



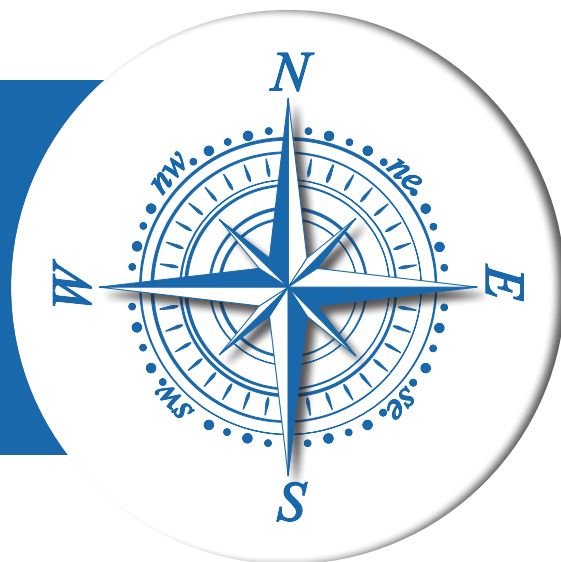
**MGF**  
Wealth  
creator of  
choice

## **MGF Annual Report 2020**

### Municipal Gratuuity Fund

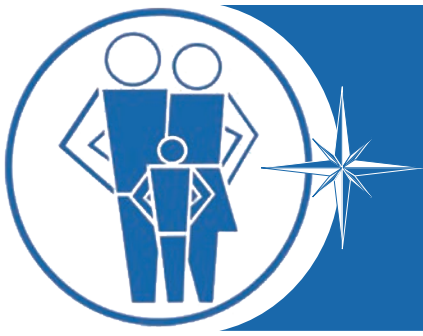






# CONTENTS .

1. Message by the Chairperson	04
2. Meet your Board members	06
3. Review of the year's activities	09
3.1. General Overview	09
3.2. Investment Strategy and Portfolio Returns	12
3.3. Investment Strategy and Portfolio Returns	14
3.4. Financial Statements	16
3.5. Rule Amendments	17
3.6. Housing Loans	17
3.7. No to marketing and Yes to communication	18
4. Investments	20
4.1. Investment policy statement (ips) and the life stage model (lsm)	20
4.2. Life stage portfolios	20
4.3. Member investment choices	26
5. Important information	27
5.1. What happens to your contributions	27
5.2. The status of a nomination form	27
5.3. Nomination of beneficiaries	30
5.4. Member administration	31
5.5. Tax on pension benefits	31
5.6. Complaints procedure	31
6. Industry update	32
6.1. Rationalisation of municipal retirement funds	32
6.2. Retirement reform update	32
6.3. Regulation 28 changes	33
7. A final word	34
8. Contact MGF	34



## 1. MESSAGE BY THE **CHAIRPERSON**

For the first time ever the Board cancelled its Annual Meeting due to the Covid-19 pandemic. The 26th Annual Meeting was to be held on 27 November 2020.

2020 was by no means an easy year for South Africans or for that matter people all over the world. My heartfelt condolences to everybody who lost loved ones and colleagues due to the Covid-19 pandemic. It has been a challenging time for all of us in more ways than one. It seems like 2021 is going to be much the same as 2020 - in its very unusual way.

When the President announced a three week hard lockdown in March 2020, nobody in South Africa thought it would take us right into 2021, with more eased lockdowns. Many businesses did not survive the lockdowns and thousands of people lost their jobs. We are all very grateful towards our employers for keeping us in service and still paying our salaries on a monthly basis.

Surprisingly enough the 2019/20 financial year was after all not such a bad year for the Fund and its members. February 2020 came out in negative returns and then March 2020 was a disastrous month recording the largest negative return in the history of the Fund. The very next month, April 2020, recorded the largest positive return in the history of the Fund and from there on positive returns were achieved for the rest of the financial year ending in positive returns for all portfolios.

The Board works tirelessly to protect your benefits, improve control and operations and save costs on your behalf. This is especially important in these turbulent economic times.

Members are encouraged to remain fully invested, to save as much as possible for retirement and to avoid at all costs the temptation to use their hard-earned retirement savings for anything other than for that all-important purpose of providing for a comfortable future. Members close to retirement are cautioned to obtain advice from an accredited financial advisor and to ensure that the investment of their Fund Credit in the Fund between now and their retirement is invested in line with their future financial needs.

In conclusion, sincere appreciation is expressed to the following persons for their contribution to the business of the Fund during the past year;

- to all the staff of Sanlam Employee Benefits (SEB) for the member administration services rendered with great commitment and exceptional retirement fund knowledge, with special mention of Mduduzi Mkhwanazi, the new Client Relations Manager who took over the position from Christine Seierlein when she left the services of SEB and Keith Anthony the new Fund Financial Manager with SEB who took over the position from Dola Nortje, who became synonymous with the Fund,

- to David Galloway, the Fund's investment advisor for giving sound advice and applying his strategic asset allocation skills during difficult market conditions the past year in order to maintain the long term return objectives of the IPS, as well as a special thank you to Corita van Wyk for her strong administrative support with the investment reporting matters,
- to Ronel van Graan and Schalk Lubbe with their audit team of Deloitte & Touche for rendering a thorough independent auditing function,
- to Gerda Grobler the independent actuary and her very able assistant the meticulous Melanie Swart for the valuable advice on actuarial matters and a comprehensive statutory actuarial valuation done,
- to the six staff members of the Fund for their dedicated commitment to the Fund and its members, with a special word of thanks to Mr. Piet Ntuli who decided to retire on 28 February 2021 at the young age of 71. Oom Piet, as he is affectionately known, was in many ways the interface between the Fund and members for many years and well respected by all the employers. He is wished a well-deserved rest and a healthy retirement together with his wife,
- to every Board member, your valuable inputs, debate and differences of opinion, but at the end loyal support to the Fund during yet another challenging year with virtual Board meetings is sincerely appreciated,
- and then to all the delegates who represent our members and employers at the municipalities your hard work and dedication to our members in these trying times are greatly appreciated.

On behalf of the Board I thank our outgoing Chief Executive Officer and statutory Principal Officer Mr. Dewald Jacobsohn for his loyal service over the past 21 years. You have made a undeniable contribution to the growth and prosperity of the Fund over the years and your leadership and guidance will be missed.

I welcome Mrs. Christine Seierlein who has stepped into the position from 1 January 2021. Christine has an impeccable reputation for her unblemished integrity - there is no doubt that she will add value to the management of the Fund.

*May you and your families be blessed in the year ahead, which remains full of uncertainty with the Covid-19 pandemic remaining within our midst.*

**P. J. VENTER**  
**CHAIRPERSON**







## Winds of Change

Mr. Dewald Jacobsohn relinquished his position as Chief Executive Officer and statutory Principal Officer of the Fund on 31 December 2020.

Dewald faithfully served the MGF for almost 22 years and was instrumental in growing the Fund to one of the larger municipal funds in the country. He is a pioneer and a visionary and we place a tribute to this extraordinary man's career below, as told by the man himself.

## A career of service

Born on the Ides of March 1951. Grew up in a house where respect for others and care for and service to others were paramount principles. Dad was a minister. The serving motive influenced my choice of career in local government having a strong ethos of being in the service of the community. It appealed to my desire to serve others.

Career in local government started in 1971 serving among others in Sandton, Alberton, Boksburg and Sedibeng municipalities until June 1999. Completed tertiary qualifications of BA (univ of Pretoria), B Proc (Unisa) and M Com (UJ) through part time studies while working full time. Served on trade union (IMATU) branch management.

The MGF was established as a defined contribution fund on 1 January 1994 and was in the interim governed by an appointed board of trustees consisting of trustees from the two defined benefit funds from which it originated.

The first election of Board members was held in June 1996. I got involved with the MGF when elected as member representative to the Board at this election.

During 1998/99 the Board decided to sever ties with the two originating funds and to establish an own identity. This was implemented from 1 July 1999 when I was appointed as first CEO and PO of the MGF.

It was quite challenging because apart from the member system there was no supporting infrastructure. Staff had to be appointed and an own MGF office had to be opened and operated. These challenges turned out to be very rewarding because it rendered a lot of satisfaction to see the MGF developed into what it is today. One of the most rewarding was the design and introduction of the life stage portfolio and daily unitization of assets. Extensive pioneering work was done because it was still a fairly new concept back in those days.

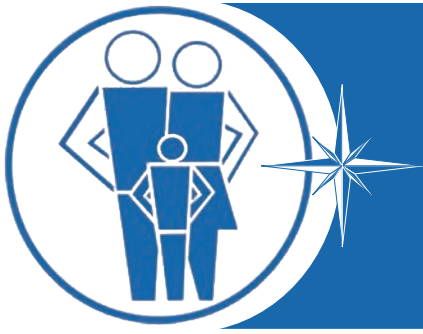
One of the core values adopted by the MGF is transparent communication with members, it was therefore a rewarding achievement when the coveted communication award by the Institute of Retirement Funds was made to the MGF.

I developed a sincere passion for the retirement quest and when becoming aware of the retirement under provision in the country in general, it became a personal goal to enhance the retirement provision for the members of the MGF. The privilege to serve the membership of the MGF for almost 22 years rendered tremendous satisfaction and added meaning to my life. It was a very fulfilling career and I trust that I added some value to the MGF as institution and also to individual members. I will sincerely miss this part of my life but wish to thank everyone of my MGF family who played a roll therein.

Any success that I may have had in my career is attributed to my family and dear wife Sonnette, who always supported me and above all my power source remains my steadfast belief in my Creator, God Almighty.



MR. DEWALD JACOBSON



*"The Board of Trustees is typically the governing body of an organization and seeks to ensure the best interest of stakeholders in all types of management decisions."*



## WELCOME TO THE FUND'S NEW CHIEF EXECUTIVE AND PRINCIPAL OFFICER

After a rigorous recruitment process Mrs. Christine Seierlein was appointed as Chief Executive Officer and statutory Principal Officer, effective **1 January 2021**. Christine is well known among many members and hardly needs any introduction. She has a wealth of knowledge regarding the retirement industry which she accumulated over a period of 35 years since she started her career in this industry in 1985. She has specific intimate knowledge of the Fund's operations since she became involved with the Fund's administration 18 years ago in 2002 in her capacity as Client Relations Manager for Sanlam Employee Benefits entrusted with the Fund's administration.

## 2. MEET YOUR BOARD MEMBERS

The ultimate responsibility for the governance of the Fund resides with the Management Committee which is in the retirement industry referred to as the Board of Fund (board of trustees). The Board comprises of twelve members of which seven are member representatives, two employer representatives and three independent members. There is also an Executive Committee consisting of four members. The Chairperson, the Vice-chairperson and two other Board members constitute the Executive Committee. The Board has eight ordinary meetings per year and the Executive Committee also meets eight times between the meetings of the Board. Therefore sufficient meetings are held to avoid undue delays of urgent matters.

It is with sadness that we report the loss of our dear Vice-chairperson, Mr. Joe Modiga on 6 October 2020 due to cancer, which he endured bravely. He will be remembered as a Board member always having the interest of members at heart and consistently friendly and good humored. May he rest in peace.

Congratulations are in order to Mr. Roja Ramare, who was appointed by the Board as the new Vice-Chairperson.

*The Board of the Fund consists of 12 Board member positions which are currently filled as follows:*

Mr. Piet Venter	Chairperson	Employee
Mr. Roja Ramare	Vice-chairperson	Employee
Mr. Jannie Venter	Exco member	Independent
Mr. Johan Grobbelaar	Exco member	Independent
Mr. Eddie Alberts		Independent
Mr. Philip du Buson		Employee
Ms. Musiwa Netshimbupfe		Employee
Mr. Lifa Majola		Employee
Mr. Jabu Mahlangu		Employee
Mr. Sphiwe Khumalo		Employee
ClIr. Aaron Ngubeni		Employer
ClIr. Nkhensani Ndaba		Employer



**The twelve Board members are introduced below.**

**PIET VENTER** (60) is the Chairperson. He is a specialist human resources manager in the employment of the City of Johannesburg. He is a member representative and became a board member during June 1996 sharing almost 23 years experience as a board member of which the last six years as chairperson.



**ROJA RAMARE** (52) has almost eleven years experience on the Board serving since May 2010. Roja is a member representative in the employment of Tshwane Metropolitan Municipality. He adds business skills to the Board through his work experience at the Tshwane Municipal Fresh Produce Market.



**JANNIE VENTER** (68) is also a member of the Executive Committee. He initially served on the Board as a member representative. He was appointed as an independent Board member after his retirement. Jannie has been serving more than twenty years as a board member since September 1999. He has vast experience in community and financial matters, serving his entire 30 year career in the financial department of the Polokwane Municipality of which the last ten years as chief financial officer.



**JOHAN GROBBELAAR** (69) has 16 years' experience on the Board and is also a member of the Executive Committee. Previously he was a member representative until his retirement where-after he was appointed as an independent Board member. Johan has extensive experience in financial matters from his employment in the financial departments at various municipalities, of which the last fifteen years at Merafong Municipality. During his tenure as municipal employee he was actively involved in other member related matters such as serving on various committees of the South African Local Government Bargaining Council and also Keyhealth. He is currently still serving on the audit committee of Keyhealth.

