

RHODES UNIVERSITY PENSION FUND
Registration number 12/8/31401/1
Registered address: 256 Cape Road, Newton Park, Port Elizabeth

15 September 2021

Dear Member

<p>RESTRUCTURING THE PENSION FUND (Communique #3)</p>

Further to our previous communication, the Trustees of the Fund, together with the University, have undertaken an extensive exercise where they have reviewed the current defined benefit structure of the Fund. After reviewing the impact of the defined benefit structure and what alternative options are available, they have decided that it is no longer practical to continue providing retirement benefits within the Pension Fund other than those that have already been accrued on this basis.

The trustees have therefore decided to keep the defined benefit structure of the fund for your retirement up until 1 April 2022. With effect from 1 April 2022, you will join the Rhodes University Provident Fund and your new contributions from 1 April 2022 will accumulate on a defined contribution basis.

With the changes as at 1 April 2022, you will have the **choice** of leaving your actuarial reserve value benefit as at 1 April 2022 in the pension fund, which will result in your existing benefit in the pension fund continuing to accrue on a defined benefit basis. Alternatively, you can voluntarily transfer your value as at **1 April 2022** to the Rhodes University Provident Fund and have all your retirement benefits in the Provident Fund accumulating on a defined contribution basis.

In deciding to make changes to the Pension Fund, the Trustees, together with the University, considered the latest trends and developments in the retirement benefits industry and the most appropriate retirement provision mechanisms. This includes the widespread move away from defined benefit arrangements to defined contribution arrangements. The trends illustrate that, until recently, Rhodes University was one of only two higher education institutions in South Africa with an open defined benefit fund. The decision to restructure the Rhodes University Pension Fund also took into account the consolidation of the staff retirement fund arrangements and at the same time takes into account the objectives of the University to de-risk its balance sheet and therefore support the future financial sustainability of Rhodes University. It is important to note that the retirement funds are separate and distinct legal entities from the University and are governed by the Trustees of the Funds in accordance with the relevant legislation and the rules of the Funds. Nonetheless, as a defined benefit pension fund, the Rhodes University Pension Fund places an open-ended financial obligation on the resources of the University. The University has notified members that under current financial circumstances it would be unable to inject further funds into the pension fund, should such a need arise. The only option available to the Trustees in such a case would be to reduce benefits. A further consideration for the timing of the restructuring is that the recent statutory valuation of the Fund indicates that this is an opportune time for the re-structuring as the Fund is in a healthy financial position.

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How will this be done?

You will join the Rhodes University Provident Fund **from 1 April 2022** and your future contributions will be paid into the Provident Fund.

This letter and the accompanying documents serve to provide you with a formal notice of the change as well as giving you the opportunity to raise any questions or concerns you may have. An extensive communication strategy will follow, and members will be afforded a variety of opportunities to examine their individual circumstances.

You will receive a statement as at **1 October 2021** which will provide an illustrative value of your benefits should you decide to transfer them to the defined contribution Rhodes University Provident Fund. Please note that your conversion value will be recalculated on the actual effective conversion date of 1 April 2022 to allow for any changes in your salary, pensionable service, and accumulated member contributions. Your 1 October 2021 statement is merely an illustration of your benefit as at 1 October 2021 in order to assist you in making a decision. Alexander Forbes will be hosting presentations and arranging for an accredited individual financial planner to be available for one-on-one consultations. These sessions will help you with your decision of either leaving your benefit as at 1 April 2022 in the defined benefit Rhodes University Pension Fund or transferring this benefit from the defined benefit structure, (Rhodes University Pension Fund), to the defined contribution structure within the Rhodes University Provident Fund. Please note that Alexander Forbes are the administrators of the Fund, appointed by the Trustees and have no responsibility for any investment decisions made by the Fund.

Please note that should you elect to transfer your actuarial reserve value as at 1 April 2022 from the Rhodes University Pension Fund to the Rhodes University Provident Fund, approval from the Financial Sector Conduct Authority ("FSCA"), must be obtained. When applying for approval, the Trustees must include a report from the Fund's actuary, as well as copies of this letter, brochure, and your transfer statement. Once the Financial Sector Conduct Authority has approved the transfer, your benefit will be transferred across to the Rhodes University Provident Fund. The approval process carried out by the FSCA can take up to six months before final approval is granted. During this period, your benefits will continue to accrue interest within the Rhodes University Pension Fund.

What will happen to my benefit in the Rhodes University Pension Fund?

