NATAL JOINT MUNICIPAL PENSION / KWAZULU-NATAL

JOINT MUNICIPAL PROVIDENT FUNDS

ANNUAL FEEDBACK MEETING - 24 FEBRUARY 2017

REPORT OF THE CHAIRPERSON TO

THE MEMBERS ON THE ACTIVITIES OF THE FUNDS FOR THE YEAR ENDED 31ST MARCH 2016

INTRODUCTION

Sanibonani

Molweni

Dumelang

Goeie more

Namaste

Assalamu-alaykum

Shalom

Greetings Ladies and Gentlemen

This is my third term in my capacity as Chairperson of the Natal Joint Municipal Pension/Provident Funds ("NJMPF") and it gives me great pleasure to present the Chairperson's Annual Report for the year ended 31 March 2016.

As an introduction to the proceedings, we will be playing a short video about the NJMPF, please enjoy.

The year under review has once again been a challenging one for the retirement industry. The economic conditions both locally and internationally continue to be challenging, with increased volatility and lower returns.

As many economic and political commentators have said we are facing a period in which the combined forces of nationalism and populism have been unleashed all over the West and all over the world. We are living in a changing world where old regimes are falling and dying and new ones rising.

Events such as Brexit and Trump as US President which appear to be threatening global co-operation are causing significant unease and volatility in financial markets. Geopolitical risk over the next year will continue to increase with elections in Italy, France and Germany which may result in substantial changes with a drive to a new and more militant nationalistic approach. These events are coupled with the increasing political strength of China, the rebirth of Russian nationalism and the continuing turmoil in the Middle East which continues to be a source of global instability.

The NJMPF has been aware of these economic challenges and therefore continually reviews the investment strategy to address the Funds' needs and as you can see from the Financial Statements, the assets of the Funds remain invested in diversified portfolios having both local and offshore exposure, which have produced excellent returns for the period under review. I will be discussing the Funds' good investment performance a little later in my presentation.

In this report I am going to comment on events which are common to all three Funds and thereafter concentrate on matters which are specific to each individual Fund. Some of the matters include the Funds' recent achievements, National Treasury's reform proposals, investment performance and member benefits.

THE FUNDS MISSION:

Our mission is to serve the best interests of our members by ensuring a high standard in retirement services to provide financial security. This mission is accomplished by ensuring a high level of pension administration, and collection, reconciliation and sound investment of contributions based on prudent investment principles.

Be assured that the Committee of Management and the Management will continue to do everything possible to ensure that the Funds maintain "world's best practises" in their administration and compliance procedures.

To this end I am proud to announce that, once again, the NJMPF was one of the few government enterprises to receive clean and unqualified audit reports from the Auditor General for the year ending 31 March 2016. The Funds have, for more than a decade, received clean audits from the Auditor General.

Further, in ensuring the maintenance of good governance, the Funds have subscribed to the Institute of Directors Governance Assessment Instrument. The Institute of Directors in Southern Africa is the convener of the King Committee and the custodian of the King Reports. This Institute has developed the Governance Assessment Instrument, which is an automated web-based tool that serves as both a measure and an enabler of good corporate governance structures, policies and procedures. The assessment criteria are based on the principles and recommendations contained in King III. I am proud to announce that, once again, the Funds have achieved an overall result of AAA, which is the highest score achievable.

I would like to express our appreciation to the CEO, Staff, Audit Sub-Committee and Committee of Management for these achievements.

FUNDS RECOGNITION:

During September 2016, the NJMPF's CEO/Principal Officer, Mr Sam Camilleri, was awarded; '*Up and Coming African Institutional Investment Personality of the Year'* by Africa Investor. The NJMPF and Mr Camilleri are proud to have received an award from Africa Investor (Ai) for a second year in a row. This, we believe, is evidence of the value that has been created for our stakeholders through providing superior retirement services.

Africa Investor is a leading international investment and communications group. Some of the sponsors of Ai include, New York Stock Exchange, World Bank, Thompson Reuters, Office of the Special Advisor on Africa and the World Pension Council. The purpose of these awards is to profile African Capital Market success stories to the global investment community. This is truly a great achievement for Sam Camilleri (CEO), the NJMPF, KwaZulu-Natal and South Africa.

During the year, the NJMPF also won an “imbasa yegolide” award at the Council of Retirement Funds South Africa (Batseta) conference. The award is an add-on from two awards received from Batseta during 2015. The 2016 award was for an excellent educational stakeholder programme on financial literacy in the category of *Financial Knowledge and Understanding*. This recognises the high priority that the NJMPF places on communication, financial literacy and education with stakeholders.

