

16th
ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS



Ladies and Gentlemen,

It is my privilege to welcome you to the 16th Annual General Meeting of the Cape Retirement Fund for Local Government.

William A. Ward had this to say, “Before you speak, listen. Before you write, think. Before you spend, earn. Before you invest, investigate. Before you criticise, wait. Before you quit, try. Before you pray, forgive. Before you retire, save. Before you die, give.”

The two most appropriate sayings for us at the Fund would be, “Before you invest, investigate.” and “Before you retire, save.”

RETURNS

The Fund has sustained its growth in investment returns once again, in spite of a volatile investment environment and a lot of uncertainty. The Fund’s total assets and reserves grew by R1.4 billion for the financial year under review. I am pleased to report net returns on your investment of 11.6% in the **Growth Portfolio**, returns of 7.3% in the **Protection Portfolio** and 9.2% 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.)

I am also very proud of the ring-fencing of our pensioner assets. Investing it in a liability-driven approach proved to have been very successful to date. The **Pensioner Portfolio** has earned returns of 11.2%, outperforming the Moderate and Protection portfolios. The excellent returns have allowed the Fund to award its pensioners a full inflationary increase in their monthly pension.

The Fund's Actuary reports that the Fund's return since inception has been 14.3% net per annum for 16 years. This is a real return (above inflation return) of 8.3% for 16 years. Your Fund has to invest in such a manner that members are not exposed to the extreme downward movements in the market. Therefore, you must bear in mind that the Fund can never invest chasing the highest income returns, because this will create a risk profile which is very dangerous in a Defined Contribution fund, where the **member** and not the **employer** carries the risk (unlike a Defined Benefit or traditional pension fund).

The Fund makes use of two investment advisors and an economist who are contracted to the Fund. They have proved to be invaluable to the Fund and their participation in the investment committee has saved the Fund many millions during the course of the financial year. To increase Trustees' exposure and knowledge when investment decisions have to be made, some trustees visited two BRIC countries (China and India) to get first-hand knowledge of what it is that is driving their economic growth and what the risks for investing in these countries are. We are also looking at possible investment opportunities in Africa.

Concluding my remarks on returns, I want to quote from the Actuary's remarks in the Annual Report:

"The Fund has consistently delivered excellent investment returns to its members, while providing a protection mechanism for members with a lower tolerance for risk. This balance has been an important element of the Funds success."

MEMBERSHIP OF THE FUND

The number of active contributing members increased from 32 518 as at 30 June 2011 to 33 979 on 30 June 2012. This reflects a net increase of 1 461 from the previous year, or just more than 4% growth in active membership. The actual number of new members who elected to join the Fund was 3 488, which is just 819 less than last year. However, this number must be reduced by retirements (424), resignations (1 328), retrenchments (0) and deaths (160). Retirements increased and retrenchments decreased during the year, as opposed to the previous year. Retirements increased from 380 in 2011 to 424 and retrenchments decreased from 3 in 2011 to 0 as at 30 June 2012.

Our Fund can still be viewed as a Fund with a young age profile. Continued growth in membership ensures that this profile endures, which ensures risk benefits, death and disability at very competitive rates. We would like to ask members to retain membership of the Fund to accumulate sufficient funds for retirement. Members leaving the Fund must also take note that they can leave their investment in the Fund or transfer it to another fund.

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 members in 2009, 840 in 2010, 784 in 2011 and 780 in 2012. Although they represent just a small percentage of the total membership, the pensioners form an important component of the Fund. A separate newsletter is also sent to them on a frequent basis. A special *ad hoc* bonus, equal to a 100% of their monthly pension payment, was paid to pensioners in December 2012.

ADMINISTRATION

The Board of Trustees changed the name of the Fund to that of The Cape Retirement Fund for Local Government to avoid confusion between ourselves and the Cape Joint Pension Fund, which has been a completely separate entity since 1996. Unfortunately, this confusion still exists and we ask all our members to assist us in pointing out this confusion when it happens.

