RETIREMENT FUND

N E W S L E T T E R

Issue number: 2/2018 **November 2018**

Dear members

Welcome to the final newsletter for the year. Your trustees are determined to make sure that these bi-annual newsletters are useful and informative. It is our aim to inform you through the newsletters of the following:

- Trustee decisions that relate to your Fund benefits;
- Developments in the retirement fund industry;
- Your benefits and investments.

INSIDE THIS ISSUE →

As this is your newsletter we would appreciate your comments. We therefore ask you to think about topics you would like to see in the newsletter, and pass your constructive comments and suggestions to Rushnah Davids on DavidsRu@cput.ac.za or contact any of the trustees. Please take this request seriously – if we do not receive constructive comments or suggestions then we assume that the current format and content is acceptable.

As this is our last newsletter for the year, we would like to take this opportunity to wish all our members and pensioners a prosperous and healthy 2019

We trust you will enjoy the

read. Board of Trustees

GENERAL INFORMATION

Due to the importance of the following items, they are standard features and are repeated in subsequent newsletters.

1. EXITS FROM THE FUND

A. DEATH

The importance of completing beneficiary nomination forms

This is explained in detail later on in the newsletter. Please read it carefully as it is an extremely important article.

B. RESIGNATION

How to speed up the benefit payment when leaving the Fund

When you leave the Fund, an income tax number is required in order to pay out your benefit. All members of the Fund, who are not registered as tax-payers and thus do not have a personal income tax number, must register and obtain a personal income tax number. It is important to do so in order to avoid unnecessary delays when a benefit needs to be paid out.

2. COMPLETION OF CLAIM FORMS

Claim forms that are not completed correctly will result in unnecessary delays. It is therefore important that you read the claim form thoroughly, fill in all relevant information and then submit whatever claim you may have to Human Resources for processing. If this is not adhered to, the benefit will remain in the Fund and will be invested in the underlying portfolio for another month.

3. BENEFICIARY NOMINATION FORMS – THE IMPORTANCE OF COMPLETING THESE

DEATH, ESPECIALLY ONE'S OWN, IS NOT A SUBJECT ONE WANTS TO THINK OF OR TALK ABOUT. HOWEVER, IT IS EXTREMELY IMPORTANT FOR ALL MEMBERS TO CAREFULLY CONSIDER THIS IN ORDER FOR THE DEATH BENEFITS PROVIDED BY THE FUND TO BE FINALISED AS SOON AS POSSIBLE.

There is an obligation on you, the member, to notify the Fund as to who you wish the beneficiaries of your death benefits should be. We therefore encourage and urge all members to please assist the Fund in ensuring that the Beneficiary Nomination form be completed and sent to the Fund's office. If you have already submitted a Beneficiary Nomination form in the past and your domestic situation has altered, it is necessary for you to submit a new form to replace the old one. It is important for all members to list ALL dependents (all spouses, children, partners, parents), especially those who you support financially. You may also indicate the portions of the benefit you would prefer to be allocated to your dependents. Feel free to indicate on the form your reason for allocating your benefit as you have indicated. The Trustees must and will consider your nomination form.

WHY IS IT SO IMPORTANT THAT THESE FORMS BE COMPLETED?

It is important for the Fund to have your beneficiary nominations as it will, on your death, serve as a guide to the Trustees in the allocation of your benefits; although, please note, that the Trustees are required to determine and allocate death benefits in accordance with section 37C of the Pension Funds Act. This Act requires the Trustees to pay your death benefit to those persons that were financially dependent on you at the time of your death and/or those who could have become financially dependent on you had you not died. The Trustees thus have to go through a process of establishing all the parties that are financially dependent on you which may take some time. Your beneficiary nomination form will assist the Trustees to speed up the process.

By completing the forms (and keeping them updated), you will be advising the Fund to act according to your wishes in the event of your death (subject to Section 37C above). This information will also help to speed up the pay-out process in the event of your death.

