CHAIRPERSON: '*Goeie môre*'. I think it's time, so we can start with the meeting. '*Môre*' Johan.

MNR VAN SCHOOR: Môre, Danie.

VOORSITTER: Jy sit darem vêr agter, jong.

ME VAN ZYL: Hy's bang.

CHAIRPERSON: Michelle '*sê jy's bang. Kan almal my hoor*'? Can everyone hear me? Those people at the back as well? You'll see that you see here a new face here this morning in front. I will later explain why. I'm not as pretty as the previous one but at least there's somebody that can lead the meeting. If we go to the Agenda, point 1, a very welcome to each delegate. Board of Trustees members, some of them are sitting here in front and some of them are hiding there at the back. And also welcome to our service providers. They're usually sitting on this side. Then I'll ask Mr Edward Thompson to open the meeting with Scripture and prayer.

SCRIPTURE READING AND PRAYER

CHAIRPERSON: Thank you, Eddie, for your kind words. If my voice sounds a little bit strange, I just stood up from a flu bed for five days, so I'm a little bit jittery. Point number 2 is the Notice convening the meeting. Notice was given in terms of the rules of the Fund. I just want to confirm that the PO confirm if we've got a quorum or not?

MS HARTLIEF: We do, Mr Chair.

CHAIRPERSON: Okay, we've got a quorum. I therefore declare the meeting properly constituted in terms of the rules of the Fund. Apologies were received from Mr Piet Esterhuizen, a pensioner trustee, and also from Councillor Marie de Klerk of Mossel Bay. Are there any other apologies? Nobody? Then we note it like that. Confirmation of the Minutes, the Minutes is been bound in a pack, are there any corrections to the Minutes? Remember, if we call for a proposer and a seconder it must be somebody that attended the previous meeting. Are there any corrections? Nothing? Can we have a proposer that we accept the Minutes? Herman Botha. A seconder? Any seconder? Paul de Vries. '*Ek het gewonder of jy te lui is om jou hand op te steek*'. Okay, the Minutes are accepted. Then the address by the Chairperson, that's point number 4. I will ask the Deputy Chair, '*Me*' Michelle van Zyl, to take over the chair whilst I deliver the address. Michelle, '*dis reg so*'.

CHAIRPERSON'S ADDRESS

CHAIRPERSON: I will now hand over to '*Me*' Yvonne Wilken of Verso Financial Services to take us through the highlights of the 2017/2018 financial statements. Thank you very much.

MS VAN ZYL: I trust that we accept the Chairman's speech now and then thank you very much and we thank him for actually getting out of bed to come and do this for us. Now, all the blocks will be coloured in by the different presenters and now I hand back over to the Chairperson.

CHAIRPERSON: Thank you very much, Michelle. The annual financial statements will be presented by '*Me*' Yvonne Wilken. There will be other, three other presentations as well and I thought it good that every time after a presentation was done that we give chance for questions. Because if we do it at the end then it may, will be a little bit '*deurmekaar*'. Yvonne?

MS WILKEN: Thank you, Mr Chair. Last time I presented I was up after my gentleman co-presenters, so I'm quite excited to be going first this time around. Everyone has a copy of the financials in their agenda pack and they're also always presented on the website of the Fund. I'm just going to take you through some highlights, which also helps in the adoption of the financial statements. All right, so, I've highlighted there the important changes from the 2017 to the 2018 financial statements. 2018 is what is in the pack. As Mr Chair already said, he was, replaced Mr Du Toit as Chairperson effective 1st of July 2018 when he also resigned as a Trustee and Mr Jacobs appointed as the additional Trustee effective 1st of August. Then in the financial statements all references to the Financial Services Board are now replaced with Financial Sector Conduct Authority in terms of the new framework. Then we also have a few important changes subsequent to the financial statements in the pack and that is the, firstly the new appointment of auditors PwC who will be the Fund's auditors from the 30 June 2019 yearend, replacing Ernst & Young. That is in terms of a three-yearly audit revoke by the Audit Committee, it's got nothing to do with bad service or fees or anything of Ernst & Young, it's just good corporate governance to actually change your auditors, rotate your auditors. PwC provided a very competitive quote and the Audit Committee and Trustees were very happy with that and are looking forward to having PwC on board this year. Then, on the previous financials 2018 we reflected our contingent assets of 3.2 million in terms of the previous litigation on the undue commissions. We have received 1 043, 1.04 million subsequently, so whatever is still remaining will show as a contingent asset in the next financials. And then, as Mr Chair also said, all the Newshelf Investment properties have been sold, so we're very happy that there won't be a 5% limit exception on the Regulation 28. Then I've also included the Audit Committee. These are the members of the Audit Committee, Mr Herman Botes, the Chairperson. Mrs van Zyl, the Deputy. Mr Meiring and Mr Carstens is your, as Chairperson is *ex officio* member. They meet three times per annum and they have a terms of reference in line with King IV. I've included in here their specific responsibilities with respect to the annual financial statements. They are the first committee that we've used the financial statements presented by the auditors, they query any changes and present that to the Trustees who then approve the financial statements. They're also responsible for all other functions related to the external audit, reviewing their audit plan, formal review of the auditors every three years and then also review their audit reports and management reports. So, it's a very important committee that is on the Board. All right, membership, active members, a very slight decrease on those numbers. Just important to note that there were actually 84 new members during that period. The difference is then your exits in terms of retirements and withdrawals. There were 58 withdrawals, sorry, 54 withdrawals, 55 retirements and three deaths. So, 58 of them are life changing events and the rest were withdrawals. So, there were new members into the Fund at that time. The pensioners decreased, as we would expect, pensioners who are deceased or a child's pensions which have now turned 21. And then I've also added on there, it's very small at that number but it's actually a 300% increase from 4 to 16 of the in-fund living annuitants which started in 2016, and our current figure on that is now 30 in-fund living annuitants.

So, it's growing very, very well. The total assets of the Fund from 2017 to '18, there was growth from 3.832 million to 3.847 billion (sic). Your statement of changes, which is your income statement, your contributions grew nicely with 6 million. That's an expected increase based on parallel increases and new members coming into the Fund. Your net investment income, there is a further note which provides the detail, there was a nice growth also from 2017 to 2018 from 130 million to 326 million. Your benefits paid reduced slightly. That's not anything that's within the Fund's control. As I said, members that retire or deceased and members that leave their jobs and take their benefits. Of that 375 million, 192 million is your monthly pensions which are paid to pensioners. And then the Fund costs, all your costs, other costs in terms of the Fund grew, they increased from 13.8 to 14.2, which is only a small increase of 3%, R400 000.00. There's a break-down of your income from investments. So, the top line is your interest and dividends mainly which is earned on your, all your investments. Then your adjustment to fair value is made up of a realised and an unrealised component. Now, in 2017 the majority was a negative unrealised profit resulting in such a small amount of 12 million. This year we actually had a positive unrealised profit of 196 million. So, it resulted in a nice increase on those investments. Your managing fees actually reduced by a million, so that's nice to see when your income is going up but that's still reduced. That resulted then in your overall income from 113 to 326 million. This is just a split of the assets, your total investments in your foreign and your local. So, for 2017 that total is 19.84% and in 2018 it was 22.87% invested in foreign equities or any foreign assets. And then lastly we have the audit reports from the auditors. Your general audit report once again was an unqualified audit opinion, so which means that the financial statements were prepared in all material respects in accordance with the regulatory reporting requirements for retirement funds, which is a specific framework for retirement funds in South Africa. And then you have the factual findings report is on all the additional procedures required by the FSCA. More detail is on pages 40 to 45 of the financial statements and the auditors also did not note any discrepancies on any of those detailed procedures. And then the final audit report, the issue, is on the Regulation 28 as at yearend. They once again found an unqualified audit opinion in terms of all the assets in terms of Regulation 28 but did report the Newshelf emphasis of matter which was an ongoing, as you're all aware. This, at the end of this year it was only due over by point seven six percent, and as Mr Chairperson also said the, it has now all subsequently been sold, so we're not expecting any emphasis of matter this year on the audit report, which is good news. And that's a break, short summary of the financials.

CHAIRPERSON: Are there any questions for Yvonne on the financial statements? Nothing? Can we then have a proposer and a seconder? Sorry?

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

CHAIRPERSON: '*Kan ons net 'n mikrofoon kry hierso*'? Yvonne, you must just take down the question, okay.

UNIDENTIFIED MALE SPEAKER: Hallo?

VOORSITTER: '*Ja, ons hoor*'.

UNIDENTIFIED MALE SPEAKER: I just want to know, this statement that she said a certain percentage of the people withdrawn, I just want to know what does, ja, clarity on that.

MS WILKEN: Okay. So, that is, a withdrawal is basically your exits in terms of members. If you resign from your job you have the option of taking your withdrawal or transferring it to another fund. So, those are members that have exited, left their employers and as a result left their fund.

UNIDENTIFIED MALE SPEAKER: Thank you.

VOORSITTER: Nog vrae? Goed. Kan ek ’n voorstel kry dat ons die finansiële state so aanvaar? Herman Botha. Sekondant Johan Jacobs daar agter. Yvonne, ‘*thank you very much*’. Jy’t baie lig daarvan afgekom.

ME WILKEN: Ek het.

CHAIRPERSON: ‘*Goed. Dan is die state so aanvaar*’. Our next presentation is by Mr Duncan Theron of GraySwan Investments. Duncan?

