Dear members, employers, colleagues and other stakeholders,

In my previous three chairman addresses to this AGM, the focus was on what still had to be done around this Fund to make and keep it a top of the range retirement vehicle. This time round, I can start by echoing a well-known saying, *I love it when a plan comes together.*

In 2011 your own *A-team*, consisting of the Board of Trustees, the Principal Officer and the various service providers, set out to achieve a number of important objectives in order to secure the benefits of our pensioners and of our members who still have to retire.

There were primarily four objectives. The most important and most difficult was to address the serious threats that faced the Defined Benefit Section. Coupled to this was the long term safeguarding of the Pensioners' interests. Thirdly was to provide our Defined Contribution members with tools to manage their retirement benefits in accordance with their own requirements and lastly to do a complete re-assessment of our investment policies to ensure that we are correctly positioned to face the new investment environment that followed the 2008 financial crises. Having achieved all of these, we can look back over this three-year period that may well be the most significant in the Fund's very long history.

Simeka will shortly provide an overview of the Defined Benefit Section's restructuring, but I wish to reflect on the value of the solution to transfer Defined Benefit Section Members to the Defined Contribution Section. I believe that we will look back in the years to come and confirm that the solution was the right move at the right time. Although there were no immediate crises, it is a simple fact that in the long run there was a high probability that members' benefits would be eroded. The DB Section was ageing at a rapid speed because employers did not allow new entrants to this section of the Fund. In 2002, the average age was around 45 years, compared to an industry norm of 42 years. At present, the average age is already at 50 years. In order to maintain the original pension promise at retirement amidst a continuous ageing of the DB Section, the monthly contributions need to increase. Our actuarial estimates show that total contributions will have to increase from the original 27% of pensionable salaries to as much as 36%. In terms of the Fund Rules, the increase could be paid by employers, or members, or both. If such extra contributions did not take place, the only alternative would be to reduce the pension benefits of member.

We saw the concerted resistance from employers when we introduced a contribution increase in 2012 and we know we will end up in continuous legal battles in future if we try to only make them contribute more. Our expert advice was that even if we won the first rounds, in the long run the benefits of members would most likely be one of the casualties.

Instead of waiting to see how the future turns out, this Board of Trustees decided to take the proverbial bull by the horns and fix the problem whilst the Fund was still healthy and employers could be convinced to contribute financially to solving the long-term problem. We had to make difficult decisions and most of our time over the past three years was spent on developing the best plan of action. Negotiating with the many employers to convince them to make a substantial financial contribution towards our proposed solution was quite a lengthy and difficult process. In the end, however we had agreement that the solution to transfer members to the Defined Contribution Section of the Fund was in the best interest of the Fund, its members and participating employers. Final agreement with the vast majority of employers was reached in December last year and since then more employers have agreed to participate. To date, more than 80% of members will transfer within the next two months, starting 1 May 2014. This is on the assumption that the Financial Services Board will, as expected, approve the relevant rule amendment within the next few days. Simeka will talk about this shortly. We will continue to engage with employers who have not yet responded. For those employers who did participate, I wish to pay a special tribute for having walked the extra mile in the interest of members.

Our Defined Benefit members, who have received their benefit statements and attended the information sessions, will attest to the significant value that will be added to their current benefit in the Fund. On top of their current benefit is added a significant financial enhancement from employers, plus the net contributions since June 2013, and finally, the investment return on their benefit since July 2013. During the member information sessions, it was pointed out that the investment returns alone would add approximately 10% to each member's benefit in the Fund. As will be seen shortly, this figure has improved even more. I am sure that this has contributed to the Fund thus far not receiving a single objection from members to the process, which I regard as proof of a job done exceptionally well by the Board of Trustees and the Fund's restructuring team.

With the Defined Contribution Section members now having their own investment pool, we were able to introduce the Life Stage Investment program where members' savings are invested automatically, or by individual choice, in investments with a risk/return profile that best suit the life stage requirements of members. For transferring Defined Benefit members who, unlike before, are now directly affected by the Fund's returns, the Life Stage Investment program is a very useful tool to understand and influence member's own investment portfolios.

