Fund Newsletter

NTRF
NATIONAL TERTIARY RETIREMENT FUND

Issue: Quarter 4 of 2023

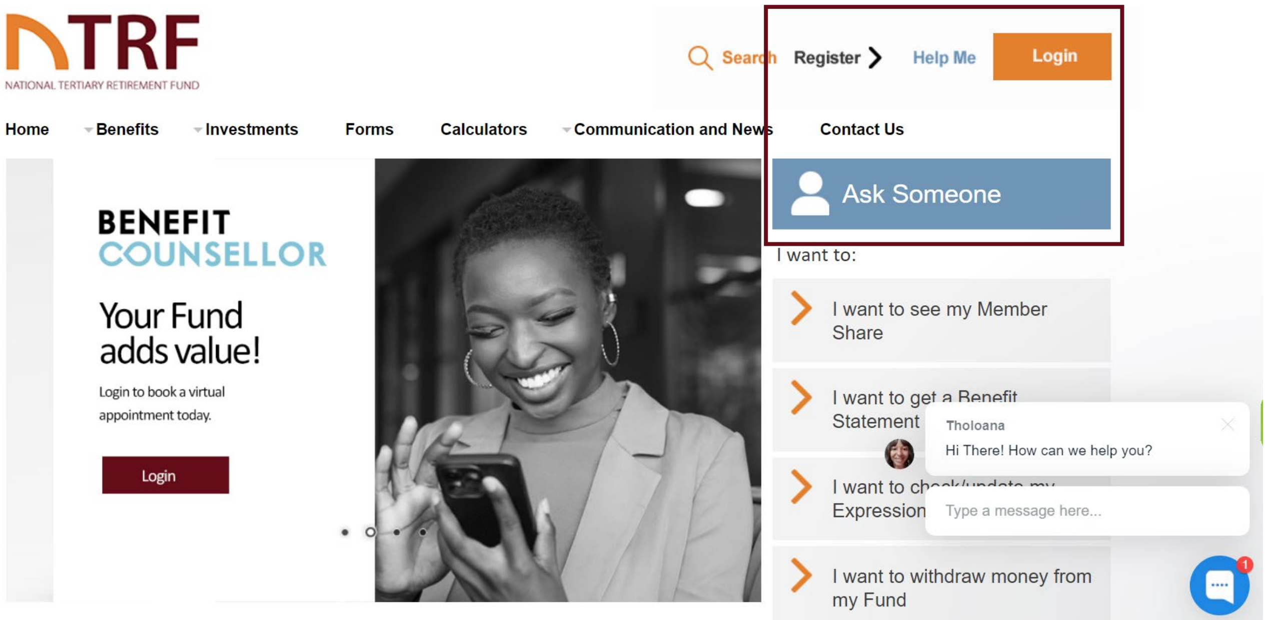
Dear NTRF member

This communication contains the latest Fund-related news, events and notices to ensure that you remain up to date with your Fund.

Member webinar: Website launch

During October, the Fund launched a brand-new, fully integrated and interactive member website.

On **https://ntrf.co.za** you are now able to register for access to your personal profile, request an appointment with a benefit counsellor, chat with a real human being on the live chat if you need assistance, and so much more.



If you have not registered on the site yet, please click here to view the guide. We strongly encourage all our members to take control of their financial planning by registering as soon as possible. If you missed the webinar that introduced members to the new site, all the enhanced functionality, and the benefit counsellor service offering, you can view the video and the slides at https://ntrf.co.za/webinars

The following questions were raised during the Webinar:

Q Why was my value more in September, than in October?

A The Fund's investments are unitised. Let's use an analogy with a community garden to explain unitisation. Imagine a large community garden where many people come together to plant a variety of things – vegetables, fruit, flowers and herbs. To manage this collective effort, the garden is divided into **equal sections or "units"**. Each person's contribution to the garden determines how many units they own. More contribution means more units, signifying a larger share of the garden. Now, the value of these units changes monthly. This is because the garden's worth depends on various factors: how well the plants are growing, the demand for the produce, and the overall health of the garden. Some months, the plants may thrive, making the garden more valuable. In other months, if the plants don't do well, the garden's value may decrease. Therefore, the monthly change in unit prices reflects the changing condition and productivity of the garden. As a unit holder, the value of your share in the garden can increase or decrease based on how well the garden is doing.

