NOTICE 1503 OF 2005

FINANCIAL SERVICES BOARD

COLLECTIVE INVESTMENT SCHEMES CONTROL ACT, 2002

DETERMINATION OF SECURITIES, CLASSES OF SECURITIES, ASSETS OR CLASSES OF ASSETS THAT MAY BE INCLUDED IN A PORTFOLIO OF A COLLECTIVE INVESTMENT SCHEME IN SECURITIES AND THE MANNER IN WHICH AND LIMITS AND CONDITIONS SUBJECT TO WHICH SECURITIES OR ASSETS MAY BE SO INCLUDED

Under sections 40, 46 and 85 of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), I, Robert James Gourlay Barrow, Registrar of Collective Investment Schemes, hereby determine in the Schedule in respect of a collective investment scheme in securities –

(a) the portfolios in which securities, classes of securities, assets or classes of assets may be included;

(b) the securities, classes securities, assets or classes of assets that may be so included; and

(c) the manner in which and the limits and conditions subject to which securities, classes of securities, assets or classes of assets may be so included.

R J G BARROW
REGISTRAR OF COLLECTIVE INVESTMENT SCHEMES

SCHEDULE

Definition

1. In this Schedule –

"**assets in liquid form**" means -

(a) any amount of cash consisting of Reserve Bank notes and coin;

(b) any instrument determined in Chapters III and IV; or

(c) participatory interests in money market portfolios referred to in Chapters III and IV,

which is capable of being converted into cash within seven days, provided that any exposure to an entity created through the inclusion of assets in liquid form must be added to any other exposure to the same entity for purposes of calculating any limit prescribed in this Notice;

"guarantee" means a guarantee covering both full and timely debt service and full and timely redemption of debt;

"**rating**" means a credit rating, which is an opinion regarding the creditworthiness of an entity, a credit commitment, a debt or debt-like security or an issuer of such obligation, conducted at the request of the issuer of an instrument, by a rating agency with access to all confidential and other sensitive information supplied by the issuer, including management interaction, and which rating must be publicly available;

"**rating agency**" means –

(a) Standard & Poor's (S&P);

(b) Moody's Investor Services Limited or Moody's Investor Services South Africa (Pty) Limited (Moody's);

(c) Fitch Ratings Limited or Fitch Southern Africa (Pty) Limited (Fitch Ratings);

(d) CA-Ratings; and

(e) Global Credit Rating Co. (GCR); and

“**the Act** ”means the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), and any word or expression to which a meaning has been assigned in the Act bears the meaning so assigned to it.

CHAPTER I

GENERAL PORTFOLIO

Application of Chapter

2. (1) For the purposes of this Chapter and Chapter VII -

"**securities**" means –

(a) shares, preference shares, whether redeemable, convertible or perpetual, exchange depository receipts in public companies, stock, bonds, participatory interests in a collective investment scheme (excluding participatory interests in a collective investment scheme in participation bonds), whether listed or not, debentures, debenture stock and debenture bonds, unsecured notes, whether or not they have inherent option rights or are convertible;

(b) the following listed financial instruments:

(i) A futures contract;

(ii) an option contract;

(iii) a warrant;

(iv) an index tracking certificate; and

(v) an instrument based on an underlying asset; or

(c) any asset referred to in the definition of "assets in liquid form" in paragraph 1.

(2) This Chapter applies to a portfolio that consists of securities referred to in the definition of "securities" in paragraph 2(1) but does not apply to any other portfolio specifically dealt with in Chapters III, IV, V and VI.

Conditions and limits of inclusion

3. (1) Subject to subparagraphs (4), (9), (10), (11) and (12), no manager may include in a portfolio- –

(a) securities issued by any one concern to an amount in excess of five per cent, or in the case of a concern with a market capitalisation of R2 billion or more, 10 per cent, of the market value of all the assets comprised in the portfolio, or 120 per cent, whichever is the greater, of that securities' free float weighting in the relevant Headline, Economic Group or Specialist Index as published by the JSE Securities Exchange South Africa, subject to –

(i) a maximum of 20 per cent of the market value of all the assets comprising the portfolio where the benchmark is the FTSE/JSE All Share Index;

(ii) a maximum of 35 per cent of the market value of all the assets comprising the portfolio where the benchmark is a Headline, Economic Group or Specialist Index other than the FTSE/JSE All Share Index,

except in so far as the excess is due to appreciation or depreciation of the market value of the underlying assets comprised in that portfolio, or as a result of any corporate action by that concern, provided that as long as the market value of an investment in any particular concern exceeds the limit specified in subparagraph (a), the manager may not purchase any further securities issued by that concern; or

(b) securities of any one class issued by any one concern to an amount in excess of five per cent, or in the case of a concern with a market capitalisation of R2 billion or more, 10 per cent, or in the case of securities in any investment company, 10 per cent, of the aggregate amount of the securities of any one class issued by such concern or company, subject to –

(i) an overall limit of 15 per cent of the aggregate amount of securities of any one class issued by a concern within the same group as the manager, across the portfolios in all schemes administered by the manager; and

(ii) an overall limit of 24 per cent of the aggregate amount of securities of any one class issued by a concern other than a concern within the same group as the manager, across the portfolios in all schemes administered by the manager,

except in so far as the excess is due to an amalgamation, cession, transfer or take-over in terms of section 99 of the Act, or as a result of any corporate action by that concern, provided that –

(i) the manager may not make any further investments in securities of the class in question as long as any limit determined in subparagraph (b) is exceeded;

(ii) the manager must within 12 months after the date on which such amalgamation, cession, transfer or take-over becomes effective or within such further period as the registrar may determine, reduce the securities of the class in question to the limits determined in subparagraph (b).

