Annual report

1 July 2015 - 30 June 2016

National Fund for Municipal Workers

Benchmark of Excellence

NFMW

Fund of choice

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Indemnity statement

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

Our objective

To always keep our members informed about what is happening in the fund, educate them so they understand the benefits they enjoy as members, guide and provide them with the necessary tools through ongoing interaction and equip them to make informed decisions to ultimately retire financially sound one day.

Our vision

To be the benchmark of excellence in providing retirement benefits to local government employees, indicates that we endeavour to provide a correct and personalised service to each member of this fund.

Our mission

To provide financial security to members and their dependants. This is to be achieved by managing the fund in a professional and efficient manner, with the prime focus on growing the retirement benefits in a competitive and risk conscious manner.

This report covers the activities of the National Fund for Municipal Workers for the year ending 30 June 2016.

2015/2016 Key highlights

Our membership has grown to more than 43 000 members nationally.

The fund's total assets have increased by R2 billion during the year under review.

The fund performed well in terms of its investment objectives. The returns added to members' fund credits over this period were well above inflation, with the Aggressive Portfolio achieving in excess of 10%.

Administration costs have reduced to 0.5% of pensionable salary.

Funeral benefits have improved with a reduction in risk cover cost.

About the NFMW

The National Fund for Municipal Workers (NFMW) has grown to one of largest funds within local government and with a membership base of more than 43 000 throughout South Africa, it is clear that it is the fund of choice.

The fund is a defined contribution fund and was established after negotiations at Bargaining Council level between the employer and trade unions and is registered in terms of the Pension Funds Act 24 of 1956.

The fund is managed by a Board of Trustees consisting of 14 member representatives and one employer representative. This means more than 90% of the trustees are members of the fund. We pride ourselves in providing excellent service and the administration cost is of the lowest in the industry, this translates to less of our members' contributions towards cost and more towards retirement savings.

Pretoria head office
Section 1
Business Park @ Zambezi
860 Milkplum Street
Montana
0182

PO Box 15515
Sinoville
0129

NFMW regional office
6th Floor
Tygervalley Health Care
Bellville
7530

PO Box 3421
Tygervalley
7536

Chairman's overview

It is always a privilege and an honour to provide you with my overview of the preceding financial year. This year, my review comes with a sense of pride and joy, looking back at what we as a fund have accomplished. The NFMW has undergone major changes to how we operate, as we continue to improve on the professional and exclusive service provided to our members.

The investment markets have been extremely volatile during this period and the Board of Trustees has worked hard to attain the maximum return on your investments. I am happy to report that the majority of our members have received more than a 10% return on their investments, which is of the highest returns declared by local government funds for this period.

With our membership having grown to more than 43 000 members, we can operate independently and cut out the cost of expensive consultants. In a defined contribution fund, where cost has a direct impact on the members' retirement savings, our focus continued to be on cost saving and providing a value for money service to our members. The decision to move towards self-administration resulted in a reduction in the risk cover cost and the administration fee to only 0.5% of pensionable salary. Less cost results in more of the monthly contributions being allocated to our members' retirement savings.

The funeral benefit was also improved, which means our members and qualifying family members enjoy increased cover from the 1st of July 2016. On behalf of the Board of Trustees, service providers and myself, I would like to extend our sincere condolences to those members and dependants who have lost loved ones during this period.

On a personal note, my family welcomed our first granddaughter in June this year, this was and still is a true blessing and made me once again realise the importance of family by having their best interests at heart and making sure that they are protected and taken care of. I have also applied this principle in my role as Chairperson in continuing to manage this fund in the best interest of each member who forms part of the NFMW family and to provide the benefits and services to assist in making sufficient provision in case the unforeseen happens and ultimately for retirement.

I would like to take this opportunity to thank the major contributors, who play an important role in the success of this fund. The staff of the NFMW, for their selfless sacrifice through the overtime and hard work they put in, to ensure a seamless transition to self-administration, my sincere gratitude. To my fellow trustees for their ongoing support and commitment, I thank you. It is truly a pleasure to serve on a united Board, who shares the same values and objectives.