This is similar to a unitised portfolio, **where the value of your investment changes based on the performance of the assets in the portfolio.**

If the unit price were higher the previous month, then even if you contributed since, your value could be lower in the following month. Let's look at a rough example:

John has 1 000 units in his portfolio and the unit price is R100 per unit. He therefore has R100 000 in his portfolio.

1 000 units x **R100** = R100 000

The unit price drops to R92 per unit. He makes a R5 000 contribution and buys 54.35 units (R5 000/R92)

At the end of the month, he has (1 000 + 54.35 units) = 1 054.35 units. At the new unit price of R92, he has R97 000 in his portfolio. Less than the previous month.

1 054.35 units x **R92** = R97 000

His value therefore decreased. But if the unit price were to increase the next month, then the total value in his portfolio would be:

1 054.35 units x **R105** = R110 250

Q What is the Investment Policy of the Fund and why do other portfolios perform better from time to time?

A The Board of the Fund is responsible for the investment policy of the Fund. They are assisted by investment experts.

For more information on how the investment portfolios are selected and monitored, please see our section on Fund investments.

What lies ahead for the retirement industry?

The Fund has communicated extensively regarding the Two-Pot proposal over the past 12 months. Please visit https://ntrf.co.za/interesting-articles to view the historical communication in this regard.

On 21 November 2023, the Standing Committee on Finance of the National Assembly decided that the effective date must be 1 March 2024 after all. This has caught many pension industry participants by surprise. Treasury and Parliament's Standing Committee on Finance have since reached a compromise on the implementation of the so-called two-pot retirement system, with a new proposed starting date of **1 September 2024.**

There is a concern that the South African Revenue Service will not have its systems ready in time to give effect to the legislation. The Finance Committee is obliged to refer its proposed changes to the Minister of Finance for comment (but only for comment – the Minister cannot overrule Parliament).

The Finance Committee's report on the Bill, together with the Minister's response, will be tabled in the National Assembly.

After the Bill is passed by the National Assembly, it will go to the Finance Committee of the National Council of Provinces (NCOP) for consideration and then to the NCOP for reading and a vote. It seems very likely that this is just a formality.

At this stage, the Revenue Laws Amendment Bill is not on the programme for the NCOP this year. Based on past experience, the NCOP (and Parliament in general) will only resume its normal work a few days after the State of the Nation Address in mid-February – probably around 19 February. This should leave enough time to complete the NCOP processes and to get the Bill onto the President's desk by the end of February. The Bill then has to be signed into law by the President.

A potentially problematic issue is that the Bill that will make changes to the Pension Funds Act has not yet gone to Parliament. Changes will be made to this Bill following feedback received. Some industry experts argue that it was necessary to align the Pension Funds Act with the Income Tax Act before Two Pots becomes effective, so the delay in tabling and processing this Bill is a problem.

The NTRF will prepare accordingly for a 1 September 2024 implementation date but there is still some uncertainty at this particular time. The Fund will do all that it can to ensure readiness, but the Fund will be at the mercy of third parties such as the South African Revenue Service being ready.

Important note:

You should always make sure that you are on track for a comfortable retirement before making any decisions about how to use your savings. This money is meant to keep you secure when you are no longer working.

Register at https://ntrf.co.za/fund-registration to see if you are on track. Remember that you can make an appointment with the Fund's benefit counselling team for assistance and ask if there are any tools or calculators you can use to help you with your long-term planning. You can also contact the Benefit Counsellors at ntrf@benefitcounsellor.com or **021 300 5729**.

What is happening in the economic world?

In May 2023, the rand-dollar exchange rate weakened from R18.25 to R19.80, mainly because of geopolitical developments involving South Africa (the US Ambassador to South Africa, Mr Reuben Brigety II, accused South Africa of shipping armaments to Russia despite sanctions imposed against Russia by the US, the EU and allies). Notably, as soon as the temperature in the political environment dropped, the exchange rate strengthened from R19.80 to R18.10 in June 2023. At quarter end, the rand traded weaker again at a level of approximately R18.70.

