UNIVERSITIES RETIREMENT FUND

Newsletter July 2020

Considering the challenges currently being faced as a result of the COVID-19 pandemic most of this newsletter will be allocated to the current **investment climate** and how the Fund performed during these very challenging times.

There are certain **changes within the Office of the Principal Officer** effective 1 August 2020 which we would also like to inform you about.

Investments

What started as an "ordinary" seasonal flu virus outbreak late last year in China quickly morphed into a global event that had massive disruptive implications in the way we as human beings were accustomed to living and used to in going about our daily activities.

The final chapter of COVID-19 is unfortunately also far from written. As this disease runs its course over the next couple of months more changes and disruptions to our daily lives can be expected and we will then have to get used to the "new normal". We are still in the midst of the crisis and unfortunately in Namibia we are now only entering the early stages of the spread of the disease, especially in the Erongo region, with the peak only expected in September.

One of the first reactions by Governments across the World was to go into lockdown in order to "flatten the curve" and to also allow their health care systems badly needed time to prepare for the inevitable increase in cases associated with the Corona virus. This of course had massive financial implications as businesses had to shut immediately and citizens were being confined to their homes.

The oil price war between Russia and Saudi Arabia resulting in oil futures at some stage trading negative (you got paid for buying oil) further heightened tensions and resulted in even further additional uncertainty and volatility.

Following the collapse of equity markets globally during March 2020 we saw central banks pump trillions of dollars into their financial systems in the form of stimulus packages in order to maintain and support liquidity in the markets. This resulted in a massive market recovery especially in April which have since been maintained leaving most balanced market value portfolios in positive territory year to date.

In Namibia we unfortunately do not have the financial luxury of spending ourselves out of this crisis as other countries did since we were already in trouble from an economic perspective prior to the COVID-19 pandemic. The financial relief came predominantly from the Bank of Namibia who drastically reduced the repo rate and relaxed some of the credit requirements on commercial banks.

Namibia`s current precarious financial position was further highlighted when the Minister of Finance tabled the 2020/2021 budget which reflected a N$ 20 billion deficit this financial year. This deficit will have to be funded either from Government`s own funds, or borrowed either internationally (IMF, World Bank or African Development Bank) or locally (pension funds). The most obvious, as well as cheapest option, would be to borrow it locally from pension funds by increasing the local asset requirements even further from the current 45% which will negatively affect the Fund`s long-term performance objectives and targets.

With an annual population growth of 2%, but with an economy that shrunk for three consecutive years and considering that the expectations are that the economy will further contract by between 8% and 10% this year as a result of the impact of COVID-19, it is evident that we as a country are at the financial crossroads if we want to leave a prosperous and stable Namibia for our children and grandchildren. The necessary policies and steps will have to be implemented as soon as possible to support employment creation as a key objective and reduce our reliance on Government spending for growth.

The economic impact of COVID-19 will unfortunately still be felt long after we have forgotten about social distancing and wearing masks as businesses are struggling financially at the moment resulting in job losses and a slump in production.

With great uncertainty also comes great volatility and whilst we are still in the midst of this COVID-19 crisis we can expect that it would continue for a while longer.

Fortunately, it is not all doom and gloom. The manner in which the Fund has been able to weather the financial impact of the COVID-19 crisis the last couple of months, events not experienced since the Great Depression of the 1930`s, is proof that the current investment strategy of having a diversified portfolio of different asset classes invested across different geographical areas and managed by different styles of investment managers are able to protect members` retirement savings.

For the year ended 31 December 2019 the Fund`s underlying investments returned 10.07% and following the conclusion of an actuarial valuation as at said date, the Fund`s actuary recommended that a final **bonus of 5% be declared** to active members, which the Trustees then approved.

You might recall that the previous year (Fund year ended 31 December 2018) the final bonus declared was 6% whilst the underlying assets yielded a negative return of -0.75% over the same period with the difference being funded from the Investment Reserve which was as a consequence reduced to 0%.

This year the difference between the actual investment returns of 10.07% and the declared bonus of 5% have been allocated to the Investment Reserve to be in line with the Fund`s strategy whereby in better investment years a certain portion of the investment returns are retained to be used in years when investment returns are under pressure and suppressed.

We want to assure members that the Fund and its appointed investment managers are doing everything in their powers to achieve positive investment returns during these unprecedented times and to preserve capital as much as possible.

Again we want to however caution members that future return expectations should be realistic, especially in a low inflationary environment we are currently in, and that double-digit annual returns are probably a thing of the past for the foreseeable future.

Changes within the Office of the Principal Officer

After 30 years of serving the Fund in different capacities Mr. van Wyk du Plessis has decided to step down as the Fund`s Principal Officer effective 1 August 2020.

The Trustees have appointed Ms. Antoinette de Greeff as the Fund`s Principal Officer in the place of Mr. du Plessis with Ms. Fransina Paulus taking over Ms. de Greeff's duties and responsibilities.

There are definitely not enough and sufficient words of gratitude to thank Mr. Du Plessis for his years of service to the Fund and we want to wish him and his family an enjoyable retirement. We also want to wish Ms. de Greeff and Ms. Paulus all of the best with their new challenge.

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