The Institute of Retirement Funds Africa (IRFA), a non-political body which represents and promotes the interests of the retirement industry in Southern Africa, announced its Best Practices Industry Awards, at its annual conference held at the Durban International Convention Centre (ICC). At the Best Practices Industry Awards ceremony for 2016, the NJMPF was awarded three trophies as the industry’s overall winner on the following areas:

- *Investment Practices,*
- *Financial Reporting, and*
- *Good Governance.*

The NJMPF has also maintained an international footprint during the year; Capital Finance International (CFI), a London based print journal and online resource organization’ reports on business, economics and finance, and rewards best practices found anywhere in the world through its Awards Programme. The NJMPF was declared 2016 winner in two categories, for *Best Corporate Governance Pension Fund* and for *Best Retirement Services*.

The international accolades received during the year also include an award received by the NJMPF from *‘The European’*, an intentional online and print publication, in the category of Global Banking and Finance Award for being the *Best Performing Pension Fund of the Year in South Africa*.

Also in November 2016, the NJMPF was awarded for excellence, by the World Pension Summit in their Innovation Awards for innovation excellence as overall winner in Communications, Investments, and Technology. The Innovation Awards program focuses on funds that use innovation to drive their pension funds and the industry forward. The awards ceremony was held in the Netherlands, at The Hague.

It is thus clear that the NJMPF is a leader amongst its peers in the industry. It has gained recognition for its consistent excellence, amongst others; in governance, communications and education/training practices, treating customers fairly and investment performance/practices.

Over the years, the NJMPF has notched up a commendable list of awards in the industry, both locally and internationally. These accolades recognise the continued commitment by the NJMPF to strive for excellence and exceed expectations in the retirement funding industry. They show the NJMPF’s continued commitment to providing superior retirement service for stakeholders in all activities affecting the Funds.

SAVING FOR RETIREMENT:

The majority of South African consumers have inadequate long-term savings strategies in place. Reasons for poor long-term saving include unemployment and poverty, low life expectancy, poor financial literacy and a fondness for consumption expenditure.

Experts say that as few as one in 10 people are making adequate provision for retirement, hence Government’s desire to introduce a National Social Security Fund. Developments in this regard are discussed later in my address.

There are three golden rules to making adequate capital provision. The first is to save 15%, as a minimum, of your gross salary consistently over your working life. The second is to preserve your pension benefits each time you change employment. And the third is to secure the services of a competent financial adviser before retirement.

We as the NJMPF have committed ourselves to embark on an education programme on financial literacy and to encourage members to contribute at higher rates, thus helping to ensure adequate savings at retirement.

By delaying ‘saving for tomorrow' in favour of ‘spending for today' a member is hoping that they will be able to make up any shortcomings at a later date. This, as we all come to realise, is a fallacy since life presents challenges at every stage.

So the more you save now, the better off you will be in retirement.

RETIREMENT REFORM:

As we have all read and heard, Government is proposing a number of important retirement benefit reforms that it wishes to implement.

Over the past 24 months, members have been expressing concern over the possible effects of changes by Government (National Treasury) to current retirement fund legislation. In particular, members assume that any new legislation will restrict them from accessing their retirement funds when they retire or resign.

Retirement reform is an on-going process which will take some time to be completed. Treasury has stated on numerous occasions **that vested rights will be protected**.

On the regulatory front, there have been several delayed events such as the topic of compulsory annuitisation for provident fund members which has been postponed to 1 March 2018 to give parties more time to consult. One of the demands made by unions is that Preservation (T-Day) measures can only be considered in the context of holistic social security reform.

On 18 November 2016 the long-awaited discussion paper on social security was finally released for comment. The introduction of a National Social Security Fund (NSSF) proposes a centrally managed public fund to provide pensions, death and disability benefits and unemployment benefits. All employers and employees will have to contribute a combined rate of 12% of qualifying earnings, up to a threshold of R178,

464. The publication of this paper has created significant debate and intensified the retirement reform debate that will shape the future of the industry.

The Committee of Management is mindful of the impact that any changes to pension fund legislation might have on member benefits and vested rights, and thus will continue to monitor developments and keep the membership informed.

COMMUNICATION:

During the year under review, the NJMPF has positively achieved 100% Municipal visits. All Municipalities in the Province of KwaZulu-Natal associated with the Fund have been visited, and those who have a greater membership have been visited more than once.

