



# Investment Policy Statement

Thabo Sanders

## **1. SCOPE AND PURPOSE**

### **1.1. The Context**

Thabo Sanders is the first of three siblings, and part of the first generation in his family to study at a university. His upbringing was in a township with mostly upper lower-class and lower-middle class citizens with little financial literacy. Thabo's family was also conservative in its use of money, and thus generated any returns from excess cash by putting it in savings and investment accounts – this money was mostly used to fund Thabo and his siblings' education.

After Thabo matriculated, he pursued a commerce degree in business management through which he acquired the necessary skills to establish Sanders Deliveries Pty (Ltd) which specializes in delivering groceries as well as hardware items from the local shopping centres to the senior citizens in the township who do not have access to a vehicle or are too old to drive or to carry heavy items. This is Thabo's only source of income.

While this business is still new and entering its growth phase, it has been generating decent profits in recent months. Thabo initially anticipated significant losses due to the Covid-19 pandemic, but his services have actually been in greater demand as his main customers, senior citizens, sought to avoid being out in public to preserve their health. Furthermore, during this period, Sanders Deliveries gained new customers (young and old) as more people sought to take advantage of the delivery service not for convenience but as a health precaution. Nonetheless, Thabo realizes the economic uncertainty of these times and is eager to explore alternative opportunities to generate wealth; his parents are nearing retirement, his siblings are still in high school and he will soon inherit most of the financial responsibility in his household.

### **1.2. The Investor**

Thabo has managed to save R200k in his personal savings account and would like to generate higher returns from what the savings account can offer. This money will be withdrawn and made available to Masters of Investing to create an investment portfolio for Thabo in accordance with his profile as determined by the Personal Investor Profile Questionnaire he completed with Masters of Investing. Following this initial lump sum investment amount, Thabo will continue to make monthly contributions of R2000 (which will accumulate to R24k per annum).

The outcome of the questionnaire determined him as a balanced investor, which means he is seeking steady and sustained growth without the volatility that high-risk investments can bring. Thabo, like all balanced investors, would like to make minimal losses while maintaining sufficient room for growth. He is interested in securities that will appreciate his capital investment while also offering an additional source of income since his income as a self-employed individual is largely unstable.

His investment horizon is five to ten years, which makes him a medium-term investor who is open to moderate risk – in this scenario, minor short-term losses and fluctuations in investment are acceptable provided they can be offset by moderate-to-high gains during the investment period. Moderate overall returns (relative to the market) are expected provided Thabo will not be exposed to the worst possible risk in the market.

### **1.3. The structure**

Masters of Investing has appointed the following team to manage Thabo's portfolio, with these key responsibilities:

- J.M (financial advisor): he is responsible for offering financial advice to Thabo as and when it is needed (or monthly, at a minimum), updating the Investment Policy in accordance

with any changes to Thabo's financial needs and liaising with the broader team to discuss how the portfolio should be amended in light of these changes; he is also responsible for providing feedback to Thabo on the performance of the portfolio, on a monthly basis;

- L.M (market research analyst): he is responsible for analysing market conditions from the sectors and companies that could affect the projected trends of the securities in Thabo's portfolio and providing weekly reports on key findings.
- T.G (economist): she is responsible for monitoring economic conditions locally and internationally (i.e. investment risk) and building models to project how different economic conditions will affect the portfolios of investors who bear a similar profile to Thabo;
- T.R, O.W, M.M & Tawanda Chiringa (portfolio managers): they are responsible for consolidating the findings of the financial advisor, the market research analyst and economist to select appropriate securities for building Thabo's portfolio as well as tracking its performance; they are also responsible for generating weekly reports on the performance of Thabo's portfolio and using quantitative methods to determine the optimal combination of securities to maximize return subject to the accepted level of risk; they are also responsible for updating the portfolio in accordance with the changing Investment Policy by buying or selling securities to meet Thabo's needs.

Phillips and Partners, a commercial law firm, will be outsourced as the legal advisors of the portfolio management team to ensure that all legal requirements securities trading and sourcing market information are met, and that all the terms and conditions of the contract between Thabo Sanders and Masters of Investing are considered at every step of the investment framework that is set for Thabo. They will also ensure that Masters of Investing acts in the best interests of Thabo.

By their signatures below, Thabo Sanders and Masters of Investing acknowledge both receipt of this document and acceptance of its content:



**Investor**  
Thabo Sanders



**Masters of Investing**  
CEO Lerato Biaku

## **2. GOVERNANCE**

### **2.1. Responsibility for determining investment policy, executing investment policy, and monitoring the results of implementation of the policy**

Masters of Investing will determine and execute the investment policy. The investment team will monitor the results of the policy when it is implemented and will also communicate with Thabo Sanders when any issues arise relating to how his money is managed.

### **2.2. The process for reviewing and updating the IPS**

Masters of Investing has a responsibility in reviewing and updating the IPS. The investment team should review the IPS regularly with Thabo Sanders and should suggest any changes to the IPS if it will benefit the Investor.

