MUNICIPAL GRATUITY FUND

CHAIRPERSON'S REPORT FOR THE PERIOD: 1 JULY 2023 TO 30 JUNE 2024

1. WELCOME

It gives me great pleasure to welcome all of you to this 29th annual meeting, which is also the 30th anniversary of the Fund. Another milestone is that the Fund's assets had reached the R40 billion mark! It has been an eventful 30 years for the Fund and the changes in the industry it had to keep abreast with.

It has been a very busy year worldwide with elections taking place in 64 countries and our own elections on 29 May 2024, which brought us the Government of National Unity (GNU). We are all anticipating a positive and prosperous outcome for our country, as this political arrangement has been beneficial to the Fund, with positive returns achieved in all our portfolios.

Due to the fact that the number of death claims have decreased substantially after the Covid-19 pandemic, the Risk Account's balance was favorable and the Board in consultation with the Actuary, with effect from 1 March 2024, reduced the allocation towards the Risk Account from 3.60% to 2.60%, which has the effect that an additional 1% of salary is invested on member's behalf, thus growing your fund credit for retirement. The total allocation towards the Operation Account remains at 0.40%, plus the 2.60% towards the Risk Account totals a 3% of salary deduction compared to the previous 4% of salary, which is funded from the employer contribution.

The buzz in the industry for this year was the two-pot system, renamed to the two-component system, which was signed into legislation on 21 July 2024 for implementation 1 September 2024. A number of rule amendments had to be made and approved by the Financial Sector Conduct Authority (FSCA) prior to the implementation of the two-pot system. The Fund submitted its rule amendments in time and the FSCA approved the Fund's two-pot rule amendments on 6 August 2024.

As 1 September 2024 fell on a Sunday, the administrator had a freeze period on the Monday, 2 September 2024, to ensure that the 10% to a maximum of R30 000 seed capital was successfully transferred to the emergency savings pot of each member and on Tuesday, 3 September 2024 the administrator's system was live and members were able to access their early withdrawal from the emergency savings pot. The members of the Fund eagerly took up the opportunity to withdraw from the emergency savings pot and as at the end of October the total amount that was disinvested for the emergency two-pot withdrawals exceeded R400 million.

You as the member representatives fulfil a very important role at your municipality to represent the Fund and our members. It is important that you communicate with the membership at your municipality when you receive correspondence from the Fund and after this annual meeting. If the Communication Officers of the Fund conduct member sessions it is of the utmost importance for you to attend to represent the Fund so that the members can approach you in future should they have any queries. Please be visible and available for our members.

At last year's Annual Meeting the question was raised regarding the B-BBEE level of our investment administrators. Below is a comprehensive list of our local investment administrators and their B-BBEE levels.

INVESTMENT ADMINISTRATOR	**B-BBEE LEVEL**
Abax Investments (Pty) Ltd	2
ABSA Group Ltd	1
Allan Gray Group Ltd	1
Alusi Asset Management (Pty) Ltd	1
Aluwani Capital Partners (Pty) Ltd	1
Argon Asset Management (Pty) Ltd	1
Coronation Fund Managers Ltd	1
Edge Capital (Pty) Ltd	1
Fairtree Asset Management (Pty) Ltd	2
Futuregrowth Asset Management (Pty) Ltd	1
Nedgroup (Resolution Capital & Veritas)	1
Ninety One Ltd	1
Sanlam Life Ltd	1
Sesfikile Capital (Pty) Ltd	1
Truffle Asset Management	1
Vantage Capital	3

It is important to note that the above levels are not applicable to the international administrators. Although Vantage Capital is a level 3 contributor they are committed to black economic empowerment. In 2023 they contributed R883 000 towards bursaries for underprivileged black female high school students and they have contributed substantially towards skills development, children's homes, learnerships etc for previously disadvantaged communities.

At last year's meeting the issue was raised on the delay in exit payments. At the Board meetings the Board receives feedback from the administrator on this issue and it seems like the delay in exit payments are due to tax numbers rejecting or banking details not matching the surname of the member. Roughly 99% of exits are paid within the agreed service level agreement with the administrator.

