Annexure D

INVESTMENT POLICY STATEMENT

TRANSNET SECOND DEFINED BENEFIT FUND

Effective date: 31 MARCH 2023
Version: APPROVED

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1 Introduction

This document describes the investment policy being followed by the Transnet Second Defined Benefit Fund Investment Committee (the "Investment Committee") for investing the assets of the Transnet Second Defined Benefit Fund (the "Fund) that is sponsored or maintained by Transnet Limited ("Transnet").

This Investment Policy Statement (the "Policy") sets forth the Fund's policies in the following principal areas:

- Purpose of the Fund
- Roles and responsibilities of the Investment Committee
- Objectives and long-term policy
- Investment guidelines
- Investment monitoring and reporting
- Policy adoption and review

2 Statement of Purpose

The Fund was constituted by the Transnet Pension Fund Act of 1990 (the Fund does not fall under the Pension Funds Act of 1956).

The Fund is governed by the Transnet Second Defined Benefit Fund Rules as published in November 2000 and last amended in November 2014.

This Policy has been drafted in accordance with Principle 8 of Circular PF130 of the Financial Services Board.

This Policy has been drafted to set out the fundamental objectives of the Fund and recognise certain applicable constraints so that

- Investment professionals related to the Fund clearly understand the investment policy of the Fund and objectives for the assets,
- Investment professionals related to the Fund have sufficient guidelines for the investment and management of the Fund, and
- The Investment Committee has a basis for evaluating the performance of the investment professionals.

The Fund is a defined benefit arrangement which is closed to new entrants. The Fund's liabilities consist entirely of its obligation to pay Pensioners, Special Pensioners and Beneficiaries in terms of the Fund Rules. The Fund receives no regular contributions and has monthly pension payment obligations. The nature of the liabilities is detailed in Appendix A.

The Fund is net cashflow negative and there is an ongoing requirement for liquidity to meet monthly pension obligations. The current Financial Position of the Fund is shown in Appendix B.

3 Roles and Responsibilities

Board of Trustees

The Board of Trustees (the "Board") controls the Fund and appoints the members of the Investment Committee. The Board determines the Fund's investment policy and is required to perform a review thereof at least every three years. The Board also determines the investment strategy of the Fund taking into account the recommendations of the Investment Committee, and is required to perform a review thereof at least every 12 months.

Investment Committee

The Investment Committee is appointed by the Board and consists of a minimum of:

i A chairperson appointed by the Board;

ii The Principal Officer;

iii Two other people appointed by the Board who may be, but need not be, members of the Board of Trustees; or

iv Alternates to the Trustees in (i) and (iii) above, which alternates must themselves be members of the Board.

The members of the Investment Committee commit themselves to:

i Proper preparation before the meetings of the Investment Committee;

ii Active participation in the meetings;

iii A continuous process of learning about investments; and

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

The duties of the Investment Committee include:

i Formulating a proposed investment policy and strategy, including proposals with regard to the appointment of Investment Managers, having taken advice from the Investment Consultant;

ii Implement or procure the implementation of the policy and strategy;

iii Review and recommend changes to the policy and strategy where appropriate;

iv Monitor the performance of the Fund's investments, as well as risk exposures and compliance with target allocations or mandates;

v Submit reports on the investments to the Board at intervals and in the format prescribed by the Board;

vi Keep complete accounts, records and minutes of all actions taken in the performance of its functions and the exercise of its powers.

The Investment Committee has the authority to take investment-related actions which will enable the Fund to meet its current and future liabilities, reduce investment risk and ensure efficient portfolio management.

All actions taken by the Investment Committee must be consistent with the investment policy and any diversion from the policy must be approved by the Board of Trustees.

Terms of reference

The table below sets out the terms of reference of the Board (BOT) and Investment Committee (IC).

Activity	BOT decision	IC recommendation	IC decision
Governance and related issues			
Composition and membership of the Investment Committee	✓ (per Fund Rules)	X	X
Fund mission	✓	✓	X
How markets work – beliefs of the Investment Committee	X	X	✓
Registration of Fund assets and custodian	X	X	✓
Investment Manager fees	X	X	✓
Socially responsible investing	✓	✓	X
Exercise of voting rights	X	X	✓
Scrip lending	X	X	✓
Communication to members	✓	✓	X
Investment strategy			
Investment objective and risk budget	✓ [1]	✓	X
Asset classes included	✓ [1]	✓	X
Strategic asset allocation	✓ [1]	✓	X
Re-balancing rules (if applicable)	X	X	✓
Investment Manager configuration	X	X	✓
Benchmarks	X	X	✓
Investment Manager mandates	X	X	✓
Manager selection			
Manager selection and de-selection	X	X	✓
Investment Consultant selection and de-selection	✓	✓	X
Monitoring			
Key performance indicators of Fund	✓	X	X
Overall cost structure of the Fund	X	X	✓
Qualitative assessment of Investment Managers	X	X	✓
Performance of Investment Consultant	X	X	✓

[1] Must be approved by Fund Actuary and Transnet

Service providers

Investment Managers

Appointed Investment Managers invest assets with the general and specific guidelines set by the Investment Committee in this Policy and its appendices. The Investment Managers shall provide the skill and expertise necessary to competently manage the investments of the Fund and shall at all times adhere to the requirements of any and all applicable laws and regulations.

