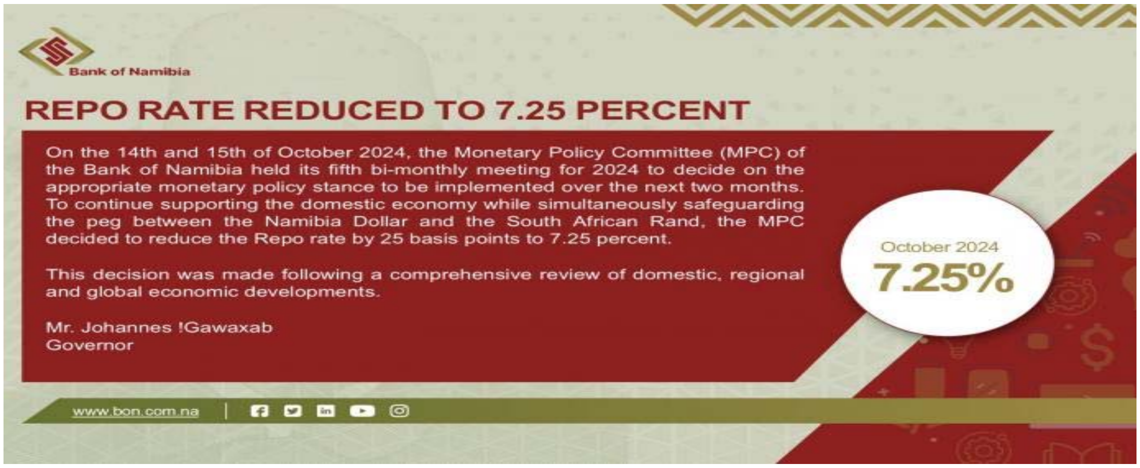
Universities Retirement Fund - Newsletter December 2024

As another year draws to a close we can once again reflect on a year full of challenges, changes and opportunities.

A year that was dominated by elections with approximately 60% of the World's population that went to the polls with some unexpected outcomes both regionally, as well as globally.

As highlighted in previous editions of this newsletter over the last couple of years, since COVID, globally Central Banks were fighting the same fight and that was the rein in inflation. As we know by now Inflation had its initial origins in the billions and billions of U$ that were made available by Governments by means of stimulus packages during COVID lockdowns in order to support the consumer financially, and to protect economies during these unprecedented periods. Supply chain constraints when economies started opening up again further fuelled the inflation fires and then the invasion of Ukraine by Russia resulted in inflation "blowing out" and breaching its targeted levels globally.

Central Banks reacted to this "runaway inflation fires" by drastically increasing interest rates. <u>The good news are that it would appear that these measures (hiking of interest rates) had its desired effect and globally inflation is trending within target ranges</u>.



Further good news followed on 4 December 2024 when the Bank of Namibia decided to cut the repo rate with 0.25%, bringing it to 7% from 7.25%

Evidence of this downward trend in inflation was the Bank of Namibia taking the lead in reducing the Namibian Repo rate with two consecutive cuts of 25bp each in August and October. This was followed by the United States Federal Reserve who reduced rates by 0.50% and the South African Reserve Bank reducing rates also by 0.25% in September and November respectively. <u>It is further expected that interest rates could be further reduced (approximately a further 75bp) should inflation remain stable within its current targeted levels.</u>

The current volatile situation in the Middle-East between Israel and Iran (Hamas / Hezbollah) can however quickly escalate into a broader regional conflict which could result in oil prices increasing drastically. Such a scenario will again put upward pressure on inflation and might then result in the current interest rate cutting cycle being paused, or in a worse-case scenario even be increased.

Donald Trump's re-election as American President resulted in the US $ also strengthening considerable which also impacts negatively on inflation. What will however be more important is going to be his reaction to other existing geo-political tensions between China and Taiwan, and then also the ongoing war between Russia (North-Korea) and Ukraine.

Namibia continue to show signs of economic resilience and on the back of the potential oil finds along the coats continue to attract foreign direct investments. In 2023 alone approximately N$ 50 billion (21% of GDP) flowed into the Country predominantly as a result of the exploration work being undertaken.

It is further expected that by the 2nd quarter of 2025 announcements will be made whether the exploration work being done will result in actual production which will be a defining moment for the Country as it will change the current economic landscape and climate forever.

In Namibia, the FTSE NSX Overall Index rose by 7.1% during Q3 of 2024, supported by dual-listed South African shares, while the Local Index returned a subdued 1.7%. Namibian bonds delivered strong performance, with the IJG All Bond Index gaining 8.2%, reflecting positive sentiment from South African bond markets.

Optimism following South Africa's Government of National Unity (GNU) supported market gains, particularly in bonds and consumer-focused stocks such as Mr Price and Capitec, which saw substantial recoveries.

The third quarter of 2024 saw strong performance in South African markets, with the FTSE/JSE All Share Index (ALSI) gaining 9.6%, reaching record highs, and returning 15.9% YTD. Financials (+13.7%) and Industrials (+11.6%) drove gains, while Resources declined (-1.5%) due to weak commodity prices, partially offset by Chinese stimulus measures.

