

# **MGF** Annual Report 2021



## **Stability**

Stability is the **quality** of a product, system, or service to **withstand** a temporary problem. It has been the **strength** and strategy of **The Fund** to endure and restore **equilibrium**.

## **Reliability**

Reliability is the **consistency** of a product, system, or service to **perform** its intended function for a specified time **without failure**.

# **Municipal Gratiuity Fund**

Wealth creator of choice



# MGF

wealth creator of choice



*"True **stability** results  
when presumed order  
and  
presumed disorder  
are **balanced**.  
A truly stable  
system expects  
the unexpected,  
is prepared to be  
disrupted,  
waits to  
be transformed."*

*- Tom Robbins*

## Contents

## Page

<b>1. MESSAGE BY THE CHAIRPERSON</b>	<b>03</b>
<b>2. MEET YOUR BOARD MEMBERS</b>	<b>04</b>
<b>3. REVIEW OF THE YEAR'S ACTIVITIES</b>	<b>06</b>
3.1 Economic Outlook	06
3.2 Looking Ahead	07
3.3 Investment Strategy and Portfolio Returns	10
3.4 Actuarial Valuation	11
3.5 Financial Statements	12
3.6 Rule Amendments	13
3.7 Housing Loans	13
3.8 Marketing No - Communication Yes	14
3.9 Family Funeral Plan	16
<b>4. INVESTMENTS</b>	<b>17</b>
4.1 Investment Policy Statement (IPS) and the Life Stage Model (LSM)	17
4.2 Life Stage Model (LSM)	17
4.3 Life Stage Model investment portfolios	18
4.4 Member Investment Choices	23
4.5 Investment Returns	24
4.6 Fee structure	25
<b>5. IMPORTANT INFORMATION</b>	<b>26</b>
5.1 What happens to your Contributions	26
5.2 The status of a Nomination Form	26
5.3 Nomination of Beneficiaries	28
5.4 Member Administration	29
5.5 Complaints procedure	29
5.6 Tax on Pension Benefits	30
<b>6. INDUSTRY UPDATE</b>	<b>31</b>
6.1 Rationalisation of Municipal Retirement Funds	31
6.2 Retirement Reform Update	32
6.3 Regulation 28 Changes	32
6.4 Proposed Two-Pot System	33
<b>7. A FINAL WORD</b>	<b>34</b>
<b>8. CONTACT MGF</b>	<b>35</b>



# 1. MESSAGE BY THE CHAIRPERSON

***I am delighted to share this Board Report with you.*** The Fund is in a sound financial position with assets of R31.5 billion, breaking through the R30 billion mark which is quite an achievement in these trying times. The Fund once again received a clean audit and good governance, business integrity and ethical practices are of high importance to the Fund and its various service providers.

Navigating through the chaos of the past two years and now the war between Russia and the Ukraine your Fund continues to provide consistency and stability - ***consistent growth in our assets and consistent and stable service delivery to our members.***

***I want to express my heartfelt condolences*** to everybody who lost loved ones and colleagues due to the Covid pandemic, as I do not think anybody was left untouched.

In the past 20 months not only our country, but the whole world, had to face many challenges. The economy has struggled with the continuous lockdowns where many small and even bigger businesses did not survive through the pandemic leaving a much higher number of unemployed people without an income.

***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 financial 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 Client Relations Manager and ***Keith Anthony*** the Fund Financial Manager,

- ***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 Thelma Kajongwe*** together 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 interim actuarial valuation done,
- ***to our new PO/CEO, Christine Seierlein***, the Board has been working with her for nearly a year now and has seen the value and inputs that she brings to the Fund and we can say without a shadow of a doubt that she is the right appointment to this position.
- ***to the six staff members of the Fund*** for their dedicated commitment to the Fund and its members, with a special word of welcome to ***Edith da Cunha*** who was appointed to the position of Communication Officer on 1 October 2021,
- ***to every Board member***, your valuable inputs, debate and differences of opinion. Your 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.



**Piet Venter**  
**MGF Chairperson**

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

**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.**

Mr. Piet Venter	Chairperson	Employee
Mr. Roja Ramare	Vice-chairperson	Employee
Mr. Jannie Venter	Executive Committee member	Independent
Mr. Johan Grobbelaar	Executive Committee member	Independent
Mr. Eddie Alberts		Independent
Mr. Philip du Buson		Employee
Mr. Sphiwe Khumalo		Employee
Mr. JJ Mahlangu		Employee
Mr. Lifa Majola		Employee
Ms. Musiwa Netshimbupfe		Employee
Cllr. Aaron Ngubeni		Employer
Cllr. Johanna Rangata		Employer



**Piet Venter**

**Piet Venter** (61) is the Chairperson of the Fund since 2012. 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 26 years experience as a board member of which the last nine years as Chairperson.

**Roja Ramare** (53) has almost nine years experience as a Board member. He has served as the Vice-Chairman since October 2020. 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 Fresh Produce Market.



**Roja Ramare**



**Jannie Venter**

**Jannie Venter** (69) 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 City Treasurer and Manager Financial Services.

**Johan Grobbelaar** (70) has 17 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 38 years employment in the financial department of Merafong City the last 26 years as Assistant Chief Financial Officer. He is also a Registered HR professional with the SABPP. During his tenure as municipal employee he was actively involved in other member related matters such as serving on the NEC of IMATU and various other committees.



**Johan Grobbelaar**



**Eddie Alberts**

**Eddie Alberts** (62) 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 25 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** (54) 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.



**Aaron Ngubeni**





**Sphiwe Khumalo**

**Sphiwe Khumalo** (51) 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 Buson**

**Philip Du Buson** (63) 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.



**Lifa Majola**

**Lifa Majola** (40) is the youngest Board member and holds an LLB Degree from the University of KwaZulu-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.

**Jabu Mahlangu** (50) 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 on 1st July 2011 after having served as the Counsellor in the same Municipality for two terms from 2000 to 2011 May.



**Jabu Mahlangu**

**Musiwa Netshimbupfe** (45) 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.



**Musiwa Netshimbupfe**

**Johanna Rangata** (48) started her career as a teacher in 2007 and then advanced to Ward Councilor for Blouberg Municipality in 2011. Her qualifications in Education as well as Municipal Governance and Management makes her an asset to the board. With 16 years experience in Municipal positions, she has also done courses in Municipal Performance Management, Road Traffic Legislation and Ethics Management.



**Johanna Rangata**

## 3. REVIEW OF THE YEAR'S ACTIVITIES

### 3.1 Economic Outlook

**The 2020/21 financial year saw risk assets surge following the sharp Covid-19 sell-off in March 2020. As a consequence, the Fund's risk-profiled portfolios all handsomely outperformed their CPI-related benchmarks.** Unlike normal recessions where both demand and supply decline in tandem with each other as jobs are shed and output reduced, this time around demand held up as **governments implemented fiscal stimulus measures that dwarfed those of the 2018 Global Financial Crisis.** Apart from generous unemployment benefits, other stimulus measures included a USD 900 billion boost under Trump's pandemic stimulus bill, which followed an earlier USD 2 trillion coronavirus-relief package (the CARES Act) approved in March. Further stimulus is expected from the Biden administration following the Democrats' election win. While some USD 550 billion has already been approved for the American Jobs Plan, negotiations are still continuing on the American Families Plan, expected to total some USD 2 trillion. The European Union (EU), in turn, announced a Euro 750 billion stimulus package, with all countries sharply increasing their fiscal deficits in order to offer pandemic relief packages. Central banks also did their part, with the US Fed retaining bond purchases at USD120 billion per month, the European Central Bank (ECB) expanding its pandemic purchase programme by Euro 500 billion to Euro 1.85 trillion, while also extending the Targeted Long-Term Refinancing Operations (TLTRO) for banks by 12 months to the end of June 2022.