MR THERON: ‘*Baie dankie, Mnr Voorsitter en Trustees en bywoners. Dis lekker om weer hier te wees. Ek kon nie glo toe ek vanoggend hier instap ons het presies ’n jaar terug hierdie vergadering gehad op die 24ste en vandag is die* 25ste’. I always measure life in terms of benchmarks, so in terms of how fast time flies, I always look at this meeting. It’s one of my highlights of the year. I also measure inflation, for example, I look at the price of a Streetwise 2 at KFC and how that increases every year and those are kind of my two highlights of the year, my LA Retirement Fund AGM presentation and my once a year visit to a KFC. Eddie, thank you so much for the introduction this morning. Eddie spoke about wealth management and the Chairperson then spoke about diversification. And if you go and look at Ecclesiastes 11 verse 2, it says diversify your assets in seven or eight places because you don’t know what’ll happen to your country. And that’s actually the investment policy or the strategy of this Fund. That’s our role as asset consultants, we look after the investments and we simply have to diversify the assets of the Fund because we don't know what is going to happen tomorrow. And the Chairperson just alluded to this last week how volatile the market's been. We've had one of the best quarters in more than two decades, just the last three, four months. Everybody's very positive, we've got a good election and the next thing we got some crazy people overseas making some tweets and certain comments and there we see the market dropping 4%. So, it is a rollercoaster ride but at the end of the day saving for retirement is a long-term investment strategy. So, my role this morning is just to give you an overview of the markets. I'm going to focus on more where the markets are today. I am going to show you some performance numbers later on for the performance up to June 2018 but then I'm also going to give you an update as at end of April where we have numbers just to put everything into perspective. So, 2018 was a horrible year. And you can just see there our stock market. Our stock market gave a negative performance. The last time we saw that was in 2008. Our stock market has been the second best stock market in the world for the last 10, 20, 50, 100 years. So, we have a fantastic stock market with some very well-run companies. But as you know in 2018 it wasn't just the markets that affected us but also very specific company issues. You know about the Steinhoffs, you know about the MTN disaster, you know about Aspen, EOH. A lot of corporate governance issues came through in our market. And our stock exchange has actually been voted as the best governed stock exchange in the world for many, many years running up to 2018. And so a lot came to the fore in terms of governance and the Chairperson also alluded to how well this Fund is governed and later on I'll just talk a little bit about responsible investing the principles of the Fund has put in place. And we've missed most of those governance issues by simply investing your money responsibly. So, I think most investors feel like this, most of us don't have any small kids anymore but it makes you think back and it was a tough period. Later on I'll show you that I think for members of this Fund you don't have to feel like that. But most people out there – and especially private investors try and invest their money in the retail market – feels like that because retail products do not perform as well as your Fund, I'll show you the proof, and the costs are very, very high. So, the best way for you to have been able to save has been in the Fund and therefore I'm very glad to see that the in-fund annuity is doing so well and that there's more and more members choosing that option. So, let's put 2018 into perspective. I think it was a worse year than 2008. 2008 was the Armageddon year, the financial crisis. At the time I was managing an offshore as asset management business out of New York, I saw how people in the Lehman Bank, which was more than 150 years old, had to leave their desks with just a little box with their pens and papers. That's how bad that year was. The stock market dropped 40% in three months. But I think 2018 was actually worse. Why do I say that? It's not because of the dramatic decline in the stock market, it's more about the width or the breadth of how most asset classes produced a negative return. It was very difficult to hide, even if you were invested in seven or eight different asset classes it was hard to get a positive return. Because, as you can see there, I mean you can look at, look at the column Government bonds or inflation linked bonds, in 2008 these asset classes gave you a strong positive return because in 2008 inflation spiked and inflation linked bonds goes up when inflation goes up. That didn't happen last year. Actually, inflation hit four-and-a-half percent. Now, if you look at interest rates, in 2008 interest rates spiked up to 25%, so if you had put your money in interest bearing instruments you got a great return. But when in 2018? Interest rates didn't go up but a lot of asset classes that are correlated to interest rates dropped, like listed property dropped 25% literally three or four months. So, there were just some very specific shocks to certain asset classes. So, if you just look at the 2018 row you can just see all the reds. There were more reds across those asset classes than in 2008. So, for an investment manager or an investment advisor like ourselves it was harder to manage assets, because it was so difficult to hide and diversify the assets. And later on I'll also talk a little bit about we have to continuously think differently because I think for the next five years it's going to be no different, it's going to be as volatile and potentially more volatile as the States and China starts juggling for power. And we see that on a week by week basis. So, we have to start thinking about new asset classes. And the Fund has already started introducing the asset classes to great effect. This is just the equity markets. Now, I show this picture because this is on a rolling five year basis. Because if you put your money in equities you've got to sit still and you've got to be patient for at least five years because you're investing into companies where management define strategies to make monies and those monies are not made in the next month, two months, three months, year or two, it's made over five year rolling periods. But the dismal picture here shows you that – just look at the last bit there, the drop there – on a five year rolling base now our stock market is again underperforming cash. And – but the point is that it's happened before, and that's where investing is a long-term patient game. Because in times like this, this is the best time to go shopping. It's like our wives goes to the shops when they see a big sale. Most men run away from the investment markets when there's a great sale, okay. There's actually proof that says women are better fund managers than men because they are patient and they go and buy a good bargain. So, at this point in time in the market it's a good time to take on certain risk but you've got to manage the risk. So, we've also increased waitings to equities but we're always hedging or putting protection around the equity portfolio because South African equities are very cheap from a valuation perspective. But we know qualitatively there's a lot of risks in our market, things that we can't control. Political risks. What happens if Moody's downgrades us? That's all the things that we have to worry about for the rest of the year. And, I mean if you just look at the US stock market, they call it the SMP 500, the 500 largest stocks in that market. In December it dropped, as you can see there, 9.2%. It was the second biggest monthly loss since 1928. It just shows you that albeit that most people are so positive about the US economy that the markets are sensitive, they are just waiting for bad news. And that month Google came out with some numbers that were great but not as strong as what analysts expected. Facebook came out with numbers. Again, great numbers but not as good as people expected and the market tanked. And you know what happened in January, the month thereafter the market rebounded by about 10%. So, back at where we were. So, if you're emotional about your investments and you started selling end of December you'd have missed the nice bump in the markets. Then we had a fantastic three, four months and then this month again now we're down 4, 5%. But that's the markets. I always say that the markets, going forward it rhymes with what's happened before. We have to study history and we have to be patient. But the future's not always going to be exactly the same but it kind of rhymes. So, we look at history, we look at valuations and then we come and see what is different this time and how do we have to react differently. And all of this is as a result of our dear friend, Mr Donald Trump and he discovered Twitter and the last two years – if you just think two weeks ago he tweeted by saying the trade negotiations between China and the US is going very well, it's going to be resolved. That was the Friday. That Monday morning he tweeted by saying there's another 200 billion to R300 billion of tariffs being implemented. And you go like what happened between Friday and Monday? And this is the environment that we operate in as investment managers and advisors. So, we constantly have to put in protection, which the Fund does. Your equity portfolios are always hedged, your offshore equities are always hedged and your currency are always hedged. I always say that if you think about life you – I mean I'm sure that most of you have insurance on your house, have insurance on your cars and hopefully have insurance on your life – but very few people have insurance on their investments. And that's what the Trustees implement as their risk management role. So, if the stock markets crash we will be protected and then we'll have an opportunity to buy in at a lower price. So, on the one hand we're hoping for good returns but on the other hand we know that if the markets tank it's a great opportunity for us to go and buy some bargains. If you listen to a guy like Warren Buffett, the best, the best of all time, he is sitting there waiting for the markets to tank because it's a great buying opportunity, and that's really how we have to juggle investments. This