NFMW Integrated Report

1 July 2021 to 30 June 2022

25 Years
National Fund for Municipal Workers
Benchmark of Excellence
1997 – 2022
Fund of choice!

Celebrating 25 years!

Fund of choice!

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About us

The National Fund for Municipal Workers was established in 1997 as the South African Association of Municipal Employees (SAAME) Retirement Fund. The name of the Fund changed to the Independent Municipal and Allied Trade Union (IMATU) Retirement Fund and was registered with the Financial Sector Conduct Authority (FSCA), the then Financial Services Board, in 1998. In July 2001, the Fund became independent of any other organisation and its name changed to the **National Fund for Municipal Workers (NFMW)**, as it is known today.

The NFMW is registered in terms of the Pension Funds Act (No 24 of 1956) under the auspices of the Financial Sector Conduct Authority with registration number 12/8/35064. The NFMW is also approved in terms the Income Tax Act (No 58 of 1962).

The National Fund for Municipal Workers is a defined contribution fund that provides retirement and insured death/disability benefits to its members. The Fund is jointly administered by Sanlam, as the section 13B administration license holder, with the staff of the Fund managing the member servicing function.

Currently, the Fund has a membership base of more than **55 000** Local Government employees and councillors throughout South Africa and **R23,7 billion** (excluding the Fund's bank account balance) of assets under management.

The National Fund for Municipal Workers is managed from its head office in Montana, Pretoria and has a regional member servicing walk-in centre in Cape Town.

The NFMW actively engages with its members via a multi-channel approach:

- Face-to-face interaction in the members' places of work by a dedicated team of Communication Consultants.
- SMS and e-mail communication.
- Social media (Facebook, WhatsApp, Telegram, and LinkedIn).
- An interactive website with a reverse billing facility (visitors can access our website free of charge).
- Newsletters and the annual report.
- Call-centre.

25 Years
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Our vision

To positively impact the lives of our members, their families and their communities, today and tomorrow.

Our mission

To be a trusted custodian who grows members' investments and keeps members informed along the way to secure retirement.

Our values

- Excellence
- Professionalism
- Integrity
- Benevolence
- Responsibility

More satisfied members, beyond today for tommorow

A joint statement by the Chairperson and the Principal Executive Officer on the year in review

C C K Antonio

L Ndawana

In 2022, the National Fund for Municipal Workers is celebrating its 25th anniversary. This is a key milestone for us. We will, in this report, take the opportunity to reflect on the journey and share with you some of the reflection points and history nuggets.

Wherever you see this symbol, take note of the 25th-year anniversary reflection or historical fact. In addition to this we have also quoted testimonials received from members. We are excited to chronicle and share with you some aspects of our 25-year journey to date. In some areas, more or better could have been achieved in the early stages of the 25 years of existence of the Fund. However, over the last five years, the Fund has transformed tremendously, with the last two years defining a new path for the Fund, partnering with our stakeholders to provide practical solutions and value to our members and the ecosystem. We are now positioned to co-create and share value with all our stakeholders, with our members at the centre of our operating model. The medium to long-term outlook remains positive, albeit coming from a low two-year period, 2020 – 2021, given the devastating economic effects of COVID-19.

Economic environment and investments

The economic environment and investment landscape for the year under review were represented by two contrasting and distinctive halves. During the first six months of the financial year (July 2021 – Dec 2021), we saw stable markets with good returns as economies still recovered from post-COVID-19 lockdowns resulting in higher confidence and investor sentiment levels. However, as we moved towards the end of 2021, global inflation and the fear of rising interest rates started to surface. It became very clear that inflation, this time around, would not be temporary but more permanent.

Central banks responded to the inflationary pressures by increasing interest rates, which will ultimately lead to higher debt repayment costs, a slowdown in economic growth, lower company profits, less money in consumers' pockets and eventually lower prices for goods and services. Globally (and in South Africa), interest rates started to increase late in 2021, and central banks are still increasing interest rates (at the time of writing) to try to control the rising inflation figures. We saw unprecedented levels of inflation, with UK's inflation rising to 10.1% in September 2022. This news did not bode well for both equity and bonds markets - globally and locally.

Then, in late February 2022, the Russian/Ukraine conflict ensued. This caused energy (fuel and natural gas) prices together with food prices (linked to grain production and fertilisers) to skyrocket. Investors once again had to cope with extreme volatility as the uncertainty of positive economic outcomes over the short to medium term increased substantially.

Throughout this turmoil and volatility in 2022, the NFMW investment portfolios showed their resilience to protect members against severe capital losses and large negative drawdowns (which materialised in equity and bond markets in many parts of the world). All NFMW portfolios' long-term track records remained intact and well ahead of inflation. The diversification (various types of asset classes and financial products) within the portfolios meant that not all the Fund's assets were exposed to the volatile environment and therefore safeguarded members' fund values against the negativity that followed the rising interest rates environment. The NFMW's portfolio construction and diversification strategy manifested itself through its recently adopted impact and sustainable development programme, which remained a priority for the Fund throughout the financial year.

NFMW and its Board pride themselves on being responsible custodians of members' assets and keep engaging with its members on investment and other matters that affect members' well-being, as encapsulated in our mission of being "... a trusted custodian who grows members' investments and keeps members informed along the way to secure retirement". This is done by taking account of sustainable and responsible investments, which provide not only good returns at acceptable levels of risk, but also promote economic inclusivity, create jobs, preserve the environment, and contribute towards many other high-impact and developmental areas throughout our society, giving effect to our vision to "positively impact the lives of our members, their families and their communities, today and tomorrow".

Although investors experienced highly volatile equity and bond markets together with many uncertainties during the last financial year, we remain confident that our investment prospects and portfolio positioning will deliver excellent returns and benefits for our members over the medium to long term. As always, the economic cycle's wheel will turn again and bring with it more certainty and favourable outcomes for members in the coming years.

NFMW: Anew!

You will recall that in our previous year's annual feedback, we reported that the Fund had adopted an organisational strategy that repurposed, refocused and redefined the Fund. This was meant to strategically position the NFMW not only as the best "Fund of choice" retirement funding vehicle in the Local Government space, but also as a provider of a compelling and strong value proposition to its members and to be a responsible corporate citizen. We report to our stakeholders that we are more than 90% through in implementing the strategy. This saw us introducing holistic financial advice and counselling to members, psycho-social support to members and beneficiaries, an impact investing programme, employee and member wellness programmes and active engagement with our stakeholders. The Fund has also improved its efficiency levels by streamlining and strengthening its processes, resources, systems and governance mechanisms thereby creating unique capabilities. We are also paying close attention to leadership development at various levels, starting from the Board of Trustees and cascading through the entire organisation. We acknowledge that "the single biggest way to impact an organization is to focus on leadership development" (**John Maxwell**). These are all ongoing programmes, which are detailed further in this report.

We continue to be innovative, agile, flexible and anticipate the future needs of our members and stakeholders so that we can co-create the most appropriate solutions and value proposition for their needs.

We won several industry awards in the past, including one in 2021 when the Institute of Retirement Funds Africa recognised the NFMW as the overall winner (best in class award) for governance across retirement funds in South Africa. In 2022 (and going forward), we made a conscious decision not to participate in industry awards programmes and competitions. We decided that we needed to focus on delivering our strategy and set a benchmark for ourselves. Our focus is now on delivering the benchmarks and standards we have set for ourselves. The members and society will receive the "award" for our efforts.

Regulatory environment

We have seen some proposed legislation to address the issue of members accessing a portion of their retirement savings. The draft legislation made a number of proposals of which the implementation provided some significant challenges to the parties involved. We expect further refinement in the subsequent draft bills. At the moment, the matter has been deferred to 1 March 2024. We continue to monitor the developments and will keep you informed. As a Fund, we fully support the Government's efforts to provide financial relief to members of retirement funds at times of crisis whilst promoting preservation of benefits for retirement. However, we hope that the manner in which the idea will be implemented does not negatively affect capital and investment markets by shifting huge amounts of capital held by retirement funds from productive sectors to consumption. This may have the unintended effect of misaligning with other important elements of the economy such as employment, funding of infrastructure and other big developmental projects and economic development.

The matter regarding rationalisation of retirement funds in the Local Government sector to give employees the freedom to choose a retirement fund that they want to belong to, the so-called window period, is before the courts. Some retirement funds objected, at the courts, to the South African Local Government Bargaining Council Retirement Funds Agreement which provided for freedom of such choice/movements and the governance criteria that retirement funds had to comply with for accreditation.

We still await the ruling by the courts on the matter. We hope that the courts will rule such that employees of municipalities are not compelled to remain in particular retirement funds against their will. The NFMW believes in the constitutional right of freedom of association and that retirement funds must provide a fundamental purpose (value) for which members should choose to remain in their current fund or for which new employees should choose to belong to a particular retirement fund.

Acknowledgements and vote of thanks.

Lastly but importantly, we want to acknowledge NFMW-employees for their resilience during a period of immense change; working through the transition but still holding the fort to deliver the quality of service and meet turnaround times that we committed to our members. Thank you to all NFMW personnel; an official event would be held to recognise some employees who were outstanding over the period under review.

We want to acknowledge the Board of Trustees for the amazing work they have done over the period under review; many decisions, resolutions and judgement calls needed to be made as we were implementing our organisational strategy. The Board's foresight, dedication and guidance have yielded the desired results; thank you to all the Board members for providing direction of flow to the organisation. To the Office of Principal Executive Officer, we appreciate the leadership you have shown at both organisational and industry levels. Thank you for bearing the torch.

To all former employees, Board members and the immediate past Principal Officer, thank you for taking the Fund to the level where we took it over. We acknowledge all your achievements and the work you did during your tenure, given the circumstances at the time. We look forward to the next 25 years of service and making a difference to our members and society.

> *" Keep on doing your best and giving us annual reports. Growing our monies as fast as possible. I'm glad to be under your wings. "*

Thank you to all the municipalities who have been diligent in paying us their employees' contributions and providing supporting information. We thank you for working with us to secure the future of your employees, who are also our members.

To our members, thank you for your support; we are in existence to serve you. Please take full advantage of our offering to you. To those who would want to join us, please be patient whilst the court process is completed so that you can be free to join the Fund of Choice in Local Government. We are hopeful that justice will eventually prevail, albeit taking time.

To all our stakeholders, thank you for your continued support.

We wish you all the best for the following year and years to come.

Enjoy the holiday break and be safe.

Messrs. CCK Antonio and L Ndawana

CELEBRATING 25 YEARS OF SERVICE TO OUR MEMBERS

Where our journey started

July 1987
Industrial Council for Local Government Undertaking promulgates the establishment of the Provident Fund for Local Authorities (2%-fund).

June 1997
Industrial Council for Local Government Undertaking promulgates the establishment of the SAAME Retirement Fund (amendment of the Provident Fund for Local Authorities).

March 1998
Imatu Retirement Fund registered with the FSB (name changed from SAAME Retirement Fund).

November 2000
NFMW became independent and changed its name to National Fund for Municipal Workers (registration of name change with FSCA in July 2001).

How we have grown

Overall increase of 156% in assets and 48% in membership since 2007.

	2007	2011	2020	2022
Membership	26405	29 579	51 510	55 000
ASSETS	R3.7 billion	R4.5 billion	R18.8 billion	R23.7 billion

NFMW is the biggest Fund in Local Government by membership, and our asset base continues to grow exponentially.

Journey towards strengthening our value proposition to members

2010
Life-stage investment model introduced.

2014
Implementation of NFMW annuity products.

2018
Introduction of add-on benefits for members (SANLAM FAMILY FUNERAL COVER, KGATSO FUNERAL COVER, ABSA ADD-ON BENEFIT).

Reduction in risk-cover cost on all categories and increase in funeral cover benefit.

2020
Implementation of the phasing-in approach for life-stage switches.

2021
Implementation of impact investing.

2022
Holistic financial planning, advice and retirement benefit counselling to all members.

Introduced the wellness support programme to assist members and their families with psycho-social issues and health challenges.

Progression of communication channels

Various communication initiatives were introduced to enhance the service delivery to members with multiple communication channels for greater reach and to accommodate the different generations. These initiatives were recognised with the fund receiving numerous best practices industry awards for overall communication strategy and stakeholder communication and education.

2016 | 2017

- Revamp of Fund's website and change of domain name.
- Monthly electronic newsletters.
- Educational videos.
- SMS-notifications.
- Printed newsletters.
- Annual Report (printed and electronic distribution).
- Benefit material: Information booklets and posters.

2018 | 2019

- Social media platforms: Facebook and LinkedIn.
- Employer training and manuals.
- Financial education campaigns.
- Mobile application.
- YouTube channel.

2020 | 2021

- Webinars: pre-recorded and uploaded on all platforms amidst COVID.
- Educational videos on reform changes and financial education.
- WhatsApp and Telegram for two-way communication.
- Remodeled and updated the Fund's website with a reverse billing facility and a CHATBOT.

2022

- Call centre.
- Toll free number.
- USSD service.
- Short code.
- WhatsApp BOT.
- QR codes.

Key Milestones

2016

NPFMW s14 transfer to NFMW.

Self-administration (Sanlam 13B-licence).

2018

2018 IRFA Overall winner communication strategy.

2019

Launch of NFMW investment transformation programme.

IRFA WINNER
Financial management and reporting, governance, investment practices, and a Gold Standard-award.

2020

More than 90% of the Fund's assets managed and invested through transformed investment managers with a B-BBEE level of 2 and above.

R124 million paid in risk scheme profits since the introduction in 2012.

Remained fully operational during the COVID-19 lockdowns.

IRFA WINNER
Best in class – Investment practices, Best in class – Governance, Best practices in transformation, Best practices in financial management and reporting and Best practices in stakeholder engagement and education.

2021

Adoption of NFMW business and organisational strategy.

A new organisation emerges.

Launch of impact investing programme.

IRFA WINNER
Overall winner - Governance, Best practices - Investments and Best practices in stakeholder engagement and education.

2022

Appointment of INfund and Portfolium for member individual financial counselling and advice.

Move to self-insurance resulting in the Fund saving 35% in premiums from the previous insured arrangement.

100% increase in assets under management from R12 billion in 2016 to R24 billion in 2022

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Key highlights for the year in review!

POSITIVE GROWTH

R23.7 BILLION IN ASSETS

Assets increased from R22.95 billion to R23.70 billion (Page 92).

POSITIVE RETURNS

Declared on all the investment portfolios (Page 101).

IMPROVED VALUE PROPOSITION

HOLISTIC MEMBER WELLNESS

Introduced holistic personal financial planning and advice for all members (retirement planning, investment planning, estate planning and tax planning) (Page 53).

Introduced the wellness support programme to assist members and their families with psycho-social issues and health challenges. (Page 52).

COST SAVING

35% SAVINGS IN PREMIUMS

From the previous insured arrangement as a result of the move to self-insurance (page 52).

0.5 % ADMINISTRATION COST

Remains the lowest in the industry.

IMPACTING LIVES

LAUNCH OF THE

IMPACT INVESTING PROGRAMME

(page 104).

FUND MANAGEMENT & GOVERNANCE

Board of Trustees

The Fund is managed by a 12-member Board of Trustees, elected and appointed in terms of the Rules of the Fund to direct, control and oversee the operations of the Fund as per the applicable legislation and the provisions of the Fund Rules. Ten trustees are elected from various provinces and/or regions of the country according to membership representation from these provinces/regions and one trustee is appointed by the South African Local Government Association (SALGA), with the Principal Executive Officer being the 12th Trustee.

The Board of Trustees is charged with governance of the Fund and the legislated fiduciary responsibility for the Fund rests with the Board, which has constituted four permanent committees to give effect to its strategic direction and to ensure that effective oversight and monitoring are achieved.

The Board has delegated some of its functions and authority to the following committees:

- Executive Committee
- Investment Committee
- Legal Committee
- Communications and Stakeholder Management Committee.

The Board of Trustees and the respective committees meet regularly to conduct the business of the Fund and to give effect to each committee's specific duties and responsibilities.

March 2001

Establishment of committee system of Board of Trustees

Board of Trustees for the year under review

Mr C C K Antonio

Chairperson of Board of Trustees

Executive Committee

Mr L Geldenhuys

Chairperson of Investment Committee

Executive Committee

Ms M C Makgalemele

Chairperson of Communications and Stakeholder Management Committee

Executive Committee

Mr N J Nkuna

Chairperson of Legal Committee

Executive Committee

Mr P R Nolutshungu

Executive Committee and SALGA-appointed

Executive Committee

Mr E A Schutte

Investment Committee

Mr N C Cindi

Communications and Stakeholder Management Committee

Mr L Mphuthi

Investment Committee

Mr J M Dodo

Communications and Stakeholder Management Committee

Mr L R Nani

Legal Committee

Mr S J Mpembe

Legal Committee

Mr L Ndawana

Principal Executive Officer

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Term of Office:

The term of office of the members of the Board of Trustees is five years (in terms of rule 12.3.1), but the terms of office are staggered to provide for continuity regardless of the outcome of the election.

The terms of office of the following Board members commenced on 1 May 2018 and will end on 30 April 2023. These positions will be filled through postal ballot elections.	The terms of office of the following Board members commenced on 1 November 2020 and their term of office will end on 31 October 2025:
• Mr C C K Antonio • Mr L Geldenhuys • Mr N J Nkuna	• Ms M C Makgalemele • Mr L Mphuthi • Mr E A Schutte • Mr N C Cindi • Mr L R Nani • Mr J M Dodo • Mr S J Mpembe

When a Board member's term of office expires, he/she is eligible for re-election, competing with other members of the Fund who would be nominated AND qualify in terms of the election criteria as set in the RULES and POLICIES of the Fund.

Rule 12.2.4 of the Rules of the Fund states that "The process to elect TRUSTEES into office may be advanced or postponed, as the case may be, for a maximum of two years, if the BOARD OF TRUSTEES are of the opinion that such advancement or postponement would be to the benefit of, and in the best interests of, the MEMBERS of the FUND. The effect of the advancement or postponement of the elections is to limit or extend, respectively, the term of office of TRUSTEES."

> *" NFMW is the best fund compared to other funds, they value us as members, inform us about the recent developments and also being part of their 25 years of celebration makes me feel that my money is safe with them; they have been in the industry for long. "*

Synopsis of Board decisions, actions and oversight activities for the year under review

- Successfully and timeously implemented the Business and Operational Strategy as adopted in March 2021.
- Approved the concept of self-insurance of risk benefits and implemented it with effect from 1 July 2022.
- Conducted a Board of Trustee skills audit in order to design a customised Board of Trustee development programme, facilitated by an external expert for independence (as per the Business and Operational Strategy).
- Reviewed operational needs of the organisation and provided the required resources in order to adequately capacitate the organisation.
- Successfully implemented readiness plan for SALGBC accreditation and Freedom of Association exercise.
- Approved/reviewed/amended the following policies:
    - Transformation policy
    - Investment policy and strategy document
    - HR-policy
    - Communication policy and strategy
    - Terms of reference of committees
    - Procurement policy
    - Risk policy and charter
    - POPIA policy
    - Conflict of interest policy
- Board of Trustees attended:
    - IRFA-conference
    - PLA-conference (Legal Committee)
    - IMPSA-conference (CSMC)
    - Batseta-conference

- Took up membership with Transformation Action Forum (TAF) as it aligns with the NFMW's transformation objective and interests.
- Four Board of Trustee members successfully completed the Batseta trustee learning programme.
- The Office of the Principal Executive Officer and the Board continuously monitored developments on Treasury's intention to allow early access to retirement savings.
- Appointed INfund and Portfolium to provide holistic financial planning, advice and benefit counselling to members.
- Created an impact investing framework and is now in the process of implementing the impact investing programme emanating from the adopted framework.
- Made great strides ahead of schedule on the investment transformation programme.
- Approved valuation report as on 30 June 2021 for submission to the FSCA.
- In June 2022, the Fund had the pleasure of having the Regulator attend its Board meeting as an observer. The Board welcomed the attendance of its Board meeting by FSCA.
- The Fund voluntarily completed its B-BBEE scorecard to measure transformation and ensure fair and equitable treatment of suppliers and employees.