But, supply declined sharply as lockdowns prevented economies from producing, setting the stage for large scale supply chain disruptions that would fuel a surge in producer and consumer price inflation, pushing bond yields higher in the process. Due to a backlog of orders, a slowdown in supplier deliveries and low customer inventories - all pandemic-related dislocations from global supply chains and labour market challenges - input price pressures have proved to be more persistent than transitory. While the progressive reopening of economies will accentuate these dynamics because of pent-up demand, the demand-supply mismatch will generate an inflationary burst, until supply is restored. The seasonal tourism and hospitality sectors were hardest hit with flights banned, hotels shuttered and tourists stuck in lockdown. As infection rates increased globally and lockdown restrictions tightened, economic growth collapsed in the second quarter of 2020 dragging global growth down by 3.1% for the calendar year. **However, amid signs that a V-shaped recovery was unfolding given the atypical recession, commodity prices surged on supply shortages and a weaker USD. The rand appreciated by 21.7% against the USD, helping domestic and emerging market equities to outperform their developed market counterparts over the year.**

**In the first half of the financial year,** regulatory approval of Covid-19 vaccines and the start of nationwide vaccinations in the UK and the US boosted sentiment as investors betted that vaccinations would end lockdown restrictions, fueling the reopening/reflation trade.

As a consequence, value stocks were expected to outperform growth stocks, small caps to outperform large caps and inflation-linked bonds to outperform their nominal counterparts. The sector rotation out of growth into value stocks was evident in the first half of the financial year, with the MSCI World Value Index returning 15.1% in US dollars and the MSCI World Growth Index some 11.3%. Support for value over growth stocks also came from former President Donald Trump's executive order banning US investors from investing in Chinese companies, with supposed links to the Chinese military. With some 80 companies added to the US list of banned companies, including SMIC, Tencent and Alibaba, the tech trade war was far from over.

**In the second half of the financial year,** Chinese technology companies were once again in the spotlight as China's regulatory authority clamped down on anti-competitive behavior by Chinese platform companies, issuing a US\$ 2.8 billion fine to Alibaba. The regulatory clampdown was soon to be extended to fin-tech businesses, the private education sector, media entities owned by platform companies, gaming businesses and excessive leverage in the property sector, all under the guise of "common prosperity" for the Chinese people.

The rally in risk assets continued in the second half of the financial year as economies gradually re-opened as vaccination rates reached herd immunity levels, consensus earnings were revised higher and purchasing manager indices pointed to a sharp rebound in economic growth over the coming quarters. The market appeared to shrug off the rise in long bond yields, which captured both upward revisions to inflation and economic growth, at least until the end of the financial year. It is no surprise then that global fixed income assets classes lagged the returns of their riskier counterparts. The same cannot, however, be said of **South African bonds which yielded returns in line with global equities, benefiting from rand appreciation, yield compression and a favourable terms of trade.**

Unlike the first half of the financial year where emerging markets outperformed developed markets, emerging market returns lagged in the second half as China's crackdown intensified and the country's credit impulse waned on central bank instructions for banks to curtail lending. Other headwinds included Turkey's firing of its central bank governor, while a spike in Brazilian Covid-19 infections of the P1 strain was a further constraint. **Despite the high weighting of Naspers and Prosus in the All Share Index benchmark, the domestic equity market outperformed its developed and emerging market counterparts even as China's crackdown on technology heavyweights weighed heavily on the Tencent share price. Gains in SA Inc. counters, including SA listed property, were more than enough to offset the drag from technology stocks on overall returns.**





## 3.2 Looking ahead

*The outlook for the global and the South African economy is summarised below.*

### 3.2.1 The Global economy

After the Fund's financial year-end, risk assets came under pressure from a lethal cocktail of surging energy costs in Europe and China, ongoing supply chain disruptions, a possible US debt default and expectations of asset purchase tapering by the US Federal Reserve (Fed). With bond yields rising in tandem with rising inflation expectations, investors have become more concerned about global growth prospects, particularly in China, and the knock-on effect this could have on industrial commodity exporting countries and energy importing countries. ***The International Monetary Fund in its October World Economic Outlook report revised global growth marginally lower to 5.9% this year from 6.0% in its July report, whereas for 2022 the growth estimate was left unchanged at 4.9%, still high relative to trend growth. Beyond 2022 global growth is projected to moderate to about 3.3% over the medium term.*** The downward revision for 2021 reflects a downgrade for advanced economies - in part due to supply-chain disruptions and an energy squeeze - and for low-income developing countries, largely due to worsening pandemic dynamics as a result of low vaccination rates. This is partially offset by stronger near-term prospects among some commodity-exporting emerging and developing economies.

Since elevated energy costs will filter through into reduced consumer spending and lower industrial consumption, it is no surprise that growth estimates are being revised lower, with investors fretting about the forward earnings outlook and a bigger-than-expected equity market derating in coming quarters as monetary conditions are tightened. The funding squeeze on China Evergrande Group and the potential for further defaults by other property developers has also raised concerns that defaults and surging high-yield bond spreads could trigger a systemic failure in the financial system. The Peoples Bank of China (PBoC) has, however, assured investors that the current situation was manageable, but did not indicate which measures it would take to prevent a disorderly default.

A further cause of investor uncertainty has been the Fed's stated intention of tapering its asset purchase program before the end of the year, even though asset purchase tapering and policy rate hikes are viewed as two separate issues by the Fed. While tapering is expected to be completed by the middle of 2022, the Fed's median dot-plot shows that the Federal Open Market Committee (FOMC) members expect the first policy rate hike to come into effect in 2023, with a cumulative 75 basis points of increases expected in that year. In 2024, a further 75 basis points of increases is expected, bringing

the fed funds rate to 1.75%. More recently, fed fund futures have brought forward two rate hikes of 25 basis points each in the second half of 2022, further adding to uncertainty and volatility in markets.

But, monetary accommodation is expected to remain in place in the EU and Japan, even as the ECB plots its exit from the Pandemic Emergency Purchase Program (PEPP) by March 2022. The ECB is also expected to introduce a new bond buying program to complement its existing quantitative easing (QE) program that came into effect in 2015. The intention behind the new program is to ensure sufficient policy tools to prevent periphery country bond spreads from widening as the Pandemic Emergency Purchase Program is withdrawn. However, even as policy rates are likely to be tightened in the US, real policy rates (after adjusting for inflation) are likely to remain in negative territory, lending support to risk assets. Since the USD is a counter-cyclical currency, a stronger USD – due to rising real interest rates – would be a headwind for growth as commodity prices would come under pressure, while high levels of USD-denominated emerging market debt would increase default risks for those countries.