In addition, the duties and responsibilities of each of the Investment Managers appointed by the Fund include:

i Managing the assets according to the Investment Management Agreement (or Portfolio Management Agreement) made with or on behalf of the Fund, including prudently managing the portion of the Fund under their control in accordance with specific portfolio guidelines;

ii Complying with all provisions pertaining to the Investment Manager's duties and responsibilities as a fiduciary. Fund assets should be invested with care, skill, prudence and diligence under the circumstances then prevailing;

iii Using best efforts to ensure that portfolio transactions are placed on a "best execution" basis;

iv Exercising ownership rights, where available, through proxy solicitations, doing so strictly for the economic benefit of the Fund;

v Supplying timely, written reports of investment performance results to the Investment Committee and the Investment Consultant;

vi Meeting with the Investment Committee as requested to review the performance and discuss current strategy.

Investment Consultant

The Fund will retain the services of an independent, professional Investment Consultant. The details of the role and responsibilities of the Investment Consultant will be contained in a separate Service Level Agreement between the Fund and the Investment Consultant.

4 Mission of the Fund

The primary objective of the Fund is to provide pension benefits to the Fund members or their spouses or dependants. The Fund has a statutory obligation to provide 2% increases per annum to pensioners over the long term with as much certainty as is possible.

In accordance with the Settlement Agreement of December 2019, which was certified by the High Court Of South Africa on 22 June 2020, the Fund's pension increase policy will target pension increases of 70% of CPI, calculated inclusive of the minimum increase referred to in the paragraph above, with effect from 1 August 2023. The Board will have the discretion to grant pension increases in excess of 70% of CPI subject to affordability, as certified by the Fund's Actuary and on such terms and conditions that may be imposed by the Board in accordance with the Fund's rules and its pension increase policy.

The statutory increase of 2% per annum will continue to be paid to members in the anniversary month of the member's retirement date. The additional target increase of 70% of CPI less 2% promulgated in the Settlement Agreement will be paid annually to all members as a top up increase in August, from 1 August 2023 onwards.

The Fund may from time to time grant lump sum bonuses to members to the extent allowed by the Rules and subject to affordability.

Key performance areas (KPA's)

The key performance areas of the Fund are:

i The wherewithal of the Fund to provide the benefits in terms of the Rules, and

ii The ability of the Fund to grant bonuses to offset the impact of inflation over the long term.

The above two conditions should be met without the Fund at any time requiring additional funding from Transnet.

Key performance indicator (KPI)

The key performance indicators (KPI's) are:

i the measured solvency ratio

ii the performance of the Fund's assets compared to the liability growth.

5 Objectives and Long-Term Policy

Investment objective and strategy overview

In developing an investment strategy, the key aspects that need to be considered are:

i What is the benefit regime?

ii What level of tolerance is required to deliver on this benefit regime and is this possible within the stated risk tolerance of the Fund?

iii What is the most appropriate strategy to deliver the required return?

The Investment Committee aims to achieve an efficient trade-off between risk and return, taking due account of the time, expertise and organisational structure the Investment Committee can bring to bear on the strategy.

The investment objective of the Fund is that the return of the assets of the Fund should out-perform the growth of the liabilities of the Fund over the medium to long term while at the same time tracking the liabilities closely in the short term.

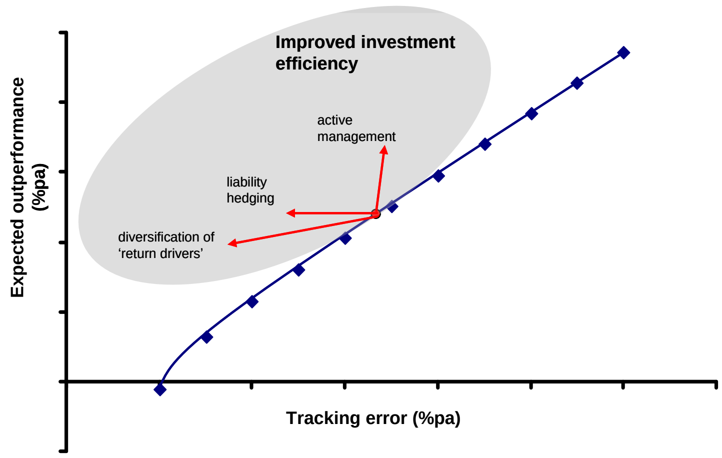
Expressed differently, the Fund's assets are generally targeted to equal, within a reasonable range, the present value of benefits due to participants as of the applicable valuation date of the Fund. The liability measure for this present value calculation is determined by discounting projected future benefit obligations, as determined by the Fund's Actuary, with the prevailing bond yield curve.

Key pillars of the investment strategy

The three key pillars of the investment strategy are liability hedging (also known as liability driven investment abbreviated to LDI), as explained below, asset class diversification[1] and manager skill[2] (active management). The risk and return payoff of these three pillars is shown in the chart below.

