INVESTMENT POLICY STATEMENT

OF THE

DURBAN PENSION FUND

AUGUST 2016

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Appendices

1. INTRODUCTION AND PURPOSE OF THE FUND

The investment policy statement ("the IPS"), has been prepared to record the issues considered by the trustees of the Durban Pension Fund ("the fund") in establishing an appropriate investment policy and strategy for the fund. The trustees' objectives in drafting this statement are to:

- Document the fund's investment policy and strategy.
- Set out the decision-making responsibilities relating to the fund's assets.
- Assist stakeholders in understanding the investment policy and strategy.
- Meet legislative requirements of the Pension Funds Act ("the Act") and other guidance issued by the Financial Services Board.
- Provide a mechanism to ensure continuity of decision making across generations of trustees.

The purpose of the fund is to provide benefits to members as per the fund rules. The investment strategy will have as its primary aim the meeting of the objectives of the fund, in line with the fund's philosophy. The investment strategy will recognise the nature of the liabilities, the investment objectives and trustees' risk tolerance, as well as the dynamic nature of assets over time.

The current version of this document is dated August 2016. The IPS was thoroughly revised during March 2012, to replace the previous version dated 12 April 2005. This version reflects the subsequent appointment by the trustees of a specialist portfolio manager for the liability-matched portion of the fund's pensioner pool assets. It also includes mandate changes to equity-only for the remainder of the pensioner pool assets, implemented after an asset liability modelling exercise. This document will be reviewed annually.

2. BACKGROUND TO THE FUND

The fund is a defined benefit pension fund that is closed to new entrants. Existing active members continue to accrue benefits on a defined benefit basis. The rules provide for the employer and member contribution rates to be adjusted depending on the fund's financial position, meaning that active members share investment and certain other fund risks with the employer.

The assets and liabilities of the fund are managed in two separate pools, namely an active member pool and a pensioner pool. Surpluses and deficits are ring fenced within each of these. Transfers that are permitted between the two are on the retirement of active members, when their accrued reserves are transferred to the pensioner pool.

3. THE INVESTMENT SUBCOMMITTEE

The trustees are responsible for directing, controlling and overseeing all aspects of the fund. They cannot relinquish or cede these responsibilities but are permitted to delegate certain functions to a properly appointed subcommittee. An Investment Sub-committee has accordingly been established to:

- Review the investment strategy and related policies, and recommend changes as necessary.
- Monitor the fund's investment managers and overall performance on an ongoing basis against Fund-specific objectives.
- Oversee and monitor the operational activities relating to the investment of the fund's assets in terms of the strategies approved by the trustees.
- Ensure that the fund complies with all legal and regulatory requirements relating to the investment of fund assets.
- Monitor the investment manager fees and satisfy themselves that the fees are reasonable and appropriate relative to market norms.
- Consider and review the adequacy of the level of fidelity and professional indemnity insurance of the fund's investment service providers.
- Establish, implement and annually review the investment mandates of all asset managers.
- Report on its activities to the trustees.

The trustees must review and (if appropriate) approve the investment policy statement and resultant strategy developed by the Investment Sub-committee. The trustees remain ultimately accountable for all fund decisions and for legislative compliance.

4. GOVERNANCE PRINCIPLES: PF 130

Pension fund circular PF130 introduced a number of governance principles to which retirement funds must adhere. The trustees' views and actions pertaining to each of these are summarised below.

The principles are split between those over which the trustees have a direct influence, and those that are delegated to the asset manager. For the latter the trustees will review the principles applied by the managers. Where these principles are not in line with the principles that the trustees would wish to apply, the trustees will consider changing the fund's managers.

4.1 Conflicts of Interest

"The trustees should distinguish between conflicts of interest which may be structural, and therefore unavoidable, and those conflicts that can be avoided or, if this does not compromise the credibility of the governance arrangements, managed appropriately."

The trustees agree that conflicts of interest should be avoided where possible. Those that cannot must be identified and carefully managed. The trustees require all service providers to highlight any areas of potential conflict of interest in their operations with any of the interests of the fund.

Individual trustees must disclose conflicts of interest and to refrain from participating in any related decision. Trustees are formally required to disclose any conflicts of interest at each investment subcommittee and trustee meeting.