The debate on whether inflation will be transitory or more persistent is a further headwind for risk assets. While pandemic related price increases in used car and truck prices, car rentals and accommodation costs will prove to be transitory, the spike in energy costs could prove to be more persistent, at least over the northern hemisphere winter. Wage cost pressures from the on-shoring of global supply chains and the holding of higher inventory levels could also extend well into 2022, with surging house price increases and ongoing supply chain disruptions further headwinds over the coming year. ***Monetary policy will therefore need to walk a fine line between tackling inflation and supporting the economic recovery.***

*“Innovation is an  
inexhaustible engine for  
economic development”*

- Li Keqiang

## 3.2.2 The South African Economy

The IMF in its World Economic Outlook report revised South Africa's 2021 growth rate higher, up from 4% in July to 5% in October. But the upward revision came with a warning of a long road to recovery for economies reliant on tourism and those that were behind with their vaccination programs. The growth forecast for 2022 was left unchanged at 2.2%, suggesting the IMF is not convinced that structural economic reforms will be forthcoming any time soon. The upward revision to the current year's growth estimate was due to the windfall from surging commodity prices and revenue over-runs that have helped support the recovery. The IMF's upward revision to growth was not too dissimilar to that of the Reserve Bank which increased its own estimate to 5.3% from 4.2% in July. In the South African Reserve Bank's (SARB) case, the upward revision to the current year's growth forecast also followed Stats SA's rebasing and re-benchmarking exercise that showed the economy 11% bigger than initially thought in 2020, with household consumption expenditure revised 16% higher. But the SARB's forecasts in the 2022 and 2023 outer years were revised lower from 2.3% and 2.4% to 1.7% and 1.8% respectively, highlighting the challenge the country faces in making inroads into the 34% unemployment rate. The President's recent decision to raise the electricity self-generation threshold for businesses to 100MW from 1MW could, however, contribute positively to fixed capital formation growth in coming years. Notwithstanding delays in the auctioning of broadband spectrum due to legal challenges from mobile operators, 2022 is likely to see a resolution to the impasse, paving the way for further investment in the economy.

Support for the upward revision to growth can be seen in the latest Absa purchasing managers index that recovered sharply after the July unrest. The new orders-to-inventories sub-components rebounded, pointing to an acceleration in manufacturing activity over the coming quarters as inventories are rebuilt, not just from the July unrest, but also from the Covid-related lockdowns.

Despite the subdued economic growth outlook for 2022 and 2023, bottom-up consensus earnings estimates are still supportive of equities, especially since the market is attractively priced when valued on a forward price-to-earnings basis. Since the All Share Index is trading on a trailing price-to-earnings ratio of 11.4X, well below the 15.8X mean and one-standard deviation below the mean, earnings growth is expected to drive returns in the year ahead. The market's forward price-to-earnings ratio of 9.9X also supports this view, not too dissimilar from the MSCI SA forward multiple of 9.2X earnings.

**Unlike many other emerging and advanced economies where consumer price inflation is elevated, South Africa's inflation rate has remained well contained within the SARB's 3% to 6% target range despite sharply higher transport (petrol) and food prices.** In contrast, core inflation is anchored at around 3%, the low point of the target range. Since food and transport inflation are likely to remain elevated for the next few

months, headline inflation is likely to hover around the 5% level before moving back to the middle of the inflation target range next year, aided also by positive base effects from 2020. Yet, despite the favourable inflation outlook, the money market and the Reserve Bank's Quarterly Projection Model (QPM) are pricing in large increases in the repo rate. The QPM's implied path of interest rates sees the repo rate rising to 5.17% by the end of 2022 and to 6.36% by the end of 2023, while the money market expects the repo rate to end 2022 at some 5.5%, rising further to 6.5% in Q3 2023, a cumulative increase of 3% from current levels.

**In the event that the money market is correct, a long duration bonds position is expected to reward investors given expectations of a yield curve bear flattening, where short term interest rates rise and long term rates fall.** High real yields in excess of 5% lend further support to domestic bonds. Since breakeven or expected inflation of 6% exceeds the average inflation estimate of some 4.5% over the next few years, the yield pick-up of some 1% by nominal bonds over inflation-linkers, even after adjusting for the inflation risk premium, highlights the preference for nominal bonds over inflation-linkers. However, since inflation-linked bonds are a risk diversifier within portfolios, exposure is retained in this asset class in the event that inflation surprises on the upside.

But bond market risks abound ahead of the November Medium Term Budget Policy Statement, given growing calls on the new Minister of Finance, Enoch Godongwana, to implement a basic income grant, a proposal supported by the World Bank given SA's high unemployment rate. Funding for some form of National Health Insurance (NHI) could also be on the cards given repeated calls by the government and the President to implement such a programme. While the favourable terms of trade have underpinned tax revenues in the current fiscal year and have buoyed incomes, Treasury will not be able to rely on a similar windfall in the 2022/23 fiscal year, given expectations of slower global growth and softer commodity prices. **In addition, the unbundling of Eskom into three separate entities will also have cost implications, with the transmission business on track to be unbundled by the end of this year and the distribution and generation businesses by the end of 2022.** While National Treasury has been in discussions with climate envoys about the possibility of a green funding facility, this is likely to be confined to renewable energy projects only and not for the refinancing of coal assets. This still leaves Eskom with unsustainable debt, which may require Treasury moving some of this debt onto its balance sheet with obvious implications for the country's fiscal metrics.

**“What is growth for  
if not to help  
ordinary people thrive?”**

- Winnie Byanyima





## 3.2.3 Summary

In summary, our base case view is that the surge in energy prices will likely to be short-lived, with 2022 expected to see a large inventory rebuild as companies restock and consumers draw down on their excess savings built up over the pandemic period, to spend on goods. Supply chain constraints are expected to ease with semi-conductor backlogs filled, aiding a recovery in the global automotive sector, amongst others. Fixed investment expenditure is also expected to increase, highlighted by the current divergence between capital goods orders and shipments, as port congestions and logistical bottlenecks ease. These growth drivers are expected to offset the contractionary effects of decreases in fiscal outlays expected over the coming year. While monetary policy normalization in the US is expected to result in an equity market derating, there is still sufficient earnings growth momentum in markets to support an overweight position in risk assets.

### **A word on the Russia-Ukraine War**

- War and finance have always been intricately linked, with long-term returns impacted when countries are directly involved.
- The global growth and inflation outlook is now even more uncertain.
- Thanks to higher commodity prices South Africa has, so far, weathered the storm.

**“Buy when the cannons are firing and sell when trumpets are blowing.”** This quote is often attributed to **Nathan Rothschild** who greatly expanded the family fortune by buying UK government bonds before news of Napoleon’s defeat at Waterloo reached London. There is no evidence he said, but it does highlight the fact that throughout history, wars and finance are intricately linked. Wars are expensive.

