

17th
ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS



Ladies and Gentlemen,

It is my privilege to welcome you to the 17th Annual General Meeting of the CRF for Local Government.

When it comes to retirement planning I would like to quote from Warren Buffet when he said: “Someone is sitting in the shade today, because someone planted a tree a long time ago”. So, if we plan for retirement well in advance we trust with the help of our trustees that we will all be able to enjoy a comfortable retirement. Having said that, it is becoming more difficult under the current and future investment environment to ensure the returns of the past.

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 R2.3 billion for the financial year under review. I am pleased to report net returns on your investment of 18.2% in the **Growth Portfolio**, returns of 6.9% in the **Protection Portfolio** and 11.3% 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** has earned returns of 10.2%. 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 on the Growth Portfolio has been 14.53% net per annum for 17 years. This is a real return (above inflation return) of 8.5% for 17 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 has made a strategic decision to invest 2% of its total asset value in Africa-investment opportunities in order to some extent sustain reasonable returns for our members.

MEMBERSHIP OF THE FUND

The number of active contributing members increased from 33 979 as at 30 June 2012 to 35 311 on 30 June 2013. This reflects a net increase of 1 332 from the previous year, about 4% growth in active membership. The actual number of new members who elected to join the Fund was 3 297. However, this number must be reduced by retirements (471), resignations (1205), retrenchments (1) and deaths (162). Retirements and retrenchments increased during the year, as opposed to the previous year. Retirements increased from 424 in 2012 to 471 and retrenchments increased by 1 from 0 in 2012 to 1 as at 30 June 2013.

The continued growth in membership ensures that our fairly young 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, 780 in 2012 and 742 in 2013. 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 2013.

ADMINISTRATION

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 0.8%, 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 only made two adverse rulings 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 process is unfortunately very slow, which in my view is detrimental to many employees who believe there are better choices out there for them. This Fund has never prevented a member from exiting our Fund where this was possible.

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. 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, 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

The Board is currently relooking at its organisational structure in order to meet the demands of a National Fund. We are currently looking at our committee system in order to ensure better efficiencies and accountability.

Ernest & Young 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 of our Audit Committee 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 R14 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 has changed their policy on

compensating Trustees for their services rendered. This rule amendment 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 Momentum, can be counted on to give us the best advice and our Auditors, Ernest & Young, 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 retiring in a few months time; we wish him well whilst he enjoys his retirement.

I would like to extend the Fund's gratitude to the Board for a job well done. It is an honour to rub shoulders with all of 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!**

Brian William Shepherd

Chairperson