

18th
ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS



Ladies and Gentlemen,

It is my privilege to welcome you to the 18th Annual General Meeting of the CRF for Local Government.

I would like to start my address by reminding each and every one of you of the importance of saving for your retirement and to preserve your benefits, no matter what. I find this quote by Jim Rohn very sobering: "If you don't design your own life plan, chances are you'll fall into someone else's plan. And guess what they have planned for you? I can assure you – never as much as you hoped for."

The year under review has been interesting to say the least. I would like to spend the next 20 minutes or so to take you through the highs and lows of the financial year 1 July 2013 to 30 June 2014.

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 to more than R17 billion for the financial year under review. The net return on your investments is 24.55% in the **Growth Portfolio**, returns of 6.52% in the **Protection Portfolio** and 12.84% 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 12.37%. 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 15.06% net per annum for 18 years. This is a real return (above inflation return) of 9.02%. 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 sustain reasonable returns for our members to some extent.

MEMBERSHIP OF THE FUND

The number of active contributing members increased from 35 311 as at 30 June 2013 to 37 099 on 30 June 2014. This reflects a net increase of 1 788 from the previous year, about 5% growth in active membership. The actual number of new members who elected to join the Fund was 3 537. However, this number was reduced by retirements (503), resignations (1 116), retrenchments (1) and deaths (176). The amount of members retiring increased from 471 in 2013 to 503, but there was only one retrenchment during the financial year.

The continued growth in membership ensures that our fairly young profile endures, assisting us to broke for death and disability benefits at very competitive rates. We request that members retain membership in the Fund to accumulate sufficient funds for retirement. Members leaving the Fund should note that they can leave their investment in the Fund or transfer their values to another fund.

PENSIONER MEMBERS

The number of pensioners continues to decrease, as 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, 742 in 2013 and 725 in 2014. 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 2014.

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.

The total cost for administering the Fund, expressed as a percentage of pensionable salaries still amount to just over 0.8%, when compared to the industry norm of more than 1%, is good. The Board of Trustees prides itself in that it has managed to maintain costs below the industry norm over the years.

The Board would like to thank its competent administration team, the legal and technical department and the fund consultants for doing an excellent job. I wonder how many members are aware that, since this Fund's establishment, the Adjudicator has made no adverse rulings against the Fund. The CRF has set 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.

AMENDED COUNCILLOR CONTRIBUTIONS

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 is a slow process, 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 possible.

To further encourage councillors to join the CRF, the Fund amended the total of the councillor contribution rate to 15% (7.5% councillor contribution and 7.5% employer contribution).

IMPROVED BENEFITS

For the year ended 30 June 2014, the following improvements were made to benefits at no extra cost to members:

- The funeral benefit was increased from a R20 000 scale to a R25 000 scale.
- Increased insured death benefit for members in categories A, B, C, E and F.
- Increased lump sum disability benefits for members in categories A and B.

I want to thank the Human Resources Departments, union leaders, Trustees, our Principal Officers and especially our communication service provider, 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.

RETIREMENT REFORM PROPOSALS

At last year's AGM we reported that National Treasury issued various documents to the retirement funds industry for comment. During this reporting period we saw the promulgation of two new pieces of legislation, the Taxation Laws Amendment Act (TLAA) and the Financial Services Laws General Amendment Act. It is important to note that these changes will no longer come into effect on 1 March 2015 and are to be delayed by at least a year.

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.

Ernst & Young 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 R17 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.

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, Ernst & Young, serve us with objectivity. Our investment advisors, Sukha and Associates and GraySwan and Johan Rossouw our economist, have assisted in enabling the Fund to make decisions which provided excellent investment returns, and finally our financial advisors, Verso IS, who help members to successfully transition from employee to retiree. We had a number of changes in the Fund leadership and I wish to thank the Principal Officer and Chief Investment Officer for their hard work and dedication. The Board of Trustees resolved to appoint a Chief Investment Officer (CIO) who joined the fund on 1 July 2014. As investments are such an important part of the fund, the Trustees saw the need to have an investment specialist with the support of the current consultants to do final recommendations to the Board. The vision of the CIO is one of cost saving without sacrificing returns and this was formalised in an investment plan that was presented to the Board. The Board approved the concept and the first phase was implemented during October 2014. As changes in the underlying investment of the CRF must always be treated with utmost care and due process, these changes will take a while to be fully implemented. At next year's AGM the Chief Investment Officer will give a full breakdown of the cost saved and the positive impact it has on the member's investment share.

Finally, to the Board - thank you for the honour and opportunity to serve as your Chairman as we unite in striving to give the best service to our members. **I salute you all for a job well done!**

Soyisile Andreas Mokweni

Chairperson