

# CSIR Pension Fund

## *EUREKA!*

"I have found the answer!"

Volume 10 **JULY 2017**



### **A MESSAGE FROM THE CHAIR OF THE BOARD OF TRUSTEES**

The best time to start saving is when you start earning. The second best time is now. One of the best known and frequently used quotes of the power of compound interest is attributed to the world-renowned physicist and scientist Albert Einstein. He is believed to have said: *"Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it."*

Over the past few years, the economic environment has become increasingly more constraining for both consumers and businesses. Economists have been predicting that South Africa is heading towards a recession for some time and the cost of living continues to spiral and consumers are finding it difficult to make ends meet.

It comes as no surprise that an alarming number of South Africans don't even think about saving, let alone saving or investing money regularly to ensure that they make provision for their retirement.

As difficult as it may seem to put away an amount of money in tough economic times, the fact is that the longer you postpone it, the tougher it becomes and the less money you will have when you may need it most: in your retirement years when you may have no other source of income.

Being a member of the CSIR Pension Fund is one of the savings instruments available to you to ensure that you regularly save towards your retirement. The various portfolios offered by the Fund differ from one another and every member must understand the nature (asset allocation) and various risks of these portfolios when making a choice. Every member has different needs, circumstances and preferences that need to be taken into account in making an investment choice and you have to ensure that you choose the appropriate portfolio for your specific needs and circumstances.

Retirement fund Trustees have to meet challenging goals: achieve the highest possible rate of return for fund members while limiting downside risk and volatility of returns. In the current climate of increased volatility and lowered return expectations, reaching these objectives has become increasingly difficult.

The Fund's Trustees, in partnership with the portfolio manager, carefully consider and position the Fund's assets to consistently provide real growth in the savings of the members of the Fund over the medium to longer term. The focus is on creating and maintaining robust investment structures that will provide real growth in the value of the savings of members over the longer term. We believe that the Fund's range of portfolios is still succeeding in achieving this.

**Rian du Plooy**

# welcome

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**CSIR**  
our future through science



## ECONOMIC AND PERFORMANCE OVERVIEW – 12 MONTHS TO MARCH 2017

A key feature of the past year was the rise of populism and anger at business-as-usual governance, which has arisen as a result of global financial stimulus mechanisms that have succeeded only in fueling relatively slow global growth, and has predominantly benefitted those who already have access to capital. The lower-to-middle classes around the world have not benefitted from this growth and often perceive that they have lost out, as a result of increasing globalisation and trade. This has led to dissatisfaction with the current way of doing things and has allowed relatively surprising results (Brexit, the election of Donald Trump as US President, the “No” referendum to reform in Italy leading to the resignation of Matteo Renzi as Prime Minister).

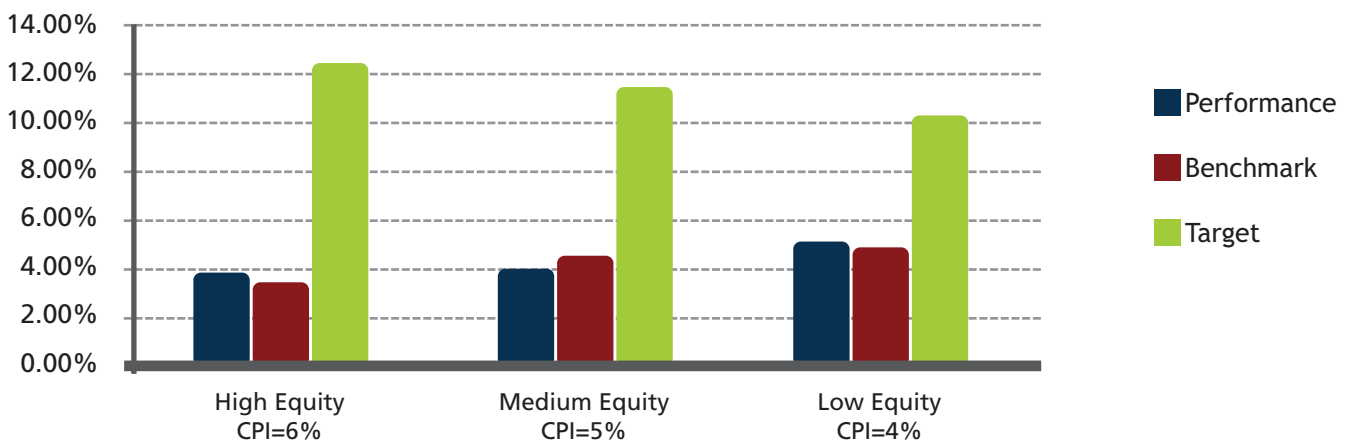
Being global these issues have also affected our own shores. Considering returns for the year to 31 March 2017, it has been a generally disappointing year, with local equities delivering only 1.6%, global equities 5.8% and global bonds losing 11.7%. The year was marked by significant volatility, driven to a large degree by market sentiment and news flow, rather than fundamental economic data.

