

**BENCHMARK RETIREMENT FUND**  
**Reg. No. 25/7/7/489**

**ABRIDGED INVESTMENT POLICY**

**MARCH 2017**



**Benchmark Retirement Fund**

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## INTRODUCTION

This is a synopsis of the Fund's Investment Policy as adopted by the Board of Trustees (the Trustees). The full Policy is available, on request, to Members and other related parties.

### 1. NATURE AND OBJECTIVES OF THE FUND

The Benchmark Retirement Fund ("the Fund") is an umbrella fund providing Participating Employer groups, Individual Members, Pensioners and beneficiaries of deceased members with a cost efficient vehicle for funding retirement benefits, preserving retirement capital, and securing various annuities.

The Fund is a defined contribution fund. The Member bears the risk of poor investment performance that may negatively impact his/her retirement capital. For Participating Employer groups, both Employer and Member contribute to the Fund. All retirement benefits are defined by the Fund's General Rules and, if applicable, the Employer Rules.

The Fund offers both pension and provident arrangements. The benefits at retirement age are:

RETIREMENT BENEFIT	PENSION FUND	PROVIDENT FUND
<b>Tax-free lump sum</b>	$\frac{1}{3}$ Accumulated Credit	$\frac{1}{3}$ Accumulated Credit
<b>Taxable lump sum</b>	N/A	$\frac{2}{3}$ Accumulated Credit
<b>Taxable pension</b>	Pension purchased with $\frac{2}{3}$ Accumulated Credit	N/A

### 2. ROLES AND RESPONSIBILITIES

INVESTMENT PROCESS: PARTIES INVOLVED AND KEY RESPONSIBILITIES	
<b>Board of Trustees Principal Officer</b>	<ul style="list-style-type: none"> <li>Formulate, implement and review Fund's Investment Policy and monitor compliance</li> <li>Appoint Investment Managers to provide suitable investment vehicles and review Managers' performance</li> </ul>
<b>Appointed Investment Managers (incl. Unlisted Investment Managers)</b>	<ul style="list-style-type: none"> <li>Invest Fund assets within parameters of Prudential Investment Guidelines and Fund's mandate</li> <li>Report to Trustees on investment performance</li> </ul>
<b>Investment Consultant</b>	Assists Trustees with: <ul style="list-style-type: none"> <li>Investment Policy</li> <li>Selection and monitoring of Investment Managers</li> <li>Compliance with legislation</li> </ul>
<b>Actuary</b>	<ul style="list-style-type: none"> <li>Evaluates and reports on Fund's financial soundness</li> <li>Comments on investment options offered in relation to Members' emerging liabilities</li> </ul>
<b>Participating Employer/ Management Committee</b>	<ul style="list-style-type: none"> <li>Determines range of investment options for group</li> <li>Invests/switches between portfolios as appropriate</li> <li>Determines appropriate salary replacement ratio</li> </ul>

INVESTMENT PROCESS: PARTIES INVOLVED AND KEY RESPONSIBILITIES	
	<ul style="list-style-type: none"> <li>Performs asset-liability modelling and matching</li> </ul>
<b>Member/Pensioner</b>	<ul style="list-style-type: none"> <li>Invests/switches between portfolios as appropriate</li> </ul>
<b>Participating Employer-appointed Employee Benefit Consultant</b>	<ul style="list-style-type: none"> <li>Advises and assists Participating Employer/ Member/Pensioner with portfolio selection/switching</li> <li>Communicates with Members regarding investments</li> </ul>
<b>Member-appointed Financial Advisor</b>	<ul style="list-style-type: none"> <li>Advises and assists Member/Pensioner with portfolio selection/switching</li> </ul>

### 3. RISK & RETURN

The Trustees strive for optimum returns whilst protecting the interests of all Fund participants. Specifically, the Trustees have two objectives:

- Ensure sufficient liquid assets to meet liabilities as they fall due
- Maximise the investment return of each investment portfolio relative to its risk level.

The investment strategy is informed by various factors, such as:

- Varying Member risk tolerances
- The majority of Members being long-term investors
- Certain Members needing capital preservation
- Compliance with Regulation 28.

#### 3.1 INVESTMENT RETURNS

To achieve an adequate salary replacement, Members must achieve a real investment return (one in excess of price inflation). The table below shows the relationship between investment returns and salary replacement.

