

# NEWSLETTER

September 2023

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### 1. Chairperson's Report

In the February newsletter, I wrote about times being tough as far as savings are concerned, and about the importance of building robust investment portfolios. There's no denying that times are still challenging for the South African consumer. Load shedding continued at higher levels than before, putting a damper on economic growth. As a Board, we constantly remind ourselves that saving for retirement is a long-term goal. If we can save when times are hard, we are well positioned to reap the rewards when times are better.

The Growth Portfolio has delivered very good long-term returns of 12.4% per annum since inception, despite difficult market conditions. The offshore exposure of the Growth Portfolio was increased to 45%, the maximum allowed by the South African Reserve Bank. There is also indirect offshore exposure through companies listed on the JSE that derive a significant portion of their income from offshore sources. Increasing the offshore exposure will result in a more diversified portfolio adding value to the portfolio over the long term.

The Fund's financial statements for the year ended 31 December 2022 were audited by Ernst & Young, who issued an unqualified audit report. The annual financial statements have been submitted to the Financial Sector Conduct Authority (FCSA).

We have included an update on National Treasury's proposal on early access to retirement savings, but please visit our [SURF](http://www.surf.sun.ac.za) website for more information on this matter.

Members will note that the administration of the Fund will be moving from Sanlam to Alexforbes in 2024. More communication in this regard will follow, but the Board would like to assure members that the change in administrator will not have an impact on their Fund investments – it is only the administration platform that will be changing. SURF has a proud history of serving its members and the Board of the Fund remains committed to maintaining service standards.

We also wish to thank approximately 1 100 of our members who took the time to complete the benefit survey. Your feedback is valued and appreciated by the Fund.

Best regards



**Prof Niel Krige**  
Chairperson

## 2. Financial statements: 31 December 2022

The audited financial statements for the year ended 31 December 2022 were submitted to the Audit and Risk Committee of the Board of Trustees. SURF's external auditors, Ernst & Young, issued an unqualified audit report. At the recommendation of the Audit and Risk Committee, the Board of Trustees approved the financial statements and submitted the statements to the FSCA.

## 3. Investment Strategy

### Can we predict the future?

"The track record of economists in predicting events is monstrously bad. It is beyond simplification; it is like medieval medicine."

#### Nassim Nicholas Taleb

Taleb is a highly respected writer on the nature of investment markets and risk. Whilst some may consider his view as expressed above as harsh, he makes the vital point that the future of investment markets is very difficult to predict accurately, especially over short measurement periods. The challenge is that the underlying system is complex, and it is adapting all the time in response to new information.

#### *The impact of technology*

Technology has been a major driver of global equity market returns for the past decade, evidenced by the stellar performance of the so-called "Magnificent Seven" companies that the market believes will be the major beneficiaries of artificial intelligence (AI).

Ten years ago, very few investors took the view that the large technology firms could become as big and successful as they are today. They underestimated the impact of globalisation and the ability of the likes of Microsoft and Amazon to build new products and services to meet the needs of their customers.

Today, of course, the position is very different, and investors are budgeting for very high future earnings growth from these companies. Again, if investors are too optimistic about future earnings the share prices of these companies may fall sharply, but if earnings growth is even better than expected the share prices may increase even further.

#### *Bringing together different investment ideas and themes*

It would have been great if the Fund trustees could predict the future of the investment market accurately,

but as the long-term evidence shows this would be a fool's errand. Rather, what the trustees have done, is to build robust portfolios that invest in a range of ideas (including technology), based on different investment horizons and risk appetites.

Within the Growth Portfolio, the focus is on delivering reasonable returns. The Growth Portfolio might not be the first horse in the race every time, but it aims to consistently provide top quartile performance in different market conditions. This is the prudent and appropriate approach to follow, given just how difficult it is to predict future investment returns accurately.