Fortunately, there were some bright spots from fixed interest-related asset classes. Bonds delivered a return of 11.0%, cash delivered a return of 7.6% and inflation-linked bonds delivered a return of 4.9% for the year to 31 March 2017.

So, what then does the future hold? After two years of generally lackluster returns, equities are increasingly looking like a better proposition, albeit within the context of relatively low levels of global growth. There are significant risks from a political perspective – does populism continue to run rampant, the impact of the changing European environment, does US President Donald Trump affect the trajectory of globalisation and trade, does increasing and aggressive competition between the US and China result in global economic fallout? Regardless of the outcome of these risks, the overhang of excessive debt is likely to lead to a world of lower levels of returns, consistently, from all assets classes going into the future.

The Fund’s Trustees, in partnership with the portfolio manager, carefully consider and position the Fund’s assets to consistently provide real growth in the savings of the members of the Fund over the medium to longer term. As can be expected from the market discussion above, the Fund’s risk-differentiated life stage portfolios have not managed to achieve their inflation-related targets over the 12 months to 31 March 2017. This is true of most South African retirement funds and is due largely to the pedestrian returns of the equity markets, as highlighted above. However, if we consider the returns of the Fund’s main Life Stage portfolios, the High Equity, Medium Equity and Low Equity portfolios, against their market-related benchmarks (i.e. the average returns achieved by all market participants), we can see that the portfolios have produced acceptable returns:

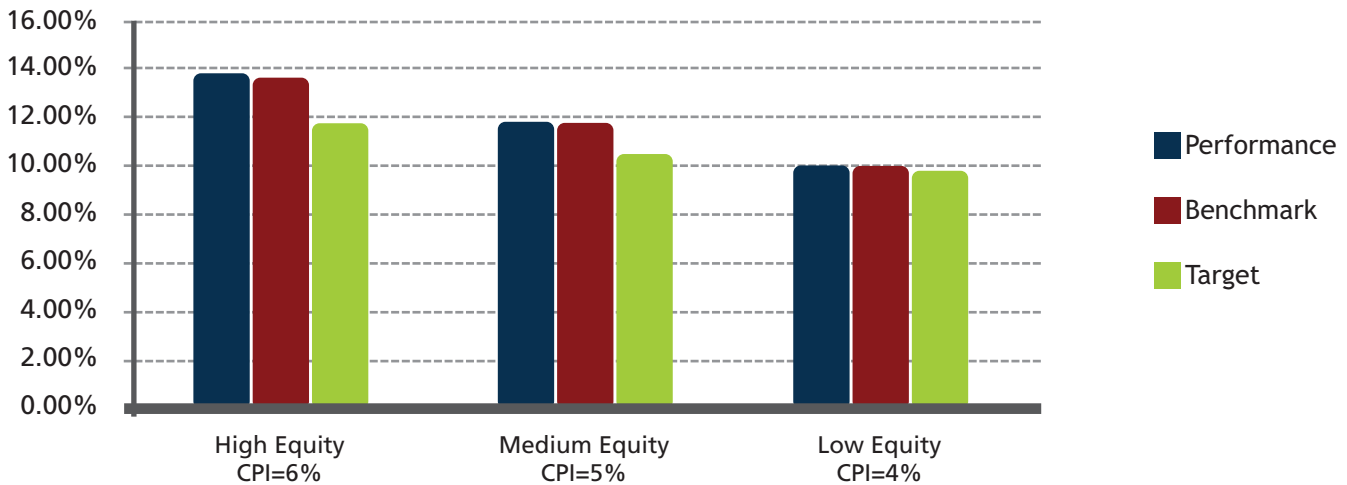
CSIR PF Portfolio Returns - Year to 31 March 2017





