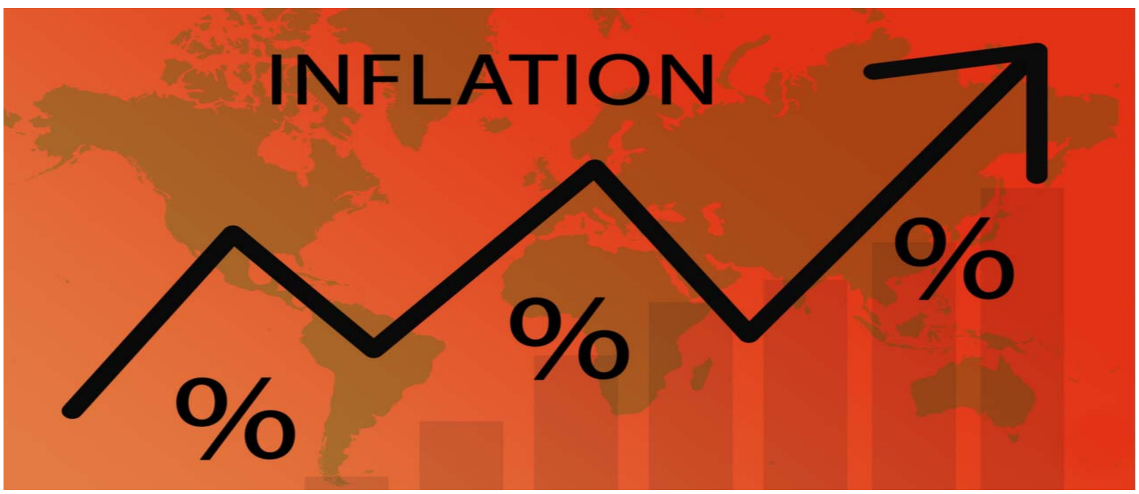
UNIVERSITIES RETIREMENT FUND

**Newsletter**

In this newsletter we will provide you with a bit of background in terms of the **current global economic environment** and the Fund's investment performance for the twelve months period ended 31 December 2022.

We will also provide you with more information in terms of the impact **changes to the repo rate** have on the instalment should you have taken out a **pension backed housing loan (Fund Housing Loan).** We will also inform you in terms of the latest developments pertaining to the **postponement of the implementation of the Financial Institutions and Markets Act (FIMA)** as well as the **compulsory preservation** regulation. In conclusion the upcoming **employee representative Trustee elections at UNAM** as well as potential additional **member contribution categories** will be highlighted.




**Market Commentary – Global Markets**

Supply disruptions experienced during 2022 were starting to come to an end during the latter part of 2022 with the global economy, with the notable exception of China, entering a new post-pandemic normality. Supply chains are also making the adjustments required to cope with the consequences of the Russian invasion of Ukraine.

Following wide-spread public protest against its policy of controlling the pandemic using draconian quarantines, China eventually also adopted the strategy, which proved effective elsewhere, of relying on vaccinations and allowing herd immunity to develop within communities

The transition to the new strategy saw an initial surge in infections, which have caused China`s economic growth, already damaged by the weak housing market, to slow even further. However, there are signs that China was now also behind the worst with the

Chinese economy which grew only 2.9% in 2022, now expected to rebound strongly during 2023.

Currently the two main factors that will determine whether economies will stay on the recovery path are for inflation to keep coming down within its targeted ranges which will result in interest rates being reduced, as well as geo-political stability without any further escalations in existing, or new conflicts.

While inflation may have peaked, it remained elevated. The rhetoric from central banks remains hawkish with further rate hikes expected in order to bring, and keep inflation under control. The markets remain more phlegmatic about inflation than central banks and assets are priced on the assumption that deteriorating conditions will force central banks to reverse the monetary tightening to which they are currently so committed. The collapse of Silicon Valley Bank and Credit Suisse is a warning of the fragility of the financial system following the rapid rise in interest rates.

