**CHAIRPERSON**: We are already a few minutes late, apologies for that but we had to count the number of representatives that signed in just to make sure that we have a quorum for today and the – there is a quorum. Welcome to everybody present here this morning, we are glad that you could make it to this meeting, that you made your time available to come and attend this meeting. I would also especially welcome our pensioner Trustees, our employee and employer Trustees for being here this morning. It was a very challenging year but I'm really proud of what we have achieved during this financial year and you will see it in the presentations from our service providers this morning and there were a lot that we achieved over the past financial year. Also welcome to our Board of Trustee members and our service providers, thank you its – they are all here, thank you for being present this morning. Myself you know already, you know the lady on my left hand side is Michelle van Zyl, she's the Deputy Chairperson but on my right hand side there is a new fact, Ilse Hartlief, she is the new Principal Officer that was appointed 1st of July last year. Very competent lady, she had already done a lot in this Fund, Ilse, also welcome to your first AGM.

**MS HARTLIEF**: Thank you very much, Mr Chair.

**CHAIRPERSON**: We are going to start the normal way and I'm going to ask Eddie Thompson of VERSO, he's a director with VERSO to open with scripture reading and prayer.

**SCRIPTURE READING AND PRAYER**

**CHAIRPERSON**: Thank you, Eddie, thank you for your prayer. The next item on the Agenda – I presume everybody received a copy of the Agenda. If you haven't got a copy – are there copies available? Please just raise your hand – it doesn't look like it. Item number 2 on the Agenda is the Notice – proper notice was given in terms of the rules of the Fund and as we have heard there is a quorum available so, I can declare this meeting properly constituted in terms of the rules of the Fund. Can we accept the Notice as being read? Thank you. Any apologies that you want to be minuted. There are two apologies from the Trustees' side, Mr Jonathan Levak, he's at the Council meeting, unfortunately he cannot be here, and Mr Piet Esterhuizen, a pensioner trustee, he's on holiday – on leave – I think in the Kruger Park. Any other apologies that you want us to minute? Nobody, thank you. Then we get to the third item is the Minutes, the Minutes was distributed to everybody. Are there any corrections to the Minutes? No corrections, can I then get a proposer for acceptance of the Minutes? Just give your name please.

**MR BERGH**: [Inaudible – not speaking into the microphone].

**CHAIRPERSON**: Ferdie Bergh and the seconder?

**MS VAN WYK**: [Inaudible – not speaking into the microphone].

**CHAIRPERSON**: Sheila van Wyk, thank you very much – Minutes accepted. The next item is the address of the Chairperson. I'm going to ask the Deputy Chair, to take the chair while I'm reading the address. Everybody received a copy of the address, I presume – thank you.

## CHAIRPERSON'S ADDRESS

**DEPUTY CHAIRPERON**: We thank Herman Botha for the insightful words and we take it – I hand back to him as the Chairperson.

**CHAIRPERSON**: Thank you, Michelle. We are going over to point 5 now, which is the presentations, and the first presentation is about the investments and Fund performance. That will be done by Duncan Theron of GraySwan and the second presentation then will be our actuary Sean Neethling from Momentum that will do the actuarial dashboard.

**MR THERON**: Thank you, Chairperson. '*Goeie môre almal'* – good morning. It's wonderful being here again. I think Eddie started the presentation spot-on when he was just referring to life's about cycles and investments is also about cycles and seasons, and what I thought of doing in the presentation is just to reflect back at the previous AGM and give you some highlights thereof, and then to put everything into perspective because time's moved on and I think we're in a different season as we stand. So, three four years back the Fund embarked on this – this new path and it's summarised very well by this poem by Robert Frost where he says:

> "Two roads diverged into the woods, I took the road less travelled, and that has made all the difference."

