Willis Towers Watson

Predikante Pensioenfonds van die Ned Geref Kerk in Suid Afrika

Statement of Investment Principles

November 2019

Table of Contents

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Section 1: Preamble

Introduction

1.1 The Statement of Investment Principles has been prepared to record the issues considered by the Trustees of the Predikante Pensioenfonds van die NG Kerk in Suid Afrika ("the Fund"), in establishing an appropriate investment policy for the Fund, as well as to record the investment strategy that the Trustees have decided to implement, in accordance with this policy.

1.2 This investment policy adheres to the requirements of Regulations 28, 37 and 38 of the *Pension Funds Act, 1956*, and was established in accordance with PF Circular 130 issued by the Financial Services Board as far as this was practical and appropriate.

Regulation 28 states that "investment policy statement" means a document which, at least: -

a Describes a fund's general investment philosophy and objectives as determined by its liability profile and risk appetite;

b Addresses the principles referred to in subregulation (2)(c); and

c Complies with conditions as may be prescribed"

1.3 Regulation 28 of the Pension Funds Act, 1956, was amended and the latest version is effective 1 July 2011. To the extent that this amended Regulation 28 differs from PF130, Regulation 28 will apply.

1.4 A glossary of terms is included at the end of the Statement in Appendix B– terms that are explained in the glossary are <u>*underlined and in italics*</u> when they first appear in the text.

Nature of the Fund

1.5 The Fund is a defined contribution (DC) arrangement, meaning that the member's Fund Credit builds up based on retirement saving contributions plus the investment returns earned thereon.

1.6 The Fund also has a closed pool of pensioners that have a reasonable benefit expectation of pension increases of around 55% of inflation.

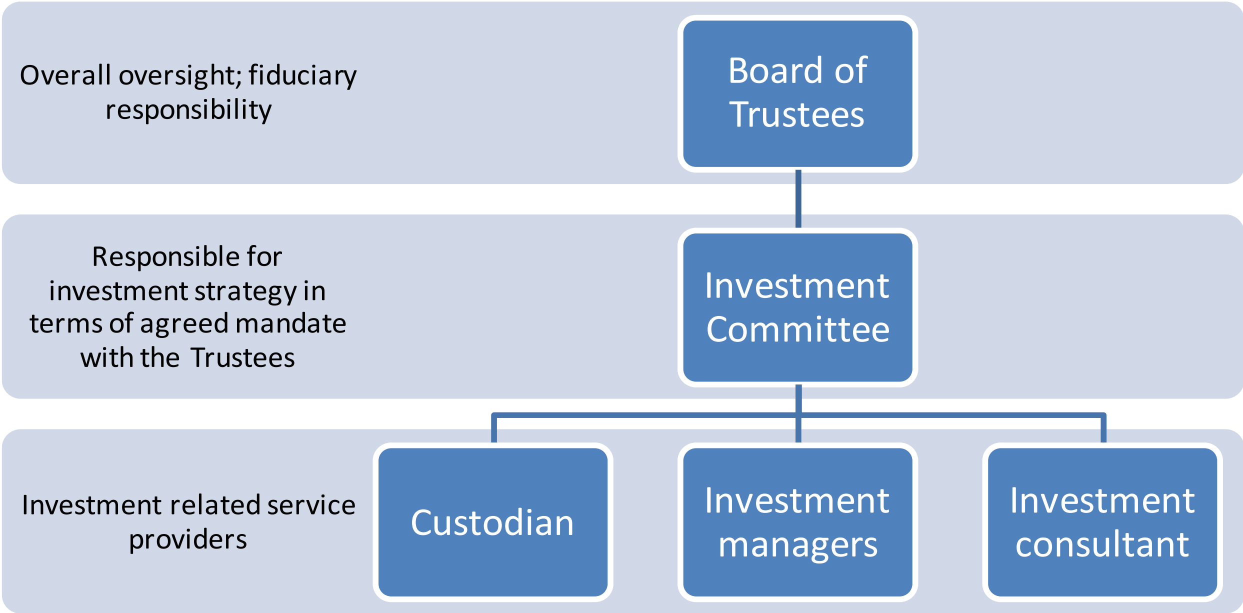
Purpose of the Fund

1.7 The Fund's purpose is to allow members to make provision towards their retirement in a tax efficient vehicle that is governed by a Board of Trustees that acts in the best interest of the members and where the bulk buying power of the membership is used to secure "wholesale" as opposed to "retail" prices.

1.8 The second purpose of the Fund is to provide, but not guarantee, reasonable retirement benefits for long serving members (e.g. sufficient to secure an income of say 70% of pensionable salary after 35 years of service for a member retiring at between age 60 and 65). It should however be recognized that a member's eventual retirement benefit will be dependent on the contributions made by the member and employer during the course of the member's Fund membership and the investment return earned on the underlying assets while he/she was a member of the Fund. Individual members therefore assume the investment risk and opportunity and the employer's liability is limited to its regular contractual contributions. It is also important to note that pensionable salary only constitutes some 50% of members' total salary in this Fund.

Roles and responsibilities

1.9 The chart below sets out the structure of the Fund in relation to investment matters:



1.10 The Fund is managed by a Board of Trustees that is constituted in terms of the Fund's Rules. The Board has the ultimate responsibility for the Fund's investment strategy. The Board members act as fiduciaries in the best interests of the members at all times.

1.11 The Board has appointed an Investment Committee to direct and oversee the investments of the Fund, subject to the mandate set out in the Investment Committee mandate below. The members of the Investment Committee are appointed by the Board on the basis of their knowledge, interest and experience in investment related matters.

1.12 The Fund's investment managers may have financial interests that are not aligned with those of the Fund at all times. To bridge the potential knowledge gap that exists between the Investment Committee and the Fund's investment managers, the Committee will appoint an investment consultant who must "play on the same side as the Fund" and who thus should operate free from any conflicts of interest.

1.13 The responsibilities of the investment consultant will include:

a. Ongoing review of the Fund's investment strategy;

b. Providing a quantitative and qualitative assessment of the Fund's investment managers, as well as advice on the selection of new investment managers;

c. Performance analysis and reporting – the reporting will include a detailed analysis of past performance;

d. Oversight of the compliance of the Fund's investments with all regulatory requirements;

e. Calculation of a monthly unit price for each of the Fund's portfolios; and

f. Attending all meetings of the Investment Committee as well as the Board of Trustees.

1.14 Regulatory oversight is undertaken by the Financial Services Board, and the Fund will at all times comply with the regulatory provisions.

Investment Committee mandate

1.15 The Investment Committee is a sub-committee of the Board of Trustees which may include co-opted members as well as the Fund's Principal Officer. The Board of Trustees will propose and approve the members of the Investment Committee. The Committee may also invite other parties to attend the meetings of the Committee. The Trustees have a standing invitation to attend the meetings of the Committee.

1.16 The Investment Committee shall meet at least four times a year and more often if required. A quorum at the meeting shall consist of half the number of members plus one.

1.17 The members of the Committee commit themselves to:

a Proper preparation before the meetings;

b Active participation in the meetings;

c A continuous process of learning about investments;

d A review of their own contribution to the Committee and the performance of the Committee as a whole.

1.18 It is acceptable but not preferable that the Chairperson of the Board and the Chairperson of the Committee may be the same person, given the critical role the Chairperson plays in the overall management of the Fund, and with particular input into investment matters.

