

**NRZ Contributory Pension Fund
Financial Statements
For the Year Ended 31st December, 2021**

Chairman's Statement

REVIEW OF OPERATING ENVIRONMENT

It is a great honour to present to you the 2021 Annual Report for the National Railways of Zimbabwe Contributory Pension Fund. I am pleased to report that the Fund performed fairly well in a challenging and complex operating environment. Despite new lockdowns in 2021, albeit less severe than in 2020, the Zimbabwean economy grew rapidly coming off a low base. The Zimbabwe Stock Exchange ("ZSE") Industrial Index rose by 307% more than doubling investors' money in real terms. By comparison, Fund portfolios rose by an average of 332% over the year, disregarding the shares that were realised for benefit payments. These are extraordinary returns in a tough and volatile environment. Official inflation closed the year at 60.7%, implying substantially negative interest rates on money market assets. The local currency depreciated from US\$1:16.8 to US\$1:108.67 and Gross Domestic Production (GDP) growth for the year was estimated at 5.8% against the difficult macro-economic imbalances. The property market remained subdued and illiquid in ZWL and USD dollar terms as sellers continued to withhold their properties.

Notwithstanding the unfavourable economic environment, the Fund prudently discharged of its obligations, with benefits paid within regulatory timelines. During the year, benefit payments were significantly increased compared to industry average, at 85% of Fund total expenses, through distribution of revaluation gains. To effectively function remotely during lockdowns and digitise Fund operations, capital was also expended in information and technology systems infrastructure. Generally, expenses were indexed to inflation. Diversification of the Fund's assets continued to bear fruits as revenue contributions improved by asset class. Whilst rental incomes remained firm and contributed 82% of investment income predominantly in ZWL, in real terms the returns weakened due to the exchange rate dynamics in the economy. Assets growth was anchored by the capital appreciation in investment property and the performance of the external portfolio that has remained defensive. The Employer continued to face liquidity challenges, which saw the NRZ's indebtedness to the Fund grow by 200% to close the year at \$548m. Recovery prospects however, remain positive given the initiatives from the Employer.

Although compliance in Prescribed Assets remained low at 0.2%, the Fund remains committed to comply. The Fund's investment in Real Estate Investment Trust (REIT)s is expected to significantly boost the Fund's compliance level and efforts are underway to list the REIT on the Zimbabwe Stock Exchange. The Fund's statutory accounts were again qualified as hyperinflationary accounting continues in line with regulatory requirements. The Regulator had in the prior year directed pension funds to prepare their annual financial statements in accordance with the requirements of International Financial Reporting Standards (IFRS). The basis for the qualification was mainly non-compliance with International Accounting Standard 21 (IAS21). Overall, the Fund remained stable albeit the shrink in assets valuation in real terms.

REVIEW OF OPERATIONS

Pension Benefits

Total benefit payments in 2021 were \$1.198bn, up from \$295m paid in 2020 largely due to the distribution of revaluation gains. Monthly pension salaries were reviewed upwards quarterly: Q1 (50%), Q2 (10%), Q3 (the guaranteed 5% plus an additional 10%) and Q4 (10%). Exit benefits were paid in full within the statutory 60-day limit while externally based pensioners continued to be paid on a semi-annual basis.

Pension Contributions

In the year under review, member contributions increased by 150% in absolute terms, from \$34.4m in 2020 to \$85.9m in 2021, owing to adjustments of serving members' pensionable emoluments. Employer contributions were also increased from \$65.4m to \$167.1m. Member contributions were billed at 8% of employee pensionable emoluments and employer contributions at 14.4%. To the detriment of Fund cash flows, these contributions were generally not remitted to the Fund, as the Employer struggled to remit contributions. Prospects to recover the debt however, remains positive given the initiatives from the Employer.

Investments Performance

In the year under review, investments performance across all asset classes was generally weak in real terms. The external portfolio provided the much needed liquidity support during the year and closed the year valued at USD111.5m (\$12.1bn) (2020:8.9bn). Fund assets remained heavily skewed in real estate at 64% of total assets. Investment income was \$823m, up from \$245.9m in 2020 largely contributed by rental income.

Liquidity for benefit payments was also unlocked through the realisation of the local equities which closed the year valued at \$3 billion from \$849 million in 2020. At the close of the year, the Fund held a total of \$85.5million (\$0.6million in 2020) in Prescribed Assets instruments which is a compliance level of 0.2%.

Membership

The total membership of the Fund as at 31st December 2021 was 17 924, down from 18 222 at the beginning of 2020.

FINANCIAL HIGHLIGHTS

The Amount of Fund increased by 200% from \$21bn to \$42.5bn at the end of the year due to fair value gains on investments and exchange gains which accrued on the external assets.

2021 administration and governance expenses at \$259m, were above the 2020 figures (\$97.4m) on account of inflationary pressures.

Results of the actuarial valuation as at the end of 2021 determined that the Fund was in deficit by \$280.6m which is a funding a level of 99.3%.

OUTLOOK

Going into 2022, prospects are promising for a good agricultural season and with it an improved economy, notwithstanding unexpected negative influences. Dollarization is expected to continue apace, encouraged by the increased use of the USD in the economy, hence firming the belief that the growth of the economy is assured and the local investment landscape shall improve. The resilience of the Fund in the face of the pandemic over the past 18 months was very encouraging and we look forward to a pandemic free 2022.

Trustees shall continue to actively review Fund strategies against the prevailing market conditions to protect members' interests. Through integration of the Fund's enterprise-wide risk management efforts, Trustees shall seek to arrest the continued decline of the funding level through optimising investment returns and curtailing expense growth. The conversion of the benefit design from a defined benefit scheme to a sustainable scheme is expected to be concluded in the coming year.

BOARD AND EXECUTIVE CHANGES

The year started on a sad note, Mr. S. Kwetemu passed on 1 January 2021. May his soul rest in peace. Mrs. G. Kunda retired on 15 February 2021 and was replaced by Mr. S. Mlambo, who joined the Board on 13 August 2021. Mr. N. Maravanyika who had been appointed on 18 March 2021, resigned from the Board on 12 August 2021 and was replaced by Mr. T. Madanha on 13 August 2022.

APPRECIATION

I would like to thank my fellow Trustees, Management and Staff for their contribution and efforts towards improved service delivery to our members. The performance of the Fund is also credited to our stakeholders for their contribution and support.



S. SHAVA

CHAIRMAN