4.2 Pooled or segregated investment portfolios

"The investment policy statement should (state) whether the investments of the fund are in the form of an insurance policy or a segregated mandate, and the reasons therefore."

The trustees have considered the merits of holding assets in the name of the fund (via segregated mandates), or to invest in pooled investment portfolios through which the fund's interests are represented by the value of an insurance policy.

The fund's investment portfolios are managed on a segregated basis, whilst the socially responsible investments ("SRI") and global mandates are managed on a pooled basis. Whether a particular portfolio is segregated or pooled will be clearly indicated in all reporting.

4.3 Pledging and borrowing of assets, and lending against the fund

PF130 states that *"extreme care and caution should be taken when considering the possibility of such activities."* Regulation 28 also places limits on borrowing, and the trustees will ensure that these are not breached, by ensuring that the fund always has sufficient cash for benefit payments and liquidity within the investment strategy.

The trustees do not envisage any circumstances where money will be borrowed by the fund, or where assets will be loaned out by the fund.

4.4 Expert skills

"Board members are not obliged to have all the expert skills necessary ... It is reasonable for the board to engage ... experts... and pay ... appropriately for that advice."

The trustees recognise that they do not have the requisite skill, experience or time to spend on all detailed investment matters. As a result the trustees evaluate, select and appoint expert professional service providers to assist and support the trustees with investment-related matters where necessary.

The trustees also recognise the risk of becoming too dependent on any professional service provider. The trustees will select service providers who offer a genuinely independent service, and reserve the right to seek a second opinion in any circumstances. The trustees recognise that they retain all the responsibilities contained within regulation 28, even when using professionals, including the requirement to ensure that advisors and service providers comply with regulation 28.

4.5 Existing investment portfolios

"...consideration must be given to existing investments when formulating the IPS."

The trustees interpret this to mean that any proposed change to the investment policy or strategy must be considered together with the associated costs. They recognise that investment portfolio changes may incur substantial direct and indirect costs, and will aim to achieve the most efficient implementation of such changes. This can often be achieved by using a "transition management" service provider, which will be considered by the trustees in appropriate circumstances.

4.6 Shareholder activism and voting rights

"... the voting rights attached to shares of the companies in which funds are invested should be considered an asset of the fund. Accordingly, the board of the fund would be expected to apply the same fiduciary care and consideration to this asset as it does to the financial investments it makes. The board ... should formulate and develop appropriate voting policies and incorporate these into their mandates to the asset managers including monitoring and reporting of the same."

To the extent that the fund invests in segregated investment portfolios, the trustees realise that they can directly influence the voting on the underlying shares. Any voting rights will be delegated to the relevant asset manager, and the investment mandate will stipulate the trustees' opinions with regards to these rights. Managers are required to report quarterly as to the use of their proxy vote.

To the extent that the fund invests in pooled investment portfolios, the trustees acknowledge that they cannot influence the managers' voting policies as the assets are not held in the name of the fund. The trustees will require a copy of each manager's corporate action voting policy for review. In addition, they will instruct the managers to inform the trustees of any future changes to such policies as and when they occur.

4.7 LIQUIDITY RISK / TERMINATION CONDITIONS

"Investments should be made taking into account the cash flow needs of the fund for the coming year.... it might not be necessary for a portfolio to hold unnecessary amounts of cash or low yielding liquid assets."

The trustees do not believe it is appropriate for the fund to be tied to an asset manager or to specific investment portfolios for an unreasonable period after a decision has been taken to exit these. Hence the fund will generally request notice periods of no more than 30 days when appointing asset managers and service providers, unless market conditions dictate that more onerous termination conditions must be accepted.

The fund will use the pensioner cashflow provided by the actuary to ensure that the fund holds an appropriate amount of money in liquid assets.

4.8 STRATEGIC INVESTMENTS

This is not a governance principle discussed specifically in PF130, or in regulation 28. Strategic investments can be defined as any investments held for strategic purposes, in other words not held solely with the intention of generating good investment performance. These can include investments by the fund in the shares or debt of the sponsoring employer.

The fund should in principle avoid any strategic investment holdings. The asset managers are however unconstrained and may select any investment that is permissible in terms of their mandate, including investments in the participating employer.

4.9 USE OF DERIVATIVE INSTRUMENTS

[This section will be replaced by the FSB note on derivative instruments as soon as it is finalised and released by the FSB.]