The South African economy is facing many challenges, as mining production and industrial manufacturing have been trending downwards for decades now. Fuel refining capacity is lower than previously, and gross fixed capital investment is at a low level. So far, 2023 has seen record levels of rolling blackouts, which have a negative impact on South Africa's economic growth potential. Inflation remains elevated, and interest rates are likely to remain high for the remainder of the year. Households and consumers are under pressure, and both business confidence and consumer confidence are in decline. Government finances remain a concern, as fiscal discipline slips and South Africa's debt-to-GDP ratio reaches a worrying level. South Africa faces the possibility of higher taxes as government forges ahead with the implementation of costly policies such as the National Health Insurance scheme.

Yet, despite all the challenges, the South African economy remains remarkably resilient. The economy expanded by 0.4% quarter on quarter to the end of March 2023, and inflation was down to 6.3% as at end of May 2023.

In recent press articles, it appears that the global economy is expected to grow faster in 2024 than in 2023.

Fund investments

How did they perform?

*“The only function of economic forecasting is to make astrology look respectable” – **JF Galbraith***

Thinking about markets and your investments

We are often asked by members “what returns do you expect the market to deliver over the next year?”. The right answer is to say we don’t know and at best we can only provide a wide range such as between –15% and +35%. This is not what members want to hear as they expect you to have the answer if you are close to the market. The reality is that most investment market commentators don’t want to have their expertise questioned so they give a much longer answer, mainly focused on what happened recently. In providing this answer they will say a lot of things, some of which will be correct. Even when their main prediction turns out wrong, they can start their next commentary with the things that they got right. They can also provide good reasons why they got things wrong. However, when measured over long periods, the forecasts of market experts are indistinguishable from guesswork.

Why does this outcome occur? The answer is that many things can happen in the future, and it is impossible to be certain about what will happen. Would anyone have predicted that South Africa would win its last three Rugby World Cup matches by 1 point? How many investors would have anticipated the war between Russian and Ukraine or the conflict between Hamas and Israel that started in 2023? In addition, even with these events now a reality, it is difficult to predict accurately how and when they may end. However, the vital point is that many highly skilled investment professionals across the globe are considering the same issues based largely on the same information. Their consensus view of how things may play out is immediately reflected in the investment market. Consequently, the only way an investor can make money is to have a different view from the collective wisdom and to be right. This is very difficult to achieve consistently.

So, the next time you hear a prediction from an investment expert, ask them the two simple questions below. Write down their answers and then check whether they are right more often than not.

1. How sure are you that your prediction is right?
2. What do you see that other smart investors are missing?

If you accept the argument that it is very difficult to predict the future accurately and that all known information is already in the price, how should you then go about investing? Often the simplest approach is the best.

Firstly, understand what you are investing in. You need to understand how long you should invest your money in the portfolio and by how much it can go down over periods which may be as long as five years and even longer. Historically, many investors have been well rewarded for taking a long-term view and being patient, but it is easier said than done.

Secondly, you have to accept that you may lose money over shorter periods. If you are going to fret about losing money in the short term, then you must rather choose a portfolio that is less risky. We believe that investing according to risk appetite does not get enough attention. Arguably the worst investment that you can make is one that it too risky for you. The chances are that you will abandon the strategy at the worst time and have to deal with considerable stress in the build-up to this decision.

Lastly, keep your costs low. Saving 0.5% in costs each year (which does not sound like a lot) will give you about a 4% to 5% higher benefit in 10 years' time. Some investment experts argue that because they are clever they deserve to be paid more. Although that may be true, they need to be consistently smarter than a large universe of other skilled investment professionals who are also trying to beat the market.

