

MGF

Annual Report 2023

Municipal Gratuity Fund

Wealth creator of choice



*"Your Fund:
The Wealth Creator
of Choice
for 30 years"*



MGF

wealth creator of choice



SERVICE EXCELLENCE

“The sustainability of a retirement fund requires a knowledgeable and well-equipped board, supporting sub-committees and world-class service providers. As we celebrate our 30th birthday in 2024 we look forward to the next 30 years of service excellence, putting our members first in everything we do.”

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1. Message from the Chairperson

I am delighted to share this Board Report with you. We celebrate our 30th birthday in 2024 and while we look back at 30 years of service excellence we also look forward to the next 30 years and beyond. We are confident that our Fund is sustainable, resilient and will continue to be your wealth creator of choice into the future.

It is with great pleasure that I can confirm that your Fund is in a sound financial position with assets having grown from R31.8 billion in 2022 to R36.3 billion in 2023, which is quite an achievement in these trying economic times. This is testament to our outstanding Board and the Fund's solid Investment Strategy and investment advisors.

None of us would have guessed that the war between Russia and the Ukraine, which started on 24 February 2022, would still be ongoing. Added to that is the war in Israel, which also affects the whole world. These wars have a huge effect on the economy. Luckily the Fund's robust investment strategy has been able to weather the storm and has continued to provide solid growth to members despite short-term negative performances in some instances.

The Board works tirelessly to protect your benefits, improve control and governance and save costs on your behalf. This is especially important in turbulent economic times.

"We are confident that our Fund is sustainable, resilient and will continue to be your wealth creator of choice into the future."

Two years ago, at our annual meeting, one of our member representatives requested the Board to consider the possibility of increasing the disability benefit, but as the claims experience for the death cases were too high, it could not be considered. I am delighted to announce that the Board, together with the Actuary, considered this request once again at the February 2023 Board meeting and the decision was made to enhance the disability benefit due to improved claims experience, as from 1 July 2023. **Read more about the enhanced benefit under point 7.1 in this Report.**

The issue of improved service delivery and the delay in the payment of exits was also raised at last year's meeting and the Fund made it a priority to address these concerns. Throughout the year the administrator provided regular feedback on progress made at Board meetings. Steps taken by the administrator to address this issue was to provide all the municipalities the opportunity to attend their training sessions conducted during April and May to encourage all municipalities to make use of the web application to submit exits. The online submission of the exits after the training session have increased allowing members to receiving their payments much quicker and reducing the number of queries. The areas where queries are raised remain with manual incomplete exit forms being submitted, which is addressed with each municipality. The aim is to get all municipalities to only make use of the web application when submitting an exit and to do away with the manual exit forms in the case of a withdrawal or retirement. The process with disability and death cases are very different and still requires manual forms to be completed.

The breaches in exit payments, being withdrawals and retirements is less than 1% and those cases are referred to the human resource departments at the municipalities as the problem lies with the incomplete exit form submitted.

The Board is satisfied with the measures taken by the administrator to resolve these issues. In conclusion, **sincere appreciation is expressed to the following entities/individuals for their contribution to the business of the Fund during the past financial year;**

- **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, as well as **Veron Pillay**, the Fund Financial Manager, and his very capable 2nd, **Lenah Ntshabele**,
- **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,
- Our newly appointed auditors at 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,
- **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,
- **The six staff members** under the leadership of **Christine Seierlein**, for their dedicated commitment to the Fund and its members,
- **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,
- **All the delegates** who represent our members and employers at the municipalities your hard work and dedication to our members are greatly appreciated.

Lastly let's embrace the changes that are afoot in our industry, the most import one being the implementation of the long-awaited Two-Pot system. All indications are that implementation will now be on 1 September 2024. **Read more about this in point 13.2 of this report.**

We look forward to putting our members' needs first in everything we do this coming year.

Piet Venter
MGF Chairperson
24 November 2023



2. Meet your Board Members

The ultimate responsibility for the governance of the Fund resides with the Management Committee which is in the retirement industry referred to as the Board of Fund (board of trustees). The Board comprises of twelve members of which seven are member representatives, two employer representatives and three independent members. There is also an Executive Committee consisting of four members. The Chairperson, the Vice-chairperson and two other Board members constitute the Executive Committee. The Board has eight ordinary meetings per year and the Executive Committee also meets eight times between the meetings of the Board. Therefore sufficient meetings are held to avoid undue delays of urgent matters. **The twelve Board members are introduced below:**

The Board of the Fund consists of 12 Board member positions currently filed as follows:

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



Piet Venter

Piet Venter is the Chairperson of the Fund since November 2012. He is a specialist human resources manager in the employment of the City of Johannesburg. He is a member representative and became a board member during June 1996 sharing almost 28 years' experience as a board member of which the last nine years as Chairperson.

Roja Ramare has almost fourteen years' experience as a Board member. He has served as the Vice-Chairman since October 2020. Roja is a member representative in the employment of Tshwane Metropolitan Municipality. He adds business skills to the Board through his work experience at the Tshwane Fresh Produce Market.



Roja Ramare



Jannie Venter

Jannie Venter was a member of the Executive Committee until November 2023. He initially served on the Board as a member representative. He was appointed as an independent Board member after his retirement in February 2004. Jannie has been serving as a board member for more than twenty-four years, since September 1999. He has vast experience in community and financial matters, serving his entire 22 year career in the financial department of the Polokwane Municipality of which the last ten years as City Treasurer and Manager Financial Services.

Johan Grobbelaar has 19 years' experience on the Board and is also a member of the Executive Committee. Previously he was a member representative until his retirement where-after he was appointed as an independent Board member. Johan has extensive experience in financial matters from his 39 years employment in the financial department of Merafong City, the last 28 years as Assistant Chief Financial Officer. He is also a Registered HR professional with the SABPP. During his tenure as municipal employee he was actively involved in other member related matters such as serving on the NEC of IMATU and various other committees.



Johan Grobbelaar



Jabu Mahlangu

Jabu Mahlangu (JJ) is a member representative who completed his degree Bachelor in Public Administration with Mancosa. He completed an Executive Leadership Program with University of Pretoria, and a HRM Program with UNISA. His current position is Senior Customer Care Officer dealing with complaints management, Batho Pele coordinations. He joined Elias Motsoaledi Local Municipality on 1st July 2011 after having served as the Counsellor in the same Municipality for two terms from 2000 to 2011 May

Eddie Alberts is an independent board member since 1999. Before that, from October 1996, he served as an employer representative by virtue of his position as councillor of Bela-Bela Municipality. Apart from the 27 years' experience on the Board, Eddie has extensive experience and knowledge about local government and community affairs. He is a professional accountant and Financial Director, as well as co-owner of a business enterprise.



Eddie Alberts



Sphiwe Khumalo

Sphiwe Khumalo is a member representative at Lekwa Local Municipality who has 24 years of experience in administration for local municipalities, as well as a background in NGO work. He is currently employed as Manager Auxiliary Services & Record Management and Acting Executive Manager Corporate Services. He boasts 6 qualifications in various disciplines and started his career with a B.Admin degree at what is now known as Govan Mbeki City Municipality. He later completed his B.Admin Honours degree at the University of Stellenbosch. He then went on to complete various certificates such as labour law, municipal governance and municipal development. Sphiwe also serves as chairperson for various institutions such as SAMWU and the Student Association of the Seventh-Day Adventist Association (SDASSO). With such diverse knowledge in different fields, we welcome Sphiwe's contribution to the Board.

Idah Mkansi is a member representative of the Board since June 2023. She has a Bachelor of Public Administration degree and National Certificate in Municipal Governance amongst her many other certificates and qualifications. She is a Senior Administrator in Office Facilities at Corporate Service at Ba-Phalaborwa Municipality.



Idah Mkansi



Cllr Johanna Rangata

Cllr Johanna Rangata started her career as a teacher in 2007 and then advanced to Ward Councilor for Blouberg Municipality in 2011. Her qualifications in Education, as well as Municipal Governance and Management makes her an asset to the board. With 16 years' experience in Municipal positions, she has also done courses in Municipal Performance Management, Road Traffic Legislation and Ethics Management.

Cllr Mfichana Shingange has been an employer Board member since November 2022. He works as a full-time Councillor responsible for Corporate Governance and Shared Services at Greater Tzaneen Municipality, where he is also a Ward Councillor. His career prior to being appointed as a Councillor was a mathematics and physical science teacher and deputy and acting Headmaster. He holds a Masters Degree in Governance and Political Transformation from the University of the Free State and five more qualifications, which places him in a position to add value to the Board. He is member of the following: South African Local Government Association Provincial Working Groups: Municipal Capability and Institutional Resilience, and Governance and IGR and Municipal Digital Solution.



Cllr Mfichana Shingange



Lifa Majola

Lifa Majola is a member representative, as well as a newly elected member of the Executive Committee, employed at the City of Ekurhuleni. He is the youngest Board member and holds an LLB Degree from the University of KwaZulu-Natal, Post Graduate Diploma in Drafting and Interpretation of Contracts, as well as a Certificate in Legislative Drafting both from UJ. He was admitted to the High Court RSA as an attorney in 2009. He is acting as the Senior Executive Manager heading up the Support Service Division in the Real Estate Department. He has extensive experience in conducting legal research and drafting contracts and SLA. His knowledge of the legal environment makes Mr Majola an excellent addition to the Board.

