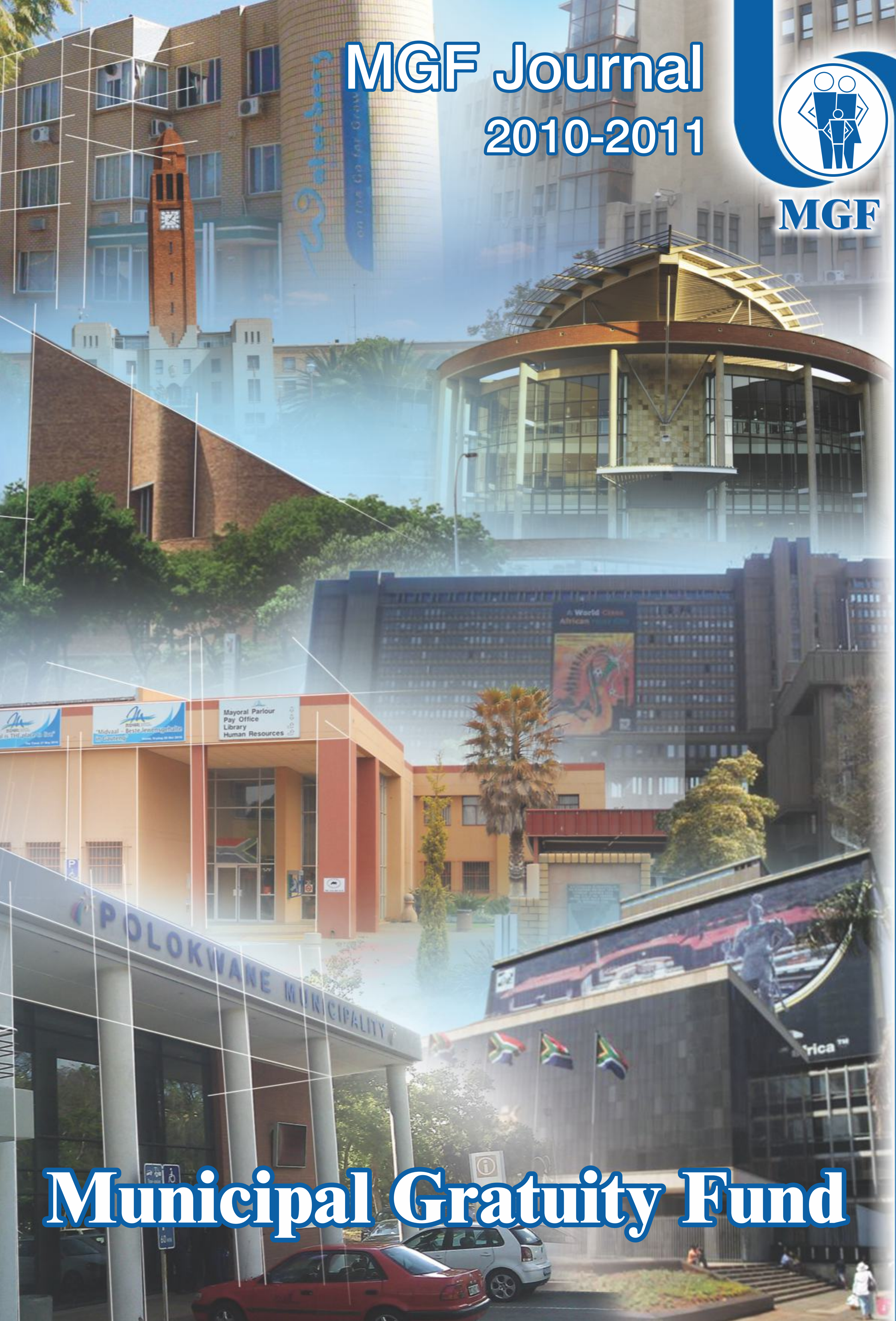
MGF Journal
2010-2011

MGF



MUNICIPAL GRATUITY FUND

Municipal Gratuity Fund

Congratulations to the Winners of our Survey Competition who each won R500

M S Ramokhele, Ekurhuleni
E Dhladhla, Ekurhuleni
M B Mmola, Greater Tzaneen
Z G Sepotwani, Pixley-ka-Seme
N Vilakazi, Mogale City
H S Viviers, Ekurhuleni
P Morake, Randfontein
M L Maloka, Ekurhuleni
E Potgieter, Gert Zibande
L Madia, ERWAT

The prize has been increased to a whopping R1000 in this year's competition for 5 Lucky Winners.
See Page 24 for details.

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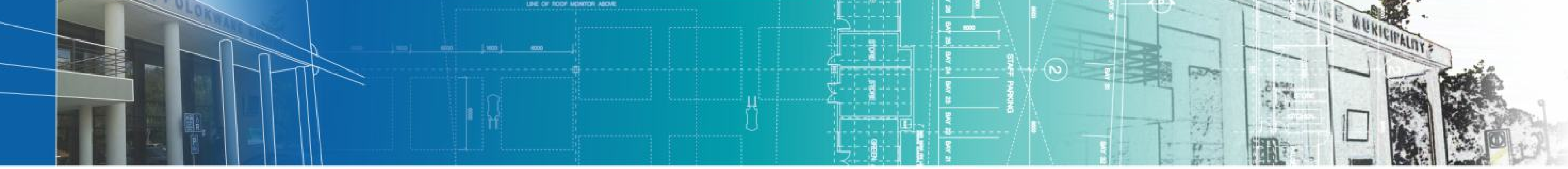


MESSAGE FROM THE CHAIRPERSON

At inception, during 1994, the Municipal Gratuity Fund was introduced to the employees of municipalities in the four northern provinces as "**The MGF - Your Wealth Creator**." These were prophetic words as now seventeen years later, looking back, this is exactly what the MGF did for its members. This is illustrated elsewhere in this MGF Journal. This was not always an easy task as we travelled gusty seas at times. In fact the investment seas are not particularly calm at the moment, weathering one storm after the other over the last 3 years. We do not boast our successes but are humbly thankful for the results as it could easily have been very different. However the rigorous Investment Policy Statement and the vigorous application of it by your trustees surely added to the fact that the ship kept direction. Your trustees, assisted by competent asset consultants, stuck to their guns and did not jump ship during the difficult times but trimmed and flared the sails or took shelter in safe harbours as necessary but all in all moved your ship forward to reach your retirement goal. May you soon be able to say ***"my ship has arrived"***. Your trustees deserve accolades for their contributions to keep your ship afloat.

Talking of which, I take this opportunity to introduce them to you once again as some changes have occurred since their introduction in the MGF Journal 3 years ago. Being stars in their own right let us present our own Oscar awards.

Welheminah Molubi

Firstly, Welheminah, *"The Prophet"*, my wingman (sorry, wing lady). Unlike the movie, she was not sent to a French prison and became a mafia kingpin. Instead she was sent to the MGF to become my support who keeps my arms up like Aaron did for Moses. She is a very able vice chairperson and member of the Executive Committee and is always ready to assist. Like a worthy prophetess she is always looking positively ahead into the future and never succumbs to obstacles and fears. A real inspiring force to her colleague trustees. Welheminah has been serving as a trustee of the MGF for 8 years of which 6 years as a member of the Executive Committee and since 2007 in the capacity of vice chairperson. She is an independent trustee.

Piet Venter

Piet, *"The Godfather"*, always concerned with the best interests of the members when a decision is to be made. Constantly looking after the wellbeing of the "familia". Piet has been a trustee of the MGF since 1996 and has served on the Executive Committee since 2004. He provides valuable input especially from a humanistic point of view, being the human resources specialist that he is, working for the City of Johannesburg. He is a member trustee.

Lerato Makhale

Lerato, *"The Graduate"*, was elected as employer trustee during 2006 and has been elected as member of the Executive Committee during November 2009. Sincere congratulations to Lerato with being graduated recently with the National Diploma in Public Sector Management. No wonder she became a municipal councillor at a tender age of 26. An age when some women are more concerned with shoes and bling than serious stuff like politics. Her attributes as a councillor complements the Executive Committee.

Welheminah, Piet, Lerato, and myself, constitute the Executive Committee. Therefore, the Executive Committee, consist of two member trustees, one employer trustee and one independent trustee. This renders a well balanced representation.

Eddie Alberts

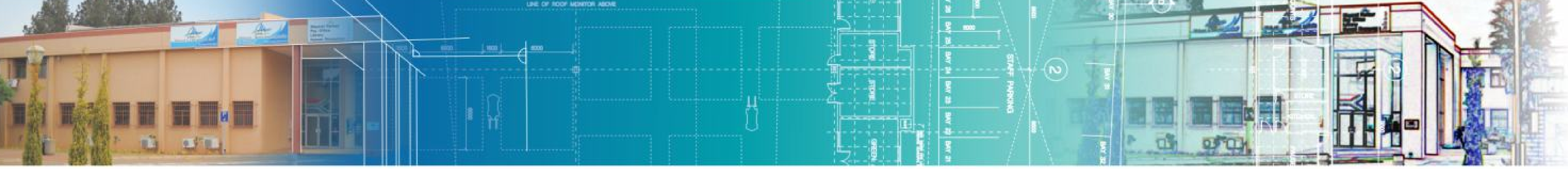
Then there is Eddie, our own *"The Accountant"*. The only difference between Eddie and the movie The Accountant is that the movie **was** a top rated movie, Eddie is still **top rated**! His accountancy skills and business acumen make him a real asset to the Board of Trustees. Eddie has been serving as trustee for the past 14 years during which period he was vice chairperson for 3 years and thereafter chairperson for 4 years. Due to the expansion of his business he felt that he could no longer do justice to the position of chairperson and declined availability for re-election as chairperson during November 2007. However he remains as an independent trustee and continues to provide valuable input into the affairs of the Fund.

Jannie Venter

The next star in the line-up is Jannie, *"The Terminator"*. Unlike in the movie were the Terminator was sent back 45 years into the past to fulfill his mission, Jannie doesn't have to go back into the past. You can ask him at meetings what was resolved on such and such a matter and his memory would travel back in a flash to whenever to obtain the required information. As sharp and accurate as the Terminator himself. He was the Town Treasurer (chief financial officer) of Polokwane Municipality until his retirement in June 2004 but continued to apply his skills in the fixed property market. Jannie has been serving as a trustee for almost 13 years of which 4 years as a member of the Executive Committee and 2 years in the capacity of vice chairperson.

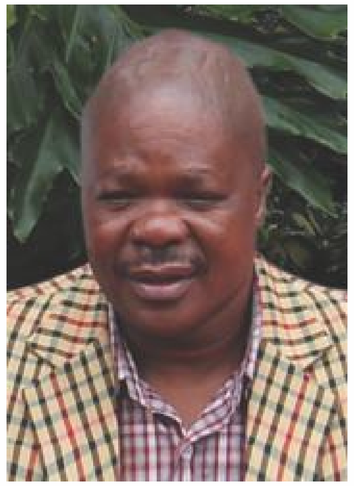
Grobbie Grobbelaar

And then Grobbie, our own *"The Robocop"*, as unstoppable and determined as the real McCoy. Once he sets his sights on a goal, not even the Gautrain is going to deflect his course. When he starts digging during a meeting, only the correct answer will satisfy him. As solid as his handshake. Make sure you get a firm grip when you greet him otherwise a visit to your physio is your next stop. He is employed in the financial department of Merafong City and is intensively involved in organized labour and various forums of the South African Local Government Bargaining Council (SALGBC), as well as KeyHealth. These attributes add a lot of value to the benefit of the Fund and its members. He has been a member trustee since 2002.