(2) A manager must include securities in a portfolio which consists, subject to paragraphs 3(4) and 3(10), to the extent of at least 90 per cent of the market value of the portfolio, of -

(a) exchange securities;

(b) instruments contemplated in subparagraphs (9) and (10);

(c) securities (other than exchange securities) acquired by the manager pursuant to the exercise of rights attaching to any exchange securities included in the portfolio,

or any combination thereof.

(3) If a security (excluding any financial instrument as contemplated in Chapter II), other than an exchange security, does not become an exchange security within a period of one year from the date of its inclusion in a portfolio, or within such further period as the registrar may allow

where he or she is satisfied that the security is likely to become an exchange security within a reasonable period, the manager concerned must substitute exchange securities for such securities at either the value at which they were included in the portfolio or the price which can be obtained for them, whichever is the higher: Provided that an unlisted security included in a portfolio must be valued at fair value at least once a month, or if such value is not available, section 44 of the Act applies.

(4) (a) A manager may include in a portfolio, participatory interests in portfolios (“underlying portfolio”) of collective investment schemes in securities or of foreign collective investment schemes to a maximum aggregate value of 20 per cent of the market value of the first-mentioned portfolio: Provided that if the underlying portfolio is a portfolio of a foreign collective investment scheme, the following criteria apply: -

(i) At least 90 per cent of the interest-bearing instruments included in the underlying portfolio must be assigned a credit rating of “investment grade” on the international rating scale by a rating agency;

(ii) borrowing of money must be limited to 10 per cent of the value of the underlying portfolio and the money borrowed may only be used for the redemption of participatory interests;

(iii) the underlying portfolio does not include unlisted derivative instruments or has any uncovered exposures: Provided that such portfolio may include unlisted forward currency, interest rate or exchange rate swap transactions where the inclusion of such transactions is only utilised for efficient portfolio management;

(iv) the underlying portfolio does not gear or leverage; and

(v) only securities which would qualify in terms of section 45 of the Act may be included in the underlying portfolio.

(b) The limit determined in subparagraph (4)(a) may be exceeded only if the excess is due to appreciation or depreciation of the value of the underlying participatory interests constituting the portfolio: Provided that a manager may not, for as long as the excess continues, purchase any further participatory interests.

(5) For the purposes of subparagraph (4)(a), the value of a participatory interest held by one portfolio in another must be calculated by reference to the lesser of the repurchase price or the net asset value of the relevant participatory interest, at the close of business on the previous day on which a repurchase price was calculated.

(6) The manager must ensure that a portfolio's investment policy is suitably amended to empower it to include participatory interests in such portfolio.

(7) The manager may only include in a portfolio participatory interests issued by a fund of funds of which at least 85 per cent of the value of the fund of funds' portfolio is held in participatory interests outside the Republic: Provided that such fund of funds is not invested in participatory interests issued by the manager's portfolio or in another fund of funds.

(8) If a manager contravenes the proviso to subparagraph (7) through no fault of its own, the manager concerned must, if such contravention is not rectified within 30 days of the date on which it becomes aware of the contravention, submit a detailed plan for approval to the registrar setting out measures to rectify the position.

(9) A manager may include in a portfolio listed financial instruments on the conditions and subject to the limits determined in Chapter II.

(10) A manager may include in a portfolio, apart from listed non-equity securities, rated non-equity securities in the manner and on the conditions determined in Chapter VII.

(11) A manager may not include in any index tracking portfolio securities to an amount in excess of 35 percent of the market value of all the assets comprised in the portfolio.

(12) A manager may not include in a precious metals and minerals portfolio securities issued by any one concern to an amount in excess of a

percentage, equal to that concern's weighting in the FTSE/JSE Gold, FTSE/JSE Platinum or FTSE/JSE Diamond Index, subject to a maximum of 60 per cent of the market value of all the assets comprised in that portfolio.

(13) A manager may include in a portfolio unlisted forward currency, interest rate or exchange rate swap transactions where the inclusion of such transactions is only utilised for efficient portfolio management;

(14) For the purposes of this Notice "investment company" means a company which is engaged primarily in the business of investment in the shares and stocks of other companies for the purpose of revenue and profit and not for the purpose of exercising control.

(15) Where a manager includes preference shares in a portfolio, such shares must be treated as equity if the issuer thereof has included such shares as part of its share capital on its balance sheet. Subject to subparagraph (10) above, preference shares which do not form part of the share capital of an issuer, must be treated as non-equity securities.

