

20th ANNUAL



Ladies and Gentlemen,

It is my privilege to welcome you to the 20th Annual General Meeting of the CRF for Local Government. As you are all very aware, the year 2016 was dominated by the Municipal Councillor elections and I wish to extend a special welcome to all Councillors, new and re-elected and regardless of your political affiliation, from the Southern, Eastern, Western and Northern regions.

We regret that we have to bid Trustees Gqabi, Smith and Cawood farewell. Thank you for your contributions to the Board and I wish you all the best in your future endeavours.

The FSB has made a number of changes in the manner in which Funds are governed, so new governance principals across the industry are being implemented. The manner in which Trustee elections are taking place, is under review with the FSB and elections for the current vacancies have been postponed. Any developments on this front will be communicated to you.

VALUE ADDED BENEFITS

The Fund introduced Value Added Benefits this year and one of them is an additional home loan option for members. This option does **not** replace the pension fund backed home loan benefit, but is available to members who earn between R3 500 and R25 000 per month and may not have enough in their member share account to qualify for the pension backed home loan. This

option also provides a bond for members who want to enter the housing market, as long as the purchase price of the house is less than R650 000. This agreement is between the CRF member and FNB and it is the member's responsibility to pay the monthly premium over to the bank by means of a salary deduction.

Another benefit that was introduced was the Extended Funeral Benefit with Metropolitan. We have noticed a particular interest in this benefit as members can increase their existing funeral cover to R40 000. This new benefit also allows for members to take out funeral cover for their parents, parents-in-law and 9 other family members outside their immediate family. Please call the Fund if you wish to find out more.

LEGISLATIVE ISSUES

Retirement Reform - Taxation Laws

The Taxation Laws Amendment Act, 2013, which came into effect on 1 March 2016, meant that employer contributions to retirement funds became taxable as fringe benefits for employees with members enjoying a corresponding deduction for member and employer contributions up to a maximum of 27.5% of the greater of remuneration and taxable income. This change in legislation was praised widely and is also positive for CRF members as total Fund contributions of 27% are now tax deductible.

The Government has postponed the other retirement reform proposed changes until March 2018 and we will keep you informed as we receive communication on this matter.

SARS Retirement Age is 55

The Rules of the Fund stipulate that members can go on early retirement from the age of 50. However, SARS treats any retirement under the age of 55 as a

resignation and members will therefore be taxed as such and not qualify for the taxation benefits that members 55 and older will enjoy at retirement.

You can be liable for criminal action if contributions are not paid over to the Fund

According to Section 13A of the Pension Funds Act, all member and Local Authority contribution payments must be paid to the Fund by the seventh day of the month following the month on which they are due.

The Act also imposes personal liability on parties within the Local Authorities in the event of non-payment of deducted member contributions to a Fund. A Local Authority whose contributions are currently in arrears will be prosecuted and criminal action can be taken against the identified persons that are legally responsible and accountable for payment of the contributions to the CRF.

The Trustees need to comply with Section 7C of the Act, which requires them to take all reasonable steps to ensure that the interests of members in terms of the rules of the Fund and the provisions of the Act are protected at all times; thus the outstanding contributions which are not paid over by the defaulting Municipalities, makes them non-compliant with Section 13A of the Act.

However, Section 13A (8) further extends this criminality to the Governing Body of the Municipality, being the entire Municipal Council that can be held liable jointly and severally on a personal level for failure to pay over the contributions which were deducted from the members.

Any person who contravenes or fails to comply with section 13A, is guilty of an offense and liable on conviction to a fine not exceeding R10 million or imprisonment for a period not exceeding 10 years or both the fine and imprisonment.

You can imagine what the implications would be to the municipality when the Executive Mayor and the entire councillors are found guilty of this offense.

On a positive note, as at the end of the financial year under review, we only had one Municipality with contributions in arrears. This is however still one too many as hundreds of members are affected. Please help us to be diligent in this regard.

NEW SHARECALL NUMBER

The CRF introduced its new ShareCall number: 0861 CRFUND (273 863) last year July. This means that all members calling the Fund, pay the same rate for a phone call, whether they are calling the Fund's offices here from Bellville or from Blouberg Municipality in the Northern Region.

FINANCIAL NEWS

When I addressed you last year here at the AGM, I warned that the outlook for 2016 looked rocky, to say the least. Unfortunately I could not have been more correct in my prediction and here I stand before you in 2017, again with the same caution. The outlook for 2017 does not look a whole lot better than what we have experienced during the last financial year.

However, I am still proud to report that despite the volatility experienced world-wide, the Fund's total assets and reserves increase by R2 billion to over R20 billion for the financial year under review. The net returns on your investment grew by 8.1% in the **Growth Portfolio**, 7.1% in the **Protection Portfolio** and 6.9% in **the Moderate Portfolio**.

We believe that the **Protection Portfolio** and/or the **Moderate Portfolio** should only be chosen by members when they are near to retirement. The **Pensioner Portfolio** earned a return of 7.4%.

ADOPTING A COST SAVING APPROACH

As reported last year, the CRF management team adopted a leaner, meaner money saving approach. The first area where our cost saving policy has been implemented is the reduction of the number of Trustee meetings to be held in a year. The number of meetings have been further decreased and the Trustees also scheduled more than one meeting on the same day to save on travel expenses. We will continue with this trend and reduce the number of meetings even further during this financial year.

