RFLAUN

Retirement Fund for Local Authorities and Utility Services In Namibia

# NEWSLETTER

SEPTEMBER 2023

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**RFLAUN Direct Housing Loans**

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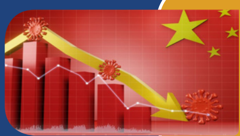

**Market Commentary Q2 2023**

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# EDITOR'S DESK

Dear valued readers of the RFLAUN Newsletters, let me welcome you to the 3rd edition of the 2023 publication. We are fast approaching the final quarter of the year and looming 2024.

Once again, we talk about very important and exciting topics in the newsletter that our valued readers need to take cognisance of.

The Direct Housing Loan scheme kicked off and we are seeing a number of inflow of applications from all corners of the country. It is so overwhelming that even members that are not part of the fund find the concept interesting and want to move to RFLAUN.

We encourage members to access the online benefit statement that are available via the internet and familiarise themselves with their benefits offered by the Fund. The benefit statements can be accessed via our website (www.rflaun.com.na) on the secure portal that only RFLAUN members can access with the unique access detail obtained from the HR.

We hope that you enjoy the publication.

***Choe till next time.***

**Mr. Julianus Rukamba**
Senior Officer: Information and Marketing

## RFLAUN DIRECT HOUSING LOANS STARTED

On 3 July 2023, we pronounced the exciting approval of the **Direct Hosing Loan** to be part of the additional option to the Pension Backed Housing Loan Scheme offered by the Fund.

RFLAUN announced that the official commencement date of the Direct Housing Loan Scheme would be as from **1 September 2023.**

Members will be able to obtain application forms via the Fund's website (www.rflaun.com.na). The members applying for direct housing loans should complete the application form accompanied by the supporting documentation and submit to their respective Human Resources Offices of their Employers. The Human Resources Officers will submit the dully completed forms to RFLAUN.

Under the Direct Housing Loan Scheme, Members will be able to borrow one third (**⅓**) of their accrued Fund Credit for housing purposes as prescribed in the Pension Funds Act. **The main difference between the new direct housing loan scheme option and the existing arrangement involving banks is that the repayment amount and the interest is paid back to the Member's Fund Credit.**

The interest rate charged on direct housing loans as prescribed by the Pension Funds Act is the Namibian repo rate (current repo rate of 7.75%) plus 4% which currently equate to **11.75%.**

Finally, I would like to appeal to members to make comparisons between the existing housing loan arrangement and this new direct housing loan option and choose the most appropriate option to meet their housing needs.

## NEW AUDIT AND RISK COMMITTEE

RFLAUN established the new Audit and Rist committee. The purpose of establishing the Audit and Risk Committee is to entrust this Committee with the oversight function of the Board of Trustees ("Board") over risk and audit matters of the Fund in terms of the Rules, the Pension Funds Act, 1956, and regulations.

The Committee plays an important role in providing oversight of the Fund's governance, risk management, and internal control practices. The Committee assists the Board and management by providing advice and guidance on the adequacy of the Fund's initiatives for:

- Values and ethics;
- Governance structure;
- Risk management;
- Internal control framework;
- Oversight of the internal audit activity, external auditors, and other assurance providers; and
- Financial statements and public accountability reporting.

The Committee provides the Board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

# AUDIT AND RISK COMMITTEE

**Cllr Matheus Hangula**
Trustee

**Cllr Godhard Hoko**
Chairperson

**Cllr Justin J. Coetzee**
Trustee

**Mr Damian I. Hamunyela**
Vice Chairperson

## New Council Join RFLAUN

The Funds would like to welcome Berseba Village Council to the RFLAUN family. With the addition of the new council, the total number of the participating employers increased to 52.


# PENSIONER INCREASE

Following advice received from the Fund`s Actuary, the Trustees decided to grant pensioners a **5.3% increase effective 1 July 2023.**

This is in line with the increase granted last year as well and also mirrors inflation for the 12-month period ended June 2023. Considering that the Fund`s underlying assets only returned **3.10%** for the financial year ended 31 December 2022, it means that the Trustees decided to use some of the reserves to still grant pensioners a decent inflation related increase.

Please note that the bonus that what granted last year of an additional 13th payment was a once-off award due to the very strong investment performance that was experienced for the financial year ended 31 December 2021.

For the financial year ended 31 December 2022, the investment performance was however under pressure as is highlighted in this newsletter and as such no additional bonus could be considered for this year.