CHAPTER II

INCLUSION OF FINANCIAL INSTRUMENTS IN A PORTFOLIO

Definitions

4. For the purposes of this Chapter –

“asset portfolio” in relation to a portfolio, means the portfolio of underlying assets comprising the portfolio;

“call option” means an option contract in terms of which the holder of the contract has the right, but not an obligation, to purchase the relevant underlying asset or to receive a cash settlement instead thereof;

“contract size” or “multiplier”, in relation to a financial instrument, means the factor by which the price of an underlying asset is multiplied to arrive at the value of one contract as specified in either –

(a) the rules of the relevant exchange on which the financial instrument is listed; or

(b) the terms and conditions as defined in the offering document of the relevant financial instrument;

“delta factor”, in relation to a financial instrument, means the requirement for an exposure calculation for financial instruments as determined in accordance with –

(a) a method prescribed by the relevant exchange for the specific financial instrument; or

(b) the terms and conditions as defined in the offering document of the relevant financial instrument;

“delta sign”, in relation to a financial instrument, means the mathematical sign of the exposure of the financial instrument, determined by the sign of the delta factor, which can be either positive or negative, determined in accordance with –

(a) the delta factor calculation prescribed by the relevant exchange for the specific financial instrument; or

(b) the terms and conditions as defined in the offering document of the relevant financial instrument;

"listed financial instrument" means –

(i) a futures contract;

(ii) an option contract;

(iii) a warrant;

(iv) an index tracking certificate; and

(v) an instrument based on an underlying asset;

"nominal exposure", in relation to a financial instrument, means the exposure as calculated in paragraph 8(3);

"put option" means an option contract in terms of which the holder of the contract has the right, but not an obligation, to sell the relevant underlying asset or to receive a cash settlement instead thereof;

"transaction sign", in relation to a financial instrument, means the transaction direction, whether buying or selling, of a financial transaction, as calculated in accordance with paragraph 8(4);

"underlying asset", in relation to a financial instrument, means -

(a) any security;

(b) an index as determined by an exchange;

(c) a group of securities which is the subject matter of the financial instrument, whether such group of securities is represented by an index or not; or

(d) in the case of a warrant, option contract or futures contract, any underlying asset referred to in paragraphs (a), (b) or (c) of this definition.

Inclusion of financial instruments in portfolio

5. (1) A management company may include financial instruments in a portfolio, subject to these conditions, the deed and supplemental deeds.

(2) In the application of subparagraph (1) a manager may only write option contracts in compliance with the conditions set out in paragraph 7, or sell

option contracts, which have previously been bought.

Exposure limits

6. (1) The sum of the nominal exposures to assets in liquid form to be maintained in terms of this Chapter, together with the market value of all the physical underlying assets in the portfolio, may not exceed 100 percent of the market value of the portfolio.

(2) The nominal exposure to financial instruments on any specific underlying asset, which is not an index or group of securities, together with the market value of any physical holding of that specific underlying asset , may not exceed the limitations laid down in paragraph 3(1).

(3) For the purposes of this paragraph, the provisions of paragraph 3(1)(a) and (b) in respect of excesses, which are due to appreciations or depreciations of the market value of the relevant securities, or an amalgamation, cession, transfer or take-over in terms of section 99 of the Act, apply *mutatis mutandis*.

Maintaining of certain assets in portfolio

7. A manager which in accordance with the provisions of these conditions -

(a) sells future contracts, sells call options or call warrants, or buys put options or put warrants, based on specific underlying assets which are not indices, must maintain in the relevant portfolio a market value of such underlying assets with positive nominal exposures to the same underlying assets;

(b) sells futures contracts, sells call options or call warrants, or buys put options or put warrants, based on index futures or a group of securities, must maintain an exposure to appropriate underlying assets or other financial instruments with positive exposures to similar underlying assets in the relevant portfolio, which is at least equal to the nominal exposure of such financial instruments;

(c) buys futures contracts, buys call options or call warrants, or sells put options or put warrants based on any underlying asset, must maintain an exposure to assets in liquid form in line with the nominal exposure prescribed in paragraph 6(1);

(d) sells put options or put warrants may maintain a bought put option or bought put warrant in place of assets in liquid form as required in paragraph 7(c) only if the strike price of the bought put option or bought put warrant is not lower than the price of the sold put option or put warrant;

(e) sells call options or call warrants may maintain a bought call option or bought call warrant in place of underlying assets as required in paragraph 7(a) or (b) only if the strike price of the bought call options or call warrants is lower than the price of the sold call option or call warrant;

(f) sells or buys multiple options or multiple warrants based on the same underlying assets and requiring the nominal exposure to liquid instruments prescribed in paragraph 7(c), may maintain assets in liquid form as needed for only one such option or warrant transaction; and

(g) sells or buys multiple options or multiple warrants based on the same underlying assets and requiring the nominal exposure to underlying assets prescribed in paragraph 7(a) or (b), may maintain such instruments as needed for only one such option or warrant transaction.

Calculation of nominal exposure to underlying assets in portfolio

8. (1) The exposure of a futures contract or index tracking certificate to an underlying asset, group of underlying assets or an index must be calculated as the product of -

(a) the number of contracts;

(b) the relevant contract size;

(c) the current market value of the underlying asset, group of underlying assets or index.

(2) The exposure of an option contract or a warrant to an underlying asset, group of underlying assets, index or index future, must be calculated as the product of -

(a) the number of option or warrant contracts;

(b) the relevant contract size;

(c) the current market value of one relevant underlying asset, one group of the underlying assets, an index or index future;

(d) the delta factor.