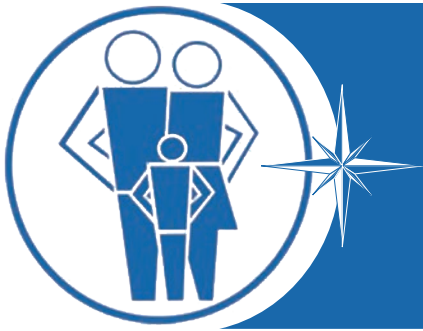


**EDDIE ALBERTS** (61) is an independent board member since 1999. Before that, from October 1996 he served as an employer representative by virtue of his position as councillor of Bela Bela Municipality. Apart from the 23 years experience on the Board, Eddie has extensive experience and knowledge about local government and community affairs. He is a professional accountant and financial director as well as co-owner of a business enterprise.



**AARON NGUBENI** (53) joined the Board as an employer representative during November 2016. He serves as councillor for the Albert Luthuli Municipality as well as for the Gert Sibande District Municipality. Aaron adds an employer perspective to the Board and his open minded approach to matters assists in reaching balanced Board resolutions on member and other matters





*"Trustees are responsible for ensuring that the Fund is run properly and that members' benefits are secure."*



**NKHENSANI NDABA** (47) joined the Board as an employer representative during April 2018. She is a councillor at Greater Giyane Municipality. She is serving in the Executive Mayoral Committee entrusted with the Corporate and Shared Services portfolio. As such she is familiar with human resources matters and employee benefits including pension benefits. Although Nkhensani is currently a full time councillor she is still in love with her first calling of teaching, being a qualified professional teacher.



**JABU MAHLANGU** (49) is currently completing a Public Administration Degree with Mancosa. He completed an Executive Leadership Program with University of Pretoria, and a HRM Program with UNISA. His current position is Senior Customer Care Officer dealing with complaints management, Batho Pele coordinations. He joined Elias Motsoaledi Local Municipality in 1st July 2011 after having served as the Cllr in the same Municipality for two terms from 2000 to 2011 May.



**SPHIWE KHUMALO** (50) has 23 years of experience in administration for local municipalities as well as a background in NGO work. He boasts 6 qualifications in various disciplines and started his career with a B.Admin degree at what is now known as Govan Mbeki City Municipality. He later completed his B.Admin Honours degree at the University of Stellenbosch. He then went on to complete various certificates such as labour law, municipal governance and municipal development. Sphiwe also serves as chairperson for various institutions such as SAMWU and the Student Association of the Seventh-Day Adventist Association (SDASSO). With such diverse knowledge in different fields, we welcome Sphiwe's contribution to the Board.



**PHILIP DU BUISON** (62) has 44 years of experience in the finance industry, starting at Volkskas Bank in 1977, after which he worked as a senior accountant at the East Rand Municipality Board. He then went on to serve as Town treasurer for the city of Kwa-Thema, after which he was appointed as Assistant Director of Finance for the Springs City Council. Since 2004, Philip has been the Manager for planning and research in the financial sector for the City of Ekurhuleni. Philip is a keen mountain bike cyclist and a spinning instructor. With so many years of experience in finance, Philip is a great addition to the Board.



**MUSIWA NETSHIMBUPFE** (44) holds a B.Admin Honours Degree in Human Resources Management from the University of Venda as well as a Postgraduate qualification in Executive Leadership Municipal Development from the University of Pretoria. She began her career in Human Resources at the Craigavon Civic Center in Lurgan (Northern Ireland) 2001. When she came back from abroad she joined Mutale Local Municipality as Personnel Administrator heading the Human Resources Unit (2003-2007) before joining Blouberg Local Municipality in Senwabaranwa, Limpopo. She has more than 15 years Human Resources experience in the South African Local Government Sector. She is a President of IMPSA (Institute of Municipal People Practitioners in Southern Africa) and also a member of Limpopo HR Working Group. She has a strict work ethic with emphasis on integrity, sense of responsibility, quality, discipline and teamwork.



**LIFA MAJOLA** (39) is the youngest Board member and holds an LLB Degree from the University of Kwa-Zulu Natal. He was admitted to the High Court RSA as attorney in 2009. He is currently the Senior Specialist: Governance & Compliance (Real Estate Department), City of Ekurhuleni. He is responsible for providing the HOD: Real Estate Department with legal advice and to communicate and provide instructions to City's Panel Attorneys. He has extensive experience in conducting legal research and drafting contracts and SLA. His knowledge of the legal environment makes Mr Majola an excellent addition to the Board.

The composition of the Board makes for a diverse mix of skills, experience and expertise. It covers representation from all four provinces served by the Fund. There is a high retention of board members with a combined total of 120 years of service, translating to an average of ten years per board member. This enhances stability in the management of the Fund and assists greatly in setting and enforcing long term investment goals which is of paramount importance for successful retirement planning.





### 3. REVIEW OF THE YEAR'S **ACTIVITIES**

#### 3.1 General overview

The 2019/20 financial year will go down in history as the worst year for the global economy since WWII. While the first half of the year was characterized by global recession fears, geopolitical uncertainty from a potential hard-Brexit and an intensification of the US-China trade war, accommodative monetary gained traction and the prospects of a trade truce between the US and China increased with the signing of a "phase one" trade deal, valued at some USD200bn over the coming two years. The US Federal Reserve cut interest rates by a cumulative 75 basis points in order to prevent a possible recession. The European Central Bank for its part cut interest rates to zero percent and expanded its quantitative easing (QE) or bond purchase programme, while the People's Bank of China reduced its required reserve ratio by a cumulative 100 basis points. Japan also announced a fiscal stimulus programme intended to partially offset the drag on growth from its October 2019 VAT rate increase of 25% from 8% to 10%, and to repair typhoon damage and mitigate the risk of a hangover from the postponed Tokyo Olympics. Closer to home, the government announced a R500bn stimulus package, of which R200bn was by means of a loan guarantee scheme.

As recession risks abated towards the end of the year with improvements seen in leading economic indicators across a broad front, Covid-19 struck, threatening to drive the global economy into a prolonged recession, similar to that of the 1929 Great Depression.

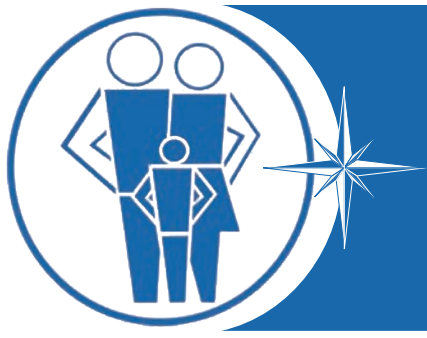
The slump in economic activity that followed the Covid-19 induced hard lockdowns and restrictions on the movement of people, exceeded the lows seen during the 2008/9 Global Financial Crisis, making this the worst crisis since WWII.

The first quarter of 2020 started off with a free-fall in risk assets as the depth and speed of the global economic meltdown became more visible, with the services sectors hit the hardest. The MSCI World Equity Index collapsed by 21.1% (in US\$) over the quarter, developed market listed property by -28.4% and global bonds a more subdued -0.3%. Similarly, the All Share Index fell some -38.5% in US\$, listed property a staggering -59.4% and domestic bonds some -28.5%. The sharp pullback in domestic bonds followed Moody's downward revision of the country's sovereign debt rating to sub-investment grade, or junk. In response to the Covid-19 pandemic, the US announced a US\$ 2.2 trillion fiscal stimulus package coupled with unlimited QE and a 150 basis point cut in the repo rate, the European Union a Euro 750 billion package alongside a further expansion in its QE programme, while Japan announced a fiscal stimulus package totaling some 10% of Gross Domestic Product (GDP).

China also expanded its stimulus programme and cut the required reserve ratio by an additional 100 basis points. On the domestic front, the South African Reserve Bank (SARB) cut the repo rate and embarked on a bond purchase programme that it stressed was not aimed at influencing the price of bonds, but rather to provide liquidity to the bond market.

Since the coronavirus originated in China late in 2019, the country was also the first of the major economies to see a rebound in economic activity in March 2020, as its national lockdown restrictions were eased. Chinese Q2 GDP growth recovered from a -6.8% year on year contraction in the first quarter to some +3.2% year on year in the second quarter, helping to buoy sentiment across risk assets. The rest of the world was to take longer, with most economies experiencing an improvement in economic conditions only in the third quarter of 2020. SA was no different, with growth recovering from -17.5% year on year in Q1 to -6.1% in Q2, or measured differently, from -51% quarter on quarter seasonally adjusted and annualized quarter on quarter seasonally adjusted annualised (qqsa) to +66.1% qqsa. But, since markets are forward looking, the second quarter of 2020 was set to end the Fund's financial year on a better note. Signs of a V-shaped economic recovery rather than a protracted L-shaped recovery, and ongoing monetary and fiscal stimulus measures offset downward revisions by the International Monetary Fund (IMF) to global growth, reports of a second wave of infections and warnings from the World Economic Forum of the lasting effects brought on by Covid-19. Even the IMF's warning of a disconnect between the equity market and the real economy was shrugged off by investors.

Given the improvement in sentiment, risk assets soared in the second quarter of 2020, with the MSCI World Index rallying some 16.1% in rands and the All Share Index some 23.2%. For the full year, however, the All Share Index returned some -3.2% in rands, listed property -40.0% and domestic bonds a subdued 2.9%. In contrast, foreign equities delivered solid rand returns with the MSCI World Equity Index returning some 26.7% and emerging market equities some 19.1%, courtesy of an 18.8% depreciation in the rand/US\$ exchange rate.



# Wealth creator of choice

## Looking ahead

### The Global economy

Regulatory approval of Covid-19 vaccines and the start of nationwide vaccinations has boosted the reflation or re-opening trade, with equity markets recently touching all-time-highs. The World Bank in its January 2021 Global Economic Prospects report forecasts a gradual global economic recovery of some 4% in 2021, up from -4.3% in 2020. In contrast, the IMF estimates growth of 5.5% for 2021, up from -3.5% in 2020, highlighting the high degree of uncertainty in the outlook and the degree of forecast risk. For 2022, the World Bank forecasts growth of 3.8%, whereas the IMF is more upbeat at 4.2%. The slowdown in growth reflects the pandemic's lasting damage to potential growth, viz. the level of output the global economy can sustain at full employment and capacity utilization. In particular, the impact of the pandemic on investment and human capital is expected to erode growth prospects in emerging market and developing economies (EMDEs) and set back key development goals. The global recovery, which has been dampened in the near term by a resurgence of COVID-19 cases, is expected to strengthen over the forecast horizon as confidence, consumption, and trade gradually improve, supported by ongoing vaccinations. The risk to the more bullish outlook is the efficacy of certain vaccines against new variants of the virus. Already, the AstraZeneca vaccine has been shown to be largely ineffective against the South African strain.

While there is general agreement about the outlook for China, which is expected to grow by around 8% this year and 5.6% in 2022, there is a greater divergence in views on the US outlook. The IMF is the most upbeat, expecting the US to grow some 5.1% this year and 2.5% in 2022, up from some -3.4% last year. In contrast, the World Bank estimates growth of 3.5% this year and 3.3% in 2022, up from -3.6% in 2020. This reinforces the Fund's base case view of a global economic recovery, underpinned by higher commodity prices and a counter-cyclical or weaker USD.

Since the reflation trade remains the Fund's base case view, value stocks are expected to outperform growth stocks, inflation-linked bonds to outperform their nominal counterparts, and Japanese and European stocks to outperform their US counterparts due to greater concentration of cyclical and commodity stocks in European and Japanese indices. The sector rotation out of growth into value stocks was evident in the fourth quarter of 2020, with "value" returning 15.9% in US dollars and "growth" some 12.6%. Given the fast tracking of the Fourth Industrial Revolution as a result of Covid-19, the Fund remains cautiously optimistic on technology stocks, notwithstanding stretched valuations and the potential for regulatory interventions.

Trump's executive order banning US investors from investing in Chinese companies with supposed links to the Chinese military, is admittedly a headwind for the technology sector and US-Chinese relations.

With 11 January 2021 as the effective date of the ban and November the cut-off date for compliance, there have been a number of delistings. The New York Stock Exchange (NYSE) has for example delisted China Telecom, China Mobile and China Unicom, with more expected to follow. Expectations that Joe Biden will reverse some of these restrictions on Chinese companies any time soon appears unlikely, given the bipartisanship in Congress over China.

Valuations do, however, pose the most material risk to equities in the year ahead. The MSCI World Index is trading on a forward price-to-earnings ratio of 25.5X, well ahead of the 16X mean. Similarly, emerging market equities are trading on a forward multiple of 20X earnings, also well ahead of the 11.9X mean. If the base case view materializes and inflation trends higher, a steepening in yield curves and rising bond yields will put downward pressure on equity multiples, risking a correction in prices. It must be stressed that although multiples are extremely high, relative to bonds the equity risk premium still favours an overweight position in equities.

Since upward revisions to earnings are expected in the months ahead given pent-up demand and further fiscal stimulus measures, the risk of an asset bubble will decrease, supporting an overweight position in both developed and emerging market equities.

### The South African Economy

The World Bank estimates that South Africa will recover from a 7.8% contraction in GDP growth in 2020 to record a positive 3.3% this year and a more subdued 1.7% in 2022. In contrast, the IMF is less upbeat, expecting growth of 2.8% and 1.4% in 2021 and 2022 respectively, up from -7.5% in 2020.

