



DEFINED BENEFIT

DE BEERS PENSION FUND



DEFINED CONTRIBUTION

Pensioner Focus

NEWSLETTER TO THE PENSIONERS OF THE DE BEERS PENSION FUND

DECEMBER 2021

Great news during challenging times

This year we have particularly good news for Life Annuity Pensioners – not only about your annual pension increase, but also about a most unusual ad hoc payment.

The Trustees have approved the following for 2022:

- **A pension increase of 7.0%** with effect from 1 January 2022 (this is 2.0% higher than inflation, which was measured at 5.0% to the end of September 2021).

PLUS

- **An ad hoc payment** for 2022 equal to **30%** of your increased 2022 annual pension, payable in two tranches - January 2022 and April 2022, respectively.

The combination of a pension increase that is higher than inflation and the ad hoc payment means that Life Annuity Pensioners will be receiving much more than the inflation-related increase targeted in terms of the Pension Increase Policy.



Our best wishes to you and your loved ones for the festive season.



IMPORTANT:

Why this increase and ad hoc payment are exceptional, and should not be expected again into the future

Ironically, the ability to increase pensions by more than inflation and at the same time pay Life Annuity Pensioners an additional 30% of their increased 2022 annual pension is both *despite* and *because* of the Covid-19 pandemic.

Despite Covid-19 resulting in significant turmoil in the investment markets, our investment managers have again done a great job of not just safeguarding our pensioner pool, but also growing it during the rebound that took place in the financial markets as the global vaccine roll-outs gained momentum.

Because the Covid-19 pandemic has sadly resulted in many more Life Annuity Pensioners deaths than would usually be expected in a normal year, many pensions no longer need to be paid, or are lower (for a surviving spouse, for example). This means that the financial position of the pensioner pool for the remaining Life Annuity Pensioners has strengthened even further.

Higher than inflation increases (or even inflationary increases) and ad hoc payments cannot be guaranteed in future – future increases can only be considered and granted by the Trustees if these can be afforded by the Fund.

In accordance with the Pension Increase Policy, Life Annuity Pensioners who only became eligible for an increase during 2021 will receive a pro-rated increase (based on retirement date or age 60, whichever is applicable).



Ad hoc additional payment

The opportunity for the Fund to make an ad hoc payment in 2022 arose from the healthy funding level of the pensioner pool as explained above. The Trustees felt that, due to the size of the ad hoc payment, it is best to make the payment in two tranches, with the first tranche due to be paid in January 2022 and the second due to be paid in April 2022.

The second tranche in April 2022 will only be paid to:

- Life Annuity Pensioners who received the first tranche in January 2022 and is receiving a pension payment in April 2022; and
- beneficiaries receiving a pension payment in April 2022 who are receiving such payment as a result of the death of a Life Annuity Pensioners who received the first tranche in January 2022.

It is important to stress that these are special, discretionary payments and this should not be seen as setting a precedent for payments of this nature in the future, nor should it create a benefit expectation with Life Annuity Pensioners. Such ad hoc payments may therefore not be made in 2023 or thereafter.

A range of factors are considered in making ad hoc payments, the most important of which is the financial wellbeing of the pensioner pool. It is accordingly paid at the discretion of the Trustees and is not provided for or guaranteed as a benefit anywhere in the Rules of the Fund or in the Pension Increase Policy.



Example of how the ad hoc payment will be calculated and paid

- In 2021, Peter's monthly pension was R2 000.
- From January 2022 his monthly pension will be increased by 7%, in other words, by R140 to a total monthly pension payment of R2 140.
- In 2022, his annual pension income for the whole year (excluding ad hoc payments) will amount to R25 680 (R2 140 X 12).
- In addition to his increased monthly pension of R2 140, Peter will also receive two ad hoc taxable payments of R3 852 (15% of R25 680) in January and April 2022, respectively.
- The total payment before any deductions (for example, tax) that he will receive in January and April 2022 will therefore be R5 992 (R2 140 + R3 852).
- His monthly payment during the rest of 2022 will revert to R2 140.