2023 started on a positive note as markets reacted favorably as it appeared that inflation had peaked and were starting to level off, and also the fact that as indicated China had started easing its rigid Covid restrictions that were enforced the last three years.

Over the past northern winter, global economic activity also proved resilient. In the United States business conditions remained buoyant and unseasonably warm weather helped Europe to avoid an energy crisis, despite the curtailment of Russian gas supplies.

However, there are concerns that this momentum is now dissipating. General leading indicators are predicting an economic slowdown.

**Regional Markets**

The implosion of Eskom was seriously damaging the South African economy and could potentially also negatively affect Namibia. During the first quarter of 2023, loadshedding reached record levels in South Africa.

It seem that, as a consequence of years of mismanagement and corruption, the system was decaying faster than it could be fixed. Until the power crisis ends the South African Economy will remain trapped in stagnation. Following the scrapping of restrictions on private sector electricity generation, there will be substantial investments in new capacity, which ultimately will allow economic growth to resume.

However, this is being delayed by the slow pace of refocusing the grid to efficiently distribute wind- and solar-generated power. In addition to Eskom's woes, the poor performance of Transnet's rail and port systems is seriously damaging South Africa's mineral exports. As global growth slows, commodity prices are falling, with the bonanza enjoyed by the South African mining sector coming to an end as revenue decline and costs increases.

Inflation remain elevated in the region. While South African consumer price inflation has reached its peak at 7.8 in July 2022, at the current 6.3% it is still way above the target of 4.5%. The Monetary Policy Committee of the South African Reserve Bank remain concerned about how widespread inflation has become, notable the rapid escalation of wages. Accordingly, at its last meeting it further increased the repo rate by another 50bp to 8.25%.

High unemployment levels both in Namibia as well as South Africa were further reason for concern and needs to be addressed by both Governments as a matter of utmost urgency and importance.

**Namibian Economy**

The Namibian economy continues to grow off a low base with good output in the primary sectors, but it is not immune to the challenges facing South Africa. Nevertheless, in the longer term there could be some green shoots to drive economic growth – such as the potential development of the oil discovery.

Our Namibian fiscus also benefitted from upwards revisions in both revenues collected and forecasted. Increased expenditure is projected to offset some of this, as the stagnant economy and inflationary environment has led to increased budget allocations to assist the poor and most vulnerable. Given fiscal constraints, the ongoing act of balancing the country's operational requirements to care for immediate needs versus investment expenditure to stimulate economic growth remains a challenge.

The Bank of Namibia's Monetary Policy Committee also followed the South African Reserve Bank and at its meeting on 14 June 2023 it raised the repo rate by another 50 basis points to 7.75%.

As a result of all these developments 2022 was one of the toughest years for paper assets we experienced in a very long time. The Fund also being exposed to growth assets was unfortunately then also not immune to the impact of these developments.

The Fund's underlying market value assets returned **1.77% for the financial year ended 31 December 2022**. 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 2022, recommended that a **final bonus rate of 3.5% be declared** in respect of active members for the Fund year ended 31 December 2022 which was then also approved by the Trustees. All members of the Fund will receive a Benefit Statement as at 31 December 2022 through e-mail. Separate communication in this regard will follow.

In doing so the bonus smoothing reserve was reduced from 5% as at 31 December 2021 to 2.5% of total assets as at 31 December 2022.

Considering that the pensioners already have a 6% annual pension increase included on inception date of becoming a pensioner within the Fund, no additional pension increase was recommended for them for the Fund year ended 31 December 2022.

The Valuator of the Fund also concluded that as at 31 December 2022 the Fund was still in a financially sound position.


**Pension Backed Housing Loan Scheme**

With the recent aggressive interest rate hike policy from the Bank of Namibia, as also alluded to in the investment section of this newsletter, the Fund was inundated by requests from members whether the Trustees cannot consider alleviating some of the current financial distress members are experiencing by reducing the interest currently payable in respect of housing loans taken from the Fund.

