




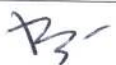

ZIMBABWE ELECTRICITY SUPPLY AUTHORITY STAFF PENSION FUND  
"Retirement Security. Today and Tomorrow"

# **INVESTMENT POLICY STATEMENT**

**THIRD EDITION 31 DECEMBER 2022**

<b>OWNERSHIP AND CONTROL</b>	
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Owner	Board
Custodian	Principal Officer
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## **SECTION 1: GENERAL INFORMATION**

### **1.1 INTRODUCTION**

1.1.1 The ZESA Staff Pension Fund ("the Fund") was established as a Self-Administered Fund with effect from 24 January 1986.

1.1.2 The Fund was established to provide benefits to permanent staff of the Zimbabwe Electricity Supply Authority ("the Employer"). The Fund was established as a Defined Benefit scheme. The Fund had prolonged unsustainable actuarial deficits until a decision was made by the Board to convert the Fund to a Defined Contribution scheme effective 1 January 2020.

1.1.3 This Investment Policy Statement therefore has been revised to a Defined contribution type in line with the conversion of the Fund.

1.1.4 The Investment Policy Statement (IPS) adheres to the requirements of the Pensions and Provident Funds Act Chapter 24.32.

1.1.5 The main objective of the Fund is to provide benefits for employees upon retirement. The Board has also noted that members could leave the Fund prior to retirement for a number of reasons, such as:

- i. Resignation,
- ii. Retrenchment,
- iii. Dismissal, and
- iv. Death

1.1.6 The Fund is a Defined Contribution Pension Fund, which is subject to all the applicable laws and regulations in Zimbabwe.

1.1.7 The members' benefits (Member's Accumulated Credit) are determined as the accumulated value of member and employer contributions towards retirement and any transfers paid by the member, together with investment returns earned, added in accordance with the Rules of the Fund.

1.1.8 In line with the characteristics of a Defined Contribution Fund, members and beneficiaries bear investment risk, which is the risk of investment returns not achieving the required levels.

1.1.9 This document has been prepared to record the issues considered by the Board of ZESA STAFF PENSION FUND ("The Fund") in establishing an appropriate Investment Policy, as well as recording the investment strategy that the Fund will implement, in accordance with the policy.

1.1.10 The Investment Policy document will be reviewed and updated from time to time (*as outlined in the report*) and as circumstances dictate.

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## **1.2 PURPOSE**

*1.2.1 The purpose of this Investment Policy Statement is to outline the process taken by Board in making investment-related decisions. The process illustrates the underlying philosophies and processes for the selection, monitoring and evaluation of the investment strategy and Asset Managers appointed by the Fund.*

1.2.2 The broad aims of this Investment Policy Statement are:

- i. To define the Fund's investment objectives.
- ii. To govern the investment process and guide the Board in the investment decision making process.
- iii. To define the roles of those responsible for the Fund's investments.
- iv. To set out the criteria and procedures, for appointing Asset Managers.
- v. To identify the investment risks faced by the Fund and to recommend methods of managing these risks.
- vi. To establish investment procedures, measurement standards and monitoring procedures.
- vii. To set out any limitations that the Board may have imposed on any asset class or Asset Manager.
- viii. To establish a clear understanding for all parties involved, of the investment objectives for the Fund, specifically to offer guidance and limitations to all Asset Managers regarding the investment of Fund assets.



## **SECTION 2: INVESTMENT OBJECTIVES AND RISKS**

### **2.1 INVESTMENT OBJECTIVES**

Overall, the Fund's investment objective sets out to achieve a real rate of return in order to meet the various objectives as set below. The investment objectives of the Fund are to:

- 2.1.1 Optimize the investment return subject to an acceptable level of risk allowable under each investment option.
- 2.1.2 Offer the Board a suitable range of investment strategies taking into account the Fund's membership and their attitudes towards investment risk.
- 2.1.3 Provide competitive investment returns comparable to investment returns for other similar investment options, bearing in mind the administrative and management costs associated with the Fund's investments.
- 2.1.4 Provide a suitably diversified investment strategy which will meet the risk/return profile of each member.
- 2.1.5 Target a reasonable level of income replacement at retirement for the members of the Fund. In particular, the Board aim to target a pension which would replace approximately 60-80% of the Member's Final Pensionable Salary at retirement for members who join the Fund before age 30 (or an equivalent replacement level of service if the member had joined the Fund at that stage), and
- 2.1.6 Comply with regulatory set benchmarks as advised from time to time.

### **2.2 INVESTMENT RISKS**

#### **2.2.1 Investment risks and the Risk Management Framework and the Risk Appetite statement**

- i. The investment risks stated in this document were mapped from the provisions of the Fund's Enterprise Risk Management (ERM) Framework and the Risk Appetite Statement of the Fund.
  - ii. The risks therefore must be ready concurrently with the ERM Framework and the Risk Appetite Statement of the Fund.
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### **2.2.2 Liquidity Risk**

- i. The Fund will ensure that they balance the need to hold sufficient liquid assets to meet their expected net cash outflows (with particular attention to payment of pension annuities) with the market exposure requirements to maintain suitable returns.
- ii. To minimize the possibility of a loss occasioned by the untimely sale of illiquid assets such as equities when forced to meet a required payment, the Board will periodically provide the Asset Manager with an estimate of expected net cash flows.
- iii. The Board will notify the Asset Manager in a timely manner, to allow sufficient time to build up necessary liquid reserves.

