

DE BEERS PENSION FUND

FUND POLICY DOCUMENT

INVESTMENT POLICY STATEMENT

Revision no	Review cycle	Effective date
003	Annual	9 December 2021



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1. INTRODUCTION

The Investment Policy Statement (the IPS or this Policy) has been prepared to record the issues considered by the Board of Trustees (Board) of the De Beers Pension Fund (the Fund) in establishing an appropriate investment policy and strategy for the Fund, and to record that policy and strategy.

The primary purpose of this Policy is to document the investment strategy of the Fund, in its entirety, together with the relevant governance processes, in one accessible document. Such documentation is intended to improve and facilitate the good governance of the management of the Fund's investments and is crucial to achieving appropriate transparency and facilitating effective communication with all stakeholders as well as promoting consistency of and accountability for the investment decisions made.

The Policy has been developed in compliance with the current legislative environment and specifically the requirements of Regulation 28 of the Pension Funds Act No. 24 of 1956 as amended (the Act) and the Fund Rules, where applicable. In addition, consideration has also been given to compliance with the following, where applicable:

- The requirements and guidelines of PF Circular No. 130 (PF 130);
- Applicable provisions contained in the Financial Sector Conduct Authority's (FSCA, previously Financial Services Board) Treating Customers Fairly (TCF) Roadmap;
- King IV Report on Corporate Governance for South Africa, 2016 (King IV);
- The Code for Responsible Investing in South Africa (CRISA), which the Fund subscribes to;
- Regulations 37, 38, 39 and 40 of the Act, referred to as the Default Regulations; and
- Guidance Notice 1 of 2019 issued by the FSCA.

Copies of Table 1 to Regulation 28 and Annexure B to PF 130 are appended hereto as Appendices 1 and 2 respectively. Regulation 28 states that the "investment policy statement" means a document which, at least:

- a) *describes a fund's general investment philosophy and objectives as determined by its liability profile and risk appetite;*
- b) *addresses the principles referred to in sub-regulation (2)(c); and*
- c) *complies with conditions as may be prescribed.*

To the extent that the latest version of Regulation 28 differs from PF 130, Regulation 28 will apply.

In managing the Fund's investments, the Board considers the following:

- the nature of the Fund and its liabilities;
- the investment objectives of the Fund's various stakeholders, including those of defined contribution (DC) living annuitants, all life annuitants / pensioners, deferred / paid up pensioners, DC active members, defined benefit (DB) active members and the participating employers (who provide an underlying guarantee in respect of the liabilities of the active DB members and for all life annuities / pensions in payment). These stakeholders may also have an interest in the Employer Surplus Account and the Fund's contingency reserve accounts;
- the financial literacy and decision-making abilities of the members, the Fund's education and communication programmes as well as members' access to financial advice;
- the available asset classes and investment opportunities and their potential risk / return profiles; and
- the various investment risks that require management and their inter-relationships, as well as the investment strategy and portfolio management techniques used to manage these risks while seeking to enhance returns.

The Board acknowledges that the Fund is regarded as a "firm" (as defined), and that members are regarded as customers in terms of the TCF Roadmap. The Board has undertaken to embed TCF in its culture, operations and decision-making processes, including this Policy.

The Board aims to ensure that members experience the six TCF fairness outcomes, shown in the table below:

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Six fairness outcomes	Restated for the retirement fund context
1	Members* are confident that the Fund has the fair treatment of its membership central to its culture , and the way it is managed.
2	The needs of the members are considered thus informing the benefit design of the fund, including investment, annuity, group insurance and preservation strategies.
3	Members receive clear information and are kept appropriately informed before and during membership, as well as upon exiting the Fund as required.
4	Any advice that may be provided to a member should be suitable and take account of their changing circumstances. The Fund does not however provide advice.
5	The Fund attempts to ensure that benefits are provided as members have been led to expect, and all associated service levels are of an acceptable standard.
6	Members experience no unreasonable barriers throughout their membership, including during times of complaints, benefit claims, or changing products, benefits or providers if relevant.

* Members in this context would include beneficiaries (for example, in the event of death in service of a member).

This Policy was prepared and is reviewed annually by the Investment Board Committee assisted by its appointed Asset Consultants and the Fund Actuary, prior to review and formal approval by the Board. The Policy may also be updated more regularly, if circumstances such as legislative changes so dictate.

This version of this Policy is dated 9 December 2021.

2. NATURE OF THE FUND

The nature of the Fund is important in order to meet TCF outcome 2.

The Fund is classified as a Pension Fund in terms of Section 1 of the Income Tax Act No 58 of 1962 and is exempt from income tax in terms of Section 10(1)(d)(ii).

Until 31 July 2006 the Fund was solely a DB fund and as such the employer bore the risks associated with guaranteeing benefits due to members on retirement, death or withdrawal in accordance with the Fund Rules.

Effective 1 August 2006 the Fund introduced a DC section, to which the majority of active members elected to convert. The Fund continues to provide for in-fund annuities (life and living annuities in respect of DC retirees and life annuities for DB retirees). The DB section is closed to new members. The two sections have materially different characteristics as set out in the next sections.

2.1 Defined Benefit (DB) Section

The DB section of the Fund has the following characteristics:

- Liabilities are long-term in nature and are valued by means of an actuarial valuation performed by the Fund Actuary in respect of active and pensioner members (persons in receipt of a life annuity from the Fund), and may include provision for additional reserves as deemed appropriate by the Board in consultation with the Fund Actuary.
- The participating employers are required to provide at least for benefits in respect of past service accrued in terms of the Act. Future service benefits are not guaranteed.
- The age profile of members of the DB section of the Fund is mature and is dominated by pensioners. Very few active DB members remain (26 members as at 30 September 2021) with an average age of 50 years and 6 months.
- The age profile of members of the Fund helps to determine the investment time horizon of the investment strategy. The higher the average age, the shorter the horizon; hence a more conservative strategy should be adopted.

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- The absence of new entrants into the DB section means that the underlying required contribution rates, aimed at maintaining benefit levels, are likely to continue increasing over time. This is however not significant given the relatively small size of the active DB member liabilities.
- De Beers Group Services Proprietary Limited (DBGS), as Principal Employer, and De Beers Consolidated Mines Proprietary Limited (DBCM), underwrite the Fund in respect of DB active members and life annuitants. With effect from 1 November 2008, the DB pensioner pool (consisting of DB pensioners) was merged with the DC pensioner pool (created for retired DC members who opted to purchase an in-fund life annuity). The characteristics and liabilities in respect of pensioners in the combined pool are similar in that pension payments (excluding annual bonuses which only apply to DB pensioners) and future pension increases, aligned to the Fund's Pension Increase Policy, are provided for on the same basis. As a result, DBGS and DBCM are exposed to investment risk to the extent that the active DB liabilities or the liabilities in respect of current pension payments may not be fully funded.
- DB deferred and paid-up members' benefits are invested in the Pensioner Portfolio.
- The DB active members' benefits are invested in the Fund's Lifestage Medium/High portfolio with no member investment choice.

At 1 March 2019 (the date of the most recent full statutory valuation of the Fund) the DB liabilities and reserves comprised 60.9% of the total Fund liabilities and reserves.

2.2 Defined Contribution (DC) Section

The DC section of the Fund has the following characteristics:

- Active members bear all the investment risks and their benefits are determined by contributions allocated to individual fund credits which are increased or decreased with net investment returns.
- Liabilities vary from being long-term for younger members to short-term for members closer to retirement, therefore a single investment strategy would fail to meet the return and risk objectives of all active members.
- In addition, the Board recognises that a large proportion of members may not have adequate knowledge to, on their own and without any support, make appropriate investment decisions. The Board also recognises that the level of financial sophistication of members is generally low and hence ensures that the level of choice offered by the Fund is not excessive, but provides reasonable flexibility.
- As a result, a default Lifestage investment approach has been introduced, with five risk-profiled portfolios structured to take cognisance of the above. Members who want to vary their investment horizon or investment risk have the right to opt out of their age-related default Lifestage portfolio and elect one of the other existing Lifestage portfolios. Members may also elect to opt out of the default Lifestage model and move their fund credit to the stand-alone cash option. The Investment Board Committee, with input from its appointed Asset Consultants and the Fund Actuary, has reviewed this default Lifestage investment approach to confirm that it meets the requirements of the Default Regulations.
- The default Lifestage investment strategy of the Fund has been designed to accommodate members who take the in-house life annuity option at retirement, being the Fund's Annuity Strategy as defined in Regulation 39. As such, members opting for the in-fund living annuity and / or external life or living annuities may wish to seek advice about opting out of the default Lifestage investment strategy prior to retirement.
- The age profile of the active members of the DC section of the Fund is relatively young and is dominated by members under the age of 50.
- Retiring DC members have the option of purchasing in-fund life and / or living annuities, alternatively purchasing an annuity from a life assurer or approved financial service provider of their choice or a combination of the above. Those retiring members who elect to purchase a living annuity therefore continue to bear all the investment risks, and in addition, take on the risks associated with their longevity.
- In-fund living annuitants (refer to Section 7) are required to exercise investment choice from the range of Lifestage portfolios or the cash option as described above. The choice of an in-fund living annuity does not form a part of the Fund's Annuity Strategy (as defined in Regulation 39) and therefore the investment choices of living annuitants do not need to comply with the Default Regulations.

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- The default investment strategy in respect of DC deferred pensioners is that their assets will be invested in the default Lifestage portfolios. They will however also have the same investment choice as described above. Amounts in respect of exiting DC members (who do not make an election on withdrawal or retirement from the Fund and, therefore, by default, become DC deferred pensioners) will remain invested in the default Lifestage investment portfolios or the member's own election as it applied prior to withdrawal or retirement from service, until such time as the member advises the Fund otherwise or elects to withdraw or retire from the Fund.

As at 1 March 2019 (the date of the most recent full statutory valuation of the Fund) the DC liabilities and reserves comprised 37.7% of the total Fund liabilities and reserves.

2.3 Fund reserves and the Employer Surplus Account

Other Fund reserves made up 1.4% of Fund liabilities and reserves as at 1 March 2019 (the date of the most recent full statutory valuation of the Fund) (refer to section 10). The Employer Surplus Account made up 0.9% of the fair value of assets prior to deduction of the Employer and Member Surplus Account values.

3. STAKEHOLDERS IN THE FUND AND THEIR OBJECTIVES

3.1 Stakeholders

The following parties are the main stakeholders in the Fund:

3.1.1 The Board of Trustees and the Investment Board Committee

The Board is the main fiduciary to the Fund and is inter alia responsible for directing, controlling and overseeing all aspects of the Fund including its assets.

The Board of the Fund is ultimately responsible for the Fund's assets, has a statutory duty to invest the Fund's assets on behalf of all its stakeholders in a responsible and prudent manner, to monitor the associated investment performance and to take corrective action as appropriate. The Board cannot relinquish or cede these responsibilities but are however, permitted to delegate certain of the actions and activities related to the management of the Fund's assets. With reference to Fund investments, this delegation is achieved by the establishment of an Investment Board Committee which acts under the authority of the terms of reference as set out in Appendix 8 which is reviewed annually by the Board. Comprehensive reporting regarding the activities of the Investment Board Committee and the investment performance of the Fund's investments takes place at each Board meeting.

The Investment Board Committee and ultimately the Board are aware that they are in a position of trust, are accountable for investments on behalf of members and other stakeholders and that these parties can reasonably expect them to act prudently, with due care, diligence and good faith. Whenever the Investment Board Committee and the Board are required to make decisions with regard to investments, the decisions should always be made in the best interest of the Fund, which in turn will be in the best interest of the stakeholders in the Fund, especially the members.

In some cases, the Board and the Investment Board Committee will not be fully conversant with the complexity of investment matters. In these situations, the Act requires that the Fund obtains expert advice from inter alia an investment consultant and the Fund Actuary. The Board and the Investment Board Committee do however critically evaluate this advice before making any decision.

3.1.2 Active Members

The active members pay contributions to either the DB or DC sections of the Fund and they and/or their beneficiaries will in turn receive benefits in the future on withdrawal from the Fund, death or retirement. Non-contributing deferred and paid-up members form a very small part of the Fund and can be considered alongside active members.

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3.1.3 Pensioner Members

Life annuity pensioners receive pensions from the Fund, which are considered for increases annually in accordance with the Fund's Pension Increase Policy. Living Annuitants receive an income drawdown (elected by the Annuitant within legal and Fund rule constraints) from their fund credit.

3.1.4 Participating Employers

DBGS and DBCM underwrite the DB liabilities (including all life annuitants) in the Fund.

3.2 Objectives

The Board has a statutory duty to invest the Fund's assets on behalf of all its stakeholders in a responsible and prudent manner. Success in doing so will enable the Fund to meet its primary financial objectives, namely to:

- target (not guarantee) a reasonable retirement income relative to their period of membership of the Fund, based on contributions and the investment income earned thereon for all DC active members;
- remain financially sound at all times with reasonable probability i.e. in all but extreme market environments;
- maintain the current level of pension payments in respect of life annuitants; and
- aim to grant life annuity pension increases over the long-term that are aligned to inflation, subject to affordability depending on factors such as the investment performance of the assets backing the liabilities in respect of those pensioners.

The following table details the Fund's financial objectives in relation to the different stakeholders of the Fund:

Stakeholders	Objectives
Active Members	DB Active Members - Ensure that the Fund is in a position to pay the benefit to which the member is entitled to in terms of the Fund Rules and the Act. - To ensure that the financial security of their benefits is reasonable. DC Active Members - The aim is to achieve a reasonable retirement benefit, based on the contributions allocated to retirement funding, investment returns and membership duration. - To maximise the probability of achieving a reasonable retirement income within the appropriate risk-return framework and taking account of the above.
Pensioners	- For all life annuities and pension payments to continue to be paid at least at current levels. - To enable annual pension increases aligned to the Fund's Pension Increase Policy. - In the case of living annuitants to achieve reasonable investment growth thus enabling the maintenance of reasonable draw down amounts.
Participating Employers	- To minimise the potential for any financial impact on the Employers. This is achieved by: - Pursuing 100% solvency in respect of the DB liabilities based on a solvency reserving basis; - Limiting exposure to the possibility of deficits; and - Limiting the impact of IAS 19 accounting requirements (i.e. limiting the impact of volatility of funding levels on the Employers' Balance Sheets).

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Stakeholders	Objectives
	2. To maintain a viable Fund which is able to provide attractive, market related benefits to employees so as to assist in attracting and retaining staff.

4. ROLES AND RESPONSIBILITIES OF STAKEHOLDERS AND SERVICE PROVIDERS

The roles and responsibility of stakeholders is important for all TCF outcomes, but particularly relevant for outcomes 1 and 5.

The table below details the roles and responsibilities of the different Stakeholders and Service Providers of the Fund:

Stakeholders / Service Providers	Roles and Responsibilities
Board of Trustees	- Mandates the Investment Board Committee as documented in the Investment Board Committee Terms of Reference (refer to Appendix 8). - Reviews and notes the Investment Board Committee's decisions. - Reviews and approves the Policy and resultant strategy as proposed by the Investment Board Committee taking into account the nature of the Fund, its governance budget and its liabilities in determining the investment objectives of the Fund. - Is ultimately accountable for all investment related decisions, outcomes and matters regardless of the roles of any of the parties described herein. - Is ultimately responsible for Fund compliance in terms of the Act, in particular Regulation 28, the Default Regulations and PF 130. - Ensures compliance with agreements with the Principal Employer.
Investment Board Committee	- Acts in accordance with its mandate as documented in the Investment Board Committee Terms of Reference (refer to Appendix 8). - Recommends to the Board the appointment of Asset Consultants to the Fund and manages the relationship between the Fund and the Asset Consultants in terms of agreed service levels. - Regularly reviews the Policy and recommends the adoption of any changes to the Board. In reviewing the Policy, cognisance must be taken of the Fund Actuary's assessment of the appropriateness of the Fund's investment strategy, as set out in the Policy, in relation to its liabilities. - Employs mechanisms to monitor the Fund's investment performance on an ongoing basis, seeks advice and information as required and takes corrective action as appropriate. - Monitors the operational activities related to the investment of the Fund's assets in terms of the Policy. - Appoints or cancels the appointment of asset managers in accordance with changes in the Fund's investment strategy or as a result of factors such as poor performance, deteriorating service levels or unacceptable fees. - Monitors and evaluates the Fund's appointed asset managers with regard to investment performance and service levels and ensures that their appointment remains appropriate in the context of the investment strategy and risk profile of the Fund. - Enters into and regularly reviews agreements with asset managers and ensures that these agreements are subjected to due consideration and input by specialist advisors as required.

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Stakeholders / Service Providers	Roles and Responsibilities
	- Ensures that investment management agreements with asset managers are implemented in accordance with industry best practice. - Ensures that the Fund complies with Regulation 28 of the Act and any other relevant legal or regulatory requirements (including any appropriate codes of best practice adopted by the Fund) in relation to its investments and associated processes by employing adequate mechanisms to ensure ongoing compliance monitoring and corrective action as required. - Seeks expert advice on matters where the Investment Board Committee lacks sufficient expertise. - Approves the movement and allocation of assets within the Fund and between the appointed asset managers in accordance with the Fund's investment strategy or for operational reasons. - Monitors current economic conditions and market opportunities and, with the assistance and advice of the relevant advisors, implements tactical investment changes in order to maximise the possibility of achieving the Fund's investment objectives. - Monitors and evaluates on an ongoing basis the service provided by all the Fund's other investment related service providers (i.e. the Asset Consultant, the unitiser and the custodian) with regard to service levels and ensures that they remain appropriate in the context of the investment strategy, risk profile and operational requirements of the Fund. This includes annual due diligence visits to service providers and presentations by service providers at the Fund's Annual Investment Days. - Ensures that an acceptable control environment is maintained in relation to the Fund's overall investment process and ensures that sound governance is applied, maintained, monitored and reviewed on an ongoing basis. - Identifies and evaluates risks associated with the investment process and recommends appropriate mitigation measures to the Board in the form of a risk log. - Establishes policies and / or guidelines in connection with the adoption or otherwise of any codes of best practice in relation to the Fund's investments, for example CRISA, for incorporation in the Policy. - Investigates and advises on any investment related matters referred to the Investment Board Committee by the Board. - Authorises investment instructions, contracts or agreements on behalf of the Fund in accordance with its Terms of Reference. - Ensures that the Board remains appropriately informed regarding the activities of the Investment Board Committee, including decisions taken and investment performance.
Principal Employer	- Nominates company appointed trustees to the Board with due consideration of the desired personal characteristics and attributes of a trustee, the skill sets and experience that would prove useful to the Board, as well as the amount of time needed to fulfil the role of a trustee. - Monitors overall financial soundness of the Fund in order to understand and mitigate any potential liabilities over and above ongoing contributions.
Membership	- Elects member trustees to the Board giving due consideration to the desired personal characteristics and attributes required of a trustee, the skill sets and experience that would prove useful to the Board, as well as the amount of time needed to fulfil the role of a trustee. - Takes ownership of personal retirement provisioning and planning.

