University of Cape Town Retirement Fund -

PF 12/8/31582

Statutory Actuarial Valuation Report as at 30 June 2018

June 2019

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Section 1: Executive summary

The University of Cape Town Retirement Fund ("the Fund") is a defined contribution provident fund which commenced on 1 January 1995. The Fund is open to new members and offers retiring members an option to take an in-fund living annuity. Exiting members may choose to preserve their benefits in the Fund until or beyond retirement.

This report is prepared for the Trustees of the Fund. The last statutory valuation was performed as at 30 June 2015.

1.1 Financial status

In order to determine the financial status of the Fund it is necessary to compare the total assets of the Fund to the total liabilities of the Fund. The Fund is financially sound when the value of the assets is equal to or in excess of the value of the liabilities plus recommended contingency reserves, i.e. a funding level of 100% or greater. The funding level is the ratio of the value of the assets to the value of the liabilities of the Fund (including contingency reserves). The financial position of the Fund at the valuation date is set out in the table below, together with the financial position of the Fund at the previous valuation dates:

	Previous Statutory Valuation 30 Jun 2015 Per AFS	Interim valuation as at 30 Jun 2016 Per AFS	Interim valuation as at 30 Jun 2017 Per AFS	Current valuation as at 30 Jun 2018 Per AFS	Current valuation as at 30 Jun 2018 Proposed
	R'000	R'000	R'000	R'000	R'000
Total Liabilities and contingency reserves	**3 938 814**	**4 607 511**	**4 924 363**	**5 418 260**	**5 418 260**
Accrued Liabilities	**3 917 035**	**4 583 182**	**4 896 124**	**5 385 586**	**5 384 828**
Members' shares	3 386 954	3 924 346	4 120 636	4 463 961	4 463 961
Pensioner accounts (i)	525 430	656 577	775 063	920 867	920 867
Beneficiaries – term annuity policies(ii)	4 228	1 385	-	-	-
Amounts to be allocated	423	874	425	758	-
Contingency reserves	**21 779**	**24 329**	**28 239**	**32 674**	**33 432**
Processing error reserve	4 719	5 088	5 523	-	-
Surplus apportionment cost reserve	136	147	159	-	-
Data reserve	14 442	15 572	16 905	-	-
Data and Processing error reserve	-	-	-	24 306	24 996
General reserve	2 482	3 522	5 652	8 368	8 436
Assets (Total funds and reserves):	**3 938 814**	**4 607 511**	**4 924 363**	**5 418 260**	**5 418 260**
Market Value	3 938 814	4 607 511	4 924 363	5 418 260	5 418 260
Actuarial surplus	**-**	**-**	**-**	**-**	**-**
Funding level	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Funding level prior to contingency reserves	**100.56%**	**100.55%**	**100.58%**	**100.61%**	**100.62%**

As can be seen from the above, the Fund's financial condition remains sound, with no surplus reflected at the current valuation. The funding level is 100.0%, and the Fund remains financially sound with sufficient assets in the contingency reserves to provide a buffer against a reasonable degree of adverse experience.

If the reserve accounts were excluded, the surplus at the valuation date would be R 33.432 million and the funding level would be 100.62%.

1.2 Future service contributions

The structure of the contribution rates is such that there is limited potential for actuarial surpluses to accumulate in future. The Employer should continue to contribute at the rates specified in the Rules. The contribution allocation effective as at 1 July 2018 is as per the table below, together with the allocation as at the previous statutory valuation (we do not show here the various changes in the allocation during the three-year period). The change in the contribution rate structure from the previous statutory valuation to the current valuation is described in section 3.5, and further comment on the contribution rate structure is provided in section 8.3.

Permanent Staff	As at 01/07/2015	As at 01/07/2018
Retirement savings (as specified in Rules)	16.0000%	16.0000%
Additional retirement savings contribution	4.2000%	4.1640%
Death-in-service (based on 6x annual pensionable salary)	0.9936%	0.9430%
Disability income benefits*	0.5400%	0.6000%
Separate Group Life Assurance Scheme*	0.2590%	0.2400%
Administration fees	0.1690%	0.1610%
Other expenses (e.g. Audit, Actuarial, Consulting, Secretarial)	0.3384%	0.3920%
Total	**22.5000%**	**22.5000%**

* These benefits are provided outside the Fund.

Fixed-Term Contract Staff	As at 01/07/2015	As at 01/07/2018
Retirement savings (as specified in Rules)	16.0000%	16.0000%
Additional retirement savings contribution	3.6400%	3.6390%
Death-in-service (based on 6x annual pensionable salary)	0.7770%	0.7200%
Administration fees	0.1690%	0.1610%
Other expenses (e.g. Audit, Actuarial, Consulting, Secretarial)	0.3260%	0.3920%
Total	**20.9120%**	**20.9120%**

1.3 Membership summary

The change in the membership of the Fund during the valuation period is reflected in the tables below. A full build-up and other details of the membership are provided in Appendix A:

In-service and deferred members	In-service	Phased retirees	Deferred	Total
Number at 30 June 2015	**3 790**	**-**	**136**	**3 926**
Number at 30 June 2016	3 886*	18	164	4 068
Number at 30 June 2017	5 145*	44	221	5 410
Number at 30 June 2018	**5 270***	**53**	**258**	**5 581**

* These figures differ slightly from those reflected in the financial statements for the three years in question (respectively 3 902, 5 162 and 5 275), but correspond with the amounts shown in the working papers provided, and with our membership build-ups.

Pensioners and beneficiaries (living annuitants)	Total
Number at 30 June 2015	**228**
Number at 30 June 2016	255
Number at 30 June 2017	300
Number at 30 June 2018	**330**

1.4 Conclusions

The Fund is in a sound financial position as at 30 June 2018, since the assets are sufficient to cover the member and pensioner liabilities and to provide for the maintenance of the contingency reserves at satisfactory levels to buffer the Fund against adverse experience.

On the assumption that the Trustees agree to maintain the General Reserve account at the level shown in the table in section 1.1 above, there was no apportionable surplus in the Fund as at 30 June 2018.

In respect of the future service contributions, we note that permanent employees were credited with additional retirement-finding contributions (in addition to the minimum of 16.0% provided in the Rules) ranging from 4.16% to 4.48% of salaries over the valuation period, or 3.64% to 3.76% for the smaller number of fixed-term contract staff.

This reflects the fact that the cost of the insured risk benefits and fund expenses continues to be well below the ceiling of 6.5% of pensionable salary for permanent members provided for in the Fund Rules (4.912% for fixed-term contract members).

We are satisfied that the process of setting these additional retirement-funding contribution rates (with actuarial input) is robust. This process should continue in future years – the contribution allocation should be reviewed whenever the insured benefit premium rates change, or when the Fund's budgeted expenses change materially.

We indicate below how the balances for the Data and Processing Error Reserve and General Reserve would need to be adjusted as at 30 June 2018, to bring these into line with the targeted levels. These imply the transfer of a portion of the "Amounts to be Allocated" (as reflected on the 30 June 2018 audited balance sheet) to the General Reserve.

1.5 Recommendations

We recommend that:

- The R 0.758m reflect as "Amounts to be Allocated" as at 30 June 2018 should be transferred to the General Reserve.
- The target balance in the Data and Processing Error Reserve should be maintained at 0.3% of Total Funds and Reserves plus 0.25% of the balances in the two market-linked portfolios (Portfolios C

and D). Setting this reserve at this level, i.e. R24.996m as at 30 June 2018, requires a transfer of R0.690m from the General Reserve.

- The target balance in the General Reserve should be maintained at 6 months of budgeted Fund expenses. After the allocations and transfers above, the balance in the General Reserve should be R8.436m as at 30 June 2018. This is somewhat higher than the targeted level of 6 months' budgeted expenses, but we are comfortable should the Trustees wish to retain the full balance in this account.

- The amount transferred to the General Reserve during 2018, as well as any subsequent transfers of "Amounts to be allocated" to this account, should be invested in the Portfolio A money market portfolio and not held in the bank account (as has been the practice sometimes in the past).

Note that the inter-account transfers recommended above replace those recommended in the 30 June 2017 interim valuation report, as these were not implemented in the 2018 financial statements.

The employer should continue to contribute to the Fund as required by the Rules. The Trustees should continue to budget carefully for Fund expenses and to reconsider the allocation of contributions towards expenses and risk benefit premiums when required.

The Board considered and accepted these recommendations at a meeting on 27 June 2019. The Trustees resolved that a portion of the balance in the General Reserve should be used to subsidise future Fund expenses, with the aim of reducing the balance to closer to the target level.

