

## UNIVERSITY OF KWAZULU-NATAL RETIREMENT FUND SUMMARY OF THE INVESTMENT POLICY STATEMENT (2016)

The Fund is a defined contribution provident fund, and hence members participate directly in the investment performance of the Fund's assets. It is therefore important that members understand how their retirement benefits (Fund Credits) are being invested and what their investment options are, particularly as they approach retirement. A summary of the Fund's investment policy and approach is provided below. The full Investment Policy Statement is also available to members via the Fund's website: <http://retirementfund.ukzn.ac.za/investments.htm>.

### IN SHORT

The Fund invests according to a **default lifestage model**, in terms of which contributions for members who are under 55 years of age are automatically invested in the Fund's **Main Portfolio**. When members are within five years of normal retirement they are given limited choice as to how they would like their Fund Credit to be invested as they approach retirement.

Where **no choice** is made by a member, they are **automatically switched** to the lower risk **Conservative Portfolio**, by way of quarterly switches, over the period from age 55 until age 60 (the Fund's normal retirement age).

Where a member elects not to be invested according to the default lifestage model, they are **invested in accordance with their choice**, which could be to invest 100% in the Main Portfolio; 100% in the Conservative Portfolio or to invest in a combination of the two Portfolios.

Details of the Main and Conservative Portfolios are available on the Fund's website, and the choices available to members who are over age 55 are communicated to them in writing, and via seminars, at least once a year. As investment choices should ideally only be made after seeking advice from a registered financial advisor, free advice is made available.

### INVESTMENT STRATEGY EXPLAINED

#### *Members who are under age 55*

The Fund Credits of these members are invested in the **Main Portfolio**, which is currently invested in pooled portfolios with three asset managers, with investment styles that complement one another. The Portfolio is administered via the Investment Solutions platform. The Fund's rights and obligations are set out in a policy of insurance issued by Investment Solutions Limited

The current asset managers are Allan Gray; Foord Asset Management and Investec Asset Management, who have been given balanced mandates, which means that the managers are allowed to vary the proportions invested locally and offshore, and within asset classes (i.e. Shares, Bonds, Property, Cash etc.) subject to the limitations of Regulation 28 of the Pensions Fund Act, which governs the investments of all retirement funds. If they see value in doing so, the asset managers are permitted to invest up to 75% of the Fund's assets in shares. As shares are the most volatile asset class, negative returns in some years are possible.

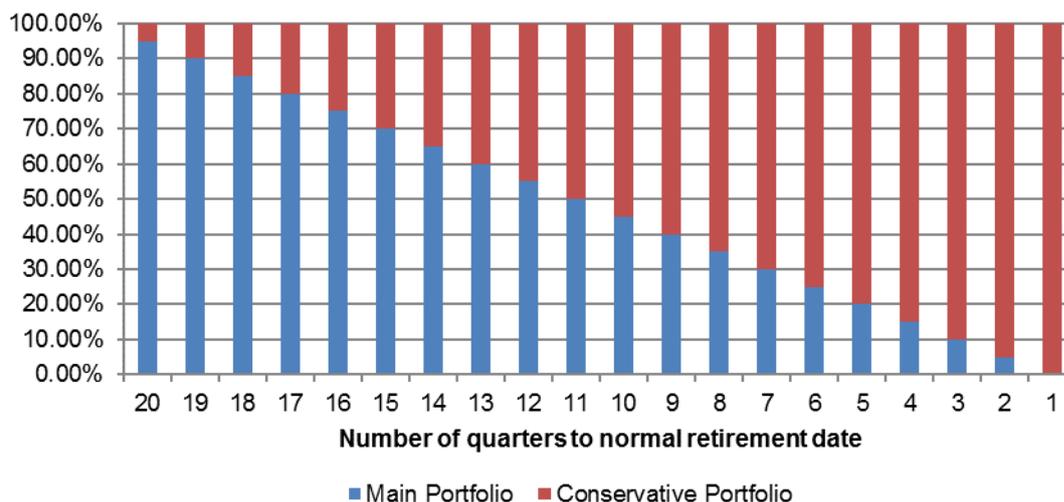
The Trustees' view is that younger members in the Fund should follow a long term, growth-oriented investment strategy, as they still have many years to their retirement and can therefore withstand the associated volatility that comes with investing in growth-oriented assets (such as shares). The Fund, therefore, does not offer investment choice to members until they are within five years of their normal retirement date.

#### *Pre-retirement options*

Depending on members' circumstances and future intentions, it may be prudent for members who are approaching retirement to invest their Fund Credit more conservatively (i.e. with lower exposure to growth-type assets). Hence, once they reach age 55 the Fund offers members a limited investment choice.

As only a small proportion of members tend to make an active investment choice, the default investment strategy for members who are within five years of their normal retirement date (and who do not make an active investment decision) is to gradually reduce the exposure of their Fund Credit to the more volatile growth-type assets. This is done using the **default lifestage model**.