"... investment in derivatives by asset managers should be clearly and properly regulated. Should they decide to permit this form of investment, trustees of funds should have a clear understanding of the use and risks of derivatives and how they will be measured."

The trustees believe that the responsible use of derivative instruments has become a necessity to ensure the optimal implementation and management of investment portfolios. When used appropriately and with due care, derivatives can also be highly efficient instruments to reduce or manage investment risk in portfolios. The trustees therefore allow the responsible use of derivative instruments by their asset managers, within regulation 28 limitations.

The managers may use derivatives for asset allocation, hedging, insurance and yield enhancement purposes. They are not permitted to use derivatives for speculation and gearing.

4.10 APPOINTMENT OF CUSTODIANS

"The appointment of the custodian ... should be made directly by the fund to enable the board to have direct access to the custodian information about the fund investments."

Where the fund invests in *segregated portfolios*, the assets will be held in the custody of the custodian appointed by the fund. The ownership of the underlying investments in *pool portfolios* does not vest in the name of the fund, and hence the fund is not required to appoint a custodian in these instances.

4.11 MANAGEMENT FEES AND COMPENSATION FOR FUND MANAGEMENT SERVICES

"The board of the fund must decide between active and passive asset management and determine whether the concomitant fees of active asset management are justified by the returns achieved."

The trustees have considered the arguments for and against active asset management, and the associated costs. The trustees believe that, generally, skilled active asset management, undertaken with the benefit of professional advice on all aspects of the investment strategy, can over time achieve returns in excess of passive (benchmark tracking) investments, net of all costs. However, the trustees will continuously consider passive investment options where appropriate in consultation with its advisors. The trustees recognise that it is not inconsistent to invest partly in active and partly in passive strategies.

5 REGULATION 28 PRINCIPLES

Regulation 28 has introduced a number of principles that pension funds are required to address and document in their IPS. The trustees have considered these and adopted the policies as listed below.

5.1 "A FUND MUST COMPLY AT ALL TIMES WITH THE LIMITS SET OUT IN REGULATION 28"

The trustees will monitor compliance as follows:

Where the fund invests in pooled portfolios, and where applicable the fund will obtain a certificate at the end of each reporting period, confirming compliance with the relevant limits.

Where the fund invests in segregated mandates, the trustees will require the asset managers to report on their underlying holdings at the end of each reporting period.

The fund will review the local and foreign allocations on a monthly basis to ensure that the allocation limits of Regulation 28 are complied with and receive quarterly reports from the administrator on any non-compliance.

5.2 "A FUND MUST HAVE AN INVESTMENT POLICY STATEMENT, WHICH MUST BE REVIEWED AT LEAST ANNUALLY"

This document represents the fund's investment policy statement, and the trustees will review this document annually taking into account the changing profile of the membership and the environment in which the fund operates.

5.3 "A FUND AND ITS BOARD MUST AT ALL TIMES APPLY THE FOLLOWING PRINCIPLES:"

5.3.1 *"Promote the education of the board with respect to pension fund investment, governance and other related matters"*

The trustees recognise the importance of promoting the education of the board in all matters related to the management of the fund, but specifically investments, governance and other related matters. The board is encouraged to attend relevant conferences and seminars held by various industry bodies and service providers and to actively participate in the e-learning programme offered by the Financial Services Board.

5.3.2 *"Monitor compliance with this regulation by its advisors and service providers"*

The trustees require the service providers to initially provide a detailed account of how compliance with the regulation is undertaken, and to regularly report on their compliance. Any breaches of compliance must be reported to the board.

5.3.3 ***"In contracting services to the fund or its board, consider the need to promote broad-based black economic empowerment of those providing services"***

The trustees recognise the importance of promoting broad-based black economic empowerment, and the fund's ability to assist in this initiative. The trustees will favour service providers with more broad-based black economic empowerment credentials, where they are able to provide a broadly equivalent level of service and advice to other less empowered providers.

5.3.4 ***"Ensure that the fund's assets are appropriate for its liabilities"***

The trustees recognise the importance of the fund's liabilities in designing an investment strategy. The fund undertakes periodic asset liability modelling studies to evaluate whether the investment strategy remains appropriate for its liabilities. This study will be updated from time to time, to take account of changes in the assets, liabilities, fund membership profile, and relevant legislation.