The key questions to which no-one, perhaps not even Russian President Vladimir Putin himself, knows the answers are how long the war will last, how it will end, and whether it will escalate. For now, the following is known. Russia has been subjected to severe sanctions that are shutting it out of the global financial system and hobbling its economy. These are probably much more severe than what Putin expected and might ultimately limit his ability to wage war. Commercial banks and the central bank have been sanctioned, which means the latter’s much-touted \$640bn in gold and foreign exchange reserves have largely been

rendered useless. With the rouble collapsing to record lows, the central bank doubled interest rates to 20% to halt further capital flight. Foreign companies are pulling out of investments, even at the cost of billions. Russia has become a pariah state and its economy will suffer short and long-term damage as a result. Ukraine’s economy will also suffer much damage, including physical damage to infrastructure, but it is a small economy in the global context (South Africa’s GDP is three times larger, for instance).

***For now, South Africa is weathering the storm. South African bond and equity returns have outperformed global investments since the start of the year in dollar terms.***

### ✓ **Keep calm and diversify**

***Once again, this is a reminder of the importance of diversification. It would not have been obvious a few months ago that South Africa would be a relative safe haven in a very uncertain world. However, markets are unpredictable and diversification is the best defence against such uncertainty.***

***“Where there is  
no corruption,  
there will be  
no poverty”***

*- Benigno Aquino III*

## 3.3 Investment Strategy

### 3.3.1 Long term investment goal

It is the Fund's long-term objective to provide for a 75% net replacement ratio (NRR) at retirement, which in layman's terms means that if you retire and you invest your fund credit your monthly pension should be equal to 75% of your last salary earned prior to retirement. National Treasury released a Media Statement whereby it seems like an early emergency withdrawal could be allowed from funds in future. Unfortunately, this will have a negative effect on the 75% NRR, which will not be reached if the early withdrawal option becomes legislation.

The Fund received a number of queries from members in this regard, but in the Media Statement from National Treasury it is not yet clear how or in which instances the early withdrawal will be allowed, as it seems like it would be coupled to Covid relief and in the municipal arena all members received their full salaries. Read more about the Governments proposed Two-Pot system under Industry Update later on in this Report.

It is of the utmost importance to reach at least the 75% NRR, thus members are encouraged not to withdraw from their retirement savings prior to retirement. Even in the event of resignation it is in the best interest of members to preserve their benefit for retirement and not utilise it to pay off debt.

#### Did you know?

- ✓ **If you work for 40 years you ONLY have 480 pay days to save for your retirement.**
- ✓ **Shortening the savings period by just 5 years reduces the retirement benefit significantly.**

The last five years prior to retirement is where the bulk of returns are earned and if the fund credit is reduced that would result in a reduced return as well, not percentage wise, but the actual rand value earned as a return will be much lower as the fund credit on which it is calculated will be much lower, as a result of the partial withdrawal.

#### Did you know?

- ✓ **Your retirement savings in the first 10 years of your working life (i.e. assuming you contribute for 30 years), could contribute towards 50% of your pension. Cashing these in when you change jobs means giving away half of your retirement savings. Preserving your benefits when you exit the Fund is the smart choice.**

The Fund had exceptional returns for the past financial year, especially if all the challenges of the pandemic are taken into account.

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 below, is significant.

Annualised investment objectives and returns for the period July 2005 to 30 June 2021

Portfolio	Return objective		Actual return	Objective outperformance	Inflation outperformance
AP	CPI + 5%	10.57%	11.59%	1.03%	6.03%
MP	CPI + 4%	9.57%	10.60%	1.03%	5.03%
CP	CPI + 3%	8.57%	9.43%	0.87%	3.87%
PP*	Cash	6.27%	7.00%	0.73%	2.04%

\* 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.

#### There are three basic steps to achieve your retirement savings goal:

- ✓ Start as early as possible. This lets you benefit from compound growth, so you can save less as a percentage of your salary over your lifetime, and still achieve your retirement goal.
- ✓ Contribute consistently over time - discipline in saving can make or break your financial success.
- ✓ Always preserve your retirement savings if/when you change jobs.





## Seven habits of financial healthy retirees

**A study done by Sanlam show that financial healthy retirees have the following in common:**

- They **start saving early** - they save for 33.2 years compared to the average of 29 years.
- They **save as much as possible** - financially healthy retirees save 8% (excluding the employer's contribution) of their salary on a monthly basis, the average is 7.3%.
- They **don't rely on the company** - financially healthy retirees have a retirement annuity in addition to their company retirement fund.
- They **leave their savings alone** - Only 12% of these retirees dipped into retirement savings when they switched jobs, on average 21% did.
- They **widen their nets** - 98% of well-off retirees have additional sources of income, compared to 68% on average.
- They **use the pros** - 88% consulted a financial adviser before retirement and 72% after retirement. The average is 58% before and 34% after retirement.
- They **make sure their money grows after retirement** - 48% of well-to-dos have a guaranteed escalation annuity and only 8% have a level annuity.

## 3.4 Actuarial Valuation

The last compulsory 3-year statutory actuarial valuation of the Fund was performed for the period 1 July 2017 to 30 June 2020 and submitted to the Financial Sector Conduct Authority (FSCA). The Board appointed the independent actuary to also perform the same rigid actuarial valuation, as is required by the Pension Funds Act, to be done for each of the two interim years as well. Such interim valuation was done for the period 1 July 2020 to 30 June 2021. As indicated on page 51 of the annual financial statements, the actuary made an unqualified finding that the Fund was financially sound as at 30 June 2021. The next 3-year statutory valuation will be performed for the financial year ending 30 June 2023.

At the Board meeting on 2 February 2022 the Board, in consultation with the Actuary, resolved that the contribution towards the Risk Account be increased from 2.95% to 3.6% of pensionable salary, with effect from 1 March 2022. Together with the increase in the Risk Account contribution the Board resolved to decrease the contribution towards the Operational Account from 0.55% to 0.40%. Although the increase in the contribution towards the Risk Account is 0.65% the reduction in the contribution towards the Operational Account assisted in only increasing the total contribution towards the Risk Account and Operational Account by 0.50% from 3.5% to 4%. This 4% is funded from the employer contribution, which still compares favourable with the risk and administration cost in other funds.

Sadly, due to the Covid-19 pandemic the Fund, like other funds, experienced a significant increase in the number of death cases of our members in the Fund, which necessitated the increase in the contribution towards the Risk Account. This pandemic left nobody untouched and the Fund expresses its heartfelt condolences with all who lost a family member or loved one during this pandemic.

The Board, in consultation with the Actuary, is keeping a watchful eye on the balance in the Risk Account and if the claims experience improves the contribution will be reconsidered.

***“Financial stability is  
the freedom to live  
life on your terms  
without worrying about  
how you’ll pay  
your next bill.”***

- Derek Silva

## 3.5 Financial Statements

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 2020/21 financial year. The Fund again received an unqualified (clean) independent audit report. As reflected in the balance sheet on page 30 of the financial statements, the total asset value as at 30 June 2021 is just over R31.5 billion. Breaking through the R30 billion mark is quite an achievement in these trying times. According to the income statement on page 31, the contributions were R2.3 billion and investment returns were R900 million. 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 R41.3 million, which is funded from the 0.40% of salary contribution.