1.6 Certification

I certify that:

- the value of the assets is sufficient to cover the accrued actuarial liabilities and therefore the Fund is financially sound at the valuation date;

- there was no apportionable surplus in the Fund at the valuation date (unless the Trustees choose to allocate part of the General Reserve balance to members and living annuitants);

- the structure of the benefits and contribution rates is sustainable and consistent with the continued financial soundness of the Fund in future;

- the recommended balances in the contingency reserves are not greater than the provisions that are reasonably required in terms of the contingencies for which they are established, and overall the amounts to be set aside in these reserves are reasonable in the circumstances;

- the investment strategy and the nature of the assets are appropriate to the nature and term of the liabilities of the Fund (which is a Defined Contribution fund);

- the arrangements for the reinsurance of the salary-multiple death benefits are appropriate for the Fund, and it remains appropriate for the Fund to reinsure these benefits;

- the matching of the assets to the liabilities is satisfactory.

In presenting this report I am operating under the professional standards of the Actuarial Society of South Africa, which is the professional body governing my conduct as a retirement fund valuator.

EJ Potgieter

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27 June 2019

Section 2: Introduction

2.1 Background

This report sets out the results of a statutory valuation of the University of Cape Town Retirement Fund ("the Fund") as at 30 June 2018 ("the valuation date").

The last statutory valuation was carried out as at 30 June 2015, and two interim valuations were done as at 30 June 2016 and 30 June 2017 respectively. The current valuation covers the three year period since the last statutory valuation ("the valuation period").

2.2 Registration and operation

The Fund is a defined contribution provident fund which commenced on 1 January 1995. The Fund is open to new members and offers retiring members an option to take an in-fund living annuity. Exiting members may choose to preserve their benefits in the Fund until retirement, and members retiring from employment may also choose to defer their retirement from the Fund.

Over the first two years of the valuation period, the Fund operated in terms of the revised Fund Rules which were effective 1 July 2010 and registered on 25 March 2011, as amended by Amendments 1 – 6 as at the valuation date.

A fully revised set of Rules was adopted with effect from 1 July 2017 and was registered on 26 July 2017. Amendments 1 and 2 were registered in October 2017 and May 2018, with provisions effective from various dates in the 2017-18 financial year. Amendments 3 and 4 were registered after the valuation date, but also with provisions effective from various dates in the 2017-18 year. We have based the valuation and recommendations on the revised set of rules and amendments (all effective during the valuation period). A brief summary of the Fund benefits is set out in Appendix B.

2.3 Capacity, brief and professional standards

This report has been prepared for the Trustees of the Fund in my capacity as the appointed valuator to the Fund and as an associate of Willis Towers Watson. This report has been prepared taking into account the requirements set out in professional guidelines for actuarial reports (Standard of Actuarial Practice 201) issued by the Actuarial Society of South Africa, current as at the date of signature of the report, and Board Notice 149 of 2010 and the Notice on Financial Soundness, 2016, both issued by the Registrar of Pension Funds. The valuator's primary professional regulator is the Actuarial Society of South Africa.

This report has been peer reviewed in terms of Willis Towers Watson's standard internal peer review process. This internal peer review does not constitute a Formal Review as defined in the Explanatory Note on Peer Review issued by the Actuarial Society of South Africa.

The information contained in this report and in all documents referred to in this report is confidential.

2.4 Valuation objectives

The purpose of this valuation is:

- To assess whether the Fund’s assets are at least equal to the member and pensioner liabilities as defined in the rules, and if possible are also sufficient to cover the targeted level of contingency reserves;

- To review the level of contingency reserves required by the Fund;

- To review the employer contribution rates to ensure that these are sufficient to finance the benefits and costs/expenses as provided for in the Fund rules.

This report has been prepared for the sole and exclusive use of the Trustees of the Fund and on the basis agreed with the Trustees. It may be submitted to the relevant stakeholders of the Fund, after approval by the Trustees.

This report was not prepared for use by any party other than the Trustees, and may not address the needs, concerns or objectives of any such other party. As such, this report should not be disclosed to any third party other than in accordance with the terms of our services agreement with the Fund or with our specific written consent.

Unless otherwise specifically agreed in writing, Willis Towers Watson assumes no responsibility, duty of care or liability to any third party who may gain access to a copy of this report, and any such reliance that they place on it is entirely at their own risk on the basis that they acknowledge the full report and accept that they may not rely on it for any purpose other than its intended purpose.

Section 3: Experience during the valuation period

The main financially significant events that have influenced the course of the Fund over the three year period since the previous statutory valuation at 30 June 2015 can be summarised as follows:

3.1 Legislative changes

PF notice no.2 of 2016 (Notice on Financial Soundness, 2016)

This notice became effective for valuations with a valuation date after 8 July 2016.

The notice focuses on placing limits on certain assumptions used in the determination of Defined Benefit liabilities, as well as specifying the required funding level as well as levels at which surplus is considered to exist and at which a fund is considered not to be financially sound. The few points relevant to a Defined Contribution fund are summarised here:

- Funding level = (Assets – Employer Surplus Account – Member Surplus Account) / (Liabilities + Contingency Reserves)
- Assets should be valued at fair value (though provision is made for cases where this is not practicable).
- All benefits must be reflected in the calculation of the liabilities - i.e. risk benefits (where these are not fully insured), contingent liabilities, unclaimed benefits, etc.
- Contingency reserve account balances must be motivated by the valuator and reflect any margins of conservatism. It is not a requirement to fund the contingency reserve accounts in full, though it is desirable to do so. For a Defined Contribution fund, the funding level must be reflected both pre and post contingency reserves, but only the excess of the assets over the liabilities plus fully funded contingency reserves is considered to be actuarial surplus.
- The funding basis (including any contingency reserves) is used to determine whether the Fund is financially sound. The valuator must certify the financial condition of the fund in the statutory actuarial valuation. The funding level must equal or exceed 100% for the fund to the financially sound, failing which the Board must take steps to bring the fund into a financially sound condition and a scheme of arrangement must be submitted to the Registrar.
- In the case of a deficit, the valuator must state the measures taken or recommended to eliminate such a deficit and the expected time period until the deficit is eliminated, with consent of the board and / or employer. The note also specifies details applying to the scheme of arrangement.

Default Regulations

The final Default Regulations (regulations issued in terms of Section 36 of the Pension Funds Act) were published on 25 August 2017. All funds will be required to comply with these regulations by no later than 1 March 2019. Though they do not affect the financial position of the Fund or have any impact on the valuation results, and though the date of publication is after the valuation date, a brief summary is provided below for completeness.

These regulations essentially provide for four components which are now compulsory for all Defined Contribution funds (and some others), namely:

- Retirement benefits counselling must be provided to all members prior to their leaving the Fund.

- Default investment strategy – Each Fund must have a default investment strategy for members who do not exercise an investment choice. Members must be free to opt out of this default investment strategy (if investment choice is provided). Various guidelines and requirements are prescribed.

- Default preservation – If a member does not choose what to do with his / her benefit on termination of employment, the benefit is automatically preserved in the Fund. Funds must also issue paid-up certificates to exiting members, and request paid-up certificates from new entrants to enable consolidation of savings. Certain conditions are prescribed.

- Annuity strategy – Every Fund must have an annuity strategy for retiring members. Members are not defaulted into this annuity strategy, but may rather choose it on an "opt in" basis. Again, various guidelines and requirements are prescribed.

The regulations require a review of communication material, some new administrative processes and some rule changes. The relevant rule changes were included in Rule Amendment 4 and had an effective date of 1 September 2018.

Regulator - name change

In line with the "Twin Peaks" regulation model, the Financial Services Board (FSB) is now the Financial Sector Conduct Authority (FSCA) with effect from April 2018. The Authority was established in terms of the new Financial Sector Regulation Act, no.9 of 2017.

3.2 Rule amendments

Revised Fund Rules were adopted by the Trustees in December 2010 with effect from 1 July 2010. The new Rules were approved by the Registrar of Pension Funds on 25 March 2011. Amendments 1-4 were registered by the FSB prior to 30 June 2015 and were summarised in the statutory valuation report as at 30 June 2015. Amendment 5-6 were registered by the FSB prior to 30 June 2017 and were summarised in the interim valuation report as at 30 June 2017. We do not consider it necessary to deal with these amendments in detail, in this report.

The Rules were further consolidated and revised with an effective date of 1 July 2017, and were registered by the FSCA on 26 July 2017. The effect of this revision was:

- To consolidate all rule amendments to date;

- To simplify the Rules by doing away with unnecessary and outdated provisions and removing the Appendices;

- To clarify that separate records will be kept in respect of deferred members who are re-employed;

- To clarify the eligibility conditions for membership;

- To simplify and clarify the contribution structure, and allow for additional voluntary contributions;

- To clarify and correct the options available at retirement and withdrawal;

- To remove reference to the Surplus Apportionment Cost Reserve Account and allow for the balance in this account to be transferred to the General Reserve Account, and to remove reference to the Transitional Retirement Reserve Account;

- To remove reference to the Risk Benefit Reserve Account and the Former Member Reserve Account;

- To combine the Data Reserve and the Processing Error Reserve into a new Data and Processing Error Reserve;
- To remove definitions and references to Portfolios A, B, C, D, E and F, update the Rules with respect to the Default Investment Model, and remove the limit on the frequency of switching;
- To clarify the decision-making process of the Board, as well as to introduce some governance procedures.

