LEGAL
PROVIDENT FUND

MEMBER NEWSLETTER DECEMBER 2020

THIS NEWSLETTER PROVIDES INFORMATION ON:

1	The changes that affect provident fund members from **1 March 2021**
2	Staying invested when it matters
3	The Funds investment strategy and investment returns as at 31 December 2020
4	The amendments to the rules of the Fund that have been registered by the Financial Sector Conduct Authority ("FSCA") since 1 September 2020

Introduction

Change is a part of life, whether it is personal changes, lifestyle changes, or financial changes. Sometimes the change brought on by fear and pressure, leads us to making impulsive and harmful decisions.

Our finances are personal to us and might easily warrant knee-jerk reactions if we feel like they are being threatened – reactions that might be detrimental to us in the long term.

Our instinct to protect or preserve serves to strengthen these tendencies. Making a quick decision that we feel will help preserve or protect our investments is the most natural reaction, but is it always the correct one?

RETIREMENT BENEFIT CHANGES 1 MARCH 2021

The retirement benefit changes for provident fund members were originally scheduled for 1 March 2015. After several postponements, these changes will now come into effect on **1 March 2021**. The government made some changes to tax laws regarding what you can do with your money when you retire from a provident fund. The changes only affect you if you are younger than 55, and if you are going to be retiring from your retirement fund. The changes do **NOT** affect you if:

- You are 55 or older on 1 March 2021 and retire from the Legal Provident Fund
- If you resign, are retrenched or dismissed from the employer and withdraw from the Fund before retirement age, you are entitled to your savings in the Fund, known as your fund credit, as a cash lump sum.

The wider retirement fund reforms aim to:

1. Protect South Africans in some ways against poverty.
2. Make sure that every working citizen contributes towards their retirement fund to try to keep their standard of living in retirement.
3. Ensure that the retirement systems offer members value for money.

Why do we need reform?

- To make all types of retirement products such as pension, provident and retirement annuity funds work in the same way (uniform). A uniform retirement system makes it easier for members to understand and to move between retirement products.
- To make the payment of retirement benefits the same.
- To ensure that everyone gets treated the same when it comes to paying tax.

Changes

Before 1 March 2021	From 1 March 2021
Vested rights apply	No vested rights
You could take your retirement benefit as a full cash lump sum if you were a member of a provident fund	You'll have to buy a pension with at least two-thirds of your retirement benefit, unless the total benefit is R247 500 or less
Any provident fund balance saved before 1 March 2021 plus the future growth on this until retirement won't be affected AND • Can be accessed in cash when you retire • If you're 55 years or older on 1 March 2021: – You won't be affected by this change at all if you stay a member of the same provident fund* until retiremen – Your retirement benefit will be treated in the same way as it is currently being treated when you retire	If you're 55 years or older on 1 March 2021 and you transfer to another fund: • You'll still have vested rights, but contributions and growth on this in the new fund will depend on the new retirement rules • The new retirement rules will require you to purchase a pension with at least two-thirds of this part of your benefit, unless the benefit is R247 500 or less

*Or provident preservation fund, as stated in the draft Taxation Laws Amendment Act 2020.

Vested rights = protection of retirement savings AND interest before the new legislation becomes effective.

Example
Your retirement savings
up to 28 February 2021

28/02

Let's say your retirement savings are R400 000 at 28 February 2021 and at retirement this amount grew to a total of R800 000. Because of your vested rights up to 28 February 2021, you can take the full R800 000 in cash.

Example
Your retirement savings
from 1 March 2021

01/03

The new laws apply to contributions you make from 1 March 2021 to a provident fund. This means you won't be able to take your full retirement benefit in cash. You can take one-third in cash but you must use the other two-thirds to buy a pension. Let's say you contribute to a fund from 1 March 2021 and these contributions grow to a total retirement savings amount at retirement of R1 500 000. You will be able to take R500 000 in cash but you'll have to use the other R1 000 000 to buy a pension.

These amounts are purely for illustration and we haven't made any assumptions about investment returns.
Tax will apply to any retirement savings taken in cash.

These examples do not apply if you are 55 or older on 1 March 2021 or if your retirement benefit is R247 500 or less.