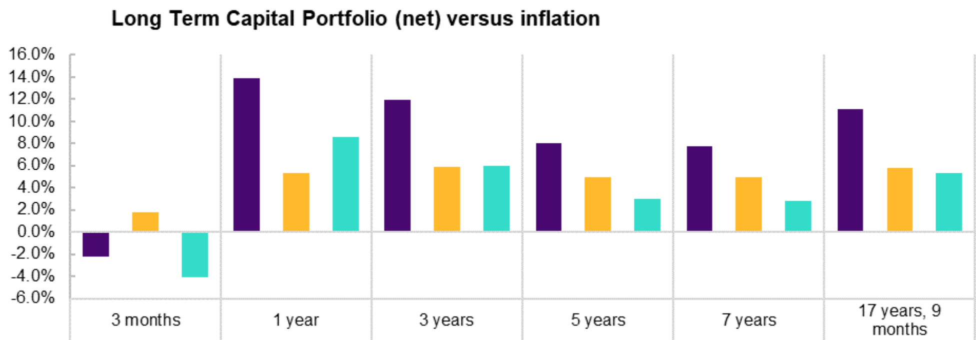
Our view is that these simple rules (which we concede are not that easy to apply in practice) are a safer way to manage your money, than trying to predict the market.

NTRF portfolios and cost structure

The section below sets out the net-of-fee performance of the Fund's portfolios for measurement periods to 30 September 2023. Further information is available on the Fund's Fact Sheets that are published on the NTRF website https://ntrf.co.za/how-did-they-perform. Their names of the different portfolios tell you a lot about what you are investing in.

Long-term Capital Portfolio

The Long-term Capital Portfolio adopts a long-term investment horizon. The portfolio will always have a 70% to 85% exposure to the share (or equity) market. This means that the portfolio's return will be volatile and there will be periods when the return is significantly negative. However, over long measurement periods, investors should be rewarded for taking on more risk, provided that the underlying system is able to bounce back.

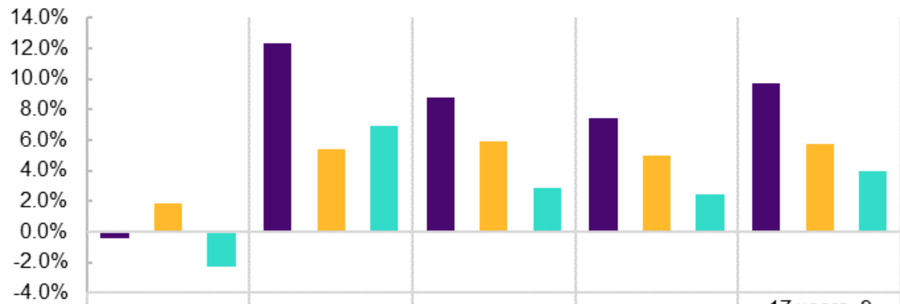


	3 months	1 year	3 years	5 years	7 years	17 years, 9 months
Long Term	-2.2%	13.9%	11.9%	8.0%	7.8%	11.1%
Inflation	1.8%	5.4%	5.9%	5.0%	5.0%	5.8%
Real return: Long Term Capital Portfolio	-4.0%	8.5%	6.0%	3.0%	2.8%	5.3%

Stable Portfolio

The Stable Portfolio is suitable for members who have a shorter investment horizon. Typically, the portfolio will only have a 35% to 45% exposure to the share market. It also aims to deliver a positive return over rolling 12-month periods, although inevitably there will be a few times when the 12-month return is indeed negative.

Stable Portfolio net returns versus Inflation

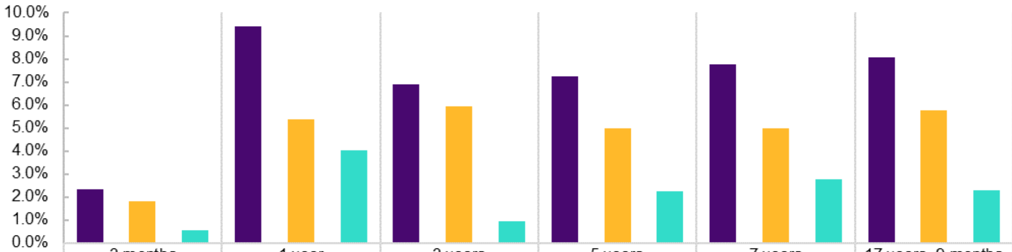


	3 months	1 year	3 years	5 years	17 years, 9 months
Stable Portfolio	-0.5%	12.3%	8.8%	7.5%	9.8%
Inflation	1.8%	5.4%	5.9%	5.0%	5.8%
Real return: Stable Portfolio	-2.3%	7.0%	2.9%	2.5%	4.0%

Money Market Portfolio

The Money Market Portfolio is invested entirely in money market type instruments and is appropriate for members with a very short investment horizon. Given the short-term nature of this portfolio you should look at the performance up to five years, however we show the returns with a longer track record.

