MGF

Annual Report 2022

Municipal Gratuity Fund

Wealth creator of choice

"Your Fund is there for you throughout the seasons of your life"

MGF wealth creator of choice

*"Your Fund is there for you **through all the seasons of your life**, whether you are a new member, starting a family or are preparing to retire. We demonstrate our versatility by adjusting and adapting to prevailing market conditions, regulatory changes and the economic climate, ensuring we **protect and grow your wealth** in line with the **long-term growth objectives** of the Fund."*

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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 R31.8 billion, having broken through the R30 billion mark in 2021, which is quite an achievement in these trying times. The Fund once again received a clean audit and this is testament to good governance, business integrity and ethical practices which are of high importance to the Fund and its various service providers.

Navigating through the chaos of the past three years, including the war between Russia and the Ukraine, your Fund continues to adapt and adjust to current market conditions in order to provide consistent growth in our assets as well as providing solid and stable service delivery to our members.

The outbreak of the war between Russia and the Ukraine on 24 February 2022 had a huge effect on the whole world and the loss of lives is extremely sad and unnecessary. I want to express my heartfelt condolences to everybody who lost loved ones and colleagues due to the Covid pandemic. The Fund itself lost one of their beloved staff members, Linda Blignaut, on 30 September 2022.

Uncertain times almost always negatively affect an emerging market like South Africa's. The exchange rate, stock market indices and bond valuations have deteriorated of late and could continue on this weaker footing for some time given the current "extraordinarily uncertain" global outlook. As a result, South Africa's economic growth is slowing once more. After the 2020 recession, the economy bounced back in 2021 as GDP expanded by 4.9%. However, even before the Russian invasion of Ukraine, local economic growth moderated to a significantly lower level over the medium term. If economic growth was a car, South Africa would be driving at 60 km/h, while the global average is above 100 km/h.

Despite the gloomy outlook the Fund's portfolios are still on track to outperform their long-term return objectives, see page 09 of this report. 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.

Due to the increase in death benefit claims in the previous financial year, the ***Risk Account of the Fund*** was placed under tremendous pressure, which resulted in the Board having to increase the allocation to the Risk Account from 2.95% to 3.60% with effect from 1 March 2022. The allocation to the ***Operational Account*** was reduced from 0.55% to 0.40%. Thus, the risk and administration expenses increased from 3.5% to 4% with effect from 1 March 2022. This 4% is funded from the employer contribution.

At the previous Annual Meeting one of our member representatives requested the Board to consider the possibility to increase the disability benefit. The Board, together with the Actuary, discussed this request at the February 2023 Board meeting. It was decided that members who join the Fund on or after 1 July 2023 will receive ***a new Disability Benefit*** that comprises Fund Credit PLUS a scaled multiple of salary. It was further decided that If current members of the Fund become disabled on/after 1 July 2023, the new disability benefit will apply BUT with the grandfathering rule (i.e. if the old benefit is higher, the old benefit will be paid even if the date of disability is after 1 July 2023). For them, it will be the maximum of the two disability benefit structures. ***Read more about this new benefit on page 15*** of this Report.

In conclusion, ***sincere appreciation is expressed to the following entities/ individuals for their contribution to the business of the Fund during the past financial year;***

- ***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 ***Ms Dola Nortje***, the Client Relations Manager as well as ***Veron Pillay*** the Fund Financial Manager,
- ***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 word of thanks to ***Corita van Wyk***, who is retiring at the end of this year, for her strong administrative support with the investment reporting matters, we wish her well in her new adventure as a pensioner. Welcome to ***Mr Keith Anthony***, who is no stranger to the Fund, and who will be taking over from Corita van Wyk,
- ***Ronel van Graan*** and ***Thelma Kajongwe*** together with their audit team of Deloitte & Touche for rendering a thorough independent auditing function to the Fund for the past 28 years,
- ***Gerda Grobler*** the independent actuary and her very able assistants the meticulous ***Melanie Swart*** and ***Walter Graham*** for the valuable advice on actuarial matters and a comprehensive interim actuarial valuation done,
- ***The five staff members*** of the Fund for their dedicated commitment to the Fund and its members,
- ***Every Board member***, your valuable inputs, debate and differences of opinion, but at the end loyal support to the Fund during yet another challenging year with virtual Board meetings is sincerely appreciated,
- ***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
25 November 2022

2. MEET YOUR BOARD MEMBERS

The ultimate responsibility for the governance of the Fund resides with 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 over a 120 years of service, collectively. 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	ExCo member	Independent
Mr. Johan Grobbelaar	ExCo member	Independent
Mr. Eddie Alberts		Independent
Mr. Philip du Buson		Employee
Mr. Sphiwe Khumalo		Employee
Mr. JJ Mahlangu		Employee
Mr. Lifa Majola		Employee
Ms. Musiiwa Netshimbupfe		Employee
Cllr. Mfichana Shingange		Employer
Cllr. Johanna Rangata		Employer

Piet Venter

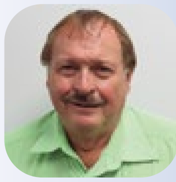
Piet Venter is a member elected Board member, as well as the Chairperson of the Board and the Executive Committee since 2012. He has been serving on the Board since 1996. He is a Specialist Human Resources Manager in the employment of the City of Johannesburg. Being a Board member for 27 years, he brings so much experience and valuable knowledge to the Board. In his spare time he enjoys the farm life and making knives.

Roja Ramare

Roja Ramare is a member elected Board member serving on the Board for the last 10 years. He has served as the Vice-chairman since October 2020 and forms part of the Executive Committee. Roja is in the employment of Tshwane Metropolitan Municipality. He holds a Diploma in Marketing Management and adds business skills to the Board through his work experience at the Tshwane Fresh Produce Market.

Jannie Venter

Jannie Venter is an independent Board member who has served on the Board since 1999. He retired as the Manager Financial Services from Polokwane Municipality in 2004 and prior to that he was the City Treasurer. Jannie has been a member of the Executive Committee since 2016. He holds a B.Comm degree and served on various other executive committees while in the employment of Polokwane Municipality. He brings his vast experience in community and financial matters, as well as equities and real estate property to the Board, being in the financial world for his entire career at Polokwane Municipality. In his spare time Jannie enjoys visiting the Kruger National Park with his family and hunting in the winter hunting season.

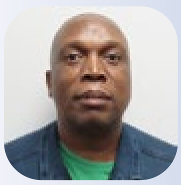


Johan Grobbelaar

Johan Grobbelaar is an independent Board member who has served on the Board for 20 years, he is also a member of the Executive Committee. Previously he was a member representative until his retirement from Merafong City, 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 (employment relations) with the SABPP. During his tenure as municipal employee he was actively involved in other member related matters, such as serving on the SALGBC NEC of IMATU and various committees. In his spare time he enjoys riding on his motorcycle and exercising.

Eddie Alberts

Eddie Alberts is an independent Board member who has serviced on the Board since 1996. He served as an Employer Representative, while being a councillor at Bela Bela Municipality. As part of the 27 years' experience on the Board, he served both as the Vice-chairman and Chairman of the Board. Eddie is a professional accountant and Financial Director and has membership from SAICA, SAIPA and SAIT. He is the Chief Financial Officer and shareholder of a large business enterprise. Eddie brings to the Board his extensive experience and knowledge in accounting and taxation. In his spare time, he is a keen cyclist and enjoys hunting in the winter hunting season.



