



ZIMBABWE ELECTRICITY SUPPLY AUTHORITY
STAFF PENSION FUND

"Retirement Security. Today and Tomorrow"

Update to all Members and Pensioners as at 25 July 2019.

Purpose of the Update.

The purpose of this circular is to update members and pensioners on the operations of both Zimbabwe Electricity Industry Pension Fund (ZEIPF) and ZESA Staff Pension Fund and the progress on the transformational agenda which the Board of Trustees for the two Funds embarked on in the last 24 months for the benefit of the members and pensioners.

Operating Environment.

The operating environment has drastically changed, characterised by the transformation of the economy through the implementation of the Transitional Stabilisation Programme (TSP) by the Government. At industry level, there is the rolling out of the Pension Fund industry reforms in response to the outcomes of the Commission of Inquiry which indicated the loss of value on the conversion from Zimbabwean dollar to multi-currency in 2009. Both the TSP and the Commission of Inquiry demand austerity measures on operational costs of running Pension Funds to improve the retirement benefits to members and pensioners.

Surge in Operational Costs: The ZEIPF operational costs are outside the compliance level of 2% of the sponsoring employers wage bill and ZESA Staff Pension Fund costs are also outside the 5% of all the income received by the Fund.

Of these operating costs, 69% is employment related costs. This prompted the Board of Trustees to embark on the restructuring of the Fund management staff to contain employment costs and avoid the erosion of retirement benefits by operating costs.

High inflation environment vs returns: The inflationary pressures have continued with the year on year inflation rate reaching 175.66% as at end of June 2019. This severely erodes the retirement benefits and the purchasing power of monthly pensions.

The currency in use for your benefits and assets has also changed from USD to Zimbabwean Dollar (ZW) as directed by authorities through SI 142 of 2019.

The twin combination of high operational costs and mounting inflation pressures against the fiduciary responsibility of the trustees to protect and improve members' retirement benefits requires some delicate decisions to be made by the Board of Trustees.

Fund Investments.

The Board of Trustees observed that the investment returns generated by the Fund have not been in line with member expectations and below returns generated by other Pension Funds operating in the same economy. For example, ZEIPF and ZESA Staff Pension Fund posted cumulative investment returns or bonuses of 51% and 131% for the period January 2009 to 31 December 2017, respectively. The investment returns or bonuses are low compared to other Pension Funds which posted investment returns or bonuses in excess of 300% in the same period. The below market investment returns reduce the pension increases and retirement benefits.

The investment returns below the market average were caused by a myriad of factors, chief among them being:

- Misalignment of the Investment Strategy for ZEIPF, which was skewed towards the money market as opposed to real assets such as Property and Shares.
- Arrear contributions which accounted for about 30% of the Fund value.
- Low yields generated by ZEIPF properties. The property yields for ZESA Staff Pension Fund were in line with the market.
- Huge rental arrears witnessed through a collection rate of around 32% in 2017.

Reforms implemented by the Board of Trustees to improve member and pensioner value.

In exercising the fiduciary responsibility, the Board of Trustees implemented the following transformational measures in the last 24 months:

1. Crafting of the Fund Vision and Values

To ensure that the life of the two Pension Funds continue to be on the rail of serving the members and pensioners, the Board of Trustees set the following guiding Vision,

- ***"To ensure that all members achieve a secure and sustainable retirement income".***

And the behaviour of the Fund management staff is moulded around the following five values:

- ***Client Centric, Diligence, Innovation, Professionalism and Integrity.***

We would want to underscore and advise all members that the decisions of the Board of Trustees and conduct of Fund management staff are always gravitating towards fulfilling the above Vision and Values for the benefit of members and pensioners.

2. Implementation of the 2019-2023 Strategic Plan Initiatives.

Building on the inaugural 2018-2022 Strategic Plan, the Board of Trustees crafted the **2019-2023 Strategic Plan** and has rolled out several initiatives for the benefit of members and pensioners. The 2019-2023 Strategic Plan is supported by three Strategic Pillars which are:

- Resolving legacy issues.
- Rejuvenation of the Fund and
- Realisation-benchmarking the Funds against international standards.