Local exchange control legislation limits retirement funds, such as SURF, to a maximum of 45% invested offshore. This means that a large percentage of the Fund's assets are invested locally, and if much worse than expected outcomes were to arise in South Africa, members are very likely to experience poor investment returns. Therefore, there are legal limits (such as the 45% offshore limit) on the extent to which the Fund can diversify against bad local outcomes. The Investment Sub-committee of the Fund, together with its investment advisors, spends a lot of time analysing and identifying the appropriate local managers.

Lastly, the Fund's Absolute Return Portfolios and Capital Protection Portfolios have been designed for members with a shorter investment horizon. These portfolios have also provided very good returns, given their respective mandates and market conditions.

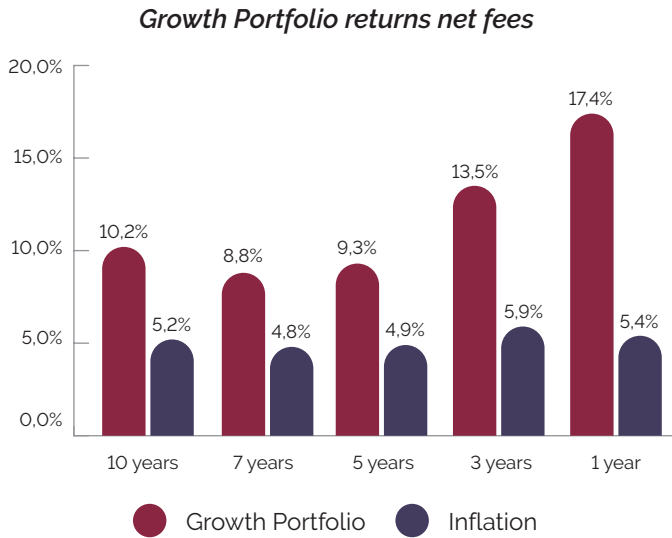
## 4. Fund Investments

The Fund's investment portfolios have delivered good returns for the one-year period to 30 June 2023 on the back of strong equity returns from the local and global developed markets. However, members are cautioned to rather focus on the longer-term returns.

The section below sets out the performance, net of fees, of the Fund's portfolios for measurement periods to 30 June 2023. Further information is available on the portfolios' fact sheets, which can be found on the Fund's website ([www.surf.sun.ac.za](http://www.surf.sun.ac.za)).

## Growth Portfolio

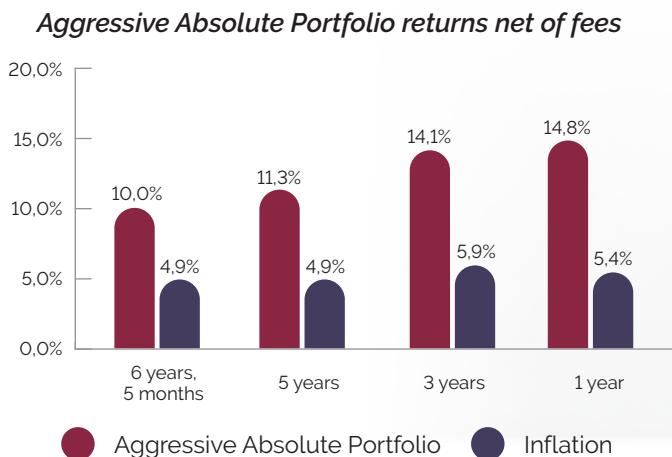
The Growth Portfolio adopts a long-term investment horizon. The portfolio will always have a 70% to 85% exposure to the equity (stock) market. This means that the portfolio's returns will be volatile and there may be periods of negative returns. However, over longer measurement periods, investors should be rewarded for taking on more risk, provided that the investment markets are able to bounce back.



The order of data on the horizontal axis of the chart is a bit unusual as it starts with the 10-year return and ends with the 1-year return. The reason for this is that members should focus on the longer-term returns. Over the past 10 years, the portfolio has delivered an annual return of 5% above inflation. This is probably fair reward for the risk taken on.