Remember that the information will always be treated as confidential by the Fund administrators and only made available to the Trustees when a claim is considered. Some members believe the requirements of the Act disempowers them as far as their wishes as to the allocation of benefits is concerned. Your nomination form must however, be taken into account by the trustees when an allocation is made. The Board must have a good reason to deviate from your written nomination and your beneficiaries are entitled to know their reasons for doing so.

Should you not have advised the Fund of all your dependents, this investigation will take longer and might cause hardship for your family. The Trustees can only arrange payment of your benefit once they are aware of all the facts.

Your list of dependants and beneficiaries is treated with the utmost confidentiality.

If you need a beneficiary nomination form, please contact the Fund and we will send you one. If you are unsure as to how to complete these forms we will assist you in this regard.

INVESTMENT NEWS

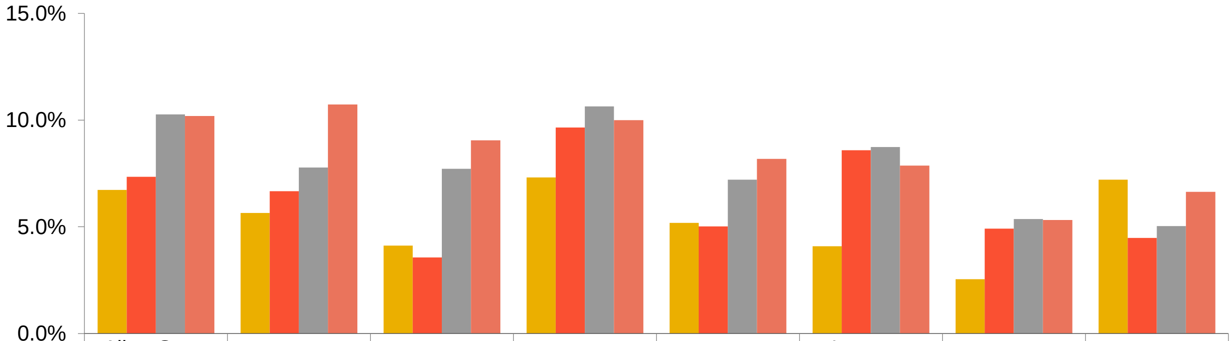
INVESTMENT PERFORMANCE

Below are the annualised manager returns (net of fees) for all the portfolios over different measurement periods to 30 September 2018:

Portfolio	Manager/ Product	Investment Objective	Measurement period to 30 September 2018	Manager returns p.a over measurement period	Inflation over the measurement period	Return above Inflation
Long Term Growth Portfolio	Allan Gray Global Balanced	CPI + 4.5% net over a rolling 5-year period	5 years	9.3%	5.3%	3.9%
	Coronation Houseview			8.3%	5.3%	3.0%
Medium Term Protection Portfolio	Allan Gray Global Stable	CPI + 2.5% net over a rolling 3-year period	3 years	9.8%	5.4%	4.4%
Money Market Portfolio	Investec Money Market	CPI +1.5% net over a rolling 1-year period	1 year	8.5%	4.9%	3.6%
Shari'ah Portfolio	27four Shari'ah Balanced Fund	CPI + 4.0% net over a rolling 5-year period	5 years	6.6%	5.3%	1.3%

Investec Balanced Fund and Coronation Inflation Plus Fund returns are excluded from the table above, as the Fund measurement period for these funds are too short.

The chart below shows the performance of each asset manager over various measurement periods to 30 September 2018. The returns are shown <u>before</u> deduction of tax and investment management expenses except for the 27Four Shari'ah portfolio.