is the big, big risk in the market is when is the recession coming in the US stock market. And all that this graph shows you, when that blue line drops below that black line the recession is away in about 15 to 20 months, and we're right there again. So, all that that line shows you is that if you put money in a bank account in the States right now on call that you can pull it tomorrow or you put your money in the United States in a 10 year investment you'll get the exact same return in a call-account that locks it up for 10 years. It sounds ridiculous because in the longer term you should be remunerated and compensated if you lock your money up for 10 years, but you're not. And that's when market commentators start talking about an inversion of the yield curve. It just simply says that you're not compensated for locking your money up or investing your money, and that is a sign that a recession is coming. It's one of many signs. But I can also tell you that in this last leg before the recession comes history also shows and proves that people are greedy, they want to participate in the last little bit of the up-run, so people keep on investing their money in equities and that last run is normally a very strong time for equity markets. So, we don't want to miss out, we're still exposed to the equity markets but we're very aware that in the next 15 to 20 months we could go into a US recession. If that's the case I think the world really goes into a recession and stock markets have a terrible time. But stock markets are the asset class, it gives us a good real return. That's the asset class that's going to give us the inflation plus 4, 5, 6% over the longer term. So, there's a lot of balls that we have to juggle and it's not easy. This is just summarising the last 10 years, so it just gives you a bit more perspective on longer term and short-term investments. If you look at it, it's the last year, two, three years. Maybe just focus on the last column, our South African stock market, and now you can see literally for the last five years 6.83%, that's per forecasts, after costs for a retail investor you can deduct 2%. As a fund investor you can deduct about half a percent. So, this Fund is run on a very cost effective basis. And you can see that you're barely outperforming inflation, and this is the asset class that must make your wealth grow. So, it's been really hard to get to inflation plus 2%, inflation plus 4 and inflation plus 6, which is the targets of our risk profile portfolios. But over the last 10 years, look at that, as dismal as the last five years has been look at the 10 years, 14.27% per annum. I mean that outperforms inflation by 7, 8% per annum. So, it just reminds us that investing is a long term game and we have to be patient. Unfortunately as South Africans we become so accustomed that our markets give a double-digit return so we've just assumed that every year we should be up and we should be beating inflation. So, the only way to save well and make your pot grow at this point in time is to keep on contributing as much as you can, get a decent return and do it as cost effective as possible. Let me just get this slide. This is an important slide. All that it shows is when our stock market underperforms cash on a five year rolling base, like it is now again, those are those grey bars, it's below the zero meaning equities underperform cash. Can you see what typically happens thereafter? So – let me get a pointer going here. Ja, so, if you look at those periods there where equities underperform cash, look what happened thereafter, equities had phenomenal performance. Look there and then look thereafter. Look there and look thereafter. So, we've got a first blip on the radar again, equities underperforming. It could be another six to 12 months of negative performance versus cash but when the markets are so cheap you've got to start dipping in and investing. So, again I'm saying even – and if you look at your personal assets outside the Fund, don't go and run into cash, there are some bargains to be bought out there. Most people run away from risk when it's actually the time to take on some risk. This is called the price earnings ratio, PE. It's not Port Elizabeth, it talks about the valuation of our stock market. This is our stock exchange and that line in the middle is simply indicating what is the average valuation of our market over time. If that red line is somewhere close to the middle it means our market is fair, it's fairly priced. It's not expensive, it's not cheap. And when our market is up there it is expensive. You can see it's above another grey line. We call that an extreme valuation, or a statistician will say it's a two-standard deviation event. So, it's very expensive. And you could see when the market's so expensive thereafter people take profits and the pendulum swings and normally the pendulum swings way too far. That's investments, it goes from the one end right to the other end. And the key for us is we've got to protect against these tails, we're going to be kind of in the middle, but when the market is cheap like that then we have to dip in and take some risk, which we're doing. I think this is a very appropriate slide because if we just think about our election – look what happened in Brazil. Everybody thinks Brazil is a terrible place because of all the corruption and the state President or the prime Minister is in jail now, and-and-and, but look at what that stock market did after it's election versus our stock market. It outperformed our stock market by more than 30% in a year post their election because the Government started putting in some good things, a new leader, putting some guys behind bars, starting to focus on job creation. It's exactly the same thing we've got to do and I think we've got the right guy steering our country. So, we just have to hope that some of these good things come to play. And if it does this pendulum could swing very quickly and we could see a very, very strong stock market performance. But if it doesn't and we see the other side our stock market could have a very, very dismal time, and that's why it's critical for us to constantly monitor the situation on a week by week basis. Yes, investments is a long-term gain but you've got to keep your eye on it just to manage the risk. So, I've shown quite a lot of negative new. On the other side of the spectrum – and this is great for low-risk investigators, pensioners or people in the inflation plus 2 solution that are closer to retirement fund, to retirement. Our Government bonds are currently yielding some of the best real returns meaning the return which you can get on a Government bond relative to inflation is of the highest, it's been and a very long time. So, you can just see, I mean currently if you invest in a Government bond you can get an inflation plus 5% type return. That is a phenomenal return. So, for us to get to the inflation plus 2, 3, 4% type return we actually put a lot of your money in these type of instruments. We don't have to take on too much equity risk, we don't have to take on too much offshore investment risk which are extremely volatile, we can rather invest in the asset class which is less volatile and which is giving a good return. But we've got to keep our eye on Eskom and Moody's down-rating. If our bonds are down-rated, our Government is down-rated, then this picture will change very, very quickly. And you can just see in world terms there's our South African bond market, and that is the real return we're getting, so inflation plus 4, and look at the rest of the world. You can see half the world you're not getting even an inflation return when you put your money into investments whereas in South Africa it's one of the best real returns, is our Government bonds. If you look at the offshore markets, this had been the place to be especially in the last year, you can see there, or the last even three years, double-digit returns from offshore equity markets. But I can tell you that that market is expensive, I mean that is the US stock market, this is the rest of the world, Europe, UK, Asia, China. And you can just see, I call this the crocodile's mouth. Now, I've just spoken about pendulums, so we have had a phenomenal bull run. A bull run is when the market just runs and the bear run is when it just tanks. We've had the biggest bull run in US history and it's the longest bull run as well and things are getting too long in the tooth and therefore you could see, look at the volatility that you're suddenly seeing because people are kind of, they want to take a little bit more risk, they want to get the last bit of returns but they're cognisant of all the risks and the potential recession. And so we are very, very aware of this position. And what do we do? Yes, we've got allocations to some of the best stocks in the US but we've put in protection, we're ensuring the fund if we do see these drops. It's called a hedging strategy. Because we don't know when this crocodile's mouth is going to go like that, you can't time it. And we are very much overweight in these asset classes and we are overweight in emerging markets. Because we just think, if you look at population growth, urbanisation. Asia is the next superpower in the world in the next five to 10 years. There you could just see how long the bull run in the US has been. Currently it is the longest ever, nearly 120 months. That was the previous longest and post that 2008 happened, the markets crashed 30-40%. This is the Rand. Now, our Rand or our currency is the most volatile currency in the world, which makes it again difficult for us to manage risk. Because if we put your money overseas the volatility with that investment is extreme, so we can't just put 100% to your assets overseas. Well, Regulation 28 doesn't allow us. We can put 25% in, or 30% in offshore assets and another 10% in Africa. So, we can put 40% in Africa, or overseas, but we're not there. We're not one of the doomsayers that says just take all your money overseas because at this point in time our Rand is quite cheap. Let me explain. That blue line in the middle is called purchasing power parity. You may have heard of something called the McDonald's Index, there's even now a Starbucks Index. What it does, it looks at what is the price of a hamburger in South Africa versus a hamburger in New York versus a hamburger in London versus a hamburger in Hong Katlehong and what is the difference.

