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Message from the chairperson

While 2016 is speeding along it is hard to believe there is only one quarter left. In the February 2016 newsletter we cautioned that return expectations should be adjusted. Local economic prospects haven't improved since and on the international front the United Kingdom's exit from the European Union (Brexit) has presented new challenges. Despite the challenges the USAF Growth Portfolio returns have shown a notable improvement compared to the agreed benchmarks.

Following investigations undertaken by the various subcommittees of the Board of Trustees, the following important decisions have been made since February 2016:

- In March 2016, the Board of Trustees made the decision to replace the investment managers of USAF's offshore assets, Contrarius and Orbis, with a multi-managed portfolio, the Diversified Global Balanced Portfolio.
- In July 2015, National Treasury issued

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proposed regulations for the implementation of default options for comment. When these regulations become effective all retirement funds will be obliged to offer, among others, a default annuity option to members. However, the Board of Trustees anticipated the regulations and in July 2016 they agreed to make cost-effective in-fund living annuities available to members.

- Implementing the in-fund living annuities has led to a review of the existing lifestage investment strategy.

This will be discussed in more detail later in the newsletter. All the best for the rest of the year.

Adv. Fran du Plessis
Chairperson



Financial Statements

The audited financial statements for the year ended 31 December 2015 were submitted to the audit and risk subcommittee of the Board of Trustees in May 2016. USAF's external auditors, PwC, issued an unqualified audit report. At the recommendation of the audit and risk subcommittee, the Board of Trustees approved the financial statements and

submitted them to the Financial Services Board before the cut-off date of 30 June 2016.

Actuarial Valuation

An actuarial valuation is performed annually, once the audited annual financial statements as at 31 December (the fund year-end) have been received, in order to determine the financial soundness of the Fund.

The 31 December 2015 actuarial valuation was presented to the Board of Trustees in July 2016. In the valuation report the actuary confirmed that USAF was in a sound financial position at a 100.04% funding level. The valuation report was approved by the Board of Trustees and will be submitted to the Financial Services Board.

Change in Offshore Investment Managers

In March 2016, at the recommendation of the investment subcommittee, the Board of Trustees made the decision to replace Contrarius and Orbis with a multi-managed offshore portfolio, the Diversified Global Balanced Portfolio (DGBP). The DGBP is managed on the Sygnia investment platform and WillisTowersWatson is responsible for the appointment of the underlying asset managers of the portfolio. The full fund credit of members

who have elected not to participate in the lifestage investment strategy is invested in the Growth Portfolio before retirement. Members in the lifestage investment strategy also have exposure to the Growth Portfolio in the last three years before retirement. In the past, the investment views taken by Contrarius and Orbis have resulted in sharp fluctuations in returns on the Growth Portfolio, which is not desirable for members who are nearing retirement. The decision to

replace Contrarius and Orbis is not at all to be considered a motion of no confidence in their capabilities as asset managers. It is the result of the Board of Trustees' search for an offshore portfolio offering more stable returns. A fact sheet of the DGBP Portfolio is available on USAF's online portal, Retirement Fund Web. Transfer of the assets has been scheduled for four quarterly transfers, starting in May 2016 and completing the last transfer on 1 December 2016.



Investments

The table below provides a summary of the **Growth Portfolio** returns over various periods to 30 June 2016:

Period	Growth Portfolio	Inflation	Inflation plus 5%	Peer group median*	Peer group top quartile**
3 months	2.98%	1.76%	2.99%	0.92%	1.43%
6 months	9.70%	4.21%	6.68%	2.97%	3.83%
12 months	11.68%	6.12%	11.12%	6.37%	7.38%
36 months	13.62% p.a.	5.77% p.a.	10.77% p.a.	12.03% p.a.	13.05% p.a.
60 months	15.68% p.a.	5.70% p.a.	10.70% p.a.	13.75% p.a.	15.10% p.a.