To the Principal Executive Officer, Sean Samons, for the invaluable contributions you have made to the success of this fund. It is an honour to work with a person of your calibre and high ethical values, who myself, the trustees and the staff can rely on at all times. My earnest appreciation for your loyalty and dedication.

On behalf of the Board of Trustees our appreciation to our service providers for the quality service and expert advice throughout the year.

To our members and participating employers for the trust that you place in us, my appreciation to you and everyone involved in supporting the NFMW. You can rest assured that we will continue to act in your best interest and are committed to the future of this fund. I am looking forward to working more closely with you in the future.

Progress is impossible without change and I believe that the changes in the past year have set the basis for our future approach and growth. We will continue to be the fund of choice and setting the benchmark of excellence in providing retirement benefits for all local government employees.

May you all have a peaceful festive season and a prosperous 2017.

Ron Field

Chairperson of the NFMW

Principal Executive Officer's review

It is my pleasure to report that the National Fund for Municipal Workers has performed exceptionally well over this financial year from both an investment and operational perspective. The year under review has delivered excellent investment returns, excellent growth in membership and a smaller cost structure. I am proud to be associated with such a dynamic fund.

The NFMW utilises an asset-liability modelling (ILM) process that targets specific future outcomes through anticipated risk/return profiles and focuses on the longer term commitment of the fund to its members. This is achieved by managing investment risk, based on specific targets. Excellent performance has been achieved over the past years. This is mainly as a result of the strong performing local and international equity markets, although market vulnerability has remained relatively high for certain asset classes. The fund has significantly outperformed its objectives over the past three, five and seven years. Even though the last twelve months have been challenging, the fund still managed to outperform its major competitors and remains one of the top performing retirement funds within local government.

In support of the fund's member retention and growth strategy, the provision of flexible product options within the fund, at no additional cost to the members or the employer are continuously focused on. These include individual member investment and risk cover choices, which provide members with the flexibility to elect products based on their specific needs.

The fund also offers retirees the option of utilising the fund's in-house living annuity as well as an option of a life annuity outsourced to Momentum. Both these annuities are offered at corporate discount rates and are extremely attractive to retiring members. Furthermore, members also have the comfort of dealing with the same professional people that they had dealt with while they were employed.

The Board of Trustees is supported by four (4) board sub-committees that assist the board in effectively discharging its fiduciary responsibilities and managing fund strategies. The fund is committed to the highest levels of governance and compliance and to this end, the Executive Committee plays a pivotal role in assuring that exceptional governance and compliance principles are adhered to.

The NFMW supports the code of responsible investing in South Africa (CRISA) in adopting the incorporation of economic social governance (ESG) factors by local investment managers into the funds' investment processes.

Effective communication with members and pensioners remains a priority for the fund and includes the provision of information to stakeholders. As important is the education of our members on the benefits and options provided by the fund as well as the importance of retirement preparation to ultimately create sufficient wealth to ensure a comfortable retirement. To this end the fund has embarked on various new ideas to further enhance the communication to the members of the fund.

The fund's call centres in Pretoria and Bellville complement this strategy by providing advice and assistance to members on fund product options, retirement planning and general financial assistance. The fund also has full-time Communication Consultants who continuously interact with members at induction and information sessions. In addition, the fund provides members with a new website that incorporates a secure interactive site where members are able to view their fund details and values online.

I express my appreciation to the Board of Trustees, the sub-committees and specifically the Chairperson Mr. Ron Field for their commitment to the strategic management of the fund and significant value added in ensuring excellence in the areas of compliance, governance and risk management. I also extend my gratitude to the staff of the office of the Principal Executive Officer for providing the highest standard of management and administration.

I further thank our service providers and strategic partners and, in particular, our administrator Sanlam, our asset consultant Mosaic Investment Consultants, our Compliance Officer EBS, our actuary Alexander Forbes, our auditor KPMG, our administration system provider MIP, our IT support provider OMT and most of all our dedicated staff.

To all participating employers and members for their continued loyal support, I express my sincere gratitude.

Sean Samons

Principal Executive Officer

Fund management

The fund is managed by a Board of Trustees, elected in terms of the rules of the fund to direct, control and oversee the operations of the fund per the applicable legislation and the provisions of the fund rules.

