

VERSO UMBRELLA RETIREMENT PENSION AND PROVIDENT FUNDS (“VURF”)

INVESTMENT PHILOSOPHY AND OPTIONS

Background

The Trustees of the Verso Umbrella Retirement Funds (VURF) have devoted considerable time and resources in the research, development and review of their investment philosophy and options. This document aims to provide a summary of their philosophy and the options available within the Fund.

In terms of the philosophy, each participating employer on VURF has the following investment options available to them:

1. **Elemental Option:** Elemental is a cost-effective option that has been designed for those clients who want very little involvement in portfolio selection and flexibility. The investment options are limited to either one portfolio or a selected combination of portfolios (max. 4) or one of the Fund’s Life Stage Models that would apply to all their members.

Default Portfolio - Each Management Committee or participating employer may elect to invest members’ fund assets and future contributions in one or more of the selected default investment portfolios (max. 4) that would apply to all employees. A Capital Protection Option, whereby members close to retirement choose to transfer their member share in the Fund and future contributions to a less volatile investment option, can be accommodated.

Life Stage Models - The participating employer may prefer to opt for one of the Fund’s formulated Life Stage Model investment strategies or a predefined “Life Stage” model that will apply to all members.

2. **Designer Option:** The Designer option is for those clients wanting to offer their members a wider range of choice or flexibility. Member investment choice is offered from a predetermined range of portfolios selected by the Trustees, subject to certain restrictions set by the Trustees from time to time.

Member Investment Choice (MIC) - The Verso Umbrella Retirement Funds allow for MIC. Each member can therefore choose, from a list of portfolios preselected by the participating employer, the portfolio(s) that suit his or her personal risk profile and circumstances. Switches are permitted at a predetermined fee. One of the Fund’s “Life Stage” options can be offered as a default for those members not wishing to participate in MIC.

3. **Classic Option:** The Classic option is a simple, cost effective product offering. This offering consists of a specified employer contribution rate and a standard structured risk benefits package.

Investment portfolio – This offering does not offer MIC but offers an investment portfolio as selected by the Fund’s Trustees. This portfolio aims to protect investors against short term volatility by smoothing out investment returns whilst providing valuable guarantees of benefit payments.

This document aims to provide participants with more insight into the investment options and portfolios that have been approved by the Trustees of VURF from which participating employers and / or members may elect their preferred investment option.

Please note that this document has been produced taking into account the general provisions of the Rules of the Fund, policies and related legislation. Great care has been taken in the production of the document. In the event of any inaccuracy, the provisions and conditions of the Rules, policies and / or legislation will prevail.

Investment Philosophy

The VURF philosophy is one of simplicity and risk management. This is achieved by limiting the number of investment options available to participating employers, as well as by actively monitoring these portfolios and options in terms of the Funds’ formal investment strategy.

Investment Objective

The main objectives of the Funds, as summarised in their Investment Strategies, are:

- To optimise returns over the long term at an acceptable risk / volatility level, ensuring a reasonable income replacement ratio at retirement, i.e. accumulating enough capital over an investment lifetime to purchase a reasonable pension as a percentage of members’ final salary ; and
- To minimise short-term volatility close to retirement.

The Trustees acknowledged that due to the fact that members’ carry the investment risk under a defined contribution arrangement and individual risk profiles differ, a standard investment approach may not suit the needs of all fund members. Therefore, the investment strategy attempts to cater for different risk profiles and investment needs taking the Funds’ overall investment objectives into consideration.

