Rhodes University
Investment Policy and Procedure

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Responsible Committee	Board of Governors: Investment Committee
Responsible	Chief Financial Officer
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1. POLICY PARTICULARS

1.1. Policy Title	Rhodes University Investment Policy
1.2. Policy Statement (State in a single paragraph the policy mandate and how this relates to the University Mission and Vision)	This document represents the Investment Policy Statement (the "IPS") which details the philosophy and investment strategy of the Rhodes University Board of Governors Investment Committee (BoGIC).
1.3. Reason for Policy (What this policy aims to achieve)	The Rhodes University Board of Governors (BoG) supports the operational and strategic activities of the University whilst the Investment Committee is mandated to develop, implement and monitor the investment performance of the University's endowed and reserve funds.
1.5. People affected by this Policy (e.g. All units of the University)	All areas of the University dependent on endowment or other (Student aid or equipment) contributions from the RU investment portfolio.
1.6. Who should read this Policy (People who need to heed this policy to fulfil their duties)	All members of RU community who have any dependence on fund allocations from the Investment Portfolio
1.7. Implementers of this Policy (Who will manage the implementation of this policy)	BoGIC and CFO
1.8. Website address/link for this Policy	TBC

2. RELATED DOCUMENTS FORMS AND TOOLS

(University Policies, Protocols and Documents (such as rules/policies/protocols/guidelines related to this policy)

Relevant Legislation (Legislation/Regulatory requirements/Organisational Reports – name these)
Relevant Legislation (Legislation/Regulatory requirements/Organisational Reports – name these) Higher Education Act of 1197 (as amended); Preferential Procurement Regulations, 2017 pertaining to the Preferential Procurement Policy Framework Act (Act No. 5) of 2000; The Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003); Section 217 of the Constitution of South Africa.
Related Policies
Rhodes University Policy on Delegations of Authority and Schedule of Authorisation Levels

3. PREAMBLE

3.1 This document represents the Investment Policy Statement (the "IPS") which details the philosophy and investment strategy of the RU Board of Governors Investment Committee.

3.2 The RU Board of Governors supports the operational and strategic activities of the University whilst the Investment Committee is mandated to develop, implement and monitor the investment performance of the University's endowed and reserve funds. An extract from the Board of Governors Terms of Reference states the following functions of the Investment Committee:

- 3.2.1 To take full fiduciary responsibility for the investment of the capital accumulation under the stewardship of the board of governors.
- 3.2.2 To regularly review the performance of the investment portfolio.
- 3.2.3 To make recommendations to the board of governors and the university council on the distributions from investments to the university.
- 3.2.4 To appoint and dismiss, when necessary, professional investment advisors after consultation with the university council.

3.3 The Investment Committee will ensure that the investment policy is transparent at all times and will communicate decisions and changes in this regard to the University and beneficiaries on a regular basis. The purpose of this document is as follows:

- 3.3.1 To articulate specific and holistic investment objectives,
- 3.3.2 To identify and delegate responsibilities regarding the management of the assets,
- 3.3.3 To specify the investment strategy and risk tolerance levels,
- 3.3.4 To specify the performance goals
- 3.3.5 To establish parameters to ensure compliance with these investment guidelines, and
- 3.3.6 To specify the method by which performance will be monitored and evaluated.

4 OBJECTIVES

4.1 The main objective of the Investment Committee is twofold, namely to:

- 4.1.1 Grow the capital value of the RU portfolio by at least inflation plus 6% p.a. before fees measured over a rolling 7 (seven)-year period after allowing for the distribution policy described below, with minimal volatility year on year; and
- 4.1.2 Distribute to the underlying beneficiaries (RU) a percentage of the endowed RU portfolio computed value set by the Investment Committee from time to time and to increase this amount each year in line with inflation (based on the agreed formula set out in section 6).
- 4.1.3 The main investment objective for the Investment Committee is to accumulate income to make minimum and meaningful distributions to the benefactors.

4.2 It is specifically provided that (b) will take preference over (a), that is the RU BoG Investment Committee will maintain its distribution policy even in the light of prolonged weak investment performance relative to inflation.

4.3 Additionally, it is expected that the annual rate of return of the assets will be commensurate with the then prevailing investment environment.