* The peer group median is the investment manager that performed in the middle of its peer group. This provides an indication of the performance of other retirement funds over these periods. The peer group benchmarks are derived from the Alexander Forbes survey.

** The peer group top quartile constitutes the investment managers that performed better than three-quarters of their peer group.

It is encouraging that the Growth Portfolio returns have outperformed the top quartile peer group over all the measurement periods.

This is largely the result of an improvement in the returns achieved by the offshore investment managers. However, you are advised not

to pay too much attention to short-term returns – rather focus on the long-term returns.

For more information on the returns achieved by the underlying portfolios please visit <http://www.retirementfundweb.co.za>.

Changes to the Investment Strategy

Additional investment portfolios before retirement

Making available the in-fund living annuities means that the Board of Trustees will review the investment strategy effective 1 January 2017.

Until age 53 the investment strategy remains unchanged, namely 100% Growth Portfolio. From the age of 53, three additional investment portfolios are made available:

- A Multi-managed Aggressive Absolute Return Portfolio; and
- A Multi-managed Conservative Absolute Return Portfolio; and
- A Multi-managed Portfolio offering hedging against interest rate fluctuations.

The Aggressive Absolute Return Portfolio and the Conservative Absolute Return Portfolio are available as underlying portfolios for active members from the age of 53, and are suitable for the in-fund living annuities as well as for the purchase of external living annuities (outside the Fund).

The Portfolio offering hedging against interest rate fluctuations is suitable for the purchase of external guaranteed annuities at retirement.

A new Lifestage investment strategy

The current lifestage strategy requires a transfer of 4% of your fund credit per quarter with effect from 1 January in the year of your 63rd birthday, from the Growth Portfolio to the

So the following investment options are available to members from the age of 53:



Capital Protection Portfolio, to enable a 52%/48% split between growth and capital protection on retirement.

The above asset split and the phase-in period have been reviewed by the trustees to be more suitable for the in-fund living annuity strategy.

Hence the Board of Trustees decided to extend the phase-in period from three to six years and to replace the Growth and Capital Protection Portfolios with Multi-Managed Aggressive and Conservative Absolute Return Portfolios.

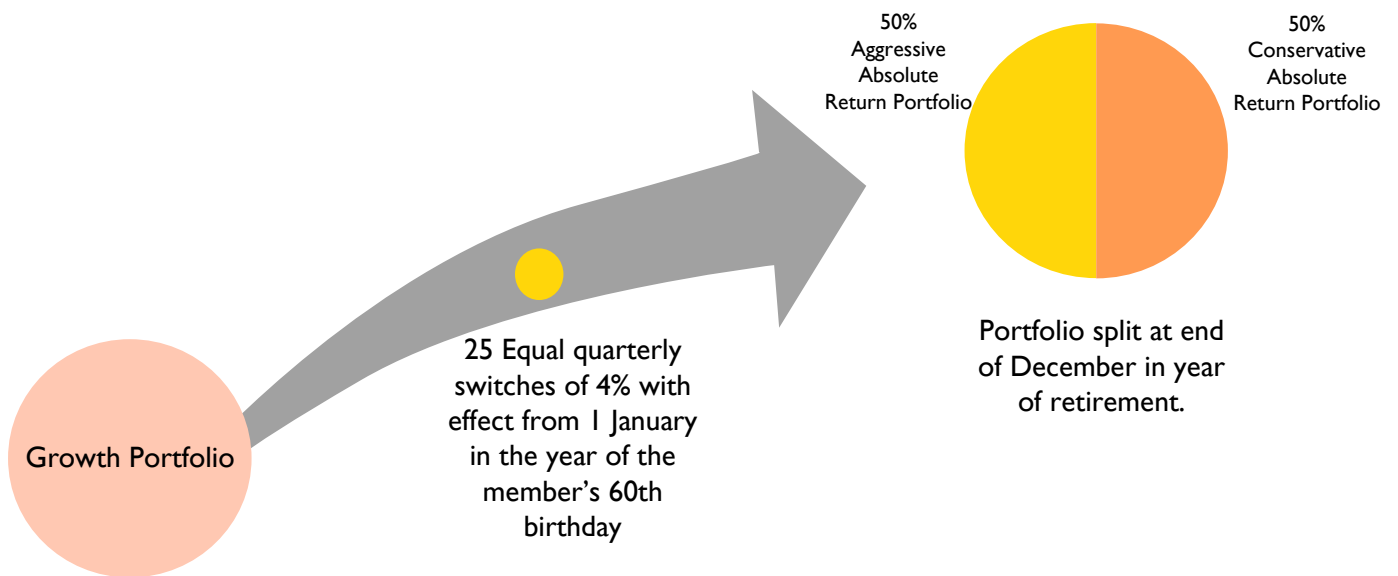
According to the new lifestage strategy, with effect from 1 January in the year of the member's 60th birthday, the full fund credit is to be transferred from the Growth Portfolio to the Aggressive and Conservative

