



Abbreviated Statement of Investment Principles

Nature of the Fund

The National Tertiary Retirement Fund is a defined contribution plan, so members' retirement benefits depend on their savings contributions and investment returns.

The Fund also provides retirees with option of receiving a life-long pension (*referred to a life annuity*). At retirement, members that elect such a pension must choose whether the Fund should provide for future pension increases of **65%** or **100%** of inflation. The Fund also offers retirees the option of an investment account from which a pension must be drawn monthly within certain limits (a living annuity). Most of the Fund's pensioners receive a life annuity.

The Fund is managed by the Board of Fund (*also known as the Trustees*).

Fund's Mission

The Fund's mission to help members provide for their retirement and once they reach retirement age give them the choice to receive a pension. The Fund plays on the side of its members (*it has no commercial interest or conflicts of interest*) and aims to provide good retirement benefits for long serving members under normal investment market conditions. The Fund also helps members by keeping its costs low.

Philosophy and Guardrails

The Trustees believe that investment markets are an example of what is known as a complex adaptive system. Such a system is a dynamic network of many parties (*e.g., government, central banks, companies, investment managers, retail investors etc.*) that interact with each other and adapt to changes in the environment. These systems are characterized by their ability to evolve and learn from experience, leading to outcomes that is often unpredictable.

To manage this uncertainty the Trustees have implemented a highly diversified strategy and have appointed investment managers with the potential to deliver returns exceeding their benchmarks over the long term (*referred to as active managers*). Furthermore, the Fund has adopted the guardrails set out below to best deal with the highly unpredictable nature of investment markets:

- a. The Board seeks to allocate the money to an investment portfolio that has a high chance of bouncing back when the inevitable unwelcome surprises happen (*i.e., there is a focus on the resilience of the portfolio*).
- b. Such resilience is built inter alia by investing the widest opportunity set available across the globe. Diversification is a cornerstone of the Fund's strategy and so the portfolio will include companies that are at the forefront of disruption and innovation.
- c. Speculation arises from an asset being priced for much more than it is worth. The Fund looks to avoid speculation by requiring its active managers to assess the value (rather the price) of the assets included in the portfolio.
- d. The Fund adopts a long term investment horizon and so it focuses on delivering long term investment returns that exceed

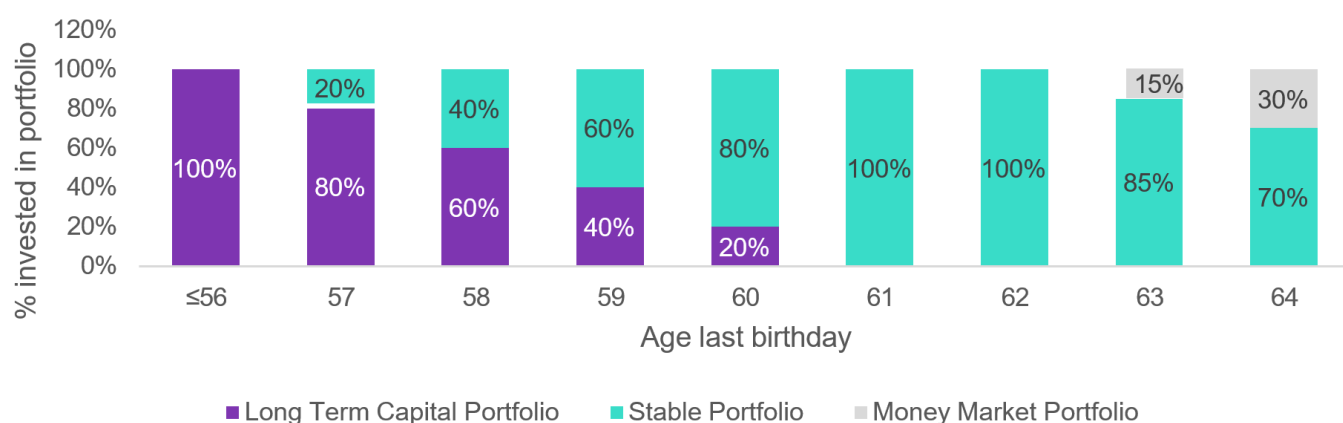
inflation. Retirement is all about replacing, in part, the member pre-retirement salary which is inflation related. This long term horizon can also be helpful to exploit the behavioural error of other investors that get caught up in the fear and envy of markets.