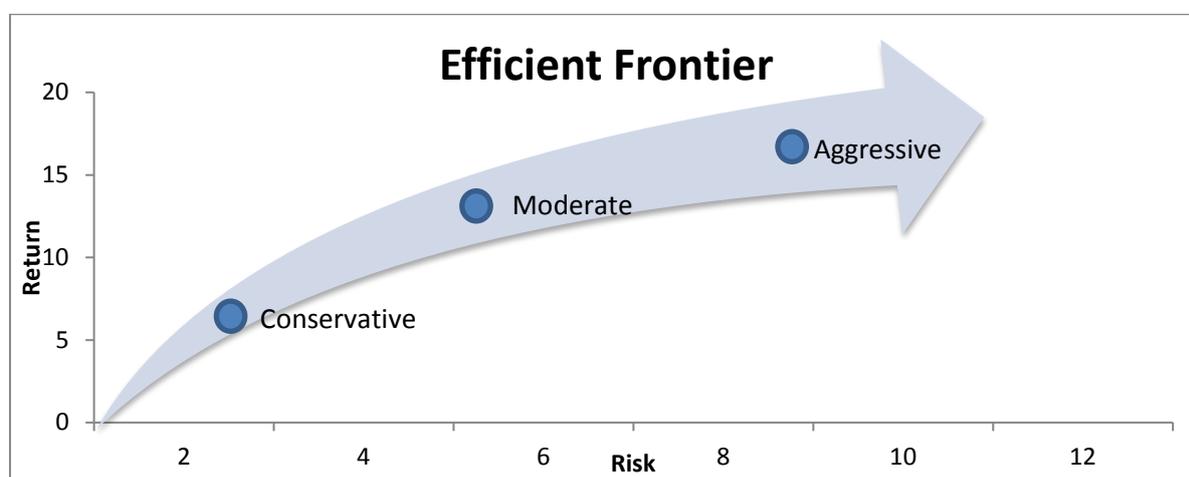
Portfolio Options

After a process of evaluation, the Trustees opted to make use of a multi manager approach. The main reasons for using a multi manager approach are:

- Investing in more than one asset manager / portfolio ensures risk and style diversification;
- Active research, monitoring and management of asset managers / portfolios takes place as a norm;
- Due to the “pooling” of investment, the economies of scale may result in a cost saving.

The VURF Trustees approved the use of Sanlam, Alexander Forbes, Momentum Manager of Multi Managers and Sygnia as the preferred asset managers for the Funds’ portfolio offerings.

While formulating the most appropriate range of risk profile offerings, consideration was given to provide a range of investment options based on a typical “Efficient Frontier” model, i.e. one which implies that as risk increases (volatility due to the increased investment in equities) so the prospects of higher returns increase over a long-term period. This is best illustrated by the following graph:



Proposed Investment Options

Taking the above into consideration, the Trustees formulated a risk profile range of portfolios that should address the investment needs of the average fund member / participating employer.

When evaluating asset class returns over a 40 year period, it implies that equities provide the best historical returns on a nominal and real return basis over the long term, but also at the highest level of volatility. A high exposure to equities over a long period of time should therefore increase the probability of above average real returns.

The level of “risk” within each of the portfolio offerings is a reflection of the equity exposure within the portfolio. The following table reflects the risk profile of each of the portfolios:

Risk Profile	Equity Exposure	Volatility Risk	Real Return Expectation
Aggressive	High	High	High
Moderate / Aggressive	Average to High	Average to High	Average to High
Moderate	Average	Average	Moderate
Moderate / Conservative	Low to Average	Low to Average	Low to Average
Conservative	Low	Low	Low

The following portfolio offerings were approved by the VURF Trustees:

Risk Profile	Asset Manager	Portfolio	Investment Objective
Aggressive	Momentum MoM	Enhanced Factor 7	CPI+7% (7y)
Moderate / Aggressive	Alexander Forbes	Performer	AF LMW (CPI+6%)
Moderate / Aggressive	Sygnia	Skeleton 60 (passive)	CPI+4% (12m)
Moderate	Sygnia	Signature 50	CPI+5% (24m)
Moderate	Alexander Forbes	Defender Plus	CPI+4% plus (12m)
Moderate	Momentum MoM	Enhanced Factor 4	CPI+4% (4y)
Moderate / Conservative	Sanlam	Monthly Bonus Fund	CPI + 3% plus capital guarantee
Conservative	Alexander Forbes	Banker	STEFI
Moderate / Conservative	Alexander Forbes	Shari'ah High Growth	CPI+3% (12m)
Conservative	Alexander Forbes	Shari'ah Medium Growth	CPI+1.5% (12m)

Both participating employers and members may elect from the above portfolios depending on the approach chosen by the participating employer when joining VURF (i.e. Elemental or Designer options. The Classic option provides a standard investment portfolio as selected by the Fund's Trustees).

As a further investment option, the Trustees formulated two "Life Stage" offerings as alternative options to participating employers and members. These can be implemented on their own as a 'Default Choice' option or as part of a MIC approach.

