NAPOTEL PENSION FUND

NEWSLETTER

September 2023

INDEX

1. WILL I HAVE ENOUGH MONEY TO AT MY RETIREMENT? REPLACEMENT RATIO

When you consider the savings you accumulate over your working life the question often arises: "Will I have enough money to live on at my retirement?" A good way to answer this question is to estimate your expected future pension at retirement expressed as a percentage of your salary. This percentage is referred to you as your "replacement ratio" and is based on your current savings, future expected contributions and future expected investment returns. By expressing your expected pension as a percentage of your salary, you will contextualise the amount you see on your benefit statement, which will help you determine if your current savings are sufficient to provide a reasonable pension at retirement. This in turn will help you to make informed decisions about your retirement.

YOUR REPLACEMENT RATIO WILL BE DETERMINED BY THE FOLLOWING FACTORS:

1. The real growth in your salary;
2. Your retirement age;
3. The level of your contribution rates;
4. Level of returns earned on savings;
5. The annuitisation rate that will be used to convert your lump sum benefit when you purchase your pension at retirement date.

LET US EXAMINE THE ABOVE FACTORS MORE CLOSELY:

1. Your contributions towards your savings within the Fund are based on a percentage of your salary. Therefore the more you earn the larger the dollar amount you and your employer will contribute to the Fund.
2. The longer the period over which you save the greater the dollar value of your savings. It is therefore extremely important for you to do a proper analysis of your total savings portfolio before you consider taking early retirement as this will affect your replacement ratio;
3. As a member of the Napotel Pension Fund you cannot determine your or your

employer's contribution rates to the Fund. These are set out in the rules of the Fund and are binding on you the member as well as your employer. However you are able to contribute an additional voluntary contribution (AVC) towards your savings within the Fund. By making use of this option you will enhance the level of your savings;

4. It is very important that over the period for which you save that you earn sustained returns above inflation. The need for returns that exceed inflation must be managed against an acceptable level of risk and legislation. It is the Trustees' responsibility to manage the investment of the Fund's assets and a key factor in this process is the setting up of an investment policy that clearly sets out the targeted rates of return as well as the level of risk that is appropriate;

5. It is important to remember that you are able to take up to 1/3 of your total retirement benefit as a tax free lump sum payment which means that, for most people, the amount that will be used to purchase your pension will be 2/3 of your total savings as at retirement date. Any portion of your retirement benefit taken as a lump sum will therefore reduce the replacement ratio.

6. The replacement ratio projection assumes that your current savings will remain invested along with future contributions until your retirement date. If you change jobs in future, it requires you to preserve your savings by transferring your benefit to your new employer's retirement fund or preservation fund. If you take your current savings in cash when you change jobs, it is unlikely your future pension will not be able to sustain your standard of living in retirement.

2. FUND RISK BENEFITS

ANNUAL RISK REVIEW:
1 OCTOBER 2023 TO 30 SEPTEMBER 2024

FAMILY FUNERAL COVER

The Family Funeral Cover remains in place with no change to the premium of N$ 10 pm as follows:

Principal Member	N$ 18 000
Qualifying Spouse	N$ 18 000
Child 14 and older	N$ 18 000
Child 6 and younger than 14	N$ 9 000
Child younger than 6 and stillborn	N$ 4 500

3. DEATH COVER (GROUP LIFE ASSURANCE)

The Board of Trustees is pleased to announce that the insured death benefit has increased from 5.8x annual salary to 6.8 x annual salary from 1 October 2023.

Members are once again urged to update their beneficiary nomination forms and to submit them, with the necessary supporting documents, to their respective participating employers' HR divisions/departments.

4. DISABILITY COVER

The disability income insurance benefit remains unchanged at 75% of pensionable salary for members for the period.

5. SECTION 37 OF THE PENSION FUND ACT

DISTRIBUTION OF DEATH BENEFITS

The Pension Funds Act regulates the distribution of death benefits and places the responsibility on the Trustees of the Fund to distribute the death benefits in accordance with the Act.

The Act requires the Trustees to identify the deceased member's dependants and distribute the member's death benefits taking cognisance of the deceased's dependants and nominees and the extent of each dependant's financial dependency on the deceased.