The Fund's Pension Increase Policy

Pension increases granted by the Fund are governed by the Pension Increase Policy, which states that:

- Pension increases, if any, are usually effective from 1 January of each year, but may be made effective from another date that the Trustees may determine.
- The Fund does not guarantee any pension increases and such increases are therefore discretionary and are also based on whether the Fund can afford to give an increase or not.
- The Fund will use the year-on-year percentage change in the "Headline" Consumer Price Index ("CPI" or "inflation") up to 30 September of the previous year as a target percentage for pension increases. **The year-on-year increase in CPI to 30 September 2021 was 5.0%.**
- Any proposed pension increase granted in accordance with the Pension Increase Policy needs to be affordable and must be certified as such by the Fund Actuary.

The Fund aims to increase *life annuity pensions* in January each year. In terms of the Pension Increase Policy, the aim of the pension increase – although this cannot be guaranteed – is to protect the buying power of your pension or, in other words, to increase your pension every year in line with inflation. The Fund has historically met this target.

- Any pension increase in excess of the year-on-year CPI increase is subject to the approval of the Principal Employer, which may not be unreasonably withheld.

Bearing in mind both the long-term liabilities of the Fund in relation to Life Annuity Pensioners and the Pension Increase Policy, the Fund Actuary is required to review the funding level of the ring-fenced investments (the pensioner pool) and then to recommend an appropriate pension increase to the Trustees, who then make the final decision in terms of the Policy. The Pension Increase Policy can be viewed on the Fund's website, www.debeerspensionfund.co.za, or is available directly from the Fund on request. Details of the pension increase process are also contained in the Pensioner Information Booklet.

Risks to future increases of which you should be aware

We are living in uncertain times and there are risks associated with granting future pension increases of which Life Annuity Pensioners should be aware. A few examples of these risks are:

- **Low, or even negative, investment returns:** There is a lot of uncertainty in financial markets and the political climate, not just in South Africa and, although the Trustees have tried to limit the risk of poor investment returns as far as practically possible, there is no guarantee that sufficient returns will be earned in future for the Trustees to continue to grant pension increases in line with the Pension Increase Policy.
- **Spikes in inflation:** South African inflation has been relatively stable for the last number of years and although the Trustees have put protection mechanisms in place to manage inflation risk for the Fund, significantly higher inflation in future may impact on the Fund's ability to deliver increases in line with the Pension Increase Policy.
- **Life Annuity Pensioners living longer than expected:** The Fund Actuary makes certain assumptions regarding how long the average Life Annuity Pensioner will live

(and how long he or she will therefore need to receive a pension from the Fund). If the average Life Annuity Pensioner lives longer than expected, the Fund Actuary will have to set aside more money to ensure that pensions can continue to be paid for life – this ultimately will reduce the ability of the Fund to grant pension increases in line with the Pension Increase Policy.

- **Changes in legislation:** Although such changes are impossible to predict, any changes in legislation or regulations governing pension funds that require, for example, prescribed assets or higher reserves and margins on Life Annuity Pensioner liabilities, may reduce the ability of the Fund to grant pension increases in line with the Pension Increase Policy.

These risks are carefully managed by the Trustees, in consultation with their advisors, and we are pleased to confirm that the pensioner pool is currently in a healthy financial position. This may not, however, always be the case, so it is important to understand that future pension increases can never be guaranteed and will always be limited by and assessed in terms of affordability.



When will my pension be paid?

Pensions are paid on the 23rd of each month by electronic funds transfer (EFT) only. Should the 23rd fall on a Saturday or a public holiday, pensions will be paid on the Friday or other day preceding the 23rd. If the 23rd is a Sunday, pensions will be paid on the following working day, being the 24th. In response to previous requests in this regard, December pensions will, where possible, be paid three calendar days prior to Christmas. This will result in a slightly earlier annual December pension pay date.

PENSION PAY DATES

The December 2021 pensions will be paid on **Monday, 20 December**.

Pension pay dates 2022:

- 24 January
- 23 February
- 23 March
- 22 April
- 23 May
- 23 June
- 22 July
- 23 August
- 23 September
- 24 October
- 23 November
- 20 December



Investment Policy Statement updated

The Fund's Investment Policy Statement (IPS) was recently updated. You can find a summary of the IPS at the end of this document. The full updated IPS is available on the Fund [website](#), or directly from the Fund's offices.



PENSION POST

Is there a specific issue you would like to see covered in future issues of Pensioner Focus?

E-mail us at: pensionpost@dbpf.co.za, **or write to:** Pension Post, De Beers Pension Fund, PO Box 1922, Kimberley 8300 or phone David Datnow on tel 053 807 3363.

