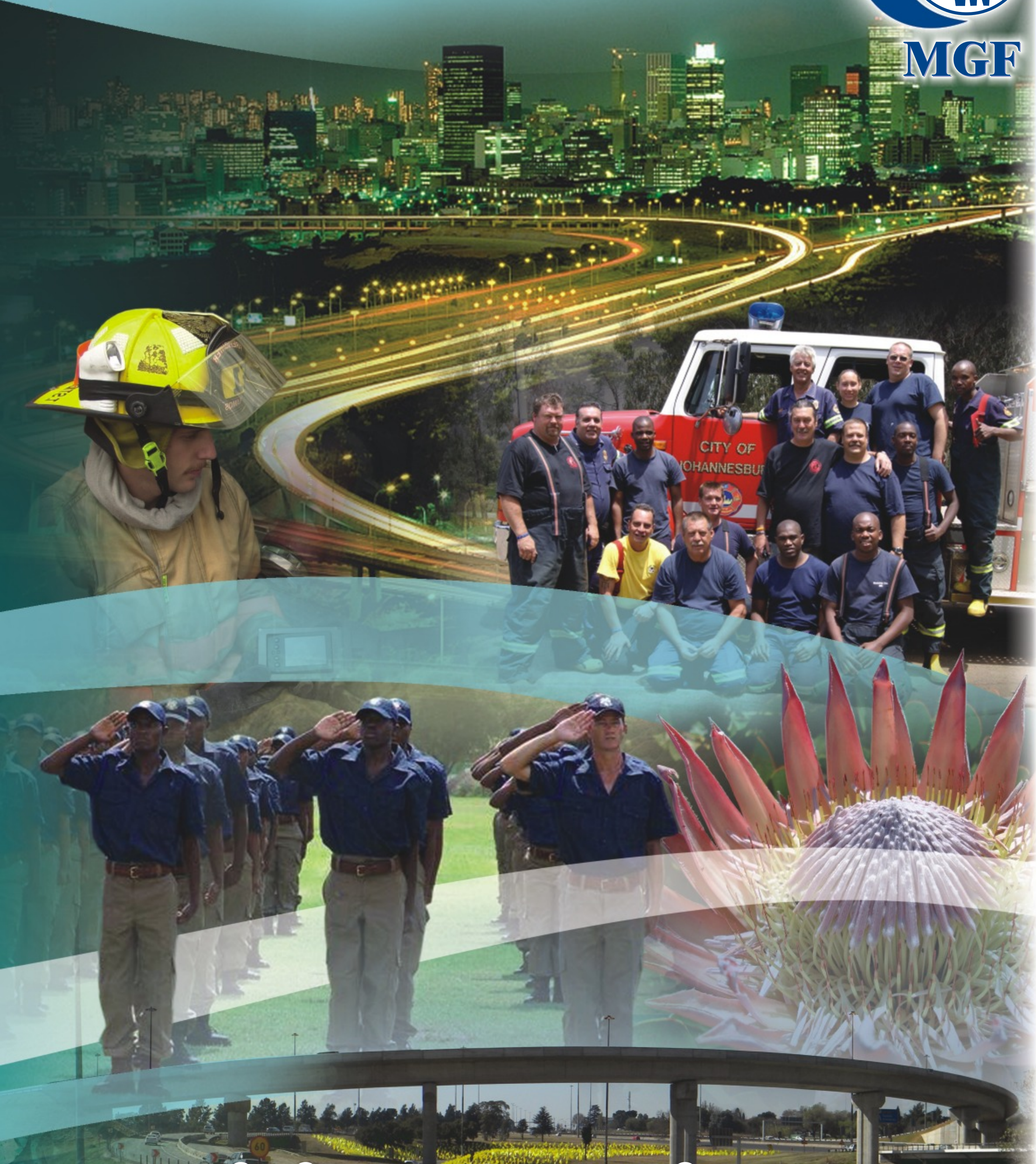
MGF Journal

2012

MGF



Municipal Gratuity Fund

MUNICIPAL GRATUITY FUND

GO GREEN TIP: "Recycle your motor oil and save our water resources. One litre of fuel oil can contaminate one million litres of water."

Congratulations to the Winners of our Survey Competition who each won R1000

S E E Mathebula, Gert Sibande

V S Mazibuko, Pixley ka Seme

E Mofokeng, Sedibeng

K P Mothibi, Ekurhuleni

S Z Mtetwa, Erwat

The prize money is a whopping R1000 in this year's competition for 5 Lucky Winners. See Page 28 for details.

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GO GREEN TIP: "Turn off your lights when you are not using them. The benefits are obvious. "

CHAIRPERSON'S MESSAGE

We are privileged, as a Management Committee (Board of Trustees) to be at the helm of a retirement fund the likes of the MGF. Another year has passed wherein, despite uncertain and at times very turbulent investment market conditions, the MGF has performed exceptionally for our members. The MGF management has a humble sense of pride to be in a position to advise that the 2010/2011 returns exceeded all expectations, as reflected more particularly elsewhere in this edition of the MGF Journal. The Life Stage Model (LSM), with its daily unit pricing has now been in place for six years and proven to be a great success as illustrated by the sustainable returns over this period despite volatile market cycles. The MGF was one of the first retirement funds to implement a life stage model and was ahead of the market with this development as some retirement funds only recently introduced similar models, realising its worth.

The past financial year was one of choppy markets with high levels of uncertainty due to the risk of sovereign (governmental) debt defaults and a global economic recession intensifying in the early part of 2011. The financial year was, broadly speaking, one of two halves with risk assets, particularly domestic equities, outperforming all other asset classes in the first half of the financial year, whereas in the second half fixed income assets outperformed. Market uncertainty was reflected in high levels of market volatility with the SAVI (the South African Volatility Index) beginning the year at 30.45 index points, reaching a low of 20.43 in April 2011 before increasing marginally to 22.65 index points at the end of the financial year. Following the equity market gains in the first half of 2010, equity markets began to sell-off late in the first quarter of 2011 as a result of the Arab uprisings and Japan earthquake that severely disrupted global supply chains and prompted downward revisions to economic growth. The Arab Spring uprisings contributed to higher oil and commodity prices which dampened the outlook for consumption expenditure, while fiscal austerity measures in Eurozone peripheral countries increased the risk of recession in the region.

The flight-to-safety which benefitted bonds and other fixed income assets came late in the financial year, having only a small impact on returns. The MGF's risk-profiled portfolios delivered on their mandates, outperforming their respective benchmarks.

Given the systemic risk to the Eurozone and global financial system from a sovereign debt default in Greece and other peripheral countries, policy stagnation has become the single biggest threat to the health of the global economy. Unlike the US which responded aggressively after the 2008 mortgage sub-prime crisis by expanding its balance sheet through quantitative easing and extremely loose monetary policy, Eurozone policy makers have been slow to respond to the sovereign debt risk, in part due to the absence of a fiscal union and the need for consensus seeking resolutions to the crisis.

The local government elections held on 18 May 2011 had a disruptive effect on the composition of the Management Committee (Board of Trustees). Both councillors Ms. Lerato Makhale and Mr. Kelebogile Mojaki were not re-appointed resulting in them having to vacate their office as trustees. The Vice-chairperson, Ms. Welheminah Molubi, was appointed councillor for Merafong Municipality. Once appointed as councilor and the position's consequential association with the employer, Ms Molubi could no longer sit as an independent trustee, resulting in another vacancy. However she was subsequently re-elected as a trustee at the annual meeting held on 25 November 2011 but this time in the capacity as an employer representative. We wish to express sincere appreciation to Lerato and Kelebogile for their invaluable contributions to the well being of the Fund during the years served by them as trustees, particularly to be remembered for their constructive approach to Fund matters. The remaining employer trustee vacancy was also filled at the annual meeting by the election of Cllr. Ms. M.L. Mothata. We look forward to having Lisbeth as a trustee of the MGF who is currently serving on the Mayoral Executive Committee of the Aganang Municipality.The vacant position of independent trustee was filled by the appointment of Mr. Gideon van Zyl. Gideon is well known in the retirement industry of South Africa for his experience, skills and passion for retirement matters. There is no doubt that he will add value in the best interests of the Fund and its members. Hence a warm welcome to Gideon and Lisbeth and a sincere welcome back to Welheminah.

The combined experience of this dedicated group of trustees exceeds a century specifically in roles as trustees of the MGF. This can be equated to an average of almost 8 years per trustee, and just another illustration of their commitment to the MGF and its members.

Members are encouraged to familiarise themselves with the contents of this edition of the MGF Journal as it contains important information. The article about retirement and annuities is also informative and may be of particular interest to members nearing retirement. It may also be relevant for younger members who wish to supplement their retirement provision at an early stage by contributing towards a retirement annuity fund separately from the MGF. There are certain tax concessions applicable to such contributions.

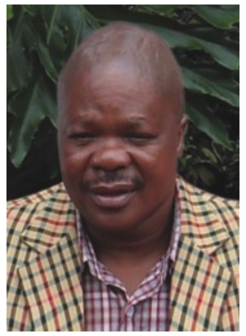
It remains for me to wish you all a wonderful 2012 and may you move closer to your dreams this year and remember ours is not merely another job but rather a calling to serve the community. May you do it with pride and integrity.

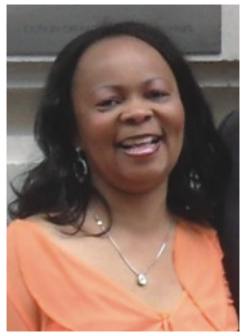
Gerald Fourie
Chairperson

The Management Committee


Mr. B.G. Fourie
Chairperson
Member trustee


Mr. P.J. Venter
Vice-chairperson
Member trustee


Mr. J. Modiga
Exco member
Member trustee


Cllr. M.M.W. Molubi
Exco member
Employer trustee


Mr. E.C. Alberts
Independent trustee


Mr. J.D.G. Venter
Independent trustee


Mr. J.H. Grobbelaar
Member trustee


Cllr. S.K. Mashilo
SALGA nominated trustee


Mr. E.C. Smal
Member trustee


Mr. R. Ramare
Member trustee


Mr. M.D. Mogakabe
Member trustee


Mr. G. van Zyl
Independent trustee


Cllr. M.L. Mothata
Employer trustee

GO GREEN TIP: "Turn down the temperature of your geyser - Every degree lower is a 10% decrease on your energy bill."