A "dependant" is defined in the Pension Funds Act as follows:
"dependant", in relation to a member, means -

(a) a person in respect of whom the member is legally liable for maintenance;

(b) a person in respect of whom the member is not legally liable for maintenance, if such person -

(i) was, in the opinion of the person managing the business of the fund, upon the death of the member in fact dependent on the member for maintenance;

(ii) is the spouse of the member, including a party to a customary union according to Black law and custom or to a union recognized as a marriage under the tenets of any Asiatic religion;

(c) a person in respect of whom the member would have become legally liable for maintenance, had the member not died;

The Trustees, with the assistance of the Employers' HR Departments, investigate the personally circumstances of each member who passed away to establish if the member had dependants. These investigations entail a number of processes, including interviews with family members, affidavits and written submissions.

Once the Trustees have identified all the deceased's dependants and nominees, they establish the extent of the financial dependency that each dependent and nominee had on the deceased member. Based on the level financial dependency, the Trustees then allocate a portion of the death benefit to each dependant and nominee, if nominees are included in the distribution.

If a member has no dependants, the death benefit must be allocated according to the member's beneficiary nomination form, provided that the deceased member's estate is solvent.

If member does not have dependants and did not complete a beneficiary nomination form, the benefit will be paid to the deceased's estate.

It is therefore critical for members to update their beneficiary nomination forms regularly. As explained in the June 2023 Newsletter, the Trustees are not bound by the beneficiary nomination form (unless a member does not have dependants), but where members have completed a beneficiary form recently and included all their dependants on the form, it assists the Trustees greatly to finalise their investigations and agree on the distributions faster.

6. INVESTMENT UPDATE

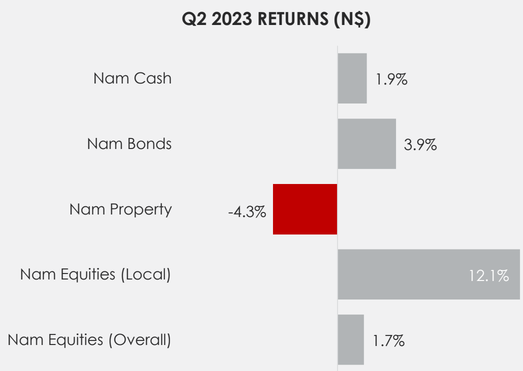
WHAT HAPPENED IN Q2 2023?

The positive momentum on global markets at the end of the last quarter was largely sustained during the second quarter as risk appetite remained relatively brisk. The regional banking crises in the US and Europe were short-lived with little impact on other countries. The overall banking system remained resilient and bank stress tests were successful. Global growth estimates for 2023 were revised marginally higher but kept the same for 2024 in the most recent IMF World Economic Outlook update. Overall growth is still expected to slow from 3.5% to 3% this year.

The second quarter has indicated a fairly consistent decline in global inflation trends. US inflation fell to 3% in June compared to the peak of 9.1% in June last year, the inflation rate reported for July increased to 3,2%. In the Eurozone and UK, the decline in inflation has not been as smooth as in the US. Eurozone inflation ticked up to 7% in April before falling to 5.5% in June and further to 5,3% in July. UK inflation has remained higher than peers but has declined to 7.9% in June and subsequently to 6,8% in July. A summary of the economic markets, which play a vital role in the investment markets performance has been included below.

ECONOMIC OVERVIEW

1 NAMIBIAN MARKETS

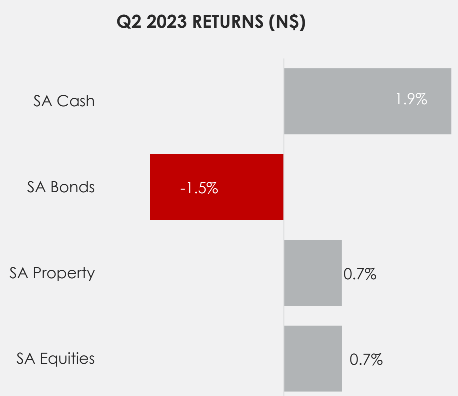


The Nam Equities (local) increased by over 12% last quarter taking the year-to-date performance to almost 37%. Growth estimates from the Namibian central bank expect the economy to grow at around 3,8% in 2023 versus 4,6% in 2022. This is above the IMF's estimates of 2,8% and well ahead of regional peer, South Africa.