Meetings and meeting attendance for the year under review

Overall attendance of Board and Committee meetings stood at approximately 92%. This demonstrates the commitment by the Board of Trustees and the Office of the Principal Officer to execute their fiduciary duties towards the members and the Fund. All the meetings held, had the required number of trustees in attendance to constitute a quorum, as per the Rules of the Fund and the terms of reference for the respective committees.

Meeting	Board of Trustees	Executive Committee	Communications Committee	Investment Committee	Legal Committee	Total number of meetings
Meetings held in 2021/2022	15 - 17/09/2021 25-16/11/2021 16-17/03/2022 13-15/06/2022	28/07/2021 01/09/2021 27/10/2021 01/12/2021 27/01/2022 03/03/2022 22/04/2022 30/05/2022	08/07/2021 12/08/2021 30/09/2021 07/12/2021 17/02/2022 11/05/2022 28/06/2022	25/08/2021 12/10/2021 08/12/2021 01/03/2022 06-08/04/2022 29/06/2022	07/07/2021 11/08/2021 29/09/2021 29/10/2021 19/12/2021 02/03/2022 21/04/2021 31/05/2021	
Number of meetings	4	8	7	6	8	33
Attendees						**Total meetings attended in 2021/2022**
C C K Antonio	4	8	7	6	8	33
N C Cindi	3		3			6
J M Dodo	4		7			11
L Geldenhuys	4	8		5		17
S J Mpembe	4				7	11
L Mphuthi	4			6		10
L Nani	4				7	11
M C Makgalemele	4	8	7			19
N J Nkuna	4	7			8	19
P R Nolutshungu	4	4		3		11
E A Schutte	4			5		9
L Ndawana (Principal Executive Officer)	4	8	7	6	8	33
G T Kgosi (Deputy Principal Executive Officer)	4	8	7	4	8	31

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The Office of the Principal Executive Officer

Mr L Ndawana

Principal Executive Officer

Ms Tebogo Kgosi

Deputy Principal Executive Officer

The Fund's compliance function rests with the Principal Executive Officer (PEO) and the PEO is charged with statutory functions regarding the management of the Fund. He works with the Board to provide direction and ensure compliance on the part of the Fund. The Principal Executive Officer is also the Executive who is charged with the execution of Board decisions, working with the staff of the Fund and appointed service providers. As an Executive of the Fund, the Principal Officer is central to the governance mechanisms and structures of the Fund, serving in all committees of the Board and in charge of the execution of strategy and guiding the Fund/organisation, in the capacity of the Chief Executive Officer.

The Deputy Principal Executive Officer (DPEO) forms an integral part of the Fund's functioning, attending and participating at all Board and Committee meetings, guiding the Board and the Committees in relation to their mandates. The DPEO also functions as the Executive responsible for operations, acting in the same capacity as a Chief Operations Officer.

Chairpersons and the Office of the Principal Executive Officer since 2001

The following individuals have served as Chairpersons and Principal Executive Officers of the Fund in the past:

Chairperson of the Board of Trustees	Principal Executive Officers and Deputy Principal Executive Officers
• Mr R S Steyn (served from March 2001 to November 2008) • Mr R J Field (served from November 2008 to February 2018) • Mr C C K Antonio (current Chairperson, elected February 2018)	• Mr S L Samons (Principal Executive Officer - November 2007 to May 2020) • Mr L Ndawana (Deputy Principal Executive Officer - September 2017 to July 2020) • Mr L Ndawana (Principal Executive Officer from 2020 to date) • Ms G T Kgosi (Deputy Principal Executive Officer from May 2021 to date)

GOVERNANCE

Governance

As an organisation, the National Fund for Municipal Workers remains committed to maintaining the highest governance standards. The Fund recognises good governance as an important aspect of an efficient retirement fund system, enhancing investment performance and ensuring benefit security. The Fund utilises governance as a navigation tool that assists in steering the Fund in the right direction. Governance is a theme that flows through all the Fund's activities and we believe that it aids members to achieve their retirement outcomes. Board members are bound to act in the interests of the Fund and have a fiduciary duty to members of the Fund. The NFMW Board is tasked, in terms of the Pension Funds Act and the Rules of the Fund, to direct, control and oversee the Fund's operations in accordance with all applicable laws and the rules. It fulfils two key roles: strategic decision-making and oversight, essentially defining the direction of travel.

Transparency and accountability are at the core of the Board's good corporate governance and are created by the various policies/practices adopted and implemented in the management of the fund.

The Board's ethical and effective leadership is exemplified by integrity, competence, responsibility, accountability, fairness and transparency. These are the characteristics which Board members exemplify and are continuously cultivating as individuals and as a collective.

The Office of the Principal Executive Officer monitors and reports to the Board on all risk, governance and compliance-related matters. The Principal Officer and key personnel of the appointed service providers participate at various forums where industry standards are set and reviewed/discussed and are professional members of the relevant industry bodies. Our Fund's governance mechanisms i.e., our systems, processes and procedures are effective such that:

- The Board approved the Fund's annual financial statements for the year 1 July 2021 to 30 June 2022 on 24 November 2022 and same was submitted to the FSCA in December 2022 (within the prescribed time frame of six months after year-end).
- The Actuarial Valuation as at 30 June 2021 confirmed that the Fund was financially sound at a funding ratio of 100%.
- The valuation was conducted, and the report was submitted to the FSCA within the prescribed time frame. The law requires that retirement funds conduct actuarial valuations once in three years, but the Fund performs an actuarial valuation every year to ensure strict monitoring of costs, an annual review of benefits and to consider recommendations from the Fund's valuator (actuary).
- The Board committees ended the financial year within the budgets allocated to them at the beginning of the financial year. The Board and committee expenses were carefully monitored during the financial year.
- The Board and Committee meetings proceeded as scheduled. Four Board meetings were held for the period under review.
- The Board reviews governance policies annually or as and when required.

NFMW service providers

To assist the trustees with the management and control of the Fund, the following appointments were in place for the year under review:

SANLAM

Administrator: Back office

Employee Benefits Studio

Regulatory, legal, and governance matters

Alexander Forbes (Gerda Grobler)

Actuarial services

Mosaic

Asset consultants and investment administrator

OMT

IT-support

Deloitte

Auditors

KULA Partners

Self-insurance administration and management services

Portfolium

Financial planning and advice

INfund Solutions

Retirement benefit counselling

Asset managers

See annual investment report

NFMW B-BBEE scorecard

In terms of the Financial Sector Codes of good practice to the Broad-Based Black Economic Empowerment Act, retirements funds are expected to voluntarily measure themselves against the targets set in these codes and awarded points. It is not mandatory for retirement funds to undertake this measurement. However, the NFMW does so due to the fact that it considers itself a critical role player in the country's economic transformation and that of the financial sector. The NFMW believes in being exemplary to its counterparts and service providers. The retirement funds scorecard has the following measurement elements upon which points are awarded:

Board and executive management participation

• Exercisable voting rights of black board members as a percentage of all board members.
• Exercisable voting rights of black female board members as a percentage of all board members.
• Principal Officer, executive and senior management.

Preferential procurement

• B-BBEE procurement spend from all empowering suppliers.
• B-BBEE procurement spend from empowering suppliers who are QSEs or EMEs.
• B-BBEE procurement spend from empowering suppliers who are at least 51% black-owned.
• B-BBEE procurement spend from empowering suppliers who are at least 30% black woman-owned.

The Board is pleased to report that the Fund measured itself against all the above elements.

Management Control Scorecard	Points	Target by June 2022	Achievement	Points awarded
Board and executive management participation	20			
Exercisable voting rights of black board members as a percentage of all board members	8	50%	83%	8.00
Exercisable voting rights of black female board members as a percentage of all board members	4	25%	8%	1.33
Principal Officer, executive and senior management	8	50%	70%	8.00

Preferential Procurement Scorecard	Points	Target by June 2022	Achievement	Points awarded
B-BBEE Procurement spend from all empowering suppliers	35	80%	127%	35.00
B-BBEE Procurement spend from empowering suppliers who are QSEs or EMEs	10	25%	30%	10.00
B-BBEE Procurement spend from empowering suppliers who are at least 51% black owned	25	25%	63%	25.00
B-BBEE Procurement spend from empowering suppliers who are at least 30% black woman owned	10	12.50%	14%	10.00

Score out of 100	97.33
Level Obtained	1

Overall, the Fund scored 97.33 points, which translates to making the Fund a B-BBEE level 1 contributor for the year under review.

This demonstrates to our members and stakeholders our commitment to transformation, transparency, and adherence to codes of good practice.

OPERATIONS

Operational overview

by the Deputy Principal Executive Officer

Ms GT Kgosi

Almost 18 months after the emergence of the COVID-19 pandemic, the world was still reeling from the impact the pandemic had on lives and livelihoods. The NFMW members, its employees, and the communities we serve were not spared from this aftermath. However, there has been some recovery, reflected in the claim's ratio returning to pre-COVID-19 levels. This resulted in the welcomed decrease in risk premiums that had escalated unprecedently in previous years. The unprecedented escalation of risk premiums and the relaxation of legislation presented the NFMW with the opportunity to finally implement the resolution previously taken to self-insure risk benefits. This decision will not only result in a cost-saving for the Fund but will also enable the Fund to reinvest any surpluses and enhance members' benefits, ultimately to the benefit of members' retirement savings.

The implementation of self-insurance incorporates the management of member wellness which is a critical requirement in the risk management of the scheme, in turn reducing the scheme's claims experience over time. This is a firm belief adopted by the Fund as part of its all-encompassing and holistic view of member wellness.

To augment the default regulations implemented by National Treasury, the NFMW has appointed INfund Solutions and Portfolium to assist members with Retirement Benefit Counselling upon joining the Fund, and during the course of their membership pre-and-post retirement, with the aim to enhance financial literacy and narrow the net replacement ratio gap – thereby adopting a cradle-to-grave approach.

Contributions

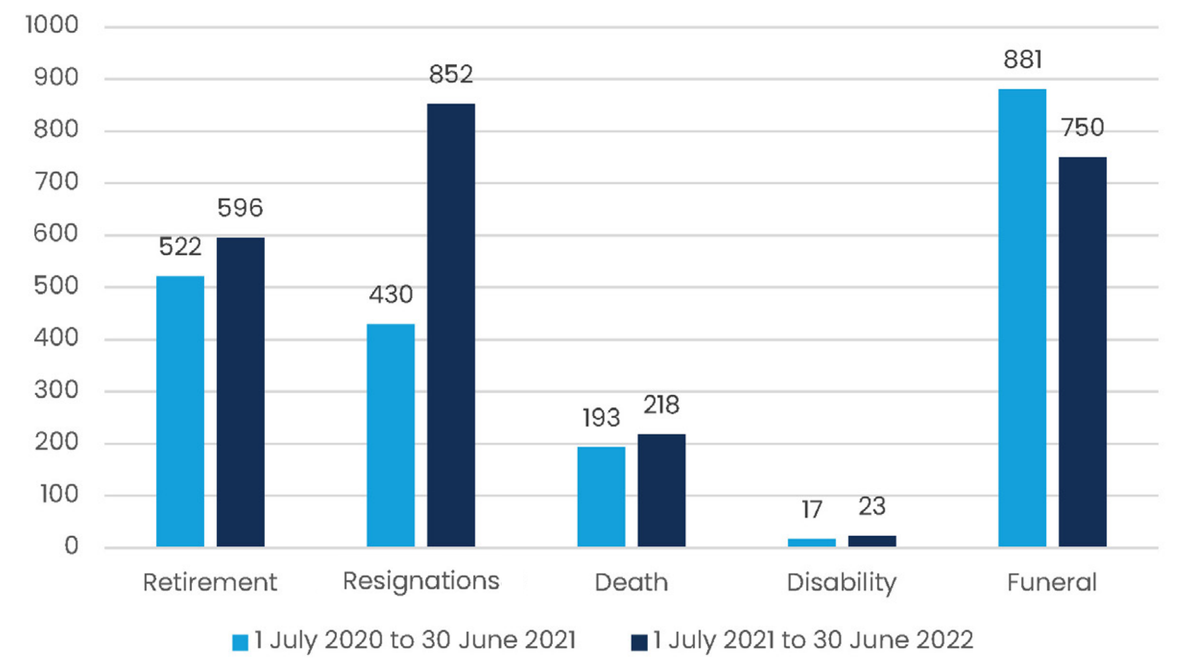
Most employers encountered some financial distress during the COVID-19 pandemic, which resulted in some employers applying for contribution holidays, a temporary reprieve granted by the Regulator. Out of 201 pay-points, there were only 11 incidents of non-compliance during the reporting period, representing an average monthly non-compliance rate of 5%.

The Fund strives for a zero percent non-compliance rate and follows the legislated process to enforce compliance. However, the Fund is mindful of the challenges unique to the sector and is working with key stakeholders for a lasting solution. We commend those who do and encourage our employers to continue paying contributions on behalf of their employees and our members to secure their retirement and ensure that they remain covered in the event of illness and/or death.

Member engagement remains one of our central pillars of superior service delivery. The Fund continued to enhance its communication omnichannel approach to ensure a fully integrated and seamless member experience. The Fund added communication platforms to enable greater reach to members, which include walk-ins, Communication Consultants, call-centre, interactive website and reverse billing digital solutions i.e., SMS, USSD, QR Code, WhatsApp, Website, Facebook, and LinkedIn. The Fund utilises this multi-pronged communication approach to keep members abreast of Fund and industry-related developments.

During the period under review, in comparison to the previous period, the Fund processed and finalised 596 retirement claims vs. 522, 852 resignation/withdrawal claims vs. 430, 218 death claims vs. 193, 23 disability claims vs. 17 and 750 funeral claims vs. 881, as depicted in the following graph.

Claims processed for the period under review



There was a spike in the number of resignations which may be attributed to the effects of the pandemic and the enhanced turn-around times of claims processing due to the expansion of resources.

Human capital

Excellence is one of the Fund's values, and the Fund is mindful that its strategic objectives of service excellence and sustainability highly depend on the quality of its human capital. Attracting high-calibre employees and unlocking their potential through relevant development programmes have therefore been prioritised as an ongoing pillar for the Fund. We encourage psychological safety, which provides employees with better learning, innovation, more efficient problem-solving skills, higher creativity levels, higher productivity, and staff morale. We further adopted a clan culture that values team cohesion, participation, communication, is family-oriented, and nurturing to create a conducive work environment for employees to grow and thrive.

The initial approval of the rationalisation of retirement funds in the Local Government sector prompted the Fund to review and conduct an in-depth analysis of its resources, capability, capacity, and systems to support its growth objective as one of its strategic imperatives.

The outcome of the analysis revealed gaps that needed to be closed. Corrective measures were implemented to enhance efficiencies, which remain ongoing as we aim for higher member-centricity and service delivery levels.

Employee wellness

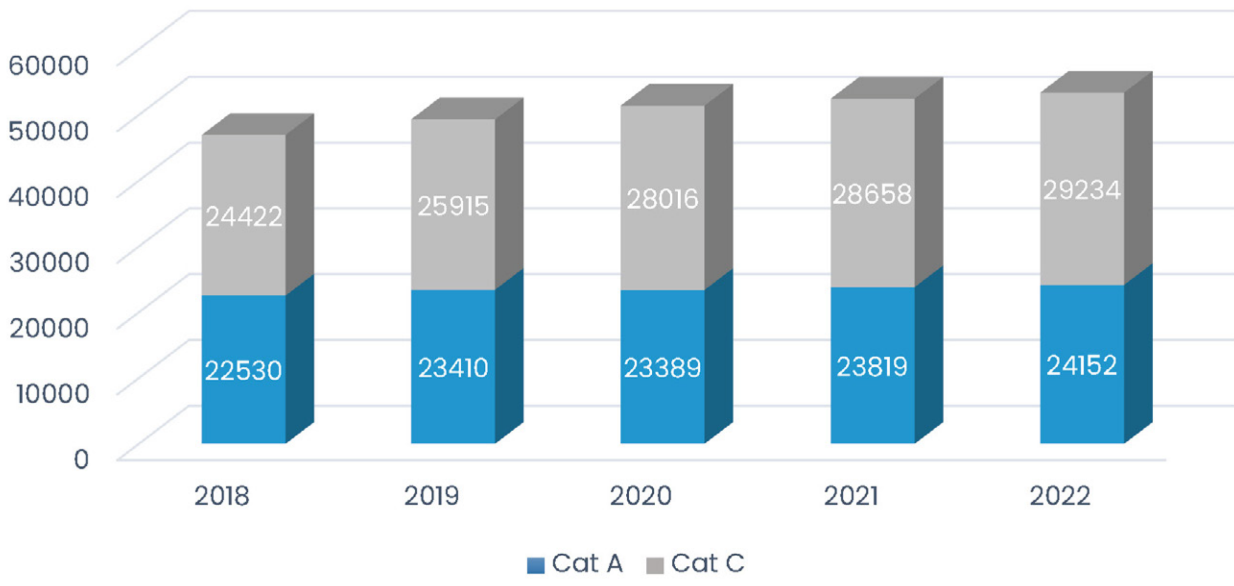
The impact of the COVID-19 pandemic challenged the Fund to reconsider the well-being of its employees with a different lens. Several measures were implemented to accommodate employees and provide a supportive work environment, including:

- Flexible working arrangements for our employees.
- Additional leave for COVID-19-related illness and family responsibilities.
- Introduction of an employee wellness programme to assist with psycho-social challenges.
- Provision of personal protective equipment at the NFMW premises.

Together with our members, our employees are our most valued assets, and their well-being remains our top priority!