Option 1: You can elect to leave your actuarial reserve value in the Rhodes University Pension Fund

Your benefits in the Rhodes University Pension will continue to be defined in terms of pensionable service but pensionable service will be limited to service up to 01 April 2022. You will be regarded as a 'paid-up' member within the Fund and continue to receive annual statements and communication from the fund.

Your new contributions with effect from 1 April 2022 will be paid to the Rhodes University Provident Fund and you will be insured for death and monthly disability income benefits under the Rhodes University Provident Fund.

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Upon either your resignation, dismissal, retrenchment, retirement, or death, you or your beneficiaries will receive a benefit from the pension fund and the provident fund based upon your final salary and the years of service accrued as a contributing member of the Pension Fund.

Option 2: *You can elect to transfer your value as at 1 April 2022 to the Rhodes University Provident Fund*

Your actuarial reserve value benefit in the Rhodes University Pension Fund as at 01 April 2022 will be calculated by the actuary and this will form your opening balance as a defined contribution member. Your total benefit will be on a defined contribution basis from 1 April 2022. More details on your conversion value will be provided in the illustrative conversion value statement which will be sent to you under cover of a separate communication.

Your new contributions with effect from 1 April 2022 will be paid to the Rhodes University Provident Fund and you will be insured for death and monthly disability income benefits under the Rhodes University Provident Fund.

Upon either your resignation, dismissal, retrenchment, retirement, or death, you or your beneficiaries will receive a benefit from the Rhodes University Provident Fund, based upon the value of your accumulated funds.

Is this in my best interest?

The following points will hopefully help to set your mind at ease:

- A special task team was established by the University, and they received expert advice from an independent actuary. The task team was established by the Council following the statutory valuation of the fund as at 31 December 2018. The objective of the task team was to investigate the best course of action to minimise the potential impact of the Pension Fund on the finances of the institution. The University has already injected an additional R10 million in 2019 and R47.52 million in 2020 as a temporary measure to address what were then shortfalls in the fund.
- The Trustees also engaged independently, and various options were assessed with expert advice from the actuary to the fund. The Trustees also had several engagements with the task team.
- The Trustees reviewed many options, including, closing the fund to new entrants, reducing the accrual rate from 2.7% of final salary per year of service, capping pensionable salary increases, increasing the member contribution rate, changing the valuation basis, and changing the pension increase policy.
- The Trustees' opinion is that changing the accrual of future benefits from a defined benefit basis to a defined contribution basis within the Provident Fund, and giving active members and pensioners the option to transfer or leave their actuarial reserve value as at 1 April 2022, is expected to be the most favourable outcome for members considering all the relevant facts.
- In addition to this document, group presentations will be provided to answer any questions you may have. An accredited individual financial adviser from Alexander Forbes will also be made available for one-on-one consultations. You are also welcome to contact a financial adviser should you want independent advice on this matter.

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When will this happen?

You will become a member of the Rhodes University Provident Fund **from 1 April 2022**. Should you wish to transfer your actuarial reserve value from the Pension Fund to the Provident Fund, your transfer value as at 1 April 2022 will be transferred across to the Provident Fund. This will be done as soon as the Financial Sector Conduct Authority has considered and approved the transfer application, known as a Section 14 transfer. We will keep you informed of developments that affect you. In the meantime, if you have any queries, please contact either the Fund's consultants (details below), or the Human Resources Division, or Alexander Forbes, as follows:

Ms Tandile Nyati	Mr Derek Munton and Ms Nikki Kurzyca
Manager: Total Rewards	Fund Consultants
Rhodes University	Alexander Forbes Financial Services
Tel: +27 46 603 8734	Tel: +27 41 392 8306
Email: t.nyati@ru.ac.za	Email: muntond@forbes.com or kurzyca@forbes.com

Any queries must be received by 28 February 2022.

Yours sincerely



Mark Arendse
Principal Officer of the Rhodes University Pension Fund

For and on behalf of the Board of Trustees of the Rhodes University Pension Fund

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BROCHURE

As mentioned in the accompanying letter, the Trustees of your Fund, together with your employer, Rhodes University, have therefore decided to keep the defined benefit structure of the fund for your retirement up to 1 April 2022. From 1 April 2022 you will join the Rhodes University Provident Fund and your new contributions from 1 April 2022 will accumulate on a defined contribution basis.

What are the implications of this intended change to you as a member?

The main differences between the defined benefit and defined contribution arrangements are as follows:

- Within the defined benefit fund, the withdrawal or retirement benefit payable to you depends on your number of years of completed service, as well as your final pensionable salary in the last 12 months of your employment. The employer shares directly in the risks and rewards of the fund's investments.
- With the move to a defined contribution fund, you as a member will now have a retirement benefit that is dependent on the amount contributed to the fund, as well as on the performance of the assets your fund credit is invested in. You share directly in the risks and rewards of the investment portfolios offered in the defined contribution Rhodes University Provident Fund.

