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NEWSLETTER

SEPTEMBER 2022

1. Chairman's Report

There's no denying that times are tough. Saving – whether it's for an emergency fund or retirement – can feel downright impossible. Regardless of how tough times are, we know that saving up is more important than ever before.

The Growth Portfolio has delivered very good long-term returns of 12% per annum since inception, despite difficult market conditions. A decision has been made to increase the offshore exposure of the Growth Portfolio to 45%, which is the maximum allowed in terms of the latest legislation. Increasing the offshore exposure will result in a more diversified portfolio and therefore add value to the portfolio over the long term.

The Fund's financial statements for the year ended 31 December

2021 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 benefits.

Read about the importance of ensuring that your loved ones are taken care of. Then there is some good news about a reduction in the premium rates of the approved and unapproved death cover in section 8.

Best regards

Prof Niel Krige
Chairman

2. Financial statements: 31 December 2021

The audited financial statements for the year ended 31 December 2021 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. Market insight

How have markets performed up to 30 June 2022?

Global markets (returns in this section are in US dollar terms)

US year-on-year inflation to May 2022 surprised on the upside at 8.6%, the highest level in 40 years. Therefore, and given its current monetary policy tightening cycle, the US Federal Reserve raised its benchmark rate by 0.75% in the month of June, leading to a total increase of 1.25% for the second quarter. An increase in US rates, particularly when the increase is higher than expected, generally leads to a stronger dollar, as was the case in June 2022. The European Central Bank (ECB) began raising rates in July 2022 after the ECB's benchmark interest rate had been pegged at 0% for a number of years.

The first six months of 2022 rank as the worst performing six-month period in over 40 years, with the Bloomberg US Treasury Index reflecting a year-to-date return of -9.1% on "risk-free" US sovereign debt. The rapid rise in the US risk-free rate (Treasury bill yield) puts strong downward pressure on valuations of longer-term cash flows and assets in all currencies. This has been the main cause of the significant decline in global equity valuations over the year to date. Downward pressure on earnings of global companies is also being discounted into share prices, which has led to a further de-rating.

The MSCI All Country World Index (ACWI) has fallen by 20% for the half year ended June 2022. The decline represents a bear market, although it is not quite as extreme as the peak-to-trough stock market decline of 2008 (more than 50%) nor the decline of March 2020 (more than 30%).

Local markets

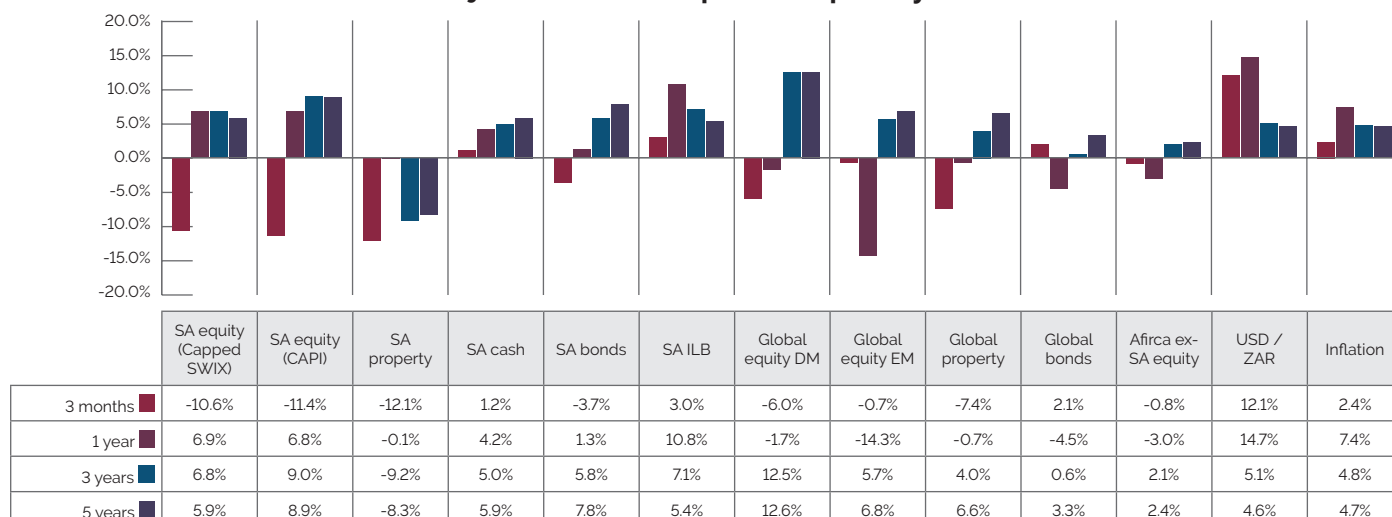
In May 2022, SA's headline CPI rose by a shocking 0.7% month on month, pushed higher by food and fuel prices. This resulted in the annual rate of inflation rising to 6.5% year on year, well above market expectations of an increase of 6.1%. The SA Reserve Bank (SARB) increased the repo rate by 0.5% at its Monetary Policy Committee meeting in May 2022. After the quarter-end, the SARB increased the repo rate by 0.75% to 5.5% in July 2022. Further rate hikes are expected this year, as risks to inflation remain to the upside, although economic growth remains a concern.