Namibian inflation fell to 5,3% in June 2023, the lowest since May 2022. On the recently released July 2023 inflation numbers, the inflation rate continued its downward trajectory and reached a low of 4.5%, prompted by a faster decline in transportation prices which were reported as -2.5% compared to -0.1% in June 2023. Namibian inflation has generally tracked global developments, the stickiness of food inflation regionally seems to be running a little ahead of global trends.

Namibia's central bank continued with its hiking cycle. With a hike of 25 bps in April and another of 50 bps in June. The key lending rate at 7,75% is still marginally below the South African policy rates. The Bank of Namibia remains sensitive to the need to protect the fixed exchange rate agreement between the South African rand and the Namibian dollar trades. Overall, the Namibian economy appears to be enjoying a better bounce in growth allowing some flexibility if needed in terms of monetary policy.

2 SOUTH AFRICAN MARKETS

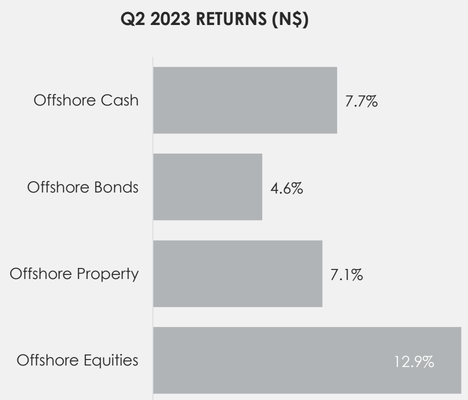


SA markets lagged over the quarter to post only marginal gains. SA received negative sentiment amid load shedding, coupled with uncertainly around its alignment with Russia and a looming diplomatic standoff around President Putin's potential visit caused some concern which has subsequently abated.

The SA Equities delivered a total return of 0,7% for the quarter, with the Financial sector leading the gains and Resources sector declining sharply. SA Bonds declined as interest rates and yields continued to climb for the quarter, although for the last 12 months, equities outperformed. SA has done well to align itself with BRICS counterparts as a means of preserving its relevance within the emerging markets universe. SA's growth profile was revised marginally but remains extremely low overall as energy constraints represent a hard cap to economic growth.

SA inflation consistently slowed throughout the second quarter, falling to a 19-month low of 5,4% in June. This was the first month in which headline inflation was below the upper end of the 3-6% target range since May 2022. This downward trend has continued to July 2023 as the July inflation rate dropped to 4,7% which is the lowest reading reported in two years. The South African Reserve Bank (SARB) hiked twice in Q2 raising the repo rate from 7,75% to 8,25%. The SARB subsequently paused at the July meeting.

3 GLOBAL MARKETS



US markets were the leaders in market performance over Q2, outperforming European and Asian peers. The rally was led by large companies in the technology sector. Consumer discretionary stocks consisting of restaurants, hotels, travel companies, household furnitures etc. enjoyed strong returns over the quarter but defensive stock like utilities, energy, and staples all lagged. Returns for SA-based investors were supported by a weaker rand over the quarter. Global equity values have stretched even further relative to bonds after the increase in gains, whilst SA equity values are not as stretched as global peers.

Growth in the US is expected to slow more materially as the impact of the increase in interest rate amongst other things starts to weigh on activity. The Europe and the UK continued to underperform although the expectation for UK growth was revised sharply higher for 2023 from very depressed levels. Chinese growth has rebounded strongly as the economy recovered from extreme lockdowns. Year-on-year growth has ticked back above 6% but the rate of growth is expected to slow as production backlogs are cleared. Emerging markets are expected to remain resilient with growth of 3,9%. However, there are significant regional divergences within this very diverse group.