1.19 The Investment Committee is mandated to review and make recommendations regarding the following issues, but any final decision will be made by the Trustees:

a The Statement of Investment Principles including:

- The purpose of the Fund;
- Investment beliefs;
- Investment objectives;
- Strategic Asset Allocation;
- Performance Targets;
- Benchmarks;
- Measurement of performance;

b Measurement of risk;

c Appointment of the Investment Consultant;

d Monitoring performance;

e Contractual and fee arrangements with the Fund’s appointed fund managers;

f Market trends, practices and new products;

g Compliance with the requirements of Regulation 28, 37, 38 and 39;

h Investment and disinvestment decisions; and

i Design and review of the life stage model and the default strategy.

Section 2: Beliefs

Investment philosophy

2.1 The Fund's investment philosophy takes into account two specific considerations, namely the "theory of inefficient markets" and "agent / principal" conflicts.

2.2 The theory of inefficient markets posits that:

- Over long measurement periods (typically 7 years and longer) investment markets are efficient and so the "price" and "value" of a particular asset will converge.
- However, over shorter time frames investment markets may be materially inefficient resulting in big and non-random disparities between the "price" and "value" of a particular asset. This "price" and "value" gap arises *inter alia* from:

  a Most 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);

  b 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;

  c Many investment managers get caught up in the sentiment of the market and thus do not always make rational decisions;

  d 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); and

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

2.3 A consequence of the belief that markets are inefficient, is that the Fund will mostly make use of active investments, especially in the South African context where the market is very narrow. Passive investing can be a great low-cost way to gain market exposure, particularly in more efficient markets, such as the developed world and for this reason, the Board of Trustees has decided to make an allocation to passive investments in developed markets only.

2.4 On the basis that markets are indeed inefficient, the proper investment strategy for the Fund would be to appoint investment managers who focus on buying assets that they assess to be trading at a significant discount to intrinsic value. Typically such a manager requires the share to be trading at about 20% to 30% below its assessed intrinsic value before they will buy the share (the so-called "margin of safety") to allow for any errors they may make in assessing intrinsic value.

2.5 The assumption, as per the above, is that over the long term price and value will tend to converge and this discount will be unlocked. Managers who adopt this investment approach are called "intrinsic value managers".

2.6 Empirical evidence suggests that the largest and most biased "price / value" differentials arise when a particular theme or concept becomes fashionable (e.g. the internet "bubble" of the late 1990's). The result is often that the "in vogue" sector becomes very expensive, whilst leaving the "out of favour" sectors cheap. In such circumstances intrinsic value managers will be contrarian and may end up holding a portfolio that is very different to that of the benchmark.

2.7 The Fund accepts that the long term "intrinsic value" investment approach will under-perform the *benchmark* and *peer group* significantly from time to time and that this under-performance may be for a sustained period. Such under-performance is more likely to arise when market sentiment dominates decision-making (i.e. when investors are overly optimistic or overly pessimistic).

2.8 The Trustees further understand that at this time of severe under-performance the conventional wisdom will be that "the market has changed forever" and there will be significant pressure to abandon the intrinsic value investment approach (as it will then be regarded as "old fashioned").

2.9 The key danger is that the Fund abandons this philosophy just at the time when the "fashionable" investment ideas start deflating (just as many Trustee Boards did with Allan Gray in 1998).

2.10 The structure of pension fund Trustee Boards in South Africa increases the risk of the Fund abandoning the intrinsic value approach at possibly the wrong time.

2.11 Trustee Boards are subject to periodic re-election and the trustees serve as the agent of the membership. In the event of significant under-performance (which is almost inevitable with the long term intrinsic value approach) it is likely that the existing Trustee Board will be replaced on the basis that the investment performance has been poor under their stewardship. Of course, one of the first actions of the newly elected trustee board would be to replace the existing investment managers.

2.12 The potential agent/principal conflict highlighted in paragraph 2.2d is the principle reason why the Fund will not adopt the long term intrinsic value approach for all its investments.

2.13 Rather the Fund will invest some 70% to 75% of its assets according to the long term intrinsic value philosophy, with the balance of the assets being invested according to strategy that is more likely to perform in line with the general market.

2.14 The Trustees accept that they need the courage and patience for the 70% to 75% of assets that are invested according to the long term intrinsic value approach.

2.15 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.

Section 3: Design of the investment strategy – Defined Contribution members

Pre-retirement

Beliefs underlying the investment strategy

3.1 The Trustees recognize that the majority of members may not have sufficient knowledge in relation to investments and have therefore adopted the “life stage approach” whereby, as the default, the member’s money is invested more conservatively as he/she approaches retirement. This belief is backed by empirical evidence which suggests that in excess of 90% of retirement fund members in South Africa simply follow the Trustee default. Members can elect to deviate from this default as is set out below.

3.2 The Trustees also recognize that some members may plan for a “living annuity” in retirement and the default life stage model is probably too conservative for such a member. Accordingly the Fund offers a second model – the so-called “living annuity glide path model” with a higher equity exposure for members that wish to plan for their retirement in this manner. The member would need to make a positive choice to invest in the “living annuity glide path model”.

3.3 In each model above the Trustees aim to provide a strategy that provides a reasonable balance of risk and return, which under normal investment conditions should result in satisfactory outcomes for most long-serving members who retire at or around their normal retirement age. However, the Trustees accept that these models may not meet the financial needs of all members, and hence members may choose to opt out of the above models and exercise investment choice by choosing to invest his/her accumulated retirement savings and contributions in any combination of the portfolios that the Fund offers, subject to any terms and conditions that the Trustees may apply.

3.4 No distinction is made between the investment strategies for active or paid-up members; i.e the same investment portfolios and life stage models are applicable to both groups.

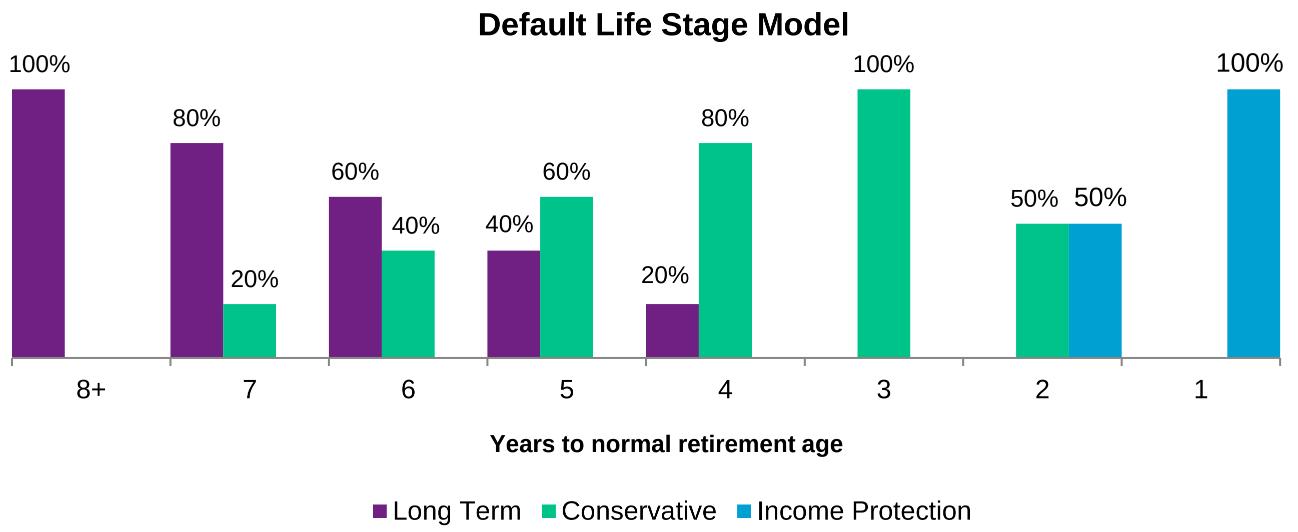
Default life stage model

3.5 According to the default life stage model a member’s portfolio (active and paid-up members) will be transitioned from the Long Term Portfolio entirely to cash over the 7 years prior to retirement.