It is important to note that with the implementation of the two-pot system on 1 September 2024 there could be delays in the payment of exit benefits due to the payment instructions that needs to be provided for each of the three pots. At resignation the retirement pot may not be taken in cash and members will have to seek financial advice for the preservation of the retirement pot. This process was also explained in the Fund's News Flash dated 21 October 2024, which is available on the Fund's website www.mymgf.co.za

2. ECONOMIC MATTERS AND FINANCIAL MARKETS

Let us first reflect on the economic matters and financial markets.

2.1 General overview

The 2023/24 financial year was characterised by an initial market sell-off in the first quarter of the financial year (i.e Q3 2023), as renewed inflationary risks and a higher-for-longer interest rate outlook pushed yields higher across both the nominal and inflation-linked bond curves. A surge in the oil price due to OPEC+ production cuts contributed to the rise in yields, while headline inflation misses added to the negative sentiment. While the steepening in the US yield curve pointed to a soft landing for the global economy, the increase in short dated yields suggested that the rate cutting cycle would also be shallower than previously expected. Unsurprisingly, global bonds yielded barely positive returns for the year as investors waited patiently for the rate cutting cycle to commence. Due to the higher discount rate applied to future cash flows, along with downward revisions to consensus earnings estimates, equity valuations were revised lower.

Despite the weak start to the financial year, sentiment improved over the next upcoming quarters as the US Federal Reserve (Fed) signalled the end of the rate hiking cycle and the market brought forward the timing and quantum of interest rate cuts. Ongoing disinflation globally triggered interest rate cuts in Canada, the European Union (EU), Sweden and Switzerland, helping to support equities. While the Fed failed to cut interest rates over the past year, its revised dot-plot signalled that the next move in rates would be a cut. The Fed did not disappoint, cutting rates by a bigger than expected 50 basis points

(0.50%) in September, with a further 200 basis points (2%) of rate cuts through-the-cycle reflected in the Fed's latest dot-plot.

While South African equities lagged their developed and emerging market counterparts, bonds and listed property rallied sharply over the year supported by the SA election outcome that saw the creation of the Government of National Unity (GNU). Sentiment among both local and foreign investors improved markedly on expectations that economic policy would become more market-friendly as policy shifted from the centre-left to the centre-right. The re-appointment of Enoch Godongwana as the Minister of Finance – ensuring fiscal consolidation – further supporting sentiment, with the yield on the All Bond Index falling from around 12.05% before the election to 11.31% at financial year-end, a massive 74 basis point (0.74%) decline. The positive momentum in the bond market continued after the financial year-end, with the yield on the All Bond Index currently trading at around 10.1%. As a consequence, South African bonds have materially outperformed their global peers.

Notwithstanding the volatility in markets, the Fund's risk-profiled portfolios all outperformed their respective CPI-linked benchmarks with the Aggressive Portfolio returning 11.5%, the Moderate Portfolio 11.0% and the Conservative Portfolio some 10.6%. The Protected Portfolio, benchmarked against the Stefi index, yielded 9.5% for the year.

2.2 Looking ahead

The outlook for the global economy and the South African economy is summarised below.

2.2.1 The Global economy

After the Fund's financial year-end, equities, bonds and listed property rallied strongly as the Fed's dot-plot and market pricing of future interest rates became more aligned, with both measures pointing to a Fed funds rate of below 3% through-the-cycle, down from the current 4.75% to 5.0% range. Interest rate sensitive stocks were the primary beneficiaries with listed property stocks the best performing of the broad asset classes. Markets have, however been volatile with two significant market events helping to trigger an equity market sell-off in early August. The first was the Bank of Japan's decision to raise the policy interest rate by 15 basis points to 0.25% and to reduce its bond purchases to around 3 trillion yen from 6 trillion yen by March 2026. This resulted in a sharp appreciation in the yen that caused an unwinding of the yen carry trade. The yen carry trade has been especially popular over the past four years, since Japan was the only major economy in the world offering essentially free money. As a result of margin calls, investors headed for the exits by selling stocks to raise cash, or to simply close out their positions. Technology stocks were heavily punished, in part due to an underwhelming earnings season, while sector rotation into mid- and small-cap stocks resulted in an improvement in market breadth, pointing to a reduced dependence on technology heavy weight stocks to drive future market returns.