[1] Asset class diversification is achieved by investing in a range of asset classes which look and perform differently to each other. For example, local equities generally have a different return experience to global bonds or cash, and there is thus a diversification benefit to investing in these asset classes simultaneously.

[2] Including active management in the strategy introduces the potential to earn alpha (excess return) relative to a passive strategy or the return on the liabilities. A full liability hedge strategy could be considered to be a passive strategy. If skilled managers are selected, the Fund will benefit from an uplift in the return earned relative to the return on the liabilities, thereby increasing the Fund surplus.



The key performance areas (KPA's) and related performance indicators (KPI's) are contained in Appendix C.

Liability hedging

The lowest risk investment strategy would arguably be for the Fund to invest its assets in bonds structured to meet exactly the quantum and timing of the Fund's liabilities, i.e. a full liability hedge.

Consideration of full liability hedging

Full liability hedging in the form described above has not been implemented by the Fund at this time as the Fund has a significant surplus (assets exceed liabilities) based on the target of 70% of CPI and therefore aims to deliver outperformance of the liabilities in order to deliver higher benefits to pensioners than what has been prescribed in the Fund Rules. The Fund's current surplus position allows this mismatch. In addition, holding a diversified pool of investments allows the Fund to mitigate the concentration risk to default of the SA sovereign which represents the largest counter-party exposure of the Fund.

The Fund will target a risk-hedging (or asset matching) strategy that is equal to a minimum of 95% of the present value of the liabilities. These assets will be invested in appropriate risk-hedging strategies and LDI strategies and referred to as the Matched Assets or Matched Portfolio.

The balance of the assets will be invested in a diversified portfolio of growth assets that is expected to generate a higher return over the long term (e.g. domestic and global equities, property and infrastructure assets), namely the Unmatched Portfolio (or "return-seeking" assets). The Investment Committee will look to the appointed Investment Managers to supplement the total return over time with skill.

Risk-hedging assets' primary aim is to track the liabilities closely to ensure that these can be met as they fall due. These portfolios comprise primarily interest bearing assets and would be expected to outperform the "risk-free" rate of return by a lower margin than return-seeking assets. The level of return will depend on the extent and type of credit risk held as well as the skill of the investment managers employed.

Risk budgeting and long-term asset class limits

The Fund has adopted a "risk budgeting" approach. This means that the Fund manages its assets with due consideration given to its exposure to risk. A key tenet of a risk budgeting approach is that risk should be managed at an acceptable level and that risk exposures should be optimised i.e. ideally rewarded forms of risk should be retained with unrewarded risk avoided.

A risk budgeting approach entails:

a Identification of risk,

b Quantification of risk, and

c Risk management strategy (policy guidelines on types and exposures allowed, mitigation strategies and monitoring of risk).

The Fund will review the risk budget on an ongoing basis but at least annually. The factors that the Fund will take into account when determining the risk budget include:

a The financial position of the Fund;

b Changes in the liability and/or benefit structure of the Fund;

c Market conditions (the risk and pricing of assets);

d Changes in regulatory or legal environment;

e Changes in tax applicable to the Fund;

f The financial position of Transnet; and

g Any input from Transnet

The primary risk which the Fund is exposed to is a failure to meet its liabilities as they fall due. Given that the Fund's liabilities are largely known and fixed in nature, the Fund has managed this risk through investment of a portion of the Fund's available asset pool in the Matched Portfolio.

A secondary risk that the Fund faces is the inability to provide a pension income which maintains the purchasing power of its pensioners i.e. increases on pension benefits do not keep up with inflation. The Fund aims to manage this risk by targeting inflation-linked increases and by investing a portion of the Fund's assets in a portfolio which aims to outperform the liabilities by a higher margin over the longer term.

Long term asset allocation policy

The asset class pricing assumptions reviewed on a quarterly basis by the Investment Committee will form the basis on which the Fund will seek to position its risk budget over the medium to longer term i.e. the Fund will tend to utilize its full risk budget when current pricing and risk are attractive and also to skew its risk budget towards those asset classes where there is a better risk return trade-off.

The Investment Committee recognises that the long term asset allocation policy of the Fund is a key mechanism for accomplishing the Fund's investment objectives. The Investment Committee has approved the asset classes allowed for investment, and adopted the strategic mix targets and allowable ranges contained in Appendix C. Appendix C will be amended, as appropriate, when the asset allocation policy is revised by the Investment Committee.

The asset allocation ranges established by this policy represent a long term perspective and assume normal market liquidity. Rapid, unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the stated ranges but these divergences should be short term. Assets that fall outside of the acceptable ranges for a sustainable period will be rebalanced by the Investment Committee.

The Investment Committee recognises that a rigid allocation would be impractical and undesirable under various potential market conditions. The asset allocations may therefore at times vary within or outside of the ranges provided in Appendix C without being considered an exception to this Policy.

