



WALTER SISULU UNIVERSITY
INVESTMENT POLICY

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INVESTMENT POLICY

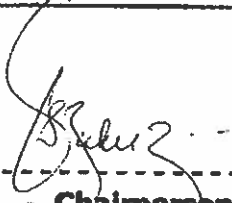
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1. PURPOSE

Walter Sisulu University from time to time has funds that will not be needed to cover its immediate operating or grant expenditure needs. It is in the University's interest to invest surplus funds in investments in the short and medium which will provide optimum returns whilst limiting risk.

2. POLICY OBJECTIVES

The objectives of this Investment Policy are:

- 2.1. To manage the University's investments within the strategic objectives of the University;
- 2.2. To ensure that funds are safeguarded, and credit risk is reduced to an acceptable level;
- 2.3. To ensure that prudent investment principles are consistently applied;
- 2.4. To ensure that investments are placed with reputable institutions;
- 2.5. To ensure that adequate liquidity is always maintained for management of cash flows and funds are available to meet payment obligations on due dates.
- 2.6. To ensure that the University receives an optimal yield on its investments with financial institutions, at minimal risk;
- 2.7. To ensure that restricted funds are managed separately to the University's operational funds.

3. DEFINITIONS

| TERM | DEFINITION |
|-----------------------------|--|
| <i>Accounting authority</i> | University Council |
| <i>Board of Governors</i> | Board established by the University to assist with raising and overseeing funds for investment. |
| <i>Council</i> | Council of Walter Sisulu University |
| <i>CFO</i> | Chief Financial Officer of the University |
| <i>Accounting Officer</i> | Vice-Chancellor and Principal of the University |
| <i>Liquidity Buffer</i> | Funds that are held in cash or near cash that can be realized to meet the short-term cash needs of the University. |
| <i>Major Banks</i> | Standard Bank, ABSA Bank, Nedbank, First National Bank |
| <i>Rating Agents</i> | Agents such as Moody's, Fitch and Standard & Poor |

| TERM | DEFINITION |
|-----------------------|---|
| <i>Rating Table</i> | The table which is issued by rating agents to ascribe credit ratings (reflected under Annexure A) |
| <i>Credit ratings</i> | An analysis of the credit risks associated with a financial instrument or a financial entity |
| <i>Short term</i> | A period of less than twelve months |
| <i>Medium-term</i> | A period of more than 1 year but less than 5 years |
| <i>Long Term</i> | A period of longer than 5 Years |

4. MAIN SOURCES OF FUNDING

The University's main sources of funding are:

- 4.1. Annual subsidy grants from the State;
- 4.2. Student Fees;
- 4.3. Restricted grants for specific purposes; and
- 4.4. Third-stream income that is generated through:
 - 4.4.1. Investments;
 - 4.4.2. Commercial activities;
 - 4.4.3. Charges for services;
 - 4.4.4. Developing intellectual property; and
 - 4.4.5. Donations.

5. INVESTMENT FUNDS

- 5.1. Funds for investment include but are not limited to the following:
 - 5.1.1. Endowments;
 - 5.1.2. Donations;
 - 5.1.3. Funds transferred from Foundations and Trusts previously administered by the University and/or its legacy entities; and
 - 5.1.4. Bequests;
- 5.2. These funds are governed by the Council and/or the Finance Committee of Council ("FCC") and may be invested on a short term or medium basis;
- 5.3. Surplus funds may be invested in money market investments investments according to principles agreed by the FCC. Income shall be reinvested except where a portion is set aside for specific use, e.g. for capital projects or the provision of bursaries; and
- 5.4. Council, on the advice of the FCC, may appoint Investment Managers or Investment Advisors to assist with the management of its investments.

6. RISK MANAGEMENT

- 6.1. Recently South Africa has received low credit rating scores from the major credit rating agencies. The major banks mirror these scores and this means that care must be taken when investing with banking institutions and investments should be spread as much as possible in order to reduce credit risk.
- 6.2. The risks associated with investment and cash management activities must be minimized. Accordingly, any activity which may be construed as speculative in nature is expressly forbidden.

7. APPLICABLE LEGISLATION AND REGULATIONS

Without limiting the applicable legislation, the main legislation and regulatory frameworks are:

- Higher Education Act 101 of 1997 as amended;
- Guidelines for Reporting by Higher Education Institutions; and
- Principles of good corporate governance in terms of King IV Report on Corporate Governance.

8. AUTHORITY AND RESPONSIBILITY

- 8.1. Council is responsible for keeping comprehensive records of all its activities as well as of all assets, liabilities, income, expenditure and other financial transactions;
- 8.2. The FCC shall review this policy every three years and will recommend any changes in this policy to the Council;
- 8.3. The CFO is responsible for implementing this Policy and for ensuring that the investment performance is reported regularly at each FCC meeting.

9. INVESTMENT MANAGEMENT

Permitted investments

- 9.1. Unless expressly approved by Council, deposits with major banks registered in terms of the Banks Act 94 of 1990, as well as banker's acceptance certificates or negotiable certificates of deposit of such banks;

- 9.2. Only investments with approved institutions which have a national short-term rating of F1 and above and/or a national long-term credit rating of AA and above, as determined by Fitch and S&P Rating Agencies; and
- 9.3. Investments must be made on a competitive basis, e.g. quotes should be obtained from banks as to interest rates for notice deposits.