## Aggressive Absolute Return Portfolio

As its name suggests, this portfolio is designed to be slightly more aggressive than the Growth Portfolio. The portfolio only has a track record of 6 years and 5 months, but as the chart below shows, it has performed well in what have been tough market conditions.



## Conservative Absolute Portfolio

The Conservative Absolute Return Portfolio is suitable for members with a shorter investment horizon. Typically, the portfolio will only have a 35% to 45% exposure to the equity market. It also aims to deliver a positive return over rolling 12-month periods, although inevitably, there may be instances when the 12-month return is negative.

**Conservative Absolute Portfolio returns net of fees**

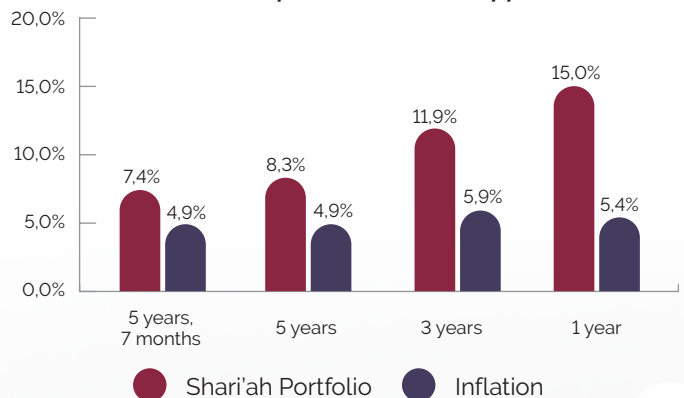


The astute reader will note that the order of the returns reverts to the normal convention of showing the shortest duration first. This is because the portfolio is appropriate for members with a shorter investment horizon, as mentioned above.

## Shari'ah Portfolio

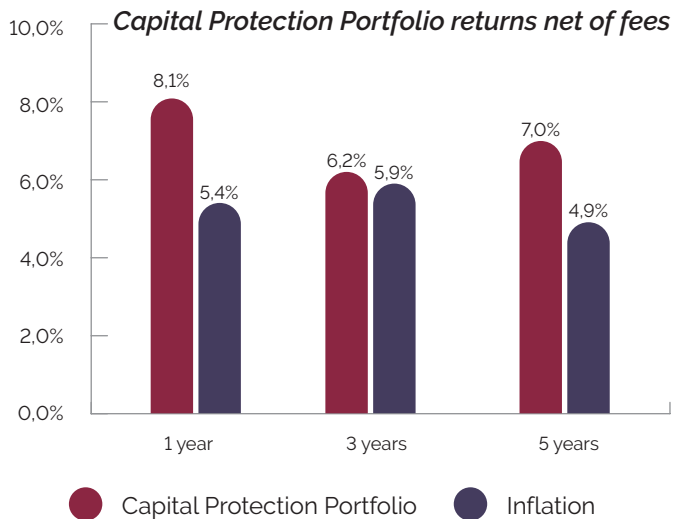
The portfolio has a 60% to 70% exposure to share markets and is managed in accordance with Shari'ah law.

**Shari'ah Portfolio returns net of fees**

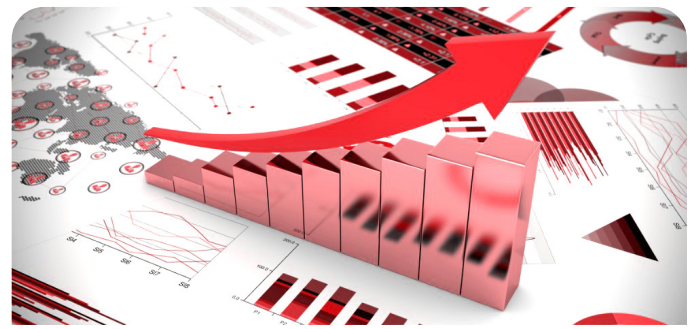


## Capital Protection Portfolio

This 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, we only show performance for periods up to five years, although the portfolio has a longer track record.