Investment beliefs

Investment beliefs provide a framework for considering portfolio management issues and making informed decisions in a holistic and consistent manner. In managing the Fund the Investment Committee will be guided by the approved investment beliefs, which can be found in Appendix D. The Investment Committee may, from time to time, review and re-confirm its investment beliefs given the dynamic nature of capital markets.

6 Investment Guidelines

The Investment Committee will exercise due care at all times to adequately diversify the Fund's assets. Thorough due diligence will be conducted and documented in implementing specific investment strategies.

The key investment risks are detailed in Appendix E.

Voting Rights

The Investment Committee recognises that proper governance, capital allocation decisions and the alignment of interest between shareholders and management is essential if the company in which the Fund is invested is to create value for shareholders over the long term. It therefore expects the entrusted Investment Managers to take all actions related to the governance, allocation of capital and alignment of interest in order to optimise the expected return for shareholders such as the Fund.

The Investment Committee accepts that where the Investment Manager only holds a small percentage in a company whose shares are highly tradeable, the Manager has the option to sell the holding if it perceives governance, capital allocation or alignment issues. However in cases where there is limited liquidity in the selected company's share, the Investment Committee expects a high degree of oversight from the Investment Manager.

The Fund has delegated authority to the investment managers to attend, vote at and otherwise take part in all meetings held in connection with any of the investments, and sign proxies for the purpose of voting thereat or for any purpose connected therewith, and exercise all other rights and privileges which attach to the investments, provided that the manager exercises such rights in terms of its policies in relation to corporate actions and activism and provided further that the manager shall at all times only act in the client's own best interest, in furtherance of what the manager believes in good faith to be the client's best interest as an investor in the securities concerned.

The investment managers are required to provide a record of their voting on resolutions.

The right to vote on any of the securities held in the portfolio remains and rests at all times with the Fund as the beneficial and / or registered owner of such securities. The Fund may at any time, up to and including at the meeting, revoke any proxy issued.

Scrip Lending

Scrip lending is not currently permitted by any service provider for the Fund.

At this time the Committee has decided that the Fund should not engage in scrip lending activities for the following reasons:

- It is possible for some of the Fund's SA equity Investment Managers to hold a significant percentage of the issued capital of a company for its entire client base. If this scrip is lent and then needs to be re-called (because the Investment Manager wants to reduce their holding for example) it is possible that the parties to whom the scrip is lent (usually hedge funds) could use this inference to trade against the Fund. It is accepted that this risk can be reduced by specifying that certain scrip cannot be lent out.

- There is evidence that from time to time transactions need to be delayed by a few days as the scrip is re-called; this may hinder the trading activity of the Manager.

Scrip lending is not risk-free (for example, if JP Morgan had not bought out Bear Stearns in the USA some lenders would have suffered significant scrip losses) and the expected fees generated are relatively low in relation to the risk and administrative burden imposed by such a lending program.

Environmental, Social and Governance (ESG) Considerations and Socially Responsible Investing

The Investment Committee recognises that a key risk to long term investing is the underestimation of factors that ultimately adversely affect the intrinsic value of a company (e.g. a change in environmental legislation or even just the stricter application of existing laws). Consistent with this, the Investment Committee will challenge its active managers on the sustainability of their investment decisions and the extent to which they have allowed for low probability but high adverse impact events, especially with respect to ESG factors, in the assessment of intrinsic value.

Socially Responsible Investing (SRI) can be implemented in different ways, namely:

- *Imposition of constraints (also known as negative screening)*: in this case the Investment Manager would be precluded by the Fund from investing in businesses that are considered to have a negative impact on society. Businesses that would typically be included under this heading are tobacco, alcohol, gambling and defence. This approach may also apply on a political level (e.g. not investing in countries that have a poor human rights record).

  Whilst the Investment Committee will challenge its Investment Managers on sustainability issues, the Fund will allow its managers to invest in any business that is legal and will not impose ethical judgements precluding certain investments. The Fund will therefore not impose negative screening on its investments.

- *SRI investments or impact investments (also known as positive screening)*: in this case the aim would be to allocate capital to those businesses which are assumed to hold positive benefits for society. In the South African context the focus is largely on positive SRI investing and impact funds.

  The Fund may invest in such opportunities, subject to the requirement that the expected return from the investment must be at least fair compared to the associated risk taking into account diversification benefits. The mission of the Fund is to provide superior risk adjusted returns over the long term and so any investment must meet this criterion.

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

The Fund has adopted the United Nation's Principles of Responsible Investment and the CRISA Code provided this does not conflict with the investment performance of the Fund. (This does not mean that the Fund will meet all the requirements, or report on this, however, the Fund will endeavour to apply the principles to the extent that it is possible.)

7 Asset Manager Selection

The process of awarding a mandate to an Investment Manager is a stringent and disciplined one and may take up to a few months to complete. The manager selection process incorporates both qualitative and quantitative assessments of the managers. Ultimately the key consideration is to try to determine what the “edge” of the manager is and whether this is sustainable.