Amendment 1 was registered on 1 October 2017. This amendment:

With effect from 1 July 2017:

- Allows the Fund to pay a portion of the Living Annuity Balance of a deceased living annuitant as a lump sum benefit, while using the remainder to continue to pay a living annuity to the dependant(s) or nominee(s);

With effect from 1 October 2017:

- Clarifies the investment default for a member who joins the Fund after attaining 60 years;
- Clarifies how to deal with any actuarial deficits in the Fund;
- Clarifies when amounts may be debited from the Data and Processing Error Reserve Account.

Amendment 2 was registered on 7 May 2018. This amendment:

With effect from 1 July 2017:

- Aligns the eligibility conditions for membership of the Fund with the practices of the Employer's Human Resources department;

With effect from 1 February 2018:

- Changes the registered address of the Fund;
- Clarifies the operation of the default investment portfolio for those close to or over the age of 60, to align this with actual Fund practice.

Amendment 3 was registered on 3 August 2018. This amendment:

With effect from 1 July 2018:

- Gives members an option to choose a standard, unapproved funeral benefit (i.e. a benefit provided outside the Fund). There is a further option of an extended funeral benefit which the Member may select on top of the standard funeral benefit. The premium for the standard funeral benefit is to be included in the normal Employer contributions to the Fund and for associated insured benefits, while the premium for the extended funeral benefit is to be paid in addition to the normal Employer contributions. The Fund acts as a conduit for the payment of these premiums.

  Our understanding is that the standard funeral cover arrangement was implemented with effect from 1 March 2019 (with only a small number of member opting out of this cover), and that the extended cover option will be put in place from 1 July 2019.

- Provides for the Fund to act as the conduit for premiums for member-elected additional death and disability benefits. (The premiums for the standard unapproved death-in-service and lump sum disability benefits, compulsory for all members, are included in the normal Employer contributions to the Fund and for associated insured benefits, while premiums for the flexible death-in-service and lump sum disability benefit, if selected by an individual member, are paid in addition to the normal Employer contributions. Previously the Employer paid the latter premiums directly to the insurer. The Fund will henceforth act as the conduit for all these premiums.)

Amendment 4 was registered on 1 October 2018. This amendment:

With effect from 1 July 2017:

- Rectifies minor errors in the drafting of the revised Rules;

With effect from 1 March 2018:

- Aligns the Rules with the Taxation Laws Amendment Act, Act 17, by removing the 12-month limitation period for membership, to allow employees who originally opted not join the Fund the opportunity to join at a later date;

- Aligns the Rules with a recent amendment to the Income Tax Act in terms of which a member who passes Normal Retirement Age may transfer his/her benefits to a retirement annuity fund, where no such transfer was previously possible;

With effect from 1 April 2018:

- Aligns the Rules with the recently promulgated Financial Sector Regulations Act, by replacing references to the "Registrar" with references to the "Authority";

With effect from 1 September 2018:

- Aligns the Rules with the requirements of Regulation 38 and 39 made under the Pension Funds Act, as follows:

    - By providing for retirement benefits consulting to be provided at retirement and on termination of service;

    - By clarifying that no costs for insured risk benefits may be deducted from the Individual Member Account of a member who is no longer in service with the employer, and that no further contributions will be made on behalf of a member whose withdrawal benefit has been made paid-up in the Fund;

    - By confirming that any amounts transferred to the Fund will constitute defined contribution benefits;

- Clarifies that the Pensionable Salary of a member who receives a partial disability benefit must be reduced by the same percentage that the member's disability income benefit has been reduced by, and, if such a member receives an additional salary from the Employer, his/her Pensionable Salary for this purpose should include the portion of such additional salary deemed pensionable;

- Clarifies the process to be followed if the Board becomes deadlocked on a specific matter;

- Clarifies when a benefit becomes due and payable for purposes of the definition of "unclaimed benefit" in the Pension Funds Act, by improving the wording of the "Benefits not claimed" Rule.

3.3 Net investment returns

Since the previous statutory valuation, the net rates of return earned on the investment portfolios were as follows (after deducting asset management fees). For comparison, inflation as measured by the change in the headline Consumer Price Index is also shown:

Period	Portfolio A Income Fund	Portfolio B Smoothed-Bonus Fund	Portfolio C Balanced Fund	Portfolio D Shari'ah Fund	CPI inflation
1 July 2015 – 30 June 2016	7.8%	10.7%	15.4%	8.3%	6.3%
1 July 2016 – 30 June 2017	8.6%	6.2%	4.3%	-0.5%	5.1%
1 July 2017 – 30 June 2018	8.5%	6.9%	8.9%	6.9%	4.6%
3 years ending 30 June 2018	8.3% p.a.	7.9% p.a.	9.4% p.a.	4.8% p.a.	5.3% p.a.

3.4 Employer contribution rates

The Rules set out the required Employer contribution rates to the Fund and related schemes (i.e. the disability income benefit and the separate Group Life Assurance arrangement). The required rates differ for Permanent Staff (22.5% of salary bill) and Fixed Term Contract members (20.912% of salary bill). The tables below indicate how the employer contribution rates were allocated as at the dates shown:

Permanent Staff	As at 01/07/2015	From 01/07/2018
Retirement savings (as specified in Rules)	16.0000%	16.0000%
Additional retirement savings contribution	4.2000%	4.1640%
Death-in-service (based on 6x annual pensionable salary)	0.9936%	0.9430%
Disability income benefits*	0.5400%	0.6000%
Separate Group Life Assurance Scheme*	0.2590%	0.2400%
Administration fee	0.1690%	0.1610%
Other expenses (e.g. Audit, Actuarial, Consulting, Secretarial)	0.3384%	0.3920%
Total	**22.5000%**	**22.5000%**

* These benefits are provided outside the Fund.

Fixed-Term Contract Staff	As at 01/07/2015	From 01/07/2018
Retirement savings (as specified in Rules)	16.0000%	16.0000%
Additional retirement savings contribution	3.6400%	3.6390%
Death-in-service (based on 6x annual pensionable salary)	0.7770%	0.7200%
Administration fee	0.1690%	0.1610%
Other expenses (e.g. Audit, Actuarial, Consulting, Secretarial)	0.3260%	0.3920%
Total	**20.9120%**	**20.9120%**

(There were minor changes to the contribution allocation during the valuation period – we do not consider it necessary to set these out here. The out-of-Fund disability income benefit premium increased to 0.6980% with effect from 1 November 2018, with a consequent reduction in the retirement-funding contributions for permanent staff, and with effect from 1 March 2019, members who choose the standard funeral cover will each have an amount of R19.75 per month deducted from their retirement-funding contributions to fund the premiums for this additional out-of-Fund benefit.)

Over the valuation period, the effect of the higher allocation for Fund expenses was offset by a reduction in the costs of administration services and the insured risk benefits.

3.5 Distribution of surplus

3.5.1 2001 surplus

- As at the 30 June 2015 statutory valuation, an amount of R1.249m was included in the unclaimed benefits in respect of the 2001 statutory surplus apportionment, payable to 189 former members.
- From the working papers provided as at 30 June 2018, an amount of R1.183m was included in the unclaimed benefits in respect of the 2001 statutory surplus apportionment, payable to 173 former members, after allowing for payments made and returns added during the valuation period.

3.5.2 2010 surplus

- As at the 30 June 2015 statutory valuation, an amount of R0.076m was included in the unclaimed benefits in respect of the 2010 surplus enhancements due to 31 former members.
- From the working papers provided as at 30 June 2018, an amount of R0.047m was included in the unclaimed benefits in respect of the 2010 statutory surplus apportionment, payable to 17 former members, after allowing for payments made and interest during the valuation period.

3.5.3 2012 surplus

- An allocation to members amounting to R4.506m plus net Portfolio A returns was made in September 2013. (Though this was finalised prior to the valuation period, we have included this for completeness.)

3.6 Previous recommendations

The Trustees accepted all the recommendations made in the statutory valuation report of 30 June 2015 (at the Board meeting on 20 June 2016); as well as the subsequent interim valuation reports of 30 June 2016 (at the Board meeting on 14 September 2017) and 30 June 2017 (at the Board meeting on 13 September 2018).

3.7 Financially significant post-valuation events

Other than the increase in the disability income benefit premium rate and the introduction of funeral benefits, both discussed above, we are not aware of any financially significant post-valuation events (up to the date of signing this report).