Aubrey Mayaba is the newest elected Board member, appointed on 14 February 2024. Aubrey is a Senior Specialist: Tariff and Costing accounting in the City of Ekurhuleni. Aubrey has served in different roles in the insurance and revenue sections of the municipality over the past 18 years and currently he is responsible for costing, tariff setting, assisting in the preparation of budget-related documents, National Treasury submissions, advising departments of irregularities and correcting variances regarding their spending, etc. He holds a diploma and bachelor's degree in Internal Auditing with Tshwane University of Technology (TUT) and the University of South Africa respectively. He also holds a Certificate in Criminal Justice from the TUT.



Aubrey Mayaba

Principal Officer

The **Principal Officer, Christine Seierlein**, is the executive representative of the Fund, and the official contact person for the Financial Sector Conduct Authority (FSCA, previously the Financial Services Board). The Principal Officer has the same fiduciary responsibilities to the Fund as those pertaining to Board members.



Christine Seierlein

The composition of the Board makes for a diverse mix of skills, experience and expertise. It covers representation from all four provinces served by the Fund. **There is a high retention of board members with over a 120 years of service, collectively. This enhances stability in the management of the Fund** and assists greatly in setting and **enforcing long term investment goals** which is of paramount importance **for successful retirement planning.**



3. Economic matters and financial markets

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

3.1 General overview

The 2022/23 financial year was characterized by aggressive central bank tightening of interest rates that saw the US Federal Reserve Bank (the Fed) and the South African Reserve Bank raise interest rates a cumulative 350 basis points. The aggressive rate hikes were needed to contain a surge in inflation that was driven initially by supply-side constraints linked to Covid lockdown restrictions and the war in Ukraine, and then by demand-side pressures arising from generous fiscal stimulus measures that boosted consumption expenditure. Over the course of the year, however, manufacturing production contracted in the United States (US), the European Union (EU) and the United Kingdom (UK) as demand for goods shifted to services. But it has been the resilience in the services sector that has accounted for the generally better-than-expected economic data releases over the year. Markets were however volatile with risk assets selling off in the third quarter of 2022 as the Russian-Ukrainian conflict intensified, before rallying over the remaining three quarters of the financial year as earnings held up and global growth exceeded lowered International Monetary Fund expectations.

Other headwinds included an intensification of the trade war between the US and China that saw exports of semiconductor manufacturing equipment restricted to China, and rising debt defaults by China's largest property developers. China's State Council (the Cabinet) did however announce financial support measures for property developers that would enable them to complete the large backlog of outstanding projects, in addition to tax exemptions on electric vehicles to boost consumption and tax breaks for high-end manufacturing companies. While the failure of Silicon Valley Bank (SVB) and Signature Bank in the US weighed heavily on financial stocks earlier in the year, the decision by the Federal Deposit Insurance Corporation to guarantee all deposits helped avert a systemic failure in the banking system. Poor risk management on the part of the banks and the fact that many regional US banks are exempt from some of the Basel III regulatory requirements - which

require banks to hold sufficient collateral to cover losses and mismatches between assets and liabilities – was the cause of the failures. While contagion did spread to European banks, the more robust regulatory environment and strong liquidity ratios helped insulate European banks from large outflows.

Due to a sharply weaker rand – fueled in part by South Africa's standoff with the US over the country's perceived support for Russia in the Ukraine war, and the possibility that SA would be excluded from preferential market access to the US under the Africa Growth and Opportunity Act (Agoa) – domestic asset classes largely underperformed their global counterparts. South Africa's greylisting by the Financial Action Task Force and a softening in commodity prices due to slowing Chinese demand, was a further headwind contributing to the 13.3% depreciation in the rand/USD exchange rate.

With economic growth in the US, the EU and Japan generally beating estimates, investors have begun pricing in a higher-for-longer interest rate environment along with a higher terminal rate of interest. Due to the higher-for-longer outlook, bond yields increased across both the nominal and real curves, raising the discount rate at which equities are valued.

Despite the higher discount rate, equities rallied over the financial year with the MSCI World Index yielding 36.7% in rands and 18.5% in USD's, the best performing of the broad asset classes. Bonds, in turn, yielded negative USD-returns as the market repriced inflation and interest rate risks.

Notwithstanding the volatility in markets, the Fund's risk-profiled portfolios all outperformed their respective CPI-linked benchmarks with the Aggressive Portfolio returning 18.3%, the Moderate Portfolio 15.1% and the Conservative Portfolio some 9.3%. The Protected Portfolio, benchmarked against the Stefi index, yielded 7.6% for the year.



3. 2 Looking ahead

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

3.2.1 The Global economy

After the MGF's financial year-end of 30 June 2023, equities and bonds came under selling pressure in the third quarter of the year as bond yields continued to push higher, triggering a selloff in equities. The yield curve bear steepening seen in the bond market is supportive of the soft-landing scenario where expectations of higher inflation result in rising long bond yields, which in turn, will require further policy rate hikes. Although the disinflationary trend globally remains intact following central bankers' aggressive interest rate hikes, headline and core measures of inflation remain at elevated levels across most regions, with Chinese inflation the notable exception. China has a deflationary problem at both the consumer and producer price level that has resulted in the People's Bank of China cutting interest rates and lowering the required reserve ratio that banks must hold at the central bank. But an irrigation style stimulus package is unlikely at this stage with the government opting instead for targeted stimulus measures that it hopes will help underpin consumption expenditure and high-end manufacturing. While some emerging markets have started their rate cutting cycle, they are constrained by a strong US Dollar from lowering rates further, since a decrease in the interest rate differential could trigger currency depreciation and a rebound in imported inflation.

While recession fears have been pushed out further in time due to tight labour market conditions and resilient economic growth, the base case view is that of a soft landing for the



*“Telling the future by
looking at the past
assumes that
conditions remain constant.*

*This is like driving a car
by looking in the
rearview mirror.”*

- Herb Brody

global economy since a synchronised slowdown is not anticipated over the coming year. The decrease in US job openings and the increase in the labour force participation rate is expected to reduce wage cost pressures, particularly in the services sector, while core US inflation is expected to slow meaningfully as shelter inflation declines in line with the sharp fall in house prices and rental escalations. Even though Fed Fund futures are currently pricing in no further rate hikes in the current cycle, with the first rate cut only expected in one year's time, a November 2023 rate hike cannot be ruled out at this stage, given that inflation is running well above central bankers' 2% target. The Fed's latest dot-plot is still pencilling in a further 25 basis point rate hike this year with only 50 basis points of rate cuts anticipated in 2024, down from 100 basis points at the previous Federal Open Market Committee Meeting (FOMC).

Given the delaying effect of interest rates hikes on the real economy, the higher-for-longer interest rate outlook is expected to trigger a soft landing in 2024, with the EU and the UK the most likely candidates. But a recession in the US cannot be ruled out either, since consumption expenditure is slowing to below trend growth given the fading effects of the Covid-stimulus that helped to underpin consumption.

With manufacturing still in contraction and the housing market slowing on high mortgage costs, a contraction in the services sector will almost certainly drive the US into a mild recession, notwithstanding the boost to growth from a surge in private investment directed at the green economy, new investments in semiconductor manufacturing and the onshoring of supply chains. Surging credit card and motor vehicle payment defaults also highlight that the consumer is increasingly under pressure. With OPEC+ production cuts extended until year-end and possibly even further into 2024, coupled with the likelihood that the Bank of Japan (BOJ) could end its yield curve control program, bond yields could push even higher over the near term as the yield curve steepens. This is likely to be a headwind for equities as valuations will be revised lower on a higher discount rate.

3.2.2 The South African Economy

Following two consecutive quarters of better-than-expected GDP growth, the International Monetary Fund (IMF) revised South Africa's growth rate higher to 0.9% this year and 1.8% in 2024, a 0.6% and 0.1% upward revision to its July estimate. In contrast, the South African Reserve Bank (SARB) revised its estimate for this year upwards to 0.7% from an earlier 0.4% estimate, but left its estimate of 1.0% for 2024 unchanged. The more subdued estimates from the SARB in all likelihood reflect the headwinds facing the domestic economy in the form of softer commodity prices, ongoing load-shedding, infrastructure bottlenecks and a consumer under pressure from high interest rates. But the surge in gross fixed capital formation – driven by investment in renewable energy – has been an important contributor to economic growth of 0.9% for the first half of the year, with gross fixed capital formation expanding by 7.9% year/year in the second quarter, up from 4.2% the previous quarter. There was a sharp rise in investments in imported machinery and equipment – mostly for electricity infrastructure – which was supported by an increase in sales of locally-produced electric motors, generators and special purpose machinery. With the private sector making provision for its own electricity needs, the growth outlook may well surprise to the upside over the coming year.