Qualitative Analysis

The process is biased by the qualitative research with emphasis placed on:

- Organisation
- People
- Investment process
- Black Economic Empowerment Principles

Organisation

The Fund looks to build long term partnerships with asset managers, and to this end the Fund requires the security offered by managers who have the backing of a strong and credible holding company with a stable shareholding structure.

The assets under management and financial standing (i.e. profitability, strength of balance sheet) play an important role in the analysis of the manager.

People

Asset management is a people business. Intellectual capital represents the biggest asset of any investment manager. The Fund requires managers with committed, experienced and respected investment professionals. Team dynamics and staff turnover are vital aspects.

Black economic empowerment will also be considered as a factor when selecting managers. The rationale for the inclusion relates to the long term sustainability of the business.

Investment process

The Fund looks for a manager with a clearly defined and understandable investment philosophy and process. This investment philosophy and process must fit in well with the Fund’s portfolio construction philosophy and must also be stable for at least a five year period (one market cycle). Analysis of the investment process includes the philosophy, style, portfolio construction, research and valuation methodologies of the manager.

Black Economic Empowerment Principles

The Investment Committee aims to make a more impactful contribution to the sustainability and relevance of the asset management industry in South Africa. It will therefore actively engage with all its service providers on their efforts to promote transformation and gender diversity across their investment specialists, management, and ownership positions. Where consistent with the Fund's mission, values and manager selection criteria, the Fund will include on the short-list for new managers previously disadvantaged portfolio managers who display impressive qualitative and quantitative skills.

The Investment Committee will require a minimum level 3 BBBEE rating of any prospective and existing local asset manager. For existing managers that do not comply with this requirement, the Fund will engage the manager on the Fund's commitment to transformation. The Fund may require managers to meet the required minimum BBBEE rating over an agreed time period. Failure to comply after the agreed time period may, at the Investment Committee's discretion, result in a review of the asset manager's appointment (resulting in a reduction in the manager's allocation or termination of the appointment in its entirety). Local asset managers appointed by the Fund are required to report on their transformation policies and progress on an annual basis.

Notwithstanding the above, the Investment Committee recognises that for certain asset classes or mandates (e.g. offshore investments), it may not be possible to find suitably rated managers and therefore a manager rated below the required level or unrated managers may be considered as part of the short-list.

Quantitative Analysis

A quantitative analysis is conducted to confirm the Fund's qualitative understanding of the manager. Included in the analysis are relative performance analysis, style analysis, and performance and risk attribution.

Investment Managers' Mandates

The Investment Committee will establish specific investment guidelines appropriate to each Investment Manager and will include these in the Portfolio Management Agreements. These guidelines will account for the unique characteristics of the asset class, style and strategies of each Investment Manager.

Restrictions will include:

a Maximum invested in equities (if applicable)

a Maximum offshore exposure (if applicable)

b Maximum exposure to a single company/counterparty

c Limits on credit quality

d Leverage

e Use of derivatives

f Investment in unlisted securities

Review of Manager Appointment

Investment Managers' performance will be compared to measureable objectives to track the manager's utility within the portfolio and within risk budgets.

The Investment Consultant is contracted to provide performance reports and assist in the ongoing evaluation of Investment Managers.

Areas that may be reviewed include:

- Adherence to investment guidelines;
- Adherence to stated investment goals or investment methodology;
- Changes in investment management personnel, strategy, process or firm ownership;
- Performance compared to indices and peer group over a full market cycle;
- Opportunities available in the different asset classes;
- Investment Manager fees; and
- Asset growth (or loss).

Investment Managers may be placed on a “watch-list” under certain circumstances, resulting in increased focus on the Manager’s near term future actions. The following is a partial list of criteria that may cause an Investment Manager to come under an increased level of scrutiny:

- Major ownership changes
- Key personnel changes
- Financial irregularities or contravention of any laws or applicable regulations
- Deficiencies in reporting
- Change in investment philosophy/style/process
- Continued long term underperformance
- Operational failures, including but not limited to data breaches or leaks

The process to be followed will depend on the reasons for the manager being placed on the watch-list.

If the manager has experienced continued long term underperformance, the Investment Committee will engage with the manager to determine the driver/s of the underperformance. If the driver/s of the underperformance reflect/s an inappropriate strategy, a departure from the manager’s strategy or philosophy, inadequate risk mitigation, or any other strategy-related issue, the Investment Committee may then consider initiating a review of the manager’s appointment. If the driver/s of the underperformance reflect/s a cyclical market effect or market trend, the manager will remain on watch until the long-term performance objective is achieved.

If the manager is on watch for one of the reasons listed above not related to performance, the manager will continue under a heightened level of scrutiny until the issue is satisfactorily resolved. If the matter is not resolved to the Investment Committee’s satisfaction after a reasonable amount of time has passed, the Investment Committee may initiate a review of the manager’s appointment. If the issue is of a serious nature, the Investment Committee may review or terminate the manager’s appointment immediately.

8 Custodian and Registration of Assets

As a general guideline the Investment Committee requires the Fund's assets to be registered with the Fund named as the beneficial owner and holding all the associated voting rights. The Fund has appointed a master custodian (Nedbank) for the safekeeping of the Fund's assets.