The three main life stage portfolios have return histories in excess of seven years. Considering the returns of these portfolios against their CPI targets over this extended period; it is clear that they have been successful in attaining their respective goals of providing real growth:

**CSIR PF Annualised Portfolio Returns - 7 Years to 31 March 2017**



Everyone appreciates that it is humanly impossible to predict future political and economic events, and their impact on the investment markets, with any degree of accuracy. As a result, the Fund's Trustees and the investment manager focus on creating and maintaining robust investment structures that will provide real growth in the value of the savings of members over the longer term. We believe that the Fund's range of portfolios is still succeeding in achieving this.

**SELECTION OF A GUARANTEED FUND AS THE FINAL PORTFOLIO IN THE FUND'S LIFE STAGE STRUCTURE**

The Trustees have decided to replace the Momentum Absolute Strategies portfolio with a fully capital guaranteed portfolio to comprise the final leg of the Fund's Life Stage structure. This decision was taken for two reasons:

- Due to the fact that the equity component of the Absolute Strategies portfolio is always protected against sharp market drops, the portfolio's performance has been disappointing in the recent sideways equity market, which neither dropped sharply nor rose meaningfully.
- Despite the fact that the Absolute Strategies portfolio does offer protection, it may still produce small negative returns over short periods of time. The Trustees believe that this is not ideal for a final Life Stage portfolio.

The Trustees have thus decided to replace Absolute Strategies portfolio with a Smooth Bonus portfolio. Such a portfolio guarantees that no negative returns will ever be recorded. In order to facilitate this guarantee, the performance of such a portfolio is not governed solely by market returns, but also by the discretion of the portfolio manager who can decide which returns to allocate to clients and which returns to place in a reserve account for future use, to be able to guarantee zero negative returns and also to maintain a relatively smooth trajectory of performance.

In the past, the level of disclosure regarding the respective allocations to return and to the reserve has been poor, but this has improved markedly during recent years, making this category of portfolio a viable option for the Fund.

At a special session held during March, the Investment Committee received presentations by representatives of the leading providers of these types of portfolios, i.e. Old Mutual, Sanlam and Momentum. After extended discussions and due consideration of all relevant aspects, including the financial strength of the provider and the details of the actual investment process, the Investment Committee decided to recommend to the Trustees that Old Mutual be appointed as the manager of the Fund's final leg of the Life Stage Structure.

The Trustees have accepted this recommendation and the Absolute Strategies portfolio will be replaced by the Old Mutual CoreGrowth 100 portfolio in the near future.





## **FACTORS TO THINK ABOUT WHEN CONSIDERING RISK BENEFITS**

As a member of the Fund you need to make sure that the amount of cover for death provided through the Fund is right for you and your family. If you feel it may not be adequate, you may want to buy additional cover outside the Fund. Please consult an accredited financial adviser to assist you with a risk analysis and liquidity needs assessment.

### **The factors you need to consider include:**

**Financial Situation** – How much cover would your family need if you were to die? How much do they need to survive – monthly bills, education and necessities? Many members underestimate the liquidity needed to continue with normal life. Remember that policies outside the Fund will pay out immediately, whereas the payout from the Fund is subject to the procedure required by Section 37C of the Pension Funds Act, that may take some time to complete. A person with a large amount of debt may need additional cover to protect their dependants from being left with nothing, whereas a person with additional policies (outside the Fund) may have enough cover to already protect their family.

**Dependents** – How many dependents do you have and when will they become self-sufficient? A person with young children will need additional cover to provide for the child up until 21, whereas a person with grown-up children will need lower cover.

**Life Stage** – What stage of life are you in? Young, single, married, close to retirement? A young single person may need less cover, compared to a newly married person with a young family.

The Fund's Death Benefit Policy is available on the CSIR Employee Insured Benefit's webpage. It is recommended that you read this document.