3.6 The fundamental assumptions underlying this model are:

- 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.
- A member will fund for a cash benefit at retirement, taking into account that the terms on which a member can secure a “with-profit” pension at retirement (the form of pension most similar to what they could receive under the old defined benefit arrangement) does not vary depending on market conditions.

3.7 The diagram below sets out the default life stage model:



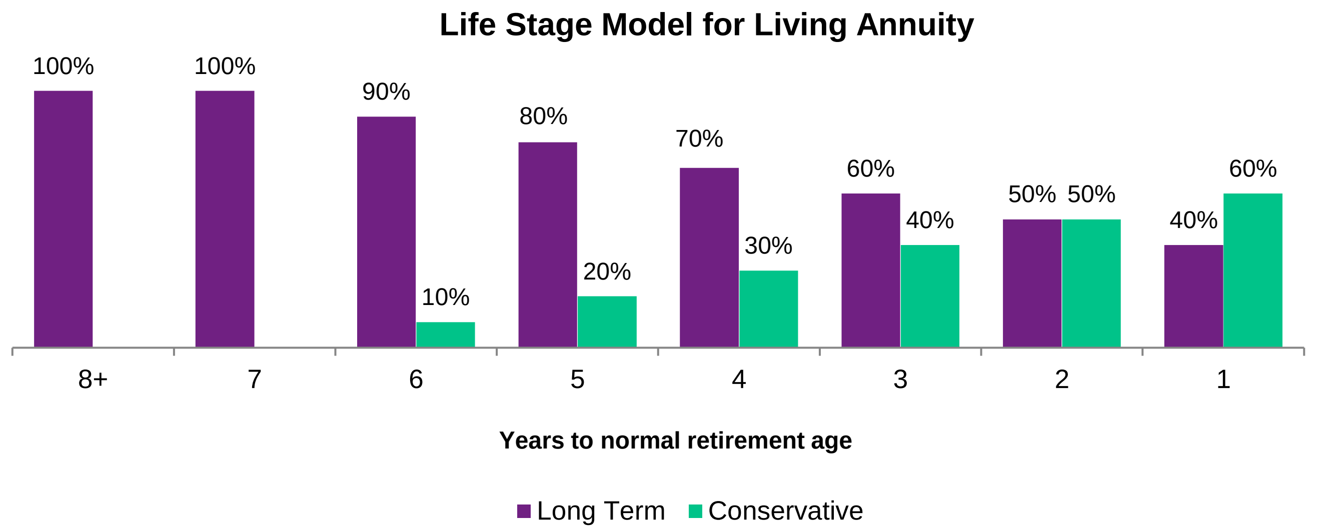
Notes:

- The member will be transitioned according to this model at the end of each calendar month, starting 7 years and 11 months before the member’s normal retirement date, e.g. at 4 years 0 months to retirement, 20% of a member’s retirement savings will be invested in the Long Term Portfolio and 80% in the Conservative Portfolio.
- During the transition periods the member’s accumulated retirement savings will be invested more or less in the percentages set out above (depending on the relative performance of the portfolios).
- The member’s future retirement saving contributions will be allocated according to the percentages set out above.

3.8 In essence the shorter the member's investment horizon, the more conservatively the member's retirement savings are invested.

Living annuity glide path model

3.9 If a member (active or paid up) plans to secure a living annuity at retirement it is appropriate to take into account the member's investment horizon post retirement, but also to make due allowance for the fact that the member is drawing on his/her retirement savings. The Fund's living annuity glide path model aims to allow for these two factors and is shown in the diagram below:



3.10 This model is still relatively conservative and assumes that the Fund is the overwhelming source of the member's retirement income.

3.11 Members' retirement savings are transitioned on a monthly basis, starting 6 years and 11 months before the member's normal retirement age and the diagram above is an indication of the allocation of the retirement savings at that number of years pre-retirement (at the end of that month).

Post-retirement

3.12 The Trustees have made an in-fund living annuity available to members at retirement. This is an optional annuity strategy and members have to make positive election to invest their retirement savings in this way.

Beliefs underlying the investment strategy for the in-fund living annuity

3.13 The Trustees recognize that the majority of retirees may not have sufficient knowledge in relation to investments and have therefore set up a “life stage approach” for the in-fund living annuity whereby, if selected, the member’s money is invested more conservatively as he/she gets older. Members can elect to deviate from this default model as is set out below.

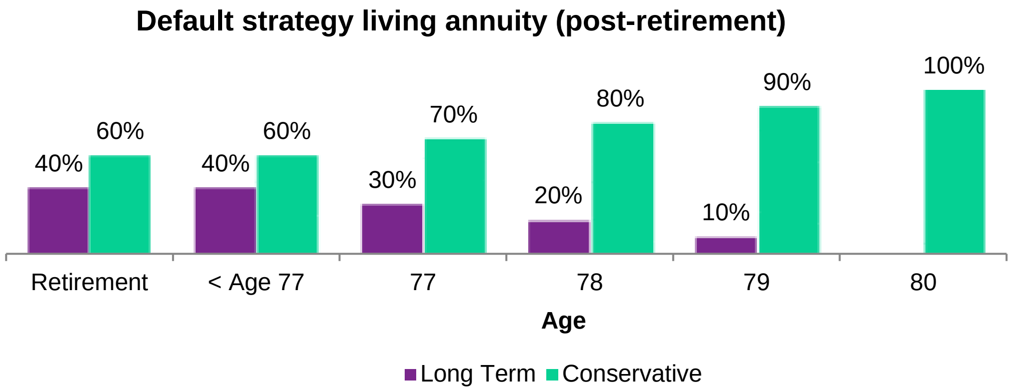
3.14 The Trustees aim to provide a strategy that provides a reasonable balance of risk and return, which, if combined with sensible draw down rates, should under normal investment conditions result in satisfactory outcomes for most members who retire at or around their normal retirement age. However, the Trustees accept that this model may not meet the financial needs of all members, and hence members may choose to exercise investment choice by choosing to invest his/her accumulated retirement savings and contributions in any combination of the portfolios that the Fund offers, subject to any terms and conditions that the Trustees may apply.

Default life stage model post-retirement: in-fund living annuity

3.15 According to the default life stage model post-retirement, a member’s monies will be transitioned from a combination of the Long Term and Conservative Portfolios to the Conservative Portfolio only over the period of four years following the month after the member has reached age 77.

3.16 The fundamental assumption underlying this model is:

- 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.



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Long Term Portfolio

Portfolio overview

3.17 The Long Term 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 8 years). The portfolio will deliver a negative return over short measurement periods (e.g. 1 year) from time to time.

Investment objective

3.18 The Long Term Portfolio aims to deliver 5.0% p.a. (net of tax and fees) out-performance of *headline inflation* over any rolling 8-year period.