### **2.2.3 Inflation Risk**

- i. This is the risk of nominal returns falling below the rate of inflation, hence a loss in the real value of assets.
- ii. This risk will be reduced by investing in assets that hedge against inflation, that is, real assets such as equities or properties.
- iii. The returns benchmarks will be used to measure the severity of the risk.

### **2.2.4 Capital Preservation**

- i. Capital Preservation is the protection and preservation of the Fund's portfolio assets against loss in real value.
- ii. To achieve Capital Protection, the Fund Board is expected to develop appropriate asset allocation and portfolio composition to consistently achieve and maintain long term real investment returns. Note that this is also used as a performance measurement.

### **2.2.5 Credit risk/Counterparty Risk**

- i. The risk of loss due to the inability or unwillingness of a counterparty to meet their obligations as and when they fall due.

- ii. The Board believe 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 and Fund Management.

### **Counterparty risk management**

#### **a. Investing in Financial Institutions (Banks)**

- ✓ The Fund Board believe that counterparty banks need to be rated and categorized into two tiers.
- ✓ Tier 1 banks are financially good, rated banks and Tier 2 banks, are second rated banks from a financial strength perspective using a performance matrix. The ratios of money market investments in tier 1 banks and tier 2 banks will be **5:3**.
- ✓ The Fund will therefore develop a credit rating matrix and the banks will be reviewed half yearly looking into their attributes as per the rating matrix. Refer to Annexure 1 for the Tier 1 and Tier 2 banks. Total investments in money markets will be **62.5%** tier 1 and **37.5%** tier 2 respectively.

b. Total money markets investments will be a maximum of 15%.

c. Investment in a single bank under tier 1 should be a maximum of **3%** of total Fund and investment in a single bank under tier 2 should be a maximum of **1.125%** of the total fund.

#### **d. Investing in a holding company/ sponsoring employer**

The Fund will invest not more than 10% of total assets in the holding company or a related company that is where its membership is drawn from.

### **2.2.6 Default Risk.**

- i. The risk of default on assets is greater where there is a concentration of investments with counter party or bank.
- ii. The Fund will therefore strive to protect the investments through regular assessment of counter parties and reducing concentration per single counter.

### **Managing default risk**

#### **i. Diversification**

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- a. The Fund will ensure that the investment strategy selected has a suitably diversified set of underlying assets.
- b. The choice of assets will allow for the different risk tolerance levels of members.
- c. The Fund will further ensure that the Fund's assets are managed in accordance with the Pension and Provident Fund Act Chapter 24:32 as well as investment guidelines as issued by the Insurance Pension Commission (IPEC) from time to time.

**ii. Limit of exposure per counter**

- a. The Fund shall not have more than 10% shareholding in a single company.
- b. The Asset Manager shall not invest more than 15% of the Fund values into a single counter.

**iii. Assets quality**

- a. Further protection will be achieved by requiring the vehicles in which Assets are held to be financially sound and compliant with all relevant regulatory and solvency requirements as stipulated by the Commissioner.
- b. The asset manager shall report on the quality of the investment quarterly. The report shall encompass the financial soundness of the company, compliance of the company to the regulations, corporate governance issues and management of the Company.

**2.2.7 Market risk**

- i. The risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and price of properties and equities.
  - ii. The Principal Officer will establish a framework for measuring enterprise level risk for both the Total Fund Portfolio and established benchmarks, including any transition benchmarks employed during asset allocation shifts.
  - iii. At minimum the framework must include quantified estimate of downside risk (e.g., value at risk ("VAR"), estimated shortfall, or parametric and non-parametric statistics.
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- iv. The Principal Officer will monitor the relative positioning of the Total Fund Portfolio against benchmark monthly.

#### **2.2.8 Benchmark risk**

- i. The Fund will adopt appropriate benchmarks against which Fund Management and Asset Managers will be measured. The benchmarks will be structured to be consistent with the Fund's overall investment objectives.
- ii. It is accepted that active management will involve deviating from Benchmarks to allow for additional returns. This introduces active risk, which is the risk of underperforming when measured against the set Benchmark. To reduce this risk, Board will set appropriate ranges of deviation from set Benchmarks from time to time.

#### **2.2.9 Legal risk**

- i. The risk that the investment contracts can expose the Fund to legal issues.
- ii. Legal documentation for all contracts, external Asset Managers, investments in private equities and any other investment contracts will be reviewed by legal counsel and Fund Management.
- iii. Due diligence will ensure that the contracts are legally binding and enforceable in a suitable venue.

### **2.3 Performance Monitoring Framework**

#### **2.3.1 Basis for monitoring performance**

- i. The on-going monitoring of investment options must be a regular and disciplined process.
  - ii. This is the mechanism for revisiting the investment strategy selection process and confirming that the criteria originally satisfied remain in force and that each investment strategy continues to be a valid choice.
  - iii. While frequent change is neither expected nor desirable, the process of monitoring investment performance relative to specified guidelines is a regular, on-going process.
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- iv. The Principal Officer will monitor performance on a quarterly basis with consultation of the actuary when necessary.

**2.3.2 How returns of the Fund should be monitored**

- i. This Investment Policy aims to ensure that member’s assets are invested in the most appropriate and risk-managed manner.
- ii. The investment performance of the portfolios will be measured on the following double benchmark basis.
  - a. The first benchmark is an index benchmark, which compares portfolio performance against general market performance for similar asset class distributions. For instance, the Board will expect the returns from the equities portfolio to perform above the industrial index on the Zimbabwe Stock Exchange.
  - b. The second benchmark compares performance of the Fund’s portfolios against an appropriate peer-group, to compare performance against other similar-mandate asset managers.
- iii. The following benchmarks will be used to measure investment performance.