Section 4: Financial structure of the Fund

The Fund Rules (as revised with effect from 1 July 2017) provide for the following accounts to be established and maintained. (For a detailed description of the structure of each account, reference must be made to the Rules).

The Former Member Reserve Account and Risk Benefit Reserve Account were removed from the Rules, and the Data Reserve Account and Processing Error Reserve Account were combined into a single Data and Processing Error Reserve Account, both with effect from 1 July 2017. The Surplus Apportionment Cost Reserve Account was closed with effect from 1 July 2017 and the balance in this account was transferred to the General Reserve Account.

4.1 Individual Member Accounts

These replace the previous Accumulation Account and are the accounts held for all members and deferred pensioners in the Fund (also referred to in the Rules as the Member Shares) – these essentially comprise the retirement-funding and voluntary contributions made by and in respect of each member, amounts transferred in from other approved retirement funds for the member, any ad hoc allocations from the Employer or Member Surplus Accounts (i.e. apportionments of surplus), interest in respect of the late payment or allocation of contributions, and the net investment returns thereon, minus any charges in respect of investment switches or housing loan guarantees, benefits paid out or transferred in respect of the member (including transfers to the Living Annuity Balance Account), any deductions in terms of Section 37D of the Pension Funds Act, expense and administration costs in respect of deferred pensioners, phased retirees and paid-up members, and any portion allocated to cover fund costs. The combined account therefore represents the members' and deferred pensioners' interests in the Fund, in terms of the Rules.

4.2 Living Annuity Balance Accounts

These are the accounts held for all pensioners in the Fund – these essentially comprise transfers from the Individual Member Accounts when members retire and choose to take a living annuity pension from the Fund, any ad hoc allocations from the Member or Employer Surplus Accounts (i.e. apportionments of surplus), and investment returns thereon, minus pension instalments paid and administration and Fund charges as determined by the Trustees. The combined account therefore represents the living annuitants' interests in the Fund, in terms of the Rules.

4.3 Data and Processing Error Reserve Account

This account combined the balances in the Data Reserve Account and in the Processing Error Reserve Accounts as at 1 July 2017. The account is credited with any profits to the Fund arising from data errors and processing errors (i.e. timing profits), transfers from the Employer Surplus Account and transfers from the General Reserve Account, and investment returns. It is debited with losses to the Fund arising as a result of errors in the fund data or processing errors (timing losses) which in the opinion of the Board cannot be recovered from any outside party, enhancements to the Member Shares or Living Annuity balances, and transfers to the Member Share Account or Employer Surplus Account or General Reserve Account.

The build-up of and recommendations relating to this account are discussed in section 7.1.

4.4 Employer Surplus Account

This account would be credited with any surplus apportioned to the employer, additional contributions by the employer specifically for the purposes of the employer surplus account and investment returns thereon. Any balance held would be applied at the request of the employer for any purpose specified in terms of Section 15E of the Pension Funds Act. This account is not in use at the valuation date.

4.5 Member Surplus Account

This account would be credited with any surplus allocated to members and investment returns, and debited with transfers to the Individual Member Account and Living Annuity Balance Account, amounts to improve benefits previously paid to former members, and amounts to meet in part or in full Fund expenses which would otherwise reduce the retirement-funding contributions in respect of members. This account is not in use at the valuation date.

4.6 General Reserve Account

This account is established to provide for contingencies not covered by the Data and Processing Error reserve account – specifically, expense over-runs - and comprises a record of monies of the Fund not allocated to the other accounts. The build-up of and recommendations relating to this account are discussed in section 7.4.

This account is credited with the portion of contributions allocated to cover administration, auditing fees and consultancy services to the Fund and other fees and expenses approved by the Trustees, switching costs charged to members, and also with investment returns, interest earned on cash in the bank account other than that attributable to members and pensioners, transfers from other reserve accounts, amounts deducted from the Individual Member Account and Living Annuity Balance Account.

It is debited with expenses related to the management and administration of the Fund, including but not limited to administration and consultancy fees, trustee insurance, Fund office fees, legal expenses and the cost of audits and actuarial investigations borne by the Fund, any transfers to the Data and Processing Error Reserve Account and also with amounts representing surplus transferred to the Member Surplus Account or Employer Surplus Account, as agreed by the Trustees.

Section 5: Fund assets and investment strategy

5.1 Investment Strategy

The Investment Policy Statement (IPS) was last reviewed in June 2018 and adopted in August 2018. The IPS is reviewed annually.

For in-service members who wish to exercise investment choice and for the living annuitants, there are four portfolios available to members - the Income Fund (a money market portfolio), the Smoothed Bonus Fund (an insurer's smoothed-bonus portfolio), the market-linked Balanced Fund, and the Shari'ah Fund (i.e. a balanced market-linked portfolio complying with the requirements of Islamic Shari'ah law). The investment portfolios are known as Portfolio A, B, C and D respectively and offer members different levels of investment risk/reward. These portfolios are also available to pensioner members receiving living annuities from the Fund, as well as to deferred members.

The Fund operates a Life Stage default investment strategy for those in-service members who do not wish to make their own investment choices, or who choose this channel. The objective of the Life Stage strategy is to give members significant exposure to the equity risk premium for most of their working careers, and then to reduce their consequent exposure to market risk as they approach retirement age. The Life Stage strategy provides for members to be invested initially in the Balanced Fund and then to be transitioned in five steps between the ages of 60 to 64 from the Balanced Fund to a combination of 50% in the Income Fund and 50% in the Smoothed Bonus Fund. There is a separate investment contract (life policy) in respect of Life Stage investments in the Smoothed Bonus Fund.

The Fund's reserve accounts and claims awaiting payment are invested in the Income Fund.

The members' shares are updated at the end of each day with the investment return earned for the previous day on the underlying portfolio(s).

5.2 Suitability of investment strategy in relation to Fund liabilities

The valuator is required to comment on the nature of the assets and the suitability of the Fund's investment strategy relative to the liabilities. This is in addition to the fundamental requirement that the Trustees are responsible for the investment of the assets, and they need to ensure that the investment strategy remains appropriate in relation to the Fund's liabilities.

We consider that the current investment strategy of the Fund and the nature of the assets held by the Fund remain broadly appropriate as at the valuation date in relation to the liability profile. (This is not intended to be a detailed analysis of the investment strategy, or to suggest that this is the best possible strategy for the Fund. We merely confirm that in our view the strategy is broadly suitable for the Fund given the nature of its liabilities. It should be noted that the valuator is also the investment consultant to the Fund.)

5.3 Actuarial value of assets

The assets have been valued at market value for the purpose of this actuarial valuation, adjusted as shown in section 5.4 in respect of the net current assets. All the figures shown below are as reflected in the Fund's audited financial statements.

The Fund does not grant housing loans to members, but allows members to pledge up to 70% of their net withdrawal benefits as security for loans for housing from approved financial institutions. At the valuation date the total outstanding amount against which pledges had been given by the Fund was R6.952m in respect of 62 members. This has no effect on the actuarial value of the Fund's assets, as the outstanding pledges are covered by the relevant members' withdrawal benefits. To our knowledge the Fund's assets have not otherwise been hypothecated or encumbered.

5.4 Market values

The change in the market value of the assets since the previous statutory valuation at 30 June 2015 is summarized below. A revenue statement showing the change in the Fund's assets is shown in Appendix C. A summary of the movement in the various reserve accounts is shown in Appendix D.

The figures below are consistent with the audited accounts of the Fund at the valuation date. Assets have been valued at market or fair value for the purpose of the actuarial valuation (numbers may not add up exactly, owing to rounding).

Portfolio and Asset Class	Investment Manager	30.06.2015 (R'000)	30.06.2016 (R'000)	30.06.2017 (R'000)	30.06.2018 (R'000)
Portfolio A (Income Fund) **(i)**	Prescient Investment Mgt	**236 308**	**287 552**	**320 962**	**348 755**
Portfolio B (Smoothed Bonus)	Momentum Multi-Manager Smooth Growth Fund (Global)	**1 178 506**	**1 404 237**	**1 470 230**	**1 565 912**
Portfolio C (Balanced) (ii)					
SA Equities	Investec Asset Mgt	341 760	447 129	345 610	3
	Allan Gray Ltd	676 773	783 048	719 935	576 512
	ABAX Ltd	239 110	263 368	270 719	554 015
	Visio	-	-	193 222	532 171
SA Listed Property	Catalyst Fund Managers	106 093	121 723	127 028	118 146
SA Bonds	Prescient Investment Mgt	471 224	494 390	610 446	695 642
International	Orbis (via Allan Gray)	503 115	563 279	393 810	453 859
	Brandywine (via Stanlib)	129 337	162 590	-	-
	Sygnia Balanced Fund	**-**	**-**	387 884	448 074
	Total Portfolio C	**2 467 412**	**2 835 527**	**3 048 652**	**3 378 421**
Portfolio D (Shari'ah)	27four Shari'ah Balanced Fund (iii)	**74 843**	**94 736**	**103 777**	**117 870**
Money-market investments held against unclaimed benefits		**3 882**	**5 379**	**6 938**	**1 446**
Sanlam annuities		**4 228**	**1 385**	**-**	**-**
Total Investments		**3 965 179**	**4 628 816**	**4 950 559**	**5 412 404**
Net current assets and unclaimed benefits(iv)		(26 365)	(21 305)	(26 196)	5 856
Total Funds and reserves		**3 938 814**	**4 607 511**	**4 924 363**	**5 418 260**

(i) To the amount shown above for Portfolio A as at 30 June 2018 must be added R1.446 million covering unclaimed benefits (see note 3 in the 2018 financial statements), and R22.826m as reflected in note 4 to the financial statements, which we understand to be backing pending benefits. This gives a total of R373.027m as reflected in the manager's own statement for June 2018 and in the consolidated investment report for that month.