(3) The nominal exposure to any financial instrument must be calculated as the product of -

(a) the exposure, calculated in accordance with paragraph 8(1) or (2);

(b) the transaction sign.

(4) The transaction sign is positive for any financial instrument purchased and negative for any financial instrument sold.

(5) The nominal exposure to financial instruments on any underlying asset is the sum of the nominal exposure of all financial instruments on the underlying asset.

Calculation of nominal exposure to assets in liquid form associated with the financial instruments on underlying assets in portfolio

9. (1) The nominal exposure to assets in liquid form of any financial instrument required in accordance with paragraph 7 must be calculated as the nominal exposure of any financial instrument calculated in accordance with paragraph 8(3).

(2) The nominal exposure to assets in liquid form for the portfolio must be calculated as the sum of the nominal exposures of all the assets in liquid form calculated for all financial instruments in the portfolio in accordance with paragraph 9(1).

Report by the Manager

10. After the inclusion of a financial instrument in a portfolio, and while a financial instrument remains included in a portfolio, a manager must furnish the registrar within 30 days after the last business day of each quarter with a report substantially conforming to Annexure A.

CHAPTER III

MONEY MARKET PORTFOLIO

Definition

11. For the purposes of this Chapter, “money market portfolio” means a portfolio consisting solely of money market instruments.

Determination of market instruments

12. For the purposes of this Chapter, “money market instruments”, in the currency of the Republic, which may be included in a money market portfolio, are defined as follows:

(a) “**banker’s acceptance**” means a bill as defined in the Bills of Exchange Act, 1964 (Act No. 34 of 1964), drawn on and accepted by a bank as defined in the Banks Acts, 1990 (Act No. 94 of 1990), or a mutual bank as defined in the Mutual Banks Act, 1993 (Act No. 124 of 1993);

(b) “**bond**” means an acknowledgement of debt in which the issuer thereof undertakes to repay the debt together with interest on the maturity of the debt to the holder of the bond;

(c) “**commercial paper**” means any negotiable acknowledgement of debt;

(d) “**debenture**” means a debenture as defined in the Companies Act, 1973 (Act No. 61 of 1973);

(e) “**deposit**” means a deposit as defined in the Banks Act, 1990, or in the Mutual Banks Act, 1993;

(f) “**land bank bill**” means a bill or note as defined in the Bills of Exchange Act, 1964, drawn, accepted or issued by the Land and Agricultural Bank of South Africa;

(g) "**national housing bill**" means a bill or note as defined in the Bills of Exchange Act, 1964, drawn, accepted or issued by the National Housing

Board;

(h) "**negotiable certificate of deposit**" means a certificate of deposit issued by a bank as defined in the Banks Act, 1990, or a mutual bank as defined in the Mutual Banks Act, 1993, and payable to order or to bearer;

(i) "**parastatal bill**" means a bill or note as defined in the Bills of Exchange Act, 1964, drawn, accepted or issued by a parastatal institution;

(j) "**promissory note**" means a promissory note as defined in the Bills of Exchange Act, 1964;

(k) "**trade bill**" or **"trade note"** means a bill or note as defined in the Bills of Exchange Act, 1964, drawn, accepted or issued to provide for the payment for goods;

(l) "**treasury bill**" means a bill drawn by the Government on the Secretary to the Treasury calling on the latter to pay a sum certain in money to a specified person or his order or to bearer, on demand or on a certain specified future date; and

(m) "**asset with a branch of a foreign institution**" means a deposit with, or any instrument of indebtedness (as defined in subparagraphs (a) to (m)) issued by a branch of a foreign institution, which institution is authorised in terms of the Banks Act, 1990, to conduct the business of a bank by means of such branch: Provided that the foreign institution must be from a country which is assigned a foreign currency sovereign rating of at least the same as the Republic in addition to the rating of the issuer and the instrument according to Annexure B or C: Provided further that if more than one rating exist, the lower of the ratings applies.

Inclusion limits

13. (1) A manager may not include money market instruments, whether listed on an exchange or not, in a money market portfolio if the market value thereof exceeds the percentage of the market value of the money market portfolio as indicated in the table below against the applicable domestic or national rating.

Rating Band as per Table in Annexure B	Inclusion Limit per Instrument or Issuer as a Percentage of the Market Value of Assets Comprising the Portfolio
1	30%
2	20%
3	5%

Note: The short-term instrument rating applies. In the absence of a short-term instrument rating, the short-term issuer rating applies; in the absence of a short-term issuer rating the long-term instrument rating applies and in the absence of a long-term instrument rating, the long-term issuer rating applies.

(2) The total investment exposure to –

(a) any single issuer may not exceed the percentage applicable to the short term issuer rating assigned to that issuer in the corresponding rating band;

(b) all issuers with ratings in rating band 3 may not exceed 30 per cent; and

(c) all qualifying, rated instruments issued by a single issuer that has not been assigned a rating, may not exceed an overall limit of ten per cent, ,

of the market value of the money market portfolio.

