The Fairheads Umbrella Trust Fund

Summary of the Investment Policy - a guide for guardians and caregivers

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This is a plain-language summary of the Trust Fund's Investment Policy Statement, which sets out how the Board of Trustees invests the money held for each beneficiary. It is a summary only.

Why the Trust Fund exists

The Fairheads Umbrella Trust Fund is an umbrella trust, registered with the Master of the High Court and with the South African Revenue Service. It was established to look after benefits awarded to the dependants of employees who have died. These are mainly retirement fund death benefits paid under Section 37C of the Pension Funds Act, 1956, but they also include associated benefits such as disability and group life proceeds.

The Trust Fund holds and invests that money, pays a regular monthly income, and makes additional payments for a beneficiary's maintenance, education, medical costs and general wellbeing. Each beneficiary's money is accounted for in a separate, individually identifiable account within the umbrella trust.

Who the beneficiaries are

Beneficiaries are predominantly minors whose parent died while employed by an employer with a pension or provident fund, where there is no guardian or caregiver able to administer the benefit, or where the guardian or caregiver preferred that the trust do so. Beneficiaries may also be adults who have consented to the trust administering their benefit, or adults labouring under a legal disability. Because they join at different ages, each has a different investment horizon. The majority of beneficiaries claim the benefit owing to them at age 18, but for those who elect to leave their monies in the Trust, the investment period can extend well beyond eighteen years.

What the Trust Fund is trying to achieve

Money must be there when a beneficiary needs it. For that reason the greatest emphasis is placed on **security of capital**, secondly on **income**, and only then on **capital growth**. The Board also keeps a close watch on fees and costs, because these erode a beneficiary's benefit over time.

All of the Fund's portfolios comply with Regulation 28 of the Pension Funds Act, which limits how much may be invested in each type of asset and requires trustees to invest prudently.

How a beneficiary's money is invested

Each beneficiary's money is spread across three portfolios. The mix depends on the beneficiary's age and the size of their account.

- **Cash portfolio -** holds roughly twelve months of income, plus an allowance for fees and a contingency, so that payments can be made without having to sell other investments.
- **Income portfolio -** protects capital and generates the monthly income if required. It aims to return inflation plus 3% a year over any rolling three-year period.
- **Balanced portfolio -** grows capital over the longer term and therefore carries more short-term ups and downs. It aims to return inflation plus 5% a year over any rolling five-year period.

Younger beneficiaries with larger accounts hold more in the Balanced portfolio, because they have time to recover from market downswings. As a beneficiary approaches the age of majority, the money is moved steadily into the Income portfolio to protect it. Specifically:

- The mix is recalculated every year, in the month of the beneficiary's birthday, using a formula approved by the Board.
- No more than 90% is held in the Balanced portfolio and at least 10% in the Income portfolio.
- Within two years of the age of majority (age 18), all of the money is moved into the Income portfolio.
- Where an account is below a threshold set by the Board, the money is held in the Income portfolio only, as the account is too small for growth investing to be worthwhile.
- Beneficiaries who are disabled, as defined, and who hold more than R250 000 remain fully invested in a 90% balanced and 10% income split until age 44, after which the age-based formula applies through to a typical retirement age of 65.

Cash holdings are reviewed monthly to make sure there is enough available to meet payments.

Who manages the money

The Trust Fund does not invest directly in shares or bonds. It appoints professional asset managers to do that on their behalf through pooled products which the managers administer. The Board uses more than one asset manager in the Income and Balanced portfolios so that the Fund is not dependent on any single asset manager. The current managers are:

Portfolio	Manager	Allocation
Cash	Standard Bank Institutional Money Market Fund	100%
Income	Vunani Enhanced Income Fund	50%
	Prescient Income Provider Fund	50%
Balanced	Coronation Balanced Plus Fund	70%
	Camissa Global Balanced Fund	30%

When choosing a manager the Board considers financial strength and reputation, track record, experience with the mandate, investment style, responsible investment practices (see below), insurance cover and fees. Broad-based black economic empowerment is a requirement rather than a preference.

Managers are reviewed quarterly. Where performance or conduct falls short, the Board takes it up with the manager and may end the appointment.

Responsible investing

The Board regards responsible investing as part of its duty to beneficiaries, not an optional extra. Most beneficiaries are children whose money will be invested for twenty years or more, and who will live with the long-term consequences of how the companies the Trust Fund invests in behave today. The approach has three parts:

- **ESG integration -** managers must take environmental, social and governance factors into account when they invest, and report to the Board on how they do so.
- **Active ownership -** because the Fund invests through pooled funds it does not engage directly engage with companies and does not vote on resolutions at company meetings itself. It requires its managers to vote and to engage with companies on its behalf, and to report on that activity.
- **Impact investing -** the Trust Fund holds no dedicated impact mandate at present, but the Trustees consider investments delivering a measurable social, economic or environmental benefit alongside competitive financial returns.

The Trust Fund supports the Code for Responsible Investing in South Africa (CRISA 2), which applies to institutional investors generally, and has regard to the King V Report on Corporate Governance.

Who oversees the investments

The Board of Trustees is responsible for the investment policy and is accountable to beneficiaries for how the Trust Fund's assets are invested. It is advised by an asset consultant, which reports quarterly on performance, risk and the managers' conduct. The administrator maintains beneficiary records, makes payments and monitors cash so that there is always enough available.

The Board checks each service provider annually against a defined set of governance standards, covering B-BBEE certification, insurance cover, responsible investment practice, and the disclosure of any conflict of interest. The Board reviews this policy at least once a year, and immediately if there is a fundamental change in the Fund's membership or in investment markets.