<b>Asset Class</b>	<b>Return above Benchmark</b>	<b>Return Above Peers</b>
Money Market	Treasury Bill rate	0.25-0.5%
Bonds	Government Bonds rate	1-2%
Equities	1-2% above ZSE	1-2%
Property	1-2% Above market average	1-2%

- iv. The return from unquoted equities will be expected to be 2-3% above that of ZSE or Listed Property Index to match the risk associated with this investment vehicle.
- v. The investment performance should be monitored over the following rolling periods per each risk profile.

<b>Risk Profile</b>	<b>Rolling Period</b>
Money Market	12 Month Period
Bonds	36 Month Period
Property & Equity	36 Month Period

### 2.3.3 Frequency of monitoring and reporting

- i. Reporting will occur on a quarterly basis and will include returns achieved by the assets of the Fund, calculated using a time weighted rate of return formula.
- ii. The performance of the Fund Management and Asset Managers will be measured in terms of their ability to meet required rate of return, rolling over a 3-year time horizon evaluated quarterly. Asset Managers will also be measured relative to appropriate peer group over 3 year rolling period evaluated quarterly.
- iii. Unusual, notable or extraordinary events should be communicated by the Asset Managers immediately to the Board. Examples of such events include strategy manager or team departure, violation of investment guidelines, material litigation against the firm or material changes in firm ownership structure; or announcements thereof.
- iv. This Investment Policy Statement will be reviewed at least annually, and, where appropriate, be amended to reflect changes in the capital markets, Fund membership or other factors relevant to the Fund.
- v. Following the above reviews, if the Board is satisfied with the investment options, no further action is required. However, if areas of dissatisfaction exist, the Asset Manager, under directive of the Board must take steps to correct the cause of the unsatisfactory performance. If, over a reasonable period, the manager is unable to resolve the issue, termination of the strategy or manager may result.

### 2.4 Risk management Compliance Cure Periods and Remedies

- i. **Passive breach-** A passive breach occurs when the portfolio breaches a prescribed asset limit as the result of changing market or credit conditions. The Principal Officer will report the breach to the Board. The Board shall be required to come up with a strategy to remedy the breach within 6 months from the date of the reported breach.
  - ii. **Active breach-** An active breach is caused by entering into an agreement or investment that breaches the asset limit at inception or thereafter through failure to monitor. In this case, a thorough analysis
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of controls and asset allocation will be ensured. The Principal Officer will report the breach to the Board and seek to remedy the breach when possible. In instances where it will be costly to do the correction instantly, the Principal Officer will develop a corrective action plan to remedy the breach within a reasonable time (Not more than 180 days).



## SECTION 3: INVESTMENT STRATEGY AND GOVERNANCE PRINCIPLES

### 3.1 STRATEGY CONSIDERATIONS

The strategy considerations given below are subject to the general Rules of the Fund.

#### 3.1.1 Liability Profile

- i. The liability profile of ZESA STAFF PENSION FUND Pension Fund was based on the 2022 Financial Review results as these were based on the latest audited Financial Statements.
- ii. The liabilities as at 31 December 2022 are as tabulated below;

Liability Profile	31/12/2022
	%
Actives below 40	0.06%
Actives between 40 and 55	17.65%
Actives over 55	16.66%
Pending, Paid Exits & Pensioners	62.15%
Reserves	3.48%
<b>Total</b>	<b>100%</b>

Table 1: Liability profile as at 31 December 2022

- iii. The assets of the Fund should be invested so as to match the liabilities given their differing risks. The broad investment strategy for the major categories of the Fund are outlined below:

#### 3.1.2 Pensioners

- i. The Board aim to match expected pension payments with appropriate bonds and cash holdings.
- ii. This matching will be implemented at the discretion of the Board subject to availability and affordability of matching instruments and so as to ensure a spread of instruments across individual providers. The extent of matching will be subject to on-going review.
- iii. The balance of assets will be invested with the aim of achieving sufficient investment returns to allow for pension increases to be granted at a targeted level of 100% of inflation in accordance with the Rules and the Fund's pension increase policy. This will be achieved by investing in predominantly domestic equities and, offshore portfolios.

- iv. In addition, a small balance will be retained in cash for liquidity purposes.

### 3.1.3 Active Members

- i. Taking the nature of the active member liabilities, the Board will invest the assets in order to achieve the best possible long-term rate of return subject to relative rate of risk. 2
- ii. The strategy will also be continuously reviewed to ensure that it always captures the Fund's investment objectives as well as the underlying liability profile.

### 3.1.4 Asset Mix Considerations from Liability Profile as at 31 December 2022

- i. In order to recommend an appropriate Asset Allocation, it is necessary to analyse the liability profile of the Members and carry out an asset liability modelling exercise.
- ii. This is done below.

Liability Profile	31/12/22	Real assets %	Fixed income %	Recommended asset class
Actives below 40	0.06%	0.06%	0.00%	Mostly real assets
Actives between 40 and 55	17.65%	17.65%	0.00%	Mostly real assets (due to harsh environment, otherwise balance)
Actives over 55	16.66%	4.16%	12.49%	Mostly fixed income
Pending, Paid Exits & Pensioners	62.15%	15.54%	46.61%	Mostly fixed income
Reserves	3.48%	0.00%	3.48%	Mostly fixed income

### 3.1.5 Other limits

- i. Any and all other limits prescribed by legislation (including regulations and/or subordinate legislation and/or circulars) or any subsequent legislation replacing these, must be complied with.