4.4 The asset allocation parameters, definition, and corresponding benchmark(s) for performance comparison can be found under section 9 of this policy.

5 RISK CONSTRAINTS

5.1 The return objective of delivering real returns over the long-term is not without boundaries, as any objective is subject to a certain risk level. The interplay between return and risk, and the subsequent trade-off between the two, can be managed by firstly understanding the risks.

5.1.1 Market risk, also referred to as systemic risk, is the uncertainty about the rise or fall of an asset class due to changes in broad market factors for that specific asset class. Market risk must be managed to ensure that the capital is not eroded in the short-term

5.1.2 The additional risks that must be managed when investing the assets are detailed below:

5.1.2.1 Benchmark Risk – this is defined as the Fund's performance not meeting its stated objectives, in relation to its benchmark. This highlights the importance of selecting the most suitable benchmark for the performance to be measured against. If the benchmark is incorrectly specified, it disadvantages the measurement of performance. The benchmark is stated in real terms.

5.1.2.2 Asset Manager Risk – if the Fund invests solely with one manager, the exposure to one investment style increases and achieves no diversification benefits.

5.1.2.3 Style Risk - this refers to the potential for losses or underperformance associated with a particular investment style. Different investment styles, such as growth, value, or income investing, come with varying levels of risk and return potential.

5.1.2.4 Capital Loss Risk – due to the nature of the investments and the accepted risk required to achieve the desired return, capital losses may occur from time to time, especially over the shorter-term, for growth assets (equities, property and offshore assets). Some of the components of this risk are:

5.1.2.4.1 Market Risk – arises from unpredictable movements in investment prices.

5.1.2.4.2 Economic or interest rate risk – General economic or interest rate fluctuations can significantly impact investment values

5.1.2.4.3 Liquidity Risk – arises when the investment or components of the investment portfolio cannot be easily converted to cash

5.1.2.4.4 Credit risk – the risk that the issuer of an instrument may default on payment.

5.1.2.4.5 Foreign exchange or currency risk – arises when currency exchange rates are volatile.

5.1.2.5 Inflation Risk – arises when capital grows at a rate less than the current assumed CPI inflation rate. The Investment Committee will aim to invest in such a way as to achieve an investment return which more than matches the inflation rate over the longer term to ensure no capital erosion. It is noted, however, that shorter term underperformance of inflation is possible.

6 RISK PORTFOLIOS

6.1 The Investment Committee expects that any person or organisation involved in the process of managing the assets understands the concept of risk so that the assets are managed in a manner consistent with the objectives contained within the Investment Policy. Risk is defined as the probability of the erosion of capital value and the non-growth of the portfolio. In order to minimise this risk, the committee utilises a portfolio which has a dual objective:

6.1.1 to meet a CPI target over time, and

6.1.2 to minimise capital losses over a rolling 2 (two)-year period.

6.2 Investment return and risk are correlated. While the correlation cannot be defined in absolute terms, it is generally accepted that an investor would require compensation in the form of investment returns in return for the investment risk taken. Each investment portfolio's return will be compared to its internal benchmark objective (section 7) as well as the inflationary target on a quarterly basis.

7 ASSIGNMENT OF RESPONSIBILITY AND ETHICS TO THE BoGIC

7.1 Responsibility of the Investment Committee

7.1.1 The members of the Investment Committee commit themselves to:

7.1.1.1 Proper preparation before the meetings

7.1.1.2 Active participation in the meetings

7.1.1.3 A continuous process of learning about investments

7.1.1.4 A review of their own contribution to the BogIC and the performance of the BoGIC as a whole It is accepted that the

7.1.2 Chair of the BoGIC has a critical role as he or she will play a large role in determining how effectively members of the IC interact and to which issues the most amount of time will be allocated.

7.1.3 The Chairman and members of the BoGIC will be appointed by the Board of Governors in consultation with the Council of the University on the basis of leadership and of expertise

7.1.4 Members will serve on the BoGIC for a period determined by the Board of Governors from time to time. The Board of Governors shall appoint new members to the BoGIC when vacancies arise on the recommendation of the BoGIC.