	Allan Gray Global Balanced	Investec Balanced	Coronation Houseview	Allan Gray Global Stable	Coronation Inflation Plus	Investec Money Market	Headline Inflation	27four Shari'ah
6 months	6.7%	5.6%	4.1%	7.3%	5.2%	4.1%	2.5%	7.2%
12 months	7.3%	6.7%	3.6%	9.6%	5.0%	8.6%	4.9%	4.5%
3 years p.a.	10.3%	7.8%	7.7%	10.6%	7.2%	8.7%	5.4%	5.0%
5 years p.a	10.2%	10.7%	9.0%	10.0%	8.2%	7.9%	5.3%	6.6%

COMMENT ON INVESTMENT PERFORMANCE

Local markets experienced a volatile quarter underpinned by a challenging global backdrop and poor local economic data releases. A second consecutive quarterly contraction in economic growth (as measured by GDP) has placed the South African economy in a recession. Persistent uncertainty and risk pertaining to key issues of land reform, the economy's large twin deficits and the financial position of state-owned enterprises dominated the local narrative over the quarter.

Looking at performance of various asset classes over the last 5 years SA equities (which comprise the major part of retirement fund assets) delivered some 2.7% per annum above inflation. The other sectors that delivered returns significantly above inflation were global shares (12.3% p.a. above inflation – in Rand terms), global bonds (2.0% p.a. above inflation – in Rand terms), and SA listed property (1.5% p.a. above inflation).

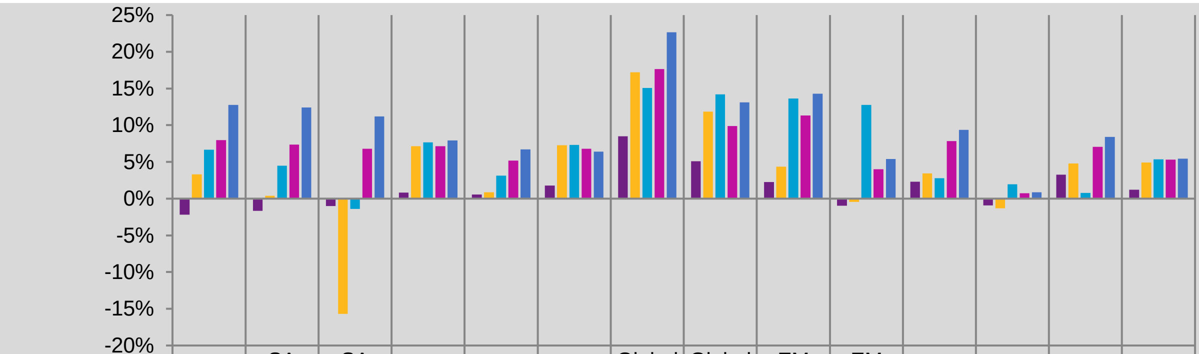
The Fund's portfolios have delivered good returns over the last three- and five-year periods. We caution members to expect a moderation in the performance of these portfolios over the next few years. Effectively, the very strong investment returns of the past few years have been "borrowed" from the future.

If you need to start living on your retirement benefit within say the next 3 to 5 years, you are likely to be more focused on preserving the capital you have accumulated up to now. Generally speaking, if you are within 3 to 5 years of retirement you should be invested in the Medium-term Protection portfolio in the life stage range. However this depends on individual circumstances, and as always, we strongly encourage members to seek expert advice in your retirement planning. Ask the principal officer if you would like assistance in finding a reputable and expert independent financial adviser.

Members who are a long way from retirement are encouraged to adopt a long-term investment strategy. Don't be deflected by short-term market changes and ultimately your overall objective, which is to build retirement capital. To get out of the market when things get tough is not the way to build wealth.

KEY PERFORMANCE INDICATORS

The graph below shows the performance of the various sectors of the market during various measurement periods ended 30 September 2018 (source: INet).

