Investment Policy

Financial Markets Department

Official Gold and Foreign Exchange Reserves Management Investment Policy

November 2020

South African Reserve Bank

Table of Content

1 Definitions

1.1 **Asset Backed Security (ABS)** - a financial security collateralised by a pool of assets such as loans, leases, credit card debt, royalties, or receivables.

1.2 **Base Currency** - the currency in which the portfolio is denominated.

1.3 **Basis point** - a basis point equals one one-hundredth of 1% (.01%).

1.4 **Benchmark** - a notional or reference portfolio comprising investible securities or an investment strategy that reflects the preferred risk position specified in the strategic asset allocation.

1.5 **Broker-dealer** - an organisation that acts as a primary dealer, market maker or broker, when trading securities for its own account or on behalf of its customers.

1.6 **Credit risk** - the risk that a financial loss will be incurred if a counterparty to a transaction does not fulfil its financial obligations in a timely manner.

1.7 **Duration** - a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. Duration can be thought of as a measurement of interest rate risk.

1.8 **Excess returns** - portfolio returns in excess of the benchmark returns.

1.9 **Haircut** - a haircut is the extent to which the collateral must exceed the value of the underlying loan (e.g. 102%). The excess collateral value is to protect against the risk embedded in the assets used as collateral.

1.10 **Highly liquid securities** - assets which can readily be converted to cash while maintaining their market value.

1.11 **Investment Guidelines (IG)** - the guidelines governing the investment of reserves for each portfolio, in order to contain risk taking by portfolio managers and to remain within the risk tolerance.

1.12 **Investment horizon** - the period over which the reserves are expected to be committed for investment, and over which returns, and risks should be managed and measured.

1.13 **Liquidity Risk** - the possible difficulties in selling (liquidating) large amounts of assets timeously. The risk usually arises in adverse market conditions where prices are deteriorating rapidly causing market disorder.

1.14 **Market risk** - the risk that value will be lost due to a change in a market variable, such as the price of a commodity, interest rates or foreign exchange rates.

1.15 **Mortgage-backed security (MBS)** - a type of asset-backed security (ABS) that is secured by a mortgage or collection of mortgages. It is issued by either a federal government agency company, government-sponsored enterprise (GSE), or private financial company.

1.16 **Operational risk** - the risk of loss resulting from inadequate or failed internal processes, people, systems, legal/regulatory and external events.

1.17 **Passive Risk Tolerance** - the risk that the Bank is willing to take when following an index tracking (i.e. passive) strategy.

1.18 **Reporting Currency** - the currency in which the reserves are reported, i.e. US Dollar.

1.19 **Repurchase agreement (repos)** – a short term, collateralised borrowing where a counterparty receives cash from the Bank in return for collateral, generally in the form of government bonds but other asset classes may be utilised, with a promise by the counterparty to repurchase the government bonds at maturity. The cash as well as the interest earned is returned at maturity.

1.20 **Reverse repurchases agreements (reverse repos)** - the opposite of a repurchase agreement; a form of collateralised short-term cash lending where the Bank purchases an eligible security with a predefined commitment to sell it back at an agreed future date.

1.21 **Risk appetite** - the level of risk that the Bank is prepared to accept in pursuit of its objectives.

1.22 **Risk budget** - the maximum risk tolerance expressed as tracking error allocated to an investment portfolio within which active trading can take place.

1.23 **Securities lending programme** (SLP) - securities lending involves the temporary exchange of securities, usually for other securities (securities collateral) or cash of an equivalent value (cash collateral), with an obligation to redeliver a quantity of the same securities at a future date. Most securities lending is structured to give the borrower legal title to the securities for the life of the transaction even though, economically, the terms are more akin to a loan. The borrow fee is generally agreed in advance and the lender has contractual rights similar to beneficial ownership of the securities, with rights to receive the equivalent of all interest payments or dividends and to have equivalent securities returned.

1.24 **Settlement risk** - the risk that the counterparty may fail to settle its transaction obligation on the due date.

1.25 **Standard deviation** - a measure to quantify the amount of variation or dispersion around the mean for a particular data set (e.g. asset returns). It is calculated as the square root of the variance.