Summary of the De Beers Pension Fund Investment Policy Statement

Introduction

The primary purpose of the De Beers Pension Fund Investment Policy Statement (the Policy) is to document the investment strategy and associated governance processes of the Fund as agreed to by the Fund's Board of Trustees (BoT). This Policy is reviewed at least annually in collaboration with the Fund's appointed Asset Consultants and Actuary. The full document can be accessed by members on the Fund's website (www.debeerspensionfund.co.za) or may be obtained directly from the Fund on request.

The objective of this summary is to communicate the main features of the Policy in the following format:

- Nature of the Fund;
- A summary of governance principles;
- A brief description of the roles and responsibilities of various parties;
- A description of the investment objectives of the Fund;
- A summary of the overall objectives of the investment strategy underlying the various portfolios; and
- A summary of the characteristics of each investment portfolio, which includes targeted long-term investment returns.

Nature of the Fund

Until 31 July 2006, the Fund was a pure defined benefit (DB) fund and as such the employer guaranteed the benefits due to members on retirement, death or withdrawal in accordance with the Rules of the Fund.

From 1 August 2006 the Fund introduced a defined contribution (DC) section, to which the majority of the active members elected to convert. The Fund continues to provide in-house pensions. The DB section is however now closed to new working members and presently has 30 active members. For further details of the different characteristics of the two sections please refer to the Policy, DB Section Member Guide, DC Section Member Guide and Pensioner Information Booklet (all available on the Fund's website).

Governance Principles

The active, on-going maintenance and review of good standards of governance is designed to ensure that the Fund's investments are managed appropriately and will collectively reduce the risk of material failure of the Fund's investment strategy. Governance principles hence define the framework of the Policy.

The Fund is governed by the Pension Funds Act. Regulation 28 of the Pension Funds Act regulates investment practices and principles (and imposes certain limitations). The Fund is also bound by its registered Rules.

Pension Fund Circular 130 (PF130), issued by the Financial Sector Conduct Authority (FSCA), deals with recommended governance practices. Whilst FSCA circulars are not legally binding on retirement funds, the BoT recognises these as "recommended practice" and PF130 has been implemented comprehensively by the Fund, particularly the principles that specifically relate to investments, most of which are contained in Annexure B of PF130 (which sets out the Good Governance Guidelines). The Fund's policies pertaining to each of these governance principles are summarised in Appendix 3 in the Policy, together with extracts from Regulation 28 and PF130 (where applicable). The Fund's approach to sustainable investing conforms with the FSCA's Guidance Note which guides the boards of retirement funds on the expectations for reporting and disclosure on issues of sustainability.

The BoT recognises the increasing importance of environmental, social and governance factors in society and the important role that pension funds (as large institutional investors) can have in ensuring responsible corporate behaviour. The Fund has adopted the Code for Responsible Investing in South Africa 2011 (CRISA) and has engaged with the Fund's Investment Managers to ensure that they too have adopted the CRISA principles and that these principles are applied in the construction of investment portfolios on behalf of the Fund. The Fund's Responsible Investment Policy is set out in Appendix 4 of the Policy. The Active Ownership Policy, which sets out the Fund's guidelines in terms of the manager responsibilities around proxy voting is set out in Appendix 5 of the Policy.

Roles and Responsibilities

The BoT is ultimately responsible for the management of the Fund's assets, the investment of these assets and the Fund's investment performance. The BoT cannot relinquish or cede these responsibilities, but may delegate certain of the responsibilities and activities related to the management of the Fund's assets. This has been done by the establishment of an Investment Board Committee (the Committee) which acts in terms of formal "Terms of Reference" determined by the BoT, as set out in Appendix 7 of the Policy.

The objective of the Committee is to oversee the investment of the Fund's assets in terms of the investment strategy approved by the BoT and to seek advice from the Fund's appointed Asset Consultants and other advisors as deemed appropriate. The BoT receives comprehensive feedback and reports from the Committee regarding its activities on a regular basis.

