VERY IMPORTANT NEWSFLASH (9 May 2007)

1. GUARANTEED PORTFOLIO 2007/8 : CLOSING DATE 31 MAY 2007

The 2006/7 Guaranteed Portfolio investment matures at the end of June 2007. Although the final return will only be known on maturity date it seems that a significant final bonus would be available.

Members wishing to exit or enter the Guaranteed Portfolio, be it partially or with their full fund credit, are reminded that their prescribed option forms must reach the Fund or Coris Capital not later than 31 May 2007. Members currently invested in the GP wishing to remain in it need not take any action unless they are proportionally invested in it and wish to change the proportion or wish to rebalance the proportional split to the original proportion or otherwise. As explained in various news letters and other forms of communication no late option forms can be entertained because a guaranteed product must be bought in the market for the twelve months in advance and therefore the total amount must be determined at the closing date.

The return parameters for 2007/8 are as follows:

Guaranteed return:	5% per annum
Approximate possible additional **maximum** return:	9% per annum
Approximate maximum return:	14% per annum

Please note that the capital and 5% per annum return are guaranteed. The possible additional return of 9% will depend on market performance. The additional return can be anything between 0% and approximately 9%. The prescribed option form is available on www.mymgf.co.za or on request from Coris Capital, Tel: (012) 683 3900 or the Fund at Tel: (011) 450 1224 or linda.blignaut@coriscapital.com or hannelize.grobler@coriscapital.com

2. HOUSING LOANS: NEW DISPENSATION

The Fund currently provides housing loans directly from members' fund credits. In other words a member borrows money from his/her own fund credit account and not from an external source such as a bank. This has proved to be an effective way to assist members with affordable housing. Due to the introduction of the National Credit Act and the implementation of the final phase of the Act on 1 June 2007 read together with the retirement funding reform papers released by Government (National Treasury), the Fund is not in a position to proceed with direct housing loans after 1 June 2007. The Fund investigated alternative solutions not to disrupt this service to its members. The system of pension backed-home loans with a financial institution renders the only acceptable solution. This means, that instead of borrowing from his own fund credit the member borrows from an external source, such as a bank, against a guarantee rendered by the Fund based on such member's fund credit. The Board of Trustees resolved that Standard Bank be appointed to supply pension-backed home loans to its members. This means that as from 1 June 2007 the Fund will not grant direct home loans anymore but that all applications will have to be submitted to Standard Bank. Standard Bank will consider these applications in accordance with the requirements of the National Credit Act and other applicable legislation. If it complies, then Standard Bank will grant the loan against a guarantee backed by the member's pension benefit (fund credit) with the Fund.

Therefore the dispensation where a member borrowed against his/her own fund credit directly and paid the interest and capital redemption back into his own fund credit account will now be replaced with an external loan with Standard Bank and the usual open market rules and legislation would apply. Standard Bank however is offering an attractive discount on the interest rate, which would reduce the monthly instalment when compared to the rate currently prescribed by the Registrar of Pension Funds for direct loans.

The question is raised which of the two systems, that is direct loans or pension-backed loans is more advantageous to members. No unqualified answer can be given. It depends entirely on what the returns on an alternative investment would be. If for example a member would have a direct loan of say R50 000 against his fund credit repayable (to himself) at 15% interest and the return of his applicable investment portfolio is 20% then it would be better to have an external loan at a rate of say 10%. The external loan will release the R50 000 locked in the direct loan with the result that it be invested in the investment portfolio with a 20% return. In simple terms what happens, is that the R50 000 is borrowed at 10% and invested at 20%. To the contrary, if the investment portfolio renders a return of say 5% per annum, it could be better to use a direct loan than a pension-backed loan as there is no opportunity of a better alternative investment, also referred to as leverage (gearing) or arbitrage advantage. In effect one would borrow money at 10% and invest it at 5%, not a good investment.

Standard Bank still has to engage with the municipalities to enter into an agreement to implement the scheme. Once this is in place, Standard Bank will embark on a road show to all municipalities to communicate the terms and conditions to members. Due to time constraints it may be that there would be a period when no new loan applications can be processed. Depending on the response time by the employer, it is trusted that the new scheme would be in place at the inception of the Fund's 2007/8 financial year on 1 July 2007. As the Fund will cease with direct loans effective 1 June 2007 it may be that no new loans would be processed during June 2007 or part thereof. Currently the Fund grants about 250 to 300 new loans per month. To these approximately 250/300 members who may be inconvenienced during June 2007, please accept the Fund's apology and please be patient. The utmost will be done to effect the transfer as quick and smooth as possible.

For members with existing direct loans, it is business as usual until you decide to transfer your direct loan to Standard Bank or until you wish to apply for an additional loan. Standard Bank will approach members with direct home loans during their road show to explain the pros and cons and to give such member an opportunity to transfer to Standard Bank. It is the member's choice to maintain the direct loan or to transfer to Standard Bank, now or later.

However, if and when a member with an existing direct loan wishes to take up a further additional loan, such member must apply with Standard Bank for the additional loan and if granted, then the existing direct loan/s must be transferred to Standard Bank. A member may not have a direct loan as well as a pension backed loan but only one of the two. In the event that a member would convert his direct loan to a pension backed loan with Standard Bank, the outstanding balance of such direct loan will be paid by Standard Bank to the Fund and added to the member's fund credit. In other words, the direct loan will be paid off by Standard Bank but the member will in return then owe Standard Bank in terms of the pension backed loan.

3. TAX ON RETIREMENT BENEFITS

Two significant announcements were made by the Minister of Finance during his 2007 budget speech about tax on retirement benefits.

Firstly the Retirement Fund Tax (RFT) levied on all rental and interest earned by retirement funds has been abolished from 1 March 2007. This has a direct bearing on all members as the Fund's return will not be diluted with RFT anymore and also no RFT will be levied on the interest on direct housing loans.

Secondly, the increase of the R120 000 tax free thresh hold to R300 000 and the rate of 18% on R300 000 to R600 000 is a significant tax relief. There is currently even talk of lifting the R600 000 to a higher level. Concerned members enquired whether the Formula C "vested rights" tax concession is still in place. Yes, it is still valid and it is applied in conjunction with the new thresh hold.

Members who want more details in this regard are referred to the article on page 18 of the 2007 MGF Journal, currently being distributed to members.

4. FIDENTIA AND OTHER SCAMS

Some members expressed their concern about the recent Fidentia scandal and whether the Fund was invested with Fidentia. Members can rest assured that the Fund was not and will never be invested with dubious investment managers, the likes of the Fidentia's of this world. The trustees are very much aware of the risk to invest in unknown brands. A very conservative approach is applied in this regard and the trustees religiously stick to the well-known reputable investment managers with substantial balance sheets of their own. The risk for a trustee to be personally liable and to lose all his personal assets is just too big to take any risky decisions in this regard.

MGF greetings

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