Although inflation has moved closer to the mid-point of the SARB's target range at 4.8%, inflation is expected to rise over the coming months as recent petrol price increases are captured in upcoming data releases. The money market is also pricing in a further 25 basis point increase in the repo rate in November, with rates expected to be on hold through most of 2024. The money market's pricing of a further interest rate increase in all likelihood reflects the weakness in the rand/USD exchange rate, that risks higher imported inflation over the coming year. Factors that could fuel further rand weakness include SA's possible removal from Aogo, higher fiscal deficits and bond issuance over the coming years due to structurally low growth and weaker commodity prices. The upcoming elections this year will also heighten policy uncertainty, especially if the ruling party fails to achieve an outright majority and is forced into a coalition partnership with any other political parties viewed as risky and detrimental for a solid, stable and balanced economy in South Africa.

The tabling of the Medium-Term Budget Policy Statement (MTBPS) in November will be a key market event for the bond market, with yields likely to rise over the near term as investors try to understand higher budget deficits. While the main budget in February will provide more details around the government's funding requirement over the coming years, the MTBPS will give an indication of possible tax increases needed to fund the social relief of distress grant – which expires at the end of March 2024 - and to provide further funding for National Health Insurance.

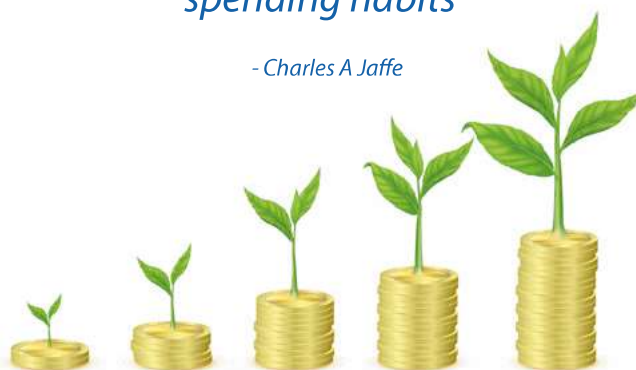
A VAT increase has been tossed about as a possible revenue source, but this would have negative consequences for consumption expenditure and GDP growth given that household final consumption expenditure accounts for around 66% of overall GDP. Other proposals could include higher personal income tax rates and/or the introduction of a wealth tax. At yields in excess of 12% on the All Bond Index, South African bonds are overweighted in portfolios. It is important to stress that this is a cyclical view rather than a structural view given expectations of further ratings downgrades and a rising sovereign risk premium over the long term.

3.3 Summary

In summary, the Fund's base case view is that the global economy will slow down further in 2024 as the delaying effect of interest rate hikes feeds through into lower consumption expenditure and lower earnings growth. Inflation is also expected to moderate, particularly in advanced economies that benefit from stronger monetary policy frameworks and lower exposure to commodity price and exchange rate shocks. The IMF estimates that inflation in advanced economies will slow to around 3% by the end of 2024 and to around 2% by the end of 2025. Although equity markets are anticipating a contraction in earnings, returns in the low single digits are expected to lag those expected from both cash and bonds, informing the Fund's underweight position in both developed and emerging market equities, biased towards defensive equities. Conversely, bonds are upweighted to overweight as slowing economic growth and lower inflation pushes bond yields lower, rewarding investors for the duration risk taken. Since interest rates are expected to remain "higher-for-longer", cash is overweighted in portfolios given their attractive risk-adjusted returns.

*"It's not
your salary
that makes you rich,
it's your
spending habits"*

- Charles A Jaffe





4. Investment Strategy and Portfolio Returns

4.1 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 Life Stage Model (LSM).

The investment strategy applied for the four life stage portfolios are as follows:

Investment strategy applied for the four Life Stage Investment Portfolios					
Portfolio	Default Age until 30 June 2015	Default Age with effect from 1 July 2015	% of Members' Fund Credit as at 30 June 2018	Risk Profile	Investment Objective
Aggressive AP	CPI + 5%	10.68%	10.93%	0.26%	Capital Growth (100%)
Moderate MP	CPI + 4%	9.68%	10.12%	0.44%	Capital Growth (45%); Capital Protection and Income Enhancement (55%)
Conservative CP	CPI + 3%	8.68%	9.23%	0.55%	3.55%
Protected PP*	Cash	6.08%	6.80%	0.73%	1.62%

* The PP portfolio was introduced in September 2011

The Fund's Investment Policy Statement (IPS) is available on the website www.mymgf.co.za and an extract of the LSM follows on the next few pages.

4.1.1 Life Stage 1: Aggressive Portfolio

Members are allocated to the following Life Stage portfolios depending on their age and term to retirement.

Aggressive Portfolio (AP) Profile

This portfolio is for members 55 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 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.

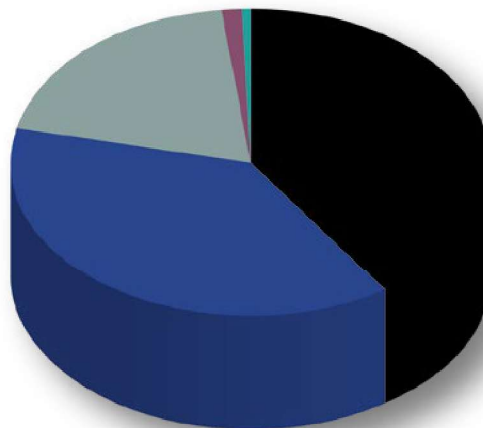
Inception Date: **01 July 2005**

Fund Size as at September 2023: **R23.0 billion**

Benchmark: **Inflation + 5%**

Asset Allocation as at 31/12/2023

	Foreign	40.8%
	SA Equity	37.9%
	SA Bonds	19.6%
	Hedged	1.3%
	SA Cash	0.4%



Asset Manager Allocation

Asset Class	Manager	Exposure
Credit Funds	Futuregrowth	4.8%
Equity	ABAX, Allan Gray, Aluwani, Argon, Fairtree, Truffle	22.8%
Foreign Balanced	Allan Gray	4.7%
Foreign Cash	Brandywine, JP Morgan, Vantage Capital	4.8%
Foreign Equity	Blackrock, Coronation, Edge, Franklin, Hoskings, Morgan Stanley, Nedgroup (Veritas), Ninety One, Sands Capital	26.2%
Foreign Fixed Income Absolute Return	Brandywine	2.8%
Foreign Property	Nedgroup (Resolution)	2.5%
Fund of Hedge Fund	Edge Investments	1.3%
Infrastructure	Stanlib	1.6%
Mezzanine Debt	Vantage Capital	0.6%
Property	ABSA, Sesfikile	3.9%
Renewable Energy	Green X Renewable	1.6%
SA Bonds	Ninety One, Sanlam	11.4%
SA Cash	ABSA, Futuregrowth, Green X Renewable, Stanlib, Vantage	0.7%
SA Passive Equity	Satrix	10.8%

Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	
-0.48%	6.46%	-0.04%	-1.31%	2.94%	-0.31%	
Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
0.69%	1.28%	0.21%	-2.87%	-2.61%	7.14%	1.97%

4.1.2 Life Stage 2: Moderate Portfolio

Moderate Portfolio (MP) Profile

This portfolio is for members 55 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 who should not be exposed to the higher risks of the Aggressive Portfolio.

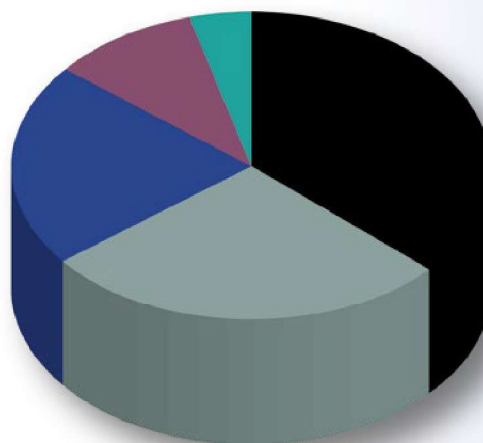
Inception Date: **01 July 2005**

Fund Size as at September 2023: **R8.0 billion**

Benchmark: **Inflation + 4%**

Asset Allocation as at 31/12/2023

	Foreign	36.8%
	SA Equity	27.9%
	SA Bonds	21.4%
	Hedged	9.8%
	SA Cash	4.1%



Asset Manager Allocation

Asset Class	Manager	Exposure
Equity	ABAX, Allan Gray, Aluwani, Argon, Fairtree, Truffle	10.2%
Foreign Balanced	Allan Gray	3.3%
Foreign Cash	Franklin, JP Morgan, Vantage Capital	2.4%
Foreign Equity	Blackrock, Coronation, Edge, Franklin, Hoskings, Morgan Stanley, Nedgroup (Veritas), Ninety One, Sands Capital	18.6%
Foreign Fixed Income Absolute Return	Brandywine	3.9%
Foreign Property	Nedgroup (Resolution)	2.6%
Infrastructure	Stanlib	1.3%
Mezzanine Debt	Vantage Capital	1.3%
Property	ABSA, MGF, Sesfikile	3.0%
Renewable Energy	Green X Renewable	2.3%
SA Absolute Returns	ABAX, Alusi Managed Fund, Coronation, Sanlam	19.2%
SA Bonds	Ninety One, Sanlam	11.7%
SA Cash	ABSA, Futuregrowth, Green X Renewable, Stanlib, Vantage	3.4%
SA Hedge Funds	Amplify	9.7%
SA Inflation Linked Bond	Ninety One	3.0%
SA Passive Equity	Satrix	4.1%

Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	
0.24%	4.57%	0.70%	-0.94%	2.22%	0.23%	
Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
0.52%	0.67%	0.98%	-2.52%	-1.72%	5.89%	1.97%

4.1.3 Life Stage 3: Conservative Portfolio

Conservative Portfolio (CP) Profile

This portfolio is for members between 61 and 63 years of age.