Money Market Portfolio net returns versus Inflation

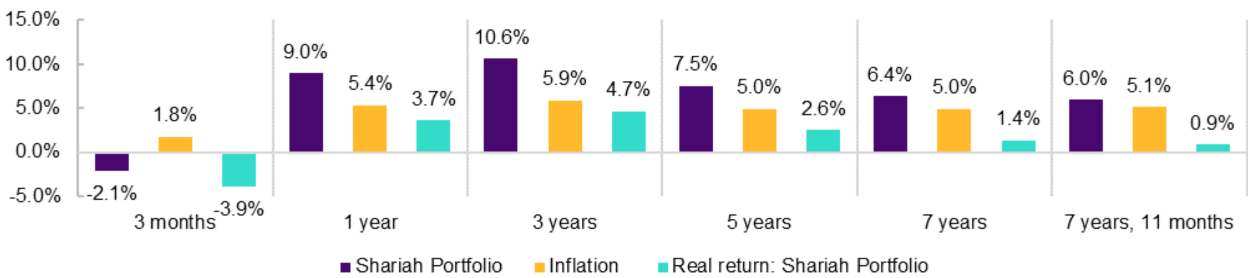


	3 months	1 year	3 years	5 years	7 years	17 years, 9 months
Money Market Portfolio	2.4%	9.4%	6.9%	7.2%	7.7%	8.1%
Inflation	1.8%	5.4%	5.9%	5.0%	5.0%	5.8%
Real return: Money Market Portfolio	0.5%	4.0%	0.9%	2.2%	2.8%	2.3%

Shari'ah Portfolio

The Shari'ah Portfolio has a 60% to 70% exposure to share markets and is managed in accordance with Shari'ah law.

Shariah Portfolio net returns versus Inflation



An important note about investment returns

You may have noticed that the return of the Long-term Capital, Stable and Money Market portfolios have been virtually identical over the past seven years at around 7.7% p.a. This means that if your money has been invested in the Long-term Capital or even the Stable portfolio, you have not been compensated over the last seven years for the additional risk you have taken on.

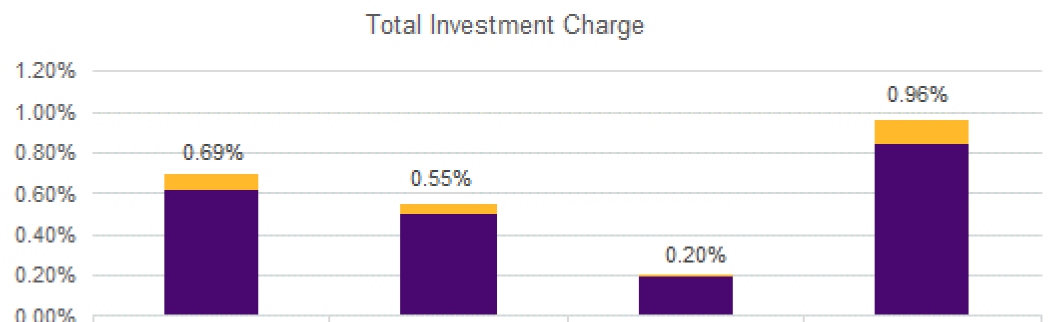
The issue is whether you could, with a reasonable chance of being right, have forecast seven years ago that this would be the case. The chances of having done so are very slim, because seven years ago many outcomes were possible, and impossible to predict. However, what we do know from economics is that if you take on more risk, you should have a better chance of earning a higher investment return over the long term – otherwise, no one would take on risk in the first place.