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	• Accesses and reads the Fund's member guide. • Remains abreast of Fund developments by reading Fund communication, attending pre-retirement workshops and workplace briefing sessions. • Seeks clarity on issues not understood. • Seeks advice from duly qualified and registered financial advisors, as appropriate, before selecting any options allowed by the Fund or making any decisions with regard to their benefits payable by the Fund. • Provides the Fund with any relevant personal documentation and information timeously in order to ensure that an up to date personal record is maintained.
Asset Consultant <i>(The Asset Consultants act as advisors to the Board and the Investment Board Committee.)</i>	• The roles and responsibilities of the Asset Consultant are reflected in detail in the relevant service provider agreement. • Provides investment advice and assists the Investment Board Committee and Board with understanding the investment industry product developments and the opportunities for implementation of these within the Fund. • Assists the Investment Board Committee in setting the Fund's investment philosophy and objectives and with the development and implementation of the investment strategy to achieve these goals. • Provides recommendations on strategic asset allocation (SAA) decisions. • Provides recommendations on tactical, short-term strategy decisions. • Assists with the monitoring of investment performance, asset managers and other aspects of the investment strategy. • Advises the Investment Board Committee with the appointment and termination of asset managers, formulation and maintenance of investment management agreements and mandates, sourcing and management of transition management services and asset manager continuation policies. • Provides updates on asset managers including qualitative and quantitative reviews. • Provides educational input for Investment Board Committee members and Board as required. • Assists the Investment Board Committee in setting relevant policies relating to responsible investment and active ownership and for the delegation or otherwise of these responsibilities to the Fund's asset managers and monitors and reports on the implementation of these policies to the Committee. • Assumes responsibility for arranging and facilitating the Annual Investment Days and investment strategy review days. • Assumes responsibility for arranging and facilitating due diligence visits with the custodian, each of the Fund's asset managers and the unitiser. • Prepares ad-hoc investment-related communication to members as required by the Fund. • Reviews the Policy in conjunction with the Investment Board Committee and Board on an annual basis and provides recommendations and/or advice in modifying the Policy where necessary. • Provides secretarial services to the Investment Board Committee. • Assists the Investment Board Committee in setting an appropriate rebalancing policy for the Fund. Assists in providing the required recommendations and implementation on the transactions required to rebalance the Fund's investment portfolios back to their strategic weightings where required.

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	- Monitors existing hedging strategies, recommends and implements any updates to liability driven investment solutions as appropriate. - Assists with the monitoring of compliance with the requirements prescribed in Regulation 28 and provides advice or recommendations on how any breaches can be resolved. - Provides such information to the Fund Actuary as is required for the actuary to complete the periodic valuation of the Fund, to certify that the Policy is appropriate for the nature of the liabilities of the Fund, to prepare the annual pension increase review and to perform such other calculations or prepare such other documentation as is required by the Board, Investment Board Committee or Employer from time to time.
Asset Managers	- Manage assets in accordance with the specific mandates set down by the Fund, within legislative requirements, according to their best investment view and in the best interests of the Fund. - Provide the Investment Board Committee and the Asset Consultants with monthly and quarterly statements of the Fund's assets, with a quarterly report on actions and future intentions and with the details of any changes to the investment process. - Provide the Fund's unitiser with information as required to ensure that unit prices are calculated accurately and timeously. - Provide the Fund's unitiser with information as required to ensure that the necessary Regulation 28 compliance reports can be produced accurately and timeously. - Reconcile their record of Fund's assets held with those of the custodian. - Report to the Investment Board Committee as required and to the Board when necessary. - Host annual due diligence visits by the Investment Board Committee and present at the Annual Investment Days. - Co-operate with the Asset Consultant and Fund Actuary by providing whatever Fund related information is requested accurately and promptly.
Fund Actuary <i>(The Fund Actuary is an advisor to the Board, Actuarial Board Committee and the Investment Board Committee, as well as Valuator of the Fund.)</i>	- Acts as the appointed Valuator to the Fund in terms of the Act. - Provides advice on the Fund's financial position (by determining the value of the Fund's liabilities) and the appropriateness of any pension increases for life annuitants in accordance with the Fund's Pension Increase Policy. - Assists the Fund in implementing any surplus distribution in accordance with the Fund's surplus distribution policy. - Provides comment on the appropriateness of the investment strategy in relation to the nature and term of the Fund's liabilities. - Assesses and advises regarding the appropriateness of the current Fund investment structures.
Fund Management	- Responsible for the day-to-day management and in-house administration of the Fund, collection of contributions, payment of benefits, financial reporting, ongoing research and recommendations of strategies to improve and protect the Fund in consultation with experts as required. - Oversees the provision of services by all Service Providers. - Ensures that formal reporting to the Investment Board Committee, Board and the authorities on compliance with Regulation 28 and other applicable legislation takes place timeously.

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Unitiser <i>(The Fund appoints an external service provider, that has the required skilled staff, systems and technology to deliver cost effective asset administration and unitisation services.)</i>	- Provides accurate calculation and timeous distribution of daily unit prices. - Provides efficient and timeous rebalancing, where possible, of the asset allocation and manager mix for each of the Fund's Lifestage portfolios; living annuity portfolios and other portfolios. - Provides cash-flow management services. - Provides investment reporting services in accordance with the specifications of the Fund. - Provides detailed and accurate financial reporting to the Fund which can be used inter-alia in preparing the Fund's financial statements. - Provides the relevant reporting of compliance with the requirements prescribed in the Regulation 28 as agreed with the Fund. - Compiles other statutory reports as directed.
Custodian	- Responsible for the recording and safekeeping of all the directly held assets of the Fund. - Undertakes all appropriate administration relating to the directly held assets of the Fund, including submission of proxy votes as directed by the asset managers. - Processes investment income with respect to the Fund in a timely manner. - Reconciles records of assets held with the asset managers.
Transition Manager	- Moves assets between asset managers and/or asset types in a cost-efficient manner while minimising risks as required by the Fund. - Provides services as provided for in the relevant service provider agreement.
External Auditor	- Audits the investments of the Fund on an annual basis for regulatory purposes or from time to time for any other purpose required by the Fund. - Advises the Fund regarding regulatory reporting requirements. - Signs off on classification of asset classes in terms of Regulation 28. - Reviews and signs off on the South African Reserve Bank (SARB) return.
Internal Auditor	Audits the investments of the Fund for regulatory and internal compliance purposes from time to time, or for any other purposes required by the Fund.
Legal Advisor	Provides expert legal advice and reviews investment management and other agreements, mandates and policies as required by the Fund.

5. GOVERNANCE PRINCIPLES

The ongoing maintenance and review of good standards of governance should ensure that the Fund's investments are managed appropriately and will collectively reduce the risk of material failure of the investment strategy. Governance principles therefore define the framework of an investment policy statement.

Applying good governance principles is important in terms of TCF outcome 1.

The Fund is governed firstly by the Act. Regulation 28 of the Act is concerned with retirement fund investment principles and limits. A number of principles that pension funds and their boards are expected to follow include the adoption of a Responsible Investment Approach, including the consideration of Environmental, Social and Governance (ESG) factors in addition to financial considerations. By law, the Fund must adhere to Regulation 28. The Fund is also required to act in accordance with the registered Fund Rules.

Whilst FSCA circulars are not currently legally binding on retirement funds, the Board recognises these as recommended practice and aims to adhere to PF 130 as far as it is deemed appropriate to do so.

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A number of principles of good governance that specifically relate to investments have been identified by the Board and implemented by the Fund. Many of these are contained in Annexure B of PF 130 (refer to Appendix 2).

The Fund's policy and actions pertaining to each of these governance principles, including responsible investing, are summarised in Appendices 3 and 4, together with extracts from Regulation 28 and PF 130 (where applicable).

6. INVESTMENT PHILOSOPHY

The determination of an investment philosophy is important in terms of TCF outcomes 2 and 5.

The Board accepts and acknowledges the inherent relationship between risk and reward (return) and the resulting "conflict" within the investment objective of seeking to maximise return while minimising the risks taken. The Investment Board Committee makes all investment decisions in the full awareness of this trade-off and uses asset liability modelling (ALM) to better understand the likely trade-offs.

The Board accepts and acknowledges that taking some risk is necessary to achieve the investment returns required. However, risk management is an express objective of the Fund and unnecessary or excessive risks are expressly avoided. A specific focus on reducing volatility is considered as a part of risk management objective, recognising that a reduction in volatility is appropriate as members approach retirement, and for living annuitants utilising Lifestage portfolios as investment options within the Fund.

The Board acknowledges that a responsible investment approach whereby material non-financial factors, such as sustainable ESG factors, are incorporated into long-term investment strategies, processes and activities is expected to contribute to decreasing investment risk and improving risk adjusted returns. This approach also includes the active ownership responsibilities of engagement, proxy voting and reporting.

The Board also accepts the diversification benefits of holding a variety of uncorrelated asset classes, in order to reduce risk without compromising expected returns.

In general, prudent investment choices are made in all sections of the Fund, with the intent of seeking to achieve the investment objectives specific to that section. Asset liability modelling is used to help understand the likelihood of achieving the investment objectives of the Fund.

The investment strategy (refer to Section 10) of the Fund is based on the acceptance by the Investment Board Committee of the following general investment beliefs:

- i) Members (including living annuitants) generally have low governance budgets and hence without the requisite education, communication and advice may tend to make inappropriate investment decisions. As such, specifically in relation to the DC section, a default Lifestage investment strategy is in place for members and deferred pensioners in conjunction with limited member investment choice. Members are provided with communication material to aid understanding in this regard and are advised to consult duly qualified and registered financial advisors for advice prior to exercising investment choice. In-fund living annuitants are required to select one of the available Lifestage investment portfolios or the cash portfolio;
- ii) Skilled, active investment management has the potential to outperform passive management over time, providing significant benefits to the Fund and its members. Passive investment alternatives will, however, be considered from time to time, specifically in respect of offshore assets;
- iii) Adopting a predominantly specialist approach in the investment of the assets required to cover the fund credits of active members and in the investment of the unhedged assets in the pensioner pool allows asset managers to focus on the asset class or investment philosophy best suited to their expertise, potentially providing significant benefits to the Fund and its members. However, balanced mandates may be appropriate in some circumstances where a specialist approach may be deemed too restrictive and difficult to implement;
- iv) Asset managers with comprehensive governance structures and robust investment processes are preferred (these are typically found within more established managers);
- v) High value is placed on the quality of management of investment businesses and investment teams;

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- vi) Investment decisions should be taken in the context of the broader strategy (i.e. best blend) and not only based on manager specific factors such as performance and fees (i.e. best manager);
- vii) Diversification of strategies, styles and managers adds value over time and reduces risk within portfolios; and
- viii) Concentrated investment positions in single company or sector at a strategy and manager level could introduce unrewarded idiosyncratic risk and such risks should be monitored, interrogated and timeously addressed as need be.

Specific beliefs that have been identified with regards to the equity building block are as follows:

- a) Additional return, in excess of the market (beta) or the market risk premiums, exists and could be acquired through the appointment of credible active asset managers;
- b) The market or “beta” alone (pure passive management) has traditionally not provided sufficient return to satisfy the real return objective for the building block (the expected market return does however change over time and this position could change); there may well however be instances where passive management could be considered to be appropriate; and
- c) above the return available from the broader market, a number of factor premiums exist that could be exploited for additional return (additional risk premiums).

Given the predominantly specialist approach, the manager allocations are set by the Investment Board Committee after input from the Asset Consultant. Major rebalancing (if required) back to SAA is done on a quarterly basis as per the Fund’s rebalancing policy and dynamic or continual rebalancing is carried out by the Fund’s unitiser as and when sufficient cash flows occur.

In order to take advantage of investment opportunities, deviations from the SAA are permitted through temporary tactical asset allocation (TAA) decisions.

The overall strategy for the pensioner portfolio has historically been a combination of cash flow matching notes, liability driven investments (LDI) and riskier growth assets in order to aim to protect pensioners’ benefits while at the same time meeting the targets set out in the Fund’s Pension Increase Policy. Towards the end of 2017, the Trustees decided to increase the hedged assets to 100% of the pensioner liability, so as to fully immunise the total pensioner liability. The Fund’s remaining cash flow matching note matured in July 2021. Due to the cost associated with these structures, it is not intended that further cash flow matching notes will be implemented, with hedging of the pensioner portfolio implemented only via LDI going forward.

The hedged assets will be recalibrated following each pension increase and for any other update to the pensioner liability so as to ensure that the 100% hedge is maintained despite changes as a result of mortality experience of the pensioners or pension increases in excess of inflation.

The 100% hedged strategy is implemented by investing the pensioner assets in a LDI portfolio that is aimed at hedging out the interest rate and inflation risks in order to better protect pensioners’ benefits and assist in ensuring that long-term pension increases in line with inflation, subject to affordability and aligned to the Fund’s Pension Increase Policy, can be awarded to pensioners. In addition, credit overlay strategies are followed on up to 25% of the LDI portfolio in order to enhance the returns.

Active members contribute to either the DB or DC sections of the Fund. The investment strategy for the small number of remaining active members in the DB section is for investments backing their liabilities to be invested in the Lifestage Medium/High Portfolio targeting a return of CPI + 4.5% per annum (net of all investment related costs). The net returns of the DB active member portfolio should also be assessed against the required return in terms of the assumptions used to determine minimum benefits and capital value of pension benefits, as reviewed on a quarterly basis by the Fund Actuary.

The overall investment strategy for active members in the DC section is for investments to follow a default Lifestage approach with five risk-profiled portfolios. These portfolios are structured to meet various real return objectives with the aim of achieving a Net Replacement Ratio (NRR) for the average member of 60% to 70% of his / her pensionable salary after a 35-year period of Fund membership and a normal retirement age of 60. (Refer to Section 7: Investment Objectives of the Fund).

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7. INVESTMENT OBJECTIVES OF THE FUND

7.1 Return Objectives

Determining, understanding and focusing on investment objectives are important in terms of TCF outcomes 2 and 5.

The Fund's broad investment strategy is to invest in a mix of asset classes aimed at achieving the Fund's long-term return objectives. The main issues that need to be considered in this context are the specific required return and the specific risk profile. In order for the Fund to achieve the required returns, investments will be made in the following local and offshore asset classes and derivatives thereof (in accordance with Regulation 28 of the Act):

- Equities (including listed property and preference shares);
- Hedge Funds;
- Bonds (including government and corporate bonds, both nominal and inflation linked);
- Enhanced Income; and
- Cash and money market instruments.

Derivatives must be fully covered by supporting assets (as referred to in the asset managers' investment mandates).

The expected long-term real return objectives for the asset classes listed above are determined by the Investment Board Committee, in conjunction with the Asset Consultant. The net real return objectives for monitoring purposes of the various asset classes (as at 30 September 2021) are detailed in the table below:

Asset Class	Local Equities	Local Hedge Funds	Local Bonds	Local Enhanced Income	Local Money Market	Offshore Equities	Offshore Bonds
Net real return objective*	6.0% p.a.	5.0% p.a.	3.5% p.a.	3.0% p.a.	2.0% p.a.	4.5% p.a.	1.5% p.a.

* At 30 September 2021, the annual headline inflation rate was 5.0%. 30 September data is used for the December pensioner valuation and pensioner increase

For the DB Active section: The real investment return objective for the portfolio in which assets are invested is 4.5% as this is invested in the Lifestage Medium High portfolio. This is reviewed annually by the Fund Actuary taking into account the latest pensioner conversion rate.

For the DB Pensioner section: Based on the Fund's risk tolerance and taking its Pension Increase Policy into account, the current strategy in respect of the pensioner assets aims to hedge 100% of the pensioner cash flows. In terms of the actuarial valuation basis, the real return objective in respect of the hedged assets is determined with reference to the market value for risk free real yields at the valuation date.

For the unhedged assets backing the pensioner liabilities, the net real return objective amounts to 5.0% per annum. This component is invested in the Lifestage High portfolio to achieve the higher return objective and the higher risk associated with this strategy has been taken into account in formulating the overall strategy.

For the DC section, the net real return objectives of the various Lifestage portfolios as well as the stand-alone cash portfolio are detailed in the table below:

Portfolio	Lifestage High	Lifestage High / Medium	Lifestage Medium	Lifestage Medium / Low	Lifestage Low	Cash
Net real return objective	5.0% p.a.	4.5% p.a.	4.0% p.a.	3.5% p.a.	3.0% p.a.	2.0% p.a.

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The DC default Lifestage model targets a NRR of between 60% and 70% of pensionable salary for the average member, assuming 35 years of Fund contributory service, a retirement age of 60 and a nine-year transition period leading up to retirement.

For in-fund living annuities: Retired DC members electing in-fund living annuities may select any of the five Lifestage portfolios, according to their personal return and risk objectives. In addition to the abovementioned portfolios, members may also move their annuity capital sum to the stand-alone cash option. The individual DC living annuitant's choice of a Lifestage portfolio thus directly targets the personal investment objectives that he / she wishes to achieve over the long term. Living annuitants therefore continue to bear all the investment and longevity risks.

The Fund's reserves are invested in various portfolios as detailed in Section 10.3.

The Employer surplus is invested in a manner to achieve the employer objectives as set out in Section 10.4. Currently the employer surplus is invested in the Money Market Building Block but alternative strategies aimed at, for example, participation in the equity markets whilst protecting capital, may be considered in consultation with the Principal Employer, subject to statutory limitations.

In addition, a portion of the funds will remain invested in cash to fund ongoing contribution holidays taken by certain participating employers from time to time. Further detail can be found in Section 10.4.

7.2 Risk Tolerance

Investment in market related portfolios leads to fluctuating and sometimes negative returns. The Investment Board Committee will monitor the variation in the returns achieved by the various asset managers and portfolios as well as the Fund as a whole. The Fund's investment policy and asset manager combinations and performance will be regularly monitored to ensure that the Investment Board Committee is comfortable with the fluctuations in performance. It is recognised that performance monitoring is done with long-term objectives in mind.

7.3 Measurement

Performance measurement and reporting is done monthly by the Fund's unitiser and the report is reviewed by the Asset Consultant prior to circulation to the Investment Board Committee for evaluation and monitoring purposes. Performance measurement is reported at least quarterly to the Board by the Asset Consultant. Each portfolio is evaluated in relation to the objectives set. The asset managers will also be evaluated against the benchmarks at both asset manager level and portfolio level.

It is recognised that performance monitoring is done with long-term objectives in mind. Short-term under-performance relative to benchmarks is not in itself always a cause for concern.

If an asset manager under-performs the benchmark over any twelve-month period, the manager's appointment will be reviewed by the Investment Board Committee to establish whether, in their view, there are sound reasons to retain the manager. (Refer to Section 11.2).

If the overall investment strategy does not perform in line with the Fund's objectives, a review of the strategy will be performed in consultation with the Fund's advisors.

Risk measurement is best served by considering a range of measures rather than a single one. Risk measures to be considered for asset manager portfolios include volatility, tracking error (relative to benchmark), percentage of negative months, worst month, maximum drawdown, recovery period, efficiency ratio, information ratio and Sharpe ratio. When evaluating portfolio risks, historical measures are considered along with prospective measures. For the latter, asset modelling provides a realistic risk measure and estimates various probabilities e.g. probabilities of capital loss, negative real returns, etc.

Details of the various Lifestage investment portfolios and their risk and return objectives are communicated to members. Monthly performance of each Lifestage portfolio is available to members registered for this service and on the Fund's website. Members also receive annual benefit statements and an annual Fund review report. The Fund's website contains a host of information on investments to enable members to generate informed views regarding investment choices.

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8. RISKS TO BE RECOGNISED

Determining, understanding and mitigating investment risks are important in terms of TCF outcomes 1, 2 and 5.

In terms of the Fund's investment strategy, the Board views risk primarily as the likelihood that the chosen strategy will result in the Fund's net real return objectives not being met, with the result of not achieving the targeted NRR. The investment strategy adopted is designed to maximise the likelihood of meeting these objectives, while controlling, as far as is possible, and managing those factors which may result in the net real investment return objectives not being met.

In general, greater expected returns can only be achieved by accepting greater risk. The management of one type of risk is often only achieved at the expense of another. Developing an appropriate investment strategy (refer to Section 10) will largely be a matter of achieving the most appropriate balance between the various risks, given the objectives and liability profile of the Fund.