These members cannot be exposed to any significant risk and therefore their money will be invested in fixed income investments, structured products and cash with no equities (shares) in order to protect capital.

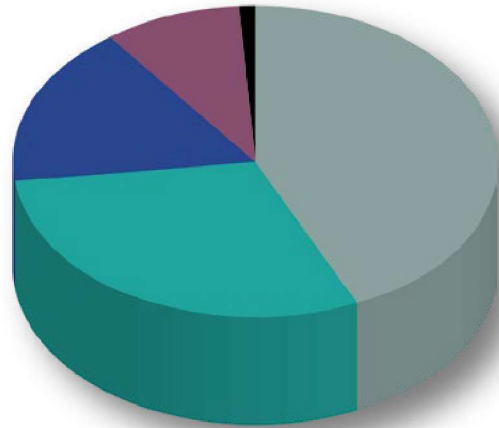
Inception Date: **01 July 2005**

Fund Size as at September 2023: **R3.0 billion**

Benchmark: **Inflation + 3%**

Asset Allocation as at 31/12/2023

SA Bonds	43.2%
SA Cash	29.9%
SA Equity	16.8%
Hedged	9.2%
Foreign	0.9%



Asset Manager Allocation

Asset Class	Manager	Exposure
Credit Funds	Futuregrowth	12.8%
Renewable Energy	Green X Renewable	0.9%
SA Absolute Return	ABAX, Alusi Managed Fund, Coronation, Sanlam	59.5%
SA Cash	ABSA, Futuregrowth, Green X Renewable	14.8%
SA Hedge Funds	Amplify	8.9%
SA Inflation Linked Bond	Ninety One	3.1%

Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
0.26%	2.38%	-0.01%	0.18%	0.81%	-1.38%
Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
1.68%	1.45%	0.29%	-0.53%	0.09%	2.77%
					Dec-23
					1.23%

4.1.4 Life Stage 4: Protected Portfolio

Protected Portfolio (PP) Profile

This portfolio is for members older than 63 years of age.

These members cannot be exposed to any risk and therefore their money will be invested in money market instruments in order to protect capital.

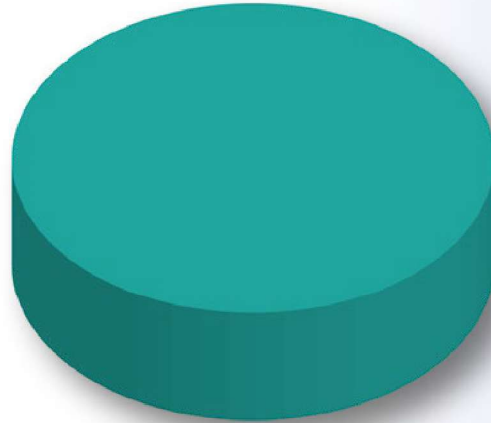
Inception Date: **01 July 2005**

Fund Size as at September 2023: **R1.0 billion**

Benchmark: STeFI

Asset Allocation as at 31/12/2023

 SA Cash ABSA 100.0%

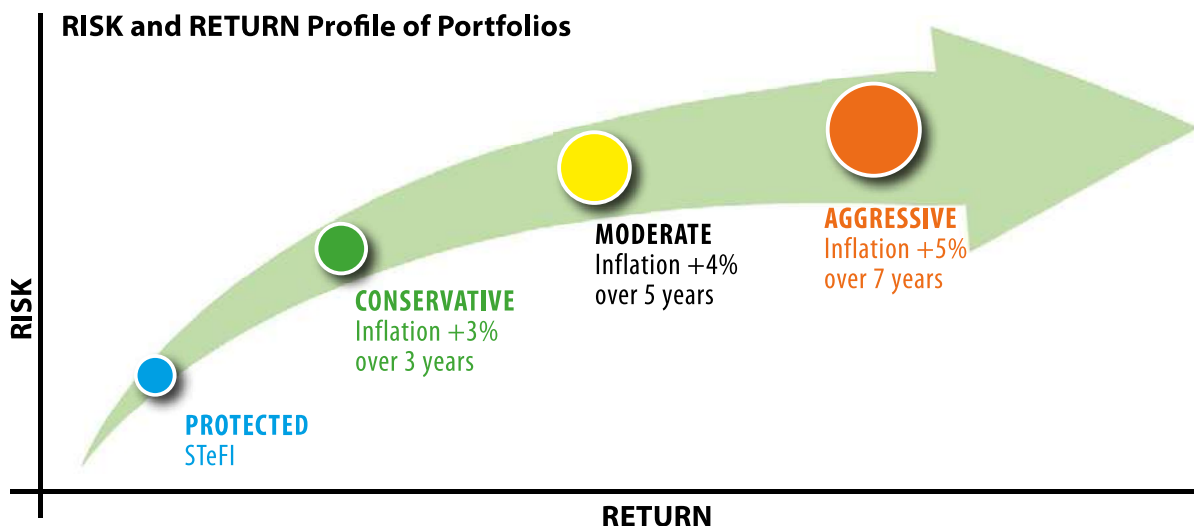


Asset Manager Allocation

Asset Class	Manager	Exposure
SA Cash	ABSA, Futuregrowth	100.0%

Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	
0.65%	0.75%	0.57%	0.60%	0.60%	0.62%	
Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
0.93%	0.81%	0.82%	0.69%	0.77%	0.74%	0.69%

The following is an illustration of where each of the four Life Stage portfolios lies along the risk- and- return spectrum.





4.2 Investment Returns

Long term investment goal

It remains the Fund's long-term objective to provide for a 75% net replacement ratio (NRR) at retirement, which in layman's terms 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.

The markets have struggled worldwide and the returns of the Fund for the past financial year reflects such. 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. This table shows that every investment portfolio is still on track, measured from inception of the LSM during July 2005, to outperform its return objectives. 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 2023

Portfolio	Return objective		Actual return	Objective outperformance	Inflation outperformance
AP	CPI + 5%	10.66%	11.33%	0.67%	5.67%
MP	CPI + 4%	9.66%	10.39%	0.73%	4.73%
CP	CPI + 3%	8.66%	9.23%	0.57%	3.57%
PP*	Cash	6.13%	6.87%	0.74%	1.66%

* The PP portfolio was introduced in September 2011

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

The **returns of the life stage portfolios for 2022/23 financial year** are as follows:

	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023	Year Total
AP	3.74%	-0.36%	-2.91%	3.95%	4.99%	-0.48%	6.46%	-0.04%	-1.31%	2.94%	-0.31%	0.69%	18.29%
MP	2.78%	0.16%	-1.85%	2.76%	2.97%	0.24%	4.57%	0.70%	-0.94%	2.22%	0.23%	0.52%	15.14%
CP	1.21%	0.45%	-0.88%	1.51%	2.75%	0.26%	2.38%	-0.01%	0.18%	0.81%	-1.38%	1.68%	9.27%
PP	0.42%	0.59%	0.41%	0.67%	0.53%	0.65%	0.75%	0.57%	0.60%	0.60%	0.62%	0.93%	7.59%

Historical returns since unitization are as follows:

	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016
AP	25.60%	28.45%	2.43%	-4.14%	16.70%	14.83%	10.23%	16.43%	26.83%	4.94%	7.22%
MP	17.80%	24.77%	1.55%	1.48%	15.33%	13.90%	9.68%	14.49%	21.94%	6.66%	8.04%
CP	11.00%	20.27%	3.22%	8.13%	14.92%	12.85%	8.63%	10.46%	14.85%	7.84%	6.50%
PP	-	-	-	-	-	-	4.98%	5.96%	6.04%	6.64%	7.53%

	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	Since Unitisation	Annualised return per annum
AP	4.05%	10.38%	4.43%	4.30%	18.85%	0.85%	18.29%	589.47%	11.32%
MP	4.96%	8.96%	4.97%	4.75%	14.00%	2.68%	15.14%	494.90%	10.41%
CP	6.44%	8.29%	6.07%	2.49%	10.43%	5.93%	9.27%	389.77%	9.23%
PP	8.58%	8.22%	8.55%	8.16%	4.41%	4.87%	7.59%	121.77%	6.91%

4.3 Returns going forward

The **returns for the first four months of the 2023/24 financial year** are as follows:

Portfolio	31 Jul 2023	31 Aug 2023	30 Sep 2023	31 Oct 2023	30 Nov 2023	31 Dec 2023	Year to date
Aggressive Portfolio	1.28%	0.21%	-2.87%	-2.61%	7.14%	1.97%	4.89%
Moderate Portfolio	0.67%	0.98%	-2.52%	-1.72%	5.89%	1.97%	5.15%
Conservative Portfolio	1.45%	0.29%	-0.53%	0.09%	2.77%	1.23%	5.39%
Protected Portfolio	0.81%	0.82%	0.69%	0.77%	0.74%	0.69%	4.62%

Markets are really struggling worldwide, which is evident from the above returns.