INVESTMENTS

INVESTMENT STRATEGY AND PORTFOLIO RETURNS

1. Life Stage Model (LSM)

During 2004/5 the Board of Trustees commissioned the investment consultants of the Fund to research and advise on an investment strategy for the Fund with specific emphasis on the nature of the Fund as a defined contribution fund. This resulted in the adoption of the Investment Policy Statement (IPS). The IPS informs the strategy approach of the Fund in respect of investing in a safe environment optimizing risk adjusted returns. The approach is fairly conservative however not too conservative to miss out on return enhancing opportunities.

The objective of the IPS is to generate sufficient returns that a member should be able to buy a pension rendering about 75% of salary at retirement, after a membership term of approximately 35 years. This is to be achieved by the Life Stage Model (LSM), which was introduced during July 2005.

2. Life Stage Portfolios: AP, MP, CP and PP

Until July 2011 three life stages were employed, that is the Aggressive Portfolio (AP) Moderate Portfolio (MP) and Conservative Portfolio (CP). Due to the increasing fluctuating investment markets the Board of Trustees resolved to introduce a fourth life stage called the protected Portfolio (PP), which was implemented during Aug/Sept 2011. This is an ultra conservative investment portfolio to protect members' accumulated fund credits against capital losses during the last phase of membership. The PP is invested in money market instruments.

The four 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) in the years closer to retirement. Then finally it is transferred to a capital protection portfolio (PP) during the final stage until retirement.

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

Automatic migration to the PP is done in two batches; the first 50% of the fund credit is transferred during the quarter of the year in which a member turns 63 and the balance in the quarter during which the member turns 64. Members may exercise an investment choice contrary to the automatic LSM default, as explained in paragraph 5. below.

The returns of the life stage portfolios for 2010/11 are as follows:

Portfolio	Jul 10	Aug 10	Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11	TOTAL
Aggressive (AP)	4.17%	-0.65%	3.99%	1.71%	-0.22%	3.13%	0.19%	1.48%	0.06%	1.32%	0.15%	-1.25%	14.83%
Moderate (MP)	3.56%	0.06%	3.30%	1.42%	0.24%	2.29%	0.04%	2.20%	-0.75%	1.29%	0.38%	-0.85%	13.90%
Conservative (CP)	2.80%	0.53%	2.56%	1.06%	0.64%	1.55%	-0.38%	2.19%	-0.43%	1.11%	0.39%	0.18%	12.85%

Although the end result for the year showed a close race to the finish, the monthly fluctuations tell a different story. The AP (14,83%), MP (13,90%) and CP (12,85%) are about 1% apart from each other compared over the 2010/11 financial year. An analysis of the ranges within each investment portfolio as well as between the three portfolios clearly shows that rough seas were ridden. The monthly returns of the AP varied between -1,25% (Jan 2011) and 4,17% (July 2010), the MP between -0,85 (Jun 2011) and 3,56% (July 2010) and the CP between -0,43 (March 2011) and 2,80% (July 2010). The declining spread from 5,42% (AP) to 4,41% (MP) and 3,23% (CP) confirms the purpose and nature of the LSM.

The annualized returns for the past six years since the inception of the LSM during July 2005 are as follows:

Portfolio	Return	Inflation (CPI)	Outperf. CPI	Outperf. %
Aggressive (AP)	13.36%	6.51%	6.85%	105.22%
Moderate (MP)	12.15%	6.51%	5.64%	86.64%
Conservative (CP)	11.60%	6.51%	5.09%	78.19%
Guaranteed (GP)	10.13%	6.51%	3.62%	55.61%

This huge annualized out-performance of the CPI is significant in any investment terms.

3. Guaranteed Portfolio (GP)

The GP, being a low risk investment with capital protection guarantee and even a minimum guaranteed return, will underperform the more risky investments during good equity markets. This was indeed the case during 2010/11. However, the 8,64% return of the GP was still very respectable when compared to the standard money market returns of 5% to 6%. **Members are however again cautioned that the GP and similar conservative investment vehicles are not for the young and brave with long investment horizons. The lag in returns over the long term will result in under provision at retirement age. The GP is rather for the faint hearted mature member who is getting close to the end of his career and cannot afford to take any risks.**

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

2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2005/11
9,70%	12,20%	9,03%	10,68%	11,16%	8.64%	**10.13%pa**

4. Exit Portfolio (EP)

The EP is a money market investment with no exposure to equities. Due to the low interest rates it delivered 5,61% for 2010/11. The EP is for members in the process of being exited from the Fund. However it was offered as an investment choice to members who were very risk averse and who missed the boat with the once per year closing date of the GP. In the interim the EP has again been designated for exiting members only and the PP was added from August 2011 as a fourth life stage which may also be used as a member investment choice.

GO GREEN TIP: **"Repair leaking taps - 1 drop per second can waste as much as 38 litres of water each week."**

5. Member Investment Choices

The IPS is developed for the average member, however 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.

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.

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 no 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 the third business day from receipt. Depending on circumstances it may take up to 5 days. However it will not be done before the third day. The reason being that it takes two days to calculate and import the daily market values to the member system. If a member investment choice is implemented within these two days it would allow for front running by some members to the potential detriment of the membership as a whole. Such is considered unethical and not allowed in the industry. The implementation of the annual switch in respect of the GP has its own conditions and time frames.

6. Returns going forward

The returns of the life stage portfolios for the first six months of the new (2011/12) financial year are as follows:

Portfolio	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	TOTAL
AP	-0.74%	0.35%	0.33%	4.81%	0.89%	-0.57%	2.77%	7.98%
MP	-0.54%	0.56%	0.20%	3.56%	0.89%	-0.14%	2.28%	6.93%
CP	-0.18%	0.44%	-0.46%	2.51%	0.94%	0.33%	1.84%	5.51%
PP	-	-	0.27%	0.43%	0.45%	0.51%	0.55%	2.22%

The total for each portfolio over the seven months does not look bad when projected for the year ahead. However as can be seen from the spread between the seven months' returns it would be dangerous to merely project the return for the seven months over the remaining five months. This is further emphasized when it is compared with the corresponding seven months of last year when the AP, MP and CP returns were 12,4%, 10,95% and 8,84% respectively.

The return of the PP for September should not be regarded as a trend because there were some cash flows during the take-on period. The returns from October onwards would represent the trend going forward. However any change in interest rates will have a direct impact on the PP's return.

The return parameters for the 2010/11 GP are as follows:

Maximum guaranteed return	:4%
Maximum possible additional return	:4.5%
Total possible maximum return	:8.5%

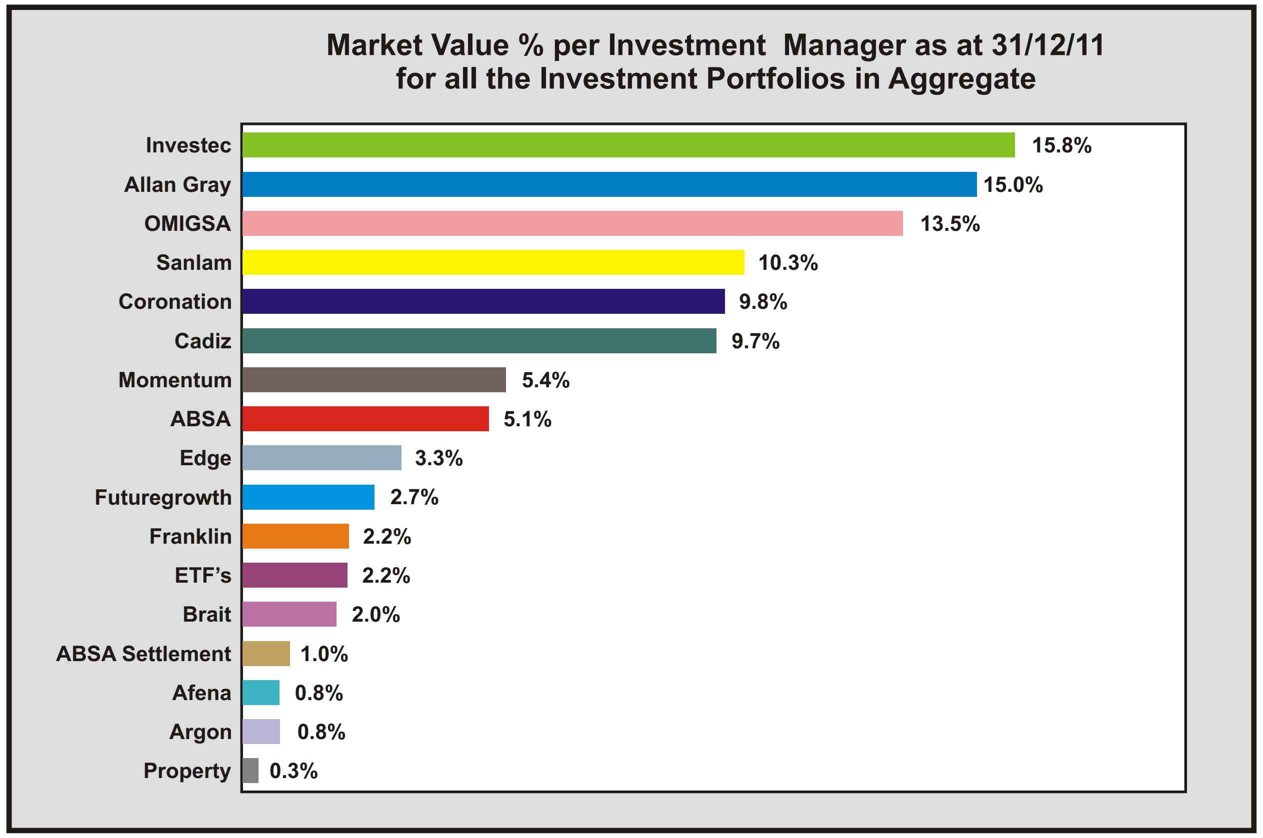
The possible maximum additional return is linked to the performance of the equity market as reflected in the All Share Index: Top 40 Shares (ALSI 40). Participation in the ALSI 40 returns will only commence after the first 3% increase since inception on 1 July 2011. This so called "3% out of the money" structure was implemented to obtain a reasonable guaranteed growth of 4% and to maximise the possible additional capped return of 4,5%.