The Objectives of Life Stage Investing:

The main objectives of a life stage arrangement are:

- Primary objective: to secure a reasonable replacement rate at retirement; and
- Secondary objective: minimise short-term volatility close to retirement.

The approach should be simple, understandable and easy to communicate to members.

The Reasons Behind the “Life Stage” Offering

The principle reason behind a life stage model approach is to minimise market speculation with a well thought through long-term investment strategy as well as an automatic reduction in the investment in volatile asset classes, like equities, when members near retirement. Automatically moving members to less volatile investment portfolios closer to retirement aligns with the historic reasons for offering a capital protection option (CPO) to members close to retirement age. The life stage model eliminates human error and avoids the possibility of a member “forgetting” to make the active decision to move to a CPO portfolio when approaching retirement age.

The Trustees acknowledge that under a defined contribution arrangement the member carries the investment risk, i.e. members are exposed to both positive and negative returns depending on the movement of the financial markets. A substantial fall in investment markets when a member is close to retirement would negatively impact a member’s retirement savings. If MIC is not offered, it makes it difficult for members to manage the investment risk close to retirement. Should MIC or limited choice be offered to members close to retirement, the member is left with the challenge of selecting the correct portfolio, as well as timing the decision in order to minimise the risk of capital loss.

The Life Stage Solution:

The proposed solution to these issues is a life stage approach to portfolio selection. The biggest risk of investing is capital loss, i.e. negative returns over the short term. The longer the member’s years to retirement are, the lesser the impact of negative returns will be on his / her benefit as there should be more sufficient time to recover any short-term capital loss. The reverse is also true, i.e. the shorter a member’s years to retirement the higher the risk and impact of a possible loss of capital.

In terms of the model, younger members invest in more aggressive portfolios, i.e. portfolios with a higher exposure to equities, to maximise their returns and as they approach retirement age there is a gradual, automatic switch to less aggressive portfolios, i.e. portfolios with a lower exposure to equities. This will limit the impact of negative returns / capital losses.

When investing with a life stage approach it is important for the Trustees to believe that:

- Members can tolerate short-term negative returns; and
- The benefits of a long term strategy can be explained to members.

A life stage solution might therefore not suit all participating employer’s or members’ investment needs, like those with zero tolerance for capital loss, and should therefore only be considered where their objectives are in line with the Funds’ investment and return objectives.

It was decided to make provision for two (2) VURF life stage model options from which participating employers can select. These are:

- A Capital Protection Option (CPO) life stage model; and
- A Wealth Builder life stage model.

Capital Protection Option (CPO) model

This life stage solution is a range of complementary risk profile investment portfolios that would be ideal for investors seeking median returns up to five years from retirement age in exchange for lower volatility of monthly returns and who aim to maximize capital accumulation, without substantial risk of short-term capital losses.

After the accumulation phase the model will automatically gradually start switching the investor to a less volatile portfolio, the Sanlam Month Bonus Fund portfolio. The Sanlam Monthly Bonus portfolio provides a 100% capital guarantee on members' retirement savings, which eliminates the risk of capital loss due to negative market returns close to retirement age.

The portfolio range consists of two (2) portfolios, with investment objectives ranging from medium-high risk / medium-high return to conservative risk / medium return.

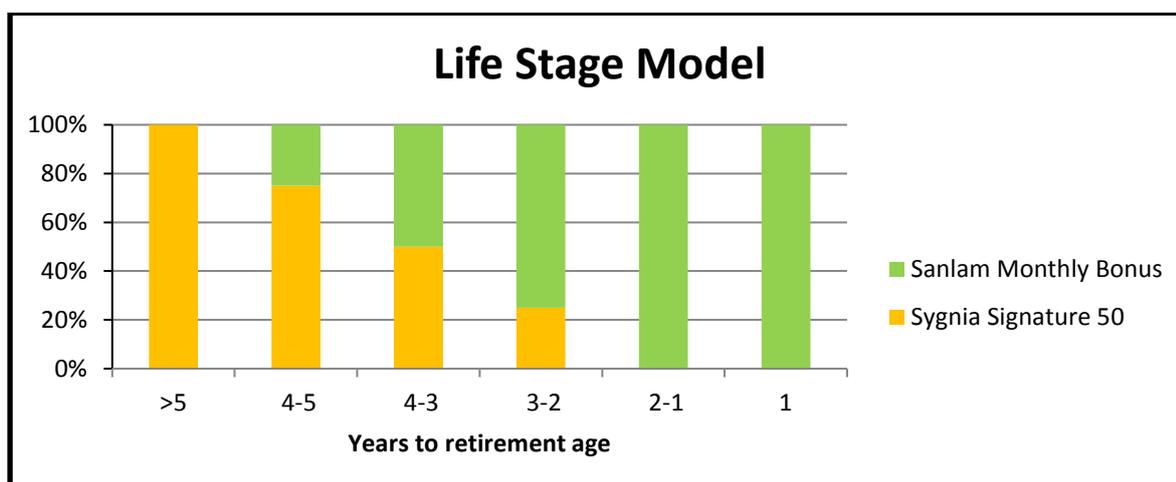
These portfolios are:

Portfolio	Risk profile	Volatility risk	Return expectation
Sygnia Signature 50	Moderate/Aggressive	Medium / High	Medium/High
Sanlam Monthly Bonus	Conservative	Low (100% capital guarantee)	Medium

The VURF CPO Life Stage solution structure is as follows:

Years to Normal Retirement Date	Percentage of Member Share allocated to a Portfolio	
	Sygnia Signature 50	Sanlam Monthly Bonus
More than 5	100%	
Less or equal to 5, but more than 4	75%	25%
Less or equal to 4, but more than 3	50%	50%
Less or equal to 3, but more than 2	25%	75%
Less or equal to 2, but more than 1		100%
Less than or equal to 1		100%

Shown as a chart:



Wealth Builder Model:

This life stage solution is a range of complementary risk profile investment portfolios that would be ideal for investors seeking above average real returns over the long-term in order to maximize capital growth at an acceptable level of volatility with the possibility of short-term capital losses for up to seven years from retirement age. From this point the model will automatically gradually start switching the investor to less aggressive / volatile portfolios to minimise capital loss due to negative market returns close to retirement age.

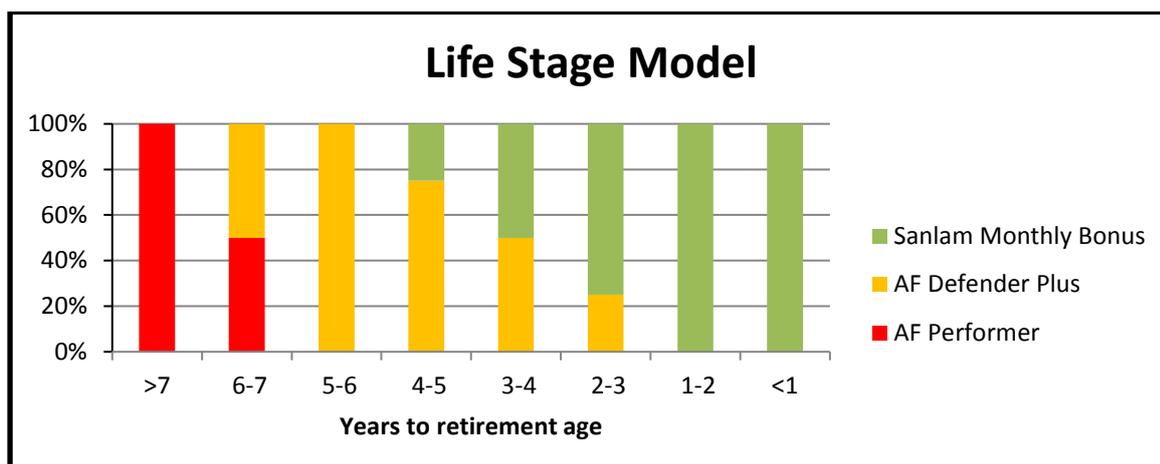
The portfolio range consists of three (3) portfolios, with investment objectives ranging from high risk / high return to conservative risk / medium returns. These portfolios are:

Portfolio	Risk profile	Volatility risk	Return expectation
Alexander Forbes Investments Performer	Aggressive	High	High
Alexander Forbes Investments Defender Plus	Moderate	Medium (50% capital guarantee)	Medium High
Sanlam Monthly Bonus	Conservative	Low (100% capital guarantee)	Medium

