University of South Africa
Retirement Fund

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Reg No 12/8/31320

UNIVERSITY OF SOUTH AFRICA RETIREMENT FUND

Registration Number 12/8/31320

PENSION INCREASE POLICY

Revision No	Review Cycle	Effective Date
1	At least every 36 months	September 2025
2		September 2028

Contents

1. INTRODUCTION

This document represents the pension increase policy (the "Policy") of the Fund and must be read in conjunction with the Rules and the relevant provisions of the Pension Funds Act. This Policy is effective from 1 September 2025 and replaces any previous such policy or related practice note of the Fund. The Policy will be reviewed from time to time, but at least once every three years. Any change in the Policy will be communicated to pensioners.

2. BACKGROUND INFORMATION

The Fund follows a liability driven investment ("LDI") strategy in respect of its Pensioner Portfolio. Approximately 80% of the assets are invested in the so-called Matched Portfolio ("MP"). The MP is invested in a manner that closely hedges the interest rate risk with the pension liability which makes provision for annual pension increases of either 50% or 100% of Headline Inflation ("CPI") at the election of the member at retirement.

3. APPLICABLE FUND RULES

The Fund Rules applicable to annual pension increases are set out below.

Rule 6.6 – Payment of pensions from the FUND in the form of a life annuity
Rule 6.6.1.3 stipules: *"the provision of a targeted (but not guaranteed) level of annual pension increases which may be one of 50% or 100% of inflation subject to the provisions of the FUND's pension increase policy."*
(This is one of the elections a member must make if he/she chooses to receive a pension from the Fund in the form of a life annuity at the time of his/her retirement.)

Rule 13 – Greater Benefits and Pension Increases
Rule 13.2 stipulates: *"The PENSION shall escalate from time to time at a rate determined by the BOARD after consultation with the ACTUARY and in terms of the FUND'S pension increase policy. It is recorded that a different pension increase policy will apply according to whether the MEMBER at retirement elected to target pension increases by 50% or 100% of inflation in terms of Rule 6.6.1.3."*
Rule 13.3 stipulates: *"It is recorded that the pension increase policy that will apply to the pension payable to a Member's Qualifying Spouse and/or Qualifying Children in terms of Rule 7.1.1.2 will be to target pension increases of 50% inflation."*

Rule 5.2 – Contributions by Employers in respect of In-Service Members and Pensioners
Rule 5.2.6 stipulates: *"Each EMPLOYER shall contribute to the PENSIONER ACCOUNT such amounts as determined by the ACTUARY to finance the current pension of PENSIONERS who were in its employ, or who are DEPENDANTS of PENSIONERS or IN-SERVICE MEMBERS who were in its employ, should the ACTUARY assess the FUND to have insufficient assets to meet the pension payable with no allowance for future pension increases. These contributions must be credited to the PENSIONER ACCOUNT."*
Rule 5.2.6 clarifies that the undertaking from the Employer to pensioners is only in relation to the continuation of pensions at their current level and there is no undertaking regarding future pension increases.

4. PENSION INCREASE POLICY

4.1 Measurement of inflation and date of increase

Pension increases, subject to affordability as outlined in Section 5 below, will be granted effective 1 April each year. These increases are based on the change in Headline Inflation over the preceding calendar year (i.e. 1 January to 31 December) as published by Statistics South Africa. The term "headline inflation" means the weighted average of the consumer price index as published from time to time by Statistics South Africa, and which is referred to as *"Headline CPI (for all urban areas)"* in Statistical Release P0141. This is referred to as "CPI" (or simply "inflation") below.

4.2 Target of 50% of inflation category

This category aims to award an increase on 1 April each year equal to 50% of CPI.

4.3 Target of 100% inflation category

This category aims to award an increase on 1 April each year equal to 100% of CPI.

4.4 Pro-rata increases

A pensioner (irrespective of the target level of CPI chosen) who has been in receipt of his/her pension for less than a year as at the date of the increase, shall receive a pro-rated increase.

4.5 Deflation

In the unlikely event of deflation (i.e. prices going down), negative pension increases are possible such that the Rand amount of pensions could decrease.