And that is really the case. If you look at just the results, and this was reflected in the previous AGM. If you look at those performance for the then Defined Benefit Fund which has now been closed and all the members have been moved over to the Defined Contribution Fund you can just see then that all the had work in the three years leading up to April 2015, produced a return of 56.5%, the target was inflation plus 4. So, handsomely exceeding that target and the same with the Defined Contribution Fund – 57.1% and the target was CPI or inflation plus 6%. So, for members that's been saving, you moved forward very fast and materially. If you look at people that haven't been saving in the last three/four years, it's been hard to move forward because our economy's been distressed. The average person I think gets maybe an inflationary increase and you're not going forward. So, it just emphasis the importance of saving. So, this I think has been a season to – as Eddie said, to dance, it's been a great season for the Fund, and we were blessed with possibly the five best years of performance in the investment markets that our markets have ever seen. But as we cautioned at the previous AGM as well as in the communication, that I think we're in a different season. We're in a season of being more cautioned, being more protective and potentially in a retention type mode. The markets is tough out there, our economy is tough, it's very volatile, it's uncertain, I think not even the best investment professionals know where to from here. So if I can put that in perspective. If you look at this graph here, what I've done is I've shown you in the grey, the performance of our local investment markets and there's three or four major asset classes; equities, cash, bonds, property – how they've performed over the last 115 years in real terms. Real terms means how well have they done in excess of inflation because for a member, you have a basket of goods that you buy every month, that's inflation, you need to grow your wealth in excess of that. And you can see for example over the last 115 years the local equity markets have given you about a 7% real return. So, inflation plus seven, it's handsome. Our local stock markets actually being the second best stock market in the world, over the last 100-110 years so, we've been truly blessed. But if you look at just the last, let's say the last ten years in the dark blue and the last five years in the lighter blue, you can just see how well our markets have done. They've provided us with inflation plus 10% return. It's been a phenomenal period of market performance. But what I'm trying to emphasise is that, markets typically revert back to the average, to a mean to a point of equilibrium. So, this has been a very blessed period but over the long term, our markets should provide you with about inflation plus 6/7%on any rolling three, four, five year period. If you look at other asset classes, I mean look at the bond market, over time it's given you about inflation plus 2%. So these are Government bonds, it's more conservative type bonds giving you a steady return stream, steady income stream, it grows your wealth smooth and steady. But if you look at the last five and ten years, you can see it's been more than a double-type return, inflation plus 4%. If you look at, let's say property, I mean over time property has given a real return of inflation plus six but just look at the last five and ten years, a real return of 14. So, inflation plus 14. So, inflation is six, plus 14, it's given you about 20% return over time and it's really because our property market has become more open to foreigners, it's a fast growing market. So there was a lot of momentum behind that market but I think that's kind of hit its top right now. And then if you look at offshore markets, over the long term also about a real return of 6% in Rand terms so, it takes into consideration Rand depreciation. So, if you put your money offshore in dollars and the Rand depreciates, you actually get wealthier so again, a phenomenal period. If I just look at going forward, you can look at the expected returns for the next – let's say the next ten years, and it compares to what we've seen over the last ten years and then the message is just very clear, that you have to lower your expectations. You're not in an environment that we just take on risk and chase those type of returns. I think four/five years back we changed the strategy of the Fund to a risk on strategy to participate in the up markets. We have just gone through 2008 where the markets lost 40% in four or five months and we were cautious then, thereafter we bought into cheap shares and cheap investments, we took on much more risk right to the top – you can say the top of the mountain but we've had to be more cautious so we stand right here. So, you can see for example local property, you are not going to see those type of returns. In equities, you are not going to see those type of returns. So, it's about us managing the investments differently and more cautiously so, there's a much bigger burden and onus on the Trustees on a weekly, monthly basis – it's tough. You have to stick to the strategy – they always say, 'direction determines destination,' we know where we heading but we have to stay on that path, but for you as members you have to be more educated. I think that's where an appointment like Old Mutual comes in that you have to be more educated about your finances – are you – do you have enough for retirement? If you're going to see lower returns, are you going to get to that Rand amount that you need for retirement to, let's say, sustain your current lifestyle. So, maybe it is that you're going to have to save more even outside the Fund, that's the – the key message. So, at the last AGM I showed this exact cartoon and if you're a mountain biker or you cycle, a 'granny gear' as are referred to there is simply the last gear on your mountain bike that you are really spinning against that uphill. There's no other gears, if the hill starts getting steeper you're going to fall over okay, and that's where our economy was then, that was in June last year. What's happened since, well I think we've gone from 'granny gear' to 'baby gear' because you can see most investors have – have had a torrid time if you look at November, December the stock market dropped 10% in two months, our currency blew out, we had the Nenegate. I see the PIC or the GPF, it's about a trillion Rand pension fund but I mean they lost nearly a 100 billion just in those three, four months. So, we had to work through that and the Fund – fortunately the Fund consistently has protection strategies in place. I mean yesterday the Investment Committee met again, and we have to consider all avenues and scenarios and were constantly putting on protection so, that we don't lose, and that we don't have this scenario. Ja, that's the markets, I must say my hair has grown back since then. Herman Botha is more relaxed, but it's very, very uncertain. So, since June last year, if I just reflect on the last six and 12 months, I've just highlighted all the red numbers are either negative performance or performance when you've moved backwards in real returns – so, you've returned less than inflation. You constantly have to earn more than inflation to move forward and you can just see, there's the stock markets so, yes we've had a phenomenal stock market up to around June, July last year at that AGM. And since, well the stock markets have gone nowhere, that isn't actually a true reflection because the stock markets lost 10% and bounced back 10% and lost again and it's been exceptionally volatile. Other asset classes like bonds, which over time have given you inflation plus 2 to 4%, a flat return. Our bond market actually had the worst three or four months in history in November, December, and January losing about 10%. That's how touch it's been and ja, you can see – I mean to stay in line with inflation, I mean, ja, property barely made it and cash barely made it before fees. If you have to pay investment managers' fees, you have to deduct that. So, it's been exceptionally difficult just getting to inflation, never mind getting to your targets, your accumulation phase targets, inflation plus six, so that's 6% plus six and so forth. So, it's been really difficult, you have to look through the cycles, to look through the cycles, well at least shares are still giving you that inflation plus 6% but over the short term, it's much more difficult. And this picture reflects just how volatile it's been. Look at the stock market – up and down and up and down and up and down, really like a rollercoaster ride. Look at listed property, up and down as well and other asset classes just – they're just moving sideways as everybody is waiting for good news – they want to see what's going on, what's going to happen in the markets overseas. If I look at just the various sectors in our industry then there's basically three major sectors, financial, industrial, and resources. And you would've seen just how tough it's been for the resource sector, our gold mines, our platinum mines, copper, silver and it's basically off the back that China is not growing at the 8/9% growth rates of the past. So, if China is not growing as fast, they're not importing our commodities for example, we're the biggest export of platinum to China. If they're not growing, who's going to – who's going to demand our platinum? And you can just see resources stocks, now for the past ten years have only given you 1.57 and those are the companies that's been driving our economy in the past like Anglo American, Impala, Billerton. So, virtually it's gone nowhere. If you put your money in resources, ten years later that's per annum, if you compound it, you would've got about, let's say a 10% return. If you had your money in financials for example, if you compound that over ten years, it's about 200% return. That's how divergent the performance have been. So, your Trustees and the Fund managers and the people that we appoint to manage, let's say your equities, have had to be smart about this and we've been very underweight resources. Funds had between 10 and 12% to resources because there are very cheap shares to buy there so, you don't want to completely miss out if it rebounds and that has rebounded of late but the majority of the assets been in financials and industrials. You can see like for example, the last six months, financials and industrials have lost money and resources have rebound and that's how the markets work. You can just see in this section here, there's your financial and industrial shares those are shares like Naspers and SAB. You saw the big corporate action in SAB and the stock jumped 25% quite recently. Naspers is up another 10% but these are very expensive shares, whereas these shares are cheap to buy but who knows when the cycles is going to turn around. So, these are the dynamics we have to manage through on an ongoing basis to get to those performance targets. This is a slide just about money inflows into South Africa, investment inflows and that's critical for our economy because the more foreigners invest in this country and have confidence in this country, the more it stabilises and provides momentum behind our markets. If you look at the – the graphs above the zero line, those are positive inflows and these are billions of rands. You can see for example it's 5 billion, 10 billion, so the picture there up to end 2015 was really that there were positive momentum behind our markets. I mean I – Johannesburg stock exchange has been voted the best stock exchange in the world for many, many years – we are a sophisticated investment environment and foreigners if they want emerging markets, they want to take more risk, they come into our markets as a proxy for emerging markets. But what have we seen of late? This is not great for our investments markets. As foreigners have started pulling their money. Now foreign investors own about 35% of our bond market and about 50% of our stock market. So, if they're pulling their money out, it puts downward pressure on our markets. So, that why from Government, economy, corporates, we need to imbed confidence back into our economy that foreigners start investing here to give us momentum so that our stock market keeps going up. If you look at the offshore, maybe your friends are saying no but they've missed all this because they invested offshore – well just to give you an idea, even offshore markets struggled. It's been difficult across the world. I mean, offshore equities lost 4%, if you remember our market is about flat, about 0%. They lost 4.1% and the rest – ja, nothing to speak of. I mean even if you invest over the long-term offshore and we've have one of the biggest bull markets, meaning a strong upward moving market in equities offshore; it's only given you about 4% per annum. So, investing offshore it's not nearly as attractive as investing locally from a pure performance perspective. But what does help is the Rand because the rand has depreciated so materially – if you'd had money offshore suddenly, look at your offshore assets, it's not negative 4 or 5%, it's positive 15% because our Rand has blown out, about 20%. So, it's – it isn't great if you look at the newspapers or listen to the news and they give you the bad news about our currency but if you've got money invested offshore, then you're actually benefitting from Rand weakness and for example, your Fund for aggressive members have had close to –allowed 25% offshore. So, we've – we've benefitted from that but the Rand is potentially too cheap right now. It could actually strengthen and again, that's what we have to monitor on an ongoing basis. So, ja just a quick reflection of the Fund's performance, those are your life stage portfolios, so if you've got a long term to retirement, invest in the accumulation phase it targets inflation plus six and what's critical, it targets it over a five years and longer timeframe. So, you have to patient because were investing most of the money in equities and equities takes time to unravel those investment strategies and the profits. Consolidation, inflation plus four, so six plus four, it's about a 10% target and ja, I mean you can see then we start looking and we even try and protect the little bit of capital. And preservation, there's a big focus on protecting capital over 12 months rolling and in the cash plus, it's just a strategy if you want to opt out of the life stage and you really think you want to protect capital, you're really worried. I would say this is a dangerous strategy, you have to be very sure if you want to do that because I think in the Chairman's address, it's not about timing the market, it's about time in the market. You always have to have a little bit of equities in the portfolio to move forward. So, if you look at the performance, ja it's been a dismal 12 months, remember stock market gave you zero, offshore equities gave you negative 5%. Yes, the currency helped us so, to get to that target, well our target is a five year rolling target but just to show you over the last 12 months, it's been exceptionally difficult. Because inflation has been moving up as you all know, you had the worst drought, it's impacting inflation further and investment markets have been going down. So, for us just to stay above the water and get a 4/5% type of return, has been exceptional and I can show you, we've showed to the Investment Committee yesterday, that your Fund is one of the best municipal performers in the country and has exceeded the average fund out there. If you go and compare yourself versus an average inflation plus 6% fund in the industry, you go and look in the newspapers whatever, go look at that number and you'll see you've exceeded it. So, in a relative base to other funds or piers you've done exceptionally well, but it's been a tough time. If you look at maybe just the longer term, so since July 2014 more or less when the Defined Contribution, the risk profiles was put in place, it's 22 months you can see still below the target but we've got a five year horizon. I mean there's the CPI plus four, close so very happy with that, the target and then you can see the preservation which targets CPI plus two return over about 24 months time – well, this is about 24 months, it's met the target. So, within that timeframe that we've just set, we're on target and the cash plus as well. I mean, if you look at these, these are top quartile performers in the industry so, meaning you're in the 25 best funds in the industry. So, it's been tough but I don't think there's anything to be concerned about, you've still done well on a relative basis. The pensioners, the actuary is going to talk about the pensioners. I would want to maybe just skip over and say, look at the end of the day the pension's got a very specific strategy, it tries to give you a 60% of inflation over time and a top up, I think every three year rolling basis, and the Fund changed the investment strategy about three/four years ago to what they call, use a liability driven investment strategy. All it is, it's a very, very focussed strategy on what a pensioner needs. A pensioners needs surety, they don't need uncertainty and so for the pensioners we've locked in what we call the solvency level, just to basically say that, you don't have to worry about your monthly pension you're going to receive. If you receive a R100.00 every single month, we've locked that and we've protected that. And if you want that 60% inflation every year, we've locked that in, we're protecting that. A little bit of the assets, were putting into a strategy to potentially give you more and ja, I think the pensioners again got an inflation increase so, that was all good. Then the – just the year in review, the Chairman has alluded to all the hard work and there's definitely been a lot of things on the go. So, for a fund to be a leader in the municipal industry, which it is now, you have to do things differently. You have to do things differently than the crowd and that takes courage, because when the markets fall most people run away, they get scared. We get into the markets when they fall and when they provide us with attractive entry points. The Fund's been a first mover, first mover just means that you're the first to identify an opportunity, a first to implement something into your investment process and I'll show you a slide or two. We've been minimising implementation shortfall – all that means is we've increased the speed at which we do things. I mean an investment committee meets monthly, a board of trustees meets monthly, an audit committee meets monthly but within the months a lot of things happen and our markets have become the most volatile it's ever been. So, sometimes decision needs to be made intra (sic) months. Not like in the old days, we've had to adjust the strategy to be more nimble and be more flexible and we've done that. I'll show you a slide or two and it's also about doing things right always, and if I say right, it's being a responsible citizen, it's being a responsible investor, and I'll show you a slide on that and just continuously enhancing the way we do things. The fact that the Fund has been a top performer in the industry for the last now four years, that doesn't mean we just sit back and we say that what we've done works. What it means is we're constantly asking, is that still going to work going forward and we're changing things. Sop, the next three/four months there's a big burden and a onus on the Trustees we're going to make a lot of changes, implement more dynamic strategies because the markets are moving sideways and down – our strategy before has been for a market that moves upwards so, we have to adjust. So, being a responsible citizen there is a global approved best practice body called the PRI, Principals of Responsible Investing and I'm very proud and the Trustees are as proud too that your Fund is now one of only six pension funds in the country that are a member of PRI. So, what does that mean – it just means that you implement the best governance, best investment practice, you manage or avoid conflicts of interests, you're doing the right thing always. Let me give an example, we appointed a specific manager, a specific fund that has responsible investing principles imbedded in the mandate meaning, they will only invest in companies that have got a big focus on environmental, social, and governance issues. So, the – because we invested there we missed a debacle like this. If you read the newspapers Volkswagen, there was a mission scandal, and if you look at the stock price, the stock price was there, it's nearly halved because of a board of directors actually lying about certain things. Now, this manager or mandate that we appointed was so focussed on governance issues that they simply said that we – they can't invest in Volkswagen because their governance isn't world standard so, we'd had no exposure to Volkswagen. I can tell you the large majority of any investor had exposure to Volkswagen because everybody thinks it's a great company, it's a great car, we missed it. Simply because the Fund implemented a responsible investment process and not just focussing on those risks but focussing on these risks as well. These are new risks and over time it pays to look at these things, you can make more money if you invest responsibly – it's a completely new mindset and the Fund's already implemented that in the last year very, very successfully. So, it's just one example. Also in the last year is the Chairman alluded that there's been a big focus on cost savings. If you're not seeing those 15/20% type returns, you're seeing a 6/7/8% returns then your costs become a much bigger percentage of your return, so you have to manage your costs much more closely. And if I just look at the investments side then there's been a material reduction in fees, so just the way we've renegotiated fees with the investment managers over time, a changed mandates in the last 12 months has added about R8 million. Basically were not paying the R8 million anymore and it's significant and in total, if I just look at the total fees that was paid, it was about R50 billion less also because its been a lower return environment so, the managers hasn't done as well. So, that is a major, major saving. And if you just look at the – if you look at an average fund or the industry about 80% of your costs are typically paid to investment managers. The guys manage your assets like the your Allan Grays and Coronations and those brands, it's expensive. They employ some of the smartest people, big systems, but if you look at where our Fund now stands, it's about 0.4% and 12 months back it was 0.57 and the year before that it was higher than that. So, there's a – been a constant drive to get these fees – that's down to the bone, and this now gives us room to manoeuvre because the new strategies we have to put in place for the Fund, they are more expensive strategies because they have to be more nimble and they have to help us during this time but we've got the room to move. So, that's been a big cost saving and putting the Fund in a great position going forward. I mentioned that the Fund is more nimble so, what are one of things that we did. We appointed an expert to work with us as advisors and the Investment Committee called the tactical asset allocation manager. It's all in the word 'tactical', 'tactical' just means more short-term. Yes, retirement fund monies has long term investing – year two, three, five year horizons but for us as the decision makers, we have to look at things on a daily basis. When the Nenegate happened, the Rand blew out, there was an opportunity to buy rands. Right now, bonds are cheap, our bond yields have spiked out so, there's an opportunity to buy in this quarter so, we have to not miss those opportunities and this is a manager that helps us. So, we keep the focus on the long term but if there are moneymaking opportunities in the short-term and we've getting compensated for the risks that we'll take, we'll take them. As an example, there is one strategy that we are about to implement in the next month or so, it's a strategy that hedges you for down side. It's a more dynamic strategy and you can just see look at the stock market, those blue lines. If you see a number less than a zero it's how you've lost money. So, look at Nenegate in November/December where the stock market dropped 10%, just like that, in a month, okay. If you had like those type of strategies in place, well we wouldn't have lost ten we would've let's say three or four and then we could've bought into the market again, it's a very shorter term type strategy. It's not as if we're going to put a lot of money in there, I think we're going to start with about two and a half percent into those strategies, but it's just part of enhancing the total structure. Another one where we feel we need to be brave is in Africa, the Fund hasn't had exposure to Africa, which has been the right decision. I can tell you again, if you look at the industry, 80% of other funds have invested in Africa, and what have they experienced – they've experienced a drop of 50% value because that's where the Africa markets have gone to but at this point in time the