Risk and return will therefore typically imply a trade-off. The control of one of the aspects of risk is often at the expense of another. For example, investing in cash will reduce the risk of a decrease in fund value (capital loss), but will increase the risk of the member's assets being eroded by inflation (negative real returns).

One of the main objectives of the Fund should be to manage risks, and to allow for acceptable trade-offs. One of the best ways of managing risk is to have a tailored investment strategy (refer to Section 10) depending on, in the DB section of the Fund, the liabilities of the Fund and, in the DC section of the Fund, the anticipated risk tolerance and return requirements, which the Fund assumes to be proxied by the age and retirement needs of the members.

In arriving at the Fund's investment strategy, the Board has considered the following specific investment risks:

8.1 Negative Real Returns

This arises if the nominal returns fall below the rate of inflation and the real value of assets declines over time. This risk is reduced over the long term by investing in growth assets such as equities, which can, as an asset class, be expected to produce the highest returns in the long term. Due to the volatility of the equity market, it may not be possible to eliminate this risk over the short-term. Inflation-linked bonds provide some real capital protection, if held to maturity, but the real yields they offer tend to be low.

8.2 Capital Loss

This risk of capital loss can be reduced in the short-term by investing in cash and shorter-dated bonds, where the future nominal capital value is known (although the risk of default still exists). The returns on these assets are however, expected to be lower than that on growth assets over the long term, negatively impacting on the ability to provide real returns to meet the required investment objectives. Portfolios with explicit capital guarantees generally provide capital preservation, but counterparty risk means that the capital may not be fully protected.

8.3 Volatility

The different asset classes experience different levels of volatility. Diversifying portfolios between asset classes, and investing a greater proportion in assets typically displaying lower volatility, such as cash and shorter-dated bonds, may reduce this risk.

8.4 Liquidity Risk

Liquidity risk involves not having enough liquid assets to meet current liabilities or being unable to realise assets on a reasonable basis when cash is required. The Board recognises that illiquidity is an investment risk which is "rewarded" by potentially increased expected returns and that the Fund is, with the exception of members close to retirement, a long-term investor with somewhat predictable cash flows and can therefore afford to take on some risk of illiquidity. However, liquidity risk is managed by maintaining sufficient cash balances for anticipated cash outflows and by investing in liquid and/or highly tradable assets. In addition, investment in pooled investment portfolios will only be permitted where the Fund's investment represents a small portion of the total portfolio and termination or withdrawal terms are acceptable to the Board.

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8.5 Asset Failure

Asset failure is the risk of investing in an institution which then fails. The risk of asset failure is typically reduced by diversifying the investment portfolios between the different asset classes, by only investing through highly regarded asset managers and by making cash deposits only with institutions with high credit ratings (although, the Investment Board Committee understands that ratings from credit rating agencies may not in themselves provide sufficient assurance). It is expected of the asset managers that they will, in turn, diversify equity, listed property and fixed income investments between well-researched companies, real estate investment trusts and a range of RSA government bonds (which are underwritten by the RSA Government and can therefore be considered to have a low risk of failure). In addition, Regulation 28 prescribes certain limits on the amounts which may be invested in any single entity or in any single asset class.

8.6 Market Timing

Market timing is an investment technique where the investor seeks to improve long-term returns by correctly anticipating major moves in investment markets. In practice attempts at market timing more often impact negatively on returns, as human nature is such that it is very difficult for an investor to sell assets when markets are at their peak and sentiment is positive, or to buy assets when markets are depressed. Investors who actively attempt to time investment markets face the risk of failing in these attempts. In addition, the frequency of trading will result in higher accumulated trading costs, which will further reduce any returns, even when negative.

The Board manages the risks associated with market-timing by fully delegating such decisions to the Fund's asset managers.

The Board recognises that by giving DC members of the Fund freedom to choose and to switch between Lifestage portfolios on an individual basis, they have by definition also given the members the de facto ability to attempt to time the market. The Board has no control over members' behaviour in this regard, but will endeavour to communicate the risks of market timing to members through this document and other forms of member communication. In addition, members are advised to seek professional investment advice prior to switching portfolios. Members thus also have a responsibility in this regard to acquaint themselves with the issue by accessing the material available, understanding the risks involved and seeking independent advice as appropriate.

8.7 Tracking Error

It is often accepted that in South Africa active portfolio management can add additional value over passive management (index tracking). Active management does, however, introduce the risk of significant underperformance of indices if excessively divergent positions are taken. Risk management techniques can be employed by active managers to measure and monitor this tracking error risk, which will be monitored by the Asset Consultant and the Investment Board Committee to ensure that the degree of tracking error for each mandate is appropriate and that excessive tracking error (or active risk) is not taken.

8.8 Manager Risk

The risk exists that a particular asset manager employed by the Fund could underperform its peers and / or the relevant index, resulting in poor relative returns and / or could act contrary to the agreement between the parties. Manager specific risk is thus reduced by investing across a range of managers.

Active equity asset managers typically display a style bias (for example growth versus value and momentum versus quality, or small cap versus large cap). The different investment styles each go through periods when they are rewarded or penalised by investment markets. The risk of being exposed to asset managers whose style is not rewarded by investment markets during particular periods is reduced if the Fund invests with managers with different style biases in such a manner as to result in the Fund being diversified between various styles. Currently, the Investment Board Committee believes that over the medium to long-term, the value investment style blended with an exposure to the momentum and quality styles is likely to add the most to equity performance, but subject to tactical overlays when regarded as appropriate. The exposure to the small and medium cap portfolio was terminated in 2020 following the impact of the global Covid-19 pandemic

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and resultant economic lockdowns experienced during the year, but allocation to smaller asset managers (e.g. 36ONE) will facilitate allocation to small and medium caps when opportunities arise.

8.9 Benchmark Risk

The performance of a fund's asset managers must be measured against different relevant benchmarks in order to determine whether they are performing their function adequately. The choice of benchmark against which an asset manager is measured is therefore important.

The responsibility for selecting an appropriate benchmark rests with the Fund's Investment Board Committee in consultation with the Asset Consultant. The development and maintenance of an investment strategy (refer to Section 7) based on the advice of professional investment advisors, reduces the risk of the Investment Board Committee selecting inappropriate benchmarks.

8.10 Preservation of Capital Close to Retirement

The risk of losing capital becomes particularly significant to members of a defined contribution fund who are close to retirement and who do not intend to elect a living annuity on retirement, as their standard of living after retirement will be directly linked to the Rand value of their fund credit at retirement. Despite the greater expected returns of growth assets, these members should not by default be exposed to the associated volatility and risk of capital loss. The default Lifestage approach addresses this issue by transitioning from volatile growth assets to stable conservative assets as a member approaches normal retirement age. The members do however retain the right to select alternate Lifestage portfolios or the stand-alone cash option as they approach retirement.

8.11 Pension Conversion Risk

This risk arises when an increase in the cost of securing a pension on retirement from a defined contribution fund is not matched by a corresponding change in the value of the fund credit used to purchase the pension. Changes in the pension conversion rate are monitored by the Investment Board Committee, in consultation with the Fund Actuary, in order to optimise the Fund's investment strategy to the extent that this is possible.

8.12 Offshore Investments and Currency Risk

Investors seek to reduce volatility of returns and dependence on the South African economy by investing a portion of their assets in offshore investments. The Fund's liabilities and the members' retirement expectations are denominated in Rands and therefore investing in offshore investments introduces a currency-mismatch risk in that the currency invested in could weaken against the Rand.

The volatility risk associated with offshore investments is reduced when only a limited portion of the Fund's assets is invested offshore. Effective from February 2018, retirement funds are allowed to invest up to 30% of their assets offshore (plus a further 10% in Africa excluding South Africa) in terms of the South Africa Reserve Bank and Regulation 28 limits. The actual allocation for each portfolio depends on the risk characteristics of the portfolio and the optimal strategic allocation is reviewed from time to time.

Where short-term capital preservation is required, it would not be appropriate to invest a large portion of the relevant assets in offshore investments, and accordingly, the allocation to offshore investments is reduced in the later Lifestage portfolios.

8.13 Derivative Instruments

Derivatives serve a useful purpose in investment portfolio management, when derivatives are used for asset allocation or hedging purposes. Derivative instruments can also be useful when used to insure against specific events, or when the asset manager seeks to enhance the portfolio's return through taking advantage of anomalies in derivative market pricing.

Where derivatives are used to speculate or gear performance, the Fund could be exposed to unacceptable levels of risk. The risks associated with derivative instruments are managed by including derivative

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investment guidelines in asset managers' mandates which explicitly exclude speculation and gearing and by reviewing the managers' derivative policy statements when the Fund invests in pooled investment products.

8.14 Mismatching

For the DB section, mismatching in the context of a defined benefit arrangement arises if the return earned on the assets backing defined benefit liabilities is significantly out of line with the assumptions about future investment returns made by the Fund Actuary when determining the value of the Fund's liabilities. The consequence of a difference in actual returns relative to required / expected returns (excluding the impact of other deviations from actual experience) is that defined benefit assets will not equal defined benefit liabilities.

The Fund has implemented a 100% hedge in respect of its pensioner liabilities, minimising the risk of asset/liability mismatches in the DB section of the Fund.

For the DC section, mismatching in the context of a defined contribution arrangement arises if the investments are different in nature and term to the member's assumed investment horizon. The default Lifestage model is designed to mitigate the mismatching risk. When a member is a long way from normal retirement age the assets representing his / her fund credit are invested mainly in asset classes that are expected to provide a good hedge against inflation over long periods and short-term volatility risk is accepted in light of the long-term investment period. As the member approaches normal retirement, the assets are progressively invested more conservatively, prioritising short-term certainty over return maximisation as the member might not have the benefit of time to recover shorter term capital losses.

Members are personally responsible for considering the need to opt out of the default Lifestage option based on their personal requirements, for example early retirement or resignation.

8.15 Credit Risk or Counterparty Default Risk

Credit risk or counterparty default risk is the risk that one party to a financial instrument will fail to discharge an obligation, and cause the other party to incur a financial loss. The recognition and management of this risk is not specifically mentioned in PF 130. However, the Board believes this to be an important risk, and will require disclosure of limits in terms of credit exposure applied by all the Fund's asset managers. The credit exposure will primarily affect the credit overlay on the hedged pensioner assets but also the money market, enhanced income and bond portfolios. It can also be important when considering investment transactions involving contractual arrangements with counter-parties (for example scrip lending and derivatives traded over the counter). Regulation 28 also provides guidance in this respect, and will be adhered to. The Board recognises that taking on an additional risk, like credit or counterparty risk, can result in earning additional return and that, in some circumstances where the actual occurrence of default is relatively rare, such as investments in corporate bonds, this can be a useful source of return for a long-term investor.

8.16 Transition Risk

The risk of incurring inappropriate costs in relation to the transition of assets of the Fund from one asset manager to another exists. The Investment Board Committee will mitigate this risk by eliminating unnecessary transition activity and by contracting with one or more specialist transition manager to implement the transition of assets with the explicit aim of minimising costs (both direct and indirect). This process also aims to group together separate transitions to achieve benefits of scale.

8.17 Custody Risk

The risk of misappropriation of assets, delivery that is not in accordance with instructions, unauthorised use of assets for the benefit of other customers of the custodian, inadequate segregation of customer assets, failure to collect income, recover tax or respond to corporate events, custodian default, etc. exists. The Investment Board Committee will enter into an agreement and assess and consider the actions taken by the Fund's custodian at the outset and on an ongoing basis to mitigate the risk.

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8.18 Sustainability Risk

This is the risk of compromising the future sustainability of investments and potentially of the Fund itself due to various possible increased risk factors that could result from the neglect of environmental, social or governance responsibilities. The Investment Board Committee has adopted policies regarding the Fund's approach to responsible investing as well as active ownership responsibilities in order to ensure that the Fund meets its obligations in respect of environmental, social and governance responsibilities.

9. CONSTRAINTS

Taking certain investment constraints into account is important in terms of TCF outcomes 2 and 5.

The investment constraints are limitations on the ability to make use of particular investments. These constraints are either imposed from outside the Fund or from within the Fund and could impact on the investment decision-making process. The investment constraints and related risk mitigating actions are listed below and are applied in assisting to limit the risk associated with the overall portfolio.

9.1 Time Horizon

The liabilities of the Fund are generally long term. However, as DC members approach retirement, the effective time horizon for members electing a life annuity is reduced from a long to a shorter term. This time horizon is reflected in the default Lifestage portfolio structure.

9.2 Liquidity

The Fund is not very constrained by liquidity considerations under normal conditions due to the long-term nature of the Fund's liabilities as well as the monthly inflow of contributions. However, short-term additional cash flow requirements may arise from time to time for example in the payment of fund credits following large scale retrenchments, member transfers or in the case of the retirement of individuals with larger fund credits. These cash flow requirements are raised with the Investment Board Committee. In the event that additional liquidity is required, the Investment Board Committee will, in consultation with the Asset Consultant, decide on the best course of action to achieve the necessary liquidity without incurring unnecessary costs or compromising the Fund's investment strategy unnecessarily. This review specifically takes into account any restriction periods on withdrawals (e.g. in respect of the enhanced income portfolio).

9.3 Legal Constraints

The Fund is subject, amongst others, to the provisions of the Act, as amended from time to time and in particular the provisions of Regulation 28 and the South African Reserve Bank (specifically pertaining to offshore investments). This governs the maximum permitted levels of exposure to various asset classes. The Fund is also subject to the provisions of its Rules, as amended from time to time.

9.4 Strategic Holdings

The Fund does not invest in any strategic holdings. The use of such investments in future may be considered by the Investment Board Committee provided that they are consistent with the investment objectives of the Fund.

9.5 Tax Considerations

Retirement Fund Tax was abolished with effect from 1 March 2007. Capital gains earned by retirement funds are likewise exempt from tax. As a result, the Fund is currently a non-taxable entity for investment purposes.

10. INVESTMENT STRATEGY AND PORTFOLIO STRUCTURE

Due consideration of the investment strategy and portfolio structure is important in terms of TCF outcomes 2 and 5 specifically.

Developing an investment strategy is not an exact science and there may be a number of different strategies that could be equally appropriate for a particular retirement fund.

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Documenting the Fund's investment strategy increases the Board's understanding of the strategy they have adopted. Once an investment strategy is developed and implemented, the documented strategy will prove a useful tool to the Board to analyse and understand the Fund's investment experience as it unfolds. A documented investment strategy also provides a reference for future Boards of Trustees taking over the mantle of trusteeship to understand both the strategies adopted by their predecessors, as well as the reasoning behind the strategies adopted. The Policy (containing the investment strategy) is a useful reference document for members wishing to understand and interrogate the Fund's investment strategy.

Specialist Mandates

The Fund's assets will be managed by appointed professional asset managers in accordance with mandates agreed to by the Investment Board Committee and contained in written agreements and mandates with such managers. The Fund's SAA for each liability pool or Lifestage portfolio is determined by the Investment Board Committee taking into account the advice of the Asset Consultants and Fund Actuary. Most building blocks have a specialist asset class approach, with the most appropriate specialist managers managing single asset class mandates. However, the same asset management business may manage more than one mandate relating to different asset classes.

A specialist investment approach is generally followed as it enables the asset structure of the Fund to match the existing liability structure and provides sufficient flexibility to adapt in the event of the liability structure changing without requiring significant restructuring of the Fund. The appointment of asset managers based on proven capability to manage a specific asset class is deemed preferable to selecting a manager to manage assets across asset classes where they may not have proven capability. The specialist investment approach also provides for improved management of the risk of inappropriate asset allocation in relation to the Fund's liability structure.

In certain cases, investing in a specialist segregated mandate is not practical, due to size or domicile conditions, in which case the Fund will invest in an appropriate pooled investment vehicle which may utilise an appropriate balanced or passive investment approach (as is currently the case with, for example, offshore investments).

Tactical Asset Allocation

In order to take advantage of shorter-term opportunities, temporary deviations from the SAA are allowed for by incorporating TAA decisions made by the Investment Board Committee that aim to extract some additional return (or reduce risk) from the relevant asset allocation opportunities.

Rebalancing

Asset manager allocations are determined by the Investment Board Committee in consultation with the Asset Consultant. Major asset class rebalancing is done quarterly according to the Fund's rebalancing policy. The rebalancing policy allows for tolerance bands of 2.5% for each asset class. When the allocation to an asset class moves outside of this range, it will be rebalanced back to the strategic weighting unless the Investment Board Committee has decided to temporarily deviate from this approach in order to apply a different TAA. There is a 12-month period allowed to rectify regulatory breaches. An extension of the temporary deviation from the SAA may be considered in such instances.

Dynamic or continual rebalancing is also performed by the Fund's unitiser as and when sufficient cash flows occur to keep the portfolios in line with their SAA.

The following sections detail the investment strategy for each liability pool in the Fund:

10.1 Defined Contribution (DC)

The investment strategy for the DC section provides for a multi-portfolio structure, using primarily specialist asset class "building blocks", rebalancing of the actual allocations and daily unitisation.

Each portfolio uses the same building blocks in different proportions, in order to accommodate specific return and risk requirements. The SAA for each of the portfolios, as derived from a stochastic Asset Liability

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Modelling exercise undertaken by the Asset Consultant, and approved by the Investment Board Committee, is set out in the table below. This is reviewed on an annual basis.

Strategic Asset Allocation

Building Block	Defined Contribution Lifestage				
	High (<51 years)	High/Med (51 - 53 yrs.)	Medium (54 - 55 yrs.)	Med/Low (56 - 57 yrs.)	Low (58 - 59 yrs.)
Local Equity	48.0%	36.5%	25.0%	13.5%	2.0%
Local Hedge Funds	5.0%	5.0%	5.0%	5.0%	5.0%
Local Flexible Bonds	18.0%	26.25%	34.5%	42.75%	51.0%
Local Enhanced Income	0.0%	5.0%	10.0%	15.0%	20.0%
Local Cash	1.0%	5.0%	9.0%	13.0%	17.0%
Offshore Equity	18.0%	14.5%	11.0%	7.5%	4.0%
Offshore Bonds	10.0%	7.75%	5.5%	3.25%	1.0%
Total Fund	100.0%	100.0%	100.0%	100.0%	100.0%

It is recognised that as members approach retirement, their investment horizons may shorten and their risk tolerance may reduce. The risk of losing capital becomes particularly significant to members of a defined contribution fund who are close to retirement and who do not intend to elect a living annuity on retirement, as their standard of living after retirement will be directly linked to the Rand value of their fund credit at retirement. Despite the greater expected returns of investments in growth assets, it is recognised that these members should not be exposed to the associated volatility and risk of capital loss. The default Lifestage portfolio approach addresses this issue by transitioning over a nine-year period from volatile growth assets to more stable conservative assets as a member approaches normal retirement age. The review of the SAA of the Lifestage Portfolios undertaken in 2019/20 (with further refinement in 2020/21) has particularly focused on this issue as a part of the risk adjusted return objectives.

This results in a more conservative investment strategy closer to retirement which results in a reduction in expected return at a time when their retirement savings are at their maximum, which therefore has a potentially significant opportunity cost in respect of lower expected investment return. Despite being more conservative, the final pre-retirement portfolio, however, has some equity and bond exposure and may produce negative returns should these assets perform poorly. Members do however retain the right to select alternate Lifestage portfolios or the stand-alone cash option as they approach retirement.

In order to target the required net real return over a member's potential active membership, the initial portfolios of the Lifestage approach are more aggressively structured, with younger members migrating from a more aggressive (high equity) portfolio into four progressively more conservative (decreasing exposure to equities and offshore) portfolios commencing nine years prior to normal retirement age.