MANAGEMENT OF INVESTMENTS

The MGF does not manage any of the investments. Investment management is a complex process which requires a lot of expertise, costly computerized systems and information technology. The Board of Trustees of the MGF believes that it would be best to leave this for the professionals best equipped for the arduous task. There are a number of well known investment managers with solid track records and sound reputations available in the market. The MGF utilizes only reputable investment managers and avoids the fly by nights. All the assets are in any event kept in the name of the MGF. In other words, although it is managed by the various investment managers, the share certificates, bonds, etc are issued in the name of the MGF and kept in safe custody by the custodian bank.

The Board of Trustees appointed professional investment advisors, namely SMMI, to assist with the identification of suitable investment managers in order to reach the IPS goals.

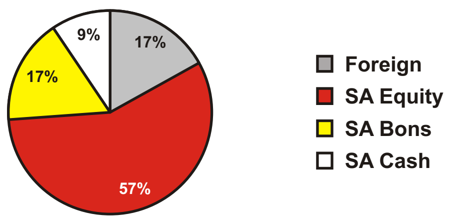
The following graph reflects the distribution of the MGF investments between the various investment managers as at 31 December 2011:



INVESTMENT PORTFOLIOS

LIFE STAGE 1: AGGRESSIVE PORTFOLIO (AP)

Aggressive Portfolio: Asset Allocation as at 31/12/11



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.

Market Value as at 31 Dec 2011: R 5 472 138 409

Investment objective: Inflation + 5%

Asset allocation limits:

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

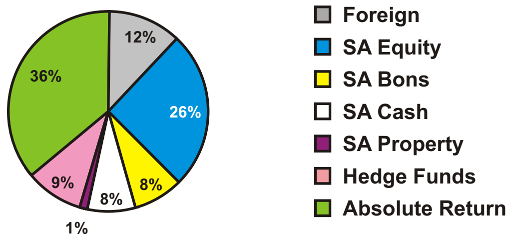
ASSET MANAGERS USED

SA Cash	Cadiz and OMIGSA
SA Equity	Afena, AllanGray, Argon, Investec, OMIGSA and Momentum
SA Bonds	Investec, Sanlam and Futuregrowth
Foreign	Orbis, Coronation, Edge, Franklin and Investec

Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	2010/2011
4.17%	-0.65%	3.99%	1.71%	-0.22%	3.13%	0.19%	1.48%	0.06%	1.32%	0.15%	-1.25%	12.23%
Jul-11	**Aug-11**	**Sep-10**	**Oct-11**	**Nov-11**	**Dec-11**							**Year to date**
-0.74%	0.35%	0.33%	4.81%	0.89%	-0.57%							5.07%

LIFE STAGE 2: MODERATE PORTFOLIO (MP)

Moderate Portfolio: Asset Allocation as at 31/12/11



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.

Market Value as at 31 Dec 2011: R 3 787 473 984

Investment objective: Cash + 2%

Asset allocation limits:

SA Cash	**3% - 20%**
SA Equity	**10% - 30%**
SA Bonds	**5% - 20%**
SA Property	**0% - 8%**
Foreign	**0% - 15%**
Hedge Funds	**5% - 15%**
Absolute Return Funds	**25% - 45%**

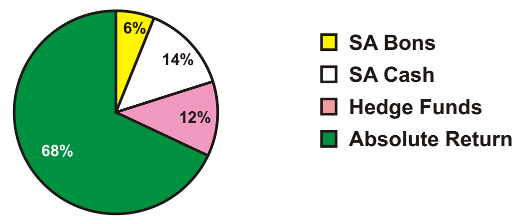
ASSET MANAGERS USED

SA Cash	Cadiz and OMIGSA
SA Equity	Afena, AllanGray, Argon, Investec, OMIGSA and Momentum
SA Bonds	Investec and Sanlam
Foreign	Orbis, Cadiz, Edge, Franklin and Investec
Hedge Funds	Brait and Edge
Absolute Return Funds	Coronation and Sanlam

Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	2010/2011
3.56%	0.06%	3.30%	1.42%	0.24%	2.29%	0.04%	2.20%	-0.75%	1.29%	0.38%	-0.85%	13.90%
Jul-11	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**							**Year to date**
-0.54%	0.56%	0.20%	3.56%	0.89%	-0.14%							4.55%

LIFE STAGE 3: CONSERVATIVE PORTFOLIO (CP)

Conservative Portfolio: Asset Allocation as at 31/12/11



Portfolio Profile

This portfolio is for members between 60 and 63 years of age.

These members cannot be exposed to any risk and therefore their money will be invested in fixed income investments, structured products and cash with no equities (shares) in order to protect the capital.

Market Value as at 31 Dec 2011: R 970 971 530

Investment objective: Cash + 1%

Asset allocation limits:

SA Cash	**10% - 30%**
Hedge Funds	**10% - 20%**
Absolute Return Funds	**40% - 70%**
SA Bonds	**5% - 15%**

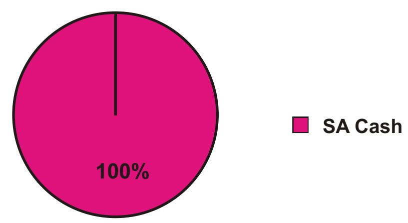
ASSET MANAGERS USED

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

Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	2010/2011
2.80%	0.53%	2.56%	1.06%	0.64%	1.55%	-0.38%	2.19%	-0.43%	1.11%	0.39%	0.18%	12.85%
Jul-11	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**							**Year to date**
-0.18%	0.44%	-0.46%	2.51%	0.94%	0.33%							3.60%

LIFE STAGE 4: PROTECTED PORTFOLIO (PP)

Protected Portfolio: Asset Allocation as at 31/12/11



Portfolio Profile

This portfolio is for members between 64 and 65 years of age.

These members cannot be exposed to any risk and therefore their money will be invested in money market instruments in order to protect the capital.

Market Value as at 31 Dec 2011: R 197 041 454

Investment objective: Cash

Asset allocation limits:

SA Cash	**100%**

ASSET MANAGERS USED

SA Cash	OMIGSA

Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	4 months to 31/12/11
-	-	0.27%	0.43%	0.45%	0.51%	3.60%

GO GREEN TIP: "Don't pre-heat the oven unless needed, just turn the oven on after you put the dish in it. Also, to see if it's finished just look through the glass instead of opening it."

THE GUARANTEED PORTFOLIO (GP)

Portfolio Profile

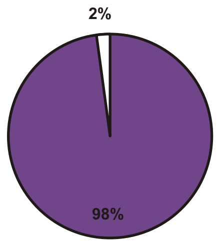
This Portfolio is maintained separately from the life stage portfolios. This portfolio is open to all members but they have to notify the Fund by means of the completion of the applicable option form before or on 31 May of every financial year, that they want to transfer. Once members are transferred to the GP they remain in the GP until they notify the Fund in writing before or on 31 May of the changes they want. Changes can be made by completing a new option form.

Market Value as at 31 Dec 2011: R1 230 068 845

Portfolio Returns per annum

2005 /06	2006 /07	2007 /08	2008 /09	2009 /10	2010 /11
9.70%	12.20%	9.03%	10.68%	11.16%	8.64%

Guaranteed Portfolio: Asset Allocation as at 31/12/11



ASSET MANAGERS USED

Structured Products	ABSA and Cadiz
SA Cash	Cadiz

THE EXIT PORTFOLIO (EP)

Portfolio Profile

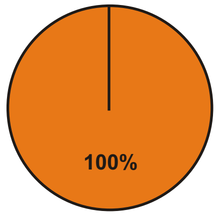
An exit Portfolio is available for members in a transition phase and in the process of leaving the Fund. Their Fund credit is transferred into a cash portfolio to protect it from market movements.

Market Value as at 31 Dec 2011: R 130 805 914

Investment objective: Cash

Asset allocation limits: SA Cash 100%

Exit Portfolio: Asset Allocation as at 31/12/11

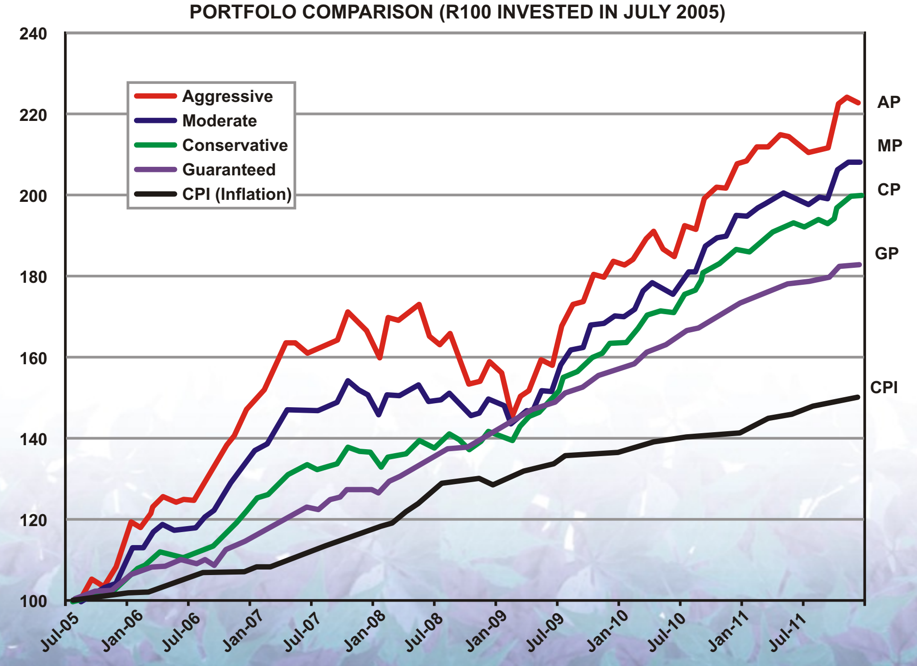


ASSET MANAGERS USED

SA Cash OMIGSA

Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	2010/2011
0.51%	0.54%	0.50%	0.44%	0.46%	0.42%	0.43%	0.39%	0.42%	0.42%	0.46%	0.45%	5.58%
Jul-11	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**							**Year to date**
0.36%	0.45%	0.42%	0.42%	0.47%	0.49%							2.63%

PORTFOLO COMPARISON (R100 INVESTED IN JULY 2005)



DOES SIZE MATTER?