The Capital Protection Portfolio delivered returns above inflation over the various measurement periods.



## Inflation Linked Bond Portfolio

This portfolio is designed for members considering securing an inflation-linked annuity at retirement. The concept that underpins this portfolio is that its investment return is of much less relevance as the portfolio aims to match the change in the price of an inflation linked life annuity. That is a mouthful!

In slightly simpler words, if interest rates increase this portfolio will deliver a negative return. However, at the same time, the cost of an inflation-linked life annuity will reduce. If the price falls by close to the negative return on the portfolio, then you will still be able to buy the same pension as before.

This portfolio is only available on a choice basis and given its complexity, you should seek financial advice before investing your money in this channel.

## 5. Early access to retirement savings: the “two-pot system”

A lot has been written about the so-called “two-pot system”. The proposed system, when enacted, will allow some early access to retirement savings. The legislation is also aimed at improving retirement outcomes for members through the preservation of retirement savings.

Members are reminded that the legislation has not been enacted yet. Stakeholders were invited to comment on the draft legislation (comments had to be submitted by 15 July) and the feedback from various industry stakeholders is being considered. The information below summarises the system as presented. The proposed implementation date is 1 March 2024 and retirement fund administrators are busy with the extensive system changes that will be required by the legislation.

It is proposed that, with effect from 1 March 2024, all your contributions flowing into the retirement fund be allocated to two different pots – a retirement pot and a savings pot. One-third of contributions will go to the savings pot, which will be the pot to which you will be allowed early access. Two-thirds of the contributions will go to the retirement pot. No withdrawals from the retirement pot will be allowed. When you resign from employment, you will not have access to the retirement pot. The money in the retirement pot will be used to provide you with a monthly pension in retirement.

For existing members, a third “pot” will be established to protect their rights in terms of their benefit in the fund before the legislation comes into effect. This vested pot will be the money in your retirement fund/s as at 29 February 2024. No further contributions may be made to the vested pot, except for members of provident funds who were 55 or older on 1 March 2021. They will still be allowed to do so.

The current regime in effect before 1 March 2024 will apply in respect of the vested pot, which means that members will be allowed to access this pot on resignation from employment.

## Frequently asked questions

	Vested pot	Savings pot	Retirement pot
<b>How much of my retirement money will go into each pot on implementation?</b>	The value of a member's benefit as at 29 February 2024 will go into the vested pot (less the amount allocated to the savings pot as a starting balance).	The savings pot will have 10% of the value of a member's benefit (up to a maximum of R25 000) in it to start with.	The retirement pot will not have any money in it to start with.
<b>To which pot do my retirement fund contributions go?</b>	No contributions will be made to this pot after 1 March 2024, except for members of provident funds who were 55 or older on 1 March 2021.	1/3 of contributions after 1 March 2024 will go to the savings pot.	2/3 of contributions after 1 March 2024 will go to the retirement pot.
<b>What can I withdraw while in service?</b>	You cannot make withdrawals from this pot while employed.	Withdrawals are allowed, with the minimum withdrawal amount being R2 000 per annum (subject to the value in this pot).	You cannot make withdrawals from this pot.
<b>What can I withdraw when I leave employment before retirement?</b>	You may withdraw the full balance.	You may withdraw the full balance. One withdrawal is allowed in a tax year, except if the amount in the savings pot is less than R2 000.	You cannot make withdrawals from this pot.
<b>What can I withdraw (receive in cash) when I retire from employment?</b>	As a provident fund member, you are allowed to take the full balance as at 1 March 2021 plus growth thereon in cash at retirement. The balance accumulated after 1 March 2021, together with the money in the retirement pot, must be used to secure an income in retirement. Remember to seek advice regarding the tax implications and annuitisation options offered by the Fund.	You may withdraw the full balance.	You cannot make withdrawals from this pot – the amount must be used to provide an income in retirement via an annuity product.
<b>Tax</b>	It will be taxed in accordance with the current taxation regime (withdrawal or retirement lump sum tax tables will apply).	Any withdrawals from this pot before retirement will be taxed in terms of the individual (PAYE) tax tables.	You cannot make withdrawals from this pot.  Tax will be calculated on the annuity income paid to the retiree.