In both instances, growth estimates are lower than National Treasury's estimates, suggesting further downward revisions to growth estimates following the tabling of the National Budget on 24 February. While South Africa suffered the most severe Covid-19 outbreak amongst Sub-Saharan African countries, which prompted the strict lockdown measures that brought the economy to a standstill, sizable fiscal and monetary policy support likely prevented an even deeper downturn.

Although purchasing manager indices (PMI's) and other high-frequency data point to further quarter on quarter seasonally adjusted and annualised gains in GDP growth in the final quarter of 2020, the outlook for Q1 2021 is less positive, with a contraction in growth likely due to the extension of the adjusted Level 3 lockdown restrictions, including the ban on alcohol sales.



Using forward looking proxies for private sector gross fixed capital formation and household final consumption expenditure, GDP growth is expected to remain subdued through the first half of 2021, on a year on year comparative basis. Since the government's Covid-19 vaccine programme is expected to experience delays in the mass roll-out of vaccines and the emergence of new variants, South Africa could face a protracted period of varying lockdown restrictions, although a hard lockdown is not expected. With the mass roll-out of vaccines expected only after June, Q2 GDP growth could also be muted. Some relief to employers and employees under the Temporary Employer/Employee Relief Scheme (TERS) could be forthcoming since government and its social partners are discussing the extension of the scheme at Nedlac. The UIF currently has around R60 billion in liquid assets to extend the programme, which expired in October 2020.

Since SA is expected to benefit from the rebound in commodity prices this year and a gradual recovery in SA Inc. businesses, equities are expected to deliver low double digit returns in the year ahead. Unlike developed equity markets where the equity risk premium still favours equities over bonds, in SA this is not the case. Relative to domestic bonds, the equity risk premium increasingly favours bonds given the sharp rise in the country's sovereign risk premium since March 2020, when South Africa was downgraded to sub-investment grade by Moody's.

Despite the All Bond Index offering attractive real yields in excess of 6%, bonds are down weighted to neutral on the expectation that the country's debt metrics will be revised higher as a result of downward revisions to growth when the National Budget is tabled. Other headwinds for bonds include a steady rise in inflation due to higher food prices, petrol price base effects, as well as some economic recovery effects that will likely push inflation back up to the mid-point of the inflation target range. In light of these expectations, bonds are upweighted to overweight in the second half of 2021 on expectations of higher absolute yields and investors' search for yield.

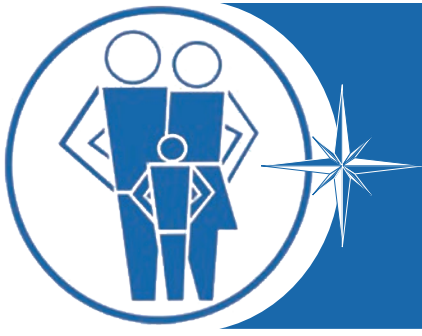
In terms of equity market valuations, the All Share Index appears to be fairly valued, trading on a forward price-to-earnings ratio of 13.1X, much in line with the 13X mean. Embedded in the valuation is a consensus earnings growth estimate of around 34%, in line with implied earnings growth of 34.5%.

Since trailing earnings growth is down some 26% year on year, the recovery in consensus earnings over the coming year does not appear to be onerous. With no mispricing seen in current valuations, an overweight bias is retained in domestic equities.

Further support for the overweight SA position is that the MSCI SA Index is trading at a discount of 36% relative to the MSCI World Index and some 41% relative to the MSCI Emerging Markets Index. Although it can be argued that the discount at which SA is trading is due to structurally low growth and the absence of meaningful economic reforms, the quantum of the discount is not justified given the dominance of rand-hedge stocks in the index. However, with consensus earnings expected to slow from some 34% this year to 8.0% in 2022, a rotation out of domestic equities into emerging market equities is proposed in the second half of 2021. The justification for the move is that emerging market consensus earnings estimates are expected to accelerate from 27% this year to 32.5% in 2022.

### Summary

While the base case investment view is that the counter-cyclical US dollar will weaken further this year, supporting commodity prices and export-orientated emerging economies, the risk is that China could still tighten credit conditions sooner than expected given the People's Bank of China's stance of aligning credit growth with nominal GDP this year. Since China is now entering a later stage in the recovery cycle, the composition of its imports is rotating towards consumption goods and away from raw materials and commodities, a potential headwind for commodity exporters, including South Africa.



*"Anyone who is not investing now is missing a tremendous opportunity" - Carlos Slim*

## 3.2 Investment strategy and portfolio returns

### 3.2.1 Long term investment goal

In order to meet the long term investment goal to provide for a 75% net replacement ratio (NRR) at retirement, meaning having sufficient savings to purchase a guaranteed life annuity rendering a monthly income of about 75% of the salary at retirement (t's & c's apply), it is important that the short term goals be attained. Members have to realize that in order to meet this NRR goal of 75%, at least a 35 years' savings is required.

Unfortunately many members are of the opinion that after much lesser years of service they should have built up a sufficient fund credit to retire, which is not the case and they only find out when it is too late.

Returns are continuously closely monitored to verify whether the Fund is still on track towards the long term investment goal. The four different investment portfolios of the Life Stage Model (LSM), that is the Aggressive Portfolio (AP), the Moderate Portfolio (MP), the Conservative Portfolio (CP) and the Protected Portfolio (PP), each has its own return objective as indicated in the following table. It will be noticed from this table that every investment portfolio is still on track, measured from inception of the LSM during July 2005, outperforming the return objectives. It is important to note that this is an annualised outperformance. The inflation outperformance, also annualised, indicated in the table, is significant.

#### Annualized investment objectives and returns for the period July 2005 to 30 June 2020

Portfolio	Return objective		Actual return	Objective outperformance	Inflation outperformance
AP	CPI + 5%	10.62%	11.50%	0.88%	5.88%
MP	CPI + 4%	9.62%	10.56%	0.94%	4.94%
CP	CPI + 3%	8.61%	9.41%	0.80%	3.80%
PP *	Cash	6.53%	7.21%	0.68%	1.59%

\* The PP portfolio was introduced in September 2011

Members are reminded that a retirement fund is a long term investment and the compound growth phenomenon takes effect from about 30 years onwards.

### 3.2.2 Life Stage Model investment portfolios: AP, MP, CP and PP

The returns of the life stage portfolios for 2019/20 are as follows:

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Year Total
<b>AP</b>	-0.66%	0.91%	0.28%	2.10%	-0.72%	1.36%	1.62%	-4.25%	-9.27%	9.08%	1.18%	3.65%	4.30%
<b>MP</b>	-0.16%	0.83%	0.59%	1.40%	-0.35%	0.84%	1.61%	-2.35%	-7.28%	5.75%	1.97%	2.34%	4.75%
<b>CP</b>	0.12%	-0.08%	0.90%	0.91%	0.10%	1.21%	0.31%	-1.39%	-5.28%	2.96%	1.53%	1.40%	2.49%
<b>PP</b>	0.74%	0.61%	0.63%	0.67%	0.61%	0.67%	0.72%	0.61%	0.83%	0.61%	0.50%	0.67%	8.16%





Historical returns since unitization are as follows:

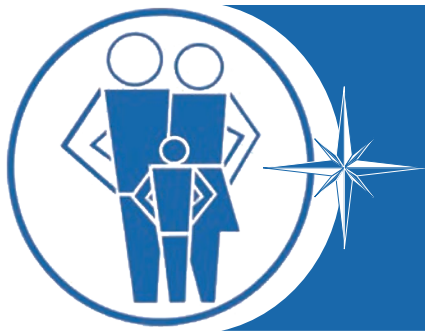
	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13
<b>AP</b>	25.60%	28.45%	2.43%	-4.14%	16.70%	14.83%	10.23%	16.43%
<b>MP</b>	17.80%	24.77%	1.55%	1.48%	15.33%	13.90%	9.68%	14.49%
<b>CP</b>	11.00%	20.27%	3.22%	8.13%	14.92%	12.85%	8.63%	10.46%
<b>PP</b>	-	-	-	-	-	-	4.98%	5.96%

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Since Unitisation	Annualised return per annum
<b>AP</b>	26.83%	4.94%	7.22%	4.05%	10.38%	4.43%	445.15%	11.50%
<b>MP</b>	21.94%	6.66%	8.04%	4.96%	8.96%	4.97%	378.14%	10.56%
<b>CP</b>	14.85%	7.84%	6.50%	6.44%	8.29%	6.07%	306.04%	9.41%
<b>PP</b>	6.04%	6.64%	7.53%	8.58%	8.22%	8.55%	93.70%	7.21%

The returns for the financial year were surprisingly good when compared to the previous financial year taking the global Covid-19 pandemic and lockdown restrictions into account.

#### Looking forward - Financial performance year to date

Portfolio	31-Jul-20	31-Aug-20	30-Sep-20	31-Oct-20	30-Nov-20	31-Dec-20	31-Jan-21	28-Feb-21	31-Mar-21	30-Apr-21	Year to date
<b>Aggressive Portfolio</b>	2.42%	1.29%	-1.92%	-2.98%	6.53%	3.12%	3.38%	3.24%	0.51%	1.59%	18.18%
<b>Moderate Portfolio</b>	1.55%	1.08%	-1.31%	-1.86%	4.22%	2.11%	2.39%	2.38%	0.38%	1.36%	12.85%
<b>Conservative Portfolio</b>	0.84%	0.73%	0.11%	-0.21%	1.91%	1.29%	1.17%	1.35%	1.07%	0.76%	9.37%
<b>Protected Portfolio</b>	0.65%	0.54%	0.41%	0.29%	0.28%	0.32%	0.37%	0.06%	0.25%	0.42%	3.66%
<b>Exit Portfolio</b>	0.64%	0.47%	0.36%	0.28%	0.27%	0.33%	0.37%	0.05%	0.25%	0.39%	3.48%



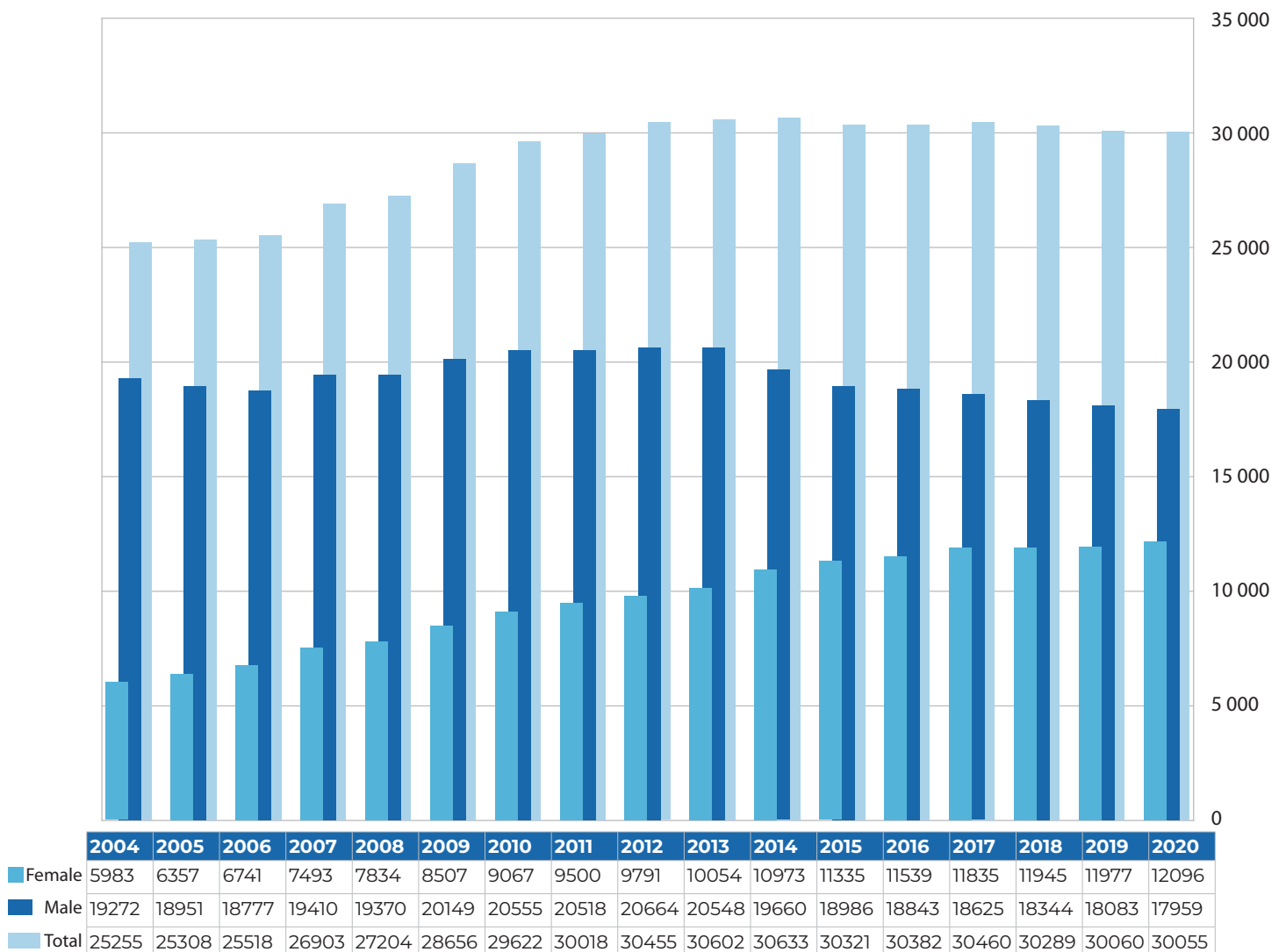
# Wealth creator of choice

## 3.3 Investment strategy and portfolio returns

The compulsory 3-year statutory actuarial valuation of the Fund was performed for the period 1 July 2017 to 30 June 2020. The actuary made an unqualified finding that the Fund was financially sound as at 30 June 2020. The valuation report was submitted to the FSCA after approval by the Board.