(3) If the inclusion of instruments referred to in subparagraph (2)(c) will result in further exposure to another rated issuer, instruments of which are already included in the portfolio, the exposure created by the inclusion of the first mentioned instruments must be taken into account in determining the overall permissible exposure to the rated issuer

(4) If, after the date of its inclusion in a money market portfolio, any money market instrument or issuer is rated lower than its original rating at the

date of inclusion, which rating downgrade places the rating in a lower rating band as per the Table in Annexure B or C, the manager must rectify the position within 30 days of such lower rating: Provided that if the manager and the trustee or custodian are satisfied that such action would be to the detriment of a particular portfolio, the manager must, within 7 days of the date of becoming aware of the lower rating, submit a detailed plan setting out measures to rectify the position to the registrar, for approval.

(5) A manager may invest up to 30 per cent of the market value of the underlying money market instruments comprising a portfolio in all instruments issued by the Government of the Republic, South African Reserve Bank, or any public entity as defined in the Public Finance and Management Act, 1999 (Act No.1 of 1999), and listed in terms of that Act as a Major Public Entity and National Public Entity, and not rated but carrying an explicit guarantee by the Government of the Republic.

(6) A manager may invest up to the percentage indicated in the Table in Annexure C of the market value of the underlying securities comprising a portfolio in all instruments issued by a local subsidiary of a foreign entity or concern and that foreign entity or concern guarantees that instrument, and where that foreign entity or concern is assigned a long-term rating on the international rating scale.

(7) A manager may invest up to the percentage indicated in the Table in Annexure C of the market value of the underlying money market instruments comprising a portfolio in all instruments, where, in the absence of a national scale rating of the instruments, issuers or guarantors of such instruments, the relevant instruments, issuers or guarantors, whether such issuer or guarantor is a local or foreign entity, has been assigned a rating on the international rating scale.

(8) If a manager contravenes any limit prescribed in this paragraph through no fault of its own, the manager concerned must, if such contravention is not rectified within 30 days of the date on which it becomes aware of the contravention, submit a detailed plan setting out measures to rectify the

position to the registrar, for approval.

Reduction of participatory interests

14. (1) A manager must within 21 days after the reduction in value of any participatory interest in a money market portfolio, provide the registrar and every investor in such portfolio in writing with details of the reduction.

(2) A reduction must be reflected in the accounts and returns to be kept and rendered by the manager in terms of section 90(1) of the Act.

(3) The auditor of a manager must, in the case of a reduction, provide the registrar with details thereof on a quarterly basis.

General

15. (1) At the time of its inclusion in a money market portfolio a money market instrument may not have a maturity exceeding 12 months.

(2) The weighted average maturity of money market instruments included in a money market portfolio, based on the market value of the total money market portfolio, may not exceed 90 days.

(3) Money market instruments -

(a) having no fixed maturity; or

(b) in respect of which the interest rate is not known at the date of inclusion,

may not be included in a money market portfolio.

(4) The manager must at all times be able to calculate the return of the money market portfolio.

CHAPTER IV

MONEY MARKET PORTFOLIO IN FOREIGN CURRENCY

Definition

16. For the purposes of this Chapter, “money market portfolio in a foreign currency” means a portfolio consisting solely of money market instruments denominated in a currency other than that of the Republic.

Determination of foreign currency market instruments

17. Money market instruments, whether listed on an exchange or not, which are denominated in a currency other than that of the Republic, that may be included in a money market portfolio in a foreign currency, are short term interest bearing instruments or deposits acknowledging indebtedness -

(a) with an initial or residual maturity of less than 12 months; and

(b) issued by an issuer domiciled in a country other than the Republic, which issuer or instrument issued by such issuer, has been rated by a rating agency on the international rating scale referred to in Annexure C.

Inclusion limits

18. (1) Money market instruments -

(a) as determined in this Chapter;

(b) denominated in a currency other than that of the Republic; and

(c) issued by any one concern or body domiciled or based outside the Republic,

may not be included in a money market portfolio if the market value thereof exceeds the percentage of the market value of the money market portfolio as indicated in the table below against the applicable rating:

Rating Band as per Table in Annexure C	Inclusion Limit per Instrument and Issuer as a Percentage of the Market Value of Assets Comprising the Portfolio
1	30%
2	20%
3	5%

Note: The short-term instrument rating applies. In the absence of a short-term instrument rating, the short-term issuer rating applies and in the absence of a short-term issuer rating the long-term instrument rating applies.

(2) The total investment exposure to –

(a) any single issuer may not exceed the percentage applicable to the short-term issuer rating assigned to that issuer in the corresponding rating band;

(b) all issuers with ratings determined in rating band 3 of the table in paragraph 18(1) may not exceed 30 per cent; and

(c) all qualifying, rated instruments issued by a single issuer that has not been assigned a rating, may not exceed an overall limit of ten per cent,

of the market value of the money market portfolio.

(3) If the inclusion of instruments referred to in subparagraph (2)(c) will result in further exposure to another rated issuer, instruments of which are already included in the portfolio, the exposure created by the inclusion of the first mentioned instruments must be taken into account in determining the overall permissible exposure to the rated issuer

(4) If, after the date of its inclusion in a money market portfolio, any foreign instrument or issuer is rated lower than its original rating at the date of inclusion, the manager must rectify the position within 30 days of such lower rating: Provided that if a manager and the trustee or custodian are satisfied that such action would be to the detriment of a particular

portfolio, the manager must, within 7 days of the date of becoming aware of the lower rating, submit a detailed plan setting out measures to rectify the position to the registrar, for approval.

