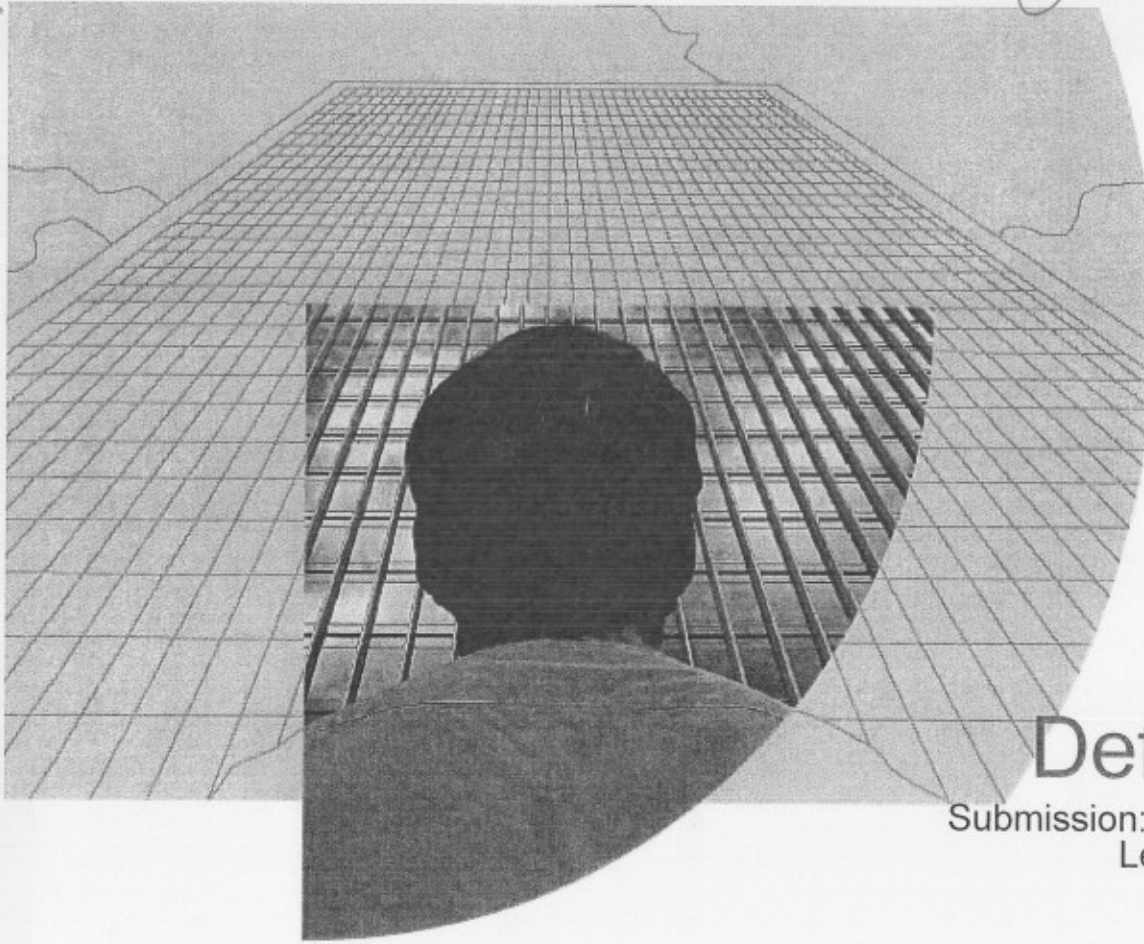


2

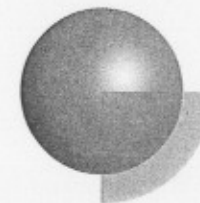
080307 pc private



# Transnet Second Defined Benefit Fund

Submission: Standing Committee on Private Member'  
Legislative Proposals and Special Petitions

27 February 2008



Fifth  
Quadrant

Actuaries & Consultants

# Agenda



- Nature of Fund
- Financial position
- Investment strategy
- Impact of CPI increases

## Nature of Fund



- Defined benefit
- Only pensioners
- Closed to new entrants
- Increases fixed at 2% per annum
- Provision for bonuses to be granted annually subject to affordability