SALARY REPLACEMENT RATIOS					
ASSUMED INVESTMENT RETURN FOR 30 YEARS BEFORE RETIREMENT (AFTER FEES)	ASSUMED NET CONTRIBUTION TOWARDS RETIREMENT I.E. AFTER ALL COSTS FOR RISK, ADMINISTRATION ETC AS % OF PENSIONABLE SALARY				
	8%	10%	12%	14%	16%
<b>CPI + 5%</b>	47%	59%	70%	82%	94%
<b>CPI + 4%</b>	39%	49%	59%	69%	79%
<b>CPI + 3%</b>	33%	42%	50%	58%	67%
<b>CPI + 2%</b>	28%	35%	42%	50%	57%

The ideal salary replacement ratio is a post-retirement income of 60% of pre-retirement pensionable income after 30 years of service (assuming 2% accumulates per year of service). The table shows various ratios for different net retirement funding contribution rates in relation to real investment returns, assuming retirement at age 60. Other assumptions are:

**Pre-retirement:**

- Real rate of return before retirement is dependent on the investment portfolio chosen
- Salary increases in line with price inflation
- No break in service or full preservation of all withdrawal benefits
- Full Accumulated Credit on retirement used to generate the pension
- Tax is not taken into account.

**Post retirement:**

- Single life with-profit annuity purchased
- Allowance for future pension increases is 2/3rds of price inflation.

## **3.2 Risk**

The risk rating of an investment portfolio indicates how volatile investment returns are likely to be and the likelihood that the stated investment return may not be achieved. The risk categories used in this Investment Policy are:

- **Aggressive Risk Portfolio:** Short term negative returns and very volatile returns are possible due to maximum permissible exposure to equities (shares).
- **Moderate Risk Portfolio:** Short term negative returns and volatile returns are possible due to large exposure to growth assets (shares and property) at times.
- **Moderate-Low Risk Portfolio:** Short term negative returns and volatile returns are possible due to exposure to growth assets (shares and property), but typically at lower levels than the moderate risk portfolio.
- **Low Risk Portfolio:** Minimal negative returns over any rolling 12-month period and no risk of capital loss on a monthly basis.

There is a correlation between investment return and risk: generally speaking the greater the investment risk taken, the greater the anticipated investment returns.

The Fund regularly compares each portfolio's return with the portfolio's internal benchmark, a common benchmark for similar portfolios and with Namibian inflation.

## **4. INVESTMENT STRATEGY**

### **4.1 OVERALL INVESTMENT STRATEGY**

The Trustees delegate the function of investing the assets of the Fund to external Investment Managers and Unlisted Investment Managers.

The Trustees are responsible for:

- Selecting Investment Managers and Unlisted Investment Managers
- Deciding how many portfolios to make available
- The investment results of any default portfolios
- Overall governance of the Fund in terms of the Pension Funds Act and other relevant legislation

Each Participating Employer, Member, deferred Pensioner, Pensioner and annuitant is responsible for selecting the appropriate investment portfolio for him/her from the range offered by the Fund.

The Trustees do not regulate contribution rates within the Fund. Since Participating Employers set their group's contribution level and choose their investment portfolio, they should formulate investment strategies specific to their group profile that will help ensure adequate pensions at retirement.

The Fund manages compliance with Regulation 28 through compliant portfolios or combinations of portfolios.

The full investment return net of agreed charges and fees as per the Fund Rules, is allocated to Members' Accumulated Credits on a monthly basis. This is verified annually by the Fund's Actuary and adjusted if necessary.

## **4.2 INVESTMENT STRATEGY OF PARTICIPATING EMPLOYERS WITH PREVIOUS FUND STRUCTURE**

A Participating Employer with Previous Fund Structure, alternatively its Management Committee, as defined in the General Rules of the Fund, is responsible for:

- Setting the investment strategy for its Members, including recommending specific investment portfolios, Investment Managers, and the proportion of total investments each portfolio must comprise.
- Monitoring the Investment Manager/s appointed to manage its Members' investments.

The Trustees can overrule decisions by such a Participating Employer if they consider an investment portfolio or Investment Manager inappropriate for such Participating Employer's demographic profile or unacceptably risky for the Fund.

## **4.3 INVESTMENT CHOICE**

Participating Employers/their management committees can apply the following investment structures:

**4.3.1 Participating Employer Choice:** The Participating Employer/management committee determines the investment portfolio or combination of portfolios. All Members of the Participating Employer have the same return allocated to their accounts.