The Principal Executive Officer is responsible for the day-to-day management of the fund and reports to the Board of Trustees. Various responsibilities of the Board of Trustees are delegated to board sub-committees which are the Executive committee, Communications committee, Investment committee and the Legal committee.

The Board of Trustees comprises of fifteen (15) trustees. One employer representative is appointed by the South African Local Government Association (SALGA) and fourteen (14) employee representatives are elected on a provincial basis. There are currently no vacancies.

The Board of Trustees and the respective committees meet on a regular basis to conduct the business of the fund and to give effect to each committee's specific duties and responsibilities. During the year under review the following meetings were held:

- 7 Board of Trustees meetings
- 10 Executive committee meetings
- 11 Communications committee meetings
- 12 Investment committee meetings
- 11 Legal committee meetings

All these meetings had the correct number of trustee members in attendance to constitute a quorum, as per the rules of the fund.

Please refer to the fund's website www.nationalfund.co.za for the full set of fund rules and detailed information on fund management and governance.

Rule amendments

During the previous fund year, the fund consolidated all the previous amendments from amendment number 1 to 10 into a newly approved “Consolidated rules”. The consolidated rules of the fund are available at the fund’s offices as well as on the fund’s website www.nationalfund.co.za.

The following new rule amendment (number 2) was submitted to the Financial Services Board:

Resolution

The Board of Trustees resolved at Pretoria on 25 April 2016 that the following Rules of the Fund be amended with effect from 1 March 2016 as follows;

1. Rule 1.2 is replaced by the following:

   The registered office of the FUND shall be at
   Section 2
   Business Park @ Zambezi
   860 Milkplum Street
   Montana
   0182

2. The definition SERVICE CHARGE is replaced with the following:

   SERVICE CHARGE: A charge on contributions paid to the FUND as determined by the BOARD OF TRUSTEES from time to time, for cost of the benefit administration of the FUND.

3. Rule 4.3 is replaced by the following:

   4.3 Payment of Contributions

   MEMBER contributions will be deducted by the LOCAL AUTHORITY from the MEMBER’S pay at the end of each month. The first deduction will be made from the MEMBER’S pay at the end of the first month during which the MEMBER commenced contributing. These contributions, together with the LOCAL AUTHORITY contributions in terms of RULE 4.2. will be paid by the LOCAL AUTHORITY into the FUND'S bank account within a period of seven days from the end of the calendar month to which such contributions relate. The FUND will immediately notify the REGISTRAR should payment not be made within a period of two months following the expiry of the seven-day period.

4. Rule 9.9 is replaced by the following:

9.9 Payment of Benefits

Whenever a benefit becomes payable to any beneficiary, the benefit will be paid by means of an electronic fund transfer to the beneficiary's account with a bank as defined in the Banks Act, No. 94 of 1990, or a mutual bank as defined in the Mutual Banks Act, No. 124 of 1993, the details of which have been furnished by the EMPLOYER or the beneficiary to the FUND.

For the purpose of this RULE "beneficiary" shall mean any person (including the MEMBER if applicable) who is or becomes entitled to the payment of a benefit in terms of these RULES.

Where the payment of any benefit to a MEMBER or beneficiary takes place in terms of the RULES, call rate of interest will be added to the benefit payable, between the date that the benefit becomes due to the MEMBER or beneficiary and the actual date of payment.

5. Rule 9.11 is replaced by the following:

9.11 LOCAL AUTHORITY must advise the FUND

The LOCAL AUTHORITY must inform the FUND in writing as soon as an ELIGIBLE EMPLOYEE becomes entitled to FUND membership or a MEMBER retires, dies or withdraws from his service. Where the LOCAL AUTHORITY is required to inform the FUND about a MEMBER'S early retirement due to ill-health or death, such notification must reach the FUND within six months of such occurrence.

For the purpose of establishing the benefit to which the MEMBER or beneficiary is entitled in terms of the RULES, the FUND may act upon the information provided by the LOCAL AUTHORITY without further enquiry and the FUND is not responsible to anybody for any misstatements, errors or omissions that may be contained in the information provided.