### **REMEMBER**

The **Core Cover** for insured death benefits is three times annual risk salary and it is the minimum compulsory cover that you may select. Members are able to choose their level of cover between the core cover and the maximum per age group. However, members who have attained age 55 and older may select a core cover of one times annual risk salary.

**The monthly premium for the death benefit is deducted from your gross contribution to the CSIR Pension Fund.**

Members will be permitted to subsequently increase or decrease their cover, provided that the multiple of cover selected remains within the Recommended and Core cover limits.

However, an ad hoc change in cover may only be made on the Fund anniversary date – 1 April each year. An increase in cover is limited to one times your annual risk salary and acceptance will be subject to a medical clearance by the insurer, at the member's expense.

The member may also increase his/her cover when he/she marries or a child is born. The amount of the increase under these circumstances will be at the member's discretion and free of medical proof of insurability, provided that the member makes a choice within three months of the occurrence of the life event.

## **HOW TO ACCESS YOUR OWN BENEFIT STATEMENT ON THE ADMINISTRATOR'S WEBSITE**

The Member portal can be accessed through the following link: <http://mra.momentum.co.za/>

**Step 1:** Below the Log in Link, click on CSIR Pension Fund.

**Step 2:** Click on the Register link on the top right of the screen.

**Step 3:** Enter your RSA Identity number. If you are a foreign national enter your Passport number and Country of Issue. Click on Next.

**Step 4:** Complete your Personal Contact details. Click on Next.

**Please Note:** MRA verifies the web registration by telephone. It is therefore compulsory to capture either your cell number or your work telephone number. If a work telephone number is supplied then it is compulsory to complete your email address. In the event that your password has been suspended or forgotten, a new password will be communicated to you by the email address or cell number you provided at registration.

**Step 5:** Enter a unique User name. To verify that the user name is unique click on the Check link. Select either one or both options for the Password communication preference. Read and accept the Terms and Conditions. Click on Next. Your registration request is now completed. Depending on your choice selected you will receive a temporary password via email or SMS.

**Step 6:** Verifying your registration. You will not be able to login until MRA has contacted you to verify your web registration. Our business hours is 08H00 – 16H00 from Monday to Friday.

**Step 7:** Your first login will be with a temporary password. The system will prompt you to change the password to a password of your choice.

You will now be able to access your own benefit statement from the member portal.



## CHOOSING AN INVESTMENT PORTFOLIO

The various portfolios offered by the Fund differ from one another and every member must understand the nature (asset allocation) and various risks of these portfolios when making a choice. Every member has different needs, circumstances and preferences that need to be taken into account in making an investment choice and you have to ensure that you choose the appropriate portfolio for your specific needs and circumstances.

Factors to consider when making an investment choice include:

- Your Appetite for Risk**  
 You should understand what your appetite for risk is, i.e. what level of risk you feel comfortable with. For most members it is more important to earn the highest possible return over the long term, regardless of market fluctuations. For others, it is more important to preserve capital and rather forfeit possible returns for stability in capital value. In arriving at an assessment of your risk appetite you would typically consult your investment adviser.
- Other Investments**  
 The old saying “don’t put all your eggs in one basket” still applies! When making your investment choice, do consider all your other retirement savings (outside the Fund) and the risk those are exposed to. If, for example, you have a few less volatile investments outside the Fund such as cash or direct property, you could perhaps take more risk with your retirement monies in the Fund. If your retirement fund savings are your only investment, you may want to be more cautious with your fund investments.
- Time horizon for investments**  
 Retirement savings are long-term savings, therefore you need to take a long-term view when considering your investment portfolio. The number of years you have until retirement is an important factor in your investment choice. It is generally accepted that the more years to retirement, the higher the risk one can afford to take (if the markets fall, you have enough time to recover your loss). Financial markets may take as long as ten years to recover from a severe downturn and if you do not have ten years left before retirement, such a market downturn may have a severe impact on your retirement provision from which you are unable to recover.

### Pitfalls associated with making your own portfolio selection:

- You may invest too conservatively with an own choice portfolio, which may lead to inadequate retirement benefits, e.g. you are more than ten years away from retirement but invested in the Low Equity Portfolio as opposed to the High Equity Portfolio.