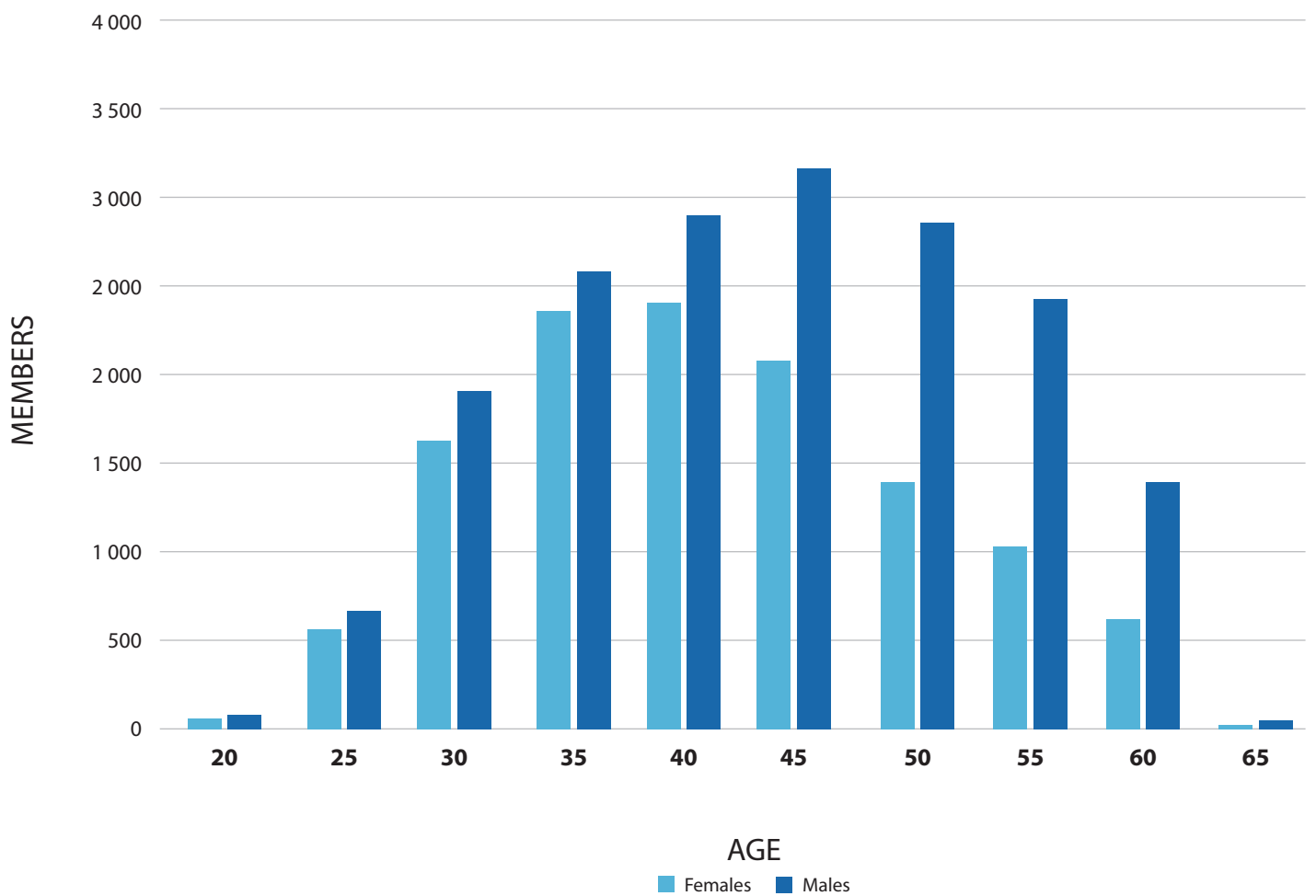
Some good news is that the Board, in consultation with the actuary, reduced the contribution towards the Risk Account from 3.45% to 2.95% of pensionable salary, with effect 1 March 2021. The administration cost contribution remains at 0.55% of pensionable salary. Thus from 1 March 2021 the total contribution towards administration cost and risk expenses is only 3.5% compared to the 4% last year and 5% the year before. This 3.5% towards risk benefits and administration cost compares very favourably with the cost of other pension funds, without compromising on the superior risk benefits rendered. This equates to an additional 0.5% of pensionable salary as a monthly saving into the fund credit of each member.

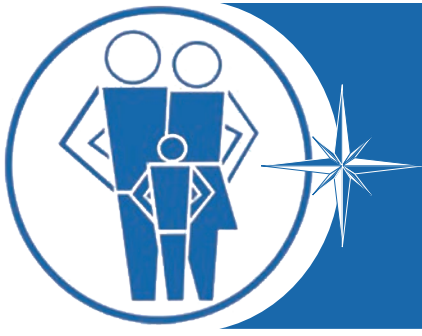
The following graphs were extracted from the actuarial report as at 30 June 2020.





## Distribution of **Members**





*"History is a guide to navigation in perilous times. History is who we are and why we are the way we are." - David McCullough*

### 3.4 Financial statements

The financial statements for the financial year ending 30 June 2020 was distributed electronically to member representatives. The independent external auditors, Deloitte & Touché, are satisfied that the financial statements, in all material respects, fairly represent the result of the financial activities of the Fund for the 2019/20 financial year.

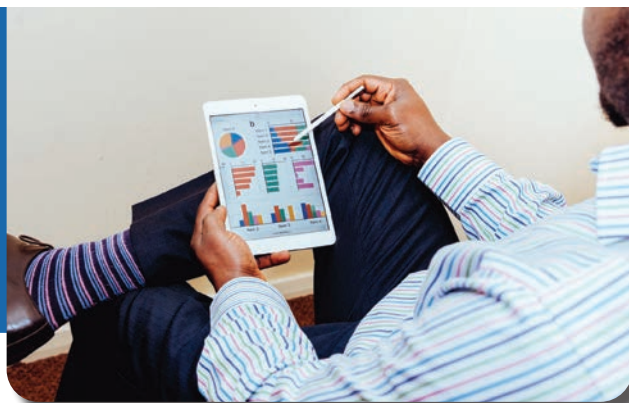
The Fund again received an unqualified (clean) independent audit report. As reflected in the balance sheet, the total asset value as at 30 June 2020 exceeded R26 billion and is close to reaching the R27 billion mark. According to the income statement, the contributions were R1.9 billion and investment returns were R1.1 billion. The administrative expenses, including external fees such as the levies payable to the Financial Services Conduct Authority and the National Credit Regulator as well as actuarial services and external audit services, was R40.6 million which is funded from the 0.55% of salary contribution.

As a percentage of total asset value of the Fund it translates to 0.15%, which is very reasonable in the industry.

The balance in the Risk Account (RA) at R287 million, shows little movement from the previous year's balance despite the R120 million excess distributed to members, as well as the decrease in the percentage allocation to the RA from employers' contributions to 3.45% of salary. The purpose of the RA is to fund the risk benefits, that is the funeral plan and the death and disability benefits. The reason for the accumulation of the surplus in the RA is because the portion of the contribution allocated to the RA (currently calculated at 3.45% of salary) exceeds the annual expenses from the RA. This is the very reason why the contribution to the RA was decreased from 1 March 2021 by 0.5% from 3.45% to 2.95% of salary, freeing up that 0.5% for investment in the member's fund credit.

STATEMENT OF NET ASSETS AND FUNDS	Note	30 June 2020 R	30 June 2019 R
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>26,573,994,782</b>	<b>25,108,005,515</b>
Plant and equipment	2	315,198	437,508
Investments	3	26,556,195,782	25,082,435,867
Housing loans	4	17,483,802	25,132,140
<b>Current assets</b>		<b>276,134,392</b>	<b>222,541,995</b>
Accounts receivable	5	2,605,034	26,687,632
Arrear contributions	10	69,619,474	39,164,929
Cash and cash equivalents		203,909,884	156,689,394
<b>Total assets</b>		<b>26,850,129,174</b>	<b>25,330,547,470</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds and surplus account</b>		<b>25,740,790,327</b>	<b>24,130,625,455</b>
Members' individual accounts		25,553,160,451	23,930,113,821
Amounts to be allocated	16	187,629,876	200,511,634
<b>Reserves</b>		<b>319,994,999</b>	<b>335,663,135</b>
Reserve accounts	15	319,994,999	335,663,135
<b>Total funds and reserves</b>		<b>26,060,785,326</b>	<b>24,466,288,590</b>
<b>Non-current liabilities</b>		<b>7,655,508</b>	<b>6,609,866</b>
Unclaimed benefits	8	7,655,508	6,609,866
<b>Current liabilities</b>		<b>781,668,340</b>	<b>857,649,014</b>
Benefits payable	7	771,321,114	841,340,818
Accounts payable	9	10,367,226	16,308,196
<b>Total funds and liabilities</b>		<b>26,850,129,174</b>	<b>25,330,547,470</b>





## STATEMENT OF CHANGES IN NET ASSETS AND FUNDS

	Note	30 June 2020 R	30 June 2019 R
Contributions received and accrued	10	2,209,500,194	2,047,415,475
Net investment income	11	1,049,834,746	1,211,986,965
Allocated to unclaimed benefits	8	(509,691)	(190,613)
Less:		(55,313,091)	(54,701,956)
Re-insurance premiums		(14,656,433)	(15,088,478)
Administration expenses	12	(40,656,658)	(39,613,478)
<b>Net income before transfers and benefits</b>		<b>3,203,512,158</b>	<b>3,204,509,871</b>
<b>Transfers and benefits</b>		(1,609,015,422)	(1,720,229,906)
Transfer from other funds		324,603	15,519,787
Benefits		(1,609,340,025)	(1,735,749,693)
<b>Net income after transfers and benefits</b>		<b>1,594,496,736</b>	<b>1,484,279,965</b>
<b>Funds and reserves</b>			
Balance at the beginning of the year		24,466,288,590	22,982,008,625
Transfers between reserve accounts		-	-
<b>Investment return allocated</b>			
Current members		-	-
Member Reserve Distribution		-	-
<b>Balance at the end of the year</b>		<b>26,060,785,326</b>	<b>24,466,288,590</b>

### 3.5 Rule amendments

A number of rule amendments were approved during the financial year and were mostly to allow for the annual meeting to be postponed, as well as the election of the Board and General Committee members, due to the Covid-19 restrictions on conferences for more than 100 delegates. The Board and General Committee members thus remain in their positions until the next annual meeting, which will God-willing take place on 26 November 2021.

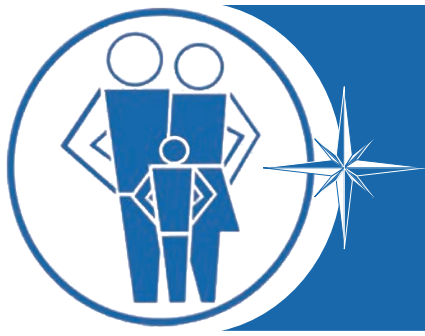
### 3.6 Housing loans

Standard Bank informed the Board that they have reduced their interest rate from prime less 1% to prime less 1.25% (7% - 1.25% = 5.75%) with effect from 1 March 2021 for new loans from 1 March 2021 onwards. This will not have an effect on the current loans members have with Standard Bank.

FNB is already at prime less 1.25%, thus the two banks are now offering the same interest rate to our members, with FNB having the lower admin and application fees.

There are still some members complaining that their pension backed home loans are being declined by the two banks. It is important that members remember that the Fund can and will not intervene to put pressure on the banks to grant loans to members if they are indebted, under administration or do not pass the affordability test run by the banks. The banks have to adhere to the National Credit Act and make sure members can afford the loan they are applying for.

The Fund has had a few requests from the banks to settle the pension backed home loans of members due to members falling in arrears with their monthly installments. It has come under the attention of the Fund that some members instruct their payroll staff to stop their monthly installments; this is not allowed as the municipality signed a letter of undertaking with the bank that the monthly installment will be deducted from the members' salaries. If not, Fund should allow such settlement of arrear pension backed home loans it will open the floodgates of members requesting the same. Good practice dictates that members should repay the total pension backed home loan before retirement so that they do not reduce their pension payment at retirement.



# Wealth creator of choice

## 3.7 No to Marketing - Yes to Communication

Members of municipal pension funds may not do fund hopping. Once a specific fund is joined when the employee starts working for a specific municipality, a long term relationship is born. Rightly so because retirement provision is a long term journey, if favourable outcomes are to be achieved.