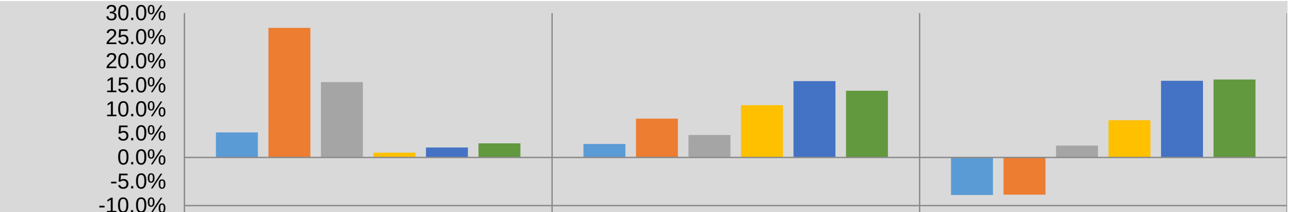


	SA Equities (ALSI)	SA Equities (Capped SWIX)	SA Listed Property (SAPY)	SA Nominal Bonds (ALBI)	SA Infl'n Linked Bonds (BILBI)	SA Cash (STeFI Comp)	Global Equities (MSCI World) (ZAR)	Global Equities (MSCI World) (USD)	EM Equities (MSCI EM) (ZAR)	EM Equities (MSCI EM) (USD)	Global Bonds (BarCap Agg) (ZAR)	Global Bonds (BarCap Agg) (USD)	ZAR/ USD	Inflation (CPI)
3 months	-2.2%	-1.7%	-1.0%	0.8%	0.6%	1.8%	8.5%	5.1%	2.3%	-0.9%	2.3%	-0.9%	3.2%	1.2%
1 year	3.3%	0.4%	-15.7%	7.1%	0.9%	7.3%	17.2%	11.8%	4.3%	-0.4%	3.4%	-1.3%	4.8%	4.9%
3 years p.a.	6.7%	4.5%	-1.4%	7.7%	3.1%	7.3%	15.1%	14.2%	13.6%	12.8%	2.8%	2.0%	0.8%	5.4%
5 years p.a.	8.0%	7.4%	6.8%	7.2%	5.2%	6.8%	17.6%	9.9%	11.3%	4.0%	7.9%	0.8%	7.1%	5.3%
7 years p.a.	12.8%	12.4%	11.2%	7.9%	6.7%	6.4%	22.6%	13.1%	14.3%	5.4%	9.3%	0.9%	8.4%	5.4%

An explanation of the different sectors appears below.

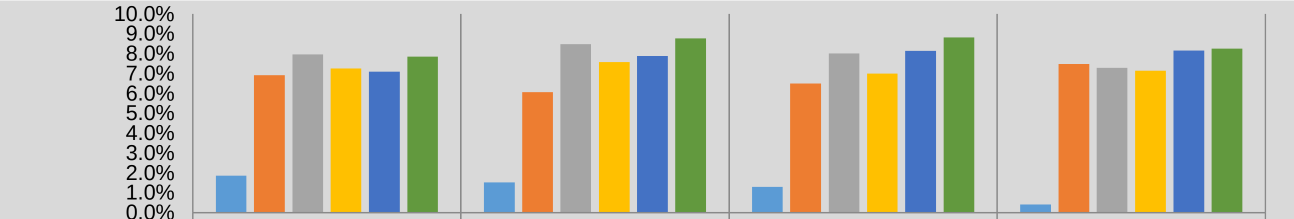
ALSI:	South African equities as measured by the All Share Index
Capped SWIX:	All Share Index with a maximum contribution of 10% for any one share.
SAPY:	South African listed property index.
ALBI:	South African all bond index
SteFI:	South African short term fixed interest investments (cash)
MSCI:	Morgan Stanley Capital Index – equities in developed overseas markets
MSCI EM:	Morgan Stanley Capital Index – equities in developed overseas markets
BarCapAgg:	The Barclays Capital Global Aggregate bond index
CPI:	South African inflation rate
ZAR/USD:	Rand investment in US Dollars (negative numbers show a “strengthening” rand).