The investment objectives for each of the Lifestage portfolios are established by the Investment Board Committee. Asset liability modelling is used to better understand the variability of return, the probability of the Lifestage portfolios achieving their return objectives and accordingly, any asset allocation modifications required.

In the DC section, because cash flows often occur intra-month and accurate accounting for each individual member's investment accounts is required, daily return reporting is essential. The provision of daily unit prices is a specialist service and the Board has accordingly appointed an unitiser for this purpose.

Retiring DC members can select whether to receive their pension from within the Fund or from outside of the Fund (i.e. from a life insurer). If they choose to remain within the Fund, DC members can choose between a life annuity (the Fund's default Annuity Strategy, as defined in Regulation 39), a living annuity or a

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combination of the two, payable by the Fund. The living annuitants may select from any of the five Lifestage portfolios or a stand-alone cash option to invest their annuities in, according to their personal return and risk objectives.

10.2 Defined Benefit (DB)

The strategy for the DB section involves investing assets backing the DB active members' liabilities in the Lifestage Medium/High Portfolio targeting a return of CPI + 4.5%, and implementing a 100% hedge of the pensioner liabilities, with unhedged pensioner assets invested primarily in growth assets (invested in the Lifestage High portfolio) targeting a return of CPI + 5%. Rebalancing of allocations and unitisation is undertaken daily.

Within the DB section of the Fund, periodic returns (e.g. monthly, quarterly, annual, three years, five years and since inception) are calculated and monitored.

The DB and DC life annuity pensioner pools were merged to form a single pensioner pool with effect from 1 November 2008.

The asset allocation in the Pensioner Pool is based on best estimate cash flows being fully hedged through a LDI mandate, with unhedged assets being invested in growth assets (100% invested in the Lifestage High Portfolio). The Investment Board Committee regularly monitors the hedged strategy and any updates to the best estimate cash flows that require transfers to or from the unhedged portion of the assets.

10.3 Fund Reserves

In consultation with the Fund Actuary and Asset Consultants, the Investment Board Committee decided that the actuarially determined Fund reserves be invested as follows:

Reserve Account	Investment Portfolio
DBPF DC Processing Error Reserve	Lifestage Medium
DBPF Expense Contingency Reserve	Lifestage Medium
DBPF Data Error Reserve	Lifestage Medium
DBPF Legal Liability Reserve	Lifestage Medium
DBPF DC Expense Reserve	Money Market
DBPF Member Surplus	Money Market
DBPF Former Member Benefits (Distribution Reserve)	Money Market
DBPF Unclaimed Benefits	Money Market
DB Actives Solvency Reserve	Lifestage High/Medium
DBPF Pensioner Solvency Reserve	Lifestage High

10.4 Employer Surplus

The current investment strategy for the balance in the Employer Surplus Account is based on the following Employer objectives:

- Any amounts utilised to fund current contribution holiday requirements are to be invested in cash over the duration of the contribution holiday; and
- The balance is to be invested in accordance with the dual objectives of allowing for market participation on the upside but with a strong focus on capital preservation, subject to regulatory restrictions.

To meet the second objective, the Investment Board Committee considers various suitable investment strategies for implementation in consultation with the Principal Employer as required. The Employer Surplus Account assets are currently invested in the Money Market portfolio.

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11. ASSET MANAGER AND SERVICE PROVIDER SELECTION / APPOINTMENT / TERMINATION

Due diligence with regard to asset manager / service provider selection / appointment / termination is important in terms of TCF outcomes 2 and 5.

11.1 Manager selection

The responsibility for the selection and appointment of asset managers is delegated by the Board to the Investment Board Committee. This responsibility is to be performed in conjunction with and on the advice of the Asset Consultant and on the basis of the criteria set out below:

- Investment management philosophy, style and process;
- Quality of investment professionals employed;
- Business management skills and reputation of the organisation;
- Customer relationship management;
- Risk management employed by the organisation;
- Reporting and administration capabilities;
- Size of assets under management;
- Past investment performance;
- Fees and other costs;
- Corporate governance;
- The application of the CRISA principles;
- Key man risk; and
- Operational capabilities (including back up and disaster recovery capabilities).

11.2 Manager Termination

Conversely, if there is any cause for concern regarding any of the appointed asset managers, the Investment Board Committee will seek explanations and re-assurance from the respective managers before deliberating on whether to retain or exclude the manager from the portfolio, or to restrict cash flows to the manager.

Importantly, the Investment Board Committee is aware that both quantitative and qualitative factors can lead to a manager's termination. Based on quantitative assessment, the following, in addition to any other issues highlighted by the Asset Consultant, are factors that would cause the Investment Board Committee to consider terminating the appointment of a manager, or to restrict cash flows to the manager:

1. Failure to consistently meet or exceed the specified benchmark;
2. Poor risk-adjusted excess return (indicating a lack of manager skill in delivering consistent value-added performance);
3. Unfavourable peer group ranking; and / or
4. Negative feedback regarding other relevant appointment criteria listed above.

The measurement period for the quantitative assessment is typically a three to five-year period unless adverse qualitative factors would lead to a shortening of the evaluation period.

Qualitative factors or any significant change in the criteria used for selection that could potentially accelerate the decision to review and/or terminate a manager include, but are not limited to:

1. A change in the ownership of the firm, or organisational turmoil;
2. Any significant loss of key investment personnel involved with the management of either the investment process or the portfolio;
3. A change in investment philosophy that represents a deviation from that presented during the selection process and required by the Fund for the purpose of the specific investment portfolio;

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4. Any development that may impair the ability of the organisation to manage the portfolio in accordance with prudent standards;
5. Any situation that has the potential to impact the professionalism, financial position or integrity of either the Fund or the manager;
6. Violation of investment policy guidelines;
7. Breach of the terms of the agreement; and
8. Other developments or criteria as deemed appropriate by the Investment Board Committee.

The Board retains the right to add to, change or waive any of these criteria if it deems that such addition, change or waiver is in the best interest of the Fund.

11.3 Other Service Provider Appointments / Terminations

The Investment Board Committee regularly reviews the appointments of all investment related service providers to the Fund, including the Asset Consultant, unitiser, custodian and transition manager.

Factors taken into account include many of those that apply to asset managers, in addition to service delivery for the specific service sought.

12. REVIEW OF INVESTMENT POLICY STATEMENT

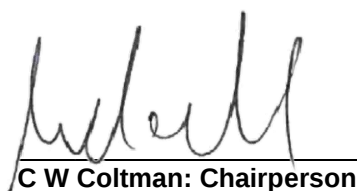
Recognition of the dynamic nature of the investment strategy and portfolio structure and the need for its regular review is important in terms of TCF outcomes 1, 2 and 5

The Policy is not static. It is appropriate as it relates to the Fund's membership and liabilities at a particular point in time and will be reviewed by the Investment Board Committee and Board at least annually.

A significant change in the Fund's liabilities, legislation and regulatory requirements, membership profiles and/or the investment environment will initiate an immediate review of the Policy. Any change to this Policy must be approved by the full Board.

13. APPROVAL

This document represents the current investment policy of the Fund and records the issues considered by the Board in establishing an appropriate strategy for the management of the Fund's investments.



C W Coltman: Chairperson

On behalf of the Board of De Beers Pension Fund

9 December 2021

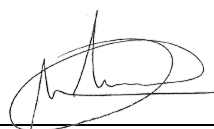
Date

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CERTIFICATION BY THE DE BEERS PENSION FUND ACTUARY

As the Fund allows individual member investment choice in respect of DC members and living annuitants, I cannot comment on the suitability of the assets of the Fund to the liabilities of the Fund at an individual member level. I can however confirm that, in my opinion, there are adequate investment choices available to members and living annuitants with which to construct a suitable investment strategy.

Subject to the above, in my opinion the investment strategy adopted by the Board, and detailed in this Policy, is appropriate in relation to the nature and term of the Fund's liabilities. I certify that I am satisfied with the asset structure of the Fund and that the matching of the assets with the liabilities of the Fund is, in my opinion, adequate.



Actuary of the De Beers Pension Fund

Date: 10 May 2022

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REVISION HISTORY

Revision no	Description	Date Reviewed	Date Approved	Minute no
001	New policy created	October 2019	5 December 2019	59.19
002	Annual review	November 2020	3 December 2020	51.20
003	Incorporation of changes approved to the investment strategies, return objectives and strategic asset allocations at the Fund's investment strategy review days, as well as changes to the Fund's investment structures. Updating of the Fund's responsible investing guidelines and policies.	November 2021	4 December 2021	57.21.1

FUND POLICY DOCUMENT

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APPENDIX 1 – TABLE 1 TO REGULATION 28 OF THE PENSION FUNDS ACT NO.24 OF 1956

Item	Column 1		Column 2	
	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; and A money market instrument issued by a foreign bank including an Islamic liquidity management financial instrument.		5%	
2.	DEBT INSTRUMENTS INCLUDING ISLAMIC DEBT INSTRUMENTS			100% for debt instruments issued by or guaranteed by the Republic, otherwise 75%
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%

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APPENDIX 1 – TABLE 1 TO REGULATION 28 OF THE PENSION FUNDS ACT NO.24 OF 1956 (CONT)

Item	Column 1		Column 2	
	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
3.	EQUITIES			75%
3.1	Inside the Republic and foreign assets			
		Preference and ordinary shares in companies, excluding shares in property companies, listed on an exchange:		75%
	(a)	(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.	A HOUSING LOANS GRANTED TO MEMBERS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 19 (5)			95%

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APPENDIX 1 – TABLE 1 TO REGULATION 28 OF THE PENSION FUNDS ACT No.24 OF 1956 (CONT)

	Column 1		Column 2	
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
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			
		Hedge funds		10%
	(a)	(i) Funds of hedge funds	5% per fund of hedge funds	
		(ii) Hedge funds	2.5% per hedge fund	
		Private equity funds		10%
	(b)	(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%

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APPENDIX 2 – ANNEXURE B TO FSCA CIRCULAR PF No. 130

FINANCIAL SERVICES BOARD

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DATE:	11 JUNE 2007	E-MAIL:	wilmam@fsb.co.za

ANNEXURE B TO CIRCULAR PF 130

GOOD GOVERNANCE GUIDELINES TO AN INVESTMENT POLICY STATEMENT (IPS)

This guideline sets out the following:

- The purpose and scope of the IPS;
- Preparing the IPS;
- Essential elements of the IPS;
- Risk management;
- Voting rights;
- Asset Manager Mandates, and
- Communication

PURPOSE AND SCOPE OF THE IPS GUIDELINES

- 1 Investments and the allocation of surplus funds should be made in the best interest of members and beneficiaries of the fund. There should be impartiality between different classes of members, and beneficiaries and those of the employer (where it has obligations to the fund). Boards have a fiduciary duty to deal with the investments with due care, diligence and in good faith and ensure that it complies with the rules of the fund, pensions law, the Financial Institutions (Protection of Funds Act) and all other applicable laws.
- 2 These guidelines contain the minimum standards and the issues that boards should consider when establishing a written IPS. The guidelines should be adapted by each board of fund to suit their particular obligations, objectives and all other factors that may affect the solvency and funding of their fund and its ability to meet its financial obligations. The board of fund should be prepared to explain any deviations from the IPS.
- 3 The guidelines are intended to serve as a guide only without intending to limit the care that boards of fund are expected to take in the performance of their duties. The IPS should be based on the standards that a reasonable person would apply to the investment portfolio of a fund – the “prudent person portfolio approach”.
- 4 It is recommended that some of the guidelines set out herein should be included in the investment manager mandates rather than the IPS itself.
- 5 When required, the board of fund must be prepared to deliver a copy of the IPS to the fund’s actuary and/or the Financial Services Board.

Board Members Dr CDR Rustonjee (Chairperson) AM Sithole (Deputy Chairperson) BM Hawkworth
 Ms JV Mogadimo Ms AMM Mokgabudi Ms LM Mojela Prof PJ Sutherland Ms HS Wilton
Executive Officer RJG Barrow



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APPENDIX 2 – ANNEXURE B TO FSCA CIRCULAR PF No. 130 (CONT)

PREPARING THE IPS

- 6 In the case of established pension funds, consideration must be given to existent investments when formulating the IPS. Furthermore, additional considerations will have to be applied when dealing with specific funds.

6.1 *Defined Benefit Funds:*

The board should consider the following to properly understand the obligations of the fund, namely:

- 6.1.1 Whether contributions are to be increased to keep pace with the cost of living;
- 6.1.2 Whether the pension formula adjusts to increases in salaries over time or whether such increases need to be granted to keep the formula current;
- 6.1.3 How fund obligations are spread amongst the categories of members and former members, and, within these categories, by age and time to retirement;
- 6.1.4 Whether changes in employment levels or conditions will change patterns of retirement;
- 6.1.5 Important ancillary benefits contingent on full or partial retirement;
- 6.1.6 Any planned changes to the fund.

In addition, factors relating to solvency ratios and the maturity of the fund as set out more fully below, must also be taken into consideration.

6.2 *Defined Contribution Funds:*

In this instance, the fund may appear to discharge its investment obligations by paying out contributions accumulated in beneficiaries' accounts along with investment returns, even though they may be low. However, it is recommended that the following factors also be taken into account, namely the:

- 6.2.1 Needs and reasonable benefit expectation of the beneficiaries;
- 6.2.2 Mix of members and the related growth and risk tolerance levels;
- 6.2.3 Variation in risk tolerance levels of members of the same age group;
- 6.2.4 Ability of beneficiaries to choose investment options – in this regard, the board should consider providing ongoing information and training to beneficiaries to enable them to make informed decisions.

In addition, the board should monitor "default" accounts for beneficiaries who have not indicated an investment option, the participation rate and the investments selected by beneficiaries. The purpose of such monitoring being to assess whether changes may be required in communication and/or education programs.

6.3 *Investment Policy and Procedures:*

In order to be able to determine the fund's investment policy, it is essential that the board of fund has first identified the profile of its beneficiaries. This will enable the board to identify what portion of funds will be required for short, medium and long term investments and the risk profile attached to each category of beneficiaries e.g. those retiring in the short term will require low risk, high liquidity. As this is an essential element of determining the investment policy, the board should, where appropriate, obtain the advice and guidance of independent consultants and/or actuaries.

In determining the appropriate IPS, boards should consider the:

- 6.3.1 Current investments;
- 6.3.2 Degree of risk tolerance they wish to sustain;
- 6.3.3 Volatility of contributions;
- 6.3.4 Current and future liabilities of the fund;

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APPENDIX 2 – ANNEXURE B TO FSCA CIRCULAR PF No. 130 (CONT)

- 6.3.5 Structure of the pension plan (e.g. defined benefit/contribution pension funds or defined contribution provident funds);
- 6.3.6 Current financial status of the fund;
- 6.3.7 Liquidity and cash flow requirements;
- 6.3.8 Maturity of the fund ; and
- 6.3.9 Profiles of the beneficiaries.

- 7 Taking a holistic view of these considerations into account, together with the purpose and objectives of the fund, the board will then be able to determine the appropriate mix of assets to meet the fund's obligations. In arriving at a decision, the board will have to obtain expert opinion and advice. In this regard, care must be taken to avoid a one-sided view e.g. an actuary might have a good understanding of a fund's present and future liabilities, but might not be an expert on investments, whilst on the other hand, and investment manager may only have expertise on a limited class of investments. Therefore, care must be taken that the advice obtained is free from conflicts of interest.
- 8 The same cautionary applies to setting effective performance appraisals e.g. an asset manager might wish to constrain effective performance appraisal levels and the vendor of a specific financial product may overlook the disclosure of commissions to offset fees for service.
- 9 The purpose of formulating an investment policy is to:
 - 9.1 Communicate the investment philosophy to the fund managers and beneficiaries;
 - 9.2 Describe the investment objectives and the overall risk philosophy;
 - 9.3 Define how investment managers will be selected, remunerated and, where necessary, replaced in a manner that encourages compliance to the IPS goals and objectives;
 - 9.4 Communicate the investment strategy for evaluation purposes;
 - 9.5 Identify those involved in the investment process and the expectations.
- 10 In formulating the IPS, the board of fund must address the following issues, in conjunction with legislative and regulatory compliance, namely:
 - 10.1 Categories of investments;
 - 10.2 Diversification of investments to mitigate risk;
 - 10.3 The mix of assets and the expected rate of return;
 - 10.4 The liquidity requirements;
 - 10.5 Voting rights attached to the investments;
 - 10.6 Valuation procedures for investments not publicly traded;
 - 10.7 Related party transactions.
- 11 All investments must conform to the requirements of Regulation 28 and/or any other statutory and/or regulatory requirements imposed from time to time. The IPS, along with the financial statements, should be reviewed at least annually and there should be procedures in place to monitor compliance with the same. Procedures should be in place to identify responsibilities and accountability, describe the processes for recommending, approving and implementing investment decisions and formulating the frequency of reporting and monitoring of performance. Similarly, a procedure should be formulated setting out clearly how the asset managers will be monitored, rewarded, or replaced. The implementation of these procedures should be carried out by people who are suitably skilled, whether they are officers of the fund or sub-committees of the board or under contract. Procedures should be formulated for the process of valuing investments that are not

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regularly traded as well as the fund's exposure to fluctuations in interest rates, foreign exchange, inflation and market prices.

12 For monitoring and ease of reference purposes, boards should maintain records of the fund's investment portfolio to enable analysis of:

- 12.1 Asset quality and diversification;
- 12.2 Interest rate and any maturity mismatching;
- 12.3 Diversification of income sources;
- 12.4 A comparison of current assets measured against the IPS limits.

13 Furthermore, areas of potential conflict of interest should be identified and recommendations made as to how those tasked with the investment of funds are to deal with the same as outlined in the fund's code of conduct and other policies.

ESSENTIAL ELEMENTS OF THE IPS

14 All IPS should be reviewed at least annually to ensure that they take into account any changes in economic conditions or obligations of the fund. Taking the above factors into account, it is recommended that the below mentioned elements be included in the IPS:

14.1 Asset mix and rate of return expectations:

The IPS should stipulate the:

- Expected rate of return of the portfolio;
- Anticipated volatility of the rate, setting parameters;
- Time frame for the expected returns; and
- Monitoring of performance against the stated expectations (linked to the stated expectations should be an explanation of the action that the board will take if the stipulated targets are not met).

Examples of the rate of return expectations are the following:

- A real rate of return of "x" percent over a given period; or
- A nominal rate of return; or
- A rate of return over an agreed benchmark portfolio.

14.2 Categories of Investments:

- In order to protect the fund from arbitrary investment decisions and/or investments that may be in conflict with the fund's risk profile, limits should be placed on the range of authorized investments. Such investments should be defined taking into account the building of a portfolio that meets the needs of the fund and avoids the concentration of investments in any particular market sector.
- Depending on the risk profile of the fund, limitations could also be placed on the quality of the assets with stipulations of the action required if such assets become downgraded to a quality below that stated in the IPS.
- In the event that the use of derivatives by asset managers are to be authorized, and provided such investments are allowed in terms of the fund rules and are within regulatory or statutory limitations, the investment in derivatives should be properly and clearly regulated. Should they decide to permit this form of investment, s of fund should have a clear understanding of the use and risks of derivatives and how they will be measured. Such regulations should include stipulations relating to:

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- A list of acceptable derivative instruments;
- The proportion of assets that may be invested;
- The purpose for which they are to be used (hedging, index replication etc.);
- The managers authorized to use derivatives and the limits placed on them;
- Where the derivative products are to be obtained; and
- How over-the-counter products are to be managed.