### 3.1.6 GOVERNANCE PRINCIPLES

- i. Good standards of governance should ensure that the Fund's investments are managed appropriately and will collectively reduce the risk of material failure of an investment strategy.
- ii. Governance principles hence define the framework of an investment

policy.

- iii. The Fund is governed by the Pension and Provident Act Chapter 24.32 and Fund Rules.

### 3.1.7 Investment constraints

#### IPEC Guidelines

- i. The Pensions and Provident Act Chapter 24.32 and Statutory Instrument 323 requires a registered fund that is not an insurance company scheme to hold and maintain investment in approved securities, of not less than the prescribed amount, of the aggregate fair value of all its assets in Zimbabwe in--
  - a. local registered securities which are issued or guaranteed by the State or which are issued by a local authority or statutory body; or
  - b. any other assets that may be approved by the Minister from time to time.
- ii. The Minister of Finance amended the regulations to 10% of market value in 2010 and subsequently increased the level to 20% in 2019 in his budget statements which were then put in a circular by IPEC.
- iii. Investment guidelines with new upper limits were issued to the market via circular 2 of 2022 on the 18<sup>th</sup> of January 2022.

Asset Class	IPEC Upper limit
Bonds/ Gvt stocks/Prescribed Assets	40%
Property	40%
Local listed equities	60%
Foreign investments	15%
Unquoted/ Alternative investments	15%
Money Market and Cash	20%
Other	5%

- a. The cash in any one bank should not exceed 5% of total investments.
- b. A Pension Fund should not invest or lend more than 10% to the employer.
- c. No more than 15% of a Fund should be invested in a single bank.

- d. No more than 15% of a Fund should be invested in a single listed equity counter.
  - e. Bonds plus property should not exceed 75%.
  - f. The sum of bonds, property and foreign investments should not exceed 80%.
  - g. Property includes Real Investment Trusts, (REITs).
- iv. Prohibited investments include, but are not limited to the following:
- a. Futures Contracts
  - b. Options
  - c. Short-Selling
  - d. Margin Transactions

### **3.2 INVESTMENT CLASSES OFFERED**

The main investment classes that the Fund would typically consider investing in are cash, shares, bonds, property and alternative investment. The main features of each of these investment classes are discussed below:

#### **3.2.1 Cash**

- i. Cash consists of bank notes, certificates of deposit, call accounts, short term treasury bills etc.
- ii. The principal investment characteristics of cash are:
  - a. It is a short-term investment,
  - b. It has a fixed nominal value and nominal return,
  - c. It is a liquid investment, that is, it can be disposed very quickly, and,
  - d. It generally offers excellent security of the principal investment.
- iii. The above characteristics result in cash being an investment which produces stable, predictable returns in the short term with little risk of default.
- iv. Cash can therefore be seen as a low risk investment but coupled with this lower risk are expected lower returns over the longer term when compared to most other asset classes. We would expect the investment returns on cash to, at best, match inflation over the longer term.

- v. Cash is however a suitable investment class to meet expected benefit payments due in the near future. This is especially the case where the amount of the benefit payment is fixed (or largely fixed) in nominal terms.

### **3.2.2 Shares**

- i. A share (or equity) investment entitles the purchaser to future profits in a company. The company can be either listed on a stock exchange or be unlisted. The investment return from a share consists of dividends and capital appreciation (change in the share's value).
- ii. The principal investment characteristics of shares are as follows:
  - a. There is no investment term and the right to future profits in a company remains as long as the company continues to exist;
  - b. Most companies aim to keep dividends relatively predictable from year to year. However, the market value of a share can be extremely volatile;
  - c. Liquidity depends on the size of the company and whether the share is listed or not. For larger listed companies, shares liquidity is usually very good with smaller unlisted shares being highly illiquid; and,
  - d. The security of a share depends critically on the underlying company.
- iii. The above characteristics result in shares being an investment which tend to produce volatile returns in the short to medium term.
- iv. Over the longer term, a diversified portfolio of shares should provide inflation beating returns.
- v. Shares can therefore be seen as an investment with significantly higher investment risks but coupled with this, higher returns are expected higher inflation beating returns over the longer term.
- vi. A diversified portfolio of shares is a suitable investment class for Liabilities that are expected to increase with, or in excess of, inflation over the longer term.

### **3.2.3 Bonds**

- i. Bonds are long term debt instruments issued by government, local authorities, parastatals and companies.
- ii. Bonds provide a fixed interest payment (or coupon) which is usually payable annually or half-yearly plus a fixed redemption value at the end of the bond's term. The principal investment characteristics of bonds are:
  - a. Bonds have varying terms from as low as 3 years, up to 30 years or longer;
  - b. The coupon payments and redemption values are fixed in nominal terms. Only the prices of the bond vary with changes in interest rates;
  - c. It is a liquid investment i.e. it can be sold very quickly; and,
  - d. Depending on the issuer, bonds offer differing levels of security.
- iii. The above characteristics result in bonds being an investment which produces known investment returns if held until redemption. Bonds carry an inflation risk (i.e. the return on the bond could ultimately be below inflation).
- iv. Bonds are a suitable investment class to meet fixed (or largely fixed) benefit payments due in the medium to longer term.
- v. Bonds are also suitable to meet regular fixed income from coupon payments, for example pension payments.