Usually the various pension funds available to choose from are introduced to new employees during the induction sessions. Some pension funds arrive with boxes full of freebies to lure new members. The Fund is then queried for not also giving handouts such as t-shirts and similar gifts, like some other pension funds do. At the annual meetings the question is also asked what the Fund does about marketing in order to expand. Fact is that the Fund does not engage in marketing. It does not have a marketing division, but rather a communication division.

A pension fund is not supposed to be a business enterprise with a profit motive, chasing more clients and increased sales. A pension fund is an association of members with a common goal to create wealth for retirement. It does not have any reason for existence other than serving the members in reaching this common goal. In other words it does not have a reason for existence on its own, apart from its members (clients) like a business enterprise. It would be a sad day if that was the case, because the goal would then be to make profits from the members (clients). Unfortunately there are some pension funds set up in such way that profits are made from the pension fund (that is ultimately the individual fund members) by certain stakeholders, be it a commercial fund sponsored by an insurance company or an administrator with an interest in growing the membership number. One example would be where the communication of a fund is done by the outsourced administrator of a fund. This is an unhealthy relationship because it is of great importance for the administrator that membership numbers grow because the administrator is paid a monthly fee per member under administration. Such administrator may therefore be incentivized to dish out freebies to lure members to join such fund instead of relying on a history of good investment returns. Little do the members realize that those freebies are not financed by the administrator but by the pension fund from funds that would otherwise have been allocated to their retirement benefits. In other words it is not a freebee but actually paid for by the member. It reminds of the cell phone companies enticing new members with special offers to join to make more profits but neglecting existing customers by not offering them the same.

The Fund is focused on regular and meaningful communication with existing members to keep them informed on the important matter of retirement. In order to gain new members the Fund does not engage in cheap marketing but provides comprehensive, objective and retirement-related information about the Fund.

During induction sessions new municipal employees have the freedom to choose without being pressurised. The goal is not to have many members but rather to have happy members, the rest will follow. The Fund believes in quality not quantity.

The Fund employs a full time dedicated Chief communication officer who visits the various municipalities on a regular basis and attends to numerous member requests. Stanley is a familiar face at every municipality and needs no introduction.

Communication with members remains a priority of the Fund. This is one of the main reasons why the Fund established a front office on 1 July 1999. Instead of leaving the communication services to the fund administrator, the Fund identified the need by members to put a face to the Fund and to have an ear in the event of concerns and service lapses by the outsourced benefit administrator. The Fund then also appointed communication officers to conduct regular member information meetings at municipalities and to visit municipalities as and when required to attend to specific member matters. Due to Covid-19 very few visits were conducted during the last 12 months. These visits are picking up, but are not nearly business as usual.

The Fund introduced a website allowing internet users 24 hour access to relevant information and to their benefit statements, including a platform to communicate with the Fund through this electronic medium.

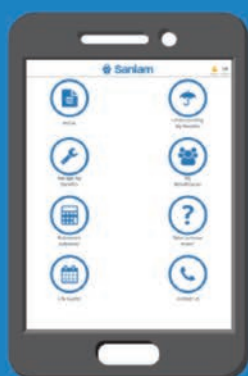
With the development of social media and suchlike facilities the Fund also explored this area. With the assistance of the fund administrator, the Sanlam App was developed and introduced during 2017. Requests to members to provide the Fund with mobile phone numbers unfortunately did not have the required effect and the Fund appointed a company called Infoslips to obtain the mobile numbers from other sources. A 98% success rate was achieved. Messages were sent to about 30 000 members to invite them to download the Sanlam App. Only 822 members down loaded the app, which is a 0.26% uptake. Hopefully this will gain traction in due time. The most popular means of communication remains the visits by the communication officer to the work places and direct live telephone calls. The availability and approachability of the Fund's staff appears to entrench the direct communication channel as the preferred option. The Fund will therefore keep allocating resources accordingly. However due to the convenience of the electronic media, members are encouraged to apply the Sanlam App also.

STANLEY MUREMI



Do you have a picture in your mind of what you want your retirement to look like? And we're not talking about dreams of yachts or fears of poverty – we're talking realistic facts and figures.

## The Sanlam My Retirement app enables you to:



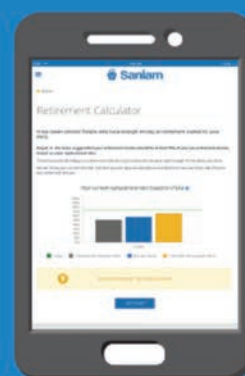
View information that will assist you to reach **good retirement outcomes**.



View your **current retirement savings** and **group risk benefits**.



View where your money is being **invested**.



Use our **retirement calculator** to evaluate and tailor your retirement plan.



Get easy access to important **contacts and links**.



Get easy access to **educational content** to make saving for retirement easier.

Sanlam has developed an **easy to use mobile application** that puts all of your retirement fund data in the palm of your hand.

The app is available for download by searching "Sanlam My Retirement" on:



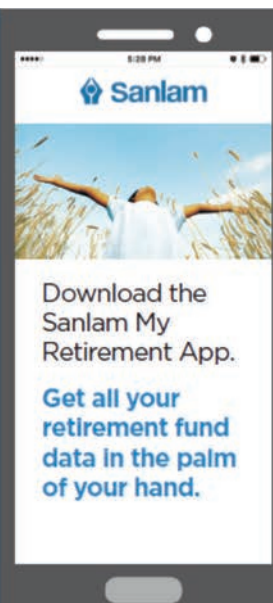
or simply scan the QR code to download the app.

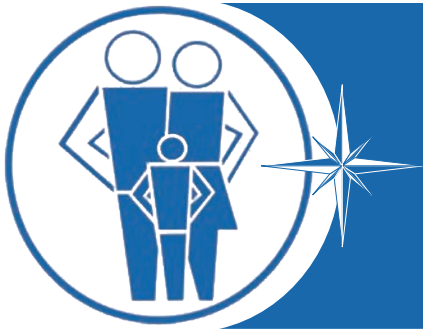


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*"Time is your friend; impulse is your enemy."*  
- John Bogle, the father of passive investments

### 3.8 Family Funeral Plan

The amounts payable in terms of the family funeral plan were increased from 1 July 2018 to be as follows:

Member	R40 000
Spouse	R30 000
Children	
• 14 – 21 years*	R20 000
• 1 – 13 years	R10 000
• Stillborn to 1 year	R 5 000



\* Full time student up to 25 years and permanent disabled children irrespective of age, included.

Only direct family members qualify for the funeral benefit. Beneficiaries mentioned on your nomination forms MAY NOT automatically qualify for benefits.

The Benefits Claim Form is available from SANLAM. The email address for submission of claims is: [sgrdeathclaims@sanlam.co.za](mailto:sgrdeathclaims@sanlam.co.za) and the fax number is (012) 339 1375. A claim expires after 6 months.

Funeral support and burial repatriation service is available on request from the 24-hr call centre on 0860 0004 080.

The Burial Repatriation Benefit is a service that allows for the transport of the deceased member's body back home to the final funeral home closest to their place of burial in South Africa, if the death occurred far from his/her home. This service is available at the death of any member and his/her qualifying spouse and child/ren.

#### If death occurs in South Africa, the services also allows for:

- Transportation arrangements for a single relative to accompany the mortal remains to the final funeral home; and
- Overnight accommodation (subject to limitations) for a single relative.

#### Other services, which are aimed at simplifying the death/burial for the family, include:

- Assistance and advice on claims procedures is provided to the surviving family;
- If necessary, legal assistance can be arranged to assist with the interpretation of the will and the management of the necessary documentation.
- Advice can be provided on matters such as obtaining a death certificate and cross border documentation.
- Referral to a pathologist will be made if an autopsy is necessary.
- Referral to reputable funeral parlours and providers of other funeral services such as catering and transport can be made, and clients benefit from our experience and knowledge of suitable providers; and
- Assistance can be provided when looking for a tombstone supplier.

## 4. INVESTMENTS NEWS

### 4.1 Investment Policy Statement (IPS) and the Life Stage Model (LSM)

#### Return objective

The Fund developed an Investment Policy Statement (IPS) in terms of which the investment objective is to generate sufficient funds over a 35 to 40 years membership to enable a member to buy a pension equal to about 75% of pensionable salary at retirement. In the retirement industry this is referred to as the net replacement ratio (NRR). This NRR goal is based on the current employer contribution rate of 18% and the member contribution of 7.5% and the usual inflation-linked salary adjustment. This goal can only be achieved if members preserve their benefit and follow the automatic age related switching between the life stages indicated hereafter.

### 4.2 Life Stage Model (LSM)

To reach this objective, a long term investment approach is taken, resulting in what is called the Life Stage Model (LSM) consisting of four age related life stage investment portfolios, namely the Aggressive Portfolio (AP), Moderate Portfolio (MP), Conservative Portfolio (CP) and Protective Portfolio (PP). Each member's savings in the Fund is referred to as the Fund Credit. The Fund Credit is automatically allocated to the applicable portfolio in accordance with the member's age. The age brackets and the nature of the four life stage portfolios are indicated further on. Members are automatically transferred without prior notice, from one life stage to the next as they reach the relevant age. This transfer is however not done at once when reaching the relevant 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 single day event, members are switched from one life stage to the next in four quarterly batches during the financial year. The first switch is done during July taking into account age next birthday as at 31 July. However new members being of the relevant age to be switched automatically when joining the Fund will not be phased in but will be allocated fully to the next LSM portfolio. As alluded to further on, a member may always exercise in writing, a choice contrary to the automatic LSM default.

All the assets of the Fund are invested in the standard asset classes namely active managed equities (shares), passive managed equities, fixed income, cash, properties and some alternative investments such as hedge funds. The combination of asset classes within each portfolio will differ according to the investment strategy followed to achieve the performance objective of the specific portfolio.





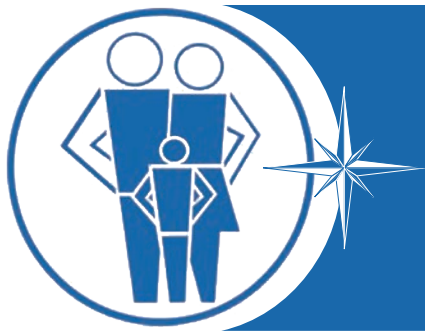
The investment strategy applied for the four life stage portfolios are as follows:

Life Stage Investment Portfolio	Default Age until 30 June 2015	Default Age with effect from 1 July 2015	% of Members' Fund Credit as at 30 June 2018	Risk Profile	Investment Objective
<b>Aggressive</b>	< 50	< 55	66%	High	Capital Growth (100%)
<b>Moderate</b>	50 to 59	55 to 60	22%	Moderate	Capital Growth (45%); Capital Protection and Income Enhancement (55%)
<b>Conservative</b>	60 to 62	61 to 63	8%	Low	Capital Protection (100%)
<b>Protected (With effect from September 2011)</b>	63 to 65	> 63	4%	Low	Investment Objective

### Member Investment Choices

All new members are automatically defaulted into the LSM according to their age. Members are allowed to switch out of the LSM into any of the four portfolios offered by the Fund, being AP, MP, CP or PP. Members are allowed to choose to invest into all four of the portfolios, thus exercising member choice, provided that the total adds up to 100%. The monthly contributions shall follow the same investment choice in respect of the fund credit, unless a specific choice is exercised that the contributions be invested in a specific investment portfolio, in which event 100% of the monthly contribution shall be invested in that specific chosen investment portfolio. It is important for members to realize that once they choose to invest outside the LSM they will remain in that split of portfolios until another switch instruction is sent to the administrator. This could result in a member remaining in a certain portfolio for too long and not receiving the expected returns they were expecting. It is mostly recommended that a member consults with their financial advisor when considering to switch out of the LSM into member choice portfolios.

One free switch is allowed in a calendar year (January to December), but subsequent switches in that same calendar year will require a switching fee. The switching fee was introduced to discourage members from switching too frequently by trying to time the cycles in the market, as normally the timing is too late due to the time delay for switches to be implemented. As there is a two day delay in the unit prices the member's switch will only be done from the third to fifth day, if unit prices are available. The member switch will not be performed before the third day, as it would create the opportunity for a member to select against the Fund and all other members, having public knowledge of movements in the investment market during the first two days, due to the two day lag in unit prices being released by the administrator.



# Wealth creator of choice

## Life Stage 1: Aggressive Portfolio

Members are allocated to the following life Stage portfolios depending on their age and term to retirement.

