University of Johannesburg Pension Fund

Annual Trustee Report

2021

CHAIRPERSON'S REPORT

The Board of Trustees of the University of Johannesburg Pension Fund ("the Fund") is pleased to present this report, for the period ended 31 December 2021, to you, our valuable members of the Fund. The aim of this report is to give you an overview of the management activities and financial results of the Fund as well as general retirement fund information.

2021 proved to be a great year for investors in financial markets, both in South Africa and offshore. Following a very difficult 2020, which began with the onset of the Covid-19 pandemic, global economies started recovering in the latter part of 2020, and this continued into 2021, with many countries delivering economic growth in excess of levels seen before the Covid-19 crisis. Very low interest rates and massive amounts of quantitative easing and stimulus, supplied by global central banks, helped fuel the very strong recovery in global equity markets. The JSE benefited from this, delivering a 29.2% return for the calendar year. Resource shares, although having a volatile year, returned just over 32% for the year, followed by financial shares (27.4%) and Industrial shares (24.4%). Even South African nominal bonds delivered a pleasing 8.4% return and inflation linked bonds 15.6%. The local listed property sector on the JSE returned 37% for the year, and global equities in Rand terms delivered a 32.4% return

Due to the very strong asset class returns, the Fund's multi-asset balanced portfolios performed well. The Wealth Creation Portfolio returned 20.1% for the year, and the Capital Protection Portfolio 17.3%, net of fees. Within the Wealth Creation Portfolio, Coronation had a particularly good year, delivering a return of 24.1%. The Portfolio also comfortably outperformed its CPI+6% return objective of 11.3%.

At the start of 2022, asset managers expected to focus less on geopolitical risks, and more on the changing economic environment, given the rising inflationary concerns, changes in fiscal and monetary policy by central banks (rising interest rates) and ongoing supply side constraints. Investors were also becoming increasingly concerned about China's regulatory policy uncertainty and their zero Covid-19 strategy. The war in Ukraine was not expected, and this has caused, major disruptions in financial and commodity markets, which are being felt throughout the world, and in particular, rising energy costs. This crisis, has exacerbated what was already expected to be a more difficult year for financial markets, given the issues highlighted above.

With increasing levels of market volatility and negative news flow, investors should exercise caution in making investment decisions based on short-term fundamentals. We therefore encourage members to stay invested for the long term and take comfort that the investment strategy and performance monitoring is a constant focus of both the Investment Committee and the Board of Trustees.

In this report we review changes affecting the Fund since our last report to you.

1. The Fund welcomes the following new Trustees to the Board:

   Following the Member Trustee elections held in November 2021:

   - Ms Kgomotso Mokoena (effective 1 January 2022)
   - Dr D Webbstock (Alternate) (effective 1 January 2022)
   - Prof C Landsberg (Alternate) (effective 2 February 2022)

   Following the appointment made by the Employer:

   - Ms Sumaya Naidu was appointed as Alternate Employer Trustee with effect from 1 January 2022 to replace Mr Ben Mogapi, who had resigned.

2. The Fund received an unqualified audited opinion and a summary of the audited financial statements as at 31 December 2021 is included in this report.

As Chairperson, I would like to thank the Board of Trustees and the Principal Officer and her team for their contribution to the successful management and functioning of the Fund throughout the year.

Thank you for your on-going trust in us as your Trustees. We wish you and your family well and please stay safe.

Prof Amanda Dempsey
Chairperson

Explaining the cost measures used:

Total Expense Ratio ("TER")

The TER is a measure used by investors and advisors to determine how much of a Portfolio's underlying assets are paid for services provided by the investment administrator. These costs would typically include fixed management fees, admin fees, performance fees, custody fees and audit fees.

These fees are typically used to pay the investment administrator for the daily running of the fund.

Transaction Costs ("TC")

TC is a measure that can be used by investors and advisors to determine the costs incurred in buying and selling the underlying assets of a portfolio.

These fees would include brokerage fees, VAT and Forex spread costs.

Total Investment Charge ("TIC")

The TIC is the sum of the TER and TC.

Expenses do impact investment returns over time particularly in an environment where an investment strategy is out of favour for an extended period, which results in the expense being a bigger part of the return at the early stages of the investment thus requiring a longer term period for the investment returns to be meaningful.

A higher TER or TIC does not necessarily mean lower returns because it largely depends on the investment manager's skill and the market environment.