Speed Mashilo

This brings us to our next star, being *"Speedy Gonzales"* himself. Speed is exactly what his name says, quick and sharp as an arrow. Not only his brain and train of thought, but also his eagerness to get things done and dusted. He lives by the saying that ***"procrastination is the thief of time"***. Speed has been a trustee for the past 8 years, designated by SALGA. His readiness to be a communication channel between SALGA and the MGF serves the members of the Fund well.



Joe Modiga

Joe, *"The Operator"*, need I say more. Smooth as a bar of soap, happy to always challenge the boundaries of rigid legislation, if it would benefit members. A bit of a Robin Hood in there. A rough diamond and a real gem, complementing the skill set of the Board of Trustees with his knowledge obtained from his position in the financial department of Thabazimbi Municipality. Joe is a member trustee since 2008.

And yet another star, *"The Organiser"*. Although the name Kelebogile does not strike much resemblance to the name of Sinigaglia, the main character in the movie, this is where the difference ends. Like professor Sinigaglia in the movie our own Organizer is always committed to the plight of the members organizing the best outcome in the interest of members. Kelebogile is an employer trustee since 2008. His skills and influence as a member of the Mayoral Committee at the West Rand District Municipality is a real plus for the Fund.

Kelebogile Mojaki

Erné Smal

Eish, then of course there is Erné, *"The Stirrer"*, or should it be Erné, *"The Gladiator"* or maybe Don Quixote? This man will stir and fight and even storm the windmill if it would be to the advantage of the members. Never prepared to accept the first answer, always digging deeper and deeper until the full corpse is exposed and lying under the bright lights on the autopsy table. Then he starts with the sharpest scalpel cutting through the dead flesh to get to the cause and consequences of the matter. Erné works at the Ekurhuleni Metropolitan Municipality as Executive Manager, Finance and has been serving as member trustee for almost six years, 1 year of which on the Executive Committee.

Roja Ramare

Now for Roja, *"The Silent Witness"*, doesn't speak much but when he does it is worth listening. Although not analyzing the bones of the dead like in the movie, Roja would analyze all the relevant facts before making a conclusion. His ability to apply his skills as communication and marketing specialist in the employment of Tshwane Metropolitan Municipality when exercising his duties as a trustee supplement the combined skill set of the Board of Trustees. Roja has been a member trustee of the Fund since 2010.

Then in the last instance we have Dan, *"The Freshman"*. Dan is the latest addition to our team of trustees. He was elected as member trustee on 27 November 2010 at the last meeting of the General Committee. Although too early to put a tag around his neck it is already clear that his sense for fairness and his experience as a human resources official in the employment of Rustenburg Municipality will come in handy for the Fund. We look forward to gain from his knowledge.

Dan Mogakabe

These, dear members, is your own *"Dirty Dozen"* Superheros, who together with myself constitute the MGF Board of Trustees. For now just call me *"The Thirteenth Juror"* or if you wish *"The Leader of the Pack"*.

The purpose of the MGF Journal is to bring members up to date with the latest financial results, rule amendments and performance figures. Other important information is also conveyed by this means such as the upgrading of the administrative system and the fact that we will have to freeze the system during August 2011 to transfer the historical member data to the new system. Some interesting reading about investment matters as well as the 2011 National Budget is also included. Make sure you read the piece on the impact of the 2011 Budget Speech on page 25.

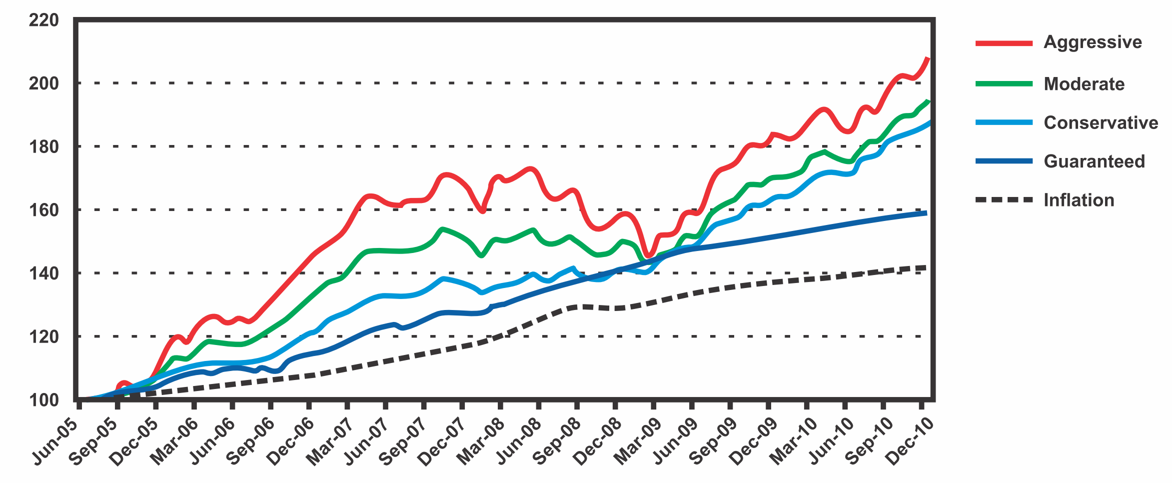
This edition of the MGF Journal is distributed together with your personal benefit statement as at 31 December 2010. We experience increasing reluctancy from some municipalities to distribute member communication and we urgently appeal to you to complete the form for personal particulars included in this edition, on page 24 and submit it to the Fund. This will assist us to send Fund communication to your personal address instead of relying on the municipality to distribute it.

I wish you all a wonderful 2011 overloaded with joy and prosperity. May you serve your community to the best of your ability.

Greetings

Gerald Fourie
Chairperson

Portfolio Comparison: R100 invested in July 2005
(date of inception of Life Stage Model)



INVESTMENT STRATEGY AND PORTFOLIO RETURNS

1. Investment Portfolios

The Fund provides five investment portfolios of which three are currently structured within the Life Stage Model (LSM). The three life stage portfolios are the Aggressive Portfolio (AP), Moderate Portfolio (MP) and Conservative Portfolio (CP). Although not part of the LSM there are also the Guaranteed Portfolio (GP) and the Exit Portfolio (EP). However, the EP will become part of the LSM from 1 July 2011, to be referred to as the Protected Portfolio (PP). More about this on page 8.

2. Life stage portfolios

The three life stages of the LSM are so designed that a member's funds are invested in higher risk investments (AP) in his/her younger years up to 50. It is thereafter migrated to the lower risk portfolios (MP and CP and from 1 July 2011, also to the PP) in the years closer to retirement. It is common knowledge that the higher the risk the higher the return potential. It is very important to emphasize that this statement must be qualified in terms of the time horizon. So often members would challenge this proven truth by referring to the short term investment returns. Some members are concerned about short term declines in their fund credits, especially those invested in the AP which is more exposed to the equity market. Fact is, sometimes the higher risk would manifest. In fact it does happen on a cyclical basis, as it did not so long ago during the 2007/9 period. However retirement provision is not a short term investment exercise but a long term investment plan. Therefore the Investment Policy Statement (IPS) of the Fund is designed on an approximate 35 year membership term. Admittedly not every member will be in the MGF for that period but the financial planning cannot be done on an individual basis but must be done for the average member. In the event of specific individual requirements the MGF makes provision for individual circumstances by allowing member investment choices.

The returns of the life stage portfolios the 5 years since inception during July 2005 are as follows:

Portfolio	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	2005/06
Aggressive (AP)	1.10%	0.50%	3.83%	-1.47%	2.16%	6.51%	6.18%	-1.45%	4.62%	2.14%	-1.47%	0.75%	25.60%
Moderate (MP)	-0.11%	0.48%	2.42%	-0.39%	1.33%	4.19%	4.98%	-0.21%	3.42%	1.46%	-1.04%	0.13%	17.80%
Conservative (CP)	-0.30%	0.60%	0.95%	0.38%	1.21%	2.14%	2.43%	1.00%	1.92%	0.62%	-0.63%	0.43%	11.00%
Guaranteed (GP)													9.70%

Portfolio	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07	2006/07
Aggressive (AP)	-0.34%	3.29%	2.87%	3.61%	2.60%	3.88%	2.32%	1.56%	3.78%	3.70%	-0.44%	-1.33%	28.45%
Moderate (MP)	0.05%	2.71%	1.92%	3.16%	2.35%	2.65%	2.60%	1.12%	2.82%	3.00%	0.21%	-0.17%	24.77%
Conservative (CP)	0.44%	1.66%	0.72%	2.92%	1.90%	1.97%	2.52%	0.95%	1.75%	2.33%	0.83%	0.64%	20.27%
Guaranteed (GP)													12.20%

Portfolio	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	2007/08
Aggressive (AP)	0.46%	0.49%	0.99%	4.57%	-1.54%	-1.53%	-4.16%	6.70%	-1.05%	1.26%	1.35%	-4.56%	2.43%
Moderate (MP)	-0.14%	0.54%	1.06%	3.53%	-1.48%	-0.97%	-3.49%	3.86%	-0.40%	0.81%	1.33%	-2.83%	1.55%
Conservative (CP)	-0.75%	0.81%	1.14%	2.48%	-0.91%	-0.15%	-2.29%	1.41%	0.48%	0.87%	1.44%	-1.25%	3.22%
Guaranteed (GP)													9.03%

Portfolio	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Apr 09	May 09	Jun 09	2008/09
Aggressive (AP)	-0.99%	1.90%	-3.99%	-4.20%	0.77%	3.08%	-1.54%	-7.00%	3.60%	0.46%	5.47%	-1.09%	-4.14%
Moderate (MP)	0.11%	1.59%	-2.10%	-2.19%	0.96%	2.43%	-0.93%	-4.09%	2.26%	0.53%	3.41%	-0.23%	1.48%
Conservative (CP)	0.97%	1.63%	-0.99%	-1.54%	0.93%	1.72%	-0.16%	-0.92%	2.44%	1.30%	2.11%	0.45%	8.13%
Exit (EP)	0.96%	0.90%	1.03%	0.99%	0.91%	1.03%	1.10%	0.79%	0.95%	0.76%	0.65%	0.61%	11.23%
Guaranteed (GP)													10.68%

Portfolio	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	Jun 10	2009/10
Aggressive (AP)	6.38%	2.99%	0.11%	3.88%	-0.13%	2.12%	-0.68%	0.69%	3.08%	0.94%	-2.33%	-1.17%	16.70%
Moderate (MP)	4.74%	2.11%	0.63%	3.07%	0.02%	1.41%	-0.19%	1.16%	2.70%	0.87%	-1.30%	-0.70%	15.33%
Conservative (CP)	3.58%	1.37%	0.74%	2.03%	0.49%	1.42%	-0.03%	1.45%	2.43%	0.85%	-0.15%	0.12%	14.92%
Exit (EP)	0.62%	0.57%	0.56%	0.58%	0.58%	0.57%	0.54%	0.49%	0.55%	0.51%	0.49%	0.47%	6.73%
Guaranteed (GP)													11.16%

Portfolio	2005/10
Aggressive (AP)	84.82%
Moderate (MP)	74.66%
Conservative (CP)	71.19%
Guaranteed (GP)	64.56%
Inflation (CPI)	39.33%

Although a five year return history is a short period compared to an employment career it already clearly proves the success of the LSM during the two investment cycles. There were two good years (2005/6 and 2006/7) and two poor years (2007/8 and 2008/9) followed by the 2009/10 year with fairly good returns, especially in the current lower inflation environment compared to that of the spectacular returns during the 2005/7 period. In total over both an up cycle and a very severe down cycle and the beginning of another upwards cycle in 2009/10 the performance was excellent with an accumulative return for the AP of 85% (13,1% p.a. annualized), for the MP 75% (11,8% p.a. annualized) and for the CP 71% (11,3% p.a. annualized). Members are cautioned to compare like with like when comparing returns with other funds. Sometimes average annual returns are quoted as flat rates and not in annualized format. For instance on a flat rate basis the above returns per annum would be 17% for the AP, 15% for the MP and 14% for the CP.