### Portfolio Profile

This portfolio is for members 55 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 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 31/03/2021 R 19 188 418 099**

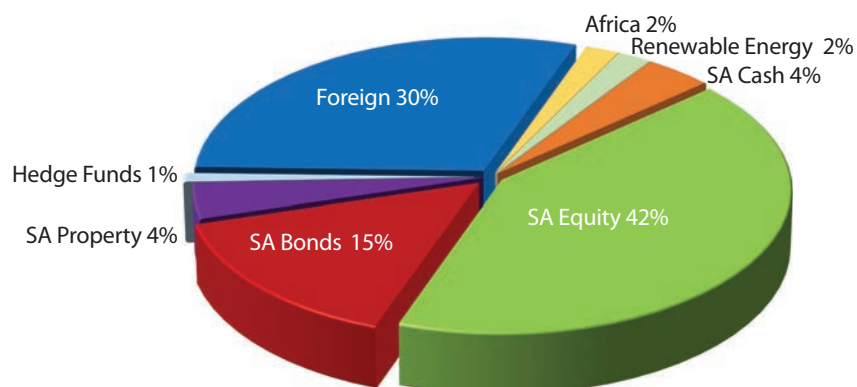
**Investment objective: Inflation + 5%**

### Asset allocation limits:

SA Cash	0% - 10%
SA Equity	18% - 60%
SA Bonds	5% - 20%
SA Property	0% - 10%
Hedge Funds	0% - 5%
Foreign	0% - 30%
Africa	0% - 5%
Renewable Energy	0% - 5%

SA Cash	0% - 10%
SA Equity	18% - 60%
SA Bonds	5% - 20%
SA Property	0% - 10%
Hedge Funds	0% - 5%

Asset Allocation as at 31/03/2021



### Investment managers used

<b>SA Cash</b>	Futuregrowth; ABSA
<b>SA Equity</b>	ABAX, Allan Gray, Aluwani, Argon, Fairtree, SATRIX (Passive) ABSA, Allan Gray, Argon, Foord, Investec & Momentum
<b>SA Bonds</b>	Ninety One, Sanlam, Futuregrowth
<b>SA Property</b>	ABSA, Sesfikile
<b>Hedge Funds</b>	Edge
<b>Foreign</b>	Brandywine, Coronation, Edge, Franklin Global, Hosking, Morgan Stanley, Ninety One, Allan Gray/Orbis, Veritas, Resolution Capital
<b>Africa</b>	Drakens Capital, Sanlam Africa Frontiers, Vantage Capital Allan Gray, Coronation, Franklin, Investec, Veritas
<b>Renewable Energy</b>	Vantage Capital

Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	2019 / 2020
-0,66%	0.91%	0.28%	2,10%	-0.72%	1,36%	1.62%	-4,25%	-9,27%	9,08%	1,18%	3,65%	4,30%



## Life Stage 2: Moderate Portfolio (MP)

### Portfolio Profile

This portfolio is for members 55 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 risks of the Aggressive Portfolio.

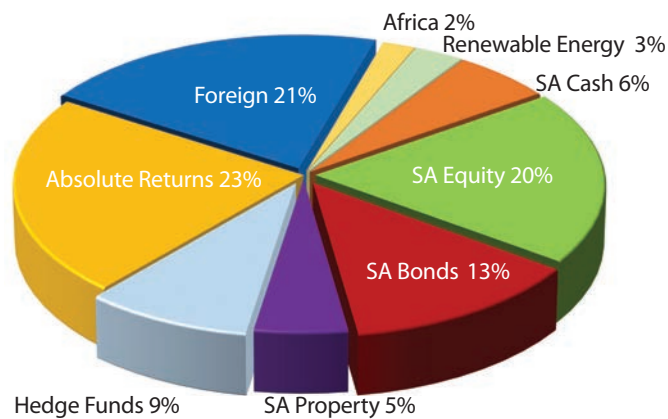
**Market Value as at 31/03/2021 R 6 345 325 796**

**Investment objective: Inflation + 4%**

### Asset allocation limits:

SA Cash	3% - 20%
SA Equity	9% - 30%
SA Bonds	5% - 25%
SA Property	0% - 10%
SA Hedge Funds	5% - 10%
Absolute Return	15% - 35%
Foreign	0% - 30%
Africa	0% - 5%
Renewable Energy	0% - 5%

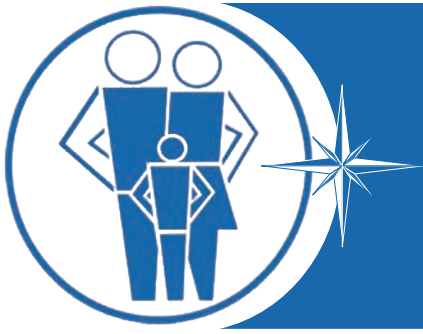
### Asset Allocation as at 31/03/2021



### Investment managers used

<b>SA Cash</b>	Futuregrowth, ABSA
<b>SA Equity</b>	ABAX, Allan Gray, Aluwani, Argon, Fairtree, SATRIX (Passive) ABSA, Allan Gray, Argon, Foord, Investec & Momentum
<b>SA Bonds</b>	Ninety One, Sanlam, Futuregrowth
<b>SA Property</b>	ABSA, Sesfikile
<b>SA Hedge Funds</b>	Edge, Amplify
<b>Absolute Return</b>	ABAX, Alusi, Coronation, Sanlam
<b>Foreign</b>	Brandywine, Coronation, Edge, Franklin Global, Hosking, Morgan Stanley, Ninety One, Allan Gray/Orbis, Veritas, Resolution Capital
<b>Africa</b>	Drakens Capital, Sanlam Africa Frontiers, Vantage Capital Allan Gray, Coronation, Franklin, Investec, Veritas
<b>Renewable Energy</b>	Vantage Capital

Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	2019 / 2020
-0,16%	0,83%	0,59%	1,40%	-0,35%	0,84%	1,61%	-2,35%	-7,28%	5,75%	1,97%	2,34%	4,75%



*"Anyone who is not investing now is missing a tremendous opportunity" - Carlos Slim*

### Life Stage 3: Conservative Portfolio (CP)

#### Portfolio Profile

This portfolio is for members between 61 and 63 years of age.

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

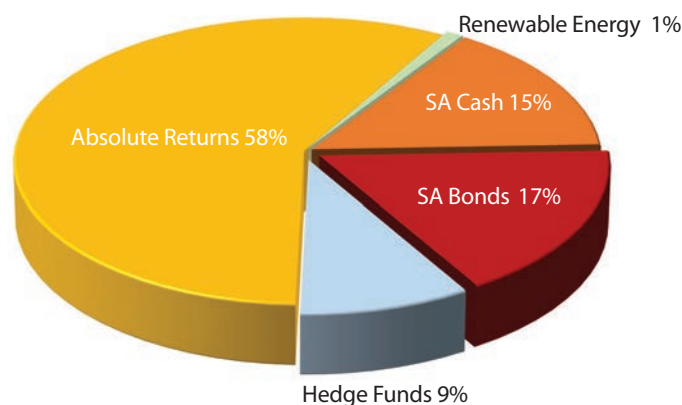
**Market Value as at 31/03/2021 R 2 254 159 994**

**Investment objective: Inflation + 3%**

#### Asset allocation limits:

SA Cash	9% - 19%
Hedge Funds	5% - 10%
Absolute Return	39% - 79%
SA Bonds	6% - 30%
Renewable Energy	0% - 5%

#### Asset Allocation as at 31/03/2021



#### Investment managers used

SA Cash	Futuregrowth, ABSA
SA Hedge Funds	Edge, Amplify
Absolute Return	ABAX, Alusi, Coronation, Sanlam
SA Bonds	Futuregrowth, Ninety One
Renewable Energy	Vantage Capital

Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	2019 / 2020
0,12%	-0,08%	0,90%	0,91%	0,10%	1,21%	0,31%	-1,39%	-5,28%	2,96%	1,53%	1,40%	2.49%



## Life Stage 4: Protected Portfolio (PP)

### Portfolio Profile

This portfolio is for members older than 63 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 capital.

Market Value as at 31/03/2021 R 1 320 711 936

Investment objective: Cash

Asset allocation limits:

SA Cash 100%

Investment managers used

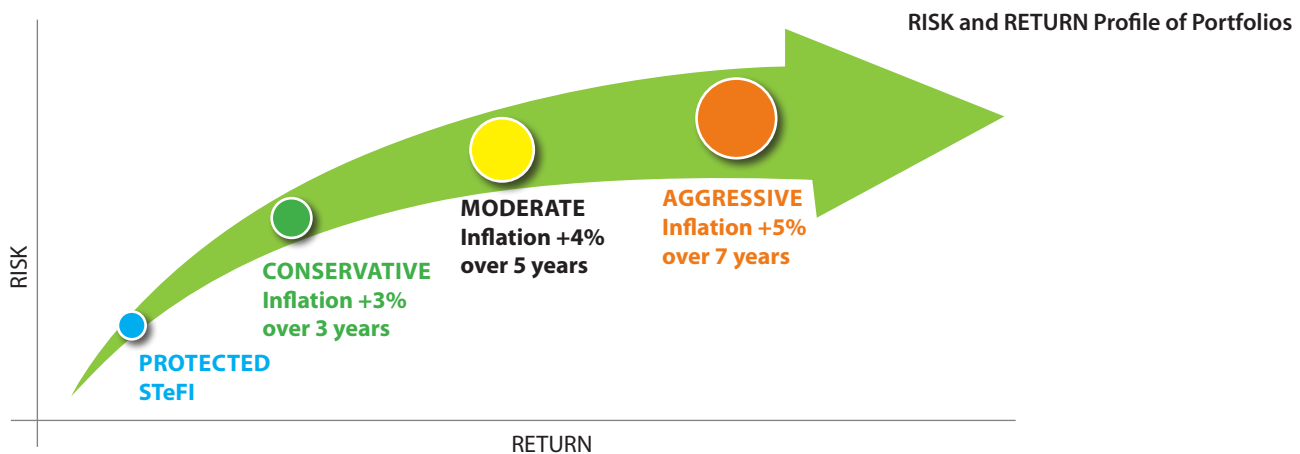


Asset Allocation as at 31/03/2021

SA Cash Futuregrowth, ABSA

Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	2019 / 2020
0,74%	0,61%	0,63%	0,67%	0,61%	0,67%	0,72%	0,61%	0,83%	0,61%	0,50%	0,67%	8,16%

The following is an illustration of where each of the four Life Stage Portfolios lies along the risk-and-return spectrum

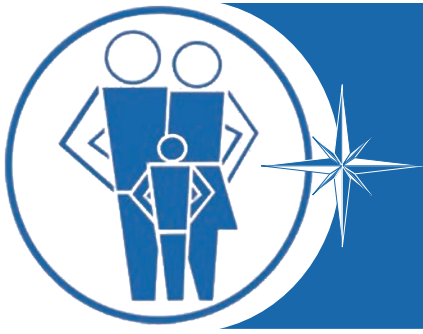


Portfolio	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Aggressive	25,60	28,45	2,43	-4,14	16,70	14,83	10,23	16,43	26,83
Moderate	17,80	24,77	1,55	1,48	15,33	13,90	9,68	14,49	21,94
Conservative	11,00	20,27	3,22	8,13	14,92	12,85	8,63	10,46	14,85
Protected *	-	-	-	-	-	-	4,98	5,96	6,04
Inflation (CPI)	4,87	7,04	12,17	6,20	4,21	5,02	5,47	5,57	6,61

Portfolio	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Since Unitisation (15 Years) Annualised
Aggressive	4,94	7,22	4,05	10,38	4,43	4,28	11,13
Moderate	6,66	8,04	4,96	8,96	4,97	4,75	10,38
Conservative	7,84	6,50	6,44	8,29	6,07	2,50	9,37
Protected *	6,64	7,53	8,58	8,22	8,55	8,13	-
Inflation (CPI)	4,74	6,27	5,09	4,57	4,46	2,22	5,61

