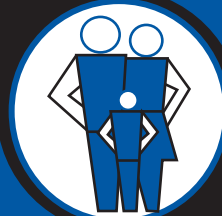


voice

October 2001

THE NEWSLETTER OF THE MGF



MUNICIPAL GRATUITY FUND

This edition is proudly sponsored by the following asset managers: **INVESTEC, REAL AFRICA, SANLAM, ALLAN GRAY AND CADIZ.** We would like to thank them for their overwhelming response to our request for sponsorship and their loyalty towards the MGF.

MGF wins prestigious award

The 2001 Communication Challenge Award ceremony, hosted by the Institute of Retirement Funds (IRF), was held recently at a gala event in Sandton. The main objective of the competition is to promote optimum effective communication between funds and members.

The MGF was awarded first prize for Large Funds in the Category Initial and General Communication. This is no small achievement taking into consideration the high standard maintained in the pension fund industry in South Africa. The MGF-team is very honoured and proud of the trophy they have received and intends to hold on to it for many years to come!

The contributions by Techno Graphix in designing our newsletter "Voice" and the vibrant website, added a lot in value to the communication programme. Thank you Ross, Aileen and Peter.



Front left to right - Elserina Van Zyl, Riana Notley
Back left to right - Stanley Muremi, Piet Ntuli

ALLAN GRAY

LONG TERM INVESTMENT
MANAGEMENT

27 YEARS OF SUPERIOR
WEALTH CREATION

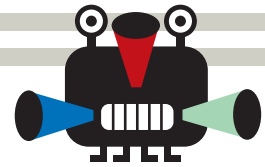


Assist us in rendering remarkable
service and **WIN WIN WIN !!!**

Write to the editor of the newsletter at Private Bag X041 Benoni 1500. If your letter pertains to the pension industry and is published in the next issue, the editor will pay you R500 for your contribution. You may voice an opinion or ask a relevant question.

Private Bag X041, Benoni, 1500
Tel: (011) 748 7000 / Fax: (011) 748 7066
New **Web** Address: www.mymgf.co.za

The MGF gets wired!
Take a sneak peak at the new MGF website and see what exciting things are in store for you!



Nomination of Beneficiaries Forms

YOUR NOMINATION FORM IS NOT A WILL.

It is only an indication as to who you regard as your dependents. This nomination form has to be updated from time to time as your personal circumstances change e.g. a marriage, birth of a child, death of a child or a spouse, etc. It will ultimately save a lot of time and hassle if all the supporting documents e.g. certified copies of birth certificates/identity documents, marriage certificates, "lobola" declaration etc. are attached. The importance of this document cannot be overestimated.

Losing a loved one is a traumatic experience. Trying to claim benefits should not add to the heartache. If the Fund has an updated nomination form and the necessary certified copies of identity documents/birth certificates, marriage certificate/s and/or "lobola" declaration/s the benefit is paid out quickly.

If however, we have to send out staff from the tracing department to locate dependents, it can take considerably longer to locate them and consequently pay out the due benefits.

Nomination forms can be obtained from one of the MGF's Public Relations Officers or from your Human Resource personnel.

NB. Please note that the Pension Funds Act compels the Management Committee to consider the DEGREE OF DEPENDENCY of beneficiaries in order to make the necessary allocation of funds.

Contributions

ARBITRATION.

The arbitration process at the South African Local Government Bargaining Council with regards to the percentage that local authorities should contribute to employees' pension funds has broken down. The Rules of the Fund pertaining to the 22% employer contribution will therefore still apply until the Fund is officially informed by the South Africa Bargaining Council that a formal agreement was reached by all the role-players, **specifically the members of the Fund**, to accept a lower employer contribution rate.

Members may rest assured that the Fund will not amend its rules based merely on one-sided decisions. Should an agreement be reached between all the members and the local authorities then the Fund will be compelled to change its rules accordingly.

CONTRIBUTIONS IN ARREARS.

Risk benefits of the MGF consist of two main elements, namely a death benefit and a medical disability benefit.

The MGF is self-insured. The above-mentioned benefits are financed by a percentage of the employer's monthly contribution. This contribution can be compared to a policy premium that **must be paid monthly** in order to maintain the policy.