(ii) The market-linked portfolio (Balanced Fund) had an asset allocation at 30 June 2018 of 49% domestic equities (including cash held in the equity portfolios, or 47% if this cash is excluded), 4% domestic listed property, 21% domestic cash and bonds, 13% in global balanced investments and 13% global equities.

(iii) The Shari'ah Balanced Fund had an asset allocation at 30 June 2018 of 48% domestic equity, 27% Murabahah contracts, 3% non-interest-bearing cash, 3% in other domestic income-producing assets, 1% African investments, 2% Platinum ETF, 3% Gold ETF, 2% global sukuks, 1% in global property and 10% in global equities. Murabahah contracts and sukuks are Islamic debt instruments.

(iv) Net current assets as at 30 June 2018 are calculated as current assets (cash at bank, plus money-market investments available to cover current liabilities) of R32.728m, minus current and non-current liabilities of R25.410m and R1.446m (in respect of unclaimed benefits) respectively, rounded.

5.4.1 Note on Momentum Multi-Manager Smooth Growth Fund:

The Momentum Multi-manager Smooth Growth (Global) Fund holdings include non-vested bonuses of R221.1m (14.1% of the total investment value – the equivalent figure as at the previous statutory valuation date was 15.0%). In adverse market conditions the Insurer has the right to withdraw these non-vested bonuses in part or in full, or to reduce the balance in members' non-vested accounts on member switches or policy termination, subject to the insurer applying such action equitably to other investors in the Smooth Growth Fund. The proportion of non-vested bonuses differs from member to member invested in the portfolio, depending on the pattern of cash flows invested in the portfolio in respect of the member concerned.

Furthermore, the value of the Smooth Growth policy is stated in the above table on the premise that the Fund continues with this investment. At times when the insurer has declared more in bonuses than it has earned on the underlying assets, a "market value adjustment" (reduction) would apply on early termination.

If a member chooses to switch out of the portfolio in defined circumstances (usually before the member has completed 5 years as an investor in the portfolio), a "market value adjustment" (reduction) may also apply to the member's own investment in the portfolio when switching, if the member's account in the Smooth Growth Fund is under-funded. The extent of any such adjustment will again depend on the pattern of cash flows invested in the portfolio in respect of the member concerned.

The above circumstances do not result in increased risk of a deficit in the Fund, as in terms of the Rules such value reductions would be passed on to the members. Of course these contractual provisions represent risk for the members (and are explained to members in the Fund's communication material).

With effect from 1 April 2015, the Fund also entered into a new contract (life policy) with MMI Group Ltd in respect of investments made into the Smooth Growth Fund under the Fund's Life Stage investment model. Such investments are made on a different basis to those made by members at their own choice. Life Stage investments are made in terms of a "fund level" insurance policy which does not record individual members' investments, whereas own choice investments are made in terms of a "member level" insurance policy which does record individual members' investments. Although the terms and conditions (for instance those regarding member switching) are slightly different between the two policies, the broad principles and issues are the same.

5.5 Asset / Liability Matching at portfolio level

The Administrator carries out a monthly reconciliation to check that the members' shares and living annuitants' balances in each portfolio correspond to the amount invested in each underlying portfolio, and reports on this to the Trustees.

The table below compares the invested assets in each portfolio with the corresponding total members' and pensioners' shares and reserves at the valuation date, and reflects the asset/liability match supplied by the administrator after the financial statements were audited. The objective is to assess the extent of any mismatches at the valuation date that could result in deficits or surpluses arising after the valuation date.

	Portfolio A	Portfolio B	Portfolio C	Portfolio D	Bank	Combined
	R'000	R'000	R'000	R'000	R'000	R'000
30 June 2018 Liabilities (as advised by the administrator)						
Active & deferred members	261 496	1 078 405	3 011 631	112 714	-	4 464 246*
Living annuitants	68 770	486 427	362 012	3 658	-	920 867
Reserves	32 248	-	-	-	1 479	33 727*
Unclaimed benefits	1 446	-	-	-	16	1 462
Benefits payable	9 206	6 871	1 982	891	5 407	24 357*
Amts to be allocated	(27)	-	-	(5)	790	758
Total	**373 139**	**1 571 703**	**3 375 625**	**117 258**	**7 692**	**5 445 417**
Investments (as reflected in June 2018 investment report)						
Total	**373 027**	**1 565 912**	**3 378 421**	**117 870**	**7 691**	**5 445 132**
Differences						
Difference	**(112)**	**(5 791)**	**2 796**	**612**	**(1)**	**(285)**
Difference %	**(0.0%)**	**(0.4%)**	**0.1%**	**0.5%**	**0.0%**	**0.0%**

*There are small differences between the totals shown here and the equivalent figures in the audited financial statements. It appears that these are due to differing treatment of "Accounts payable" and also in the classification of certain members as "active" or exited. The effect on the above reconciliation is negligible.

We are advised that these differences essentially represent timing differences between the asset managers and the administrator.

Section 6: Valuation data and methodology

6.1 Membership data

In compiling this report, we have relied upon the accuracy and completeness of information made available to us. Except where expressly stated in the report, we have not independently verified the accuracy of such information.

We understand that the Fund's auditor performs extensive checks on the data and as such we have largely relied on the information supplied in the audited annual financial statements. However, in order to ensure the accuracy of the valuation data, we have performed certain checks of our own for reasonableness and consistency compared with the data provided to us for the previous valuation.

Specifically we have performed the following checks on the membership data provided:

- We have reconciled the membership from the previous to the current valuation to ensure that all members who were present at the previous valuation are either accounted for in the benefits raised during the period, or are reflected in the current membership data;
- Though we have not checked the accuracy of the benefits which have been paid out, we have performed broad reasonability checks on the amount of benefits raised relative to the balances of the members' shares at the previous valuation, or amounts transferred to the Living Annuity account;
- We have compared the previous valuation members' shares to the current valuation members' shares – where this has decreased, we have checked that the corresponding amount was expensed as a benefit in the financial statements;
- We have checked for duplicates in the data.

We have not checked the following:

- Correct allocation of contributions, i.e. that either the correct contributions were made or that these were allocated correctly to the various Fund accounts;
- Accuracy of benefits raised.

We have also not verified anything in the financial statements from independent sources, other than the investment totals.

In addition to the membership reconciliation, broad checks were performed on the build-up of the members' shares / living annuity account balances over the valuation period. We would normally expect some minor differences between our estimates of the accumulation and the amounts maintained on the administrators' records. These differences could arise from any or all of the following factors:

- Timing of investment of monthly contributions (or disinvestment of monthly pension draw-down amounts);
- Use of monthly net investment returns in our calculations versus the daily unit prices used by the administration system;

- Other technical differences between the administration system and the actuarial valuation system; and / or
- Differences between the administration data and the details extracted from the administration system for the purpose of the actuarial valuation.

In performing an actuarial valuation, the actuary only needs to be satisfied that the data is materially correct so that the Trustees can reasonably rely on the valuation results for decision-making. We are satisfied on this standard of materiality that the data supplied may be used for the purposes of the valuation.

We have not identified any significant discrepancies in the member data at 30 June 2018. The membership data used for the valuation is summarised in Appendix A.

6.2 Financial data

We were supplied with audited accounts for the three years ended 30 June 2016, 2017 and 2018. The valuation results depend in large part on the accuracy of these financial statements. At the date of this report we had no reason to believe that the financial statements were materially incorrect. A revenue statement showing the change in the Fund's assets is shown in Appendix C, and a summary of the movement in the various reserve accounts is shown in Appendix D.

6.3 Valuation method - assets

The investment in the Momentum Multi-Manager Smooth Growth Fund has been taken at face value, including declared vested and non-vested bonuses. The remaining assets have been taken into account at full market value, as the members are credited with the full investment return (net of investment management fees) earned on the underlying assets.