Administrative feedback

Membership information



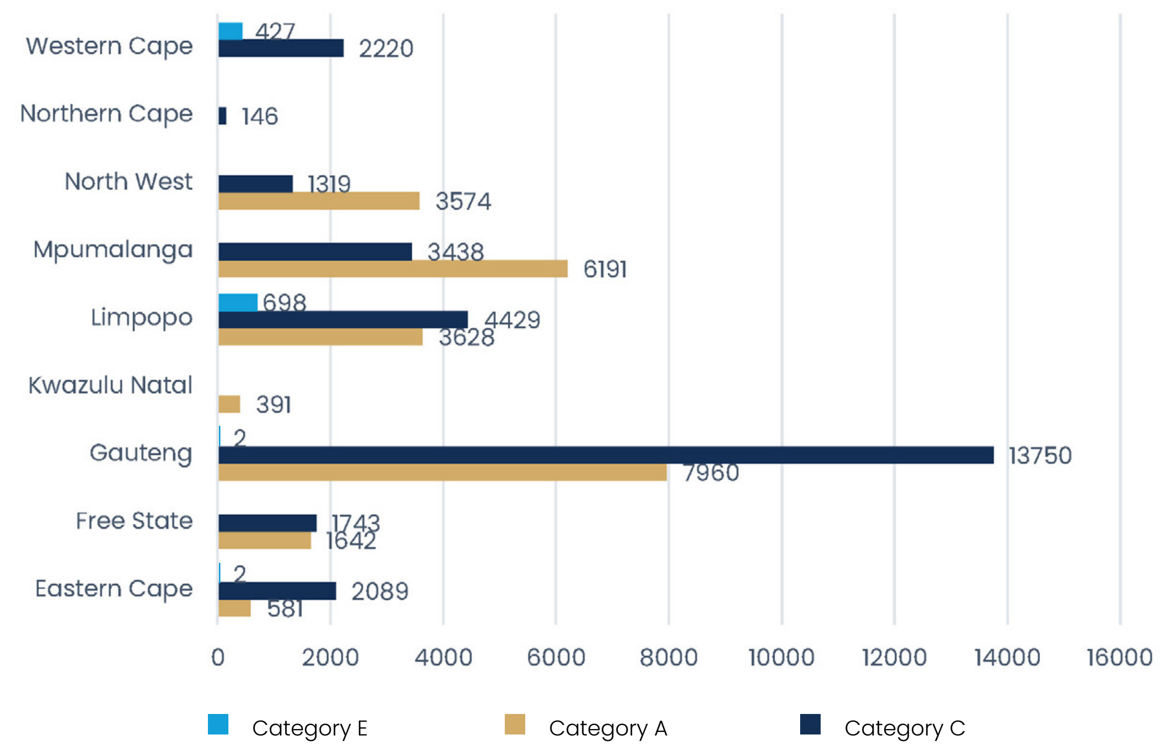
During the 2021/2022 financial year, the membership in Category A has increased to 24 152. The membership in Category C has increased to 29 234. The total number of active contributing members has increased from 46 952 to 53 386 since the 2018 financial year. This represents a 14% increase. Considering the current unemployment rate, the growth is pleasing. The total number of non-contributing members, including deferred and paid-up members, is 2 049.

" I have absolute peace of mind with the NFMW!! I have no worries whatsoever; I know that my hard-earned money is taken care of and that the NFMW has our utmost best interests at heart. Thank you NFMW, I am proud of all your dedicated employees!! Your service is top class!! "

Membership per province

The province with the highest membership is Gauteng with a total of 21 712.

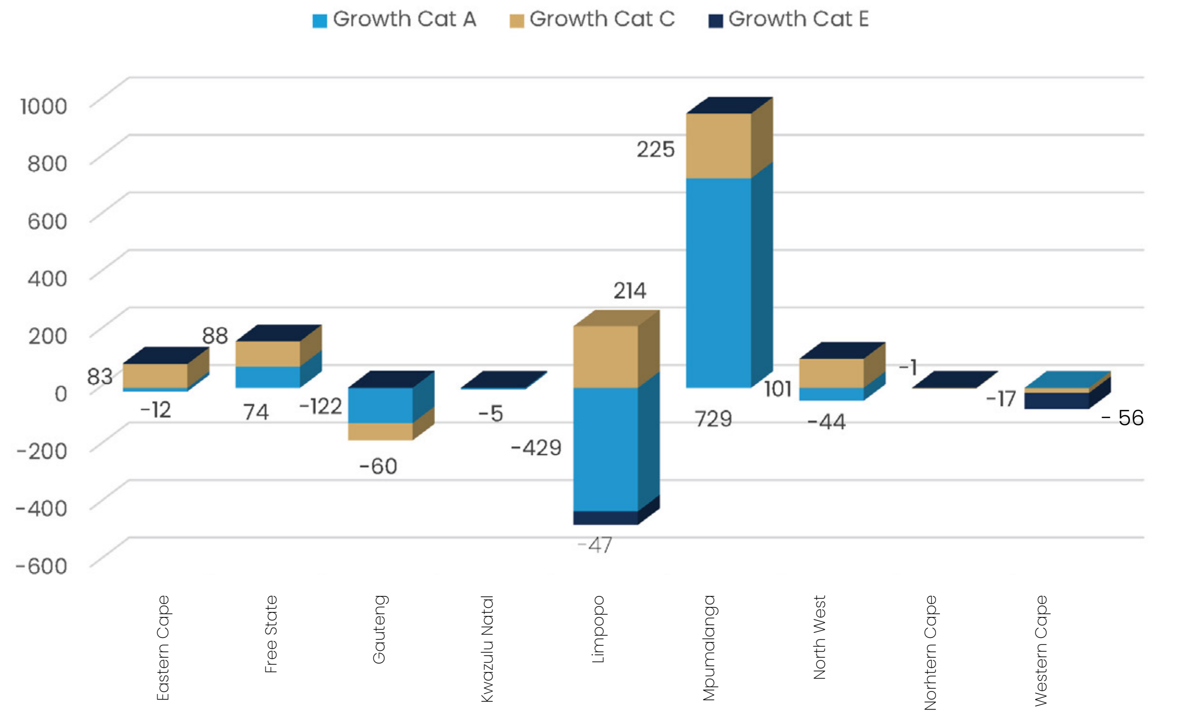
Membership per province



The province with the highest combined net growth in number of members is Mpumalanga, with 954 members.

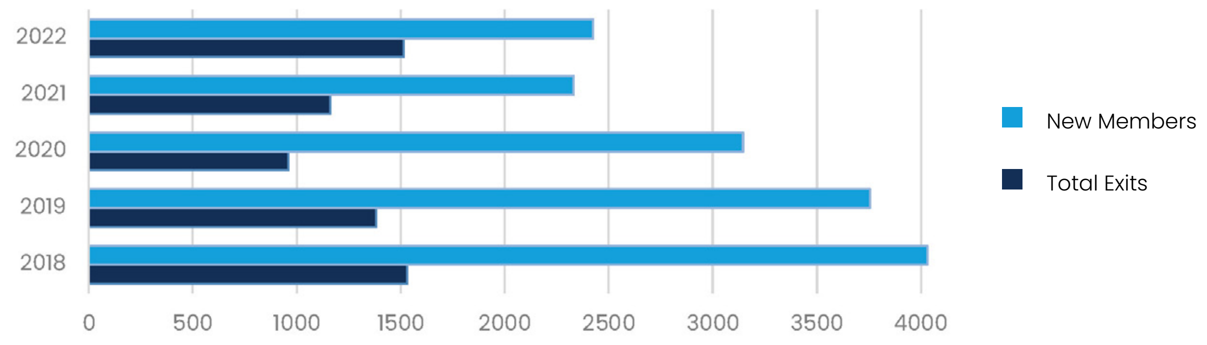
The graph below illustrates the growth per province, in number of members:

Growth per province



The following graph illustrates the number of exits vs. the number of new members gained per annum for the period 2018 to 2022:

Growth per province

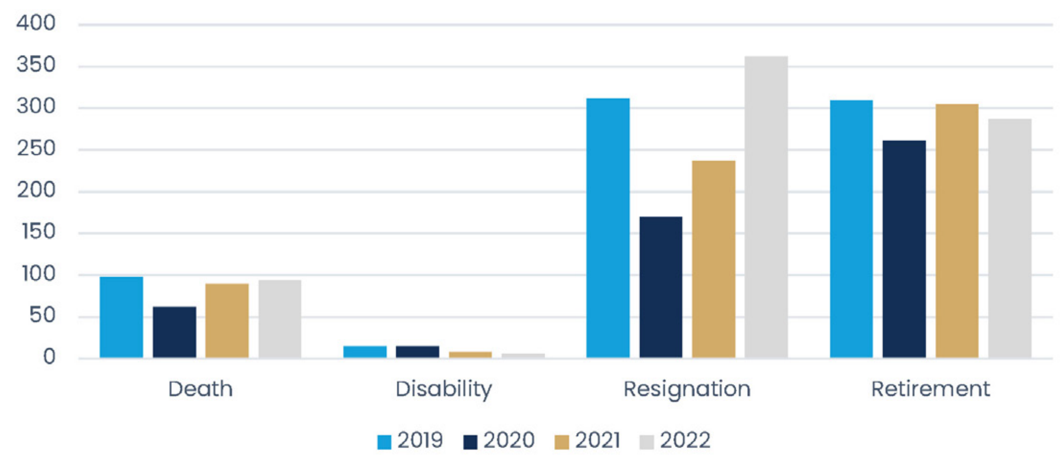


The number of exits per 100 new members during 2022, was 63 and was constantly exceeded by the number of new members over the different periods despite the ailing economy and its effect on the labour market.

Fund exits

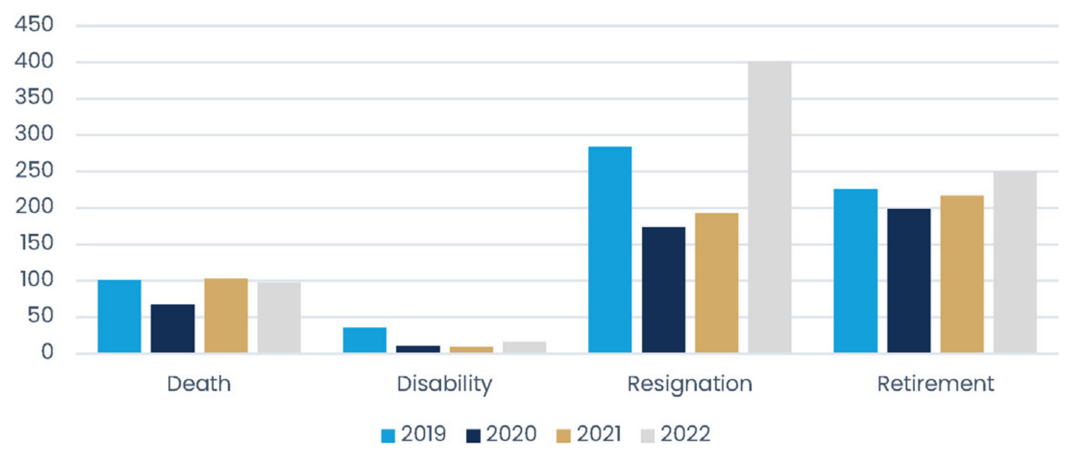
The following two graphs contain a comparison between the total number of paid exits per category, for the period 2019 to 2022 for Category A and Category C, respectively:

Category A: all exits



When compared with the 2021 financial year, the total number of exits in Category A has increased with 17% during the 2022 financial year.

Category C: all exits

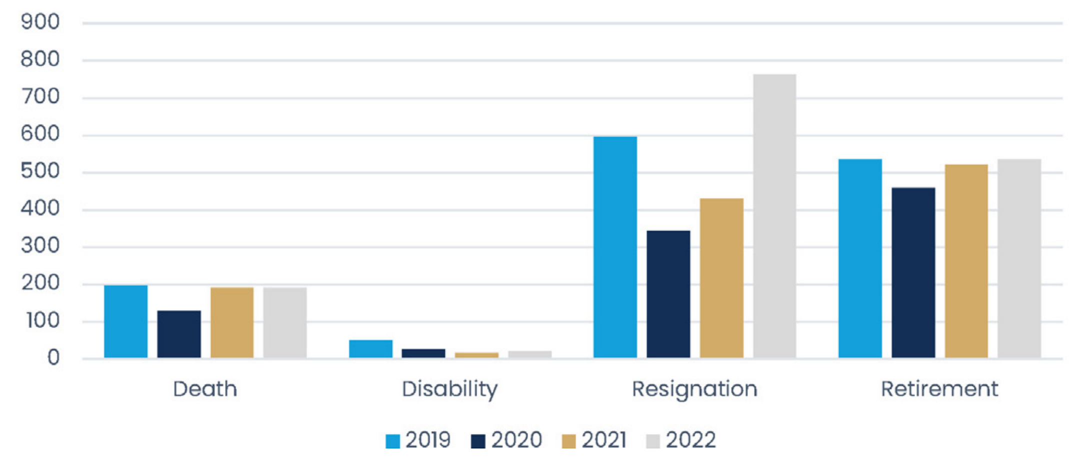


When compared with the 2021 financial year, the total number of exits in Category C has increased with 47% during the 2022 financial year.

When comparing the combined number of paid exits during the 2022 financial year with the combined number of paid exits during the 2021 financial year, death exits have shown a decrease of 1%, retirements have shown an increase of 3%, disabilities have shown an increase of 29% and resignations have shown an increase of 78%.

The average turnaround time for benefit payments processed was seven working days, calculated from the date of receipt of all required documents until the payment date.

Combined: all exits



Section 13A challenges

The NFMW has 134 participating employers and 201 pay points and is regulated by the Pension Funds Act and Fund Rules. Participating employers have a duty to pay contributions and submit their schedules on behalf of members. In terms of Section 13A of the Pension Funds Act of 1956, all contributions must be paid by no later than the seventh day after the end of the month in respect of which the contributions are payable. All supporting information must be submitted to the Fund by no later than the 15th day after the end of the month in respect of which contributions are payable.

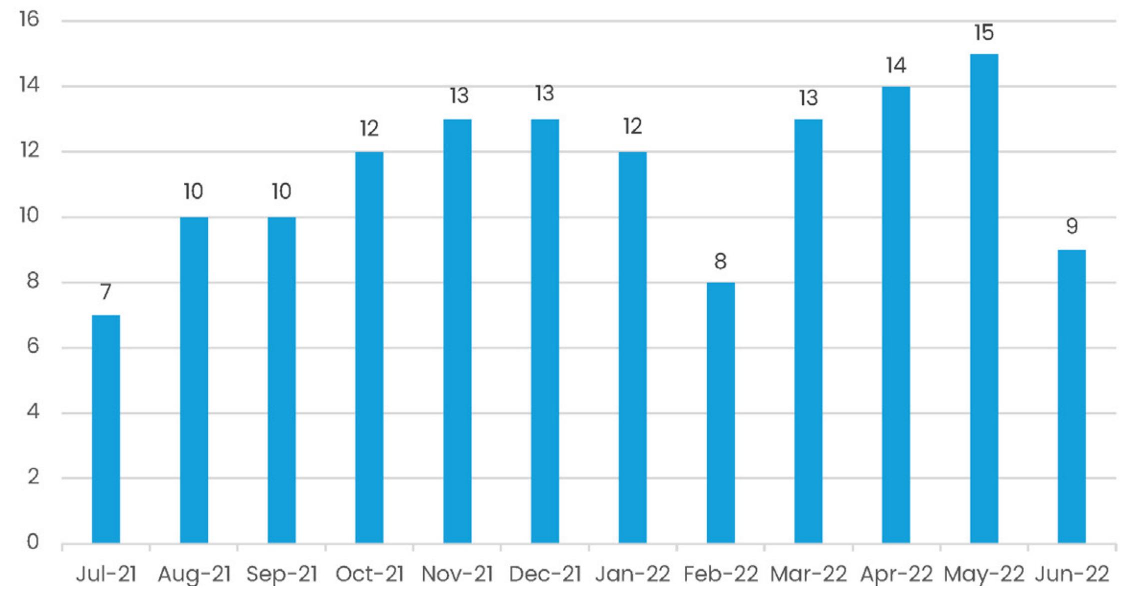
The Fund, in turn, has a duty to take all reasonable steps to ensure that contributions are paid timeously and in accordance with the Act (Section 7D(1)(d)).

The NFMW is very diligent in monitoring Section 13A compliance. In the event that the employer is found to be in contravention of Section 13A, the following progressive actions are taken:

- The Principal Officer (monitoring person) reports infringement to the Board.
- Inform members of the employer's failure to pay over the contributions or submit the supporting schedules.
- Follow up with the employer regarding the non-payment of contributions.
- Report the employer's contravention to the Authority.
- Report the employer's contravention to the Office of the Pension Funds Adjudicator.
- Raise compound interest on late payments or unpaid amounts as prescribed.

Despite the NFMW's efforts, there were still a total of 170 incidents (118 no deposits, 8 deposits carrying arrears, 44 no schedules) of Section 13A non-compliance during the period 1 July 2021 – 30 June 2022. The total amount due as on 30 June 2022 was R61,644,948 (arrear contributions R42,045,601 and penalty interest R19,599,348).

Number of NFMW participating employer pay points in contravention of Section 13A 2021/2022 Financial Year



The monthly average of non-compliance incidents during the financial year ended June 2022 were 11 out of 201 pay points (average monthly non-compliance rate of 5%).

Impact on members

- Members are informed of the employer's non-compliance, but there is prevalent inertia.
- A consequence of the employer's non-compliance is the financial loss suffered in terms of contributions and investment return by the member.
- There is also a potential loss of risk benefits which include funeral, insured death as well as insured disability benefits.
- Some employers who do settle arrear contributions fail to settle the penalty interest, resulting in further investment return loss for members.

Remedies available to funds to enforce the Office of the Pension Funds Adjudicator's determinations:

- The determination may be enforced through the execution of the employer's property.
- This process entails the attachment of the employer's moveable, immovable or incorporeal property.

Communication feedback

For the Fund, it remains of utmost importance that our members are kept informed of any industry and Fund-related developments and that they have a good understanding of the benefits they enjoy as members of the Fund. During the year under review, we continued to do this by communicating extensively using electronic channels, printed material and through face-to-face engagements at the respective municipalities to ensure that we reach the majority of our members and other stakeholders.

Some of the most topical issues communicated on included National Treasury's draft bill on early access to retirement savings and compulsory preservation as well as the developments on the rationalisation of retirement funds and Freedom of Association (window period) within the Local Government sector. We have also engaged with potential members who have shown a keen interest in joining the NFMW during the window period but have not been able to do so as a result of the temporary suspension, pending the outcome of the court case lodged by retirement funds that are not in favour of giving municipal employees freedom to choose a retirement fund of their choice. The Fund also communicated on the improvements in the NFMW's benefit and service offering to our members, which includes holistic financial planning, advice and retirement benefit counselling available to ALL our members.

The lifting of the COVID-19 restrictions also meant that we were able to meet with larger groups of members again at the information sessions and we saw a 35% percentage increase in the number of sessions conducted with an overall 14 691 attendees. We are pleased with this turnout as it illustrates that members show a keen interest in their Fund. We are grateful to the employers for allowing time off for these sessions as it also shows their commitment to assisting their employees in securing their financial futures.

" This fund is very reliable, and accessible at all times.
I highly appreciate your communication on all platforms.
Keep up the good work!!! "

Below are the face-to face member engagements held during the reporting period:

Engagements	2022	2021
Total employer visits	757	372
Hr visits/support	252	186
Hr training	11	9
Member information sessions conducted	665	233
Total members attending	14,691	7,540
Total new member inductions	77	45
Total potential members attending	2,676	1,294

The relaxation of COVID-19 restrictions resulted in a welcome spike in face-to-face engagements

" I love how the Consultants practice the Batho Pele principles and make sure to do follow-ups as promised. "

Member survey feedback

This year we conducted a survey competition as part of our 25-year celebrations, which received an overwhelming response. Thank you to everyone who took the time to enter, and congratulations to the winners of our lucky draw competition. We received valuable input and feedback that will assist us to further improve on the benefits and services that we provide to our members.

98%

rating for benefit offering

More than 77% of members said that the NFMW's benefit offering was great and more than 20.6% gave it a good rating.

99%

rating for service delivery

The majority of members (more than 71%) rated the service they received from the Fund as great, more than 25% gave it a good rating. 3.21% said the service they received was OK.

94%

Members strongly agreed that the NFMW was doing what was required to serve in the best interest of our members.

68%

indicated that all of the following were important to them as NFMW members:

Benefits | Service | Investment returns | Good governance | Easy access to information. The second highest rating was for benefits (13.85%), followed by investment returns (8.36%), easy access to information (3.64%), service (3.47%) and then good governance with 2.58%.

