



# NJMPF

## South Africa downgraded: What does it mean to you as an NJMPF member.

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*Your Fund, Your Savings, Your Future*

During recent weeks, the South African (SA) financial markets have experienced significant market turbulence over the cabinet reshuffle and SA's credit rating being downgraded by two international rating agencies. But what does this mean to you as an NJMPF member? Below we provide an update on the current background, whilst also highlighting the structure of the NJMPF Funds including its investment philosophy, ensuring members that their benefits are well-invested and protected.

### **What is the current background?**

The current market events have triggered high market volatility in the equity market, bond yields increasing and the rand weakening noticeably against major currencies.

The heightened uncertainty relates to the cabinet reshuffle - particularly the replacement of the Finance Minister Pravin Gordhan and his deputy. These events have resulted in a downgrade on the economy's long-term foreign currency sovereign credit rating. The downgrade to sub-investment grade - commonly named: "junk status" was first announced by Standard & Poor's (S&P) and last week Fitch also downgraded SA's credit rating. Moody's has yet to announce its position, but commentators predict a downgrade.

Investment and economic analysts forecast a period of prolonged stagnation of the SA economy and even a possibility of a recession. What is certain is that we are facing a difficult period ahead. As a result of the down grading to "junk status" SA will increasingly fall off the global investor radar screens, and as such it is likely that interest rates will increase in real terms.

## What effect will the recent market events have on my Retirement Benefit?

Members belonging to the **Superannuation Fund** and the **Retirement Fund** contribute towards a **Defined Benefit** (DB) Fund. As such, benefits at retirement are calculated in terms of a formula, which is based on the members' age, service, salary and a fixed factor. The member is thus able to project what the retirement benefit is likely to be. Because of this, the member does not run the risk of poor investment performance. This means that recent events in the economy have limited bearing on the members belonging to these Funds (DB).

The **KwaZulu-Natal Joint Municipal Provident Fund** is a **Defined Contribution** (DC) Fund. The retirement benefit is based on the member's contributions and the employer's contributions, plus interest or investment returns less costs. Therefore, the member bears the investment risks as benefits in the Fund depend on future investment performance on the underlying assets. The member tolerates the risk of poor investment performance, but also shares in good investment performance.

The Provident Fund's goal is to offer investment stability and preserve investor's capital over time. To achieve this objective the Provident Fund has been crediting investment returns to members using a "smooth bonus" approach where the Fund holds up to 7% of its assets in a reserve account. This means that in times of good investment performance some of the investment earnings are not distributed and are used to grant bonuses in times of poor performance. Over the longer term the bonuses granted to members are equal to the actual performance on the underlying assets but much of the volatility is removed.

Although this Fund has exposure to market movements, in that bonuses are credited based on market performance, the NJMPF investment mandate given to asset managers directs a balanced portfolio, which is well diversified to mitigate current market shocks. Below we elaborate further on the NJMPF's investment philosophy.

## The NJMPF's Investment Strategy including Objectives & Benchmarks

The NJMPF effects a balanced portfolio and invests in a mix of assets, including money market instruments, shares, bonds and property. Up to 25% of the NJMPF's value is invested outside of Africa. The offshore portion of the Funds are invested in equities.

The NJMPF has achieved its long-term investment objective of achieving at least \*CPI+5% and over the past 5 years, has outperformed by 4.4% per annum as at the 31 March 2016. The NJMPF also achieved investment manager benchmark plus 0.4% per annum over the past 5 years. The Fund has achieved excellent short and long term investment performance which has enabled the increased and improved benefits to members. The NJMPF is consistently ranked in the top half

over the long term in the Alexander Forbes Global Large Manager Watch Survey. This makes the it one of the country's top investment managers with consistent long term outperformance.

***Sam Camilleri, Chief Executive Officer and Principal Officer of the Funds mentions; "We are comfortable that our strategies can withstand the worst of the current volatility. Following ongoing, rigorous stress-testing, we believe we have built robust portfolios that can handle the current shocks. Our recent performance is testament to this ability."***

***Further, "We are closely monitoring the market conditions both locally and internationally on how it affects members' retirement benefits. During these times, it is reassuring that our Funds are invested in well-balanced, diversified portfolios across asset classes and a focused group of asset managers who build portfolios with different approaches."***

## **Conclusion**

The Fund will continue to monitor the global and local market situation during these unpredictable circumstances. The NJMPF's investments have provided very good returns in recent times and members will be informed of any changes. Even though there is a possible economic growth slowdown and increased market risk, be assured that investments for retirement are a long-term process and patience is fundamental during these times.

**\* Please note, all information and opinions provided are of a general nature and are not intended to address the circumstances of any individual or entity. We are not acting and do not purport to act in any way as an advisor. This announcement is for information purposes, we advise that members seeking further advice or planning to implement a financial or investment strategy, should always seek counsel from a Certified Financial Planner.**

For further reading on the topic, the NJMPF has uploaded recent articles on the cabinet reshuffle and credit ratings downgrades.

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Press release prepared by the NJMPF

For any enquiries please contact:

Mr. Sam Camilleri - CEO/Principal Officer, Ms. Cheryl Ward - Chief Operating Officer, Mr. Lunga Mahlaba - Public Relations Manager, Ms. Siphindile Moloi - Communications Supervisor.

Telephone: 086 106 5673 / 031 279 5300 - Fax: 031 266 6715 - Email: info@njmpf.co.za