The answer to this question would depend on what the question was in reference to. In this particular instance it refers to the Municipal Gratuity Fund. The question would therefore be whether it is important to a member that the MGF is big. Big not only refers to the number of members but also the asset value. A retirement fund is not like a business enterprise which needs to grow its clientele to maximize profits for the business owners. The MGF, and so should be the case in all retirement funds, is an association of members with a common goal, namely to maximize the investment returns to provide for a comfortable retirement. The number of members do not increase the returns, however economies of scale is important in or when negotiating better fees with service providers such as the fund administrator and investment managers. The MGF exceeded such point of critical mass since inception in 1994. A membership of 15 000 and an asset value of R5 billion in today's money value would render sufficient bargaining power to obtain the best fees. The MGF with its membership, exceeding 30 000 and asset value exceeding 12 billion is in the ideal position to negotiate favourable cost and fee structures for our members, as indeed it has done.

Instead of directing its energy and resources towards marketing efforts to grow the membership at all costs, the MGF rather focuses on meaningful communication with members and growing returns on the investments. Unlike some other players in the field, where the administrator or investment manager may have a financial interest (administration fee per member, commission or investment management fees) in growing the membership, the MGF prefers to stay at arm's length from its service providers to prevent any possibility of conflict of interest. Its reputation as an independent and good governance fund is too important to risk. The steady growth in the membership is not because of marketing efforts but is a result of its reputation in the market place.

The answer to the question whether fund size matters would therefore be yes and no. **Yes**, for purposes of economies of scale to negotiate favourable fees. **No**, when it becomes too big and losing the very vital personal touch with members. Currently the Fund is of an ideal size to capture both these benefits; big enough for critical mass but small enough to be close to its members.

As can be seen from the graph below the membership of the MGF experienced a steady growth from the 25 000 level, ten years ago and went through the 30 000 barrier during 2011. Although we lost 270 members who sadly passed away as well as 478 who went on well deserved retirement and another 458 found greener pastures elsewhere and resigned from local government, a total of 1967 new members joined the Fund during the 2010/11 financial year.

MEMBERSHIP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Female	5606	7555	7187	6690	6516	6336	6198	5977	5866	5983	6357	6741	7493	7834	8507	9067	9500
Male	16216	23679	22564	22958	22261	21168	20673	19872	19094	19272	18951	18777	19410	19370	20149	20555	20518
Total	21822	31234	29751	29648	28777	27504	26871	25849	24960	25255	25308	25518	26903	27204	28656	29622	30018

GO GREEN TIP: "Go Green Cleaning Ingredients include Baking soda for scrubbing, Borax for disinfecting, and White Vinegar loosens dirt."

The asset value of the MGF grew exponentially since inception in 1994 until 30 June 2011 to reach R11.2 billion as illustrated by the following graph. This growth is attributed to contributions and investment returns from which the benefit payments due to exits from the Fund must be deducted. For instance during the 2010/11 financial year, contributions were about R1.16 billion and investment returns about R1.34 billion whereas benefit payments were about R0.79 billion. Hence the net income was about R1.7 billion. Subsequently the asset value grew to almost R13 billion in January 2012.

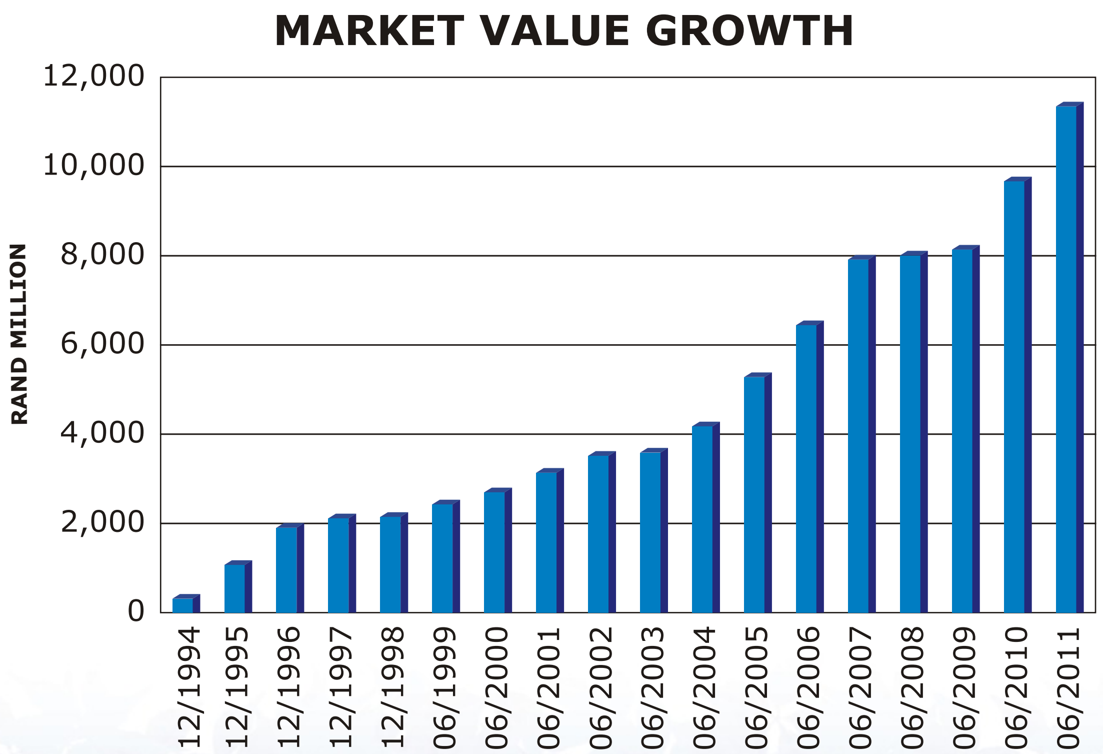
RISK BENEFITS AND ADMINISTRATION EXPENSES

The employer's contribution includes 5,00% of salary allocated towards the cost of risk benefits and administration expenses.

Actual cost over the last 5 years as a % of salaries:

	07/2006 - 06/2007	07/2007 - 06/2008	07/2008- 06/2009	07/2009 - 06/2010	07/2010 - 06/2011
Funeral Policy	0.26%	0.29%	0.26%	0.23%	0.17%
Administration	0.70%	0.65%	0.61%	0.62%	0.59%
Disability	0.08%	0.05%	0.08%	0.06%	0.02%
Death	4.02%	4.22%	3.83%	3.57%	3.64%
TOTAL	**5.06%**	**5.21%**	**4.78%**	**4.48%**	**4.42%**

It is evident that the Board of Trustees succeeded to reduce the costs of risk benefits and administration within the 5% of salaries margin for the last number of years. The position will continue to be closely scrutinized.



FUNERAL BENEFITS: ADMINISTRATIVE ERROR OR UNFAIR DISCRIMINATION?

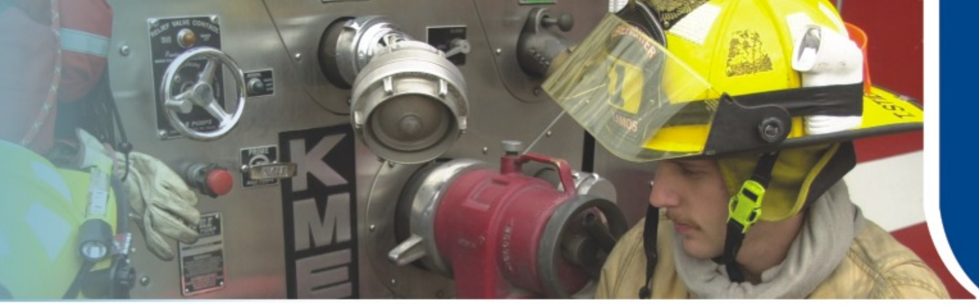
At the 2010 annual meeting it was mentioned that application was made to the Registrar of Pension Funds to increase the levels of the funeral cover as follows:

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)

It was also reported that the Registrar declined this on the grounds that it is not a pension benefit authorised by the Pension Funds Act. It was then undertaken that further discussion would be engaged with the Registrar of Pension Funds in an effort to resolve the matter. Further correspondence and meetings with the Registrar ensued, to no avail. The Registrar informed the Fund on 11 October 2011 in writing, that the levels listed above may not be increased as envisaged. To the contrary, the Fund was informed that these levels exceed the R7 500 per person level allowed by the Long Term Insurance Act. However, as these are already included in the Fund Rules the Fund may continue to apply it, but no increase would be allowed.