The LOCAL AUTHORITY indemnifies the FUND against any claims instituted against the FUND as a result of the FUND so acting.

6. Rule 9.12 is replaced by the following:

9.12 Housing Loans

For the period 1 November 1997 to 31 May 2007 the FUND shall have the power to grant a loan to a MEMBER for a purpose referred to in Section 19(5) of the ACT. Such loan shall be subject to the provisions set out in the ACT.

With effect from 1 June 2007 no new housing loans will be granted to MEMBERS from the assets of the FUND.

From 1 March 2016 the FUND shall have the power to grant a loan to a MEMBER for a purpose referred to in Section 19(5) of the ACT. Such loan shall be subject to the provisions set out in the ACT.

7. Rule 12.5.14 is replaced by the following:

12.5.14 ensure that proper books and records of the operations of the FUND are kept and shall maintain (in accordance with Regulation 31 of the ACT) at the FUND'S registered office, a register or registers containing the following information:

(i) each TRUSTEE'S full names and surname, identity number, date of birth, nationality, occupation, residential address, business address, postal address and the date of his appointment to the BOARD OF TRUSTEES;

(ii) any changes occurring from time to time in respect of the above details;

(iii) a minute book recording all resolutions adopted at meetings of the BOARD OF TRUSTEES. (The minute book is to be bound in such a way as to render the withdrawal or insertion of a page impossible and the pages shall be numbered consecutively);

(iv) the names of the MEMBERS of the FUND;

(v) particulars regarding the postal address and registered office of the FUND;

(vi) particulars regarding the administrator of benefits, if any; and

(vii) particulars regarding the administrator of investments.

8. Rule 12.6.5 is replaced by the following:

12.6.5 Appointment of ADMINISTRATOR

The BOARD OF TRUSTEES may appoint one or more organisation to administer the FUND and its investments. The BOARD OF TRUSTEES may only appoint an organisation that has been approved by the REGISTRAR as an ADMINISTRATOR. The BOARD OF TRUSTEES may withdraw the appointment of the ADMINISTRATOR and appoint a new ADMINISTRATOR.

Reasons for amendments

1. The fund is making provision to be a self-administered fund, as well as to delegate some administrative functions to a registered section 13B benefit administrator.

2. The rules of the fund, in relation to the provision of home loans to members, are being amended to align the fund's rules with the reporting requirements of the fund's auditor in relation to the preparation of the fund's annual financial statements.
It is the auditor's stated view that from an accounting requirements point of view, because the complete risk and reward in the provision of home loans to fund members has not transferred from NFMW to RFS Home Loans, the financial statements must reflect those loans RFS Home Loans grants to members, as direct fund home loans. The fund's rules are therefore being aligned with the auditor's requirements and recommendations.

The amendment was duly approved and registered by the Financial Services Board.

Legislative changes

The Taxation Laws Amendment Act, 2013 came into effect on 1 March 2016. This law allows for a 27.5% tax deduction up to a maximum of R350 000 per annum for contributions made to all pension, provident and retirement annuity funds. The annuitisation of provident funds at retirement has been postponed for two years and will only be implemented on 1 March 2018.

Pension Funds Adjudicator

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

Pension Funds Adjudicator: Ms M A Lukhaimane

Address: P.O Box 580
MENLYN
0063

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 to allow the fund 30 days in which to resolve the complaint.

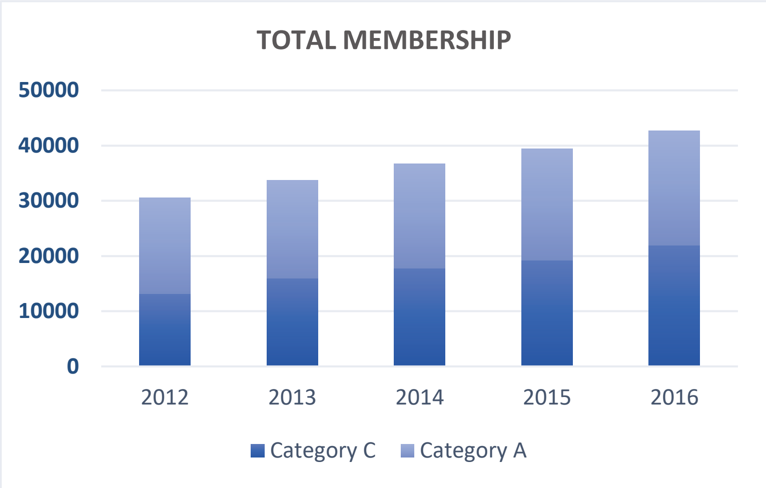
There have been no rulings made against the fund by the Pension Fund Adjudicator for the period 1 July 2015 to 30 June 2016.