14.3 Diversification:

In principle, investment risks can be reduced through investing in diverse asset types, industries and geographic regions. However, diversification usually carries a cost in the form of transaction fees, custody costs etc as well as potentially lower returns. Therefore, a balance between the mitigation of risk and the related costs must be maintained. Accordingly the degree of diversification will be determined by the fund's size, risk profile and the inherent risk of the particular investment.

One way to achieve diversification at low costs is to invest in investment vehicles that have been formed to hold a diverse portfolio. Selection of the appropriate vehicle should not only be on the basis of past performance and track record but also on the synergies between the policies of the particular fund and those set out in the IPS.

14.4 Liquidity requirements:

As mentioned above, investments should be made taking into account the fund's cash flow needs in the coming year to avoid having to liquidate medium or long term investments to cover short term requirements. By the same token, it might not be necessary for a portfolio to hold unnecessary amounts of cash or low yielding liquid assets. Accordingly the fund should have a clear idea of what its cash flow requirements will be.

14.5 Pledging and borrowing of assets:

It might be preferable for funds to borrow against assets in order to meet short term cash flow needs. Similarly it may be necessary for a fund to pledge assets for the purposes in engaging in futures contracts. However, in order to protect the fund from placing the investments at risk, clear limits and procedures should be established for such borrowing or pledging to occur and these should be closely monitored. Furthermore, it should be established whether such activities are authorized in terms of the fund's rules or subject to any regulatory or statutory restrictions.

CAVEAT: Accordingly extreme care and caution should be taken when considering the possibility of such activities.

14.6 Lending against the fund:

To the extent that it is permitted by the rules and statutory or regulatory restrictions, the IPS should clearly set out the circumstances under which funds may be lent against the fund. Such policies and procedures should set out:

- The circumstances under which the lending may occur;
- Who is authorized to commit the fund to the loan and under what limits;
- The maximum exposure of the fund in aggregate;
- The interest rate and collateral required; and
- Margin requirements.

Accordingly extreme care and caution should be taken when considering the possibility of such activities.

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14.7 Management fees and compensation:

Management fees, custodial fees and transaction costs must be taken into account when considering asset managers. The board of fund must decide between active or passive asset management and determine whether the concomitant costs of active management are justified by the returns achieved. In order to make this assessment of performance over a given period, it may be useful to secure expert advice, however, care should be taken to avoid a conflict of interests.

Payment of fees should be linked to clearly defined responsibilities and those tasked with particular functions should be accountable. There should be mechanisms in place to ensure proper monitoring including the relevant checks and balances to alert the board to any significant losses and deviations from authorized policy.

The remuneration of asset managers must not encourage deviation from the mandate assigned to them nor encourage unethical behaviour. Costs and fees paid by the fund to asset managers and administrators should be subject to full disclosure and transparency and communicated to the beneficiaries.

14.8 Socially Responsible Investment:

The issue of socially responsible investment often raises the question of whether such investments offer the best returns on the investment. However, there are various ways to achieve such investments. The first is to invest in companies that meet certain prescribed criteria, whilst the other is, through shareholder activism, to influence the behaviour of companies in which funds are already invested to encourage them to meet corporate governance and good citizenship best practice standards.

The primary obligation of s is to provide optimum returns for its beneficiaries. However, once these returns have been met, funds should consider socially responsible investments. Boards of fund should consider how shareholder activism can be applied to promote good governance and citizenship in companies in which their funds are already invested. Such activities may actually enhance the performance of the companies and therefore the returns to the fund.

It is recommended that s of fund apply their minds to formulating a suitable policy regarding such investments as well as incorporating shareholder activism into their investment mandates. Examples of how this can be done are elaborated in more detail below.

RISK MANGEMENT

- 15 There will always be an element of risk in the investments of a fund. Furthermore, the risk tolerance level of a fund will be influenced by factors such as the age profile of its beneficiaries. The board of fund's responsibility is to manage and, where possible, mitigate the risks to which the fund is exposed. For it to perform this function effectively it needs to be aware of the types of risk to which a fund can be exposed. A separate risk assessment conducted by an independent expert may be required by the board, from time to time to assess the effectiveness of governance structures, mandates, terms of reference used, etc.

VOTING RIGHTS

- 16 It has been argued that the voting rights attached to shares of the companies in which s are invested should be considered an asset of the fund. Accordingly, the board of fund would be expected to apply the same fiduciary care and consideration to this asset as it does to the financial investments it makes. Indeed, there is an inclination internationally to require s of fund to be more proactive in ensuring that the voting rights are utilised effectively by the asset managers in accordance with the shareholder activism obligations of the .
- 17 In order to fulfil this obligation, and in accordance with the recommendations of King II, the board of fund should formulate and develop appropriate voting policies and incorporate these in their mandates to the asset managers including the monitoring and reporting of the same. Such policy should also be disclosed to the beneficiaries along with the steps taken by the board of fund to monitor the effective implementation of the same by the asset managers. More in this regard is incorporated under the asset manager mandate recommendations detailed below.

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RECOMMENDATIONS FOR INCLUSION IN ASSET MANGEMENT MANDATES

- 18 The relevant portions of the IPS should be included in the mandates to asset managers. This will include the category of investments, risk profile, diversification policies etc. as stipulated above. In addition, it will contain the expected rate of return and the actions to be taken in the event of the said managers not meeting performance targets. Furthermore, in order for the board of fund to effectively monitor the fund's performance, the reporting frequency and performance targets should be clearly spelt out.
- 19 In addition, and in order to ensure that the asset managers practice the same corporate governance standards and best practices that s are expected to maintain, and in order to met their fiduciary obligations relating to voting and shareholder activism issues, the mandates should also require the asset managers to report on the following matters, as recommended by the International Corporate Governance Network, namely:
 - 19.1 The corporate governance policies of the asset managers detailing how they are applied in investment policies;
 - 19.2 The voting guidelines followed by the asset managers and how these are aligned to the policies formulated by the board;
 - 19.3 Information on the companies in which the fund's assets have been invested and the relevant percentages;
 - 19.4 An explanation of actions taken by the asset managers in important matters;
 - 19.5 An explanation how the asset managers monitor, measure and review the companies in which they are invested in accordance with stated policies and guidelines;
 - 19.6 A summary of voting records indicating the percentages voted and whether the votes were cast for or against management as well as full records in important matters;
 - 19.7 The resources allocated by the asset managers to execute corporate governance policies;
 - 19.8 Where no resources have been applied, and explanation how they have "weighed the various arguments coming to this decision and an indication of what developments would make them change their decision."
 - 19.9 Details of any conflicts of interests in companies in which they are invested;
 - 19.10 A description of procedures they have developed to deal with the stated conflicts;
 - 19.11 Details of agents to whom they have outsourced their responsibilities and an explanation of how these agents are monitored to ensure governance polices are properly implemented.

This information should be reported to the board of fund at least annually to enable the board in turn to report meaningfully to the beneficiaries on how it has applied and monitored its governance responsibilities.

COMMUNICATION:

20 *Monitoring and reporting on IPS:-*

The IPS should be reviewed regularly to ensure that it continues to meet the objectives of the fund and any deviations or changes should be explained to the beneficiaries.

Effective and regular communication between the board, the beneficiaries and the asset managers is essential, not only for the purposes of transparency and disclosure, but also to establish proper and regular monitoring of the fund performance, adherence to the terms of the mandate and the IPS.

The IPS should be disclosed to fund beneficiaries, investment managers and, where required, to the relevant regulatory authorities.

There should be regular, reporting to the beneficiaries, preferably quarterly, in a manner and a form which is easily understood, on relevant performance, risk/return and fund matters especially relating to any changes, that the might deem appropriate.

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Refer to the relevant guidance issued by the Registrar from time to time which sets out the minimum disclosure to beneficiaries and the frequency thereof.

PRESCRIBED INVESTMENT AND LENDING LIMITS FOR PENSION FUNDS

To be provided from time to time via Regulation and Directives

INVESTMENT POLICIES AND PROCEDURE GUIDELINES

To be updated by FSB from time to time

COMMUNICATION: MINIMUM DISCLOSURE TO MEMBERS, DEFERRED MEMBERS, DEPENDANTS, PENSIONERS AND BENEFICIARIES OF DECEASED MEMBERS

To be updated by FSB from time to time in circulars, etc.

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APPENDIX 3 – GOVERNANCE PRINCIPLES

Good standards of governance should ensure that the Fund's investments are managed appropriately and will collectively reduce the risk of material failure of the Fund's investment strategy. Governance principles hence define the framework of an investment policy. Good governance is also required to ensure that TCF outcome 1 is met.

The Fund is firstly governed by the Pension Funds Act No. 24 of 1956 (the Act). Regulation 28 of the Act regulates the principles, rules and limits applicable to assets invested in by retirement funds. By law, the Fund must adhere to Regulation 28. The Fund is also bound by the Fund Rules.

The Board has taken note of PF Circular 130 (PF 130) issued by the FSCA (previously FSB) in June 2007. Whilst FSCA circulars are not legally binding on retirement funds, the Board recognises these as "recommended practice" and aims to adhere to PF 130 as far as it is deemed appropriate to do so.

A number of principles of good governance that specifically relate to investments have been identified by the Board, including those responsible investment principles contained in the Code for Responsible Investing in South Africa (CRISA), as reflected in the respective local equity managers' mandates. The Board formally adopted CRISA on 25 June 2015 (see below). King IV introduces a supplement specific to retirement funds. The principles set out in this supplement are included in Appendix 7.

1. PF 130 PRINCIPLES

The Fund's policy and actions pertaining to each of these governance principles are summarised below together with extracts from PF 130 (where applicable).

1.1 Investment Policy Statements

PF 130 states: *"Every fund should have an investment policy statement."*

This document forms the Policy for the Fund, and also records the investment strategy that the Fund has implemented in accordance with the policy.

1.2 Conflicts of Interest

PF 130 states: *"The Trustees should distinguish between conflicts of interest which may be structural, and therefore unavoidable, and those conflicts that can be avoided or, if this does not compromise the credibility of the governance arrangements, managed appropriately."*

The Board agrees that conflicts of interest should be avoided where possible. However, the Board realises that not all conflicts can be avoided, and that those that cannot be avoided will thus need to be identified and carefully managed. Further, the Board is of the opinion that the benefits to be gained from completely avoiding certain conflicts of interest may be overshadowed by the resulting costs or complexities. Each conflict situation should thus be considered independently. The Board requires all service providers to highlight any areas of conflict of interest in their operations as far as it relates to the Fund.

The Board understands that most Board Committee members have an inherent conflict of interest by virtue of being active members or pensioners of the Fund. Similarly, Trustees will be expected to disclose conflicts of interest and to refrain from participating in any related decision. Trustees are formally required to disclose any conflicts of interest on an annual basis and are reminded to disclose any new conflicts of interest at each Investment Board Committee and Board meeting.

1.3 Responsible Investment ("RI") and Ownership

Following the adoption of CRISA by the Fund, the Board confirms that it will take account of the principles contained in CRISA. Aligned to this, a requirement that the local asset managers integrate environmental, social and corporate governance (ESG) considerations into their investment management processes and ownership practices is included in the relevant discretionary investment mandates.

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This is required by the Fund in the belief that these factors can have an impact on the financial performance of the companies in which the Fund may be invested.

The Fund's active ownership responsibilities relating to engagement with investee companies and proxy voting have been delegated entirely to the relevant asset managers and such delegation will be set out in the managers' respective mandates. Members of the Investment Board Committee have applied their minds to the issue of RI, and have established a RI policy for the Fund. This RI policy is considered to form an integral part of this Policy, and hence is appended hereto as Appendix 4.

1.4 Responsible Investments ("RI")

PF 130 states: *"The investment policy statement must state whether the fund has a socially responsible investment policy, and its definition of such investment type" and "The primary obligation of funds is to provide optimum returns for its beneficiaries. However, once these returns have been met, funds should consider SRI."*

Members of the Investment Board Committee have applied their minds to the issue of RI, and have established a RI policy for the Fund. This RI policy is considered to form an integral part of the Policy, and hence is appended hereto as Appendix 4.

1.5 Shareholder Activism and Voting Rights

PF 130 states: *"... the voting rights attached to shares of the companies in which funds are invested should be considered an asset of the fund. Accordingly, the board of the fund would be expected to apply the same fiduciary care and consideration to this asset as it does to the financial investments it makes. The board ... should formulate and develop appropriate voting policies and incorporate these into their mandates to the asset managers including monitoring and reporting of the same."*

The Investment Board Committee has adopted guidelines regarding shareholder engagement and voting in respect of shares in the companies in which it is invested. An Active Ownership Policy (incorporating "Engagement and Proxy Voting Guidelines") is appended hereto as Appendix 6.

To the extent that the Fund invests in segregated investment portfolios through its equity managers, the Investment Board Committee realises that it can influence the voting on the underlying shares within these portfolios, although still recognising that the Fund's active ownership responsibilities relating to engagement with investee companies and proxy voting have been delegated entirely to the relevant asset managers.

1.6 Liquidity Risk / Termination Conditions

PF 130 states: *"Investments should be made taking into account the cash flow needs of the Fund for the coming year.... it might not be necessary for a portfolio to hold unnecessary amounts of cash or low yielding liquid assets."*

The Investment Board Committee recognises that there are occasions where investors can be rewarded for holding illiquid investments, but such investments should be limited to ensure that liquidity does not become a constraint within the investments made by the Fund. The Fund should generally be able to meet all cash flow needs (benefit payments) without having to sell illiquid instruments.

Being a long-term investor, a retirement fund can take some liquidity risk in order to earn the associated liquidity premium offered, however this must be done keeping cash flow requirements in mind and must also be monitored to ensure that any liquidity risk taken is not excessive and that liquidity risk in different parts of the Fund does not accumulate across the Fund. This monitoring should take into account any restriction periods on withdrawals (e.g. in respect of the enhanced income portfolio).

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The Investment Board Committee does not believe it is appropriate for the Fund to be tied to an asset manager (or in fact any service provider) for an extended period of time after a decision is taken to replace such an asset manager. Hence the Fund will generally request notice periods of no more than 30 days when appointing asset managers, unless market conditions or other circumstances dictate that more onerous termination conditions must be accepted.

1.7 Strategic Investments in the Sponsoring Employer or Related Businesses

This is not a governance principle discussed specifically in PF 130, or in Regulation 28. Strategic investments can be defined as any investments held for strategic purposes, in other words not held solely with the intention to generate exceptional investment performance. These can include investments by the Fund in the shares or debt issues of the sponsoring employer, or related businesses of the employer.

The Investment Board Committee outsources the management of all the Fund's assets to professional asset managers.

The Investment Board Committee will not directly be in a position to approve any investments of this nature nor will it seek to influence asset managers in this regard. Hence the Fund will not hold any strategic investments unless these are selected by the Fund's asset managers on whatever basis they normally use to select investments that they believe have a very high likelihood of producing investment returns in excess of their benchmarks. Such investments remain subject to the relevant limits as per section 19 of the Act.

1.8 Use of Derivative Instruments

PF 130 states: "... investment in derivatives by asset managers should be clearly and properly regulated. Should they decide to permit this form of investment, trustees of funds should have a clear understanding of the use and risks of derivatives and how they will be measured."

The Investment Board Committee believes that the responsible use of derivative instruments has become a necessity to ensure the optimal implementation and management of investment portfolios. When used appropriately and with due care, derivatives can also be highly efficient instruments to reduce or manage investment risk in portfolios.

The Investment Board Committee and the Asset Consultants do have a clear understanding of the use and risks of derivatives. The Investment Board Committee therefore allows the responsible use of derivative instruments by their asset managers, within specified risk limits (refer to Section 6: Investment Risks).

1.9 Pooled or Segregated Investment Portfolios

PF 130 states: "The Investment policy statement should (state) whether the investments of the fund are in the form of an insurance policy or a segregated mandate, and the reasons therefore."

The Investment Board Committee has considered the advantages and disadvantages of both approaches, being to hold the assets in the name of the Fund (via segregated mandates), or to invest in pooled investment portfolios through which the Fund's interests are represented by the value of an insurance policy or some other investment vehicle.

The Investment Board Committee believes that the Fund's interests would be better served through investing mostly in segregated portfolios locally, and pooled portfolios offshore and in respect of hedge funds. However, the Investment Board Committee recognises that in some cases other local pooled portfolios may be more suitable for liquidity reasons and therefore makes limited use of these in such instances. Whether a particular portfolio is segregated, pooled or an insurance policy will be clearly indicated in all reporting on portfolios.

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1.10 Appointment of Custodians

PF 130 states: *“The appointment of the custodian of the fund investments should be made directly by the fund to enable the board to have direct access to the custodian information about the fund investments.”*

Where funds are held in segregated portfolios, the assets will be held in the custody of the custodian appointed by the Fund. Where the Fund makes use of pooled portfolios, e.g. via an insurance policy or collective investment scheme, the ownership of the underlying investments does not vest in the name of the Fund, and hence the Fund is not required to appoint a custodian in these instances.

1.11 Pledging and Borrowing of Assets, and Lending against the Fund

Both of the above activities are envisaged by PF 130, although the Circular states in both instances that *“extreme care and caution should be taken when considering the possibility of such activities.”*

Regulation 28 also places limits on borrowing, and the Board will ensure that these are not breached, by ensuring that the Fund always has sufficient cash for benefit payments and liquidity within the investment strategy. The Fund does however make use of a repurchase agreement (repo) strategy as part of the LDI portfolio in order to gain access to yield enhancing debt investments of shorter duration.

The Board is aware of a few other circumstances when such actions might be appropriate, or indeed desirable:

- Pledging fund assets under pension-backed lending arrangements, but exclusively for housing purposes as envisaged by the Act;
- Borrowing assets on overdraft to meet short-term cash flow needs, instead of liquidating assets;
- Securities lending transactions; and
- Pledging fund assets under certain derivative transactions (futures contracts).

The Board cannot envisage other circumstances where money would be borrowed by the Fund, or where assets will be loaned out by the Fund. It is important to note that the Fund does not currently provide housing loan facilities or engage in securities lending transactions. Whilst offshore managers such as BlackRock may engage in securities lending transactions, this is inherent in their process and does not form a delegated activity from the Fund.

1.12 Management Fees and Compensation for Active Fund Management Services

PF 130 states: *“The Board of the fund must decide between active and passive asset management and determine whether the concomitant fees of active asset management are justified by the returns achieved.”*

The Investment Board Committee has considered the arguments for and against active asset management, and the associated costs. The Investment Board Committee believes that, generally, skilled active asset management, undertaken with the benefit of professional advice on all aspects of the investment strategy, can over time achieve returns in excess of passive (benchmark tracking) investments, net of all investment related costs. The Investment Board Committee will continuously consider passive investment options where appropriate in consultation with its advisors, in particular in respect of offshore investments.

1.13 Expert Skills

PF 130 states: *“Board members are not obliged to have all the expert skills necessary ... It is reasonable for the board to engage professional accounting, actuarial, investment, legal and other experts... and pay the professionals involved appropriately for that advice.”*

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The Board recognises that they do not have the requisite skill, experience or time to spend on all detailed investment matters. As a result, the Board selects and appoints, in accordance with a defined selection process, expert professional service providers to assist and support the Board in the development and implementation of each aspect of the investment strategy. The professional expert services used include but are not limited to asset consultancy, investment management, unitising, transition management, custodial and actuarial services. Each service provider appointed is properly mandated in terms of a documented agreement and their performance is regularly assessed.

While the Board recognises the need for the involvement of expert service providers, they also recognise the risk of becoming too dependent on any professional service provider. To this end the Board prefers service providers who offer a genuinely independent service and also reserve the right to seek a second opinion in any circumstance.

The Board however recognises that they retain all the responsibilities contained within Regulation 28, even when using professionals, including the requirement to ensure that advisors and service providers comply with Regulation 28.