When asked about how could another retirement fund in the municipal environment be allowed to increase the level of funeral cover to R20 000 the reply was simply that "...it is to be borne in mind that every case is dealt with by the Registrar according to its own merits; and that the registration of the amendment was influenced by certain considerations". No explanation was offered about what the "certain considerations" would be and in any event the Pension Funds Act does not make provision for exceptions in this regard. Nevertheless the outcome of the discussions was accepted because it was understood that such discrimination would not be repeated. In fact the impression was that it was an administrative oversight. However the ink on the letter of 11 October 2011 was hardly dry when the same retirement fund distributed a circular dated 15 December 2012 advising its members that the funeral benefit has been increased to R35 000, effective 1 January 2012. If this was approved by the Registrar of Pension Funds it would amount to unfair discrimination and breaching of the provisions of the Promotion of Administrative Justice Act, 2000. The letter of 11 October 2011 from the Registrar specifically refers to the previous amendment of 15 February 2010 when the increase to R20 000 was approved without making any reference to this new increase to R35 000. If the application to increase the benefit to R35 000 was on the regulator's desk or, even worse, if it was already approved when the letter of 11 October 2011 was forwarded to the MGF, this would make a mockery of the principles of transparency and good governance. An even worse case scenario would be if this increase was approved after the Registrar was made aware of this discrepancy. Enquiries were directed to the Registrar on 6 January 2012 when the MGF became aware of this matter. When this edition of the MGF Journal had to go to press no reply had been received, apart from a notice from the official dealing with this matter that he was on study leave and would attend to it on 7 February 2012. The MGF will not abandon this without justice being served and members will be informed about further developments via news flash.

GO GREEN TIP: "Eliminate waste by choosing products that are bio-degradable or recyclable."



FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2011

The financial statements for the year ending 30 June 2011 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 2010/11 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 2011 R	30 June 2010 R
ASSETS		
Non-current assets	11,587,525,281	9,970,245,169
Property, plant and equipment	47,253	105,581
Investments (including investment property)	11,375,637,153	9,693,169,298
Housing loan facilities	211,840,875	276,970,290
Current assets	197,306,834	134,832,322
Transfers receivable	-	(99,792)
Accounts receivable	42,979,948	376,556
Contributions receivable	19,471,829	20,454,722
Cash at bank	134,855,057	114,100,836
TOTAL ASSETS	**11,784,832,115**	**10,105,077,491**
FUNDS AND LIABILITIES		
Members' funds		
Members' individual accounts	11,165,675,955	9,501,029,350
Amounts to be allocated	92,045,189	43,347,048
	11,257,721,144	9,544,376,398
Reserves		
Reserve accounts	198,557,221	229,797,164
Total funds and reserves	11,456,278,365	9,774,173,562
Non-current liabilities	1,667,057	2,237,573
Provisions	513,000	497,291
Unclaimed benefits	1,154,057	1,740,282
Current liabilities	326,886,693	328,666,356
Benefits payable	313,762,841	319,160,817
Accounts payable	13,123,852	9,505,539
TOTAL FUNDS AND LIABILITIES	**11,784,832,115**	**10,105,077,491**

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	964,795,177	196,684,178	1,161,479,355
Net investment income	34,074,376	1,310,107,025	1,344,181,401
Other income	-	-	-
Less:	-	(30,427,130)	(30,427,130)
Re-insurance premiums	-	(6,852,794)	(6,852,794)
Administration expenses	-	(23,574,336)	(23,574,336)
Net income before transfers and benefits	998,869,553	1,476,364,073	2,475,233,626
Transfers and benefits	(507,853,862)	(285,274,961)	(793,128,823)
Transfer from other funds	20,944,229	-	20,944,229
Transfer to other funds	(6,561,032)	-	(6,561,032)
Benefits	(522,237,059)	(285,274,961)	(807,512,020)
Net income after transfers and benefits	491,015,691	1,191,089,112	1,682,104,803
Funds and reserves			
Balance at beginning of period	9,544,376,398	229,797,164	9,774,173,562
Transfer between reserve accounts	1,222,329,055	(1,222,329,055)	-
Balance at end of period	**11,257,721,144**	**198,557,221**	**11,456,278,365**

GO GREEN TIP: "Recycle glass, if you do not recycle, it will take a million years to decompose."

RETIREMENT .... AND THEN WHAT?

The story about the dog chasing the passing cars down the road is well known to all. The question is what then if he catches one. Many of us are chasing the days, months and years to get to retirement.

Question again is ...... AND THEN WHAT? Will we know what to do once reaching this long time goal? Will we be prepared emotionally, socially and financially? Although the social and emotional aspects are not within the ambit of the Municipal Gratuity Fund (MGF) to address, these aspects remain important matters that should be addressed by the to be retiree. Some of us have a wide circle of friends or a hobby or a spouse or grandchildren they look forward to spending time with or may be active in community work or church activities. Others may have none of these and may face a lonely retirement which may lead to depression and other emotional problems. It is therefore of paramount importance to plan for the social and emotional aspects of retirement. It would however be of little value to plan for these aspects without having made proper provision for the financial aspect of retirement. This is called **financial planning**.

The MGF is a defined contribution fund where the member can take any amount up to hundred percent of the retirement benefit in a lump sum payment. The Fund adopted an **Investment Policy Statement** in terms of which the investment objective is to generate sufficient growth, based on 40 years membership, in order to enable a member to buy a pension equal to 75% of pensionable salary at retirement. To reach this objective a long term investment approach is taken, resulting in **four life stage** portfolios, namely the **Aggressive-**, **Moderate-**, **Conservative-** and **Protected Portfolio**. All assets of the Fund are invested in the standard asset classes namely equities (shares), fixed income, cash and properties. The combination of asset classes within each portfolio will differ according to the performance objective of the specific portfolio. This is discussed in more detail elsewhere in this Journal.

When retiring, after many years of hard work, you should be looking forward to having the freedom to do all the things that you enjoy and have always wanted to do. This ought to be a very exciting time of your life. However, you may be concerned and worried that you have not saved enough for this care-free retirement. You may also be feeling lost amongst the many retirement products to choose from.

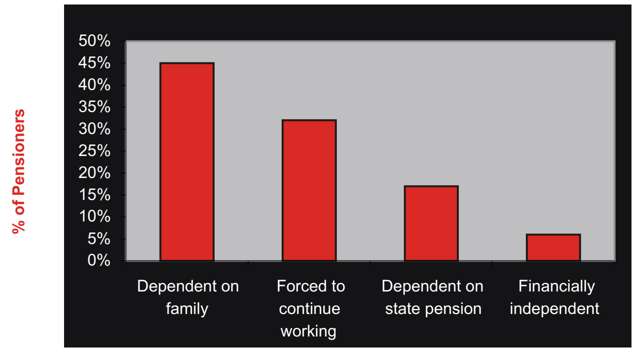
Planning for retirement is not a simple matter. For many people, their retirement savings amount to their single biggest investment. You must be aware of the key issues that could impact on your plan. Structuring your investments in the right way could make all the difference to your financial well-being at your retirement.

Retirement is when you stop working and start living from the hard-earned money that you have saved over the years! Unfortunately for many people, retirement is not what they think it is going to be. The reality is that many people cannot do the things that they planned to do because of financial constraints.

There are several reasons for this state of affairs. These include, amongst others, withdrawing and spending retirement savings when changing jobs, starting to save too late, poor investment decisions and increased healthcare costs at retirement. These factors all contribute to this bleak picture. Nowadays, many people choose to retire earlier and also live longer due to sophisticated medical treatment. Whilst we rejoice in the fact that improved healthcare allows many of us to live longer, we tend to forget that this has a financial implication. The improvement in medical technology could result in lifespans of 90 years+ becoming the rule, for some, rather than the exception. This means that someone retiring at 60 may live a further 30 years or more.

It is estimated that only 6% of the South African retiring workforce will retire financially independent, as illustrated in the next graph:

6% of South Africans can retire financially independent



Source: Financial Independence – published in 2001 by Absa's economic research department.

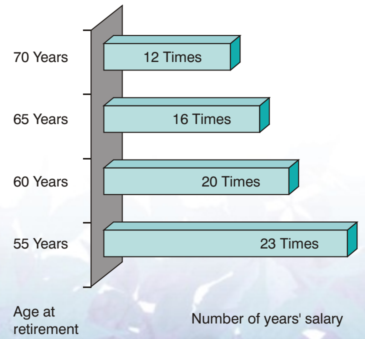
Retirement planning is all about making your money last as long as you live. Ensure that you start preparing for your retirement well in advance. Let's review the basics:

Can You Afford To Retire Now?

"WHEN" to retire is a critical decision we all need to make.

Normal retirement age for MGF members is 65 years although the rules of the MGF provide for members to retire as early as 50 years of age. Members may elect to retire between the ages of 50 and 65.

It is common knowledge that one can never have too much money! The following illustration shows the number of years' salary on average an investor will need to have saved for a care-free retirement, at different retirement ages and for a life expectancy of 85 years.



For example, should you decide to retire at the age of 65 and you need an income of about R40 000 per year, you can work it out as follows:

R40 000 x 16 = R 640 000

This means that you will need approximately R640 000 (after tax) saved to receive a pension of approximately R40 000 per year or R3 333 per month. This amount will vary depending on what type of annuity (pension) is chosen, as reflected in the Annuity Rates Table on page 22.

The problem facing people considering early retirement is that they don't understand the importance and impact of delaying their retirement date.

There is some good news, however, if you are not going to be in a strong enough financial position to retire today. The good news is that, by delaying retirement by as little as five years, you can make a significant difference.

Two factors work together to improve your situation when delaying retirement. Not only do the savings available to fund your retirement grow through additional contributions and additional investment returns, but by delaying your retirement you also reduce the time that you are likely to spend in retirement. A shorter time in retirement makes it possible to draw a higher monthly income from your savings. The joint impact of these factors is illustrated in the table below:

Impact of delaying retirement

Retirement age	Years on retirement	Pension accumulated	Expected inflation-protected monthly income
60	20	R500 000	R2 504
61	19	R561 800	R2 940
62	18	R630 800	R3 438
63	17	R707 800	R4 040
64	16	R793 700	R4 762
65	15	R889 500	R5 634

(Source: Allan Gray estimations)

GO GREEN TIP: "Buy Rechargeable Batteries - Even though it will take a good investment to buy these you will find yourself gaining it back in no time."