- e. The Fund's investments should be made mindful of environmental, governance and social (ESG) factors as a business is unlikely to be sustainable if it continues to have poor ESG characteristics.
- f. The Board requires all its service providers to avoid conflicts of interest rather than manage them. In rare circumstances it may look to manage a conflict of interest but in all instances the Board requires full and transparent disclosure of actual conflicts of interest and how it is mitigated.

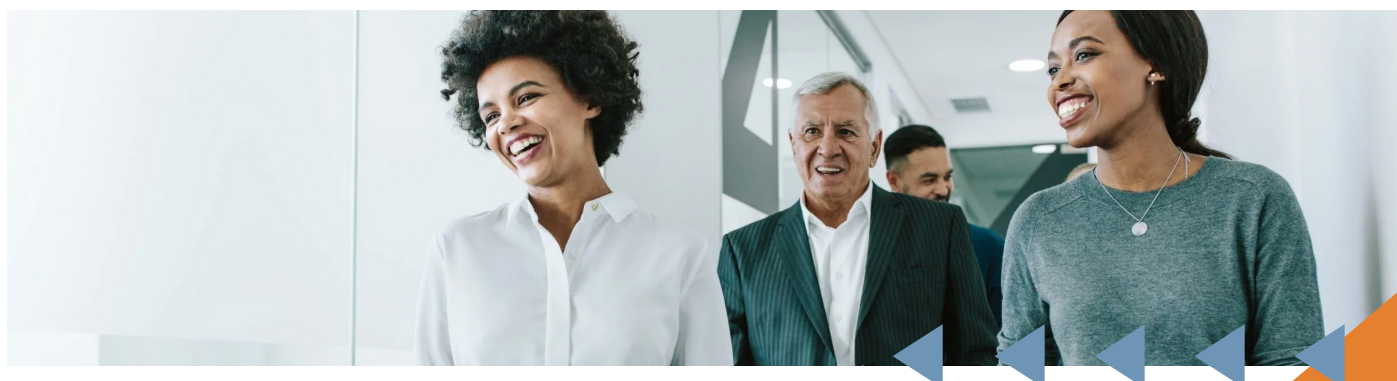
Investment Principles for In-service Members

The evidence shows that most members are uncomfortable or unwilling to choose how their retirement savings should be invested. For this reason, the Pension Funds Act requires that the Fund has a default investment strategy according to which the member's money will be invested if he or she does not nominate where it should be invested.

The Fund's default investment strategy is the so-called life stage model. The chart below shows how the member's money is invested depending on his or her age at last birthday. The is based on the member's normal retirement age (shown here as 65, but it can also be 60) as advised by the Employer.



- The Long Term Capital Portfolio targets an investment return which is 5% p.a. higher than inflation over a seven year period. To have a realistic chance of achieving this objective the portfolio will be invested around **70% to 80%** in a highly diversified portfolio of equities (or shares), that are expected to deliver higher returns over the long term.
- *Equity markets are volatile, and this portfolio will inevitably experience periods of negative investment returns, especially over shorter periods. As such the members whose money is invested in this portfolio must have a longer term investment horizon and be comfortable with the inevitable periods of negative returns.*
- The Stable Portfolio looks to deliver an investment return that exceeds inflation by 3% p.a. over three years and aims to avoid a negative investment return over any 12-month period, noting that such an outcome is not guaranteed. This portfolio only invests around 40% to 50% in shares and so is less susceptible to large negative returns. The portfolio is suitable for members with an investment horizon of three to five years.
- The Money Market Portfolio invests primarily in shorter dated money market instruments (*cash or near cash*). It aims for a 1% annual return above inflation. This portfolio is most suitable for members close to retirement.