5.3.5 ***"Before making a contractual commitment to invest in a third party managed asset or investing in an asset, perform reasonable due diligence taking into account 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"***

The trustees recognise both the importance of following a due diligence process before investing in an asset, and the fact that they do not have the requisite skills and experience to follow such a rigorous process. They have therefore delegated the function to managers with the appropriate skills and experience.

As they retain the responsibility for this, they will ensure that the managers have the appropriate skills and experience. This will be done by performing a due diligence exercise on any manager contracted to manage the fund's assets. Managers will be required to report back regularly (at least annually) to the board, and will use this opportunity to again query their due diligence and risk management systems, processes and people. If the board is uncomfortable with any aspect of the fund's managers' capabilities, they will take appropriate action. This action could include engaging with the manager to resolve the deficiency or the termination of the manager's appointment if the board has no confidence that the manager can address the deficiency within a reasonable timeframe.

5.3.6 ***"In addition ... before making a contractual commitment to invest in a third party managed foreign asset or investing in a foreign asset, perform reasonable due diligence taking into account risks relevant to a foreign asset including but not limited to currency and country risks"***

The trustees will similarly delegate the due diligence process to the appropriate managers, and will monitor the offshore allocation relative to the liabilities and make strategic asset allocation changes when deemed necessary. The trustees will decide on how much the fund can strategically allocate offshore after allowing for legislative limits.

5.3.7 ***"In performing due diligence ... a fund may take credit ratings into account, but such credit ratings should not be relied on in isolation for risk assessment or analysis of an asset, should not be to the exclusion of a fund's own due diligence, and the use of such credit ratings shall in no way relieve a fund of its obligation to comply with all the principles ..." (in regulation 28)***

The trustees recognise that credit rating agencies may be of some use, but also recognise that there are weaknesses in relying on these ratings in isolation. The trustees will delegate the responsibility to perform due diligence on potential and existing investments to their managers or third party providers.

5.3.8 ***"Understand the changing risk profile of assets of the fund over time, taking into account comprehensive risk analysis, including but not limited to credit, market, liquidity and operational risk, and currency, geographic and sovereign risk of foreign assets"***

A detailed list of the investment risks that the trustees have identified and considered is contained in Appendix 1.

The trustees recognise that the risk profile of securities and asset classes change over time, and therefore that the investment process requires constant and continuing reassessment. They accordingly require ongoing education and information on markets and assets from their managers and third party service providers.

They also require their managers to continually evaluate the changing risk profile of the fund's assets. The trustees specifically require the managers to manage on an active basis, as investing passively fails to address many of the important risks (such as credit) identified above. The trustees do however recognise that active and passive portfolios can be applied in tandem. The trustees will also require regular asset and liability modelling studies to understand the changing risk profiles of assets and liabilities.

5.3.9 ***"Before making an investment in and while invested in an asset 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 character"***

The trustees recognise the increasing importance of environmental, social and governance (ESG) factors in social society, and the important role that pension funds can have in ensuring responsible corporate behaviour. The trustees will review the ESG policies of the managers and ensure that they are satisfied that these are in line with their requirements, and that they take into consideration the Code for Responsible Investing in South Africa.

The fund currently specifically allocates a portion of its assets to be managed under a socially responsible investment (SRI) mandate.

5.3.10 ***"With the appointment of third parties to perform functions ... to comply with the principles ... the fund retains the responsibility for compliance ..."***

The trustees will provide third parties with the fund's policies in respect of the principles raised in regulation 28, or will examine the third parties' policies in relation to those principles, to ensure that any decisions taken by the third parties are consistent with the fund's own policies. The fund will also require annual compliance reports, with quarterly reports on breaches that may have occurred together with reasons for such breaches.

6 INVESTMENT PHILOSOPHY AND STRATEGY

6.1 INVESTMENT PHILOSOPHY

The fund is a long term institutional investor that requires real rates of return over the medium to longer term, in order to meet its benefit obligations. Real rates of return refer to rates in excess of price inflation (for pensioners) and salary inflation (for active members). Shorter term volatility is of lesser concern to the fund, as it will ensure that adequate cashflow is on hand to meet ongoing liability outgo.

The trustees recognise that investment management is a long term process and that there will be fluctuations in the short term. However, long term objectives will only be met if they are consistently achieved over shorter periods. Failure to meet objectives over the shorter periods will ultimately lead to a failure to achieve the long term goals.

