

3 November 2020

Pension Increase – 1 January 2021

Dear Pensioner

Your pension increase effective on 1 January 2021 takes, amongst other things, the following into account:

1. The Fund's Pension Increase Policy
2. Investment returns and interest rates
3. The financial strength of the Fund

Pension Increase Policy:

The Rules of the Fund allow the Trustees the discretion to review and revise the Pension Increase Policy from time to time based on the circumstances of the Fund, after consultation with the Actuary. The Fund's Pension Increase Policy formally confirms the rationale underpinning the annual increase that is paid to pensioners. The Fund's current Pension Increase Policy is as follows:

- Annually perform a review to target a pension increase of 70% of CPI effective 1 January but based on the CPI to the preceding 30 June (subject to affordability as determined by the Actuary having regard to investment returns), including the value of any bonus.
- Every three years perform a catch-up review to increase pensions to 100% of CPI since the date of retirement (known as a minimum pension increase), subject to the value of the notional pensioner account and affordability, as provided for in the Pension Funds Act, as amended.

Investment returns and interest rates:

The period from March 2020 to June 2020 has been a particularly trying time as COVID-19 negatively impacted investment markets worldwide. The sudden impact was far worse than that of the Great Depression from 1929 to 1933. Whilst the impact resulted in a sudden drop in Fund assets, the Fund had recouped most of these paper losses by August 2020.

The pensioner investment strategy means that investment returns should not be viewed in isolation but rather together with the *change* in the value of the promised benefits (liabilities). This is because a large portion of the assets (bonds) move in a similar way to the value of the liabilities when interest rates change. When interest rates rise, the value of both the assets and the liabilities decreases and vice-versa. This occurred in March 2020 when interest rates suddenly increased. Investment returns on pensioners assets averaged 2.7% p.a. over the 3 years to 30 June 2020. While the return is low, the value of the liabilities also reduced. It is this *matching effect* that the investment strategy seeks to achieve.

Financial strength of the Fund:

When the Board of Trustees considers the annual pension increase, financial soundness is always foremost in mind. The Fund's investment strategy and reserves have helped protect the Fund against the financial impact of the pandemic. I wish to confirm that the Pensioner Account is 100% funded as at 30 June 2020. The Fund is therefore in a sound financial condition.

Pension increase and bonus

The Board of Trustees has been able to grant a pension increase in line with the Fund's pension increase policy. As mentioned above, the policy targets a pension increase of 70% of price inflation, including the value of any bonus. Part of the targeted pension increase may be exchanged for a bonus.

Your gross pension will be increased by 1% with effect from 1 January 2021. Your January 2021 pension payslip will reflect your increased pension. While the pension increase is low, please note that price inflation was only 2.2% for the year to 30 June 2020.

In addition, you will receive a bonus to be paid during December 2020 amounting to 55% of your gross December pension. Your December pensioner payslip will reflect your bonus payment. Please note that there is no requirement for the Fund to pay bonuses and there should be no expectation for these to necessarily be repeated in future.

The pension increase and bonus are equivalent in value to an increase of 70% of inflation. This is in line with the pension increase policy.

Pro-rata pension increases and bonuses will be made in respect of pensions in payment for less than a year.

On behalf of the Trustees, I extend our best wishes to you over the festive season and for the coming year.

Yours sincerely

Danie Carstens
Chairperson