7.1.5 The Ex Officio Members of the Committee are:

7.1.5.1 Chair of the Board of Governs

7.1.5.2 Vice Chancellor

7.1.5.3 Chair of Council

7.1.5.4 A representative of the Finance and General Purposes Committee (F&GP).

7.1.5.5 The Chief Financial Officer (CFO) of the University will be the Secretary/Treasurer.

7.1.6 The BoGIC will consist of no less than 8 (eight) members in addition to the Ex Officio Members.

7.1.7 The BoGIC will seek to constitute itself so that the membership represents diverse views and approaches, but with a minimum requirement that each member must have an appropriate level of investment expertise.

7.1.8 The BoGIC are mandated to appoint an Investment Consultant to advise the BoGIC on matters regarding the management of the assets. (refer 7.2 below)

7.2 Responsibility of the Investment Consultant

7.2.1 The Investment Consultant's role is that of a discretionary advisor to the Investment Committee operating within the guidelines outlined in the Investment Policy on an ad hoc basis. Investment advice concerning the management of assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, and guidelines established in the Investment Policy.

7.2.2 Specific responsibilities of the Investment Consultant may include:

7.2.2.1 Assisting the Investment Committee with the development and periodic review of the Investment Policy.

7.2.2.2 Advising on the selection of investments by the asset manager.

7.2.2.3 Monitoring the performance of the investments on a quarterly basis in accordance with the guidelines established in the Investment Policy when requested.

7.2.2.4 Conducting a strategic review of the investments on a regular basis

7.2.2.5 Communicating relevant issues to the Committee that may affect Investment Policy such as current global economic conditions and outlook.

7.3 Ethics

7.3.1 Conflicts of interest should be avoided where possible. However, the Investment Committee realise that not all conflicts can be avoided, and that certain unavoidable conflicts will thus need to be carefully managed. The Investment Committee will require all service providers to highlight any areas of conflict of interest in their operations and the Investment Committee will decide on how these conflicts should be addressed.

7.3.2 Similarly, the Investment Committee members will be expected to disclose where a member has a conflict of interest, and refrain from participating in any related decision.

7.3.3 The Investment Committee shall refrain from any personal activity that may conflict with the proper execution, or which could impair or appear to impair ability to make impartial investment decisions. The Investment Committee shall disclose to the Board of Governors any material financial interest in financial institutions that do business with the RU. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the investments.

7.4 Delegation of authority

7.4.1 The Rhodes University Foundation Trust was dissolved in July 2010 by the High Court in Grahamstown. The funds therefore fall under the control of the Rhodes University Council. The Council has delegated the responsibility for the investment of the RU portfolio (endowed and reserve funds) to the Board of Governors.

Refer Annexure 1 that sets out delegated authority to the BoGIC

8 RU BOG DISTRIBUTION POLICY

8.1 Rhodes University has adopted the Yale University distribution rule:

80% X (Prior Year's Distribution X [1 + Inflation]) + 20% X (Current Portfolio Value X % of portfolio value distributed)

By weighting the prior year's spending more heavily, this allows consistent spending from year to year to ensure continuity of funded programs, but the downside is that it may deplete the endowment more quickly than a simple or smoothing method which would follow the markets in a more pronounced fashion (although the smoothing tends to show delayed reaction to the market).

For Example:

Prior Year's Distribution:	***R18 000 000***
Current Value of Portfolio:	***R635 000 000***
Portfolio percentage distributed:	***3%***
	Inflation: 4.7%

Distribution to Rhodes:

80% X ([18 000 000 x [1.047]) + 20% X (635 000 000 x 3%)
= R18 124 800

9 INVESTMENT MANAGER FEES

9.1 Manager fees

The following overriding fee principles apply:

9.1.1 The fees must be consistent with the expected "value add" of the Investment Manager – this means that the Investment Committee should pay close attention to passive fee structures if there is limited expected manager skill; on the other hand, the Investment Committee is prepared to pay higher fees for skilled managers.

9.1.2 The fee arrangement must reflect a clear alignment between the interests of the RU portfolio and that of the Investment Manager (the fee arrangements should be appropriately structured to protect the University).

9.1.3 The manager's fee can be structured either on a fixed fee or performance fee basis. The Investment Committee will prefer a fixed fee basis, if, taking due account of the manager's expected skill and variation in return, this basis is expected to be cheaper than the performance fee offered. Any performance fee structure agreed must be structured to prevent the manager from taking on undue risk over short measurement periods.