6.2 Investment Strategy

The fund has developed separate investment strategies for the active member and pensioner pools. These strategies are described in the next two sections.

The trustees employ asset managers to manage assets on an active management basis although it is appreciated that portions of the portfolio can be managed on a passive basis. The trustees retain responsibility for the appointment of the managers and seek input from their investment advisors and their actuary in selecting managers and the underlying portfolios. Each manager is expected to pursue their own strategy within the broad framework of the guidelines set out in the mandate.

The fund's cash inflows and withdrawals will be made to and from managers as agreed by the trustees from time to time.

6.3 Active Member Investment Strategy

As a result of an asset liability modelling exercise completed during August 2013, the trustees have decided to employ a low equity, index-weighted benchmark investment strategy for the active member asset pool. The benchmark adopted for the total active member asset pool is as follows:

Asset Class	Allocation
Equity - Total	**50%**
Local Equity	37%
Local Bonds	33%
Local Cash	5%
Local Property	3%
Offshore Equity	13%
Offshore Bonds	9%

The trustees have decided to allocate approximately 6% of the active member asset pool to socially responsible investments, with the following benchmark:

Asset Class	Allocation
Local Bonds	50%
Local Property	50%

The remaining assets of the active member asset pool will be allocated to actively managed global balanced low equity portfolios, with the following index-weighted benchmark:

Asset Class	Allocation
Equity - Total	**53%**
Local Equity	39%
Local Bonds	32%
Local Cash	5%
Local Property	0%
Offshore Equity	14%
Offshore Bonds	10%

The managers utilised to manage the active member pool will be required to outperform the benchmark above over rolling three-year periods.

The objective of this strategy is to ensure that the growth in fund assets is at least equal to the growth in the liabilities of active members. An asset liability modelling exercise is undertaken periodically to inform the trustees of the net return required to meet the fund's objectives.

6.4 PENSIONER MEMBER INVESTMENT STRATEGY

The trustees have implemented a *liability driven investment* strategy for the pensioner pool, by investing an optimal amount of the pool assets in a portfolio managed by an asset manager that specialises in this area of investment. The proportion allocated to these assets and the matching term were informed by a detailed asset liability modelling exercise.

The pensioner longevity risk is controlled by way of the level of pension increases granted. In the event that pensioner longevity exceeds the actuarial assumptions, then future pension increases will be reduced to ensure that the fund does not go into deficit.

The balance of the (non matched) domestic assets are invested predominantly in equity-only local and offshore portfolios, with a smaller allocation to local socially responsible investment portfolios.

The pensioner pool assets are reviewed regularly taking into account the detailed cashflow projections prepared by the actuary each year, as part of the annual valuation of the fund.

7 ASSET ALLOCATION AND PORTFOLIO CONSTRUCTION

7.1 IMPLEMENTATION OF THE INVESTMENT STRATEGY

The trustees will implement the investment strategy by:

- Appointing an investment subcommittee of trustees who have the appropriate financial experience.
- Ensuring that the fund's investment performance is regularly reported to them by the Investment Sub-committee, and that it is consistent with the philosophy and objectives of the fund.
- Considering recommendations from the Investment Sub-committee.
- Supporting the investment subcommittee with the required professional assistance to compile, analyse and comment upon the matters for which the investment subcommittee is responsible.
- Approving the use of external consultants by the Investment Sub-committee as the need arises.

7.2 MANAGER MANDATES

The trustees have appointed several managers to manage the assets of the fund. The SRI and global mandates are managed on a pooled basis whilst all other local mandates are on a segregated basis. The table below shows the mandate awarded to each manager:

Manager	Portfolio	Mandate
Allan Gray	Allan Gray Active	Global balanced, low equity
Allan Gray	Allan Gray Pensioner	Domestic equity
Coronation	Coronation Active	Global balanced, low equity
Coronation	Coronation Pensioner	Domestic equity
Investec	Investec Active	Global balanced, low equity
Investec	Investec Pensioner	Domestic equity
Futuregrowth	Active and pensioner	SRI bonds and property
Orbis	Orbis Pensioner	Global equity
Investec Offshore	Investec Offshore Pensioner	Global equity
Colourfield	Pensioner hedged	Liability-driven investment