The Trustees however do access the financial position of the Fund on an annual basis and based on the advice received from the Fund`s Actuary, then grants pensioner increases in that particular year taking into account factors like affordability and keeping the Fund financially sound.

# PAYMENT OF MONTHLY CONTRIBUTIONS

In terms of the provisions of the Pension Funds Act, contributions towards the Fund must be paid into the Fund`s bank account before the 7th of the month for which it has been deducted.

Contributions deducted for the month of September thus have to be paid into the Fund`s bank account **by the latest the 7th of October.**

Unfortunately, the Fund is faced with the situation that certain participating employers habitually either pay over these contributions late or are even months in arears. **Not only is this a direct contravention of the provisions of the Pension Fund`s Act, but it also places you as a member, and your dependants, at potential severe risk.**

Without contributions received, the Fund cannot pay the risk premiums in respect of the insured death, disability, dread diseases and funeral benefits and as such could be faced with a situation where for instance in the event of your death, the insured lump sum portion not getting paid to your financial dependants because the said risk premium was not paid over the Insurer.

Further to the above, none or late payment of contributions will further also negatively impact on the growth of your Fund credit considering that the contributions deducted from your salary, as well as the contributions from the Employer made on your behalf, were not received and as such could not be allocated to your Fund Credit. The fact that the said contributions were not received mean that it could also not be invested and again you will potentially loose out in terms of investment returns that could have been earned in these contributions.

The Fund is required to inform the members of such a non-compliant participating employer within 30 days after the month-end that the contributions were not received on time.

**We urge you to immediately engage your employer in this regard should you be informed by the Fund that your participating employer is in contravention of these provisions.**

# ANNUAL INVESTMENT RETURNS

The Funds' total assets as at 30 August 2023 amounted to N$6,996,783,304 which comprises of the portfolios below:

**Market Value Portfolio N$6,265,429,017**

**Capital Protection Portfolio (CPO 1) (Old Mutual) N$6,752,337**

**Capital Protection Portfolio (CPO 2) (Sanlam, Old Mutual, Momentum & Standard Bank) N$724,601,950**

The table below provides an indication of the monthly investment returns earned on the respective portfolios for the Fund year from 1 January 2023 to 30 August 2023.

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Y T D 2023 |
|---|---|---|---|---|---|---|---|---|---|
| Market Value Portfolio | 5.7 | 0.1 | 0.3 | 2.3 | 0.3 | 2.2 | 1.0 | 0.3 | **12.2%** |
| CPO 1 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 2.6 | 0.6 | **6.9%** |
| CPO 2 | 0.6 | 0.7 | 0.8 | 0.7 | 0.8 | 0.8 | 1.3 | 0.8 | **6.7%** |

# MARKET COMMENTARY Q3 2023

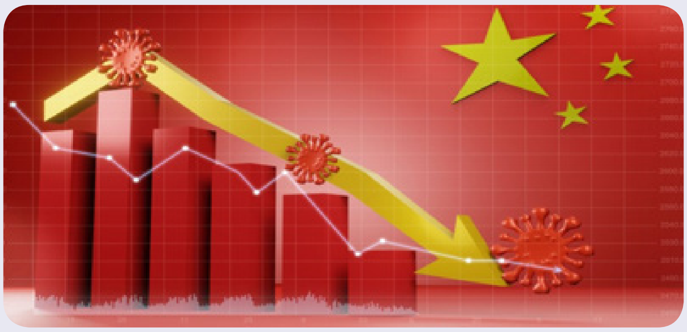
## Global Markets

As we are rapidly approaching the end of the year, we look back over the past nine months, which from an economic perspective has once again been a very turbulent and volatile period.

Rising inflation, which was the biggest driver of investment markets the past 18 months, remained persistently sticky which resulted in Central Banks globally having to keep on increasing interest rates to record pre-Covid levels.

Although fears of a global recession receded with the global economy doing better than expected, the effects of the sharp upcycle in interest rates to date might still be felt. Should inflation not keep on trending downwards as was currently the case, the Federal Reserve Bank in the United States might again very well resume interest rates hikes.

Even although inflation is showing signs of easing, unfortunately Central Banks are not going to relax their current tightening position and we can expect interest rates to remain high for longer with rate reductions only expected towards the middle of 2024. And that is on condition that there are no further escalations in current geo-political conflicts and tensions between Russia and Ukraine, as well as the United States and China. The mutiny of the Wagner group was a further



demonstration of how volatile the current situation is. Further external factors that are currently influencing investment markets and sentiment are the risks out of China where it is expected that the Chinese economy, being the second biggest economy in the world, is not going to meet its growth targets for the year as was initially anticipated due to a decline in exports. Further longer-term risks sighted out of China are the challenge of transitioning from a heavily infrastructure expenditure driven economy to a customer driven economy, as well as an aging population.