It is important to note that, apart from the seeding amount (10% of your benefit value up to a maximum of R25 000), you will not have access to the balance of your vested pot come 1 March 2024. It will take some time to "build up" a balance in your savings pot from the 1/3 of your monthly contributions after 1 March 2024. A withdrawal can be made only when there is more than R2 000 in the savings pot, and only once a year.

## Important notes for members:

- Withdrawals from the savings pot before retirement will be taxed in terms of individual (PAYE) tax tables.
- The administration costs associated with withdrawals from the savings pot will be deducted from the benefit paid.
- Withdrawals from your savings pot will mean saving less for retirement.



Therefore, due to the impact of tax and administration costs, members are encouraged not to make savings pot withdrawals unless absolutely necessary. Please consult your financial advisor before making withdrawals from your savings pot. The SURF website will be kept updated with developments ([www.surf.sun.ac.za](http://www.surf.sun.ac.za)) as we learn more.

## 6. In-fund living annuity enhancement (Rule amendment)

### Good news for members!

Prior to the rule amendment, only the retiree and the spouse of an in-fund living annuitant could make use of the in-fund living annuity offering. The SURF rules regarding in-fund living annuities have been amended with an effective date of 1 March 2023, expanding the offering to include the spouse of a member that passed away in service.

The rule amendment also allows flexibility for the spouse to take a portion of the allocated benefit in cash and use the balance towards the in-fund living annuity. This could be used as part of efficient tax planning for the spouse.

## 7. Ensuring loved ones are taken care of

### Approved death cover – Spouse's and children's pension cover

If you are a single member with no spouse and/or qualifying children\*, you can opt out of the SURF spouse's and children's pension cover.

If you do exercise the option of no insured death benefit and get **married and/or have qualifying children at a later stage**, you will have to select (within three months of the life event) SURF's insured death benefit to ensure that the needs of your spouse and/or qualifying children are catered for in the event of your death. If you neglect to "opt in" after getting married and/or having a child, and die, your spouse and/or children will not receive the spouse's and children's pensions and will be left in a vulnerable position.

Contact the Human Resources Client Service Centre at +27 (0)21 808 2753/sun-e-hr@sun.ac.za for more information on how to opt in following a life event.



\* Please click [here](#) or scan QR code to reference the benefits policy, which contains the definitions of qualifying spouse and child.

[www.sun.ac.za/english/human-resources/hr-documents/policies-procedures](http://www.sun.ac.za/english/human-resources/hr-documents/policies-procedures)

### The importance of completing a nomination form

It is important that you update your beneficiary nomination form for the unapproved group life cover, especially whenever any major life-changing events (such as divorce, birth/adoption of a child, death of a nominee) occur.

Where the deceased member **has not nominated** a beneficiary, or where the nomination is invalid, the insurer must pay the benefit to the deceased member's estate. This is not ideal, as it will mean beneficiaries then have to endure the lengthy and expensive process of reporting the deceased estate to the Master of the High Court for winding up. This includes the appointment of an executor, who will have to draw up a distribution account that must be advertised and be open for inspection. This drawn-out process can be avoided if members clearly identify their beneficiaries by completing the nomination form.

Members are therefore urged to complete a nomination form. You can easily complete this form via your sun-e-HR self-help functionality. Contact the Human Resources Client Service Centre at +27 (0)21 808 2753/sun-e-hr@sun.ac.za for more information on how to update your beneficiary nomination form.

## Disability cover for your spouse

Members who have spouse's cover will be aware that the policy pays out a lump sum of twice your annual pensionable salary in the event of the death of your spouse.