7.3 BENCHMARKS

The trustees have developed and implemented appropriate benchmarks against which the performance of the fund, managers and portfolios is measured. The benchmarks have been constructed with due regard to the objectives of the fund:

Manager	Portfolio	Mandate	Primary Performance Benchmark (Net of costs)
Allan Gray	Active members	Global balanced low equity	39% SWIX 32% ALBI 5% STEFI 14% MSCI World 10% Citi WGBI
Coronation			
Investec			
Allan Gray	Pensioners	Domestic equity	SWIX
Coronation			
Investec			
Futuregrowth	Active members and Pensioners	SRI	50% ALBI 50% SAPY
Orbis	Pensioners	Global equity	FTSE World Index
Investec Offshore	Pensioners	Global equity	MSCI All Country World Index
Colourfield	Pensioners	Liability-driven investment	Fund liabilities

7.4 ACTIVE MEMBER ASSET POOL – ASSET CLASS EXPOSURE RANGES

In consultation with the selected asset managers, as well as the fund's actuaries, the trustees have determined the following minimum and maximum asset class exposure ranges for the active member asset pool's global balanced, low equity index-weighted portfolios:

Asset Class	Benchmark	Allan Gray and Coronation		Investec	
		Minimum	Maximum	Minimum	Maximum
Local Equity	39%	30%	65%	13%	65%
Offshore Equity	14%	0%	28%	0%	28%
Total Equity	53%	40%	65%	13%	65%
Local Cash	5%	0%	10%	0%	10%
Fixed Income	42%	10%	50%	10%	87%
Total Offshore	24%	10%	28%	10%	28%
Commodities	0%	0%	10%	0%	10%
SA Derivatives	0%	-15%	5%	-15%	20%

Manager mandates will specify that derivative exposures may not be utilised for purposes of gearing and/or speculation.

8 ASSET MANAGER SELECTION

The fund recognises that it does not have the internal expertise to undertake the investment function and has appointed investment managers for this purpose. Managers have been appointed on an initial three year contract and are subject to annual review thereafter.

The following factors are considered in selecting the managers:

- Asset management philosophy and process.
- Quality of the investment professionals.
- Broad based black economic empowerment credentials.
- Business management skills and reputation of the organisation.
- Customer relationship management.
- Risk management.
- Reporting and administration capabilities.
- Size of assets under management.

- Past investment performance.
- Fees and other costs.
- Corporate governance, including proxy voting guidelines.
- Operational soundness including fidelity cover, compliance monitoring capability, etc.

9 MONITORING AND EVALUATION

9.1 PORTFOLIO PERFORMANCE REVIEW

In monitoring the investment performance, the trustees will take cognisance of the following:

- The returns achieved by each manager in each mandate relative to the benchmarks negotiated over a range of periods.
- Fees paid to the managers.
- Visits by members of the investment subcommittee to the various investment managers to evaluate their capability of consistently outperforming their investment mandates. The Investment Sub-committee will also rely heavily on the recommendations of its advisors in this regard.
- The performance of the fund relative to the investment philosophy and performance objectives set out above.
- The cash flow needs of the fund.
- The derivative activities of the fund.
- Compliance of the fund with the investment strategy.
- Compliance of the managers with the conditions contained in the negotiated portfolio management agreements and investment mandates.
- Full disclosure of the fund's investments and returns with the accounting policies of the fund and generally accepted accounting practice.
- For the LDI manager, success in matching the value of liabilities as determined by the fund actuary from time to time.

9.2 ACTION IN THE EVENT OF PERFORMANCE NOT MEETING INVESTMENT OBJECTIVES

Where the investment portfolios underperform the benchmark for extended periods, the trustees will seek to understand what caused this underperformance and determine whether they are satisfied whether the portfolios continue to meet the fund's investment objectives. Where the trustees are not satisfied then they must seek to replace the investment portfolios with alternatives that can be expected to achieve these objectives.

9.3 Rebalancing of allocations

The allocations of the Active and Pensioner pools will be rebalanced according to the Fund's Rebalancing Policy, as specified in Appendix 2 to this document.

9.4 Review of investment strategy

The trustees will review the fund's overall investment strategy from time to time, but at least annually. In addition to this, the trustees will review the strategy whenever there is a material change to the fund.