Below are some of the initiatives implemented by the Board of Trustees:

a) Fund Management Restructuring exercise.

To enhance the efficiency of operations and contain the operational costs to be within the 2% of the sponsoring employers' wage bill and arrest the erosion of members' benefits, the Board of Trustees with the help of a consultant meticulously restructured the Fund Management with effect from 01 July 2019. The new lean structure adopted drives the effective implementation of the management actions contained in the 2019-2023 Strategic Plan and improves the retirement benefits and service to all our members. The Restructuring exercise reduced operational costs by 21% and resulted in the retrenchment of 5 excess employees. The headcount for the Fund was too high for the Fund activities. Furthermore, the Fund invested in the implementation of ICT platforms which brought in automation of many activities which previously were done manually. In the long term the operational expenses will be managed within the 2% of sponsoring employers wage bill or 5% of Fund income.

The Board of Trustees is confident that the lean structure will exceptionally improve the service which some pensioners and members have already witnessed in the last 18 months.

b) Investment return or bonus or Pension Increase.

The two Pension Funds awarded **15%** investment return to active members and **15%** pension increase to all pensioners with effect from 01 January 2019. In addition, the ZEIPF Board of Trustees has also resolved to award a further pension increase of **12%** with effect from 01 June 2019. The active members benefits were also improved by **12%**. Fund management is currently seeking approval from IPEC to implement the **12%** pension increase and pensioners will be advised of the outcome. On the other hand, Fund management and the Fund Actuary are currently assessing the investment performance of the ZESA Staff Pension Fund with the view of awarding a pension increase with effect from 01 June 2019 over and above the **15%** granted with effect from 01 January 2019. Again, the pensioners will be informed once the processes are completed.

The above solid nominal investment performance of the Fund comes as a result of the decisions taken by the Board of Trustees in the last 18 months to realign the Investment Strategy and invest more in real assets mainly shares and property.

c) Member Benefit Statements, Information booklets, outreach programs and Website.

The Board of Trustees, through your Human Resources departments distributed benefit statements for the years **2016, 2017 and 2018** in April 2019. These statements are very important for your retirement planning and we urge you to contact your Personnel Officer if you are yet to receive them.

Going forward you will receive these statements every year in April. Currently, the Board of Trustees is working on an ICT project which will enable members to view these statements online and on smart phones. The plan is for the online facility to be operational by end of March 2020.

Furthermore, all members have been given Fund Information booklets through the various Personnel Officers. The booklets give information on the benefits to members or pensioners and how the two Pension Funds operate.

The General Manager together with Trustees are currently going around the country educating members and pensioners on the operations of the Funds. This is the second round of reaching out to members in the last 18 months. The Board of Trustees is encouraged by the appreciation reports coming from members who attended the outreach sessions. So far

outreach sessions have been conducted in most parts of the Western, Northern, Southern and Harare regions. By end of August 2019 the target is to cover the remaining areas.

We urge you to attend these outreach programs so that you plan for your retirement better.

The Fund Management is at an advanced stage of developing a Website for the Fund which will improve the dissemination of information and enhance service delivery to all members and pensioners. The Website will be unveiled end of September 2019.

d) Member or Pensioner Experience; Claims payment and mortgage loan statements.

The Board of Trustees have transformed the culture of Fund management staff and have put the member or pensioner at the centre of the Fund operational processes. Members are now able to contact the Fund through:

The landline numbers: 024-2252736/7/8, 2252764, 2252845, 2252579

WhatsApp number : 0777953777

Email address : benefits@zesapf.co.zw

All complaints are resolved or acknowledged within **48 hours** and should be forwarded to the Compliance Officer on email complaints@zesapf.co.zw or WhatsApp number above.

The claims settlement period has improved drastically to a turnaround time of **10 days** after submission of all documents.

Leveraging on the ICT capability created in the last 18 months, members are now able to get softcopy statements of the mortgage loan statements within **24 hours** of making a request.

The implementation of internationally benchmarked ICT platforms in the last 18 months has significantly assisted the Board of Trustees to improve the service delivery to the members and pensioners.

e) Members Housing Loans: More than \$40 million available for Housing Loans.