Markets bounced back in November 2023 and we hope this continues in the year ahead.



4.4 Fee structure

The fees paid to investment managers vary according to asset class. For instance, to manage cash does not require the same effort and skill set as is the case when managing equities. The management fees in respect of overseas investments are also higher than those in South Africa. Investment management fees may vary between 0.10% to 2%.

The average investment fee of all investments made by the Fund is about 0.5%. This low fee percentage is due to the negotiating power the Fund has because of the considerable amount of assets. The four life stage portfolios comprise of different asset classes and therefore the investment management fees are allocated accordingly. For instance, the Protected Portfolio consists mainly of money market investments (cash) with a lower fee structure and therefore only those fees are allocated to the Protected Portfolio and vice versa with the Aggressive Portfolio which consist of a big component of shares, which cost more to manage. The investment management fees for the four portfolios are approximately as follows:

The *investment management fees* for the *four portfolios* are *approximately* as follows:

Aggressive Portfolio (AP)	0.56%
Moderate Portfolio (MP)	0.49%
Conservative Portfolio (CP)	0.47%
Protected Portfolio (CP)	0.10%

5. Actuarial valuation

This year is once again a compulsory 3-year statutory actuarial valuation for the financial year ending 30 June 2023. As you are aware the Board appointed the independent actuary, Alexforbes, to perform the same rigid actuarial valuation annually, thus for the two interim years as well. The actuary made an unqualified finding that the Fund was financially sound as at 30 June 2023.

6. Financial Statements

The financial statements for the financial year ending 30 June 2023 was presented at the Fund's 28th AGM. 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 2022/23 financial year. BDO was appointed by the Board in 2022 after an extensive quotation and assessment process was undertaken, following the decision by the Independent Regulatory Board for Auditors (IRBA) that external auditors may not serve for longer than ten (10) years as the appointed auditor of a public interest entity. Even though this decision by IRBA has in the meantime been overturned in court, the decision to change external auditors is refreshing and proved to be of value to the Fund. The Fund again received an unqualified (clean) independent audit report.

The total asset value as at 30 June 2023 is just over R36 billion and the contributions received were R2.1 billion. The administrative expenses is 0.40% of salaries, which is funded from the employer contributions. These expenses include external fees such as the levies payable to the Financial Services Conduct Authority and other statutory bodies, legal fees, administration fees to our administrator and other service providers, as well as actuarial services and external audit services was R41.9 million. 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 R254 million after only being R117 million at the end of the previous financial year. Due to the increase in the death claims during the Covid-19 pandemic, the allocation to the risk account was increased in the previous financial year, but it is clear that the claims have reduced drastically. As a result of the reduction in the death claims the disability benefit could be enhanced with effect from 1 July 2023 as explained in paragraph 7, without increasing the contribution to the Risk Account.





Financial Statement of Net Assets and Funds as at 30 June 2023

	30 June 2023	30 June 2022
ASSETS	R	R
Non-current assets	34,396,758,761	31,183,497,306
Plant and equipment	32,040	87,644
Investments	34,391,038,640	31,174,517,050
Housing loans	5,688,081	8,892,612
Current assets	1,911,563,318	708,892,252
Accounts receivable	8,769,4887	65,476,481
Contributions receivable	121,855,948	124,616,926
Cash and cash equivalents	1,780,937,883	518,798,845
Total assets	36,308,322,079	31,892,389,558
FUNDS AND LIABILITIES		
Members' funds and surplus account	34,503,354,484	29,813,378,977
Members' individual accounts	34,485,520,987	29,788,491,951
Amounts to be allocated	17,833,497	24,887,026
Reserves	304,066,880	168,151,326
Reserve accounts	304,066,880	168,151,326
Total funds and reserves	34,807,421,364	29,981,530,303
Non-current liabilities	6,898,705	6,608,634
Unclaimed benefits	6,898,705	6,608,634
Current liabilities	1,494,002,010	1,904,250,621
Benefits payable	1,244,422,406	1,883,332,630
Accounts payable	249,579,604	20,917,991
Total funds and liabilities	36,308,322,079	31,892,389,558

7. Rule amendments

MGF 3:

Reasons for this amendment:

- Rule 30(4)(a): To add paragraph (iv), allowing for amounts not provided elsewhere to be credited to the Data and Operational Account.
- Rule 34(1)(b), introductory paragraph of Rule 34(5) and Rule(5)(a): To delete the reference to member being able to take part of his benefit as a lump sum and preserve the rest as a paid-up benefit in the Fund.

MGF 4:

To improve the disability benefit, subject to the following applying to a member whose **membership started before 1 July 2023:**

- Where the date of disability was before 1 July 2023, the member will be entitled to a disability benefit that applied before this amendment (the existing benefit).
- Where the date of disability is on or after 1 July 2023, the member will be entitled to the greater of the existing benefit or the improved benefit.

7.1 Enhancement of the Disability Benefit

The new disability benefit applicable from 1 July 2023 will pay a disability benefit equal to fund credit PLUS a scaled multiple of annual salary. The distinction is still in place for members with less than 5 years' service who have a pre-existing condition, where they will receive the greater of scaled down multiple annual salary plus their fund credit or the existing benefit if that is greater for membership prior to 1 July 2023. The old disability benefit remains in place for all members who were members of the Fund with a joining date prior to 30 June 2023. If such member becomes disabled after 1 July 2023 the greater of the old disability or new disability benefit will be payable. New members joining the Fund from 1 July 2023 will only be liable for the payment of the new disability benefit. **Members who joined the Fund from 1 July 2023 will receive the new disability benefit explained in the table below.**

Members who joined the Fund on or after 1 July 2023

Attained age at date of disability	Scaled multiple in excess of member share	Reduced multiple for members with less than 5 years' service with pre-existing condition
Up to age 30	4 times	2 times
Age 31 to 35	3.5 times	1.75 times
Age 36 to 40	3 times	1.5 times
Age 41 to 45	2.5 times	1.25 times
Age 46 to 50	2 times	1 time
Age 51 to 55	1.5 times	0.75 times
Age 56 to 64	1 time	0.5 times
Age 65 and older	No additional benefit	No additional benefit

Members 65 years and older do not enjoy any disability benefits. The 3.60% of the employer contribution required for risk benefits is allocated towards their fund credit, thus they are not paying for any risk benefits. Contributing members older than 65 and paid-up members do however enjoy funeral cover.





8. Benefit counselling

Benefit counselling has proven to benefit our members. The different products available at retirement are explained to members prior to retirement and as a result quite a number of members have at retirement invested a portion of their benefit into a type of annuity to receive a monthly income/pension. This saved the members a huge amount of tax, as the transfer to an annuity is tax free and these members now receive a steady income after retirement.

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 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 will receive an SMS to inform them to expect a call and thereafter the SMS is followed up with a telephone call to the member. 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.

9. Housing loans

Standard Bank and FNB offer housing loans at prime less 1.25%, thus the two banks are offering the same interest rate to our members, with FNB having the lower admin and application fees.

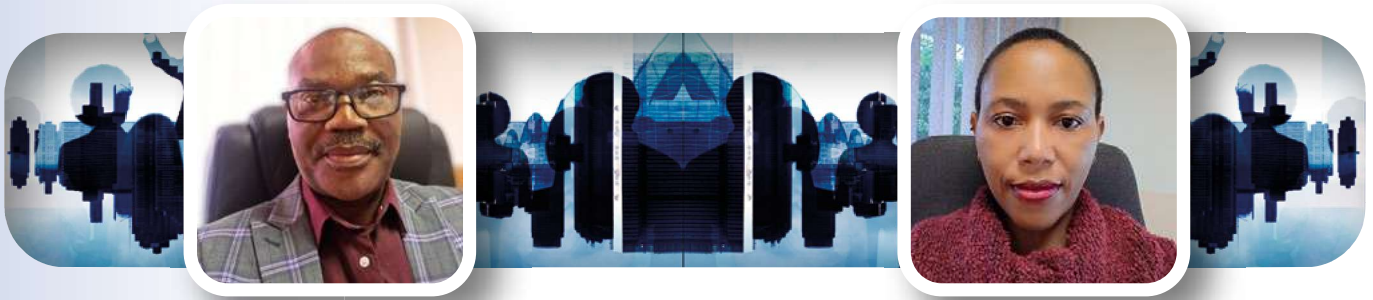
There are still some members complaining that their pension backed home loans are being declined by the two banks. It is important that members remember that the Fund can and will not intervene to put pressure on the banks to grant loans to members if they are indebted, under administration or do not pass the affordability test run by the banks. The banks have to adhere to the National Credit Act and make sure members can afford the loan they are applying for.