### **2.3. Responsibility for engaging and discharging external advisers**

Thabo Sanders assigns authority to Masters of Investing to dismiss and retain individuals or firms. Masters of Investing is to disclose in writing to the Investor if they are seeing to hire an external investment manager.

### **2.4. Responsibility for determination of asset allocation**

Masters of Investing should review the IPS on a regular basis and review the asset allocation ranges of Thabo Sander's account. Our team should also suggest any changes to the asset allocation in which will benefit the Investor.

### **2.5. Responsibility for risk management, monitoring, and reporting**

Masters of Investing is responsible for the risk management of Thabo Sander. Our team will be responsible for recognizing variances that may exceed the Investors risk profile limits and should report any such variances.

## **3. INVESTMENT, RETURN, AND RISK OBJECTIVES**

### **3.1. The overall investment objective**

The investment program is meant to provide quarterly income to augment Thabo Sanders' income while allowing sufficient appreciation for a lump sum withdrawal at the end of the 10-year investment horizon.

### **3.2. The return, distribution, and risk requirements**

*The overall investment performance objective:*

For the investment objective to be met, a real return of 8 – 12 percent is required to provide sufficient annual income and meet long-term growth prospects. Thabo will require supplementary income from the investment until his business earnings stabilise. This is expected to be within two years; thereafter, the financial plan should focus solely on growth.

*Performance objectives for each asset class eligible for investment:*

Investments shall be limited to domestic equities listed on the Johannesburg Stock Exchange (JSE) and the following JSE indices may be used as benchmarks for comparison in accordance with the portfolio constructed: All Share (J203), Value (J330), Growth (J331), Small Cap (J202), Mid Cap (J201) and Large Cap (J205).

*Policy portfolio, performance and risk assessments:*

Masters of Investing may invest in Small, Mid and Large cap stocks in accordance with the allocations listed below. The fund may pursue a blended value/growth style which seeks to achieve long-term growth while smoothing out returns over time. The investment manager is responsible for maintaining allocations within stated bands and shall provide reports detailing portfolio compositions and any deviations semi-annually and interim, when requested by Mr Sanders.

Asset Allocation			
	Minimum	Strategic	Maximum
Small Cap	10%	15%	20%
Mid Cap	20%	35%	40%
Large Cap	40%	50%	60%
Style: 1 - 2 yr			
Value	20%	35%	40%
Growth	50%	65%	80%
Style: +3yr			
Value	35%	55%	60%
Growth	30%	45%	60%

### 3.3. The risk tolerance of the investor

Thabo is well-advised on the risk-return nature of investment regarding uncertainty of future returns and the possibility of loss of invested capital. In accordance with his Personal Investor Profile (Appendix), he is willing to accept modest risk that accompanies steady and sustained growth without exposure to excessive volatility that high-risk investments carry.

### 3.4. Relevant constraints

*Evaluation horizon for achievement of performance objectives:*

The investment manager must provide a quarterly account of all investments and semi-annual reports detailing portfolio composition, performance against benchmarks and forecasts. Performance evaluation against investment objectives will be carried out on an annual basis.

*Identify any requirements for maintaining liquidity:*

In line with investment objectives, all dividends paid within the first two years must be paid directly to Mr Sanders' account. The fund must always maintain 5 – 10 percent of market value in liquid securities to meet any emergency cash requirements more than his cash balance. The subportfolio must be such that it can be liquidated in three days at a value close to the greater of market or fair value.

### 3.5. Other considerations relevant to investment strategy

*Special factors to be used in including or excluding potential investments from the portfolio:* Thabo is self-employed and therefore values sustainable business practices, corporate social responsibility, and empowerment. Subsequently, he prefers to invest in organisations that have high Environmental, Social and Governance (ESG) ratings. Also, having grown up in a Christian background, he naturally would like to avoid being invested in sin stocks.

#### **4. RISK MANAGEMENT**

##### **4.1. Performance measurement and reporting accountability**

Masters of Investing, as the financial advisor to Mr Sanders shall calculate the performance of the portfolio and report performance to Mr Sanders on a semi-annual basis, by 01 September and 01 March each year. All calculations of returns shall adhere to the Global Investment Performance Standards published by CFA Institute.

##### **4.2. Metrics for risk measurement and evaluation**

Masters of Investing shall provide Mr Sanders, on a semi-annual basis, the risk associated with his portfolio as measured by the annualized standard deviation of the portfolio returns relative to the different JSE Indices highlighted under Performance objectives. The information ratio using the selected benchmarks of return performance will also be disclosed semi-annually.

##### **4.3. Process for rebalancing portfolio to target allocations**

For the period before 01 September 2021 a representative from Masters of Investing shall submit, on a semi-annual basis, proposals of transactions to return the portfolio to its target allocations and will exercise the transactions after confirmation is received from Mr Sanders. After 01 September 2021 rebalancing will be carried out fortnightly.