The following chart shows the performance of the broad sectors of the SA equity market for periods to 30 September 2018:



	Resources	Financials	Industrials
3 months	5.2%	2.8%	-7.8%
1 year	26.9%	8.1%	-7.7%
3 years p.a.	15.7%	4.6%	2.5%
5 years p.a.	1.0%	10.9%	7.7%
7 years p.a.	2.1%	15.9%	16.0%
10 years p.a.	2.9%	13.8%	16.2%

The chart below shows the performance of the different sectors of the SA bond index for periods ended 30 September 2018:



	0-3 years	3-7 years	7-12 years	12+ years
3 months	1.9%	1.5%	1.3%	0.4%
1 year	6.9%	6.1%	6.5%	7.5%
3 years p.a.	8.0%	8.5%	8.0%	7.3%
5 years p.a.	7.3%	7.6%	7.0%	7.1%
7 years p.a.	7.1%	7.9%	8.1%	8.2%
10 years p.a.	7.8%	8.8%	8.8%	8.2%

MARKET COMMENTARY FOR THE QUARTER ENDING 30 SEPTEMBER 2018

- EM equities came under pressure during the quarter, with the MSCI EM index falling 0.9% (in US dollars). DM equities continued to advance with the MSCI World index rising 5.1% (in US dollars) buoyed by the strong performance of the US equity market.

- The Barclays Capital Global Aggregate, which has exposure to DM and EM government and corporate bonds, fell 0.9% in US dollar terms over the quarter.

- The performance of local equities was negatively impacted by EM headwinds and poor local economic data. The ALSI and the Capped SWIX declined 2.2% and 1.7% respectively over the quarter. Over the year-to-date, the Capped SWIX was down 7.4% (mid caps fell by 12.1%, small caps fell by 7.8% and large caps fell by 3.2%).

- The rand weakened broadly against a basket of major currencies over the quarter, falling most steeply against the strong US dollar. The local currency lost 3.2% against the US dollar, 2.0% against the British pound and 2.7% against the euro over the quarter.

- The local bond market did not fare particularly well in an environment of reduced global risk appetite. Yields rose as the combination of capital outflows from EMs, a firm dollar and rising US interest rates contributed to market weakness. However, the weakening pressure on the SA bond market was relatively contained in comparison to some of the other EMs over the quarter. Nominal and inflation-linked bonds managed to eke out positive returns of 0.8% and 0.6% respectively.

INVESTING IN SINGLE MANAGER PORTFOLIOS

As I am sure you are well aware, the Fund provides an automatic investment plan (the so-called life stage model), which is intended to build members' retirement capital prior to retirement and protect this capital as retirement approaches. The life stage portfolios are spread across combinations of two or more asset managers.

Outside the life stage portfolios, the Fund allows members to choose the individual underlying portfolios.

The trustees recently reviewed a list of members who have made their own investment choices, and the allocation of their retirement savings. There are many members who currently **invest all their money in one "single manager" portfolio. Letters were recently sent to members who were identified investing in single manager portfolios.** Whilst this is permitted in terms of our investment choice model, it is imperative that the potential down-side or potential risks associated with this is pointed out.

An on-going debate in the investment and retirement fund industry is whether investing your retirement savings with more than one asset manager is better than investing your retirement savings in a single manager portfolio. While there are advantages and disadvantages to both approaches, the trustees believe that the advantages of investing in two or more asset managers outweigh the disadvantages.

Some potential risks members may face by investing in a single manger portfolio are:

- You may lose the benefit of diversification, and face the risk of relative underperformance of the selected manager, which may last for a long time.

- Two asset managers might react differently to the same market event, and while diversifying between asset managers does not guarantee against loss, diversification is an important component of reaching long-range financial goals while minimising risk.

Bearing the above in mind, the trustees urge those members to re-consider this choice of investing in one single asset manager.