The results of the returns over these five years clearly confirm the appropriate design of the LSM. The returns tabulated above illustrate that in good markets the more risky the investment portfolio is constructed the higher the return but in negative markets the risky portfolios underperform the conservative portfolios.

Members are automatically transferred from the AP to the MP and from the MP to the CP as they reach the relevant age. This transfer is not done all at once when reaching 50 (MP) or 60 (CP) years of age, as the investment markets may be very low on one specific day with negative results for a member migrating from the more aggressive to the more conservative next phase portfolio. To prevent such single day event, members are switched in four quarterly batches, starting at age 49 and 59 respectively, thus smoothing any extra ordinary market event.

While doing the annual review of the IPS, the Management Committee of the Fund resolved on 29 September 2010 that the LSM be expanded from the three life stages by including the Exit Portfolio (EP) as a fourth life stage as from 1 July 2011, referring to it as the Protected Portfolio (PP). The purpose of this is to preserve capital during the last 2 years before normal retirement at age 65. It may have a very negative impact on a member's retirement provision if there is a severe down turn in the markets close to a member's compulsory retirement at 65. A significant portion of her/his savings can be wiped out without sufficient time left in the Fund to recover it. Even though the CP is defensively constructed to minimize capital losses, it still has exposure to capital growth assets with potential of capital loss. The EP will be split in two portfolios, the first remains the EP and will be utilised for members exiting the Fund. **The second will be called the Protected Portfolio (PP) and will be utilised as the fourth life stage of the LSM. Automatic migration to the PP will be done in two batches; the first 50% of the fund credit will be transferred during the quarter of the year in which a member turns 63 and the balance will be transferred in the quarter during which the member turns 64.** As alluded to below, a member may always exercise a choice contrary to the automatic LSM default.

3. Guaranteed Portfolio (GP)

The GP outperformed the LSM investment portfolios during 2007/9 due to its very conservative structure minimizing market risk. During poor equity market periods the GP would recover some of the returns which it lagged to the more aggressively structured portfolios experienced during the periods that the equity markets rallied extensively. However during a period with better equity returns such as the past 2009/10 year it can be expected that the GP will lag again. Such lag is however restricted by the fact that the GP does contain a limited exposure to equities. This is evident from the GP return of 11.16% compared to the returns of the three life stages on the one hand and the 6,73% of the EP (with no equity exposure) on the other end.

The returns of the GP since 2005/6 are as follows:

2005/6	2006/7	2007/8	2008/9	2009/10	2005/10
9,70%	12,20%	9,03%	10,68%	11,16%	64,56%

The 64,56% is calculated annually compounded and relates to an annualised return of 10,5%, which is excellent compared to the annualized inflation rate of 6,9% over the same period and taking into account that it is a low risk product which comes with a guaranteed minimum return of currently 5% and a guarantee against any loss of capital.

4. Exit Portfolio (EP)

The EP is a money market investment with no exposure to equities. Due to the declining interest rates it delivered 6.73% for 2009/10 compared to the 11,23% of the previous year (2008/9). The EP is mainly for members in the process of being exited from the Fund. However it is being offered as an investment choice to members who are very risk averse and who missed the boat with the once per year closing date of the GP. It renders stable returns which can work during downwards equity market conditions but definitely not the place to be in the long run because it would lag inflation in the long run due to the absence of return enhancers to be found in more aggressive portfolios with equity exposure. As explained earlier, the EP will be added from 1 July 2011 as a fourth stage to the LSM, referred to as the PP.

5. Member Investment Choices

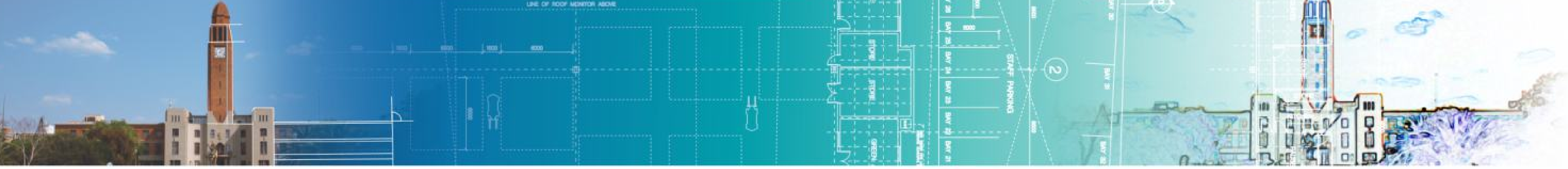
As mentioned before, although the IPS is developed for the average member, provision was also made for individual circumstances by allowing for member investment choices. The fund credits of members are automatically invested in the relevant life stage portfolio according to age. However members may, subject to certain conditions, exercise a written choice if they wish to invest contrary to the applicable life stage. Investment according to the life stage portfolios is an integrated investment model in accordance with the IPS. The probability is good to obtain the targeted return over a long term. **Members should therefore be very cautious to chase short-term returns by electing contrary to the life stage portfolios, with possible disastrous results. Younger members should be careful not to be over conservative and forfeit returns in the long run. This is called opportunity cost and is considered one of the biggest investment risks.**

Fund credits may be split between the five portfolios (AP, CP, MP, GP and PP) to a maximum of two portfolios. Members cannot invest in more than two investment portfolios simultaneously. Members who exercised a member investment choice will remain invested accordingly until written notification to the Fund otherwise. If a member elects to split her/his investment between two portfolios, the different returns of each investment portfolio will cause a drift from the chosen percentages split. Fund credits will not automatically be re-balanced to the original chosen percentage split between the two portfolios. A new option form must be submitted when a member wants such re-balance.

Member investment choices in respect of the AP, MP, CP and PP may be done at any time. **Member investment choices in respect of the GP (in or out) can only be done once a year, usually not later than 31 May of each year.** The exact date may change slightly from year to year. One investment choice is allowed free of charge every twelve months but subsequent choices within 12 months require a switching fee. A member investment choice is usually implemented between three and five business days from receipt, except in the event of the GP which can take a bit longer. The underlying investment for the GP is usually purchased in the first week of July and implemented approximately the second week of July. This may however vary from year to year.

Sometimes members would indicate that they have exercised an investment choice but that it has not been implemented. It is then almost impossible to establish whether the prescribed form was received by the Fund Administrator, Coris Capital, but got lost or whether the fax machine of the sender did not deliver successfully at Coris Capital. Members are reminded that, to avoid such event a new procedure was introduced last year using SMS confirmation of receipt. The choice forms have been amended accordingly and only the amended choice form will be accepted.

It is the responsibility of the member to verify and ensure that his/her member investment choice form reaches the Fund. Once proof exists that the duly completed form was received by the Fund it is the Fund's responsibility that the fund credit be invested accordingly, failing which the Fund will be liable for any returns forfeited.



6. Returns going forward

- The returns of the three life stage portfolios, as well as the EP, for the first eight months of the current financial year (2010/11) are as follows:

Portfolio	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	TOTAL
Aggressive (AP)	4.17%	-0.65%	3.99%	1.71%	-0.22%	3.13%	0.19%	1.48%	14.53%
Moderate (MP)	3.56%	0.06%	3.30%	1.42%	0.24%	2.29%	0.04%	2.20%	13.83%
Conservative (CP)	2.80%	0.54%	2.56%	1.06%	0.64%	1.55%	-0.38%	2.19%	11.46%
Exit (EP)	0.51%	0.54%	0.50%	0.44%	0.46%	0.42%	0.43%	0.39%	3.77%
Inflation (CPI) from July 2010 until February 2011									2.35%

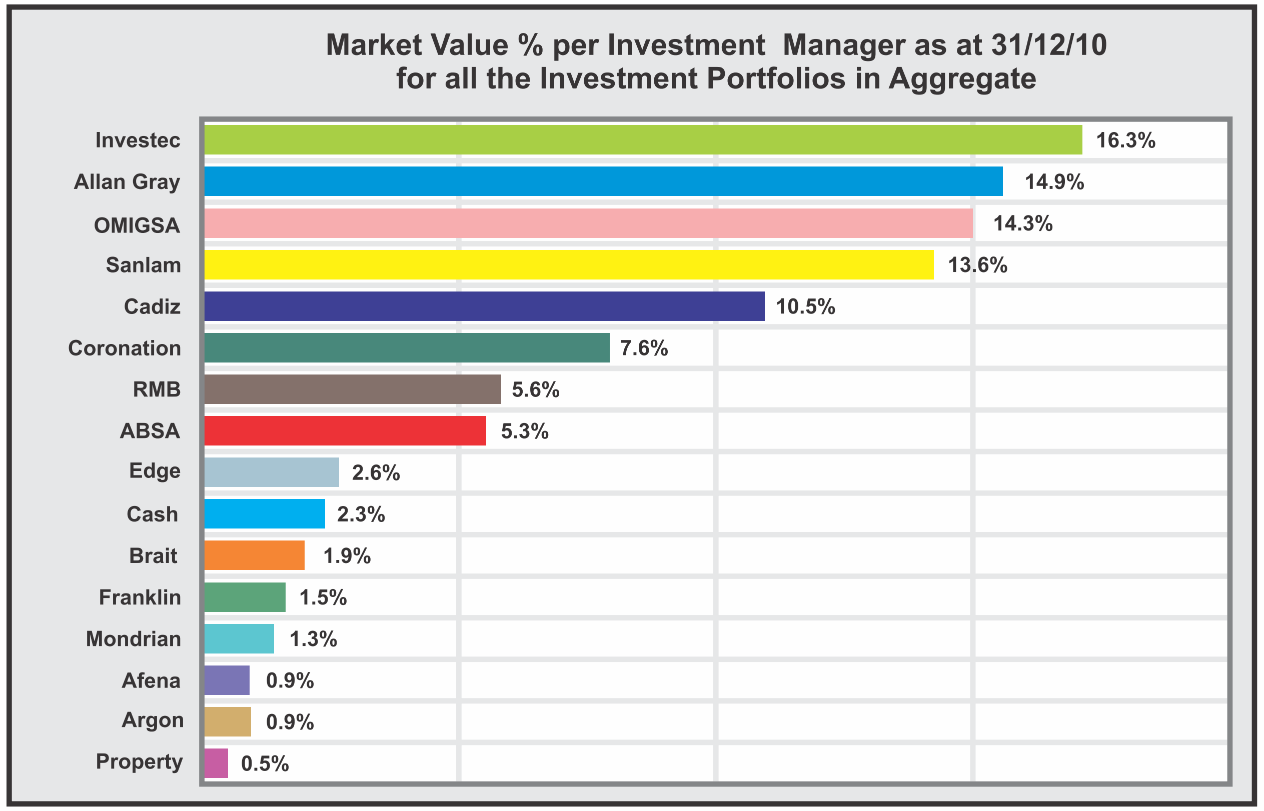
These returns were fuelled by a buoyant but very nervous equity market. Although the returns are exceptionally good it was no smooth ride to get here. The equity market has been all over the show especially when compared on a daily basis but also on a monthly basis as can be seen from the August and November 2010 returns compared to the other months.