Jabu Mahlangu

Jabu Mahlangu (JJ) is a member elected Board member working as a Senior Customer Care Officer at Elias Motsoaledi Local Municipality. He joined the municipality on 1 July 2011 after serving two terms as a councillor. He 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.

Sphiwe Khumalo

Sphiwe Khumalo is a member elected Board member who works as the Acting Executive Manager for Corporate Services at Lekwa Municipality. He started his career in the NGO Sector. He holds a B.Admin degree from the University of Durban-Westville (UKZN) and apart from his Honours Degree, Labour Law and several other qualifications. Sphiwe joined the municipal arena in April 1998. He has worked in many different areas at Lekwa Municipality including Finance, Planning and Economic Development and the large part has been at Corporate Services. He plays a leading role in the community with his involvement at the SDA church, his workplace, chairperson of SAMWU and the IEC electoral officer. With his vast field of experience and knowledge he is a valuable asset to the Board.

Musiiwa Netshimbupfe

Musiiwa Netshimbupfe is a member elected Board member who holds the position of Manager Human Resource Management at Vhembe District Municipality. She holds a B.Admin Honours Degree in Human Resources Management from the University of Venda, as well as several other qualifications. She began her career in Human Resources at the Craigavon Civic Center in Lurgan (Northern Ireland) 2001. She has more than 17 years Human Resources experience in the South African Local Government Sector. She is 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. She brings years of Human Resource knowledge and experience to the Board. In her spare time she loves hiking in the mountains, reading motivational books, cooking and travelling.

Lifa Majola

Lifa Majola is a member elected Board member who works as a Senior Specialist: Governance & Compliance in the Real Estate Department at the City of Ekurhuleni. He is responsible for providing the HOD: Real Estate Department with legal advice and to communicate and provide instructions to the City's Panel Attorneys. He has extensive experience in conducting legal research and drafting contracts and service level agreements. He holds a LLB Degree from the University of KwaZulu-Natal and was admitted to the High Court RSA as an attorney in 2009. His knowledge of the legal environment enables him to give valuable input to the Board.

Philip Du Buson

Philip Du Buson is a member elected Board member who works as the Manager: Research and Planning in the Finance Department at the City of Ekurhuleni. He has held many positions in the municipal arena from Senior Accountant at the East Rand Administration Board, Town Treasurer for the City of Kwa-Thema, Assistant Director of Finance for the Springs City Council, until his current position. With 40 years of experience in finances, Philip is indeed a great addition to the Board. In his spare time Philip is a keen mountain bike cyclist and a spinning instructor.

Cllr Johanna Rangata

Cllr Johanna Rangata is an employer appointed representative working as a Ward Councillor at Blouberg Municipality since 2011. She started her career in teaching and her qualification in education, as well as Municipal Governance and Management makes her an asset to the Board. With 21 years experience in municipal positions, she has also done many courses including Municipal Performance Management, Road Traffic Legislation and Ethics Management.

Cllr Mfichana Shingange

Cllr Mfichana Shingange is the newly appointed employer Board member who works as a full-time Councillor responsible for Corporate Governance and Shared Services at Greater Tzaneen Municipality, where he is also a Ward Councillor. His career prior to being appointed as a Councillor was a mathematics and physical science teacher. He holds a Masters Degree in Governance and Political Transformation from the University of the Free State and five more qualifications, which places him in a position to add value to the Board. In his spare time he enjoys music, fishing and swimming.

PRINCIPAL OFFICER

Christine Seierlein

The ***Principal Officer, Christine Seierlein,*** is the executive representative of the Fund, and the official contact person for the Financial Sector Conduct Authority (FSCA, previously the Financial Services Board). The Principal Officer has the same fiduciary responsibilities to the Fund as those pertaining to Board members.

STAFF MATTERS - *In Memoriam*

It is with scincere sadness that we share with you the passing of ***Ms Linda Blignaut***, the Personal Assistant to the CEO. After almost three weeks in hospital, Linda passed away on 30 September 2022. Linda was well known and her presence, even today, is dearly missed. Her loyal service to the Fund will never be forgotten and our thoughts and prayers go to her family.

3. REFLECTING ON ECONOMIC MATTERS AND FINANCIAL MARKETS

3.1 Economic Outlook

The 2021/22 financial year was a challenging one for investors, characterized by surging energy costs, a regulatory crackdown on Chinese technology companies and unprecedented inflationary pressures that forced central banks to implement aggressive interest rate hikes since the beginning of the year. Unsurprisingly, it was a year of two halves with equities and bonds rallying strongly in the first part of the year, only to end the year in negative territory as Russia's invasion of Ukraine triggered a front-loading of rate hikes to quell inflation that has been running well ahead of central bank targets. Emerging market equities were the laggard, squeezing out a small positive return as the regulatory crackdown on Chinese technology companies weighed heavily on share prices. But the outsized interest rate hikes since the start of the year have become a headwind for financial assets and for the global economic outlook, increasing the likelihood of a broad-based recession in 2023. This expectation has seen a sharp selloff in both equities and bonds, aided by rising geopolitical tensions. The inversion in the US 10-2-year yield curve, along with contractions in purchasing manager indices in the US, EU, UK and China all signal a likely recession. On average, the 10-2-year yield curve inverts some 15.9 months before the start of the next recession and 10.5 months before the S&P500 peaks. The New York Fed's 12-month recession probability indicator has also pushed higher to 25%, while the Bloomberg GDP global tracker is pointing to growth of around zero percent at the end of September. With central banks focused on taming rampant inflation, the risk of a policy mis-step is high given that rate tightening cycles almost always end in recession.

The initial increase in energy costs over the past financial year was fueled by a surge in Chinese coal prices as state-owned power generators shut down plants following steep losses incurred by selling energy at regulated prices, materially lower than market-related prices. The ban on the importation of Australian coal in 2020 and tough emissions targets ahead of the Beijing winter Olympics, were further factors driving prices higher. In Europe, a shortage of natural gas due to planned outages of nuclear reactors, delayed maintenance at gas production facilities and lower availability from wind power saw natural gas prices soar over 225%, dragging coal prices up some 207%.

But it was Russia's invasion of Ukraine that really pushed the global economy to the verge of recession as food and energy costs surged and supply chains were once again disrupted after having only just begun normalizing after the Covid-19 pandemic. The geopolitical re-alignment of energy supplies is broad-based and is likely to be permanent, keeping energy costs higher for longer. With inflation surging to multi-decade highs, central banks have been vigilant in ensuring that inflation expectations do not become de-anchored.

The EU has also proposed a price cap on Russian oil and gas as a means of easing cost of living pressures, while windfall taxes on European oil and gas companies will be used to fund subsidies for households and businesses. The EU has banned seaborne imports of Russian oil from 5 December onwards, while a ban on refined oil products will come into effect early in 2023.

Given the US and Europe's dominance in shipping insurance, the belief is that Russia will have to accept the price caps or search for less profitable and riskier supply routes and customers in Asia. However, for the price caps to work, India and China would need to come on board, an unlikely outcome given the discounted prices at which they currently purchase Russian oil. Furthermore, since Russia is able to simply cut off gas supplies to the EU, a price cap on natural gas is also unlikely to work since it would hamper the EU's ability to import large volumes of LNG (liquefied natural gas) should prices elsewhere be higher.

In brief, price controls, untargeted subsidies, or export bans are fiscally costly and lead to excess demand, undersupply, misallocation, rationing, and black-market premiums. History teaches us they rarely work.