The FTSE/JSE Capped SWIX delivered a return of -7.5% for the month of June 2022 and lost 10.6% for the second quarter. Year to date, the South African equity market has fared relatively well (down 4.6% in ZAR terms) compared to the MSCI ACWI (down 18.2%) and the MSCI Emerging Markets Index, which is down 15.3% in ZAR over the year to date.

For the month of June 2022, resources and financials were down 16.3% and 13.3% respectively while industrials managed to generate a positive return of 0.9%. This was due to strong performance by Naspers and Prosus (+38.1% and +30.1% respectively) after announcing that they would start an open-ended share repurchase programme, funded by selling down a portion of their shares in Tencent.

The table below shows the major index returns in SA rands over various measurement periods ended 30 June 2022.

Major index returns periods up to 5 years

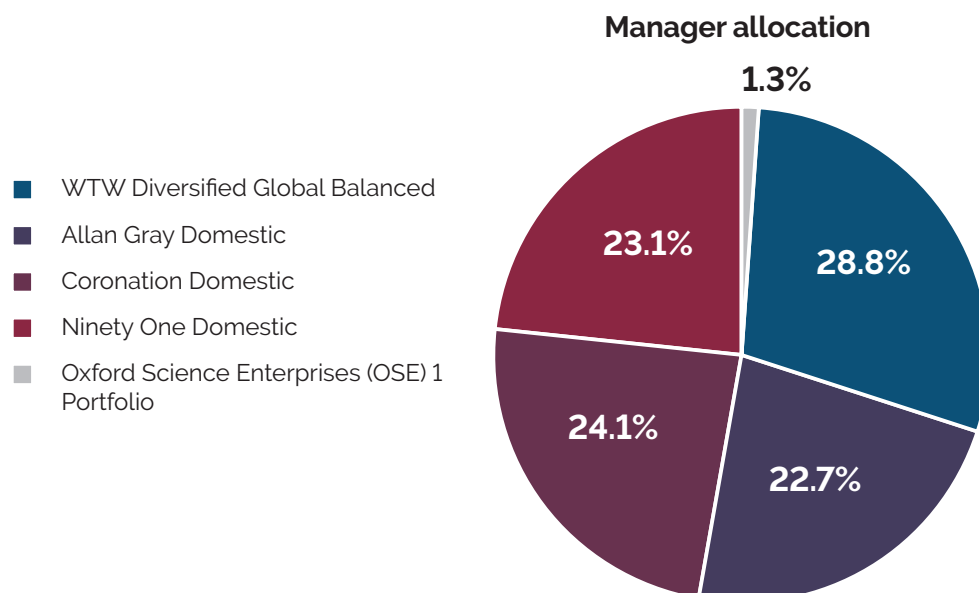


4. Fund investments

Growth Portfolio

The Growth Portfolio consists of both a local and an offshore component. The local component is split in equal portions between the following investment managers: Allan Gray, Coronation and Ninety One. It should be noted that differences in investment returns of the managers result in changes in manager allocations from time to time. The offshore component is managed by Willis Towers Watson.

The composition of the Growth Portfolio as at 30 June 2022 was as follows:



How did the Fund's portfolios perform up to 30 June 2022?