### **3.2.4 Property**

- i. Property investments involve the purchasing of physical buildings, which are usually rent producing.
- ii. It also involves indirectly investing in property through buying shares from companies that own properties.
- iii. The investment return from property consists of rental payments and capital appreciation (change in the property's value).
- iv. The principal investment characteristics of direct investment of property are:
  - a. There is no investment term as the property can be held indefinitely;

- b. Rentals tend to be stable from year to year often with inflation related increases. The market value of property is usually difficult to determine and is therefore only determined at annual or less frequent intervals. Market values can be volatile but tend to be more stable than those of shares.
- c. The purchase of a single property will require a significant amount of money. Ideally a property portfolio should contain a diversified group of properties for risk management purposes, and this will in turn require a large amount of money. Hence direct property investment is only feasible from a prudent investment viewpoint for investors with significant resources.
- d. Properties are costly to maintain, insure etc., and hence property investment contains significant costs.
- e. Since each property is unique and does not have a readily available market value, property investments are extremely illiquid; and,
- f. The security of a property investment is high given that it is a physical investment but the ownership rights attaching to the property may be less secure.
- v. Property investment is often considered as a mixture between a bond (it provides a steady income stream) and a share (one can expect some inflation related growth in both income and market value).
- vi. Property investment returns should, over the longer term, exceed inflation with a slightly lower return, (coupled with less volatility) than shares.
- vii. The property management decisions shall be done in accordance with the provisions of the Property Management Policy of the Fund.

### **3.2.5 Managed Funds**

- i. A managed fund offers no investment guarantees and the return reflects that achieved on the underlying assets, usually predominately equities.
  - ii. Investing in managed funds therefore offers the Fund exposure to
-

equity returns.

### 3.2.6 Money Market Funds

- i. A money market fund offers no investment guarantees and the return reflects that achieved on the underlying assets, usually predominately cash instruments.
- ii. Investing in a money market therefore offers the Fund exposure to cash returns.
- iii. The term of money market is usually short. It ranges from 1 day to 365 days.

### 3.2.7 Deposit Administration Funds

- i. A Deposit Administration Fund (DA) offers the investor a mixture of guaranteed and a bonus rate of interest.
- ii. The underlying assets of a DA are equities, property and cash.
- iii. To some extent the investment income of DA mimic that of a bond portfolio.
- iv. By and large investing in a DA will give a bond like exposure to the Fund.

### 3.2.8 Offshore investments

- i. The Fund shall make investments offshore in line with the IPEC Investment Guidelines issued in January 2022.
- ii. The permissible investments under the Asset class shall be as follows:

Type of offshore investment	IPEC Upper limit - % of total of offshore investments
Foreign listed equities	60%
Regional and international financial institutions bonds	40%
Sovereign Bonds	30%
Money market instruments	10%

- iii. The total offshore investments have an IPEC upper limit of 15% of the Fund investment assets.
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### 3.2.9 Alternative Investments

- i. The Fund shall invest in private equity/ alternative investments and shall target the following assets:
  - a. Consumer facing companies.
  - b. Mining companies.
  - c. Companies where local currency can be invested to generate foreign currency.

### 3.3 ASSET ALLOCATION

#### 3.3.2 Asset Allocation

In light of the Fund's liability profile as at 31 December 2022, considerations from the asset liability modeling in **paragraph 3.1.4** above and the Regulator's investment guidelines, the following asset mix will be adopted:

Asset Class	Strategic level	Tolerance range
Equity	30%	25%-35%
Property	40%	35%-45%
Money Market	10%	10%-15%
Bonds	15%	15%-25%
Alternative Investments	5%	5%-7.5%
<b>Total Investments</b>	<b>100%</b>	

**N.B:**

*The Fund is a mature fund hence more weight is needed in fixed income/ bonds. The Fund will pursue innovative bonds such as USD linked bonds that can preserve value.*

#### 3.3.2 Investment Profile

The Investment profile as at 31 December 2022 was follows:

Asset Class	Exposure
Equity	8.4%
Property	62.1%
Money Market	0.0%
Bonds	1.1%
Alternative Investments	0.2%
Other Assets: Actuarial Deficit	28.2%
<b>Total Investments</b>	<b>100%</b>

## **SECTION 4: ROLES AND RESPONSIBILITIES**

Those responsible for the investment and administration of the Fund investments include, but not limited to:

### **4.1 THE BOARD**

4.1.1 The Board of the Fund is ultimately responsible for the ongoing operations (including investment operations) of the Fund.

4.1.2 The Board is charged by law with the responsibilities for the management of the Assets of the Fund.

4.1.3 The Board shall discharge their duties solely in the interest of the Fund, with due care, skill, prudence and diligence, acting as if it were their own affairs.

4.1.4 In particular the Board is responsible for:

- i. Adhering to all applicable legislation;
  - ii. Considering the Fund's and its members' financial needs and communicating such needs to the Asset Managers on a timely basis. Also determining the Funds risk tolerance and investment horizon and communicating these to the appropriate parties.
  - iii. Selecting the Asset Managers and come up with a suitable investment strategy for members.
  - iv. Providing Fund members with sufficient information to enable them to make informed decisions on how their retirement contributions are to be invested.
  - v. Establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the Fund's assets and maintaining this Investment Policy Statement.
  - vi. Prudently and diligently selecting qualified investment professionals, including Asset Managers, Investment Consultants and Custodians.
  - vii. Periodically evaluating the Fund's investment performance and that of the individual Asset Managers, based on the levels of risk and associated risk time horizons of the investments.
  - viii. The investment strategy shall be evaluated regularly in consideration of the income replacement ratio of 60% to 80%.
  - ix. The Board can choose to reserve their voting rights for securities in the Fund's name or can choose to allow the Asset Manager to exercise
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these rights on behalf of the Fund.