The current fees are set out in Appendix C.

10 SOCIALLY RESPONSIBLE INVESTING

10.1 It is the responsibility of the BoGIC to inform, monitor and critically engage the Fund Managers' socially responsible investment policy on an annual basis. Whilst the BoGIC will challenge its Fund Managers on sustainability issues, the BoGIC will generally allow its managers to invest in any business that is legal and will not, as a standing instruction, impose ethical judgements precluding certain investments. The BoGIC may review this decision at any time.

10.2 Proxy Voting

10.2.1 The assets are currently held via a segregated mandate, and the Investment Committee can exercise its ownership rights in respects of its investments. However, Asset Managers are expected to influence the behaviour of companies into which they invest to encourage them to meet corporate governance best practice standards. The appointed asset manager is therefore mandated to vote on behalf of the Investment Committee in line with its proxy voting policy. Appointed Asset Managers must have a stated policy of voting proxies in the best interest of shareholders. Such policy shall be in writing and be available for review by the Board on request. Asset Managers should also be able to provide a report on their proxy voting record on request.

10.2.2 The BoGIC should review the investment manager's Stewardship Policy including their Environmental, Social and Governance (ESG) statement and their proxy voting policy, annually.

11 BENCHMARKS

11.1. The available opportunity sets are defined by a market capitalisation index and accordingly the BoGIC will generally use an index constructed in this manner. The only exception to this is where the index has an undue concentration of risk in specific counters – e.g. Anglo American and BHP Billiton in the FTSE / JSE All Share Free Float index. In such cases the IC will adopt a benchmark that limits the exposure to any one counter to a maximum of 10%.

Asset class	SAA*	Bench mark
SA equities	40.0%	FTSE / JSE Capped SWIX
SA bonds	8.0%	BE ASSA All Bond Index (ALBI)
SA listed property	7.5%	All Property Index (ALPI)
SA cash	0.0%	STeFI Composite Index
Global equities	25.0%	MSCI (World) Index (unhedged)
Global emerging market equities	12.0%	MSCI Emerging Market Index
Global bonds	2.5%	Barclays Capital Global Aggregate (unhedged) Index
Global property	7.0%	FTSE EPRA/NAREIT Developed Index

- Internal benchmark - measures the performance relative to composite market index. Alternative performance measurement is to target CPI + 6% gross of fees.
- *Per NMG's modelling. – SAA* – Strategic Asset Allocation

12 MANDATE RESTRICTION – USE OF UNENCUMBERED/"FREE" RESERVE INVESTED FUNDS

12.1 It is only under exceptional circumstances that the unencumbered or "free" reserves of the University under the management of the BoGIC may be utilised for recurring and/or operational expenses of the University.

13 CRITERIA FOR SELECTING INVESTMENT MANAGERS

13.1 The BoGIC is not skilled in making asset allocation and stock selection decisions and relies on the skills of the investment managers. The Investment Committee's approach is to give the investment managers discretion in line with the Investment Committee's performance objectives and the manager's mandate.

13.2 Asset Managers will be evaluated prior to their appointment. Criteria may be expanded to relate to a specific mandate. The criteria and annual evaluation process will be fully transparent and will be documented for review by future Committee members.

13.3 The BoGIC believes that an in-depth qualitative analysis of the Investment Manager provides more reliable information about skill than past performance over measurement periods of even as long as 5 (five) years. Ultimately the ability of a manager with superior qualitative characteristics should be reflected in the long-term performance numbers (measurement periods of 7 (seven) years and longer). The most important element of successful manager selection is the ability to identify and understand any significant "edge" the Investment Manager has to the market.

13.4 Apart from this, in evaluating investment managers the following should also be considered:

13.4.1 Philosophy and approach to investment
13.4.2 Depth and stability of team
13.4.3 Risk Management approach
13.4.4 Sustainable performance over a longer term

13.5 All Asset Managers will be reviewed on an on-going basis. A special review may be necessary due to changes in the Asset Managers' investment philosophy, process or personnel. Whilst performance will be a strong evaluation tool, short term underperformance will not be a strong consideration. The BoGIC will perform an annual evaluation of the asset managers.

13.6 The current investment portfolios are detailed in Appendix D. The benchmark against which each manager will be measured is included in that Appendix along with specific details of the agreed fees and appointed custodians (where applicable).