A summary of the returns (net of fees) of SURF's portfolios up to 30 June 2022 is shown in the table below:

Portfolio	Inception date/ Start date of reporting	Return over 12 months	Return over 36 months (p.a.)	Return over 60 months (p.a.)	Return since inception (p.a.)	Inflation (CPI) since inception (p.a.)
Growth	01/04/2009	3.7%	8.7%	7.9%	12.0%	5.1%
Aggressive Absolute	01/02/2017	7.6%	11.1%	9.4%	9.2%	4.8%
Conservative Absolute	01/02/2017	5.6%	8.8%	8.3%	8.5%	4.8%
Capital Protection	01/04/2009	5.4%	6.2%	7.1%	7.2%	5.1%
Shari'ah	01/12/2017	3.7%	6.3%	-	6.3%	4.8%
Inflation (CPI)		7.4%	4.8%	4.7%		

Although not shown in the table above, the Inflation-linked Bond Portfolio returned 13.2% p.a. over the one year and nine months period since its inception to the report date.

It is noteworthy that the one-year returns of the various portfolios were relatively low, which is reflective of the poor performance of most asset classes over this period.

The Growth Portfolio's longer-term returns are very good, and it has delivered a real return of 6.9% p.a. since inception. The Investment Committee decided to increase the offshore exposure of the Growth Portfolio to 45%, which is the maximum offshore exposure allowed in terms of Exchange Control Circular No. 10/2022. This was issued with effect from 23 February 2022. The Investment Committee believes that increasing the offshore exposure of the Growth Portfolio will result in a more diversified portfolio and therefore add value to the portfolio over the long term. Increasing the offshore exposure of the portfolio to the maximum could also be regarded as providing a hedge against potentially bad outcomes in South Africa. However, the rand is considered one of the most volatile currencies and this decision may lead to an increase in the volatility of the portfolio over the short term. Note that the increase in the portfolio's offshore exposure will be staggered over the next six months.

The Aggressive Absolute Return Portfolio has delivered an excellent real return of 6.3% p.a. over the three-year measurement period and a real return of 4.4% p.a. over the period since inception (five years and five months), which is an excellent outcome over this period given the tough market conditions. It should be noted that the Aggressive Absolute Return Portfolio has outperformed the Growth Portfolio over the one-year, three-year and five-year measurement periods (7.6% vs 3.7% over the one-year period; 11.1% p.a. vs 8.7% p.a. over the three-year period; and 9.4% p.a. vs 7.9% p.a. over the five-year period).

The Conservative Absolute Return Portfolio has also delivered an excellent real return of 4.0% p.a. over the three-year measurement period and a real return of 3.7% p.a. over the period since inception (five years and five months).

The Capital Protection Portfolio has delivered a real return of 2.1% p.a. since inception. Over the one-year period, the portfolio delivered a return of 5.4%, which is 2% behind the inflation rate over the same period. The ability of the portfolio to deliver the targeted real return of 1.5% p.a. is dependent on the SA Reserve Bank following a real return monetary policy.

The Shari'ah Portfolio has delivered a real return of 0.9% p.a. over the period since inception.

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

Total Expense Ratio (TER) for the one-year period ended 30 June 2022

The estimated Total Expense Ratio (TER) for the Growth Portfolio is 0.75% p.a. The estimated TERs for the Aggressive and Conservative Absolute Return Portfolios are both 0.85% p.a.

The TER is an annualised value (typically measured over a rolling three-year period or since inception and expressed as a %) and includes the following:

Annual asset management fees, asset manager performance fees (if any), bank charges, audit fees, taxes (e.g. VAT), custodian and trustee fees, and costs related to script lending (if any).

5. The Fund's default investment strategy

The Fund offers you a default lifestage investment portfolio where your money is invested in the Growth Portfolio up to six years before the normal retirement date. Your money is then automatically phased from a high-growth / high-risk to a low-growth / low-risk portfolio during the period up to the normal retirement date.

According to the strategy, with effect from 1 January in the year of the member's 60th birthday, the fund credit is transferred from the Growth Portfolio to the Aggressive and Conservative Absolute Return Portfolios. This will be done in equal portions, via 25 quarterly transfers, resulting in the fund credit being held in equal portions (50/50) in the two Absolute Return Portfolios at the normal retirement date.