- The GP return parameters for 2009/10 are as follows:

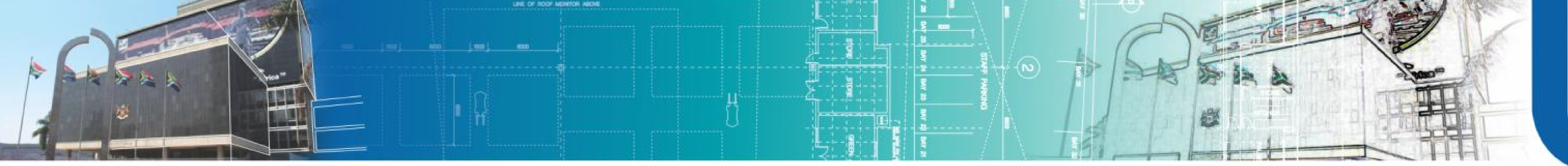
Maximum guaranteed return : 5%
Maximum possible additional return : <u>4%</u>
Total possible maximum return : 9%

The maximum possible additional return of 4% indicated above differs from the 6% of last year. This is due to the lower interest rate environment compared to June last year when the previous structure was bought. The further downward trend in the interest rate of late will make it very difficult next year to still obtain a 5% guaranteed return and also be able to buy possible upward participation in the equity market. However it will depend on the market conditions when quotations are obtained during June 2011. Let me rather not jump the gun. It is again reiterated that the additional 4% is not guaranteed but depends entirely on the equity market returns as on the maturity date of the investment product at the end of the 2010/11financial year. So far the rally in the equity market supports the 4% but if there is a turnaround towards 30 June 2011 the position may change. The structured product is closely scrutinized to determine whether it would be feasible to liquidate it before the maturity date of 30 June 2011 to lock in the additional return. This is however not a straight forward exercise but somewhat of a balancing trick as early liquidation carries a penalty which becomes lesser the closer to the contractual maturity date.

- The last investment portfolio namely the EP being a money market investment directly linked to interest rates is expected to render about 6% for 2010/11. Nothing spectacular but at least stable. This is still above inflation.



The "A" Team at your service



INVESTMENT PORTFOLIOS

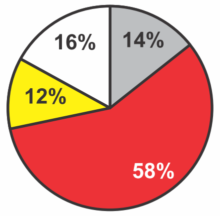
LIFE STAGE 1: AGGRESSIVE PORTFOLIO (AP)

Portfolio Profile

This Portfolio is for members 50 years and younger.

This is an aggressive investment portfolio. More money is invested in equities (shares) and less in fixed income investments and property. A greater return can therefore be expected in the long run, but at an equally higher risk. A member, however, who is a long way from retirement, can tolerate such higher risk, as there is enough time to recover possible losses and create wealth.

Aggressive Portfolio: Asset Allocation as at 31/12/10



Market Value as at 31 Dec 2010: R 4 991 003 005

Investment objective: Inflation + 5%

Asset allocation limits:

SA Cash	**3% - 10%**
SA Equity	**45% - 70%**
SA Bonds	**10% - 25%**
Foreign	**0% - 20%**

ASSET MANAGERS USED

SA Cash	Cadiz and OMIGSA
SA Equity	Afena, AllanGray, Argon, Investec, OMIGSA and RMB
SA Bonds	Investec and Sanlam (SIM)
Foreign	Orbis, Coronation, Edge, Franklin, Investec and Mondrian

Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-09	Jun-10	2009/2010
6.38%	2.99%	0.11%	3.88%	-0.13%	2.12%	-0.68%	0.69%	3.08%	0.94%	5.47%	-1.17%	16.70%
Jul-10	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**	**Jan-11**	**Feb-11**					**Financial Year to date**
4.17%	-0.65%	3.99%	1.71%	-0.22%	3.13%	0.19%	1.48%					14.53%

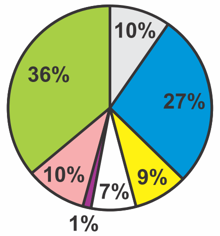
LIFE STAGE 2: MODERATE PORTFOLIO (MP)

Portfolio Profile

This Portfolio is for members 50 to 60 years of age.

A more moderate investment approach is followed. Less money is invested in equities (shares) and more in fixed income investments and property. The return may be less but the risk is also lower. It is suitable for older members closer to retirement who should not be exposed to the higher risk of the Aggressive Portfolio.

Moderate Portfolio: Asset Allocation as at 31/12/10



Market Value as at 31 Dec 2010: R 3 326 009 732

Investment objective: Cash + 2%

Asset allocation limits:

SA Cash	**3% - 20%**
SA Equity	**12% - 34%**
SA Bonds	**5% - 25%**
SA Property	**0% - 8%**
Foreign	**0% - 15%**
Hedge Funds	**5% - 15%**
Absolute Return Funds	**30% - 50%**

ASSET MANAGERS USED

SA Cash	Cadiz and OMIGSA
SA Equity	Afena, AllanGray, Argon, Investec, OMIGSA and RMB
SA Bonds	Investec and Sanlam (SIM)
Foreign	Orbis, Coronation, Cadiz, Edge, Franklin, Investec and Mondrian
Hedge Funds	Brait and Edge
Absolute Return Funds	Coronation and Sanlam

Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	2009/2010
4.74%	2.11%	0.63%	3.07%	0.02%	1.41%	-0.19%	1.16%	2.70%	0.87%	-1.30%	-0.70%	15.33%
Jul-10	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**	**Jan-11**	**Feb-11**					**Financial Year to date**
3.56%	0.06%	3.30%	1.42%	0.24%	2.29%	0.04%	2.20%					13.83%

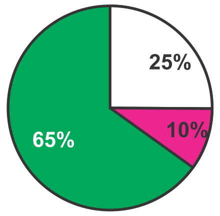
LIFE STAGE 3: CONSERVATIVE PORTFOLIO (CP)

Portfolio Profile

This portfolio is for members between 60 and 65 years of age.

These members cannot be exposed to any risk and therefore their money is invested in fixed income investments, cash, structured products, hedge funds and absolute return products with **no direct** exposure to equities (shares) in order to protect the capital. It should be noted that structured products, hedge funds and absolute return products do have exposure to equities albeit hedged to a certain extent.

Conservative Portfolio: Asset Allocation as at 31/12/10



Market Value as at 31 Dec 2010: R 1 003 565 318

Investment objective: Cash + 1%

Asset allocation limits:

SA Cash	**10% - 30%**
Hedge Funds	**10% - 20%**
Absolute Return Funds	**40% - 70%**

ASSET MANAGERS USED

SA Cash	Cadiz and OMIGSA
Hedge Funds	Brait and Edge
Absolute Return Funds	Coronation and Sanlam

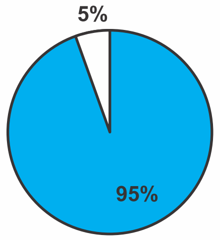
Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	2009/2010
3.58%	1.37%	0.74%	2.03%	0.49%	1.42%	-0.03%	1.45%	2.43%	0.85%	0.15%	-0.12%	14.92%
Jul-10	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-09**	**Jan-11**	**Feb-11**					**Financial Year to date**
2.80%	0.53%	2.56%	1.06%	0.64%	1.55%	-0.38%	2.19%					11.46%

THE GUARANTEED PORTFOLIO (GP)

Portfolio Profile

This Portfolio is maintained separately from the life stage portfolios. This portfolio is open to all members but they have to notify the Fund by submitting the applicable option form during May (usually not later than 31 May of every financial year) indicating that they want to transfer. Once members are transferred to the GP they remain in the GP until they notify the Fund in writing during May of the changes they want. Changes can be made, only once per annum during the said option period, by completing a new option form.

Guaranteed Portfolio: Asset Allocation as at 31/12/10



Market Value as at 31 Dec 2010: R1 224 613 877

Portfolio Returns per annum				
2005 /06	**2006 /07**	**2007 /08**	**2008 /09**	**2009 /10**
9.70%	12.20%	9.03%	10.68%	11.16%

ASSET MANAGERS USED

Structured Products	ABSA and Cadiz
SA Cash	Cadiz

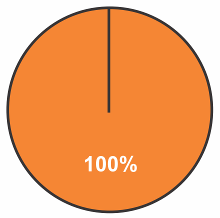
THE EXIT PORTFOLIO (EP)

Portfolio Profile

This portfolio is for members between 60 and 65 years of age.

An exit Portfolio is available for members in a transition phase and in the process of leaving the Fund. Their Fund credit is transferred into a cash portfolio to protect it from market movements. The Exit Portfolio is also available as a member investment choice and will form part of the life stage program from 1 January 2011.

Exit Portfolio: Asset Allocation as at 31/12/10



Market Value as at 31 Dec 2010: R 101 039 244

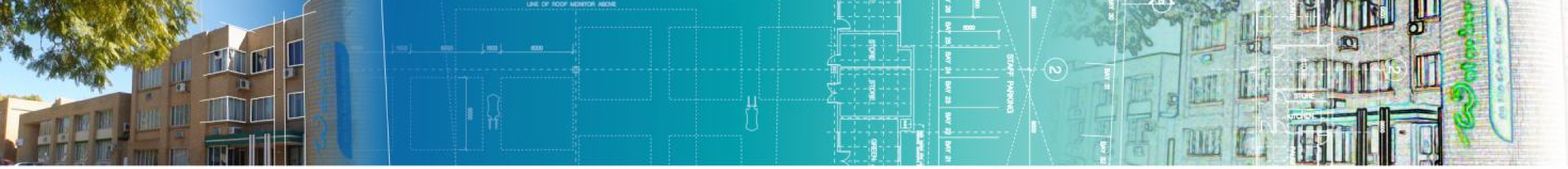
Investment objective: **Cash**

Asset allocation limits: **SA Cash** **100%**

ASSET MANAGERS USED

SA Cash	OMIGSA and ABSA

Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	2009/2010
0.62%	0.57%	0.56%	0.58%	0.58%	0.57%	0.54%	0.49%	0.55%	0.51%	0.49%	0.47%	6.73%
Jul-10	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**	**Jan-11**	**Feb-11**					**Financial Year to date**
0.51%	0.54%	0.50%	0.44%	0.46%	0.42%	0.43%	0.39%					3.77%



FINANCIAL STATEMENT FOR THE PERIOD ENDING 30 JUNE 2010

The financial statements for the year ending 30 June 2010 are reflected below. The independent external auditors, Deloitte and Touché, are satisfied that the financial statements, in all material respects, fairly represent the result of the financial activities of the Fund for the 2009/10 year. They also confirmed in writing that the existence of the Fund's assets has been verified.