The second event was the release of much weaker-than-expected US non-farm payroll data and a bigger-than-expected increase in the unemployment rate to 4.3% (4.1%). The increase triggered the Sahm Rule (indicator that signals the early stages of a recession), raising investor fears that the US economy was headed for a recession. While recession risks contributed to the market sell-off, this proved to be short-lived, as better-than-expected US initial jobless claims, retail sales, consumer confidence and lower August unemployment figures allayed market concerns, at least for now. But, a recession in the US cannot be ruled out, since consumption expenditure is slowing to below trend growth given the fading effects of the Covid-stimulus that helped to underpin consumption. While fund managers expect global growth to slow, they have also turned net negative on global profit expectations for the first time in six months. Despite the more subdued outlook, fund managers were overweight stocks, while expectations for lower bond yields increased sharply. In addition, fund managers have been rotating out of cyclical stocks into more defensive, bond-sensitive counters. While some analysts suggest that the recent steepening in the yield curve (the 10-year less the two-year yield) is a precursor to a market sell-off, the reverse may be true if the rate cutting cycle is driven by disinflation rather than a recession. While an overwhelming majority of fund managers expect a steeper yield curve, 79% of managers expect a soft-landing. The Fund's basic view is still for a soft landing, with disinflation the primary driver of the steeping in the yield curve.

While global composite purchasing manager indices have been trending lower, lending support to the slower growth outlook, this was largely due to a broad-based contraction in the manufacturing sector rather than a contraction in the services sector. Factors fuelling the manufacturing slowdown include weak aggregate demand due to the lagged effect of interest rate hikes, negative wealth effects from a Chinese property market collapse and a broadening in the trade war between the US, Europe and China. While China's Third Plenum – a meeting held roughly once every five years to map out the general direction of the country's long-term social and economic policies - contained no major policy initiatives to address the country's near-term growth challenges, the Peoples' Bank of

China (PBOC) announced a monetary stimulus package that surprised markets, buoying growth expectations and fueling a strong equity market rally in the backend of September. A bigger-than-expected 20 basis point (0.20%) cut in the benchmark 7-day reverse repo rate along with a 50 basis point (0.50%) cut to the required reserve ratio for major banks were some of the changes announced. In addition, brokers are able to access PBOC funding in order to buy stocks, a factor that no doubt contributed to the strong rally seen in Chinese stocks in September. The PBOC also confirmed that existing mortgage rates would be cut by 50 basis points (0.50%), offering some relief to households that could support consumption in the coming months. The down-payment ratio on second home purchases is to be reduced to 15%, down from 25% previously, following a similar move for first home purchases earlier in the year. The PBOC also indicated it would ramp up its re-lending programme to banks, providing 100% of the principal of bank loans for SOEs to acquire unsold property inventories. This move is expected to ease the reluctance of some banks to provide property-related loans and should help to accelerate property acquisition. While the latest measures will boost sentiment and help China achieve its growth target, investors still want to see a fiscal boost from government to stimulate the economy. The reluctance on the part of the Chinese government to embark on a bazooka fiscal stimulus is due to its large fiscal deficit and concerns about its long-term debt sustainability. Notwithstanding recession risks, bottom-up consensus earnings estimates paint a positive longer-term earnings outlook for equities, with bonds expected to yield positive real returns on a higher neutral rate of interest.

Given the sharp decline in bond yields over the past few months and the backdrop of rising global fiscal deficits, increased bond issuance and the prospect of a second Trump presidency, a more cautious approach is taken to global bonds over the near term. With 10-year and two-year US treasury yields at around 3.9% at the time of writing, a neutral position is retained in global bonds until after the US elections. Over the remainder of the investment horizon, bonds are overweighted as growth slows, bonds reprice and the rate cutting cycle accelerates. In the case of inflation-linked bonds, a neutral weighting is retained as a hedge against a bad inflation outcome and a higher neutral rate of interest. However, once the rate cutting cycle is well advanced (six- to twelve-month view), inflation-linkers are underweighted as real curves would have shifted lower.