ADDITIONAL VOLUNTARY CONTRIBUTIONS EFFECTIVE 1 JUNE 2018

A letter was sent out to all members earlier this year to inform you of the change that was implemented regarding members wishing to make additional voluntary contributions into the CPUT Retirement Fund.

Overview of the Tax Laws implemented in 2016: Harmonisation of tax treatment of contributions

As previously communicated with you, this legislation came into effect during 2016. This was primarily intended to allow for tax harmonisation of retirement fund contributions and benefits and it introduced a cap on contributions for tax purposes.

The tax deduction for contributions was amended at the time and limited to 27.5% (of the greater of taxable income or gross remuneration), up to an annual limit of R350 000. This is to the benefit of most members and allows members, in terms of tax deductibility, to save more towards retirement.

It was meant to create fairness in tax treatment of contributions and to limit tax reliefs for very high earners.

Up until earlier this year the CPUT payroll system was unable to cater for the additional voluntary contributions. This systems has been updated to allow for this.

The rules of the Fund were amended to enable members who wish to do so, to take advantage of making greater provision for retirement savings in a tax efficient manner.

The tax deduction for contributions of 27.5% (of the greater of taxable income or gross remuneration), up to an annual limit of R350 000, is based on both member and employer contributions combined.

Currently, the contribution rate for CPUT Retirement Fund members is around **20.725%** of pensionable salary (7.5% of that is deemed member contributions).

If affordability allows you, you may contribute up to an additional 6% of pensionable salary. However, members that are contributing to a private retirement annuity fund must be made aware that those contributions form part of the maximum 27.5%.

The procedure to follow should you want to make these additional voluntary contributions is as follows:

- Obtain the necessary form from the Principal Officer, Ms Rushnah Davids.
- Once the form has been completed, submit to Ms Davids and she will then forward the form to payroll for processing.

DEFAULT REGULATIONS – UPDATE

Earlier this year we summarized the default retirement fund regulations that National Treasury issued which have to be complied with by 1 March 2019.

The Fund has held several meeting to ensure that we are on the right track to meet the deadline. Below is a brief summary of the regulations, together with the progress we have made thus far:

SUMMARY OF THESE REGULATIONS

Regulation 37 – Default investment portfolios

With regard to a default investment portfolio, all retirement funds with a defined contribution category (such as your Fund) need to have such a portfolio.

The default investment portfolio(s) is one where members are invested if they do not make an active investment decision. Such a portfolio should be appropriate, reasonably priced, well communicated to members, and offer good value for money. Members must also not be locked into such a portfolio and must be offered the opportunity to change out of such default at least on an annual basis. Trustees are required to monitor the default investment portfolios regularly to ensure continued compliance with these principles and rules.

The Fund already complies in that it has a default investment portfolio – this is the life-stage portfolio. Trustees will continue to assess whether the default remains suitable for members.

Regulation 38 – Default preservation and portability

Default preservation: where membership of a fund is compulsory due to conditions of employment (as with most normal pension and provident funds), the funds will need to change their rules to allow for default preservation i.e. funds must allow resigning workers to leave their accumulated retirement savings in the specific fund.

The employee, however, will still have the right and option to transfer these to any other fund prior to retirement. On leaving employment, the fund must give a member a paid-up certificate, and any new fund which a member joins must request such paid-up certificates and offer to the member the transfer of their fund from the old fund to the new fund.

Again, the Fund already complies in most respects. Rule amendments to ensure that the rules contain all the relevant provisions are being implemented. Communication material is being reviewed to ensure that this contains all the relevant information.

The administrators of the Fund are ensuring that the fund has the processes in place regarding the paid-up certificates and their management.

Regulation 39 – Annuity strategy

Retirement funds should also follow a so-called annuity strategy. There are two main types of annuities – a living annuity and a life annuity.

A life annuity, once chosen or defaulted into, becomes irreversible. This means that choosing a life annuity when you retire is a big commitment, and funds will therefore ask retiring members to indicate beforehand what type of annuity (e.g. life or living annuity) should be paid.