### Statement of Net Assets and Funds

	30 June 2021	30 June 2020
	R	R
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>31,226,393,310</b>	<b>26,573,994,782</b>
Property and equipment	192,889	315,198
Investments	31,213,484,200	26,556,195,782
Housing loans	12,716,221	17,483,802
<b>Current assets</b>	<b>352,361,180</b>	<b>276,134,392</b>
Accounts receivable	2,599,648	2,605,034
Arrear contributions	61,012,863	69,619,474
Cash and cash equivalents	288,748,669	203,909,884
<b>Total assets</b>	<b>31,578,754,490</b>	<b>26,850,129,174</b>
<b>FUNDS AND LIABILITIES</b>		
<b>Members' funds and surplus account</b>	<b>29,630,654,993</b>	<b>25,740,790,327</b>
Members' individual accounts	29,523,658,096	25,553,160,451
Amounts to be allocated	106,996,897	187,629,876
<b>Reserves</b>	<b>228,458,581</b>	<b>319,994,999</b>
Reserve accounts	228,4581	319,994,999
<b>Total funds and reserves</b>	<b>29,859,113,574</b>	<b>26,060,785,326</b>
<b>Non-current liabilities</b>	<b>6,338,561</b>	<b>7,655,508</b>
Unclaimed benefits	6,338,561	7,655,508
<b>Current liabilities</b>	<b>1,713,302,355</b>	<b>781,688,340</b>
Benefits payable	1,645,055,314	771,321,114
Accounts payable	68,247,041	10,367,226
<b>Total funds and liabilities</b>	<b>31,578,754,490</b>	<b>26,850,129,174</b>





*"If you want to reach  
financial stability,  
you also need to **plan** for the  
days when you won't  
have a salary.  
This is especially true if  
you have any plans  
for retirement.  
Want to travel after you retire?  
Want to volunteer or  
take some local classes?  
Those are all great things,  
but you can't do them  
without money."*

- Derek Silva

## 3.6 Rule Amendments

Two rule amendments were approved during this financial year which are summarised under paragraph 1.4 on page 18 of the financial statements. The upper age of 69 was removed, thus a member may, with the written approval of their employer, remain in service after normal retirement age of 65, with no upper age limit. The other important rule amendment was to make provision for the annual meeting to be postponed, due to the Covid restrictions on conferences for more than 100 delegates, last year this time as well as the election of the Board and General Committee members.

## 3.7 Housing Loans

Standard Bank informed the Board that they 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 this date forward. This will not have an effect on loans members have with Standard Bank prior to 1 March 2021.

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 the 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.

## 3.8 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.

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 visit the various municipalities on a regular basis and attend to numerous member requests. Stanley is a familiar face at every municipality and needs no introduction.

Ms Edith da Cunha joined the Fund as our new Communications Officer, after the Board went through a thorough recruitment process. She was previously working at Sanlam and was exposed to Fund matters, thus she is not an entire stranger to the Fund. We wish her well in this new position and want to express our wishes that her contribution will be to the benefit of all members and the Fund in general.

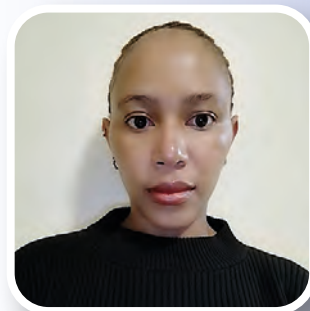
Communication with members remains a priority of the Fund. This is one of the main reasons why the Fund established a front office on 1 July 1999. Instead of leaving the communication services to the fund administrator, the Fund identified the need by members to put a face to the Fund and to have an 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**



**Edith**

***The Fund has a communication division rather than a marketing division.***

***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 provides comprehensive, objective and retirement-related information about the Fund rather than engage in cheap marketing.***







*The most popular means of communication remains the visits by the communication officers to the work places and direct live telephone calls.*



*The availability and approachability of the Fund's staff appears to entrench the direct communication channels 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.*

**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.

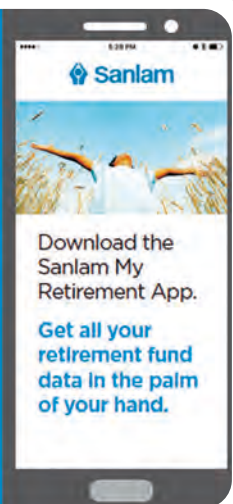
The app is available for download by searching "Sanlam My Retirement" on:



or simply scan the QR code to download the app.



Don't miss out on this unique innovation. Contact your HR department for more information.



## 3.9 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. Funeral benefits continue after the age of 65 years if members continue to work past normal retirement age.

### 3.9.1 New Nomination Form for Funeral Benefits

Members are now required by law to complete the Funeral Nomination Form. In the event of your death, the funeral benefit will be paid to the person that you nominated in your nomination form. Should you not have completed a nomination form, then the benefit will be paid into your estate. **Please note that your estate may take up to 12 months to be opened and your family may not have the money to bury you should a completed form not be available.**



The Benefits Claim Form and Funeral Nomination Form is available from SANLAM.



The **email** address for submission of claims is: [SGRJHBCclaims@sanlam.co.za](mailto:SGRJHBCclaims@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.**

### 3.9.2 Funeral Support

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

### 4.1 Investment Policy Statement (IPS) and 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:

- ✓ **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.

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%); Protection and Income Enhancement (55%)
<b>Conservative</b>	60 to 62	61 to 63	8%	Low	Capital Protection and Income Enhancement (100%)
<b>Protected (With effect from September 2011)</b>	63 to 65	>63	4%	Low	Capital Protection (100%)

## 4.3 Life Stage Model investment portfolios

The Life Stage Model (LSM) was adopted by the Board as the default investment option for members of the Fund. The LSM is made up of four portfolios being the Aggressive Portfolio (AP), Moderate Portfolio (MP), Conservative Portfolio (CP) and Protected Portfolio (PP). This LSM took a decent amount of time and investment knowledge to construct, which was done in conjunction with the investment advisor of the Fund. Members do however have the option to opt out of the LSM into a mix of portfolios of their choice adding up to a 100% allocation. Members invested in the LSM will automatically be switched from the one portfolio to the next according to their age next birthday. This automatic switch is performed in four quarterly batches according to the age next birthday starting on 1 July of each year. The table below shows the investment of a member at age next birthday.

Age	% in AP	% in MP	% in CP	% in PP
Younger than 55	100%			
55 to 60		100%		
60 to 63			100%	
Older than 63				100%

**The Fund's Investment Policy Statement (IPS)** is available on

the website [www.mymgf.co.za](http://www.mymgf.co.za) and

an extract of the LSM follows on the next few pages.

[Home](#)
[Policies](#)
[Benefits](#)
[Benefit Statements](#)
[Portfolios](#)
[Publications](#)
[Housing](#)
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**MGF**  
Wealth creator of choice

**Municipal Gratuities Fund**

### LIFE STAGE MODEL (LSM)

The MGF adopted an **Investment Policy Statement** in terms of which the investment objective is to generate sufficient returns, based on 40 years membership, in order to enable a member to buy a pension equal to 75% of pensionable salary at retirement. To reach this objective a long-term investment approach is taken, resulting in four life stage portfolios, namely the **Aggressive**-, **Moderate**-, **Conservative** and **Protective** Portfolio. All assets of the Fund are invested in the standard asset classes namely equities (shares), fixed income, cash and properties. The combination of asset classes within each portfolio will differ according to the performance objective of the specific portfolio. Members are automatically allocated to the applicable life stage portfolio according to their age. The characteristics of the four life stage portfolios are as follows:

**Life Stage 1: Aggressive Portfolio (AP)**

This portfolio is for members younger than 55 years of age. [\\*See note on automatic transfer](#)

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.

