburg Securities Exchange Shareholder Weighted Free Float Index (SWIX) with dividends re-invested, where the free float includes only those shares that are registered on the South African share register.
FTSE/ JSE Capped SWIX	The FTSE/JSE Shareholder Weighted Index (SWIX), but with the market capitalization of any counter limited (“capped”) to 10% of the index. This index avoids undue stock- specific risk.
Headline inflation	The Consumer Price Index for all expenditure groups Metropolitan and other urban areas (Base 2012 = 100) as published by Statistics SA in Statistical Release P0141
Market capitalization	The price of a particular security multiplied by the number of shares in issue. A market capitalization index is calculated by adding each constituent’s market capitalization to the index.
MSCI (All Country World) Index	The Morgan Stanley Capital International Index of international equity prices (including dividends) which covers 23 developed world markets and 24 emerging markets.
MSCI Emerging Markets Index	The Morgan Stanley Capital International Index of emerging market equity prices (including dividends) which covers 24 emerging markets.

Peer group	The investment return earned by the typical retirement scheme usually measured as a “global balanced mandate” in published investment surveys.
STEFI Composite Index	Short Term Effective Fixed Interest Index designed to measure the return for cash like instruments with a maximum duration of 12 months.
Strategic asset allocation	The mix of equities, bonds and cash (local and global) that statistically has the best chance of meeting the nature and term of the liabilities. The strategic asset allocation is derived using an asset model.
Specialist investment manager	An investment manager that manages only a single asset class on behalf of the Fund.
Tactical asset allocation	A decision to deviate significantly from the portfolio’s strategic asset allocation on the basis that an asset class is assessed to be expensive (cheap) compared to its long-term average.
Tracking error	The likely difference between the benchmark return and that of the portfolio as determined by a risk model. A “tracking error” of 5% means that some 2/3^{rds} of the time the performance of the portfolio will be between –5% and +5% from the benchmark.