**4.3.2 Individual Member Choice:** Members of the Participating Employer may personally choose to invest their Accumulated Credits and contributions in a range of the Fund portfolios.

**4.3.3 Combination Participating Employer Choice/Individual Member Choice:** The Participating Employer/management determines the investment portfolio or combination of portfolios. Each Member personally chooses how to spread their Accumulated Credits and contributions over the portfolios available to them.

Pensioners and Deferred Pensioners, other than pooled pensioners, can invest only on an Individual Member Choice basis. These Members must formulate their own investment strategy and personally select the appropriate investment portfolios.

The Fund offers different risk-profiled investment portfolios as set out below:

INVESTMENT PORTFOLIO	RISK	INVESTMENT MANAGER'S EXPLICIT PERFORMANCE OBJECTIVE (BEFORE FEES)	RETURN EXPECTATIONS DERIVED FROM HISTORICAL EXPERIENCE (BEFORE FEES)	ASSET MANAGER FEES
Allan Gray Namibia Balanced Fund	Moderate	None	CPI + 5% to 6%	0.75% p.a. on local assets; 1% - 2.5% p.a. on inter- national assets
Investec Managed Fund Namibia	Moderate	None	CPI + 5% to 6%	0.75% p.a.
NAM Coronation Balanced Plus Fund	Moderate	None	CPI + 5% to 6%	0.85% p.a.
Old Mutual Namibia Profile Pinnacle Fund	Moderate	None	CPI + 5% to 6%	0.55% p.a. on local assets; 0.8% p.a. on inter- national assets
Prudential Namibia Balanced Fund	Moderate	None	CPI + 5% to 6%	0.75% p.a.
Standard Bank Namibia Managed Fund	Moderate	None	CPI + 5% to 6%	0.50% p.a.
Benchmark Default Portfolio	Moderate-Low	-	CPI + 4% to 5%	Fees of underlying asset managers apply
NAM Coronation Capital Plus Fund	Moderate-Low	CPI + 4% (1 yr)	CPI + 4%	0.95% p.a.
Prudential Namibia Inflation Plus Fund	Moderate-Low	CPI + 4% (3 yr)	CPI + 4%	0.60% p.a.
Sanlam Namibia Inflation Linked Fund	Moderate-Low	CPI + 4% (3 yr)	CPI + 4%	0.75% p.a.
NAM Coronation Balanced Defensive Fund	Moderate-Low	IJG Money Market + 3%	CPI + 2% to 3%	0.85% p.a.
Sanlam Namibia Active Fund	Low	1-3 yr ALBI	CPI + 1% to 2%	0.60% p.a.
Money Market Fund	Low	7-day repo rate	CPI to CPI + 1%	0.50% p.a.

While asset managers should ideally set real investment return as the explicit performance objective of an investment portfolio, a lot of investment portfolios that

are suitable for retirement funds do not have an explicit performance objective related to inflation, however.

The member will therefore have to consider the historic performance experience of an investment portfolio (see table above) in relation to inflation as a proxy in order to link a specific investment portfolio to the salary replacement ratio (see section 3 above). It must be noted that the historic performance experience is not guaranteed to be achieved in future.

While each investment portfolio will have an internal benchmark as stated by the Investment Manager in the portfolio mandate, that benchmark may not be an explicit real investment return, as explained.

#### 4.4 DEFAULT PRODUCTS

The Trustees manage the following default products of the Fund:

	DEFAULT INVESTMENT PRODUCTS			
	BENCHMARK DEFAULT PORTFOLIO	DEFAULT INVESTMENT LINKED LIVING ANNUITY	DEFAULT LIFE ANNUITY	DEFAULT SURVIVOR ANNUITY
<b>Risk Rating</b>	<ul style="list-style-type: none"> <li>Moderate-low risk</li> </ul>	<ul style="list-style-type: none"> <li>Moderate-low risk</li> </ul>	<ul style="list-style-type: none"> <li>Fully insured</li> </ul>	<ul style="list-style-type: none"> <li>Low risk</li> </ul>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>Reduced volatility</li> <li>Reduced risk of large negative returns over any rolling 12 months</li> <li>Reduced single manager risk</li> </ul>	<ul style="list-style-type: none"> <li>Reduced risk of large negative returns over any rolling 12 months</li> <li>Reduced single manager risk</li> <li>A default age-based draw-down strategy is applied</li> </ul>	<ul style="list-style-type: none"> <li>Provided via the Fund</li> <li>Compulsory joint life annuity</li> <li>Escalates on with-profit basis</li> <li>Guaranteed term</li> </ul>	<ul style="list-style-type: none"> <li>5 year minimum term</li> <li>Avoid capital losses over any rolling 12 months</li> <li>Reduced fluctuation in monthly income paid</li> </ul>
<b>Target Investor</b>	<ul style="list-style-type: none"> <li>Participating Employers</li> <li>Deferred Pensioners</li> <li>Default preservation of withdrawal benefits</li> </ul>	<ul style="list-style-type: none"> <li>Living Annuity Pensioners</li> </ul>	<ul style="list-style-type: none"> <li>Retiring Members with a low risk threshold</li> </ul>	<ul style="list-style-type: none"> <li>Dependants and/or nominees of deceased Members</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>A Balanced Fund combined with an inflation linked portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>Initial low risk Drawdown Portfolio combined with a moderate risk portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Namibian insurer's With-Profit Annuity</li> </ul>	<ul style="list-style-type: none"> <li>Namibian insurer's smooth growth portfolio</li> </ul>

#### 4.5 SEGREGATED INVESTMENT PORTFOLIOS

In certain instances the Fund may use segregated investment portfolios if, amongst others, the size of the anticipated portfolio justifies this.



#### **4.6 MULTI-MANAGERS AND WRAP FUNDS**

Multi-manager products and wrap products combine different mandates managed by different asset managers into one product with a specific investment mandate. The entity managing the product is responsible for investment decisions. The Fund can use these products if the Investment Manager and product meet the Trustees' documented criteria.

#### **4.7 SMOOTH BONUS INVESTMENT PORTFOLIOS**

Typically smooth bonus portfolios:

- Are underwritten by a life insurer under an insurance policy
- Have vested and non-vested portions of investment returns
- Smooth investment returns using reserves owned by the life insurer or using derivatives
- Fully or partially guarantee capital invested at an additional fee
- Have different book and market values as determined by the life insurer
- Pay out the lesser of book value or market value on full or partial termination of the investment.

The Trustees will consider making smooth bonus portfolios available only to specific homogenous groups of Members where cross-subsidisation will not affect Members outside the group.

#### **4.8 RESTRICTED INVESTMENT PORTFOLIOS**

The Trustees determine which portfolios are classified as restricted. Restricted portfolios are not available to all Participating Employers but are specially requested by a Participating Employer to achieve its investment objectives.

Any potential restricted investment portfolio should be larger than N\$50 million and meet the Trustees' other documented criteria.

#### **4.9 UNLISTED INVESTMENTS**

Regulations 28 and 29 of the Pension Funds Act require retirement funds to invest in Namibian unlisted investments through approved Special Purpose Vehicles. The Trustees award separate unlisted investment mandates to Unlisted Investment Managers.

The Fund must invest between 1.75% and 3.5% of the Fund's total assets in unlisted investment products.

All Members participate proportionally in unlisted investments.

#### **4.10 CONSERVATIVE INVESTMENT PORTFOLIOS AND CAPITAL PRESERVATION PORTFOLIOS**

Actual investment returns are allocated to Members each month so Participating Employers cannot smooth investment returns with an investment reserve. However, an employer can offer Members close to retirement a more conservative investment portfolio or a capital preservation portfolio.

Typical capital preservation or conservative investment products are:

- Cash funds
- Low equity market value funds
- Income funds
- Absolute return funds
- Smoothed bonus products (guaranteed funds).

#### **4.11 LIFE-STAGE MODEL**

A life-stage investment model typically matches a Member's risk tolerance with an investment portfolio by assuming that risk tolerance is age-related and reduces as a Member ages.

Participating Employers can apply a life stage model with Trustee approval and allow individual Member choice, bearing the following in mind:

- Life stage models typically reduce exposure to growth assets over time, thereby reducing risk at the expense of returns
- A Member's risk tolerance does not necessarily decrease as the Member reaches retirement age
- The type of annuity in retirement greatly influences the type of investment portfolio the Member should invest in pre-retirement
- Life-stage models and individual Member choice introduce further costs and risk
- The last few years preceding retirement are critically important to the terminal value of a retirement benefit. Being moved to a conservative portfolio before retirement can seriously reduce potential investment growth

#### **4.12 SIZE OF UNDERLYING INVESTMENT PORTFOLIO**

The value of any underlying investment portfolio provided by an Investment Manager should be at least N\$50 million.