The VURF Wealth Builder life stage solution structure is as follows:

Years to Normal Retirement Date	Percentage of Member Share allocated to a Portfolio		
	Alexander Forbes Performer	Alexander Forbes Defender Plus	Sanlam Monthly Bonus
More than 7	100%		
Less or equal to 7, but more than 6	50%	50%	
Less or equal to 6, but more than 5	0%	100%	
Less or equal to 5, but more than 4		75%	25%
Less or equal to 4, but more than 3		50%	50%
Less or equal to 3, but more than 2		25%	75%
Less or equal to 2, but more than 1		0%	100%
Less than or equal to 1		0%	100%

Shown as a chart:



Default regulations

What does the law say?

Default regulations require a default investment portfolio at Fund level. This means that where a participating employer does not have an investment portfolio/s in place, members will automatically enroll into the default portfolio/s as set by the Board of the Fund. The Board of the Fund must be able to demonstrate that the default investment portfolio/s will be appropriate for the member who will automatically be enrolled into the portfolio/s. The Fund's investment policy statement must include the provision of one or more default investment portfolios.

The Board of the Fund considered the following when implementing the default investment portfolio:

- Whether the portfolio is appropriate for the profile of the group of members it is set up for;
- Communication to members must be clear and easy to understand;
- The portfolio must be reasonably priced and the performance must be competitive;
- All fees must be disclosed;
- Passive and active options should be considered; and
- The default must be reviewed annually.

How does the Fund's default work?

The Board resolved to use the Wealth Builder life stage offering as the Fund's default investment portfolio. The default strategy will be reviewed annually by the Board of Trustees.

In conclusion

Participating employers are encouraged to consult with their fund consultant or asset consultant to determine the most suitable investment option for their members.

Please note that the information contained in this booklet does not constitute advice in terms of the Financial Advisory and Intermediary Services Act of 2002 (“FAIS”). If you are in any doubt as to what action to take, please contact your personal financial consultant.

INVESTMENT PORTFOLIOS: INTERPRETATION NOTES

The individual portfolio objectives of each of the proposed portfolios are as follows (source: respective marketing documentation):

MOMENTUM MOM ENHANCED FACTOR 7

Objective:

Maximisation of long-term returns with limited focus on managing the risk of short-term capital loss. All combinations of asset classes are considered and an optimum allocation is selected to achieve this objective with a high degree of certainty. The risk of exposure to losses in the short-term is managed by maximising diversification to investment managers, strategies and asset classes.

Investment Strategy:

To achieve growth, the portfolio is benchmarked against an 85% allocation to local equities and property as well as global equities. Although these asset classes are volatile, they provide returns above inflation over the long-term.

Investor's profile:

This investment portfolio is aimed at members of a retirement fund who are in the accumulation phase of investing. These members would have a long-term investment horizon and can accept volatility with the possibility of short-term capital losses.

Risk Profile:

Conservative	Moderate	Aggressive 
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ALEXANDER FORBES PERFORMER

Objective:

Maximisation of long-term returns with limited focus on managing the risk of short-term capital loss.

Investment Strategy:

The local component of the assets in this portfolio is managed by local investment managers preferred for their skills in timing switches between asset classes within certain trading limits. The investment strategies of these "best-pick" local investment managers are blended with the aim of achieving superior investment returns at below-average risk for this portfolio. The global component is invested in the Global Balanced Portfolio, which has a similar moderate investment profile, with allocation to global equities, bonds, cash and alternative investments.

Investor's profile:

The portfolio is suitable for investors seeking above average real returns over the long-term in order to maximize capital growth at an acceptable level of volatility with the possibility of short-term capital losses.

Risk Profile:

SYGNIA SKELETON 60

Objective:

Maximisation of long-term returns with limited focus on managing the risk of short-term capital loss.

Investment Strategy:

The portfolio is a medium risk multi-asset class global portfolio with a strategic fixed 60% allocation to domestic and international equities, managed on a passive basis. The underlying investments are split-funded across a number of specialist index tracking portfolios. Sygnia manages the asset allocation strategy on an active basis. The aim of the portfolio is to offer investors access to a well-diversified balanced portfolio at the lowest cost possible, while ensuring that the risk profile of the strategy remains consistent over time.

