

# NEWS FLASH 1/2008 - TO ALL MGF MEMBERS

20 February 2008

Dear member,

The purpose of this newsflash is to inform about the following three matters.

## 1. Market performance

Members may have noticed the disappointing investment returns the past three months as reflected by their fund credits. The returns for the three life stages were as follows:

	Nov 2007	Dec 2007	Jan 2008	July 2007 – Jan 2008
Aggressive Portfolio (AP)	-1,54%	-1,53%	-4,19%	-0,94%
Moderate Portfolio (MP)	-1,44%	-0,97%	-3,48%	-1,09%
Conservative Portfolio (CP)	-0,89%	-0,15%	-2,26	0,25%

As reflected above the worst performer was the AP and the best performer was the CP. This is because the negative market performance was in the equity market and the AP has a greater exposure to equities (shares) than the MP and CP. The performance of the All Share Index for the three months was respectively -3,19%, -4,36% and -5,61% reflecting the beating the equities took. Due to the diversification strategy of the MGF the full impact of the declining equity market could be softened as reflected in the table above. Even top performers like Alan Gray and Investec (Value) could not escape the wrath of the market with their -10,18% and -12,41% respectively for January 2008 compared to their average of 45% and 38% **per annum** for the past 3 years until December 2007.

The last column in the above table reflects the returns for the financial year to date (1 July 2007 to 31 January 2008). It is clear from this column that the negative returns of the past three months were almost equaled by the positive returns of the first four months of the financial year. This emphasizes the big market fluctuations (volatility) of late. When this newsflash was compiled the markets were again trending towards positive territory.

As this situation is common to all pension funds, the majority of pension funds had a similar experience. This disappointing performance should be seen against the extra-ordinary good returns yielded by the equity market the previous three years. The consensus amongst investment experts is that the South African companies are still well placed to make acceptable profits and therefore their shares should still yield positive returns for 2008. Their opinion is that the current negative trend is mostly caused by the foreign markets but that the current relative cheap prices of the South African equities would bring back sanity to the market. However it must be remembered that the investment markets move in cycles and suffice to repeat the following cautionary remark of the Chairperson of the MGF in the 2007 MGF Journal of March 2007:

*The 2005/6 financial year was again an exceptionally profitable year. Investment markets performed very well as reflected in returns members earned. Being in the fourth consecutive year of rising markets, members are cautioned that markets move in cycles and it is unlikely that the current bull market could last indefinitely.*

The purpose of the three life stages is to allocate members with a long investment horizon, that is the younger members, to the AP and to transfer them to the MP and the CP as they get older with a shorter investment horizon. In such way members would participate in higher returns but with higher risk when they have ample time to recover losses but would be transferred to more conservative investments when they get closer to retirement age when capital should be preserved and not be exposed to the same measure of risk as in the AP. Members who are risk averse may at any time transfer their fund credits or some of it to the CP which has a lower risk profile but it must be kept in mind that a potential lower return should be expected when equity markets are doing well. Members may also exercise a choice once a year (usually 31 May) to transfer their fund credits or a portion thereof from 1 July to the Guaranteed Portfolio where the capital plus a fixed return is guaranteed.

Please be assured that your trustees are well informed about the current market conditions and do their utmost, together with leading investment experts in the South African market, to limit the down side. However it is not possible to predict the market.

## 2. Municipal Councillors Pension Fund (MCPF)

The media reported on 6 February about alleged financial mismanagement at the Municipal Councillors Pension Fund. Unfortunately the phrase "Municipal Pension Fund" was used at one stage which lead to some members' concern that the MGF might be involved. This is not the case.

To put the matter in perspective the press release by the MCPF is quoted, as follows:

*"The Board of Trustees of the Municipal Councillors Pension Fund emphatically denies allegations of financial mismanagement at the Fund which were reported in the press this morning. The Board is unaware of any investigation into the affairs of the Fund.*

*The Board itself is not directly responsible for the physical handling of the Funds' monies.*

*The Fund's administrator, Akani Retirement Fund Administrators, who is responsible for the handling of the financial affairs of the Fund, has not been reappointed after they failed to submit a tender. The Board has been dissatisfied with Akani's performance and cost structure for some time.*

*Amongst other things, Akani failed to submit financial statements for the last financial year to the Board. It is not clear what statements were referred to in earlier media reports. Akani is now refusing to hand over the administration of the Fund to the newly appointed administrator, Absa Actuaries & Consultants, who is to administer the Fund from 1 March 2008. The refusal by Akani constitutes a serious breach of its obligations towards to the Fund.*

*The Fund's actuaries and auditors have assured the Board that the financial position of the fund is healthy and that there is no cause for concern by members. The Board shall shortly communicate with members in order to address any of their concerns.*

*The Board is in regular contact with the Financial Services board and welcomes any investigation into the affairs of the Fund."*

**Please note that this matter has no relevance to the MGF.**

### **3. Local Government Pension fund (LGPF)**

Members would recall the previous reports about the registration of the LGPF and that the MGF together with other retirement funds and the trade unions lodged an appeal against the registration of the LGPF and requested that it be deregistered due to certain irregularities in the application for registration.

After some postponements the Appeal Board eventually heard this matter on 7 August 2007, a year after the registration of the LGPF. Although the judgement is still awaited, it is likely that the judgement would go in favour of the applicants (the funds and trade unions). It was pointed out to the Registrar of Pension Funds and the Appeal Board that -

- SALGA does not have authority in terms of its constitution to establish a pension fund for local authority employees,
- SALGA is an employer body and not an employer of local authority employees and can therefore not act as sponsoring employer for the establishment of a pension fund as contemplated by the Pension Funds Act, 1956.
- SALGA is barred from establishing a local government pension fund by the moratorium imposed by the South African Local Government Bargaining Council.
- SALGA's reference to the 30 000 municipal employees who can't belong to a fund is a myth. These employees can in any event belong to the existing funds but do not wish to do so as they cannot afford the 7,5% contribution. At the date of the hearing, one year after the registration of the LGPF, membership of the LGPF did not even reach 1000. The principal officer of the LGPF, who was served with a subpoena to appear before the Appeal Board could not tell the Appeal Board what the membership figure was at that stage. It was however ascertained from reliable sources that it was about 850 and that these were from new appointments and not from the 30 000 existing employees which SALGA used as the prime motivation to register the LGPF.

The approach of the Registrar of Pension Funds at the hearing of the Appeal Board was that all this information was not revealed to him by SALGA and would he be informed accordingly he would not have registered the LGPF. The verbatim minutes of the appeal hearing makes for interesting reading and is available on request.

To date the judgement is not yet available. The urgency of the matter was brought to the attention of the secretary of the FSB Appeal Board. As soon as the written judgement is received, members will be advised accordingly.

Sincerely yours

DEWALD JACOBSON  
CHIEF EXECUTIVE OFFICER