And the difference comes down to inflation differences and interest rate differences. So, that measures the average of those prices and the bottom stipple line simply says that if the Rand goes there it means the Rand is expensive, it's expensive to buy a hamburger in South Africa versus Hong Kong or the US and there it means the hamburger is cheap. So, the Rand for us can actually strengthen from where it is. Most people are just taking money overseas. We're saying, well, you know what, for your aggressive portfolio we can go up to 40% in offshore assets. We're sitting about 22%, half, because we think the Rand is cheap and if Government puts in the right measures then our Rand can strengthen. So, we've got a decent allocation but again we've got protection in place. If the Rand strengthens we won't lose. If the Rand weakens we will participate. So, that's all history, which is fine but every day when I wake up I have to look at the future and I have to look at what is our expectations. The daunting task is just that if you look at the last 10 years our asset classes have done well, even if you look at the last five years being dismal, the five years before that was a super strong five years. So, all in all great returns. But if you look forward risky assets might give you a double-digit return, maybe as much as 12% if we're lucky. We're just not going to see those type of returns going forward and we're going to see increased volatility. So, what can we do? Well, we have to look at things outside of just these traditional asset classes, which the Fund has started doing. We have to react faster, we have to be able to be nimble and move faster, which the Fund has been doing. This Fund is outperforming other municipal funds of R20 billion. The DC risk profile portfolios is 2 billion. We're as cost effective and more cost effective than R20 billion funds and we're beating them pants down. Why? Because this Fund's more nimble, we're not an oil tanker that takes forever to move, we're more you can say maybe not a speedboat, that's what we are, it may be a jet ski, we can move faster. So, that's what we're really doing. So, from a Fund overview we have to start thinking differently. I'm going to tell you this story. I was in Singapore, it's about three years back, at the Chartered Financial Analyst Conference. So, in that conference there's about 2 000 people, these are all chartered accountants and CFAs, that's the top qualification for investments. And there we all sit and Daniel Kahneman comes up and presents. And Daniel Kahneman is the, has won the Nobel Prize for behavioural finance, understanding how people think. He stands in front of this whole audience and he simply asks this one question, how many pairs – so pairs, two – how many pairs of animals did Moses take into the Ark? Not a – and a few people's hands goes up, look at this, so, pairs, how many is it? Is it one pair of each or is it thousands of pairs, or what's the answer? But the answer is actually that Moses didn't build the Ark, it was Noah. So, if I asked my kids that question they'll give me the right answer immediately, but as adults we don't. Because what is the problem? The problem is that we have what we call an anchoring bias, we're used to doing things in a certain way and we continue to do things in that way and we have to adjust constantly. This is a great analogy. If you look at a swimming pool in the gym, so we all go to the gym and how do we swim? We swim up and down. Why do we swim like that? Because we're told to swim like that and there are lines and guidelines. I can understand that. But what happens if you get into your own pool, why do you still swim up and down like that? Well, I've had answers saying it's the longest in the pool. I think Danie said – in our Trustee training – well, he swims like that because he can't swim that far. But the answer is actually that if it's the longest in the pool, it's not. Diagonally is the longest in the pool, that's how you've got to swim. But we are so trained to think like that that we, until we also swim like that. So, I'm just saying, I'm using that analogy because we constantly have to enhance the way we do things in the Fund and we have to evolve. And how have we done that, especially in the last year? Well, our execution and implementation has been so much faster. The Fund's given certain discretion to some of the service providers, the managers and ourselves as advisors that we can move faster, that if something happens today we can implement something tomorrow. It's not that we have to wait for the next committee meeting, which is the end of the month or end of the quarter, and then it takes another month to implement that. And that's the drawback for I think most pension funds, the bureaucracy of trustees sitting there, taking a long time to make decisions and then the implementation takes so much longer thereafter and they miss opportunities. So, that's the one key thing. And then also, we're balancing and opportunistic investing. So, in a low return environment, if you're only getting a 5 or 6 or 7% return, missing that opportunity for the additional half a percent, it's important. You've got to take that opportunity because half a percent on 6 or 7% is a lot. In the old days half a percent on 15% is nothing, so it's okay to miss it. And therefore we're constantly looking for opportunities to even make money and hedging. If the market falls and we've hedged we make money and if the market's fallen to buy in and it runs up, we make money. And that's one of the key reasons. And we're looking at new asset classes as well. So, in the last just over a year the Fund has introduced what we call a credit portfolio into the pensioner portfolio, and that credit portfolio simply to outperform the liabilities, that promise that we make to the pensioners. And it's outperformed that liability profile by about one-and-a-half percent, again helping us to give you the inflationary increase and the bonuses as per the pensioner policy. This just shows you about what the world is doing. It's a great research piece by Preqin. They're authoritarian in terms of institutional investing worldwide and they just show that 66% of investigators worldwide are thinking about different ways to invest, and that's really what we're doing as a Fund as well. Then also very importantly, the Fund is a member of the PRI for the last three years. The Fund's really – it's the fifth pension fund in South Africa to become a member of this organisation. The PRI is a worldwide body that gives guidelines and monitors how we implement those guidelines in terms of responsible investing. They give guidance in terms of how do we implement governance, how do we look at the environment and how do we invest to save this planet. Because if we keep on consuming like we're doing there'll be no planet by the year 2050. In fact, we need three planet Earths to feed our mouths and our needs by that time. So, we have to be cognisant about governance, environment issues and even social issues. If you think what happened with Marikana, if we were cognisant of those social issues as investors and asset owners, we've got a say in those companies, we've got to keep those companies accountable. In terms of that has the Fund now implemented a proxy voting policy in the last year. A proxy voting policy is a guideline to your investment managers how they vote with our assets, what do they tell management of companies in terms of environmental, social and governance issues. So, this Fund is a very responsible asset owner because we care about all these things. And finally there's proof that shows if you care you can outperform the market and at lower costs. So, it's worth it to be responsible and to care. Let's look at the Fund performance. I'm quickly going to show a few of the slides up to June 2018, that's old new already but what you will see is that for the run-up to June we had a very strong recovery in our stock market. We had a very big dip towards the end of 2017 and then a very strong recovery, so much so that you can see for the 12 months the accumulation which is the aggressive portfolio yielded a very nice 11.43%. And if you compare that to inflation, inflation was four-and-a-half percent. That is a healthy return. And if you go and compare that versus other managers, global balance just means if I take the average of Allan Gray, Coronation, Prudential, Investec, Prescient, all these big names that you see on the TV, the quality experienced investment managers with decades and centuries of investment experience, how did we compare versus them and, well, we beat those guys. Can you see? So, 2.42%. And if you just take that as what we call L4 outperformance of our competitors, take that on an asset size of let's say, I think that portfolio is about 1.5 billion, it's a lot of money. And so you can see for the last three years we've outperformed all those guys consistently since inception of the defined contribution portfolios and even before we did, before converting from BB to BC. There's the consolidation on inflation plus 4, again a handsome return for somebody looking at CPI plus 4. CPI plus 4 is about 8/9% and we exceeded that, and again handsomely outperformed all these other big names. And the same with the preservation fund, you can see the cash plus slightly lagging that one month. So, that I think is a sterling picture that just shows how well the Trustees have done on your behalf. I'm not going to go to all the detail, that's very much a summary, just in the interest of time. The pensioners up to June 2018, as you know the pensioner policy at that time said we're targeting a 65% of inflation as an increase and then a bonus, and that was met. And why could we meet that? That payment I think it was done end of December. Well, the pensioner portfolio – this is kind of the liability, this is the promise. If we promise you a certain pension every single month that you're going to get that specific Rand value and you're going to get 65% of inflation and you're going to get a discretionary bonus, then we've got to manage that promise. So, how do we do that, to manage that notional promise to say that's the specific value you're going to get every single month plus your 65% of inflation? We put those assets what we call a de-risking or a liability driven investment strategy. It matches your need exactly, not taking risk with it. We're not taking chances because we have to manage the pensioner's expectation. But for the rest of the assets, we put it into a growth portfolio. That growth portfolio targets inflation plus 6%. It's an aggressive portfolio. And if that growth portfolio produces good returns, that gives the bonus. And you can just see the growth portfolio gave 10.29%. Collectively the pensioner portfolio outperformed the promise, you could see, over time. So, it made the pensioner portfolio more solvent, stronger in a financial sense and we could make those promises. And then in Jan 2019 what we could do is to increase the pensioner policy to say we're not targeting 65% of inflation now, we're targeting 70% of inflation, so we can give you a higher inflationary return over time and our target's finally to get to 100% of inflation and we're working towards that. I remember when we got involved in the Fund, what's it, seven years back, I think we needed something like R450 million of extra assets to beat the final promise of getting to inflation. I think we're away maybe by just over a hundred million or so. And at that time any observers, external analysts, commentators said that we'll never de-risk this Pension Fund and we're right there and we're making good progress. So, I think this is the more important slides and the picture remains very, very healthy as you can see for the last 12 months here. So, unfortunately we couldn't give you a nice double-digit return but you saw what the markets have done and you can see again, consistently see the green numbers outperforming all those big brands out there and at a lower cost. If you go and put your money into let's say Allan Gray today, into the Allan Gray balance fund, that fund is R150 billion in size, it's like a big oil tanker, and it'll cost you one-and-a-half to 2%. You put your fund, money in the accumulation, let's say it's one-and-a-half billion, it's nimble, it can move and it costs you half a percent and we're outperforming. So, that's the beauty, that's why I constantly have to motivate that members look at that in-fund annuity which the Fund put in place in 2016. Then I did have these slides in previously, I don't go through them but importantly how we're doing versus our municipal peers as well. So, there's about six or seven municipal funds that we monitor and you can just see, well, we are consistently outperforming them. There's the accumulation phase and very importantly this row here is the average high equity unit trust that you can go and buy today. So, that includes Coronation's Regulation 28 CPI plus 6 fund and Coronation's and Prudential's. There's more than a hundred funds in that category. So, how have they done on average? There's the performance numbers and you can look at what the Fund's done. So, again, it's so much better investing in the Fund than trying to take your money outside the Fund. And there you can see inflation. Inflation is actually coming down 4.19, so maybe that's not a great return in absolute terms but we're still giving you inflation plus 3% in a very, very difficult time. There's the consolidation and so this targets inflation plus 4. And let's look at – and you can just see again significant outperformance versus the peer group, the municipal peer group. This Fund is the leading Fund versus peers and you can just see versus the unit trusts out there which targets inflation plus 4, handsomely outperforming and we are beating inflation, as difficult as it is. So, maybe not a great return in absolute terms but still inflation plus let's say 3 to 4%. We're making that promise. And if you look at the preservation fund again, I mean look at the significant outperformance versus the peer group, the municipal peers, 9.1 versus 7.8. That's per annum, every single year we're outperforming the guys by let's say 1 to one-and-a-half percent. If we can do that over let's say 15, 20, 30 years long-term savings then we'll put another 30 or 40% extra in your pots now what the other guys won't get, but just outperforming by half a percent or 1%. And you can see again versus the unit trust industry and there's inflation. And if you look at the cash plus, this is the one area where we've been struggling a little bit, you can see underperforming the peers. I think there's less than R20 million in this cash plus portfolio, so it's a very small portfolio. And yes, we've underperformed because we've been a little bit more aggressive than our peers, but it's much of a muchness. And you can see again just our cash plus portfolio have handsomely outperformed inflation, so you got inflation plus 3% just investing in cash, which is a low risk asset. Then on the pensioners again some good news – and Sean will do all the calculations for, towards the end of the year to give you the views there. But you can just see, look at the growth portfolio. The growth portfolio for the last 12 months, it's 7.04 which is a strong performance considering the markets and the liability actually reduced, very technical reasons. But when there are times when our assets grow faster than the promise made what we then do is we rebalance. We take the profits, we're not greedy, we just want to make that promise and we take the assets and we rebalance it over and de-risk it and we put it into a pot of assets that can make that promise even more secure. And that's really what we've done in the last month because we've had this time where our assets pendulumed in this way and the liabilities has gone the other way and we're just taking the profits and bringing it back. It's not a timing decision, it's simply just when there's assets on the table, take the profits, bank it and make sure that we can meet those promises. Ja, and then just to finish off, this is one of the top 10, the top best investment managers of all time, John Templeton, together with guys like Warren Buffett, Charlie Munger and he just made this comment and said if you want a better performance than the crowd, well, then you must do things differently than the crowd. And that is something that this Fund really, really focuses on and you can see it in the numbers. And it's not as if we're just sitting back and saying, well, what's worked has worked, we're constantly trying to make that better and stronger and to enhance the performance. So, with that I thank you for this opportunity, it's been a great honour. I can take any questions. Okay, I'm luckier than Yvonne.