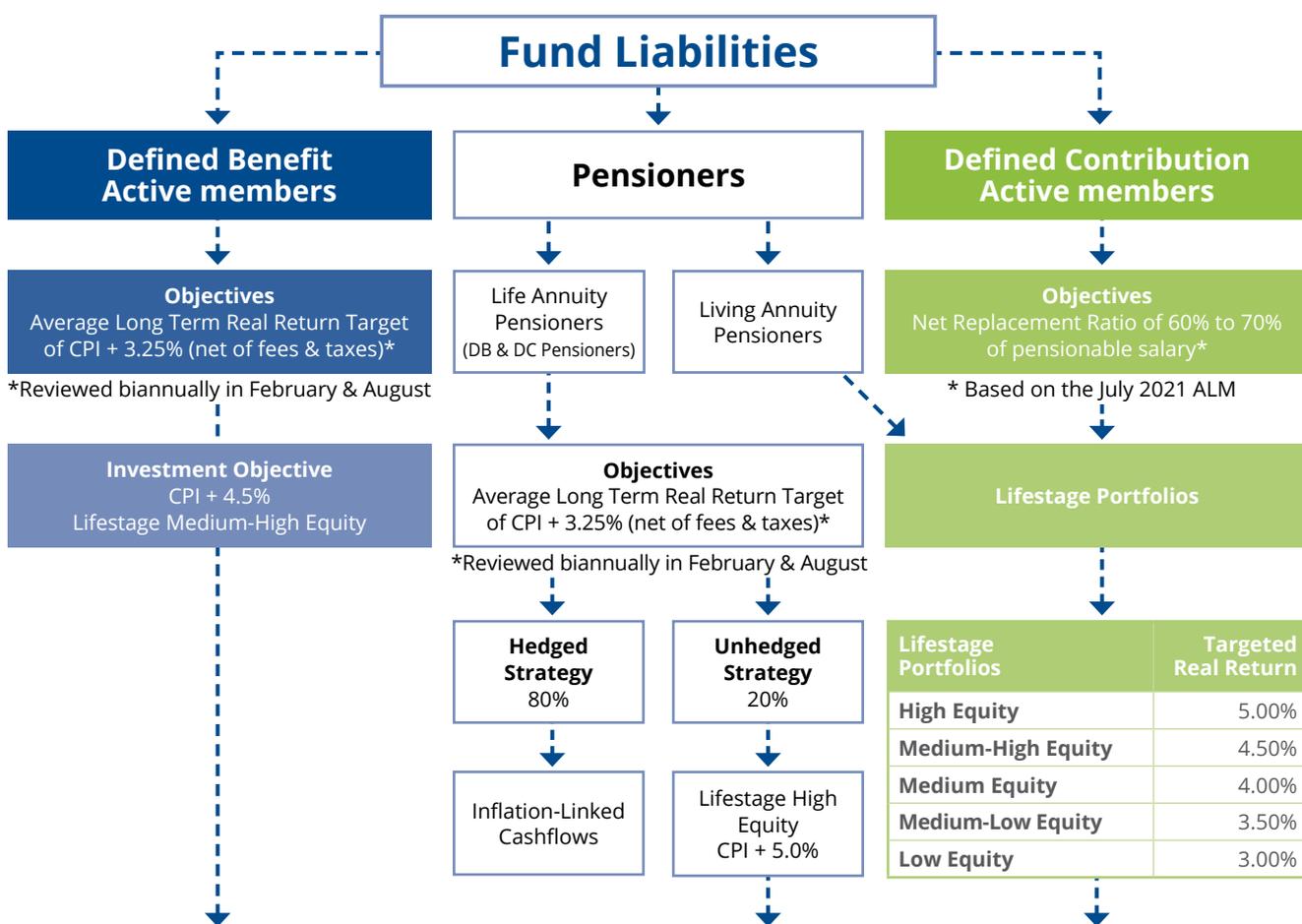
A Summary of the Fund's Investment Objectives

The Fund's investment structure diagram, below, sets out the long-term return objectives that are deemed necessary to meet the Fund's liabilities in relation to the various sections of the Fund. It also details the portfolios established to meet these long-term return objectives. Each of these portfolios in turn has their own targeted long-term real return objectives (in other words, returns

in excess of CPI and net of fees and taxes) and the building blocks (local equities, local hedge funds, local bonds, local income, local cash, global equity and global bonds) used to construct them. The building blocks in turn each have their own targeted real return objectives.

For further details, please refer to the relevant sections in the Policy.

Lastly, please refer to the monthly factsheets that are made available on the Fund's website setting out the characteristics of each of the portfolios. The factsheets provide important information about the portfolios such as: their aims and objectives, returns since inception, risk analysis, the current and strategic asset allocations to the various asset classes, total investment costs and the market value of the holdings in each of the portfolios. These are also available on request from the Fund.



Targeted (net of all investment-related costs) Real Return Objectives per Building Block