10 Communication to Stakeholders

The trustees will ensure that the investment strategy is communicated to all stakeholders. This communication will include:

- A brief summary of governance principles, including who makes which investment decision.
- A description of the investment objectives of the fund.
- A brief summary of the overall objectives of the strategy underlying the portfolios.
- A summary of the characteristics of the investment portfolios.

11 Conclusion

This document has been prepared to record the issues considered by the trustees of the Durban Pension Fund in establishing an appropriate investment policy for the fund, as well as to record the investment strategy that the fund has decided to implement, in accordance with this policy.

This policy was developed by the board of trustees together with their appointed asset consultants and the fund's actuary.

Signed on _________________________ 2016

Chairperson

Principal Officer

Appendix 1: Investment risks considered by the trustees in establishing the fund's investment strategy

The trustees view investment risk primarily as the likelihood that the chosen strategy will result in the objectives of the fund not being met. The fund's investment strategy has been designed to maximise the likelihood of meeting these objectives, while controlling as far as possible those factors which prevent the objectives from being met.

The trustees recognise that there are many risks that need to be considered. In general, greater expected long term returns could only be achieved by accepting more short term risk. The management of one type of risk is often achieved at the expense of another. The investment strategy endeavours to achieve the most appropriate balance between the various forms of risk, given the objectives and liability profile of the fund. The trustees have considered the following specific risks.

1. NEGATIVE REAL RETURN

This arises if the net nominal returns fall below the rate of inflation and the real value of assets declines over time. This risk is reduced over the long term by investing in assets that are assumed to provide a hedge against inflation such as equities, offshore assets and properties (referred to as "real assets" or "growth assets"). Due to the volatility of most of these asset classes, and especially the equity market, it may not be possible to completely eliminate this risk over the shorter term.

2. CAPITAL LOSS (MARKET RISK)

This risk can be avoided in the short term by investing in cash and shorter-dated fixed interest securities, where the future capital value is largely certain. The long term returns on these assets are however expected to be materially lower than that expected from real assets.

3. VOLATILITY (MARKET RISK)

Different asset classes experience different volatilities of return. This risk may be reduced by diversifying the portfolio between the asset classes which are expected to have relatively low correlation, and investing a greater proportion in assets typically displaying lower volatility, such as cash and short term bonds.

4. LIQUIDITY RISK

Liquidity risk involves not having liquid assets to meet liabilities as they fall due, or being unable to realise assets on a reasonable basis when cash is required. This risk is avoided by investment in liquid assets and highly tradable assets, or in pooled investment portfolios where a fund's investment represents a small portion of the total portfolio and liquidation terms are not onerous.

5. ASSET FAILURE

The risk of asset failure is reduced by diversifying the investment portfolio between investments in different companies in the case of equity investments, in different issues in the case of bond investments and deposits with different institutions in the case of cash deposits. The risk is further reduced by investing in well-researched companies and by investing in bonds with high credit ratings. Government bonds are underwritten by the government and are therefore considered to have no risk of failure. The risk of asset failure when the asset represents an investment in the equity of, or a loan to, the sponsoring employer, is reduced if all investments are made purely on investment grounds by parties that are independent of the trustees and sponsoring employer.

6. MARKET TIMING

Market timing is an investment technique where the investor seeks to improve long term returns by correctly anticipating major moves in asset class prices. Empirical evidence suggests that in practice market timing more often reduces than increases returns as human nature is such that it is very difficult for the typical investor to sell assets when markets are at their peak and sentiment is positive, or to buy assets when markets are depressed.

The balanced managers are required to improve long term returns by moving between the different asset classes in an attempt to increase the exposure to the asset classes which they believe are going to outperform. Similarly, managers will reduce the exposure to the asset classes which they believe are going to underperform. Improving long term returns using this technique is difficult and the risk exists that the manager could end up destroying value

7. TACTICAL ASSET ALLOCATION

Tactical asset allocation is a portfolio management technique applied by fund managers whereby they move assets between asset classes when their research suggests that the short term prospects for one asset class are better than for another. As such it is similar to market-timing, but is carried out by professional asset managers.

Tactical asset allocation introduces an opportunity to add value to portfolios when decisions are correct, but also introduces a chance of destroying value when decisions are incorrect. In the long term, tactical asset allocation by competent asset managers can be expected to enhance returns, but in the short term the possibility exists that a degree of additional risk can be introduced. As such the trustees allow reasonably restricted tactical asset allocation in the portfolios by the appointed managers.