If a member or local authority does not pay contributions to the MGF for three consecutive months or for four months during the year, these risk benefits are forfeited.

The MGF is in the process of notifying members whose contributions are in arrears per letter. Members are urged to pay close attention to these letters and to carefully study their benefit statements, which will be distributed during October 2001, to ensure that they are not affected by contributions in arrears.



The Registrar of Pension Funds addresses this matter in circular PF NO.108. Local Authorities must pay over contributions within seven days after the end of each month. If an employer neglects to comply with these prescribed regulations and the MGF's rules, the Fund will take the necessary action.

Members however who have joined another fund illegally after 30 June 1998, without exercising a valid option timeously, must note that they will no longer be able to claim risk benefits from the MGF **EVEN WHEN THEIR FUND CREDITS HAVE REMAINED IN THE FUND**. The contributions made to the other fund have to be transferred back to the MGF as soon as possible in order for the affected members to be eligible again for risk benefits.

In the event where a municipality did not pay any contributions for some time as a result of its financial position but is once again able to pay, such municipality should inform the Fund immediately and submit a written request that the Committee again grant risk benefits to the affected members.



Investec
Asset Management

CORPORATISATION AND MEMBERSHIP OF THE FUND

The Income Tax Act amendments that were foreseen in the previous Voice newsletter were published in the July 2001 Government Gazette.

The position of members who were re-deployed to corporatised units, but remained in the MGF, has now been legalised. The amended Act allows those members, who are employed by units in which the local authority has ownership control, as described in the Municipal Systems Act 32 of 2000, to remain members of the MGF.

The tax benefits that were granted to members as employees of local authorities therefore still apply if they remain in the MGF.



Fund Managers to the Municipal Gratuity Fund

Real Africa Asset Management

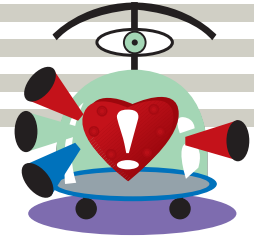


Portfolio Managers for Retirement Funds



REAL AFRICA ASSET MANAGEMENT (PTY) LTD
a subsidiary of Real Africa Holdings Limited

Real Africa House, Albion Spring Close, 183 Main Road, Rondebosch, 7700 PO Box 44946, Claremont, 7735
Tel: +27 21 689 7007 Fax: +27 21 689 7387 Email: marinak@raam.co.za



Summary of Financial Statement for 2000 - 2001 Financial Year

Revenue Account for the Year Ended 30 June 2001		
	30/06/2000	30/06/2001
CONTRIBUTIONS RECEIVED		
Members - Current	R 97, 645, 501	R 107, 023, 484
Councils - Current	R 274, 821, 865	R 283, 317, 137
	R 372, 467, 367	R 390, 340, 621
Transfers Received (Section 14 of the Act)	R 23, 725, 836	R 7, 193, 001
Net Income from Investments (Net Interest, Dividends & Rent)	R 215, 591, 730	R 254, 339, 154
Total Income	R 611, 784, 933	R 651, 872, 776
LESS: EXPENDITURE		
Administration expenses	R 10, 815, 416	R 11, 843, 197
Other expenditure	R 1, 980, 608	R 3, 346, 745
	R 12, 796, 024	R 15, 189, 942
NET INCOME	R 598, 988, 909	R 636, 682, 834
REVALUATION OF INVESTMENTS		
Realised	(R 120, 966, 167)	R 48, 077, 526
Unrealised	R 20, 672, 299	R 121, 061, 611
	(R 100, 293, 868)	R 169, 139, 137
ACCUMULATED FUNDS		
At beginning of the year	R 2, 529, 109, 195	R 2, 790, 109, 993
ACCUMULATED FUNDS - BEFORE BENEFITS	R 3, 027, 804, 237	R 3, 595, 931, 964
LESS: BENEFITS AWARDED		
Lump sum awarded at retirement	(R 92, 398, 580)	(R 151, 415, 024)
Lump sum awarded before retirement		
- Death	(R 47, 781, 076)	(R 93, 572, 941)
- Withdrawal	(R 85, 349, 868)	(R 113, 165, 307)
Transfers out	(R 11, 387, 685)	(R 1, 709, 708)
TRANSFER TO OPERATIONAL RESERVE	(R 777, 033)	(R 527, 791)
	(R 236, 971, 210)	(R 359, 862, 981)
ACCUMULATED FUNDS - AT THE END OF THE YEAR	R 2, 790, 109, 993	R 3, 235, 541, 192