The Fund has had a few requests from the banks to settle the pension backed home loans of members due to members falling in arrears with their monthly installments. It has come under the attention of the Fund that some members instruct their payroll staff to stop their monthly installments; this is not allowed as the municipality signed a letter of undertaking with the bank that the monthly installment will be deducted from the members' salaries. If the Fund should allow such settlement of arrear pension backed home loans it will open the floodgates of members requesting the same.

Good practice dictates that members should repay the total pension backed home loan before retirement so that they do not reduce their pension payment at retirement.



10. Member communication



Stanley Muremi

Chief Communication Officer

Cell: 078 532 1912

Email: stanley.muremi@mgfund.co.za

Edith Da Cunha

Senior Communication Officer

Cell: 068 176 7230

Email: edith.dacunha@mgfund.co.za

The Fund is focused on regular and meaningful communication with existing members to keep them informed on the important matter of retirement. In order to gain new members, the Fund does not engage in cheap marketing but provides comprehensive, objective and retirement-related information about the Fund. During induction sessions new municipal employees have the freedom to choose which Fund they prefer to belong to, without being pressured. The goal is not to have many members but rather to have happy members, the rest will follow. The Fund believes in quality not quantity.

The Fund employs a two full time communication staff who visit the various municipalities on a regular basis and attend to numerous member requests. Stanley as the Chief Communication Officer is a familiar face at every municipality and needs no introduction. Edith joined the team two years ago as Senior Communication Officer and together they work tirelessly to promote the Fund amongst members, new and old.

Communication with members remains a priority of the Fund. This is one of the main reasons why the Fund established a front office on 1 July 1999. Instead of leaving the communication services to the fund administrator, the Fund identified the need for members to put a face to the Fund and to have an ear in the event of concerns and service lapses by the outsourced benefit administrator. The Fund's communication officers conduct regular member information meetings at municipalities and visit municipalities as and when required to attend to specific member matters and induction of new members joining the Fund.

The Fund produces a Member Booklet that is updated regularly, and available on the Fund website. The Fund's annual wall and desk calendars have proven very popular and contain valuable information members can use. These are distributed at the Annual General Meeting and when the Fund's communication officers visit the various municipalities.

The Member Booklet and Annual Report and much more is available on **the Fund's website that allows internet users 24 hour access to relevant information and to their benefit statements**, including a platform to communicate with the Fund through this electronic medium.

With the development of social media and suchlike facilities the Fund also explored this area. With the assistance of the fund administrator, the **Sanlam Retirement App** was developed and introduced during 2017. To date 7117 members have downloaded the app, which is a 15% uptake. We encourage members to download this valuable communication channel.

During April and May 2023 an extensive training programme of the various employer's payroll staff was conducted by the Fund's administrator. This was an initiative to improve service delivery and eradicate the delay in the payment of exits. **Municipalities were encouraged to make use of the web application to submit exits.** The online submission of the exits after the training session have increased **allowing members to receive their payments much quicker and reducing the number of queries.** The areas where queries are raised remain with manual incomplete exit forms being submitted, which is addressed with each municipality. The aim is to get all municipalities to only make use of the web application when submitting an exit and to do away with the manual exit forms in the case of a withdrawal or retirement. The process with disability and death cases are very different and still requires manual forms to be completed.

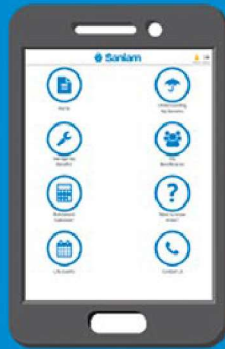
The most popular means of communication remains the face-to-face visits by the communication officers to the workplaces of members and direct live telephone calls. The availability and approachability of the Fund's staff appears to entrench the direct communication channel as the preferred option. The Fund will therefore keep allocating resources accordingly.

*"It's not how much money you make,
but how much money you keep,
how hard it works for you and
how many generations you
keep it for."*

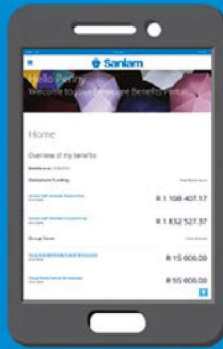
- Robert Kiyosaki

Do you have a picture in your mind of what you want your retirement to look like? And we're not talking about dreams of yachts or fears of poverty - we're talking realistic facts and figures.

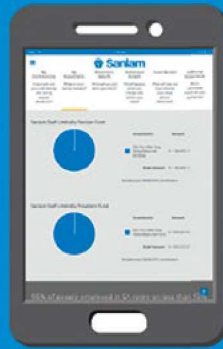
The Sanlam My Retirement app enables you to:



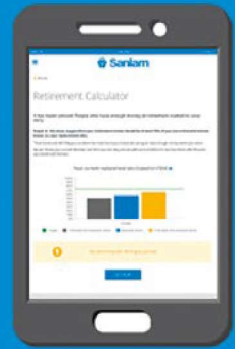
View information that will assist you to reach good retirement outcomes.



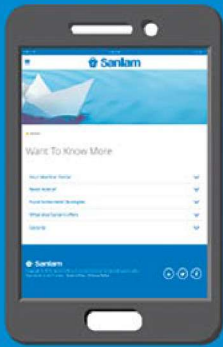
View your current retirement savings and group risk benefits.



View where your money is being invested.



Use our retirement calculator to evaluate and tailor your retirement plan.



Get easy access to important contacts and links.



Get easy access to educational content to make saving for retirement easier.

Sanlam has developed an easy to use mobile application that puts all of your retirement fund data in the palm of your hand.

The app is available for download by searching "Sanlam My Retirement" on:



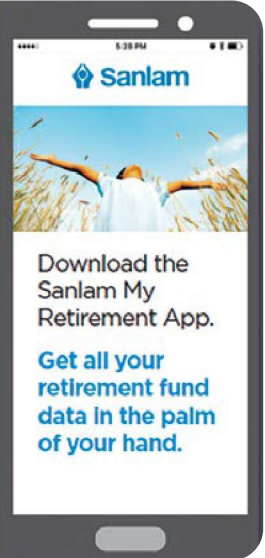
or simply scan the QR code to download the app.



Don't miss out on this unique innovation. Contact your HR department for more information.



Sanlam is a Licensed Financial Services Provider.



Download the Sanlam My Retirement App. Get all your retirement fund data in the palm of your hand.





11. Family funeral plan

There is some good news regarding the Family Funeral Plan's benefit payable in the case of the death of a loved one. The claims experience post the Covid-19 pandemic has been much better, resulting in the Insurer offering an increase in the family funeral benefit at the same monthly premium.

As from 1 August 2023 the following family funeral benefit is payable:

Insured life	Funeral cover
Member	R45,000
Qualifying spouse	R33,500
Qualifying child age 14 and older	R22,500
Qualifying child age 6 and older but younger than 14	R11,500
Qualifying child younger than 6	R5,750
Still-born qualifying child	R5,750

Unfortunately, there are still a large number of members who have not completed the Family Funeral Plan nomination form. If a member passes away without completing the Family Funeral Plan's nomination form the Insurer has no other option but to pay the funeral benefit to the estate of the late member. 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 convey 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


The Benefits Claim Form and Funeral Nomination Form is available from SANLAM. The email address for submission of claims is: sgrdeathclaims@sanlam.co.za. If not documentation is submitted and the Insurer is not aware of the death the claim expires after 6 months of date of death.


Funeral support and burial repatriation service are available on request from the 24-hr call centre on 0860 0004 080.

11.1 Funeral Support


The Burial Repatriation Benefit is a service that allows for the transport of the deceased member's body back home to the final funeral home closest to their place of burial in South Africa, if the death occurred far from his/her home. This service is available at the death of any member and his/her qualifying spouse and child/ren.


If death occurs in South Africa, the services also allows for:


 **Transportation** arrangements for a single relative to accompany the mortal remains to the final funeral home; and


 **Overnight accommodation** (subject to limitations) for a single relative.


Other services, which are aimed at simplifying the death/burial for the family, include:


 **Assistance and advice** on claims procedures is provided to the surviving family.

 **If necessary, legal assistance** can be arranged to assist with the interpretation of the will and the management of the necessary documentation.

 **Advice** can be provided on matters such as obtaining a death certificate and cross-border documentation.

 **Referral to a pathologist** will be made if an autopsy is necessary.

 **Referral to reputable funeral parlours** and providers of other funeral services such as catering and transport can be made, and clients benefit from our experience and knowledge of suitable providers; and

 **Assistance** can be provided when looking for a tombstone supplier.



12. Important information

12.1 What happens to your Contributions

The contribution rate for the majority of members consists of either 22% or 18% of salary contributed by the municipality (employer) and 7.5% of salary contributed by the member. From the 22% contributed by the municipality, 3% is used to be allocated to finance administrative expenses and risk benefits (funeral, death and disability benefits). Due to the reduction in the death claims experience the Board in conjunction with the Actuary were able to reduce the 4% to 3% and in so doing increase the percentage allocated to members' savings. The 3% is effective 1 March 2024.

