

# NEWS FLASH 14 MAY 2009 - TO ALL MGF MEMBERS



## 1. GUARANTEED PORTFOLIO 2009/10: CLOSING DATE : MONDAY THE 1<sup>ST</sup> JUNE 2009

The 2008/9 Guaranteed Portfolio investment matures at the end of June 2009. Although the final return will only be known on maturity date, it seems that a modest final bonus would be realised.

**Please note that the closing date to exercise an investment option in respect of the Guaranteed Portfolio (GP) for 2009/10 is Monday the 1<sup>st</sup> June 2009.** Options must be exercised on the prescribed option form “**GUARANTEED PORTFOLIO INVESTMENT OPTION FORM: CLOSING DATE 1 JUNE 2009**” which is available on request from Coris Capital, the Fund Administrator on telephone number (012) 683-3900 or from the MGF offices on telephone number (011) 450-1224. The option form can also be printed from the website [www.mymgf.co.za](http://www.mymgf.co.za). Firstly select “Forms” and then select “Guaranteed Portfolio Switch Form 2009/10”. Only duly completed option forms received by the Fund Administrator, Coris Capital (fax no. 086-676-1946) or e-mail [gpswitch@coriscapital.com](mailto:gpswitch@coriscapital.com) no later than **Monday, 1<sup>st</sup> June 2009** will be valid. Members must verify that their option forms reach the destination. A facsimile transmission report is not proof of receipt.

Members are once again cautioned not to exercise any choice unless their particular circumstances warrant such change from the Life Stages Model (LSM). The LSM, in terms of which members are automatically switched to the applicable portfolio according to age, was carefully designed to increase the probability to render the highest growth over the long term.

**Since housing loans are granted by Standard Bank the percentage invested in the GP is no longer restricted to exclude envisaged housing loans.**

### **The terms of the 2009/10 GP are as follows:**

- **Guaranteed** : The capital plus a return of 5% are guaranteed for the 2009/10 financial year.
- **Additional return** : A **possible** additional return, but capped at a maximum of approximately 4%, may be obtained, depending on the equity market performance during the period July 2009 until June 2010. The actual **possible** additional capped return will only be known once the underlying structured product is implemented early July 2009. Due to interest rate fluctuation it may vary slightly from the approximate 4% quoted above.
- The minimum return will therefore be the guaranteed 5% per annum and together with the **possible** 4% additional return, a maximum return could be up to approximately 9%.

Members already invested in the GP who do not wish to change their options, need not submit a new option form. Once an option is exercised it remains effective until a new option form is received. However, if a member's existing choice is a split between the GP and one of the other four investment portfolios and such member would wish to rebalance to the original split (in rand value), a new option form must be submitted. If, for example the original choice was a 50/50 split between the GP and the AP but due to lower returns on the AP, the split proportion has shifted, for example, to 60/40 and the member wishes to rebalance to 50/50 a new option form must be submitted no later than the 1<sup>st</sup> June 2009. **Rebalancing to the original split is not done automatically and therefore the split proportions will vary continuously over time due to differential growth. It is important to note that although all efforts will be made to implement the 2009/10 GP structures as close as possible to 1 July 2009 implementation may lag a number of days depending on market trading conditions.**

## 2. EXIT PORTFOLIO

Apart from the GP, which is only open once a year at the end of May or beginning of June, and the three life stages (AP, MP and CP), which are open, all year round, **an additional member investment choice has been opened to members namely the Exit Portfolio (EP)**. This portfolio was originally established only for purposes of exiting members. It is a money market fund, which means that the returns would be similar to that of fixed deposits. There is no exposure to the equity market (shares) in the EP. Contrary to the GP a member can transfer his fund credit or portion thereof at any time throughout the year to or from the EP without any restriction.

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### 3. RISK PROFILES OF INVESTMENT PORTFOLIOS

The risk profiles of the various investment portfolios are as follows:

**Life stage 1 : Aggressive Portfolio (AP):** The AP is for members 50 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 in the long run, but at an equally higher risk. A member, however, who is a long way from retirement, can tolerate such higher risk, as there is enough time to recover possible losses and create wealth.

**Life stage 2 : Moderate Portfolio (MP):** The MP is for members 50 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 that should not be exposed to the higher risk of the Aggressive Portfolio.

**Life stage 3 : Conservative Portfolio (CP)** The CP is for members between 60 to 65 years of age.

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

#### **Guaranteed Portfolio (GP)**

The Guaranteed Portfolio is maintained separately from the life stage portfolios. It is open for election only once per year during May/June. It renders an absolute guarantee of the capital as well as an annual pre-determined rate of return, which varies from year to year. This guarantee is obtained by investing in fixed income instruments. A possible additional return but capped at an annually pre-determined maximum may be obtained depending on the performance of the investment markets. This possible additional capped return is usually done through equity option structures. There is no risk for the member in respect of the capital guarantee and annually quoted guaranteed return. The only risk is in respect of the annually quoted possible additional capped return, which will depend on market movements.

#### **Exit Portfolio (EP)**

The Exit Portfolio is maintained separately from the life stage portfolios. It was originally established only to invest members' fund credits during the exit process. However it was subsequently also opened to all members as an investment choice. The Exit Portfolio is fully invested in the money market that is fixed interest instruments. As such it has a low risk profile and no exposure to equity (shares) market risk. It may however under perform investment portfolios with equity exposure over the long term posing what is called opportunity risk. Opportunity risk is the risk to lose opportunities of excelling returns.

### 4. TAX ON BENEFITS: FORMULA C

The Fund became aware of a significant change in the approach by the South African Revenue Services (SARS) in the application of Formula C in the event of transfers to annuities or suchlike investment vehicles. In the past SARS would first apply Formula C to the total fund credit to determine the tax-free portion without taking the amount to be transferred into consideration. Of late SARS is first deducting the amount to be transferred and then apply Formula C only on the remaining portion of the fund credit to be paid to the member. This results in a smaller tax-free portion. **Members who plan on transferring amounts to annuities or suchlike investment vehicles upon termination of membership are urged to first contact the Fund Administrator, Coris Capital, to discuss the most advantageous tax solution.** This new approach by SARS is being investigated and if not sanctioned by legislation it will be taken up with them.

Yours sincerely

DEWALD JACOBSON  
CHIEF EXECUTIVE OFFICER