1.26 **Strategic asset allocation** (SAA) - a portfolio strategy that involves setting target allocations for various asset classes.

1.27 **Tracking error** - a measure of the risk in an investment portfolio that is due to the active management decisions made. Specifically, it is a measure of risk that quantifies how closely a portfolio follows the index against which it is benchmarked. It is calculated as an annualised standard deviation of the excess returns over the benchmark.

1.28 **Value-at-risk (VaR)** - a measure of market risk and is a measure of downside risk exposure expressed in a specific currency. It reflects an estimate of the maximum loss which can occur with x% confidence level over a selected time horizon. It should be noted that VaR is based on probabilities, so cannot be relied on with certainty, and as it is a measure of volatility, the greater the volatility the higher the probability of loss. The Bank measures VaR over a 10-day horizon with a 99% confidence interval.

2 Policy statement

2.1 The Governors' Executive Committee (GEC) has the authority to establish, approve or amend policies of the South African Reserve Bank (the Bank) or, where applicable, policies of the Group (i.e. the Bank and its subsidiaries). This Investment Policy (IP) has been considered and approved by the GEC as being most appropriate to support the effective and efficient achievement of the Bank's objectives, while being fair to all stakeholders and in line with sound governance principles.

2.2 In exceptional circumstances, however, the GEC may exercise its prerogative in deviating from the stipulations of this policy when it believes it is in the best interest of the Bank. Such deviations will be formally documented, approved and implemented in a controlled, objective, equitable and fair manner, in line with the values and objectives of the Bank.

2.3 In accordance with its role as a central bank and the South African Reserve Bank Act 90 of 1989 (SARB Act), the official gold and foreign exchange reserves (reserves) of the Republic of South Africa (South Africa) are held and managed by the Bank.

2.4 Reserves play a key role in ensuring that South Africa will be able to service its foreign exchange liabilities, maintain confidence in its monetary, financial stability and exchange rate policies, and protect the economic well-being of South Africa in the event of external shocks.

2.5 The Financial Markets Department (FMD) is responsible for the management of the reserves, considering the aforementioned objectives of holding such reserves. The IP provides a framework within which the Reserves Management Committee (Resmanco) sets risk parameters at portfolio level, while the FMD manages these portfolios under the guidance of the relevant Deputy Governor within the reporting structure of the Bank.

2.6 The FMD is at all times required to have documented and established processes in place to give effect to the principles espoused in the IP. It is the responsibility of the FMD to ensure compliance with this IP and the Bank's Investment Guidelines (IG), to manage the risks associated with the management of reserves, to monitor performance, and to report on the Bank's reserves management activities on a regular basis as set out in clause 8.3.

3 Investment Policy objectives

3.1 The objectives of the IP are to:

3.1.1 define the approach and framework governing the management of reserves; and

3.1.2 define the governance structures, roles and responsibilities pertaining to reserves management operations.

4 Scope of the Investment Policy

4.1 The IP provides a strategic framework that guides the FMD, Resmanco and the Risk Management Committee (RMC) in their respective roles in the reserves management process. It specifies, among other things, the aggregate tolerance parameters of the Bank for the management of the reserves and the eligible asset classes. In addition to this, the strategic asset allocation (SAA) and the IG outline the specific risk parameters and allocations that guide the investment of reserves.

4.2 This IP is subject to credit risk, market risk and operational risk concepts, which are embedded, and defined in greater detail, in the Bank's Financial Risk Management Policy (FRMP).

4.2.1 Credit risk

4.2.1.1 Issuer risk is the risk of an issuer or borrower defaulting and not being able to fulfil its obligations such as coupon payments, interest payments or principal repayments. Issuer risk is monitored by the FMD using market data and credit rating agencies' indicators. Issuer risk is managed by specifying percentage holding limits per credit rating category. There is ongoing monitoring of issuer limits and credit risk exposures. Risk models are built to capture credit spreads, credit limits and ratings of issuers such that issuer risk monitoring is enhanced beyond the rating agencies' credit score. More dynamic measures are also used, such as credit default swap spread analysis, to determine the markets' perception of a default associated with issuer counterparties.