(5) If a manager contravenes any limit prescribed in this paragraph through no fault of its own, the manager concerned must, if such contravention is not rectified within 30 days of the date on which it becomes aware of the contravention, submit a detailed plan setting out measures to rectify the position to the registrar, for approval.

Reduction of participatory interests

19. (1) A manager must within 21 days after the reduction in value of any participatory interest in a money market portfolio, provide the registrar and every investor in such portfolio in writing with details of the reduction.

(2) A reduction must be reflected in the accounts and returns to be kept and rendered by the manager in terms of section 90(1) of the Act.

(3) The auditor of a manager must, in the case of a reduction, provide the registrar with details thereof on a quarterly basis.

General

20. (1) Only money market instruments denominated in a single currency may be included in a money market portfolio.

(2) At the time of its inclusion in a money market portfolio a money market instrument may not have a maturity exceeding 12 months.

(3) The weighted average maturity of money market instruments included in a money market portfolio, based on the total market value of the money market portfolio, may not exceed 90 days.

(4) Money market instruments -

(a) having no fixed maturity; or

(b) in respect of which the interest rate is not known at the date of inclusion,

may not be included in a money market portfolio.

(5) The manager must at all times be able to calculate the return of the money market portfolio.

CHAPTER V

FUND OF FUNDS PORTFOLIO

Definition

21. For the purposes of this Chapter, a “fund of funds” means a portfolio that, apart from assets in liquid form, consists solely of participatory interests, whether listed on an exchange or not, in portfolios of collective investment schemes other than collective investment schemes in participation bonds.

Conditions and limits of inclusion

22. The conditions and limits subject to which participatory interests in a portfolio may be included in a fund of funds, are as follows:

(a) The investment in participatory interests by a fund of funds, must consist of participatory interests in not less than two other portfolios: Provided that the investment in any one portfolio may not exceed 75 per cent of the market value of the fund of funds.

(b) The limit determined in subparagraph (a) may be exceeded only if the excess is due to appreciation or depreciation of the value of the underlying participatory interests constituting the portfolio: Provided that a manager may not, for as long as the excess continues, purchase any further participatory interests.

(c) A fund of funds may only invest in participatory interests issued by a fund of funds of which at least 85 per cent of the value of the latter funds’ portfolio is held in participatory interests outside the Republic: Provided that such fund of funds does not hold participatory interests issued by the first-mentioned fund of funds or another fund of funds.

(d) A fund of funds may only invest in participatory interests issued by a feeder fund of which at least 85 per cent of the value of the latter funds’ portfolio is held in assets outside the Republic.

(e) If a manager contravenes the proviso to paragraph 22(c) through no fault of its own, the manager concerned must, if such contravention is not rectified within 30 days of the date on which it becomes aware of the contravention, submit a detailed plan setting out measures to rectify the position to the registrar, for approval.

(f) The investment objectives of a fund of funds must clearly specify the nature of the participatory interests comprising such fund.

(h) If a manager of a fund of funds includes in such fund participatory interests of the portfolios referred to in subparagraphs (a) and (c) of a foreign collective investment scheme ("underlying portfolios"), it must satisfy the registrar that such participatory interests have a risk profile which is not significantly higher than the risk profile of other underlying securities which may be included in terms of the Act in a similar portfolio other than a fund of funds: Provided that -

(i) at least 90 per cent of the interest-bearing instruments included in an underlying portfolio is assigned a credit rating of "investment grade" on the international rating scale by a rating agency;

(ii) borrowing of money must be limited to 10 per cent of the market value of an underlying portfolio and the money borrowed may only be used for the redemption of participatory interests;

(iii) the underlying portfolio does not include unlisted derivative instruments or have any uncovered exposures: Provided that such portfolio may include unlisted forward currency, interest rate or exchange rate swap transactions where the inclusion of such transactions is only utilised for efficient portfolio management;

(iv) the underlying portfolio does not gear or leverage.

(i) If a manager of a fund of funds includes participatory interests of a foreign feeder fund in such portfolio, that feeder fund may not have invested in another feeder fund or a fund of funds.

(j) For the purposes of this , the value of a participatory interest held by one portfolio in another must be calculated by reference to the lesser of the repurchase price or the net asset value of the relevant participatory interest, at the close of business on the previous day on which a repurchase price was calculated.

CHAPTER VI

FEEDER FUND PORTFOLIO

Definition

23. For the purposes of this Chapter, a “feeder fund” means a portfolio that, apart from assets in liquid form, consists solely of participatory interests in a single portfolio of a collective investment scheme, whether listed on an exchange or not, other than another feeder fund portfolio or collective investment schemes in participation bonds.

Conditions and limits of inclusion

24. The conditions and limits subject to which participatory interests in a portfolio of a collective investment scheme, may be included in a feeder fund, are as follows:

(a) A feeder fund may only invest in participatory interests issued by a fund of funds of which at least 85 per cent of the value of the latter fund’s portfolio is held in participatory interests outside the Republic: Provided that such fund of funds does not hold participatory interests issued by the feeder fund or another fund of funds.

(b) If a manager contravenes the proviso to paragraph 24(a) through no fault of its own, the manager concerned must, within 30 days of the date on which it becomes aware of the contravention, submit a detailed plan for approval to the registrar setting out measures to rectify the position.