Prohibited investments

- 9.4. Investments in venture capital companies or other similar investments of a speculative nature; and
- 9.5. Unlisted investments, except where a listed company has delisted from the stock exchange.

Limitation on Use of Funds

- 9.6. Transactions may only be conducted with the University operational bank accounts. No disbursements to any party may be made from investment accounts.

Signatories

- 9.7. The FCC will approve signatories for investment accounts. The signatories will include the Vice-Chancellor, DVC: Institutional Support and the CFO.

Establishment of investment limits per institution

- 9.8. Investment limits will be set for individual entities in terms of the following guidelines:
 - 9.8.1. In order to manage risk, investments should be diversified as much as possible within the provisions of the risk limitations of this Policy;
 - 9.8.2. Unless expressly advised by the FCC and approved by Council, no more than 50% of available funds should be placed with any one entity or financial institution;
 - 9.8.3. The creditworthiness of any institution should be formally reviewed at least once a year upon receipt of published financial statements or ratings from approved rating agencies;
- 9.9. For short-term investments the credit rating should not be lower than "A-2" (S&P) or "F1" (Fitch); and
- 9.10. For medium to long-term investments, the credit rating should not be lower than "A" rating for both Fitch and S&P.

10. INVESTMENT PRINCIPLES

Investment Portfolio

- 10.1. The investment portfolio will normally consist of:
- 10.1.1. Investments held to match working capital requirements, which are short-term in nature (i.e. a liquidity buffer);
 - 10.1.2. Segregated investments for designated grants/funds;
 - 10.1.3. Short to medium-term investments;
 - 10.1.4. Investments held to create long term financial sustainability and manage liquidity risks; and
 - 10.1.5. Medium to long-term investments.

Short-term investments

- 10.2. Short-term cash surpluses and specially designated funds may be invested with major banks or approved financial institutions that have acceptable short-term ratings, or in money market funds and notice deposits, depending upon the University's cash flow needs; and

Liquidity Buffer

- 10.3. The CFO and the Vice-Chancellor will determine as frequently as required the liquidity requirements of the University; and
- 10.4. The investment period should be configured to provide sufficient liquidity, including a contingency for unplanned needs.

Monitoring of investment against limits

- 10.5. An Investment Register must be maintained and updated after each investment transaction and submitted to the CFO;
- 10.6. All investment transactions must be accompanied by a credit limit status report; and
- 10.7. Quarterly reporting of all credit limit utilisation is to be included in the Investment report, which is sent to the FCC.

ANNEXURE A

| S&P Long-term Issue credit rating category definition (The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories) |
|---|
| AAA An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. |
| AA An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. |
| A An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong |
| BBB An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. |
| BB; B; CCC; CC; and C Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. |
| BB An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. |
| B An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation. |

S&P Long-term Issue credit rating category definition

(The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories)

CCC

An obligation rated 'CCC' is currently vulnerable to nonpayment, and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

CC

An obligation rated 'CC' is currently highly vulnerable to nonpayment.

C

A "C" rating is assigned to obligations that are currently highly vulnerable to nonpayment, obligations that have payment arrearages allowed by the terms of the documents, or obligations of an issuer that is the subject of a bankruptcy petition or similar action which have not experienced a payment default. Among others, the 'C' rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

D

An obligation rated 'D' is in payment default. The 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within five business days, irrespective of any grace date due, unless Standard & Poor's believes that such payments will be made within five business days, irrespective of any grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to 'D' upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

NR

This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular obligation as a matter of policy.

S&P Short-term issue credit rating category definition**A-1**

A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is

S&P Short-term issue credit rating category definition

strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong

A-2

A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory

A-3

A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation

B

A short-term obligation rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitments.

C

A short-term obligation rated 'C' is currently vulnerable to nonpayment and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

D

A short-term obligation rated 'D' is in payment default. The 'D' rating category is used when payments on an obligation are not made on the date due unless Standard & Poor's believes that such payments will be made within any stated grace period. However, any stated

Fitch Long-term issue credit ratings national long-term credit ratings

"AAA" rating: Denotes the highest rating assigned for that country and is assigned to issuers or obligations with the lowest expectation of default risk relative to all other issuers in the same country.

"AA" rating: Denotes expectations of very low default risk relative to other issuers or obligations in the same country. The default risk inherent differs only slightly from that of the country's highest rates issuers or obligations

Fitch Long-term issue credit ratings national long-term credit ratings

"A" rating: Denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely payment to a greater degree than is the case for financial commitments denoted by a higher rated category.

"+" or "-" may be appended to a National Rating to denote relative status within a major rating category. Such suffixes are not added to the 'AAA' rating category.

Fitch National short-term credit ratings

"F1" rating: Indicates the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same Country. Where the liquidity profile is particularly strong a "+" is added to the assigned rating.

National long-term credit ratings

"AAA" rating: Denotes the highest rating assigned for that country and is assigned to issuers or obligations with the lowest expectation of default risk relative to all other issuers in the same country.

"AA" rating: Denotes expectations of very low default risk relative to other issuers or obligations in the same country. The default risk inherent differs only slightly from that of the country's highest rates issuers.

"A" rating: Denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely payment to a greater degree than is the case for financial commitments denoted by a higher rated category.

"+" or "-" may be appended to a National Rating to denote relative status within a major rating category. Such suffixes are not added to the 'AAA' rating category.

National short-term credit ratings

"F1" rating: Indicates the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same Country.

Where the liquidity profile is particularly strong a "+" is added to the assigned rating.