14 PERFORMANCE MONITORING

14.1 Qualitative process

14.1.1 The Investment Committee places greater store on an assessment of the qualitative aspects of the manager rather than past performance (particularly when this performance is short-term).

14.1.2 To this end the Investment Committee will follow an approach of engaging with its Investment Managers rather than being passive recipients of the manager's feedback. This means that the Investment Committee will:

14.1.2.1 Challenge the manager to explain his or her positions in the RU portfolio;

14.1.2.2 Look for coherence in the investment strategy;

14.1.2.3 Get insight into what the manager assesses the intrinsic as opposed to market value of the RU portfolio is; and

14.1.2.4 Test the key qualitative aspects of the manager, focusing on aspects which the Investment Committee regards as the "edge" of the manager.

14.2 Quantitative process

14.2.1 The following backward looking quantitative analysis will be done to aid understanding of the RU portfolio:

14.2.1.1 Overall performance of the RU portfolio relative to the performance objectives and risk constraints;

14.2.1.2 Performance and risk budget of each Investment Manager relative to its benchmark;

14.2.1.3 Compliance with the constraints and restrictions as set out in the investment manager mandates; and

14.2.1.4 Other statistics that aim to measure manager skill (e.g. upside and downside capture).

14.3 The following forward-looking quantitative analysis will be done to aid understanding of the Investment Committee:

14.3.1.1 Prospective tracking error of the Investment Manager; and

14.3.1.2 Key over-weight and under-weight positions in the RU portfolio.

15 REPORTING REQUIREMENTS

15.1 Reports

15.1.1 On a quarterly basis, a report containing the following information will be prepared for the Investment Committee. The report will include the following information, as a minimum requirement:

15.1.1.1 A listing of the investment portfolio by underlying fund and manager.

15.1.1.2 A measure of the performance by the underlying funds, as well as the measure of risk provided over the previous year, compared to its historical performance.

15.1.1.3 An analysis of returns relative to the benchmarks, as well as peers and the return objectives.

15.1.1.4 A summary of the income earned on a monthly and year-to-date basis.

15.1.1.5 General market and economic conditions and other factors that may affect the investments.

15.1.1.6 The degree of compliance with the tenets set forth in the IPS.

15.1.2 The investment performance of aggregate assets, as well as asset class components, will be measured against the performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set out in the Investment Policy. The investment performance will be measured over various periods including the full market cycle, typically 5-7 (five to seven) years.

15.1.3 The individual and custom benchmarks that will be monitored for performance reporting and the analysis of the portfolio are stated and described in section 7 above. The Investment Committee has adopted an active management approach, and it is therefore expected that the respective asset classes of the diversified portfolio will outperform their respective benchmarks, net of fees and expenses, on a long-term (market cycle) basis.

15.1.4 It is recommended that the investment strategy be reviewed every three years, or earlier if required. This review can also be triggered by highly volatile market movement, or a noticeable under performance of a manager.

15.2 Supervision

15.2.1 The Investment Committee should meet with the investment consultants quarterly to monitor the performance of the assets and the investment manager(s) compliance with the guidelines set out in the IPS. The BoG will receive and review portfolio management reports quarterly.

15.2.1.1 TheBoG will review this Investment Policy Statement at least once a year to ensure that it remains appropriate and complete. Any changes and exceptions to the Investment Policy will be made in writing and adopted by the BoG.

15.2.1.2 The BoG have the option to review the investment strategy to ensure that that it is still in line with the objectives over time.

16 OTHER GOVERNANCE ISSUES

16.1 The Investment Committee and the investment consultant shall be required to make a full disclosure of any conflict of interest situation relating to the investments of the RU portfolio at all relevanttimes.

16.2 Unless otherwise agreed by the Investment Committee, the assets shall be registered in the name of the University Council. In the case that the assets are not registered in the RU portfolio's name because ownership is via units in a CIS (collective investment scheme) or an insurance policy, the Investment Committee will be satisfied that:

16.2.1 The organisation in whose pooled vehicle the RU portfolio's assets are invested is one of high reputation;

16.2.2 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;

16.2.3 Independent reporting, at least on a quarterly basis, that the pool holds the said assets and the market value thereof is fairly reflected; and

16.2.4 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.