**Life Stage 2: Moderate Portfolio (MP)**

This portfolio is for members 55 to 60 years of age. [\\*See note on automatic transfer](#)

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.

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

This portfolio is for members 61 to 63 years of age. [\\*See note on automatic transfer](#)

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

**Life Stage 4: Conservative Portfolio (CP)**

This portfolio is for members older than 63 years of age. [\\*See note on automatic transfer](#)

Members should not be exposed to investment risks during their last two years. The PP is invested in money market investments with almost no risk of capital loss, but usually with low returns. The PP has no exposure to equities.

**\* Automatic transfer between the life stage (LSM default)**

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



## 4.3.1 Life Stage 1: Aggressive Portfolio

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

### Life Stage 1: Aggressive Portfolio (AP)

#### 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.

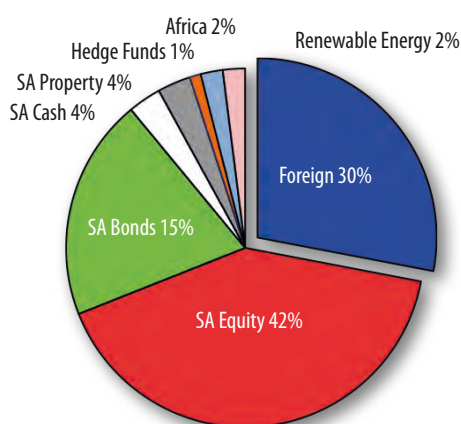
**Market Value as at 31/03/2021: R19 188 418 099**

**Investment objective: Inflation + 5%**

**Asset allocation limits:**

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

**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)
<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, Ninety One, Morgan Stanley, Allan Gray/Orbis, Veritas, Resolution Capital
<b>Africa</b>	Drakens Capital, Sanlam Africa Frontiers, Vantage Capital
<b>Renewable Energy</b>	Vantage Capital

Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
2.42%	1.29%	-1.92%	-2.98%	6.53%	3.12%

Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	2020/2021
3.38%	3.24%	0.51%	1.59%	0.05%	0.52%	18.85%

## 4.3.2 Life Stage 2: Moderate Portfolio

### 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.

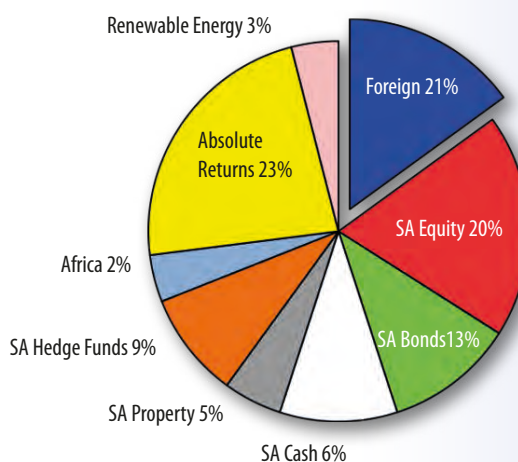
**Market Value as at 31/03/2021: R6 345 325 796**

**Investment objective: Inflation + 4%**

**Asset allocation limits:**

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

**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)
<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, Ninety One, Morgan Stanley, Allan Gray/Orbis, Veritas, Resolution Capital
<b>Africa</b>	Drakens Capital, Sanlam Africa Frontiers, Vantage Capital
<b>Renewable Energy</b>	Vantage Capital

Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
1.55%	1.08%	-1.31%	-1.86%	4.22%	2.11%

Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	2020/2021
2.39%	2.38%	0.38%	1.36%	0.13%	0.89%	14%



## 4.3.3 Life Stage 3: Conservative Portfolio

### 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.

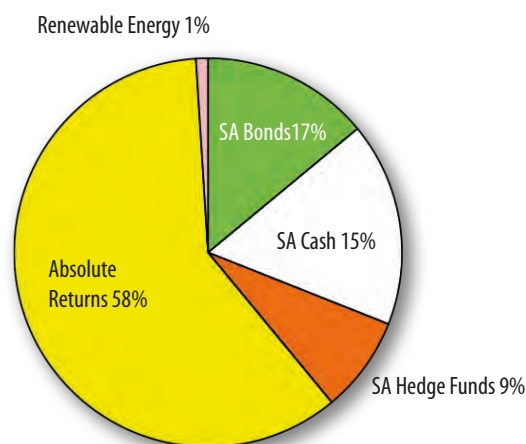
**Market Value as at 31/03/2021: R2 254 159 994**

**Investment objective: Inflation + 3%**

**Asset allocation limits:**

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

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



#### Investment managers used

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

<b>Jul-20</b>	<b>Aug-20</b>	<b>Sep-20</b>	<b>Oct-20</b>	<b>Nov-20</b>	<b>Dec-20</b>
0.84%	0.73%	0.11%	-0.21%	1.91%	1.29%

<b>Jan-21</b>	<b>Feb-21</b>	<b>Mar-21</b>	<b>Apr-21</b>	<b>May-21</b>	<b>Jun-21</b>	<b>2020/2021</b>
1.17%	1.35%	1.07%	0.76%	0.96%	0.00%	10.43%

## 4.3.4 Life Stage 4: Protected Portfolio

### 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**

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



**SA Cash**

**100%**

**Investment manager used**

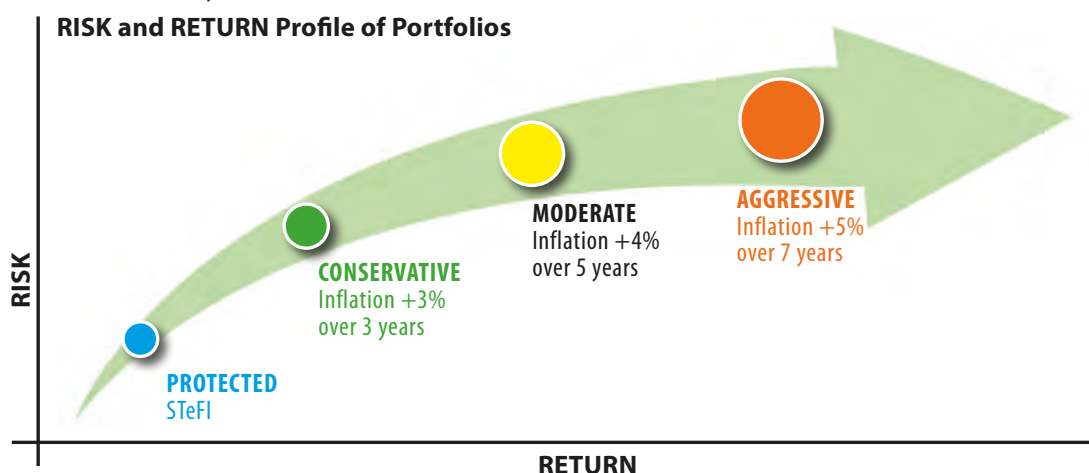
**SA Cash**

**Futuregrowth, ABSA**

Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
0.65%	0.54%	0.41%	0.29%	0.28%	0.32%

Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	2020/2021
0.37%	0.06%	0.25%	0.42%	0.37%	0.36%	4.41%

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





*It is advisable to speak to a **financial advisor** with regard to your investment choices.*

*"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%."***

## 4.4 Member Investment Choices

*All new members are automatically defaulted into the LSM according to their age. There are very few members who make use of the option to switch out of the LSM into a member choice selection of portfolios. This is indicative of the trust the members have in the LSM and the superior returns since inception in 2005.*

*Members are allowed to switch out of the LSM into any of the four investment portfolios, but they are cautioned to obtain financial advice should they consider to switch out of the LSM, as they will remain invested in their new choice of portfolios until the administrator receives a switch instruction to move the member out of that chosen portfolios. This could result in a member remaining in a certain portfolio for too long and not receiving the expected returns they were expecting. **As the saying goes - it is not timing the market, but rather time in the market that generates the returns required.***

*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 one specific investment portfolio, in which event 100% of the monthly contribution shall be invested in that specific chosen investment portfolio.*

Members are allowed one free switch in a calendar year and subsequent switches will require a switching fee. It is important to note that there is a two-day delay in the unit prices and a member switch will only be done from the third to the fifth day after the switch form was received. 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.



## 4.5 Investment Returns

The **returns of the life stage portfolios for 2020/21 financial year** are as follows:

	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Year Total
<b>AP</b>	2.42%	1.29%	-1.92%	-2.98%	6.53%	3.12%	3.38%	3.24%	0.51%	1.59%	0.05%	0.52%	18.85%
<b>MP</b>	1.55%	1.08%	-1.31%	-1.86%	4.22%	2.11%	2.39%	2.38%	0.38%	1.36%	0.13%	0.89%	14.00%
<b>CP</b>	0.84%	0.73%	0.11%	-0.21%	1.91%	1.29%	1.17%	1.35%	1.07%	0.76%	0.96%	0.00%	10.43%
<b>PP</b>	0.65%	0.54%	0.41%	0.29%	0.28%	0.32%	0.37%	0.06%	0.25%	0.42%	0.37%	0.36%	4.41%

**Historical returns since unitization** are as follows:

	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018
<b>AP</b>	25.60%	28.45%	2.43%	-4.14%	16.70%	14.83%	10.23%	16.43%	26.83%	4.94%	7.22%	4.05%	10.38%
<b>MP</b>	17.80%	24.77%	1.55%	1.48%	15.33%	13.90%	9.68%	14.49%	21.94%	6.66%	8.04%	4.96%	8.96%
<b>CP</b>	11.00%	20.27%	3.22%	8.13%	14.92%	12.85%	8.63%	10.46%	14.85%	7.84%	6.50%	6.44%	8.29%
<b>PP</b>							4.98%	5.96%	6.04%	6.64%	7.53%	8.58%	8.22%

	2018/ 2019	2019/ 2020	Since Unitisation	Annualised return per annum
<b>AP</b>	4.43%	4.30%	477.94%	11.59%
<b>MP</b>	4.97%	4.75%	403.17%	10.63%
<b>CP</b>	6.07%	2.49%	323.13%	9.43%
<b>PP</b>	8.55%	8.16%	96.54%	7.05%

The returns for the financial year were excellent when compared to the previous financial year considering that we are not yet rid of the global Covid pandemic and lockdown restrictions.



## 4.5.1 Returns going forward

The **returns for the first nine months of the 2021/22 financial year** are as follows:

Portfolio	31 Jul 2021	31 Aug 2021	30 Sep 2021	31 Oct 2021	30 Nov 2021	31 Dec 2021	31 Jan 2022	28 Feb 2022	31 Mar 2022
<b>Aggressive Portfolio</b>	2.23%	0.40%	-0.65%	2.96%	1.60%	2.99%	-1.32%	0.88%	-1.47%
<b>Moderate Portfolio</b>	1.73%	0.54%	-0.28%	1.88%	1.31%	2.44%	-0.80%	0.59%	-0.89%
<b>Conservative Portfolio</b>	1.05%	0.94%	-0.23%	0.91%	0.47%	1.91%	0.83%	0.91%	0.56%
<b>Protected Portfolio</b>	0.42%	0.46%	0.38%	0.22%	0.41%	0.38%	0.48%	0.27%	0.42%

*It is hoped that the 2021/22 financial year will achieve the same double digit returns as the 2020/21 financial year.*

## 4.6 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:**

**Aggressive Portfolio (AP)**

0.56%

**Moderate Portfolio (MP)**

0.49%

**Conservative Portfolio (CP)**

0.47%

**Protected Portfolio (CP)**

0.10%



## 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, 4% is used to be allocated to finance administrative expenses and risk benefits (funeral, death and disability benefits).

### 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 with the 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.

***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 Board has 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 Board followed the nomination form to the letter with disregard to the factual dependency needs, the Adjudicator took the Board 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 Board 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) thinks 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 was 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 headache 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.

***“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.”***



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

- | Name And Surname | Address | Contact Number | ID Number | Relationship | Portion % |
|------------------|---------|----------------|-----------|--------------|-----------|
|                  |         |                |           |              |           |
|                  |         |                |           |              |           |
|                  |         |                |           |              |           |
|                  |         |                |           |              |           |
|                  |         |                |           |              |           |
|                  |         |                |           |              |           |
|                  |         |                |           |              |           |
|                  |         |                |           |              |           |
|                  |         |                |           | TOTAL        | 100%      |

28



*“Putting away money for retirement or pay for college for your children will help you become more **financially stable**.*

*Avoid impulse purchases.*

*These are one of the most negatively affecting aspects of your **financial stability**.*

*Fix this problem, and you’ll notice immediate and positive effects.”*

*from fastinvest and what it means to be financially stable*

## 5.4 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 0800118334.



They can also be visited at West End Office Park Block D, 250 Hall Street, Centurion.



## 5.5 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





## 5.6 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.**

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

Lump sum benefit (R)	Lump sum benefit (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 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.





## 6. INDUSTRY UPDATE

### 6.1 Rationalisation of Municipal Retirement Funds

**Members have been kept informed by means of various newsflashes about developments regarding the so-called rationalization, or recently called restructuring of municipal retirement funds by the South African Local Government Bargaining Council (SALGBC).** The latest development is that the Retirement Fund Collective Agreement was signed in the SALGBC on 15 September 2021 by SALGA on behalf of the employers and by IMATU and SAMWU on behalf of their members. The agreement makes it obligatory for retirement funds to apply for accreditation if they want the employers/municipalities to continue to participate in such retirement funds. The false impression is created in circulars that the reason for the agreement is to implement freedom of association and also that retirement funds were consulted and that the funds are endorsing the contents of the agreement.

**The freedom of association was never the originating force for the agreement. The financial interest of the employer was the driving force, all along.** The current restructuring of municipal retirement funds stems from the 2012/14 salary and again in the subsequent 2015/17 wage collective agreement where it was agreed between SALGA and the two trade unions in paragraph 9.6 of the collective agreement that:

“The parties further undertake to rationalise the pension fund regime in the Local Government sector so as to reduce the number of Retirement Funds and ensure financial sustainability of municipalities and cost curtailment.”