Administrative feedback

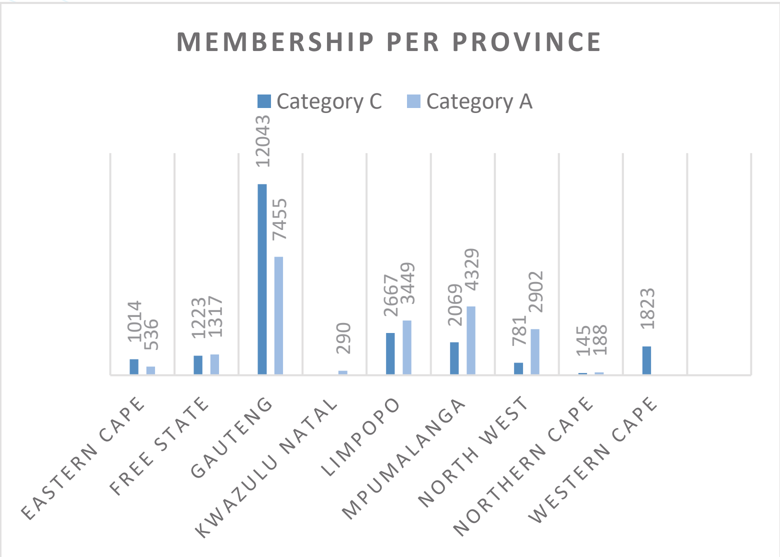
MEMBERSHIP INFORMATION

Total membership

The total NFMW membership has increased by 8.29% during the 2015/16 financial year. Category A has shown a growth of 2.6%, while Category C has grown with 14.26%. The total number of members in the fund (Category C and Category A combined), has increased with 39.82% since the 2012 financial year.



The graph below illustrates the number of exits per 100 new members gained per annum, from 2012 to 2016.



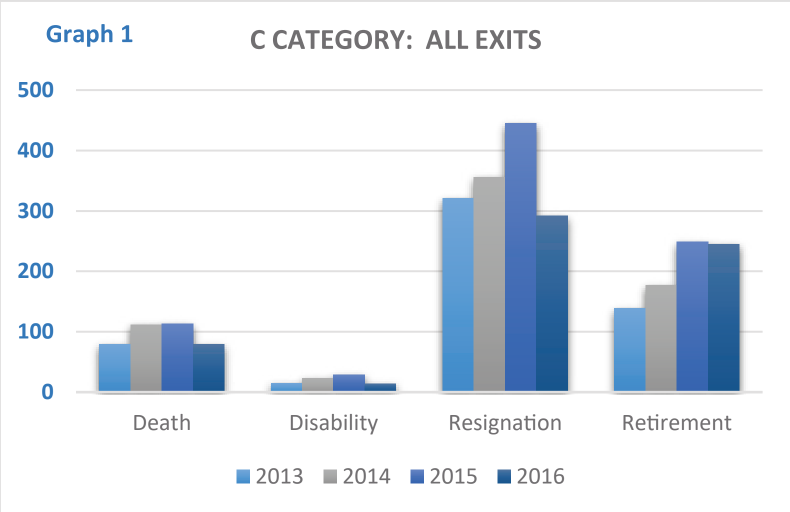
The provinces showing the highest combined growth in membership percentage are Free State with 22% (454 members) and Limpopo with 23% (1144).

Although Gauteng only showed a combined growth of 8%, this represents a total of 1491 members. This makes Gauteng the province showing the highest growth in the number of members.