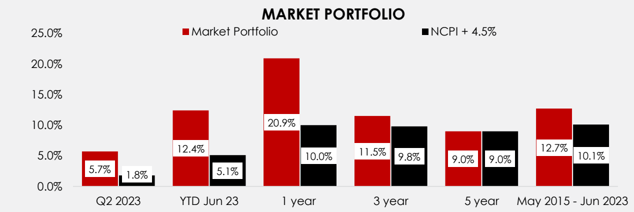
The US Fed hiked the interest rate in May and paused in June. They have subsequently hiked by another 0,25% in July taking the Fed funds rate to 5,5%. The European Central Bank (ECB) and Bank of England (BOE) have continued with their hiking path as well. The ECB has hiked twice over Q2 and the BOE has hiked from 4,25% in March 2023 to 5% in June 2023, this has been subsequently increased to 5,25% in August 2023.

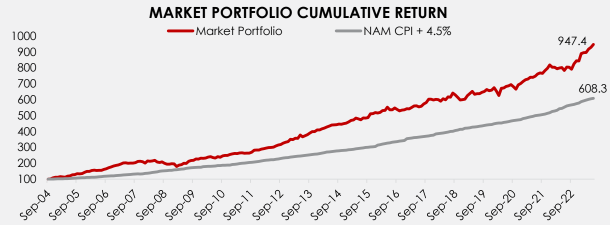
Disclaimer
The information contained herein is intended for general information and illustrative purposes only and must not be seen as advice as defined in the FIA (Financial Intelligence Act 13 of 2012). Napotel Pension Fund ('The Fund') does not expressly imply nor intend to represent, recommend or propose that the financial information contained in this report is appropriate to the particular investment objectives, financial situation or particular needs of any existing client or person reading the report. It is recommended that you consider on your own, or in consultation with a licensed financial services provider as to whether the intended purchases of any financial product; the investment in any financial product; the conclusion of any transaction in respect of a financial product; or valuation, replacement or termination of any terms in relation to a financial product is appropriate when considering your particular needs, personal objectives and financial situation. The Board of Trustees has taken all reasonable measures to insure that the information is complete and accurate. However, 'The Fund' makes no representation and gives no warranty as to the integrity, adequacy, completeness or suitability of the information contained herein and that the information is free from errors and omissions of anykind. 'The Fund' will not be liable for any actions taken by any person based on the correctness of this information.

PERFORMANCE SUMMARY

A brief summary of the portfolio performance for the Market Portfolio, Capital Protection Portfolio and Total Living Annuity is shown below for the Napotel Pension Fund (The Fund). The summary provides an overview on the portfolio performance over a series of measurement periods, which allows a member to see the return earned over time.

MARKET PORTFOLIO





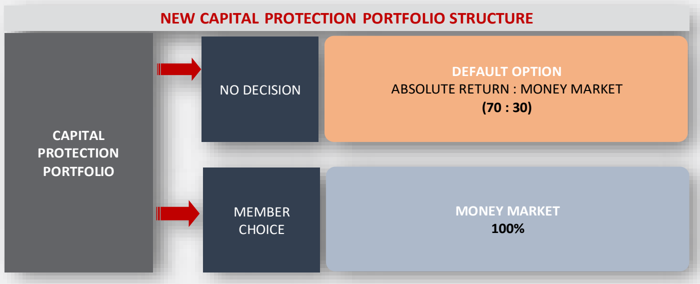
Despite a challenging market environment, both the portfolio and its benchmark (NCPI + 4.5%) have generated positive returns over all the reported measured periods.

To provide a clearer understanding of the returns, let's consider an initial investment of N$100 in the Napotel Pension Fund in July 2018. Over the 5-year period ending in June 2023, this investment would have grown to a value of N$153.86.

These results highlight the long-term success of the portfolio. The prudent management of reserves during favorable market conditions has played a crucial role in delivering positive returns, demonstrating the effectiveness of the portfolio strategy in navigating through market fluctuations and delivering value to investors.