From the previous table it can be seen that, by delaying retirement for five years, you will be able to increase the income you should be able to draw from your savings for the remainder of your life from R2 504 to R5 634 per month. This is more than a two-fold increase in what your savings pool is able to deliver during retirement! When faced with the opportunity to retire early, you should bear in mind that retiring later is a much less risky option.

INFLATION

Before we look at the different pension options available to you when you retire from your fund, we need to address two very important investment concepts, namely inflation and investment risk.

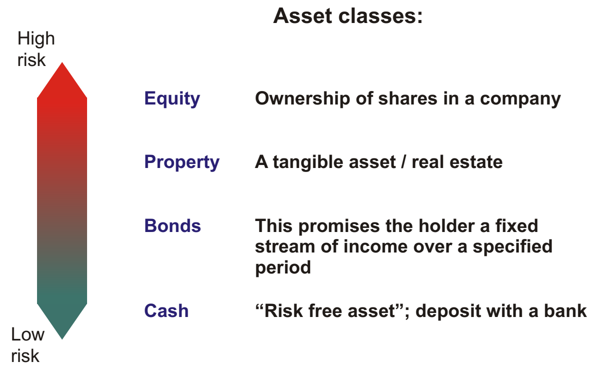
Inflation refers to the rate at which the general level of prices for goods and services increases, and consequently is what makes your money worth less and less. The value of your money decreases because you can buy less with that money than you could in the past. It means that it will cost more each year to maintain your standard of living.

To secure an income that will support your lifestyle, your money needs to grow. It is therefore imperative that the return you earn on your money is greater than the rate of inflation. This is what is called a real return on your investment; a return that beats the effects of inflation!

Should you leave your money under your bed, its value will decrease due to inflation. At the end of the year, you will be buying less with that money than you could at the beginning. If you put your money in a bank account it will grow as a result of it earning interest. However, savings in an ordinary bank account earn a relatively low rate of interest and, after a few years, it is likely that the money will be worth a lot less than when you first put it into the bank. Ordinary bank accounts are not considered good long-term investments as generally the interest that you will receive is less than inflation. How can you then grow your money?

INVESTMENT RISK

There are various ways of investing your money to make it grow, but it is very important that you understand what you are buying and what level of investment risk you take on before you invest. Investment risk refers to the possibility of receiving an investment return that is different from what you expected. This includes the possibility of losing some or all of your money.



Different investments have different levels of risk. The illustration above shows the different asset classes (i.e. specific category of investments) and the different level of investment risk associated with each asset class. Generally, higher risk means a greater opportunity for high returns and a higher potential for loss, and vice versa for low risk.

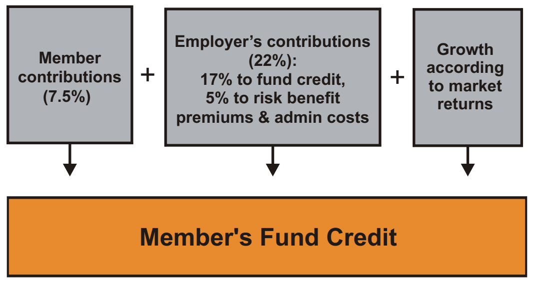
The level of investment risk that is acceptable to you depends, amongst other things, on ***your investment horizon***, in other words, the length of time for which you are considering making the investment. Generally, a short-term investment horizon means a lower risk tolerance. Though shares are a lot more volatile than a savings account, over the long-term they have proved to produce consistently higher returns than the interest that you will receive in a bank account.

Most retired people shy away from investments that will grow their money. They believe they need only to protect their money at this stage of life. However, investing a portion of your money for growth could be effective if you still have a long time horizon. By investing too conservatively, your investment may not keep pace with the rate of inflation.

No strategy will guard against all risks, but buying a mix of investments can help protect you against many downturns in the economy. Please consult your adviser about the level of risk that is acceptable for your circumstances.

YOUR OPTIONS AT RETIREMENT

As mentioned, the MGF is a defined contribution fund. It has no pensioners. This means that, at retirement, a member will normally receive the following:

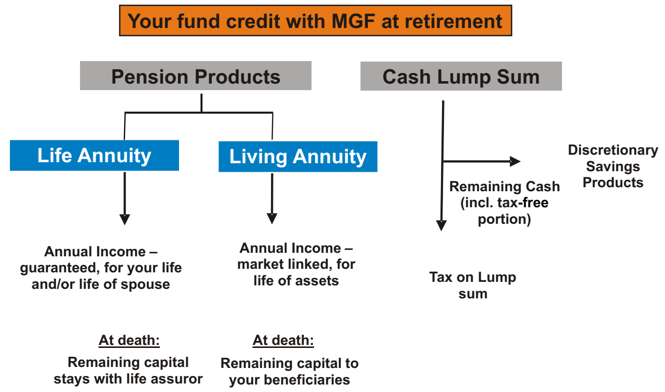


With the above-mentioned fund credit, the member can buy a pension product at retirement to provide him/her with a monthly income. Once a member has received a benefit due at retirement, he/she is no longer a member of the MGF and the connection with the Fund ceases.

A member may buy an annuity with the benefit payout. An annuity is an investment vehicle that provides you with a regular income or pension. Plan carefully on how to use this money.

DIFFERENT TYPES OF ANNUITIES

There are two basic choices of annuities, namely a Guaranteed **Life** Annuity, and a Market-linked **Living** Annuity.



LIFE ANNUITY

(Also known as the traditional, underwritten or guaranteed life annuity.)

When purchasing a guaranteed life annuity, you will receive regular pension payments until you die. Upon death, the remaining capital stays with the life insurance company, and will not be passed on to your beneficiaries. You will be taxed according to the tax tables (as if you earn a salary), on the full annual pension that you receive. There are different types of guaranteed annuities and special features may also be added to this product. However, this will typically affect the level of income that you receive. In other words the more frills, the less monthly pension

Special features:

You can structure the basic annuity to fit your requirements. Annuities differ in many ways. It is important to discuss your needs with an adviser, and ensure that you buy an annuity that suits your circumstances. Remember, once selected, you cannot exit or move to a different option! When deciding on the annuity that is right for you, take into account factors such as:

- Are you single or married? Does the payment continue to be paid until both partners die, and will the income reduce after the death of either partner?

GO GREEN TIP: "You can't recycle plastic bags, instead get yourself a reusable bag so that you won't have to worry about carrying your necessities."

- Your children and their ages. Do you need to guarantee the income for a pre-determined number or years? Should you die before the period, must it continue to pay out to your dependents for the guaranteed period? After the guaranteed period expires, any residual capital remains with the life assurance company.

- Life assurance policy. Do you want to attach a policy to your annuity so that a capital payment will be made to your beneficiaries at your death? Remember that this will reduce the amount that you will receive as income.

There are many reasons why annuity rates differ for each individual. Aspects that have an impact on the level of an annuity range from your age, gender, your health, mortality tables (indication of when, on average, people are expected to die) to the current interest rate. You should always shop around for the most suitable annuity and for the best annuity rate (pensions) offered by the different life insurance companies.

There are a few different Life Annuities:

Fixed Life Annuities:

With a fixed life annuity, the guaranteed monthly income that you will receive for the rest of your life is known upfront. This could be in the form of a ***level annuity***, where you will receive the same amount for the rest of your life until you die, i.e. when other pensioners receive their annual increases, yours will not increase. Though in a level annuity the level of income in year one typically is higher than most other annuities, this annuity offers no protection against inflation as the payments are fixed. If you live for a very long time, this could have a significant impact. With a ***guaranteed-escalating income annuity***, the level of income increases at a pre-determined, fixed amount or rate each year. For example, you can choose an increase of 5% or 7%. The higher the increase that you select, the lower the initial pension payments will be. A ***guaranteed inflation-linked income annuity*** provides you with an income which will increase annually in line with the inflation rate.

With Profit Annuities:

Here the level of income (pension) that you receive in year one depends on the amount of capital that you have to invest. The level at which your pension increases depends on the investment returns achieved in the fund. Typically, these increases arise by way of smoothed bonuses holding back a little when times are good (building up reserves) to give a little more than the fund actually earns when times are bad. Future growth is not guaranteed. However, once an increase is declared, this new level of annual income cannot decline. The greater the investment returns, the larger the annual pension increase. The intention is to provide increases that are in line with inflation at the time.

Benefits & risks of a Life Annuity:

As the future pension payments are known, you know what to expect and can plan accordingly. Living a long time is no risk, as the benefits are payable for your, and/or your spouse's life. You are not exposed to market volatility, therefore the amount of your pension payments will not drop. Inflation, though, could be a huge threat, should you buy the annuity when interest rates are very low (i.e. locking in your future payments at a low rate) or should you buy an annuity that escalates by a rate that is lower than inflation. Periods of higher future inflation will reduce the purchasing power or your annual pension significantly. Should you pass away soon after purchasing the life annuity, your beneficiaries will lose out as the remaining capital becomes the property of the product provider. Make sure that you need additional features before you add these to your annuity, as it increases the costs and therefore decreases the pension payments.

LIVING ANNUITY

A living annuity provides you with a regular income (pension), which is funded by the underlying growth on the capital in the living annuity. You will be taxed according to the tax tables (as if you earn a salary), on the full annual pension that you receive. With all living annuities you may select the level of income you want to draw and may change the level of income once a year on the policy anniversary date. The living annuity is a very flexible product as you are allowed to select an annual income of a minimum of 2.5% and a maximum of 17.5% of your capital. Should the rate of withdrawal plus the fees charged exceed the total growth of the underlying investments in the living annuity, the capital value of the annuity will decline. The growth on the underlying investments is not guaranteed, but is directly linked to the investment performance of the underlying assets of the living annuity. You and/or your adviser are in charge of selecting and changing the underlying investments at your discretion within the basket of options offered by the product provider. Typically, the investment options vary from low risk to full market risk. The risk lies with you to ensure that you have sufficient money on which to live until you and/or your partner die. Any capital remaining after your death is payable to your beneficiaries.