- You may fall into the trap of taking on more risk than you can afford, e.g. you are two years from retirement but invested in the High Equity Portfolio as opposed to the Low Equity Portfolio.
- You may be of the opinion that you can time market risk (get out of equities into interest bearing instruments just before the market takes a downturn and get back into equities just before the market recovers). Evidence shows that even professional investment managers do not consistently get this right.

### Consider this

As you become older, your investment time horizon reduces (that is the number of years you have until you retire reduces). As a result, the level of investment risk you may be willing to take will be reduced. A **gradual transfer of investments** from more volatile investment portfolios (High Equity) to less volatile investment portfolios (Low Equity or Money Market) is needed as you approach retirement.

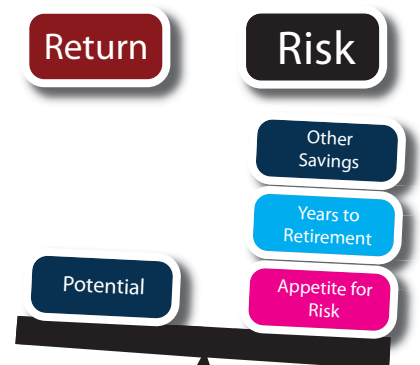
The type of pension you wish to buy at retirement may also inform your portfolio selection - especially as you move closer to retirement. For example, if your financial adviser recommends that you should consider a living annuity, then you may wish to remain invested in a portfolio with higher exposure to equities. If you are considering a guaranteed annuity then building down to low risk portfolios (with more exposure to cash and bonds) as you get closer to retirement, may be more appropriate.

### The balancing act

To choose an investment portfolio, you need to balance a number of aspects, such as:

- appetite for risk
- other investments
- years to retirement

When all is said and done, you’re the one who has to live with your investment decisions. It’s important that you feel comfortable with the decisions you make. Also remember to proactively keep track of the investment performance of your portfolios and to change investment portfolios when your risk profile or term to retirement changes.





## **IMPORTANCE OF COMPLETING THE BENEFICIARY NOMINATION FORM**

Your death benefit will be allocated and paid in terms of the Rules of the Fund as well as Section 37C of the Pension Funds Act, which deals with the duties of the Trustees in the allocation of death benefits.

It is important to complete your Beneficiary Nomination Form at least once a year and also at any time your details change e.g. divorce, marriage, etc. By completing this form you identify your dependants and are able to state whom you want to receive your death benefits and in what proportion.

*The purpose of the Beneficiary Nomination Form is to:*

- Make it easier to trace dependants by using the contact details you have provided.
- Speed up the process of assessing who your dependants are and the extent to which they depend on you.
- Identify any other beneficiaries, apart from your dependants, to whom you may wish to allocate a portion of your benefit.

Although the Trustees will follow members' wishes in terms of their nomination of beneficiary form as far as possible, the final decision of who will receive the death benefit rests with the Trustees, who are required in terms of the Pension Funds Act to ensure that all dependants are considered.

By regularly completing a Beneficiary Nomination Form you will provide the Trustees with an accurate up to date record of the status of each of your dependants and/or nominees. You can obtain this form from your local HR office.

### **The difference between a dependant and a nominee**

A dependant is usually someone who depended on the member for regular financial support – this is a factual dependant.

Some people (such as a wife or a child) have a legal claim for maintenance, and they will also be considered as a legal dependant.

*The following people may be considered as dependants in terms of the Pension Funds Act:*

- Spouses (including customary and religious unions, civil marriages and civil partnerships).
- Children (biological, stepchildren and legally adopted).
- Anyone proven to be dependent on the Deceased for maintenance or financial support, or legally liable for maintenance or financial support (e.g. in terms of divorce agreements or maintenance orders). This could be someone who would have become legally liable for maintenance, had the Deceased not died (e.g. engaged to be married, unborn children).

A nominee is someone who the member nominated in their Beneficiary Nomination Form to receive a portion of the benefit. They may ALSO be a dependant, but not always.

Being nominated by the Deceased does not mean they will definitely receive a benefit. The Trustees have to consider the circumstances of all the dependants. Only if there is money left over (after considering the needs of all the dependants) will a nominee who is not a dependant receive a share of the benefit.