5. AFFORDABILITY AND ADJUSTMENT TO PENSION INCREASES

The targeted level of increases set out in section 4 above are not guaranteed and depend entirely on the ability of the Fund to afford the increases. If the Fund cannot afford such increases at any time, lower or even nil increases may be granted in line with the provisions below.

Following the introduction of the LDI approach for the Pensioner Portfolio the focus of the Board in determining annual increases is on the funding level of the overall pensioner section of the Fund (or "Pensioner Account"), as determined by the Actuary.

The funding level is calculated as the market value of assets divided by the value of the liabilities priced off the yield curve and based on the Actuary's best estimate of the future mortality of the Fund's pensioners.

The Board has consciously decided to mismatch the assets and liabilities of the Pensioner Account to create the possibility of pension increases higher than 50% (or 100%) of CPI. This is achieved by investing approximately 20% of the Pensioner Assets in the Growth Portfolio ("GP") which is equity-centric, and a mandate which allows up to 35% of the Matched Portfolio to be invested in high quality credit instruments to enhance the yield. Whilst it is expected that this mismatch will enable the Fund to grant higher pension increases, this outcome is not guaranteed.

To deal with such uncertainty the Board has implemented four adaptive buffers, namely:

- The current level of pension increase provided for in the Matched Portfolio for the 50% of CPI target category is 60%, thus providing a margin of safety over the 50% target.
- The Fund will target an overall funding level for the Pensioner Account above 100%, which provides an additional buffer.
- The Policy allows for limited smoothing of the annual pension increases, based on the funding level of the Pension Account as reported by the Actuary. Such smoothing allows the Fund to grant increases above or below (in the latter case, subject to a minimum of 0%) the target levels set out in Section 3, subject to the Actuary's recommendation.
- The Board can reduce the target pension increase on due notice to the pensioners. This is the most important adaptive buffer because in rare events the Fund may have to reduce its pension increases policy on affordability grounds.

The above adaptive buffers are also used to deal with the following sources of risk within the Pensioner Portfolio:

- The pensioner liabilities underlying the Matched Portfolio are updated periodically so there is always a small difference between the actual liability and that which is interest rated hedged. In addition, one cannot achieve a perfect interest rate hedge with only 80% of the Pensioner Portfolio being allocated for this purpose.

- The actual mortality experience of the pensioners could be higher or lower than that budgeted for resulting in a surplus or shortfall respectively. (The Actuary budgets for pensioners to live for a pre-determined period based on observed life expectancy data. If, on average, pensioners live longer than the Actuary has budgeted for, this would adversely affect the ability of the Fund to grant pension increases in line with this policy.)

6. STATUTORY MINIMUM PENSION INCREASES

The Fund is required to test the increases granted against the minimum pension increase requirements set out in the Pension Funds Act on a triennial basis. The Board will ensure compliance with the statutory requirements by requiring the Fund's Actuary to carry out the necessary calculations as part of each triennial statutory valuation of the Fund.

7. REVIEW AND AMENDMENT OF THE POLICY

The Policy will be reviewed by the Board on recommendation by the SACC and/or in the event of significant changes to the composition of the membership of the Fund, changes to legislation or the regulatory environment, but at least annually; provided that the Board may at any time, in their sole discretion, amend any provision of the Policy.

8. CONFLICTS

In the event of a conflict or inconsistency between the terms and provisions of this Policy and the Fund Rules or any legislation, the Fund Rules or legislation will prevail.

9. ADOPTION AND SIGNATURE

The Policy was adopted by the Board at a fully constituted meeting held on **10 September 2025**. The Chairperson of the Board, Vice Chairperson of the ARC and the Fund's Principal Officer were authorised to sign the document as the Fund's official Communication Policy.

For and on behalf of the Fund:

Prof Muthundine Sigwadi (2025-10-28 15:18:06 GMT+2)

CHAIRPERSON OF THE BOARD

2025-10-28

DATE

VICE CHAIRPERSON OF THE AUDIT AND RISK COMMITTEE

2025-10-28

DATE

PRINCIPAL OFFICER

2025-10-28

DATE