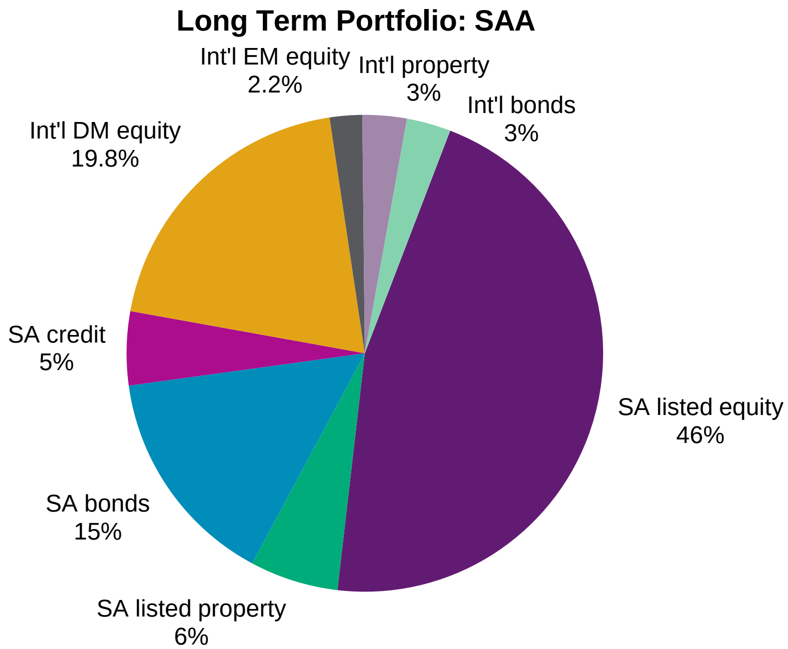
Risk constraints

3.19 Based on the long-term *capital market assumptions* and level of investment manager skill (see Appendix A) the following risk constraints apply:

- Probability that the real return (relative to headline inflation) will be less than 0% p.a. over any rolling 8-year period is less than 10%
- Probability of a nominal return of less than 0% p.a. (i.e. a loss of capital) over any rolling 8-year period is less than 1%

Asset allocation

3.20 The *strategic asset allocation* of the Long Term portfolio is shown in the chart overleaf:



Notes:

- The Fund may implement a *tactical asset allocation* overlay, which includes cash instruments, from time to time. Alternatively the Fund will re-balance back to its strategic asset allocation using pre-defined rules.
- The strategic asset allocation for this portfolio is based on the output of a modelling exercise that was conducted by the Fund's investment consultant, but also contains an element of subjective judgement.
- SA credit in this instance represents an investment in Investec Credit Opportunities Fund 12A, which is overall BBB rated as an average and has an expected duration of about 8 years.

Investment approach

- The portfolio will use *specialist investment managers* for each asset class.
- Intrinsic value investment managers will manage some 70% to 75% of the SA equity and global equity components of the portfolio.
- The Fund will invest 30% of the global equity component in *passive strategies*.

Probability of achieving investment objective

3.21 Based on the assumed level of long-term capital market returns and investment manager skill (see Appendix A) there is about a 65% to 70% probability of the portfolio achieving the stated investment objective consistent with the risk constraints.

Conservative Portfolio

Portfolio overview

3.22 The Conservative Portfolio 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.

Investment objective

3.23 The Conservative portfolio aims to deliver 3% p.a. (net of tax and fees) out-performance of headline inflation over any rolling 3-year period.

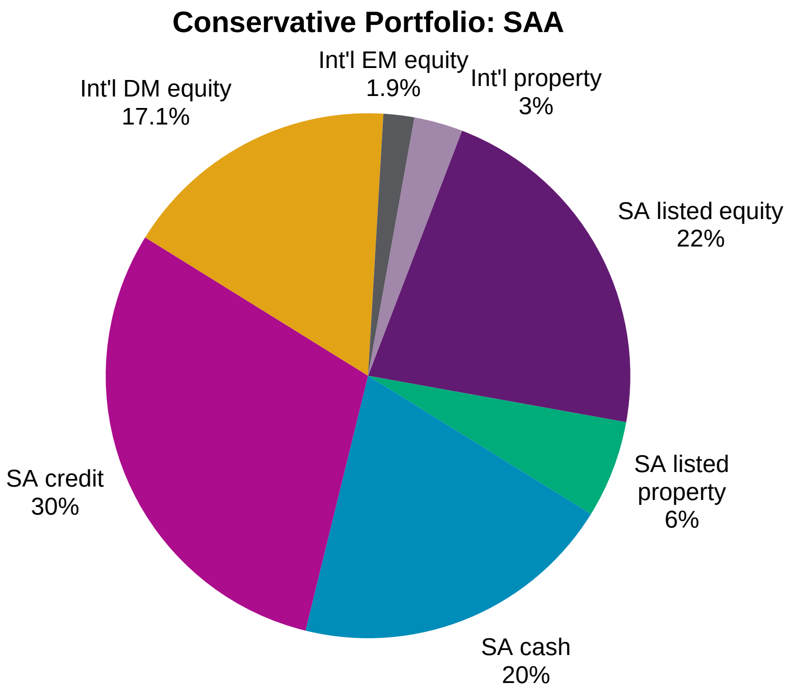
Risk constraints

3.24 Based on the long-term capital market assumptions and level of investment manager skill (see Appendix A) 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 10% chance that the return over any one year is less than 0%

Asset allocation

3.25 The strategic asset allocation of the Conservative portfolio is shown in the chart overleaf:



Notes:

- The Fund may implement a tactical asset allocation overlay from time to time. Alternatively the Fund will re-balance back to its strategic asset allocation using pre-defined rules.
- The strategic asset allocation for this portfolio is based on the output of a modelling exercise that was conducted by the Fund’s investment consultant, but also contains an element of subjective judgement.
- SA credit in this instance represents an investment in Investec Credit Income, which is overall AA rated and has an expected lifespan of 7 years.

Investment approach

- The portfolio will use specialist investment managers for each asset class;
- Intrinsic value investment managers will manage 70% to 75% of the SA and global equity components of the portfolio; and
- The Fund will invest 30% of the global equity component in passive strategies.

Probability of achieving investment objective

3.26 Based on the assumed level of long-term capital market returns and investment manager skill (see Appendix A) there is about a 65% to 70% probability of the portfolio achieving the stated investment objective consistent with the risk constraints.

Income Protection Portfolio

Portfolio overview

3.27 The Income Protection portfolio is constructed from short-term interest rate instruments (maximum term 12 months) of high credit quality as well as enhanced cash strategies. The portfolio aims to provide a return related to short term interest rates with a high degree of capital security.

Investment objective

3.28 The aim of the Income Protection portfolio is to 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 tax and fees) over any 12-month period.

Risk constraints

3.29 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

Asset allocation

3.30 The strategic asset allocation of the Income Protection portfolio is 70% to standard money market strategies and 30% to enhanced cash strategies.

Investment restrictions

- Maximum term of any instrument is 24-months
- Weighted average duration of the portfolio may not exceed 365 days
- Minimum short-term credit rating of F2 as per Fitch or equivalent applies to all investments
- Maximum investment with any one institution (other than the SA government) is 25% of the portfolio

Reserves in respect of active members

3.31 The Fund has established the following reserves in respect of the active membership:

Cost contingency reserve account

3.32 This reserve account has been set up to cover the Fund's expenses such as administration and consulting / advisor costs, audit fees, fidelity cover, trustee expenses and training costs. Given its short investment horizon, this reserve is invested in a money market investment strategy.

Data reserve account

3.33 This reserve account was credited with an initial opening balance as determined by the Board of Trustees and is debited or credited with any amounts that could occur out of data or administration errors and is debited or credited with Fund returns. This reserve shall be in the Fund's Long Term Portfolio.