4.2.1.2 Counterparty credit risk arises due to the fact that a counterparty to a transaction could fail to honour its obligation before the final settlement of the transaction's cash flows. Counterparty risk stems from trading partners rather than borrowers and includes pre-settlement risk, settlement risk and replacement risk. Pre-settlement risk is the risk that the counterparty may default prior to the transaction's final settlement date. Settlement risk is the risk that the counterparty may fail to settle its transaction obligation on a due date.

4.2.1.3 The Bank strives to adopt adequate and prudent credit risk management strategies which aid in preserving the foreign reserves by ensuring that the Bank invests in high credit quality instruments. This is largely achieved by setting an overall credit risk appetite for the Bank, articulated in Annexure C, which translates into a minimum composite credit rating of A. The credit risk appetite is further prescribed per sector and issuer or security in the IG of the individual portfolios.

4.2.1.4 The Bank will minimise concentration of credit risk by diversifying the investment portfolios such that the impact of potential losses stemming from any one type of security or issuer is minimised. Moreover, exposure limits pertaining to the risk of issuers, asset classes, industry sectors and certain rating categories are specified in the IG for each portfolio.

4.2.1.5 Over-the-counter derivatives, securities lending, repurchase agreements and reverse repurchase agreements provide for early termination of the contract should a specific trigger event occur such as a specific downgrade, merger or acquisition.

4.2.1.6 Counterparty credit risk is further mitigated through minimum collateral requirements and netting-off arrangements with certain counterparties and for securities lending agents, usually through the International Swaps and Derivatives Association (ISDA) master agreements. In addition, the use of exchange-traded derivatives, legally segregated custodial and securities lending accounts and indemnity arrangements further mitigate counterparty settlement risk.

4.2.1.7 The Bank will limit investments to the types of securities listed in Annexure A of this IP, and establish pre-qualifying financial institutions, broker-dealers, intermediaries and advisors with which the Bank will conduct business.

4.2.1.8 The creditworthiness of eligible issuers will be monitored through market indicators. Credit risk is continually assessed at counterparty and aggregated levels through ratings issued by credit rating agencies as well as dynamic FMD models and tools.

4.2.2 Market risk

4.2.2.1 Market risk in respect of foreign reserves is measured, managed and monitored by calculating risk metrics such as duration, value-at-risk (VaR), conditional value-at-risk (CVaR) and tracking error, and reported on using these risk metrics. The FMD values its financial assets at fair value on a daily basis. Other quantitative methods used to assess and analyse market risk can include stress testing and scenario analysis.

4.2.3 Operational risk

4.2.3.1 Operational risk is managed through principles and activities as set out in the Operational Risk Management Framework to ensure that effective control measures are in place. The RMC and Resmanco have an oversight role in how operational risk is managed within the FMD.

4.2.3.2 For its externally managed investment portfolios, the FMD requires external fund managers to provide their Statement on Standards for Attestation Engagements (SSAE) No. 16 for purposes of reporting on their design of internal controls and their operational effectiveness.

5 Investment Policy principles

5.1 Investment objectives

5.1.1 The objectives for the management of reserves are, in order of priority, as follows:

5.1.1.1 Capital preservation: Safety of the principal amount invested is the foremost investment objective. Investments shall be undertaken in a manner that seeks to preserve the capital value of the overall portfolio over the investment horizon, subject to the approved risk tolerances.

5.1.1.2 Liquidity: Investment management shall seek to ensure that adequate reserves are available to meet a defined range of objectives. In order to maintain sufficient liquidity, reserves shall be invested largely in securities with an active secondary market.

5.1.1.3 Returns: Subject to the capital preservation and liquidity constraints stated above, the reserves shall be invested with the objective of achieving a reasonable return which is consistent with the investment objectives and risk constraints.

5.2 Adequacy, optimality and trancing of reserves

5.2.1 The Bank shall aim to maintain an adequate level of reserves at all times. The adequate level of reserves is the amount of reserves a country needs to hold in liquid assets in order to cover known and likely trade and debt obligations. It can be viewed as the minimum required reserves holding.