The key principles underlying the model are:

- Whilst the member is young, he or she has relatively little money in the Fund and so the effect of a large negative return has a relatively small Rand impact on his or her retirement provision. The effect of future contributions and investment returns will swamp the effect of a large negative return whilst the member is still young. On the other hand, when the member is close to retirement, he or she has the most money in the Fund and any negative return has a large Rand amount impact which reduces the member's retirement income.
- The level of investment risk a member should take is related in part to the flexibility the member has. A member who is a long way from retirement can increase his or her retirement savings if he or she considers that his or her retirement provision is inadequate, or the member can plan to work longer. On the other hand, a member closer to retirement has much less flexibility to change his or her retirement plans and therefore a more certain investment return is desirable.
- The life stage model is designed to be consistent with the Fund's guided annuity strategy and the pricing basis of the Fund's life annuity. The model assumes that retirees will take about 30% of their retirement pot in cash and this is the reason for the 30% allocation to the Money Market Portfolio. The Stable Portfolio has a reasonable (although not a perfect match) with the pricing basis of the Fund's life annuity basis and so some 70% of the retirees' pre-retirement money is allocated to this portfolio.

Although not part of the life stage model, the Fund offers members the opportunity to invest in the Shar'iah Portfolio. This portfolio targets a real return of 4% p.a. over measurement periods of 7 years. Like the Long Term Capital Portfolio has a high exposure to share markets and so large negative returns are possible.

Members (other than those who joined the Fund in December 1994 who are entitled to a conditional retirement benefit) can opt out the life stage model and invest in any combination of the four portfolios described above.

Investment Principles for Life Annuitants

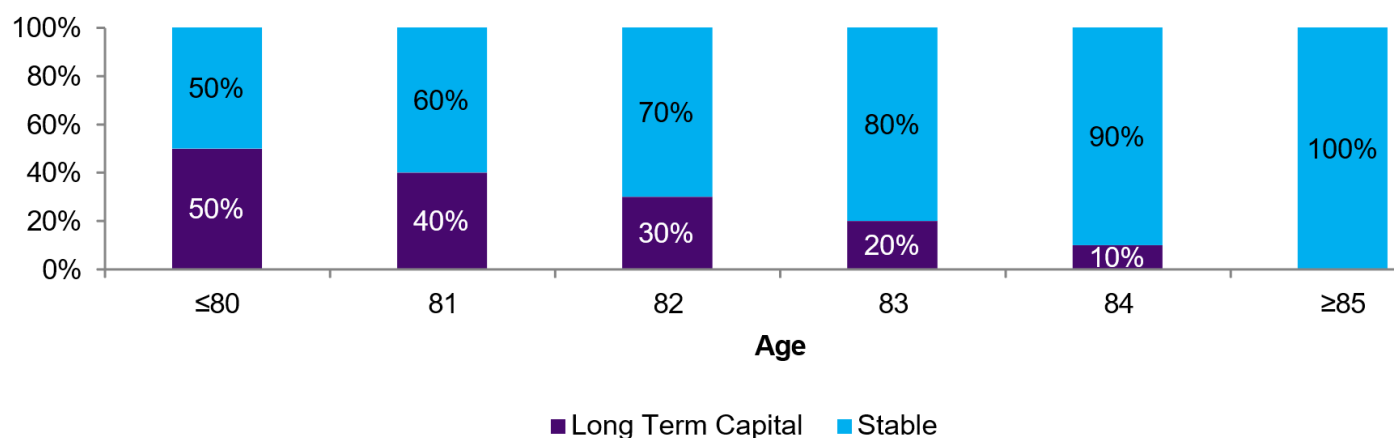
The Fund's Pensioner Portfolio aims to provide annual pension increases of at least 65% or 100% of inflation (depending on the option chosen by the retiree) which a high degree of certainty each year. To this end, some 75% of the Pensioner Portfolio is invested in a portfolio which closely tracks the change in the Fund's pensioner liability calculated allowing for annual future pension increases of 65% or 100% inflation (referred to as the Matched Portfolio).

This portfolio has a high exposure to bonds issued by the South African government and to mitigate the very low risk of the government defaulting partially on this debt, the remaining 25% is invested in global assets (some 20%) and local infrastructure assets (5%).

This 25% is expected to earn a higher return than the 75% invested in the Matched Portfolio. If realized, this return, together with some enhancements to the return of the Matched Portfolio may enable the Fund to grant pension increases of some 70% to 80% of inflation where the retiree elected the 65% of inflation target and above inflation for those that elected the 100% of inflation target.

Living Annuitants

Living annuitants may invest their money in any combination of Long Term Capital, Stable, Money Market and Shariah portfolios. There is also a guided investment strategy (see below) for living annuitants that do not want to choose their own portfolio.