Statement of Funds and Net Assets at 30 June 2001		
	30/06/2000	30/06/2001
FUNDS - Accumulated Funds		
PENSION FUND ACCOUNT		
Members Account	R 2, 826, 854, 648	R 3, 100, 722, 079
Reserves	(R 36, 744, 655)	R 134, 819, 133
Investment Reserves	(R 69, 392, 237)	R 126, 510, 857
General Reserve	-	-
Risk Reserve	R 32, 647, 582	R 8, 308, 256
	R 2, 790, 109, 993	R 3, 235, 541, 192
Operational Reserve	R 544, 456	R 1, 057, 403
TOTAL FUNDS AND RESERVES	R 2, 790, 654, 458	R 3, 236, 598, 595
ASSETS: INVESTMENTS		
Bonds	R 361, 218, 188	R 406, 787, 261
Shares	R 722, 731, 377	R 906, 924, 304
Deposits and saving accounts	R 61, 650, 000	R 256, 611, 502
Deposit Administration Schemes	R 620, 179, 740	R 457, 477, 582
Futures	-	R 264, 400
Housing Loans	R 244, 759, 662	R 286, 114, 919
Properties	R 143, 650, 800	R 252, 431, 828
Debentures	R 311, 056	R 1, 876, 375
Cash on Call	R 72, 350, 741	R 98, 473, 223
Guaranteed Product	R 334, 851, 437	R 389, 788, 236
Foreign Portfolios	R 304, 654, 114	R 322, 873, 541
	R 2, 866, 321, 115	R 3, 388, 623, 171
CURRENT ASSETS		
Accrued interest	R 25, 591, 557	R 16, 042, 940
Dividends receivable	R 508, 381	R 1, 430, 902
Contributions receivable	R 28, 854, 724	R 26, 318, 090
Cash at Bank	R 17, 496, 660	R 28, 316, 033
Transfers receivable	R 3, 529, 352	-
Accounts receivable	R 6, 677, 102	R 10, 906, 821
	R 82, 657, 775	R 83, 014, 777
TOTAL ASSETS	R 2, 948, 978, 891	R 3, 471, 637, 948
LESS: LIABILITIES		
CURRENT LIABILITIES		
Contributions received in advance	R 258, 338	R 961, 290
Benefits payable	R 131, 101, 584	R 195, 741, 895
Accounts payable	R 17, 269, 032	R 27, 288, 992
Unclaimed benefits	R 9, 695, 478	R 11, 047, 177
	R 158, 324, 433	R 235, 039, 353
TOTAL	R 2, 790, 654, 458	R 3, 236, 598, 595

Interim and Final Bonuses



The Guaranteed Portfolio (GP) was introduced as an investment choice as from 1 January 2001. The first GP batch, 1 January 2001 - 30 June 2001, attracted 350 members with a total fund credit value of R147 320 355,70. The second batch for the one-year period from 1 July 2001 until 30 June 2002 attracted 442 members with a total value of R203 816 921,86.

A final bonus of **3%** was allocated to the members in the **Guaranteed Portfolio**. The total compounded growth including interim bonuses for members in the Guaranteed Portfolio is

thus 10.63% for the year ending 30 June 2001.

The members in the **Standard Portfolio (SP)** received a final bonus of **3.52%**, giving, together with the interim bonus, a total compounded growth of 11% for the year ending 30 June 2001.