Benefits & risks of a Living Annuity:

The rate at which you withdraw your pension has a major impact on how long your living annuity will last. The risk is that you will out-live your living annuity. Retirees normally have a low tolerance for volatility in returns. Market risk is the biggest risk that you will face and high share exposure therefore is not suitable in many cases. However, you can select the withdrawal rate such that benefits last forever, as you have choice and flexibility in the

withdrawal rate and the underlying investments. You also enjoy protection against inflation, as you do not lock into an interest rate for the rest of your life (as is the case with a life annuity). You protect your capital when you die, as the remaining capital passes to your beneficiaries.

Main differences: Life & Living Annuity:

- Your beneficiaries can continue to receive the benefits due under your living annuity on your death whereas, in the case of the life annuity, payment of benefits ceases on your death or, if you so arrange it, the death of your spouse.

- A living annuity allows you to vary the level of income received annually to suit your particular circumstance whereas the annual income paid from a life annuity is fixed or escalates at a fixed rate every year.

- With a living annuity, your annual income as well as any capital your dependants may receive at your death depends on the growth (positive or negative) realised on the capital in your living annuity. The growth on your capital is not guaranteed.

- With a life annuity you receive a guaranteed income until death. **Therefore a Life Annuity guarantees the payment of a monthly pension for the rest of your life. However a Living Annuity is linked to the market and renders no guarantee.** The life insurer tailors the benefit of the annuity under the assumption that the average South African man dies around 79 while the average woman dies around 82. The life insurer takes the risk that you will not live much longer than this (called mortality risk). If you do live longer, you will benefit and the life insurer will lose.

- With a life annuity the benefits that you receive for the remainder of your life are determined by interest rates at the time of your retirement. If inflation increases significantly during the remainder of your life, your benefits will be severely eroded.

(Acknowledgement to Allan Gray (Pty) Ltd for the content of this article.)

GO GREEN TIP: "Change your light bulbs to flourescent or energy saving globes, this will reduce the cost of your electricity bills as well as saving energy."

MONTHLY LIFE ANNUITY RATES FOR R500 000 INVESTMENT

AGE	50	53	55	58	60	63	65
	Rc	Rc	Rc	Rc	Rc	Rc	Rc
LEVEL ANNUITY							
Male single	4251.98	4368.09	4458.82	4617.49	4739.11	4947.10	5107.47
Male married	3951.63	4003.60	4045.04	4119.36	4178.23	4283.25	4367.28
Male married + 10 yr	3930.60	3975.20	4010.23	4072.12	4120.58	4206.36	4274.11
Female single	4041.94	4114.98	4173.54	4279.76	4365.31	4521.12	4647.42
Female married	3930.87	3982.10	4023.81	4100.49	4163.03	4278.67	4373.96
Female married + 10 yr	3920.13	3967.08	4004.87	4073.34	4128.31	4227.99	4308.12
5% P.A. ESCALATION							
Male single	2654.27	2789.59	2892.23	3067.51	3199.84	3424.60	3596.51
Male married	2309.67	2390.02	2450.70	2554.21	2632.78	2767.77	2871.85
Male married + 10 yr	2299.95	2376.32	2433.40	2529.64	2601.84	2724.39	2817.41
Female single	2427.22	2526.92	2603.11	2735.21	2837.46	3017.23	3158.63
Female married	2315.82	2399.12	2462.56	2572.05	2656.45	2804.51	2920.97
Female married + 10 yr	2310.75	2391.69	2452.88	2557.46	2637.13	2774.75	2880.80
FULL INFLATION LINKED							
Male single	2006.62	2159.80	2273.80	2465.41	2608.38	2849.10	3031.52
Male married	1631.37	1734.97	1810.97	1937.15	2030.60	2187.60	2306.05
Male married + 10 yr	1625.95	1726.91	1800.44	1921.41	2010.11	2157.44	2267.00
Female single	1768.87	1890.23	1980.49	2133.00	2248.35	2446.89	2600.16
Female married	1660.97	1768.56	1847.95	1980.87	2080.51	2250.79	2381.54
Female married + 10 yr	1658.06	1764.05	1841.87	1971.22	2067.30	2229.42	2351.78
WITH PROFIT WITH 3,5% PRI							
Male single	2321.28	2471.00	2583.45	2773.97	2916.99	3158.86	3342.88
Male married	1947.50	2043.36	2114.68	2234.70	2324.72	2477.70	2594.37
Male married + 10 yr	1940.24	2032.91	2101.28	2215.19	2299.74	2441.78	2548.50
Female single	2080.30	2195.49	2282.30	2430.83	2544.43	2741.89	2895.55
Female married	1966.74	2066.63	2141.47	2268.66	2365.31	2532.53	2662.30
Female married + 10 yr	1962.84	2060.81	2133.80	2256.83	2349.40	2507.39	2627.80

NOTES:
The amounts are gross, that is before tax and other costs. Joined life pensions reduce to 75% at the death of the principal pensioner. In the case of a male the assumption is that the spouse is a female 3 years younger and vice versa.

The rates for "+10 yr" refer to annuity (pension) payment for a guaranteed period of 10 years irrespective of death before expiry of 10 years. The payments for the remaining period to 10 years will be paid to the beneficiaries or deceased estate. The small difference between the minimum 10 year payment and not, makes it worthwhile to buy the 10 year minimum guarantee.

PRI = Post Retirement Interest rate or Purchase Rate. The lower the purchase rate the lower the initial/starting pension but the higher the potential future pension increases.

These rates were supplied by one of the leading South African insurers, valid as at 1 February 2012. Before purchasing a Life Annuity one should obtain a few quotations.

LIVING ANNUITY RATES

The Association for Savings & Investment South Africa (ASISA) has produced a set of guidelines to improve the probability of pensioners and their advisers making better decisions when using investment-linked **Living** Annuities.

In terms of the legislation, a **Living** Annuity holder (annuitant/pensioner) may withdraw an annual income of between 2,5% and 17,5% of the residual capital each year. This percentage can be changed once a year. The annuitant accepts responsibility for the risk of the underlying investments. The underlying investments may range over all the available asset classes and may be changed throughout the course of the life of the **Living** Annuity. Annuitants may transfer a **Living** Annuity investment from one product provider to another and a **Living** Annuity may be converted to a conventional guaranteed Life Annuity administered by the current long term insurer or by another insurer. This is a "once-off' option that cannot be reversed.

The level of income (**drawdown rate**) you select is not guaranteed for the rest of your life. The level of income you select may be too high and may not be sustainable if:

- You live longer than expected with the result that the capital is depleted before your death; or
- The return on the capital (investment return) is lower than that required to provide a sustainable income for life.

ASISA issued a code on **Living** Annuities some time ago in an effort to guide the market. The code included indicative pension withdrawal rates that were based on the calculations used by long term insurance companies to structure guaranteed annuities, with an initial maximum withdrawal rate of 5,5% for men and 4,8% for women rising in later years to 6,2% for men and 5.4% for women. **But research papers presented at the convention of the Actuarial Society of South Africa suggests that it is unwise in most cases to withdraw more than five percent of the annual value of the residual invested capital if a Living Annuity pension is to be sustainable.**

This has led to the new "Standards on **Living** Annuities" being issued by ASISA. The standards aim at ensuring that ASISA members "act in a responsible manner by putting in place product standards that will help to mitigate the risk of **Living** Annuities being exhausted during the lifetime of the annuitant". ASISA's new "Standards for **Living** Annuities" has lower indicative drawdown rates as the main guiding principle for advice on investment-linked **Living** Annuities. Advice is based on how many years it is likely to take before your pension starts declining significantly. The following table, which shows the number of years before the income will start to reduce, with the net investment return across the horizontal axis and the annual income drawdown rate percentage along the vertical axis, can be used as a guide.

Years before your income will start to reduce

		Investment return per annum (before inflation & after all fees)				
		2,5%	**5,0%**	**7,5%**	**10,0%**	**12,5%**
Annual income rate selected at inception	**2,5%**	21	30	>50	>50	>50
	5,0%	11	14	19	33	>50
	7,5%	6	8	10	13	22
	10,0%	4	5	6	7	9
	12,5%	2	3	3	4	5
	15,0%	1	1	2	2	2
	17,5%	1	1	1	1	1

The table assumes that the drawdown percentage income selected will be adjusted over time to maintain roughly the same amount of real income after inflation (in this case using a rate of 6% p.a.). Once the number of years in the table has been reached, the income will start to diminish rapidly in subsequent years. Thus, for example, a person who elects a drawdown rate of 5% p.a. and earns an average return of 7,5% p.a. on the underlying investment, can expect to be able to maintain a real level of income (after inflation) for some 19 years but thereafter will have to accept a reduced real income level if the capital amount is not to be eroded. For a person who buys into the **Living** Annuity at, say, age 70, this will be a real problem if they live beyond age 89, so perhaps the drawdown level should be

GO GREEN TIP: "Consider how much energy it takes for produce from China or any other country to come here. If you have the option to buy local, do it."

reduced to around 4,5% initially to err on the side of caution. For a person buying into the annuity at age 60 a drawdown level of around 3,5% to 4% would probably be more realistic, since 2,5% would result in the income level being maintained for over 50 years but a drawdown of 5% would only support the income for an expected 19 years. It is always better to start off on the lowest possible drawdown level that one can afford, since this will allow for less chance of the capital being eroded as quickly, more growth and the likelihood of being able to afford higher drawdown levels later on. When using the table, the full financial situation should be taken into account, with all sources of income. It is an indicative guideline to assist in making informed decisions about a **Living** Annuity only.
(Source: ASISA: www.org.za)

HOUSING LOANS

1. Standard Bank Pension Backed Lending & FNB Smart Housing

The Standard Bank pension backed home loan scheme was introduced during July 2007 at a discounted interest rate of prime minus 2,5%. It was reported at the 2009 Annual Meeting that due to the credit crisis the cost to source money increased beyond expectation which lead to a decrease of the discounted rate to prime minus 1,25%. This rate was fixed until 30 June 2011. At the 2010 Annual Meeting it was cautioned that *"due to the market conditions including the declining trend of interest rates a further adjustment from 1 July 2011 looks inevitable."*

During May 2011 Standard Bank approached the Fund to adjust the rate to the prime lending rate with no discount to prime. Despite serious efforts by the Fund to get a better deal Standard Bank persisted with the prime lending rate. The Fund had no choice but to accept this with effect from 1 August 2011 as members' loan applications were piling up and no loans could be granted unless the revised rate was accepted by the Fund. When it became clear that Standard Bank would make no concession, the Fund started engaging another player in the field.