1.14 Member Investment Choice Structure

PF 130 states: *“Where a fund has member investment choice, the board is responsible for ensuring that the investment portfolios from which members may make their selection is appropriate for the profile of the fund membership; if there is a default portfolio, it must be reviewed regularly for appropriateness in relation to the membership profile of the fund.”*

The Board considered the different investment approaches that the Fund could follow on behalf of its members, being:

- (a) investing the entire assets in respect of all members in a single portfolio that provides the same investment return to all members, or
- (b) to utilise portfolios with different risk and return expectations appropriate to members with different investment time-horizons.

The Board believes the second approach to be superior, as the default strategy for the members of the Fund. This strategy is generally referred to as a “Lifestage” approach, where members are automatically invested in one of a restricted range of portfolios, based on their term to normal retirement age (60).

The SAA for each of the portfolios, as derived from a stochastic ALM exercise undertaken by the Asset Consultant and approved by the Investment Board Committee, is reviewed on an annual basis.

Members are given the option to opt out of their age-related default Lifestage portfolio and invest their fund credits in any one of the other portfolios in the default Lifestage structure that would optimally suit their investment risk and return expectations, or any other personal requirements. Those members who do not wish to be invested in the default Lifestage structure may invest in the stand-alone cash portfolio. Members are encouraged to seek professional investment advice when exercising these options.

The switching process and conditions are communicated to the members in the Fund’s member guide and on the Fund’s website.

Regulation 28 states that *“3(b) Any portion of a fund’s total assets associated with a specific category of members, or a specific member where the fund provides individual member choice, must comply with the limits in this regulation.”*

The Fund will therefore only offer Regulation 28 compliant portfolios.

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1.15 Certification by Fund Actuary

The Fund Actuary, as part of the actuarial valuation, must certify whether he or she is satisfied with the Fund's asset structure and confirm that the matching of the assets with the liabilities of the Fund is adequate.

The Investment Board Committee will obtain such certification from the Fund Actuary from time to time as changes are made to the investment strategy.

1.16 Existing Investment Portfolios

PF 130 states: “...consideration must be given to existent investments when formulating the IPS.”

The Investment Board Committee interprets this section of PF 130 to imply that any proposed change to the Investment Policy or strategy must be considered in conjunction with the costs that the Fund may incur as a result of such changes. The Investment Board Committee recognises that changes to investment portfolios may incur substantial direct and indirect costs, and will aim to achieve the most efficient implementation of such changes in order to reduce such costs as far as possible. This can often be achieved by using the services of a transition management service provider. The Fund has appointed a transition manager and utilisation of this service will be considered by the Investment Board Committee in appropriate circumstances.

The governance principles set out above will be used as a checklist when considering and evaluating any new investments. Other principles may be added to the above list over time, as appropriate.

1.17 Decision-Making Structure

The Board has delegated the responsibility for investment-related issues in terms of documented terms of reference to an Investment Board Committee but will note decisions taken and review investment performance and relevant investment related information at each regular Board meeting. The Board however recognises that it ultimately remains responsible for all of the decisions taken and has the right to veto or overturn decisions taken by the Investment Board Committee.

The Principal Officer will attend Investment Board Committee meetings but does not have any voting rights.

Day-to-day decision-making and management of the Fund's assets is delegated to the relevant professional and expert service providers including the asset managers and the custodian, with support from Fund Management.

Current and new investments are to remain within the guidelines of relevant legislation and the current investment policy document.

1.18 Monitoring and Reporting of the Fund's Investment Strategy

The Board will ensure that the investment strategy, and the performance thereof, is communicated to members. This communication will include:

- A summary of governance principles, including who makes which investment decision;
- A description of the investment objectives of the Fund;
- A summary of the overall objectives of the strategy underlying the portfolios; and
- A summary of the characteristics of each investment portfolio. This will include expected long-term returns, but also highlighting the risks relating to each portfolio.

In addition, the Board will ensure that members are provided with regular feedback on the performance of the portfolios in relation to the objectives where relevant, are informed of the advantages of preserving their benefits on withdrawal and, in the case of DC members, are warned of the dangers of switching portfolios or exiting at the trough of a cycle (market timing risk).

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APPENDIX 3 – GOVERNANCE PRINCIPLES (CONT)

2. REGULATION 28 PRINCIPLES

The preamble to Regulation 28 and a number of principles that pension funds and their boards are expected to follow include reference to the adoption of a responsible investment approach that encompasses consideration of ESG factors. In addition, Regulation 28 includes a clear regulatory instruction to funds to consider ESG issues in addition to financial considerations, although this instruction does not include detailed guidance on how to do this (refer to Appendix 4).

Regulation 28 includes a number of principles that pension funds are required to address and document in their investment policy statement. The Board has considered these principles and adopted the policies as listed below. To the extent that many of the issues raised previously in PF 130 have been replaced by Regulation 28, they have been removed from the relevant sections in the Policy, and have been included in the section below.

2.1 “A fund must comply at all times with the limits set out in Regulation 28”

The Board of the Fund has considered the limits in Regulation 28 and does not believe that these constrain them in any way from achieving what is in the best interests of its members. The Board will comply with the limits in Regulation 28, and will monitor compliance as follows:

- 2.1.1 By investing in a combination of pooled and / or segregated portfolios that are not Regulation 28 compliant on a standalone basis, but which will be Regulation 28 compliant when used in combination. The Fund will utilise the services of a unitiser with the required systems and processes to ensure that combined portfolios are compliant.
- 2.1.2 Where any combination of the above portfolios is offered to members as a choice, or used for categories of members, the Fund will ensure Regulation 28 compliance at member level, either by ensuring that members can only select Regulation 28 compliant portfolios, or by utilising the services of a unitiser with the required systems and processes to ensure compliance at member level.

The Fund has appointed the Fund unitiser which has the required investment processes and systems in place to assist in the monitoring and reporting on compliance with the requirements prescribed in the revised Regulation 28.

2.2 “A fund must have an investment policy statement, which must be reviewed at least annually”

This document represents the Fund's Policy, and the Board will review this document at least annually where the underlying principles raised in Regulation 28 will be discussed to establish whether any changes are required to the policies, given the changing profile of the membership and the environment in which the Fund operates. The policies relating to the specific principles raised in Regulation 28 are addressed below.

2.3 “A fund and its board must at all times apply the following principles”

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

The Board of the Fund recognises the importance of promoting the education of the board in all matters related to the management of the Fund, but specifically investments, governance and other related matters. Formal training sessions are held by independent training providers and new Trustees are requested to attend induction sessions at the Fund.

In addition, the Fund's asset managers are required to report back at least annually in person (or virtually) to the Board at the Fund's Annual Investment Days. These Days will be used as an opportunity to provide the Trustees with an educational, informative overview of the Fund's investments, and to give Trustees an opportunity to engage directly with the Fund's asset managers.

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The Trustees are further encouraged to read industry publications regularly (including newsletters, magazines, newspapers, and journals).

2.3.2 Monitor compliance with this regulation by its advisors and service providers

The Board of the Fund recognises the importance of this regulation in providing a framework that will assist pension fund boards to govern their pension funds. They also recognise that it is therefore important to ensure that their advisors and service providers should be monitored in relation to compliance as these parties are relied on by the Board. Specifically, the Board will require their service providers to initially provide a detailed account of how compliance with the regulation is undertaken where applicable.

The Board will then require a regular report from their service providers on their compliance throughout the period since the last report where applicable. Any breaches of compliance with the regulation will be reported to the Board in detail immediately, and a summary will be included in the regular report.

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

The Investment Board Committee recognises the importance of promoting broad-based black economic empowerment, and the Fund's ability to assist in this initiative. The Investment Board Committee will first and foremost consider appointing service providers that meet their requirements to assist in managing the Fund, preferring those service providers that are more likely to provide higher quality advice or service. The Investment Board Committee will however prefer service providers with more broad-based black economic empowerment credentials from the service providers that are otherwise seen as providing an equivalent level of service and advice.

2.3.4 Ensure that the fund's assets are appropriate for its liabilities

The Investment Board Committee recognises the importance of the Fund's liabilities in designing an investment strategy i.e. the considerations of the interactions between the assets and the liabilities with respect to nature (whether real or nominal), term (from short-term to long-term), currency (Rand or offshore currency), and certainty (with respect to timing and amount of receipts and payments). The Investment Board Committee also recognises that in order to evaluate whether the investment strategy (and hence the assets) is appropriate for its liabilities, an ALM study should be undertaken.

Finally, the Investment Board Committee recognise that the assets, the liabilities, the membership profile of the Fund, and the legislation and regulations change over time, and that these could have a significant impact on the investment strategy. The Investment Board Committee will therefore require an ALM study to be performed every time there is a significant change with respect to any of the items highlighted above, or at least annually.

An annual review of the investment strategy of the Fund is also undertaken to determine whether the investment strategy adopted by the Fund is still appropriate for the Fund's liabilities and objectives.

2.3.5 Before making a contractual commitment to invest in a third-party managed asset or investing in an asset, perform reasonable due diligence taking into account risks relevant to the investment including, but not limited to, credit, market and liquidity risks, as well as operational risk for assets not listed on an exchange

The Investment Board Committee recognises the importance of following a due diligence process before investing (or committing to invest) in an asset directly or through a third party.

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The Investment Board Committee however also recognises that they do not have the requisite skills to follow due diligence processes on securities as this is a very specialised function requiring appropriate skills and experience. The Investment Board Committee will therefore delegate the function of performing due diligence on assets to asset managers with the appropriate skills and experience.

The Investment Board Committee will however retain the responsibility for this due diligence to be performed, and will therefore ensure that the asset managers to which the function is delegated, have the appropriate skills, experience and requisite processes in place to perform this function. The Investment Board Committee will do this by performing a due diligence exercise on asset managers contracted to manage the Fund's assets.

The Investment Board Committee conducts annual due diligence visits at the offices (or remotely) of all the asset managers. The purpose of the due diligence visits is to acquire in-depth and reliable information on the asset managers in order to assess pertinent risks that could impact the Fund.

The due diligence visits are an opportunity for the Investment Board Committee to evaluate the credibility of the asset manager and review People, Process, Policies and Procedures, Systems and Governance. The visits also give the Investment Board Committee assurance (to the extent to which this is reasonably possible) that the Fund's asset managers are conducting well-managed businesses and that the Fund's assets are being managed appropriately. The Asset Consultant arranges and facilitates these due diligence visits. If the Board or the Investment Board Committee is uncomfortable with any aspect of the outcome of the due diligence process, they will take appropriate action.

In addition, the Investment Board Committee proactively reviews other managers and service providers, in particular when, based upon recommendations made by the Asset Consultants when new products, managers or new developments in the industry are under consideration.

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

The Investment Board Committee recognises the additional importance of assessing country and currency risks, when deciding to invest in offshore assets. Currency risk is especially important in the context of a pension fund's liabilities which are denominated in South African Rand.

The Investment Board Committee have decided to follow the same due diligence process as above (i.e. delegating the due diligence to asset managers), with one important difference. The Investment Board Committee will decide on the appropriate overall offshore allocation given the currency mismatch risk inherent when investing in any offshore asset, as the Fund's liabilities or objectives are denominated in South African Rand.

The Investment Board Committee has therefore decided not to invest in portfolios where the third-party manager (asset manager, multi-manager, fiduciary manager or implemented consultant) decides on how much to invest offshore, without first consulting with the Investment Board Committee. This is also important because the current limit that was set by the South African Reserve Bank could change in future, making the new limit inappropriate for certain investors. The third-party manager will however be mandated to perform the necessary due diligence before investing (or committing to invest) in any asset, including the assessment of country and currency risk.

The Investment Board Committee will therefore decide on how much each portfolio can allocate offshore under the prevailing South African Reserve Bank and Pension Fund Regulator allowance.

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- 2.3.7** *In performing due diligence referred to in 5 and 6, a fund may take credit ratings into account, but such credit ratings should not be relied on in isolation for risk assessment or analysis of an asset, should not be to the exclusion of a fund's own due diligence, and the use of such credit ratings shall in no way relieve a fund of its obligation to comply with all the principles set out in paragraph 2.1*

The Investment Board Committee recognises that credit rating agencies may be somewhat useful, but also recognise that there are major weaknesses in relying on these ratings in isolation. The Investment Board Committee will again delegate the responsibility to perform due diligence on assets to their asset managers or third-party providers. The Investment Board Committee will, however, conduct their own due diligence on their asset managers' and third-party providers' credit rating process, to ensure that they have the required skills, systems and processes to assess credit risk and not rely on credit ratings agencies.

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

The Investment Board Committee recognises that the risk profile of individual securities, groups of securities and whole asset classes change over time, as do the liabilities of pension funds. The Investment Board Committee therefore recognises that the investment process is a continuous process requiring constant and continual reassessment of the risks of assets and their appropriateness in isolation and in combination with all the other assets and the liabilities of the Fund. The Investment Board Committee therefore requires ongoing education and information on markets and assets from their asset managers or third-party service providers.

They also require the Fund's asset managers to continually evaluate the changing risk profile of the assets invested in. The Investment Board Committee will also require regular ALM studies to understand the changing risk profiles of assets and liabilities.

- 2.3.9** *Before making an investment in and while invested in an asset consider any factor which may materially affect the sustainable long-term performance of the asset including, but not limited to, those of an environmental, social and governance character*

The Investment Board Committee recognises the increasing importance of environmental, social and governance factors in society, and the important role that pension funds (as large institutional investors with significant power if yielded in unison) can have in ensuring responsible corporate behaviour. The Board requires the relevant asset managers to ensure that adequate steps are taken to address ESG factors in the investment process insofar as far as such factors may affect investment performance.

The Investment Board Committee will review the ESG policies of the asset managers to ensure that they are satisfied that these are in line with their requirements and that they take consideration of the CRISA principles as adopted by the Board.

- 2.3.10** *With the appointment of third parties to perform functions which are required to be performed in order to comply with the principles ... above, the fund retains the responsibility for compliance with such principles*

The Board of the Fund recognises that they retain the responsibility for compliance with Regulation 28 principles, even when appointing third parties to perform such functions. The Investment Board Committee will therefore provide third parties with the Fund's policies in respect of the principles raised in Regulation 28, or examine the third parties' policies in relation to those principles to ensure that they are consistent with the Fund's own policies. The Fund will also require third parties to report annually on compliance with such policies, or on breaches that may have occurred with reasons for such breaches.

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Where multi-managers, fiduciary managers or implemented consultants are utilised by the Fund, the Investment Board Committee will examine these providers' policies with respect to the principles raised in Regulation 28, and will require these providers to establish policies with the underlying asset managers used, and monitor and report on compliance to the Fund.

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APPENDIX 4 – RESPONSIBLE INVESTMENT POLICY OF THE FUND

1. ADOPTION OF CRISA PRINCIPLES

The Fund recognises that retirement funds, as institutional investors, are widely recognised as having a major role to play in ensuring that corporate South Africa effectively applies the principles of King IV and recommended practices, including that of being a responsible corporate citizen and of integrating sustainability issues, economic, social and environmental – the triple context in which companies operate, into the investment process.

In addition, the Fund accepts that institutional investors should also be encouraged to vote and engage with companies to positively influence corporate behaviour not only on the “big issues” that fundamentally threaten stakeholder value (for example in relation to corporate policies on remuneration of management, the company's broad strategy, allocation of capital, corporate actions leading to a change in ownership, and Black Economic Empowerment), but also on the sustainability issues as well, such as the environmental, social and labour plans and relations, governance standards, mitigating impacts on climate change, etc.

FSCA Guidance Notice 1 of 2019 defines active ownership as the:

“...prudent fulfilment of responsibilities relating to the ownership of, or an interest in, an asset. These responsibilities include, but are not limited to:

- (a) Guidelines to be applied for the identification of sustainability concerns in that asset;*
- (b) Mechanisms of intervention and engagement with the responsible persons in respect of the asset when concerns have been identified and the means of escalation of activities as a holder or owner of that asset if these concerns cannot be resolved; and*
- (c) Voting at meetings of shareholders owners or holders of an asset, including the criteria that are used to reach voting decisions and the methodology for recording voting.”*

The Board believes that it has a duty to act in the best interests of the Fund's beneficiaries to whom it is accountable. In this fiduciary role, the Trustees believe that material extra-financial factors relating to Environmental, Social and Governance (ESG) issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and through time.

Responsible Investment¹ is an approach whereby these material extra-financial factors are incorporated into investment processes and activities with the objective of decreasing investment risk and improving risk adjusted returns, and includes ownership activities. The Board recognises the importance of responsible investing and therefore formally adopted the Code for Responsible Investing in South Africa 2011 (CRISA). At the heart of CRISA is the recognition of the importance of integrating sustainability issues, including ESG, into long-term investment strategies.

CRISA is a voluntary principle-based code setting out the governance duties of institutional investors, including engagement with companies on ESG issues. In the same way as the requirements of King IV, the principles and practices of CRISA are expected to be adhered to on an ‘apply and explain’ basis. However, the application of CRISA is voluntary and there is no mechanism for becoming a formal signatory to the code. The Board recognises that applying the CRISA principles may better align investors with the broader objectives of society.

Active members of the Fund are employed by participating employers who are part of the De Beers Group which strives to surpass international best practice and standards in health, safety and environmental management, as well as social and governance practices. As a consequence, and in addition to CRISA compliance, the Fund would be averse to asset managers investing in companies that do not have a sound track record when it comes to such issues, and therefore requests the relevant asset managers, as part of the investment process, to carefully consider a company's performance when it comes to these issues before deciding to invest in it. In particular:

¹ Responsible Investment means the integration of ESG considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.

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APPENDIX 4 – RESPONSIBLE INVESTMENT POLICY OF THE FUND (CONT)

- Every company should report, at least annually, on the nature and the extent of its social, labour, transformational, ethical, safety, health and environmental management policies and practices.
- Every company should demonstrate its commitment to organisational integrity by codifying its standards in a code of ethics.
- Business processes and safety, health and environmental management principles should be integrated.
- Companies should be able to show the diversity of approach, values and contribution which historically disadvantaged individuals bring to the boardroom.
- Companies should disclose the criteria by which they propose to measure human capital development and report accordingly on their performance in terms of such criteria.

2. APPLICATION OF THE CRISA (AND PRI) PRINCIPLES

The Fund's current local asset managers have all adopted or support the principles set out in CRISA as evidenced by disclosures on their respective websites and in presentations to the Investment Board Committee and the Board. The Fund's offshore manager is a signatory of the Principles of Responsible Investing (PRI), which is an international network of investors working together to implement six aspirational principles. The Fund's asset managers have various policies in force regarding:

- i) the incorporation of sustainability considerations into their investment decision-making processes (including the identification of sustainability concerns);
- ii) a commitment to the principles of sustainable development;
- iii) ownership responsibilities (including shareholder activism guides and/or proxy voting recommendations);
- iv) conflicts of interest; and
- v) how they incorporate or apply the CRISA (or PRI as appropriate) principles.

Accordingly, as the responsibility for the management of the Fund's assets has been delegated to those asset managers appointed in accordance with discretionary mandates agreed to by the Investment Board Committee, the Board (having taken cognisance of the Fund's "governance budget") has authorised the Committee to also delegate the responsibility for the application of the CRISA and PRI principles to the Fund's asset managers. Consequently, these mandates require asset managers to take into account responsible investing criteria and in particular the principles set out in CRISA and PRI.

The Fund will disclose its application of the CRISA (and PRI as appropriate) principles to beneficiaries on an annual basis in its financial statements and on its website.