\* The Protected Portfolio started in September 2011

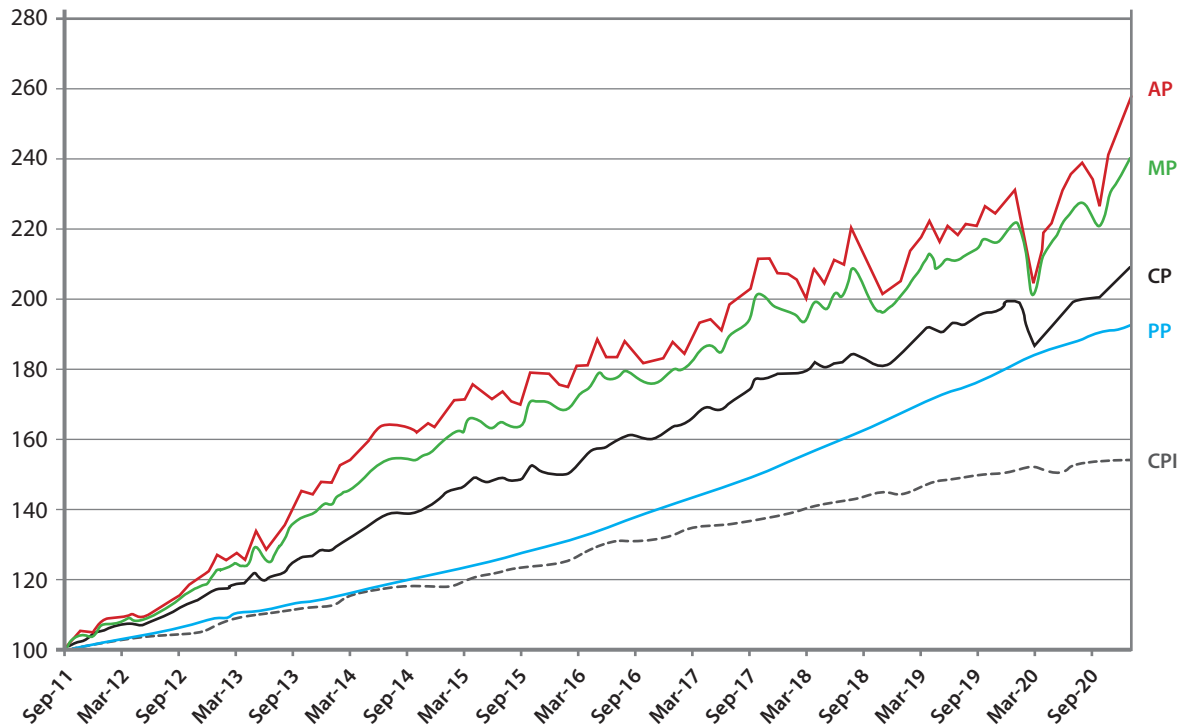




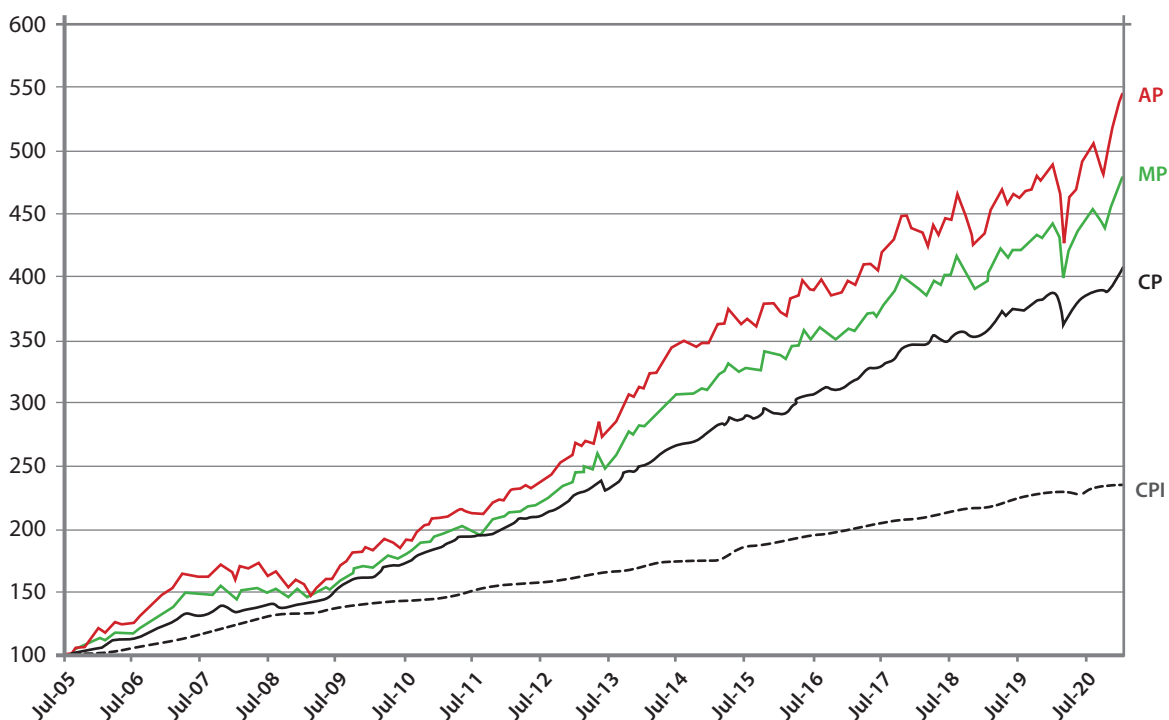
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## 4.3 Portfolio comparisons in monetary value

The graph below shows if a member invested R100 in each of the four portfolios since September 2011, that is when the Protected Portfolio was introduced, what it would have been worth at 31 January 2021. It is clear that the Aggressive Portfolio outperforms over the long term.



If the same principle is applied and R100 was invested at the inception of the unitization in July 2005 into each of the 3 portfolios up to 31 January 2021, it remains clear that the Aggressive Portfolio remains the outperformer over the long term.





#### 4.4 Fee structure

The fees paid to investment managers vary according to asset class. For instance to manage cash does not require the same effort and skill set as is the case when managing equities. The management fees in respect of overseas investments are also higher than those in South Africa. Investment management fees may vary between 0.10% to 2%.

The average investment fee of all investments made by the Fund is about 0.5%. This low fee percentage is due to the negotiating power the Fund has because of the considerable amount of assets. The four life stage portfolios comprise of different asset classes and therefore the investment management fees are allocated accordingly. For instance the Protected Portfolio consists mainly of money market investments (cash) with a lower fee structure and therefore only those fees are allocated to the Protected Portfolio and vice versa with the Aggressive Portfolio which consist of a big component of shares, which cost more to manage. The investment management fees for the four portfolios are approximately as follows:

<b>Aggressive Portfolio</b>	0.56%
<b>Moderate Portfolio</b>	0.49%
<b>Conservative Portfolio</b>	0.47%
<b>Protected Portfolio</b>	0.10%

#### 4.5 Member Investment Choices

The LSM is designed for a member that has contributed for about 35 years. However provision was also made for individual circumstances by allowing for member investment choices. Although the fund credits of members are automatically invested in the relevant life stage portfolio according to age, members may, subject to certain conditions, exercise a written choice if they wish to invest contrary to the applicable life stage.

Members have an unrestricted member investment choice to split the fund credit between all four investment portfolios in any proportion they wish. These include the choice that the contributions be invested in a portfolio other than the Fund Credit, if the member would wish to do so. The contributions shall follow the investment choice in respect of the fund credit unless a specific choice is exercised that the contributions be invested in another investment portfolio. In such event 100% of the monthly contribution shall be invested in that specific chosen investment portfolio, in other words a contribution investment choice may not be split over different investment portfolios. Once a member investment choice is exercised, be it in respect of the fund credit or the contributions or both, it shall at all times be maintained. The only way to get back to the default arrangement is to make a written selection accordingly on the prescribed form.

## 5. IMPORTANT INFORMATION

#### 5.1 What happens to your Contributions

The contribution rate for the majority of members consists of either 22% or 18% of salary contributed by the municipality (employer) and 7.5% of salary contributed by the member. From the 22% contributed by the municipality, 5% used to be allocated to finance administrative expenses and risk benefits (funeral, death and disability benefits). Due to savings, the balance of the Risk Account grew to an extent that the Board, from time to time, decided to trim it and to allocate the surplus to members.

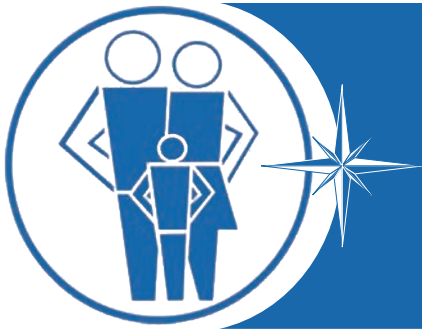
The 5% allocated to finance administrative expenses and risk benefits (funeral, death and disability benefits) was reduced to 4.25% in 2018 and recently reduced again to 3.5%. The balance of 18.5% and the full member contribution now goes towards the Fund Credit account of the member. This means that 1.5% less is going towards administration and risk costs and members are saving more for retirement.

#### 5.2 The status of a Nomination Form

Members often ask about the binding force of a nomination in the event of death of a member. Section 37C of the Pension Funds Act regulates the distribution of a death benefit and it is very explicit in this regard.

It stipulates that if a pension fund cannot trace any dependant of the deceased member within twelve months, then the death benefit must be paid to the nominees as specified on the nomination form. However in the event that there are dependants and nominees, a pension fund must allocate the death "benefit or such portion thereof to such dependant or nominee in such proportions as the board may deem equitable."

The Act entrusts the board of trustees with discretion to distribute the death benefit between dependants and/or nominees. The discretion must be applied within the boundaries set by law. As indicated, the Act distinguishes between two main categories of beneficiaries namely dependants and nominees. It then goes further and categorises the dependants in what is commonly referred to as legal dependants, non-legal dependants and future dependants. As if not complicated enough, the Act then proceeds to divide the non-legal dependants further into factual dependants, the spouse and lastly the children of the deceased.



*"It is very difficult to teach navigation theory  
to someone who clings to the shore."  
- Carol Bly*

A fixed priority order of beneficiaries is to be followed with the distribution of a death benefit namely firstly dependants, then nominees, thereafter the deceased estate and then in the final instance the Guardian's Fund. Many court applications and Pension Fund Adjudicator complaints have been submitted over the years by aggrieved beneficiaries because the nomination form was not followed. The big majority have been dismissed. This shows that many beneficiaries do not understand the status of a nomination form.

The main object of section 37C of the Act is to ensure that those persons who were factually dependent on the deceased during his lifetime are not left destitute and without financial support after his death. (*Madume v Municipal Gratuity Fund & others*). Hence a fund, when making a distribution, should give preference to factual dependants of the deceased. A fund must first determine who were factually dependent upon the deceased and to what extent each person was dependent upon the deceased member. An allocation is then made to every factual dependant in accordance to the extent of the factual dependency of each.

The death benefits payable from the Fund does not form part of the Estate of the late member and therefore spouses do not automatically qualify for 50% of the benefit.

If the death benefit is exhausted and no monies are left once the factual dependency has been taken care of, it is the end of the process and other beneficiaries such as legal dependants (as defined in the Act) and nominees will not receive anything. If, on the other hand the death benefit is not exhausted and there is a residue left after provision was made for the needs of the factual dependants, the residue may be distributed between all the beneficiaries namely dependants and/or nominees. The same beneficiaries often fall under various categories, for instance a spouse and a child are usually factual dependants, are also legal dependants as per the definition in the Act and may be a nominee on the nomination form. In such event the beneficiary may be considered for an allocation under each of these categories.

The next step is to determine the extent of the factual dependency of the factual and future dependants. That's quite a difficult task and takes by far the most time in the distribution exercise, often involving disputes and family feuds. Moreover in the event of multiple marriages with a city family, a rural family and to complicate matters further, a girlfriend with a love child. There are specific considerations to be taken into account in terms of case law.

Once the needs of the factual and future dependants have been taken care of, there may be money left from the total death benefit. This is referred to as the free residue. The free residue is to be distributed between the dependants and/or the nominees. The trustees of a fund have a fairly wide discretion how to divide the free residue. That said, it does not mean that they may distribute it without reason. The discretion is to be exercised fairly and reasonably in an equitable manner. Such distribution may not necessarily be regarded by all beneficiaries as optimal. According to case law it would not be flawed merely because it is not necessarily the best distribution, as long as the Fund applies its mind to the matter having regard to all relevant information and acted rationally to arrive at a proper and lawful decision (*Ditshabe v Sanlam Marketers Retirement Fund & Another* (2)[2001] 10 BPLR2579(PFA)).

Typically the free residue would first be split 50/50 between the two categories, being all the dependants (factual, future and other) on the one side and all the nominees on the other side.

There are many interesting examples in the Pension Funds Adjudicator cases regarding this aspect. However the clear message in terms of the Act as enforced by the Adjudicator and the High Court is that the nomination form is to take second seat to the factual dependency.

In fact in one case where the trustees followed the nomination form to the letter with disregard to the factual dependency needs, the Adjudicator took the trustees to task for not doing their job in terms of law but instead followed the easy way out. The Adjudicator set aside the distribution and ordered the trustees to reconsider the matter, apply their minds and follow the law in making a fresh distribution. Ironically everyone was initially happy with the distribution in terms of the nomination form, hence the decision to give effect to it. Afterwards, one of the nominees got the wiser about the law in this regard and realised that she could have a better deal being a factual dependant as well as a nominee and then submitted a complaint with the Adjudicator.

Over the years a number of complaints have been submitted to the Adjudicator against the Fund about the nomination form not being followed. None of these complaints succeeded but were all dismissed. Suchlike complaints are still submitted and will in future continue because nominees find it difficult to accept the law in this regard because it does not feel right. The general feeling is, who does the legislator (government) think it is to decide how my death benefit shall be distributed. It's my money and I can decide who gets what. Although this approach is appreciated, it needs to be kept in mind that the ultimate goal of a death benefit in a pension fund is to provide for those who were factually dependent upon the deceased.

By law, the Fund must always act in the best interest of the member. However, once the member of a pension fund is no more there, his or her best interest is no more existing but is replaced by the best interest of the beneficiaries, with priority to the factually dependent beneficiaries. Through the years many a case were seen where, if the nomination forms were to be followed, it would have resulted in gross injustice towards the family of the deceased.

Section 37C of the Act is a real head ache for the retirement industry. A lot of resources, energy and effort go into the distribution of a death benefit in terms of section 37C. It leads to animosity towards the Fund when beneficiaries do not get what they want. The two communication officers of the Fund are constantly under fire and abuse by unsatisfied beneficiaries and are often accused for being biased and bribed by other beneficiaries if a beneficiary is not happy with his or her allocation. For years the industry advocated for a revision of section 37C or at best the scrapping of it, to be replaced by a provision that the death benefit be paid to the deceased estate to be allocated in terms of the last will of the deceased or in terms of the law of intestate succession in the event of an intestate death. There is no indication that the position will change soon and until then the Fund has to follow the law.



## Nomination of Beneficiaries

administered by  **Sanlam**



<b>Name Of Member:</b>	
<b>Date Of Birth:</b>	
<b>Pension Number:</b>	
<b>Municipality:</b>	

1. Name your spouse(s) and life partner(s) you consider to be your husband/wife.
2. Name all your children irrespective of their ages.
3. Name any other 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 be considered to share in your death benefits.
5. State the percentage you wish the 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 deeds, a will, etc.