The Board of Trustees crafted three Housing Loan Schemes ie the ZEIPF Mortgage Scheme (managed in house), the NMB Mortgage Scheme commenced in April 2018 and the Stanbic Mortgage Scheme introduced at the beginning of 2019.

Through these three Schemes, more than **\$40m** is available for housing purposes. We encourage members to buy houses through these schemes as this will help in retirement planning.

So far more than 1 300 members have benefited through the 3 housing schemes.

f) *Properties: In House Management:*

As an initiative to sweat the Fund properties, the Board of Trustees resolved that all properties which were managed by Real Estate Agents be managed in house by a team of qualified staff within the Fund. The process of taking over the management of the properties is underway and is expected to be completed by June 2020. The in-house management of properties will improve the investment return from the properties hence better retirement benefits or pension increase in the future.

The return of the ZESA Staff Pension Fund properties as at 31 December 2018 was 10% way above the market average of 7%. ZEIPF properties return was close to 6%.

g) *Strengthening Corporate Governance:*

Through the introduction of Statutory Instrument 80 of 2017, the regulator, IPEC limited the number of trustees to a maximum of 9 per each Fund. The ZEIPF Board of Trustees was trimmed from 14 members and the ZESA Staff Pension Fund from 12 members.

At the same time trustees are now required to write Certificate of Proficiency (COP) in Trusteeship examination. We are pleased to inform you that all your trustees have passed the examination and are fully compliant with the law, except one who is sitting for the November 2019 examinations.

The Board of Trustees performs the governance oversight role through a framework of Board Committees which assess and recommend proposals from Fund management to the Board. The two Funds have the following committees:

- Finance, Investment and Procurement Committee.
- Audit, Risk and Compliance Committee.
- Human Resources, Remuneration, Legal and Benefits Committee.

The General Manager is an advisor to the Board and his main role is to implement the resolutions made by the Board.

Since 2017 the Board and the Committees have been meeting on a quarterly basis to deliberate on the affairs of the Funds.

The Fund has a robust Risk Management and Compliance framework. The risk registers and mitigation measures are discussed right through to the Board of Trustees.

The good corporate governance framework, management policies and processes strengthen the control environment for the sustainability of the Fund for the perpetual benefit to members and pensioners.

h) Projects: Assets or Property development.

After an exhaustive consultation with economic experts and investment appraisals, the Board of Trustees for ZEIPF is at different levels of developing the following properties to boost the investment returns or pension increase for the benefit of members:

i. Gweru Megawatt Shopping Complex-Completed in early 2018.

The development of the Gweru Megawatt Shopping Complex, which is in Gweru along the Bulawayo road was completed in early 2018. It is the flagship shopping complex in Gweru and is 96% occupied by Pick n Pay, Puma, Chicken Hut, Econet, Pabloz, ZETDC Southern Regional Office, ZIMRA and other shops.

From 2019 the shopping complex will contribute immensely to the investment return and boost retirement benefits for both active members and pensioners.



Insert A: Gweru Megawatt Shopping Complex

Award: The Gweru Megawatt Shopping Complex won the 2018 **ENGINEERING LIFE ACHIEVEMENT AWARD** for the Zimbabwe Institute of Engineering. This award is a testimony to the great guidance the trustees give to the Fund Management.

ii. Specialist Hospital -35 Fife Avenue Harare-85% complete.

Armed with expert advice that Healthcare/Specialist Private Hospitals generate handsome investment returns, the Board of Trustees embarked on the refurbishment of a double storey building in the Avenues area of Harare into a Specialist Hospital to be operated by Baines Imaging Group. The refurbishment commenced in September 2018 and is 85% complete with an expected date of completion of the 14th of September 2019.

The Specialist Hospital will contribute hugely to the investment return in 2020 and members' retirement benefits will be secured and enhanced by this development.



Insert B: 35 Fife Avenue Specialist Hospital

iii. **4 Star Cresta Victoria Falls Hotel: At Project Preparation Stage.**

In partnership with Cresta Hotels, the Fund is at the project preparation stage to develop, probably the best 4 Star hotel in Victoria Falls. The Hotel will have 180 rooms, conference facilities and other entertainment activities and operated by Cresta Hotels on a lease basis. More information will be made available to the members as the project preparation progresses. Management is currently monitoring the economic environment to ensure correct timing for development.