5.2.2 Additionally, the optimal level of reserves includes the provision for unanticipated obligations, taking into account the cost of holding reserves. The difference between adequate and optimal reserves can be viewed as a safety buffer. An optimal range for the level of reserves shall be calculated and reviewed annually using generally accepted models.

5.2.3 The optimal amount of reserves is determined by using various factors that include, among other things, the South African government's short-term external debt, probability of a sudden stop of capital inflows, imports, exports and gross domestic product growth, and the cost and return of holding reserves.

5.2.4 The Bank does not target any specific level of reserves to guide its accumulation strategy; instead it uses the calculated optimal range as a guideline.

5.2.5 The reserves shall be divided into two tranches, namely the Liquidity Tranche and the Investment Tranche. The Liquidity Tranche size is determined by the adequate level of reserves. Amounts in excess of this are allocated to the Investment Tranche.

5.2.6 The Liquidity Tranche is invested in highly liquid securities to ensure the timely availability and capital preservation of reserves.

5.2.7 The Liquidity Tranche is subdivided into four sub-tranches, namely the Special Drawing Rights (SDR) Sub-tranche; the Gold Sub-tranche; the Working Capital Sub-tranche and the Buffer Sub-tranche.

5.2.8 The SDR Sub-tranche is focused on the special needs of the Bank in respect of South Africa's membership of the International Monetary Fund (IMF). SDRs can also be exchanged for currencies of the IMF member countries during crisis events and, as such, are viewed as insurance against unforeseen events.

5.2.9 The Gold Sub-tranche is a function of South Africa's willingness to hold gold as a special reserve instrument. Given gold's high liquidity, its diversification benefits and its role as a form of currency, it is used as insurance against unlikely but potentially extremely damaging economic events.

5.2.10 The Working Capital Sub-tranche provides liquidity for short-term liabilities and cash management needs.

5.2.11 The Buffer Sub-tranche caters for unforeseen liquidity needs and serves to replenish the Working Capital Sub-tranche as and when required.

5.2.12 The Investment Tranche aims to enhance the returns on the reserves portfolio and to cover longer-term contingencies consistent with South Africa's overall macroeconomic and financial stability policies. It is invested in higher yielding securities in order to enhance the return of the portfolio, while still recognising the capital preservation and liquidity objectives.

5.3 Investment strategy

5.3.1 The Gold Sub-tranche is passively managed but can be actively managed when market conditions permit, while the Working Capital Sub-tranche, Buffer Sub-tranche and Investment Tranche are actively managed, within specified risk and asset allocation tolerance levels.

5.4 Leverage and the use of derivative instruments

5.4.1 Leverage of the reserve's portfolio is not permitted. Leverage in this context means the use of borrowed funds to purchase an asset, with the result that the market value of tradable securities in an individual portfolio may exceed the total market value of the portfolio.

5.4.2 Investments can be made in derivative instruments only if explicitly authorised by Resmanco and specified in the IG. Derivatives may be used to reduce transaction costs or when they are more efficient to trade than the underlying instrument.

5.4.3 Short selling of eligible financial instruments (Annexure A) is prohibited.

5.5 Currency composition

5.5.1 The currency composition of the Liquidity Tranche takes into account the currency exposure of imports and debt service obligations of the South African government's short-term external debt (i.e. over the following 12-month period). The currency composition shall be reviewed annually (or when deemed necessary), following consultation between the Bank and National Treasury (NT).

5.5.2 The currency composition of the Investment Tranche is determined as part of the SAA decision, subject to the appropriate risk-return optimisation process, which is reviewed from time to time.

5.5.3 The list of eligible investable currencies (Annexure B) is set per portfolio, per tranche and detailed in the IG.

5.6 Strategic asset allocation and the role of IG

5.6.1 The SAA determines the optimal asset allocation of the Bank's reserves while recognising the risk tolerance and liquidity constraints of the Bank. It sets the tranche sizes, currency composition, appropriate asset classes, and assesses the expected risk and return over the relevant investment horizon. These parameters are specified at tranche level. Hence, each tranche has its own asset mix aimed at achieving the investment objectives of the tranche. The SAA is rebalanced annually with a comprehensive review occurring triennially or as necessary.