In some circumstances it may not be possible or optimal for the assets to be registered with the Fund as the beneficial owner – such situations may include:

i Where the amount that the Fund has to invest is too small and the selected Investment Manager is only prepared to offer a pooled arrangement (applies especially to offshore investments);

ii Where there are benefits in using the bulk buying power of a much larger group (e.g. money market investments);

iii Where the assets only come in large units (e.g. direct property or private equity) and to achieve sufficient diversification the Fund needs to invest in a pooled arrangement.

Any investment in a pooled vehicle is subject to the Investment Committee being satisfied that:

- The organisation managing the pooled fund in which the Fund's assets are invested is one of high reputation;
- 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;
- Independent reporting that the pool holds the said assets and the market value thereof is fairly reflected;
- 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.

The following events may trigger a review or termination of the custodian's appointment:

- Major ownership or business structure changes or corporate actions involving the firm
- Key personnel changes
- Financial irregularities or contravention of any laws or applicable regulations
- Deficiencies in reporting
- Breach of or non-compliance with the custodian's operational policies
- Data breaches or leaks

9 Investment Monitoring and Reporting

On an annual basis the auditors assess the compliance of the Fund's assets with the Rules and this Investment Policy.

Guidelines relating to the asset allocation of each manager's portfolio, the level of matching and the overall level of offshore exposure are monitored monthly by the Investment Consultant. The Fund's Investment Consultant will report monthly on compliance and performance to the Investment Committee.

On a quarterly basis the Investment Committee provides feedback to the Board of Trustees.

The Investment Committee will normally meet formally with the Investment Managers at least once per annum.

10 Policy Review

This Policy will be reviewed periodically to ensure that it continues to reflect the Investment Committee's philosophies, expectations and objectives.

In the normal course of events the Investment Committee will review the investment strategy annually. The investment strategy and this Policy must be reviewed within three months of any of the following events occurring:

- A change in the liability structure of the Fund
- A significant deterioration in the financial position of the Fund such that the Fund is underfunded
- A change in the financial position of Transnet
- A change in exchange control regulations
- A change in the tax basis affecting the investment strategy of the Fund
- A change in the Pension Funds Act or the Long Term Insurance Act that affects investments
- A change in the economic policy regarding inflation targeting or the independence of the South Africa Reserve Bank
- An indication that the Fund will have significant cashflow requirements (particularly outflows)
- Material change in market conditions (asset class pricing and risk)
- Material change in economic conditions (growth)

11 Signature Confirming Adoption

This Investment Policy has been formally approved by the Board of Trustees and is the policy which governs the investment policy of the Fund.

……………………………………………… ……………………………………..

Chairperson of the Board of Trustees Date

Appendix A

Nature of the Fund’s Liabilities

Assessment of financial soundness and actuarial assumptions

The Fund is a defined benefit arrangement and thus the cost of the benefits needs to be assessed by an actuary.

The key budgeting assumptions that the Actuary needs to make in the context of this Fund being a pensioner fund are future investment returns and pensioner longevity.

To the extent that the actual experience of the Fund differs from the assumptions, a surplus or shortfall will arise.

Pension Increase Policy

The Pension Increase Policy of the Fund is to grant annual increases of 2%, as per the Fund Rules. In addition, and in accordance with the Settlement Agreement certified in June 2020, the Fund will target additional annual increases so that the aggregate annual increase inclusive of the 2% is equal to 70% of inflation.

The Fund may also grant additional increases and / or lump sum bonuses from time to time. Additional increases and bonuses are not guaranteed and depend on affordability by the Fund.

Reasonable Benefit Expectations (RBE)

The RBE of pensioners is to receive increases in line with the Fund’s Pension Increase Policy. This Pension Increase Policy aims to provide at least 2% increase each year, and targets a total annual increase of 70% of inflation per year.

The Actuary’s funding basis is consistent with this policy and reflects the historical practice of the Fund.

Contractual liability

For pensioners the contractual liability is to pay the current pension, with 2% annual increases, over the remaining lifetime of the pensioners and their dependants.

Transnet’s obligation

Transnet’s obligation to the Fund is to ensure that it has sufficient assets to meet the RBE of the membership. If, on the basis of affordability, the RBE is reduced, Transnet’s liability is also reduced, but the RBE cannot be reduced below the Fund’s contractual liability.

Appendix B

Financial Position

The Fund's financial position is evaluated by the Fund's Actuary. An actuarial valuation of the Fund is produced by the Actuary annually.

The Fund's Investment Consultant monitors the financial position of the Fund on a monthly basis, based on the future liability cashflows determined by the Actuary in the annual valuation. The assets are valued monthly using market consistent assumptions.

A surplus allows the Fund to adopt a degree of mismatch between the contractual liabilities and the assets.

The results of the latest and previous Actuarial Valuations are shown in the following table.