As explained above, the evidence shows that investment experts cannot forecast the market accurately on a consistent basis. Therefore, the Board has designed the investment portfolios around different risk profiles (and investment horizons). This means the Long-term Capital Portfolio is likely to deliver the highest return to members over the long term, because it has a higher allocation to growth assets. For the same reason, the Money Market Portfolio is expected (but not certain) to deliver the lowest return over the long term, but it is a safe option for people close to retirement that do not have the luxury of time to make up losses.

The Fund allows members (other than those entitled to the conditional retirement benefit) to exercise an investment choice. The evidence shows that members should make such a choice based on their appetite for risk rather than trying to forecast which portfolio will do best. The simple question to ask any lay person who claims that they can forecast the future accurately is: ***"If you can do this, why are you still in the job you are in? You should be very wealthy and not need to work."***

Cost structure of the NTRF portfolios

The total expenses applicable to the NTRF portfolios are detailed in the diagram below. The total charges are about 30% to 40% of the charges you would typically pay as a retail investor.



	Long Term Capital	Stable	Money Market	Shari'ah
Trading costs	0.07%	0.05%	0.01%	0.12%
TER	0.62%	0.51%	0.19%	0.84%
TIC	0.69%	0.55%	0.20%	0.96%

Total Investment Charge (TIC) is a measure that allows investors and advisors to assess the impact of all charges and expenses incurred in the management of assets, including direct and indirect costs.

Total Expense Ratio (TER) includes all direct and indirect costs borne by the portfolio.

Statement of Investment Principles

The Board of the Fund has a Statement of Investment Principles ("SIP") which is reviewed annually. In line with the arguments above about the benefits of stability, the Principles are rarely changed radically.

Life Stage Model – default investment option

In the **Life Stage Model** your money is moved to a lower-risk portfolio based on your age. There are two alternatives, aligned with two different planned retirement ages: **Life Stage Model 60** and **Life Stage Model 65.**

Find out more about this default investment choice at https://ntrf.co.za/investment-options

Member Investment Choice

Members can also decide to opt out of the Life Stage Model 60 or 65 and choose to invest their total accumulated funds in the Fund in one or more of the following four portfolios on offer:

Long-term Capital Portfolio

Stable Portfolio

Money Market Portfolio

Shari'ah Portfolio

Find out more about these portfolios at https://ntrf.co.za/portfolios-on-offer

The Fund adds value with pension-backed housing loans

If your employer has agreed to make use of this offering, you are eligible to apply for a home loan that uses your Fund savings as surety. Some of the benefits and key features of the product offering by Standard Bank are:

Employee communication	Quarterly statements sent directly to the employee's physical address (where provided)
Employee Call Centre	A **dedicated** Customer Call Centre to handle employee queries pertaining to product information
NCA compliance	Standard Bank uses **internal dedicated compliance officers** to see employees and explain the terms and conditions of their loans on a **face-to-face /online basis**
Maximum loan term	Up to 30 years or normal retirement age
Minimum loan amount	**R30 000**
Maximum loan amount	Up to **50%** of the employee's withdrawal benefit, depending on affordability
Repayment method	Direct salary deduction

Interest rate	Prime less 1,25% (prime currently at 11,75%)
Once-off initiation fee	R530.00 VAT inclusive (only applicable to new loans)
Monthly service fee	R69.00 VAT inclusive

Find out more at https://ntrf.co.za/pension-backed-housing-loans and contact HR to find out if you are eligible to apply.

NTRF
NATIONAL TERTIARY RETIREMENT FUND

Contact information

OFFICE OF THE PRINCIPAL OFFICER (Management of the Fund)

Contact the Principal Officer for all escalations of queries

Telephone number	E-mail address
011 258 8825	info@gobenefits.co.za

Physical address: Building 2, Country Club Estate, Woodlands Drive, Woodmead

ADMINISTRATOR (Administrative matters)

Contact the Fund Administrator for all investment, claims and other admin-related queries

Physical address	Telephone number	E-mail address
Fund Retirement Administrators The Marc, 129 Rivonia Rd, Sandown Sandton	0860 000 071	NTRF@momentum.co.za

www.ntrf.co.za