Fund exits

The following two graphs contain a comparison of members who have exited the fund during the previous four financial years for the four main exit categories.

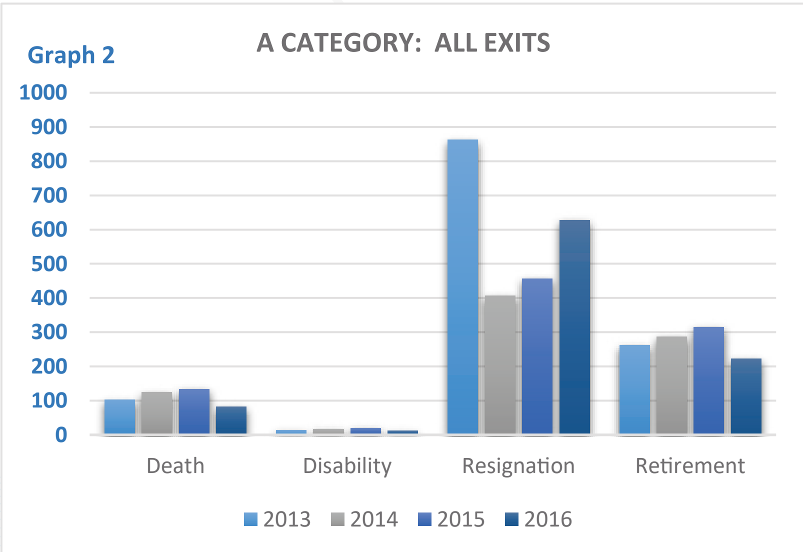
Graph 1 (Category C) below reflects a decrease in all four of the major exit categories during the 2015/2016 financial year:



The number of retirements have decreased with 2%, resignations with 34%, disability with 52% and deaths with 30%.

Overall, the total number of exits in Category C has decreased with 25% since the previous year. When comparing the number of exits during the 2015/2016 financial year with the number of exits in the 2013 financial year, two exit categories have shown a decrease. Resignations decreased with 9% and disability decreased with 7%. Retirements increased with 76%, while deaths remained unchanged.

Graph 2 (Category A) below, reflects a decrease in three of the major exit categories during the 2015/2016 financial year.



The number of retirements have decreased with 29%, disability with 40% and death with 39%. The number of resignations showed an increase of 37%. Overall, the total number of exits in Category A has increased with 2% since the previous year. When comparing the number of exits during the 2015/2016 financial year with the number of exits in the 2013 financial year, all exit categories have shown a decrease: retirements have decreased with 15%, disability with 8%, resignation with 27% and deaths with 20%.

Meet the team

Fund administration NFMW Pretoria : Karen Jansen van Rensburg, Cathrine de Vos, Dikeledi Mashiane, Desmond Mduhluli, Sandra Moore, Christinah Mdhluli, Estelle Kotze, John Martin, Rianna Kotze, Ina van Eeden, Zanele Simmons, Magda Vermeulen, Annette Phyfer, Trudie Bosse and Corni Brits

NFMW Pretoria: Lebo Mokgosi, Lindiwe Skosana, Sanet Nkosi, Yvonne Strydom and Carina Bam

Regional office - Bellville : Carolyn Haughton, Charmaine Harvey, Cathy Vorster, Themba Sabela, Pierre Marais and Delene Laas