CHAIRPERSON: Thank you, Duncan. Any questions? Another one easy off the hook, thank you very much.

MR THERON: Thank you.

CHAIRPERSON: Okay, then we are at item 7 and that is presentation by Mr Sean Neethling from Momentum. Don't tell the people about your Harley Davidson, hey.

MR NEETHLING: Right, let's see where we are. Sorry, the computer seems to have gone on hold. Okay, good morning everyone. Thank you very much for the opportunity to present the actuarial valuation to you today and I really appreciate the opportunity to continue my service as the actuary to the Fund. I wanted to just tell you a little bit about a famous actuary named Frank Redington. And Frank Redington said an actuary who is only an actuary is not an actuary. So, Frank was famous for developing the theory of immunisation, which was nothing to do with flu injections. But Duncan touched a lot on the matching aspects of the pensioners in terms of matching the liabilities with appropriate assets. And a lot of Frank's theories of immunisation has to do with those matching principles for example investing in bonds that will behave a lot like the liabilities do. And so it was very interesting to me that his theories which date back many decades are still very much relevant today and are taken into account in the, sort of the sound ways that the Fund manages some of those risks. A lot of what we do in an actuarial valuation is very much direct or pure actuarial work, so let's just jump into that. So, we saw already the number of members in the financial statements but just to recap. A small decrease there in the number of active members, the living annuitants increased from 4 to 16 member at 30 June 2018. And we will be presenting later to the living annuitants. And a small decrease in the number of pensioners, down to 3 510. Still a very large group of pensioners. And what you find when you have such a large group that in terms of the statistics such as longevity the pensioners tend to follow the assumptions much more closely than for example if you had a small group. So, in terms of the number of pensioners that we expect to survive each year it's a lot more stable the experience coming through. In terms of the statistics for the yearend, this first set of five bar charts simply looks at the contribution rates. So, we got seven-and-a-half percent or 10% for employers, for councillors. For other members the employer contributes at 18% of pensionable salaries and most members contribute at 9%. Then there is a category for contractors contributing at seven-and-a-half percent of pensionable salaries. The DB fund return was 8% for the year and the DC fund return 11.2% on average overall, and that can be compared to inflation of 4.6, so you can see the real return coming through over and above inflation. The pension increase of 3.3% was granted. The investment returns on the various sections of the DC, you've got an accumulation portfolio at 11.4, consolidation 10.7, preservation 10.6 and the cash plus portfolio at 7.3%. So, now the financial condition. This is really where we bring things on – in the valuation we bring the assets together with the liabilities. We want to compare the assets to the liabilities to check that the Fund is in a sound financial condition. If the asset exceed the liabilities then we're in a sound financial condition. So, we had total nett assets of just over 2 billion in the DC section, total member fund credits or member shares of 1.97 billion. Living annuitants, we include them in the defined contribution section because they operate in a similar way in terms of having an account. Just like you have a members share a living annuitant will have a living annuitant account. And we had 44 million in that account at 30 June 2018. In addition there's a contingency reserve account, so that account is available to the Fund to use for various contingencies. And then also the processing error reserve account is the balancing item. The processing reserve account was minus 5.8 million as at the valuation date. So, that gives us the total of the DC section surplus at zero but essentially the processing reserve represents the balancing item of the calculation. So, if we take total assets divided by total liabilities before we get to the reserve accounts we have a funding level of 100.2%. That means the Fund is indeed, or the DC section is indeed in a sound financial condition. But if we include these reserve accounts in the funding level we then have a total funding level of exactly 100%, which is typical for a DC

Fund, you deliberately keep your assets and liabilities more or less equal. If there's a big difference then you adjust the liabilities accordingly and in fact that was done, the Trustees resolved to distribute the processing error reserve account, it was minus point three percent. So, it's a very small percentage but that is then allocated to the members' shares. If we turn to the DB section, this is the pensioners. So, we got total DB section assets of 1.77 billion and then the actuarial calculation comes into the pensioner liabilities. That's this figure. So, this is, represents the value of the benefits that have been promised to the pensioners. So, what we have, we have a look at all the current pensions in payment and then we project into the future allowing for the probability that the pensioners survive and allowing for assumed pension increases going forward. Because we don't know what the actual pension increases are so we have to make an assumption and that assumption is about three-and-a-half percent of pension increases and it's based on our expectation of future inflation as implied by the market. So, if we project all the current pensions into the future we then have to make an assumption on investment returns. In the valuation we assume that investments will earn 9.1% and that again is based on the investment yields given to us by the market. So, that's based on a long-term bond yield. So, we're basically assuming that the Fund must earn 9.1% going forward. But it's essentially the difference between the investment return assumption and the pension increase assumption that is important and we call that the post retirement interest rate. So, that interest rate was 5.14%, so essentially projecting at 5.4%, sorry, 5.14% at the nett post retirement interest rate. So, these are the important assumptions which are taken into account in the valuation and the important thing is that they're market related assumptions. So, our value between our market value of the assets, which is 1.7, and the value of the liabilities is consistent. We're consistently using market-related assumptions. So, if we then discount all our future pension payments back to the valuation date we then get the present value of our pensioner liabilities. So, that represents how much money the Fund must hold now in order to make sure it's going to meet all the future promises to the pensioners. In addition to the pensioner liability the Fund holds a solvency reserve. The solvency reserve was calculated at 45.7 million and that's really an extra buffer in the Fund to protect in case we have adverse experience. So, that experience could be adverse investment returns, could be the fact that pensioners are tending to live longer than what we've assumed in the valuation basis. I think we've already got a fairly cautious or safe basis because we allow for future improvements in pensioner longevity. The particular rate is 1.15%, always keeping an eye on studies both locally and internationally as with regards to how much mortality improvement or longevity improvement is expected to come through. I think interestingly over the last 10 years we haven't seen as much improvement as has been suggested by studies going back many decades into the past, if not centuries into the past. So, we would see that more as a temporary blip in the statistics and not a long-term feature. We still think that, projecting over the next 40, 50 years, that we're still going to see some degree of mortality improvement coming through. So, if we take our total assets less the liabilities and less the solvency reserved we arrive then at the total surplus of 63 million in the Pensioner account and assets divided by the liabilities plus the reserves gives us a funding level of 103.7%. So, that's the official valuation result for the pensioners and again the good news, it's above 100% so we can certify that the Fund is in a sound financial condition both the

DC section and the DB section. The question that should be asked is well what do we do with the surplus. We could certainly leave it there as a buffer just like a solvency reserve but surplus has been calculated and surplus is available for distribution. So, whenever we have a surplus the Trustees will consider what's the best way to use that surplus, do we leave some behind, do we distribute it to the pensioners and the best method of actually achieving that is through the pension increase target. And, as Duncan mentioned, the target was increased from 65% up to 70% of inflation and that has the effect then of reducing that surplus down to about 101%. So, we've retained a little bit of the buffer in the Pension's account but the Board has essentially distributed the surplus by improving the benefits for the pensioners and that benefit improvement is a higher targeted pension increase. In fact, that target was brought through, the 70% of inflation was already brought through in the one January 2019 pension increase of 3.22%. So, let's have a look also at the historical pension increases. We have 70% of CPI to June 2018 and there was a pensioner bonus of 60% of monthly pension. These are, this is just a representation, you can see, going quite far back to 1999 of what historical pensions were as a percentage of CPI. So, there were different measures of pension increase so you do sometimes see these bigger fluctuations but overall over the last, since say 2010 you can see there's quite a steady graph that's trending upwards in terms of the pension increase target. Again here we compare the actual pension increase granted to CPI, you can see this massive CPI figure that came through in one year. And then if we compare with the blue graph, which is the pension increase divided by the CPI, you get your target. I'm going to just show you that. So, you can see there for example we had a pension increase of 57% of CPI in that particular year. I think at that point there was a different measure called CPIX. And then more recently you can see how our target is coming out here much closer to the 70% of inflation. So, while there is a surplus in the Fund we can at least make sure that the target is being reached. But again it's just a target so if things get worse then there's no guarantee that the targeted increase will be granted but we always strive to make sure that we can follow the target to the extent that it is affordable. So, we had a total of surplus of 63 million in the Pension, Pensioner account and the pension increase target increased to 70% of inflation. A pension increase of 3.22%, which represented 70% of inflation up to 30 June 2018. And a pensioner bonus of 60% of monthly pension was paid in December 2018. We always make the point that that pensioner bonus is not guaranteed, so if there's no surplus in the Pensioner account then there's nothing available to actually grant that bonus, because that bonus has to be funded from the surplus in the Pensioner account. So, we can conclude that the Fund was indeed in a sound financial condition at 30 June 2018 and we will soon be commencing with the 30 June 2019 valuation. So, that's all from the actuarial side. If there's any questions, I think the most of the questions have been saved for me.

CHAIRPERSON: Any questions to Sean? No, Sean, it doesn't seem – oh, there's one at the back.

MR TROMP: I'm Derick Tromp from the City of Cape Town (indistinct). Can you hear me?

CHAIRPERSON: Yes.

MR TROMP: I'm Derick from the City of Cape Town (indistinct).

MR NEETHLING: Sorry, that last bit I missed?

MR TROMP: [Inaudible – not speaking into the microphone]

MR NEETHLING: LA Retirement Fund, ja.