As much as the Trustees sympathise and understands the members plight in this regard, unfortunately their hands are tied considering that the **interest rate to be charged on direct housing loans from the Fund** is regulated by law:

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| *Prescribed interest rate:* | *For the purpose of section 19(5)(b)(iii) of the Act, the rate of interest is equal to the sum of the percentage of the repo rate charged by the Bank of Namibia plus an additional four per cent per annum with effect from the date of publication of these regulations.* |

Currently the Bank of Namibia's repo rate is 7.75% meaning that the interest to be charged on direct housing loans from the Fund equates to 11.75%.

On the positive side it must be remembered that at least the interest charged is paid back to yourself and <u>not</u> to a financial institution like in the case with any other loan you might have. You have also borrowed money from your Fund which you invested in a property which value should also increase over time.

Further good news is that hopefully we will not see any further interest rate hikes for the remainder of this year and that, all things staying as is currently and inflation keeps on going down, we can start expecting interest rate reductions early 2024.

**Financial Institutions and Markets Act (FIMA)**

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 amongst others further formal consultations with the broader public on the Compulsory Preservation Regulation issued last year that caused all the upheaval.

This consultation process will then as a result also impact on the implementation of FIMA as the intention is to obtain representation from all stakeholders and for the TAC to objectively assess the said representations and formulate recommendations to the Minister on the compulsory preservation regulations, <u>as well as any other provisions of FIMA that relates to Retirement Funds.</u>

The said circular then concluded that it was against this background that the implementation of FIMA shall remain in abeyance pending the finalization of the above processes.

We again want to assure you that the Fund will participate as in the past, through the various Industry representative bodies in this consultation process, and further also again commit to providing you with regular feedback in terms of developments in this regard.

**UNAM Employee Representative Trustee Elections**

In terms of the Rules of the Fund the Trustees will hold office for a period of five years.

The terms of office of the following member representative Trustees from UNAM expires on 31 August 2023:

Mr. Vonkie Olivier
Dr. Romanus Shivoro
Mr. Vincent Shimutwikeni

The elections in respect of said vacancies will again be held electronically and you are requested to please participate in this process by nominating and voting for your preferred candidates to represent you on the Board of Trustees.

**Additional Member Contribution Categories**

As you might be aware by now, on 29 December 2022 the Income Tax Amendment Act (Act 13 of 2022) was passed and contained in said amendment Act it was provided that the tax deductibility limit in respect of contributions towards approved retirement vehicles (including individual retirement annuity policies) in Namibia, as well as educational policies **be increased from N$ 40,000 per annum to N$ 150,000 per annum**.

Considering that the provisions became effective 1 January 2023 it had an immediate positive impact on members' tax liability for the 2022/2023 tax year whose contributions towards retirement and study policies exceeded N$ 40,000.

The increase in the tax-deductible limit creates the ideal opportunity for members to consider making additional contributions to the Fund on a tax-efficient basis. To make this benefit accessible and functional the Fund already provide the following contribution categories from which you can choose from on an annual basis:

**8% (eight percent) of pensionable salary**
**9% (nine percent) of pensionable salary**
**10% (ten percent) of pensionable salary**

As the default option members are required to contribute at least a minimum of **7% (seven percent) of pensionable salary** towards their share account in the Fund. The contributions of the Employers remain unchanged at 18% of pensionable salary in respect of each member.

Following further requests from members in this regard the Trustees are now considering including <u>a further two additional contribution categories</u> being **12.5% (twelve and a half percent) of pensionable salary** and **15% (fifteen percent) of pensionable salary.**

From a cost consideration perspective the Trustees do not want to add additional categories if there are no appetite for it from the side of the members and as such you are kindly requested to express your views / preferences on this matter by contacting the office of the Principal Officer in this regard by sending an e-mail to uniref@nust.na.

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