6.4 Valuation method - liabilities

The member liabilities are taken as the total of the account balances of all members (including living annuitant pensioners) as at 30 June 2018. We have made no adjustments to the 30 June 2018 member values reflected in the 2018 financial statements.

The data and processing error reserve and general reserve have been established in accordance with the principles set out in the FSB's Circular PF117, as set out in section 7.

Section 7: Contingency reserves

Regulation 35 of the Act provides for the Trustees to set up such contingency reserves as they deem prudent based on the advice of the actuary. The establishment and amount of any contingency reserve must be soundly motivated based on an objective assessment of the specific risks. To the extent that the assets of the Fund are insufficient to cover the ideal level of contingency reserves, the valuation result will understate the risk of possible future deficits.

In deciding on appropriate contingency reserves, the Trustees should be aware of:

- the competing interests of different groups of members; and
- the inter-dependence of the risks involved and the possibility of double-counting.

7.1 Data and Processing Error Reserve Account

The previous **Data Reserve Account** made provision for amounts that may become payable as a result of data errors, in circumstances where it is not possible to make recovery from the party responsible for the error (or from the Fund's insurers). After the 30 June 2015 statutory valuation, The Trustees agreed with the recommendation that this should be set at 0.3% of the value of "Total Funds and reserves" i.e. R11.816m as at 30 June 2015. This re-balancing was actioned on 13 October 2017.

The previous **Processing Error Reserve Account** made provision for mismatching and for timing differences between the actual date of investment or disinvestment of moneys and the dates when investment or disinvestment is deemed to have occurred for the calculation of benefits or the accrual of investment returns. After the 30 June 2015 statutory valuation, the Trustees agreed with the recommendation that this should be set at 0.25% of the value of market-linked assets, i.e. Portfolio C and D, the two portfolios for which it is most likely that this reserve would be needed (if it is ever needed), i.e. R6.355m as at 30 June 2015. This re-balancing was also actioned on 13 October 2017.

The revised Rules effective 1 July 2017 combined these two reserve accounts into the **Data and Processing Error Reserve Account**, whose opening balance as at 1 July 2017 should be the closing balance as at 30 June 2017 of each of the individual accounts.

If this reserve were to be adjusted to the targeted level of 0.3% of Total Funds and Reserves plus 0.25% of the market value of assets of Portfolios C and D this would imply a balance of **R24.996m** as at 30 June 2018 - this would require a reallocation of R0.690m from the General Reserve to the Data and Processing Error Reserve as at 30 June 2018.

The build-up of the two individual accounts and the combined reserve since the previous statutory valuation is shown in the table below:

Build-up of the Data and Processing Error Reserve Account (R'000)	Data Reserve	Processing Error Reserve	Data and Processing Error Reserve
Opening Balance 30.6.2015 (as per financial statements)	**14 442**	**4 719**	
Investment return allocated (net Portfolio A return)	1 130	369	
Balance 30.6.2016	**15 572**	**5 088**	
Investment return allocated (net Portfolio A return)	1 333	435	
Balance 30.6.2017	**16 905**	**5 523**	
Investment return allocated (net Portfolio A return)	408	1 470	
Closing balance	**17 313**	**6 993**	
Consolidation of reserve accounts 30.6.2018	**0**	**0**	**24 306**
Proposed transfer from the General Reserve			**690**
Balance after proposed transfers			**24 996**

7.2 Surplus Apportionment Cost Reserve

The Trustees established a reserve as at 31 December 2001 for the costs of the surplus apportionment exercise. Once this account was depleted, any further surplus-related expenses would be funded from the General Reserve. The amount of R0.159m reflected in the financial statements as at 30 June 2017 represented the balance of R0.136m as at 30 June 2015 accumulated with net Portfolio A investment returns over the past 2 years. No expenses related to surplus apportionment payments were paid from this reserve account during the valuation period. The revised Rules effective 1 July 2017 close this account and transfer the balance remaining as at 30 June 2017 to the General Reserve Account. This means there should be no balance in the account as at 30 June 2018.

The build-up of this reserve since the previous statutory valuation is shown in the table following:

Build-up of the Surplus Apportionment Cost Reserve for the period ended	30.06.2016 R'000	30.06.2017 R'000	30.06.2018 R'000
Opening Balance (as per financial statements)	**136**	**147**	**159**
Investment return allocated (net Portfolio A return)	11	12	4*
Closing Balance prior to transfer	**147**	**159**	**163**
Transfer to the General Reserve			(163)
Closing Balance			**0**

* This is a three month investment return, as funds were transferred during October 2017.

7.3 General Reserve

The table below sets out the build-up of the General Reserve as summarized in the financial statements since the previous statutory valuation:

Build-up of the General Reserve for the period ended	30.06.2016 R'000	30.06.2017 R'000	30.06.2018 R'000
Opening Balance (as per financial statements)	**2 482**	**3 522**	**5 652**
Net contributions allocated to the General Reserve (towards fund expenses)	7 400	8 504	9 341
Transfers from members' share accounts	-	898	1 109
Transfer from Surplus Apportionment Cost Reserve	-	-	163
Expenses paid out of the General Reserve	(6 677)	(7 707)	(8 498)
Investment return allocated (net Portfolio A return)	317	435	601
Closing Balance before transfer	**3 522**	**5 652**	**8 368**
Transfer from the Surplus Apportionment Cost Reserve			-
Closing Balance after transfer			**8 368**
Proposed transfer of "Amounts to be Allocated" (i)			758
Proposed transfer to the Data and Processing Error Reserve(ii)			(690)
Closing Balance after possible adjustments			**8 436**

Totals may not balance exactly, owing to rounding.

Notes:

(i) Unallocated bank interest makes up most of the balance in the "Amounts to be Allocated" of R0.758m as at 30 June 2018. As per the Trustee resolution of 20 June 2014, all unallocated bank interest must be allocated to the General Reserve Account.

(ii) As discussed in 7.1 above.

The proposed allocation to the Data Reserve and Processing Error Reserve, together with the transfer of the Amounts to be allocated to the General Reserve, will result in a General Reserve balance of **R8.436m** as at 30 June 2018. This would be enough to cover just under 10 months of budgeted expenses (based on the expense budget of R10.2m, including Sanlam's administration fees, for the 2019 year). Though this is higher than the targeted 6 month reserve, the difference between the actual and targeted reserve balances is small enough to be ignored, and we propose that the balance in this account be retained.

(Alternatively, the Trustees may choose to allocate some R3.3 million to current members of the Fund - being contributory members, paid-up members and deferred retirals, and living annuitants – pro rata to their member shares at the time of making such an allocation. If this had been done on 30 June 2018 the enhancement to members' shares would have been some 0.06%, which is fairly insignificant.)

Section 8: Valuation Results

8.1 Financial position

The following table shows the valuation balance sheet as at 30 June at each year end (2015, 2016, 2017 and 2018). The valuation results shown in the final column of the table reflect the various contingency reserves after the proposed transfers discussed in section 7 above.

	Previous Statutory Valuation 30 Jun 2015 Per AFS	Interim valuation as at 30 Jun 2016 Per AFS	Interim valuation as at 30 Jun 2017 Per AFS	Current valuation as at 30 Jun 2018 Per AFS	Current valuation as at 30 Jun 2018 Proposed
	R'000	R'000	R'000	R'000	R'000
Total Liabilities and contingency reserves	**3 938 814**	**4 607 511**	**4 924 363**	**5 418 260**	**5 418 260**
Accrued Liabilities	**3 917 035**	**4 583 182**	**4 896 124**	**5 385 586**	**5 384 828**
Members' shares	3 386 954	3 924 346	4 120 636	4 463 961	4 463 961
Pensioner accounts (i)	525 430	656 577	775 063	920 867	920 867
Beneficiaries – term annuity policies(ii)	4 228	1 385	-	-	-
Amounts to be allocated	423	874	425	758	-
Contingency reserves	**21 779**	**24 329**	**28 239**	**32 674**	**33 432**
Processing error reserve	4 719	5 088	5 523	-	-
Surplus apportionment cost reserve	136	147	159	-	-
Data reserve	14 442	15 572	16 905	-	-
Data and Processing error reserve	-	-	-	24 306	24 996
General reserve	2 482	3 522	5 652	8 368	8 436
Assets (Total funds and reserves):	**3 938 814**	**4 607 511**	**4 924 363**	**5 418 260**	**5 418 260**
Market Value	3 938 814	4 607 511	4 924 363	5 418 260	5 418 260
Actuarial surplus	**-**	**-**	**-**	**-**	**-**
Funding level	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Funding level prior to contingency reserves	**100.56%**	**100.55%**	**100.58%**	**100.61%**	**100.62%**

(i) The only pensions payable from the Fund are those where members choose to take a living annuity from the Fund. The Fund has no obligations for pension increases in respect of such pensioners, and the pensioners also take on the full investment and mortality risk.