In the defined contribution Rhodes University Provident Fund, you will continue to build up retirement benefits, as well as to enjoy life and disability cover. The change in life cover is set out in the table on the next page.

When will the change take place?

1 April 2022.

Will the University continue to be a sponsor to cover the financial soundness risk for members who decide to remain in the Rhodes University Pension Fund?

Rhodes University has decided that under current financial circumstances it can no longer underwrite the possible future funding shortfalls of the Pension Fund without placing the institution's financial sustainability at risk. The Pension Fund will therefore have to operate on a self-funding basis unless the University's financial circumstances materially improve, and there is therefore no guarantee that the University will inject any required cash into the Pension Fund should the fund in future find itself in an underfunded position.

With the assistance of the Fund's actuary, the Fund will be establishing an expense reserve account which will provide a level of subsidisation to cover the ongoing administration costs of the Pension Fund, as there will be no further contributions made by both the employer and the member into the Fund. In the event that the Fund finds itself in a deficit in the future, there is a possibility that the Trustees will need to reduce benefits.

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Interim transfer value statement

As mentioned earlier in this communication, a provisional statement at **1 October 2021** will be provided under cover of a separate communication. This interim transfer value statement will show your projected conversion values in respect of your benefit at this date. This interim statement will illustrate what your value will be should you wish to voluntarily transfer this to the Rhodes University Provident Fund.

As mentioned in the covering note to this communication, your 1 October 2021 statement is merely an illustration of your benefit as at 1 October 2021 in order to assist you in making a decision.

Important note:

Your conversion value will be recalculated on the actual effective transfer date as at 1 April 2022. Your recalculated value will take into account any changes in your salary, pensionable service, and accumulated member contributions.

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Comparison of benefits: defined contribution provident fund vs the defined benefit pension-fund

Rhodes University Provident Fund (Defined contribution provident fund)	Rhodes University Pension Fund (Defined benefit pension fund)
<p>Contributions</p> <ul style="list-style-type: none"> • Member contributions: 7.5% of pensionable salary. • Employer contributions: 15% of pensionable salary, less costs. 	<p>Contributions</p> <ul style="list-style-type: none"> • Member contributions: 7.5% of pensionable salary. • Your employer pays the balance of the cost to provide you the promised benefit, after your contribution has been taken into account. • The employer contribution is currently 15% of pensionable salary, less costs. • With effect from 1 April 2022 there will be no further contributions paid by both the employer and the members into the pension fund.
<p>Retirement Benefits</p> <ul style="list-style-type: none"> • Retirement benefits are determined by the contributions to the fund, less costs, plus the investment returns* during the period of membership. • You carry the risk of poor investment performance and the reward of favourable investment performance. • On retirement you must convert at least two-thirds of your fund credit (your accumulated retirement benefit) to buy an annuity/pension from a registered insurer outside the fund. • You can choose to retire early. <p>* Please note that investment returns can be negative</p>	<p>Retirement Benefits</p> <ul style="list-style-type: none"> • Benefits at retirement are based on a fixed formula included in the rules of the fund. Importantly, "pensionable service" will be calculated as service up to April 2022. • Your employer carries the risk of poor investment performance and the reward of favourable investment performance. The University however has indicated that in the case of any future deficits which may arise in the Fund, its ability to inject additional amounts into the Fund will be subject to affordability. Its current financial position would not allow such an injection. With effect from 1 April 2022, the Pension Fund will operate on a self-funding basis and there is no guarantee that the University will inject any required cash into the Pension Fund should the Fund find itself in an underfunded position. • With the assistance of the Fund's actuary, the Fund will be establishing an expense reserve account from within its current assets which will provide a level of

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Rhodes University Provident Fund (Defined contribution provident fund)	Rhodes University Pension Fund (Defined benefit pension fund)
	<p>subsidisation to cover the ongoing administration costs of the Pension Fund as there will be no further contributions by both the employer and the members into the fund.</p> <ul style="list-style-type: none"> • On retirement you receive a pension calculated by using the fixed formula included in the rules of the fund. • You can choose to retire early.
<p>Death benefits</p> <p>A lump sum of four times your annual pensionable salary,</p> <p><i>plus</i></p> <p>Your fund credit.</p>	<p>Death benefits</p> <p>A lump sum of two times your annual salary</p> <p><i>Plus</i></p> <p>A spouse's pension equal to 40 percent of your pensionable salary at death and a child's pension of 10 percent of pensionable salary at date of death per child (maximum three). Children's pensions will double if no spouse.</p> <p>If no eligible spouse or children, then: A lump sum of two times your annual salary</p> <p><i>Plus</i></p> <p>A minimum of accumulated contributions plus any transfer value paid into the Fund.</p> <p>With effect from 1 April 2022 the death benefit changes for those members who have elected to have a paid-up defined benefit in the Pension Fund. In the event of the death of a paid-up defined benefit member, the member's Actuarial Reserve Value will become payable at date of death.</p>