R'million	31 March 2020	31 March 2021	31 March 2022
Total Net Assets	11 499	14 326	13 807
Total Liabilities	11 330	10 903	9 923
Solvency Reserve	374	349	324
Surplus / (Deficit)	**(205)**	**3 074**	**3 560**
Funding Level	**98.2%**	**127.3%**	**134.7%**

Appendix C

Asset allocation and performance objectives (KPA's and KPI's)

In developing Strategic Asset Allocation guidelines emphasis is placed on the long term characteristics of individual asset classes, and the benefits of diversification among multiple asset classes. Consideration is also given to the long term nature of the Fund's liabilities and the funding status of the Fund.

Asset allocation:

Matched assets

- Degree of matching of liabilities:

  Minimum of 95% of liabilities to be covered at all times

- Target level of hedging of interest rate risk (nominal and real):

  Minimum of 90% liability interest rate risk

- Investment strategy to comply with Regulation 28 limits relating to debt instruments (see Appendix F)

- Maximum exposure to offshore assets in Matched Portfolio: 0%

Unmatched assets

- Investment strategy to comply with Regulation 28 limits relating to equities (see Appendix F)

- Maximum exposure to offshore assets in Unmatched Portfolio: 45%

- The assets will normally be rebalanced when the exposure falls outside of a 5% tolerance.

Total assets

- Exposure per asset manager expressed as % of total Fund assets: 10% for Unmatched assets/33% for Matched assets

- Investment strategy to comply with Regulation 28 limits (see Appendix F)

Full details of the managers' investment mandates can be found in the respective portfolio manager agreements. Individual managers are generally required to comply with regulation 28 limits and such additional guidelines as specified.

Performance:

Matched assets

Performance objective:

Return on liabilities, measured with reference to the JSE Bond Zero Curves and CPI index

Risk objectives:

- Low funding level volatility (measured by tracking error of assets relative to liabilities)

- Provide contractual schedule of liability payments

- Maintain sufficient liquidity to make contractual payments

- Manage the LDI assets within specified SCR (solvency capital requirement), tracking error and interest rate risk limits.

Unmatched assets

Performance objective:

Each mandate is measured against relevant market benchmark index or composite benchmark index. Overall Unmatched Portfolio long term performance target is inflation + 6% measured over rolling 7 years.

Risk objectives:

- Appropriate to mandate type

- The Unmatched Portfolio risk (as measured by standard deviation of returns) is expected to be in the range of 10%-20% p.a.

Appendix D

Investment Beliefs

The beliefs of the Investment Committee of the Fund are:

1. The Committee believes that the odds of earning superior investment returns are improved if the Fund adopts a long term investment horizon. The Committee accepts that a long term horizon must be maintained, even when faced with possibly adverse outcomes in the short term.

2. Equities are likely to be the best performing asset class over the long term. In general a strategy of buying and holding equities should generate the highest return over the long term.

3. The Committee believes that the primary risk that the Fund needs to manage is to earn the required rate of return of the liabilities – the risk of underperforming the peer group is not regarded as being of primary importance.

4. Whilst the Committee accepts that quantitative risk models are a useful tool in managing risk, a common sense approach to risk is better (e.g. the Fund should not invest in something the Committee does not understand fully).

5. The Committee believes that investment manager skill is rare and comes in waves rather than in a straight line, so that even skilful investment managers will underperform the benchmark at times, possibly by a substantial margin and over a prolonged period. Importantly the Committee believes that it has the courage and patience to stay with an underperforming manager, provided that it is satisfied that there are no adverse qualitative aspects and the manager can deal with and rebut robust questioning on his/her strategy.

6. The Committee believes it has the necessary time, expertise and organisational capacity to implement what is a more difficult strategy to implement successfully.

Appendix E

Summary of risk areas

(Further detail can be found in the TSDBF Investment Risk Register.)

1 Solvency risk (risk of the Fund being in a deficit) – this is managed by having an asset-liability matching (LDI) strategy and an unmatched strategy with a real return target.

2 Liability risk (changes in interest rates) – this is managed by having assets that change in a similar manner to the liabilities in response to interest rate changes.

3 Market risk (adverse changes in the level of markets) – this is managed using limits on market exposure, diversification amongst asset classes, hedging a portion of market exposure and active management.

4 Illiquidity risk (inability to meet liability cash-flows as they fall due for payment due to inability to realise assets efficiently) – this is managed by ensuring that the asset and liability cash-flows are closely aligned and having sufficient cash on hand to meet short term outgo.

5 Active risk (failure of a manager to add value in relation to its costs) – this is managed through the use of expert advice, extensive upfront due diligence, diversification amongst managers, high quality managers and monitoring of managers.

6 Credit risk (capital loss due to default, impairment or adverse price movements in interest-bearing investments) – this is managed using diversification, credit quality requirements and active management.

7 Basis risk (changes in the relative level of swaps vs bond yield curves which affects assets and liabilities differently) – this is managed by investing in assets that are priced off the same curve as the liability.

8 Operational risk (failure to administer the contracts correctly) – this is managed by appointing an independent service providers to monitor the asset managers.

9 Contractual risk – failure to put in place legal arrangements which clearly specify the rights and obligations of the various parties.

10 Reputational risk – damage to the Fund's public reputation as a result of poor investment performance or the materialisation of significant and low probability investment risks.