Section 4: Design of the investment strategy – Defined Benefit Pensioners

4.1 A separate pensioner portfolio has been established for the closed group of Defined Benefit Pensioners. The investment philosophy in respect of pensioners focuses on long-term investment and defines risk relative to inflation – this is consistent with the nature and the term of the pensioner liabilities.

Portfolio overview

4.2 The Pensioner Portfolio aims to provide a reasonable return relative to inflation (so that ideally the pensions can be increased to partially offset the effects of inflation) over the medium to long term (measurement periods of at least 6 years). The portfolio will deliver a negative return over short measurement periods (e.g. 1 year) from time to time.

Investment objective

4.3 The Pensioner Portfolio's primary objective is to deliver 3.5% p.a. (net of tax and fees) out-performance of headline inflation over any rolling 6-year period. Achievement of this objective will allow the Fund to meet its purpose of granting pension increases of some 90% of inflation, subject to affordability, although a lower reasonable benefit expectation of 55% of inflation will be communicated to the pensioners.

4.4 The Pensioner Portfolio's secondary objective is to hedge close to 100% of the *interest rate risk* of the portfolio. The pensioner liabilities are priced off the interest rate curve – to the extent that interest rates increase (decrease) the value of the liabilities will decrease (increase). By hedging 100% of the interest rate risk the change in value of the liabilities as a consequence of interest movement will be covered by a corresponding almost equal change in the market value of the Matched Portfolio. This means that the Pensioner Account will not be exposed to significant losses or gains as a consequence of interest rate movements.

4.5 In order to achieve both these objectives, the Fund will implement a liability hedging investment strategy (LDI strategy) and appoint a specific manager to hedge the interest rate risk and grant pension increases of 55% of inflation through a matched portfolio. The Fund will invest in a growth strategy to support pension increases in excess of 55% of inflation for the entire pension.

Risk constraints

4.6 The risk that the Fund has to manage as regards the pensioners is the risk that the assets fall below the level required to cover the "contractual" liability which does not provide for any pension increases (i.e provides for a level pension only from that point onwards).

4.7 From a solvency point of view the Portfolio must earn a return in line with bond yields with the same weighted average duration as the Fund's liabilities over a period of 6-years (i.e. two inter-valuation periods). The risk constraint has accordingly been set that there must be less than a 5% chance of this return not being achieved over any 6-year period.

4.8 The Fund aims to mitigate this risk by ensuring that a substantial portion of the Pensioner assets is at all times invested in a liability hedging strategy which will hedge the interest rate risk.

Asset allocation

4.9 The Pensioner Portfolio is split into two sub-portfolios: The Matched Portfolio and the Growth Portfolio

4.10 The Matched Portfolio is a liability hedging portfolio which must have sufficient assets to cover 70% of the pensioner liability on a best estimate basis (allowing for pension increases of 55% of inflation). Its objectives are to:

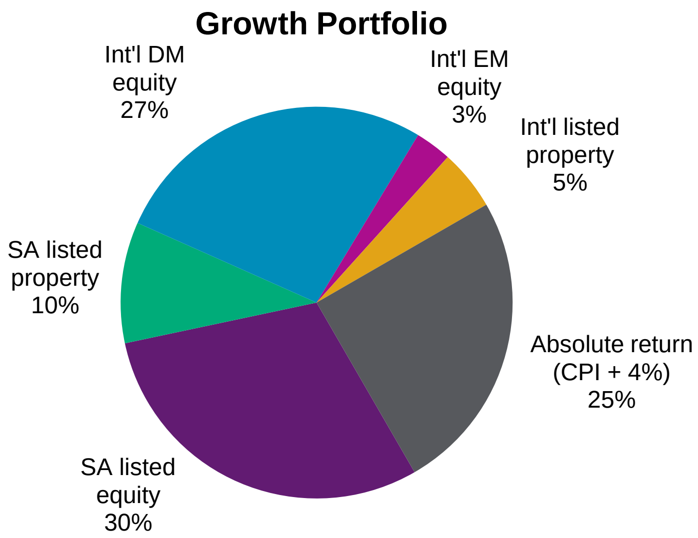
- hedge close to 100% of the interest rate risk; and
- provide sufficient cash flow to pay the monthly pensions.

4.11 No strategic asset allocation is set for the Matched Portfolio and the LDI manager appointed to manage the Matched Portfolio is permitted to use the following instruments to hedge the interest rate risk and provide sufficient cashflow to pay the monthly pensions:

- Nominal and inflation linked bonds to hedge the interest rate risk;
- Money market instruments to provide sufficient cashflow; and
- Repurchase agreements where the Fund sells its inflation and nominal bonds and receives cash but acquires the right to buy these bonds back at an agreed price. The Fund will invest the cash it receives in a portfolio of credit instruments.

4.12 The Growth Portfolio will be invested mainly in equities and property and this portfolio is expected to deliver a higher return than the Matched Portfolio over the long term. This portfolio needs to finance the remaining 30% of the pension liability on a best estimate basis and support pension increases in excess of 55% of inflation for the entire pension.

4.13 The strategic asset allocation of the Growth Portfolio is shown in the chart below:



Notes:

- The Fund may implement a tactical asset allocation overlay from time to time. Alternatively the Fund will re-balance back to its strategic asset allocation using pre-defined rules.
- The strategic asset allocation for this portfolio is based on the output of a modelling exercise that was conducted by the Fund’s investment consultant, but also contains an element of subjective judgement.

Investment approach

- The portfolio will use specialist investment managers for the LDI strategy and for each separate asset class.
- Intrinsic value investment managers will manage 70% to 75% of the SA and global equity components of the portfolio.
- The Fund will invest 30% of the global equity component in passive strategies.

Probability of achieving investment objective

4.14 Based on the assumed level of long term capital market returns and investment manager skill (see Appendix A) there is about a 50% probability of the portfolio achieving the stated investment objective consistent with the risk constraints.

4.15 Stated another way, there is over rolling six year periods about a 50% chance that the Fund will be able to grant pension increases of at least 90% of inflation, subject to affordability and a 85% to 90% chance that the Fund will be able to afford pension increases of at least 55% of inflation.

Section 5: Rebalancing Rules

5.1 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.

Long Term Portfolio

Asset class	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
SA equities	46.0%	49.0%	47.5%	43.0%	44.5%
SA property	6.0%	8.0%	7.0%	4.0%	5.0%
SA bonds + credit	20.0%	23.0%	21.5%	17.0%	18.5%
Int'l DM equities	19.8%	23.0%	21.5%	16.5%	18.2%
Int'l EM equities	2.2%	3.5%	2.8%	1.0%	1.6%
Int'l property	3.0%	5.0%	4.0%	1.0%	2.0%
Int'l bonds	3.0%	5.0%	4.0%	1.0%	2.0%

Conservative Portfolio

Asset class	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
SA equities	22.0%	25.0%	23.5%	19.0%	20.5%
SA property	6.0%	8.0%	7.0%	4.0%	5.0%
SA cash + credit	50.0%	53.0%	52.5%	47.0%	49.5%
Int'l DM equities	17.1%	19.9%	18.5%	14.3%	15.7%
Int'l EM equities	1.9%	2.9%	2.4%	1.0%	1.5%
Int'l property	3.0%	5.0%	4.0%	1.0%	2.0%

Income Protection Portfolio

Asset class	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
SA cash	70.0%	75%	72.5%	67%	68.5%
SA credit	30.0%	33%	31.5%	25%	27.5%