MR TROMP: [Inaudible – not speaking into the microphone]

MR NEETHLING: Yes, the LA Retirement Fund, it's the same Fund with just a change in name.

MR TROMP: [Inaudible – not speaking into the microphone]

MR NEETHLING: Yes.

MR TROMP: [Inaudible – not speaking into the microphone]

CHAIRPERSON: No, I think it was answered by Yvonne.

MS HARTLIEF: Yes.

UNIDENTIFIED MALE SPEAKER: Come up in front of that microphone.

MS HARTLIEF: Yes, that might be better.

UNIDENTIFIED MALE SPEAKER: Ja, because this microphone is…

MS HARTLIEF: Is not doing the trick.

CHAIRPERSON: Ja, Jerome got a question here.

MS HARTLIEF: If I could just repeat the question, and if I've got it wrong please correct me. You're concerned about the drop in the number of active members in the Fund and you want to know what the Trustees are doing about getting more active members into the Fund. Am I correct?

MR TROMP: (Indistinct), yes, because once the municipal is so low because they reflect (indistinct) for the year, we grow very, very slow.

MS HARTLIEF: Yes, okay.

MR TROMP: That's a great concern. Is it (indistinct)?

MS HARTLIEF: No, not at all. If I could just answer that question, there's been a misconception in the municipalities to date that this Fund had been a closed Fund. That's a complete misconception. This Fund became open to DC members, so defined contribution members way back in 2003. It is now mandatory for all employees at municipalities to join the defined contribution funds. So, this Fund has been a defined contribution fund for many, many years and what we're doing is getting out there, communicating with your employers to let them know that we are indeed open for business. And each time we go to a municipality they say, oh, we didn't realise, so we are becoming very active within the employer space in terms of monthly inductions of new employees. For example, we've just been granted access to the Stellenbosch Municipality. They were under the misconception that we too were a closed fund. So, the more we get out there, the more we communicate, the more we meet with our employers the more active we will be. You also need to just take into account, as Yvonne explained when she took you through the financials, that whilst you get new members joining the Fund you also get members exiting the Fund. So, people who are resigning from employment they take their money out, people who are retiring. We are seeing more and more retirees joining our in-fund living annuity which we'll take you through a little bit later but at the same time we reflect those retirees as retirees and not as active members. So, you are seeing that slight drop. So, no, we are not diminishing, we're actually on a growth path and we aim to increase the numbers of members.

MR TROMP: Thank you very much for [inaudible – not speaking into the microphone].

MS HARTLIEF: Pleasure.

MR TROMP: The concern is we compare the DC comparison with the Retirement Fund. I think, and I see that there's option to go over to the Retirement Fund. So, the growth is, the way it is actually then much more as currently compares to the DC. Is there any possibility that your members from a DC have a choice to go to the other fund, Retirement Fund?

MS HARTLIEF: You're referring to the Pension Fund restructuring, you're referring to freedom of association. No, there's no freedom of association at the moment. So, once you join a fund as a municipal employee you have to stick with that fund, so there's no option to move to any other fund if you're a member of this Fund or any others. Your other question was?

MR TROMP: (Indistinct) freedom of association not all but in 1997 (indistinct) this country on the DC (indistinct) that option to go to Retirement Fund?

MS HARTLIEF: Yes. The reason why that happened in '97 was this Fund actually split and decided that it would have a separate DC component, so hence we were able to transfer members to the DC portion which then became the Cape Retirement Fund, now called the CRF. That is something completely different, it's not linked to freedom of association and that's not going to happen again. You shouldn't be overly concerned about the numbers in this Fund compared to the CRF for example that was your reference. You should be more concerned about your investment returns, which are far superior in this Fund, and that's what's going to get you through to your successful retirement. So, don't worry overly about the numbers, the numbers are increasing steadily, but it's your investment returns that you need to be focused on.

MR TROMP: Thank you very much. But the concern is that the growth is so slow (indistinct) returns (indistinct), but the growth is extremely slow in comparison with the current Fund.

MS HARTLIEF: The growth was been slow and it's as I explained to you, municipalities haven't been aware that we've been an open fund. And also, remember, your employers are not employing that many staff. So, if we can get, for example, if we go to Drakenstein and they're employing 10 people, if we can get four or five of those we're very happy. So, you have to bear that in mind as well.

MR TROMP: Thank you very much.

CHAIRPERSON: Anymore questions? Thanks, Sean.

MR NEETHLING: Thank you, Chair.

CHAIRPERSON: Thank you very much. Can we go to point 8, a presentation by Braam du Plessis from Simeka, governance related activities, rule amendments, Fund related trends and developments. I always tell Braam I don't know how have you got the patience to read through all these legal stuff because it's sometimes just mindboggling, but Braam, as I know him, he read every word. Over to you, Braam.

MR DU PLESSIS: '*Dankie Voorsitter. Ek kan ook vir U sê in my aanbieding die enigste syfers was ek wys is datums, hoor*'. So, you're safe in that regard, or mainly. I'm going to speak to three topics and the one had been mentioned quite a few times and it reminded me of this in-fund living annuity session we have, that's scheduled to take place at 12:00 afterwards. I'll mention that towards the end. Part of compliance or, ja, regulatory compliance is to report on rules and rule amendments passed in the review period. It's a boring bit but I'll go through that quickly because it's like, it almost feels like it's two years ago already. And then a bit of a legislative update. The idea around those slides under legislative update, the take away for you should be much more comfort towards yourself and then sympathy towards the principal officer and the Trustees for all the hoops we've got to jump through and all the documents we've got to read and establish.

So, I'll start with the Fund rules. Last year I reported up to amendment number 10. But before I go into the four amendments we've passed in the period under review, I've made a screen graph, if that's the right word, of the Fund's website to show you where the rules are, where this documentation is kept. So, it's under the governance tab that you'll see rules and legislation. So, all like the actual copies of the rules and the subsequent rule amendments are kept there. In the period under review there were four amendments and now I'll speak to them shortly. And then just at, there towards, at the end of the review period we consolidated and revised the whole rules, so there's like a fresh in the rules which took effect 1 July. That's the rules you'll find on the website. So, our first amendment we passed had three effective dates and it's centred around two things. Two years ago there was actually a request to, from the floor here for the death cover to continue after, not after retirement, if you remain in service after retirement, in other words, beyond age 65, and we implemented that actually immediately. So, if you remain in service beyond 65 all the way to 75 you actually can remain covered whilst you're a Fund member. The latter two amendments were 1 August and 1 September respectively when we implemented the new death benefits. The Chairman mentioned those flexible death cover we've introduced and disability cover during the review period. It was effective 01 August for new members and 01 September 2017 for the current members. We had to communicate and allow for some option period. Rule amendment number 2 talks a lot to – it's actually the legal speak associated to a lot of what Duncan and Sean said. Duncan spoke a lot about the investment of the pensioner assets – he mentioned LDI, liability driven investment – matching the pensioner assets with appropriate strategy. Sean showed you how healthy the pensioner account is, the funding level, we had surplus we could've upped the pension increase policy. This amendment number 12 had to reduce all this to legal speak and to say what if, to cover the what-if scenario. And the what-if scenario says what if there isn't enough money for the pensioner assets? Now, the answer is (a) or the Board's approach said we avoid that and hence the lots of emphasis from Sean and, first Duncan on the investment and the Sean saying the financial soundness. But if this happens, in other words, the DB assets are not adequate to cover the DB liabilities, something's got to happen because – and that's the part that needs to be in the rules. And we said, well, there's three outcomes. The one is the employer needs to pay in or the members' benefits' got to reduce or a combination of the two. So, those three are the outcomes to document for that what-if situation. But the Board's approach is you avoid that what-if situation because that's an uncomfortable situation to be in. So, that happens to the investment strategy and the monitoring done by Sean and obviously the associated reporting by him. So, that was specifically the DB section and to cover some, the funding position of the pensioner assets I'm going to call it. Amendment number 13 spoke to financial advice. So, what happened with amendment number 13, the Fund with the introduction of the in-fund living annuity, which we've mentioned a lot and we'll keep on mentioning, is that we did allow members who want to make, to makes use of that to also make use of the service of a financial advisor. And as the Board's approach is, we'll, we're not opposed to financial advisors but it's your decision because we actually think that if you want a financial advisor that person helps us a bit in our responsibility to make sure you deal appropriately with the money. So, we introduced that in the rules, we say if you wilfully select and advisor we will pay fees to him from your pot on your instructions. So, that was just to facilitate the appointment of a financial advisor. What's very important in the part we put to the Trustees, remember, the Board can't be held responsible for the advice the member gives because that's *'mos'* now a personal relationship and the big focus on you asked for it, you've got a relationship with the person, we're just going to help for the system if you want to that you can get an income or being paid a fee. Okay. The final amendment in the year under review was a bit of a technical one but, yes okay, here's some numbers that aren't dates. This is the critical illness benefit Danie also mentioned in his Chairman's address we introduced in March. And when we introduced that we had to do a technical changing, change to the definition of contributions in our rules to allow for the deduction of this premium if selected by the member from the employer contribution made on behalf of the specific member. So, those were the full rule amendments in the year under review. I want to speak a little bit about a legislative update. Here's something, here's some animation in this slide now. I didn't know, I'm going to just put it all out. The default regulations, the regulations that took effect from 01 March, it was published in September and the first drafts came out in 2015, and Danie also mentioned it in his introduction, effectively by middle 2016 we were compliant with these three requirements of the default regulations, which comes down to, if you were in a defined contribution environment you must have an investment strategy that's appropriate and to be applied to members who doesn't want to make a selection. That's the life stage. Sean and Duncan reported on the returns of the accumulation, the consolidation, the preservation phase. That is our default strategy, been in operation since 2014. The next thing is the regulation says all funds must have an annuitisation strategy, that's