96%

96.10% of members said that they would definitely recommend the NFMW to a colleague.

Important reminders

1. Review your risk cover regularly.

Members can reduce their risk cover category twice a year effective 1 January and 1 July, or increase their risk cover when their status changes. The Change of risk cover-form must be submitted to the Fund by no later than 31 December for risk cover changes effective 1 January and no later than 30 June for risk cover changes effective 1 July.

2. Ensure that your nomination forms for death and funeral benefits are up to date.

Register all financial and legal dependants to avoid unnecessary payment delays.

3. Know which portfolio/s you are invested in.

The Fund applies a life-stage model which takes members through three different portfolios as they approach retirement age. Members can elect to invest in any of the available portfolios and can switch between the different portfolios.

4. Inform the Fund of any change in personal details.

Members are encouraged to update their personal and contact details with the Fund; this is the only way to ensure that you receive all the communication from the Fund. This can be done by contacting us or completing the online form on the Fund's website.

5. Register for the Sanlam online platform.

This platform allows members to access their benefit information, update personal and beneficiary details, request benefit statements and much more. Register now on https://cp.sanlam.co.za/ or download the free Sanlam My Retirement App.

Like us on Facebook @nationalfundformunicipalworkers
WhatsApp us on 066 283 7712
Follow us on LinkedIn National Fund for Municipal Workers
Telegram us at fund_of_choice
USSD *134*345#

Improved benefits

NFMW moved to self insurance

The Fund embarked on a process to review the current death, disability and funeral benefits and benefit structures offered to members of the NFMW, as part of its efforts to enhance the member value proposition, continuously considering ways to serve its members better, reduce costs and improve benefits. In addition, the NFMW considered the impact of COVID-19 on the risk pool of the Fund and the impact on Insurance Carriers that provide cover to the Fund.

The Board of Trustees, through analysis and consultations, determined that the option to self-insure the death and disability benefits is optimal and viable for the Fund given the large size of the member base and financial support available in the risk reserve of the Fund.

Therefore, as from 1 July 2022, the NFMW self-insured the death and permanent disability risk benefits offered to the members. The funeral benefit will remain an insured benefit through Sanlam Group Risk and will continue as it used to be.

The move to self-insurance resulted in the Fund saving approximately 35% in premiums relative to the previous insured arrangement, which is an immense saving for the Fund and its members. In the previous year, the Fund had to subsidise a 55%-rate increase levied by the insurer during the Fund's 2021 annual rate review.

Further to the cost saving, the Fund is now offering a wellness support programme to assist members and their families with psycho-social issues and health challenges. This dovetails with the Fund's view of holistic wellness which includes psychological, health and financial wellness.

Contact Health Heroes on 0800 333 048 or e-mail healthheroes@kulapartners.co.za

Holistic financial planning, advice & retirement counselling offering to all our members.

Retirement reform legislative changes require retirement funds to have default strategies in place that are appropriate for members, well communicated and that offer excellent value for money. The regulation requires that members of pension funds are protected and given the best support pre- and post-retirement.

Supporting you in line with best practices and regulation

The Fund performed a strategic assessment of how our members should be supported and be informed about retirement (counselling services) and how to empower them to make sound financial decisions through proper financial planning and advice.

Improving on the services to our members

As an NFMW member, you now have access to retirement counsellors and financial advisors to assist you on your journey towards and during your retirement! This service will assist in providing you with a better understanding of the retirement landscape and address any uncertainties you might have on when you should be acting or what you should be doing to plan your retirement or to financially organise your life. We want to empower and assist you to make the right decisions, on time, all the time.

The Fund appointed INfund Solutions and Portfolium to provide NFMW-members with such retirement counselling and financial advice services, respectively. This unique approach will target ALL members from a young age (not only those close to or approaching retirement).

25 Years National Fund for Municipal Workers 1997 – 2022 Fund of choice!

NATIONAL FUND FOR MUNICIPAL WORKERS

Portfolium is an authorised financial services provider that will assist all our members with any financial advice or financial planning needs that they may have. Their task is to compile a comprehensive and holistic financial planning and/or retirement planning proposal for all members at an early stage through their network of professional financial advisors.

The comprehensive and holistic financial planning includes:

- setting retirement objectives;
- matching your needs with appropriate investment portfolios;
- enhancing savings and promoting optimal use of discretionary funds (cash);
- conducting annual reviews and sustainability;
- monitoring of income relative to retirement capital;
- giving appropriate tax advice; and
- assisting you in structuring or restructuring your personal finances for you to achieve your life and retirement goals, and assessing your financial progress over time.

INfund Solutions

INfund Solutions provides "Retirement Benefit Counselling" services as proposed in Regulations 37, 38 and 39 of the Pension Funds Act. This broadly means that they will be responsible for all retirement counselling services to members. They will do so through various education and communication initiatives and through various channels which will highlight and inform you of the options available and permitted in terms of the Rules of the Fund and legislation.

All communication will take place via the Fund's established communication channels and facilitators. The most important aspects for which they will take responsibility include:

- retirement benefit counselling to all NFMW members;
- explaining the Fund's default annuity options and investment strategies; and
- providing information on paid-up and preservation options.

Are there any other changes that you need to know about?

As a result of the changes, the Fund's own in-fund living annuity has been discontinued and is no longer available as an option to members from 1 April 2022. This fits in with the Fund's long-term strategic plan as various regulatory risks are mitigated by this action, which leaves only the best options open for members. Please note that the discontinuation of the in-fund annuity (income paid from the Fund) is only applicable to those individuals who have already retired and are receiving an income from the Fund. It is not relevant to current/active members. These changes have been communicated to the annuitants and alternative options and support provided for a seamless transition.

Contact Portfolium on (012) 880 5981 and INfund Solutions on (012) 880 5983 for more information or to speak to one of the INfund counsellors or financial advisors.

Industry developments

Rationalisation of retirement funds and freedom of association

The Rationalisation of Retirement Funds and the window period were set to commence on the 1st of July 2022, which would allow employees within Local Government the opportunity to move to a fund of their choice.

The freedom of employees to associate (or join) a fund of their choice formed part of the adoption of a Retirement Fund Collective Agreement (RFCA) reached between the South African Local Government Bargaining Council and the labour unions IMATU and SAMWU, and the South African Local Government Association (SALGA). This agreement was signed in 2021 as part of the salary increase agreements in the SALGBC.

All Local Government retirement funds were required to undergo an accreditation exercise to ensure that they met the criteria as set out by the South African Local Government Bargaining Council (SALGBC). The NFMW participated in this exercise, adhered to the set criteria and received confirmation of accreditation from the SALGBC in May 2022. The accreditation demonstrates the strength of the NFMW's governance.

Commencement date of the window period delayed

Certain funds indicated that they would not be applying for accreditation and were taking legal action to set aside the RFCA.

One of these funds approached the courts on an urgent basis asking the courts to suspend the immediate implementation of the RFCA, pending hearing of the full facts/arguments of the matter in Court. The provision in the RFCA where new members were only allowed to join accredited funds, was also included with the interdict.

The Gauteng Division of the High Court agreed that the full facts (called substantive arguments) should be heard in Court first to allow the Court to hear all sides/arguments before the RFCA was implemented. This delayed the implementation of the window period and the freedom of association from 1 July 2022 to a date that will be published after the Court has heard the matter.

As the NFMW, we believe that the final outcome of the justice system/process will ultimately be to the benefit of all employees/members within Local Government as envisioned by the RFCA.

NFMW believes this to be a temporary suspension and has nothing to do with the substantive arguments being advanced by the funds that are not in favour of giving employees/members the freedom to choose a retirement fund of their choice.

The NFMW confirms its support of the retirement funds restructuring exercise, as we believe that members who are locked into funds due to the current restrictions, should be given the freedom to choose retirement funds that are cost-effectively managed, and whose management practises sound governance and responsible investing to provide members with desirable retirement outcomes.

Early access to retirement savings and compulsory preservation

On 29 July 2022, National Treasury and the South African Revenue Service (SARS) published for public comment the 2022 draft Revenue Laws Amendment Bill (Bill). This Bill contained proposed amendments dealing with the "two-pot" retirement system which is aimed at enabling South Africans to save for non-retirement purposes i.e., emergencies through their retirement funds, whilst preserving more savings for their retirement.

In summary, the draft bill proposes the following amendments:

A member's fund credit/savings will be split into three pots.
A "vested pot", "savings pot" and "retirement pot".

Vested Pot

- All the contributions and growth accumulated up to 28 February 2024 will be put into the vested pot.
- All members' rights will be protected for the funds that they have already contributed and the vested pot will still operate under the rules that were in place before the 1 March 2024-amendments.
- Members who resign (end service before age 55) will still be able to access the value of their funds in the vested pot as a lump sum payment.

Tax payable: Permissible withdrawals from the vested pot will be taxed according to the withdrawal tax tables.

Savings Pot

- The savings in this pot **can be accessed by the member without having to end service**.
- Members can access their savings pot once in a 12-month period and can access a minimum of R2,000.
- If a member does not make any withdrawal from the savings pot in a 12-month period, the funds will still be available for withdrawal after the 12-month period.

Tax payable: Members will be taxed on the annual withdrawals made from the savings pot. These withdrawals will be included in that year's taxable income and taxed at marginal tax rates.

Retirement Pot

- The retirement pot is for compulsory preservation and will **only be paid to the member at retirement**.
- At retirement the total value in the retirement pot must be paid in the form of an annuity (monthly income).

Tax payable: Annuity income (monthly pension) received after retirement from the retirement pot will be included in that year's taxable income and taxed at marginal tax rates.

Monthly contributions from the implementation date will be split as follows:

- ***Savings Pot**: Up to a maximum of 1/3 of monthly contributions will go into the savings pot.
- **Retirement Pot**: The remaining (2/3) percentage of contributions will go into the retirement pot.
- **Vested Pot**: No further contributions can be made to the vested pot except for members who were 55 years or older on 1 March 2021. They can continue to contribute to the vested pot until they either leave the fund or retire.

*Members can opt that no contributions flow to the savings pot.

Changes to the draft bill announced by National Treasury

National Treasury announced the following changes to the Draft Bill in August 2022.

- The implementation date for the new legislation that was initially proposed for 1 March 2023 had moved to March 2024.
- National Treasury agreed to make provision for seed finance, which would allow members to make a once-off withdrawal from their accumulated savings (vested pot) once the new system was in full effect. The seeding from the vested pot into the savings pot will be subject to limits and other terms and conditions. National Treasury did, however, indicate that these once-off withdrawals would only be allowed on condition that they did not have adverse implications on the funds' liquidity and the costs of implementing these withdrawals were not imposed on members.
- Members who are retrenched will also be allowed to draw an income from their retirement pot. There are, however, specific conditions that will apply to this, including a limited timeframe and members should be able to prove that they do not have any other means of income.

We are expecting that there will still be quite a few changes to the draft bill going forward before it becomes legislation. It remains the Fund's responsibility to ensure that members understand these changes and the implications thereof and we will therefore keep you updated on any new developments.

Amendments to regulation 28 of the pension funds act

National Treasury published the final amendments to Regulation 28 of the Pension Funds Act on 5 July 2022. The amendments will take effect on 3 January 2023. The FSCA is finalising the standard on reporting requirements aligned to the revised Regulation 28 and will issue it for public comment soon.

Summary of the changes to Regulation 28:

- Introduction of a definition of infrastructure and a limit of 45% for exposure in infrastructure investments.
- The limit between hedge funds and private equity has been split.
- Retirement funds are prohibited from investing in crypto assets.
- A limit of 25% has been imposed, across all asset classes, to limit exposure of retirement funds to any one entity (company), except in respect of debt instruments issued by, and loans to the Government.
- Housing loan guarantees granted to members will be reduced from 95% to 65% for new loans.
- Only investments in CISCA-approved hedge funds will be permitted.
- Reporting exclusion on look-through of CIS and insurance policies has been removed for infrastructure investments.

Arrear contributions

The Financial Sector Conduct Authority (FSCA) issued Communication 17 of 2022 on 9 June 2022. This Communication sets out how the FSCA intends to deal with employers that are in arrears with their contributions, and those funds that have not received all contributions that are due. The FSCA will publish on its website the names of funds and employers with arrear contributions.

Legal matters

Fund rules and amendments

A copy of the Rules of the Fund and the full amendment documents are available on the Fund's website www.nationalfund.co.za and can be provided upon request from the Fund's offices.

The following is a summary of the amendments made to the Rules of the Fund during the period under review:

	Description (reason for amendment)	Date of Board resolution	Effective date	Date registered by FSCA
8	To make provision for the Rules of the Fund to comply with the conditions as prescribed by the South African Local Government Bargaining Council's Retirement Benefit Collective Agreement.	25 November 2021	1 December 2021	10 December 2021
9	To make provision for the Rules of the Fund to comply with the conditions as prescribed by the South African Bargaining Council's Retirement Benefit Collective Agreement namely to: • Provide for the local authority to not be responsible for any shortfall upon termination of participation since the Fund is a defined contribution where the employer is responsible for the defined contributions in terms of the Rules. • Reduce the Board of Trustees from 12 to 10 Trustees over time. • Specifically prohibit receipt and payment of commission to Trustees and service providers, other than allowable payments for service rendered to the Fund and agreed by the Board.	21 January 2022	21 January 2022	18 February 2022
10	• The definitions of "Category D-Member" and "Contribution for Retirement Benefits, are replaced with provision for risk benefits to be paid by either the Fund and or an insurer. • The definitions of "Contribution Schedule", "Death Risk Benefits, "Funeral Benefit", "Ill-health Risk Benefit, Policy of insurance, "Risk Benefits and "Risk Benefits Schedule" are inserted for the Rules to make provision for risk benefits to be paid by either the Fund and or an insurer. • The definitions of "Non-vested Portion" and "Vested Portion" are inserted to make provision for a vested or non-vested portion as provided for in the Income Tax Act. Also, for the ill-health risk benefits payable by the Fund to form part of the non-vested portion as provided in the Income Tax Act.	17 March 2022	1 July 2022	18 May 2022

Pension Funds Adjudicator

There were no adverse decisions made against the Fund by the Pension Funds Adjudicator for the period under review.

Members of pension funds may lodge complaints with the Pension Funds Adjudicator at the following contact details:

Pension Funds Adjudicator:
Ms M A Lukhaimane
Address:
4th Floor
Riverwalk Office Park
Block A, 41 Matroosberg Road
Ashlea Gardens
Pretoria
South Africa
0181
Telephone:
012 346 1738
Fax:
086 693 7472
E-mail:
enquiries@pfa.org.za

Please note that the complaint must first be addressed to the Fund in writing with the allowance of 30 days for the Fund to resolve the complaint. A copy of the complaint procedure is available from the Fund's offices or on the "Contact us"-page of the Fund's website.

ANNUAL FINANCIAL STATEMENTS

For the period 1 July 2021 to 30 June 2022

Statement of responsibility by the Board and approval of annual financial statements

Responsibilities

The Board of Fund hereby confirm to the best of their knowledge and belief that, during the year under review, in the execution of their duties they have complied with the duties imposed by the Pension Funds Act legislation and the Rules of the Fund, including the following:

- ensured that proper registers, books and records of the operations of the fund were kept, inclusive of proper minutes of all resolutions passed by the Board of Fund.
- ensured that proper internal control systems were employed by or on behalf of the Fund.
- ensured that adequate and appropriate information was communicated to the members of the Fund, informing them of their rights, benefits and duties in terms of the Rules of the Fund.
- took all reasonable steps to ensure that contributions, where applicable, were paid timeously to the fund or reported where necessary, in accordance with section 13A and regulation 33 of the Pension Funds Act in South Africa.
- obtained expert advice on matters where they lacked sufficient expertise.
- ensured that the Rules and the operation and administration of the Fund complied with the Pension Funds Act and all applicable legislation.
- ensured that fidelity cover was maintained and that this cover was deemed adequate and in compliance with the Rules of the Fund; and
- ensured that investments of the fund were implemented and maintained in accordance with the Fund's investment strategy.
- The Board of Fund assessed the Fund's ability to continue as a going concern in addition to the above responsibilities.

Approval of the annual financial statements

The annual financial statements of the National Fund for Municipal Workers are the responsibility of the Board of Fund. The Board of Fund fulfils this responsibility by ensuring the implementation and maintenance of accounting systems and practices adequately supported by internal financial controls. These controls, which are implemented and executed by the Fund and/or its benefit administrators, provide reasonable assurance that:

- the Fund's assets are safeguarded.
- transactions are properly authorised and executed; and
- the financial records are reliable.

The annual financial statements set out on pages 76 to 77 have been prepared for regulatory purposes in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa, the Rules of the Fund and the Pension Funds Act. The Board of Fund is not aware of any instances of non-compliance during the financial year nor during the year up until the signature of these financial statements. These annual financial statements have been reported on by the independent auditor, Deloitte & Touche, who were given unrestricted access to all financial records and related data, including minutes of all relevant meetings. The Board of Fund believes that all representations made to the independent auditor in the management representation letter during their audit were valid and appropriate. The report of the independent auditor is presented on pages 68 to 71.

Instances of non-compliance

The following instances of non-compliance with Acts, Legislation, Regulations and Rules, including the provisions of laws and regulations that determine the reported amounts and disclosures in the financial statements came to our attention and were rectified before the Board of Fund's approval of the financial statements:

Nature and cause of non-compliance	Impact of non-compliance matter on the Fund	Corrective course of action taken to resolve non-compliance matter
Late payment of Contribution due to municipalities experiencing severe cash flow problems	The members do not receive their monthly return on the contribution deducted from their payroll.	The following actions are taken in the event where the employer fails to make payment timeously: As subscribed in Pension Funds Act Section 13A, interest is raised from the first day of the month in question until received. SMS-messages are sent to the affected members advising them of the employer's failure to make payment. The employer is telephonically contacted and letters are also sent to inform them about the consequences of their failure to comply with Section 13A. If the employer remains in arrears for 3 months, the FSCA is informed about the employer's failure to comply. At this point, a complaint is lodged with the Pension Funds Adjudicator. In this event the Pension Funds Adjudicator will normally order the employer to settle all arrear contributions and interest. If the employer still fails to comply with the determination obtained from the Pension Funds Adjudicator, the matter is handed over to the Fund's Legal representatives to obtain warrants of execution in respect of the determinations handed down by the Pension Funds Adjudicator. A list of all the employers where Section 13A interest was charged, is available.

These annual financial statements:

- were approved by the Board of Fund on 24 November 2022.
- are to the best of the Board members' knowledge and belief confirmed to be complete and correct.
- fairly represent the net assets of the fund at 30 June 2022 as well as the results of its activities for the year then ended; and
- are signed on behalf of the Board of Fund by the Chairperson of the Board of Trustees, the Principal Executive Officer and one additional Board of Trustee member.