11 Cyber security risk – assets or information belonging to the Fund and its members are compromised or lost due to a cyber-related incident.

Appendix F

Regulation 28 limits

Item	Categories of assets	Limits being the maximum percentage of aggregate fair value of total assets of fund	
		Per issuer/entity, as applicable	For all issuers/ entities
1.	**CASH**		**100%**
1.1	Notes and coins; any balance or deposit in an account held with a South African bank; A money market instrument issued by a South African bank including an Islamic liquidity management financial instrument; Any positive net balance in a margin account with an exchange; and Any positive net balance in a settlement account with an exchange, operated for the buying and selling of assets.	25%	100%
1.2	Any balance or deposit held with a foreign bank; A money market instrument issued by a foreign bank including an Islamic liquidity management financial instrument;	5%	
2.	**DEBT INSTRUMENTS INCLUDING ISLAMIC DEBT INSTRUMENTS**		
2.1	Inside the Republic and foreign assets		
(a)	Debt instruments issued by, and loans to, the government of the Republic, and any debt or loan guaranteed by the Republic		100%
(b)	Debt instruments issued or guaranteed by the government of a foreign country	10%	
(c)	Debt instruments issued or guaranteed by a South African bank against its balance sheet: -		75%
(i)	listed on an exchange with an issuer market capitalisation of R20 billion or more, or an amount or conditions as prescribed	25%	
(ii)	listed on an exchange with an issuer market capitalisation of between R2 billion and R20 billion, or an amount or conditions as prescribed	15%	
(iii)	listed on an exchange with an issuer market capitalisation of less than R2 billion, or an amount or conditions as prescribed	10%	
(iv)	not listed on an exchange	5%	25%
(d)	Debt instruments issued or guaranteed by an entity that has equity listed on an exchange, or debt instruments issued or guaranteed by a public entity under the Public Finance Management Act, 1999 (Act No. 1 of 1999) as prescribed: -	10%	50%

		(i)	listed on an exchange	10%	50%
		(ii)	not listed on an exchange	5%	25%
	(e)	Other debt instruments: -		5%	25%
		(i)	listed on an exchange	5%	25%
		(ii)	not listed on an exchange	5%	15%
3.	**EQUITIES**				**75%**
3.1	Inside the Republic and foreign assets				
	(a)	Preference and ordinary shares in companies, excluding shares in property companies, listed on an exchange: -			75%
		(i)	issuer market capitalisation of R20 billion or more, or an amount or conditions as prescribed	15%	
		(ii)	issuer market capitalisation of between R2 billion and R20 billion, or an amount or conditions as prescribed	10%	
		(iii)	issuer market capitalisation of less than R2 billion, or an amount or conditions as prescribed	5%	
	(b)	Preference and ordinary shares in companies, excluding shares in property companies, not listed on an exchange		2.5%	10%
4.	**IMMOVABLE PROPERTY**				**25%**
4.1	Inside the Republic and foreign assets				
	(a)	Preference shares, ordinary shares and linked units comprising shares linked to debentures in property companies, or units in a Collective Investment Scheme in Property, listed on an exchange:-			25%
		(i)	issuer market capitalisation of R10 billion or more, or an amount or conditions as prescribed	15%	
		(ii)	issuer market capitalisation of between R3 billion and R10 billion, or an amount or conditions as prescribed	10%	
		(iii)	issuer market capitalisation of less than R3 billion, or an amount or conditions as prescribed	5%	
	(b)	Immovable property, preference and ordinary shares in property companies, and linked units comprising shares linked to debentures in property companies, not listed on an exchange		5%	15%
5.	**COMMODITIES**				**10%**
5.1	Inside the Republic and foreign assets				
	(a)	Kruger Rands and other commodities listed on an exchange, including exchange traded commodities: -			10%
		(i)	gold	10%	
		(ii)	each other commodity	5%	
6.	**INVESTMENTS IN THE BUSINESS OF A PARTICIPATING EMPLOYER INSIDE THE REPUBLIC IN TERMS OF: -**				

	(a)	**section 19(4) of the Pension Funds Act**			**5%**
	(b)	**To the extent it has been allowed by an exemption in terms of section 19(4A) of the Pension Funds Act**			**10%**
7.	**HOUSING LOANS GRANTED TO MEMBERS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 19(5)**				**95%**
8.	**HEDGE FUNDS, PRIVATE EQUITY FUNDS AND ANY OTHER ASSET NOT REFERRED TO IN THIS SCHEDULE**				**15%**
8.1	**Inside the Republic and foreign assets**				
	(a)	**Hedge funds**			**10%**
		(i)	**Funds of hedge funds**	**5% per fund of hedge funds**	
		(ii)	**Hedge funds**	**2.5% per hedge fund**	
	(b)	**Private equity funds**			**10%**
		(i)	**Funds of private equity funds**	**5% per fund of private equity funds**	
		(ii)	**Private equity funds**	**2.5% per private equity fund**	
	(c)	**Other assets not referred to in this schedule and excluding a hedge fund or private equity fund**			**2.5%**