With Europe's winter fast approaching, the imposition of energy demand destruction measures such as power cuts and consumption taxes will negatively impact output growth in the region, deepening the risk of recession. While energy subsidies will help lower headline and core inflation in the region, the ECB is still expected to press ahead with jumbo rate hikes to curb aggregate demand, further adding to recession risks in the region.

Central bank intentions to scrap their asset purchase programs and implement quantitative tightening have been a further headwind, causing bond yields to push higher across both the nominal and inflation-linked curves. The rise in 10-year US Treasury Inflation Protected Securities (Tips) has triggered a sharp de-rating in equity markets which has driven negative returns for both equities and bonds. Although South African equities yielded positive returns for the year, the best performing of the broad asset classes were inflation-linked bonds. ***Despite an almost 13% depreciation in the rand/USD exchange rate, South African assets outperformed their global counterparts***, although this was insufficient for the Fund's risk-profiled portfolios to outperform their respective CPI-linked benchmarks. ***Capital was nonetheless preserved across the portfoli***os given underweight positions in global assets. It must also be noted that ***the Fund's life stage model de-risks portfolios as members age, providing some protection against adverse economic outcomes.***

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, equities and bonds continued to sell off as recession fears weighed on the earnings outlook and central banks continued to front-load rate hikes into the backend of the year. ***The International Monetary Fund (IMF)*** in its October 2022 World Economic Outlook report revised global growth lower to 2.7% next year, down from an expected 3.2% this year. The IMF however warned that there was a 25% probability that global growth could fall to below 2%, a level that would be consistent with a global recession. It also estimated that a third of the global economy will contract this year or next, while the three largest economies – the ***US, EU and China*** – will continue to stall. This is the weakest growth profile since 2001 and reflects significant slowdowns in the world's largest economies: US GDP contracted in the first half of 2022, an EU contraction is expected in the second half of the year and prolonged Covid-19 lockdowns in China, coupled with a growing property sector crisis, saw growth slow to a pedestrian 0.4% in the second quarter. US economic growth is expected to slow from some 1.6% this year to 1.0% next year, whereas EU growth is expected to slow from 3.1% to a mere 0.5%. Growth in China is estimated at 3.2% this year - the lowest reading in four decades - before increasing to 4.4% in 2023.

Up to now, recession risks have been reflected in market prices as a result of multiple compressions from rising TIP yields (Treasury Inflation-Protected Securities), rather than a change in earnings expectations. Historically, consensus earnings estimates have led market prices by around six months, but this time around, market prices have led earnings, highlighting how the macroeconomic outlook is driving pricing action in markets. Due to the drawdowns in equity markets, valuations have improved markedly with the forward price-to-earnings ratio for the MSCI World Index trading at 14.3X earnings, below the 16X mean.

In South Africa's case, the market is trading on a forward price-to-earnings ratio of 8.6X, well below the 13X average. Despite attractive valuations and double digit 12-month return expectations, downward revisions to consensus earnings estimates will be a headwind for equities over the near term, whereas over the longer term, expectations of a peak in the interest rate cycle will be a catalyst for an equity and bond market rally.

Fed fund futures currently point to an easing in interest rates in the second half of 2023, a view that Fed officials have repeatedly downplayed. In fact, the Fed's latest dot-plot – reflecting the central bank's own estimates of where interest rates are headed – still point to further rate hikes in 2023. The Fed's estimate for the fed funds rate at the end of 2022 is some 4.25% (up from 3.25% currently) rising to around 4.6% at the end of 2023. In contrast, the market expects the fed funds rate to end 2023 lower at 4.0%, down from 4.25% at the end of this year. Our base case view is that a Fed pivot is likely in the second half of 2023, supporting an overweight equity position on a six to twelve-month view. It should be noted that following a 25%+ drawdown, the S&P500 has returned some 27% on average the following year, suggesting caution in underweighting equities at this point in time. The rally in equities is expected to be accompanied by a rally in bonds as interest rates peak and recession fears push longer dated bond yields lower.

*"To rule a country of a thousand chariots, there must be **reverent attention to business**, and **sincerity**; **economy in expenditure**, and **love for men**; and the **employment** of the people at the **proper seasons**."*

- Confucius

3.2.2 The South African Economy

The IMF also revised South Africa's growth rate lower to 2.1% this year and to 1.1% next year, downward revisions of 0.2% and 0.3% respectively from its July estimate. The downward revision reflects the impact on food and oil prices from the ongoing conflict in Ukraine combined with fears of recession in the EU, the UK and the US, and subdued growth in China. In addition to global factors, both the Absa and the S&P Global purchasing manager indices have fallen below the 50-point mark, indicating a contraction in overall business activity over the coming quarters. Similarly, sharp declines in the BER Business Confidence Index and the BER Consumer Confidence Index also point to subdued growth going forward. The Business Confidence Index declined from 46 to 42 points, while the Consumer Confidence Index declined from -13 to -25 points, levels that are consistent with a recession.

With load-shedding likely to persist over the coming quarters, if not years, power outages will remain a persistent constraint on overall growth. The recent strike action at Transnet's rail and port operations will be a further headwind, the impact of which could be similar to the April KZN flooding that damaged parts of the country's rail and port infrastructure. As a consequence, the economy contracted by 0.7% (quarter/quarter seasonally adjusted) in the second quarter of the year. The biggest declines were recorded in agriculture (-7.7%), manufacturing (-5.9%) and mining (-3.5%) – those sectors reliant of export markets - whereas gains were recorded in the transport (2.4%) and financial sectors (2.4%).

Unlike many of its foreign counterparts, South Africa's inflation rate has been relatively well contained given the SARB's timely intervention in November last year to gradually begin raising interest rates. Although the pace of rate hikes has increased in recent months to mirror those of the US Fed, inflation is expected to drop back into the SARB's target range in Q3 2023, setting the stage for attractive real returns from bonds over the coming year. Revenue over-runs – particularly from personal and corporate income tax receipts – have been supportive of bonds pointing to a smaller than expected fiscal deficit over the coming year. But, a material risk to the bond market outlook is the possible greylisting of the country by the Paris-based Financial Action Task Force for ineffective measures taken to combat money laundering and the financing of terrorism.

The greylisting of the country would be tantamount to a ratings downgrade, which could lead to capital and currency outflows and higher transactional, administrative and funding costs for banks. If South Africa is flagged by the task force, this would lead to higher borrowing costs, the rand would weaken, inflation will spike and interest rates will rise.

With February 2023 the date of the greylisting, South Africa will have to address the regulatory weaknesses in its money-laundering controls, with a viable plan needed by the end of the year.

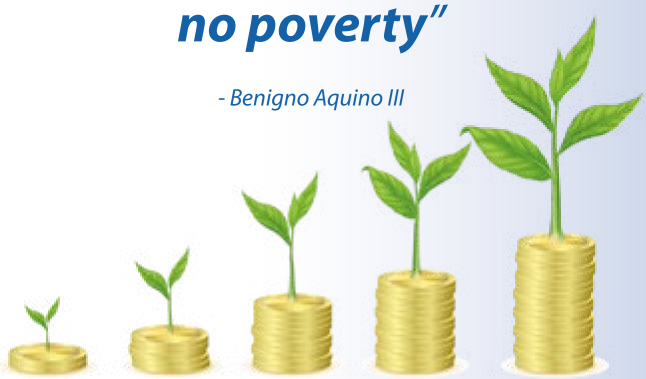
Notwithstanding the base case view of more subdued inflation, interest rates are expected to rise further next year, in part to insulate the exchange rate against a decline in the country's terms of trade from lower commodity prices and a rampant US Dollar. The money market is currently pricing in a repo rate at year-end of 7.0% (from 6.25% currently) and some 8.0% at the end of 2023. As a consequence, cash is expected to deliver positive real returns in the year ahead. Furthermore, 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.