The Lifestage Model reduces the proportion invested in the Main Portfolio quarterly, as illustrated in the graph below:



Members who do not wish to be invested in accordance with the Lifestage Model have the option to invest more aggressively (i.e. remain invested in the Main Portfolio) or more conservatively (immediately switch to the Conservative Portfolio) if they so choose. Members can also choose to invest in their own preferred combination of the Main and Conservative Portfolios.

Members who do not wish to follow the Lifestage Model are required to notify the Fund of their wishes by completing a switch form, which can be accessed on the Fund’s website, <http://retirementfund.ukzn.ac.za/AFLifestagePortfolio.htm>.

**Benchmarks and Targets**

Benchmarks and inflation linked targets have been set, against which the investment performance is measured over rolling five year periods. As a result, the Trustees regularly monitor whether the Fund’s asset managers have increased the wealth of the members by achieving returns of:

- At least 4.5% per annum in excess of inflation (after investment costs) for the Main Portfolio, and
- Between 2% and 3% per annum in excess of inflation (after investment costs) for the Conservative Portfolio.

In addition, the Trustees review how the chosen managers in the Main Portfolio have performed against the median of a group of peer portfolios with similar risk profiles. In other words, they check whether the Main Portfolio’s asset managers are performing better than or worse than the average large asset manager in South Africa.

**Objective**

The Fund’s objective is to provide a member in the 22.5% of Fund Salary contribution category\*, with a normal career progression, and for whom at least 19.5% of the member’s Fund Salary (currently 20.00% of Fund Salary) has been contributed towards retirement funding over a thirty year period of membership, with a Net Replacement Ratio (NRR) of at least 65% of that member’s Fund Salary at retirement. This assumes that the retiring member will purchase a with-profit annuity, providing pension increases approximating 75% of CPI, with a 50% reversion to the surviving spouse.

Your Net Replacement Ratio is worked out by dividing your income at retirement date by your Fund Salary immediately before you retire, and expressing it as a percentage. A NRR of 65% indicates an initial retirement income of about two thirds of a member's Fund Salary prior to retirement. (If you are employed on a Total Remuneration Package (TRP) basis, your Fund Salary is the % of TRP on which you have elected to have your Fund contribution calculated.)

\*For members who have elected the **lower 17.5%** contribution category, a proportionately **lower** Net Replacement Ratio must be expected. Conversely, members who have elected the **higher 27.5%** contribution category, a proportionately **higher** Net Replacement Ratio must be expected

### ***Delegation***

The Trustees closely monitor and assess the investment results achieved, making changes when they are required, but delegate the implementation of the investment strategy to suitably qualified professionals.

The Trustees review the Fund's Investment Policy Statement annually, and perform an in-depth review of the investment strategy every three years.

### ***Reporting to members***

The monthly investment returns are made available on the Fund's website, and quarterly returns are reported against benchmarks in each Fund Bulletin. The Annual Trustee Report shows returns both against benchmarks and the Fund's targeted returns over rolling one, three and five year periods, with a suitable commentary.

### ***Investment fees***

The investment fees payable in respect of the Fund's Main and Conservative Portfolios is set out in the **attached** fee summary.

These fees are paid to the asset managers appointed to manage the assets in the Main and Conservative Portfolios as well as to Investment Solutions who administer the Portfolios on their investment platform.

## INVESTMENT FEES FOR MAIN AND CONSERVATIVE PORTFOLIOS

<b>Portfolio</b>	<b>Local Fee</b>	<b>Offshore Fee</b>	<b>Performance Fee</b>
<b>Foord Global Balanced FDG</b>	0.496%	1.00%	12% of the outperformance of the Alexander Forbes Global Large Manager Watch median, capped at 2.88% with a high watermark.
<b>Allan Gray Life Global Balanced</b>	0.518%	Base fee – 0.60%	<p>Base Refundable Reserve Fee Methodology: Base Fee of 0.60% plus performance fees which accrue to a Refundable Reserve account. When the fee reserve is:</p> <ul style="list-style-type: none"> <li>• Below 3% of client's holding – no fees</li> <li>• Fee reserve between 7% and 3% of client's holding – performance fees capped at 1%</li> <li>• Fee reserve exceeding 7% of client's holding – performance fees capped at 2%</li> </ul> <p>In the event of underperformance, the accrued performance fees are paid back to the portfolio.</p>
<b>Investec</b>	0.768% (charged on total assets)		n/a
(Allan Gray, Foord and Investec are the managers in the Main Portfolio)			
<b>AF Conservative Growth Portfolio</b> – sliding scale, based on total assets			
First R50 million	0.60%	0.90%	
Next R50 million	0.57%	0.90%	
Next R100 million	0.45%	0.90%	
Next R300 million	0.40%	0.90%	
Over R500 million	0.34%	0.90%	