The lifestage strategy is explained in the chart below:



UP TO AGE

60

Invested in the
Growth Portfolio



FROM AGE

60-65

in 25 quarterly
switches



Ending in 50% Agressive Absolute Return
portfolio and 50% Conservative Absolute
Return portfolio at age 65

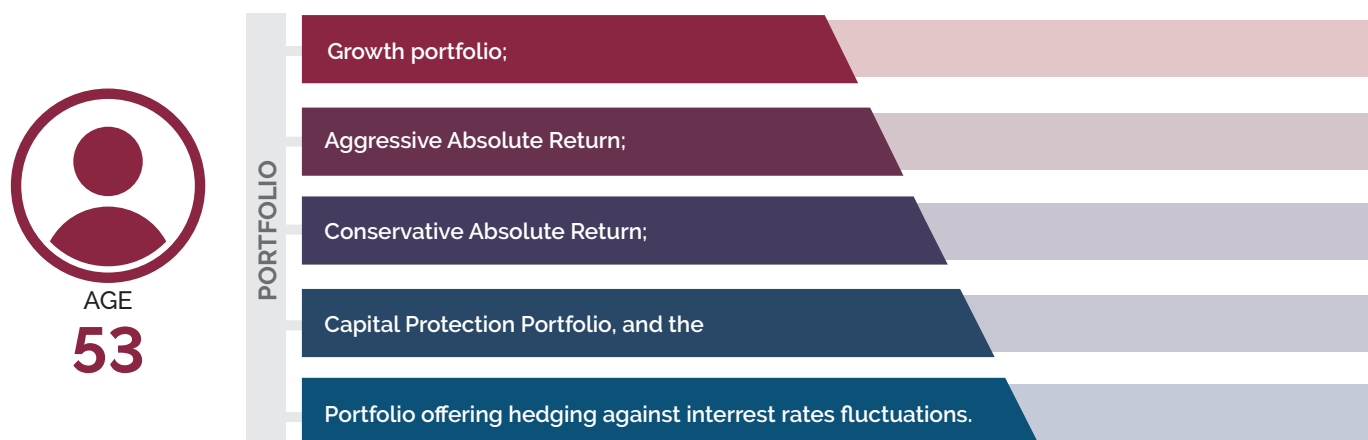
Note: 65 = Normal Retirement Age

If you are turning 60 in 2023, you will receive communication from SURF with regard to your options in October 2022.

6. Investment options

From age 53, SURF offers members investment options outside the default investment strategy.

If you select the Investment Choice option, from age 53, you may choose to invest your fund credit in the following portfolios:



Please note: This model is suitable for members who are comfortable with investment concepts and making their own investment decisions. You are advised to obtain financial advice from a certified financial advisor before exercising your investment choice or switching portfolios.

SURF also offers members who wish to invest their fund credit according to Islamic principles, the option to invest in the Old Mutual Albaraka Balanced Shari'ah Portfolio. Members opting for the Shari'ah Portfolio cannot participate in the lifestage investment strategy. However, members are entitled to switch back to the lifestage investment strategy from the Shari'ah Portfolio at any time.

7. Early access to retirement benefits: "Two-pot system"

National Treasury has released this year's draft Tax Bills, which were open for comments until 29 August 2022. For working South Africans, early access to retirement benefits (the so-called two-pot system) is of importance in the draft Tax Bills.

The suggested implementation date as per the proposals will be **1 March 2023**, although this seems optimistic, as both retirement funds and the South African Revenue Service will have to make extensive system changes.

It is proposed that from 1 March 2023, all your contributions flowing into retirement funds to which you belong (pension fund, provident fund, preservation fund and/or retirement annuity fund) be allocated to two different pots – a retirement pot and a savings pot. A maximum of 1/3 of contributions may go to the savings pot, which will be the pot to which you will be allowed early access. A minimum of 2/3 of the contributions will go into the retirement pot. No withdrawals will be allowed from the retirement pot. When you resign from employment, you will not have access to the retirement pot, but will have to preserve the benefit and use it to provide you with a monthly pension on 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 28 February 2023. 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.

The current regime in effect before 1 March 2023 will apply in respect of the vested pot, which means that members will be allowed to receive the benefit on resignation from employment.

In short, it will work like this:

	Vested pot	Savings pot	Retirement pot
How much of my retirement money will go into each pot on implementation date?	All contributions up to 28 February 2023 will go into the vested pot.	The savings pot will not have any money in it to start with.	The retirement pot will not have any money in it to start with.
To which pot does my retirement fund contributions go?	No contributions will be made to this pot after 1 March 2023, except for members who were 55 or older on 1 March 2021.	A maximum of 1/3 of your contributions after 1 March 2023 will go to the savings pot (limited to the tax-deductible portion).	At least 2/3 of your contributions will go to the retirement pot, plus any contributions you make above 27.5% of your taxable income or R350 000.
What can I withdraw before I leave employment?	You cannot make withdrawals from this pot.	A minimum of R2 000 per annum may be withdrawn.	You cannot make withdrawals from this pot.
What can I withdraw when I leave employment before retirement?	You may withdraw the full balance.	You may withdraw the full balance.	You cannot make withdrawals from this pot.
What can I withdraw (receive in cash) when I retire from employment?	You can make withdrawals according to the rules applicable before the effective date, so it will depend on whether you were a member of a pension or a provident fund.	You may withdraw the full balance.	You cannot make withdrawals from this pot.
How will I be taxed?	In accordance with the current taxation regime.	Any withdrawals from this pot will be taxed in terms of the PAYE tables.	Your monthly pension will be taxable as income in accordance with the PAYE tables.