3.3 Summary

In summary, our base case view is that high energy prices will persist over the coming year, but that the impact on inflation will be muted given favourable base effects. Similarly, a slowdown in house price increases will also see an easing in "owner equivalent rent", a component of inflation that makes up around 30% of the US headline inflation index. Declines in job openings are expected to ease wage cost pressures, while rising real incomes will underpin growth over the coming years. With pandemic era price increases also slowing as supply chains normalize, goods inflation will ease further as consumption expenditure shifts more towards services. Since aggregate demand will also be constrained by rising interest rates, an interest rate pivot over the coming year is expected to support a recovery in both equities and bonds.

*"Where there is **no corruption,** there will be **no poverty**"*

- Benigno Aquino III



4. INVESTMENT STRATEGY

4.1 Long term investment goal

It remains 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.

The markets have struggled worldwide and the returns of the Fund for the past financial year reflects such. 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. This table shows that every investment portfolio is still on track, measured from inception of the LSM during July 2005, to outperform its return objectives. It is important to note that this is an annualised outperformance. ***The inflation outperformance, also annualised, indicated in the table, is significant.***

Annualised investment objectives and returns for the period July 2005 to 30 June 2022

Portfolio	Return objective		Actual return	Objective outperformance	Inflation outperformance
AP	CPI + 5%	10.68%	10.93%	0.26%	5.26%
MP	CPI + 4%	9.68%	10.12%	0.44%	4.44%
CP	CPI + 3%	8.68%	9.23%	0.55%	3.55%
PP*	Cash	6.08%	6.80%	0.73%	1.62%

* 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 only from about 30 years onwards.

4.2 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 must however take note that once member choice has been made they will remain in that portfolio until another switch form is received to switch and will not automatically be switched as per the LSM.

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%

5. 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 under observation today namely 1 July 2021 to 30 June 2022, the actuary did a comprehensive interim actuarial valuation.

As indicated in the annual financial statements, the actuary made an unqualified finding that the Fund was financially sound as at 30 June 2022. The next 3-year statutory valuation will be performed for the next financial year ending 30 June 2023.

*"**Excess** generally causes reaction, and produces a **change** in the **opposite** direction, whether it be in the **seasons**, or in individuals, or in governments."*

- Plato

6. 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 2021/22 financial year. The Fund again received an unqualified (clean) independent audit report. As reflected in the balance sheet of the financial statements, the total asset value as at 30 June 2022 is just over R31.8 billion, we broke through the R30 billion mark which is quite an achievement in these trying times. According to the income statement, the contributions were R2.07 billion. The administrative expenses, including external fees such as the levies payable to the Financial Services Conduct Authority and the National Credit Regulator as well as actuarial services and external audit services was R40.6 million, which is funded from the 0.55% of salary contribution up to 28 February 2022 and 0.40% from 1 March 2022. As a percentage of total asset value of the Fund it translates to 0.13%, which is very reasonable in the industry.

The balance in the Risk Account (RA) at R117 million reduced by just over R65 million due to the 25% increase in the death experience, mainly due to the Covid pandemic, as well as the reduction in the percentage allocation to the RA from employers' contributions from 3.45% to 2.95% of salary, which was subsequently increased to 3.60% from 1 March 2022. The purpose of the RA is to fund the risk benefits, that is the funeral plan and the death and disability benefits.

In terms of section 10(1)(a) of the Auditing Profession Act, 26 of 2005 the Independent Regulatory Board for Auditors (IRBA) published the following rule on Mandatory Audit Firm Rotation (MAFR) for auditors of all public interest entities:

1. ***An audit firm, including a network firm as defined in the IRBA Code of Professional Conduct for Registered Auditors, shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive financial years.***

2. ***Thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years.***

The requirement is effective for financial years commencing on or after 1 April 2023. Therefore, if the audit firm has served as the appointed auditor of a public interest entity for 10 or more consecutive financial years before the financial year commencing on or after 1 April 2023, then the audit firm shall not accept re-appointment and will be required to rotate.

After a very thorough due diligence process, including presentations by all the shortlisted audit firms, the Fund appointed Binder Dijker Otte (in short BDO), an international auditing company with branches in some 164 countries, including South Africa and one of the five largest auditing firms in the world, as the external auditors to perform the audit for the 2023 financial year.

Statement of Net Assets and Funds

	30 June 2022	30 June 2021
ASSETS	**R**	**R**
Non-current assets	**31,183,497,306**	**31,226,393,310**
Plant and equipment	87,644	192,889
Investments	31,174,517,050	31,213,484,200
Housing loans	8,892,612	12,716,221
Current assets	**708,892,252**	**352,361,180**
Accounts receivable	65,476,481	2,599,648
Contributions receivable	124,616,926	61,012,863
Cash and cash equivalents	518,798,845	288,748,669
Total assets	**31,892,389,558**	**31,578,754,490**
FUNDS AND LIABILITIES		
Members' funds and surplus account	**29,813,378,977**	**29,630,654,993**
Members' individual accounts	29,788,491,951	29,523,658,096
Amounts to be allocated	24,887,026	106,996,897
Reserves	**168,151,326**	**228,458,581**
Reserve accounts	168,151,326	228,458,581
Total funds and reserves	**29,981,530,303**	**29,859,113,574**
Non-current liabilities	**6,608,634**	**6,338,561**
Unclaimed benefits	6,608,634	6,338,561
Current liabilities	**1,904,250,621**	**1,713,302,355**
Benefits payable	1,883,332,630	1,645,055,314
Accounts payable	20,917,991	68,247,041
Total funds and liabilities	**31,892,389,558**	**31,578,754,490**

*"To be interested in the **changing seasons** is a happier state of mind than to be hopelessly in love with spring."*

- George Santayana

7. RULE AMENDMENTS

No rule amendments were approved during this financial year.

8. HOUSING LOANS

Standard Bank and FNB offer interest rates of 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.

9. MEMBER 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.

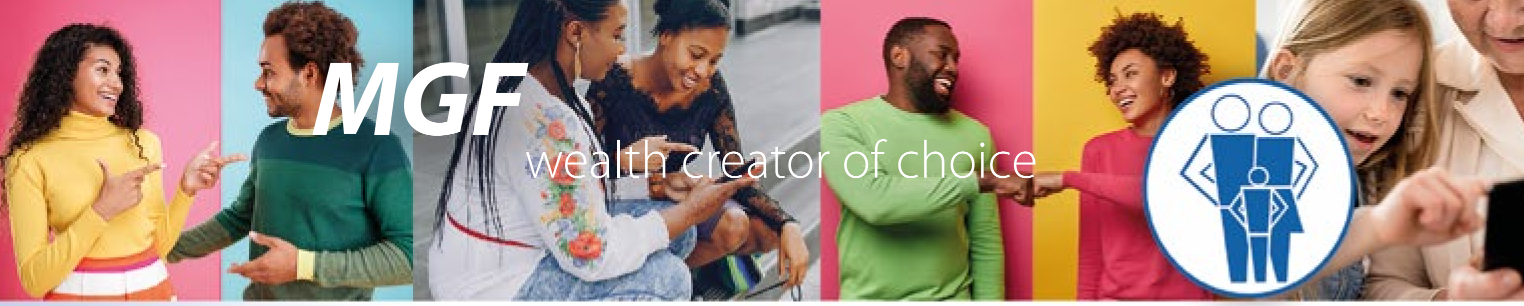
Usually the various pension funds available to choose from are introduced to new employees during the induction sessions. Some pension funds arrive with boxes full of freebees to lure new members. The Fund is then queried for not also giving handouts such as t-shirts and similar gifts, like some other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

The Fund believes in regular and meaningful communication with existing members to keep them informed on the important matters 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 Fund believes in quality not quantity.