2.2 The South African Economy

While the latest reading on the South African economy was the release of lower-than-expected second quarter Gross Domestic Product (GDP) figures, equities made further gains as yields on the All Bond Index continued to decline on better-than-expected inflation prints. Real second quarter GDP increased by 0.4% quarter/quarter, up from 0% the previous quarter, but below consensus estimates for a 0.5% expansion. Household final consumption expenditure rebounded from a 0.2% contraction in the first quarter to a 1.4% increase in the second quarter, while gross fixed capital formation contracted by 1.4%, having contracted by 1.7% in the previous quarter. Although government consumption expenditure increased by 1%, net exports contributed negatively to overall growth. Growth for the first six months of the year was 0.5% higher than in the corresponding period in 2023, still behind the South African Reserve Bank's (SARB) estimate of a 1.1% expansion for the year. While the absence of load shedding supported growth, the SARB expects the implementation of the two-pot system to also contribute positively to growth in 2024 and 2025 and that the debt-to-GDP ratio will also improve.

The SARB's findings suggest that under a moderate two-pot system scenario, GDP will increase by 0.1% and 0.3% respectively in 2024 and 2025, while reducing the government debt-to-GDP ratio by 0.5% in 2024/25 and by 1.0% in 2025/26. Under a high withdrawal scenario, the SARB expects that GDP growth will increase by 0.3% and 0.7% respectively in 2024 and 2025. In this instance, the debt-to-GDP ratio improves by 1.1% in 2024/25 and by 2.3% in 2025/26 lending further support to bonds. The SARB did, however, warn that the negative side of the two-pot system is that higher withdrawal rates will result in less funds available for individuals at retirement age.

With domestic inflation firmly entrenched at the mid-point of the SARB's target range, and likely to head lower in the near term, interest rate expectations have continued to improve, helping to shore up risk assets. With August's core and headline inflation printing at 4.3% and 4.6% respectively, more aggressive rate cuts have been priced into the market. While the Forward Rate Agreements (FRAs), at financial year-end, were pricing in three rate cuts through-the-cycle rather than the single one priced in at the end of March, the more positive inflation outlook after financial year-end further boosted interest rate expectations. Following the Reserve Bank's 25 basis point (0.25%) rate cut in September, the FRAs are now pricing in further cumulative rate cuts of around 100 basis points (1%) through-the-cycle, front loaded over the next 12 months. Although these expected rate cuts are 100 basis points (1%) less than those expected in the US, the shallower rate cutting cycle could be in response to the SARB's stated intention of lowering the current inflation target range of 3% to 6%, to a band of between 2% to 4%. This would align SA's inflation rate with those of other emerging markets, helping to reduce volatility in the exchange rate and the risk of imported inflation.

Unsurprisingly, SA Inc. shares have continued to rally, with financials gaining as the risk of nationalisation abated. Healthcare stocks also gained as the perceived risk of the National Health Insurance (NHI) moderated and interest rate sensitive stocks (listed property, consumer discretionary and consumer staples) gained on expectations of more aggressive rate cuts. With inflation expected to decline further over the coming months as food prices head lower, in line with rand-adjusted global food prices, rand strength coupled with softer oil prices could be a further catalyst for bond yields to push below 10%. However, escalating tensions in the Middle East could still derail this tailwind if the conflict between Iran and Israel turns into a full-blown war. While the best of the bond market rally may be over, with nominal bonds trading at around 5.5% in real terms, bonds are still expected to deliver an attractive return over the investment horizon.

2.3 Summary

In summary, the Fund's base case view is that the global economy will avoid a recession over the coming year, but that growth will slow as the tailwind from Covid-era stimulus measures fades and the boost to growth from infrastructural investment – via the US Inflation Reduction Act, the CHIPS Act (Creating Helpful Incentives to Produce Semiconductors) and the onshoring of supply chains – becomes embedded in this year's growth base. With disinflation well entrenched and the rate cutting cycle having commenced across multiple geographies, earnings growth is expected to rebound over the next two years, lending support to equities. While bonds have rallied strongly in recent months, limiting further downside in bond yields, an overweight position is retained in bonds post the US election as a hedge against a recession. Even in the event of a soft-landing, at worst, bonds will deliver a positive real running yield.

