MUNICIPAL GRATUITY FUND

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MGF

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NEWSFLASH: STANDARD PORTFOLIO VERSUS GUARANTEED PORTFOLIO

Investment Portfolio

The Municipal Gratuity Fund introduced a member investment choice called the Guaranteed Portfolio (GP) with effect from 1 January 2001. Members with a short-term view or with a greater risk aversion can switch once a year from the balanced Standard Portfolio (SP) to the GP either with their total fund credit or a selected percentage. The member's fund credit plus credited contributions are guaranteed in the GP as well as a growth of 8% per annum. A further limited growth capped at approximately 4% per annum can be obtained depending on the returns of the share market, thus a maximum potential growth of approximately 12% per annum irrespective of whether the share market render higher returns. The closing time for exercising this member investment choice is 31 May. This must be done on the prescribed form, which is available from the Fund or the Fund Administrator (Coris Capital). This form was included in the March 2003 newsletter (page 12). Please note that no forms received by the Fund or Coris Capital after the closing date will be accepted. It is expected that many members may wish to switch from the SP to the GP at the next available opportunity due to the dismal investment markets. **Members are however cautioned to be careful in their decision to switch to the GP as it may go against them if the share market experiences a boom period.**

Dismal investment markets

Currently the share markets are world wide in a slump with a negative impact on pension funds' returns. The all share index of the JSE Securities Exchange is 29% down from 1 July 2002 until 30 April 2003. The MSCI worldwide share index is down by 35% over the same period, the MSCI Emerging markets –34% and the American Dow Jones index is down 34% whilst the S & P 500 is at –33%.

Local cash deposits however are giving an acceptable return of approximately 10% per annum after retirement fund tax. The question is why does a pension fund in such circumstances not switch completely from shares to cash? The reason is that nobody can predict when the financial markets would change and experience has shown that optimal market timing to switch between the asset classes is not achievable. It is not prudent for a large balanced pension fund to be completely out of the share market because it is not feasible to return quick enough from the money market to the share market when it is realised that the share market has turned. In the long term the share market outperformed the money market substantially. According to Investment Planning by B. Goodall (January 2000) "over the past twenty years the difference in equity (shares) returns and fixed deposit returns has been an average of 16,8 per cent per annum after tax" in favour of equity.

The market norm world wide for a large balanced pension fund is to have between 50% and 65% of its assets invested in the share market.

The weighting will differ depending on various conditions including market conditions. The trustees of the Municipal Gratuity Fund took a very conservative approach and reduced the equity component (excluding the off shore investment) considerably.

At the end of March 2003 the asset class allocation was as follows:

Local shares	38,7%
Bonds	21,1%
Offshore (including a share portion)	12,6%
Structured Products (including a share portion)	10,7%
Cash	8,8%
Property	8,7%

Apart from a cash portfolio of approximately R120 million the trustees of the Fund do not manage the investments themselves. The management of the assets is outsourced to specialist in the market such as Old Mutual Asset Management, Sanlam Investment Management, Investec Asset Management, Allan Gray, etc.

Although the conservative approach of the Fund to decrease the weighting in shares succeeded in mitigating the disastrous effect of the currently decreasing share market it is not possible to escape it completely. The Fund had to declare negative bonuses to a total of minus 6% for the first 10 months of the current financial year from 1 July 2002 until 30 April 2003. This was done after careful consideration and on advice from the actuary of the Fund in order to maintain a solvency level and comply with the requirements of the Pension Fund Act. Although this is not exciting news, it still compares favourable with many other funds which did not decrease their weighting in shares.

Investment markets move in cycles. With the shares currently at such cheap prices it is not excluded that the share market may soon recover. Therefore one should be very cautious before acting.

Cash Portfolio

The Fund also resolved that the benefit of all members reaching 64 years of age within the particular financial year and all members for whom a notice of termination of membership is received by the Fund Administrator be transferred to a cash portfolio with effect from 1 April 2003 except those members who are already 100% invested in the Guaranteed Portfolio and in the event where a portion is invested in the Guaranteed Portfolio only the portion not invested in the Guaranteed Portfolio be transferred to the cash portfolio.

Maize future contracts

Enquiries are received from members regarding the losses sustained by the Joint Municipal Pension Fund on maize future contracts and how it affects the Municipal Gratuity Fund. It is reiterated that there is no connection between the JMPF and the MGF and that the MGF did not invest any monies in maize future contracts.

DO NOT SWITCH BETWEEN STANDARD PORTFOLIO AND GUARANTEED PORTFOLIO WITHOUT CAREFUL CONSIDERATION TAKING INTO ACCOUNT YOUR OWN CIRCUMSTANCES.

DEWALD JACOBSOHN
CHIEF EXECUTIVE OFFICER
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