The Fund employs two full time communication staff members who visit the various municipalities on a regular basis and attend to numerous member requests. **Stanley** as the **Chief Communication Officer** is a familiar face at every municipality and needs no introduction. **Edith** joined the team two years ago as ***Senior Communication Officer*** and together they work tirelessly to promote the Fund amongst members, new and old.

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.

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.



Social media platforms were explored and used to the benefit of the Fund. With the assistance of the Fund administrator, the ***Sanlam App*** was developed and introduced during 2017. Requests to members to provide their 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. To date 4316 members have down loaded the app, which is a 15% uptake.***

We encourage members to download this valuable communication channel. The most popular means of communication remains the face-to-face visits by the communication officer to the employers and direct live telephone calls. The availability and approachability of the Fund's staff appear to entrench the direct communication channel as the preferred option. The Fund will therefore keep allocating resources accordingly.

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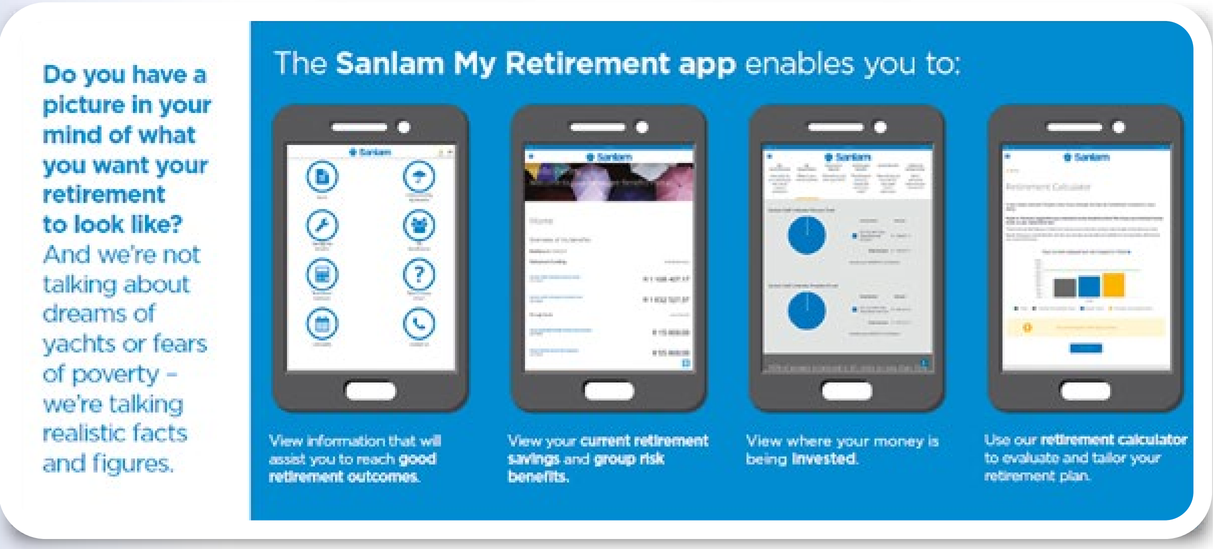
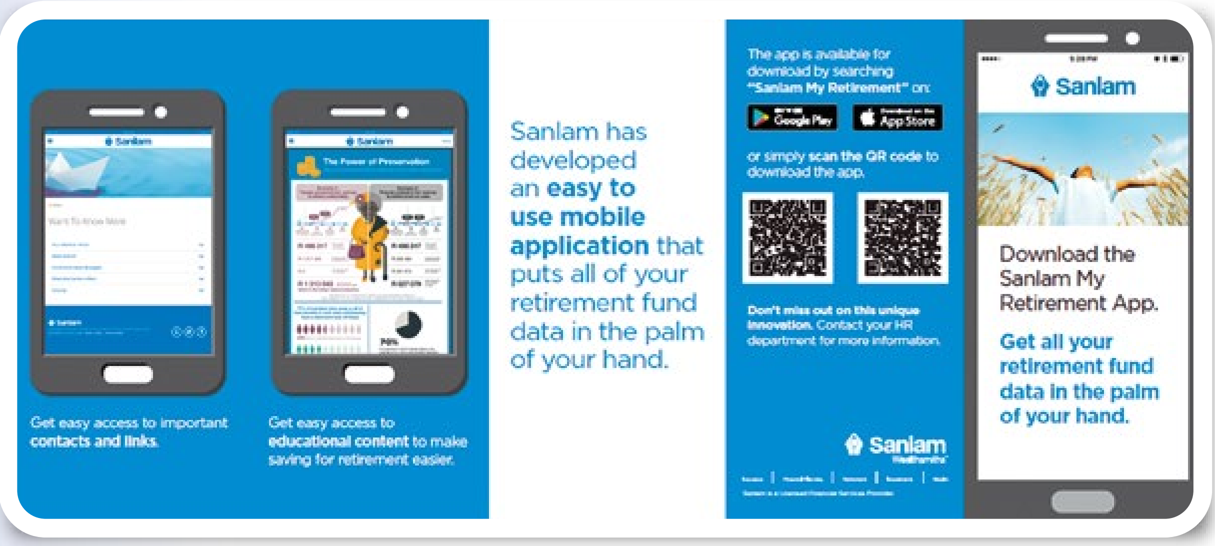




10. FAMILY FUNERAL PLAN

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* • 1 - 13 years • Stillborn to 1 year	 R20 000 R10 000 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.

10.1 New Nomination Form for Funeral Benefits

The Family Funeral Plan with the Insurer falls under the Insurance Act 18 of 2017, whereby the Prudential Authority requires that a funeral nomination form **MUST** be completed in order for the funeral benefit to be paid out to the nominated beneficiary. If a member did not complete the funeral nomination form, then the funeral benefit has to be paid to the estate late bank account of the deceased member, which is not the spirit of a family funeral plan, but unfortunately legislation has dictated this process. The Fund has conveyed this message on several occasions, both in our member meetings and previous news flashes, available on the Fund's website **www.mymgf.co.za** This is unfortunately legislation and the Insurer has no other option but to enforce it.

- A copy of the Sanlam **funeral nomination form** is available on the Fund's website **www.mymgf.co.za** under the ***Forms*** tab and then under the ***Funeral Plan*** heading. It is of the utmost importance that each member of the Fund must complete the funeral benefit nomination form to ensure that the funeral cover is paid to the nominated beneficiary. Please assist the Fund to get this message across to all our members. The Benefits Claim Form and Funeral Nomination Form is available from ***SANLAM***.
- The **email** address for submission of claims is: **sgrdeathclaims@sanlam.co.za** . 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.***

10.2 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 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.

11. CHANGE TO DISABILITY BENEFIT

Members who join the Fund on or after 1 July 2023

Members who join the Fund on or after 1 July 2023 will receive the new Disability Benefit that comprises your Fund Credit PLUS a scaled multiple of your salary as shown in the table below.