(ii) These amounts refer to annuity policies which were bought in respect of beneficiaries of deceased members. These policies were ultimately determined not to be assets of the Fund at all, and were removed from the 2017 audited balance sheet via a prior-period adjustment.

8.2 Explanation for change in financial position

The figure of R0.758 shown as "Amounts to be allocated" in the audited 2018 balance sheet is miscellaneous surplus arising mainly from unallocated bank account interest, and should be allocated to the General Reserve as noted in section 7.3 above.

There has been no material change in the "funding level prior to contingency reserves" over the valuation period. The contingency reserves can be funded in full (with the General Reserve being funded to a level above the target level, as at 30 June 2018). The significant increase in the General Reserve balance has arisen because actual expenses incurred have been less than the amounts allocated towards those expenses, together with the Fund return on the account balance and the transfer of the miscellaneous surplus amounts, as noted above and in section 7.3.

8.3 Employer contribution rate

The table below shows the allocation of the employer contribution rate for Permanent Staff and Fixed Term Contract members applying from 1 July 2018. The allocation as at 1 July 2015 is shown in section 3.4.

	Permanent staff	Fixed Term Contract staff
Retirement savings (minimum as specified in Rules)	16.000%	16.0000%
Insured death-in-service benefits of the Fund*	0.9430%	n/a
Disability income benefits**	0.6000%	n/a
Separate Group Life Assurance Scheme**	0.2400%	0.7200%
Administration fees	0.1610%	0.1610%
Provision for other Fund expenses	0.3920%	0.3920%
Extra allocation for retirement savings	4.1640%	3.6390%
Total	**22.500%**	**20.912%**

*Assuming that the member chooses cover of 6x annual pensionable salary. The underlying premium rate is R0.131 per month per R1000 death cover.

**These arrangements are outside the Fund. The rate shown for separate Group Life cover is for a cover multiple of 1 x annual pensionable salary for permanent staff, and 3 x annual pensionable salary for contract staff – the underlying premium rate is R0.200 per month per R1000 death and permanent disability cover.

The Fund reinsures its salary-multiple death benefits - we regard this as prudent and appropriate.

We regard the current allocation for Fund administration and other expenses and consequently the additional allocation for retirement-funding as prudent, although the latter should be reviewed whenever the insured benefit premium rates change and/or the budget for administration and other expenses changes materially.

The total contribution rates are of course fixed in the Fund Rules. The total allocation for retirement funding depends on the Fund's expenses (and expense budgeting) and on the cost of the insured risk benefits, which are funded from contributions. This total retirement-funding allocation has been fairly stable over recent years. Given the size of the Fund, the stability of the membership profile and the control exercised by the Trustees over Fund expenses, we judge it unlikely that the retirement-funding allocation will reduce significantly in the near future, although increases in the premiums for insured disability benefits may impact it to some extent.

Appendix A: Membership statistics

In-service membership (including Deferred Pensioners and Phased Retirees)

In-service and deferred members	Actives	Phased retirees	Deferred	Total
Number at 30 June 2015	**3 790***	**-**	**136**	**3 926**
New entrants	404	-	4**	408
Withdrawals	(186)	-	(4)	(190)
Retirements	(35)	-	(3)	(38)
Deaths	(8)	-	-	(8)
Transfer to deferred pensioners	(31)	-	31	-
Transfer to living annuities	(30)	-	-	(30)
Transfer to phased retirees	(18)	18	-	-
Number at 30 June 2016	**3 886***	**18**	**164**	**4 068**
New entrants	1 692	-	5	1 697
Withdrawals	(227)	-	(23)	(250)
Retirements	(93)	(3)	(1)	(97)
Deaths	(8)	-	-	(8)
Transfer to deferred pensioners	(77)	-	77	-
Transfer to living annuities	-	-	-	-
Transfer to phased retirees	(28)	29	(1)	-
Number at 30 June 2017	**5 145***	**44**	**221**	**5 410**
New entrants	511	-	1	512
Withdrawals	(208)	-	(28)	(236)
Retirements	(76)	(11)	(6)	(93)
Deaths	(11)	(1)	-	(12)
Transfer to deferred pensioners	(70)	-	70	-
Transfer to living annuities	-	-	-	-
Transfer to phased retirees	(21)	21	-	-
Number at 30 June 2018	**5 270***	**53**	**258**	**5 581**

* These figures differ slightly from those reflected in the financial statements for the three years in question (respectively 3 902, 5 162 and 5 275), but correspond with the amounts shown in the working papers provided, and with our membership build-ups.

**These members were previously reflected as exits, but have since decided to become deferred pensioners. 3 out of the 4 were reflected as such through the reversal of benefit payments during the 2016 year. The other amounts to around R400,000 and no adjustment has been made in respect of this member. Due to the immateriality of this to the result, we did not make any adjustment in the results to correct this in the 2016 interim valuation of the Fund. We assume that the same explanation applies to the deferred member "new entrants" in the 2017 and 2018 years.

Annual pensionable salaries

Total annual pensionable salaries per annum as advised by the Fund Administrator are shown in the following table – please refer to the definition of pensionable salaries in Appendix B:

30 June 2015	Number of members	Total Fund Pensionable salaries	Average Fund Pensionable salaries	Average Age
Females	2 236	678 020 514	303 229	44 3/12
Males	1 554	663 774 909	427 140	45 11/12
Total	3 790	1 341 795 423	354 036	44 11/12

30 June 2016	Number of members	Total Fund Pensionable salaries	Average Fund Pensionable salaries	Average Age
Females	2 302	740 195 189	321 554	44 4/12
Males	1 584	700 017 935	441 931	45 9/12
Total	3 886	1 440 213 125	370 616	44 11/12

30 June 2017	Number of members	Total Fund Pensionable salaries	Average Fund Pensionable salaries	Average Age
Females	3 029	841 298 656	277 748	44 2/12
Males	2 116	763 461 809	360 804	44 9/12
Total	5 145	1 604 760 464	311 907	44 5/12

30 June 2018	Number of members	Total Fund Pensionable salaries	Average Fund Pensionable salaries	Average Age
Females	3 117	928 156 714	297 772	44 5/12
Males	2 153	825 380 167	383 363	44 10/12
Total	5 270	1 753 536 881	332 739	44 7/12

Pensioners and beneficiaries (living annuitants of the Fund)

Pensioners and beneficiaries (living annuitants)	Total
Number at 30 June 2015	**228**
Adjustments	1
Transfers out	(1)
New retirements	30
Deaths	(3)
Death in service	-
Number at 30 June 2016	**255**
Adjustments	2
Transfers out	-
New retirements	46
Deaths	(3)
Death in service	-
Number at 30 June 2017	**300**
Adjustments	289
Transfers out	(297)
New retirements	39
Deaths	(1)
Death in service	-
Number at 30 June 2018	**330**

Monthly living annuity payments

Total average monthly living annuity payments as shown in the Fund's financial statements:

	Average monthly living annuity payments R total	Average monthly living annuity payments R per pensioner
12 month period ending 30 June 2015	1 848 000	9 035
12 month period ending 30 June 2016	2 423 000	9 500
12 month period ending 30 June 2017	2 961 000	9 870
12 month period ending 30 June 2018	3 651 734	11 066

Appendix B: Benefit summary

The following is only a summary of the key provisions in the Fund Rules. The summary below is based on the revised Rules effective 1 July 2017 together with Amendments 1 to 4.

Since members leaving service and taking benefits from the Fund receive their full member's share in all circumstances, we consider that the Fund complies fully with the minimum benefits provisions of the Pension Funds Act.

ELIGIBILITY CONDITIONS

All persons who are members of the Fund as at 1 July 2017 will continue with Fund membership. All new employees (except those employed on contracts lasting 2 years or less) and whose conditions of service so specify must join the Fund.

PENSIONABLE SALARY

The Pensionable Salary is the deemed pensionable amount (portion) (DPA) of the employee's total remuneration package. The employee elects the level of DPA as a proportion of total remuneration package of between 50% and 100% and may change this when the remuneration package is changed.

NORMAL RETIREMENT DATE

The 31st of December following the member's 65th birthday.

RETIREMENT BENEFITS

(i) Retirement from Service

On retirement from service with the employer, members (assuming they have no Section 37D deductions against them) may choose not to retire from the Fund, and may instead leave their members' shares invested in the Fund until they elect to retire form the Fund (subject to any maximum legislated age). In this case, the full member's share remains invested in the same investment portfolio as prior to the date of retirement from service (i.e. there is no commutation option at the point of retirement from service). Contributions to the Fund cease, the member retains investment choice, agreed fund expenses will be deducted from the accumulated account, and the member ceases to be covered for the insured risk benefits. Should the member die before electing to take a retirement benefit, the member's benefits will be distributed in accordance with Section 37C of the Act. On electing to retire from the Fund, the normal retirement options as outlined below are available to the retiring member.