Pensioner Portfolio

Asset class	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Matched Portfolio	70% of liabilities				
Growth Portfolio	30% of liabilities				
SA equities	30.0%	33.0%	31.5%	27.0%	28.5%
SA property	10.0%	12.0%	11.0%	8.0%	9.0%
Int’l DM equities	27.0%	30.0%	28.5%	24.0%	25.5%
Int’l EM equities	3.0%	4.0%	3.5%	2.0%	2.5%
Int’l property	5.0%	7.0%	6.0%	3.0%	4.0%
Absolute return	25.0%	28.0%	26.5%	45.0%	47.5%

Section 6: Benchmarks

6.1 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 Free Float Capped Index (J303T) which limits the maximum exposure to any one counter to 10%
SA bonds	BE ASSA All Bond Index
SA property	FTSE / JSE All Property Index (J803T)
SA cash and credit	STeFI Composite Index
Global DM equities	MSCI All Country World Index (unhedged)
Global EM equities	MSCI Emerging Markets Index (unhedged)
Global property	FTSE EPRA NAREIT Developed Index
Global bonds	Barclays Capital Global Bond Index (unhedged)

Section 7: Assets corresponding the liabilities per investment channel

Rationale

7.1 The unit price for each of the Fund's investment channels is determined on a monthly basis, whereas the administrator will transact in bulk throughout the month.

7.2 The impact of this timing risk is minimised in the following manner:

- The Administrator will offset benefit payments against contributions received and will also hold a small bank balance
- An agreement is in place between the Fund and the Administrator which has the effect that the matching of the assets and liabilities of each investment channel is monitored on a monthly basis

Section 8: Mandate requirements and registration of assets

Mandate requirements

8.1 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.

SA equities

8.2 The mandate given to the investment managers that manage the SA equity class on behalf of the Fund will include restrictions on:

- The maximum deviation from the benchmark
- Use of borrowing (leverage)
- Use of derivatives
- Minimum liquidity of the portfolio
- Holdings where the investment manager holds more than 25% of the issued share capital of the company across its entire client base
- Investment in the shares of the investment manager and its associated companies
- Scrip lending
- Investment in unlisted securities
- Underwriting of new issues

SA bonds

8.3 The mandate given to the investment managers that manage the SA bond class on behalf of the Fund will include restrictions on:

- The maximum deviation from the benchmark

- Use of derivatives
- Use of borrowings (or leverage)
- Minimum liquidity of the portfolio
- Investment in unlisted debt instruments
- Credit quality
- Deviation (in years) from the modified duration of the benchmark
- Investment in the instruments of the investment manager and its associated companies
- Scrip lending
- Underwriting of new issues

SA property

8.4 The Fund's investments in SA property may include listed and unlisted instruments. The mandate given to the investment managers that manage the SA property class on behalf of the Fund, where the assets are registered in the Fund's name will include restrictions on:

- The maximum deviation from the benchmark
- Use of borrowing (leverage), which will not be allowed
- Use of derivatives
- Minimum liquidity of the portfolio
- Maximum exposure to any one share in the portfolio
- Holdings where the investment manager holds more than 25% of the issued share capital of the company across its entire client base
- Investment in the shares of the investment manager and its associated companies

- Scrip lending

Global equities and property

8.5 The Fund's investment in global equities and property will be via pooled arrangements because the assets are too small to negotiate a segregated portfolio.

The consequence of this is that the Fund can only rely on the risk constraints and limitations set out in the Prospectus of the relevant portfolios. The Fund will require that *inter alia* the following matters are covered in the prospectus:

- Maximum exposure to emerging markets
- Restrictions on the exchanges in which the manager may deal
- Investment in unlisted securities
- Maximum exposure to any one Company (this may vary by market capitalization)
- Maximum exposure to a particular country (or geographic region)
- Maximum exposure to a particular industry or sector
- Maximum exposure to a particular currency
- Use of borrowings (or leverage)
- Restrictions on the use of derivatives and currency hedging
- Restrictions on scrip lending (including restrictions on counter-party risk)
- The Prospectus must provide a maximum notice period of 30 days should the Fund wish to terminate its investment.

Global bonds

8.6 The Fund's investment in global bonds will be via a pooled arrangement because the assets are too small to negotiate a segregated portfolio.

The consequence of this is that the Fund can only rely on the risk constraints and limitations set out in the Prospectus of the relevant portfolio. The Fund will require that *inter alia* the following matters are covered in the prospectus:

- Maximum exposure to emerging markets
- Restrictions on the exchanges in which the manager may deal
- Investment in unlisted instruments
- Limitations on credit risk
- Deviation (in years) from the modified duration of the benchmark
- Maximum exposure to a particular country
- Maximum exposure to a particular industry or sector
- Use of borrowings (or leverage)
- Maximum exposure to a particular currency
- Restrictions on the use of derivatives and currency hedging
- Restrictions on scrip lending (including restrictions on counter-party risk)
- The Prospectus must provide a maximum notice period of 30 days should the Fund wish to terminate its investment.

Compliance with Regulation 28 limits

8.7 The Fund will ensure that the mandate of each local investment manager requires that particular portfolio to be managed on a Regulation 28 compliant basis. In addition the Fund will ensure that each portfolio offered to members complies with the provisions of Regulation 28.

8.8 In order to ensure compliance with Regulation 28, the life stage portfolios have been constructed in such a way that each investment channel in which the member’s money is invested must comply with the provisions of Regulation 28. It then follows that if each of the channels complies with Regulation 28, then by definition each member complies with Regulation 28. Furthermore, given that the reserves and employer surplus account of the Fund are invested in the same investment channels, it follows that the Fund overall complies with Regulation 28.

8.9 In order to ensure compliance at an instrument level the mandates of the investment managers need to be structured in such a way that compliance on an on-going basis is ensured unless the manager breaches mandate.

8.10 In rare cases where the investment is via an insurance policy it may not be possible to specify the necessary mandate provisions and in these cases the Fund will require the investment manager to report its largest holding in a particular category on a monthly basis.

Registration of assets

8.11 Unless otherwise agreed by the Trustees, the assets shall be registered in the name of the Fund. In the case that the assets are not registered in the Fund's name because ownership is via units in a CIS (collective investment scheme) or an insurance policy, the Investment Committee shall firstly need to be satisfied that:

a The organization in whose pooled fund the Fund's assets are invested is one of high reputation.

b The assets are ring-fenced for the exclusive benefit of the investors in the pool and there is no risk that losses elsewhere can impact on the returns of the pool.

c Independent reporting, at least on a yearly basis, that the pool holds the said assets and the market value thereof is fairly reflected.

d There are sufficient protections in place to protect investors from large inflows and outflows – specifically there is a requirement that the future investment returns of the remaining investors should not be adversely affected by large scale redemptions.

Section 9: Selecting managers

Criteria used

9.1 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 over the long term.
- 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.
- The Committee will have regard to the Black Economic Empowerment credentials of the investment manager.
- 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.

9.2 The following events would lead to a review of the investment manager’s appointment:

- Rapid change in assets under management;
- Prolonged under-performance relative to the stated benchmark;
- 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.

Section 10: Monitoring

Performance and compliance monitoring

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

10.2 The terms of reference for the Investment Committee shall include inter alia the following:

- Monitor the overall performance of the Fund and its investment channels relative to the particular performance objective and risk constraints
- Monitor the performance of the selected investment managers relative to their mandates
- Monitor compliance with the constraints and restrictions as set out in the investment manager mandates
- Monitor compliance with Regulation 28, 37, 38 and 39.
- Receive feedback from the investment managers from time to time
- Review the overall risk inherent in the portfolio to ensure that there is not an unacceptable aggregation of risk
- Make a qualitative assessment of the investment managers on an annual basis
- Responsible for recommending the selection and de-selection of the investment managers
- 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.