The NJMPF has also implemented progressive projects to promote education, communications and training to encourage a culture of saving and learning for NJMPF stakeholders and communities.

Some of these programmes include an informative interactive webpage which was introduced during April 2016, the webpage has a member portal which allows members to view their Fund information, at any place and time; the webpage provides a one stop site for all NJMPF communication, education and information. The webpage can be viewed by visiting: www.njmpf.co.za.

During the year, the NJMPF with J L Smith attorneys continued on the financial literacy programme, educating and communicating with members about the importance of creating and having a Will. Furthermore, during the year, the NJMPF also continued on a programme with Absa Beneficiary Trust as part of stakeholder communication, the activation with Absa Beneficiary Trust extends the level of consideration by the

Fund to not only communicate with active members and pensioners of the NJMPF but also to inform, educate and communicate with beneficiaries who are no longer contributing to the Fund.

Building capacity and knowledge through training workshops for Human Resources and Payroll Officers has continued during the year.

Additionally, during the year under review, the NJMPF has been recognised for a considerable number of accolades both locally and internationally. The programmes implemented by the Fund to educate and communicate with stakeholders received a specific mention at the World Pension Summit held at The Hague, in which the judges are quoted as saying;

> "*Their outstanding programs include: A communication initiative named, "Introducing a Financial Literacy Programme into Urban and Rural Environments". For this initiative The Fund collaborated with the Financial Services Board (FSB) and the Office of the Pension Fund Adjudicator (OPFA) to create an educational program on financial literacy which provided a comprehensive solution towards educating and communicating to members about financial matters*."

Through research, experience and consultation the Fund has identified key areas to enhance communications which is technology, financial literacy, education and building strong networks to enhance capacity to execute a deliberate communications strategy effectively.

Pensioner communication is extremely important to the NJMPF, and to this end the Fund has embraced the use of technology such as the sending of SMS's to all NJMPF pensioners. Also during the year under review, the Fund circulated Pensioner Newsletters, aimed at updating and informing pensioners.

Planned for 2017 is the development and rollout of an iPhone/Android icon application for cellphones, this will assist in communicating timeously with members throughout the Province. The Fund is also launching pensioner roadshows at venues across the Province. Topics will include declaration forms, pension increases, tax certificates and any general news affecting the Fund and pensioners. Importantly it will also be a platform for interaction and for pensioner to raise concerns and ask questions.

Pensioners are encouraged to attend the roadshows when invited.

INVESTMENT PERFORMANCE:

Over the year under review the index returns for domestic equities, bonds and cash were 2.7%, -0.60% & 6.6% respectively, whilst offshore equities, in rand terms returned 17.9%. All three Funds achieved total investment returns of 5.9% to 31 March 2016.

These returns have reflected in the combined assets of the three Funds increasing by 5. 2% over the previous year from R 16.4 billion to R 17.3 billion as at 31 March 2016.

The Funds' investment returns this year relative to the investment markets and the long term benchmarks set by the Committee of Management and the Actuary have continued to perform well.

The 5 year investment returns to 31 March 2016 were 15.1% p.a. for the Superannuation Fund, 15.1% p.a. for the Retirement Fund and 15.3% for the Provident Fund.

The Fund handsomely beat its objective by achieving returns well above the 10.7%, which represents the CPI + 5% over the 5 years ended 31 March 2016.

Year	*CPI + 5%	Superannuation Fund % Return	Retirement Fund % Return	Provident Fund % Return
5 years to 31st March 2016	10,7	15,1	15,1	15,3

Both the Superannuation and the Retirement Funds have achieved their long term investment objectives through an outperformance of 4.4% p.a. whilst the Provident Fund achieved an outperformance of 4.6% p.a. against the benchmark of CPI+5%.

Both the Superannuation and Retirement Funds outperformed the investment manager benchmark by 0.4% p.a. over the 5 years to 31 March 2016, whilst the Provident Fund performed in line with the investment manager benchmark.

This lack of outperformance by the domestic asset managers was primarily due to the high performance of the Funds' benchmark which is the SWIX free float equity index. The SWIX index outperformed the JSE All Share Index (ALSI) by some 5% for the twelve months to 31 March 2016.

Source: Alexander Forbes

* The investment objective prior to 1/4/2011 was CPI + 4.5%

This year the Fund was able to approve a significant increase to both Superannuation and Retirement Fund pensioners.

- A full CPI increase of **4.68%** with effect from the 1st of July 2016 and
- A special increase of **8.33%** in January 2016, effectively a permanent 13th cheque.