Members who joined the Fund on or after 1 July 2023		
Attained age at date of disability	**Scaled multiple in excess of member share**	**Reduced multiple for members with less than 5 years' service with pre-existing condition**
Up to age 30	4 times	2 times
Age 31 to 35	3.5 times	1.75 times
Age 36 to 40	3 times	1.5 times
Age 41 to 45	2.5 times	1.25 times
Age 46 to 50	2 times	1 time
Age 51 to 55	1.5 times	0.75 times
Age 56 to 64	1 time	0.5 times
Age 65 and older	No additional benefit	No additional benefit

The improved benefit will be payable to all disabilities approved with a date of disability (exit date) after 1 July 2023. Members 65 years and older still do not enjoy any risk cover.

Members who joined the Fund before 1 July 2023 but become disabled after 1 July 2023

If current members of the Fund become disabled on/after 1 July 2023, the new disability benefit will apply BUT with the grandfathering rule (i.e. if the old benefit is higher, the old benefit will be paid even if the date of disability is after 1 July 2023). For them, it will be the maximum of the two disability benefit structures.

12. INVESTMENTS PORTFOLIOS AND INVESTMENT RETURNS

12.1 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.

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

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

12.2.1 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.

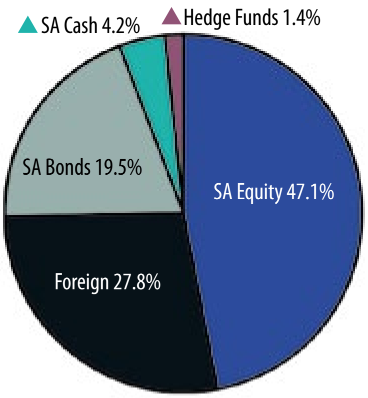
Market Value as at 31/12/2022: R21 billion

Investment objective: Inflation + 5%

Asset allocation limits:

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

Asset Allocation as at 31/12/2022



Asset Manager Allocation

Asset Class	Manager
Credit Funds	Futuregrowth
Equity	ABAX, Allan Gray, Aluwani, Argon, Fairtree, Truffle
Foreign Balanced	Allan Gray
Foreign Equity	Coronation, Edge, Franklin, Hoskings, Morgan Stanley, Nedgroup (Veritas), Ninety One, Sands Capital
Foreign Fixed Income Absolute Return	Brandywine
Foreign Property	Nedgroup (Resolution)
Fund of Hedge Fund	Edge Investments
Mezzanine Debt	Vantage Capital
Property	ABSA, Sesfikile
Renewable Energy	Green X Renewable
SA Bonds	Ninety One, Sanlam
SA Cash	ABSA, Futuregrowth, Green X Renewable, Stanlib,Vantage
SA Passive Equity	Satrix

Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
2.23%	0.40%	-0.65%	2.96%	1.60%	2.99%

Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	2021/2022
-1.32%	0.88%	-1.47%	-1.21%	-0.82%	-4.47%	0.85%

12.2.2 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.

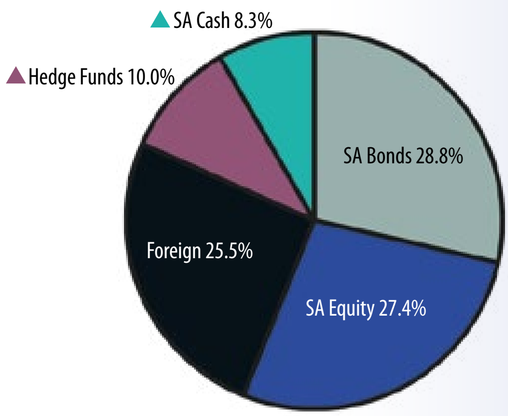
Market Value as at 31/12/2022: R7 billion

Investment objective: Inflation + 4%

Asset allocation limits:

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

Asset Allocation as at 31/12/2022



Asset Manager Allocation

Asset Class	Manager
Bond	Ninety One
Equity	ABAX, Allan Gray, Aluwani, Argon, Fairtree, Truffle
Foreign Balanced	Allan Gray
Foreign Cash	JP Morgan, Vantage Capital
Foreign Equity	Coronation, Edge, Franklin, Hoskings, Morgan Stanley, Nedgroup (Veritas), Ninety One, Sands Capital
Foreign Fixed Income Absolute Return	Brandywine
Foreign Property	Nedgroup (Resolution)
Fund of Hedge Fund	Edge Investments
Mezzanine Debt	Vantage Capital
Property	ABSA, MGF, Sesfikile
Renewable Energy	Green X Renewable
SA Absolute Return	ABAX, Alusi Managed Fund, Coronation, Sanlam
SA Bonds	Ninety One, Sanlam
SA Cash	ABSA, Futuregrowth, Green X Renewable, Stanlib,Vantage
SA Passive Equity	Satrix

Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
1.73%	0.54%	-0.28%	1.88%	1.31%	2.44%

Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	2021/2022
-0.80%	0.59%	-0.89%	-0.55%	-0.41%	-2.80%	2.68%

12.2.3 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.

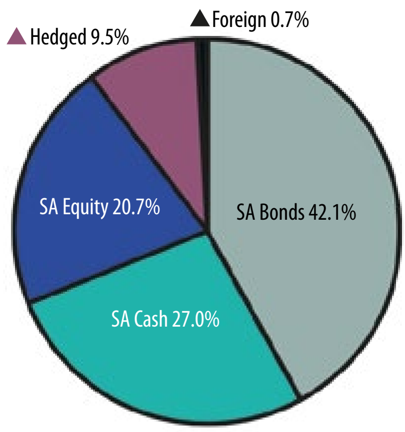
Market Value as at 31/12/2022: R3 billion

Investment objective: Inflation + 3%

Asset allocation limits:

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

Asset Allocation as at 31/12/2022



Asset Manager Allocation

Asset Class	Manager
Bond	Ninety One
Credit Funds	Futuregrowth
Renewable Energy	Green X Renewable
SA Absolute Return	ABSA, Alusi Managed Fund, Coronation, Sanlam
SA Cash	ABSA, Futuregrowth, Green X Renewable
SA Hedge Funds	Amplify

Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
1.05%	0.94%	-0.23%	0.91%	0.47%	1.91%

Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	2021/2022
0.83%	0.91%	0.56%	-0.33%	0.52%	-1.71%	5.93%

12.2.4 Life Stage 4: Protected Portfolio

Life Stage 4: Protected Portfolio (PP)

Portfolio Profile
This portfolio is for members older than 63 years of age.

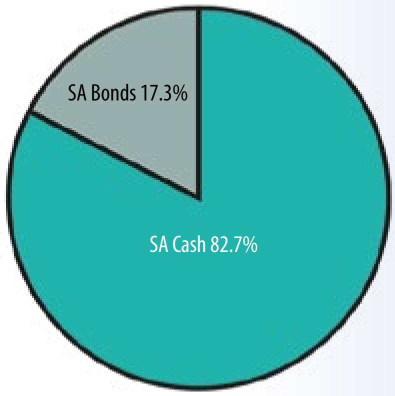
These members cannot be exposed to any risk and therefore their money will be invested in money market instruments in order to protect capital.