(c) If a manager of a feeder fund includes in such fund participatory interests of the portfolio referred to in paragraph 23 of a foreign collective investment scheme (“underlying portfolio”), it must satisfy the registrar that such participatory interests have a risk profile that is not significantly higher than the risk profile of other underlying securities which may be included in terms of the Act in a similar portfolio other than a feeder fund:

Provided that -

(i) at least 90 per cent of the interest-bearing instruments included in the underlying portfolio is assigned a credit rating of "investment grade" on the international rating scale by a rating agency;

(ii) borrowing of money must be limited to 10 per cent of the market value of the underlying portfolio and the money borrowed may only be used for the redemption of participatory interests;

(iii) the underlying portfolio does not include unlisted derivative instruments or have any uncovered exposures: Provided that such portfolio may include unlisted forward currency, interest rate or exchange rate swap transactions where the inclusion of such transactions is only utilised for efficient portfolio management;

(iv) the underlying portfolio does not gear or leverage.

(d) For the purposes of this Chapter, the value of a participatory interest held by one portfolio in another must be calculated by reference to the lesser of the repurchase price or the net asset value of the relevant participatory interest, at the close of business on the previous day on which a repurchase price was calculated.

CHAPTER VII

NON-EQUITY SECURITIES

Conditions and limits of inclusion

25. The conditions and limits for inclusion of non-equity securities in a portfolio are as follows:

(a) A manager may include in a portfolio –

(i) instruments issued by the Government of the Republic and listed on an exchange, to the extent of up to 100 per cent of the market value of a portfolio, and

(ii) instruments guaranteed by the Government of the Republic or issued or guaranteed by the government of a foreign country which is assigned a foreign currency sovereign rating of at least investment grade, or any instrument issued by, or any other exposure to, the South African Reserve Bank to the extent of up to 30 per cent of the market value of the portfolio.

(b) A manager may not include in a portfolio –

(i) subject to paragraph 25(f), instruments issued by any public entity as defined in the Public Finance and Management Act, 1999 (Act No.1 of 1999), and listed in terms of that Act as a Major Public Entity and National Public Entity,

(ii) any money market instrument as defined in Chapter III and IV; or

(iii) bonds, debentures, debenture stock and debenture bonds, unsecured notes, whether or not they have inherent option rights or are convertible,

if the market value thereof exceeds the percentage of the market value of the portfolio as indicated in the table below against the applicable domestic or national rating:

Rating Band as per Table in Annexure B and C	Inclusion Limit per Instrument or Issuer as a Percentage of the Market Value of Assets Comprising the Portfolio
1	30%
2	20%
3	5%

Note: (1) For instruments with an initial maturity of 12 months or less, the short-term instrument rating applies. In the absence of a short-term instrument rating, the short-term issuer rating applies and in the absence of a short-term issuer rating the long-term issuer rating applies.

(2) For instruments with an initial maturity of more than 12 months the long-term instrument rating applies. In the absence of a long-term instrument rating, the long-term issuer rating applies.

(c) The total investment exposure to –

(i) a single issuer may not exceed the percentage applicable to the long-term issuer rating assigned to that issuer in the corresponding rating band;

(ii) all issuers with ratings determined in rating band 3 of the table in paragraph 25(b) may not exceed 30 per cent of the market value of the portfolio; and

(iii) all qualifying, rated instruments issued by a single issuer that has not been assigned a rating, may not exceed an overall limit of ten per cent of the market value of the portfolio.

(d) If the inclusion of instruments referred to in subparagraph (2)(c) will result in further exposure to another rated issuer, instruments of which are already included in the portfolio, the exposure created by the inclusion of the first mentioned instruments must be taken into account in determining the overall permissible exposure to the rated issuer

(e) A manager may invest up to 30 percent of the market value of the underlying assets comprising a portfolio in all instruments issued by any public entity as defined in the Public Finance and Management Act, 1999

(Act No.1 of 1999), and listed in terms of that Act as a Major Public Entity and National Public Entity, and not rated but carrying an explicit guarantee by the Government of the Republic.

(f) A manager may invest up to the percentage indicated in the Table in Annexure C of the market value of the underlying securities comprising a portfolio in all instruments issued by a local subsidiary of a foreign entity or concern and that foreign entity or concern guarantees that instrument, and where that foreign entity or concern is assigned a rating on the international rating scale.

(g) A manager may invest up to the percentage indicated in the Table in Annexure C of the market value of the underlying securities comprising a portfolio in all instruments issued by an entity or concern and which entity or concern is assigned a rating on the international rating scale.

(h) The limits prescribed in paragraphs 25(a)(ii), 25(b), 25(c), 25(d), 25(e) and 25(f), may be exceeded only if the excess is due to appreciation or depreciation of the market value of the instruments comprised in a portfolio.

(i) A manager may not, for as long as the excess continues, purchase any further instruments of the class in respect of which the excess occurs.

CHAPTER VIII

GENERAL

Disclosure of fees

26. For the purposes of paragraphs 3(7), 22(c) and 24, when a portfolio invests in participatory interests of another portfolio, the manager must disclose that the fee structure is higher and also disclose the anticipated aggregate of the fees levied by itself and by the other portfolio, to potential investors before entering into a transaction.