3. INVESTMENT STRATEGY AND PORTFOLIO RETURNS

3.1 Long term investment goal

The long-term objective of the Fund's long-term remains to aim to provide for a 75% net replacement ratio (NRR) at retirement. In layman's terms it means that if you retire and you invest your fund credit your monthly pension should be equal to 75% of your last salary earned prior to retirement. Members should aim to not have any debt at retirement to increase the possibility of reaching the 75% NRR. As many members have exercised the option to withdraw their emergency savings pot as allowed with the two-component legislation, it could prevent those members from reaching the 75% net replacement ratio at retirement.

The markets have been positive over the last financial year and continues in that trend within the current financial year. The four different investment portfolios of the Life Stage Model (LSM), that is the Aggressive Portfolio (AP), the Moderate Portfolio (MP), the Conservative Portfolio (CP) and the Protected Portfolio (PP), each has its own return objective as indicated in the following table. It will be noticed from this table that every investment portfolio is still on track, measured from inception of the LSM during July 2005, outperforming the return objectives and handsomely outperforming inflation. It is important to note that this is an annualised outperformance. The inflation outperformance, also annualised, indicated in the table, is significant.

Annualised investment objectives and returns for the period July 2005 to 30 June 2024					
Portfolio	**Return objective**		**Actual return**	**Objective outperformance**	**Inflation outperformance**
AP	CPI + 5%	10.63%	11.34%	0.71%	5.71%
MP	CPI + 4%	9.63%	10.43%	0.80%	4.80%
CP	CPI + 3%	8.63%	9.30%	0.67%	3.67%
PP *	Cash	6.32%	7.07%	0.75%	1.88%
* The PP portfolio was introduced in September 2011					

Members are reminded that a retirement fund is a long-term investment and the compounded growth phenomenon takes effect only from about 30 years onwards.

3.2 Life Stage Model investment portfolios

The Life Stage Model (LSM) was adopted by the Board as the default investment option for members of the Fund. The LSM is made up of four portfolios being the Aggressive Portfolio (AP), Moderate Portfolio (MP), Conservative Portfolio (CP) and Protected Portfolio (PP). This LSM took a decent amount of time and investment knowledge to construct, which was done in conjunction with the investment advisor of the Fund. Members do however have the option to opt out of the LSM into a mix of portfolios of their choice adding up to a 100% allocation. Members must however take note that once member choice has been made they will remain in that portfolio until another switch form is received to switch and will not automatically be switched as per the LSM. Members invested in the LSM will automatically be switched from the one portfolio to the next according to their age next birthday. This automatic switch is performed in four quarterly batches according to the age next birthday starting on 1 July of each year. The table below shows the investment of a member at age next birthday.

Age	% in AP	% in MP	% in CP	% in PP
Younger than 55	100%			
55 to 60		100%		
60 to 63			100%	
Older than 63				100%

The Fund's Investment Policy Statement (IPS) is available on the website www.mymgf.co.za if you would like more detail on the LSM.

The returns of the life stage portfolios for 2023/24 financial year are as follows:

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Year Total
AP	1.28%	0.21%	-2.87%	-2.61%	7.14%	1.97%	0.48%	1.49%	1.44%	-0.01%	1.34%	1.40%	11.49%
MP	0.67%	0.98%	-2.52%	-1.72%	5.89%	1.97%	0.82%	1.60%	0.97%	-0.40%	1.18%	1.30%	11.03%
CP	1.45%	0.29%	-0.53%	0.09%	2.77%	1.23%	0.30%	0.17%	0.46%	0.88%	1.03%	1.98%	10.56%
PP	0.81%	0.82%	0.69%	0.77%	0.74%	0.69%	0.78%	0.74%	0.66%	0.77%	0.91%	0.70%	9.47%

Historical returns since unitization are as follows:

Portfolio	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
AP	25.60%	28.45%	2.43%	-4.14%	16.70%	14.83%	10.23%	16.43%	26.83%	4.94%	7.22%	4.05%	10.38%
MP	17.80%	24.77%	1.55%	1.48%	15.33%	13.90%	9.68%	14.49%	21.94%	6.66%	8.04%	4.96%	8.96%
CP	11.00%	20.27%	3.22%	8.13%	14.92%	12.85%	8.63%	10.46%	14.85%	7.84%	6.50%	6.44%	8.29%
PP	-	-	-	-	-	-	4.98%	5.96%	6.04%	6.64%	7.53%	8.58%	8.22%