## **4.2 PRINCIPAL OFFICER**

4.1.1 The Board is assisted by the Fund's Principal Officer, (who, in this case, is the Principal Officer of the Fund).

4.1.2 The Board with the assistance of the Principal Officer are responsible for the governance of the Fund.

4.1.3 The Principal Officer ensures legal compliance and that decisions made by the Board are executed.

## **4.3 CHAIRPERSON**

The Chairperson of the Board is responsible for managing meetings (this includes confirming the agenda and reviewing the minutes), and most importantly, leading the Board impartially.

## **4.4 FINANCE INVESTMENT AND PROCUREMENT COMMITTEE (FIPC)**

The duties of the FIPC is to recommend financial and investment issues to the Board.

## **4.5 ASSET MANAGERS**

The Asset Managers are responsible for making reasonable and prudent investment decisions consistent with the mandate given. Specifically, Asset Managers' responsibilities will include:

4.5.1 Discretionary investment management including decisions to buy, sell or hold individual securities and to alter asset allocation within the guidelines established in this statement.

4.5.2 Reporting, on a timely basis, monthly investment performance results.

4.5.3 Communicating any major changes in economic outlook, investment strategy or any other factors which affect implementation of investment process or the investment objective progress of the Funds investment management.

4.5.4 Informing the Board regarding any qualitative change to investment management organization. Examples include changes in strategy

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management personnel, ownership structure, investment philosophy, risk ratings etc.

4.5.5 Voting proxies on behalf of the Fund and communicating such voting records to the Board in a timely manner. (Unless the Board reserve this responsibility.)

#### **4.6 CUSTODIANS**

4.6.1 The Board may appoint an outside individual or entity, such as a bank, to be a Custodian. Such Custodian must be appropriately registered.

4.6.2 The Custodian will assume fiduciary responsibility for the administration of Fund's assets.

#### **4.7 ADDITIONAL SPECIALISTS**

4.7.1 Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants and others may be employed by the Board to assist in meeting its responsibilities and obligations to administer the Fund's Assets prudently.

4.7.2 The Board have ultimate control over and responsibility for the Fund's Assets. However, they appoint Fund Management as the experts for the day to day investment decisions.

4.7.3 Fund Management will be held responsible and accountable to achieve the objectives herein stated and to operate within the appropriate laws and regulations

## **SECTION 5: SELECTION AND TERMINATION OF ASSET MANAGER'S CONTRACTS**

- ✓ The selection of Asset Managers for the Fund is a primary responsibility of the Board.
- ✓ The Asset Manager selection shall be done in line with the provisions of the Fund's Procurement Policy.
- ✓ The considerations and guidelines employed in fulfilling this fiduciary responsibility are set out below.

### **5.1 MINIMUM CRITERIA**

Each Asset Manager must meet the following minimum criteria:

- 5.1.1 It must be a registered Bank, Insurance Company, Investment Company or an authorized Investment Adviser.
- 5.1.2 It should be in good standing with the Regulators and clients, with no material pending or concluded legal actions.
- 5.1.3 It should, from time to time, provide detailed additional information on the history of the firm, its investment philosophy and approach, and its principals, clients, locations, fee schedules and other relevant information.
- 5.1.4 It must have good governance and compliance procedures in place.
- 5.1.5 It must have a proven track record.

### **5.2 GENERAL CONDITIONS**

Assuming the minimum criteria (stipulated above) is met, the strategy selected by the Board should meet the following standards:

- 5.2.1 Performance should be equal to or greater than the risk-appropriate benchmarks over a specified time period.
  - 5.2.2 Adherences to Investment Discipline – Asset Managers are expected to adhere to the investment management styles for which they were contracted. Asset Managers will be evaluated regularly for adherence to investment discipline, particularly as these relate to the risk profile of the chosen strategy.
  - 5.2.3 Fees should be reasonable compared to similar investments.
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- 5.2.4 The fees should be in line with the IPEC investment guidelines which direct the fees as a percentage based on income earned by the portfolio managed by the Asset Manager.
- 5.2.5 The Asset Manager should be able to provide all information regarding performance and asset holdings.
- 5.2.6 Any use of derivatives by the Asset Manager is to be authorized and approved by the Board.
- 5.2.7 The Board's selection of Asset Managers shall be based on prudent due diligence procedures.
- 5.2.8 A qualifying Asset Manager should be a registered investment advisor.
- 5.2.9 The Board require that each Asset Manager provides, in writing, acknowledgement of fiduciary responsibility to the Fund and receipt of the Investment Policy Statement, its objectives and guidelines.

### **5.3 ASSET MANAGER TERMINATION**

This section covers the termination of an Asset Manager's contract by the Fund.

#### **5.3.1 GROUNDS FOR TERMINATION**

An Asset Manager's appointment should be terminated forthwith by the Board when the manager has failed to carry out either of the following:

- i. Achieve the minimum criteria set out in Section 5.1.
  - ii. Achieve performance and risk objectives consistently on an ongoing basis.
  - iii. Comply with investment guidelines.
  - iv. Comply with legislation or regulations.
  - v. Comply with reporting requirements.
  - vi. Maintain a stable organization and retain key relevant investment professionals, or
  - vii. Instill in the Board the confidence that they have the ability to, inter-alia, comply with and/or perform as anticipated in this Investment Policy Statement.
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### **5.3.2 PROCESS FOR TERMINATION**

The Asset Manager's contract shall be terminated using one of the following approaches:

- i. Remove and replace (map assets) with an alternative manager.
- ii. Freeze the assets managed by the terminated manager and direct new assets to a replacement manager.
- iii. Phase out the manager over a specific time period, or,
- iv. Continue with the manager but add a competing manager.