Communication : Andile Bango, Jabulani Mpembe, Dirk du Plooy and Strauss Ntuli

NFMW Pretoria - PEO Office: Marinett de Fortier and Martha Morifi

Secretary: Board of Trustees - Marié Jansen van Rensburg

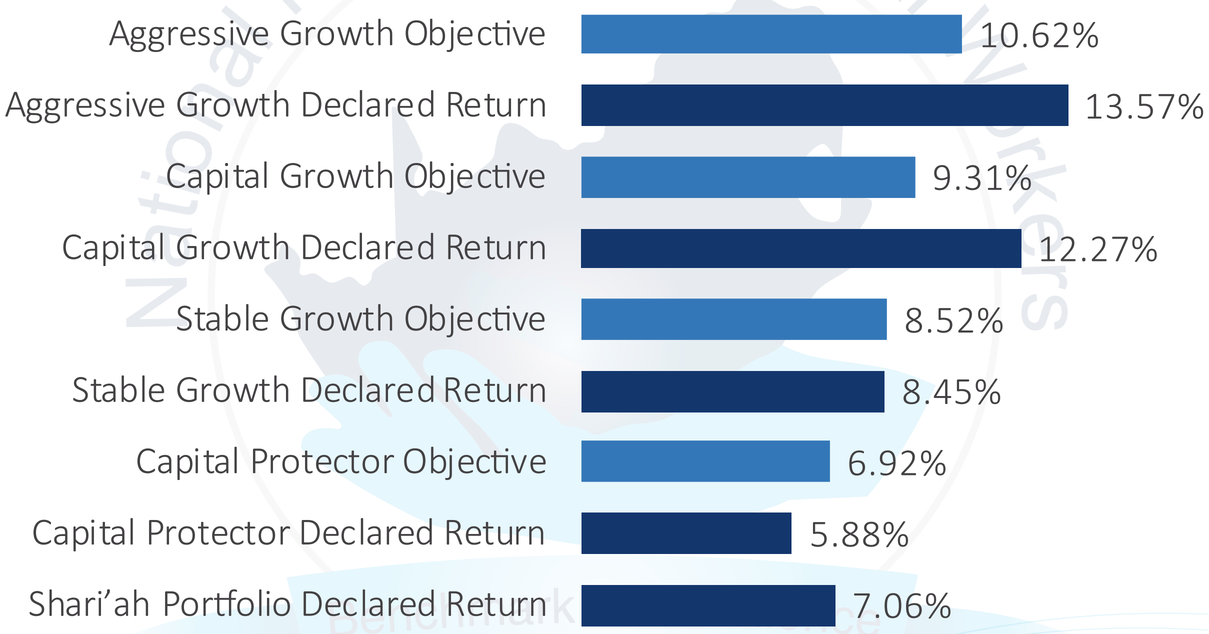
NFMW Pretoria Finance: Renette Erasmus and Annalie Heyneke

Annual investment report

Executive summary

The fund increased its total assets over the financial year by R2 billion (from R10,12bn to R12,12bn) as at the end of June 2016. R1,15 billion of this increase is attributed to investment returns and new inflows came to R855m for financial the year.

The fund performed well in terms of its investment objectives, adding returns well above inflation to members' portfolios in the last financial year and providing returns in excess of its investment objectives over 3-year rolling periods – refer to graph below for portfolio returns.



The fund maintained a well-diversified balanced investment portfolio during the year with this approach protecting the fund during times of high volatility in local and global markets. The fund's international assets in particular performed well under the difficult market conditions.

The fund made a number of additions and changes to the asset manager and product line-up during the year:

1. Prescient was appointed as the tactical asset allocation manager for the Stable Growth, Capital Growth and Aggressive Growth portfolios. Their mandate allows them to actively manage the portfolio overall asset allocation to take advantage of short to medium term opportunities in equity and bond markets. The mandate also allows them to hedge the currency exposure of the offshore portfolio and protect investors from potential losses relating to surprise rand strength while still benefiting from rand weakness.

2. Mazi Capital was appointed as the fund's fourth equity manager near the close of the financial year. Mazi is a majority black-owned asset manager with more than R30 billion of assets under management. They have an excellent long term track record, an experienced investment team and a robust growth-oriented investment process that should translate into good returns for member portfolios over time.

3. The Investec Global Franchise Fund was added to the global portfolio to reduce the volatility of the global equity component. This fund follows a high-quality investment approach which has proven to be defensive in difficult times.

4. Metope was appointed as an additional listed property manager at the time when a Section 14-transfer was completed between the National Pension Fund for Municipal Workers and the NFMW. Being one of the top performing listed property managers over many years, Metope is a welcome addition to the fund's asset manager structure, and will also contribute to a lower overall fee structure.