Tax-free transfers

The benefit of this change is that funds can now transfer members' savings tax efficiently:

TRANSFERS

FROM

Pension funds
Pension preservation funds
Provident funds
Provident preservation funds

TO

Pension funds
Pension preservation funds
Provident fund
Provident preservation funds
Retirement annuity fund

= TAX FREE
FROM 1 MARCH 2021

Retirement Reform Video

Members are invited to watch a video, which explains these changes in detail **HERE**.

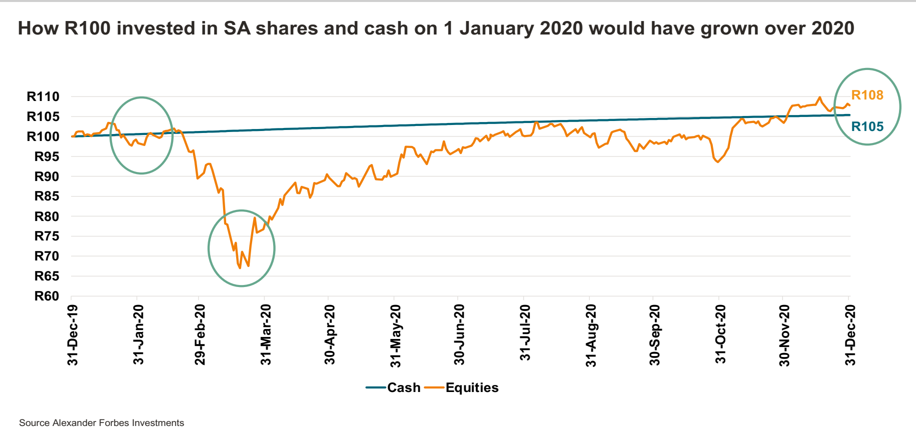
STAYING INVESTED WHEN IT MATTERS

The bigger picture is big for a reason. It serves to remind us how easily we can make impulsive decisions when we are under pressure. It demonstrates how, in most cases, we would have been better off not being reactive and rather considering if the decision we intend on making is aligned with what we aim to achieve.

As with any typical journey where we may experience both smooth and bumpy periods, our investment journey is no different. Throughout 2020, we were confronted with heightened volatility and therefore, we continuously reminded members of the importance of keeping focus on the bigger picture, a picture that can easily be overshadowed by short-term noise and volatility.

To illustrate this, let us consider an investor who had committed R100 towards South African shares at the beginning of last year (1 January 2020). Prior to 2020, South African shares showed strong performance, returning 12.1% in 2019, further bolstering their appeal as a viable investment opportunity. Having seen this, it would have been natural to expect this strong performance to continue well into 2020, and as the graph below shows us, it initially did.

How R100 invested in SA shares and cash on 1 January 2020 would have grown over the year



By the end of March 2020, both local and global markets were hit with a barrage of market volatility and uncertainty. Valuations were revised and ultimately, shares performed poorly. At this point, with most markets down, uncertainty at an all-time high, and your investments appearing to be steadily declining, everything seems to strengthen the case to become defensive – **right**?

The data seems to suggest otherwise. Defensive investments – such as cash – help to protect your money but are not ideal for growing it. So, while having exposure to cash would have provided adequate protection in the short term, it would have ultimately compromised your ability to achieve your long-term objectives – particularly for investors focused on better retirement outcomes.

GROWTH ASSETS
Shares and property

OBJECTIVE
Achieving an investment return (including capital growth and income) that outperforms inflation.

DEFENSIVE ASSETS
Cash and bonds

OBJECTIVE
Achieving more stable returns than growth assets.

Simply put, investors who sought safe haven in cash would have been worse off than those investors who remained invested in shares throughout 2020, even with the sharp market falls experienced earlier in that year.