It was a prerequisite of the Defined Benefit Section's restructuring that the Pensioner Section be left 100% funded, which included provision for annual increases of at least 60% of inflation. This we achieved, and as will be reported by the investment advisors, GraySwan, and our actuary, Sean Neethling, we have done even better for our pensioners.

All in all, the Fund's restructuring has benefitted every section of the Fund. With continuous pension industry talk of funds having to merge in order to gain critical mass and that there may even be future legislation to that effect, the Fund is now also in a much better position to beneficially pursue such opportunities, should it arise or become necessary.

Having successfully restructured the Fund, the Board of Trustees now have to consider appropriate new governance structures. We are looking at a complete revision of the Fund Rules to ensure that it is up to date with industry and legislative changes, but more importantly, that it properly safeguards the interests of members. We are also looking at a revised Board composition and quorum requirements to reflect the new structure of the Fund and we will as always keep you informed of developments through our newsletters.

The Fund originally had its assets in one big investment pool. Over the past three years we started with a process to split the assets so that the Pensioner Section, the Defined Benefit Section and the Defined Contribution Section would have its own investment pools, each with a unique investment strategy to best fit the requirements of members. Our investment advisors, GraySwan, will shortly present on the successes that have been achieved with this strategy, despite the volatile investment market. Following the 2008 financial crisis, investment gurus advised that it would take thirty years for our own stock market to reach its old record highs with an all-share index of around 36 000. As we all know, it took only about eighteen months before the JSE was back at these levels and since then it has not stopped breaking records, with the all-time high of nearly 50 000 reached only days ago. Although this may all sound very prosperous, such a volatile market poses serious challenges and threats to a pension fund. We aim to achieve a high return without taking too much risk, whilst at the same time protecting capital. This is not easy in a market that just keeps on moving. For this reason the Board of Trustees plays a very active role in the management of the Fund's investments and we meet every month with our investment advisors to consider performance and steps that need to be taken. We also involve further expertise, such as that of our actuary, investment specialists and economists. This enables us to formulate new investment strategies when needed, with a sensible balance between being cautious and conservative on the one side, and the principle of higher risk, higher returns on the other.

To date, this approach has proven very successful and we substantially outperformed our targets despite the volatile investment market. For the Pensioner and Defined Benefit Section, our target is to outperform inflation by 4% per year. We achieved a return of inflation plus 15% over the last 12 months up to April 2014 and inflation plus 12% over the past two years. For the Defined Contribution Section, which will in future be the only active member section, the target has been 6% above inflation per year, with the Fund delivering inflation plus 11% over the past year and inflation plus 10% over the past two years. The figures represent a huge outperformance by the Fund and I invite you to compare these results with that of other local authority funds.

For the Pensioner Section we also introduced the so-called Liability Driven Investments, where profits are locked in over time to ensure that pensions, as well as pension increases, remain affordable depending on each member's risk profile. Going forward, the investment targets for active members are set at different levels, depending on the particular Life Stage Program. This is done in order to reflect a less aggressive or more aggressive investment approach in line with each member's risk profile. I urge you to make use of this opportunity to be the master of your own destiny.

In summary, over the last three years your Fund has made considerable progress in positioning itself such that it can deliver on achieving, and safeguarding, good retirement benefits for all its members. For this I have to pay tribute to an excellent team. The Board of Trustees and the Principal Officer and his team of service providers were steadfast throughout in their resolve to achieve the difficult goals and I am grateful to them all. There is and will always be more to be done to improve the Fund for its members. You can rest assured that we will continue to have your best interests at heart.

Before I end off, I want to pay tribute to Robbie Robbertse, the chairperson of the Pensioner's Association who passed away a few weeks ago. We will remember Oom Robbie for his unselfish dedication to the interests of this Fund and in particular our pensioner members. We will miss his presence, may he rest in peace.

We will now go over to the presentations by service providers. As always, we have a general questions item on the agenda, at which time you are welcome to also raise any questions you may have on my report.

I thank you.

Herman Botha
CHAIRPERSON

23 May 2014