STATEMENT OF RESPONSIBILITY BY THE PRINCIPAL EXECUTIVE OFFICER

I confirm that for the year under review the National Fund for Municipal Workers has timeously submitted all regulatory and other returns, statements, documents and any other information as required in terms of the Pension Funds Act and to the best of my knowledge all applicable legislation except for the following:

Specific instances of non-compliances	Remedial action taken
Late payment of Contribution due to municipalities experiencing severe cash flow problems	The following actions are taken in the event where the employer fails to make payment timeously: As subscribed in Pension Funds Act Section 13A, interest is raised from the first day of the month in question until received. SMS-messages are sent to the affected members advising them of the employer's failure to make payment. The employer is telephonically contacted and letters are also sent to inform them about the consequences for their failure to comply with Section 13A. If the employer remains in arrears for 3 months, the FSCA is informed about the employer's failure to comply. At this point, a complaint is lodged with the Pension Funds Adjudicator. In this event the Pension Funds Adjudicator will normally order the employer to settle all arrear contributions and interest. If the employer still fails to comply with the determination obtained from the Pension Funds Adjudicator, the matter is handed over to the Fund's Legal representatives to obtain warrants of execution in respect of the determinations handed down by the Pension Funds Adjudicator. A list of all the employers where Section 13A interest was charged, is available.

L Ndawana
Principal Executive Officer
24 November 2022

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF FUND OF THE NATIONAL FUND FOR MUNICIPAL WORKERS

Report on the audit of the financial statements

Opinion

We have audited the annual financial statements of National Fund for Municipal Workers ("the Fund") set out on pages 19 - 38, which comprise the statement of net assets and funds as at 30 June 2022 and the statement of changes in net assets and funds for the period then ended, and notes to the financial statements, including a summary of significant accounting policies. The financial statements are prepared for the purpose of reporting to the Financial Sector Conduct Authority ("FSCA").

In our opinion, the financial statements of the Fund for the period ended 30 June 2022 are prepared, in all material respects, in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa.

The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Financial reporting framework and restriction on use

Without modifying our opinion, we draw attention to the principal accounting policies in which the applicable financial reporting framework is identified, as prescribed by the Authority. Consequently, the financial statements and related auditor's report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other information

The Board of Fund is responsible for the other information. The other information comprises the information included in the Annual Financial Statements in terms of section 15 of the Pension Funds Act of South Africa, of the Fund for the period 01 July 2021 to 30 June 2022, but does not include the financial statements (schedules F, G and HA) and our auditor's report thereon (schedule D).

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Fund for the Financial Statements

The Board of Fund is responsible for the preparation of the financial statements in accordance with the Regulatory Reporting Requirements for Retirement funds in South Africa and for such internal control as the Board of Fund determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Fund is also responsible for compliance with the requirements of the Rules of the Fund and the Pension Funds Act of South Africa.

In preparing the financial statements, the Board of Fund is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Board of Fund either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Conclude on the appropriateness of the Board of Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Fund.

We communicate with the Board of Fund regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

The Statement of Responsibility by the Board of Fund describes instances of non-compliance with laws and regulations, including those that determine the reported amounts and disclosures in the financial statements that have come to the attention of the Board of Fund and the corrective action taken by the Board of Fund. There are no additional instances of non-compliance with the Pension Funds Act that came to our attention during the course of our audit of the financial statements.

Deloitte & Touche
Registered Auditors

Report of the valuator for the year ended 30 June 2022

Particulars of financial condition of the fund as at 30 June 2021 (the last statutory valuation).

1. **Net assets available for benefits.**
   R 22 598 540 000

2. **The actuarial value of the net assets available for benefits, for the purposes of comparison with the actuarial present value of promised retirement benefits.**
   R 22 598 540 000

3. **The actuarial present value of promised retirement benefits, split into vested and non-vested benefits.**

Members' fund credits *	R 20 708 929 000
Outstanding direct housing loans	R 855 000
Living annuitants	R 389 332 000
Deferred members	R 1 032 206 000
Total liabilities as at 30 June 2021	R 22 131 322 000

* Includes an amount of R 191 346 000 which relates to contributions received before 30 June 2021 but only allocated to member records after year-end.

4. **Reserve account balances.**

Risk reserve account	R 275 226 000 *
Expense reserve account	R 53 590 000 *
Data and processing reserve account	R 138 402 000 *
Total reserve accounts as at 30 June 2021	R 467 218 000

* Refer to par 7 for more detail regarding the reserve account balances and transfers between the reserve accounts in line with the stipulations of the rules of the fund, based on the recommendations contained in the statutory valuation report as at 30 June 2021.

5. **Details of the valuation method adopted (including that in respect of any contingency reserve) and details of any changes since the previous summary of report.**
   Assets: Assets were valued at the full market value. Adjustments were made for accruals at the valuation date (e.g., contributions in respect of the valuation period received after the valuation date, outstanding benefit payments, outstanding expenses, etc.)

   Liabilities: The fund operates on a defined contribution basis. The accrued liabilities are therefore equal to the sum of the individual members' fund credits and the balance in the contingency reserve account.

   Funding level: The funding level is the rate of the value of the assets to the value of the liabilities.

6. **Details of the actuarial basis adopted (including that in respect of any contingency reserve) and details of any changes since the previous summary of report.**
   Refer to par. 5 above.

7. **Any other particulars deemed necessary by the valuator for the purposes of this summary.**
   The statutory valuation report as at 30 June 2021 was discussed at the board of management meeting held on 14 June 2022 and submitted to the FSCA on 21 June 2022 under case number 553860. The board took a number of decisions, on recommendation of the actuary:

a) **True balance of the data and processing error reserve account**

The balance in the data and processing reserve account amounted to R 138 402 000 or 0.61% of assets at the valuation date. Taking into account the impact of the delayed allocation of the revaluation of some of the assets portfolios, the true underlying balance is equal to R 97 358 000 or 0.43% of assets, which is within the target level of between 0.25% and 0.5% of assets for a daily priced fund.

b) **Expense reserve account**

The accumulated balance in the expense reserve account amounted to R 53 590 000, which is sufficient to cover approximately 66% of the annual administration and other management costs paid from this account. The board accepted the actuary's recommendation that an amount of R 26 000 000 be transferred from the expense reserve account to the risk reserve account in terms of rule 9.18(b)(iii) and 9.17(a)(ii) respectively. The transfer reduced the balance in the expense reserve account to R 27 590 000, which is sufficient to cover approximately 34% of the annual administration and other management costs (i.e., 4 months, which is in line with the liquidity requirements for companies).

c) **Risk reserve account**

The statutory valuation report as at 30 June 2021 indicated an accumulated balance in the risk reserve account of R 275 226 000 or 1.25% of member liabilities. The balance in the risk reserve account increased to R 301 226 000 or 1.37% of member liabilities at the valuation date, after taking into account the above-mentioned recommendation that an amount of R 26 000 000 be transferred to the risk reserve account from the expense reserve account. The risk benefits (that is, death, disability and funeral benefits) were fully reinsured with Sanlam during the valuation period. Due to poor claims experience in light of the COVID-19 pandemic, the premium rates payable to Sanlam increased on average by 55% with effect from 1 July 2021. The fund had a positive balance in the risk reserve account and it was previously recommended that the increase in premiums be absorbed by the balance in the risk reserve account. This is beneficial for members as their net savings for retirement benefits will not be negatively affected by the increase in premium rates. Rule amendment no. 7 was approved by the FSCA on 8 September 2021 to make specific allowance for such subsidies (with an effective date of 1 July 2021).

In addition, the fund amended its rules to give the ability to self-insure all or part of the risk benefits with effect from 1 July 2022, as set out in rule amendment no. 10. The FSCA approved the rule amendment on 18 May 2022.

8. **A statement as to whether the fund was in a sound financial condition for the purposes of the Pension Funds Act, 1956.**

The assets of the fund as at 30 June 2021 are sufficient to cover 100.0% of the members' liabilities and various recommended reserve balances and the fund was hence financially sound.

Prepared by me:
G GROBLER
VALUATOR

Report of the consulting actuary

A statement as to whether the fund was in a sound financial condition for the purposes of the Pension Funds Act, 1956. The assets of the fund as at 30 June 2021 are sufficient to cover 100.0% of the members' liabilities and various recommended reserve balances and the fund was hence financially sound.

Fellow of the Actuarial Society of South Africa
Fellow of the Faculty of Actuaries
In my capacity as the valuator of the fund and as an employee of Alexander Forbes Financial Services

Net assets and funds as at 30 June 2022

	Note	30-Jun-22	30-Jun-21
		R	R
ASSETS			
Non-current assets		23,703,302,801	22,990,562,327
Property and equipment	2	17,966,444	15,960,590
Investments	3	23,684,757,413	22,973,746,605
Housing loans	4	578,944	855,132
Current assets		594,188,846	426,307,165
Accounts receivable	5	100,088,868	85,387,262
Contributions receivable	11	202,888,952	191,345,491
Cash at bank		291,211,026	149,574,412
Total assets		24,297,491,647	23,416,869,492
FUNDS AND LIABILITIES			
Members' funds and surplus account		22,975,501,749	22,388,521,333
Members' individual accounts	17	22,900,601,350	21,949,395,184
Amounts to be allocated	20	74,900,399	439,126,149
Reserves			
Reserve accounts	18	299,148,668	321,516,056
Total funds and reserves		23,274,650,417	22,710,037,389
Non-current liabilities			
Unclaimed benefits	9	48,178,216	33,452,340
Current liabilities		974,663,014	673,379,763
Transfers payable	7	4,924,545	5,830,468
Benefits payable	8	881,265,776	611,491,829
Accounts payable	10	88,472,693	56,057,466
Total funds and liabilities		24,297,491,647	23,416,869,492

Statement of changes in net assets and funds as at 30 June 2022

	Note	Members' individual accounts & Amounts to be allocated	Reserve accounts	Current year 2022	Previous year 2021
		R	R	R	R
Contributions received and accrued		2,517,600,378	75,267,561	2,592,867,939	2,501,288,946
Reinsurance proceeds		393,774,197	-	393,774,197	397,494,786
Net investment income		322,049,388	49,203,810	371,253,198	3,235,716,816
Allocated to unclaimed benefits		- 70,378	-	- 70,378	- 159,943
Other income		13,733	3,060,070	3,073,803	2,324,098
Less:		- 371,262,867	- 254,869,186	- 626,132,053	- 421,910,843
Re-insurance premiums		- 371,262,867	- 163,840,307	- 535,103,174	- 340,118,329
Administration expenses		-	- 91,028,879	- 91,028,879	- 81,792,514
Net income before transfers and benefits		2,862,104,451	- 127,337,745	2,734,766,706	5,714,753,860
Transfers and benefits		- 2,170,466,282	-	- 2,170,466,282	- 1,458,414,964
Transfer from other funds		16,083,295	-	16,083,295	7,753,247
Transfer to other funds		- 63,537,338	-	- 63,537,338	- 14,306,055
Benefits		- 2,123,012,239	-	- 2,123,012,239	- 1,451,862,156
Net income after transfers and benefits		691,638,169	- 127,337,745	564,300,424	4,256,338,896
Funds and reserves					
Balance at the beginning of the year		22,388,521,333	321,516,056	22,710,037,389	18,454,703,855
Prior period adjustment		- 104,657,753	104,657,753	-	-
Member adjustments			9,560	9,560	
Revaluation surplus: Property			303,044	303,044	- 1,005,362
Balance at the end of the year		22,975,501,749	299,148,668	23,274,650,417	22,710,037,389

Note: Please refer to the notes to the financial statements under schedule HA for a detailed explanation of the financial statements. The audited financial statements are available on the Fund's website www.nationalfund.co.za

INVESTMENTS

Annual Investment Report 2022

Executive summary

An extraordinary, eventful financial year lies behind us. Undoubtedly, Russia's invasion of Ukraine in February 2022 has overshadowed much of the news headlines in a difficult year for investors.

The conflict arose at a time when central banks across the globe had already started their fight against inflation, which in the end turned out to be more serious than expected. Inflation came about after the COVID pandemic lockdowns (globally) reduced economic activity, and the subsequent increase in government fiscal and monetary support to businesses and consumers alike. Supply chain and manufacturing disruptions, and a sudden burst in demand for goods, let the inflation genie out of the bottle.

Adding fuel to the fire, the unexpected conflict in Eastern Europe sent energy (oil and gas) prices through the roof. Together with further supply chain disruptions, increased geopolitical tensions and food shortages (grain and fertilisers), inflation in the US and Euro area soared to levels not seen in the last 40 years. In short, the tailwinds in the markets we experienced in 2021 faded fast as governments and central banks grappled with managing and controlling the sudden change in the fast-changing socio-economic environment.

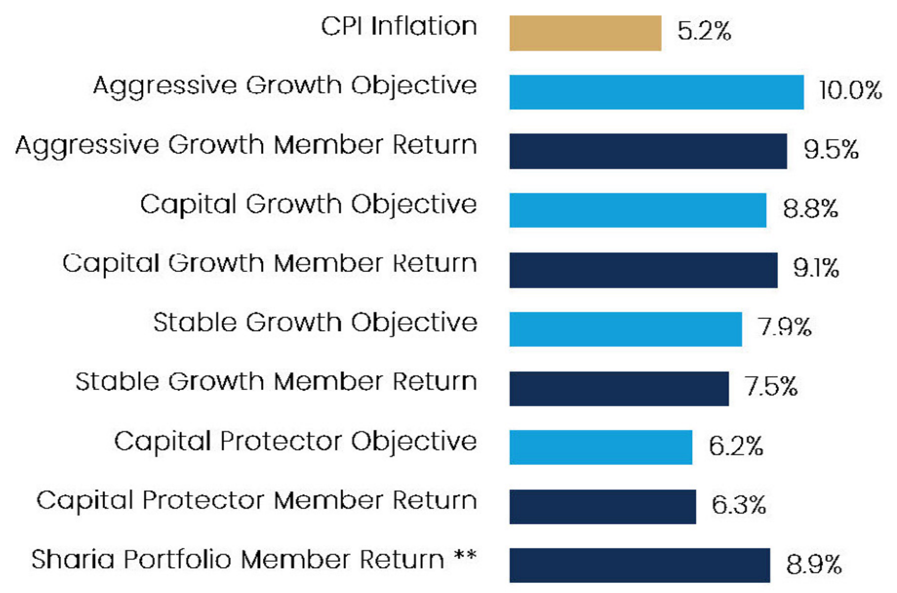
Suddenly, the low inflation and low-interest rate environment experienced pre-COVID changed into a high inflation and higher interest rate environment! This environment usually culminates in uncertainty in the minds of investors, creates a lack of confidence and sentiment, and brings about cautiousness. These are all ingredients for volatile markets and low market returns. Because of higher interest rates, all equity and bond markets struggled and as expected, company profits and earnings were revised downwards. Bond markets posted negative returns as yields increased on the back of higher inflation and interest rates, and property valuations drifted lower for the same reasons. For 2022 thus far, this in general left investors with very few places to hide.

Fortunately, over the last two years, South Africa's fortunes were to a large extent protected by our resources. The government's fiscal position stayed intact despite many challenges, mainly due to increased tax revenue out of the mining sector. Resource prices increased post-COVID as stimulus measures implemented by many countries fuelled demand for infrastructure development and other raw materials. The relatively high prices of commodities got an extended life when Russia invaded Ukraine, which kept the South African books balanced for longer! Although South Africa also experienced higher inflation and interest rates, together with other challenges like load shedding and flooding, local markets outperformed global markets on a relative basis during the financial year.

The Fund's assets still increased over the financial year, but the increase is reflective of a difficult investment environment. In total the Fund's assets increased by R596 million (*from R22.5bn to R23.1bn) over the 12 months to the end of June 2022. The financial year saw net inflows of roughly R268 million, whereas investment returns added another R328m; a good result despite the global rising interest rate environment.

The Fund remains well-positioned to take advantage of the current volatile markets. The Fund's excellent long-term track record speaks for itself as it maintains its good performance alongside the best global balanced managed portfolios in South Africa and remains on par with its Local Government peers. It remains the Fund's objective to add real returns (i.e., returns more than inflation) to its portfolios over time, ensuring a sound retirement for its members.

The following graph shows the various portfolio returns over the last 10 years compared to their respective investment objectives and inflation – the portfolio returns for the period are indicated in dark blue bars. For example, the NFMW Aggressive Growth portfolio returned 9.5% per annum over the last 10 years, which means every R100 invested in that portfolio would have turned into plus minus R250 over the period!



* Excluding the Fund's bank account balances
** Last 5 years annualised

As always, the Fund remains well balanced and diversified across many asset classes and managers, and arguably, improved its diversification and robustness during the year. Diversification remains of utmost importance to protect members during times of turmoil and volatility, and once again, this has shown its value in the 2021/2022 financial year.

Annually, the Fund embarks on a process to review and renew its investment strategy, and this year was no exception. As part of this exercise, the investment objectives and risk parameters for all its investment portfolios are assessed and scrutinised for robustness and durability. Any regulatory changes are also considered, as this may influence investment portfolios' long-term strategic positioning. During the February 2022 budget speech, the finance minister announced that, going forward, retirement funds would be allowed to invest 45% of their total assets offshore. This announcement was welcomed by the industry, as expectations are that it will benefit members over the long term through an increased opportunity set and ultimately result in better returns.

The Aggressive Growth and Capital Growth portfolios will therefore, going forward, be strategically aligned with a higher offshore allocation/exposure (of 35% and 30%, respectively).

However, the implementation of this change will be subject to economic conditions and relative valuations, as local assets are currently perceived to offer better return prospects over the shorter term. All portfolios remain Regulation 28 compliant (which governs the allocations to various types of assets) and are optimised to achieve their various investment objectives over the long term.

From a return perspective, the asset classes adding the most value during the year were local alternatives (notably the OMAI IDEAS fund which invests mainly in infrastructure and renewable energy projects) and local equity (most local equity managers performed well). The Fund's appointed tactical asset allocation manager (Prescient) also added some value as did the Fund's bond managers (Futuregrowth and Balondolozi). The offshore equity managers struggled as rising inflation and interest rates in the US detracted from overall Fund returns. Unfortunately, the Coronation Global Emerging Markets fund struggled as its small exposure to Russia resulted in negative returns.

The Fund's main operational and investment focus during 2021/2022 shifted towards aligning its investment strategy with sustainable development, whilst being responsible custodians of members' well-being after retirement. Over the longer term, the strategy will ensure that the broader needs of its members are looked after through a newly established holistic financial planning programme, in conjunction with long-term sustainable, developmental, and return driven assets. As such, the Fund aims to, over time, allocate 15% of its assets to return-driven investments that will contribute and promote economic inclusivity, creating jobs, preserving the environment, and promoting good health, amongst others. As of 30 June 2022, the Fund has already allocated more than R3bn of its assets towards some of South Africa's critical development areas such as job creation, infrastructure, education, technology (ICT), and healthcare.

The Fund also continued its focus towards transformation and almost 100% of the Fund's assets are now managed by asset managers with a B-BBEE level 2 and above, with more than 40% of local assets managed by >51% black-owned asset management businesses.

The Board and management of the Fund look forward to contributing meaningfully to these areas for years to come.

The year in review

As mentioned above, over the last two and a half years, we have experienced many shocks to the global socio-economic environment. First COVID hit like a thunderbolt early in 2020, with fear and hard lockdowns together with the subsequent economic fallout manifesting through job losses, uncertainty, and many workplace disruptions. The initial period experienced after the COVID shock, resulted in responses from governments/central banks not seen in over a decade. Market liquidity and financial (fiscal) assistance were at the forefront of fighting the uncertainty created by lockdowns. The lack of consumerism/spending and a well-functioning services sector (think about tourism, restaurants, air travel etc.) created a short-lived global recession.

In a relatively short period of time, a mismatch was created between the supply of goods and the demand thereof, which resulted in severe price pressures. Suddenly, emerging from lockdowns, the demand for goods could not be met, as many factories remained closed for some time. Global shipping and other transport backlogs meant that supplies could not reach their end destinations in time, and prices of goods increased.