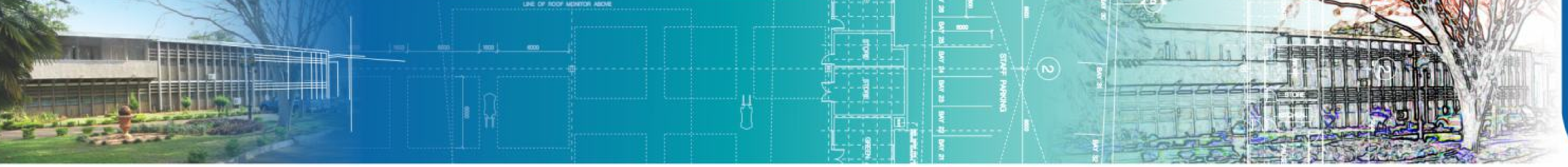
STATEMENT OF NET ASSETS AND FUNDS

	30 June 2010 R	30 June 2009 R
ASSETS		
Non-current assets	9,970,245,169	8,429,356,887
Property, plant and equipment	105,581	169,196
Investments (including investment property)	9,693,169,298	8,079,227,058
Housing loan facilities	276,970,290	349,960,633
Current assets	134,832,322	82,243,068
Transfers receivable	(99,792)	2,607,813
Accounts receivable	376,556	7,220
Contributions receivable	20,454,722	13,697,340
Cash at bank	114,100,836	65,930,695
TOTAL ASSETS	**10,105,077,491**	**8,511,599,955**
FUNDS AND LIABILITIES		
Members' funds		
Members' individual accounts	9,501,029,350	8,097,181,734
Amounts to be allocated	43,347,048	(23,133,290)
	9,544,376,398	8,074,048,444
Reserves		
Reserve accounts	229,797,164	174,719,085
Total funds and reserves	9,774,173,562	8,248,767,529
Non-current liabilities	2,237,573	19,261,793
Provisions	497,291	-
Unclaimed benefits	1,740,282	19,261,793
Current liabilities	328,666,356	243,570,633
Transfers payable	-	244,061
Benefits payable	319,160,817	234,803,734
Accounts payable	9,505,539	8,522,836
TOTAL FUNDS AND LIABILITIES	**10,105,077,491**	**8,511,599,955**

STATEMENT OF CHANGES IN NET ASSETS AND FUNDS

	A Members' individual accounts & amounts to be allocated R	**B** Reserve Accounts R	**A+B** Total Current Period R
Contributions received and accrued	848,737,208	171,929,628	1,020,666,836
Net investment income	48,631,599	1,212,427,939	1,261,059,538
Other income	-	16,974,582	16,974,582
Less:	-	(29,829,911)	(29,829,911)
Re-insurance premiums	-	(7,743,402)	(7,743,402)
Administration expenses	-	(22,086,509)	(22,086,509)
Retirement fund taxation	-	-	-
Net income before transfers and benefits	897,368,807	1,371,502,238	2,268,871,045
Transfers and benefits	(500,546,066)	(242,918,946)	(743,465,012)
Transfer from other funds	7,575,418	-	7,575,418
Transfer to other funds	-	-	-
Benefits	(508,121,484)	(242,918,946)	(751,040,430)
Net income after transfers and benefits	396,822,741	1,128,583,292	1,525,406,033
Funds and reserves			
Balance at beginning of period	8,074,048,444	174,719,085	8,248,767,529
Transfer between reserve accounts	(116,559,731)	116,559,731	-
Investment income allocated	1,190,064,944	(1,190,064,944)	-
Current members	1,190,064,944	(1,190,064,944)	-
Balance at end of period	**9,544,376,398**	**229,797,164**	**9,774,173,562**

As is evident from the financial statements above, the Fund's total asset value broke through the R10 billion barrier.



ECONOMIC MATTERS AND FINANCIAL MARKETS

1. General overview

The 2009/2010 financial year was characterized by high levels of uncertainty as fears of a double dip recession persisted. This uncertainty was reflected in high levels of market volatility with the SAVI (the South African Volatility Index) beginning the year at 29.17 index points, reaching a low of 19.56 in March 2010 and then increasing to 30.45 index points at the end of the financial year, on 30 June 2010. Although leading economic indicators did point to a period of rapid economic expansion underpinned by inventory rebuilding, the expectation was that this stimulus would fade in the absence of a meaningful recovery in final consumption demand. As a consequence, leading economic indicators trended lower in the second half of the financial year as inventory rebuilding slowed and unemployment remained uncomfortably high. Changes to the financial sector's regulatory environment also added to market uncertainty as restrictions were placed on banks about how and what they may trade including an increase in capital reserves they have to maintain. Further headwinds for global equities included periodic downward revisions to global economic growth by the World Bank and the IMF. As if these uncertainties were not enough, a sovereign debt default in Greece sparked concerns about the financial stability of the entire Eurozone region, with Portugal, Ireland, Greece and Spain in the spotlight, the so called PIGS.

In response to the risk of debt defaults, the European Central Bank (ECB) set up the European Financial Stability Facility that allocated €440bn for the bailing out of indebted countries in the Eurozone. Greece was the first recipient of funds by way of ECB purchases of Greek debt. The ECB has indicated the programme will remain in force until June 2013.

The United States Federal Bank also embarked on a programme of asset purchases called quantitative easing whereby the Federal Reserve committed some USD1.7 trillion to the purchase of government bonds, mortgage backed securities and agency debt. A second tranche of quantitative easing amounting to USD600bn was done earlier this month, referred to in the market as QE2. Quantitative easing has not only been confined to the US Fed and the Eurozone but also includes Japan and England. These programmes are designed to reduce the cost of capital thereby aiding economic recovery.

On the local front, economic growth is expected to increase some 2.8% in 2010 following a 1.8% decline in 2009. In 2011 and 2012 economic growth is expected to accelerate to some 3.5% and 3.9% respectively setting the stage for ongoing growth in company earnings over the next few years. Although equity markets are forward looking, it is believed that earnings growth of only around 17% is currently priced into the market. With earnings likely to be substantially higher than implied earnings, further gains in equities are expected in the year ahead.

Equity returns varied between the different sectors of the Johannesburg Stock Exchange (JSE) with resources yielding 16.7%, financials 22.2% and industrials 24.8% over the past financial year. Despite a 23.3% gain in \$-metals prices and a relatively stable rand/USD exchange rate, resources underperformed the other broad sectors as uncertainty about the pace and sustainability of the global recovery persisted. A further 1,5% reduction in domestic interest rates, resulting in a cumulative reduction of 6% since the 2008 highs, along with lower inflation served as the catalysts for the relative outperformance from the domestic-oriented sectors.

With the global economy expected to record subdued growth over the next few years, the markets' focus has shifted away from fears of a double dip recession to that of depressed earnings growth and asset class valuations.

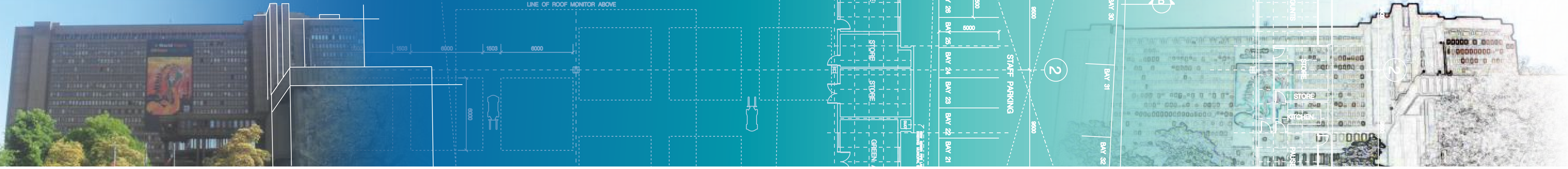
2. Investment Market Returns

Over the past financial year South African equities were the best performing of all the major asset classes yielding a return of 21.8%. This was mainly due to foreigners strongly purchasing South African equities totaling some R56.7bn. This return must however be seen in perspective given that equities returned -24.9% the previous year highlighting the depth of the 2008 recession. Emerging market equities (19.8%) also benefited from buoyant investor demand due to better economic fundamentals to those of their developed market counterparts.

Emerging market bonds rallied strongly (16.7%) as foreign investors went in search of higher yields. The surge in foreign demand for emerging market assets has resulted in an unwelcome appreciation in their exchange rates eroding the competitiveness of their exports. Although South African bonds lagged their emerging market counterparts yielding a more pedestrian 9.9%, the gains came on the back of a 19.3% return in the 2008/9 financial year. Net foreign purchases of bonds totaled R41.1bn highlighting foreign investor appetite for these high yielding assets. The gains in global inflation-linked bonds (7.9%) highlighted investor concerns that the huge stimulus packages implemented by governments and central banks worldwide would fuel an inflationary crisis further down the lane. In the final analysis, however, these concerns appeared to be overdone as the risk of deflation intensified in the developed world.

Of the remaining asset classes, cash (7.5%) marginally outperformed global equities (7.4%) given the latter's heavy weighting towards developed market equities. The laggards, in turn, included domestic inflation-linked bonds (6.8%) and global bonds (3.7%) on stretched valuations.

Asset Class Indices	June 2010	3M	12M
MSCI Global Equities	-3.5%	-8.8%	7.4%
MSCI Emerging Market Equities	-0.8%	-4.4%	19.8%
JPM Global Bonds	2.2%	6.7%	3.7%
JPM Emerging Market Bonds	2.1%	6.6%	16.7%
SA JSE All Share Index	-3.2%	-8.2%	21.8%
SA Beassa All Bond Index	0.3%	1.1%	9.9%
Stefi (cash)	0.6%	1.7%	7.5%



3. **Looking Ahead**

- **SA Equities**

Following a further 13.3% rally in equities in the third quarter of 2010, margin-of-safety valuations still point to sufficient fat in valuations in the event that consensus earnings estimates are revised downwards over the coming year. Macroeconomic indicators are also generally supportive of earnings, suggesting earnings growth of around 29% in the year ahead. This contrasts with the implied growth in earnings of some 17% currently priced into the All Share Index. In general, these earnings estimates support relative out-performance from equities assuming that price to earnings multiples will eventually move back to the average. This is referred to in the market as "mean reversion".