Africa markets are cheaply valued. There's an opportunity to buy, you just have to be brave and if you invest in Africa you have to have the long term horizon, so this is something that we're also looking at to potentially allocate 2/3 or 4% of the Fund's value. Our stock market is currently the most expensive stock market of all the emerging countries whereas Africa is cheap. So, it's simply just moving a little from South Africa or expensive markets into a cheap market, it's on the edges. And to be brave, I thought this is a very good – just a good cartoon to put into perspective what we're trying to do, well – "So how does the stock market work?", the boy asks his father. He said, "Well, if you put your money into it, and for some reason you lose money and then you panic and you sell and somebody who's smarter than you then makes the money." So, we think we're a little bit smarter so, when everybody's running, we'll get them and that we've done before and that's what we're going to do with something like Africa – as one example. So, in summary; the Fund is a top performer, I think you can be very proud of the work that this Board of Trustees have done and not just the last year, the last three/four years has been a phenomenal result. It's not been easy to move from Defined Benefit to Defined Contribution, protecting values and still get all that upside and we focussed the Fund, the Fund was around 30 different manager or mandates. It's around 15 today, it's very focussed. We think we've got the best managers in the different pockets where they need to be and as you've seen the costs have been reduced materially. So, you're not on second rate managers, you're on the best managers, the best of breed but at lower fees and we've increased the flexibility so, we're more nimble, we can move. And we'll continuously look at ways to enhance the management of the assets and I think again most importantly, what we're proud of is just the new approach and the Fund is a first mover and unique in that sense and a long term. As those two roads diverge into the woods, the Fund has taken the road less travelled and it's already made the difference and we believe it will make the difference going forward. So, I thank you for listening to me and keep saving, stay to the path, direction determines destination.

**CHAIRPERSON**: [Not speaking into the microphone] Duncan, thank you very much. While he's taking the mic there, I can just tell you we have also discussed our investment model yesterday in full detail and we are really proud to have GraySwan and Duncan on board (indistinct) our performance so closely. And to the Trustees, has also appointed GraySwan that they can advise our individual members that want to retire and put them on the same model that they – that we're using for the pension fund – you as individual member.

**MR DU PLESSIS**: Robert du Plessis, East London Municipality to Duncan please. To senior staff, East London branch, superintendents, he said they panic a bit. They said after the change over to the DC, they found a beautiful rise in their value, but last statement said a hell of a drop in their money. So, is it because of inflation or what is the cause of that problem – thanks?

**MR THERON:** Thank you for that question. Let me just find the slide – I'd be surprised if they say that they experienced a significant drop because if you look at, let's say there's the stock market and you can see it was around last year, you can see the stock market, yes had a drop. The worst peak to trough was about 10% in a month and it has basically recovered that already. And if you think, let's say if you're in an aggressive portfolio, you would've had about 50% to equities.

So, 50% times the 10% is about a 5% drop but other assets produced positive return so, I think if I would guess, the – at the worst time, the worst months, the Fund had last year was a return of about minus 1.5, because we had all those protection strategies in place. So, potentially you need to speak to one of the communication consultants or maybe VERSO just on that fund's statements because there was no material drop and the Fund actually survived that Nenegate phenomenally well.

**CHAIRPERSON**: [Not speaking into the microphone] Mic, please.

**UNIDENTIFIED MALE SPEAKER**: [Not speaking into the microphone] I don't need the mic.

**CHAIRPERSON**: [Not speaking into the microphone] Don't you share a mic?

**UNIDENTIFIED MALE SPEAKER**: [Not speaking into the microphone] My benefit in the Fund grows with about just over 1% last month. I see the commercial banks offer more than 10%. Why is that so, why is it possible for them to move from more than 10% to my ending with one comma something?