Investor's profile:

The portfolio is suitable for moderate risk profiled investors seeking capital growth over a minimum of three to five year period at the lowest possible fee.

Risk Profile:

ALEXANDER FORBES DEFENDER PLUS

Objective:

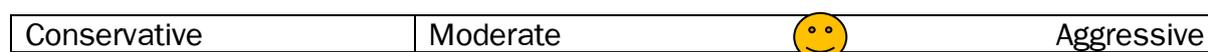
To construct a middle-of-the-range risk and return profile portfolio by combining an aggressive and a real return portfolio.

Investment Strategy:

The portfolio is a blend of the AF Performer, which is a moderate to high risk balanced fund, and the AF Stable Focus Combined, which is a low risk real return fund. It is constructed by combining 50% Performer and 50% Stable Focus Combined to create a portfolio that has a middle-of-the-range risk profile.

Investor's profile:

The portfolio is suitable for investors seeking median returns in exchange for lower volatility of monthly returns, who aim to maximize capital accumulation, without substantial risk of short-term capital losses.

Risk Profile:

SYGNIA SIGNATURE 50

Objective:

Maximisation of long-term returns with a strong focus on managing the risk of short-term capital loss.

Investment Strategy:

The portfolio is a multi-asset class global portfolio with a strategic fixed 50% allocation, i.e. it will always be 50% invested, to domestic and international equities. The underlying investments are allocated to a number of specialist asset managers selected by Sygnia based on their skills, experience, performance and operational and financial soundness. The aim of the portfolio is to offer investors access to the best asset managers in their field, while ensuring that the risk profile of the strategy remains consistent over time.

Investor's profile:

The portfolio is suitable for investors seeking median returns in exchange for lower volatility of monthly returns, who aim to maximize capital accumulation, without substantial risk of short-term capital losses.

Risk Profile:

MOMENTUM MOM ENHANCED FACTOR 4

Objective:

The long-term return objective of this portfolio is inflation plus 4% a year over four-year rolling periods. All combinations of asset classes are considered and an optimum

allocation is selected to achieve this objective with a high degree of certainty. New asset-class opportunities are continually investigated. The risk of exposure to losses in the short term is managed by maximising diversification to specialist investment managers, predominantly active strategies and asset classes.

Investment Strategy:

The portfolio’s objectives are achieved by having a 45% benchmark allocation to local equities and property as well as global equities to achieve growth. The remaining 55% is benchmarked against investments that should preserve the purchasing power of capital.

Investor’s profile:

This investment portfolio is aimed at members of a retirement fund who are nearing retirement. These members would have a short- to medium-term investment horizon and should be invested in less growth and more defensive assets.

Risk Profile:



SANLAM MONTHLY BONUS FUND

The portfolio protects investors against short-term volatility by smoothing out investment returns, whilst providing valuable guarantees on benefit payments. The underlying portfolio is mandated with more weight to less risky asset classes than a typical balanced fund. Fully vesting bonuses are declared monthly in advance.

This is a smoothed bonus portfolio where investment returns are smoothed by way of monthly bonus declarations, thereby lessening the roller-coaster ride that investors in market-linked portfolios might experience. The book value is the value that is guaranteed to be paid out for benefit payments (death, disability, resignation, retrenchment and retirement). The book value is the net contributions accumulated with the bonus rates declared. The market value is the amount obtainable on the open market by the sale of the underlying assets.

Risk Profile:



ALEXANDER FORBES BANKER

The specialist investment managers selected for this portfolio may invest in money-market instruments and cash. Money-market instruments are liquid financial instruments that basically simulate cash, but often give a higher return. The managers

are given specific mandates aimed at providing an investment return above the average of money-market portfolios, while maintaining a high degree of liquidity and capital preservation. They may only be exposed to institutions with an A1 credit rating or better.

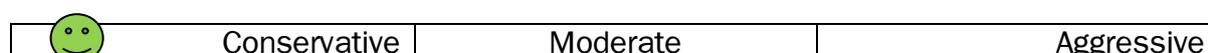
Investment Strategy:

The portfolio’s focus is capital preservation with minimal volatility. It is an alternative to current and savings accounts and is an ideal vehicle to “park” money in the short-term. It is a highly liquid investment.