16.3 The investment manager shall be required to be completely transparent when reportingon any fees incurred in the RUportfolio.

16.4 The investment consultant shall be independent from any investmentmanager.

16.5 The investment consultant shall provide the Investment Committee with their capital market assumptions on an annual basis. This document sets out the investment consultant's long term real return expectations of the main assetclasses.

16.6 In appointing an Investment Manager, the Investment Committee will familiarise themselves with the Investment Manager's governance policies to ensure that the Investment Manager has adequate governance in place to give consideration to all relevant factors, including those of an environmental, social and governance character, when investing in an asset or when exercising any proxy votes. The IC will also engage with the existing Investment Managers on governance issues affecting the RU portfolios as these arise in the quarterly meetings.

17 REVIEW OF POLICY AND PROCEDURE

17.1 In the normal course of events the IC will review the investment strategy every 5-7 (five to seven) years. The investment strategy must be reviewed within 3 (three) months of any of the following events occurring:

- 17.1.1 A material change in exchange control regulations affecting investment funds;
- 17.1.2 A material change in the monetary policy of the South African Reserve Bank around the level of real interest rates;
- 17.1.3 A change in the tax basis affecting the investment strategy of the RU portfolio; and
- 17.1.4 An indication that the RU portfolio will have significant cash flow requirements (particularly outflows)

APPENDICES

1. **DELEGATIONS OF AUTHORITY**
   The table below sets out the authority delegated to the BoGIC:

Description of activity	BoG decision	Council decision	IC recommendation	IC decision
Governance and related issues				
Composition and membership of the IC	✓	x	✓	x
BoGt mission	✓	✓	✓	x
How markets work – beliefs of the IC	X	x	x	✓
Investment Manager fees	✓	x	✓	x
Social responsible investing	✓	x	✓	x
Exercise of voting rights	x	x	x	✓
Scrip lending	x	x	x	✓
Investment strategy				
Investment objective and risk budget	✓	x	✓	x
Asset classes included	✓	x	✓	x
Strategic asset allocation	✓	x	✓	x
Capital market assumptions and manager skill assumptions	x	x	x	✓
Investment Manager configuration	x	x	x	✓
Investment strategy continued				
Benchmarks	x	x	x	✓
Investment Manager mandates	x	x	x	✓

Managers				
Investment manager selection, de-selection and fees	✓	✓	✓	x
Investment consultant selection, de-selection and fees	✓	✓	✓	x
Monitoring				
IC meeting its key performance indicators	✓	✓	x	x
RU portfolio performance and risk taken relative to objective	x	x	x	✓
Manager performance and risk taken relative to benchmark	x	x	x	✓
Overall cost structure of the assets	x	x	x	✓
Qualitative assessment of Investment Managers	x	x	x	✓
Performance of investment consultant	x	x	x	✓

2. PRINCIPLES GUIDING THE INVESTMENT COMMITTEE

"The general notion is that the rate of return which the investor should aim for is more or less proportionate to the degree of risk he is ready to run. Our view is different. The rate of return sought should be dependent, rather, on the amount of intelligent effort the investor is willing and able to bring to bear on his task." Ben Graham – The Intelligent Investor.

The Investment Committee(IC) believes that its competitive advantage (compared to most other investment committees) stems from:

1. The composition and *modus operandi* of the IC, which places an emphasis on the time, expertise and decision-making capacity of the IC members and is structured to facilitate continuity of membership.

2. Its understanding of risk, which has three components namely:

   2.1. Risk must be assessed against the yardstick of overpaying for an asset – this requires the IC's Investment Managers to have a deep understanding of the intrinsic value of assets. This approach rejects the market norm which is to define risk in "tracking error" terms relative to the benchmark (e.g. the FTSE / JSE All Share Index) on the assumption the market is broadly efficient and the risk free position is to hold the benchmark.

   2.2. Investing is a game of odds – when the odds are significantly in the IC's favour (i.e. if the price is much lower than the intrinsic value) then the IC should be prepared to take a bigger position in the opportunity and diversification is of lesser importance. On the other hand when the IC's edge to the market is small diversification becomes very important.

   2.3. The Investment Committee understands the impact of other investors on prospective investment returns. The actions of other investors could have the effect of destroying value of an investment even if on a *rational basis* the price of an asset is well below its intrinsic value.