8. Asset Manager Risk

8.1 Manager ceasing to exist

The risk exists that the appointed manager might cease to operate. This risk is reduced by performing the necessary research on the various managers prior to the fund placing assets with them. Managers are monitored on an ongoing basis and fund assets are split funded between various managers to diversify this risk.

8.2 Manager under-performing

The risk exists that a particular manager employed by the fund could underperform its benchmark, resulting in poor relative returns. Manager specific risk is reduced by investing in multiple portfolios that use a range of managers.

8.3 Manager failing to comply with its mandate

The risk exists that the appointed investment manager may fail to comply with mandatory requirements. Appointing a compliance officer to monitor mandate compliance can reduce this risk.

9. Benchmark Risk

The performance of a fund's asset managers must be measured against a suitable benchmark in order to determine whether they are performing their function adequately. Asset managers must be cognisant of their benchmarks. The choice of benchmark is critically important.

The trustees are responsible for selecting an appropriate benchmark. This risk has been reduced by developing a formal investment strategy and by making use of the services of professional investment advisors.

10. EXCHANGE RATE VOLATILITY (CURRENCY RISK)

Investors seek to reduce volatility of returns and dependence on the South African economy by investing a portion of their assets in foreign investments. The active member and pensioner liabilities are denominated in rands. Investing in foreign investments introduces a currency mismatch risk.

11. LEGISLATIVE ENVIRONMENT RISK

Changes in the legislative environment can impact investment decisions, for example the introduction or removal of tax on different sources of income or capital gains, changes in the level of permitted offshore investment and any introduction of requirements to invest in specific investments such as targeted development investments. The implications of any changes in legislation should be reviewed and where necessary appropriate changes should be made.

12. CREDIT RISK

Credit risk refers to the risk of default on a bond, the restructuring of any terms of the bond, or the downgrading of the credit rating of a bond. These events will have a negative impact on the price of the bond. Regulation 28 requires that trustees do not rely on credit ratings from rating agencies in isolation, but rather include their own due diligence in the assessment of credit risk.

13. COUNTRY RISK

Country risk generally refers to the collective risks of investing in a foreign country, which could include market, currency, political, credit, etc. When specifying various risks explicitly, country risk can refer more specifically to any residual risks not covered by all the other specified risks. In this document, country risk refers to the political, language, legislative, and regulatory risks of the foreign market.

14. OPERATIONAL RISK

Operational risk generally refers to the collective risks of failure of the business issuing the security at the operational level, which could include fraud, negligence, incompetence, faulty systems or processes, etc. Regulation 28 specifically highlights operational risk for unlisted instruments because of the lack of an additional level of regulation that generally exists with listed securities.

Appendix 2: Durban Pension Fund rebalancing policy

Pensioner rebalancing policy:

Focus Area	Portfolio Segment	Allocation	Trigger	Frequency	Rebalancing Level
Liability focus	Hedged assets	70% of best estimate liabilities	≤65% or 72.5%	Quarterly	Fully
	Growth assets	40% of total assets	≤35%	Quarterly	Fully
Liability and Regulatory focus	Offshore	12.5% of total	<10% or >15%	Monthly	Halfway

- Proposed allocation between the growth asset managers:
    - Futuregrowth – 10%
    - Allan Gray Domestic Equity - 40% of 90%;
    - Investec Domestic Equity – 25% of 90%;
    - Coronation Domestic Equity – 35% of 90%.
- The allocation among the growth asset managers will be monitored on a semi-annual basis.
- Bands or drift of 10% of the allocation on the upside and downside will be allowed.
- Allocations will be rebalanced halfway when limits are breached.
- When rebalancing occurs, it will be decided on a case by case basis whether the services of a transition manager are required.

Active member rebalancing policy:

- Proposed allocation between the managers:
    - Futuregrowth – 6%
    - Allan Gray Global Balanced - 40% of 94%;
    - Investec Global Balanced – 25% of 94%;
    - Coronation Global Balanced – 35% of 94%.
- The allocation among the managers will be monitored on a semi-annual basis.
- Bands or drift of 10% of the allocation on the upside and downside will be allowed.
- Allocations will be rebalanced halfway when limits are breached.
- When rebalancing occurs, it will be decided on a case by case basis whether the services of a transition manager is required.