12.2 The status of a Nomination Form

Members often ask about the binding force of a nomination in the event of the death of a member. Section 37C of the Pension Funds Act regulates the distribution of a death benefit and it is very explicit in this regard. It stipulates that if a pension fund cannot trace any dependant of the deceased member within twelve months, then the death benefit must be paid to the nominees as specified on the nomination form. However in the event that there are dependants and nominees, a pension fund must allocate the death "benefit or such portion thereof to such dependant or nominee in such proportions as the Board may deem equitable."

The Act entrusts the Board with the discretion to distribute the death benefit between dependants and/or nominees. The discretion must be applied within the boundaries set by law. As indicated, the Act distinguishes between two main categories of beneficiaries namely dependants and nominees. It then goes further and categorises the dependants in what is commonly referred to as legal dependants, non-legal dependants and future dependants. As if not complicated enough, the Act then proceeds to divide the non-legal dependants further into factual dependants, the spouse and lastly the children of the deceased.

A fixed priority order of beneficiaries is to be followed with the distribution of a death benefit namely firstly dependants, then nominees, thereafter the deceased estate and then in the final instance the Guardian's Fund. Many court applications and Pension Fund Adjudicator complaints have been submitted over the years by aggrieved beneficiaries because the nomination form was not followed. The big majority have been dismissed. This shows that many beneficiaries do not understand the status of a nomination form.

The main object of section 37C of the Act is to ensure that those persons who were factually dependent on the deceased during his/her lifetime are not left destitute and without financial support after his/her death. (*Madume v Municipal*

Gratuity Fund & others). Hence a fund, when making a distribution, should give preference to factual dependants of the deceased. A fund must first determine who were factually dependent upon the deceased and to what extent each person was dependent upon the deceased member. An allocation is then made to every factual dependant in accordance to the extent of the factual dependency of each.

The death benefits payable from the Fund does not form part of the Estate of the late member and therefore spouses do not automatically qualify for 50% of the benefit.

If the death benefit is exhausted and no monies are left once the factual dependency has been taken care of, it is the end of the process and other beneficiaries such as legal dependants (as defined in the Act) and nominees will not receive anything. If, on the other hand the death benefit is not exhausted and there is a residue left after provision was made for the needs of the factual dependants, the residue may be distributed between all the beneficiaries namely dependants and/or nominees. The same beneficiaries often fall under various categories, for instance a spouse and a child are usually factual dependants, are also legal dependants as per the definition in the Act and may be a nominee on the nomination form. In such event the beneficiary may be considered for an allocation under each of these categories.

The next step is to determine the extent of the factual dependency of the factual and future dependants. That's quite a difficult task and takes by far the most time in the distribution exercise, often involving disputes and family feuds. Moreover in the event of multiple marriages with a city family, a rural family and to complicate matters further, a girlfriend with a love child. There are specific considerations to be taken into account in terms of case law.

Once the needs of the factual and future dependants have been taken care of, there may be money left from the total death benefit. This is referred to as the free residue. The free residue is to be distributed between the dependants and/or the nominees. The Board has a fairly wide discretion how to divide the free residue. That said, it does not mean that they may distribute it without reason. The discretion is to be exercised fairly and reasonably in an equitable manner. Such distribution may not necessarily be regarded by all beneficiaries as optimal. According to case law it would not be flawed merely because it is not necessarily the best distribution, as long as the Fund applies its mind to the matter having regard to all relevant information and acted rationally to arrive at a proper and lawful decision (*Ditshabe v Sanlam Marketers Retirement Fund & Another (2)*[2001] 10 BPLR2579(PFA)). Typically the free residue would first be split 50/50 between the two categories, being all the dependants (factual, future and other) on the one side and all the nominees on the other side.

There are many interesting examples in the Pension Funds Adjudicator cases regarding this aspect. However the clear message in terms of the Act as enforced by the Adjudicator and the High Court is that the nomination form is to take second seat to the factual dependency.

In fact in one case where the Board followed the nomination form to the letter with disregard to the factual dependency needs, the Adjudicator took the Board to task for not doing their job in terms of law but instead followed the easy way out. The Adjudicator set aside the distribution and ordered the Board to reconsider the matter, apply their minds and follow the law in making a fresh distribution. Ironically everyone was initially happy with the distribution in terms of the nomination form, hence the decision to give effect to it. Afterwards, one of the nominees got the wiser about the law in this regard and realised that she could have a better deal being a factual dependant as well as a nominee and then submitted a complaint with the Adjudicator.

Over the years a number of complaints have been submitted to the Adjudicator against the Fund about the nomination form not being followed. None of these complaints succeeded but were all dismissed. Suchlike complaints are still submitted and will in future continue because nominees find it difficult to accept the law in this regard because it does not feel right. The general feeling is, who does the legislator (government) think it is to decide how my death benefit shall be distributed. It's my money and I can decide who gets what. Although this approach is appreciated, it needs to be kept in mind that the ultimate goal of a death benefit in a pension fund is to provide for those who were factually dependent upon the deceased.

By law, the Fund must always act in the best interest of the member. However, once the member of a pension fund is no more there, his or her best interest is no more existing but is replaced by the best interest of the beneficiaries, with priority to the factually dependent beneficiaries. Through the years many a case was seen where, if the nomination forms were to be followed, it would have resulted in gross injustice towards the family of the deceased. In many instances the deceased did not update his/her nomination form and often younger children are not included in the nomination form as they were born after the completion of the nomination form.

Section 37C of the Act is a real headache for the retirement industry. A lot of resources, energy and effort go into the distribution of a death benefit in terms of section 37C. It leads to animosity towards the Fund when beneficiaries do not get what they want. The two communication officers of the Fund are constantly under fire and abuse by unsatisfied beneficiaries and are often accused for being biased and bribed by other beneficiaries if a beneficiary is not happy with his or her allocation.

For years the industry advocated for a revision of section 37C or at best the scrapping of it, to be replaced by a provision that the death benefit be paid to the deceased estate to be allocated in terms of the last will of the deceased or in terms of the law of intestate succession in the event of an intestate death. There is no indication that the position will change soon and until then the Fund has to follow the law.



“Section 37C of the Pension Funds Act regulates the benefits payable upon the death of a member of a retirement fund. Ultimately, Section 37C places the onus on a Fund’s Board in identifying and allocating these ‘death benefits.’”

- The Association for Savings and Investment South Africa (ASISA)



Nomination of Beneficiaries

Name Of Member:	
Date Of Birth:	
Pension Number:	
Municipality:	

- Name** your *spouse(s)* and *life partner(s)* you consider to be **your husband/wife**.
- Name** all *your children* irrespective of their ages.
- Name** any *other dependants*, for example a divorced husband/wife or a child from a previous marriage for whom you pay maintenance.
- Name** any *other person(s)* whom you maintain or whom you wish to be considered to share in your death benefits.
- State** the *percentage* you wish the persons to receive. Write "nil" in the "portion %" space if you wish a person(s) on your list to receive no benefit.
- Attach** certified *identity documents of the beneficiaries* and any *other relevant documents* e.g. trust deeds, a will, etc.

Name And Surname	Address	Contact Number	ID Number	Relationship	Portion %
				TOTAL	100%

Special requests:

The Fund is requested to take my wishes as set out herein into consideration when allocating my death benefits. I am aware that **the Fund is obliged to follow the provisions of the Pension Funds Act**, even if it is contrary to my wishes.

Signature _____
Date

Return to Sanlam Employee Benefits, Private Bag X14, Highveld Park, 0169
Contact Centre: Tel: (012) 683 3900
E-mail: mgfbeneficiary@sanlam.co.za

12.3 Tax On Pension Benefits

Long ago in the old days, government employees including municipal employees, did not pay one cent tax on their pension benefit. Those were the days! However this fairy tale did not last forever but ended abruptly on 28 February 1998. As from 1 March 1998 all government employees were included in the tax regime of pension benefits. However the savings which accumulated before this cut-off date are excluded from tax. There is a specific formula, referred to as formula C in the Income Tax Act, to be used to calculate the portion which is exempted from tax. This is applicable only to those members who became members of the Fund before 1 March 1998, in other words about 26 years and more ago. Members wishing to know more about how to calculate this exemption are welcome to contact the Fund. **When a member exits from the Fund for whatever reason, a tax directive is to be obtained by a pension fund from the South African Revenue Services (SARS) before payment can be made. SARS calculates the tax payable on the benefit and directs the pension fund to deduct such tax as well as any outstanding monies owing to SARS.**

In the **event of resignation and dismissal**, the tax scales are as follows:

Lump sum benefit	Lump sum benefit
R0 – R27 500	0%
R27 501 - R726 000	18% of taxable income above R27 500
R726 001 - R1 089 000	R125 730 + 27% of taxable income above R726 000
R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000

In the **event of retirement, death and redundancy**, the tax scales are as follows:

Taxable income	Rate of tax
R0 – R550 000	0% of taxable income
R550 001 - R770 000	18% of taxable income above R550 000
R770 001 – R1 155 000	R39 600 + 27% of taxable income above R770 000
R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000

As can be seen, the first R550 000 is tax free and thereafter incremental rates of 18%, 27% and 36% apply. The tax up to R1million rand is about 12% but thereafter it is rapidly increasing to the maximum of 36%. The tax in the event of early withdrawal such as resignation will be more because only R27 500 is tax free compared to the R550 000 tax in the event of retirement. The tax-free portion is allocated once in a lifetime, in other words if it has been depleted you may not claim it anymore. For example, if a person used R300 000 of the R550 000 with the first lump sum, the balance left is R250 000 and once this is used this relief is not available again.

