ANNUAL NEWSLETTER

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Inside this issue:

Mining Industry Pension Fund

"Cares for your future"

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INTRODUCTION

The purpose of this ninth edition of the Fund's Annual Newsletter is to update members and other stakeholders on the Fund's financial performance, the Actuarial Valuation for the year ended 31 December 2017, as well as provide advice to members and pensioners on other matters of importance.

BOARD APPOINTMENTS

In November 2017, the Associated Mine Workers Union of Zimbabwe (AMWUZ) nominated two Trustees, Messrs S. Papias and B. Mbere to fill Board vacancies. The appointments await approval by the Regulator, IPEC. In the meantime, the nominated Trustees attend Board meetings by invitation.

EXECUTIVE APPOINTMENTS

1. Deputy Principal Officer (Legal and Operations)

Mr. Laurence Tafadzwa Karumazondo was appointed Deputy Principal Officer (Legal and Operations) with effect from 1 July 2017 following the resignation of Ms Rejoice Chipendo in December 2016. Laurence is a qualified lawyer with 12 years experience in the corporate sector.

2. Deputy Principal Officer (Finance and Investments)

Ms. Prisca Nyayera was appointed Deputy Principal Officer (Finance and Investments) with effect from 1 March 2018 following the resignation of Mr Brian Murewa in May 2017. Prisca is a Chartered Certified Accountant with 11 years experience with the Fund.

FINANCIAL PERFORMANCE FOR 2017

Based on book values, the Fund grew by 7.12% in 2017 as follows;

Opening Balance (Jan 2017)	$110.82m
Balance as at 31 Dec 2017	$118.71m
Increase in Accumulated Fund	$7.89m

ACTUARIAL VALUATION RESULTS FOR 2017

The Actuarial Valuation as at 31 December 2017 showed that on a going concern basis, the funding level improved from 58.1% recorded in 2016 to 77.5% during the year under review. This compared favourably with the minimum funding level of 75% recommended by IPEC. The Fund will continue to explore ways of improving its performance in order to achieve a funding level of 100%.

The improvement in the funding level was attributed to positive investment returns achieved on the assets of the Fund during 2017. The Actuary determined the investment return to be 47.7% against year on year inflation of 3.46%. However, despite the positive performance in investments, market conditions remained volatile. As a result, the Actuary noted that, of the 47.7% return on investment, only 4.4% was realised returns while the balance of 43.3% was unrealised returns.

Unrealised returns refer to gains achieved from the re-rating of the Fund's assets upwards as a result of market fluctuations. Realised returns on the other hand refer to the actual returns earned on the Fund's investments.

Given the need for the Fund to return to a fully funded position (100%), and the market fluctuations, the Trustees considered it prudent not to declare a bonus to all membership categories in 2017. The Additional Death Benefit which is payable as a funeral assistance upon death of a contributing member or a former member on pension was maintained at $1,000.

ADVICE TO MEMBERS AND PENSIONERS

1. MIPF Assisted Member Mortgage Scheme

As the Fund Rules do not allow the granting of loans by the Fund to its Members, the Fund made arrangements with Central African Building Society (CABS), National Building Society (NBS) and FBC Building Society to provide mortgage loans to its members. The loans are for purchasing urban houses, or stands for constructing private dwelling houses, refurbishing private dwelling houses and improving existing homes. Each Building Society shall decide whether to provide the loan or not on a case by case basis. The terms and conditions of the Building Societies shall apply given that they will be providing the loans and carrying the risks. It is a lending requirement that the members' employers should be up to date with remittance of pension contributions to the Fund. In addition, the members should have contributed to the Fund for a minimum period of 24 months. As information on the scheme was disseminated to all mines, interested members should contact their Human Resources Departments for further details on the scheme.

2. Benefit Statements for 2017

Members' Benefit Statements for the year ended 31 December 2017 were dispatched in May 2018 to members whose employers were up to date with remittance of pension contributions as at 31 December 2017. Statements were not sent to members whose employers were not up to date with remittances as at 31 December 2017 because their financial details would not reflect the actual contributions received. This is because the Fund's current Pensions Administration System accumulates benefits for members based on invoiced contributions rather than on contributions received.

To address this challenge, the Fund is finalising the implementation of a new Pensions Administration System that will accrue benefits based on actual contributions received.

The new system is expected to improve operational efficiency. The system is expected to go live before the end of 2018. Therefore, beginning 2019, all members will be able to receive their Annual Benefit Statements despite their Employer's contribution status.

3. Maintenance of Accurate Member Records

Members should check and ensure that the personal and financial details on their Benefit Statements for 2017 or on the MIPF Website (www.mipf.co.zw) are correct in order to ensure data integrity. Please note that the financial member records on the website show invoiced amounts and not contributions received. These amounts may be over or understated for members whose employers are not up to date with payment of contributions and submission of schedules. Therefore, amounts shown on the website are subject to adjustments upon receipt of contributions and schedules.

4. Certificates of Existence

Every pensioner should ensure that he or she completes, signs and returns the Certificate of Existence by 30 November every year in order to avoid having their pension suspended. If one has not received their Certificate of Existence by end of September of each year, they should contact the Fund as soon as possible. Pensioners are also advised to always notify the Fund in the event of changes in their contact details to ensure effective ongoing communication.