**MR THERON**: Thank you for the question. So, 10% that is if you've invest your money, let's say for a full year and if you say that you're generating 1% in your fund, then 1% of a whole year is about 12%, so you're actually generating more. For a commercial bank, if you look at the top four rates banks, if you invest your money with them for the next 12 months or so they'll give you about a 8% return, 8/9%. So, if you invest in a commercial bank, if you're getting ten you have to take on that credit risk, so you'll typically be in Capitec or one of those banks and if they blow like African Bank did, you go down to zero. So, it's a very focussed strategy, you've taken on a lot of credit and concentration risk, that's not what the

Fund is about – the Fund is about diversifying your assets across eight or nine different avenues and being conservative. So, ja, the last year has been a difficult year but if you look through the cycle – if you invested a 100% of your equity – your money in equities, and you just give it three years' time, equities have always given you a positive return. So, you just need time, but on the upside you can get 20/30% in equities and it gives you an inflation plus 6 to 10% return over time. A cash type portfolio like that will give you at most, your biggest upside, is maybe inflation plus two to three but you're sitting with a risk of one bank, and that bank can go down. So, I think the time is that – at this point in time it's a good investment to have larger allocations, your money in cash because other asset classes are struggling and so, has the Fund have a lot of money in cash and bonds and conservative assets so, we're right there. If I look at your – your cash portfolio in your fund and I look through on a see-through base where it's invested, you've got exposure to some of the commercial banks. We've got very little exposure to Government debt, the exposure that you have in the Fund is to corporate debt, to Mercedes Benz, to BMW, to companies that's actually giving us about eight and a half to 9% return but it's completely diversified across ten or 15 different names. So, we've actually got that strategy embedded in the Fund but it's not just one bullet strategy with all your money sitting in one pot. I hope that answers the question, thank you for the question.

**CHAIRPERSON**: [Not speaking into the microphone] Are there any other questions? If there's no more questions – Duncan, thank you very much.

**MR THERON**: Thank you, Chairperson.

**CHAIRPERSON**: [Not speaking into the microphone] And the next presenter is our actuary, Sean Neethling of Momentum.

**MR NEETHLING**: Thank you very much, Chair, good morning everyone. It's great, I appreciate the opportunity to talk to you this morning and just to continue with Duncan's theme that he mentioned about cycles. First thing I'd like to discuss is something call the actuarial control cycle. Slightly different type of cycle but a very important forms a foundation of actuarial work that we do. So, I pulled this out of my text book although I should know it off by heart as part of the foundation for each chapter that actuarial students will learn but you know I think back and it's very important. It's something that comes into the work that we do and for the Fund it's very relevant in the actuarial valuation. So, the first part is the red quadrant, which talks about specifying the problem. So, for an actuarial valuation our question is what is the financial condition of the Fund or you could put it otherwise, do we have enough money now to pay the benefits that have been promised to the members in terms of the rules? Then we have to develop a solution so, our solution of course is the actuarial valuations, that's the product that we present to the fund but and this is a exercise which will involve a lot of components like the data validation, we have to set assumptions about – because we're going to be projecting way into the future. We have to make assumptions about future investment returns, how long we expect people to live on average for example, salary increases and future pension increases. So, there's a lot of complex assumptions that have to go into the – into the actuarial evaluation. We have to develop a model, it's not – it's not ramp modelling but rather the development of actuarial and mathematical models, which allow the calculation of these projected liabilities into the future and then of course discounting them so that we can have values in current money terms. And of course we have to go to the – the Board of Trustees and make recommendations on particular aspects of the Fund relating to the valuation. So, that's essentially the solution that we develop for the Fund. Then the second quadrant or the second pie of the cycle is to monitor the experience. So, we have a look at the actual experience, how long have pensioners for example been living on average, they will come to that actually in the presentation because that's something we track every single year. And of course, then we're looking at the funding level, what is the ratio of the assets to the liabilities, which gives us an indication of the financial health of the Fund. So, these are all elements, which essentially feedback and it's a continuous process from year to year – we're always looking at the past experience and that gives us feedback into for example setting future assumptions for the valuation so that we continually try and improve the assumptions and the model being used to determine the liabilities for the Fund. Then you'll see the two – two large arrows very important, professionalism and the general commercial and economic environment. So, from professionalism hopefully other than trying to look professional, there are guidance from the Actuarial Society that we have to take into account for the valuation and then also the Financial Services Board issues a huge range of guidance that we have to make sure that we follow. And then also a very important principle of ethics and integrity are all part of that and I think it is something very important that students can actually learn and need to be taught. The general commercial and economic environment just relates to having a look what are the economic indicators.

We've got to take into account current bond yields, current inflation, and all those elements will also filter into the process and as well as Pension Funds' Law and a whole range of other laws and of course the Fund's specific circumstances that need to be taken into account. So, getting into the actual membership statistics, the valuation was conducted at 30 June 2015, so that's the financial yearend that we're looking at. Just starting with the DB section you'll see that there are very few DB members now left in the Fund as at that date. So, we had just 29 DB members left because of course the members transferred to the DC section. So, it's not really a very significant group of members as at that particular point in time but it was the last remnant of the DC – of the DB section that we needed to include in the valuation. And of course there you can see the number of DC members increasing significantly up to 1 521. It's just a small number of non-contributory members, five that's been stable, and then 4 218 pensioners and deferred DB members in that group. I see a total pensions there of 197 million, our average annual pension of 46 656, and a slight increase in the average age of the pensioners up to 75.4 years. So, Mark Twain said:

> "Facts are stubborn but statistics are more pliable."