It is important to note that in terms of the current proposals, no early access will be possible from any of the pots as at 1 March 2023. You will first have to "build up" a balance in your savings pot from the 1/3 of your monthly contributions. Only once there is more than R2 000 in the savings pot, a withdrawal can be made, but only once a year.

However, according to media reports, some unions rejected this proposal as inadequate and want the draft Bill to provide for immediate relief to embattled workers when it comes into effect in March 2023, not simply applying to contributions going forward. National Treasury, however, believes the financial position of workers is not as dire now as it was at the height of the Covid-19 pandemic, so there would be less need for relief.

You will be kept informed of any decisions on the finalisation of the proposals.

8. Premium rate reduction from 1 September 2022: Approved and unapproved death cover

Good news for members!

Be on the lookout for a saving on the risk premiums soon.

Momentum has agreed to reduce the premium rates for the insured spouse's and children's pension cover in SURF and the unapproved SU Group Life Scheme by 10% with effect 1 September 2022. Check your payslip at the end of September 2022.

9. 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 children, you can opt out of the insured spouse's and children's pension cover in SURF.

If you do exercise the option of no insured death benefit in SURF and get **married and/or have children at a later stage**, you will have to select the insured death benefit in SURF to ensure that the needs of your spouse and/or children are catered for in the event of your death.

Should you not opt in after getting married and/or the birth of a child, and you pass on, your spouse and/or children will not receive the spouse's and children's pensions and will be left in a destitute 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 exercise these options.

Unapproved group life assurance cover

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) occurs.

The Insurance Act (Act 18 of 2017) requires that payment of unapproved death cover be made directly to beneficiaries, according to the deceased member's beneficiary nomination form. Where a minor child is nominated to receive benefits under the unapproved group life assurance scheme, the benefit will be paid to the parent or the legal guardian of the child, or to a trust if so indicated by the member/parents.

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 that 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 protracted process can be avoided if members clearly identify their beneficiaries by completing the nomination form.

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.

10. Sanlam Retirement Fund Web and Sanlam app – your access to SURF

We encourage you to register on Sanlam's Retirement Fund Web and the Sanlam app, so that you are able to access your personal details, view the investment portfolio returns as well as your up-to-date fund credit, all at the click of a button, 24/7. You will also be able to see all your Sanlam insurance and savings products via one portal.

How do I access the Retirement Fund Web?

- Visit www.sanlam.co.za. Click on *Login* (top right) and select *Secure Services*.
- Select *Register* and use your fund membership number (which is reflected on your benefit statement) or your identity number.
- Confirm your mobile number and email address.
- Select a user code / username.
- A temporary password will be sent to your mobile.

Use this temporary password to gain access. Change the temporary password, as it may only be used once.

How do I access the app?

Download the **Sanlam My Retirement** app from the Google Play Store or Apple App Store.
Use your Sanlam Secure Services user code and password to access your SURF information.

11. 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 preferred service providers comprises:

Alexander Forbes Financial Planning Consultants:

+27 (0) 21 809 3750 | wesselsw@forbes.co.za

Efficient Wealth:

+27 (0) 21 914 8030 | andrew@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 1028 | hanlie.wethmar@sanlam.co.za

SURF 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 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 Services 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.

12. 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
Information Officer	Japie Kotzé Tel: +27 (0)21 808 2754 Email: jjsk@sun.ac.za
Benefit Consultant	Alfreda April Tel: +27 (0)21 912 3316 Email: alfreda@simekaconsult.co.za
Remuneration and Benefits division	Peter Kirsten Tel: +27 (0)21 808 3740 Email: pkirsten@sun.ac.za / sun-e-hr@sun.co.za
Pension Funds Adjudicator (PFA)	Email: 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) for more details.

13. Launch of new SURF website

Coming soon...

We're getting a fresh new look very soon! The new **surf.co.za** is designed so you can go online, quickly find information about SURF and get going. The new SURF website will be launched soon.