5.6.2 The GEC approves the Bank's SAA on Resmanco's recommendation. The SAA allows for specific approval of the passive risk tolerance represented by an optimal blend of benchmark portfolios. In addition, it contains the overall risk budget for the active management of the reserves.

5.6.3 Market benchmarks are selected to replicate the SAA and form part of the IG. The tracking error and IG are determined and allocated on the basis of the risk tolerance for each portfolio. A selected benchmark is a reference portfolio comprising investible securities or an investment strategy that reflects the preferred risk position specified in the SAA. The overall risk budget (the tolerance level for intended deviation from benchmarks by the portfolio managers) is set at the SAA level and then allocated to individual portfolios by Resmanco. It must be noted that the risk budget allocated to individual portfolios is not additive at SAA level, due to the effect of diversification.

5.6.4 The IG serve to govern the investment of reserves per portfolio in order to control risk taking by portfolio managers and to ensure risk levels remain within the risk tolerance of the Bank. Benchmarks, IG and tracking error allocation per portfolio embody the overall risk tolerance assigned for the management of reserves. The risk budget is allocated to each portfolio that is actively managed, in line with that portfolio's contribution to total risk.

5.6.5 Resmanco approves the IG per investment portfolio, which are then transferred to the FMD for appropriate internal and external fund manager distribution.

5.7 Portfolio management

5.7.1 The reserves are segregated according to the SAA and managed as individual and independent portfolios. Portfolios are allocated to internal and external fund managers.

5.7.2 The Bank employs internal portfolio managers to manage the reserves, develop and enhance portfolio management skills within the Bank, and gather market intelligence.

5.7.3 Internal fund managers present a review of internal portfolio performance to Resmanco on a quarterly basis, or more frequently if requested by Resmanco.

5.7.4 Resmanco approves the appointment and termination of external fund managers. The objective of employing the services of external fund managers is to add value to the reserves portfolios through the diversification of strategies, to transfer skills and build capacity for internal portfolio managers and, where appropriate, to benchmark internal portfolio managers. Furthermore, external fund managers are also hired in order for the Bank to invest in asset classes that require a more sophisticated infrastructure than that available within the Bank.

5.7.5 The Bank hires external fund managers in line with its procurement policy and corporate governance principles. The Bank employs external fund managers for a minimum period of three and a half years as this period is generally seen as appropriate to assess the overall performance of a fund manager. Resmanco can, however, decide to terminate the mandate earlier should circumstances warrant.

5.7.6 External fund managers are contractually obligated to present annual portfolio performance reviews at the South African Reserve Bank Head Office.

5.7.7 Resmanco shall conduct a mid-term review of the external fund management programme at least 18 months after the commencement of the cycle mentioned in 5.7.5, focusing mainly on performance measurement as well as compliance concerns. In addition, Resmanco shall, prior to the expiration date of the cycle mentioned in 5.7.5 conduct a comprehensive quantitative and qualitative review of the external fund management programme.

5.8 Performance Measurement

5.8.1 In order to establish the success of actively managed portfolios, the Bank shall measure the performance of the portfolios against their respective benchmarks, and submit performance reports as per periodic requirements to the appropriate stakeholders.

5.8.2 Portfolio performance measurement shall be conducted in adherence with the Global Investment Performance Standards (GIPS)[1]. The key performance metrics employed to

[1] The GIPS standards are a voluntary set of standards based on the fundamental principles of full disclosure and fair representation of performance results. They were created by the CFA Institute to provide an ethical framework for the calculation and presentation of investment performance history.

measure active return performance shall be alpha and target alpha, wherein alpha refers to the portfolio's outperformance relative its benchmark.