First National Bank (FNB) was subsequently engaged at a rate of prime minus 1,25% and a monthly administration fee of R5,70 and no application fee.

It has been a long and sometimes difficult process to implement the Standard Bank pension backed lending scheme because of the delay experienced at some municipalities to get the agreement between the bank and the municipality signed. The bank cannot implement the scheme without the agreement of the municipality to deduct the monthly installments from salaries. To date there are still a few municipalities which have not signed the agreements with Standard Bank. These municipalities deprive their employees from this benefit. FNB is currently busy with an extensive exercise to get their agreement signed by the municipalities. Hopefully these agreements will soon be signed by all municipalities.

The Standard Bank scheme has not been replaced by the FNB scheme. The two schemes will exist alongside each other and members can choose which to use but may not have loans with both banks in terms of these schemes. If a member takes up a loan with FNB Smart Housing, the Standard Bank loan must be transferred to FNB and vice versa.

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 R550million. As members terminate membership or transfer their direct loans to Standard Bank and in future also to FNB, the balance is constantly decreasing. The balance as at 31 December 2011 decreased by about 66% to R187 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 has been reduced from 15% per annum. It is now a floating rate linked to the repo rate as determined by the South African Reserve Bank plus 5,5%. With the current repo rate at 5,5% the interest rate on direct housing loans funded from fund credits is therefore 11% per annum since 1 March 2011.

The number of arrear loan accounts in respect of direct home loans has increased of late and is approaching the upper acceptable limit of 5%. Accumulated arrears have a negative tax implication when a member exits from the Fund. Members are urged to keep their loan accounts updated and not fall in arrears.

ADMINISTRATION PLATFORM UPGRADE

It was extensively explained in last year's journal about the new upgrade of the administration system on which Coris Capital embarked. This was followed up with a news flash to advise the members about progress with the transfer of data to the new system.

This exercise was completed successfully and with the least possible disruption for members with unavoidable down time before firing the new engines. The whole process was closely monitored and smoothly managed.

The new electronic format of the benefit statement on the website may have a strange and difficult feeling at first. However once used to it, it becomes familiar again. Anyone having difficulties in this regard is requested to download the user manual from the website. If difficulties are still experienced members can contact Christine Seierlein at ***christine.seierlein@coriscapital.com*** or on (012) 683-3823 for one-on-one assistance. If need be, the feasibility of local workshops in this regard will be considered.

RULE AMENDMENTS

The following is a summary of rule amendments approved by the Registrar of Pension Funds during the 2010/11 financial year:

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

Number	Section	Description
MGF08	32(4)	To delete the provision about members who retire prior to 1 August 1996 as there are no such members anymore.
	37	To provide for modern technology communication such as email.

GO GREEN TIP: "Donate or recycle used items and clothes rather than throwing them away and creating more waste."

IT IS WORTHWHILE STARTING TO SAVE EARLY - A LITTLE CAN GO A LONG WAY

You can substantially improve your financial situation if you start saving sooner rather than later and you will be a step closer to being financially independent when you retire. A little really can go a long way.

It is interesting how most of us are reluctant or unable to make the sacrifices needed to save more than 10% of our salaries towards retirement, yet we expect the amount we save to be able to pay us 75% of our final salaries often for as many years as our saving years. Sadly there are no genies waiting in lamps in this lifetime; the only way we can hope to achieve this replacement ratio is through long-term commitment, decent returns and sensible investor behaviour.

Time and commitment

If you start early and save consistently over long periods, less of your total investment will be from your contributions and more from growth this is why it doesn't usually pay to leave your money under your mattress. Based on very long-term equity returns in South Africa, with 30 years of saving, more than two-thirds of your total investment would have come from returns and compound growth, as shown in **Graph 1**. As the time allowed for compounding increases, so the amount of growth, relative to the contributions, increases exponentially.

Warren Buffet refers to compound interest as the 'eighth wonder of the world'. The power of compounding is about the power of making your money work for you: earning returns today on the returns you earned yesterday. It also holds the key to financial security for most of us as we live longer and need to save more for our retirement.

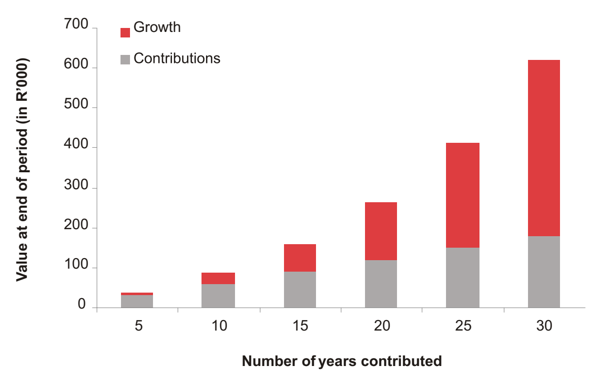
Your first 10 years of contributions are more important than your last 10 years as the money has that much more time to grow. **Graph 2** shows an interesting comparison, again using long-term real SA equity returns. Investor 1 contributed a consistent amount of R1 000 per month for 10 years (i.e. R120 000) and then stopped contributing, but remained invested for another 30 years. Investor 2 delayed starting for 10 years, and then contributed R1 000 a month for 30 years (R360 000). At the end of the 40-year period the two investors were on a par at the same return. This just goes to show that starting to save just a small amount is really worth the sacrifice in the long term.

Factor in inflation into your return expectations

Time is also an enemy because it erodes the value of your money in the form of inflation over time you are able to buy less with the same amount of rands. Therefore, the returns on your investment should be at least enough to compensate you for the length of time that you invest so that the value of your money is maintained. If the rate of inflation is 6% per year, for example, your investments have to grow by more than 6% each year before you achieve any real return.

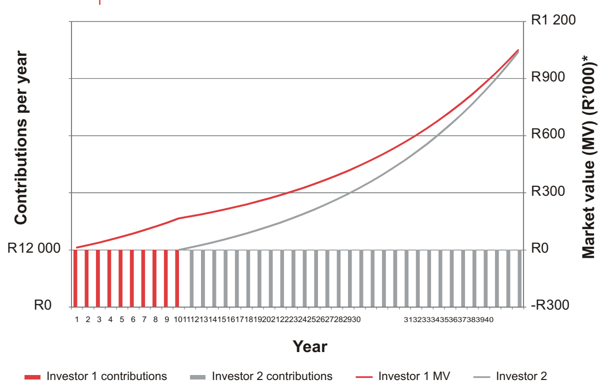
Asset classes with the potential for greater returns come at the cost of increased risk of capital loss, as well as increased

Graph 1 | Investing R500 per month into equities* over time



* Average real equity return of 7.3% based on African Equities from 1900 - 2005
Source: Triumph of the Optimist

Graph 2 | The first 10 years are more important than the last 10



Source: Allan Gray research

short-term volatility. However, this volatility does smooth out over time. Depending on your personal circumstances, if you have a long-term time horizon you may be better able to tolerate volatility and thus benefit from equity exposure over time.

Sensible investor behaviour

We have often commented on our investor returns research, which shows that the average investor earns much less than the funds they are invested into. The main reason for this is that, on average, investors make poor decisions about when to buy, sell and switch between funds. Investment performance does not come in a straight line. Investors who are taken by surprise by a period of short-term underperformance and sell their investments at the wrong time often miss out on a substantial part of the return in our unit trusts. Changes in your personal circumstances and capacity to take risk should encourage you to rethink your investment strategy, not short-term market fluctuations.

Commentary by Jeanette Marais, Director of Distribution and Client Services, Allan Gray

Allan Gray Propriety Limited is an authorised financial services provider.

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

GO GREEN TIP: "Avoid creating trash when ordering fast foods by using as little as possible plastic utensils, straws etc. and buy products with the least amount of packaging."

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 2012**.

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. A Life Annuity guarantees the payment of a monthly pension for the rest of your life.

True ☐ **or False** ☐

2. A Living Annuity is linked to the market and renders no guarantee.

True ☐ **or False** ☐

✔ **Tick the correct block**

RETIREMENT REFORM

National Treasury indicated that a discussion document would have been released in September 2011 (which is still being awaited) paving the way for government to put legislation in place which will make it harder for members to take their pension benefits in cash when they change jobs. This forms part of government's plan to introduce a compulsory pension system which will force people to save for retirement and reduce their dependence on the state when they retire. Olana Makhubela, National Treasury's chief director for financial investments and savings, said that the legislation could be in place before the end of June 2012, after government has engaged in extensive public consultation.

The second phase of rolling out the compulsory pension system will involve the establishment of a national social security fund, to which every working South African will be forced to contribute. National Treasury is formulating a discussion paper dealing with all the technicalities of setting up the fund. The time-frame for establishment of the fund has yet to be determined. The MGF will advise members in advance in the event of negative developments in this regard.

CONTRACT WORKERS

In a recent ruling of the Tax Court it was confirmed that the withdrawal benefit of a member who belongs to a public sector fund and who resigns in order to be appointed as independent contractor by his/her previous employer, will be subject to tax at such member's marginal rate in respect of two-thirds of such withdrawal benefit.

This will mean that in the member's tax assessment, two thirds of the amount he/she received from the Fund will be included as gross income. Also, the tax benefit in terms of the Formula C pre-1998 vested rights clause will be forfeited, thus there will be no allowance for exclusion pertaining to such member's membership of a public sector fund prior to 1 March 1998.

Direct all administrative enquiries to the Fund Administrator:

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