Compliance monitoring

10.3 The Fund's appointed investment consultant will be required to perform the following duties:

- Monitoring compliance with the mandate restrictions;

- Confirm, where possible, that management and performance fees paid to investment managers are calculated correctly;
- Confirming Regulation 28 compliance within each of the Fund's portfolios on a quarterly basis; and
- SARB exchange controls compliance.

10.4 In addition, each investment manager will be required to provide a formal report on an annual basis to indicate how they comply with the due-diligence principles as set out in Regulation 28. These include, but are not necessarily limited to, the following aspects:

- Confirmation that the necessary due diligence was performed prior to investing in any new asset class (or investment manager) and taking into account all risks relevant to such an investment;
- Clarification as to what extent the investment manager has relied on credit ratings in performing such due diligence;
- A detailed description of the current economic environment in order to highlight any changes in the risks to which the Fund's assets are exposed to. These include, but are not limited to, credit, market, liquidity, operational, currency, geographic and sovereign risks; and
- Confirmation that the investment manager has and continues to take Environmental, Social, Governance and related factors into account when making and holding investments on behalf of the Fund.

Section 11: Socially responsible investing

Principles

11.1 The Committee recognizes that a key risk to long term investing is the under-estimation of factors that ultimately adversely affect the intrinsic value of a company (e.g. a change in environmental legislation or even just the stricter application of existing laws). Consistent with this, the Committee will require the appointed managers to consider the economic sustainability of their investment decisions and the extent to which they have allowed for low probability but high adverse impact events in the assessment of intrinsic value. The appointed managers will also be required to report on the extent to which they endorse the principles contained in the Code for Responsible Investing in SA.

11.2 Socially responsible investing (SRI) can be considered from two perspectives, namely:

a *Imposition of constraints (negative screening)* – in this case the investment manager is precluded from investing in businesses that are considered to have a negative impact on society. Businesses that are typically included under this heading are tobacco, alcohol, gambling and defence. This approach may also include a political dimension (e.g. not investing in countries that have a poor human rights record).

Whilst the Committee will expect its investment consultant to challenge the appointed investment managers on sustainability issues, the Fund will allow its managers to invest in any business that is legal and will not impose ethical judgements precluding certain investments.

b *Positive screening* – here the aim is to allocate capital to those enterprises which are assumed to hold positive benefits for society. In the South African context, the focus is largely on positive SRI investing. Where feasible, the Fund will seek to invest in such opportunities, subject to the requirement that the expected return from the investment must be at least fair compared to the associated risk taking into account diversification benefits. (The mission to Fund is to provide superior risk adjusted returns over the long term and so any investment must meet this criterion.)

The Fund will not classify such investments as SRI, but rather relate the investment to its underlying nature. For example, if the investment is in infrastructure, it will be called "Infrastructure" – in this way it is clear to members what the nature of the investment is.

c Investor engagement – this mainly relates to using one's voting rights in a way that supports social responsible investing.

As part of the annual report described in 10.4, each investment manager will be required to report on those situations where voting has taken place and how these could be considered consistent with social responsible investing.

Section 12: Other governance issues

12.1 The Trustees and the investment consultant shall be required to make a full disclosure of any conflict of interest situation relating to the investments of the Fund at all relevant times.

12.2 The investment manager shall be required to report the amount of brokerage paid to the each broker it deals with. The investment manager must disclose if it receives any commission rebate, service or other benefit from the brokers it deals with.

12.3 The investment consultant shall be required to report on any fees / commissions it receives from investment managers appointed to manage the Fund’s investments. Such amounts shall be offset against the fees of the investment consultant for services unless the Board of Trustees agrees otherwise.

Section 13: Trustee training

Newly elected Trustees

13.1 Newly elected Trustees may not have the necessary skill, knowledge and/or experience with respect to pension fund matters particularly as they relate to investments. For this reason all newly elected Trustees will be provided with a training pack which sets out the basic principles (including the investment strategy) of the Fund.

Ongoing training

13.2 Each year, as part of the Fund's calendar of activities, the Trustees will develop a formal training programme for the year (covering investment issues, general Fund governance and other matters that the Trustees believe to be important). The Fund will also monitor the implementation of this training programme in order to assess and address the training needs of the individual Trustees.

Section 14: Review of Statement

14.1 In the normal course of events the Trustees will review the investment strategy annually.

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

- A material change in market conditions necessitating an early review of the Fund's strategic asset allocation for any Portfolio.
- A material change in exchange control regulations affecting retirement funds.
- A change in the monetary policy of the Reserve Bank (that may e.g. result in a significant change in the real interest rate expectations for money market investments).
- A change in the tax regime 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).

Adopted as the Statement of Investment Principles for the Predikante Pensioenfonds van die NG Kerk in Suid Afrika

Chairperson: Board of Trustees Date

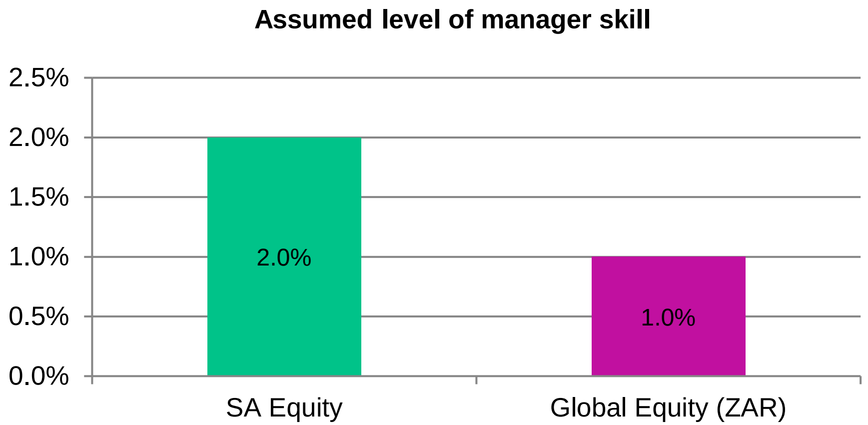
Chairman: Investment Committee Date

Appendix A: Capital market and manager skill assumptions

Willis Towers Watson provides on a quarterly basis the capital market assumptions for the main asset classes and will highlight to the Investment Committee where significant changes have been made that will affect the expected performance of the lifestage portfolios.

In the case of the Long Term and Conservative Portfolios and the Growth Portfolio of the Pensioner Portfolio we have allowed for manager skill.

The chart below shows the assumed level of investment manager skill for the SA and global equity asset class for investment managers that *adopt the intrinsic value investment approach*. The manager skill is reflected net of manager fees. (Please note that we have made no assumption about manager skill for the bond asset class).



Appendix B: Current manager configuration

Unless an asset class or manager breaches a set limit, no rebalancing is required and monthly cash flows will be used where possible to keep allocations within the permitted ranges. Should a local asset class or manager allocation breach the set limit and the monthly cash flows cannot be used to correct the position, rebalance instructions will be provided by the appointed investment consultant to the administrator within one calendar month after the month end position, at which the breach has arisen, has been determined.