Absolute Return Portfolios in equal portions, via 25 quarterly transfers, resulting in the fund credit being held in equal portions in the two Absolute Return Portfolios on retirement. Members will still be able to exercise options outside the new lifestage strategy, and now they have more options to choose from.

The new lifestage strategy may impact members who are currently participating in the old lifestage strategy, as well as members aged between 59 and 62.

The transition will be managed carefully, including focused communication to help members with their decisions.

The new lifestage strategy is explained in the chart on the right.



In-fund Living Annuity Option

The USAF in-fund living annuities offer a seamless transition from contributing member to pensioner. If you elect to participate in the in-fund living annuities you don't have to leave the Fund on retirement. The amount you saved for retirement as a member of USAF and that is not taken as a cash lump sum, is used to buy you a monthly pension. USAF now offers a default as well as a customised option for living annuities.

The default option represents the Board of Trustees' view of the best option for the average member, withdrawal rates are fixed and no investment choice is allowed.

In contrast, the customised option offers investment choice and more flexibility in terms of withdrawal rates.

A pensioner is allowed to switch between the default and the customised option. In-fund pensioners may also switch to an external option any time after retirement.

In both the default and the customised option you benefit from competitive administration and investment fees. Asset management and administration costs are expected to be less than 1% p.a. of assets (VAT included), which compares very favourably with costs in the individual market. In addition, the trustees of USAF are responsible to ensure that the withdrawal rates from the in-fund living

Focused communication on the in-fund living annuities will be sent to members who are retiring in December 2016, and information sessions will be presented by the benefit consultants.

annuities are sustainable, and they will assist you in considering other alternatives from time to time. The trustees have access to professional advice to assist them with the governance and management of the in-fund living annuities. The option for individuals to continue to receive financial advice from the panel of approved service providers is also available.

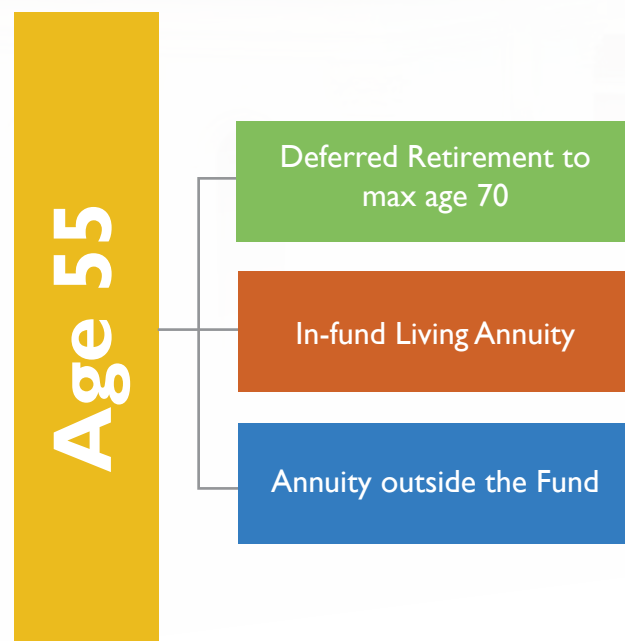
A rule amendment is currently made to the Fund Rules to provide for in-fund living annuities with effect from 1 January 2017. Focused communication on the in-fund living annuities will be sent to members who are retiring in December 2016, and information sessions will be presented by the benefit consultants.