The respective total bonuses of 10.63% (GP) and 11% (SP) are the nett growth, that is, after the deduction of investment management fees and retirement fund tax. When members compare their growth with that of other funds it is important to compare apples with apples. Other funds often quote the gross return, in other words **before** the investment management fees and retirement fund tax have been

deducted. These costs are approximately 1.5% to 2% depending on the structure (asset allocation) of the relevant pension fund. The gross return for the Guaranteed Portfolio is 11.88% and for the Standard Portfolio 13%. These figures are to be used when the gross bonuses of other funds are compared.

The SP outperformed the GP by only 0.37%. It is typical with the present unstable financial markets that the SP does not outperform the more conservative GP by a greater margin. It can even happen that the GP outperforms the SP when financial markets deteriorate. It is expected however that the SP will, in the long run, outperform the GP more significantly. Remember, the investment principle of the higher the risk the higher the expected return (SP) or vice versa the lower the risk the lower the expected return (GP). Therefore your choice to stay in the SP or to move over to the GP must be preceded by an assessment of your appetite for risk with reference to your personal circumstances such as age, years of service, other assets, your future plans and your own perception of and confidence in the financial markets. Please do not hesitate to contact the MGF when you need assistance in this regard.

DO NOT EXERCISE AN UNINFORMED CHOICE!!!

SPECIAL NOTE

Since members have an investment choice it has become necessary to allocate all surplus funds at the end of the financial year, which means that no reserves can be retained to "smooth" the monthly interim/bonus.

The effect thereof will be that interim bonuses of the SP will have to change continuously and may in some months even be negative, depending on the financial market performance. This will be particularly so in the next months following the tragic events in America, even though a final bonus was declared based on the financial position of the Fund as at 30 June 2001.

The Management Committee was already compelled to declare a minus 2% interim bonus per month for members in the SP with effect from September 2001 until further notice



Message from the Chairman Seasons Greetings

We have once again come to the end of another year, almost before it had started! Yet, looking back it is clear that 2001 will be remembered for various reasons. A lot of hard work was done, many challenges faced, disappointments weathered and also many milestones reached.

The Institute of Retirement Funds annually awards retirement funds for effective communication. The awards, now in their 14th year, are sponsored by Liberty Corporate Benefits and Personal Finance. The MGF won the Initial/General Communication Category (Large Funds). The Fund started with its communication strategy early in 2000 and was very successful in achieving most of its objectives. It was not an easy task. The officials were newly appointed and in many instances had to cover new ground. Furthermore the Fund does not have easy access to all its members due to a number of reasons beyond its control. Winning this specific award was therefore a special achievement. My special congratulations to the personnel of the Fund on a job well done.

The Fund has started presenting one-day workshops and training sessions at various municipalities with the aim of increasing the knowledge and understanding of officials working with the retirement issues of members at municipalities. This project is widely supported and the feedback is very positive indeed. The recommendations of officials at these workshops are noted and their concerns addressed.

The economic scenario during 2001 has not changed from last year. Markets are still very unstable. The deepening crisis in Zimbabwe is an important factor in the lack of investment trust in South Africa and Africa as a whole.

Furthermore the whole world is still reeling from the shockwave caused by the terrorist attack against the United

States of America. It remains to be seen what the effect thereof will be on South Africa.

The asset managers of the Fund however have succeeded in keeping the ship on course even in these turbulent waters. They have worked very closely with the Management Committee of the Fund who monitors their performance very carefully. They are indeed part of the "Fund-family" and render excellent services to the Fund. This particular newsletter is also sponsored by them and we sincerely appreciate their involvement and support.

New municipalities were established at the election in December 2000 and in most cases these new structures are up and running. Some of the metropolitan municipalities however are still in the process of finalizing their structures.

Many of the newly established municipalities have also appointed new municipal managers. The Fund congratulates them all and sincerely wishes them all possible success in their enormous tasks ahead.

The Fund also wants to thank every municipal manager and all other officials at municipalities who have continued to assist the Fund in various ways. Without their assistance the Fund certainly would not have been able to reach its goals.

The dedication of the Management Committee, the Chief Executive Officer and the personnel of the Fund to the best interest of all the members, is regarded as a very special asset and should be applauded.

On behalf of the Management Committee of the MGF, I wish you and your families a peaceful and blessed festive season. May you all enjoy happiness, peace and goodwill in the time to come so that your spirits will be refreshed and eager to face the challenges of the year 2002.