SA listed equities

The SA equity component of the Long Term, Conservative and Pensioner Portfolios is made up of the same three managers and is as follows:

Manager	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Allan Gray	33.3%	37.0%	35.0%	30.0%	31.5%
Coronation	33.3%	37.0%	35.0%	30.0%	31.5%
ABAX	33.3%	37.0%	35.0%	30.0%	31.5%

SA listed property

The SA listed property component of the Long Term, Conservative and Pensioner Portfolios is made up of the same two managers and is as follows:

Manager	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Metope	50.0%	55.0%	52.5%	45.0%	47.5%
Sesfikile	50.0%	55.0%	52.5%	45.0%	47.5%

SA Bonds

The SA bonds component of the Long Term Portfolio is made up of the following two managers:

Manager	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
Investec (Flexible bonds portfolio)	50.0%	55.0%	52.5%	45.0%	47.5%
Futuregrowth (Infrastructure and development bond composite)	50.0%	55.0%	52.5%	45.0%	47.5%

SA Cash

Investec is the appointed SA Cash manager through the Investec Money Market portfolio.

SA Credit

Investec is the appointed SA Credit manager through its Credit Opportunities 12A and Credit Income portfolios.

International listed equities

The international equity component of the Long Term, Conservative and Pensioner Portfolios is made up of the same three funds and is as follows:

Manager	Fund	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
State Street global Advisors	MSCI World Index Fund	27.0%	30.0%	28.5%	24.0%	25.5%

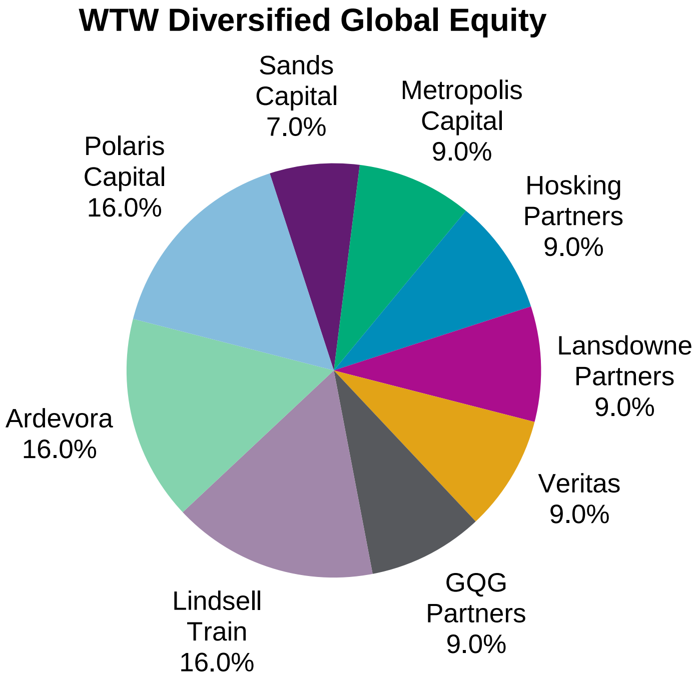
Manager	Fund	Central allocation	Upper limit	Re-balance to	Lower limit	Re-balance to
WTW Global Diversified Equity	Global equities	63.0%	68.0%	65.5%	58.0%	60.5%
WTW Global Diversified Emerging Markets Equity	Emerging markets equities	10.0%	13.0%	11.5%	7.0%	8.5%

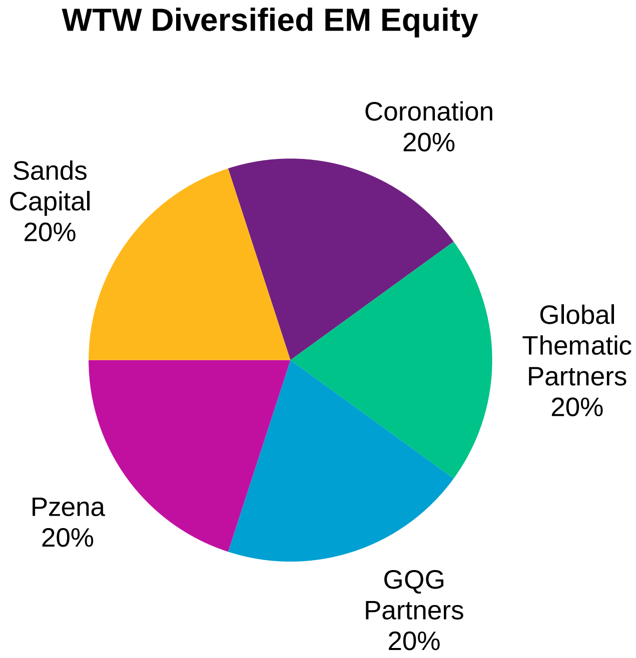
State Street global Advisors is a passive strategy.

The WTW Global Diversified Equity and Diversified Emerging Markets Equity Portfolios are diversified strategies combining multiple Willis Towers Watson specialist “preferred” rated investment managers with different investment styles. Willis Towers Watson will continuously re-assess the skill of the managers in the line-up as well as the central asset allocation of the line-up. As such it is inevitable that some changes to the manager line-up or asset allocation will be made over time. In such circumstances, Willis Towers Watson will inform the Predikante Pensioenfonds of the proposed changes and the motivation for this change.

The most likely circumstances in which Willis Towers Watson would recommend a change to the best advice line-up is if the manager is downgraded from a “preferred” rating to a “non-preferred” rating. Willis Towers Watson’s commitment to the Predikante Pensioenfonds is that the best advice manager line-up will only consist of “preferred” managers. The Predikante Pensioenfonds will be given the option to stay with the existing line-up (or chose another line-up), but the default would be that the Fund moves to the new best advice manager line-up.

As at 31 October 2019, the approved strategic manager line-ups of the two strategies were as follows:





International listed property

The international listed property component is managed through Resolution Capital.

International bonds

The international bond component is managed by PIMCO.

Appendix C: Glossary of terms

Term	Description
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 ALSI	The Financial Times Securities Exchange (FTSE) / Johannesburg Securities Exchange (JSE) All Share Free Float Index (ALSI) with dividends re-invested.
FTSE/ JSE ALSI CAPI	The FTSE/JSE ALSI, but with the market capitalization of any counter limited (“capped”) to 10% of the index. This index avoids undue stock- specific risk.
FTSE EPRA NAREIT Developed	The FTSE European Public Real Estate Association / North American Real Estate Investment Trust Developed (EPRA/NAREIT) Index is a composite of the existing EPRA Europe Index, EPRA/NAREIT North America Index, and EPRA/NAREIT Asia Index. The index contains publicly quoted real estate companies that meet the EPRA Rules in 25 countries throughout Europe, North America, and Asia.
Headline inflation	The Consumer Price Index for all expenditure groups Metropolitan and other urban areas (Base 1995 = 100) as published from time to time by Statistics SA in Statistical Release P0141.1.

Term	Description
Interest rate risk	This refers to the degree to which the pensioner liabilities increase more (or less) than the corresponding increase in the portfolio's assets as the interest rates reduce (or increase). By hedging 100% of the interest rate risk the change in value of the liabilities as a consequence of interest movement will be covered by a corresponding almost equal change in the market value of the Matched Portfolio.
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 (MSCI) Index of international equity prices (including dividends) which incorporates both developed and emerging countries.
MSCI Emerging Markets Index	The Morgan Stanley Capital International Index of international equity prices (including dividends) which incorporates only emerging countries.
Peer group	The investment return earned by the typical retirement fund usually measured as a "global balanced mandate" in published investment surveys.
Passive strategies	A term generally applied to the technique of index-tracking, where the fund invests in a representative number of securities within an index and is designed to track and thus reflect the investment performance of a specific market index.
STeFI Composite Index	Alexander Forbes Short Term Fixed Interest (STeFI) 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.

Term	Description
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 2/3rds of the time the performance of the portfolio will be between –5% and +5% from the benchmark.