Furthermore, labour shortages contributed to the manufacturing problem and this structural workforce shift created problems for many industries. As jobs came back online, higher wages were offered and wage demands increased, which added to the underlying inflationary pressures.

Then the Russia/Ukraine conflict followed, and energy prices rocketed, especially the price of oil and natural gas. At that point, Russia was the main supplier of natural gas to Western Europe. Other major areas of trade affected by the war included fertilisers and cooking oil, which had a significant impact on food prices in many countries (and especially Africa). Transport cost was affected globally with the rise of petrol and gasoline prices rising in many cases by more than 50%. It resulted in the resurgence of higher inflation for the first time in almost forty years and went from being viewed as transitory to being more permanent in nature. It is, therefore, not difficult to see where this story line is heading – an abnormal (high) inflationary environment is generally not good for anyone, and therefore needs to be kept under control – with higher interest rates. Inflation in the US reached levels of 9.1% p.a. in July of 2022. South Africans are more accustomed to higher inflation, but at a level of 7.8% recently, it is still high relative to what we experienced over the last decade.

Economic news, which would have carried weight in the past, all but disappeared on the daily news front and within financial market commentaries. **Long-term market trends seen over the previous decade changed course within a space of two years –**

- Gone are the low inflation and interest rate environment;
- The rise of national security policies and reduced globalisation (and trade) increased substantially;
- Supply chains and logistics got disrupted and new contracts for trade had to be discovered and negotiated;
- Technology advances and shared intellectual property became less accessible; and
- Higher energy prices rolled back the reliance on fossil fuels vs. renewable and green energy advances.

The story investors relied on for many years suddenly became old news! Everything investment related that worked in the past, needed a re-think going forward. It is therefore not a surprise that markets are in turmoil, and short-term returns reflect the uncertainty created by the current fragile economic and investment environment.

Higher interest rates are generally bad news for asset prices…

If interest rates go up, it means the "cost of money" increases. Taking out a loan or servicing outstanding debt becomes more expensive. In general, it means that investors, consumers, businesses, and governments have less money to spend within the economy. Furthermore, consumer confidence and sentiment turn negative, as less capital is used to set up new business ventures or used to improve old ones. Relatively high debt levels (of government and companies) unfortunately add to the complexity and challenges faced under a rising interest rate environment. It seems like more will have to be sacrificed this time around to put the inflation genie back into the bottle – lower economic growth and employment hardships unfortunately come to mind. Company (equity) values tend to reduce under these circumstances, and bond and property valuations go down as interest rates and yields increase. Investors have very few places to hide.

The longer inflation stays around and the further it spreads, the more difficult it will be to eradicate, as wage demands, and the secondary effects thereof will keep fuelling the inflation fire.

Communicating interest rate increases to the market is crucial to the stability of investment/ capital markets (i.e., bonds and equity markets). However, the stabilisation of CPI is not the only parameter that central banks are worried about. Economic growth tends to go down when interest rates increase, which means that recession fears have increased.

Where to from here and what to expect

Increased interest rates are necessary to curb inflation – this process will unfortunately not be pain-free for investors. Although we have experienced some poor returns over the last 12 months, we can expect more volatility over the shorter term, as the effects of higher interest rates are priced into market valuations and filter through to the economy, consumers, and businesses.

Economic cycles come and go, and today we are experiencing a phase where the fight against inflation is the most important. It will take time for high interest rates to feed through into the general economies of the world which will eventually dampen inflation (and economic growth). Unfortunately, the Russia/ Ukraine conflict lengthened the process to bring inflation under control.

Once that happens, the central banks and governments of the world will again have to think about creating jobs, getting more tax revenue, and ensuring the well-being of its people. Lower interest rates will again follow, and investment opportunities will present themselves. In fact, market volatility always creates opportunities, even in the current increasing interest rate environment.

For example, South African bonds offer good relative value, and so do certain sectors of our equity market, like the hospitality industry. Also, in times of higher interest rates, financial companies (banks) tend to perform well. Other areas which offer opportunities are selective resources (as high energy costs create opportunities for alternative energy sources).

However, **various risks remain which could derail a reasonably swift recovery in the markets once inflation has been brought under control**. These include:

- Higher wages for longer in the US, if the labour market continues to perform well (their post-COVID recovery was exceptional);
- The effect of higher interest rates on inflation not being as effective as central banks think – this may happen as robust consumption patterns may be fuelled by high savings rates;
- The second biggest economy in the world – China, may face unique headwinds because of their zero-COVID policy, reduced globalisation (world trade) and a fragile property market; and
- The looming threat of severe consequences of climate change can translate into various uncertain economic scenarios very quickly.

How the above changes feed into the markets and the returns on members' portfolios are important, as they will ultimately show that more investor-friendly economic conditions will eventually resurface. A long-term vison and investment strategy, together with patience is required to bear the fruit of decent returns above inflation. The implication of the above on the financial markets will be profound, but how and when the new story will continue and unfold, is still uncertain.

Asset class returns: 30 June 2022

As mentioned above, the 2021-2022 financial year experienced a difficult and volatile investment environment, which resulted in low returns for investors. Although there were times when markets looked positive, most asset classes delivered subdued returns over the period. The rand depreciated significantly as dollar strength (on the back of rising US interest rates) against all major currencies offered some relief for South African investors.

All local asset classes delivered low single digit returns which have also filtered through to the longer term i.e., three and five year annual return numbers. Local cash returned 4.2% which is still reflective of the relatively low interest rates prevailing in South Africa – this has, however, changed as inflation printed well over the upper band level of 6% for a good part of 2022. Global Equity and Bonds struggled as bond yields in the US started to normalise from their ultra-low levels that they had previously maintained for many years. Global equities i.e., the MSCI All Country World Index, delivered a return of -3.7% in rand terms which is indicative of a very difficult investment environment.

Investors have not yet been rewarded for taking on additional risk through equity exposure during the last three years (and even over the last five years). Hopefully this will change going forward, especially once the rising interest rate environment settles down – hopefully in 2023!

South Africa's economic growth prospects and outlook still look fragile – at least for another couple of years, until economic policy implementation and infrastructure development take hold. Fixed investment spending and capital formation will be crucial for our longer- term economic well-being. In the meantime, high commodity prices will hopefully keep some financial stability intact and debt levels under control.

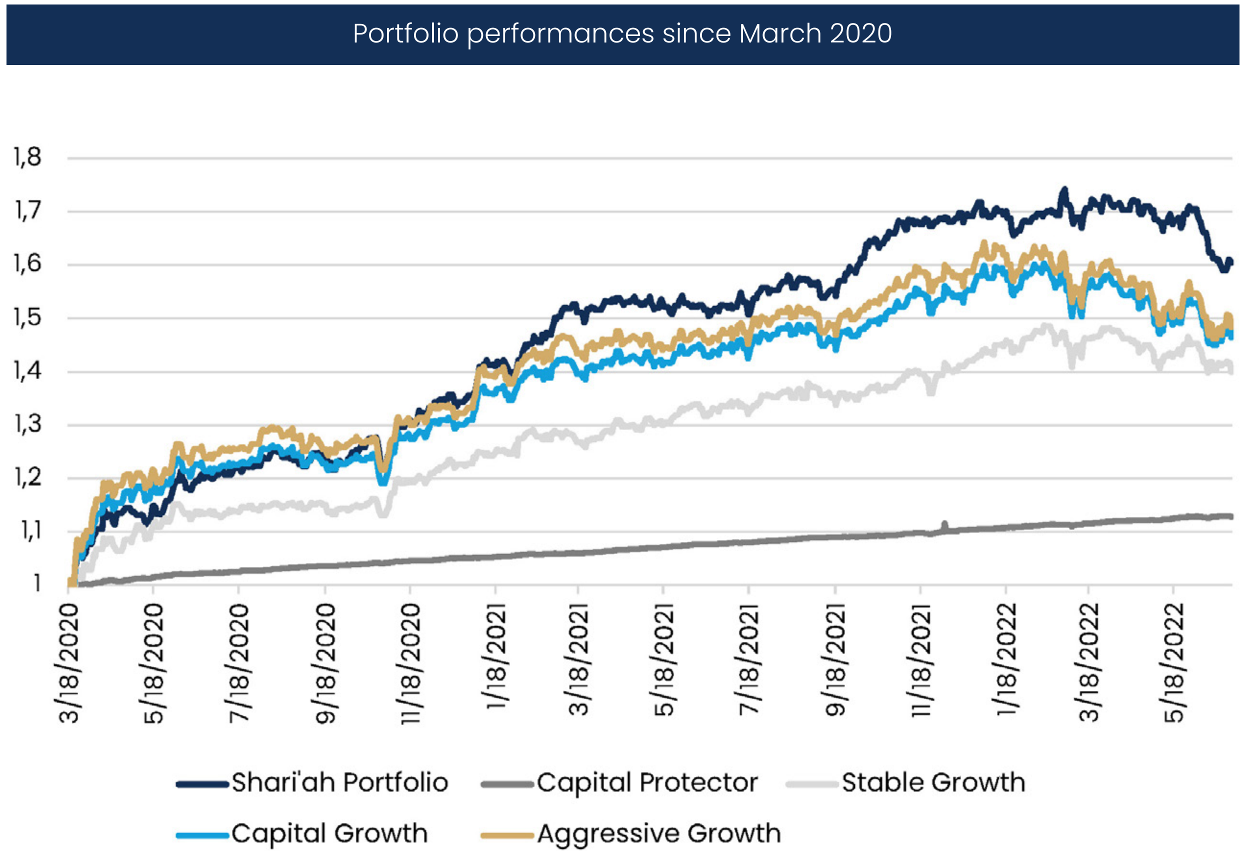
Last year we recommended that members lower their return expectations for the next five to ten years. The actual returns in 2022, although disappointing, are reflective of a difficult environment, but a relatively good outcome considering the highly volatile global economic conditions as highlighted above.

The table below shows just **how difficult the investment environment has been over the last five years, indicating the returns achieved by the main asset classes over various periods**:

Date: 30 June 2022	1 Year	3 years	5 years	10 years
Equities	4.7%	8.2%	8.7%	10.5%
Bonds	1.3%	5.8%	7.8%	7.2%
Property	0.2%	-9.0%	-7.3%	2.7%
Cash	4.2%	5.0%	5.9%	6.1%
Global Bonds (R)	-3.3%	1.6%	3.9%	7.3%
Global Equity (R)	-3.7%	10.5%	10.6%	15.2%
Inflation	6.5%	4.6%	4.5%	5.1%
Rand Dollar Exchange Rate	14.1%	4.9%	4.5%	7.2%

The post-pandemic recovery of Fund's assets i.e., member portfolio values

The following graph **shows the recent performance of the various member portfolios since March 2020, just after the COVID market drop**. As the graph below shows, there was a big recovery during the 2021 calendar year, followed by volatile markets in the first six months of 2022, coinciding with rising interest rates and the Russia/Ukraine conflict.



The NFMW portfolios remain well diversified across many asset classes, market sectors and regions, and are governed by specific investment objectives and risk tolerances which will be achieved over the longer term.

It is, however, understandable that in times like these, volatility and performance can be worrisome for members, but we would like to remind members that it remains of utmost importance to focus on longer-term return prospects and investment strategies, as short-term volatility and any reaction thereto could easily result in incorrect investment decisions. Saving for retirement is based on long-term investing and positive return outcomes. The highest likelihood of achieving one's investment objective and goals is to remain invested in a sound and diversified long term investment strategy, which remains of paramount importance for the Fund and its members.

The Fund appointed asset managers

During the last financial year, the Fund focused on its impact programme and embarked on a detailed and comprehensive due diligence exercise to identify the best available opportunities that will align with its recently formed strategy and vision. Over the last few years traditional asset classes have struggled to deliver good returns in the challenging economic environment, which created opportunities under which alternative assets could really prosper. These opportunities will deliver good, uncorrelated returns (compared to traditional asset classes) for members, whilst having a positive tangible impact on the lives of many South Africans.

During the 2021-2022 Fund year, the Fund appointed three private equity managers:

- Kholo Capital: With a focus on financing opportunities for mid-market businesses.
- Sanari 3S Growth Fund: Which focuses on four key impact elements (ICT, healthcare, education and green energy).
- Old Mutual Alternative Investments EduFund: The fund specialises in key educational needs, including physical school buildings as well as school operations.

Over the longer term, we still expect the historic risk-reward relationship to remain intact (i.e., the likes of equities outperforming less risky asset classes like bonds). However, we are confident that adding an element of alternative assets into the portfolio construction will provide investors with an improved risk-return profile and will offer good real returns during times when more traditional asset classes struggle.

A list of the Fund's appointed asset managers is provided in the table below:

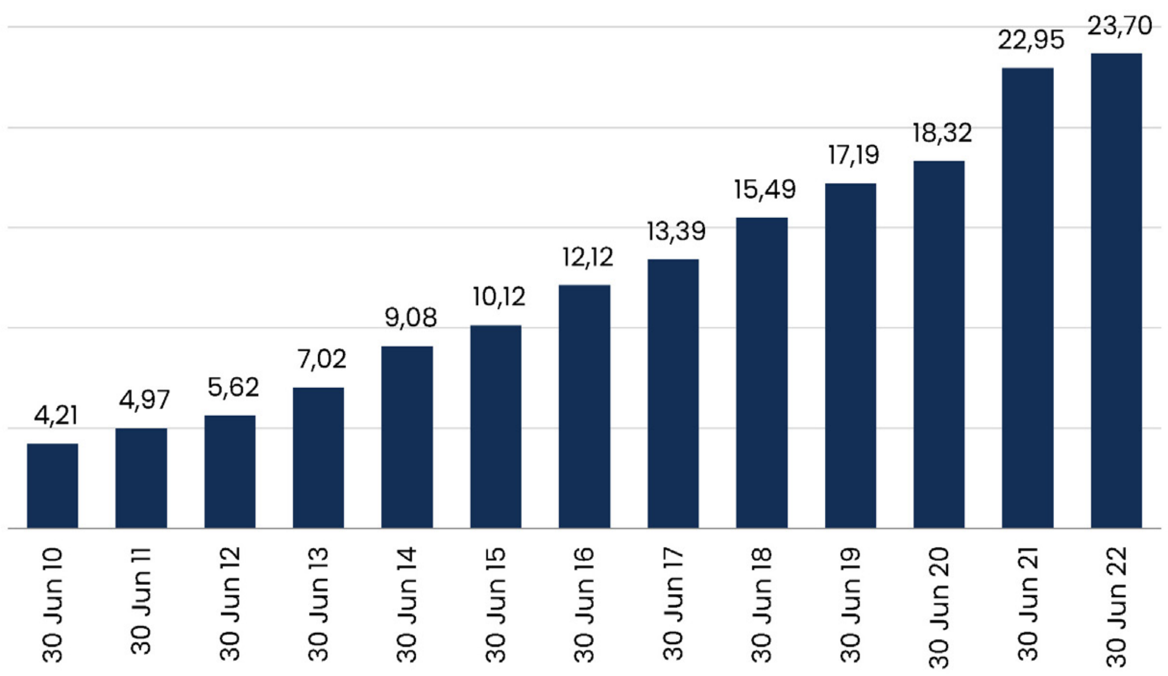
Asset Class	Asset Manager
RSA Equity	Allan Gray Domestic Equity
	Coronation House View Equity
	Benguela Equity
	Argon Equity
	Legacy Africa Equity
	Vunani Equity
	Prescient Portable Alpha
	Vunani Passive Equity
RSA Bonds	Futuregrowth Infrastructure and Development Bond Fund
	Balondolozi Bonds
RSA Property	Catalyst Property
	Metope Property
RSA Cash	Ashburton Cash Plus
	SIM Active Income
	Terebinth Flexible Income
	Securitised Debt
	Ninety-One Credit Income
RSA Alternative Assets	OMAI IDEAS
	Futuregrowth Development Equity Fund
	OMAI EduFund
	Razorite Private Equity Fund II
	Sanari 3S Growth Fund
	Summit Private Equity Fund
	Kholo Capital Mezzanine Fund I
International Assets	Allan Gray-Orbis Global Equity
	Morgan Stanley Global Brands
	Vulcan Value Equity
	Nedgroup Global Equity (Veritas)
	Rubrics Global Credit
	Catalyst Global Real Estate
	Coronation Global Emerging Market
	Ninety-One Global Franchise
African Assets	Novare Africa Property Fund II
Shari'ah Portfolio	Camissa Islamic Balanced
Tactical Asset Allocation	Prescient Investment Management (TAA manager)

A review of the Fund's performance and positioning

Total Fund growth

The graph below shows the Fund's total market growth over time (in R'bn terms). The annual growth is very consistent over time and the chart highlights the Fund's excellent performance and consistent track record.

NFMW market value growth R'bn



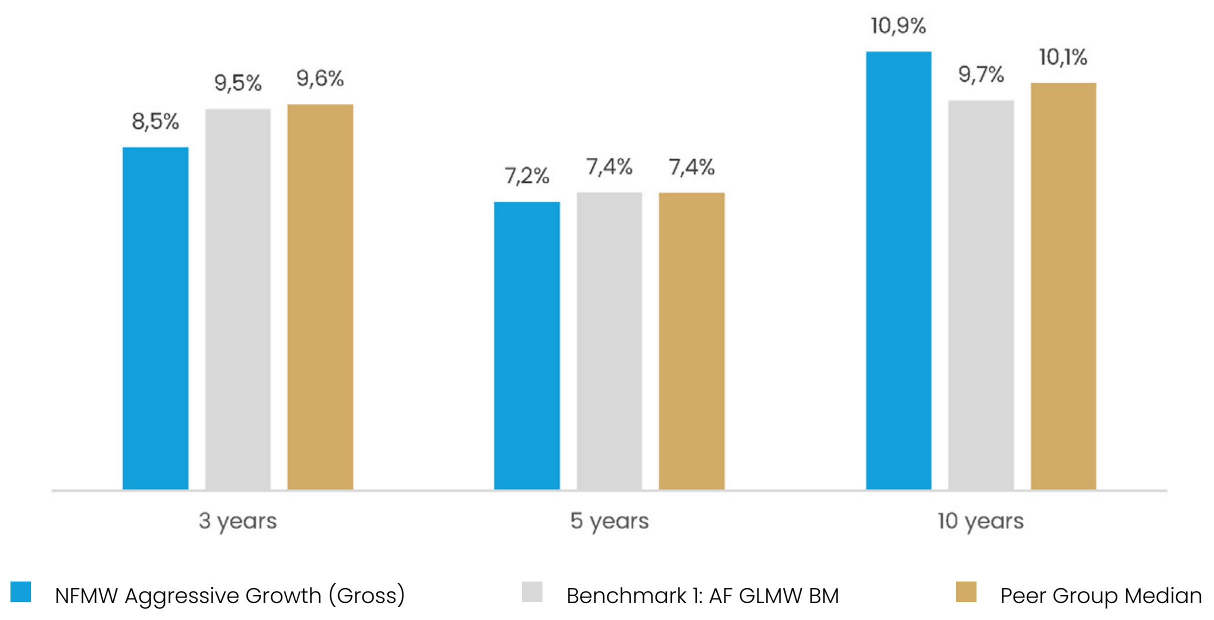
*Excluding the Fund's bank account balances

Performance compared to industry players

To Fund prides itself with its good performance and as such, we should also compare the performance of the NFMW Aggressive Growth portfolio to that of South African large asset managers' balanced portfolios with similar long-term investment strategies. However, we need to caution members that comparing these performances (and especially when looking at other Local Government funds) one is not comparing apples with apples, as the underlying investment strategies and objectives for each fund are not the same.