3. ACTIVE OWNERSHIP

Further to acceptance of the Fund's ownership responsibilities (CRISA Principle 2), and acknowledging that all active ownership activities (engagement and proxy voting) will be delegated by the Investment Board Committee to the Fund's asset managers, the Investment Board Committee considered it prudent to set out the Fund's own engagement and proxy voting guidelines for the benefit of the Fund's stakeholders and service providers (refer to Appendix 6). The Fund considers this to be a key part of its responsibility to invest responsibly. These guidelines also contain reference to the Fund's stance on the disclosure of its proxy voting records as contemplated by CRISA recommendation 15 (refer to Appendix 6).

4. REPORTING AND MONITORING

The Investment Board Committee will require reporting from asset managers on the application of the CRISA (or PRI in respect of the Fund's offshore asset manager) principles and will review this aspect during its bi-annual engagements with the asset managers. Reporting regarding responsible investing will also be incorporated into the Asset Consultant's quarterly reporting to the Investment Board Committee.

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The Fund's approach to responsible investing and active ownership and any changes to this should be reported in a note to the Fund's Annual Financial Statements, together with additional reporting guidelines contained in FSCA Guidance Notice 1 of 2019.

5. ESG STANDARDS

The Investment Board Committee will review the ESG policies of the asset managers to ensure that they are satisfied that these are in line with its requirements and take consideration of CRISA and PRI as appropriate.

6. MANAGER SELECTION

The due diligence process followed in selecting and appointing asset managers takes account of responsible investment criteria.

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APPENDIX 5 – ACTIVE OWNERSHIP POLICY

All active ownership activities and responsibilities (engagement with investee companies and proxy voting) have been delegated by the Investment Board Committee to the Fund's local equity and other relevant managers and will be reflected in the managers' respective mandates.

The Fund however considered it prudent to set out the Fund's own engagement and proxy voting guidelines for the benefit of the Fund's stakeholders and service providers (including the asset managers). The Fund considers this to be a key part of its responsibility to invest responsibly.

These guidelines also contain reference to the Fund's stance on the disclosure of the Fund's proxy voting records as contemplated by the Code for Responsible Investing in South Africa 2011 (CRISA) in recommendation 15 under CRISA Principle 5.

1. INTRODUCTION

Since 2003 the De Beers Pension Fund (the Fund) has maintained an interest in the role that the Fund's asset managers have been playing in becoming actively involved in the Fund's underlying investments in order to safeguard the Fund's interests and to maximise the value of the Fund's investments while minimising the resultant risk exposure.

The discretionary mandates provided to the Fund's local equity asset managers require that the managers actively manage the Fund's investments and related shareholder rights and that they take into account responsible investing criteria as contained in CRISA.

The Fund expects relevant asset managers to actively pursue ownership responsibilities (engagement and proxy voting) to enhance shareholder value, and accordingly requires that such managers have corporate activity and voting procedures in place which are focused on protecting shareholder value.

2. GENERAL

This policy is divided into three components: *Engagement Guidelines*, *Proxy Voting Guidelines* and *Sustainability Concerns* and contains principles which the Fund believes are important considerations for all asset managers, the Asset Consultant and its custodian to be aware of in order to further the interests of responsible investment and corporate governance in South Africa. The Fund does not expect that every guideline be adopted or embraced in totality and recognises that some of these may not be appropriate for every situation.

As part of a monitoring process the Fund requests that all asset managers report on all situations where engagement was required or where voting was required on those resolutions that are covered by the Fund's guidelines.

3. ENGAGEMENT GUIDELINES

Following the delegation of ownership activities referred to above, the Fund has in effect accepted its asset managers' existing engagement policies as an integral part of the asset management service they provide. Although this responsibility for the active monitoring and engagement with companies lies with the asset managers, the ultimate responsibility still remains with the Fund. Therefore, the Fund expects the appointed asset managers to establish mechanisms for intervention and engagement with the management of companies when concerns or issues that threaten shareholder value have been identified and to establish mechanisms if these concerns cannot be resolved.

The aim of engaging with a company's directors/management is to further the best interests of the Fund and its beneficiaries with regard to the investment (or potential investment) in that company by encouraging the directors to act in a way which enhances or preserves shareholder value. In this regard common sense and good judgement ought to prevail.

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The Fund requires that its asset managers aim at all times to engage constructively with companies as this is more likely to succeed than hostile engagement.

Engagement should not be restricted to financial concerns only, but must extend to include social, environmental and governance issues as well as proxy voting. Engagement with companies should be designed to positively influence corporate behaviour not only on the “big issues” that fundamentally threaten stakeholder value (for example in relation to corporate policies on remuneration of management, the company’s broad strategy, allocation of capital, corporate actions leading to a change in ownership, and Black Economic Empowerment), but also on sustainability issues as well, such as the company’s attitude and actions in relation to environment, labour relations, governance and climate change.

Engagement must actively strive to positively influence corporate behaviour in order to protect shareholder value (to maximise the value of the Fund’s investments) and to safeguard the Fund’s interests while minimising the resultant risk exposure.

Unless it is contrary to the Fund’s best interests to do so, the Fund would expect its asset managers to inform a company’s representatives prior to a shareholder meeting, should the manager intend voting against any of the resolutions to be proposed at such meeting.

The Fund expects the managers to not solicit material price sensitive information and to use their best endeavours to avoid and prevent the receipt of such information during their engagement activities. However, the Fund also recognises that companies may have pertinent reasons for disclosing such information to an asset manager who, in such circumstances, should only accept the disclosure of price sensitive information at specific invitation of the company. The Fund therefore expects the asset manager to maintain a policy on how to deal with such information.

4. PROXY VOTING GUIDELINES

The Fund is serious about its responsibility to exercise voting authority over securities which form part of its portfolios. Agendas for shareholders’ meetings increasingly contain material issues involving shareholder rights and corporate governance issues, among others, which deserve careful review and consideration. With this in mind, this document, in addition to King IV and the Companies Act 71 of 2008 and Regulations, is intended to provide asset managers with guidance on how (and when) to vote on certain resolutions on behalf of the Fund.

The overriding principle which the Fund expects asset managers to apply when voting is that they must act in the best financial interests of the Fund in order to maximise long-term returns. Therefore, in voting the Fund’s beneficial holdings, asset managers are requested to consider, on a case-by-case basis, those factors that may affect the value of the Fund’s investments which they manage.

While the following serves as a guideline, the concept of fiduciary duty requires asset managers to examine each proposed resolution in the context in which it applies. For this reason, there may be instances in which shares may not be voted in strict adherence to these guidelines.

The Fund would like asset managers to be aware that the application of these guidelines is not intended to inhibit the manager’s ability to perform their mandate in any way.

4.1 General

Asset managers are requested to vote at shareholder meetings according to the following guidelines:

- The Fund expects its asset managers to ensure that their voting decisions are free from conflicts of interest and are made in an objective manner. In situations which may be contentious or may lead to conflicts of interest involving the asset manager, the Asset Consultant and Fund Management should be consulted prior to voting.

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- Irrespective of the number of votes the Fund may hold, asset managers need not initiate or undertake voting in respect of certain standard matters which are the subject of common resolutions presented at annual general meetings of shareholders (but see below). Asset managers should however consider voting against any resolution that is not properly motivated, including any resolution merely described as “other business”.
- In the absence of a specific mandate, the Fund’s votes should not be committed in advance and unconditionally to third parties and the Fund must not be placed in voting pools that bind the Fund to predetermined voting positions or oblige the Fund to follow the “common” consensus in voting.
- The expectation is that the Fund’s holdings will be voted on a poll at shareholders’ meetings when necessary and not merely on a show of hands. Asset managers are requested to demand a poll if the circumstances indicate that this is necessary.
- The Asset Consultant will obtain a report on the outcome of the results of proxy voting quarterly to be shared in summary form with the Investment Board Committee.

4.2 Role of the Custodian

Financial Asset Services (FAS), a division of Standard Bank of South Africa Limited, acts as the Fund’s custodian.

On receipt by FAS of any shareholder material (circular to shareholders and the like) which requires shareholders in a particular company to vote on any matter (corporate action), FAS is requested to notify the Fund’s asset managers within 24 hours (one working day) of such receipt.

The Fund acknowledges and understands that FAS provides a well-established service for the notification of corporate events to the asset managers, and that the managers may very well have their own systems which monitor corporate actions and other corporate activities of those companies in which the managers have holdings.

The Fund expects FAS to confirm to the asset managers that the Fund’s holdings have been voted and to advise the asset managers on the outcome of their voting subsequent to each meeting.

4.3 Role of the Asset Consultant

Alexander Forbes Asset Consultants (AFAC), a division of Alexander Forbes Financial Services (Pty) Ltd, acts as the Asset Consultant. AFAC will receive a report from the Fund’s custodian on the outcome of the results of proxy voting quarterly, to be shared in summary form with the Investment Board Committee.

4.4 Annual General Meetings

A. Board Appointments

i) Independent Directors (as defined in King IV)

So that no individual or individuals can dominate the decision-making process, board membership should comprise a balance of executive and non-executive directors who have broad experience and are in a position to act independently. The board composition should provide for a balance of power, with a majority of non-executive directors, the majority of whom should be independent of management and all of whom should make time available to meet their obligations to the company. The Fund supports resolutions that lead to this.

ii) Separate CEO and Chairman

The Fund supports the election of an independent non-executive Chairman so that the Board represents the interests of shareholders, rather than executive management, and expects listed companies to adhere to the JSE Securities Exchange listing requirements and King IV in this regard.

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iii) Appointment or Re-election of Directors

Generally, asset managers should consider opposing resolutions that re-elect a number of directors en-bloc, in favour of re-elections or appointments on an individual basis. A process of retirement of board members by rotation should be in place and directors may be proposed for re-election. Directors should be considered for re-election only after taking into consideration issues such as their contribution and performance, past attendance records, the number of directorships held, their experience and qualifications, and any conflicts of interest or lack of independence.

B. Share Capital

i) General authority to place unissued shares under the control of the directors

Asset managers should consider opposing general resolutions that place unissued shares under the control of the directors, particularly if there is a risk of further issues diluting existing shareholders' value or significantly affecting control of the particular company. Any such actions should rather be specifically motivated to shareholders at a special general meeting as and when required.

ii) General authority for the directors to issue shares for cash

The Fund recognises that managements/directors of companies should be allowed some flexibility to manage capital when they need to move quickly and confidentially (e.g. in instances of price sensitive transactions), and therefore agrees to asset managers voting in favour of resolutions that provide directors with the general authority to issue shares for cash in line with the JSE Listing Requirements which prohibit share issues for cash in excess of 15% of the current shares in issue.

However, the Fund would still prefer asset managers to assess each resolution on a case by case basis, and asset managers should certainly consider opposing resolutions that provide directors with the authority to issue shares for cash, where such issues could dilute existing shareholders' value.

Nevertheless, the Fund still prefers a separate shareholders' resolution at the time of any further issue with an appropriate motivation provided by management, rather than providing management with a general control over the unissued shares.

iii) General authority to repurchase shares

The Fund acknowledges that share repurchases may result in earning enhancements for a company and that where appropriate such repurchases should be supported, preferably on a pro-rata basis. Issues to be considered in voting to grant this authority include:

- a. That it does not impair the tradability of the shares to the extent that it impacts negatively on the rating of the share;
- b. That it does not impair the free float of the shares;
- c. That in instances of a mandatory repurchase of shares, it will be applied equally across all classes of voting shares;
- d. That different voting class shares are allowed only to vote on the repurchase of that class of shares;
- e. That the repurchase will not impact on the control structure of the group, and is applied across minority and controlling shareholders on a pro-rata basis;
- f. That the board may not claim the proxy voting rights relating to treasury shares;
- g. That the repurchase does not impact negatively on the capital structure of the business;

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- h. That the repurchase does not increase the financial risk in the company to unacceptable levels;
- i. That the repurchase does not create liquidity or growth constraints for the company;
- j. That the repurchase does not have a material negative impact on net asset value or earnings;
- k. That the directors have not repeatedly failed to add value to shareholders through their repurchase strategy; and
- l. That the shares are not allocated to a share option or incentive scheme, which does not have the approval of a majority of shareholders in a general meeting.

Nevertheless, asset managers should consider opposing share repurchases that exceed 10% of issued share capital.

iv) Financial assistance for the acquisition of shares - Section 44 of the Companies Act

The Fund is only in favour of companies providing financial assistance by way of loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company, provided that there is assurance that the Company will not provide financial assistance to Directors and other prescribed officers in their personal capacity other than pursuant to an employee share incentive scheme as contemplated in Section 44.

v) Financial Assistance - Section 45 of the Companies Act

The Fund is only in favour of companies providing, in the ordinary course of business, loan financing, guarantees and other support to related or inter-related companies in terms of section 45 of the Companies Act, provided that there is assurance that the Company will not provide financial assistance to Directors and other prescribed officers in their personal capacity other than pursuant to a share incentive scheme as contemplated in Section 45.

C. Remuneration Policy and Implementation Report

In line with the provisions of King IV, companies are now submitting separate non-binding resolutions (for advisory votes) at their AGMs on their remuneration policy and implementation report. The Fund believes that companies should remunerate directors and executives fairly and responsibly. King IV introduces the concept that executive remuneration should be fair and responsible in the context of overall employee remuneration. A company's remuneration policy should aim to attract and retain competent executives, reward those executives fairly in a way that is consistent with their performance, and align executive incentive schemes with the best interests of shareholders.

Asset managers should consider voting against remuneration policies that do not materially reflect current best practice and the principles and recommendations set out in King IV.

D. Appointment of Auditors

The audit process must be objective, rigorous and independent to maintain the confidence of the market. Asset managers need to consider any issues that may have compromised the audit firm's independence and objectivity with respect to the relevant investee company over the past year.

In voting on the appointment, or re-appointment of auditors, asset managers should consider the following:

- Fees paid to the auditors should be reasonable relative to the size and complexity of the audit. For the purpose of this evaluation, the fee can be compared to the prior year's audit fee and against the audit fees of similar companies (in terms of size, location and complexity).
- Non-audit services should be disclosed and the Audit Committee should certify that they have monitored and approved these costs.

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APPENDIX 5 – ACTIVE OWNERSHIP POLICY (CONT)

- Duration of the auditor's appointment. Asset managers should consider voting against re-appointment of long duration auditors.
- Note: The rules on mandatory audit firm rotation are contained within an overarching rule published by the Independent Regulatory Board for Auditors (IRBA) on 2 June 2017 and is effective for financial years commencing on or after 1 April 2023. In essence, an audit firm shall not serve as the appointed auditor of a "public interest entity" for more than 10 consecutive financial years – if the audit firm has served as the appointed auditor for more than 10 years after 1 April 2023 then that firm shall not accept re-appointment and will be required to rotate.

4.5 Corporate Actions

A. Share Capital

i) Dual Capitalisation, Preferential Voting Rights

Asset managers should consider opposing proposals to divide share capital into two or more classes or to otherwise create classes with unequal voting and/or dividend rights. The Fund is concerned that the effect of these proposals, over time, is to consolidate voting power in the hands of relatively few insiders disproportionate to their percentage ownership of the company's share capital as a whole.

Where preferential voting rights are embedded in an existing structure, any shareholder resolution that affects the interests of all shareholders should be passed upon the requisite majority being achieved in all voting classes of shares. The Fund is opposed to pyramid structures that effectively multiply the voting power of the controlling shareholder at the top of the pyramid structure.

ii) Re-pricing or issuing of options at a discount

Asset managers should consider opposing proposals that allow for the re-pricing or issuing of options at a discount. The Fund does however acknowledge that re-pricing certain share options may align the interests of management and shareholders and there may be instances in which shares may not be voted in strict adherence to this guideline.

B. Black Economic Empowerment Transactions

The Fund supports the advancement of Black Economic Empowerment and is conscious of the fact that employment equity is guided by legislation. The BEE Commission Report 2001 states that Black economic empowerment transactions attempt to "redress the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership of the country's financial and economic resources to the majority of its citizens".

The Financial Sector Charter on shareholder activism records that pension fund trustees, asset managers and other consultants play a critical role in influencing the flow of funds, and further states that initiatives should be developed to enhance trustees' understanding of investments and participation in targeted investments and financing of Black Economic Empowerment transactions so as to make a contribution to shareholder activism.

Pension fund trustees are encouraged to play an active role in promoting the objects of the Charter on their respective boards and in the entities in which investments are held.

Due to the economic imbalances of the past, many black economic empowerment transactions require innovative and unconventional funding mechanisms. The principles of corporate governance still apply, however, with the understanding that the focus, in this instance, is on sustainability and long-term wealth creation rather than short term considerations.

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APPENDIX 5 – ACTIVE OWNERSHIP POLICY (CONT)

If the economic cost to shareholders is greater than 3% then the manager must motivate why the transaction should be approved.

Other issues for consideration by the asset managers:

- There should be full and detailed disclosure of all the relevant terms of any BEE deal to enable the manager to make an assessment of the fairness of the transaction. The BEE partner(s) should be clearly identified, profiling not only the investment company, but also the persons involved in that company.
- The transaction should create a meaningful long-term BEE share in the company.
- The empowerment partner should be entitled to board representation and should be able to add value to the transaction in terms of skill and revenue generation.
- The transfer of ownership should preferably not be subject to any conditions that may undo the transaction at a later stage.
- The transaction should be in compliance with the relevant industry charter and the BEE codes of good practice published by the Department of Trade and Industry.

C. Other Corporate Actions

For other corporate actions (e.g. mergers, takeovers, acquisitions etc.), which may or may not have an effect on the value of the Fund's holdings, asset managers should, inter alia, consider the following factors:

- The terms, effect, consequences and motivation of the transaction in sufficient detail to allow shareholders to make an informed decision;
- The transaction must be shown to be in the interest of long-term wealth creation;
- The Fund is opposed to transactions that focus on short-term earnings enhancement (for example through the use of highly rated paper or accounting adjustments) but detract from the overall quality of the business over the long-term;
- In the case of acquisitions, the transaction should create positive rather than negative synergies. Acquisitions should create positive benefits such as economies of scale, a broader skills base and enhancement of the combined revenue base;
- Asset managers should oppose transactions that impact negatively on the company's financial and business risk profile. The transaction should also not undermine the overall quality of the assets, by reducing earnings visibility, or by introducing excessive cyclicality and operational gearing into the mix;
- Asset managers should consider voting against proposals if management has repeatedly failed to add value to both shareholders and stakeholders through its previous corporate actions; and
- Asset managers should oppose transactions that excessively dilute existing shareholders' rights.

D. Empowerment and Employment Equity

Asset managers should encourage development of an employment equity plan and reporting on empowerment with specific focus on:

- Shareholders;
- Board of Directors;
- Executive and senior management;
- Staff/labour force; and
- Suppliers/Contractors.

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APPENDIX 5 – ACTIVE OWNERSHIP POLICY (CONT)

4.6 Climate Change

In line with developing climate change awareness trends, climate-specific resolutions may be tabled for shareholder voting. It is expected that the Fund's asset managers will engage with management in respect of these resolutions with a view to achieving sustainability outcomes in line with this Active Ownership Policy.

4.7 Reporting

As part of the monitoring process, the Fund's asset managers will be requested to report to the Fund through its Asset Consultants as follows:

- i) Where resolutions are voted contrary to the spirit and principles contained in this Policy, an explanation of the reasons for this must be communicated to the Asset Consultant and to the Management of the Fund.
- ii) Asset managers will be requested to report retrospectively where questions arise in respect of the outcome of the voting in respect of corporate actions (see 4.5), and in respect of "Non-standard" resolutions

4.8 Disclosure of Voting Records

The Fund will only disclose its voting records to members (and other stakeholders) on request. The Fund is sensitive to how its voting record may be interpreted by certain members (or other stakeholders) if it is freely available on the Fund's website.