SOMETIMES NOT TAKING ACTION IS THE BEST REACTION

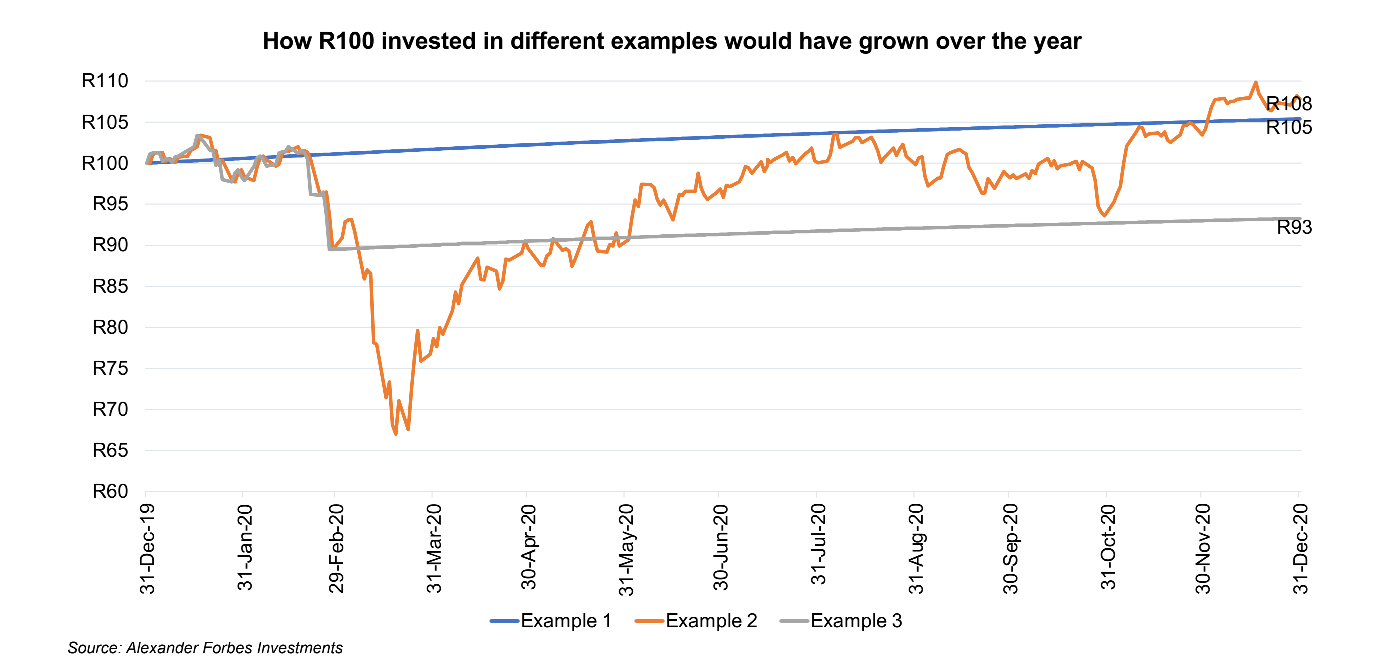
In stressed situations, we may always be inclined to react impulsively instead of bearing any prolonged distress. The same is true in investing, with the sharp market falls and heightened volatility we experienced at the beginning of 2020 being a case in point.

To show the different results of trying to time the market and reacting in fear, we show three different examples that an investor may have chosen in 2020:

1 Invest in cash over the year.

2 Invest fully in shares over the year.

3 Invest in shares at the beginning of the year but switch to cash during the crisis (at the end of February 2020).

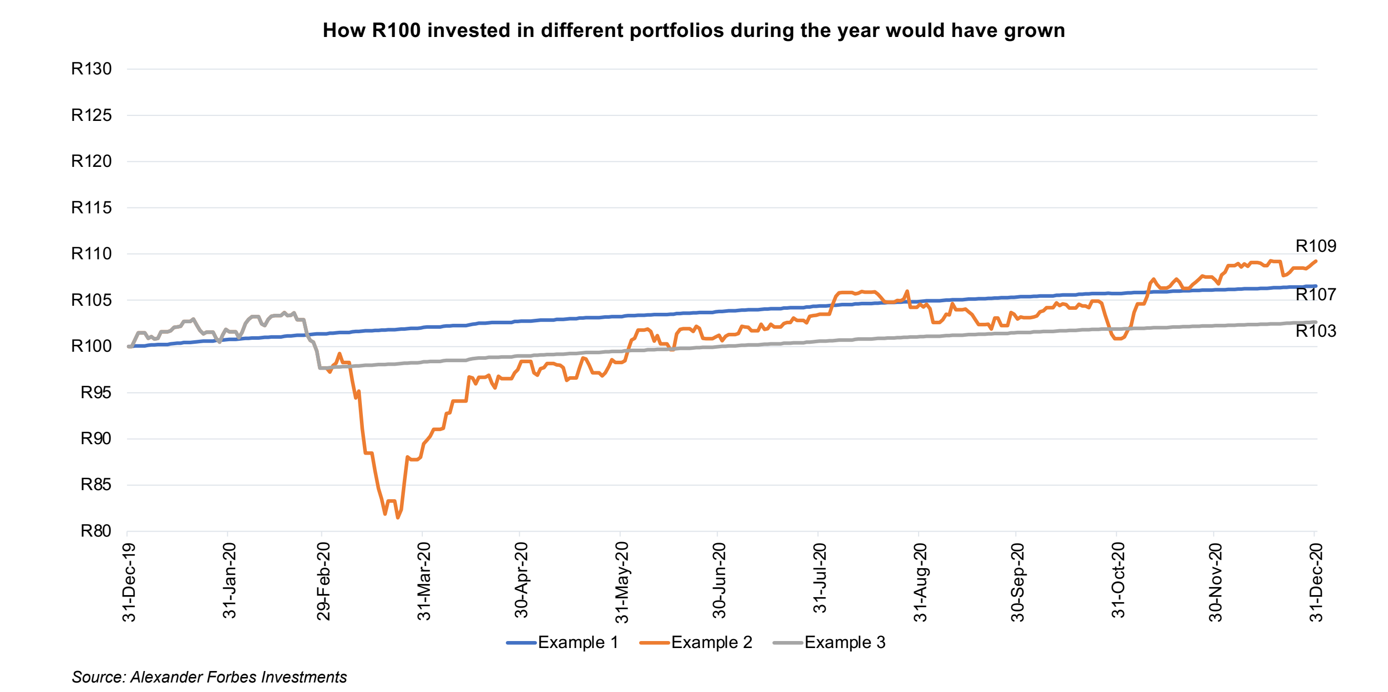


Next, we overlay the Performer and Banker portfolios to show the growth in savings that would have been released under each of the three examples presented:

1 Invest in Banker over the year – an investment portfolio that has mostly cash instruments.

2 Invest fully in Performer over the year – an investment portfolio that has a mixture of growth and defensive assets, known as a balanced portfolio.

3 Invest in Performer at the beginning of the year but switch to Banker during the crisis (at the end of February 2020).



These illustrations highlight the importance of staying invested and not trying to time the market, especially in times of uncertainty. If you disinvested from a growth portfolio during the crash and were unable to go back into the portfolio you were previously invested in, you would not have participated in the recovery and would have lost all the growth retrieved during this period. Trying to time the market is always a tricky exercise and it has been shown that time in the market is more important than timing the market.

These examples confirm the tried-and-tested investment philosophies. Attempting to outsmart the market by determining when to switch between investment portfolios ends in missed opportunities or even losses. The year 2020 has certainly proven all the rules of investing that we believe in:

Stay committed to **long-term goals** – The markets can be a scary place at times, but long-term investors shouldn't panic.

It is nearly impossible **to time the market** – changing an investment strategy designed with the long term in mind because of short-term volatility often ends in missed opportunities or even losses.

What goes down, **will go up** – historical evidence reminds us that the gains experienced over the long term outweigh the losses experienced in the short term.

Make sure your **investments are diversified** - a complementary mix of growth and defensive assets can help investments absorb market or economic shocks but also participate in markets when the recover.

REMINDER: WHAT IS THE INVESTMENT STRATEGY SET BY THE FUND

The Fund follows a Lifestage model to invest savings for those members who prefer that the Trustees choose their investment strategy. The Performer portfolio is the "growth phase" portfolio, a portfolio that fluctuates more than say Real Return Focus, but, the intention is to obtain reasonable longer term inflation beating returns in the period before age 55 years. From this age, member assets are phased into a more defensive portfolio, the Real Return Focus portfolio, in the ten years prior to age 65 years. This approach is to protect the assets accumulated, but, the portfolio is likely to achieve lower inflation beating returns than the Performer portfolio.