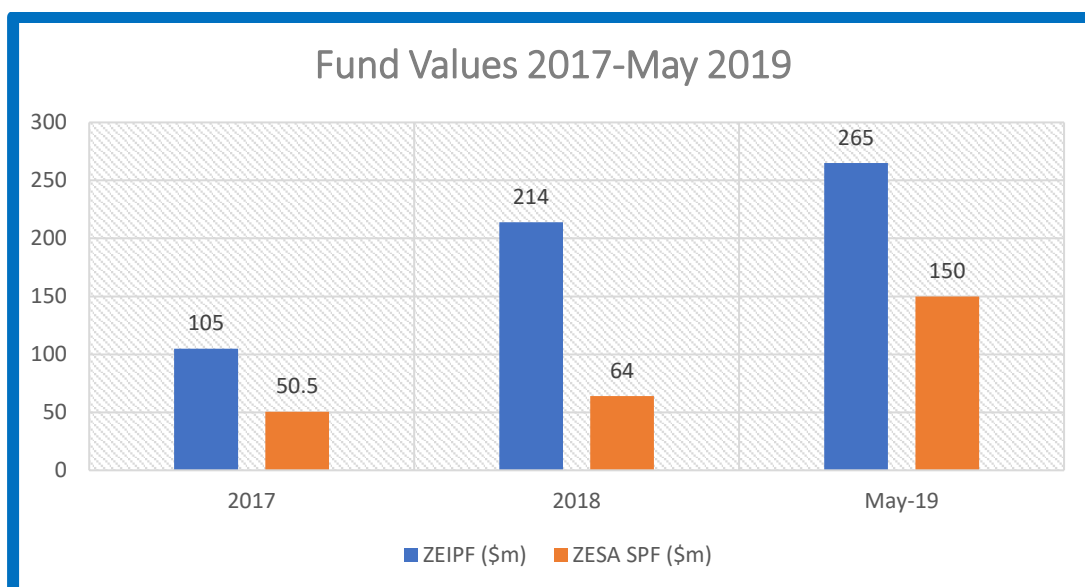
This property will draw income from the tourism sector, greatly boosts the investment return and preserves the retirement benefits for members and pensioners.



Insert C: Victoria Falls Cresta Hotel

i) Fund growth from 2017 to 31 May 2019.

Taking into account the upward nominal adjacent of asset values as a result of the currency changes, your Funds grew steadily since 2017 as shown by the graph below:



Graph 1: Fund Values 2017-May 2019

NB: Figures for 2017 and 2018 in USD terms and May 2019 in Zimbabwean Dollar terms.

The members retirement benefits have also gone up in line with the growth of the Funds.

ii) Payment Plans for arrear contributions

To resolve the long outstanding issue of arrear contributions, the Board of Trustees arranged legally binding Payment Plans in October 2018 with the Sponsoring employers to retire the arrear contributions. Over and above the payments to retire the arrear contributions, the employer is religiously making monthly contributions to close the actuarial deficit for the ZESA Staff Pension Fund. We greatly appreciate the commitment from the employers for adhering to the Payment Plans which have drastically reduced the arrear contribution bill by 32% between October 2018 to June 2019.

The employer is paying the outstanding contributions with 8% interest which contribute to the improvement of the retirement benefits.

Operating environment outlook.

With the build-up of inflationary pressures, the operating environment might continue to be challenging hence preservation of members' retirement benefits and regular pension increases will be the focus of the trustees.

A number of exciting initiatives to give extraordinary service to members are being pursued by your Board of Trustees. The objective is for the Fund to be accessible at anytime and anywhere through the use of technology. Your Funds are in a far much better operational position than before.

In conclusion, the Board of Trustees appreciates the support it is receiving from members, pensioners, the regulator IPEC, Fund Management and the Sponsoring employers.

We will pursue the discharging of our fiduciary responsibilities with prudence, utmost good faith and boldness for the protection and benefit of members and pensioners.

ZEIPF Chairman: Dr Eng Ben Rafemoyo: Signature.....

