Universities Retirement Fund
Newsletter
July 2024

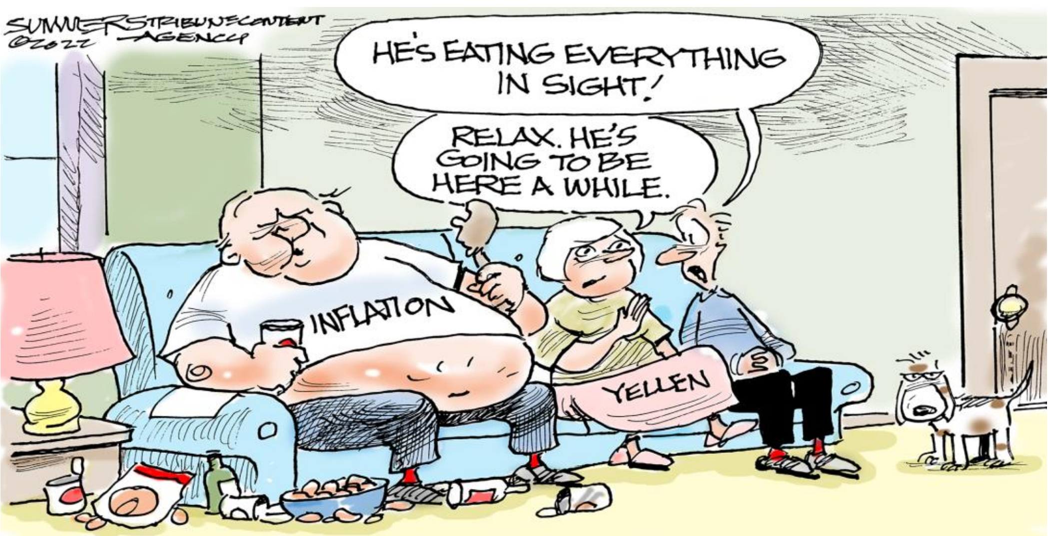
This Newsletter contains the following interesting and important information:

- Inflation
- Interest Rates
- Namibian Economic Growth
- Geo-political tension
- Fund’s Performance
- Financial Institutions and markets Act (FIMA)/ Compulsory Preservation
- National Pension Fund
- NamRa

With the passing of time one quickly forgets how disruptive COVID was on our daily lives and livelihoods and today, more than four years later already, it seems that it happened a much longer time ago.

Probably also one of humankind`s coping mechanisms to “forget” and “hide-away” bad experiences such as these that were unprecedented in modern human history. Our thoughts and prayers again go out to those members who lost loved ones and colleagues during these extraordinary times.

Although we are able to move around again without any restrictions and socialize as before, from an economic perspective, the fallout from COVID is still very much evident. Central Banks globally are still trying to recover from the consequences of the measurers that were implemented to protect economies during the pandemic with the **biggest challenge remaining inflation, inflation, inflation…………………………………..**



As highlighted in previous editions of the newsletter inflation had its initial origin in the billions and billions of USD that were made available by Governments by means of stimulus packages during 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 to complete the “perfect storm”, the invasion of Ukraine by Russia had a further negative impact with inflation reaching record levels globally. It was especially food inflation which was most severely impacted with basic food items like cooking oil, maize meal etc. reaching record highs.

Central Banks (United States Federal Reserve, South African Reserve Bank, Bank of Namibia etc.) reaction to inflation reaching record high levels started to increase interest rates quite aggressively. Unfortunately this strategy did not immediately have its desired effect and inflation remained persistently sticky for much longer than expected. This then also meant that Central Banks could not start considering cutting interest rates.

Globally the World is now waiting to see when the United States Federal Reserve is going to start cutting interest rates. Indications are that this might start happening towards the third quarter of 2024, but with the American economy remaining robust and very strong, this might very well be pushed out to only the fourth quarter of 2024. Once the United States then start cutting interest rates, the rest of the World will follow with each Country assessing its fiscal position accordingly.

In Namibia, as we all know, we are very much dependent on South African interest rate policy decisions and things there are not looking all that rosy. It must also be remembered that our Namibian repo rate is currently 0.50% below that of South Africa at 7.75%. It might thus very well happen that when South Africa starts cutting interest rates, the Bank of Namibia might not follow immediately in order to first reduce this difference.

Unfortunately, where interest rates cuts were in the beginning of the year expected during the second half of 2024, this has been pushed back again and realistically in Namibia we should brace ourselves for high rates until the end of the year, **and then hopefully start seeing interest rate cuts during the first half of 2025**.

Markets responded quite positively to the outcome of the recent elections in South Africa and the formation of the Government of National Unity with the JSE All Share Index for the first time in history breaching the 80,000 mark and the currency for the first time in a very long time trading below R18 to the USD.

A lot of challenges however remain with overall economic conditions being particularly tough in South Africa, exacerbated by a challenging operating environment for local businesses and rising government bond yields. South Africa’s expected growth for 2024 is 0.9% and continues flirting with a contraction in economic activity resulting in increasing daylight between a deteriorating South African fiscal trajectory and an improving Namibian trajectory.

Internally, political risks related to the recently concluded elections and fiscal management concerns, including the poorly received February budget and reliance on reserve monetization will continue contributing to market instability.

Namibia, on the other hand, showed signs of economic resilience despite facing its own set of challenges. The FTSE NSX Local Index, driven by financial companies benefiting from a higher interest rate environment, performed well.

Namibian economic growth is turning out to be very strong with real GDP now firmly exceeding pre-pandemic levels. The economy appears to grow at a robust rate of 4% plus for several years, including 2024.