Both portfolios are diversified portfolios, with investments spread across the available asset classes like local and global shares, property, bonds, cash, and other alternative investments. The allocation to these assets classes is different in each portfolio, broadly, Performer will have a higher allocation to shares and Real Return Focus a lower allocation to shares (and a higher allocation to cash and bonds).

MEMBER INVESTMENT CHOICE PORTFOLIOS

In addition to the default investment strategy, members have the option to choose their own investment portfolios, or a combination, from the following portfolios:

Performer

Real Return Focus

Banker

Accelerator

Shari'ah High Growth

You can obtain more information about each portfolio by looking at the monthly Fact Sheets produced by Alexander Forbes Investments. These Fact Sheets can be accessed at: https://www.alexanderforbesinvestments.co.za.

Investment returns as at 31 December 2020

The investment returns over various periods to 31 December 2020 are provided below:

NAME	1 MONTH	3 MONTHS	6 MONTHS	1 YEAR	3 YEARS	5 YEARS	7 YEARS	10 YEARS
Performer								
Gross of Fees	1.91%	6.10%	7.95%	9.37%	6.40%	7.21%	8.30%	
Net of Fees	1.86%	5.95%	7.63%	8.66%	5.72%	6.41%	7.45%	
Benchmark	*1.96%*	*6.28%*	*7.14%*	*5.07%*	*4.53%*	*5.65%*	*6.91%*	
Real Return Focus								
Gross of Fees	1.18%	3.30%	4.57%	5.49%	5.83%	6.53%	7.24%	8.56%
Net of Fees	1.12%	3.12%	4.21%	4.76%	5.14%	5.81%	6.43%	7.72%
Benchmark	*0.33%*	*1.42%*	*4.41%*	*7.24%*	*8.03%*	*8.66%*	*9.11%*	*9.62%*
Accelerator								
Gross of Fees	2.39%	6.84%	7.67%	6.06%	4.71%			
Net of Fees	2.30%	6.64%	7.29%	5.23%	4.02%			
Benchmark	*3.49%*	*7.43%*	*7.86%*	*4.56%*	*3.05%*			
Banker								
Gross of Fees	0.40%	1.13%	2.67%	6.55%	8.02%	8.37%	7.99%	7.57%
Net of Fees	0.36%	1.05%	2.52%	6.27%	7.75%	8.09%	7.72%	7.29%
Benchmark	*0.29%*	*0.87%*	*1.78%*	*4.52%*	*5.92%*	*6.29%*	*6.09%*	*5.78%*
Shari'ah High Growth								
Gross of Fees	3.15%	6.48%	8.52%	6.11%	5.84%			
Net of Fees	3.06%	6.19%	7.92%	4.95%	4.69%			
Benchmark	*4.45%*	*4.35%*	*6.56%*	*5.69%*	*6.22%*			

RULE AMENDMENTS

The following amendment was registered by the Financial Sector Conduct Authority ("FSCA") in September 2020 and a quick summary is provided below:

Rule Amendment 28

- To allow, in cases where an Employer ceased to exist or ceased to operate, and the benefits of the Members related to such Employer were paid in accordance with the Rules of the Fund, the Trustees to determine the date on which the Employer's participation in the Fund terminated;
- To clarify the Fund's practice as it relates to the termination of an Employer's participation in the Fund due to the non-payment of contributions;
- To provide that an alternate independent Trustee may be appointed;

ANY QUESTIONS?

If you need more information you can visit the Fund website

The website address is: www.legalprovidentfund.co.za

- The Fund's website gives you access to retirement fund news and information at the click of a button.
- You can also get your member booklet, claim forms and news from the Trustees when you need it.

The Administrator's email address is: zzlpf@aforbes.co.za

The Administrator's email address is used for:

- Administrative queries
- Benefit payments
- Your fund value

The Fund's email address is: zzlegalprovidentfund@aforbes.co.za

The Fund's email address is used for:

- The Fund to email communication to its members.
- If you have any questions, comments or suggestions or a complaint about the Fund.

Credits: Alexander Forbes Communications (Production) 21274-Comms-2021-02