3. Its understanding of what the inefficiencies in the market are and its ability to exploit these inefficiencies. Specifically:

   3.1. The IC firmly believes that it is not easy to beat the market – it takes hard work, an intelligent approach and courage.

   3.2. The IC focuses on the long-term and accepts that over shorter measurement periods, which could be as long as 3 years (and sometimes even 5 years), it could under- perform the benchmark and peer group significantly. The IC has the resilience and patience to be seen as "wrong" in the short term, something most other investment committees cannot accept. Over time the RU portfolio should be rewarded for taking on this "discomfort premium".

   3.3. The IC will evaluate any under-performance against the criteria "are we wrong, or can we articulate with good reason the mistake the market is making?" In making this assessment the IC needs to balance the consideration that there will always be cogent arguments why the market is indeed right (and so why "we are wrong") against its stubbornness to admit that it had made a mistake (i.e. the committee only looks for reason to justify why the market is wrong). This will never be an easy task, but the IC will stick to an intelligent approach which aims to assess the probabilities as accurately as possible.

   3.4. The IC will not slavishly rely on mean reversion even though most of the time it is a winning strategy. The IC recognizes that mean reversion may not occur at all if, as rarely happens, there are fundamental "jump shifts" in the economy (e.g. a move to a much lower inflation environment) or poorly performing companies are so weak that they go out of business, or reversion may take much longer to come through if certain growth companies (e.g. Microsoft in the 1990's) have significant barriers to entry.

   3.5. Diversification adds value most of the time and the IC will look to increase the benefits of diversification by including asset classes that offer good diversification characteristics, but which at the same time are generally avoided by other investors. The IC recognizes that under certain market conditions the benefits of diversification are overstated and when the odds are significantly in favour of the RU portfolio, too much diversification will detract from performance.

4. Although the IC is firmly committed to a long-term investment horizon, it recognizes that the very good investment opportunities arise in the short term when markets experience severe stress events. The IC is able to assess such opportunities in depth and has the organizational structure to make the decision to invest quickly if this indeed is a good opportunity.

3. HOW MARKETS WORK – GUIDELINES FOR THE INVESTMENT COMMITTEE

1. The IC fundamentally believes that investors will be rewarded with an equity risk premium over the long term and will therefore invest a higher proportion of the Foundation's assets in local and international equity markets. The IC also believes in the merits of diversification and will therefore invest in additional asset classes such as bonds andcash.

2. The BoG' investment philosophy takes into account the "theory of inefficient markets".

3. The theory of inefficient markets posits that:

   3.1. 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.

   3.2. 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:

   3.2.1. 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);

   3.2.2. 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;

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

   3.2.4. 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

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

4. On the basis that markets are indeed inefficient the proper investment strategy for the IC 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.

   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".

5. 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.

6. In such circumstances intrinsic value managers will be contrarian and may end up holding a RU portfolio that is very different to that of the benchmark.

7. The IC accepts that the long term "intrinsic value" investment approach will under-perform the *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). The IC accepts that it needs the courage and patience to maintain their long-term strategy in the light of such under- performance.

   The IC further understands 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").

   The key danger is that the IC abandons this philosophy just at the time when the "fashionable" investment ideas start deflating

8. The IC accepts that the success of the investment strategy will primarily be measured relative to inflation as opposed to the performance of the peer group.

4. PRINCIPLES GUIDING THE INVESTMENT COMMITTEE

"The general notion is that the rate of return which the investor should aim for is more or less proportionate to the degree of risk he is ready to run. Our view is different. The rate of return sought should be dependent, rather, on the amount of intelligent effort the investor is willing and able to bring to bear on his task." Ben Graham – The Intelligent Investor.

The Investment Committee believes that its competitive advantage (compared to most other investment committees) stems from:

(a) The composition and *modus operandi* of the IC, which places an emphasis on the time, expertise and decision-making capacity of the IC members and is structured to facilitate continuity of membership.

(b) Its understanding of risk, which has three components namely:

- Risk must be assessed against the yardstick of overpaying for an asset – this requires the IC's Investment Managers to have a deep understanding of the intrinsic value of assets. This approach rejects the market norm which is to define risk in "tracking error" terms relative to the benchmark (e.g. the FTSE / JSE All Share Index) on the assumption the market is broadly efficient and the risk-free position is to hold the benchmark.