The Trustees would caution members against making an investment decision purely on the basis of cost. Members are strongly encouraged to consult with their financial adviser when making any investment decision.

INVESTMENT STRATEGY STATEMENT

This statement is intended to explain and summarise the investment strategy of the University of Johannesburg Pension Fund (the fund) to members. The complete investment strategy document is available on the Fund intranet at: https://universityofjohannesburg.us/4ir/uj-pension/

The fund is a defined contribution pension fund. Members participate directly in the investment performance of the fund's investments and retirement outcomes are not guaranteed.

The fund informs members of the level of retirement income they could reasonably expect to purchase at retirement, given their existing retirement savings in the fund, their current contribution to the fund and expected future investment returns. Various assumptions are made to project retirement outcomes and these outcomes are not guaranteed.

The fund uses a goals-based life-stage investment model where members' retirement savings are gradually moved from the fund's growth portfolio to the pre-retirement portfolio from five years before normal retirement age. The fund uses the growth portfolio to try to achieve a long-term real return of CPI + 6% per annum. To stand a good chance of achieving this return, the portfolio has a relatively large exposure to share markets and the investment risks associated with these markets. This is the default investment portfolio for younger members.

As members get closer to retirement, the default strategy is for retirement fund assets to be invested more conservatively to reduce the risk of capital loss. Members can opt out of the life-stage model and can then select portfolios from the investment choices available to members of the fund. Members can ask their HR representative for the member investment choice booklet if they are interested in this option.

The fund participates in pooled investment portfolios together with other retirement funds. These investment portfolios are provided and managed by the fund's appointed asset managers. The trustees frequently monitor the performance of the fund's investment portfolios and, should the trustees believe it to be appropriate to do so, the trustees will replace the manager or investment portfolios with more suitable manager(s) or investment portfolios.

The trustees believe that material extra-financial factors relating to environmental, social and governance (ESG) issues can affect the performance of investment portfolios. Responsible investing is an approach that incorporates these material extra-financial factors into investment processes and activities with the objective of decreasing investment risk and improving risk-adjusted returns. Active ownership requires the fulfilment of ownership duties in order to give effect to the above responsible investment approach.

The responsibility for the management of the fund's assets has been delegated to the asset managers appointed by the fund and these managers will be interrogated about their active ownership approach including, engagement and proxy voting record, as well as their ESG policies. Asset managers are required to exercise active ownership responsibilities on behalf of the fund to positively influence the underlying companies in areas such as sustainability through proxy voting and other engagement.

The fund has also made certain retirement product options available to members in line with default regulations. More details are available in the fund's relevant 'options on retirement' and 'options on leaving' fund booklets.

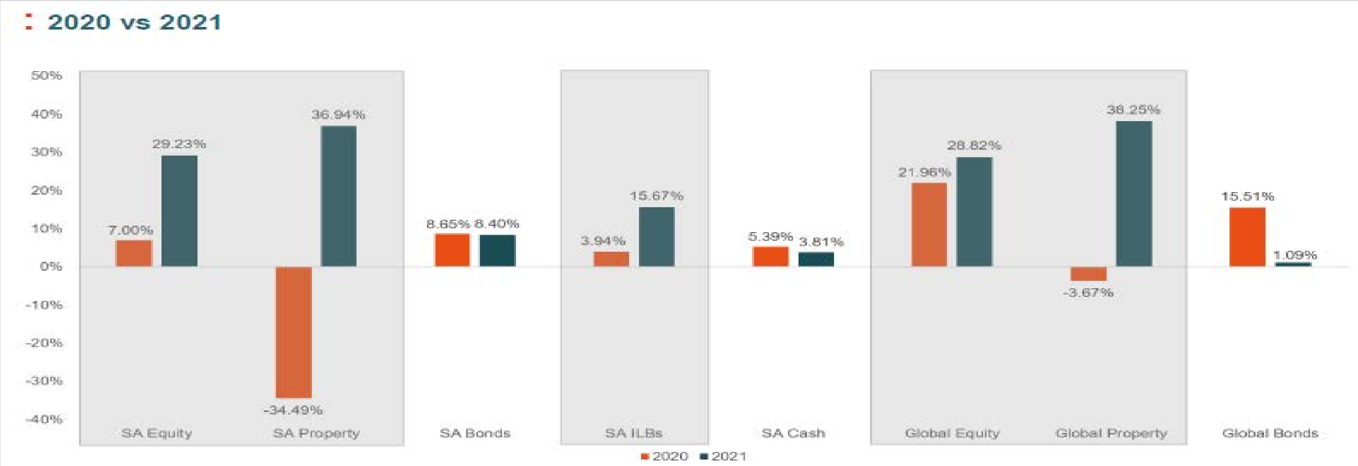
The trustees will review the fund's investment strategy at least every year to ensure that it remains appropriate for the fund and its members.