Regulation 39. It says that when a member retires from your service you should have at his or her disposal a strategy that's appropriate for the majority of your members. We've done that since 2016, that is the in-fund living annuity. So, when you retire you can access that structure. In our session I don't want to go ahead or get ahead of myself but the research done shows that 90% of money at retirement ends up in living annuities. So, it was obvious that you start a living annuity because that's the major vehicle used and then piggyback off your very favourable cost structures, specifically on the investments. That's annuitisation, the first one was life stage. I'm going to jump over counselling because I'll get back to that shortly. Same thing with compulsory preservation – *'ag'*, sorry, preservation and portability, I'll speak to it next year because it took effect now but the point is that when you resign now or leave a fund, in other words, you terminate service at your employer, the default position is your money stays in the fund unless you come and say, no, I want my benefit. Okay. So, it was just like a soft nudge from Government to say that when you – if we don't hear from you we leave your money in the fund, so you preserve your benefit unless you come and ask for that. And then the final thing is the concept called the retirement benefit counselling that's also part of the regulations. It's something we've formalised middle of last year but has been operating informally. And this, I just want to share an extra slide on the counselling bit specifically because our councillor in person is sitting here, it's Peter Wallace. You'll see the role of counselling is actually just the Government through the regulations wanting to make sure that members are given more information so that they can make informed decisions. So, the way the counselling process work, we've always adopted a strategy of using the website, it's a good communication tool. Members have access to the website and in the website through the various documents we do quite descriptive detailed explanation of each one of the structures. So, we're employing this hybrid system of a written, an electronic system, a self-help system, a reactive system where you go and look for it but also then a physical person in Peter who is available to be, it's a bellybutton you can speak to. It's a person, it's not a computer. And part of – and the whole idea of retirement benefit counselling as described in the regulations is to say you as a fund represented by your councillor – and the website in our case with the hybrid system – must explain to the members your strategies you have in place, in other words, at annuitisation for investments and at resignation. But then the legislation is also one – in two instances prescriptive that you must be given access to counselling and that is every time a benefit's paid. So, if you now leave the Fund as a resignation, in other words not as a retirement, and you opt to take your cast you must actually say I was given access to counselling. Because the idea of the counselling is to explain to you the damage you cause to your future benefit by taking money in cash now. So, cash means a sermon, okay. But Peter is actually quite good at this sermon and it's not the short version, okay. And then the other forms is you would've noticed from I think late last year we started tabling, presenting monthly fact sheets on each of our investment portfolios. So, you get up to date information constantly because that's also part of the regulation and we've now expanded it to also include cost. And you would see – and I was saying to Duncan, he now looks at the other websites when he does the peer comparison – the other people aren't transparent on their costs. We're publishing what we call our TIC, total investment charge, okay. So, and that's a big difference. He's referenced to the lot, I will also reference it a lot because when you look at returns, you look at nett returns and you'll see the big impact of cost. And we're fortunate that we're piggybacking off a very low cost structure. That's very important. Because that's the other angle of both the regulations and future legal developments, is this fee transparency, okay. Legislative update, here I want to briefly mention two things. Twin Peaks, we've said that the old FSB is going to become the FSCA and then the legislative part is split into two, the part for the financial sector, the FSCA, and the other part for the banks, okay. We have a voluntary BEE disclosure requirement, comes from the Financial Services Sector Charter which said that the 100 largest funds must voluntary disclose. We're at 102, so we haven't done a lot of it, and this 102 is a number I've picked, okay. But this is following through into COFI. So, what happens is in COFI once that is enacted that will actually formalise that and make it legislation. T-day, you might've remembered when we did the conversion 2014 already the noises were saying that when you retire – remember, you've got a hundred percent commutation right, you can take your full benefit in cash. And there was changes mooted from 2015 that that should stop, that at retirement you shall only be allowed to take a third in cash, like normal pension funds do and that you must use the bulk of your benefit to secure a pension with, like this in-fund living annuity. Provident funds, the unions gave lots of pushback. We had law changes in 2016 where we equalised the tax treatment of contributions, but this D-day didn't come because the unions and the NEDLAC there's lots of friction, they're not getting to agree in NEDLAC. But now it was passed out to say listen it's going to happen in 2021, that's now through income tax legislation. POPI or POPIA, you all might have heard of it. And seeing now, go to a website, there's a cookies part you've got to click as well and it's all got to do with information sharing. It's not law yet, it's the regulator, they're still waiting, a regulator for the POPI Act still needs to be appointed but the regulations were passed in December. But it's going to introduce you to interesting concepts like, or terms like you are the data subject, that's the member. Then you get the responsible party, that's the Fund. This is now words from the POPI legislation. And then the operator, which is mainly the Fund administrator and how they interact with your date, culminating in your responsible person being the information officer, which would be the principal officer, so that the business card is getting busy. Ilse's business card's going to strengthen. The point that's looming large for us, and we haven't really spoken at Board level yet because it's still Bill phase, like there's a draft and it goes through a Parliamentary committee and public comment, is this COFI Act, Conduct of Financial Institutions. Now, that is basically we're in the Sanlam Building, Mutual is in Pinelands and the asset managers they're all in the Waterfront there. They're financial institutions and they've got strong legislation underpinning them or to which they are subject to. The new concept there is what they call TCF, treating customers fairly. Now, again note all the protection, POPI, your privacy protection. A financial institution, there's this COFI Act, treating customers fairly, protecting your rights, fee transparency. Those things are all coming and it'll actually be a separate piece of legislation and the funds will have to register under this legislation. So, we're looking at a lot of work at Board level and you as Fund members and stakeholders are the ultimate beneficiaries because it's all aimed at protecting you and creating a hell of a lot of work for me and Ilse and the Board. Okay. At governance activities, Ilse's written a lot in the annual report but I thought I'd mention three things, because those were two big jobs we did in the 2008 Annual

Trustee Bosberaad. I heard Alan Winde speak a lot about Bosberaad so I also thought I'm going to use that word. Where we passed those two documents, I would call it Board Charter on Ethical Leadership. The message is – and you'll also saw that in Danie's speech – the point where we got to together and say, listen, we're here, we won, we've got one goal and we will do it appropriately. And then how you live out the values recorded in the Charter. The governance framework was just a way to list all the policies and procedures and protocol to say that when somebody from the outside comes and look at our processes we can say, listen, we've got a credible setup, it's a reliable setup, it's a piece of mind setup. You mustn't underestimate a set of financial statements always signed within five months, always submitted within the six months deadline and unqualified. There's a lot to read into that, né, because it just says, it's like that independent assurance you get from the auditor saying this ship is sailing steadily because it could present all its records to me in the prescribed format for me to express a reliable opinion, okay. Then we had like something that became a huge issue in us and the financial industry, we called it directive aid, it had to do with gifts and it actually had a corruption in the term, in the description of directive aid which basically comes down to trustees aren't allowed to get gifts and invitations. So, you can't see them at Newlands anymore, those type of things, or playing golf, et cetera. You say, you're allowed like a token gift to a maximum of R500.00 a year. So, there was lots of dodgy things happening in the service providers towards trustees and *vice versa* and that's effectively criminalised. That was easy for us because when we saw the draft we already adopted our gift policy and the gift policy is compliant with directive aid. Please attend this session at 12:00, it's training room 1. It's apparently just down the corridor here.

And it's not just if you were a existing annuitant already in the Fund, it's people approaching retirement. Because what you're going to get at that session are more numbers from Sean. Now, that *per se* is something to look forward to. But it's a session that actually will tell you how you use your pot of money you've accumulated to look after you for the rest of your life. I mean that's the answer. That's the – it's a big answer to a very complicated question that lies in there. I think that will be useful. So, if you're in retirement, if you're close to retirement and even if you're not close to retirement, you eventually have to retire, see how you use your pot of money to look after you and your spouse for the rest of your life. This is fortunately my final slide but I saw how heading for the year is your retirement journey and we had this slide internally, one of my colleagues did it and I said, thanks, I would also like to use it because it explains this, your whole, let's say your whole journey from adulthood. In other words, when we in this period, I choose 20 to 55 because that's what they chose, we're saying this is the part of your wealth accumulation phase. Volatility isn't important, markets going up and down is not important because your investment horizon goes way beyond 70, it goes to there. You must try and accumulate as much as possible wealth through a growth investment strategy, and that's how we employ life stage. Then you get to the part where you approach retirement. So, you've completed your wealth accumulation phase, you're now in this phase where you start to think about how I'm going to employ this pot of money post retirement. Because post retirement I'm going to make it work for you. The message I want to give is the Fund has got appropriate strategies for each one of these phases. So, this journey to retirement, or even this one fund for life is very appropriate illustrated here and the Fund has got a strategy for each phase, whichever of these silos you are in the defined contribution environment. Okay.

VOORSITTER: Ilse? '*Okay*', Braam, baie, baie dankie vir jou voorlegging. Ek glo daar's miskien 'n vraag of twee vir Braam, veral oor die wetgewing. Niks? Nee wat, lyk my julle is te goed voorbereid vir die mense. Dankie Braam, hoor.