Portfolio	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Since Unitisation	Annualised return per annum
AP	4.43%	4.30%	18.85%	0.85%	18.29%	11.49%	687.78%	11.42%
MP	4.97%	4.75%	14.00%	2.68%	15.14%	11.03%	574.71%	10.52%
CP	6.07%	2.49%	10.43%	5.93%	9.27%	10.56%	451.20%	9.36%
PP	8.55%	8.16%	4.41%	4.87%	7.59%	9.47%	144.77%	7.13%

3.3 Member Investment Choices

All new members are automatically defaulted into the LSM according to their age. There are very few members who make use of the option to switch out of the LSM into a member choice selection of portfolios. This is indicative of the trust the members have in the LSM and the superior returns since inception in 2005. Members are allowed to switch out of the LSM into any of the four investment portfolios, but they are cautioned to obtain financial advice should they consider to switch out of the LSM, as they will remain invested in their new choice of portfolios until the administrator receives a switch instruction to move the member out of that chosen portfolios. This could result in a member remaining in a certain portfolio for too long and not receiving the expected returns they were expecting.

Members are allowed to switch out of the LSM into any of the four portfolios offered by the Fund, being AP, MP, CP or PP, the system will then change the indicator from trustee choice to member choice. Members are allowed to choose to invest into all four of the portfolios, thus exercising member choice, provided that the total adds up to 100%. The monthly contributions shall follow the same investment choice in respect of the fund credit, unless a specific choice is exercised that the contributions be invested in one specific investment portfolio, in which event 100% of the monthly contribution shall be invested in that specific chosen investment portfolio. Members are allowed one free switch in a calendar year and subsequent switches will require a switching fee. It is important to note that there is a two-day delay in the unit prices and a member switch will only be done from the third to the fifth day after the switch form was received. The member switch will not be performed before the third day, as it would create the opportunity for a member to select against the Fund and all other members, having public knowledge of movements in the investment market during the first two days, due to the two-day lag in unit prices being released by the administrator.

3.4 Returns going forward

The returns for the first four months of the 2024/25 financial year are as follows:

Portfolio	Jul 24	Aug 24	Sept 24	Oct 24	TOTAL
Aggressive	2.49%	1.30%	1.78%	-0.32%	5.33%
Moderate	2.15%	1.35%	1.48%	-0.12%	4.94%
Conservative	1.80%	1.29%	1.57%	0.07%	4.80%
Protected	0.82%	0.76%	1.04%	0.69%	3.35%

The Fund has had exceptional returns, which is evident from the returns above.

4. ACTUARIAL VALUATION

This year was an interim actuarial valuation for the financial year ending 30 June 2024, as the statutory actuarial valuation was performed for the previous financial year ending 30 June 2023. As you are aware the Board appointed the independent actuary to perform the same rigid actuarial valuation annually, thus for the two interim years, which included this financial year. As indicated on page 50 of the annual financial statements, the actuary made an unqualified finding that the Fund was financially sound as at 30 June 2024. More about this is included in today's presentation by the actuary.

5. FINANCIAL STATEMENTS

The financial statements for the financial year ending 30 June 2024 are included in the agenda and will be open for discussion later during this meeting. The independent external auditors, Binder Dijker & Otte (BDO) South African Incorporated, are satisfied that the financial statements, in all material respects, fairly represent the result of the financial activities of the Fund for the 2023/24 financial year. The Fund retained the services of BDO and they were appointed by the Board for the 2023/24 financial year due to the excellent work performed by their staff in collaboration with the administrator's staff. The Fund again received an unqualified (clean) independent audit report. As reflected in the balance sheet on page 29 of the financial statements, the total asset value as at 30 June 2024 is just over R39 billion. According to the income statement on page 30, the contributions were R2.5 billion. The administrative expenses on page 44, including external fees such as the levies payable to the Financial Services Conduct Authority and the National Credit Regulator, as well as actuarial services and external audit services was R44.7 million, which is funded from the 0.40% of salary contribution. As a percentage of total asset value of the Fund it translates to 0.11%, which is extremely reasonable in the industry.