I'm hoping that our – our statistics are a lot closer to facts than being pliable. So, we'll just have a look at some of the actual statistics for the DB section, now this would include the – that small group of DB active members as well as the pensioners. So, for the – for those DB active members the local authority contribution was 26.8%, so an extremely high contribution rate, we had a relatively small group of members there with a fairly high average age and clearly that kind of contribution rate is probably not sustainable in the long term, and it's certainly not going to be tax efficient in terms of the new tax – the tax laws. Member contributions of 9%, contractors contributing at seven and half percent of salaries. Then we have a look at the investment return for the pensioners was 6.4% and their investment return on the balance of the – of the assets, are 6.6%. For that small group of DB members, salary increases of 8.4 compared to inflation of 4.7, that's also for the year ending 30 June and we had a pension increase of 5% on 1 January 2015. So, now the more significant, the much larger group of members in the DC section, of course we have a – the normal contribution rate of 18% for the local authority, 9% for the members and again 7.5, so exactly the same contribution rate structure for members. In total investment returns of 9.1% and then that's just split into the various portfolios accumulation, consolidation, protection and cash. So, Duncan has gone into that, so I won't spend too much more time on the returns. So, looking at the funding level of the DC section, now a DC section is clear so, your – generally your assets will be equal to your liabilities and of course you can have small timing mismatches which can result in slightly different allocation to members' shares just because of timing processes compared to actual returns earned. So, the account, which allows for those small timing differences is called the Processing Error Reserve account. So, the Fund will earn these investment returns and then pass them on to members and any difference, any small difference – and it happens, automatically of all Defined Contributions will have that, will then end up in the Processing Reserve account. So, we expect that account to remain a relatively small amount preferably less than 1% of the assets. The Financial Services Board has given an indication of a maximum of 2% would be acceptable but that's at a fairly high level. And then in addition in the Defined Contribution section, there's a contingency reserve account, which actually arose largely as a result of the conversion of the members from the Defined Benefit section to the Defined Contribution section. That was negotiated with the employers (sic) at the time and this is now a very nice buffer that the Defined Contribution section has to deal with unforeseen and other contingencies. So, it will be up to the Board of Trustees to manage that account going forward. So, the total assets in the Defined Contribution section at that date was 1.932 billion and that's based on a total interest rate of 9.05% allocated to members. So, that members' share account that represents the members' shares 1.924 billion. So, if we take total assets minus the total members' shares which represents the liabilities less the contingency reserve account and less the Processing Error Reserve account, we'll see it's a positive because it's a negative and we're deducting it so, that ends up with our surplus in the DC section which must always be – which will always be zero. So, it's really actually that amount is the – is the balancing item the R507 000.00 which is really tiny in the scheme of things. So, therefore we can say assets divided by liabilities means that the Fund has a funding level of a 100% and that's good news because then I can say, I can certify that the Fund is in a sound financial condition. Looking at the DB section, again all the – most of the DB members went through to the DC section so, we see this – this large amount of the DC conversion members, 1.3 billion at the previous valuation and that's zero at the current valuation. All we're left with is a small number of active DB member liabilities, that – so, it's only 41 million at the valuation date. Whereas there was 63.3 million of assets remaining in that account so, you can imagine, I mean a transfer of a large portion of the assets out to the DC section, and whatever is left over still remains as DB section assets. So, that remaining amount is surplus of 21.9 million, so again assets divided by liabilities gives us a funding level of a 153%. So, you can see it's quite a dramatic increase from the previous valuation but we're looking at a much small quantum of money and that surplus will remain then in the DB section for the Trustees to decide how it could be allocated, for example it could be included in the pensioner account. So, looking at the financial condition of the pensioners, you know, the pensioners is a group of members that are I think in some sense is particularly vulnerable. They're not currently earning an income to provide for their retirement, they've already retired and have to be able to survive on the pension that they're receiving. So, it's particular important for the Trustees and myself as the actuary to act as the guardians for this group of members, and make sure that they're being looking after. They also form the biggest component of the Fund at 2 billion representing around two thirds of the Fund, they're certainly a very important group of assets and members to look – to take consideration of. So, you can see the total – total assets in the pensioner account of just over 2 billion compared to the pensioner liabilities 1.985 billion and in addition, which is very good news, we have a positive solvency reserve – I've got brackets because we're deducting it, but it's actually a positive solvency reserve of 59.7 million. So, that's money that's available in that account in case of adverse Fund experience so, for example if pensioners are living longer than expected, you're paying out money for longer than expected and it's going to cost the Fund more money. So, that solvency reserve is available to take account of unforeseen contingencies like that. Even investment returns, if investment returns are below expectations, then that solvency reserve can theoretically be drawn upon to support the pensioner liabilities. So, it's a – it's an account which sits in the pensioner account and it's available basically as a buffer in case of anything going wrong. So, if again if we take our assets minus the liabilities of 1.9 minus the solvency reserve, we end up with a surplus of 28 million in the pensioner account. And again, that's very good news, that could just as easily have been a deficit and then we would have a problem but that means the funding level of the pensioner account is 101.4%. You can see the funding level did reduce somewhat from the previous valuation so, that brought down the surplus from 127 million down to 28 million. So, there various reasons for that but still at least that account is in a very – very sound financial condition and we don't – we don't need to take any particular action and in addition to the surplus you've also got the solvency reserve still available. So, as I mentioned in the actuarial control cycle we keep an eye on – we monitor the experience of a whole range of components but one of the very important components is pensioner mortality. So, this represents like how long we expect or how long pensioners are living so, we do a comparison to our assumption that we make in the valuation, compared to the actual experience of the pensioners. And we want to monitor this over time because what studies have generally shown internationally is that pensioners are living longer or people are living longer as a result of medical science and it's almost a given that that will happen going forward into the – into future decades. Some commentators believe the first person to live till a 1 000 has already been born, I don't know whether that's true but we certainly want to keep an eye on it. The interesting thing is we haven't seen dramatic changes in pensioner longevity within the Fund and even I've heard similar comments or even of general funds in South Africa, you know, so that could be a statistical blip, we've heard how pliable statistics can be. So, this orange sorry – this pink line represents our valuation assumption and what we've got here on the Y-axis, is the probability of death. So, for example if we take – if we take a age group, let's have a look at this age group, 75 to 79, what that line represents there is a 5% chance of death in one – in one year for a pensioners in that particular age group. And then these lines show the actual experience, we've compared experience over two three-year periods, 2010 to 2012 as well as 2013 to 2015 to try see has there actually been any significant change and we are looking at a large group of pensioners so, it's fairly – the experience is fairly stable. Obviously the smaller the group that you look at, the more variable the results and more unreliable the results are going to be but because we're looking at a fairly large group of pensioners, the results are quite reliable. So, the first thing we can see is the line is not too far off, you probably notice that the actual experience is above the assumption and that's because the deaths occurring in here are – include ill heal pensioners and we do expect the mortality rate for ill health pensioners to be higher than for the general group of pensioners, whereas our assumption purely represents or doesn't, doesn't represent ill health pension experience. So, the fact that our assumption is below the – below the line probably means that it could be slightly on the conservative side but the important thing is that we adequately providing for the liabilities and the expected longevity of pensioners. Again no – no big differences between the two three-year periods of experience and we haven't made any drastic changes to our assumptions as a result. Just to compare then the females on a similar basis, also probably even closer to the – to the line, so actual experience being quite close to that being assumed in the valuation. So, it's really just to indicate that we are keeping track of items like this, it's from a statistical point of views, it's very interesting and if there are changes, we'll continue to monitor this on an annual basis as part of the actuarial valuation. So, in conclusion, we had a pensioner account surplus of 28 million, funding level of a 101.4%. The balance of the DB section for the DB active members has a surplus of 21.9 million, funding level of a 153.1%. DC section had a funding level of a 100%, there was a pension increase of 3% granted on 1 January 2016 and a bonus of 75% of monthly pension December 2015. And in conclusion, the Fund is in a sound financial condition, which is great news.

**CHAIRPERSON**: [Not speaking into the microphone] Sean, thank you very much.

**MR NEETHLING**: You're welcome, Chair.

**CHAIRPERSON**: [Not speaking into the microphone] Are there any questions as far as the actuarial values are concerned? Our actuary is the captain of the ship as far as our pensioners are concerned. You must listen to him in terms of the Act and he is giving us very good advice. (Indistinct).

**MS WILKEN**: I have the privilege of presenting your financials this year. The Board of Trustees appointed new auditors for the 2016 financial year-end. Not for any reason that they were unhappy with the auditors, it's just good practice to rotate your auditors every few years. So, for the 2015 financials were prepared by PKF Rademeyer Wesson and for 2016 you can expect it to be audited by

Ernst and Young and it has been approved by the FSB. I was an auditor myself, so I do know a little bit about – about what the auditors did. I was also looking for some auditor jokes to share with you but I quickly realised that they're actually only funny if you were an auditor, so I decided against that. I just need to go down, ja. Thanks. Okay, I'm just going to highlight the important items of the financials. Of course the audit reports are very important. Your audit report on page 10 is unqualified which is always a good thing so, they didn't find anything to be concerned or that they needed to report on. Your Section 15 report is a set of agreed upon procedures, which they perform. They didn't raise any significant issues, so you will see all the items are in indicated as what the test performed. They did note late receipt of contributions from Renosterberg Municipality, it's quite a common item, which gets reported on especially in a Fund of this size and with so many pay points. The most important thing is that late payments interest was raised so, members were not prejudiced. And then your Regulation 28 report. For members who've been on the Fund for quite some time you would've seen this before, the Fund has an investment in Newshelf 922, which exceeded the limit of 5% per issuer by 4.37%. It's important to note that that's only on an issuer level, the total category limit of properties was not exceeded and the Board of Trustees do have a plan in place to actually reduce that exposure going forward. The rest of the report was – they were happy with all the assets are within their limits. On page 16 is just your membership. Your active members declined just a little bit and your pensioners decreased a little bit as well by about 300, which is understandable. And your assets decreased by just under 4%, it's not a bad thing your book value has actually increased but obviously your market values tend to fluctuate which also Duncan mentioned, so as a snapshot at 30th of June those were the market values of all the assets in the Fund. Your foreign exposure for 2014 was just under 25% and in 2015 it came down to just under 18% and as Duncan also mentioned there was a lot of movement and strategies in investments so, I'm sure we'll see that fluctuate again next year. Your statement of changes in nett assets and funds, which is your income statement, if you look at it on page 20 it looks like your contributions jumped quite a bit by 94% but actually it includes 95 million of the DC conversion monies. So, with the conversion additional monies are paid into the Fund. So, the actual contributions decreased by 11 million which goes together with the membership decrease and I don't think it's anything to be concerned about. Your investment income doesn't look great there but on the next slide I'll actually show you how that is made up and this year you had quite a increase in your benefits paid, that will fluctuate in any year depending on your number of members that had left and their benefit values. Your operating costs of the Fund, they increased just by 6% which I think is a good – good inflation rate so, that is quite acceptable. If you look at your nett investment income, you will see that your actual income actually increased by 182% and that's your interest, your dividends, your income on policies. Your decrease came as a result of your adjustment to fair value, which is your market value adjustments, exactly as it says. So, it's unrealised profit which is just an adjustment made on the date of the financials to reduce the investments to market value. That will then change monthly, yearly, whatever date the financials are prepared. So, your investment income with 309 million and your managing fees also increased very slightly which is also a good sign. And that total decrease as I say, it's a result mainly of the decrease in your and increase in your unrealised profit. And so, short, and sweet, the financials are a fair presentation and the auditors had no problems to report. I think that's also a very good note for your Trustees and your service providers that the Fund is being run very well and that they've got nothing to report on. And that's it.

**CHAIRPERSON**: [Not speaking into the microphone] Thank you, Yvonne. Are there any questions to the financial statements? Piet? You can grab the mic (indistinct) please.

**UNIDENTIFIED MALE SPEAKER**: [Inaudible – not speaking into the microphone]

**MS WILKEN**: There was a special investigation – a special investigation by the auditors. This is the one, where's Melanie? Was this the conversion costs? They had to – with the conversion of the Fund, obviously they need to do a lot of additional testing from the DB values to the DC values so that is a common thing that you will see when funds convert. So, that should be – in the next year that won't be – be there anymore. And the new quote we received does also in line with the fees that were being charged by – by the previous – so that was a once of because of the conversion.