In our Provident Fund **R1 million** invested since 1 January 2000 has grown to **R9 million** by 31 March 2016. The Fund continues to be an excellent performing Fund.

RATIONALISATION PROJECT:

As a background to this project which has been undertaken by the Fund and the Department of Co-operative Governance & Traditional Affairs, the KwaZulu–Natal Office of the Premier commenced a Rationalisation of Law Project affecting all Provincial legislation to ensure compliance with “new order” regulations.

An important objective of the Rationalisation Project was that the categories of benefits in the two defined benefit funds, namely the Superannuation and Retirement Funds, be the same and no form of historical discrimination remains between the two funds particularly within the Retirement Fund. To this end once the Bills are promulgated member benefits will improve significantly.

I am delighted to inform you that the Bills have been approved and are presently with the Speaker of the Legislative Assembly. It is hoped that the Bills will be passed by the Legislature before the end of March.

Once the Bills have been passed and promulgated the MEC for Co-Operative Governance and Traditional Affairs will be able to promulgate the amended Regulations and Rules for the three Funds. This will include as will be discussed shortly in this report amendments to the election process for the Board of Trustees as required by the Financial Services Board.

Although it is impossible to provide timeframes at this juncture for the completion of the Rationalisation Project it is hoped nevertheless that the entire rationalisation process will be completed by the end of June 2017.

CHANGES TO THE ELECTION PROCESS FOR TRUSTEES:

The Financial Services Board undertook a review of the election processes of municipal pension funds during 2016 and concluded that many municipal pension funds election processes are not in accordance with the intent of Section 7A of the Pension Funds Act, in which all members should vote for their trustees. Currently the Rules and Regulations of our three Funds provide that trustees are elected by the General Committee at the Annual General meeting.

As a result of this perceived contravention the Committee of Management applied for and received a twelve month exemption in terms of the Pension Funds Act. The current Committee of Management now acts in terms of appointments issued by the Financial Services Board in terms of a section 7B(1) exemption.

In order to comply with Section 7A of the Pension Funds Act it is necessary to change the existing rules of the Funds to provide for direct elections by all members of each of the three Funds as well as the municipal representatives.

The Funds' legal advisors were accordingly asked to prepare an amended electoral process to the proposed rationalisation rules dealing with the appointment and election of the members of the Board of Trustees, as the Committee of Management will henceforth be known after promulgation and approval by the Financial Services Board of the rationalised rules and regulations.

The Fund has prepared an uncomplicated brochure which will be distributed to the members and municipalities to invite nominations for elections and appointment to the Board of Trustees, and explains the election process.

Once the rationalised rules and regulations have been promulgated and registered by the Financial Services Board, the NJMPF will hold a postal ballot for the appointment of trustees to the Provident Fund as well as for the employer representatives. To ensure continuity within the Board of Trustees the Retirement and Superannuation Fund trustee elections will be held in 2019.

The entire electoral process will be overseen by Deloittes, the internal auditors for the Funds, in order to ensure good governance and transparency.

THE SUPERANNUATION FUND:

Active membership decreased by 4.75% from 4709 to 4485 - the main reason being that employing Municipalities, as a result of SALGA's requests, continue to admit new employees exclusively to the Provident Fund. The number of pensioners, quite naturally, continues to increase albeit very slightly this year. The number of Pensioners increased from 5909 to 6043 thus giving a total membership within the Fund of 10528.

The assets of the fund at market value have increased from R10.11 billion to R10.50 billion.

The Fund earned a total investment return of 5.9% over the year to 31 March 2016

The interim actuarial valuation at 31 March 2016 reveals that the Fund is fully funded before allowance for a Solvency Reserve.

The funding level in respect of the active members decreased from 111.2% to 103.3% before allowance for the Solvency Reserve over the valuation period. This decrease in the funding level was as a result of lower investment earnings in 2016 due to poor investment markets and salaries increasing significantly above inflation. The assets in respect of active members exceed the liabilities on the “best estimate” basis as shown above; however, the assets are insufficient to cover the liabilities including the recommended buffer of protection (the solvency reserve). Thus the Actuary continues to recommend that the municipalities continue to pay a surcharge.

At the Trustee meeting of 21 October 2016 at which a draft of this report was discussed, the Trustees noted the required increase in the surcharge to the Natal Joint Municipal Pension Fund (Retirement). The Trustees agreed that the abovementioned surcharge of 9.5% to the Superannuation Fund should be reduced to offset the increase in the surcharge to the Retirement Fund, with the calculation being applied to each local authority on an individual basis. The principle is that the increase in the surcharge to the Retirement Fund will not result in any local authority incurring additional costs.