Consequences of large repurchases

27. If any of the limits determined in this Notice are exceeded due to the manager meeting its obligation to meet offers to repurchase participatory interests and until such excess continues, the manager may not purchase any further securities or instruments issued by that concern or entity.

Commencement

28. (1) Notice 2071 of 2003, as published in *Government Gazette* No. 25283 of 1 August 2003, is hereby repealed.

(2) This Notice comes into effect on I January 2006.

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ANNEXURE A

REPORT BY MANAGER IN RESPECT OF SYSTEM OF INTERNAL CONTROL

We, …………………………………. (NAME), CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR, and ……………………………….. (NAME), COMPLIANCE OFFICER, have examined the system of internal control regarding ....…………..... (NAME OF PORTFOLIO), designed to ensure compliance by .... (NAME OF MANAGER) with Chapter II of Notice … of 2005.

We hereby certify that –

(a) the system of internal control over compliance with Chapter II is suitability designed to provide reasonable assurance that the controls have prevented or detected non-compliance with Chapter II;

(b) the system of internal control designed to ensure compliance with Chapter II, operated as designed throughout the quarter ended …………………………...... .

We draw attention to the following instances of non-compliance with Chapter II which were/were not subsequently corrected: …. .

……………………. ……………………….
(Signature) (Signature)

…………………….
Date

ANNEXURE B

NATIONAL RATING SCALES OF RATING AGENCIES

	S&P		Moody's		Fitch Ratings		CA-Ratings		GCR	
Chapter III, IV & VII Rating Band	Long Term Rating	Short Term Rating	Long Term Rating	Short Term Rating	Long Term Rating	Short Term Rating	Long Term Rating	Short Term Rating	Long Term Rating	Short Term Rating
1	AAA	A-1+	Aaa.za	Prime 1.za	AAAzaf	F1+zaf	zaAAA	zaA1+	AAA	A1+
	AA+	A-1+	Aa1.za	Prime 1.za	AA+zaf	F1+zaf	zaAA+	zaA1+	AA+	A1+
	AA	A-1+	Aa2.za	Prime 1.za	AAzaf	F1+zaf	zaAA	zaA1+	AA	A1+
	AA-	A-1+	Aa3.za	Prime 1.za	AA-zaf	F1+zaf	zaAA-	zaA1+	AA-	A1
2	A+	A-1	A1.za	Prime 1.za	A+zaf	F1+zaf or F1zaf	zaA+	zaA1	A+	A1
	A	A-1	A2.za	Prime 1.za or Prime 2.za	Azaf	F1zaf	zaA	zaA1	A	A1
	A-	A-2	A3.za	Prime 1.za or Prime 2.za	A-zaf	F1zaf or F2zaf	zaA-	zaA2	A-	A1-
3	BBB+	A-2	Baa1.za	Prime 2.za	BBB+zaf	F2zaf	zaBBB+	zaA2	BBB+	A2
	BBB	A-2	Baa2.za	Prime 2.za or Prime 3.za	BBBzaf	F2zaf or F3zaf	zaBBB	zaA2	BBB	A2

Note:

1. **The above table refers to the domestic or national rating scales.**
2. **In the instance of an instrument, entity or concern being assigned a rating by two or more rating agencies, the lowest rating applies.**
3. **Where the short-term rating of an instrument or issuer spans more than one rating band, reference has to be made to the long-term issuer rating to determine the applicable rating band for inclusion limit purposes.**

4. The ratings in the above table are subject to the provisions determined in the Notice published under section 45(a)(i) of the Act.

ANNEXURE C

INTERNATIONAL RATING SCALES OF RATING AGENCIES

	S&P		Moody's		Fitch Ratings	
Chapter III , IV & VII Rating Band and inclusion Limits	Long Term Rating	Short Term Rating	Long Term Rating	Short Term Rating	Long Term Rating	Short Term Rating
1 30%	AAA	A-1+	Aaa.	Prime 1.	AAA	F1+
	AA+	A-1+	Aa1.	Prime 1.	AA+	F1+
	AA	A-1+	Aa2.	Prime 1.	AA	F1+
	AA-	A-1+	Aa3.	Prime 1.	AA-	F1+
2 20%	A+	A-1	A1.	Prime 1.	A+	F1+ or F1
	A	A-1	A2.	Prime 1. or Prime 2.	A	F1
	A-	A-1	A3.	Prime 1. or Prime 2.	A-	F1 or F2
3 10%	BBB+	A-2	Baa1.	Prime 2.	BBB+	F2
	BBB	A-2	Baa2.	Prime 2. or Prime 3.	BBB	F2 or F3
	BBB-	A-2	Baa3	Prime 3	BBB-	F2 or F3

Note:

1. **The above table refers to the international rating scales.**
2. **In the instance of an instrument, entity or concern being assigned a rating by two or more rating agencies, the lowest rating applies.**
3. **Where the short-term rating of an instrument or issuer spans more than one rating band, reference has to be made to the long-term issuer rating to determine the applicable rating band for inclusion limit purposes.**
4. **The ratings in the above table are subject to the provisions determined in the Notice published under section 45(a)(i) of the Act.**
5. **In the instance of an entity, instrument or concern being assigned both a national and international ratings, the relevant rating shall be determined by the currency of the instrument issued.**