**UNIDENTIFIED MALE SPEAKER**: [Inaudible – not speaking into the microphone].

**MS WILKEN**: Ja.

**UNIDENTIFIED MALE SPEAKER**: [Inaudible – not speaking into the microphone]

**CHAIRPERSON**: [Not speaking into the microphone] Any other questions before I (indistinct). If there's no more questions can – we must adopt the financials then can I get a proposer for adoption of (indistinct). Seconder? (Indistinct) thank you very much. (Indistinct).

**MEETING ADJOURNS**

**ON RESUMPTION**

**CHAIRPERSON**: The next section on the Agenda, the next section is a presentation by Braam du Plessis of SIMEKA, Braam over to you.

**MR DU PLESSIS**: Thank you, Chair. Thank you, Chairman. Morning everybody, my presentation is quite factual, I guess open – open to questions and mainly, well yes, mainly what I see as good news or positive feedback. So, there's the mundane part and then also some exciting news. I shall call the mundane part the Fund rules and the rule amendments, then give you some legislative update in other words, the rules of the road in which we operate and the decisions we make and design amendments to the options we make all made within that legislative background. One slide on the finalisation of DB conversion, the exciting new in-Fund living annuity structure that becomes available and some feedback on the insured benefits and the cost and positive news around the funeral benefit option in the Fund. Firstly, on the rules, this part you're familiar with. We had quite a bulky set of rules, which were consolidated in March last year or with the effective date of March last year. The last amendment of the old pre-consolidated rules was amendment number 20, which was the big amendment we used for the first and major round of Defined Benefit – Defined Benefit conversion to the Defined Contribution section. Since that consolidation we had six more rule amendments signed or approved and registered with the Registrar in fact yesterday, we had another amendment passed but at least there's something for me to talk to next year but that's also very positive developments, so I'll touch on amendment number 7. The six I'm about to list for you, the amendments to the original or recently consolidated rules, were all registered with the Financial Services Board, okay. So, the first amendment was just a – an extension of the consolidation in fact a little oversight we had when we did the consolidation is to make it clear that there is provision for the payment of interest on the late payment of a benefit. So, when a benefit accrues typically you resign, you resign the end of September, but the benefit gets paid through the tax and whatever process a couple of weeks later, you actually get – interest get added to the – to the benefit. So, that's always been there, the expectation and the way to operate of course. The next amendment was actually after a lot of deliberation internally at the Board of Trustees but it came down to the Trustees deciding to streamline the Board and with effect from 1 January this year, the Board will consist out of eight Trustees but there's a transitional arrangement for the current Trustees. So, that – the decision was that the Trustees will be – will consist out of eight people representing four different constituencies, you know, two from – from each of the constituencies which obviously, well maybe I should phrase constituencies a bit different. It will be two member Trustees, two pensioner Trustees, DB pensioner Trustees, two councillor Trustees and then two, what we call additional Trustees, being trustees appointed by the other

Trustees – I don't want to use the word independent Trustees but additional Trustees to assist the rest of the Board in the operation. As part of this or leading up to 2016 restructuring, we actually had a member Trustee election and you might have been aware of that and at that point Mrs van Zyl van re-elected. So, I'm just recording that as part of the – of the communication around the rule amendment to the structure of the Board. The next amendment we did was effective 1 March and is just the introduction of legislation or to make the rules enabling for income tax legislation, which took effect at the same time, we referred to it as 'phased retirement'. What it boils down to, historically or pre-March 2015 when you retired from service, you had to retire from the Fund. In other words you had to come and collect the Fund – or the Fund had to pay your benefit. What we call 'phase retirement' means you can stop employment or you can retire at the employer but you don't need to come and take your Fund benefit, you don't need to take your retirement benefit. You might be embarking on a second career doing consulting work, barman at the golf club or something, you don't need the money yet. So, you can leave it in the Fund and actually come and retire later. So, that was just to align the rules with legislation that took effect and to actually give our retiring members access to that option, okay. Then we did amendment number four, it was effective 1 July but it was implemented in April and that was the final conversion of the remaining few DB members. I've got a separate slide on that and Sean and the Chairman has also referred to that. The bottom line is our active membership are all DC members or Defined Contribution members since 1 April this year. Then we did amendment number five, with two effective dates, eminent dates June and July this year. The June amendment was to allow councillors to join the Fund so, the membership or the eligibility conditions were expanded to make provision for councillors to also join the Fund. And then we also recorded two contribution rates for them, the member contribution being seven and a half or they could on the employer contribution side, select between seven and a half and ten. Obviously the normal members are nine and 18 as we all know. And then the other amendment is the introduction of what we call a in-Fund living annuity, which will take effect from 1 July – I'll speak a bit more about it shortly and it's – it's a big development. It's a – it took a lot of deliberations and analysis at Trustee level starting about October last year when these draft regulations around default strategies came out in July last year from the National Treasury and we've developed a strategy that complies with the draft regulations and word is the final regulations are about to come out. Okay and then amendment number six, registered recently is where we changed the Fund's name with effect from 1 June, all will be revealed shortly and then we also made an extension to the in-Fund annuity option allowing the spouses of deceased members to also select to take part of the benefit out of that pool, okay. That's on the rule side, rule amendment number seven maybe which was signed yesterday so, it's on its way to the Financial Services Board, is very similar to the in-Fund living annuity where we allow members who cant retire, in other words you resign, the opportunity to preserve their money inside the Fund. Okay, which is also stems from the regulations, the draft regulations on record saying all funds must have an appropriate default strategy around preservation, annuitisation, in other words, a pension and an investment strategy. So, now our circle is complete because we have a proper default investment strategy, the life stage. We have a default annuitisation, in other words, ability to buy a pen – a pension through the in-Fund living annuity and once the latest rule amendment is registered, members can also preserve their benefit in the Fund. Around the legislative update I (indistinct) that's the best creativity I could come up because there was a lot of noise and confusion and somehow ended up selecting a waterfall to – to – as analogy. The big piece of legislation we've had and it's been referred to earlier, is what we call T-day, the Taxation Law Amendment Act. It came back – it had an origin of quite a couple of years ago and there was a lot of pushback in all the deliberations around this legislation because you know, it had a couple of big things. It wanted to remove the lump sum option at retirement from what we call the old provident funds. It wanted to align funds in the sense around tax deductibility of contributions because there was a different contribution structure for pension and provident funds. And the – the tax deductibility – matter made perfect sense and that was eventually the only one that went through of all the initial recommendations. There was no removal of the option to access your money in cash at retirement because we saw some irresponsible behaviour of people leaving early, fearing forced preservation, or confiscation of their benefits, that's all nonsense, none of that happened, okay, those are things under consideration. Annuitisation strategies was deferred to 2018 in a sense where they wanted funds, provident Fund members, members who could take your whole benefit as a lump sum, they want to force them to take a portion of that as a pension at retirement. The way they're planning and which is a sensible way to introduce it is vested rights are protected so, you're only forced to annuitize parts that – of your retirement benefit that accumulates through future contributions.