5.9 Securities lending

5.9.1 Securities lending involves the temporary exchange of securities, usually for other securities (securities collateral) or cash of an equivalent value (cash collateral), with an obligation to redeliver a quantity of the same securities at a future date. The lender receives a fee from the borrower for lending securities. Where a lender accepts cash as collateral the cash is reinvested to generate a return. The objective of the Bank's Securities Lending Programme (SLP) is to earn revenue in order to defray the cost of custodial and external fund management fees. The objective of the Bank's SLP is secondary and subject to the Bank's investment objectives, as defined in clause 5.1.

5.9.2 Resmanco approves the Bank's SLP, its agent and the IG for the SLP, including its risk tolerance parameters, all in accordance with the risk philosophy of the Bank. The Bank reviews its SLP and the agent when required, in line with its corporate governance principles.

5.9.3 The GEC approves the size of the Bank's SLP.

6 Investment risk tolerance

6.1 Investment risk tolerance parameters are determined at tranche level because each tranche has its own objectives, expected holding period and associated risks. The objectives are translated to broad overarching tolerances which are listed below. Detailed parameters are specified in the IG of each portfolio.

6.2 The Working Capital Sub-tranche investment horizon is limited to one month.

6.3 The Buffer Sub-tranche investment horizon is limited to one year.

6.4 The Investment Tranche has a three-year investment horizon.

6.5 The actively managed Buffer Sub-tranche and the Investment Tranche are allocated a total active risk budget of 50 basis points (i.e. an ex ante tracking error of 50 basis points).

6.6 Resmanco approves the allocation of the risk budget per individual portfolio.

6.7 The Buffer Sub-tranche should be invested in order to maximise returns subject to limiting the probability of negative returns (in base currency terms) to no more than 1 per cent over a one-year investment horizon. However, should negative returns be inevitable, in the context of safety of capital the investment tranche should be invested in such a manner that the overall reserves do not generate negative returns.

6.8 Similarly, the Investment Tranche should be invested with the objective of maximising returns (in base currency terms) subject to limiting the probability of negative returns to no more than 1 per cent over a three-year investment horizon.

7 Reserves management framework

7.1 The FMD should at all times have a reserves management framework that facilitates the integration of all investment management structures, processes and associated activities. The broad elements of the framework, namely the governance of reserves management and the reserves management universe are described in the following sections.

8 Governance of reserves management

8.1 The GEC delegates to Resmanco through the IP, SAA and the terms of reference document, the authority to define the parameters for the investment of the reserves and to oversee the management of foreign exchange reserves.

8.2 The FMD, under the guidance of the relevant Deputy Governor within the reporting structure of the Bank, is responsible for the management of the reserves in accordance with the criteria set out in the IP, the SAA, the IG and the implementation of other prescriptions of the GEC and Resmanco.

8.3 Reporting

8.3.1 The FMD must submit monthly and quarterly risk reports to Resmanco. It must also report quarterly to the RMC of the Bank on risk and to the GEC on the performance of the reserves portfolios.

8.3.2 The FMD must provide the Bank's Board of Directors with an annual report on the reserves management activities.

8.3.3 Within five working days of every month end, FMD must release a public notice on the level official gold and foreign exchange reserves of the Bank as at the end of the previous month.

9 Reserves management investment universe

9.1 Details of the permissible instruments for both internal and external portfolio managers are listed in Annexure A.

9.2 Annexure C details the credit risk guidelines used when selecting investments.

10 Control activities

10.1 In line with the committee's terms of reference, Resmanco is responsible for the oversight of the FMD with regard to the investment of the reserves, with the FMD reporting directly to the relevant Deputy Governor within the Bank's reporting structure.

10.2 The Head of FMD ensures that effective internal controls and an organisational structure exist, such that the reserves are managed in a sound and prudent manner and in accordance with the IP and IG. The Head of FMD therefore uses a governance process that:

10.2.1 establishes the appropriate segregation of duties between related units in the FMD with regard to the execution of portfolio transactions, compliance monitoring, risk and performance measurement, trade settlement and accounting;

10.2.2 delegates specific and clearly defined responsibilities and accountabilities to each business unit in the FMD;

10.2.3 promotes adherence to the code of ethics governing staff;

10.2.4 provides adequate information technology (IT) support for reserves management activities; and

10.2.5 reviews the Internal Audit Department (IAD) findings which oversee adherence to policies, procedures, roles and responsibilities and, where appropriate, implement relevant recommendations.