The Fund holds a Memorandum Account in respect of pensioners.

Over the period to 31 March 2016 the Fund earned lower than expected investment returns, and due to the special pension increase of 8,33% with effect from 1 January 2016, the funding level of the Memorandum Account decreased slightly from 128,5%

at 31 March 2015 to 125,9% as at 31 March 2016. The balance of R1.1 million is retained as a contingency reserve to provide for future minimum pension increases as prescribed by legislation and incorporated in the Fund's Regulations.

THE RETIREMENT FUND:

In line with the trend of the Superannuation Fund, and for exactly the same reasons, membership of the Retirement Fund continues to fall. This year it is down by 10.5 % over last year; down from 2477 to 2218 members.

The number of pensioners, since 31 March 2015 has only slightly increased from 5597 to 5621. The asset value of the Fund during the past twelve months at market value has increased from R3.65 billion to R3.74 billion, an increase of 2.5%.

The Fund earned a total investment return of 5.9% to 31 March 2016

The 2016 interim actuarial valuation disclosed that, in respect of the liabilities for service to the valuation date, the overall Fund was 93.8% funded, this is a decline in the funding level as compared to 31 March 2015 when the Fund was 96.1% funded. The decline in the funding level was as a result of lower investment earnings in 2016 due to poor investment markets and salaries increasing significantly above inflation. The Actuary thus recommends that the surcharge continues to be paid by municipalities.

As previous highlighted in my report, at the Trustee meeting of 21 October 2016 at which a draft of this report was discussed, the Trustees noted the required increase in the surcharge to the Retirement Fund. The Trustees agreed that the surcharge of 9.5% to the Superannuation Fund should be reduced to offset the recommended increase in the surcharge to the Retirement Fund, with the calculation being applied to each local authority on an individual basis. The principle is that the increase in the surcharge to the Retirement Fund will not result in any local authority (other than one) incurring additional costs.

The Fund holds a Memorandum Account in respect of pensioners.

The funding level of the Memorandum Account increased from 120,6% as at 31 March 2015 to 125,3% as at 31 March 2016. The surplus in the Memorandum Account is retained as a contingency reserve to provide for future minimum pension increases as prescribed by legislation and incorporated in the Fund's Regulations.

THE PROVIDENT FUND:

And finally, let me deal with the Provident Fund.

This is a growing Fund as, in line with SALGA's request, all new employees are being admitted to the Provident Fund. Membership has increased during the year from 12028 to 13117, a 9.05% increase.

The assets of the Fund at market value have increased from R2.63 billion to R3.02 billion; representing a growth of some 14.8% per annum..

The Fund earned a total investment return of 5.9% to 31 March 2016

In order to provide a cushion against volatility in the investment markets, the Fund declares investment earnings on a smoothed basis and thus holds an Investment Reserve. The level of this Reserve is reviewed quarterly by the Committee of Management, taking into account market conditions. At the valuation date the Investment Reserve was equal to 7% of the Member Share Account.

The valuation reveals that the Fund is 105.3% funded as at the valuation date.
The contribution rate allocated towards risk benefits and expenses in the year following the valuation date is sufficient to cover the cost of these benefits and expenses. The deduction of 3,75% of salaries is more than sufficient to cover expenses and the cost of the lump sum death benefit. The expected excess of 0,87% of salaries can be applied in various ways e.g. to increase the lump sum death benefit, using the surplus to increase the retirement benefit or to reduce the deduction of 3,75%. The alternatives are being evaluated by the Trustees.

The Fund is in a financially sound position as at the valuation date.

STAFF:

At this juncture I would like, on behalf of the Board of Trustees, to express our sincere gratitude to our CEO/Principal Officer, Mr Sam Camilleri for the innovative leadership in the management of the Funds and providing necessary guidance to the Committee of Management in various matters affecting the Funds.

To the rest of the staff I thank you for having served the organisation well through the year and I look forward to your loyalty and dedication in the ensuing year.

To my Deputy Chairperson, Ms Mavimbela, thank you for all your support and the loyalty you afforded me during your term of office with the Fund.

To my fellow Trustees: thank you for your support, contribution and guidance in our deliberations over the past year during which I have been Chairperson.

To you, the members, pensioners and employer representatives, thank you for your attendance today and I trust that you would also continue to show a keen interest in the affairs of our Funds and its future.

I thank you.

Mr Dube

CHAIRPERSON