MR DU PLESSIS: Thanks.

CHAIRPERSON: Okay, let's go to item 9 on the Agenda, motions. Can we note that there were no motions received? Noted. Okay, then item 10 is general questions. The questions will be answered by the principal officer because she's the technical person, if there's any. There is a floating mic. Questions? Here in front. Please state your name and the municipality where you come from.

MR DU PLESSIS: Good morning, afternoon. Robert du Plessis, East London municipality, Buffalo City municipality. It's not a question, it's just a request from the LA Retirement Fund. According to Braam, we spoke before this meeting and he said, he confirmed that five years ago, plus minus five years ago LA Retirement Fund visited East London. It's about five years, a bit a long time. So, my request is, please, is it possible, I can leave an email here with you and is it possible can you visit East London for a roadshow or you call it a meeting, whatever you call it? But please, we request for a visit to East London. I can leave an email of our offices there and we really look out for a visit from Cape Town. Thank you very much.

CHAIRPERSON: Okay, the principal officer will answer that.

MR NINELA: Sibo… [intervention]

CHAIRPERSON: Sorry, sorry, Bru.

MS HARTLIEF: Thank you for the request. I just wanted to correct you a little bit. We came to East London about two years ago but we spoke to your HR department and we took your HR through all the benefits that the Fund offers. We're now on a – we'd like to do a roadshow or a member education session, so we will definitely be in contact with you and we will arrange something at Buffalo City, okay.

MR DU PLESSIS: Thank you.

CHAIRPERSON: Send my greetings to Jeff.

MR NINELA: Sorry, I was just… [intervention]

CHAIRPERSON: You can carry on.

MR NINELA: Sibonelo Ninela, George municipality. Is that to all the municipalities that you're going to be holding a roadshow? Because I heard what you said that you engage in certain municipalities and what I'm saying… [intervention]

MS HARTLIEF: Yes, yes. No… [intervention]

MR NINELA: …what I'm seeing in our municipality is that even when I started no one engaged to inform the different benefits from the other municipalities. Like, for instance SALA for me in Zulu means stay, so I didn't go that way, I went (indistinct). So, I think we need to start engaging, that's where we are losing members.

MS HARTLIEF: Ja, thank you. In fact, we held a member education session in George on Monday and it was very well attended, so thank you for attending. There were apparently 30 people there, which was great. We will certainly do more of that. What we also want to get into doing is participating in your induction sessions of new employees. Unfortunately we can't be around the entire country attending absolutely every induction. All the inductions happen in the first week of the month and we have one or two people who can travel. So, we will obviously go to the inductions that are closest to us where there are more employees being inducted. But we're – currently the Board has just approved doing an electronic or a voiceover to an induction presentation. So, what we will do is then send that to your HR, they will just play it for the new employee and it'll tell them everything they need to know about the Fund. And of course the new employee can contact us directly as well. So, that we aim to send out to everybody and we will attend face to face as many as we possibly can.

MR NINELA: I have another question. This is actually a mandate from other guys from different pension funds that heard that thing of association. But a lot of people because they weren't educated in regards to the choice they made, like they went to SALA, want to move over to Cape Joint. So, if you can give me something that I can tell them, look, guys…?

MS HARTLIEF: We would love to have more members from other funds. Unfortunately it's not possible right now. Freedom of association hasn't been passed. There is work underway within local Government sphere to restructure pension funds and I know that SALGA and SALGA Bargaining Unit is making contact with their employer groups. We have been looking at those submissions very closely and we've been providing our feedback. That is probably still going to take some time and hopefully linked to that process there will be a freedom of association, we just don't know at this point.

MR NINELA: A quick question. Some of us do take a second pension by other, like Sanlam or whatever, so is there not a possibility that you guys can sell that maybe to the municipality of giving people a second option to take another annuity?

CHAIRPERSON: I don't understand it.

MS HARTLIEF: I'm sorry, I didn't quite catch that question?

MR NINELA: What I'm saying is, some of us do take second pensions, like other institutes. Is there not a possibility that LA Active can maybe go to the municipalities and… [intervention]

MS HARTLIEF: Okay. So, you're basically saying that some pension funds are forming alliances with financial institutions to allow them to take out retirement annuities or… [intervention]

MR NINELA: Ja.

MS HARTLIEF: …other retirement possibilities? The answer to that one is why would you want to do that when it's cheaper to invest in the LA Retirement Fund?

MR NINELA: (Indistinct), the other ones are going to Sanlam that offers very… [intervention]

MS HARTLIEF: Very, very, very low. Ja, in that case… [intervention]

MR NINELA: (Indistinct) compared to someone else in that (indistinct).

MS HARTLIEF: I follow, I follow. The LA Retirement Fund wouldn't advocate doing that. All the presenters have been telling you that it's cheapest to be in the Fund. We offer you group rates that you cannot get in the retail market. So, if you go to the Allan Grays yourself or you go to the Sanlams or the Old Mutuals you can't get those rates yourself as a private individual. We get group rates for you, so they really are the cheapest, and therefore it's in your interest to put more money aside within the Fund and not to be looking outside. I understand that there's some funds out there that you're saying are not, the investment returns are not great. That's unfortunate. But if you're a member of this Fund you're doing well.

CHAIRPERSON: Anymore questions?

MR DU PLESSIS: Just one from my side. Is it true, can you give me some clarity because there's some rumours running around East London and King William's Town area that there's some rumours that says that in the future, far future we don't have to go on 65 on pension? There's a rumour that we'll go, that says we are, go on 60 to give, make room for newcomers to come in. Is it true or is it false?

MS HARTLIEF: I unfortunately can't answer that question, I haven't heard the rumours. That would probably be generated by employer groups and probably you'd need to ask SALGA about that. The funds haven't been informed at all.

CHAIRPERSON: Anymore questions? Three, two, one, gone. Okay, thank you very much, Ilse. When I read through the Minutes for last year there were two pages of questions, so something in between you did something right. Item 11, expression of thanks. My capable Deputy Chair, Michelle.

MS VAN ZYL: The gentleman said please bring it down to your level, thank you. Thank you, Mr Chair, for this opportunity to address the members, stakeholders and to do the thank yous. I'm carrying my phone because it's ringing but more importantly I want to read something from it. Because I thought what is common in the thank yous here today, and this poem I found that I thought was very appropriate to all the stakeholders that we're thanking and also to each one of you. And it says:

> "You are one of the special people who always tries to give, who makes this world a better place just by the way you live. You try to care for others, you do the best you can. If anyone is in need of help you're there to lend a hand. You never ask for anything or want something in return. You're happy helping others and you – something – truly are concerned.

I can't thank you enough. There's no sufficient words to say to someone who always gives and hardly ever takes."

So, I take pleasure in thanking each of the following, Eddie for the most appropriate way of starting this with the scriptures from Deuteronomy and from Psalm. The passage was very appropriate for the meeting. He gives and we must take care of what we have. Then Danie Carstens, our new and current Chairperson, for the professional, calm yet sic leadership through the meeting today and through the past year. We thank you for ensuring that all the information, our opinions, are always on the table before we make an informed decision as a Board. To the Trustees for their loyal commitment, resolute trustworthiness and the many hours of preparation that goes into ensuring the good governance of this Fund. And you can really rest assure of being proud to be a member of this Fund. To Ilse, our principal officer, for the passionate contribution that you always give. You've brought to this Fund a good coordination and you've managed to infuse in this operation of this Fund. To our presenters, Yvonne with all the figures, Duncan with his benchmarks, to Sean with his other figures and the Braam with his affirmations, thank you very much. You've shared bad and good news with us but at least you've given the true picture to the members. We continue to try to improve performance and reduce costs and we thank you for your continued passion, advice that you provide the Board. We – thanks to Wouter Meiring. Wouter, sorry, Wouter Hugo, the new CEO out of office Verso and your team for the high quality of administration services and the loyal support to the Fund. Congratulations. Val, I think you're down here? No, she's disappeared. Okay, Val, in her absence outside with her team from Old Mutual Corporate, to her and her team for the ever improving communications, good look and improvements of the Fund communication during the past few years and the effectively communicating with our pensioners and members. Then to the others that are normal ones here, to Sanlam for the auditorium and facilities. To Herman Potgieter, TGI, for making the recordings. To Natalie Cedras and the Fedics team for their catering outside. To Susan Erasmus for her organisation and coordination of this meeting and throughout of the year for the support that you provide the Trustees. And then, last but not least, to all the delegates who have managed to come today. I think we've got quite a record high and I hope there's some of you that have come here for the first time that have really taken back what has been done for you in this Fund. So, we ask that you travel well and travel safely and you continue to share the good news to the people out there that this Fund is outperforming many others and you can rest assure. Thank you.

CHAIRPERSON: From my side I also want to thank Michelle, the Deputy Chair. You must just remember that the Chair and the Deputy Chair and the principal officer must work very closely together and I think this past year we got it right. But thank you very much, Michelle, for your commitment as well. Before we adjourn the meeting, just remember that there's an in-fund living annuity presentation at 12 o'clock in room 1 in the training centre. Susan Erasmus will be outside here and if some of the people in this hall wants to go there she'll direct you there. It's just pretty ladies sitting here, the one that told me I must pour my own water. Can we adjourn the meeting? It's just one minute before the time that we have adjourned last year, so we're on time. Thank you very much.

MEETING ADJOURNED