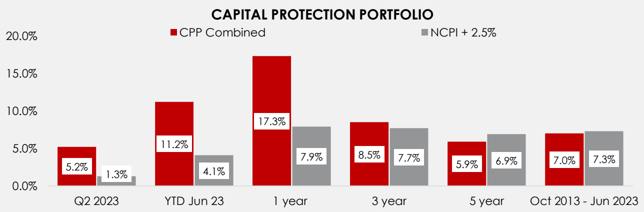
CAPITAL PROTECTION PORTFOLIO (CPP)

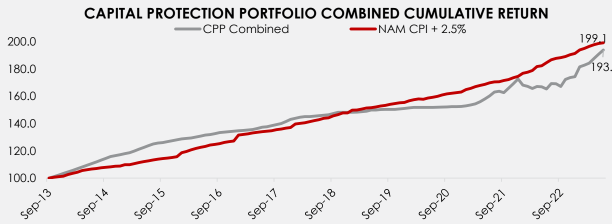
Capital Protection Portfolio (CPP) is for contributory members who are within 5 years to retirement and who want to preserve capital. However, it is also open for members who are at least 50 years and who would want to preserve their pension fund assets. The Board of Trustees have upgraded the New CPP. The New CPP has a Default Option and Member Choice Option. The difference between these options are as follows;



Default Option
This option was designed to provide capital protection over a rolling 24 months period. The rolling period is an objective and does not provide a guarantee. The portfolio also aims to achieve a return target of inflation plus 2.5% (NCPI + 2.5%) annualised, rolling over a 5 year period. The portfolio target can be comfortably achieved. Hence, it provides members with the value accretion on their investments. The capital is protected using the diversification mechanism and other investment risk mitigation processes that are applied in portfolio construction

Member Choice Option
This is purely a Money Market Portfolio. This option provides full capital and inflation risk protection, but returns may not (in most instances) meet the target of inflation plus 2.5% (NCPI + 2.5%) annualised, rolling over 5 years. The lack of equity exposure reduces the volatility of the returns compared to the Default Option and provides returns that are less than the Default Option because Money Market results in a lower long term expected return.



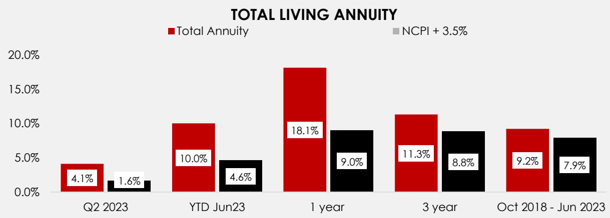


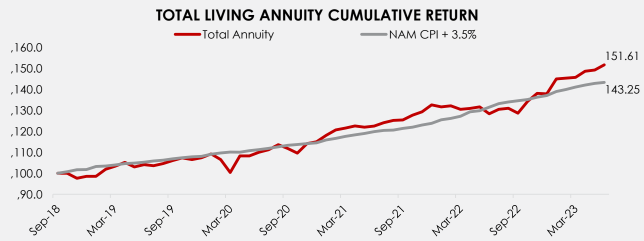
Both the portfolio and its benchmark (NCPI + 2.5%) have generated positive returns over all the reported measured periods. The CPP has also outperformed the benchmark over most of the measurement periods apart from the five year period and period since inception. This can be attributed to the heightened volatility experienced in the markets over this period.

To provide a clearer perspective on the returns, let's consider an initial investment of N$100 in the CPP in July 2018. Over the 5-year period ending in June 2023, this investment would have grown to a value of N$133.19

While the portfolio's performance relative to its benchmark may have been subpar over longer periods, the positive returns generated demonstrate its ability to navigate through market fluctuations. The high volatility experienced over longer periods has posed challenges, but the portfolio's positive returns overall signify its resilience and commitment to achieving growth.

LIVING ANNUITY





The living annuities have demonstrated positive returns and have outperformed their benchmark (NCPI + 3.5%) over all the reported measured periods. However, it is worth noting that over the one year period, the living annuity portfolio significantly outperformed the benchmark by 9,1% .

To provide a clearer understanding of the returns, let's consider an initial investment of N$100 in the living annuities three years ago. Over the three-year period ending in June 2023, this investment would have grown to a value of N$137.88.

The performance of the portfolio shows the strength and resilience of the living annuities. The positive returns and the ability to outperform the benchmark over all the measured periods highlight the potential for growth and value creation in this investment option.