The balance in the Risk Account (RA) has increased to R348 million after only being R254 million at the end of the previous financial year. The Actuary keeps a close eye on the balance in the Risk Account and that is the reason why the allocation to the Risk Account was decreased by 1% from 3.60% to 2.60% as from 1 March 2024. This is to the advantage of all our members as 1% of salary is added to their fund credits. The total cost for the risk cover and administrator has thus reduced from a total of 4% to 3% with effect from 1 March 2024.

6. RULE AMENDMENTS

The following rule amendments were approved during this financial year.

MGF 5:

Reasons for this amendment:

- Rule 31(1)(b): To provide for the employer contribution of 18 per cent that applied for new members from 1 July 2012.

MGF 6:

Reasons for this amendment:

- Definition of SERVICE: To delete the provision relating to the inclusion of service with a local authority, resulting in service transferred from any previous fund being included in the definition of SERVICE.
- Rules 26(6) and 31(3): To remove the requirement for the Board to approve contributions at a rate higher than the rates determined in the Rules.
- Rule 34(1)(a) and 38: To provide for the continued membership of a member who is re-employed by another Local Authority.
- Rule 35(5)(c), 41(1)(d) and (2)(c): To substitute the reference to SERVICE with service to refer to employment as opposed to the defined term.

MGF 7:

Reasons for this amendment:

- Rule 31(1)(b): To correct paragraph (ii) by substituting the word "before" with "after".

MGF 8:

Reasons for this amendment:

- Rule 6(2): To allow Board Members to attend the Annual Meeting in their capacities as Representatives and Board Members.

MGF 9:

Reasons for this amendment:

- Various rules were affected to give effect to the two-pot legislation as set out in the Revenue Laws Amendment Bills and the Pension Laws Amendment Bill, which aims to bring a balance between long-term security and meeting financial needs during emergencies. The amendments allow a member to access a portion of their fund credit without exiting the Fund while preserving the balance of their fund credit until retirement.

7. BENEFIT COUNSELLING

The benefit counselling has proven to be to the advantage of our members, even more so during the two-pot system phase where members were assisted to register on the Sanlam App. The different products available at retirement are explained to members prior to retirement. More and more members have at retirement invested a portion of their benefit into a type of annuity to receive a monthly income than in the past where the general option was to take the total benefit in cash. This saved the members a huge amount of tax, as the transfer to an annuity is tax free and the member has a steady income after retirement. With the two-pot system members are not allowed to withdraw their retirement pot until actual retirement and the benefit counselling team assist members with the different options available for investment.

All our members have access to a benefit counsellor and may contact them for any financial queries they might have.

The pro-active benefit counselling team contacts members prior to retirement at different ages, unfortunately a lot of members do not react to the benefit counselling teams invitation to explain the different retirement options.

The members are contacted at the following age intervals:

- Age 49 (members may retire early at the age of 50)
- Age 55
- Age 59
- Age 62
- Age 64
- 4 months prior to retirement
- 1 month prior to retirement

The members are first approached via SMS to inform them to expect a call from a benefit counsellor and thereafter the SMS is followed up with a telephone call to the member. This service was put in place by the Board to increase the knowledge levels of our members when they near retirement age. In terms of the Rules of the Fund members may retire early at the age of 50, but members should ensure they have accumulated enough funds to enable them to retire comfortably.

The benefit counsellors can be contacted directly at advicereferral@sanlam.co.za or the toll-free number 0800 111 956 or send a SMS to 38300 and they will get back to the member.

8. RATIONALISATION OF MUNICIPAL FUNDS

Members are aware of the legal action taken by the Fund, as a member of the Municipal Retirement Organization (MRO) against the Collective Agreement from the South African Local Government Bargaining Council (SALGBC).

The outcome of the High Court Case held on 13 and 14 October 2022 was that the Collective Agreement was set aside, except for Clause 8, with a cost order in favour of the Funds. It is important to note that it is still the arrangement that no accreditation is required for any fund to continue and there is currently no freedom of association to move between funds. SALGBC, MEPF and the Municipal Retirement Organisation (MRO), to which the

Fund is a member, applied for leave to appeal, which was granted by the High Court. The view of the High Court is that a higher court, the Supreme Court of Appeal (SCA), should pronounce on the matter.