So, there's responsibility around this but there's a lot of understanding or a understanding gap around this. So, the legislation that went through limited it to the deduction of contributions and which had a positive impact on yourselves so that the 27% contribution you currently make, the combination of the member and the employer contributions fall within that limit. A point maybe just for you to note is that retirement annuities which you might have in your private capacity, now also falls under the twenty seven and a half percent deduction. So, if you have private retirement annuities and you're a contributing member, just do that in your overall tax planning, bear that in mind. It's – what's important here is that the twenty seven and a half percent deduction refers to taxable income or remuneration so, let me put it this way, the top part of your payslip and not the bottom right, you know so, the deduction is on the higher – higher amount. That's – and for higher earners, there's a monitory cap per tax year of 350 000 but I'm not mentioning it in my slides and it's almost like a nice dilemma to have, to be capped at the 350 000 per tax year contribution deduction. You strike that about R1.27 million taxable income if you're on the twenty seven and a half percent option. Okay so, that's the only real big legislative, factual development we've had. The other big thing is the default regulations, we're awaiting the final versions but the versions we got last year, was seen as close to final and we've developed our strategy around that already. Okay. One slide on the DB section because its – it received a lot of coverings in the written material, it was finalised 1 April. The members received their enhancement or the retirement reserved or the so – don't expect to be – worse off in the DC section values out of the – from the surplus in the DB Fund. Sean showed 29 DB actives on 1 July, eventually the final number was 20 because the final conversion took place nine months after the valuation on 1 April. So, as at the end of March or 1st of April our DB section is a closed section of pensioners only and a couple of deferred members and our entire active membership is in the Defined Contribution section. Okay, that closes the book on the last two years on the restructuring. The in-Fund living annuity and associated change to the investment structure, I need to explain to you because this is something we must share with our members here, because this is something all retiring members are confronted with. That often they take a portion or, and often it's the biggest portion and convert it into a pension and there's lots of options available and the Fund has created an option inside the Fund, piggy backing on the favourable investment structure and investment fees, which Duncan mentioned. A very favourable fee structure the Fund negotiated with the Administrator and together with all of that, still allowing you a lot of flexibility being able to use the Fund's building block. So, that's our executive summary of what it is so, from 1 July members who retire can keep their and they want to buy a pension with all or a part of their benefit, can keep it in the Fund on a cost effective way, and use the building blocks of the life stage model which Duncan explained to us, as your underlying investment strategy. What the Fund also has done is the moment you offer choice, you need to offer a structure that's basic and low intervention, we call it the standard option or you also need something that's more sexy and pliable, and for the members who wants to active – more actively want to manage their retirement pool or this retirement capital you're using to secure an income for yourself, we call that the customised option. We've got very detailed communication around that to be published shortly, the point is, when encourage all members approaching retirement to familiarise themself with this structure. The one thing – I haven't talked to all my slides properly but there's – there's three things I want to highlight. The first thing is when we did this structure we made sure it complies with what Government through the National Treasury Draft Proposals said. They said, make it cost effective, make it easy to understand and communicate. So, in other words make it simple but make it durable, make it appropriate, make it that it will last but still that there's little intervention required from the member. And then the final thing, the regulations or the proposed regulations do point to it that the Trustees needs to monitor the pensioners in those pools because they're effectively Defined Contribution pensioners now, for vulnerability and that's still a structure to be developed but the way we designed it is such that vulnerability is very unlikely. So, how it works is, you will be invested in a consolidation phase. If you go back to Duncan's and I've got a slide around that, we've got three phases in the life stage, accumulation, consolidation and preservation. You'll be invested in a consolidation phase, the one tracking CPI plus or CPI plus 4% and depending on your age you will be allowed to draw that percentage of your capital. So, if let's say you're age 65, you've got a million rand in the pool, 6% of a million is 60 000 so, you can get a R5 000.00 a month pension. Okay. So, what you'll see is the younger you are the lower the drawdown rates as we call them and as you get older, you can accelerate the draw rate or the depletion of your capital because Sean has showed those as you get older, you likelihood of dying increases considerably, okay. So, that's basically the point. The one check we've built in at age 80, we will offer the pensioners – we will look at your remaining capital and then get the – use that capital and see what pension can be purchased in the insurance market and then actually offer it to you. Saying, listen you can stay or you can take this pension, because now at age 80 you've reached a good age, you can use your remaining capital and then go and buy a guaranteed pension from an insurance company where you transfer all the investment and mortality risk to the pensioners – 'ag' to the insurance company. So, so, what you'll see is the design is durable, sustainable, easy to communicate, né, and with the necessary checks, checks and balances. The other thing one needs to mention is, you can at any time opt out because you can get to a life event in when you're in your 70s where you want to draw more and then the structure prohibits you from going beyond six and a half percent in the standard option or 10% in the customised option, where – and if you want more, you can say I want to opt out and then you go into an outside structure. So, this isn't the forever hold your peace option, you're not married to the pool of the in-Fund option you can actually exit should you want to. The message is, durable, cost effective, easy to communicate yet flexible if you want it in the customised option. As you can see in the customised options, there's range and you're allowed to opt out of the – out of the consolidation phase investment structure as well. So, much more flexibility and I'm going one slide back, you'll see it in the fees as well, you pay a little bit more for little more options. That's the monthly fee for the year starting July. Okay. The change or the introduction of the in-Fund living annuity causes us to change the life stage structure a bit, okay. So, what's going to happen is, detailed communication shortly to our current Fund members because currently if you're under 60 you're in a accumulation phase, if you're between 60 and 63 you're in a consolidation phase, and if you're 63 or older you'll be in a preservation phase. The in-Fund annuity focus on the consolidation phase because the consolidation phase you hit that age 60 and you're going to stay in that post retirement as well. Okay, because it still has got a strong return objective, real return 4%, inflation plus four because it needs to grow to allow you to pay a pension. Your draw down rate and the difference between what you draw and what the portfolio earns is actually your next year's increase, that's also important. Okay. So, this is what the life stage model currently look like. Younger people under 60 and the accumulation phase and as you get older you start de-risking to consolidation and the preservation phase with striking retirement at age 65. What we're doing is we're removing the preservation phase out of the standard – out of the standard life stage on the assumption that all members will be aiming at the in-Fund annuity, okay. So, that de-risking to the preservation phase is de-risking too much, going to too a conservative strategy for somebody who will use – keep on using the retirement capital as an income after retirement. So – but you will have that choice of a cash plus and a – my slide's a bit bad, there's also the preservation phase, it's also still an option. So, you have option to opt out but if you don't do any action from up to age 60 you'll be in the accumulation phase and from age 60 you'll stay in the accumulation phase – 'ag' in the consolidation phase until you retire and then you seamlessly move into the in-Fund living annuity where the consolidation phase remains your underlying investment strategy. Okay. Maybe there questions, we can do that at the end. On the insurance benefit I can give you quick feedback it's the third year I've been involved with the rate reviews all being no change rate reviews. In other words, the cost have – the rates for the insured benefits have remained unchanged. Nothing special done by me it's basically the membership and in particular our claims experience. Big scheme, claims rated, we don't have too many death and disability claims for the insurer to push up the rates so, very positive news. We did add or improve on what we call the conversion option. When you leave service, when you leave the Fund, you resign, you retire, and you don't go – well, actually even if you go into in-Fund annuity option, you can convert the death cover to a private policy. Okay, you have 90 days to do that and if you die within 31 days after leaving service, you actually got automatic cover. Okay, the point is you have the option to convert the death cover you have at retirement and resignation, and the disability cover at resignation into a private policy should you require it, that was added. We have some maximums around the disability benefits, nobody affected, but we kept on pushing out the maximum so nobody would be likely to be affected. The other big change what – which was – decided on yesterday is to increase the level of the funeral benefits. What you have the table under current for it, at least these – my first numbers there aren't dates you know so, I'm also allowed to show numbers, Sean. The current benefits are shown there, the R20 000.00 level and from 1 July we're going to increase it to 30 000. It's clear when we did the first round DB conversation, that was actually one of the most frequently asked question I got from the membership. They said ja, ja, ja DB, DC but what about the funeral cover and that's when we changed it from 10 to 20, I think about two years ago and now it goes up to R30 000.00. What – there's also a principle decision that we actually you ask what about the two columns to the right and the high levels, there's also a principle decision that we actually give our membership the option of any of those three categories on the right. So, the – what I now call the 1 July benefits over there, that's the new benefits and the default structure but we actually give all our members a once off option to maybe opt for higher benefits and you'll obviously see the price goes a bit up as you elect the higher benefits. Okay so, that's the – that's the other change to the insured benefits we are planning but the second column from the left, the new benefit structure from 1 July. Are there any questions?

**MR SCHEEPERS**: Mr Scheepers of Buffalo City. Thank you, Chair. Braam, I wanted to reserve my questions for later but I think it's appropriate to ask it now – ask it now. First of all with regards to the slides of this presentation of yours, I would like you to make it available as soon as soon as possible because we want to go and give feedback to our members back home and these slides will assist us tremendously. Thank you. The taxation thing effective from the 1st March 2016, I would like to know what strategies is in place to protect us as members contributing to this Fund because just two months or three months ago and we're still, still not out of it with regards to the junk status thing of this country. You must – are you – are you going to wait for people to first press panic buttons and rely on trade unions to make a noise before you will inform because remember, you've got the fiduciary responsibility towards these members to inform them because panic buttons were pressed and the people just wanted to resign prematurely from the workplaces. So, what strategies do you have in place to keep us alert or informed much earlier than waiting for legislation to be passed or about to be passed because this 2018 is just a breathing space for us now. It's not cut and dry that we will be, be exonerated from you so, what strategies, that's the first one. And the – I think also that came out of the Chairperson's report earlier on, the growth strategy because it is a known fact that in numbers we are dwindling here. Now what is the growth strategy with regards to numbers to enable us to compete with other – our sisters funds for that matter, the Cape – it's now the Cape Retirement Fund or something like – what is the growth strategies that is in place? Thank you.