SOME MORE ABOUT INVESTMENTS

Local vs Global markets

We first consider how well growth assets performed in 2021 relative to the year COVID-19 first manifested. The first graph shows that equities and property, both local and global, performed strongly.

Asset class performance



Source: Alexander Forbes

Growth asset classes such as equities and property, as well as inflation linked bonds delivered stronger returns in 2021

We then look at the "best" performing asset classes, where the assets classes are depicted in various colours and performance is listed calendar year by year, in this second table.

Long-term calendar year returns and the need for diversification

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
SA Listed Property 35.88%	Global Equity 57.23%	SA Listed Property 26.64%	Global Equity 31.50%	SA Bonds 15.50%	SA Equity 21.21%	Global Bonds 15.72%	Global Equity 23.12%	Global Equity 22.56%	SA Listed Property 36.94%
SA Equity 26.68%	SA Equity 21.43%	Global Equity 16.53%	Global Bonds 29.20%	SA Listed Property 10.20%	SA Listed Property 17.15%	SA Bonds 7.69%	SA Equity 17.05%	Global Bonds 15.51%	Global Equity 29.36%
Global Equity 22.47%	Global Bonds 18.51%	Balanced 12.19%	SA Listed Property 8.00%	SA Cash 7.40%	Balanced 12.47%	SA Cash 7.25%	Balanced 10.73%	SA Bonds 8.65%	SA Equity 29.23%
Balanced 21.97%	Balanced 18.29%	SA Equity 10.88%	Balanced 7.21%	SA Inflation 6.60%	SA Bonds 10.22%	Global Equity 5.71%	SA Bonds 10.32%	SA Equity 7.00%	Balanced 21.89%
SA Bonds 15.99%	SA Listed Property 8.39%	SA Bonds 10.15%	SA Cash 5.6%	Balanced 3.80%	Global Equity 10.02%	SA Inflation 5.18%	SA Cash 7.29%	Balanced 6.27%	SA Bonds 8.40%
Global Bonds 6.82%	SA Inflation 5.40%	Global Bonds 9.93%	SA Equity 5.1%	SA Equity 2.60%	SA Cash 7.54%	Balanced -2.04%	SA Inflation 3.56%	SA Cash 4.52%	SA Inflation 5.47%
SA Inflation 5.42%	SA Cash 4.68%	SA Inflation 5.31%	SA Inflation 4.80%	Global Equity -4.50%	SA Inflation 4.62%	SA Equity -8.53%	Global Bonds 2.99%	SA Inflation 3.17%	SA Cash 3.53%
SA Cash 5.09%	SA Bonds 0.64%	SA Cash 5.29%	SA Bonds -3.90%	Global Bonds -10.10%	Global Bonds -3.38%	SA Listed Property -25.26%	SA Listed Property 1.92%	SA Listed Property -34.49%	Global Bonds 1.09%

Source: Alexander Forbes

The table above shows asset class returns for each calendar year over the last 10 years. As can be seen, no one asset class is consistently the best or worst performing asset class. For this reason, diversification across asset classes is key. This is because the good performance associated with one asset class can help offset the underperformance of another asset class.

Summary

- Growth asset classes (locally and globally) delivered strong returns in 2021 versus 2020.
- Diversification across asset classes is key, as no single asset class will consistently be the best performing asset class.
- Strong double digit 1 year local equity returns have filtered into the 5-year returns. This has supported local equities to now be outperforming inflation plus 5% over 5-year rolling periods.
- Over the last year, global equities delivered strong US dollar returns. With the rand strengthening against the US dollar over this period, global equity returns were even lower when expressed in rands.

In more recent months, the South African equity market delivered positive returns whilst the other asset class returns were more muted. However, the strong performance in 2021 has filtered positively into longer term return numbers. The message remains that diversification across all the asset classes remains key.