The Fund retains a slight overweight position in South African equities however it is defensively structured as one cannot be too cautious in these highly volatile market conditions

- **Global Equities**

Global equities rallied 13.2% in US dollars (2.8% in rands) in the third quarter 2010 mainly due to attractive valuations and a recovery in $-metals prices suggested the soft-patch in global economic activity may be reversing led by relatively robust growth in the emerging world. Still, headwinds remain particularly from high unemployment rates in the US and the Eurozone, a US housing market in crisis and aggressive fiscal measures imposed by European countries.

Notwithstanding the rally in global equities in Q3 of 2010, valuations remain attractive with a sufficient margin of safety in the event that bottom-up consensus earnings are revised lower, suggesting that the risk to invest in equities is still warranted.

- **SA Bonds**

Domestic bonds yielded 8.0% in Q3 of 2010 on better than expected inflation and still strong foreign demand for domestic bonds (R36bn). While foreign demand for emerging market bonds will serve as a tailwind for bonds over the near to medium term given the search for yield globally, further quantitative easing particularly by the US Federal Reserve could see yields trend even lower between now and the end of the year. Furthermore, Chinese intentions to diversify their foreign exchange holdings in favour of emerging market currencies could also serve as an additional catalyst for the bond market over the medium term.

Notwithstanding these tailwinds, bond yields are expected to push higher on an 18 month view due to rising domestic inflation and higher nominal GDP. Although the forecast risk is high given the strength in the rand, inflation is expected to trend higher in 2011/12 fueled by rising food prices, high nominal wage settlements and administered prices. Similarly, nominal GDP is expected to increase placing further upward pressure on real yields. In light of these risks, the Fund continues to underweight government bonds. Given the relatively unattractive real yields on offer in inflation-linked bonds, the Fund retains a neutral weighting in this asset class believing it to be overbought in the near term.

- **Global Bonds**

Global bonds yielded -2.1% (USD 8.0%) in Q3 of 2010 followed by emerging market bonds with -1.2% (USD 8.9%) and inflation-linked bonds with -6.7% (USD 2.8%). With the risk of inflation benign and real yields low, particularly in shorter dated US instruments, investor demand for inflation-linked bonds has wained. Against the backdrop of the quantitative easing, bond yields are likely to remain in check at least over the near term. In time, however, these measures will need to be withdrawn resulting in a backup in yields. Relative to equities, bonds seem expensive as reflected by the earnings yield differential between these asset classes.

FUND ADMINISTRATOR

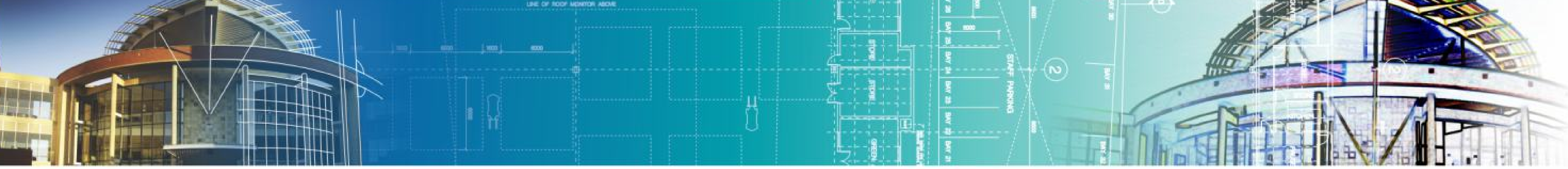
It came to our attention that some members are concerned about the continued existence of Coris Capital as administrator of the Fund. Rumours have it that Coris Capital went under and that Sanlam is now "running" the MGF. Such members are worried that the service levels and excellent investment returns of the MGF may be affected by such a take-over. We wish to set the record straight by informing members of the actual state of affairs.

The MGF appointed Coris Capital eight years ago to do the administration of the Fund. This appointment only relates to the member administration e.g. the collection of contributions and the payment of benefits including all related accounting functions. Coris Capital was appointed for various reasons, one being because they use the MIP system which was developed by MIP for the previous administrator of the MGF. The MIP software was developed in close liaison with the MGF to accommodate our specific requirements.

During October 2006 Sanlam embarked on a search for a fund administrator to do the member administration for the 231 funds totaling about 360 000 members on their platform. After extensive due diligence investigations, Sanlam approached Coris Capital to render the member administration of the Sanlam funds. From a business perspective it was very important for Sanlam to have an input in the continuation of the administration service before they could relinquish their own in-house administration. Therefore Sanlam entered into a joint venture with Coris Capital and bought 50% of the shareholding. Sanlam subsequently wanted to inject additional capital into Coris Capital to amongst others, upgrade the MIP software system. Sanlam then made the other shareholders an offer to purchase the remaining shareholding. Consequently Sanlam became the full shareholder of Coris Capital from October 2009. This arrangement was approved by the Competition Board.

None of these corporate actions have any negative impact on the administration service rendered by Coris Capital. If any, the impact is rather positive in the sense that the MGF also benefits from the stronger balance sheet of Sanlam behind the member administration service. More capital is available to ensure that state of the art systems are maintained. Sanlam is more concerned to have a stable reliable system to support their member administration platform than to make a profit from the administration as such is crucial to the main business of selling investment products in the retail market. Hence the allocation of resources to maintain a rigorous system is a priority to Sanlam from which the MGF also benefits. The MIP system has been upgraded and the next generation of this system will be implemented for the MGF on 1 July 2011 without any additional cost. The same Coris Capital staff involved with the administration of the MGF since October 2002 is still designated to serve the MGF.

The changes in shareholding of Coris Capital also have no impact on the investment returns of the MGF as Coris Capital never had and never will have anything to do with the actual investments of the MGF. This function is exclusively done by the Board of Trustees elected in terms of the Fund Rules. The MGF is currently employing 14 different investment managers to invest the approximately R10 billion assets strictly in accordance with the IPS (Investment Policy Statement). SIM (Sanlam Investment Management) is but one of these 14 managers managing a portion (less than 15%) of the said assets.



IMPORTANT NOTICE

ENHANCEMENT OF MEMBER ADMINISTRATION SYSTEM

The current member administration system was implemented during 2002. Various enhancements to the system were done over the years to keep track with developments. In order to ensure that the system remains robust to handle the extensive volume of transactions on a stable platform Coris Capital commissioned MIP, the software developers, during 2010 to re-engineer the software. This lead to a new enhanced system containing the latest state of the art technology. The new system will be implemented during July/August 2011. The Fund requested Coris Capital to also transfer all the existing data to the new platform instead of keeping two separate databases; one for the pre July 2011 history and one for the post July 2011 active system. Coris Capital agreed to do such transfer but due to the volume being in excess of 52 million transactions, this process is time consuming and will cause down time.

The impact for members during the transfer period will be as follows:

1. No exits will be processed from 1-19 August 2011.

2. No investment portfolio switches will be processed from 8-19 August 2011.

3. The existing internet access to member records will be discontinued on 22 August 2011.

4. New internet access to member records will be available from September 2011. However users will have to re-register. A new password will be sent via email to those members currently registered for internet use. Where email particulars are not available other means of contact will be used. Current users who have not received an email by 16 September 2011 must please contact the call centre on telephone (012) 683-3900 or fax (012) 683-3996. Members can still obtain their fund credit values from the call centre during the period 22 August to 12 September 2011.

5. All members will be allocated new membership numbers. This will be reflected on the benefit statements in respect of the 2010/11 financial year, which will be distributed during September 2011. The current membership number will be carried forward to the new system to ease enquiries.

It is to the benefit of the Fund and its members to transfer to the new system which is done free of charge by Coris Capital without increasing the administration fee. This type of exercise does not occur often and members are kindly requested to exercise patience during the "freeze" period.

ACTUARIAL VALUATION

The Fund is required by law to do an actuarial valuation every third year. This is called a statutory valuation and is submitted to the Financial Services Board for scrutiny. The latest statutory actuarial valuation was done for the period 1 July 2006 to 30 June 2008. Although not required by law, the Fund appointed the actuary to do a comprehensive actuarial valuation also for each of the two interim years. The latest interim actuarial valuation for the period July 2009 to June 2010 gives the Fund again, a clean bill of health as being financially sound. It also revealed that the risk benefits budget and administration costs are managed very responsibly with the desired cost effective results expressed as a percentage of salaries.

This resulted in a slight excess in the Risk Reserve which, in-depth discussions with the actuary led to the release of R70 million from the Risk Reserve for distribution amongst all members who contributed to such excess. Such distribution was done and added to members' fund credits during December 2010.

HOUSING LOANS

1. Standard Bank Pension Back Lending

The Standard Bank Pension Backed Home Loan (PBL) scheme was introduced during July 2007 at a discounted interest rate of prime minus 2,5%. It was reported last year that due to the credit crisis the cost to source money increased beyond expectation which lead to a decrease of the discount to prime minus 1,25%. This rate was then fixed until 31 December 2010. In the interim Standard Bank agreed to keep it at this rate until 30 June 2011. Due to the market conditions including the declining trend of interest rates a further adjustment from 1 July 2011 looks inevitable. To date Standard Bank granted 6670 loans to a total value of almost R500million.

In general, the home loan process has now been streamlined. There are still a few municipalities who have not signed the Letter of Undertaking (LoU) to deduct the monthly installments from salaries. The members in these municipalities remain deprived of the loan facility until signing of the LoU. Complaints are sometimes received about delays in the granting of loans but in the majority of these cases it was found to be either due to not meeting the affordability test in terms of the National Credit Act or because of incomplete application forms or lack of supporting documents.

2. Direct Housing Loans from Fund Credit

Since June 2007 no housing loans have been granted to members funded directly from their fund credits. The total balance of all the direct loans on the Fund's books was then R551 million. As members terminate membership or transfer their direct loans to Standard Bank the balance is constantly decreasing. The balance as at 28 February 2011 decreased by about 60% to R230 million.

Members are reminded that in the event of direct housing loans, the installment paid by each member is directly allocated to such member's fund credit. **This means that all interest levied as required by the Pension Funds Act is allocated to that member, and that member only.**

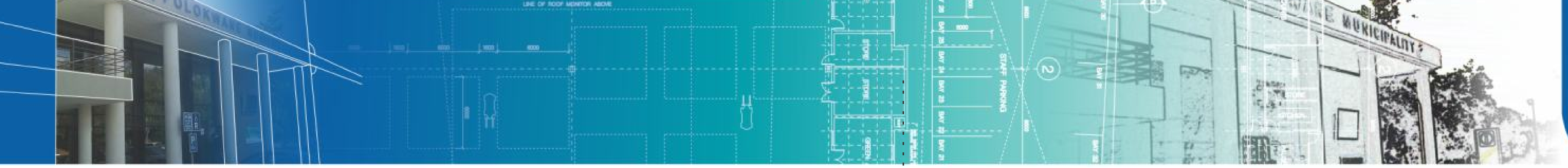
The interest rate was fixed at 15% by the Registrar of Pension Funds for more than a decade. It has now been adjusted, effective from 28 January 2011 to fluctuate in accordance with the Reserve Bank Repo Rate, namely 5.5% above the Repo Rate. The Repo Rate is currently 5.5% with the result that the interest on direct housing loans (not Standard Bank loans) is 11% (5.5% + 5.5%).