Nonetheless, the recent grey listing by the FATF and the forthcoming elections add layers of uncertainty that could impact investor sentiment and economic stability.

Looking forward to the rest of 2024 challenges remain in terms of geo-political tensions between the United States and China pertaining to Taiwan, the ongoing war between Russia and Ukraine with President Putin finding a new ally and friend in North-Korea, the war between Hamas and Israel that could potentially escalate to the rest of the region as well as the upcoming United States elections in November 2024.

One thing we know is that investment markets do not like surprises and any further escalation of existing conflicts, or new ones, will definitely have a huge detrimental impact on an already fragile market.

Fund's Performance

You might recall from last year's newsletter that 2022 was quite a challenging year and that the Fund's underlying investments only returned 1.77% for the financial year ended 31 December 2022.

Based on the recommendations from the Actuary of the Fund, a final bonus rate of 3.5% was declared as at 31 December 2022 with the pensioners, considering that they already have a 6% annual pension increase included at inception date of becoming a pensioner within the Fund, receiving no increase as at said date.

The Fund's bonus smoothing reserve was then also reduced from 5% of total assets to 2.5% to cater for the final bonus rate of 3.5% that was declared as at 31 December 2022.

For the financial year ended 31 December 2023 the Fund's underlying assets achieved exceptional performance with a total return of 16.57%.

Considering the Fund's current bonus declaration methodology whereby a certain portion of the assets are retained in an investment reserve, the valuator on conclusion of an actuarial valuation of the Fund as at 31 December 2023 recommended that a **final bonus rate of 14% be declared in respect of active members for the Fund year ended 31 December 2023, and that the pensioners receive on top of the 6% mentioned before, a 5% increase as at the same date.**

Further to the above the bonus smoothing reserve was also increased from 2.5% of total assets as at 31 December 2022 to 5% of total assets as at 31 December 2023 to cater for future potential volatility in returns and provide some measure of peace of mind that at least there are a bit of a reserve that can be used in future to subsidise returns.

The Fund's Valuator then also concluded that as at 31 December 2023 the Fund was still in a financially sound position.

Although the Fund had a fantastic 2023 it is important to also make sure that the investment objectives and strategy currently employed by the Fund are achieving inflation beating returns over the long-term. Otherwise the Fund could just have been branded as being "lucky" with the stellar performance achieved in 2023!

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$1,000.00 in the Universities Retirement Fund 21 years ago, it would have grown to approximately N$24,000.00 as at 31 December 2023! Making further provision for inflation, your N$1,000.00 invested 21 years ago, would have grown to approximately N$19,200.00 in real terms as at 31 December 2023.

As they say: "the proof is in the pudding"!

Financial Institutions and Markets Act (FIMA)/ Compulsory Preservation

In previous communiques we informed you that on 28 April 2023 NAMFISA issued a circular (FIM/04/2023) whereby they informed the public that the Minister of Finance had established a Technical Advisory Committee (TAC) to conduct further formal consultations with the broader public in terms of the proposed **Compulsory Preservation Regulation**.

The principle objective of the TAC was to engage and obtain broad-based feedback from all stakeholders countrywide in terms of their views regarding the proposed compulsory preservation regulation as was issued by the Minister. Said engagements took the form of "Town-hall" sessions conducted countrywide which were concluded towards the end of last year. Next steps now would be for the TAC to submit a report following the outcome of these engagements to the Minister of Finance for further consideration.

In terms of the **Financial Institutions and Markets Act (FIMA)** it has been communicated by NAMFISA that the earliest further consideration would be given in 2025 in terms of the implementation of the said Act.

National Pension Fund

Currently the Social Security Act also makes provision for, amongst others, the implementation of a National Pension Fund as well as a National Medical Aid Scheme.

It is especially discussions pertaining to the possible implementation of a National Pension Fund that gained momentum over the last couple of months with various engagements with different stakeholders, facilitated by the Social Security Commission.

Currently two funding models are being proposed in terms of the possible implementation of a **National Pension Fund**:

- A **defined benefit** arrangement supported by the Ministry of Labor as well as the International Labor Organization which will require a **compulsory total contribution of 15.9%** (capped at the current MSD maximum salary).

- A **defined contribution** arrangement proposed by the SSC which will be a hybrid model with 2% of the total contribution of 13% of remuneration (up to the prevailing MSD cap) to be appropriated to fund management costs and to offer certain minimum death and disability benefits. The 11% balance will be allocated to the savings component of each individual member to accumulate for retirement.

From feedback received it would appear that the Ministry of Labor is very much in support of the ILO model in terms of the funding structure of the National Pension Fund. As indicated this 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.

This proposed 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.

The Namibia Employers Federation (NEF), as well as Organized Labor, were much more in support of the model proposed by the Social Security Commission which is based on a defined contribution arrangement of 13% of defined salaries, and which also makes provision for exemption in terms of existing private arrangements.

It is important to ensure that your tax affairs with NamRA are up to date

Any benefit payable or transferable by the Fund first needs to be cleared by NamRA who issues a directive in terms of the amount of tax to be deducted on any benefits payable/ transferable.

NamRA is not going to issue any tax directive if your annual assessments are not up to date, or if you owe outstanding taxes, and without said directive the Fund cannot pay any benefits in your favour - not to you nor to your beneficiaries/ dependents.

The Fund have instances where the finalization of payments is delayed because members did not submit their annual tax returns for assessment during formal employment, or they still owed some money in terms of taxes payable.

It is therefore not only in your own, but also in the interest of your beneficiaries that you are in good standing with NamRA and that all your tax returns are submitted regularly as required by the Income Tax Act.

This document is for information purposes only. Members' rights are embodies in the Rules and Policies of the Fund