The Supreme Court of Appeal has set a hearing date for 8 November 2024. This report was printed prior to the court case, thus I will provide some feedback on the proceedings of the court case in the Supreme Court of Appeal in Bloemfontein, as I had to attend the proceedings as one of the Respondents.

9. FAMILY FUNERAL PLAN

There are still a large number of members who have not completed the Family Funeral Plan nomination form. Unfortunately for these beneficiaries the funeral benefit is paid into the estate of the late bank account. This is obviously not ideal and therefore we ask our member representatives to please convey this message to all our members and assist them to complete the nomination form. As previously explained the Family Funeral Plan with the Insurer falls under the Insurance Act 18 of 2017, whereby the Prudential Authority requires that a funeral nomination form **MUST** be completed in order for the funeral benefit to be paid out to the nominated beneficiary. The Fund will continue to conveyed this message and encourage members to complete the nomination form, which is available on the Fund's website www.mymgf.co.za under the ***Forms*** tab and then under the ***Funeral Plan*** heading.

10. PAYMENT OF CONTRIBUTIONS

As at the end of the 2024 financial year there was not a single municipality who was in arrears with the payment of the monthly contributions. Although a few municipalities paid the contributions late, all June 2024 contributions have been paid. There are a few municipalities in the North West Province who fall in arrears with the payment of the monthly contributions and then catch up when they receive their quarterly government grants from Treasury.

In all instances the members are made aware of the non-payment of the contributions via SMS communication. The issue is also taken up with the Municipal Manager and Chief Financial Officer. In some instances, SARS and Eskom have attached the bank accounts of those municipalities, which leaves just enough funds available to pay salaries.

11. BOARD OF THE FUND

As there are no vacancies on the Board and there will be no need for an election after this meeting.

The Board of the Fund consists of 12 Board member positions, which are currently filled as follows:

Mr Piet Venter	Chairperson	Employee representative
Mr Roja Ramare	Vice-chairperson	Employee representative
Mr Johan Grobbelaar	Exco member	Independent
Mr Lifa Majola	Exco member	Employee representative
Mr Eddie Alberts		Independent
Mr Jannie Venter		Independent
Mr Sphiwe Khumalo		Employee representative
Mr JJ Mahlangu		Employee representative
Ms Idah Mkansi		Employee representative
Mr Aubrey Mayaba		Employee representative
Cllr Johannah Rangata		Employer representative
Cllr Mfichana Shingange		Employer representative

12. CONCLUSION

In conclusion, sincere appreciation is expressed to the following persons for their contribution to the business of the Fund during the past financial year;

- to all the staff of Sanlam Employee Benefits (SEB) for the member administration services rendered with great commitment and exceptional retirement fund knowledge, with special mention of Ms Dola Nortje, the Client Relations Manager and Veron Pillay the Fund Financial Manager and his very capable 2ic Lenah Ntshabele,
- to David Galloway, the Fund's investment advisor for giving sound advice and applying his strategic asset allocation skills during difficult market conditions the past year in order to maintain the long-term return objectives of the IPS, as well as a special word of thanks to Keith Anthony for his strong administrative support with the investment reporting matters,
- to our auditors, BDO South Africa Incorporated, Mahomed Lockhat and Gina Pazzi-Corregedor, together with their audit team for rendering a thorough independent auditing function to the Fund,
- to Gerda Grobler the independent actuary and her very able assistants the meticulous Melanie Swart and Walter Graham for their valuable advice on actuarial matters and a comprehensive interim actuarial valuation done,

- to the six staff members of the Fund for their dedicated commitment to the Fund and its members,
- to every Board member, your valuable inputs, debate and differences of opinion, but at the end loyal support to the Fund during the year is sincerely appreciated,
- and then to all the delegates who represent our members and employers at the municipalities your hard work and dedication to our members in these trying times are greatly appreciated.

May you and your families have a blessed Christmas and achieve great success in the New Year. If you are going to go away during the festive season have a wonderful holiday and return safely.

P. J. VENTER
<u>CHAIRPERSON</u>
22 NOVEMBER 2024