## **SECTION 6: CASH FLOW INVESTMENT**

### **6.1 INVESTMENT / DISINVESTMENT**

The following investment/disinvestment principles will be followed:

**6.1.1 Investment:** The monthly net positive cash flow for investments will be invested in accordance with the chosen investment strategy.

**6.1.2 Disinvestment:** Disinvestments will take place in proportion to the relevant investment strategy. Measures should be taken to ensure that the Fund is sufficiently liquid at any point in time.

### **6.2 INVESTMENT APPRAISAL CRITERIA**

The following Investment Criteria shall be adopted by the Fund in all its new investments.

#### **6.2.1. Basis of Fund Return**

The returns will be calculated based on a money or time-weighted rate of return formula as recommended by the CFA Institute.

#### **6.2.2 Relative measures for Fund Return**

The total fund return performance of the overall Fund will be measured relative to:

- i. Actuarial rate of interest,
- ii. Funding level,
- iii. Inflation, or
- iv. Investment Policy Statement benchmarks.

#### **6.2.3 Actuarial Rate of Interest**

- i. The Fund total return objective should be at least equal to the Fund's actuarial rate of return on a consistent basis over time.
- ii. This objective is to achieve a rate of return equal to or greater than the Fund's actuarial interest rate.
- iii. If the Fund's assets grow at a rate equal to or greater than the actuarial rate, the Fund's funding condition will be maintained.
- iv. Earning a lower return will generally result in increased levels of contributions. Maintaining the Fund's funded status is conditioned, in part, on the successful implementation of a prudent funding policy.

#### **6.2.4 Funding Level**

- i. The funding level should be in excess of 100%.
  - ii. This objective is to maintain a status of full funding, meaning that the Fund's assets are at least as great as the Fund's liabilities, both as measured by actuarially acceptable methodologies.
  - iii. Full funding provides a higher level of assurance that benefits can be paid from existing assets and expected investment returns.
  - iv. The ability to maintain full funding is conditioned, in part, on the
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successful implementation of a prudent funding policy.

**6.2.5 Inflation**

- i. Total Fund return should exceed the Consumer Price Index on a consistent basis over time (e.g. rolling 3 years).
- ii. This objective is to achieve a positive return above inflation.

**6.2.6 Index Benchmarks/ Peer group**

- i. Total Fund return should match or exceed the performance of appropriate peer-group or index benchmarks i.e. to compare performance against other similar-mandate asset managers.
- ii. This objective is to match or exceed other funds with a similar asset mix, net of all fees and expenses.
- iii. The value added above the peer-group measures the effectiveness of the Fund's investment decisions.

**6.2.7 Summary of Fund performance indicators**

No.	Performance Indicator	Levels
1.	Actuarial rate of interest	Total fund return > or = actuarial rate of interest
2.	Funding level	At least 100%. (Minimum regulatory requirement 75%)
3.	Inflation	Total fund return > 3 year rolling CPI inflation
4.	<b>Benchmarks</b>	
	Equities investments	Industrial Index +1.5%
	Money Market investments	Treasury Bill rate
	Bond investments	Government savings bond rate
	Property Investments	Market average yield +1.5%

**6.2.8 Investment Appraisal- New Projects**

The investment appraisal for new projects shall consider the following aspects:

- i. **Payback period**- The time in years for the projects to pay back the capital invested without assessment for time value of money.
- ii. **Net Present Value**- The project shall be accepted if it has a positive net present value from its stream of cash flows discounted at the appropriate discount rate.
- iii. **Internal rate of return (IRR)**- The discount rate that gives the zero net present value from the project's cash flow streams.

No.	Appraisal Aspect	Benchmarks
1.	Payback period	15 years or less for property projects
2.	Net Present Value	Positive net present value. Expected NPV would also be used.
3.	Internal Rate Return	IRR > cost of capital Minimum 8% in USD terms

**6.2.9 Options/ Alternative methods for appraisal of Special projects**

Over and above the traditional appraisal methods above, the Fund would evaluate new projects under options. These options are:

- i. Abandonment Option
- ii. Deferral Option

iii. Option to Expand

### 6.3 INVESTMENT AUTHORITY LIMITS

The investment authority limits shall be as follows:

Limit Amount USD	Authority
Investment amount of up to 100,000	Fund Management
Investment amount more than 100,000	Board

### 6.4 THE BOARD INVESTMENT STRATEGY

The Board has a prerogative to decide at any point in time to:

- ✓ Outsource investment management services or
- ✓ Manage all or part of the Fund assets internally.

**SECTION 7: ASSET MANAGER REMUNERATION**

7.1 Asset Manager's fees in Zimbabwe shall not exceed 0.8% pa of the market value of the portfolio.

7.2 Either one or a combination of the compensation models below may be pursued:

7.2.1 A basic minimum % fee of market value of Funds under management and or

7.2.2 A performance bonus is determined over a 3-year rolling period. The performance bonus will be equal to a % of managers' outperformance against overall Fund benchmark over the 3-year rolling period subject to a maximum fee. The performance bonus should be calculated by the Fund Actuary, based on a formula as agreed from time to time.

**SECTION 8: MISCELLANEOUS**

**8.1 RESERVE ACCOUNTS AND SURPLUS**

Any surplus accrued in the Fund, as well as any specific Reserve Accounts established by the Board will be invested as decided upon by the Board.

**8.2 MEMBER INFORMATION AND COMMUNICATION**

The Fund will, from time to time, communicate any relevant information to members.