The "default" annuity should also be appropriate for members, well communicated and should offer good value for money. Members should be given access to retirement benefits counselling to assist them in understanding and giving effect to the annuity strategy.

The Fund already complies in most areas. The Trustees are reviewing the costs of the in-fund living annuity, and communication is being reviewed and finalised to ensure that this contains all the relevant information and that it is distributed to members at the appropriate time.

Retirement benefit counselling

Members must receive counselling to understand the options available to them prior to leaving employment (to decide whether to take their retirement savings in cash, transfer, or leave their savings in the fund); prior to transferring their benefits post-employment (when they had chosen to leave their benefits in the fund); and prior to retirement (to understand the fund annuity strategy).

The Fund already complies in most areas. Communication is being reviewed and finalised to ensure that it contains all of the relevant information and is provide to all members at all appropriate times.

INVESTENT UPDATE ON TIGER BRANDS AND MTN GROUP

Members may be aware of the decline in the share prices of Tiger Brands Limited and MTN Group Limited during this year. The Fund's portfolios have some exposure to Tiger Brands Limited and MTN Group Limited. The driver of the share price decline for Tiger Brands Limited relates to the outbreak of Listeriosis earlier this year, and the likely financial impact that this will have on company profits.

The driver of the share price decline for MTN Group Limited relates to news flow from Nigeria; namely a letter from the Central Bank of Nigeria (CBN) regarding the remittance of dividends between 2007 and 2015 which the CBN claims needs to be refunded, and a letter from the Attorney General in Nigeria giving notice to MTN Nigeria of their intention to recover approximately USD 2 billion in taxes (MTN Nigeria's assessment of the amount is USD 700 million and they believe that the amount owed has been settled).

As you know, the primary investment philosophy of the Fund is to act as an investor and not a speculator; meaning that the fund will adopt a long term investment horizon and will not be deflected by short term price fluctuations. The Fund's investments are very well diversified. Diversification gives members greater protection when investment returns are poor in relation to certain markets. The Fund's exposure to both Tiger Brands and to MTN was minimal. In light of such limited exposure, any potential loss that may be caused from the share price decline is not going to affect the Fund's ability to deliver on its long term real return objectives.

Your Board of Trustees, in consultation with the Fund's Investment Consultants, have been engaging the asset managers who hold shares in Tiger Brands and MTN, to understand their investment case for each company. We urge you not to take alarmist views of your retirement funding in light of these events. The Fund's portfolios are diversified, and your retirement savings do not depend on the future of any single company.

PRE RETIREMENT WORKSHOPS

Pre-retirement workshops continue to be held quarterly for all in-service members who are aged 50 and older. We encourage all members who are aged 50 and older to attend these workshops. These workshops are educational in nature, and explain in detail the different pension options available, thereby empowering members to make the RIGHT CHOICE at retirement.

Furthermore, should you wish to bring your spouse along with you, please feel free to do so.

BOARD OF TRUSTEES

The current members of the Board of Trustees are:

MEMBER COMMUNICATION –VIA RETIREMENT FUND WEB-SITE

We continue to encourage members to make use of the Retirement Fund web-site. For those members who are not aware of this, the Retirement Fund web-site also has detailed monthly investment summaries. This includes 5-year history for each portfolio. We have found that members sometimes want this information and are not aware that we do in fact have such information available.

Furthermore, members also have access to the Alexander Forbes web-site. The web-site link is: www.alexanderforbesonline.co.za . In order to access this site you need to register and then you will receive a pin and password.

The AF on-line gives you access to the following information:

- Your Member Share
- Your contribution allocation
- Projection tools – retirement calculator
- Access to your benefit statement

IF YOU HAVE ANY QUESTIONS…

If anyone still has unanswered questions on the Retirement Fund after reading this then we ask you to please contact Rushnah Davids on DavidsRu@cput.ac.za who will arrange for a full response.