The Asset Consultant will report on a quarterly basis on the outcome of manager voting to the Investment Board Committee.

5. SUSTAINABILITY CONCERNS AND INTEGRATED REPORTING

The Fund recognises that concerns may arise if investee companies fail to implement appropriate processes that will ensure the sustainability of their businesses, including through a failure to apply responsible and effective management of, amongst others, the environment, labour relations, social development programmes and good governance,

Consistent with the requirements of Guidance Notice 1 of 2019 (refer Appendix 4), the Fund expects its asset managers to take account of all relevant issues relating to the sustainability of the businesses of the companies in which they invest. The extent to which the asset managers factor sustainability issues into their investment processes will be monitored by the Investment Board Committee annually when it engages with the asset managers at its annual due diligence visits.

Any sustainability concerns that the Investment Board Committee may become aware of at any time between these visits will be taken up with the asset managers through the Asset Consultant.

The following should be noted in particular:

5.1 King IV

The Fund supports the principles (and their related practices) and recommendations contained in King IV (refer Appendix 6). Where issues arise that are not addressed or are insufficiently covered in this Active Ownership Policy, the Fund requests asset managers to be aware of the principles and recommendations of King IV.

The preparation of an integrated report is a recommended practice of King IV. Asset managers need to consider the quality of integrating reporting by the companies in which they are invested. An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

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APPENDIX 5 – ACTIVE OWNERSHIP POLICY (CONT)

5.2 Social Development

The Fund believes that public companies should be encouraged to invest in social development projects and programmes, particularly (and where appropriate) in relation to communities in the areas in which they operate and in areas from which their personnel are drawn.

5.3 Environmental Issues

5.3.1 Environmental Hazards

The public has a right to know whether a company uses substances that pose an environmental health or safety risk to a community or to the environment in which it operates. Asset managers should support resolutions that ask for the adoption of a policy that makes such information available, so as to enable the public to assess a company's potential impact on such communities and on the environment.

5.3.2 Environmental Reports

Asset managers should support resolutions asking companies to prepare general reports describing environmental management plans. Asset managers should also encourage companies to disclose current or potential environmental liabilities.

6. GUIDANCE

Where asset managers are uncertain, or require guidance as to any of the principles recorded in this Policy, they should contact the Asset Consultant or the Fund Management for clarification.

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APPENDIX 6 – KING IV REPORT ON CORPORATE GOVERNANCE FOR SOUTH AFRICA, 2016

King IV builds on its predecessors' positioning of sound corporate governance as an essential element of good corporate citizenship. With the introduction of an "apply and explain" regime, King IV asks organisations to be transparent in the application of their corporate governance practices.

King IV introduces a supplement specific to retirement funds. The supplement indicates that retirement funds are an important part of the institutional investor industry, and that they play an important role in the overall system of governance. The way in which retirement funds make investment decisions and exercise their rights as shareholders either reinforce or weaken the corporate governance of the companies they invest in. The supplement notes that CRISA and King IV are complementary codes that reinforce and complement each other.

The supplement indicates that the essence of King IV, as represented by its governance outcomes and principles, will apply to retirement funds with the necessary adaptation in terminology. The King IV principles as applied to retirement funds are set out below.

LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

- Principle 1: The board should lead ethically and effectively.
- Principle 2: The board should govern the ethics of the fund in a way that supports the establishment of an ethical culture.
- Principle 3: The board should ensure that the fund is and is seen to be a responsible corporate citizen.

PERFORMANCE AND REPORTING

- Principle 4: The board should appreciate that the fund's core purpose, its risk and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.
- Principle 5: The board should ensure that reports issued by the fund enable stakeholders to make informed assessments of the fund's performance and its short, medium and long-term prospects.

GOVERNANCE STRUCTURES AND DELEGATION

- Principle 6: The board should serve as the focal point and custodian of corporate governance in the fund.
- Principle 7: The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.
- Principle 8: The board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.
- Principle 10: The board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

GOVERNANCE AND FUNCTIONAL AREAS

- Principle 11: The board should govern risk in a way that supports the fund in setting and achieving its strategic objectives.
- Principle 12: The board should govern technology and information in a way that supports the fund setting and achieving its strategic objectives.
- Principle 13: The board should govern compliance with applicable laws and adopted, non-binding roles, codes and standards in a way that supports the fund being ethical and a good corporate citizen.
- Principle 14: The board should ensure that the fund remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.

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APPENDIX 6 – KING IV REPORT ON CORPORATE GOVERNANCE FOR SOUTH AFRICA, 2016 (CONT)

STAKEHOLDER RELATIONSHIPS

- Principle 15: The board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the fund's external reports.
- Principle 16: In the execution of its governance role and responsibilities, the board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interest of the fund over time.
- Principle 17: The board should ensure that responsible investment is practiced by the fund to promote the good governance and the creation of value by the companies in which it invests.

The five main governance outcomes for retirement funds covered in the retirement funds sector supplement are as follows:

- Ethical culture
- Fund performance and value creation
- Adequate and effective control of Fund by identifying governance functional areas
- Adequate and effective control of Fund via governance structures
- Board to cultivate trust, good reputation and legitimacy

In line with these five key outcomes, the Board must in their management and administration of the Fund ensure that:

- The Board is the focal point and custodian of corporate governance in the Fund and that it leads ethically and effectively;
- it governs risk in a way that supports the Fund in setting and achieving its strategic objectives and that all reporting and disclosures to stakeholders enable stakeholders to make an informed assessment of the Fund's performance;
- it has adequate and effective control of the Fund and particularly with respect to the composition of the board, the Trustees' have the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively;
- the Fund operates and is governed as a responsible corporate citizen;
- it has delegation structures in place and that the delegation structures promote independent judgment, assist with balance of power and the effective discharge of its duties;
- it evaluates its own performance, Board Committees, its Chairman and the individual Trustees for continued improvement in its performance and effectiveness; and
- it maintains trust, a good reputation and legitimacy through a stakeholder inclusive approach and the Board responsibly exercises its rights and obligations.

The above outcomes are supported by following the framework set out in this Policy and in particular how the following are dealt with:

- The management of conflicts of interests
- Creating value within the performance and the risk management framework set for the investment portfolios including the focus on sustainable investing
- Contracting with providers in terms of investment controls and monitoring provider performance
- Requiring regular reporting and disclosure of investment holdings, returns, risks and investment costs
- Execute on and communicate to members in terms of this Policy in order to build trust and legitimacy with members.

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APPENDIX 7 – INVESTMENT BOARD COMMITTEE TERMS OF REFERENCE

[Terms of reference to be added in here]

DE BEERS PENSION FUND

BOARD COMMITTEE TERMS OF REFERENCE

INVESTMENT BOARD COMMITTEE

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DEFINED BENEFIT



DEFINED CONTRIBUTION

DE BEERS PENSION FUND

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1. INTRODUCTION

The Board of Trustees (the Board) of the De Beers Pension Fund (the Fund) has established an Investment Board Committee (the Committee) to manage and monitor the investment of the Fund's financial assets (investments) with the intention of meeting the investment objectives of the various stakeholders in the Fund as provided for in the Fund's Investment Policy Statement (IPS).

2. THE OBJECTIVES, RESPONSIBILITIES AND AUTHORITIES OF THE COMMITTEE

The objective of the Committee is to oversee the investment of the Fund's investments in terms of the Fund Rules, prevailing applicable legislation and the Fund's IPS. The responsibilities and authorities of the Committee are as follows:

- 2.1 To recommend to the Board the appointment and termination of asset consultants to the Fund and to manage the relationship between the Fund and the asset consultants based on agreed service levels;
- 2.2 To annually review the Fund's IPS and investment strategies and to recommend the adoption of any changes to the Board. In reviewing the IPS, cognisance must be taken of the Fund Actuary's assessment of the appropriateness of the Fund's investment strategy, as contained in the IPS, in relation to its liabilities;
- 2.3 To employ mechanisms to monitor the Fund's investment performance on an ongoing basis, to seek advice and information as required and to take corrective action as appropriate;
- 2.4 To monitor activities related to the investment of the Fund's assets in terms of the IPS;
- 2.5 To appoint or terminate the appointment of asset managers in accordance with changes in the Fund's investment strategy or resulting from unacceptable performance or service levels;
- 2.6 To monitor and evaluate the Fund's appointed asset managers based on agreed investment performance benchmarks and service levels and to ensure that their appointment remains appropriate in the context of the investment strategies and risk profile of the Fund. This process includes regular reporting by asset managers and analysis of results and reporting by the asset consultants, annual due diligence visits to asset managers and presentations by asset managers at the Fund's Annual Trustee Investment Review Days and other meetings as deemed appropriate;
- 2.7 To enter into and regularly review agreements with asset managers, asset consultants and other investment related service providers, and to ensure that these agreements are subjected to due consideration and input by specialist advisors as required;
- 2.8 To ensure that agreements with asset managers, the asset consultants and other investment related service providers are implemented and maintained in accordance with industry best practice;
- 2.9 To annually review the fees of the appointed asset consultants, asset managers and other investment related service providers, and to approve the annual or any other fee increase with the asset consultants, asset managers and other investment related service providers subject to the Fund's Signing Authorities Policy;
- 2.10 To ensure that the Fund complies with Regulation 28 of the Pension Funds Act No 24 of 1956 (the Act) and any other relevant legal or regulatory requirements in relation to its investments and associated processes by employing adequate mechanisms to ensure ongoing compliance monitoring and corrective action as

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required. In addition, to ensure that the investments and associated processes take place in accordance with the Fund Rules where applicable;

- 2.11 If necessary and in addition to the advice provided by the asset consultant, to seek further expert advice on matters where the Committee lacks sufficient expertise as and when such advice is deemed appropriate;
- 2.12 To approve the investment of the Fund's assets, including the movement and allocation of assets within the Fund and between the appointed asset managers;
- 2.13 To employ mechanisms to monitor current economic conditions and market opportunities and, with the assistance and advice of the relevant advisors, implement tactical investment changes to maximise the possibility of achieving the Fund's investment objectives;
- 2.14 To appoint or terminate the appointment of other investment related service providers in accordance with changes in the Fund's investment strategy or resulting from unacceptable performance or other changed circumstances as deemed appropriate;
- 2.15 To monitor and evaluate on an on-going basis the service provided by the Fund's other investment related service providers (i.e. the Fund Unitiser, the custodian and the transition manager) based on agreed service levels and to ensure that their respective appointments and mandates remain appropriate in the context of the investment strategy, risk profile and operational requirements of the Fund. This includes annual due diligence visits to service providers where appropriate;
- 2.16 To ensure that an acceptable control environment is maintained in relation to the Fund's overall investment process and to ensure that sound governance is applied, maintained, monitored and reviewed on an ongoing basis;
- 2.17 To identify and evaluate risks associated with the investment process and to recommend appropriate mitigation measures to the Board in the form of a Committee specific risk log;
- 2.18 To record shareholder voting guidelines in the IPS and to monitor and advise the Fund's asset managers accordingly;
- 2.19 To investigate and advise on any investment related matters referred to the Committee by the Board;
- 2.20 To sign any investment instructions, agreements and other investment related documents on behalf of the Fund. Any two members of the Committee are authorised to sign such documents on behalf of the Fund. If a Committee member is not available to do so, any Trustee (signing together with a Committee member or together with another Trustee) is authorised to sign any investment instructions pertaining to the release or addition of bonds pledged as collateral in relation to the ABSA cash flow structure that form part of the pensioner portfolio;
- 2.21 To take account of the principles of Treating Customers Fairly (TCF), herein after referred to as Treating Members Fairly ((TMF) – see 9 below) and to carefully consider the application of TMF principles in the execution of its role;
- 2.22 To review and assess the adequacy of the Committee's Terms of Reference annually and to request Board approval for proposed changes; and
- 2.23 To ensure that the Board remains appropriately informed of the activities of the Committee, including

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decisions taken and the performance of the Fund's investments, by briefing the Board at each meeting and on an ad-hoc basis when deemed appropriate.

3. MEMBERSHIP AND QUORUM

- 3.1 The members of the Committee shall be appointed by resolution of the Board from amongst the Trustees or other persons who are not Trustees and shall consist of at least five members. The Chairperson of the Board shall be the Chairperson of the Committee.
- 3.2 In the absence of the appointed Chairperson of the Committee, the members present at a meeting of the Committee are required to elect from amongst themselves, under the supervision of the Principal Officer of the Fund, an individual to chair the relevant meeting. If the Chairperson is unable to attend the meeting and if possible, he or she should propose a suitable Committee member to chair the meeting and thereafter advise the other Committee members accordingly, where practical. The formal election process referred to above, will however still be required.
- 3.3 Committee membership vacancies must be filled by the Board within 30 business days after the vacancy arises.
- 3.4 The appointment of alternates or proxies to act for or on behalf of the Committee members is not permitted.
- 3.5 The Principal Officer of the Fund as well as other Fund employees as deemed appropriate by the Committee, shall be invited, ex officio, to attend and to make contributions at all meetings of the Committee but shall not be considered members of the Committee and shall have no voting rights.
- 3.6 A Committee Secretary shall be appointed by the Committee but shall not be a member of the Committee and shall have no voting rights. The Principal Officer may nominate an alternate in the event of the absence of the appointed Committee Secretary.
- 3.7 The quorum for the transaction of business by the Committee shall be fifty percent (or, if a fraction arises in the calculation of this number, then it shall be rounded up to the next whole number) of the appointed members of the Committee.
- 3.8 Committee members are appointed by the Board and their tenure is at the sole discretion of the Board. In addition, the Board will review the composition of the Committee on an annual basis.

4. SKILLS, EXPERIENCE AND TRAINING

- 4.1 The Committee requires the Principal Officer to make available to new members of the Committee a suitable induction process which will cover:
 - 4.1.1 the role of the Committee, including its Terms of Reference;
 - 4.1.2 an overview of the retirement fund industry and in particular the Fund's business, identifying the main business, financial dynamics and risks; and
 - 4.1.3 an understanding of the Fund Rules and the Act.
- 4.2 Training shall also be provided to existing members of the Committee on an on-going basis as agreed to by the Board.

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5. MEETINGS AND PROCEEDINGS

- 5.1 Meetings of the Committee shall be held at least quarterly. Meetings may also be convened by the Chairperson of the Committee or at the instance of the Board when such further meetings are considered necessary.
- 5.2 Meetings shall be conducted in the same manner as meetings of the full Board and the applicable board governance policies, for example the Board Charter, Code of Conduct, Statement of Corporate Governance, Conflict of Interest Policy and the Trustee Remuneration and Travel Policies, will apply.
- 5.3 Written resolutions circulated on a round robin basis shall be considered by the Committee in the same manner as resolutions presented at a meeting of the Committee and the applicable board governance policies, for example the Board Charter, Code of Conduct, Statement of Corporate Governance and Conflict of Interest Policy will apply.
- 5.4 The Chairperson of the Committee or the Principal Investment Consultant on his or her behalf shall report on the proceedings, recommendations and decisions made by the Committee at the next meeting of the Board immediately following a meeting of the Committee. As soon as they are available, the approved minutes of such meetings shall also be published on the confidential Trustee website.

6. ATTENDANCE AT MEETINGS

- 6.1 The Committee shall be entitled to invite any party, in addition to those referred to herein, to attend and be heard at meetings of the Committee. Such parties shall have no vote.
- 6.2 Trustees who are not Committee members shall also have the right of attendance with no voting rights. Such attendance shall take place at their own expense unless they are specifically delegated by the Board to attend any specific meeting.
- 6.3 Eligible Committee members and Trustees who are not Committee members who are specifically delegated by the Board to attend a meeting, will be remunerated in terms of the Fund's Trustee Remuneration and Travel Policies, where applicable.
- 6.4 The Chairperson of the Committee shall have the sole right to exclude any party from a meeting or from any item on the agenda, should any conflict of interest be declared or become evident in his / her opinion or for any other reason.

7. ANCILLARY POWERS

- 7.1 The Committee is authorised by the Board to investigate any matter which it, in its sole discretion, considers as falling within the powers delegated to it. The Committee is authorised to seek any information it requires from any Fund employee or applicable service provider and such employees or service providers shall comply with any reasonable request made by the Committee; and
- 7.2 In terms of corporate governance best practice the Committee is authorised by the Board in its discretion but with due regard to budgetary constraints to:
 - 7.2.1 consult with independent specialists or consultants to obtain professional advice;
 - 7.2.2 invite parties with relevant skills and experience to attend meetings on an ad-hoc basis; and

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7.2.3 obtain the resources reasonably required for the effective discharge of its responsibilities.

8. CONFIDENTIALITY AND CONFLICTS OF INTEREST

- 8.1 The members of the Committee and attendees at its meetings are required to exercise the Committee's mandate with confidentiality, to treat all documents and information they receive and produce as confidential, and not to discuss any aspect of the Committee's work with anyone outside the Board, other than with relevant members of the Fund staff and with the professionals it engages to assist with the performance of its functions.
- 8.2 Committee members are required to avoid conflicts of interest, where possible, and to inform the Committee and the Board of areas of conflict or potential areas of conflict timeously. All members of the Committee must complete annual declaration of interest forms and update these or when new areas of conflict have arisen since the last declaration.

9. TREATING MEMBERS FAIRLY

- 9.1 The TCF Roadmap, published by the Financial Sector Conduct Authority, details the broad principles which the Board should consider in achieving certain "fairness outcomes" for members (including pensioners and other beneficiaries) of the Fund.
- 9.2 In recognition of the TMF principles referred to in item 2.21 above, the fair treatment of members is central to the Fund's culture. In exercising its mandate granted to the Committee by the Board, to the extent possible, the Committee shall ensure that decisions taken, and recommendations made, reflect the Board's commitment to treating members fairly. Such decisions and recommendations should meet or exceed the "fairness outcomes", as set out in the TCF roadmap.

10. PERFORMANCE EVALUATION

The Committee's performance will be evaluated on an annual basis by the Board and Committee members as part of the Board and Board Committees annual self-assessment process and progress on the implementation of any actions arising from these evaluations must be reported to the Board.

11. REPORTING

The following matters shall be reported on in the Fund's Annual Financial Statements and/or in such other reports as may be deemed appropriate by the Board:

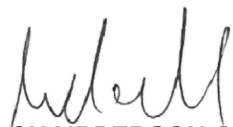
- 11.1 The Committee's overall role and associated responsibilities;
- 11.2 The composition of the Committee, including each member's age, qualifications and experience;
- 11.3 Details of external advisors or invitees who regularly attend the Committee meetings;
- 11.4 Key areas of focus during the reporting period;
- 11.5 The number of meetings held during the reporting period and attendance at those meetings; and
- 11.6 Whether the Committee is satisfied that it has fulfilled its responsibilities in accordance with its Terms of Reference for the reporting period.

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12. AUTHORISATION AND APPROVAL

Approved by the Board of Trustees.



CHAIRPERSON OF THE FUND
C W Coltman

Date: 6/1/2021

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REVISION HISTORY

Revision no	Description	Date reviewed	Date approved	Minute No.
001	New document	August 2011	22 September 2011	50.11.13
002	Annual review	October 2012	6 December 2012	82.12
003	Annual review	October 2013	5 December 2013	72.13
004	Annual review	October 2014	4 December 2014	73.14
005	Annual review	October 2015	3 December 2015	80.15
006	Annual review	November 2016	8 December 2016	78.16
007	Annual review	November 2017	7 December 2017	78.17
008	Annual review	October 2018	6 December 2018	90.18
009	Annual review	November 2019	5 December 2019	81.19
010	Annual review	November 2020	3 December 2020	63.20