#### **4.13 SIZE OF INVESTMENT**

Where the Fund's investment in a portfolio becomes so significant that removing the portfolio from the range of available portfolios could force closure of the portfolio, the Trustees will consider diversifying the range.

Where the Fund's investment in a particular portfolio is less than N\$5 million, the Fund will keep the portfolio only if there are compelling reasons to do so.

#### **4.14 UNCLAIMED BENEFITS**

Unclaimed benefits remain invested in the investment portfolio until receipt of complete claim documentation. Once the amount of the claim is established, the assets are disinvested and held in the Fund's bank account. The full return earned on these assets, less associated charges, is allocated to these benefits. Benefits still unclaimed after five years are paid to the Guardian's Fund.

#### **4.15 INVESTMENT COMBINATIONS**

The Fund may provide combinations of investment portfolios that will make the administration of investment portfolios and unit pricing more efficient. These portfolios

are not actively managed by the Trustees and the Trustees do not set investment objectives for these portfolio combinations

## **5. MANAGER SELECTION AND EVALUATION CRITERIA**

All Investment Managers are evaluated before their appointment. In selecting Managers and portfolios, the Trustees consider at least the following:

- Portfolios must be suitable for retirement fund investments
- Investment portfolios across diverse asset classes are preferred
- Investment should be active and research driven
- Stability in the Manager's investment process and personnel
- Management and custodial fees
- Regulation 28 compliant portfolios, unless the Fund assigns segregated mandates
- Portfolios must be at least 3 years old
- Unlisted Investment Managers must be NAMFISA-approved and Regulation 29 compliant

All Investment Managers are continually reviewed. Whilst performance is important, short term underperformance is not a determining factor.

## **6. INVESTMENT MANDATES**

### **6.1 DISCRETION**

Within the parameters of the mandate, the Trustees do not limit Investment Managers to any particular investment vehicle, except as prescribed by the Prudential Investment Guidelines. The Investment Manager is responsible for performance at all times.

### **6.2 SOCIALLY RESPONSIBLE INVESTMENTS**

The primary focus of the Fund's investments is to provide real growth to Members rather than addressing broader social concerns.

### **6.3 BROAD-BASED BLACK ECONOMIC EMPOWERMENT**

Investment Managers should reflect the diversity of Namibia both in shareholding and staff. The extent to which Investment Managers reflect this diversity is a factor in evaluating managers.

### **6.4 PROXY VOTING POLICY**

The Fund's assets are currently held via pooled products thereby preventing the Fund from exercising ownership rights over its investments. However, the Fund expects Investment Managers to influence companies in which they invest to adhere to corporate governance best practice standards. Investment Managers must have a stated policy of proxy voting in the best interest of shareholders.

## **6.5 LIQUIDITY REQUIREMENTS**

The Fund is a going concern with regular monthly inflows that generally exceed outflows, but since this can change, termination conditions of an investment potentially affecting short term liquidity should be considered.

## **6.6 DERIVATIVE USE**

Investment Managers may use derivatives for the implementation of asset allocation decisions or hedging, but not for speculative purposes.

## **6.7 SCRIP LENDING, COMMISSION RECAPTURE SCHEMES, SOFT DOLLAR AND OTHER SIMILAR ARRANGEMENTS**

With pooled investments, the Trustees cannot monitor the underlying activities of the Investment Manager. Investment Managers must disclose any income earned from such activities and undertake them only if this would be in the Fund's best interests.

## **6.8 PERFORMANCE-BASED FEES**

Performance-based fees for Investment Managers include a share of the portfolio's performance above an agreed benchmark and are generally additional to a base fee.

The Trustees consider issues such as the fairness of the fee relative to the service provided before adopting a performance based fee arrangement.

## **7. MONITORING**

### **7.1 ROLE OF THE INVESTMENT CONSULTANT**

The Trustees are responsible for monitoring the performance of the Investment Managers. They delegate this task to the Fund's Investment Consultant who regularly reports to the Fund on Managers' performance and related issues.

### **7.2 ROLE OF INVESTMENT MANAGERS**

Investment Managers present monthly statements and report personally to the Trustees when required.

All Investment Managers must endorse full disclosure and transparency and clearly indicate their remuneration earned.

## **8. REVIEW DATES**

The Fund's investment policy is reviewed regularly.