(ii) Retirement from the Fund

On retirement from the Fund after the attainment of age 55, or earlier if due to ill-health and when the member no longer qualifies for the income disability benefits, a pension is secured by the member's share. The pension can be in the form of a life or living annuity or a combination of the two which is purchased from a registered insurer, OR a living annuity which is purchased from the Fund. A member may choose to commute part of, or the whole of, his/her retirement benefit.

DEATH BENEFITS while in service

Full Fund death benefits are not applicable to Existing Contract Workers (those on fixed term contracts of more than 2 years as at 1 July 2017), phased retirees or deferred pensioners, members who began service after the normal retirement date, or members who for any other reason are not covered by the policy held with the insurer.

The full Fund benefit payable on death is a pension for the member's beneficiaries secured by:

1) An insured benefit of 0-6 times annual pensionable salary); plus
2) The member's share.

Members choose the level of "multiple of salary" cover on an annual basis (or can increase cover if the number of dependants changes), provided that at the time of election, the total benefit payable is not less than 4 times annual pensionable salary.

Members who do not qualify for the full Fund death benefit will be entitled to their member's share on their death.

WITHDRAWAL BENEFIT

The benefit on voluntary withdrawal, dismissal or retrenchment is the member's share.

The member may choose to preserve his or her full benefit in the Fund until retirement and become a deferred pensioner of the Fund. (A member who does not make any choice will automatically become a deferred pensioner, until she or he instructs the Fund otherwise.) In this case, the full member's share remains invested in the same investment portfolio as prior to the date of leaving service (i.e. there is no commutation option at the point of leaving service). Contributions to the Fund cease, the member retains investment choice, fund expenses will be deducted from the accumulated account, and the member ceases to be covered for death-in-service, disability income and employer owned risk benefits. Should the member die prior to retirement or prior to receiving benefits from the Fund, the member's benefits will be distributed in accordance with Section 37C of the Act.

Alternatively, the benefit may be taken fully in cash, fully transferred to another fund, or as a combination of the two.

A deferred member may at any point prior to retirement date choose to transfer the full benefit from the Fund to another fund or take the full benefit in cash. Partial transfers or encashment during deferment are not permitted.

On electing to retire from the Fund, the normal retirement options as outlined below are available to the retiring member.

EMPLOYER CONTRIBUTION

The Employer contributes at a rate of 22.5% of annual pensionable salary (DPA) for permanent staff, and 20.912% for Existing Contract Workers ((those on fixed term contracts of more than 2 years as at 1 July 2017), less the cost of the unapproved death benefits to the Fund. This contribution includes the cost of the disability income policy, administration and Fund costs. A minimum of 16% of the DPA must be allocated to retirement savings. A yearly expense budgeting process is carried out in order to decide the portion of the contributions that will be allocated towards Fund expenses for the coming year.

Appendix C: Revenue Statement

Summarised revenue statement

The following table is a summarised build-up of the Total Funds and Reserves over the valuation period. The numbers were derived from the financial statements.

	1 July 2015 to 30 June 2016	1 July 2016 to 30 June 2017	1 July 2017 to 30 June 2018
	R'000	R'000	R'000
Opening value – Total funds and reserves	**3 938 814**	**4 607 511**	**4 924 363**
Income			
Contributions: Retirement savings	238 480	262 955	368 679
Contributions: Additional retirement savings	60 122	69 397	-
Contributions: Re-insurance and expenses	18 396	19 873	9 341
Re-insurance proceeds	8 340	19 794	6 692
Transfers from other funds	6 066	6 260	4 042
Transfer to other funds	0	0	(14 119)
Benefits reinvested to purchase Fund living annuities	101 132	125 201	149 875
Net investment returns	530 940	240 069	408 217
Other income	0	0	527
Return allocated to unclaimed benefits	(433)	(493)	(218)
Outgo			
Administration expenses	(6 819)	(7 908)	(8 756)
Re-insurance premiums	(10 996)	(10 678)	(12 654)
Transfers to other funds	(4 867)	0	-
Benefits paid (including pensions)	(271 662)	(407 619)	(417 729)
Closing value – Total funds and reserves	**4 607 511**	**4 924 363**	**5 418 260**

Totals may not balance exactly, owing to rounding.

Appendix D: Member Funds and Reserves

The following tables (one for each year) summarise the build-up of the Member and Living Annuitants Funds and Reserves together with the cash flow movements between them over the valuation period. The numbers were derived from the financial statements.

1 July 2015 to 30 June 2016	Members R'000	Living annuitants R'000	Risk Reserve R'000	Data Reserve R'000	Processing Error Reserve R'000	Surplus Expense Reserve R'000	General Reserve R'000	Total Funds and Reserves R'000
Opening value	**3 391 604**	**525 430**		**14 442**	**4 719**	**136**	**2 482**	**3 938 814**
Contributions received	238 480		11 804				66 713	**316 997**
Risk premiums paid			(10 996)					**(10 996)**
Transfer to member accounts	60 122		(808)				(59 314)	**-**
Investment returns	465 005	64 107		1 130	369	11	317	**530 939**
Return allocated to unclaimed benefits	(433)							**(433)**
Reinsurance recoveries received			8 340					**8 340**
Member transfers into the Fund	6 066							**6 066**
Member transfers out of the Fund		(4 867)						**(4 867)**
Benefits paid	(133 090)	(29 100)	(8 340)					**(170 530)**
Retirees taking Fund living annuities	(101 132)	101 132						**-**
Fund expenses paid	(17)	(125)					(6 677)	**(6 819)**
Closing value	**3 926 605**	**656 577**	**-**	**15 572**	**5 088**	**147**	**3 522**	**4 607 511**

1 July 2016 to 30 June 2017	Members R'000	Living annuitants R'000	Risk Reserve R'000	Data Reserve R'000	Processing Error Reserve R'000	Surplus Expense Reserve R'000	General Reserve R'000	Total Funds and Reserves R'000
Opening value	**3 926 605**	**656 577**	**-**	**15 572**	**5 088**	**147**	**3 522**	**4 607 511**
Contributions received	262 955		11 369				77 901	**352 225**
Risk premiums paid			(10 678)					**(10 678)**
Transfer to member accounts	69 397						(69 397)	**-**
Investment returns	190 314	47 540		1 333	435	12	435	**240 069**
Return allocated to unclaimed benefits	(493)							**(493)**
Reinsurance recoveries received			19 794					**19 794**
Member transfers into the Fund	6 260							**6 260**
Benefits paid	(217 877)	(44 747)	(19 794)					**(407 619)**
Retirees taking Fund living annuities	(115 811)	115 811						**125 201**
Fund expenses paid	(18)	(182)					(7 707)	**(7 908)**
Transfers between reserve accounts	691		(691)					**-**
Transfers between reserve accounts	(962)	64					898	**-**
Closing value	**4 121 060**	**775 063**	**-**	**16 905**	**5 523**	**159**	**5 652**	**4 924 363**

1 July 2017 to 30 June 2018	Members R'000	Living annuitants R'000	Data Reserve R'000	Processing Error Reserve R'000	Surplus Expense Reserve R'000	General Reserve R'000	Total Funds and Reserves R'000
Opening value	**4 121 060**	**775 063**	**16 905**	**5 523**	**159**	**5 652**	**4 924 363**
Contributions received	368 679					9 341	**378 020**
Risk premiums paid	(12 654)						
Transfer to member accounts							
Investment returns	351 972	53 763	408	1 470	4	601	**408 218**
Other income	527						**527**
Return allocated to unclaimed benefits	(218)						**(218)**
Reinsurance recoveries received	6 692						**6 692**
Member transfers into the Fund	4 042						**4 042**
Member transfers out of Fund	(14 119)						**(14 119)**
Benefits paid	(219 965)	(47 890)					**(267 855)**
Retirees taking Fund living annuities	(140 323)	140 323					**-**
Fund expenses paid	(19)	(237)				(8 499)	**8 755**
Transfers between reserve accounts	(955)	(155)	(17 313)	17 313	(163)	1 272	**(2 219)**
Closing value	**4 464 720**	**920 867**	**0**	**24 306**	**0**	**8 368**	**5 418 260**
Proposed transfer between accounts				**690**		**(690)**	
Allocation of amounts to be allocated	**(758)**					**758**	
Closing value after transfer	**4 463 962**	**920 867**	**0**	**24 996**	**0**	**8 436**	
New reserves 1 July 2018	**Members**	**Living annuitants**		**Date and Processing Error Reserve**		**General Reserve**	**Total Funds and Reserves**
	4 463 962	**920 867**		**24 996**		**8 436**	**5 418 260**

Totals may not balance exactly, owing to rounding.