Something not all members are aware of, is that there is a disability benefit of twice annual pensionable salary linked to the policy as well. If your spouse becomes permanently disabled through illness or accident, a claim can be submitted to the insurer, who will assess whether the illness or injury has led to permanent disability. It is important to note that this decision rests with the insurer, and not with the employer. If approved by the insurer, the disability benefit pays out as an "accelerated death benefit", i.e. an earlier payment of the spouse's cover.

## 8. Move of administration from Sanlam to Alexforbes

Following the decision by Sanlam to sell the standalone part of its retirement fund administration business to Alexforbes, the Board would like to inform the members of SURF that the administration of the Fund will be moving to Alexforbes in 2024. The decision was taken by the Board of Trustees and supported by the Rectorate in July 2023. The decision to remain a standalone fund and move the administration of the Fund to Alexforbes was debated at length by the Board and its Investment Sub-committee. Members can take comfort from the fact that the change in administrator will not impact the investments of the Fund, nor result in an increase in administration fee. The members of the Investment Sub-committee of the Fund include leading industry experts who serve as independent committee members and remain committed to serving the Fund.

Member communication regarding the implementation of the administration move will follow in due course. The Fund will be assisted by its advisors and both administrators, new and old, to ensure a seamless move for members.

## 9. Financial advice

You are reminded that SURF offers a financial advice service to members that is free of charge. Members aged 53 and older have access to this service. In particular, members who are considering early retirement and want to exercise individual investment choice, are encouraged to make use of the advice service.

The panel of chosen service providers consists of:

**Alexforbes Financial Planning Consultants:**  
+27 (0) 21 809 3750 | wesselsw@alexforbes.com

**FinFocus:**  
+27 (0) 21 861 7000 | usafadvies@finfocus.co.za

**Graviton:**  
+27 (0) 21 883 9192 | arissik@gravitonwm.com

**Momentum Consult:**  
+27 (0) 86 177 7750 | mc.theart@consultm.co.za

**Sanlam Financial Advice:**  
+27 (0) 83 375 9831 | hanlie.wethmar@sanlam.co.za

SURF will pay for two consultations with one of the chosen service providers. The first consultation may be scheduled any time from age 53, and the second one in the 12 months prior to retirement.

### Using the benefit is easy – just follow these steps:

1. Select a service provider.
2. Contact the HR Client Service Centre (+27 (0) 21 808 2753 | sun-e-hr@sun.ac.za) to obtain a consultation voucher.
3. Make an appointment with your chosen service provider and take the voucher as proof that you are entitled to use the service.

## 10. Important contact details

If you need more information on SURF you may contact the Remuneration and Benefits division or the Benefit Consultant.

Please contact the Principal Officer if you have any complaints about SURF.

Principal Officer

**Japie Kotzé**  
Tel: +27 (0)21 808 2754  
Email: [jjsk@sun.ac.za](mailto:jjsk@sun.ac.za)

Information Officer

**Japie Kotzé**  
Tel: +27 (0)21 808 2754  
Email: [jjsk@sun.ac.za](mailto:jjsk@sun.ac.za)

Benefit Consultant

**Wynand Breytenbach**  
Tel: +27 (0)21 912 3300  
Email: [wynand@simekaconsult.co.za](mailto:wynand@simekaconsult.co.za)

Remuneration and Benefits division

**Peter Kirsten**  
Tel: +27 (0)21 808 3740  
Email: [pkirsten@sun.ac.za](mailto:pkirsten@sun.ac.za) / [sun-e-hr@sun.co.za](mailto:sun-e-hr@sun.co.za)

Pension Funds Adjudicator (PFA)

Email: [enquiries@pfa.org.za](mailto:enquiries@pfa.org.za)  
Members are entitled to contact the PFA if their complaints have not been dealt with satisfactorily by the Fund. Please consult the PFA's website ([www.pfa.org.za](http://www.pfa.org.za)) for more details.