10.3 In the event of an emergency situation, the relevant Deputy Governor, in consultation with the Governor, may override the prescripts of this IP and all other related policies and guidelines, subject to reporting any such actions to Resmanco and the GEC as soon as possible after such actions have been taken.

11 Custodians

11.1 Resmanco approves the appointment and removal of custodians for the purpose of providing custody services for the Bank. Custody services for the Bank's reserves include safekeeping, trade settlements, position reporting, processing corporate actions, collecting and distributing coupons, tax reclaim services, fund administration and, on occasion, providing market news and information.

11.2 The Bank reviews its custody service arrangements as and when required, in line with its corporate governance principles.

12 Review of the Investment Policy

12.1 The FMD shall review and propose to Resmanco any possible changes to this IP when deemed necessary, subject to a regular governance related review every three years. Resmanco will approve any proposals to be put forward for consideration by the GEC.

13 Annexure A: List of eligible instruments

The Bank is authorised to transact in the following financial instruments with specific parameters outlined in the IG:

- Gold: The Bank is authorised to hold a portion of its reserves in gold. The gold will be stored at GEC-approved storage facilities, both within South Africa and abroad.

- Government securities: Marketable bonds and other obligations issued or unconditionally guaranteed by the sovereign government of a country (including inflation-linked bonds).

- Government agencies, states (provinces), multilateral organisation securities (supranational), marketable bonds and other obligations issued or unconditionally guaranteed by an agency of a sovereign government of a country or by multilateral organisations.

- Banks' and other financial institutions' short- and long-term securities.

- Interest rate and foreign exchange derivatives, as specified in the IG, are permitted for efficient portfolio management purposes (i.e. hedging, rebalancing, and managing currency, duration, yield curve and credit exposures).

- Repurchase agreements (repos) and reverse repurchase agreements (reverse repos): The eligible securities comprise securities which the Bank is authorised to obtain.

- Foreign exchange: Currencies eligible for investment as authorised in the IG.

- Corporate, asset-backed and covered securities: Any marketable bond, note or other obligation or security (including securities that are asset-backed securities) issued or unconditionally guaranteed by a legal entity or trust.

- Mortgage-backed securities (MBS): Agency MBS.

- Money-market mutual funds.

Other asset classes as may be expressly authorised by the GEC.

14 Annexure B: Eligible currencies

Currencies
Australian dollar (AUD)
British pound (GBP)
Canadian dollar (CAD)
Chinese renminbi (CNY)
Danish krone (DKK)
Euro (EUR)
Japanese yen (JPY)
New Zealand dollar (NZD)
Norwegian krone (NOK)
Swedish krona (SEK)
Swiss franc (CHF)
South Korean won (KRW)
Singapore Dollar (SGD)
US dollar (USD)

15 Annexure C: Credit risk guideline

15.1 Only ratings issued by the rating agencies Standard and Poor's, Fitch Ratings and Moody's shall apply, and securities and issuers must be rated by at least two of these rating agencies. In the event that a security is rated by only two of the rating agencies, the lower of the two credit ratings will apply. If the security is rated by all three rating agencies, all three of the ratings must be above ‘A‘, whilst the lower of the two highest ratings will apply.

15.2 Securities or issuers of securities rated below ‘A’ or ‘A-1’ are not permitted. Unrated securities of qualifying issuers (i.e. rated ‘A’ or ‘A-1’ and above) will assume the issuer ratings according to the corresponding debt rank level. Counterparties must meet the minimum long-term credit rating by any two of the following rating agencies: Standard and Poor’s, Fitch Ratings and Moody’s, and the counterparty’s credit rating must be at least single ‘A’.

15.3 Further credit rating stipulations per asset class and issuer are set out in the IG for each portfolio.

15.4 Resmanco is responsible for the methodology for the selection and review of counterparties, while the FMD is responsible for the implementation of the methodology.