However, structural challenges remain, with the country's debt-to-GDP ratio climbing to 75% from 56% pre-COVID, and debt servicing now consuming 21 cents per tax rand, up from 14 cents pre-pandemic. The monetization of South Africa's Gold and Foreign Exchange Contingency Reserve Account (GFECRA) provided short-term fiscal relief, but concerns about long-term sustainability persist.

The GNU's unity and reform progress also still remain untested.

Globally, volatility characterized markets during Q3 of 2024, including a dramatic crash and rebound in Japanese shares and significant swings in US equities. The US Federal Reserve began a rate-cutting cycle, lowering rates by 50 basis points amid rising unemployment and recession fears. China's economic slowdown pressured commodities and mining stocks, though stimulus measures temporarily boosted Chinese equities. These trends underscore the heightened risk environment, presenting both challenges and opportunities for investors.

Fund's Performance

In the previous edition of the newsletter we informed you that the Fund had a stellar 2023 and that based on the recommendations received from the Fund valuator in this regard, a **final bonus rate of 14% was declared in respect of active members for the Fund year ended 31 December 2023, with the pensioners receiving a 5% increase as at the same date.**

For the first 10 months of the 2024 financial year (1 January 2024 to 31 October 2024) the Fund's market value portfolio already returned 10.08% over this period. There are still two months to go until the end of the year, but all indications are that 2024 will also be an excellent year from an investment perspective.

As mentioned previously the Fund have a long-term investment strategy which is highlighted from the following statistics as shared in the previous edition of the newsletter as well:

Over the last 21 years the Fund on average declared an annual final bonus of 13.9%. Inflation over this period was 5.5% per annum resulting in a real return of 8.4% per annum. To put this in perspective – if you invested N$1,000 in the Universities Retirement Fund 21 years ago, it would have grown to approximately N$24,000 as at 31 December 2023! Making further provision for inflation, your N$1,000 invested 21 years ago, would have grown to approximately N$19,200 in real terms as at 31 December 2023.

Member Communication Sessions

During the member communication sessions held in August of this year, members on a couple of occasions raised the issue that children that are still at school or studying, are only covered in respect of the funeral benefits provided by the Fund until the age of 21 as currently stipulated in terms of the Rules of the Fund.

As usual the Trustees took these legitimate concerns to heart and following further investigations conducted in this regard, in principle decided to increase the age from 21 to 25.

It must be emphasised however that the conditions of having to be at school or studying will still apply in order to qualify for this extended funeral cover. The proposed change can further also only be implemented once NAMFISA has approved the necessary Rule amendments to this effect.

The moment the said approval is received from NAMFISA, we will again formally inform you in this regard.

Financial Institutions and Markets Act (FIMA) / Compulsory Preservation

In terms of the implementation of **FIMA** as well as the proposed **Compulsory Preservation Regulation** there are no new developments to report.

Member Data

It is imperative that you as a member make sure that your data is up to date at the Fund. On this note you are requested to forward your mobile number and e mail address to the Fund because communication via e mail and or SMS is much faster and more efficient.

Members who are married Traditional are requested to submit the Marriage Certificate to the Office of the Principal Officer without delay.

Fund Housing Loans

Members who sold their properties on which a Fund Housing Loan was granted are urged to repay the outstanding balance of the Fund Housing Loan immediately

National Pension Fund

At a stakeholder engagement between the Social Security Commission (SSC), the Namibia Employers Federation (NEF) as well as organized labor (Unions), it was made very clear that the only funding model that were being considered in terms of the introduction of the National Pension Fund (NPF), was the model proposed by the International Labor Organization (ILO).

Said ILO model will be based on a defined **benefit arrangement and will require a compulsory contribution of 15.9% of defined salaries with no exemption** provided for in terms of existing private arrangements like the Universities Retirement Fund.

Stakeholders can still comment in terms of the underlying proposed design of this model, but no other design options as were previously recommended by the SSC will be considered. Once finalized, a submission in terms of this ILO design will then be submitted to Cabinet for further consideration.

A number of unanswered questions remain in terms of administration capacity, governance and institutional issues, regulatory framework in which the NPF will operate as well as investment philosophy and strategies to name but a few.

The proposed ILO funding model will not only have a huge negative impact on the future financial viability of the Fund, but also in terms of the Namibian economic landscape as a whole.

Considering the potential impact of a NPF in the proposed format it was decided by all stakeholders (Namibia Employers Federation, Unions, RFIN, Funds and NASIA) to join forces and conduct an impact assessment study of the proposed implementation. The said study will however not only focus on the ILO model, but also on the alternative model as initially recommended by the SSC.

The Fund will keep you informed and updated of any further developments in this regard.

The Chairperson, Board of Trustees, as well as the Office of the Principal Officer, hereby wishes everyone a joyful and peaceful festive season.