Stephan Van Metzinger.

Financial Markets and Growth of the Fund

Since our last report in the July edition, the JSE remained very unstable. Fortunately interest-bearing instruments like government bonds (capital market) have strengthened somewhat. The prime interest rate of banks declined since June by 1.5% to 13%.

The South Africa financial market was still in a position to react positively to an upswing in the economy during July 2001. Up to the middle of August the Rand seemed relatively stable but it weakened dramatically towards the end of August 2001, most probably because of the labour unrest and the Zimbabwean crisis. These were barely processed by the financial market when the worst terrorist attack in history was launched on the United States of America. It is at this point in time too early to determine the impact on South Africa, but as can be expected, it will be substantial.

Amendments to the Rules

From 01/07/2000 - 30/06/2001 the following amendments were made to the MGF's rules.

No.	Date of Resolution	Date of Registration	Effective From	Section	Amendment
		05/07/2000	Registration		Consolidation of Rules.
1	07/06/2000	19/09/2000	Registration	5(2)(a), (3) (6)(b) (7)(b)& (8)(c)	Regulates effective dates for purposes of appointment and election of representatives.
			Registration	46(1)	Extend terms of office of representatives to immediately before Annual Meeting of 2001.
2	03/12/97	20/09/2000	01/07/2000	44A	<p>Member may increase service, subject to the following conditions:</p> <ul style="list-style-type: none"> An amount equal to the contributions which would have been payable for a similar period of current service shall be paid to the Fund, over such period as the Committee may determine. At a meeting of the Management Committee held on 1 November 2000 it was resolved that - the period of repayment be limited to a maximum of two years, and no interest be levied for payment in installments in respect of the purchase of service. <p>This additional amount will not be taken into account for purposes of retrenchment benefits.</p>
			Registration	33(A)	Funeral benefits in respect of the death of a member, spouse & child between the age of 14 and 21 are increased from R5 000 to R7 500.
			Registration	44(2)(b), (d), (3)(b) & (4)	Technical amendments re the dissolution of the Fund. Regulates the position if a local authority and 90% of the members employed by that local authority decides to establish or join another fund.
3	29/11/2000	21/01/2001	01/12/2000	1(1),32	Normal retirement age for all members = 65.
4	01/08/2000	26/01/2001	Registration	32(4) & (5)	Member may elect to convert lump sum retirement benefit to monthly annuity before leaving service.
5	04/10/2000	26/01/2001	Registration Registration	6(1) & (4) 34(1)(b)	<p>Regulates notice periods in respect of Annual Meeting.</p> <p>A member who resigns, may -</p> <ul style="list-style-type: none"> take his benefits in cash; preserve his benefit in the Fund (as a deferred member), or transfer his benefit to an Approved Retirement Annuity and/or Preservation Fund of his choice.
6	20/10/2000	26/01/2001	Registration	26(5), 27(2)	Provides for suspension of risk benefits of member in the event of arrear contributions, in compliance with the resolution taken at the Annual Meeting.
7	28/03/2001	22/06/2001	Registration	1(1),5, 8, 9(1), 10 11(2)(c)	Composition of General Committee and Management Committee Substitutes reference to TOWN CLERK with MUNICIPAL MANAGER.

More details regarding the amendments are available on request.



Payment of Benefits

BANK ACCOUNTS

As a result of cheque fraud, the Fund has decided to implement measurements to protect members and itself against fraud and other malpractices. All cheques will in future be marked "not transferable".