Asset class performance
Returns to 31 March 2022

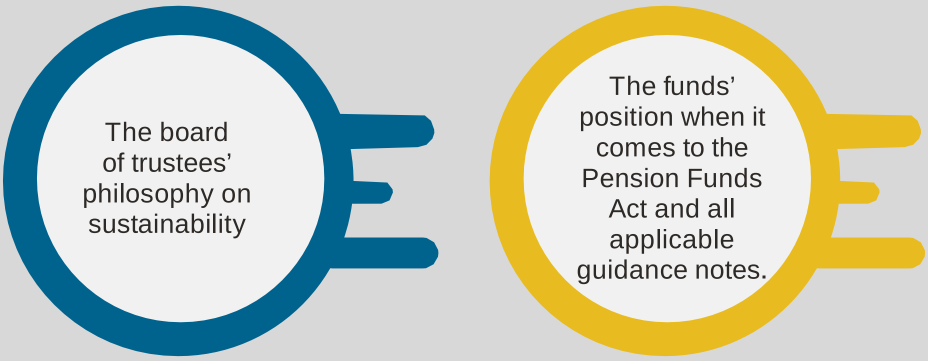
Best performing asset class

In ZAR	1 Month	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	10 Years (p.a.)
Local Equities						
FTSE/JSE All Share Index (ALSI)	0.01%	3.48%	18.61%	14.22%	11.39%	11.94%
FTSE/JSE Shareholder Weighted Index (SWIX)	1.35%	5.69%	12.95%	10.63%	8.27%	10.74%
FTSE/JSE Capped SWIX ALSI	1.49%	6.72%	20.43%	11.92%	8.10%	10.57%
Local Bonds						
All Bond Index (ALBI)	0.45%	1.86%	12.37%	8.43%	8.92%	8.15%
Local Cash						
SteFi Composite Index	0.33%	0.95%	3.62%	4.66%	5.47%	5.57%
Inflation-Linked Bonds						
Government Bond Index	-0.73%	0.21%	10.76%	7.08%	4.97%	6.13%
Local Property						
FTSE/JSE SA Listed Property Index (SAPY)	5.05%	-1.27%	27.06%	-3.82%	-4.85%	4.97%
Global Equities						
MSCI All Countries World Index (ACWI)	-3.12%	-12.99%	6.81%	14.74%	14.18%	17.99%
Global Bonds						
Citi World Government Bond Index (WGBI)	-8.47%	-14.09%	-8.54%	0.30%	3.06%	7.07%
Global Property						
FTSE/EPRA NAREIT Global Real Estate Index	-0.56%	-12.07%	16.70%	7.93%	9.81%	15.59%
Headline Inflation (CPI*	0.60%	1.37%	5.65%	4.38%	4.24%	5.01%
CPI + 5%	1.30%	2.83%	10.65%	9.38%	9.24%	10.01%

Strong returns from global and local growth asset classes during 2021 has filtered into the longer term numbers. Global and local equities posted double digit returns over 10 years. Portfolio diversification is key.

ESG (Environmental, Social and Governance) investing

The Trustees give specific consideration to the sustainability of the Fund's investments. The Fund invests assets through investments with recognized and reputable investment managers. These investment managers must comply with the Funds' investment policy statement. The investment policy statement is reviewed annually and updated to include:



An important part of this philosophy is ongoing engagement with the investment managers to get feedback on their sustainability philosophy and practices and clarify the Funds' philosophy to work towards alignment.

POST RETIREMENT ANNUITY STRATEGY

When a member reaches retirement, they will be offered the option to secure an annuity (regular monthly pension income) in terms of the annuity strategy that the Trustees determined to be an appropriate, and cost-effective option that retiring members could consider. The Trustees adopted the following annuity strategy.

The choice of annuity (or annuities) is a personal choice for you as the retiring member.

Living annuity with Alexander Forbes Retirement Income Solution (AFRIS)

This is a living annuity managed by Alexander Forbes. In a living annuity you decide on the investment portfolio for your savings and how much pension you want to draw each month. You can currently choose to draw between 2.5% and 17.5% of your capital each year. This is a very broad summary. Much more detail will be provided to members who are retiring.

With-profit annuity with Old Mutual – Platinum Pension 2003

This is a with-profit annuity managed by Old Mutual. In a with-profit annuity your annuity income will never decrease, regardless of how long you live or investment market performance. The annuity income is increased each year, and it is this new level of income each year which is guaranteed never to decrease.

Remember these options are not compulsory and retiring members can compare these options to any other options available in the annuity market and make their decision based on their own personal circumstances and income needs.