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. New advances with regards to Artificial Intelligence in the tech world would most likely lead to a lot of hype as well as some great investment opportunities.


## Regional Markets

The South African economy remain fragile with high levels of loadshedding having a major impact on the economy as well as consumer confidence. Decades of underinvestment and mismanagement are now severely impacting daily life as a result of the deterioration in service delivery from entities like Eskom, Transnet, certain municipalities, roads, railways and reliable healthy water supply.

Nonetheless, positive advancements included private sector investment in electricity generation and improvements in Eskom's performance. Currency values experienced volatility due to load shedding concerns and geopolitical tensions, affecting both the rand and the Namibian dollar.

Downside risks in the South African environment remained loadshedding, the 2024 elections, unemployment, social tensions as well as infrastructure failures as indicated. It was further expected that the recently passed NHI bill would put even more stress on an already very constrained fiscus if implemented.

All of these developments weighs heavily on investor confidence which again has a negative impact on the currency. And as we all know, our N$ is directly linked to the South African Rand.

**Namibian Economy**

The Namibian macro-economic environment showed increased domestic growth as well as improved sentiment largely driven by the mining sector with better than expected diamond and uranium output.

Foreign Direct Investments into the country were also coming in at unprecedented pace which resulted in Namibian bonds gaining ground, bolstered by improved economic sentiment and narrower credit spreads.

These market trends are highlighted in robust growth in the FTSE NSX Local Index, driven by impressive performances from FirstRand Namibia with a substantial 36% increase, and Namibian Breweries contributing positively with a 15% rise. This strong performance overshadowed the FTSE NSX Overall Index's more modest return of 1.7%.

The present market dynamics reflect an intricate interweaving of diverse growth patterns, shaped by the complexities of inflation, global economic forces, and the nuanced decisions of central banks, all resonating within the sphere of market sentiment.

At least some positive news is that at its last meeting on the 16th of August 2023, the Bank of Namibia did not increase interest rates further with the repo rate currently standing at 7.75%.

Unfortunately, we are still very reliant on the South African monetary policy and there the expectation is that the South African Reserve Bank might increase their repo rate by a further 50bp before the end of the year.

Whether the Bank of Namibia will then follow suit, only time will tell……….


# NATIONAL PENSION FUND

The Namibian Government is planning to introduce a National Pension Fund for all Namibians. The National Pension Fund will be administered by the Namibian Social Security Commission under the Social Security Act. The formulation of the Fund is at the industry leadership consultations and design stage.

The latest developments pertaining to the National Pension Fund as provided for in the Social Security Act is that initially the SSC favored a Defined Benefit model with no exemptions.

The reason for a Defined Benefit model is that it will allow for extensive cross-subsidization (higher income brackets will subsidize the benefits of the lower income brackets) and are further also a lot easier to administer.

Government, unions and employers however developed a hybrid model which is based on a Defined Contribution arrangement. In terms of this proposal, 2% of the total contribution of 13% of remuneration will be appropriated to fund management costs and to offer certain minimum death and disability benefits. The 11% balance will then be allocated to each individual member`s savings component to accumulate for retirement.

The 2% will be compulsory for every employee, with Employer sponsored retirement funds with a total contribution rate of more than 13% being able to obtain an exemption from the retirement savings portion.

The Chief Actuary in the social protection unit of the International Labor Organization (ILO) however preferred the Defined Benefit model which will require <u>a compulsory total contribution of 15.9%.</u>

In terms of the way forward, workshops with stakeholders (employer federations and labor) took place in July 2023 where, with the help of ILO experts, it was expected that agreement would then have been reached in terms of the final proposed design which will then be presented to Cabinet for further consideration.

Following said engagements, it is still not yet known what the final design of the proposed National Pension Fund is going to entail if implemented. The governance structure of the proposed National Pension Fund is further also not yet known.

**RFLAUN**

Retirement Fund for Local Authorities and Utility Services In Namibia

This newsletter has a dual purpose, firstly to keep the members up to date on the developments of the Fund and secondly, it serves as an educational tool. As a member or pensioner of the Fund, you are invited to forward comments, suggestions and contributions to **marketing@rflaun.com.na.**