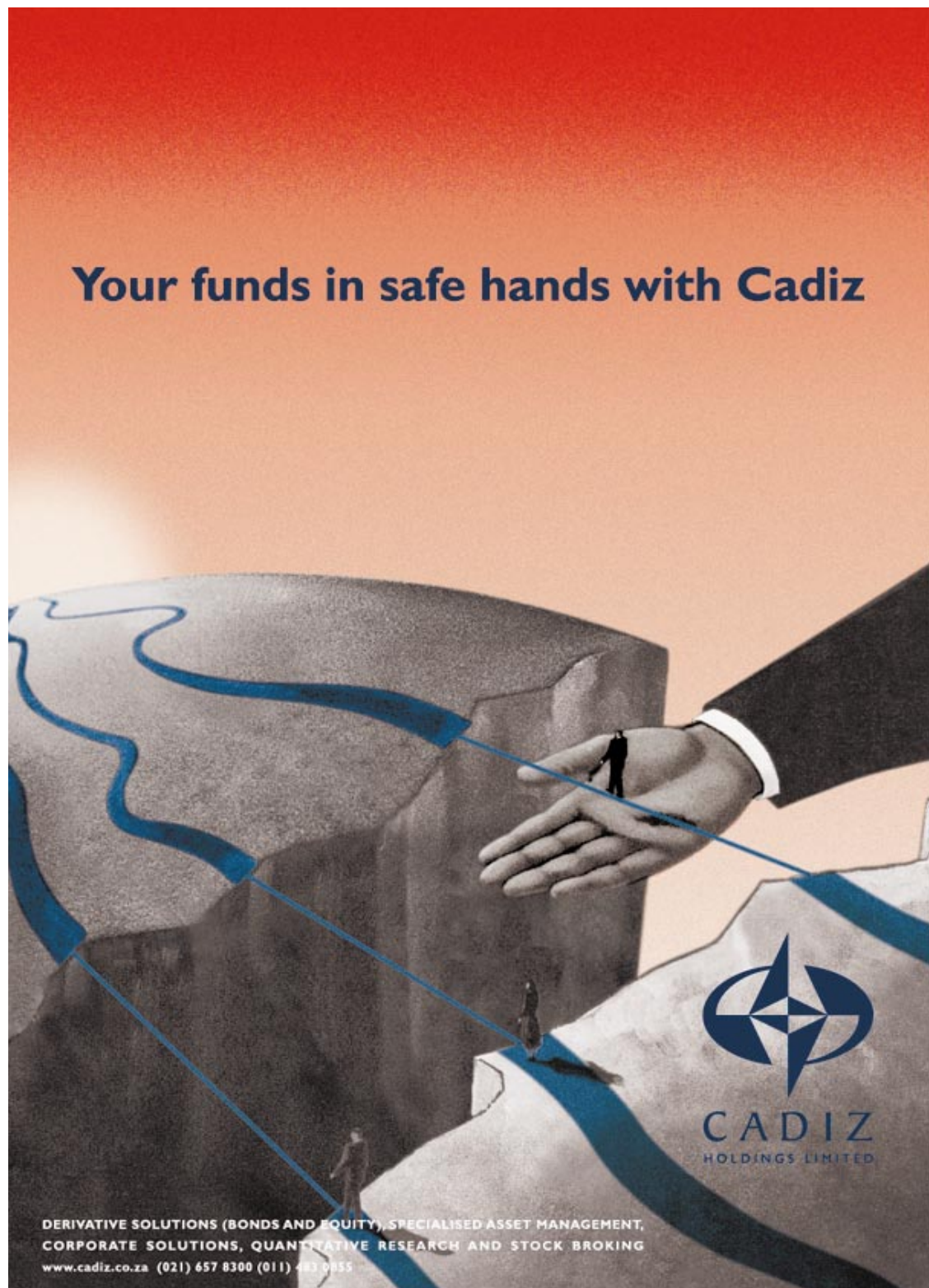
Members and dependents will therefore have to open a bank account before benefits can be paid out. The bank will require the account holder to maintain the account.

Members who know that their benefits are due must please open an account timeously and prevent delays.

ADVANCES

A new unhealthy practice is emerging amongst members of the Fund. Members run up tremendous debts before resigning or retiring in expectation of their benefits. The payments of these debts are often due before they receive their benefits from the Fund. The financially embarrassed member then turns to the Fund for assistance in the form of an advance payment. This results in additional administration. To streamline the administration process members will in future qualify for advances six weeks after their last working day if their benefit has not been paid out due to unforeseen circumstances. This arrangement will result in the Fund having enough time to make the necessary calculations and follow the correct procedures as per the rules of the Fund and relevant legislation.

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