- Investing is a game of odds – when the odds are significantly in the IC's favour (i.e. if the price is much lower than the intrinsic value) then the IC should be prepared to take a bigger position in the opportunity and diversification is of lesser importance. On the other hand, when the IC's edge to the market is small diversification becomes very important.

- The Investment Committee understands the impact of other investors on prospective investment returns. The actions of other investors could have the effect of destroying value of an investment even if on a *rational basis* the price of an asset is well below its intrinsic value.

(c) Its understanding of what the inefficiencies in the market are and its ability to exploit these inefficiencies. Specifically:

- The IC firmly believes that it is not easy to beat the market – it takes hard work, an intelligent approach and courage. The IC focuses on the long-term and accepts that over shorter measurement periods (up to 5 years), it could under-perform the benchmark and peer group significantly. The IC has the resilience and patience to be seen as "wrong" in the short term, something most other investment committees cannot accept. Over time the RU portfolio should be rewarded for taking on this "discomfort premium".

- The IC will evaluate any under-performance against the criteria "are we wrong, or can we articulate with good reason the mistake the market is making?" In making this assessment the IC needs to balance the consideration that there will always be cogent arguments why the market is indeed right (and so why "we are wrong") against its stubbornness to admit that it had made a mistake (i.e. the committee only looks for reason to justify why the market is wrong). This will never be an easy task, but the IC will stick to an intelligent approach which aims to assess the probabilities as accurately as possible.

- The IC will not slavishly rely on mean reversion even though most of the time it is a winning strategy. The IC recognises that mean reversion may not occur at all if, as rarely happens, there are fundamental "jump shifts" in the economy (e.g. a move to a much lower inflation environment) or poorly performing companies are so weak that they go out of business, or reversion may take much longer to come through if certain growth companies (e.g. Microsoft in the 1990's) have significant barriers to entry.

- Diversification adds value most of the time and the IC will look to increase the benefits of diversification by including asset classes that offer good diversification characteristics, but which at the same time are generally avoided by other investors. The IC recognises that under certain market conditions the benefits of diversification are overstated and when the odds are significantly in favour of the RU portfolio, too much diversification will detract from performance.

(d) Although the IC is firmly committed to a long-term investment horizon, it recognizes that the very good investment opportunities arise in the short term when markets experience severe stress events. The IC is able to assess such opportunities in depth and has the organizational structure to make the decision to invest quickly if this indeed is a good opportunity.

5. HOW MARKETS WORK – GUIDELINES FOR THE INVESTMENT COMMITTEE

5.1. The IC fundamentally believes that investors will be rewarded with an equity risk premium over the long term and will therefore invest a higher proportion of the Foundation's assets in local and international equity markets. The IC also believes in the merits of diversification and will therefore invest in additional asset classes such as bonds andcash.

5.2. The investment philosophy takes into account the "theory of inefficientmarkets".

5.3. The theory of inefficient markets positsthat:

Over long measurement periods (typically 7 (seven) years and longer) investment markets are efficient and so the "price" and "value" of a particular asset willconverge.

5.3.1 Over shorter time frames investment markets may be materiallyinefficient, 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 rightconsistently);

(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 minimises 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 smallercompetitors.

5.4 On the basis that markets are indeed inefficient the proper investment strategy for the IC 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 theywill buy the share (the so-called "margin of safety") to allow for any errors they may make in assessing intrinsicvalue.

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".

5.5 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" sectorscheap.

In such circumstances intrinsic value managers will be contrarian and may end up holding a RU portfolio that is very different to that of the benchmark.

5.6 The IC accepts that the long-term "intrinsic value" investment approach will under-perform the *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). The IC accepts that it needs the courage and patience to maintain their long-term strategy in the light of such under- performance.

5.7 The IC further understands 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").

5.8 The IC accepts that the success of the investment strategy will primarily bemeasured relative to inflation as opposed to the performance of the peergroup.

6 Investment Fee

6.1. The current management fee payable to Ninety One is 0.65% p.a. excl. VAT.

7 Details of Current Investments

7.1 The assets have been invested solely in the Nine One Opportunity Fund since September 1998.