**8.3 CO-ORDINATION WITH RULES OF THE FUND**

Notwithstanding the foregoing, if any term or condition of this Investment Policy Statement conflicts with any term or condition as stipulated in the Rules of the Fund, the terms and conditions of the Rules of the Fund shall apply.

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## 9.0 DISCLOSURE OF VESTED INTERESTS

### 9.1 DISCLOSURE

Within any Fund there is a potential for conflict of interest to arise. The following principles should be followed to ensure that any conflict of interest is disclosed:

**9.1.1** Each Board Member should:

- i. Disclose any actual or potential conflict of interest as far as the investments of the Fund's assets are concerned at each and every Board meeting. If there is no such conflict to disclose, a suitable declaration should be made.
- ii. Declare any financial gain, direct or indirect, accruing as a result of the investments of the Fund.

**9.1.2** Each advisor to the Fund, including both the Investment Consultant and the Actuary (where the Actuary is involved in the selection of Asset Managers or the giving of investment advice), should:

- i. Declare any financial interest, direct or indirect, accruing to them or to their employer as a result of the investment strategy followed by the Fund.
- ii. Declare the level of their independence in giving investment advice.

### 9.2 RESPONSIBLE INVESTMENT POLICY

9.2.1 The Fund undertakes to incorporate the aspects of responsible investing in all asset classes that the Fund invests in.

9.2.2 The aspects of responsible investment shall encompass the following aspects:

- i. **Environmental issues**- All areas in which the Fund is invested shall involve considerations of environmental issues and investments shall be assessed in terms of the investments that minimize adverse impact on:
  - a. Climate change
  - b. Natural resource utilization
  - c. Pollution and waste
  - d. Clean technology and energy efficiency
  - e. Consideration of Environment.

- f. Issue of sustainability.
- g. Biodiversity
  
- ii. **Social issues** – All areas in which the Fund is invested shall involve considerations for social issues (people and relationships) namely:
  - a. Climate change,
  - b. Natural resource utilization,
  - c. Pollution and waste,
  - d. Clean technology and energy efficiency
  - e. Workforce standards and protection
  - f. Customer satisfaction
  - g. Gender and diversity
  - h. Human rights
  - i. Community relations
  - j. Employee engagement
  
- iii. **Governance issues** – standards of running a company covering:
  - a. Board composition, accountability, and executive compensation
  - b. Business ethics and compliance
  - c. Shareholder rights and stakeholder dialogue
  - d. Cyber security
  - e. Internal Controls
  - f. Executive compensation
  - g. Political contributions

**9.2.3 ESG Compliant Investments per asset classes**

<b>Asset Class</b>	<b>ESG factors or target investments</b>
Bonds	Infrastructure bonds – bonds that improve public infrastructure and housing
Equities	Companies that have low to nil carbon emissions Consumer facing companies Exporters or foreign currency generating business
Real Estate	Low-income and affordable housing Shopping Malls which impact community development

	and create employment. Smart Cities Green Buildings Hospitality assets – foreign currency generators and creators of employment
Private Equity/Alternative Investments	Clean energy, Projects that create jobs Export oriented projects generating foreign currency for the country Health care facilities that positively impact society

#### **9.2.4 Investments to avoid as ESG Non-compliance**

The Fund shall avoid investments that result in environmental destruction, disrupt social status and are poorly governed. In particular, the following shall be avoided:

- i. Investments that result in heavy carbon emissions
- ii. Polluters of land, water and air
- iii. Producers and sellers of sin products eg tobacco, drugs, gambling.

#### **9.2.3 ESG Risk Assessment Process**

The ESG risk assessment shall be done as follows:

- i. Carry out ESG assessment by completing the template on ESG risk assessment.
- ii. New investments or projects must be assessed for ESG conformity.
- iii. Non-compliant new investments are to be avoided.

### **9.3 INDEMNITY**

The Board of the Fund is to ensure that they always hold indemnity insurance in accordance with the Rules of the Fund.

### **9.4 LEGISLATION**

This Investment Policy Statement will be governed by and interpreted according to the law of Zimbabwe and the Rules of the Fund. Where any of the provisions of

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this Investment Policy Statement or the Rules shall be found to conflict with or differ from the law, the provisions of the law shall prevail.

**10. CONCLUSION: RESOLUTION OF THE BOARD OF ZESA STAFF PENSION FUND**

This document represents the Investment Policy Statement of the ZESA STAFF PENSION FUND. This document records the issues considered by the Board of the Fund in establishing an appropriate strategy for the Fund and records the strategy.

It is hereby certified that the above resolution has been adopted in accordance with the duties of the Board of the ZESA STAFF PENSION FUND.



\_\_\_\_\_  
Principal Officer

6/7/2023

Date



\_\_\_\_\_  
Committee Chairperson:

6/7/2023

Date



\_\_\_\_\_  
Board Chairperson:

11/07/23

Date

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**Annexure 1: Tier 1 & Tier 2 Financial Institutions as at 31 December 2022**

<b>TIER 1 BANKS</b>	<b>62.5% of Money Market Funds</b>
<b>INSTITUTION</b>	
BancABC	
First Capital Bank	
CABS	
CBZ Bank	
Stewart Bank	
FBC B/Society	
FBC Bank	
Stanbic	
Standard Chartered Bank	

<b>TIER 2 BANKS</b>	<b>37.5% of Money Market Funds</b>
<b>INSTITUTION</b>	
Agribank	
IDBZ	
Nedbank	
NBS	
NMB	
POSB	