The Fund's Actuary reports that the Fund's return since inception on the Growth Portfolio has been 14.59% per annum for the 20 years to 30 June 2016. This is a real return (above price inflation return) of more than 8% and remains the record number to beat by any Local Government Fund. This a clear indication that your Fund's well developed long term views and prudent decisions are paying off.

After requests from members and careful consideration, the CRF introduced the Shariah Option from 1 July 2016 to cater for members of the Islamic faith. This portfolio targets CPI+4% and we will provide feedback on its performance at the next AGM.

Your Fund invests in such a manner that members are not exposed to the extreme downward movements in the market. So please bear in mind that the Fund will never invest, with the sole purpose of chasing the highest returns. This would create a risk profile which is very dangerous for a Defined Contribution fund, as the **member** and not the **employer** carries this risk (unlike a Defined Benefit or traditional pension fund).

MEMBERSHIP OF THE FUND

The number of contributing and deferred members increased from 39 232 as at 30 June 2015 to 41 283 on 30 June 2016. This reflects an increase of 2 051 from the previous year, which is about a 5% growth in active membership. The actual number of new members who elected to join the Fund was 4 262. However, this number must be reduced by retirements (627), resignations (1 295), retrenchments (9), disabilities (71) and deaths (177).

The fact that the CRF changed its rules to allow councillors to join, will also have an impact on the membership numbers and this growth will be reflected in our member totals later this quarter. I wish to thank the Human Resources Departments, union leaders, Trustees, our Principal Officer and our communication service provider, SASH, who continue to interact with the HRs to do presentations to councillors in order to help them choose a Fund.

The continued growth in membership ensures that our fairly young profile endures, which ensures risk, death and disability benefits stay at very competitive rates. When leaving the Fund we wish to invite members to retain their membership in the Fund, so that they can continue to accumulate sufficient funds for retirement at a very low cost.

PENSIONER MEMBERS

The number of pensioners continues to decrease, because few new pensioners have been added for a considerable time. Pensioner membership stood at 866 in 2009, 840 in 2010, 784 in 2011, 780 in 2012, 742 in 2013, 725 in 2014, 683 in 2015 and 655 pensioners at the end of the last financial year ending 30 June 2016.

The pensioner section was closed to new pensioners with effect 1 January 2016. For now, retirees have the option to buy a pension outside the Fund, but should

consult a financial advisor to assist them with their financial planning. The Fund's preferred financial advisor is Efficient Wealth.

Current pensioners of the Fund are not affected. We are also investigating further exciting and flexible retirement solutions for members for the future and will keep you informed of any developments.

The return on the Pensioner Portfolio was 7.4% for the year under review and the Pensions Account was in a sound financial condition with a funding level of 118% as at 30 June 2016. The Trustees could therefore allocate an *ad hoc* bonus, equal to 100% of the monthly pension payment, to be paid to pensioners in December 2016 and they will also receive a 6.3% increase in March 2017.

ADMINISTRATION

Our Fund is administered by Verso Financial Services, where a team of staff members diligently keep the wheels turning by managing the affairs of our members. The administration cost of the Fund increases on an annual basis as it is calculated on the number of members.

We have applied our cost saving strategy to the Fund operational budget as well and went out on tender to re-broke all the key services provided to the Fund. The Fund's total operational costs, (which include admin fees, trustee remuneration, auditor fees, actuary, asset consultant, economist and principal officer) expressed as a percentage of pensionable salaries amounts to 0.9%, compared to the industry norm of more than 1%. The Board of Trustees prides itself in the fact that it has managed to maintain costs below the industry norm over the years.

CLEAN AUDIT

Ernst & Young has been re-appointed as the auditors for our Fund and I am pleased to report that we once again received a clean audit. I want to express the Board's appreciation to the members and Chairman of the Audit

Committee, Mr Lodi Venter for their dedication in pursuing matters of good governance in the overall administration of the Fund's assets.

THANKS

The task of serving as a Trustee is becoming more demanding in view of new legislation and the size of the Fund's assets. In terms of the Pension Funds Act and common law, Trustees must make decisions in members' best interest. The fiduciary duties of the Trustees also demand that they objectively apply their minds to any matter before the Board. Trustees must also be willing to undergo training to be aware of these duties and to be able to best fulfil that role.

Although well remunerated, the responsibilities are at times overwhelming and onerous and we are privileged that people are prepared to serve in this capacity and I thank all our Board members for their willingness to serve and perform their duties during the past year.

Your Fund is served ably by its service providers and advisers. I wish to thank Verso for administrating our Fund and SASH, our communications specialists. Our Actuary, Sean Neethling from Momentum, can be counted on to give us the best advice and our Auditors, Ernst & Young, serve us with objectivity. Our investment advisor, Shainal Sukha and our economist, Johan Rossouw, who have assisted in enabling the Fund to make decisions which provided excellent investment returns. Thank you to the Principal Officer, Kobus Sadie and his team for their support during the year and taking care of the arrangements here today.

I leave you with this thought for 2017: Someone once said: Abundance of knowledge does not teach men to be wise. I know that all of you here present are here because you care about retirement and to ensure that you are on top of your game by learning as much as you can to help yourself and members of the CRF to reach your retirement goals. However, all the knowledge in the world

is no good if we do not act on advice and reserve our retirement savings for retirement one day.

We, the Trustees of your Fund, will continue to work hard to ensure that you reach your retirement goal.

Thank you for giving me the opportunity to serve as your Chairman.

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