Name And Surname	Address	Contact Number	ID Number	Relationship	Portion %
				<b>Total</b>	<b>100%</b>

Special requests: \_\_\_\_\_

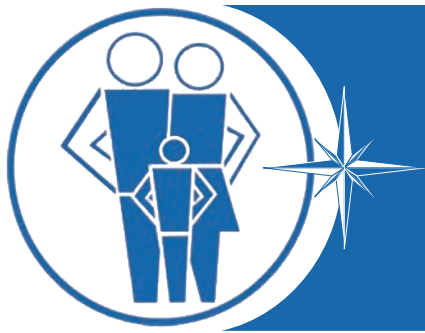
The Fund is requested to take my wishes as set out herein into consideration when allocating my death benefits. I am aware that the Fund is obliged to follow the provisions of the Pension Funds Act, even if it is contrary to my wishes.

Signature

Return to Sanlam Employee Benefits, Private Bag X14, Highveld Park, 0169  
Contact Centre: Tel: (012) 683 3900, Fax: (012) 683 3996  
E-mail: mgfbeneficiary@sanlam.co.za

Date





# Wealth creator of choice

## 5.3 Tax on Pension Benefits

Long ago in the old days, government employees including municipal employees, didn't pay one cent tax on their pension benefit. Those were the days!. However this fairy tale didn't last forever but ended abruptly on 28 February 1998. As from 1 March 1998 all government employees were included in the tax regime of pension benefits. However the savings which accumulated before this cut-off date are excluded from tax. There is a specific formula to be used to calculate the portion which is exempted from tax. This is applicable only to those members who became members of the Fund before 1 March 1998, in other words about 21 years and more ago. Members wishing to know more about how to calculate this exemption are welcome to contact the Fund.

When a member exits from the Fund for whatever reason, a tax directive is to be obtained by a pension fund from the South African Revenue Services (SARS) before payment can be made. SARS calculates the tax payable on the benefit and directs the pension fund to deduct such tax as well as any outstanding monies owing to SARS.

Lump sum benefit (R)	Rate of tax (R)
0 – 25 000	0%
25 001 - 660 000	18% of taxable income above 25 000
660 001 - 990 000	114 300 + 27% of taxable income above 660 000
990 001 and above	203 400 + 36% of taxable income above 990 000

In the event of resignation and dismissal, the tax scales are as follows:

In the event of retirement, death and redundancy, the tax scales are as follows:

Taxable income (R)	Rate of tax (R)
0 – 500 000	0% of taxable income
500 001 - 700 000	18% of taxable income above 500 000
700 001 – 1 050 000	36 000 + 27% of taxable income above 700 000
1 050 001 and above	130 500 + 36% of taxable income above 1 050 000

To illustrate the tax calculation in the event of retirement, death and redundancy, take a member who started membership after 1 March 1998 and with a pension benefit of R2 500 000.

Bracket	Tax	Accummulative tax %
First R500 000	R 0.00	0
Next R200 000 @ 18%	R 36 000.00	5
Next R350 000 @ 27%	R 94 500.00	12
Balance of R1 450 000 @ 36%	R 522 000.00	26
Total tax	R 652 500.00	

As can be seen, the first R500 000 is tax free and thereafter incremental rates of 18%, 27% and 36% apply. The tax up to R1million rand is about 12% but thereafter it is rapidly increasing to the maximum of 36%. The tax in the event of early withdrawal such as resignation will be more because only R25 000 is tax free compared to the R500 000 tax in the event of retirement. The tax free portion is allocated once in a lifetime, in other words if it is used up you can't claim it anymore. For example, if a person used R300 000 of the R500 000 with the first lump sum, the balance left is R200 000 and once this is used up this relief is not available again.



#### 5.4 Register for Tax



It is very important that members ensure that they are registered tax payer before electing to withdraw or retire from the Fund. If you are not registered as a tax payer, or if your tax affairs are not in order SARS will not provide a tax directive and your benefits from the Fund cannot be paid.

#### 5.5 Member Administration

The member administration is outsourced to Sanlam Employee Benefits (SEB) a specialist benefits administrator registered in terms of the Pension Funds Act.

SEB is responsible for all administrative functions with reference to the receipt and processing of contributions, payment of benefits, updating of member information and the payment of death benefits to the beneficiaries of deceased members.

Members may direct their enquiries regarding administrative matters to SEB at telephone **(012) 683-3900 or toll-free 08001 18334**. They can also be visited at West End Office Park Block D, 250 Hall Street, Centurion.

#### 5.6 Complaints procedure

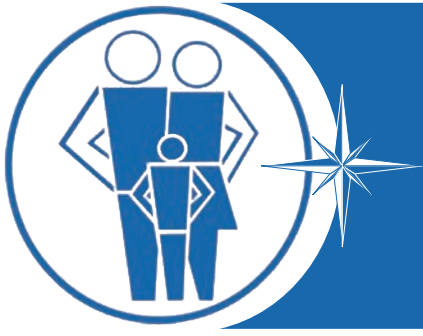
In the event that a member may be dissatisfied with the service provided by the Fund Administrator or the Fund, such member may lodge a written complaint with the Fund in terms of section 15(3) of the Fund Rules. The contact particulars of the Fund are at the end of this Annual Report. If a member is not satisfied with the outcome of the complaint or did not receive a reply within 30 days, such member may lodge a written complaint with the Pension Funds Adjudicator (PFA).

##### *The contact details of the PFA are:*

**Email address:** [enquiries@pfa.org.za](mailto:enquiries@pfa.org.za) **Tel no:** (012) 346-1738 | **Fax no:** (086) 693 7472

**Address:**  
Riverwalk Office Park,  
41 Matroosberg Road,  
Ashlea Gardens,  
Pretoria. 0081





*"And the winds and the waves are always on the side of the ablest navigators." - Edward Gibbon*

## 6. INDUSTRY UPDATE

### 6.1 RATIONALIZATION OF MUNICIPAL FUNDS

Since reporting extensively on the proposed rationalization of municipal pension funds initiatives by the South African Local Government Bargaining Council in the previous report, nothing of note transpired on this front, mainly due to the lockdown regulations. The draft "Facilitator's Proposals" have not been approved by the Bargaining Council as yet.

Reminders were sent by the Fund to the Bargaining Council requesting a response to the submissions made to the Bargaining Council. Despite various efforts by the Fund to be kept informed, the Bargaining Council keeps disregarding the letters of the Fund. To date the approach of the Bargaining Council has been that the pension funds are not parties to the Bargaining Council agreements and therefore not obliged to confer with the pension funds.

The legal assistance of a senior advocate in the retirement industry has been obtained and a formal request for information in terms of the Promotion of Access to Information Act was submitted to the Bargaining Council and the three parties thereto to provide relevant information to the Fund.

From an IMATU regional newsflash it appears that IMATU may start a process to obtain mandates from members to conclude the retirement restructuring collective agreement, lockdown regulations permitting. The Board of the Fund is concerned that members may again be put in a position where they are expected to vote on the matter without having any meaningful information to take an informed decision. Invitations were sent to IMATU and SAMWU to engage the Fund's knowledge from a retirement perspective to assist during branch meetings in order that members may take an informed decision. To date these offers have not been taken up. Fund members are again urged to insist to be informed of the implications of the proposed retirement restructuring before having to vote on the matter. It is the right of members to vote for or against it but at least members should be empowered with relevant information by those seeking a mandate.

### 6.2 RETIREMENT REFORM

The  $\frac{2}{3}$  compulsory annuitisation requirement was implemented on 1 March 2021. This has led to some questions by members and the Fund released a news flash in November 2020 giving a detailed explanation of how the compulsory annuitisation affects our members.

The administrator has made some changes to the administration system and from 1 March 2021 the members will have two portions in their fund credit reflecting their number of units and fund credit value as at 28 February 2021 plus growth from 1 March 2021, it is called the vested portion, which may always be taken into cash and then another non-vested portion which builds up all the contributions paid and growth from 1 March 2021, which is the  $\frac{2}{3}$  compulsory annuitisation.

The February 2021 contributions will still form part of the vested portion of the fund credit.

There are a few important points members should take note of regarding this compulsory annuitisation. Firstly it does not affect any member who has already reached the age of 55 on 1 March 2021. Secondly the non-vested portion building up from 1 March 2021 needs to exceed R247 500 before  $\frac{2}{3}$  need to be invested in an annuity. The vested portion up to 28 February 2021 plus growth may always be taken in full cash. It will take roughly 4 years for the average member in the Fund to build up R247 500, before the  $\frac{2}{3}$  compulsory annuity kicks in. The compulsory annuity is with an insurer chosen by the member, the Fund does not pay monthly pensions. It is sometimes heard that members say they don't want this  $\frac{2}{3}$  compulsory annuity and would rather resign now and take everything in cash. This does not make any sense because if a member does not like it, why resign now at say 40 years of age and why not at 64 years and eleven months? As long as a member resigns before reaching the normal retirement age of 65, even if it only one month before reaching 65, such member may still take the full fund credit in a one lump sum payment. The  $\frac{2}{3}$  compulsory annuity is only applicable to retirement and not to resignation. Remember that there will be a tax implication should the member decide to resign rather than to retire. In the event of resignation R25 000 is tax free whereas at retirement R500 000 is tax free. Another important matter to consider when resigning is the employer contribution towards the medical aid. If a member resigns he could forfeit the employer's contribution towards the medical aid scheme, which should alert the member to rather think twice to resign at that age instead of taking retirement.

The Board adopted the default annuity option underwritten by Sanlam. The annuity option is a guaranteed level life annuity with the option to add a 5% escalation, a certain term up to ten years and a spouse pension of 50% or 75%. It is a very flexible annuity with all these choices, but members must take note that once invested in an annuity, the Income Tax Act, 1962, does not allow for a reversal or to transfer out of the life annuity. Very importantly, this is an "opt in" annuity strategy, which means that members are not automatically transferred to it upon retirement, it is voluntary and only in the event that a member would choose (opt) to be transferred to it.

### 6.3 CHANGES TO REGULATION 28

The 2021 Budget speech by the Minister of Finance, Tito Mboweni, highlighted changes to regulation 28 of the Pension Funds Act to allow for increased investment in national infrastructure projects, and the introduction of auto-enrolment for all employed workers.

The Pension Funds Act guarantees a high degree of protection for your savings in a retirement fund – far higher than in any other type of investment. It stipulates that your savings must be managed prudently with due attention to risk, and that this fiduciary responsibility lies with the fund's board of trustees. Regulation 28 ensures that your investment is diversified and is not overly concentrated in a single asset or asset class – so that, for example, the bulk of your savings cannot land up being invested in the company for which you are working, as happened in the Robert Maxwell pension scandal in the UK 30 years ago.

The main limits set by regulation 28 are that not more than 75% of the fund can be invested in the equity market, not more than 40% can be invested offshore (30% outside Africa and another 10% in Africa outside South Africa) and not more than 25% can be invested in listed property. It also limits investment in private equity and hedge funds to 10% of the portfolio.

The announcement by the minister that regulation 28 would be changed to allow for increased investment in infrastructure was followed later last week by the publication of draft amendments to the regulation to allow for this.

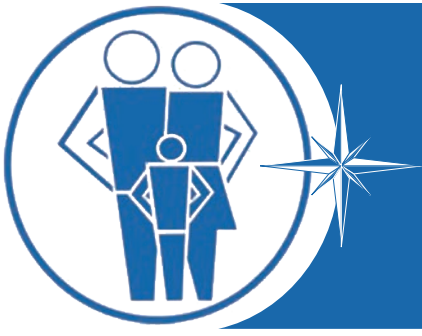
Until now “infrastructure” has not been defined under regulation 28, which has concerned itself with broad asset classes. The draft amendment does not introduce infrastructure as a new asset class but allows for infrastructure investments to be recognised and recorded within asset classes – they may take the form of listed equities (companies listed on the JSE focusing on infrastructure projects), government or corporate bonds (many infrastructure projects are funded through bonds) or private equity (unlisted companies specialising in infrastructure).

Across these asset classes, the proposal is that infrastructure investment be limited to 45% of the portfolio. Although that may seem a high percentage, your Fund already invests upwards of 25% in infrastructure through government bonds. Don't forget, this is merely a limit. Nothing is being prescribed.

There is no immediate changes that the Fund needs to make to its Investment Policy and no cause for concern for members.







## 7. FINAL **WORD**

*IF YOUR LIFE IS CLOUDY AND YOU'RE FAR, FAR OFF COURSE, YOU MAY HAVE TO GO ON FAITH FOR A WHILE, BUT EVENTUALLY YOU'LL LEARN THAT EVERY TIME YOU TRUST YOUR INTERNAL NAVIGATION SYSTEM, YOU END UP CLOSER TO YOUR RIGHT LIFE.*

*Martha Beck*



## 8. CONTACT **MGF**

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### **Home Loans:**

All enquiries about pension-backed housing loans must be directed to Standard Bank at telephone number **0861 009 429**

or

First National Bank at telephone number **0860 762 278**

### **Indemnity Statement**

*The MGF does not accept liability for any loss, damage or expense that may be incurred as a direct result or consequence of reliance upon the information in this document. If there is any conflict between the information in this document the Rules of the Fund will prevail.*



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**Your Fund helps to  
navigate you through  
turbulent times to a sound  
financial future.**