Asset Allocation

The Board applies a combination of asset modelling and decision theory to set the so-called strategic asset allocation (“SAA”) for each portfolio. The most important guardrails of the strategic asset allocation are diversification and a focus on the resilience of the underlying portfolio. The SAA consists of a wide range of assets classes consistent with the Fund’s philosophy of diversification.

It is designed as a portfolio that has at least a 50% chance of meeting the return target over the specified measurement period within the risk tolerance budget over a wide range of market conditions, rather than the optimized maximum return allocation. The problem with a so-called “optimized portfolio” is that it only gives the optimized outcome if all the assumptions about future returns are borne out which is not possible. Because markets are unpredictable, such a return optimization strategy can underperform by the large margin if actual conditions differ materially from those assumed.

Active and Passive (or index tracking) Managers

While the Board generally appoints active managers expected to outperform benchmarks to further manage the uncertainty of markets, it has allocated about 30% of SA equities and 13.5% of global equity exposure to index tracking strategies. The 30% passive allocation to local equities is made because the local market is narrow, thus limiting the opportunity set for active managers to add value. The 13.5% allocation to a passive strategy for global equities provides diversification against a concentrated market (i.e. a very small number of stocks driving almost all the returns) and manager selection risk. In addition, the passive strategies reduce investment manager fees.

Manager Selection

The following criteria are applied to the selection of investment managers:

- The manager must comply with the Fund’s minimum Black Economic Empowerment requirements.
- The manager must be assessed to have a discernible competitive edge to the market. This edge may be an intellectual advantage, better research leading to more information, or simply avoiding common investment errors. A behavioural advantage).
- The assessed skill of the key investment professionals together with the diversity of opinion and constructive challenge within the team. The empirical evidence suggests that different perspectives and diverse opinions improve the quality of decision-making for complex adaptive problems.
- The manager should belong to a firm with a strong investment-focused culture dedicated to achieving exceptional investment outcomes for its clients. Characteristics of a superior investment culture may include a meritocracy that is regarded as fair, the ability to work together as a team, openness, and transparency, and importantly a focus on driving strong performance to clients as opposed to gathering assets.
- The manager must have strong portfolio construction skills which include position sizing, buying and selling disciplines and careful management of risk to limited unintended aggregation of risks within the total portfolio.
- The firm should have an impeccable standard of ethics and should align their interest with that of the Fund.
- Where the manager adopts a long-term investment horizon, they must allocate sufficient time and thought to the consideration of ESG factors in selecting the instruments included in its portfolio.

The Board accepts that it will be rare to find managers that comply with all the above criteria, but the appointed managers should meet a significant percentage of the listed criteria.

The following events would lead to a review and the possible termination of the manager's appointment or the down-weighting of exposure to the manager:

- Failure to comply with the Fund's Transformation Policy.
- Rapid growth or decline in assets under management;
- Change in the investment philosophy and approach or a material change in the investment process;
- The manager substantially elevated the portfolio's risk profile without presenting adequate justification for this action;
- Poor performance over a period if such poor performance cannot reasonably be explained by market mispricing or bad luck;
- Loss of key personnel, including a situation where a key decision-maker is "promoted" to a different role;
- Perceived loss of passion and focus by key decision-makers;
- Material change in the shareholding structure of the manager;
- Perceived adverse changes in the manager's ethics;
- Poor policies in respect of ESG issues, especially if the manager adopts a long-term investment horizon;
- Change in market conditions or regulatory environment which has the effect that the manager's investment approach may no longer be effective.

Transformation Policy

The Fund's Transformation Policy is designed to promote economic transformation and enhance the economic participation of black individuals in the economy. Each investment-related service provider to the Fund, other than the global managers, is required to have a B-BBEE empowerment rating that has been independently audited and verified by an accredited verification agency.

The Board requires all investment-related service providers (other than global managers) to achieve a minimum B-BBEE rating. A failure by such an investment-related service provider to achieve required rating within a period notified to the manager will result in a review by the Fund of the service provider.

The above is an abbreviated version of the Fund's Statement of Investment Principles (SIP). A copy of the full SIP is available from the Principal Officer's office on request.

September 2025