FUNERAL BENEFITS

At the annual meeting last year the level of the funeral benefit was discussed. An application was subsequently made to the Registrar of Pension Funds to increase the levels as follows:

Member	R15 000	(R10 000)
Member's Spouse	R12 000	(R10 000)
Children (14 - 21 years)	R11 000	(R 8 000)
Children (1 - 13 years)	R 7 000	(R 3 000)
Children (0 - 1 year)	R 3 000	(R 1 500)

The Registrar declined it on the ground that it is not a pension benefit authorised by the Pension Funds Act. This matter is being investigated to determine how other pension funds are allowed to provide funeral benefits. The Registrar, as recently as February this year still approved the increase of the funeral benefit of another fund. It is regarded as unfair discrimination to allow some funds to render a funeral benefit and others not.



RULE AMENDMENTS

The following is a summary of rule amendments approved by the Registrar of Pension Funds during the reporting period (1 July 2009 - 30 June 2010):

More details about any of these rule amendments is available from the offices of the Fund.

Number	Section	Description
MGF05	1(1), 29, 30(2)(c), and 30(3)	To comply with the requirements of the Financial Services Board regarding the composition of the Fund accounts.
	15(1)(q)	To provide for the appointment of sub-committees by the Committee.
	41(1)	To adjust the period within which a member can claim an unclaimed benefit to align it with the Pension Funds Act to delete the reference to an unclaimed benefit reverting back to the Fund and to provide for the transfer of an unclaimed benefit to an unclaimed benefits preservation fund.
MFG06	1 and 10	To provide for the vacating of office of an office-bearer (trustee) who breaches the code of conduct.
	1	To insert the word 'pensionable' before remuneration to distinguish it from the member's normal salary.
	1	To provide for salary as defined.
MGF07	32 & 35	To provide for a retirement as well as a disability benefit to accrue as an annuity and to allow for the payment of such annuity in a lump sum.

NOMINATION OF BENEFICIARIES

Nomination of beneficiaries remains a bone of contention in the industry. Often members express their frustration with the use of a nomination form, when the wishes of the deceased, as captured on the nomination form, are not followed with the distribution of death benefits. The answer to this lies with section 37C of the Pension Funds Act. According to the Act the first instruction to the trustees of the Fund when distributing death benefit is to determine who the dependents of the deceased are and the second to determine the extent of dependency. Once this has been done the death benefit must be distributed accordingly. Only when there are no dependents or the dependency has been met with a sufficient allocation and there is any "free residue" left, may the Fund allocate money to a **nominated beneficiary** instead of a **dependent beneficiary**.

Although it may come across as arrogant to interfere with the wishes of the deceased, the purpose of the Act is to prevent the dependents from being left destitute in favour of nominated beneficiaries who may not have been dependent on the deceased. This does not mean that members must refrain from submitting nomination forms. To the contrary, you are urged to submit and update nomination forms. These greatly assist in tracing dependents as in most cases the nominees are in any event dependents of the member.

Return to FAX No.: 086 682 9178, 086 678 7733 or 086 675 8586

NOMINATION OF BENEFICIARIES

NAME OF MEMBER:	
DATE OF BIRTH:	
PENSION NO.:	
LOCAL AUTHORITY:	

1. Please name your husband/wife and any further spouse, or a partner you consider to be your husband/wife.
2. Please name all your children (including illegitimate children, and irrespective of their ages).
3. Name any other legal dependants, for example a divorced husband/wife or a child from a previous marriage for whom you pay maintenance.
4. Name any other person(s) whom you maintain or whom you wish to receive benefits.
5. State the percentage you wish the abovementioned persons to receive. Write "nil" in the "portion" space if you wish a person(s) on your list to receive no benefit.
6. Attach certified identity documents of the beneficiaries and any other relevant documents e.g. trust certificates, etc.

Name & Surname	Address	Contact No.	Date of Birth	Relationship	Portion %
				TOTAL:	100%

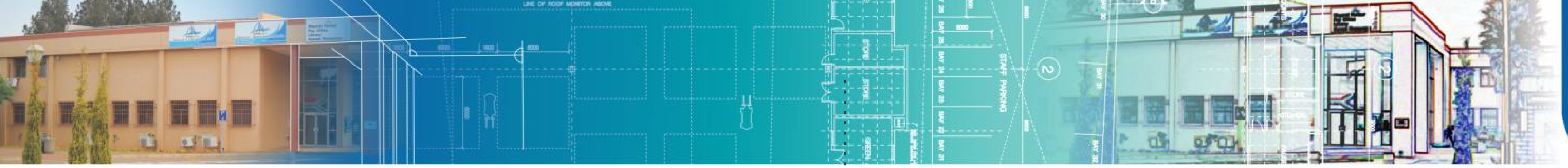
Please address any special comments hereunder, or in a separate letter, attached hereto.

If you established a testamentary trust, please attach hereto a copy of the relevant part of your will.

I request the Management Committee of the Fund to take my wishes as set out herein into consideration when paying death benefits in terms of the Rules of the Fund.

I declare that I am aware that the Management Committee is compelled to adhere to the provisions of the Pension Funds Act even if it be contrary to my wishes as set out above.

Signature **Date**



Win an easy R1000!!!!!!!!

The Fund is experiencing reluctance from various municipalities to distribute Benefit Statements and other communication by the Fund to members. The Fund is therefore engaged in a campaign to obtain contact details and specifically addresses of members to which Fund communication can be posted. Your co-operation by providing the following will be to your advantage. Please do not provide the address of the municipality, as it may still not reach you.

Five R1000 prizes are up for grabs! To qualify for the draw members must complete the form and **answer the 2 easy questions** below and submit it to any one of the following fax numbers: **086 682 9178, 086 678 7733** or **086 675 8586**, no later than **31 July 2011**.

Surname: ....

Full Name/s: ....

Pension No.: ....

Identity No.: ....

Telephone No.: ....

Cell phone No.: ....

Email Address: ....

Postal Address: ....

....

Municipality: ....

Signature of Member: .... **Date:** ....

All answers are to be found in this Journal.

Questions:

1. **What barrier did the total assets of the Fund break?** ☐ **1** **or** ☐ **10** **billion rand**
2. **The 4th Life Stage Portfolio from 1 July 2011 is called:**

   Protected Portfolio ☐ **or** **Police Protection** ☐

✔ **Tick the correct block**

2011 BUDGET SPEECH IMPACT ON MEMBERS

There are three announcements made in the 2011 National Budget speech which have a direct impact on members of retirement funds. The one positive, the other negative and the third neutral at this stage.

1. The good news is that Government kept its promise, albeit a year late, that it would adjust the first R300,000.00 tax free payment upon **retirement** to provide for inflation. This has been increased by 5% (R15,000.00) to R315,000.00 from 1 March 2011. It is hoped that this will be done annually and not every second year. No such inflation adjustment was made for **resignation** benefits.

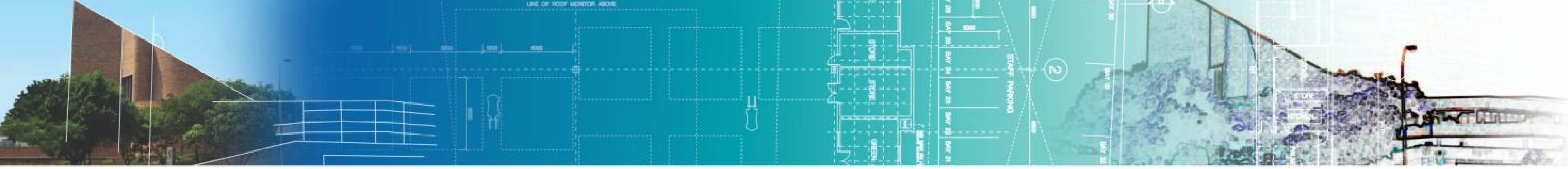
2. The not so good news is the announcement that from 1 March **2012** an employer's contribution to retirement funds, on behalf of an employee, will be a taxable fringe benefit in the **hands of the employee**. Individuals will from that date be allowed to deduct a maximum of 22.5% of their taxable income for contributions to pension, provident and retirement annuity funds with a minimum annual deduction of R12,000.00 and an annual maximum of R200,000.00.

Currently most members of the MGF receive a 22% contribution from the employer (municipality) and contribute 7.5% or 9% from their salary. Current tax legislation allows an employer to deduct a maximum contribution of 15% as an expense before calculating its profit. This does not have an effect on municipalities as no income tax is paid by municipalities and therefore the allowance of an expense deduction is irrelevant. This means that currently a municipality can contribute any amount to an employee's retirement fund without any tax implication. Current tax legislation also allows an employee to deduct a maximum of 7.5% from pensionable salary before calculating income tax. From 1 March 2012 the taxability of the contribution by the employer will be shifted to the employee by regarding it as a fringe benefit and the 15% and 7.5% will be combined allowing a maximum deduction of 22.5% before income tax is calculated. This 22.5% is in respect of both the employer and employee contributions combined. This would mean that where a member is currently receiving a 22% employer contribution tax free such member will have to pay income tax on an additional 7% of salary

(22 + 7.5 = 29.5 - 22.5 = 7).

The impact of this amendment is best understood if illustrated with the following two examples, one for a pensionable salary of R100,000.00 per year and another for R200,000.00 per year.

	2011				2012			
Annual pensionable salary	R	100 000	R	200 000	R	100 000	R	200 000
Less: 7.5% employee contribution	R	7 500	R	15 000	R	7 500	R	15 000
Balance	R	92 500	R	185 000	R	92 500	R	185 000
Plus: 7% exceeding 22.5%	R	-	R	-	R	6 475	R	12 950
Taxable Income	R	92 500	R	185 000	R	98 975	R	197 950
Income Tax (2011 tables)	R	16 650	R	35 750	R	17 816	R	38 988
Additional Tax per year					R	1 166	R	3 238
Additional Tax per month					R	97	R	270



This illustration shows that a member receiving a salary of R100,000.00 per year will be paying R97 (7%) more tax per month and a member receiving a salary of R200,000.00 per year will be paying R270 (9%) more tax per month from 1 March 2012, due to 22.5% limit. The higher the salary the bigger the knock, both in rand value as well as in percentage as the member is pushed to a higher tax bracket.

Depending on the salary of the member it may require a 1.5% to 3% salary increase to maintain the current disposable income, calculated at today's value of money. The 3-year salary agreement for municipalities expires on 30 June 2012 and provides for an increase of inflation (CPI) plus 2% from 1 July 2011. Due to the CPI being less than 5% for the period from 1 February 2010 until 31 January 2011 either party may open the salary negotiations for 2011/12. It should be noted that the additional tax is scheduled to be introduced from 1 March 2012 which will mean that it would only impact on members for the last 4 months of the 2011/12 financial year before the current 3-year Salary and Wage Collective Agreement expires. Question is, will the employer be prepared to absorb the additional cost with higher than agreed increases or will it be left for the members as "end user" to take the knock. Only time will tell.

This move of Government is in conflict with its declared intention to incentivise workers to provide for retirement. Members on cost-to-company remuneration arrangements are allowed in terms of the Fund rules to structure the employer contribution to a minimum of 5%.