**MR DU PLESSIS**: I – I saw two questions, the first one is communication, Ilse are you… and the second one is the growth strategy, yes, okay and I think that's also – you…

**MS HARTLIEF**: Thanks, Braam, and thank you very much for the questions, they're very – very relevant. Just in terms of the first one, it's really our aim to improve our communication strategy with our members and it was alluded to earlier through the Chairman. We've appointed a new communications service provider now and our aim is to get out there and to communicate more. So, physically being present at induction sessions for example there's – City of Cape Town is holding its induction session next week Thursday, Friday, we will physically be there, this will be our third induction at which we have been present and we will continue to do that. The other municipality at which face to face inductions are held is Port Elizabeth. So, as soon as they start employing, we will physically be there as well. All the other local municipalities, they rely on their HR personnel to take the new employees through inductions, and we have a mechanism there obviously we can't be present whenever they hold those inductions with maybe two or three or five people. We will be sending them our audio visual, which you'll be seeing in a couple of minutes, which will hopefully help the HR personnel in explaining the benefit structure of the Fund. So, we're really hoping that that's going to help our growth strategy going forward and also as the Chairman alluded to, we are in discussions with a number of other stakeholders regarding our growth of our membership. So, watch this space. And then regarding your next or just a little bit more on communication, we really are wanting our members to give us their email addresses and their cell phone numbers. That's going to help us to communicate a lot quicker with you. So, as soon as we have something really important, we'll send an SMS and/or we'll send you an email. So, please keep those up to date, contact VERSO, our administrator, and provide your latest email and cell phone numbers. It's going to be a lot more efficient both from the Fund's perspective and from your perspective to get communication as soon as possible. It's also going to reduce our costs because sending out snail mail is expensive and it also doesn't guarantee that you're going to receive it. And then on your other question about the growth strategy I think that I've already answered that just in terms of getting out there, being at inductions, explaining our benefit structures, and hopefully you – the new take-on's at the local municipalities will realise that this is a good Fund, we have an excellent offering and they'll be wanting to join us. Does that answer your question?

**MR SCHEEPERS**: Thank you, Ma'am, just to invite you to our institution as well, Buffalo City Metro also have an induction session where you can – can help because I mean we are appointing people on a monthly basis there, and that is where we've also realised but I'm a small voice in regards, because our sisters fund is much bigger and they are very much predominant and intimidating there. That's why they will take the lion share of people coming in every time. So, let me extend that invitation as well, you can be in contact. We can't rely on our HR staff because I mean even them too, they've got certain interest to other funds so, they will promote whatever fund they've got interest in. So, let me extend that through you, Chairperson, that invitation to Buffalo City Metro as well when we are conducting our induction sessions. Thank you.

**MS HARTLIEF**: Thank you very much for that, can I ask you to stay behind at the end, I can get your details. Thank you.

**CHAIRPERSON**: Thank you, Mr Scheepers, are there any other questions?

**UNIDENTIFIED MALE SPEAKER**: [Inaudible – not speaking into the microphone]

**MR DU PLESSIS**: On the investment structures we have, the building blocks is consolidation or accumulation or preservation phase. But there's not advice fee payable so, you get that so, you as a in-Fund Annuitant benefit from the advice shared at Board level. Because you still get the disciplinary on the audit, you still get the discipline around the actuarial work, the test for vulnerability, the asset consulting. Does that – so, your, all in fees the 56 or the 156 or the 180 a month.

**CHAIRPERSON**: Christi do you want to add?

**MR FRANKEN**: [Not speaking into the microphone] …if you just at the cost structures, you're not going to get anything better out there so, it's a – it's a really I think every member should know about it. It's a lot of good news, it's the best kept secret probably in local government industry but VERSO is not providing this service, VERSO is just doing the administration. It might compete with Efficient that's not part of VERSO but then again it competes with all brokers out there but you should be informed when you discuss that with your family, to look at all the different options and it is a very, very good option in terms of costs because it's becoming very important. And also in terms of flexibility but VERSO is not providing it so, it will compete with all the brokers out there as well as with Efficient that was appointed by CRF. Thank you.

**CHAIRPERSON**: If I can just add to that previously, some years ago it – we make use of VERSO IS which changed to Efficient for advice to our members on an individual basis but this Fund had appointed GraySwan, Duncan Theron and his team to advise our individual members. If you do need any advice, please contact GraySwan. Are there any further questions to Braam?

**UNIDENTIFIED MALE SPEAKER**: [Not speaking into the microphone] In my (indistinct) over 60 am I compelled to stay in consolidation phase or is it possible for me to go back to the – cumulative phase?

**MR DU PLESSIS**: Yes, the answer is yes. So, the default structure is it automatically takes you though the phases on those – on these defined age date but you can opt out say listen, because if you're under 60 you're going to be in the accumulation. So, at 60 I don't want to go out of accumulation but then you wilfully need to opt out, you complete the form.

**CHAIRPERSON**: Thank you, any further questions for Braam? No further questions. Braam, thank you very much. The next item on the Agenda is 'Motions'. We haven't received any motions and then we will move over to 'General Questions'. It seems that most questions had been ask to the presenters – are there any other general questions you want to ask? No further general questions. Then we will move over to item 12 which is the ‘Launch of the Fund’s new Identity’ and thereafter our Deputy will do the expression of thanks. Just before we look at the video I just want to take you back to my address. At the bottom of the address where I announced the launch of the Fund’s new identity. As mentioned earlier Old Mutual Corporate has partnered with the Fund to implement our enhanced communications strategy. Our first item of business was to refresh the Fund’s appeal to both existing and new members by giving it a complete face lift so to speak. Our new name LA Retirement Fund reflects the dawn of a new era. One in which we activity portrayed the following:

- A dynamic, defined, contribution fund for active members.
- All inclusive membership not constraint just to the Cape.
- A unique easily recognisable brand that is representative of our membership of local authority employees.
- Our aim to grow our membership.
- The retention of our members at the heart of everything we do.
- Our proud history of world class governance practices and our solid investment performances.
- Our Principal Officer will drive the implementation of the above through communication, processes to all the municipalities.
- Our ultimate aim is to empower our members to enable them to make the right choices and to retire comfortably.

Now you can sit back and watch this short video clip. Thank you.

## VIDEO CLIP PRESENTATION

**CHAIRPERSON**: Now, I just want to add, this team which is seen this morning, the Board of Trustees, the service providers, our Principal Officer, we are all committed to grow this Fund. You will see it in the future, we will do our utmost best to make it the best fund in the industry. Now, we are actually a national Fund whilst previously we were only Cape based. I'm giving over to Michelle, to do the motion of thanks and that will conclude our meeting.

**DEPUTY CHAIRPERSON**: Good morning everybody. Just to calm Danie down here, he thought I'd start dancing after that performance, it's an exciting moment for us but I'm not going to give you the Highland Fling today. Basically I'm know to be telling a story at the end so, I'll just have a short clip and that is basically to say, that Sir Edmund Hillary a New Zealand mountain climber, and arctic explorer, who with the Tibetan mountaineer Tenzing Norgay, were said to be the first to reach the summit of Mount Everest, the highest mountain in the world and they came down alive. He was knighted around just after the coronation of Elizabeth the 2nd and that's why he's Sir Edmond Hillary. This man said:

> "People do not decide to become extraordinary, they decide to accomplish extraordinary things."

We have extraordinary service providers and an extraordinary Board of Trustees under the leadership of Herman. The Fund's Trustees under his calm focussed leadership have carefully chosen its service providers and its Principal Officer to ensure that the members have the best returns possible. We put you first. This Fund has decided to accomplish these or extraordinary things and we would like to thank all those that are on this list. First of all we'd like to thank the ladies meaning we'll thank our Principal Officer, Ilse, for her passion and I don't know how long you're going to be new, but you're still the new Principal Officer, for your passion, enthusiasm, and your active participation and your contributions in the past year. To the Trustees for your unwavering – oh no, you're not all men, you men, so let's go to Yvonne, where are you, Yvonne? We want to thank you for your presentation, without your jokes we still appreciated it. Then we also thank Valerie Nelson from Old Mutual Corporate and her team for the last presentation and all their support as far as the communication has been concerned. Then also to Susan Erasmus, as usual an anchor for us and for organising and co-ordinating this meeting. And then we go to the men, to Eddie thank you very much for the opening and the wonderful words even from your wife. And then we thank the Chairperson as I'd had already done that several times and for your vision, your calm leadership and your guidance throughout the year, we'd remain up there with performers. The Trustees for your unwavering loyalty, your hard work, and commitment to the management of the Fund. We also want to thank the presenters, Duncan for your enthusiasm in telling the great story of what we have achieved, it's always good to see so that we know that we're going forward. Then to Sean, he's probably one of the only actuary's in the world that has humour and thank you for the little jokes. Then Braam, wow, your passion and you can – you're the only one that I can ever think that uses words like 'sexy' and 'marriage' and 'rest in peace' and do you – you actually make rest in peace a great option. To Christi and his team, you have really pulled through this year with the administration and always continue to shine up there, so we thank you and your team very much. And particularly the folders that we got, and we thank you, I'm sure you all got one while you were here in the morning and I hope you'll always remember VERSO is there, they are our administrators. Then to Sanlam for the auditorium. Herman Potgieter and his team for the recording of this meeting. I missed Natalie Cedras of Fedics and her staff for the catering and then to all of you – without this – your attendance, we don't know where we're going wrong, we don't know what the questions are and you keep it personal for us. So, we thank you for coming from far and wide to make this our AGM where we can launch our new name and a new future. Thank you very much.

**CHAIRPERSON**: This now conclude this 32nd AGM and have a same journey back home.

**MEETING ADJOURNED**