12.4 Register for Tax

It is very important that members ensure that they are registered tax payer before electing to withdraw or retire from the Fund. If you are not registered as a tax payer, or if your tax affairs are not in order SARS will not provide a tax directive and your benefits from the Fund cannot be paid.




12.5 Member Administration

The member administration is outsourced to **Sanlam Employee Benefits (SEB)** a specialist benefits administrator registered in terms of the Pension Funds Act.

SEB is responsible for all administrative functions with reference to the receipt and processing of contributions, payment of benefits, updating of member information and the payment of death benefits to the beneficiaries of deceased members.

Members may direct their enquiries regarding administrative matters to SEB at:

 **Telephone** 0861 223 646 toll-free

 They can also be **visited** at West End Office Park Block D, 250 Hall Street, Centurion.




12.6 Complaints Procedure

In the event that a member may be dissatisfied with the service provided by the Fund Administrator or the Fund, such member may lodge a written complaint with the Fund in terms of section 15(3) of the Fund Rules. The contact particulars of the Fund are at the end of this Annual Report. If a member is not satisfied with the outcome of the complaint or did not receive a reply within 20 days, such member may lodge a written complaint with the **Pension Funds Adjudicator (PFA)**.

The contact details of the PFA are:

 **Email address:** enquiries@pfa.org.za

 **Tel no** (012) 346-1738, **Fax no** (086) 693 7472.

 **Address:** Riverwalk Office Park, 41 Matroosberg Road, Ashlea Gardens, Pretoria, 0081



12.7 Payment of contributions

As at the end of the 2023 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 2023 contributions have been paid.

It is the first time in a number of years that at the end of the financial year there is no outstanding contributions.

13. Industry update

13.1 Rationalisation of Municipal Retirement Funds

Members have been kept informed by means of various news flashes and member sessions about the developments regarding the legal action taken by the Fund and the Municipal Retirement Organization (MRO) against the Collective Agreement from the South African Local Government Bargaining Council (SALGBC).

As you were made aware in the news flashes 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. The Board of the Fund welcomed this judgment, as the Fund always acts in the best interest of our members. No accreditation is required for any fund to continue and at this stage there will be 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 MRO and its legal counsel is that Clause 8 of the Collective Agreement has no practical effect as the rest of the agreement, including the “accreditation” of the funds, was set aside by the court. Maintaining Clause 8 in its current form (with the various references to “accreditation”) is incompatible with the remainder of the judgment. The MRO’s legal counsel therefore applied for an interlocutory application in terms of the High Court’s Uniform Rule 42 to have the wording of the judgement changed to exclude any

reference to “accreditation” in Clause 8. The Court granted the requested leave to appeal, as they are of the view that a higher court, the Supreme Court of Appeal (SCA), should pronounce on the matter.

It is the view of the MRO and its legal counsel that municipalities cannot rely on the provisions of Clause 8 to prevent new employees from joining any of the funds (for example, those who refused “accreditation” before the judgment) in which the municipalities participate. To do so would constitute contempt, alternatively constructive contempt, of the order. As long as the employer is participating in a fund, the new employee may elect to join that fund. The employer can only cease participating in a fund in accordance with the rules of the specific fund and termination of participation may not be premised on the lack of “accreditation”. The MRO’s legal counsel informed the SALGBC via their attorney, Bowman Gilfillan, on 14 April 2023 that municipalities are not permitted to prevent new employees from joining funds in which the employer participates and that any attempt to do so would constitute contempt of the judgment handed down on 20 February 2023.

If you are aware of a municipality attempting to exclude funds, please let us know immediately to enable us to advise counsel and to take further legal steps in that regard. The members will be kept updated once the Supreme Court of Appeal has set a hearing date and the subsequent judgment.



*“The future
is not
something
to predict.
The future is
something
to build”*

- Franco Ongaro

13.2 Two-pot System

At last the speculation as to when this two-pot system will come into effect is something of the past. All indications are that implementation will be on 1 September 2024 to allow time for the legislation to be finalised, rule amendments to be processed and approved by the Financial Sector Conduct Authority (FSCA), SARS to ensure their systems are ready and to allow sufficient time for the administrators to develop the administration systems in time. If the rule amendment is not approved by the FSCA prior to 1 September 2024 the two-pot system withdrawals will be delayed until such time that the approval is received from the FSCA. The Fund can only draft the rule amendment once the legislation has been finalized to ensure that the rule amendment complies with legislation. Thus, it is critical for National Treasury to finalise the legislation as soon as possible.

The information already communicated in the past remains the same except for one change – the seed capital remains 10% of the members' fund credit, but the maximum of R25 000 increases to R30 000. Thus, if a member's fund credit is large enough and 10% thereof is R30 000 or more, then R30 000 will be transferred to the savings pot, which will be available for withdrawal from 1 September 2024. This withdrawal is voluntary and not compulsory. It is important to note that any withdrawal will be subject to tax at your marginal tax rate.

Members 55 years and older as at 1 March 2021, are exempted from the two-pot system and may still take their full benefit in cash at retirement.

The Fund's opinion remains that members who wish to exercise this early withdrawal option should consult with an experienced financial adviser before making any decisions related to their retirement savings, the power of compound interest must never be underestimated.

Surveys done in the past have indicated that most South Africans save only two to three times their annual income for retirement, this is significantly less than the required average 12 times annual income required to have an adequate income at retirement. By refraining from accessing the savings pot prematurely, they could potentially accumulate 12 times their annual salary. To reach this level of savings a member should have saved for at least 35 years' or more.

Just to recap the following is applicable to all the components:

- **Vested component:** The fund credit as at 31 August 2024 will be ring-fenced, which may still be taken in cash at retirement or resignation.
- **Savings component:** From 1 September 2024 one-third of members' contributions will be allocated to this pot. Members will be allowed to have access to this pot annually with a minimum withdrawal of R2 000, which will be taxed at marginal tax rates. When exiting the Fund, the balance may be taken in cash.
- **Retirement component:** From 1 September 2024 two-thirds of members' contributions will be allocated to this pot. In the case of resignation, the retirement component must be transferred to another retirement component or annuity, but may not be accessed before retirement. At retirement if value is less than R165 000 the full retirement component may be taken in cash.

Extremely important news to all members!

The administrator has indicated that development is in the process for **members to apply online via the administrator's website for the withdrawal of their savings pot. NO manual forms will be available or accepted for this annual withdrawal. Members must ensure that their contact details with the administrator is correct as each member who applies for this benefit will receive a pin number via SMS to continue with the online withdrawal transaction.**

If the member's contact details differ from the contact details on the administrator's system, the member will not be able to complete the withdrawal request. We need each and every member representative to assist the Fund in getting this message across to the members. The Fund's Communication Officers address this with every member session and it was also communicated in the October 2023 news flash available on the Fund's website.

It is important for members to take note that should they wish to withdraw from the savings component the withdrawal will be taxed at marginal rates and included in the member's annual taxable income. This could have an increased effect on members' current tax bracket, which could result in a member being taxed at a higher tax bracket when completing their annual tax returns, due to the higher annual income when the withdrawal is added to the annual salary.

Secondly if a member has any arrear tax payable to SARS and they opt for this annual withdrawal, SARS will recover the arrear tax from that amount, leaving the member with a much smaller amount than expected.

14. Contact MGF

Registered Office:

-  14 Bedfordview Office Park,
3 Riley Road, Bedfordview, 2007
-  PO Box X 1190, Bedfordview, 2008
-  Tel: (011) 450-1224
-  Website: www.mymgf.co.za

Fund Administrator:

-  Sanlam Employee Benefits (SEB)
West End Office Park Block D,
250 Hall Street, Centurion, 0157
-  Private Bag X14, Highveld Park, 0169
-  Tel: 0861 223 646 toll free
-  Website: www.retirementfundweb.co.za

Home Loans:

All enquiries about pension-backed housing loans must be directed to:

 **Standard Bank** at telephone number **0861 009 429**

or

 **First National Bank** at telephone number **0860 762 278**

15. A Final Word

*“Relationships feed on
credibility, honesty,
and consistency.”*

– Scott Borchetta

Indemnity Statement

The MGF does not accept liability for any loss, damage or expense that may be incurred as a direct result or consequence of reliance upon the information in this document. If there is any conflict between the information in this document and the actual Fund Rules, the Fund Rules will prevail.

MGF

wealth creator of choice



SERVICE EXCELLENCE

*“The sustainability of a retirement fund requires a knowledgeable and well-equipped board, supporting sub-committees and world-class service providers. As we celebrate our 30th birthday in 2024 we look forward to the next 30 years of **service excellence**, putting our members first in everything we do.”*

MGF