However, the comparison does give a broad indication of industry performance and shows whether returns are in line with expectations. On this basis, the NFMW Aggressive Portfolio ranks at an impressive fifth place over a ten-year period. This means that, over the past five to ten years, members were better off in the NFMW Aggressive Growth portfolio than in typical Regulation 28 compliant unit trust portfolios with similar risk profiles. The below graph indicates the performance of the NFMW Aggressive Growth portfolio with the benchmark of such risk-profiled funds, as well as the average performance of the funds managed by large South African asset management companies.

NFMW Aggressive Growth compared to SA Large Asset Manager portfolios



Individual portfolio performances and commentary

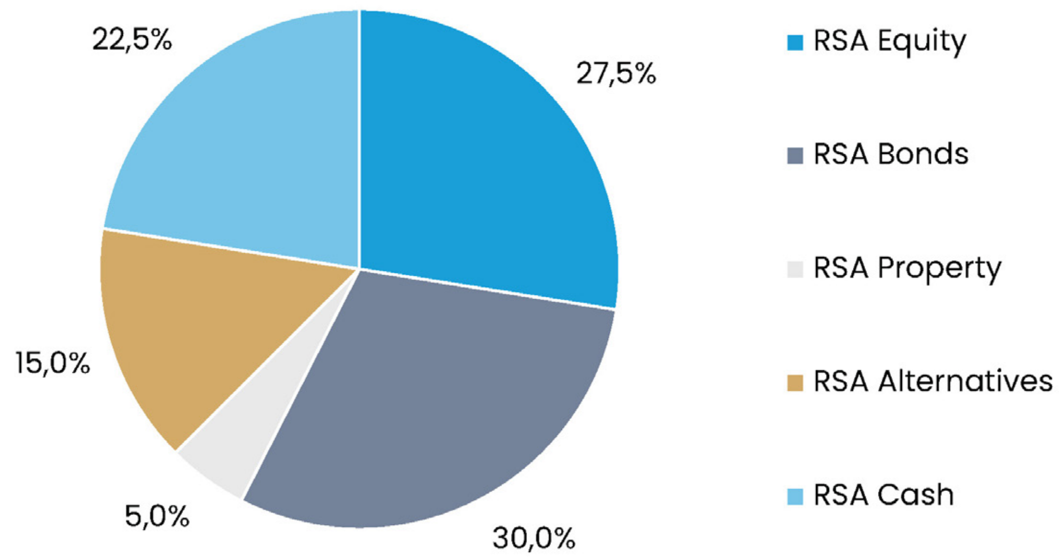
Capital Protector

The objective of the Capital Protector portfolio is to achieve a return of 1% p.a. above inflation (CPI +1%) over time while protecting members' value overall reasonable time periods. The portfolio's assets are primarily invested in a Flexible Income mandate managed by Terebinth Capital together with a combination of other cash managers. The portfolio also has exposure to a small portfolio of securitised debt and two conservatively managed enhanced cash portfolios.

The portfolio returned 4.4% for the one year ending June 2022. It should be noted that cash returns are reflective of the relatively low interest rates we experienced in South Africa for most of 2021 post-COVID. However, the trajectory has changed as the Reserve Bank entered an interest rate hiking cycle in 2022 on the back of higher inflation and we expect the increase in interest rates to continue into 2023 as inflation needs to be brought under control.

Stable Growth

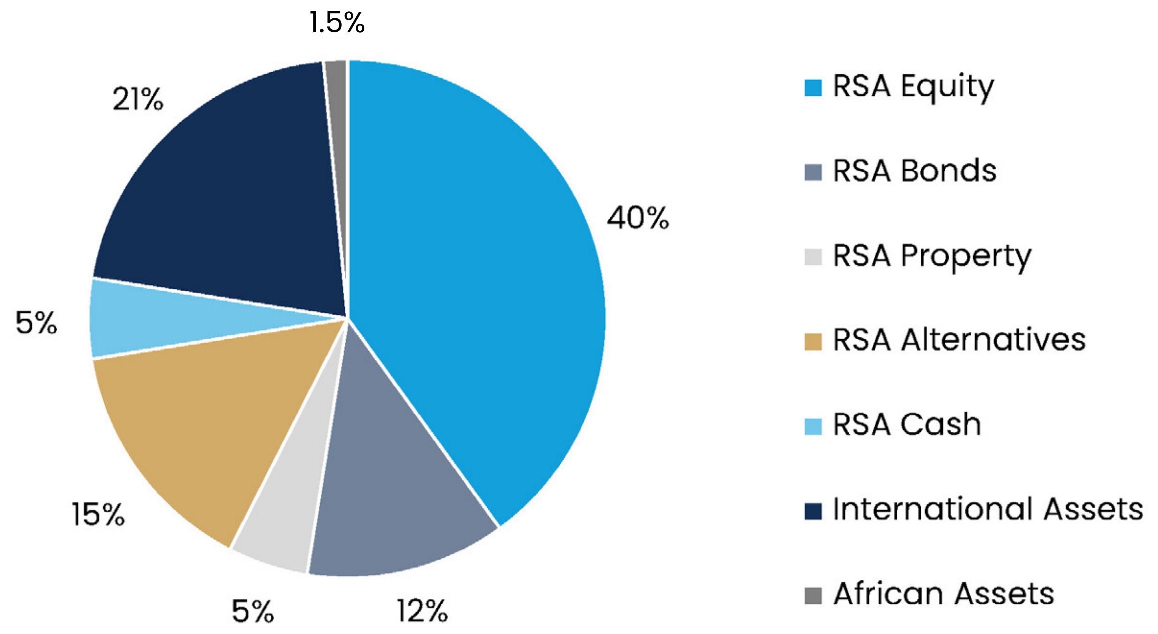
The Stable Growth portfolio aims to achieve a return of 2.75% p.a. above inflation (CPI + 2.75%) over time. Currently, the portfolio's assets are managed by a range of specialist asset managers aiming to maximise returns with the minimum amount of risk measured over longer periods.



The Stable Growth portfolio returned 4.6% for the one year to June 2022 after an excellent return in 2021 (17.7%). The portfolio's exposure to high-yielding cash and credit funds together with bonds and property struggled to gain momentum as interest rates increased in 2022. The portfolio also has no exposure to offshore assets which reduced volatility throughout the year and contributed to a relatively good performance compared to the portfolios with such exposure. Due to its capital protection focus, this portfolio has lower exposure to the equity market, and will protect fund credits of those members close to retirement from volatility and sudden downturns in the equity market.

Capital Growth

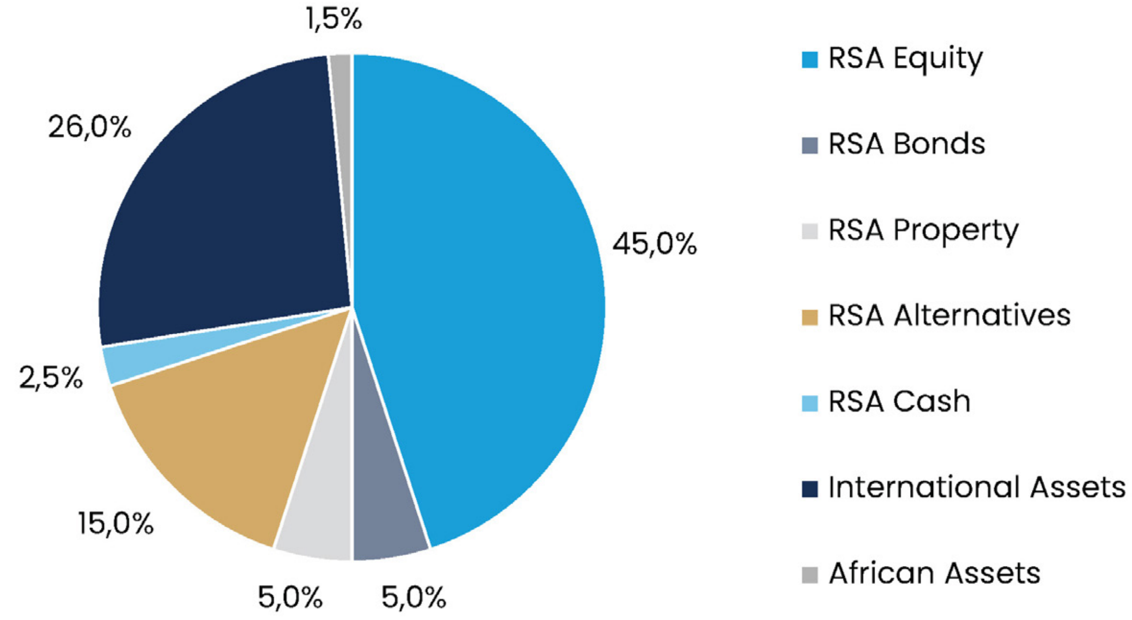
This portfolio has a higher equity allocation than the Stable Growth and Protector portfolios and includes investments in foreign assets. The Capital Growth portfolio aims to achieve a return of 3.75% p.a. above inflation (CPI + 3.75%) over time. This portfolio's assets are managed by a range of specialist asset managers with the aim to maximise returns with the minimum amount of risk measured over longer periods of time.



The Capital Growth portfolio ended the 2021/2022 financial year with an annual return of 1.53%. Global assets struggled as equity markets faced headwinds due to high global inflation and interest rates, as well as the conflict in Eastern Europe. The main contributors to performance were local equity and alternative managers, as well as through the portfolio's tactical asset allocation positioning. The portfolio remains well positioned to benefit from better asset price valuations, and a speedy end to the interest hiking cycle. The portfolio arguably offers a "better than ever" diversification position which should protect members against severe market volatility.

Aggressive Growth

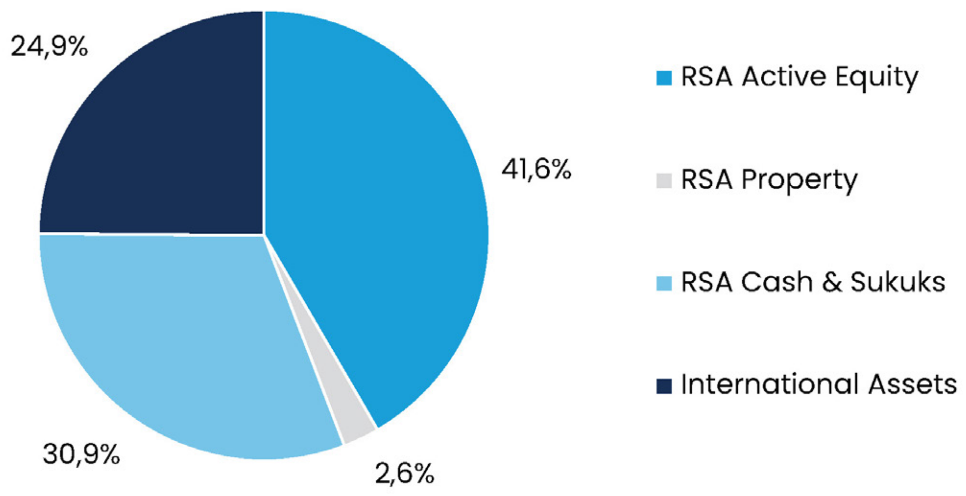
The Aggressive Growth portfolio's assets are managed by a range of specialist asset managers with the aim to maximise returns with the minimum amount of risk measured over longer periods of time. This portfolio was the best performing over the long term due to having the largest exposure to international assets. This portfolio is structured with an investment objective of CPI + 4.75% p.a.



The Aggressive Growth portfolio returned 1.04% for the one year ending June 2022. Global assets struggled as equity markets faced headwinds due to high global inflation and interest rates, as well as the conflict in Eastern Europe. The main contributors to performance were local equity and alternative managers, as well as through the portfolio's tactical asset allocation positioning. The portfolio has a higher exposure to more risky asset classes (equity and offshore) compared to the other portfolios and will continue to do well once the global interest rate hiking cycle ends. In recent times, investors were generally not well rewarded for taking on additional risk through higher equity or offshore exposure (although 2021 saw an excellent return of 17.7% on the back of the post-COVID recovery).

Shari'ah Portfolio

The Shari'ah portfolio is suitable for investors requiring a Shari'ah-compliant portfolio appropriate for retirement schemes and members' retirement savings over the long-term. The portfolio will be invested in a wide variety of domestic and international asset classes such as equity, sukuks and listed property, within the constraints of the statutory investment restrictions for retirement funds. The underlying investments will comply with Shari'ah requirements as prescribed by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).



The Shari'ah portfolio was the best performing NFMW portfolio last year and returned 6.54% for the one year to June 2022. The good performance is reflective of the relatively higher resources exposure maintained in the portfolio over the past few years.

Post-retirement living annuity portfolios

As part of the recent outsourcing of the Fund's counselling and advice services, the Fund's own in-fund living annuity has been discontinued and is no longer available as an option to members (closed from 1 April 2022). This action mitigates various regulatory risks for the Fund and its members, which leaves only the best options open to members.

The Fund provides post-retirement annuity options for its members through the MMI-platform, with preferential negotiated institutional rates. These custom-designed NFMW Golden Living Annuities are available to members, alongside an NFMW Golden Income With-Profits Life Annuity (underwritten by MMI) to make provisions for income after retirement. Members are also able to opt out of the Fund and its endorsed default solutions at any time after or at retirement.

However, for current In-Fund living annuity members the Fund has created four investment portfolios to provide for their different financial needs. The investment portfolio choice will depend on the member's personal financial circumstances and requirements as well as the required drawdown rate (i.e., monthly pension amount). Living annuity-members may invest their available fund credits in one or any combination of the available portfolios, and will be subject to continuous sustainability monitoring by the appointed Actuary of the Fund.

> " *I am happy that I trusted the NFMW with my funds.*
> *I know you have my best interest at heart regarding my retirement.* "

The post-retirement living annuity portfolio strategic asset allocations and investment objectives are summarised in the table below:

	Capital Protector	Stable Growth	Capital Growth	Aggressive Growth
SA Equity		30.0%	37.5%	45.0%
SA Bonds		32.5%	20.0%	12.5%
SA Property		5.0%	5.0%	5.0%
SA Alternative		10.0%	10.0%	10.0%
SA Cash	100.0%	22.5%	7.5%	2.5%
International			20.0%	25.0%
	100%	100%	100%	100%
Return Objective	CPI + 1.0% p.a. over rolling 1 year periods	CPI + 2.75% over rolling 3 year periods	CPI + 3.75% over rolling 3 year periods	CPI + 4.50% over rolling 3 year periods

Please note that going forward, the returns on these portfolios will be slightly different from the pre-retirement portfolios.

Net member returns

The net returns added to active members' fund credits over the past twelve months and per financial year are as follows:

	Capital Protector	Stable Growth	Capital Growth	Aggressive Growth	Shari'ah Portfolio
Jun-21	0.38%	-0.08%	0.06%	0.13%	-0.55%
Jul-21	0.41%	1.60%	2.15%	2.26%	2.10%
Aug-21	0.48%	1.73%	1.17%	1.09%	0.98%
Sep-21	0.25%	-1.71%	-0.89%	-0.52%	1.50%
Oct-21	0.22%	1.11%	2.56%	2.90%	3.84%
Nov-21	0.39%	0.87%	0.66%	0.49%	1.57%
Dec-21	0.62%	3.49%	3.64%	3.54%	1.86%
Jan-22	0.35%	1.27%	-0.42%	-0.80%	-0.98%
Feb-22	0.36%	1.15%	0.53%	0.42%	2.48%
Mar-22	0.40%	0.77%	-0.53%	-0.96%	0.69%
Apr-22	0.27%	-1.96%	-2.29%	-2.22%	-1.05%
May-22	0.54%	0.83%	0.63%	0.31%	-0.06%
Jun-22	0.04%	-4.40%	-5.39%	-5.18%	-6.20%
Total return	4.42%	4.59%	1.53%	1.04%	6.54%

Financial Year	Capital Protector	Stable Growth	Capital Growth	Aggressive Growth	Shari'ah Portfolio
2010/2011	5.36%	11.82%	11.30%	14.35%	n/a
2011/2012	5.67%	8.81%	8.84%	7.73%	n/a
2012/2013	4.97%	10.40%	18.56%	19.02%	n/a
2013/2014	4.23%	9.65%	18.12%	24.44%	20.29%
2014/2015	5.99%	7.25%	7.49%	6.44%	-2.10%
2015/2016	7.44%	8.47%	11.45%	10.58%	4.21%
2016/2017	8.54%	6.60%	5.35%	4.83%	5.68%
2017/2018	8.06%	8.02%	9.06%	8.88%	8.73%
2018/2019	8.36%	6.54%	4.61%	3.76%	4.66%
2019/2020	6.42%	-3.32%	-0.87%	0.77%	-0.34%
2020/2021	5.06%	17.67%	18.03%	17.69%	26.72%
2021/2022	4.42%	4.59%	1.53%	1.04%	6.54%

The net returns added to living annuity members' capital amounts over the past twelve months and per financial year are as follows:

	Living Annuity Capital Protector	Living Annuity Stable Growth	Living Annuity Capital Growth	Living Annuity Aggressive Growth
Jul-21	0.43%	1.63%	1.90%	2.33%
Aug-21	0.50%	1.65%	0.96%	1.09%
Sep-21	0.27%	-1.53%	-0.63%	-0.50%
Oct-21	0.19%	1.28%	2.78%	3.04%
Nov-21	0.43%	0.92%	0.68%	0.50%
Dec-21	0.71%	3.63%	3.72%	3.47%
Jan-22	0.35%	1.37%	-0.41%	-0.86%
Feb-22	0.37%	1.31%	0.52%	0.39%
Mar-22	0.46%	0.82%	-0.83%	-0.96%
Apr-22	0.27%	-2.16%	-2.25%	-2.20%
May-22	0.56%	0.82%	0.60%	0.28%
Jun-22	-0.09%	-5.04%	-5.37%	-5.17%
Total return	4.54%	4.49%	1.37%	1.09%

Financial Year	Capital Protector	Stable Growth	Capital Growth	Aggressive Growth
2016/2017	8.54%	6.60%	5.35%	4.83%
2017/2018	8.06%	8.02%	9.06%	8.88%
2018/2019	8.36%	6.54%	4.61%	3.76%
2019/2020	6.42%	-3.32%	-0.87%	0.77%
2020/2021	5.21%	17.24%	17.94%	17.55%
2021/2022	4.54%	4.49%	1.37%	1.09%

Fund's investment strategy

The Fund follows a well-diversified investment strategy that lowers expected risk but strives to maintain positive, above-benchmark returns. It employs active and passive management strategies and focuses on investments which provide the Fund with risk-reducing diversification benefits. The Board, with the assistance of its investment consultant, Mosaic Investment Consulting, is continuously managing the investment strategy of the Fund to the optimal benefit of members.

Concluding investment section

The Board of Trustees is confident that the Fund's investment structure will continually add value to members' retirement savings, contribute to sustainable development and adapt to industry developments. The portfolios are managed to provide members with peace of mind and prudent growth to secure a prosperous retirement.

THE FUND'S IMPACT INVESTING AND TRANSFORMATION PROGRAMME

1. Impact investing

During 2022, the Fund continued its journey towards meeting the broader socio-economic needs of its members, in line with its overall operational and business strategy. From a practical and operational standpoint, this essentially means that the Fund is continuing to prioritise investments that achieve not only financial performance but even more importantly, a positive long-term socio-economic and environmental impact.