Deferred Retirement

Very few people understand the challenges associated with early retirement. Deferring retirement from the Fund by five years may have a major impact on the value of the member's monthly pension at retirement. If your projected pension at age 65 is 55% of your pensionable salary, the projected percentage may increase to 77% if retirement is deferred by five years. Remember that you have a choice to defer retirement from the Fund on retirement at normal retirement age or on early retirement. How does it work? If you opt for deferred retirement when you retire from employment with the University, your fund credit will remain

invested in the Fund while you obtain income from another source. You may decide when you want to retire from the Fund at a later stage, or rather when you can afford to do this. The University has also given consent for employees who opted for deferred retirement and are re-employed on a temporary basis after retirement, to continue to make contributions to the Fund. However, the employer will not allow these contributions as a tax deduction. On your death subsequent to exercising the deferred retirement option, your dependants will only receive

the accumulated fund credit in the Fund, as the insured death benefits will have ceased on the date of retirement from the University. The monthly administration fees will be recovered from your fund credit and you will still have access to your fund information via the Fund's online portal Retirement Fund Web until you eventually retire from the Fund. By opting for deferred retirement you will still benefit from the economies of scale applicable to the Fund's administration and investment fees. From the age of 55, members have the following options when considering retirement from US:



If you are interested in exercising the deferred retirement option, you may contact **Mr Peter Kirsten** from the **Remuneration and Benefit Department** for more information.

Financial Advice

You are reminded that USAF 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 preferred service providers comprises:

Alexander Forbes Financial Planning Consultants:
+27 (0) 21 809 3750 / wesselsw@aforges.co.za

Efficient Wealth:
+27 (0) 21 914 8030 / martin@efw.co.za

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

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

Sanlam Financial Advice:
+27 (0) 21 947 1291 / karl.parks@sanlam.co.za

USAF will pay for two consultations with one of the preferred service providers. The first consultation may be scheduled any time from age 53, and the second one on retirement. Using the benefit is easy – just follow these steps:

1. Select a service provider.
2. Contact Human Resources (Charné Pool at +27 (0) 21 808 9271 / charnep@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.

Retirement Fund Web – your access portal to USAF

Retirement Fund Web offers access to your own fund information 24 hours a day. When you log on to Retirement Fund Web you will be notified of new information that is available.

Retirement Fund Web gives you access to:

- the retirement calculator;
- your fund values and benefit statement;
- a membership certificate;
- the monthly investment report of the Fund;
- the quarterly review of the Growth Portfolio; and
- other fund information.

You are encouraged to use the retirement calculator in order to determine an appropriate contribution rate for the coming year. How do I gain access to the website? You are now redirected to the Sanlam Secure Service website when you visit <https://www.retirementfundweb.co.za/>. Here you are prompted to register using the step by step registration guide. This forms part of Sanlam's digital strategy to give you access to all your Sanlam insurance and savings products via one portal.

Important Contact Details

If you need more information on USAF you may contact the Remuneration and Benefits Department of the benefit consultant. Please contact the principal officer if you have any complaints about USAF.

Principal Officer

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Pension Funds Adjudicator (PFA)

E-mail: enquiries@pfa.org.za

Members may contact the Pension Funds Adjudicator if their complaints have not sufficiently been dealt with by the Fund. Please consult the PFA's website (www.pfa.org.za) for more details.