# Financial Position



|                        | Mar<br>2001<br>(R'bn) | Mar<br>2002<br>(R'bn) | Mar<br>2003<br>(R'bn) | Mar<br>2004<br>(R'bn) | Mar<br>2005<br>(R'bn) | Mar<br>2006<br>(R'bn) | Mar<br>2007<br>(R'bn) |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Assets</b>          | <b>16.5</b>           | <b>16.0</b>           | <b>13.2</b>           | <b>15.1</b>           | <b>16.4</b>           | <b>19.2</b>           | <b>21.6</b>           |
| <b>Liabilities</b>     | <b>20.1</b>           | <b>18.9</b>           | <b>18.4</b>           | <b>18.5</b>           | <b>21.9</b>           | <b>22.2</b>           | <b>19.9</b>           |
| <b>Surplus/Deficit</b> | <b>3.6</b>            | <b>2.9</b>            | <b>5.1</b>            | <b>3.4</b>            | <b>5.5</b>            | <b>3.0</b>            | <b>1.7*</b>           |
| <b>Funding level</b>   | <b>81.9%</b>          | <b>84.5%</b>          | <b>72.1%</b>          | <b>81.4%</b>          | <b>74.8%</b>          | <b>86.5%</b>          | <b>109.2%</b>         |

•Includes solvency reserve of R560m

# Investment strategy



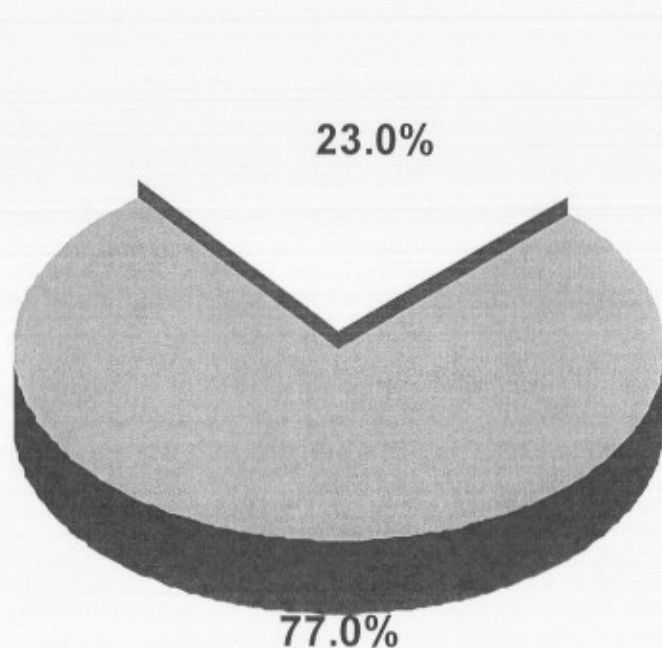
- ➔ Before 2006: High equity exposure, large individual exposures (MTN, V&A)
- ➔ 2006/2007: Profit on sales of MTN and V&A, portion of assets realigned into bonds
- ➔ 2007/2008: “liability-matched portfolio” (77%) and “unmatched portfolio” (23%) formulated

# Investment Strategy



- ➔ Liability-matched portfolio
  - ➔ Covers pension payments to July 2021 (based on 2% increase)
  - ➔ Must be minimum of 75% of liability (re-visited annually)
- ➔ Unmatched portfolio
  - ➔ Targeting CPI+6% over long term
  - ➔ Flexible mandates
  - ➔ Diversified sources of return
  - ➔ 4 Asset managers

# Asset Allocation 31 Jan 2008



■ Liability matched      Unmatched

|                    | R'bn        |
|--------------------|-------------|
| Liability-matched: | 15.4        |
| Unmatched:         | <u>4.6</u>  |
| Total              | <u>20.0</u> |

# Move to CPI increases



- Current strategy aims to mitigate impact of inflation through increasing the amount of bonus payable each year
  - Bonus based on affordability
  - Not guaranteed
- Financial consequences of CPI increases
  - Actuary has indicated TSDBF has inadequate funding if CPI increase targeted
  - Closed fund – no additional contributions?
- Investment strategy
  - “Matched portfolio” uses nominal match which is premised on 2% increase
  - If CPI targeted then arguably inflation-linked more appropriate (but also more expensive)