Our Fund is administrated 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.

The Fund's total administration costs (not only Verso's fee) expressed as a percentage of pensionable salaries still amount to just over 0.80%, compared to the industry norm of more than 1%. The Board of Trustees prides itself in that it has managed to maintain costs below the industry norm over the years.

We thank Adv. Christi Franken and his very competent team for doing an excellent job. I wonder how many members are aware that, since this Fund's establishment, the adjudicator has never made an adverse ruling against the Fund. Our Fund, through Verso, is setting a standard for administration that we all can be proud of. The Board and the Principal Officer monitor the service levels of our service providers on a frequent basis.

NEW BENEFITS AND STRATEGIC DIRECTION

As part of our strategic objective to broaden the base of our membership in Local Government, we opened our membership to Councillors after the May 2011 election and we now eagerly wait on the freedom of association implementation date, which will allow employees in Local Government to transfer their membership to their fund of choice. This Fund has no restrictions on a member's choice to exit our fund; I can safely say we have not had any requests that were motivated by poor performance or service.

Your Fund has decided to actively work together with other funds that are open to it, in an effort to decrease the number of municipal funds in the industry. There are 63 municipal funds, of which 38 are active. Only 9 have more than 5 000 members. This exercise must be dealt with in the most appropriate and sensitive manner to have any chance of success. In view of the impending reform of pension matters by Government (where funds may lose the bulk of their members and only industry funds will probably be exempted) this exercise must continue.

I want to thank the Human Resources Departments, some union leaders, Trustees, our Principal Officer and especially our communication service provider, SASH, who continue to interact with members to ensure that they know about our Fund and pension matters in general. Our members are actively involved in questioning aspects in our Fund, informing us how the Fund can better serve them and keeping us on our toes in general. We appreciate that.

GOVERNANCE

Three new Trustees were elected at our last AGM. They were Cllr. Steyn, Cllr. Gqabi and Mr Van der Merwe. I sadly report that Cllr. Johnson, an employer trustee, has passed away in May 2012. I want to again express my appreciation and thanks to his family and his Municipal council for allowing "Oom Johnny" to participate in the affairs of the Fund . He will be greatly missed by all of us.

We have now filled all vacancies on the Audit Committee and I can report that the majority of members on the committee are independent members. These members are the Chairperson, Mr Venter, Me Moloko, a chartered accountant and Mr Grobler, a risk expert.

KPMG has been re-appointed as the auditors for our Fund and I can report that we received a clean audit report, as you will see in the documents provided to you. I want to express the Board's appreciation to the Chairman and members 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 onerous in view of new legislation and the size of the Fund's assets (more than R11.6 billion). 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. 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 in the past year. I would also like to thank those of you who will make yourself available for election later today. The Board of Trustees determined to change their policy on compensating Trustees for their services rendered. This policy decision has been approved by the Financial Services Board, and is in line with the retirement fund industry norm. We must keep in mind that the Fund's strategy is to grow its membership base nationally, thereby placing extreme pressure on our Trustees.

Your Fund is served ably by its service providers and advisers. Verso is undoubtedly a leader in the administration of funds, and SASH is a communications leader. Our Actuary, Sean Neethling from Metropolitan, can be counted on to give us the best advice and our Auditors, KPMG, serve us with objectivity. Our investment advisors, Shainal Sukha and Duncan Theron from GraySwan and Johan Rossouw, our economist, have assisted in enabling the Fund to make decisions which provided excellent investment returns. Our Principal Officer is not only serving our Fund and its members with distinction, but is also fulfilling his role in the industry.

I would like to extend the Fund's gratitude for a job well done. It is an honour to rub shoulders with you as we strive to give the best service to our members. Thank you for giving me the opportunity to serve another term as your Chairperson. **I salute you all for a job well done!**

“Wealth is not a matter of intelligence; it's a matter of inspiration.” (Jim Rohn – an American entrepreneur and motivational speaker)

Brian William Shepherd

Chairperson