Market Value as at 31/12/2022: R 1 billion

Investment objective: Cash

Asset allocation limits

Asset Allocation as at 31/12/2022



Asset Manager Allocation

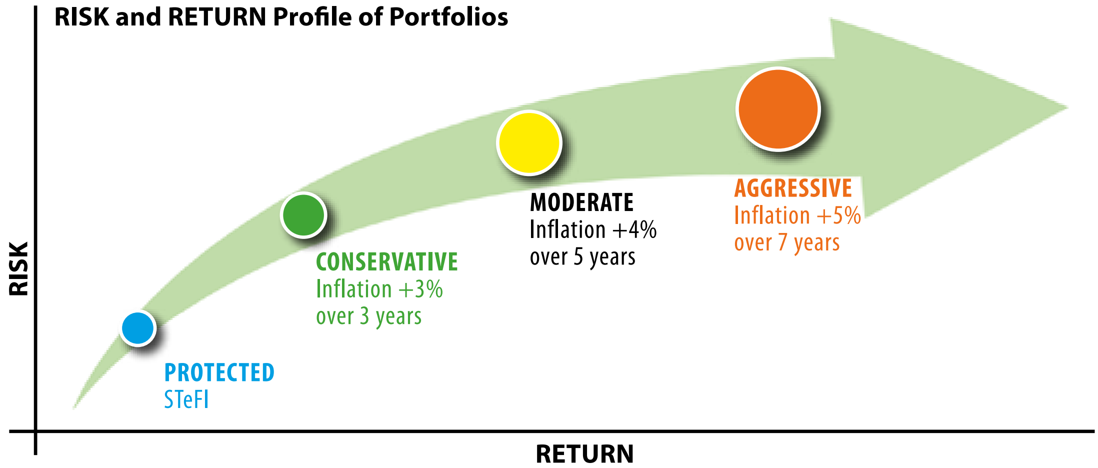
Asset Class	Manager
SA Cash	ABSA, Futuregrowth

Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
0.42%	0.46%	0.38%	0.22%	0.41%	0.38%

Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	2021/2022
0.48%	0.27%	0.42%	0.44%	0.44%	0.45%	4.87%

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

RISK and RETURN Profile of Portfolios



12.3 Investment Returns

The ***returns of the life stage portfolios for 2021/22 financial year*** are as follows:

	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Year Total
AP	2.23%	0.40%	-0.65%	2.96%	1.60%	2.99%	-1.32%	0.88%	-1.47%	-1.21%	-0.82%	-4.47%	0.85%
MP	1.73%	0.54%	-0.28%	1.88%	1.31%	2.44%	-0.80%	0.59%	-0.89%	-0.55%	-0.41%	-2.80%	2.68%
CP	1.05%	0.94%	-0.23%	0.91%	0.47%	1.91%	0.83%	0.91%	0.56%	-0.33%	0.52%	-1.71%	5.93%
PP	0.42%	0.46%	0.38%	0.22%	0.41%	0.38%	0.48%	0.27%	0.42%	0.44%	0.44%	0.45%	4.87%

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
AP	25.60%	28.45%	2.43%	-4.14%	16.70%	14.83%	10.23%	16.43%	26.83%	4.94%	7.22%
MP	17.80%	24.77%	1.55%	1.48%	15.33%	13.90%	9.68%	14.49%	21.94%	6.66%	8.04%
CP	11.00%	20.27%	3.22%	8.13%	14.92%	12.85%	8.63%	10.46%	14.85%	7.84%	6.50%
PP	-	-	-	-	-	-	4.98%	5.96%	6.04%	6.64%	7.53%

	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	Since Unitisation	Annualised return per annum
AP	4.05%	10.38%	4.43%	4.30%	18.85%	0.85%	487.87%	10.93%
MP	4.96%	8.96%	4.97%	4.75%	14.00%	2.68%	416.67%	10.14%
CP	6.44%	8.29%	6.07%	2.49%	10.43%	5.93%	348.23%	9.23%
PP	8.58%	8.22%	8.55%	8.16%	4.41%	4.87%	106.12%	6.85%

The returns for the financial year were much lower than originally expected, which was a direct result of the war between Russia and Ukraine, which started in February 2022 and affected all the markets worldwide.

Bear markets and why members need to stay invested

The two phrases investors don't want to hear are "bear markets" and "recessions". Unfortunately, they've been hearing them a lot lately. A ***bear market*** is when share prices (equities) fall and a ***bull market*** is when prices go up. Bear markets can be damaging to your wealth, but the ***impact depends greatly on your response***. Selling after the market has fallen means locking in losses and denying your portfolio the ability to rebound. ***When the market rebound comes, it has historically been extremely rapid.*** Importantly, the turning point for markets usually occurs well before the economy turns. In fact, things will still look quite gloomy on the ground, but markets look ahead.

The recovery from the 2020 crash illustrates this: the market turned extremely quickly even though the virus still raged and economies were still locked down. But investors realised that the worst-case scenarios would not come to pass and collectively decided that too much bad news was priced in. For this reason, it is important to retain an equity exposure appropriate to your long-term investment horizon and financial goals.

If this all sounds too gloomy, remember too that bear markets can provide once in a generation buying opportunities that enhance long-term wealth. Somewhat counterintuitively, there is usually an inverse relationship between past and future returns. That is because the valuation of any investment – whether it is cheap or expensive relative to the cash flows it can be expected to produce – is a major determinant of the return it will deliver. The more the market falls, dragging down past returns, the cheaper it becomes, lifting prospective returns. Hopefully this makes unpleasant market volatility a bit more bearable. History has shown that equity markets do recover and that all bear markets eventually come to an end. When share prices drop your chances of making money improves - it is as simple as that. What sound so simple in theory is hard in reality as it goes against our natural instinct. And that is what makes investing so hard. ***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.***

12.4 Returns going forward

The ***returns from July 2022 to January 2023*** are as follows:

Portflio	31 Jul 2022	31 Aug 2022	30 Sep 2022	31 Oct 2022	30 Nov 2022	31 Dec 2022	31 Jan 2023	Year to date
Aggressive Portfolio	3.74%	-0.36%	-2.91%	3.95%	4.99%	-0.48%	6.46%	16.04%
Moderate Portfolio	2.78%	0.16%	-1.85%	2.76%	2.97%	0.24%	4.57%	12.07%
Conservative Portfolio	1.21%	0.45%	-0.88%	1.51%	2.75%	0.26%	2.38%	7.89%
Protected Portfolio	0.42%	0.59%	0.41%	0.67%	0.53%	0.65%	0.75%	4.08%

We hope that the 2022/23 financial year will achieve a better return than the 2021/22 financial year.

12.5 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%

13. IMPORTANT INFORMATION

13.1 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).

13.2 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 were seen where, if the nomination forms were to be followed, it would have resulted in gross injustice towards the family of the deceased.

Section 37C of the Act is a real 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.

*"**Time** will pass and **seasons** will come and go."*

- Roy Bean

13.2.1 Nomination of Beneficiaries

Name Of Member:	
Date Of Birth:	
Pension Number:	
Municipality:	

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

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

Special requests:

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

Signature **Date**

Return to Sanlam Employee Benefits, Private Bag X14, Highveld Park, 0169

Contact Centre: Tel: (012) 683 3900

E-mail: mgfbeneficiary@sanlam.co.za

13.3 Tax on Pension Benefits

In the past, 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 24 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.