It is envisaged that more of these members will make use of this provision of the Fund Rules to decrease their total retirement contributions to fall within the 22.5% cut off. This is however a short term cash flow solution which will catch up with members at retirement when less funds will be available.

For the vast majority of members who receive a fixed salary and not a flexible cost-to-company package, little can be done from the Fund's perspective to alleviate the cash flow pressure to be introduced by this new tax arrangement. Nevertheless, discussions will be held with the actuary of the Fund in this regard.

3. A further announcement in the Budget Speech which is of importance for MGF members is the following:

"With a view to protecting workers' savings, it is proposed that the one-third lump-sum withdrawal limit applicable to pension and retirement annuity funds should also apply to provident funds."

This is raising the head of the retirement fund reform again. On page 27 of this MGF Journal is also a short article in this regard. Mention is made in it that ***"Treasury says vested rights will be protected which must mean that all contributions to date will be treated under the old rules."***

In this regard, attention is drawn to the joint press statement released by Government, Cosatu, Fedasa and Nactu on 27 June 2008 which is available on **www.treasury.gov.za**. In this statement the undertaking was given that vested rights would be honoured. It appears that the National Health Insurance (NHI) is taking precedence and members should not expect rapid developments regarding the retirement fund reforms in the immediate future. Members will be kept informed by the Fund via news flashes if need be.

SNIPPETS FROM THE 2011 NATIONAL BUDGET

PENSIONS

Grinding into action

Retirement fund reforms, which were supposed to be introduced in 2010, have proved a slow process.

Over the past two years a national pension scheme was mentioned as part of a comprehensive revamp of social security. But it would not even be the most important part of the revamp - the flagship initiative for the Zuma government has been national health insurance (NHI).

Yet the budget makes it clear that NHI will take 14 years to implement, and that it is essential, meanwhile, to start modernising pension legislation, which is based around an act passed in 1956.

On the same day as the budget, treasury published the changes to regulation 28, which determines how pension funds can invest. The ***Budget Review*** says the intention is to ensure that retirement savings are invested prudently so as to protect fund members while promoting economic development. For the first time it explicitly permits investment in hedge funds, private equity and Islamic financial instruments.

One of the aims of pension reform was to reduce the number of pension funds. These have fallen to 3,200 from 15,000 over the past five years as small funds move into umbrella arrangements and dormant funds are deregistered.

Agencies involved in social security will also be rationalised. The SA Social Security Agency (which pays 15m grants), the Unemployment Insurance Fund, the Road Accident Fund, the Compensation Fund and the Compensation Commissioner for Occupational Diseases will share service points and other facilities. The National Pension Fund will eventually form part of

A big concern for treasury has been the lack of preservation of funds when people change jobs. It is now seriously considering making preservation mandatory on resignation, and on divorce when pension capital is split between the two parties. It also proposes that the full lump sum should not be taken from a provident fund. Instead, provident funds will be treated in the same way as pension funds and retirement annuities, in which just a third of the total capital can be taken as a lump sum.

Treasury says vested rights will be protected - which must mean that all contributions to date will be treated under the old rules. It also has to convince trade unions that this is a wise move. Unions fought hard for the provident funds in the 1970s and 1980s, but most now acknowledge that it is foolish to give a large lump sum instead of a pension to financially unsophisticated people.

The early pension reform papers indicated that there would be a cap on the tax deductibility of pension contributions. There will be an annual maximum deduction of R200,000. Interestingly, there will also be a minimum contribution of R12,000 or R1,000/month.

Treasury's retail bond savings scheme is about to move on to the private sector's turf. It will soon be licensed to offer living annuities - which can only be offered by life assurers now.

Living annuities, known internationally as variable annuities, are invested in a range of assets which can be drawn down at a rate of between 2,5% and 17,5% a year. Unit trust companies will also be allowed to offer these products. It will be interesting to see whether treasury can offer these products at low cost.

Stephen Cranston

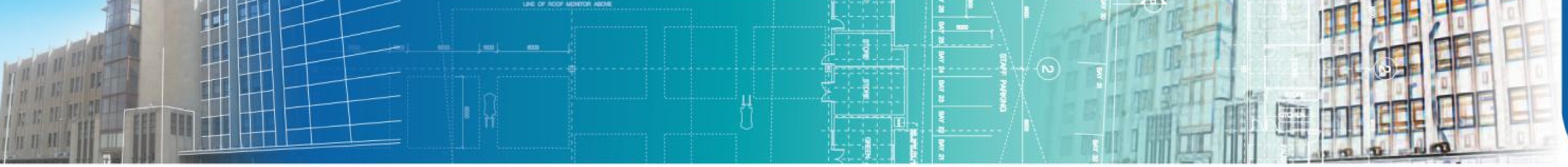
FINANCIAL MAIL *February 25, 2011*

Retirement fund lump sum withdrawal benefits (resignation)

Taxable Income (R)	Rate of Tax (R)
0 - 22 500	0% of taxable income
22 501 - 600 000	18% of taxable income above 22 500
600 001 - 900 000	103 950 + 27% of taxable income above 600 000
900 001 - and above	184 950 + 36% of taxable income above 900 000

Retirement fund lump sum benefits (retirement)

Taxable Income (R)	Rate of Tax (R)
0 - 315 000	0% of taxable income
315 001 - 630 000	18% of taxable income above 315 000
630 001 - 900 000	56 700 + 27% of taxable income above 630 000
945 001 - and above	141 750 + 36% of taxable income above 945 000



WELFARE

A bigger helping hand

With a growing list of social grant beneficiaries, questions of sustainability arise

A staggering 15m people - more than a quarter of South Africans - receive at least one of government's five social grants. With a tax base of about 5m people, this means one taxpayer supports three people receiving state assistance.

It is a ratio so alarmingly skewed that there is now growing concern it could become unsustainable.

Of the R104bn allocated to the department of social development in the budget, R97,6bn will be part of household incomes over the next fiscal year.

It is estimated that more than 1m South Africans lost their jobs during the global recession. And over the past year, 1m people have been added to the list of beneficiaries of social grants.

At present:

- More than 10m people receive child support grants, and nearly 440,000 care-givers receive care dependency or foster care grants;
- Almost 2,6m older people receive a non-contributory pension;
- 7,1m Children are exempt from school fees;
- 432,727 Preschool children are subsidised in early childhood development centres; and
- 8,1m Children benefit from the school feeding programme.

WHAT IT MEANS

> More than a quarter of the population needs grants.

> Grant expenditure to increase by 10,6% annually.

Since 1998, social grants have increased in both reach and value and there are now more than six times the number of beneficiaries.

Over this period, eligibility for the child support grant has been progressively extended. Initially, the grant supported children in poor households up to the age of seven, but by 2013/2014 this will extend to children up to their 18th birthday.

Last year, eligibility for the old-age grant was also increased following the equalisation of the age at which men and women receive the grant. This means test thresholds for the old-age and disability grants will also be raised.

The old-age grant will be increased by R20/month for recipients over the age of 75 (see table).

Critics of the system argue that the expansion of SA's social grant system is creating a welfare state, leading to a "culture of dependency" with the poor relying on state support rather than seeking work.

But at least two studies in the past year found that far from creating a dependency, the grants have kept millions from sinking into abject poverty, helped restore dignity to the unemployed and placed them in a better position to seek employment.

"We are relieved that government spending on grants is largely keeping track with inflation despite the recent grant-bashing by some commentators," says Elroy Paulus, programme manager of the advocacy group Black Sash. "We have been calling for a comprehensive social security system for over a decade and believe that [the budget speech] indicates substantial progress towards this goal."

The growth in SA's social grant system has raised questions of sustainability.

The child support grant is the largest by number of recipients, accounting for 69% (more than 10m children) in 2010/2011.

The old-age grant is the largest by expenditure (R33,8bn in 2010/2011) and the number of foster-care beneficiaries grew at an annual rate of about 12%, largely as a result of a growing number of orphans from the Aids epidemic.

Though the Black Sash mostly applauds the social welfare component of the budget, Paulus says it remains concerned about "the deafening silence" over decent work. "By barely mentioning it, [finance minister Pravin] Gordhan leaves us uncertain of our government's commitment to protect the millions of poor families who rely on the income of wage-earners," says Paulus. He is also disappointed by the exclusion of workers in the informal economy.

Prakash Naidoo

SOCIAL GRANTS VALUES

	2010/11	2011/12	Increase
State old-age grant	R 1080	R 1140	R 60
State old-age grant, over 75	R 1080	R 1160	R 80
War veterans grant	R 1100	R 1160	R 60
Disability grant	R 1080	R 1140	R 60
Foster care grant	R 710	R 740	R 30
Care dependency grant	R 1080	R 1140	R 60
Child support grant*	R 250	R 270	R 20

* increase of R10 in April and R10 in October

FINANCIAL MAIL *February 25, 2011*

PROVINCES

Tackling backlogs

Budget figures reveal that treasury allocations to municipalities have been steadily increasing in recent years, signaling a growing frustration by national government that dysfunctional and near bankrupt local authorities are failing to meet national targets for service delivery**.**

In the past, provinces received roughly the same allocation as national departments, while local governments received between 5% and 7% of the pie.

Municipalities were expected to generate almost all their own revenues through rates and service levies.

This year, in the budget's division of revenue, national departments will receive R380bn (47%); provinces R358bn (44,3%) and local government a little over R70bn (8,7%), up from R38,4bn two years ago.

But treasury has also announced changes to the conditional grant framework for provinces and municipalities in an attempt to tackle persistent backlogs.

Funds will now be transferred through three conditional grants - the health infrastructure grant, the education infrastructure grant and the provincial roads maintenance grant.

All of these will now reflect the budget votes of the departments of health, basic education and transport.

Treasury has also adjusted how conditional grants will be allocated to municipalities.

Last year, though the provinces increased their spending by R14,2bn, treasury figures show that in aggregate six provinces had underspent their adjusted budgets by R2,3bn.

Last year, provinces spent R305,3bn or 100,5% of their adjusted budgets of R303,9bn, with the bulk going towards education, health, public works, roads and transport.

By the end of September last year, municipalities had in aggregate spent just R46bn or 19,7% of the R232,6bn of the total approved budget.

Not only were municipalities struggling to spend their allocations, they found it difficult to collect their revenues.

Aggregated municipal consumer debts amounted to R62,3bn with more than half of this amount (R35,4bn) owed to the metropolitan municipalities.

A large chunk of the indirect transfer to municipalities (R1,7bn) is for basic services such as water, electricity and household infrastructure.

Prakash Naidoo

CONDITIONAL GRANTS TO PROVINCES

	Rm 2010/11	Rm 2011/12
Agriculture, forestry & fisheries	1167	1487
Arts & culture	513	543
Basic education	7 107	10 546
Cooperative governance & Traditional affairs	214	305
Health	20 483	23 948
Higher education & training	3 804	4 326
Human settlements	13 033	14 942
Public works	2 181	2 271
Sport & recreation SA	426	452
Transport	9 013	10 616
Total	**308 118**	**1 144 510**
Indirect transfers	-	700

FINANCIAL MAIL *February 25, 2011*

Direct all administrative enquiries to the Fund Administrator:

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