It is interesting that initially the process was referred to as “rationalize” whereas it has changed to “restructuring”, what it indeed developed into. Clearly the restructuring of retirement funds was inspired by the need of the employer to curb employee cost. Indeed in the very same 2012 agreement the two trade unions agreed with SALGA to decrease the 22% contribution rate to 18% for new appointees as a first step towards cutting staff expenses.

The freedom of association is unjustifiably used as a carrot for the trade unions to sell the agreement. It is on record that the Fund has been in favour of freedom of association all along. The Fund has been advocating for freedom of association for many years, which does not have to be linked to a total restructuring of retirement funds. Freedom of association is a simple process, which could have been implemented years ago, already, completely separate from any restructuring process. Unfortunately this was not supported by the SALGBC, which rather subscribed to a moratorium on freedom of association. To now ride on the back of freedom of association is reprehensible and misleading towards members.

**The Fund made various submissions over the years to the Pension Funds Task Team of SALGBC to point out a number of concerns in the then facilitator’s proposal, which aspects may have a negative impact on the existing rights of the Fund’s members. The Fund offered its expertise free of charge to assist in reaching a workable model. Instead of meaningful engagement, the process was continued without meaningful consultation with all stake holders and the agreement was signed on behalf of all SAMWU and IMATU members. One-way communication does not satisfy the meaning of consultation. The Board of the Fund cannot support the agreement in its current form, because of certain provisions which are potentially dangerous for members.**

**Please refer to previous newsflashes on the Fund’s website [www.mymgf.co.za](http://www.mymgf.co.za) for historical information.**

**The Fund has now joined forces with a number of other retirement funds which share the sentiment of the Fund, to engage in legal action towards obtaining a court order to protect the rights and interests of our members. This is in line with the sentiment raised and mandate given by the General Committee of the Fund at previous annual meetings.**

## 6.2 Retirement Reform

The  $\frac{2}{3}$  compulsory annuitisation requirement was implemented on 1 March 2021, but this does not have an effect on the members of the Fund. The Fund released a news flash to members in November 2020 giving a detailed explanation of how the compulsory annuitisation affects our members, but thereafter it was confirmed that the Fund is not yet affected. A follow up news flash was distributed to members in October 2021 to explain the situation.

It subsequently became known that there was an omission in the relevant amendment to the Income Tax Act. The definition of “pension fund” in section 1(1) of the Income Tax Act distinguishes between four different types of pension funds, namely:

1. Par (a): pension, provident or dependants’ fund or pension scheme established by law, eg Transnet Pension Fund, and a pension, provident or dependants’ fund or pension scheme established for municipal employees, eg Municipal Gratuity Fund.
2. Par (b): funds established for the benefit of employees of a control board as defined in Section 1 of the Marketing of Agricultural Products Act 47 of 1966, or for the benefit of employees of the Development Bank of South Africa.
3. Par (c): the Municipal Councillors Pension Fund and other funds registered under PFA and approved by SARS as pension funds.
4. Par (d): GEPP.

The tax amendment act mistakenly includes only the paragraph (c) pension funds to the new annuitisation provisions. As the Fund is a paragraph (a) pension fund, the annuitisation provisions are not applicable to the Fund. This is not an exemption in the Income Tax Act, but an oversight by the legislature which will be rectified by National Treasury. There was a similar oversight a few years ago, which was subsequently rectified by National Treasury. Since it is a general principal in law that an encumbering provision may not be introduced with retrospective effect, it is doubtful that the correction will be retrospective.

## 6.3 Changes to Regulation 28

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. 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 one company.

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 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.

Minister of Finance, Enoch Godongwana announced during the 2022 budget speech that Regulation 28 amendments will be gazetted in March to allow for retirement savings to be channeled into productive investments, especially for infrastructure projects.

### The Good News

The gazetted Regulation 28 changes are not prescriptive but rather provide clarity on how retirement funds may invest in infrastructure investments, if they wish to do so. There are no immediate changes that the Fund needs to make to its Investment Policy as it already invests in infrastructure.





## 6.4 Proposed Two-pot System

During his Budget Speech on 24 February 2022, Finance Minister Enock Godongwana's highlighted a discussion paper relevant to the Retirement Fund industry. ***The discussion paper is largely as a result of the financial hardship many households have endured arising from the Covid pandemic and lockdowns. The paper sets out the many considerations in granting emergency access to retirement fund savings.***

### Two-pot system

The aim of the "two-pot" system is to allow members partial access to their retirement funds and will be tabled in parliament. However, the decision to use the revised legislation is at the discretion of the specific fund's Board. ***This is still a discussion paper and nothing is final.***

#### Pot 1 - retirement or preservation pot

- Must remain in the Fund until member retires.
- Can't be paid out if member leaves employment.
- Two-thirds of net contributions starting from date 202X (date to be decided in the future) to go into this pot (net of risk premiums and admin charges) + investment return.

#### Pot 2 - access pot

- A member may access funds at any time, probably for any reason.
- Don't need to terminate employment to access it.
- There could be restrictions on how many times a member can access it per year and a minimum amount must be built up in the pot before the member may access it.
- One-third of net contributions starting from date 202X (date to be decided in the future) to go into this pot (net of risk premiums and admin charges) + investment return.
- Member may have to pay for administration costs when accessing funds.
- At point of access there may be financial awareness communication required.

***The Fund's investment objective is to enable members to retire comfortably. If members access their benefits in the Fund early, by making a withdrawal as proposed in this two-pot system, they may not reach this objective.***



Pot 1 - retirement or preservation pot



Pot 2 - access pot

## 7. A Final Word regarding Stability and Reliability

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***"Success to me is only two things:  
happiness and stability"***

- Kehlani

***"Trust is built with consistency"***

- Lincoln Chafee

***"When stability becomes a habit,  
maturity and clarity follow"***

- B.K.S. Iyengar

***"Relationships feed on credibility,  
honesty, and consistency"***

- Scott Borchetta

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## 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 and the actual Fund Rules, the Fund Rules will prevail.






## 8. Contact MGF

### Registered Office:

 14 Bedfordview Office Park, 3 Riley Road, Bedfordview, 2007

 Private Bag X 1190, Bedfordview, 2008

 Tel: (011) 450-1224


 Fax: (011) 450-1454


 Website: [www.mymgf.co.za](http://www.mymgf.co.za)

### Fund Administrator:

Sanlam Employee Benefits (SEB)

 West End Office Park Block D, 250 Hall Street, Centurion, 0157

 Private Bag X14, Highveld Park, 0169

 Tel: (012) 683-3900 or 0800 118 334 toll free

 Fax: (012) 683-3994

 Website: [www.retirementfundweb.co.za](http://www.retirementfundweb.co.za)

### 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 087 736 6000

**Stability**  
is the **quality** of  
a product, system or service  
to **withstand** a  
temporary problem.  
It has been the **strength**  
and strategy of  
**The Fund** to endure and  
restore **equilibrium**.

**Reliability**  
is the **consistency** of  
a product, system or service to  
**perform** its intended function  
for a specified time  
**without failure**.