Investor’s profile:

The portfolio is suitable for investors that are risk averse and/or have a short-term investment horizon.

Risk Profile:



ALEXANDER FORBES SHARI’AH HIGH GROWTH

Objective:

The specialist investment managers selected for this portfolio is invested in both local and international types of investments that are Shari’ah compliant in accordance with Islamic Law. These investments comprise of shares, sukuk and listed property. Investment managers who are specialists in a particular asset class are appointed to invest assets within their area of expertise.

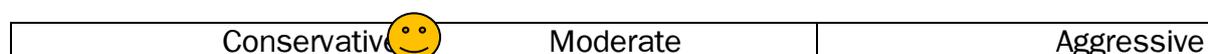
Investment Strategy:

This portfolio is designed to grow an investor’s savings over the long term (six years or more). This portfolio has a low chance of the value of the investment going down over the long term. The value of your investment will go up and down in the short term due to the exclusions as required by Islamic law. This means that there are fewer shares and other types of assets available to invest in, which may result in the portfolio being more volatile over the short term.

Investor’s profile:

The portfolio is suitable for investors who wish to invest in accordance with Shari’ah principles and who aim to achieve above average real returns over the long-term in order to maximize capital growth.

Risk Profile:



ALEXANDER FORBES SHARI'AH MEDIUM GROWTH

Objective:

The investment managers selected for this portfolio is invested in both local and international types of investments that are Shari'ah compliant in accordance with Islamic Law. These investments comprise of shares, sukuk and listed property. Investment managers who are specialists in a particular asset class are appointed to invest assets within their area of expertise.

Investment Strategy:

This portfolio is designed to protect capital while still achieving moderate growth on assets. This portfolio has a low chance of the value of one's investment going down over a three-year period. This means there's a chance that the value of your investment may reduce over the very short term.

Investor's profile:

The portfolio is suitable for investors who wish to invest in accordance with Shari'ah principles and who want to invest for a medium-term investment time horizon (three years) and who want to protect capital while still achieving moderate growth of assets.

Risk Profile:



INVESTMENT PORTFOLIOS: POLICY FEES

Alexander Forbes Portfolios

Portfolio and scale	Local	Global	Combined
Performer			
First R50m or part thereof			0.67%
Next R50m or part thereof			0.60%
Next R100m or part thereof			0.52%
Next R300m or part thereof			0.48%
Balance over R500m			0.45%
Defender Plus			
Flat fee			0.73%
Banker			
First R10m or part thereof	0.40%		
Next R15m or part thereof	0.35%		
Next R25m or part thereof	0.30%		
Next R50m or part thereof	0.25%		
Balance over R100m	0.20%		
Shari'ah Medium Growth			
Flat fee			1.00%
Shari'ah High Growth			
Flat fee			1.10%

Note: Performer and Defender Plus - the investment management fees payable for the management of the offshore assets is an expense against the portfolio and will be deducted from the portfolio before calculating the Unit Price.

Sygnia Portfolios

Portfolio and scale	Local	Global	Combined
Signature 50			
First R50m or part thereof	0.798%	0.912%	
Next R50m or part thereof	0.741%	0.912%	
Next R100m or part thereof	0.627%	0.912%	
Next R300m or part thereof	0.513%	0.912%	
Balance over R500m	0.456%	0.912%	
Skeleton 60 (passive)			
Flat fee			0.39%

Momentum Manager of Managers

Portfolio and scale	Local	Global	Combined
Enhance Factor 4 and 7			
First R25m or part thereof	0.825%	1.00%	
Next R25m or part thereof	0.675%	1.00%	
Next R50m or part thereof	0.600%	1.00%	
Next R150m or part thereof	0.550%	1.00%	
Next R250m or part thereof	0.500%	1.00%	
Balance over R500m	Negotiable	Negotiable	

Sanlam

Portfolio and scale	Local	Global	Combined
Monthly Bonus			
First R100m or part thereof	0.425%	Included	
Next R200m or part thereof	0.375%		
Balance over R300m	0.325%		
Guarantee Premium			1.6% p.a.

Please note that the above numbers reflect policy fees only and do not constitute Total Investment Charge (TIC) numbers.