Prior to embarking on this impact investing journey, the Fund already invested and continued to make a meaningful contribution towards some of South Africa's most critical development areas such as job creation, infrastructure, education, technology (ICT), and healthcare.

Since the impact investing programme was formalised in 2021, we have already made significant strides towards implementation. An additional R1.2bn was reserved for impact investments to further enhance the Fund's unique vision. We are proud to announce that the additional capital has already been committed to five dedicated impact-driven funds that were all appointed during 2022. These additional appointments are earmarked to enhance the Fund's contribution in areas relating to job creation, education, technology (ICT) and infrastructure areas such as water and sanitation, housing and agriculture. The journey is continuous, and we look forward to realising positive change today and tomorrow!

> *" It is always good to know that your investments are in good hands that makes you to sleep peacefully at night. All thanks to you NFMW. "*

2. Current socio-economic impact of NFMW's investments

The Fund currently makes use of 27 underlying asset managers, of which 26 have Environmental, Social and Governance (ESG) policies in place. The Board regularly engages with the asset managers to understand how ESG-factors are incorporated when investing on behalf of the Fund with the objective of encouraging positive ESG-outcomes.

Asset managers focusing on traditional, listed companies often make their impact by incorporating ESG in the investment process; engaging with the management of investee companies to effect a positive change and proxy voting (on behalf of the Fund) in favour of positive ESG-factors. With traditional asset classes (mostly equities), priority is on assessing potential investments based on their financial merit and how ESG-factors are expected to impact a business's profitability.

On the other hand, the alternative asset class is best suited to make a difference in the lives of ordinary South Africans, as investments are made in projects that positively impact the broader society. For example, investments in projects like infrastructure and SMME (Small, Medium and Micro Enterprises) development ultimately create sustainable permanent jobs while investing in healthcare in rural or peri-urban areas improves access to healthcare services for people living in otherwise remote areas. Therefore, through dedicated and direct alternative investments, the Fund can achieve direct and measurable social impact. The Fund currently makes an impact in the form of job creation and infrastructure development, amongst others, through its alternative investments, as listed below including newly appointed impact funds as at the financial year end:

a. Old Mutual Alternative Investments (OMAI) IDEAS (an infrastructure fund);
b. Futuregrowth Development Equity Fund (DEF) (a developmental and infrastructure fund);
c. Futuregrowth Infrastructure and Development Bond Fund (IDBF);
d. Razorite Health and Rehabilitation Private Equity Fund II;
e. Summit Private Equity Fund (a traditional private equity fund investing in education, healthcare, financial services and ICT businesses);

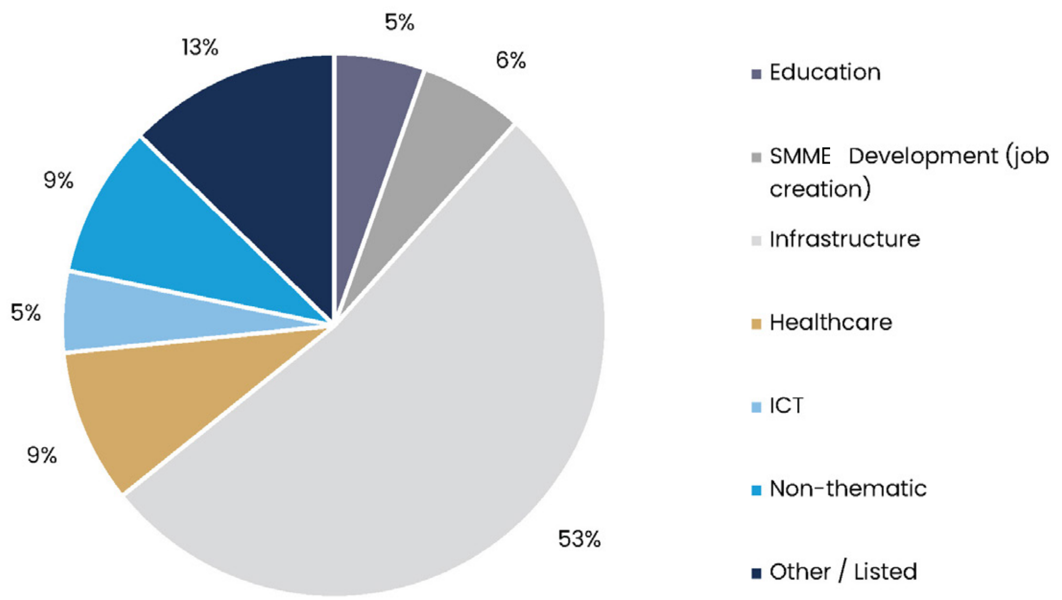
f. Kholo Capital Mezzanine Debt Fund (mezzanine debt fund investing in businesses across various economic sector and with a job creation target);

g. Sanari Private Equity Fund (impact-driven traditional private equity fund focusing on businesses in the healthcare, food and agriculture, technology, energy and education sectors) and;

h. Old Mutual EduFund (an education specialist private equity and debt fund).

During the 2022 financial year end, the total value of alternative investments in the Fund increased from R2.9bn to R3.9bn (16.7% of total assets). Although infrastructure (at R2bn) remains more than half of the Fund's investments in alternative assets, education and ICT improved the most relative to 2021. The table below shows the Fund's current exposure to impact themes through its investments in the alternative funds:

Exposure of NFMW's alternative assets to each impact theme



Impact Theme	Exposure in Rands	Exposure (% of the Fund)
Education	R 208 030 377	0.9%
SMME Development (job creation)	R 239 903 180	1.0%
Infrastructure	R 2 025 682 847	8.8%
Healthcare	R 352 979 011	1.5%
ICT	R 186 371 942	0.8%
Non-thematic	R 349 351 087	1.5%
Other / Listed	R 488 649 194	2.1%
Total	R 3 850 967 639	16,7%

The following asset managers and products contributed to the exposure as indicated above:

OMAI IDEAS (Infrastructure, Development and Environmental Assets) Managed Fund

OMAI has four key impact areas as an investment firm namely: climate action, decent job creation (and reducing income inequality), gender equality and governance. OMAI is a signatory to the United Nations' Principles for Responsible Investing (UNPRI). The OMAI IDEAS Managed Fund is one of South Africa's largest diversified domestic infrastructure private equity funds predominantly investing in renewable energy projects. The fund has, however, been growing other types of investments including social, economic and digital infrastructure projects which currently account for more than 20% of the fund's assets. Some of the social impact of the OMAI IDEAS fund since its inception is indicated on the table below:

Key impact area	Unit of measurement	Impact
Energy infrastructure	Installed capacity in gigawatts	1.45 from 28 facilities
Energy infrastructure	Equivalent number of households powered	1 024 740
Road infrastructure	Total kilometres	1 370km
Total employees	Total number of employees by the end of 2020	4 052
Gender equality	Percentage of employees that are female	28%
Inequality reduction	Previously disadvantaged percentage of employees	84%

The fund has grown to R21bn in assets under management (AUM), of which NFMW accounts for R1.6bn (6.9% of the NFMW's total assets), making NFMW one of the largest investors with a significant contribution towards power generation facilities, transport (roads, rail, airports) and social infrastructure (housing) in the country.

Futuregrowth Development Equity Fund (DEF)

Futuregrowth has more than a 25-years history of managing developmental assets as part of their broader responsible investing approach. Developmental investing, in their view, is defined firstly as financing that provides investors with financial returns and secondly, has a social and developmental impact. This is in line with the Fund's objectives. Like OMAI, Futuregrowth is a signatory to the UNPRI.

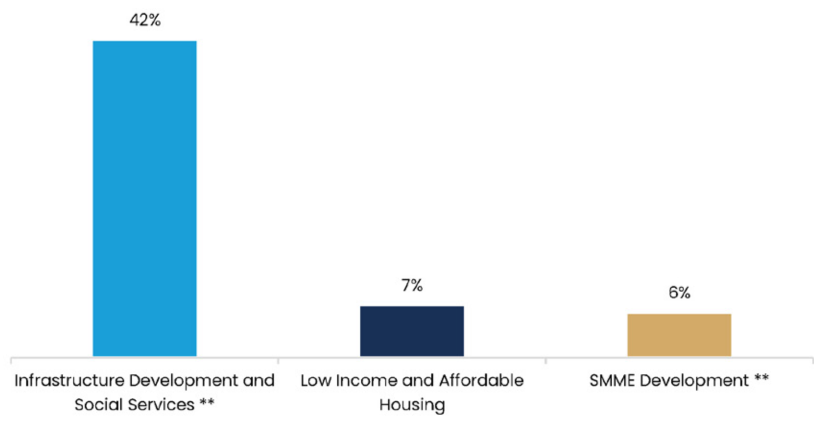
The Futuregrowth DEF has R3.3bn assets under management, of which NFMW's market value is R251m (1.1% of the Fund's total assets). The Futuregrowth DEF invests in socially responsible assets in Southern Africa with a focus on five core social impact themes namely job creation, transformation, SMME-support, gender equality and B-BBEE.

It is well diversified across 29 economic sectors and 9 provinces with more than 75% invested in medium to high developmental impact assets. In addition, more than a third of the fund's assets are invested in infrastructure and social services sectors, including transport and energy. Moreover, other developmental sectors such as SMME-financing and affordable housing make up a third of the portfolio's assets.

Futuregrowth Infrastructure and Development Bond Fund (IDBF)

The Futuregrowth IDB Fund has R17.3bn assets under management, of which NFMW's market value in the fund is R1.2bn (5.2% of the Fund's total assets). The Futuregrowth IDBF invests in both listed and unlisted bonds across diversified sectors and issuers. It is an excellent example of investments being able to deliver outstanding performance while making a meaningful social (and governance) impact. The fund is invested across 25 economic sectors and ten socially responsible investing (SRI) or social impact sectors which are all aligned with the Fund's strategic objectives, with exposures to various SRIs as follows:

Futuregrowth IDBF exposure to various SRI sectors



** Infrastructure Development and Social Services (mostly through investments in energy, transport, development finance and water and sanitation) and SMME Development (including B-BBEE, and consumer and business access to finance).

Razorite Health and Rehabilitation Private Equity Fund II

The Razorite Health and Rehabilitation Fund II is fairly new having been established in August 2018. They are aiming to transform the healthcare sector in South Africa by investing in healthcare infrastructure (acute, subacute, and primary), thereby making healthcare more accessible and affordable to South Africans across the country.

The NFMW's total committed capital to Razorite is R250 million, the majority of which has been deployed across 20 facilities across the country, of whom the majority are operational. The number of licensed beds from the operational facilities is 1034.

Apart from Razorite's objective to contribute towards healthcare infrastructure development (with a rural and peri-urban focus), job creation is another area where this private equity fund makes a significant impact. This is clear from Razorite's underlying operational hospitals, which currently employ more than 1 350 people across 13 operational healthcare facilities. Of the total employees, 1015 were black South Africans (including 74 out of 183 doctors/specialists). Female employees made up 877 while youth (under 35 years of age) were 336, in line with the Fund's inclusivity objective. In addition, all facilities are expected to treat more than 300 000 patients annually once operational.

Summit Private Equity Fund

The Summit Private Equity Fund was established with the social impact objectives of creating jobs, promoting diversity and inclusivity as well as transformation. They aim to achieve these objectives by investing in diversified target sectors namely: education, healthcare, financial services and ICT (information and communications technology).

Summit has R1.6bn in committed capital from a diversified 14 institutional investors, of which R150m was committed by the NFMW. So far, Summit concluded five investments – three in the healthcare sector, one in the financial services sector and one in the education sector. It is still early days for Summit's capital deployment but through their investments, 706 full-time jobs were sustained including 138 new jobs created since Summit invested in the various facilities.

Kholo Capital Mezzanine Debt Fund

The Kholo Capital fund invests in mezzanine debt financing opportunities in mid-market businesses that are highly scalable, black-owned, and/or family-owned with proven business models and strong growth prospects. In addition to targeting businesses with strong financial returns, Kholo Capital targets a strong positive impact and ESG. The fund aims to create more than 500 jobs across its target investments in seven to 12 businesses. In addition, they expect to invest more than 50% of the fund's capital in black-owned businesses with at least 25% direct black ownership. The Fund committed R200m to the Kholo Capital Mezzanine Debt Fund as part of the building block to enhance our contribution towards job creation.

Kholo Capital is fairly new, having been established in 2020 and hence they are still busy fundraising. Their investment focus within the United Nations' Sustainable Development Goals (SDGs) is on job creation although their overall objectives include the promotion of transformation, job creation, gender inclusion, economic growth, financial inclusion, social cohesion, and good governance. Their focus area is BEE-financing and providing expansion capital across various sectors including healthcare, education, telecoms, infrastructure, and financial technology.

Sanari Private Equity

The Sanari 3S Growth Fund (the 3S stands for Sustainable, Scalable, and Saleable) invests with agility and is committed to growing medium-sized and mid-market African (mainly South African) businesses that are sustainable, globally scalable, and saleable. They are specialists in identifying and investing in founder-run, owner-managed, or family-owned businesses while emphasising digital and human enablement to unlock value. By the end of NFMW's financial year, the Fund had committed R75m towards Sanari which has recently been increased to R150m at the 2022 strategy session to further enhance the job creation and ICT broader impact themes. Sanari's total commitments are R377m including the additional top-up from the Fund.

Their objective is to deliver competitive returns and achieve a broader positive social impact by investing in businesses in the ICT, healthcare, education, food or agriculture, and green energy/technology sectors. Sustainable job creation is the common impact theme across all their target sectors. The fund's philosophy is premised on investments in medium-sized and mid-market growth companies that are established and at an inflection point, with new avenues for growth (organic and acquisitive) while tapping into thematic drivers around technological and social changes. Their primary objective of 'Doing Good whilst Doing Well' is premised on the need to deliver competitive returns and a broader positive social impact.

Although the fund is in its early stages, they concluded two investments including one in education and the other in ICT. The two entities sustained a total number of 189 permanent employees by the end of May 2022, 50 of which were created since NFMW invested.

Old Mutual EduFund

The Old Mutual EduFund's core objective is to improve the quality of education in South Africa along with contributing towards job creation, economic transformation and sustainability while delivering attractive risk-adjusted returns. The impact and ESG-assessments are fully integrated in the investment process.

The fund is still busy fundraising to reach their R1.5bn target fund size although they had reached R1bn by the end of NFMW's financial year end. The fund continues to deploy capital and to date, they have invested in four schools (two in the Eastern Cape, one in Kwazulu-Natal and one in Gauteng).

The Fund has since topped up its commitment from R125m to R300m at the latest strategy session in August 2022. Meanwhile, the EduFund's total commitment has grown to R1.24bn. This allocation will enhance the Fund's contribution towards quality, affordable education in South Africa. In aggregate, the fund expects to offer quality and affordable private education to 27 000 learners and create 300+ new permanent jobs that are both aligned with the objectives of NFMW's impact investing programme.

3. Transformation programme

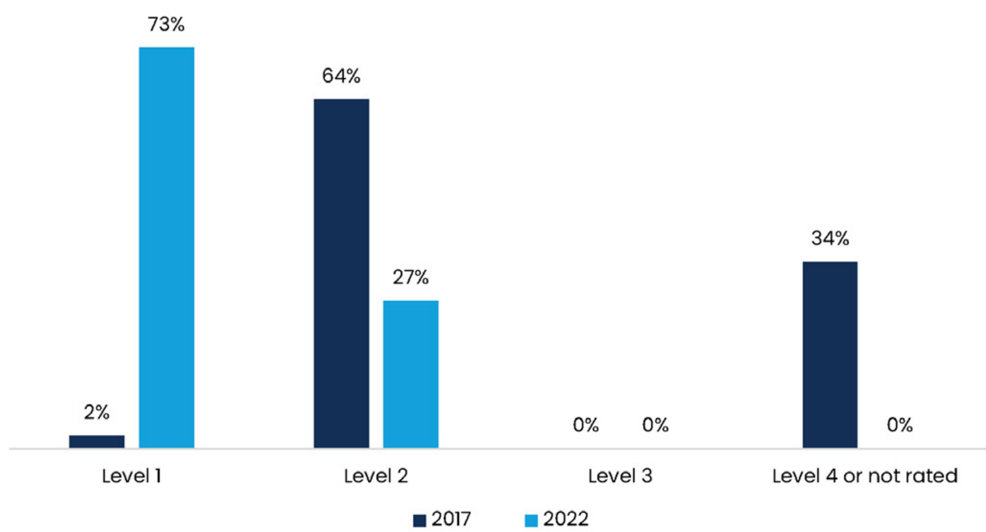
The continuous management, improvement and transformation of the Fund's B-BBEE status remains a priority for the Board. Since the start of the Fund's Transformation Programme in 2017, the Fund has vastly improved its B-BBEE status. This was achieved mainly through:

a. The appointment of new and more transformed service providers;
b. The improvement of B-BBEE credentials by a large number of the Fund's appointed asset managers;
c. Increasing allocations to existing asset managers with higher B-BBEE ratings

4. The progress of the Fund's transformation

The graph below shows how the Fund's underlying asset managers' B-BBEE levels have significantly improved between 2017 and 2022 (the 2022 position indicated in light blue, and 2017 in dark blue):

2017 vs 2022 Asset Manager's B-BBEE Ratings



It is clear from the graph that more than two thirds (70%) of the Fund's asset managers boast a Level 1 rating and nearly a third is rated Level 2. In fact, all of the NFMW's rated asset managers are now B-BBEE Level 2 and above. In contrast, Level 1 rated managers only made up 2% of NFMW in 2017, showing a significant improvement by 2022. This was largely underpinned by the continuous appointments of various transformed asset managers across different asset classes including the recently appointed impact managers (one private equity and one mezzanine debt fund). In addition, the larger asset managers such as Coronation, Sanlam and Allan Gray improved their B-BBEE ratings to Level 1 over the past two years.

5. The NFMW transformation policy

The Fund's Investment Policy Statement also describes its transformation policy and criteria which have not changed since they were first established. As such, the Fund actively supports broad-based black economic empowerment through the selection of its asset managers.

It should be noted that selecting and appointing B-BBEE managers remains subject to a thorough due diligence process and specific selection criteria. All considerations which are taken into account are further described in the Fund's Investment Policy Statement. The specific selection criteria identified for B-BBEE managers by the Board include, but are not limited to the following:

- Minimum 51% black ownership
- Majority of the investment team must be black
- Medium-sized firms (in terms of assets under management) are preferred
- A five-year track record is preferred but shorter track records will be considered
- Firms must have transformation and skills development plans in place

The constant improvement and management of the Fund's transformation programme and B-BBEE status remain a priority.

6. The future of NFMW's impact investing and transformation strategy

In future, the Fund aims to contribute substantially and meaningfully towards the long-term socio-economic needs of the country while allowing members to benefit financially from the investment opportunities relating to these developmental areas. The Board, together with the Fund's investment consultant, will actively pursue the best impact investment opportunities taking account of the various risks and rewards. In this process it will also take the Fund's transformation programme into account.

Furthermore, focus is placed on responsible investing which encompasses the sustainability of the Fund's investments by adhering to positive environmental, social and governance principles. The Board and management of the Fund remain committed to various initiatives that will constantly improve these sustainability elements embedded in the Fund's underlying investments. Rest assured that the Board will deliver on the Fund's vision to positively impact the lives of its members, their families and their communities, today and tomorrow!

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