Good news - new tax tables apply from 1 March 2023

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

Lump sum benefit	Lump sum benefit
R0 – R27 500	0%
R27 501 - R726 000	18% of taxable income above R27 500
R726 001 - R1 890 000	R125 730 + 27% of taxable income above R726 000
R1 890 001 and above	R223 740 + 36% of taxable income above R1 890 000

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

Taxable income	Rate of tax
R0 – R550 000	0% of taxable income
R550 001 - R770 000	18% of taxable income above R550 000
R770 001 – R1 155 000	R39 600 + 27% of taxable income above R770 000
R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000

"The coming and going of the ***seasons*** *give us more than the springtimes, summers, autumns, and winters of our lives. It* ***reflects the coming and going of the circumstances of our lives*** *like the glassy surface of a pond that shows our faces radiant with joy or contorted with pain."*

- Gary Zukav

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 R550 000	R 0.00	0
Next R220 000 @18%	R 36 600.00	5
Next R385 000 @ 27%	R 94 500.00	12
Balance of R1 345 000 @ 36%	R 484 200.00	26
Total tax	R 618 300.00 (R34 200 less tax than previously paid)	

As can be seen, the first R550 000 is tax free and thereafter incremental rates of 18%, 27% and 36% apply. The tax up to R1million rand is about 18% 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 R27 500 is tax free compared to the R550 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 R550 000 with the first lump sum, the balance left is R250 000 and once this is used up this relief is not available again.

13.4 Register for Tax

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

13.5 Member Administration

The member administration is outsourced to ***Sanlam Employee Benefits (SEB)*** a specialist benefits administrator registered in terms of the Pension Funds Act. SEB is responsible for all administrative functions with reference to the receipt and processing of contributions, payment of benefits, updating of member information and the payment of death benefits to the beneficiaries of deceased members.

Members may direct their enquiries regarding administrative matters to SEB at:

Telephone (012) 683-3900 or toll-free 0861 223 646

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

13.6 Complaints Procedure

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

The contact details of the PFA are:

Email address: enquiries@pfa.org.za

Tel no (012) 346-1738, Fax no (086) 693 7472.

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

13.7 Payment of contributions

Payment of contributions has indeed changed for the good since last year. As at the end of the 2022 financial year Tswaing Local Municipality, with 38 members, was the only municipality still in arrears with the payment of their monthly contributions. The Fund has lodged a complaint with the Pension Funds Adjudicator (PFA) regarding the non-payment of contributions and the late payment interest and the determination was in favour of the Fund instructing Tswaing Local Municipality to make payment. The determination of the PFA is equal to a court order. As Tswaing Local Municipality did not make payment, instruction was given by the Fund to attach the assets of Tswaing Local Municipality. The National Prosecuting Authority is also involved in this specific case.

The members at Tswaing Local Municipality have been informed that their contributions are in arrears, thus forfeiting risk cover being death, disability and funeral cover.

"Just as you have ***spring, summer, autumn and winter****, there are* ***four financial seasons of life*** *that include* ***accumulation, preservation, distribution*** *and* ***succession****. Approaching your finances with these four seasons in mind can help to keep you on track toward reaching your* ***long-term financial goals****."*

- Las Vegas Review Journal

("The Four Seasons of Financial Planning")

14. INDUSTRY UPDATE

14.1 Rationalisation of Municipal Retirement Funds

Members have been kept informed by means of various news flashes about developments regarding the legal action taken by the Fund and the Municipal Retirement Organization (MRO) against the Collective Agreement from the South African Local Government Bargaining Council (SALGBC).

The MRO and other Funds opposed the Collective Agreement in the High Court. The court application was enrolled for 13 and 14 October 2022 before a full bench of three Judges. The judgment was received in February 2023 and we are happy to share the outcome of the judgment with you. The Collective Agreement was set aside, except for clause 8, with a cost order in favour of the Funds.

The Board of the Fund welcomes this judgment, as the Fund always acts in the best interest of our members. No accreditation is required for any Fund to continue and at this stage there will be no freedom of association to move between Funds.

The SALGBC has 15 court days to appeal the judgment.

14.2 Two-pot System

The latest hot topic is the possibility for members to withdraw one-third of their fund credit prior to retirement and while in service. The Fund receives numerous queries in this regard.

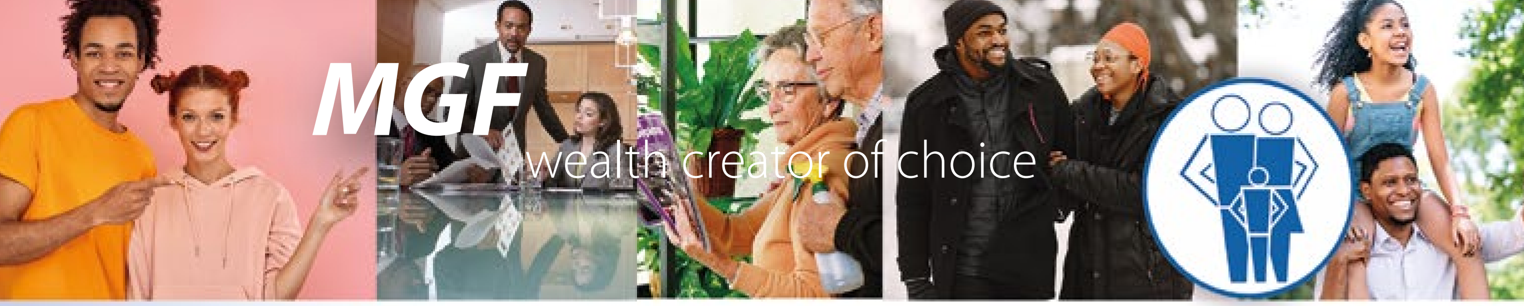
In terms of the draft legislation published, the two-pot system will come into effect on 1 March 2024, which was postponed from 1 March 2023 to allow for sufficient time for rule amendments to be approved by the Authority and the retirement fund industry to do the necessary system development.

At this stage it seems like the following would be applicable if effective 1 March 2024:

- ***The fund credit as at 29 February 2024 will be ring-fenced in the "vested pot", which may still be taken in cash at retirement or resignation.*** National Treasury is looking into a possible seed capital percentage to be provided from this "vested pot" the detail of which will only be known once the legislation has been enacted.
- ***New contributions from 1 March 2024 will have to be split between a "savings pot"*** (the one-third allowed in cash) and the ***"retirement pot"*** (two-thirds which is only accessible at retirement).
- ***Only once the "savings pot" has built up to at least R2 000***, members will be allowed to make a withdrawal, which seems like the minimum amount will be R2 000 per withdrawal.
- ***Members will be allowed one withdrawal per rolling 12-month period.*** If the full one-third available is not withdrawn, the balance remains available in the "savings pot" and members will be able to withdraw it in the next year, as only one withdrawal per 12-month period is allowed.
- ***This withdrawal will be included in the member's annual taxable incom***e and taxed at marginal rates.
- ***The "retirement pot" will have to be transferred to an annuity or new employer's "retirement pot" should a member resign*** from their employer, as it may not be taken it in cash. At retirement it must be invested in a pension plan to pay a monthly pension.
- ***If the total benefit (thus the total of all three pots***) is less than R165 000 it may be taken in cash.

Members must realize that this early withdrawal could have a negative impact on their expectation of the amount of money available as a lump sum at retirement, as they would forfeit investment return on the amount withdrawn.

Members should be advised to speak to a financial advisor prior to making any early withdrawal, as it will most definitely have an effect on their retirement provision. Once this legislation becomes applicable it will be communicated to the members via a newsflash.



15. Contact MGF

Registered Office:

14 Bedfordview Office Park,

3 Riley Road, Bedfordview, 2007

PO Box X 1190, Bedfordview, 2008

Tel: (011) 450-1224

Website: **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 0861 223 646 toll free

Website: **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 0860 762 278

16. A Final Word

*"I believe in **process.** I believe in **four seasons.** I believe that **winter's tough, but spring's coming.** I believe that there's **a growing season.** And I think that you realize that **in life, you grow.** You get **better**."*

– Steve Southerland

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.

MGF