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Rhodes University Provident Fund (Defined contribution provident fund)	Rhodes University Pension Fund (Defined benefit pension fund)
<p>Disability benefits 75% of monthly pensionable salary.</p>	<p>Disability benefits 75% of monthly pensionable salary.</p> <p>This will fall away in the Pension Fund from 01 April 2022 as all active members will be transferred to the Provident Fund.</p>
<p>Withdrawal benefits You receive your full fund credit if you leave the fund.</p>	<p>Withdrawal benefits The member will be entitled to their accumulated contributions plus:</p> <ul style="list-style-type: none"> ▪ an additional five-sixths of a percent of their accumulated contributions for each month of membership, subject to a maximum of 100 percent; and ▪ their transfer value, if applicable, from the AIPF. <p>If a member elects to preserve their benefit, then they will be entitled to the cash withdrawal benefit plus an additional amount equal to 10 percent of the difference between the cash withdrawal benefit and their actuarial reserve value for each year in excess of five years, subject to 100 percent.</p> <p>The final benefit due to the member after applying the above calculation shall not be less than the member's minimum individual reserve as required by the Pension Funds Act</p>

How was my conversion value calculated?

If you elect to transfer your actuarial reserve value as at 1 April 2022 to the Rhodes University Provident Fund, your opening fund credit will be your conversion value at the conversion date. Your conversion value is the cash value of your defined benefit in the Rhodes University Pension Fund as at 1 April 2022. This is known as your Actuarial Reserve Value.

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Actuarial reserve value

Your actuarial reserve value is the lump sum equivalent, in today's terms, of the defined benefit that is due to you on retirement or leaving service, based on your pensionable service in the Rhodes University Pension Fund. It is determined by the Fund's actuary using the same principles as would be used to calculate the best estimate value of the Fund's future obligation to you, for statutory valuation purposes. The actuarial reserve value is subject to the minimum individual reserve as set out in the Pension Funds Act.

What do I do next?

- The illustrative conversion value statement which you will receive under cover of a separate mail will detail your projected conversion value as at 1 October 2021. It will give an indication of the amount of money to be credited to the Rhodes University Provident Fund, should you choose to convert and transfer this benefit to the Rhodes University Provident Fund. Remember that your actual conversion value will be re-calculated on the actual effective transfer date as at 1 April 2022. Your re-calculated value will take into account any changes in your salary, pensionable service, and accumulated member contributions.
- Presentations and one-on-one discussions with the Fund's consultants and the Human Resources department will be carried out from October 2021. Please be on the lookout for the presentation dates.
- You need to set out in writing any questions or concerns you may have in respect of the conversion before 28 February 2022.
- Please confirm and return the attached option form to your Human Resources Division by no later than 15 March 2022.

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OPTION FORM

Name: _____

Date of Birth: _____

Dear Member

The following options are available to you:

Please indicate with a tick (✓) in the block provided and give details where applicable.

Option 1

I wish to transfer my actuarial reserve value as at 1 April 2022 to the Rhodes University Provident Fund. I understand that such a transfer will take place in terms of Section 14 of the Pension Funds Act and the assets will therefore only be available for investment in the Rhodes University Provident Fund upon approval by the Financial Sector Conduct Authority.

Option 2

I wish to retain my actuarial reserve value in the Rhodes University Pension Fund and understand that I will become a 'paid-up' member within the Pension Fund.

This option form is to be provided to your Human Resources Division, **by no later than Tuesday, 15 March 2022.**

Member's Declaration

Once I am fully satisfied with the above option selected, I understand that my decision may not be changed at a later date. The option form is to be handed to your Human Resources Division who will in turn pass on your documents to Alexander Forbes Financial Services who have been appointed to oversee this process.

I acknowledge that with effect from 1 April 2022, I will become a member of the Rhodes University Provident Fund.

SIGNATURE

DATE

Please note that should your completed, signed Option Form not be received by close of business on 15 March 2022, you will automatically remain as a 'paid-up' member within the Rhodes University Pension Fund and will become a member of the Rhodes University Provident Fund with effect from 1 April 2022.