5. Communication with the Fund

The Fund has noted that there are unscrupulous agents offering to assist pensioners to claim their pension benefits from MIPF, for a fee. The agents are mainly targeting pensioners whose benefits were suspended by the Fund for various reasons. Members should take note that the Fund does not work with any external agents. Members, pensioners and beneficiaries wishing to contact the Fund can call, write or email the Fund directly on any of the contact details provided on this Newsletter.

PRINCIPAL OFFICER'S MESSAGE

1. Introduction

The country witnessed changes in the political landscape. A new political dispensation was ushered into power in November 2017. This brought hopes for positive economic changes. Although the political changes did not have any immediate impact on the economic fundamentals which remained unchanged, the investments performance, in particular the listed equities, experienced a downward adjustment. The Fund was not spared as its portfolio adjusted in line with market developments.

From an operations perspective, the Fund continued to experience the same challenges that were highlighted in the previous years. For example, a significant number of member mines struggled to meet their obligations to remit pension contributions. Retrenchments and closure of mining operations persisted. As a result, membership growth was insignificant as new member recruitments were off-set by those who exited the Fund.

2. Debtors

Failure to remit contributions by some mines as well as failure to pay rentals and operating costs by those companies that were tenants in the Fund's properties remained a challenge. Consequently, cumulatively, since 2009, a total of $109.3 million pension contributions, including interest, remained outstanding. Comparatively, in 2016 the cumulative contributions debtors stood at $98.66 million, including interest. This was despite the fact that the year 2017 recorded an improvement in contributions collection and the collection rate was 88% of contributions due for the year compared to 61% in 2016. This was due to arrear payments by some mines. However, the collection rate for contributions invoiced during 2017 was 75%. In addition, in terms of property debtors, a total of $7.38 million rentals and operating costs, inclusive of interest was also outstanding cumulatively from 2009. However, the property debtors recorded a significant reduction from the $8.42 million reported in 2016 as some significant debts were paid and some adjustments were made for irrecoverable debts. The outstanding amounts had implications on the Fund growth as the Fund had to be prudent and provide in full for outstanding amounts. Also, available funds for investment continued to be compromised by the contributions and property debts. In line with the approved strategies, the Fund followed up the defaulting mines through mine visits as well as by written letters of demand. Apart from this, IPEC, in its capacity of the Regulator, was updated on a quarterly basis, as required by law. The rentals and operating costs debtors were managed through rigorous screening processes to ensure that poor quality tenants were not taken on in the first place. Furthermore, defaulters were sued and evicted as soon as it became evident that they were unable to pay.

3. Investments

With effect from August 2016, the Fund implemented investments strategies that were focussed on value preservation. This entailed increased exposure to real assets, such as listed equities and real estate. Exposure to cash and near cash investments was minimised. This was because in an uncertain operating environment, cash and near cash investments were likely to lose value while real assets would be a hedge against loss of value. The investments strategies that were adopted by the Fund paid off because the listed equities and real estate improved in value while money market returns remained depressed. For example, the listed equities values increased from $48.8 million in December 2016 to $116.7 million in December 2017. On the other hand, the real estate increased from $87.9 million to $104.9 million during the same period. Overall, the Fund's portfolio grew from $164.20 million to $243.40 million in market value terms during the same period. Based on market values, the Fund was invested in listed equities (47.68%), real estate (42.89%), prescribed assets (1.65%), unlisted equities (2.89%), money market (1.63%), bonds (1.14%), Old Mutual Guaranteed Fund (1.15%), cash (0.81%) and debenture loans (0.17%). Overall, the Fund's investments portfolio recorded a return of 47.7%, as calculated by the Actuary, against year on year inflation of 3.46%.

4. The Challenge of Low Pensions

The investments performance improved significantly as the Fund's portfolio increased by 48% from $164,194,694 in 2016 to $243,396,156 in 2017. As a result, the funding level improved from 58.1% in 2016 to 77.5% in 2017. However, as most of the gains were unrealised and dependent on market fluctuations, they can be lost, it was not prudent to declare a bonus. Notwithstanding this, payment of meaningful pensions remains of paramount concern for the Fund.

As previously highlighted, the pension quantum is a function of the contribution rate, the length of pensionable service as well as the investment returns. The Fund's contribution rate of 7.5% of salary remains comparatively low given a market average of 10%. The pensionable service is driven by the number of years that members contribute to the Fund. In terms of the investment returns, the Fund's strategy to invest more in real assets paid off as evidenced by the positive performance of the listed equities and the real estate. However, the Fund requires more cash to invest in the first place. The high contributions debtors ($109.3 million) and property debtors ($7.38 million) negatively impacted the funds available for investments in order to grow the Fund.

5. Conclusion

On behalf of the Board and Management, I take this opportunity to express appreciation to the Fund's stakeholders for supporting the Fund. The members, member mines, the Chamber of Mines of Zimbabwe and the Associated Mineworkers Union of Zimbabwe deserve special mention. These stakeholders have ensured that the Fund continues as a going concern despite the challenges encountered over the years.