5. New opportunities in alternative investments have been identified to further diversify the portfolios and improve long term returns. In the past year, the fund has invested in a development equity fund that finances small to medium community-based businesses and infrastructure projects as well as an African real estate development fund that develops shopping malls in fast-growing economic hubs on the continent. Further commitments have been made to existing infrastructure and renewable energy investments and new commitments have been made to an agriculture fund.

6. The fund revised its strategy on Africa assets taking a view on increased risk (commodity downturn and political risks) during the year. It therefore replaced its Africa equity exposure with good alternatives/proxies through exposure in local and emerging market equities. However, it kept some Africa exposure mainly in the retail property space by investing in the Novare Africa Property Fund II.

THE YEAR IN REVIEW

Global

The economic rollercoaster of 2015/2016 made the previous years' events appear pedestrian as the world economies lurched from one crisis to another and global growth slowed.

Just as the Greek crisis had been averted by the approval of a bailout package with stringent conditions, China shook global markets by the sudden and unexpected devaluation of the yuan in an effort to prop up falling exports and lower wholesale prices. Fears of a Chinese "hard landing" were prevalent throughout 2015 and into 2016 as China's growth rate continued on a downward trajectory while policy makers tried to rebalance the economy from export-driven to consumption-driven growth. Authorities pledged their support for the domestic economy by reducing banks' reserve requirements and improving access to credit. Growth in the world's second biggest economy slowed to 6.7% quarter-on-quarter in Q1 2016 – the lowest level in seven years while other countries in the Asia-Pacific region reliant on China's growth, have also experienced a sharp slowdown in export volume as global trade in general declined. The slowdown in the world's growth engine continues to weigh on commodities with prices of iron ore, copper and other bulk materials remaining at or near multi-year lows despite a rebound in March.

Fears of a Chinese slowdown and excess supply resulted in the oil price plummeting to $28.50 in January. It has since recovered to stabilise around $50 per barrel as inventories slowly fell as supply out of Canada and Nigeria was curtailed by wild fires and production issues. The lower oil prices boosted US consumption expenditure while keeping inflation stubbornly below the Fed's target rate of 2%.

Even as the oil price and inflation remained low, the US Federal Reserve finally got the interest rate hiking cycle underway with a 0.25% increase in the Fed funds rate in December. There was, however, to be no further rate hikes in 2016 (to June) as the slowdown in China, low domestic inflation and a number of underwhelming jobs reports gave the Fed reason to pause. The US economy, however, appears to be reasonably robust as earnings and consumer sentiment remain healthy while manufacturing showed some signs of improving. The stronger dollar unfortunately makes US companies less competitive with global peers and the sustainability of the recovery remains a concern to policy makers. While an interest rate hike in June was a distinct possibility, Fed Chair Janet Yellen cited the uncertainty created by the late-June "Brexit" vote as a contributing factor in delaying further rate hikes.

Yellen's stance appeared to be warranted as the UK surprisingly voted in favour of the "Leave" campaign, creating a sense of panic as market participants and the man on the street tried to understand the complex implications of the UK's exit from the European Union. The surprise result claimed a number of casualties with Prime Minister David Cameron resigning immediately after the results announcement and few politicians willing to take his place and face the unenviable task of triggering Article 50 to start the exit process. While there will no doubt be significant impact on Britain and Europe, the most uncertainty surrounds trade agreements and migration rules. It appears that supporters of the "Leave" campaign wanted the best of both worlds – to benefit from EU trade agreements while curtailing the free movement of European labour. EU policy makers meanwhile want the UK to exit as quickly as possible to increase stability in the common monetary area. The EU itself, having to deal with the ongoing refugee crisis and increasing terror threats, continues to struggle with slow economic growth and non-existent inflation and commentators fear that the region is heading for a deflationary trap. Interest rates meanwhile have dropped below zero in a number of countries including Switzerland, Sweden and Denmark in an effort to stimulate spending.

Local

The past 12 months have been difficult for local markets as a negative global economic backdrop, a potential credit rating downgrade and some unexpected and irrational political decisions (particularly "Nenegate" in December) caused extreme volatility on the bond, equity and currency markets. The rand traded between R12.26 and R16.88 to the dollar (R19.13 and R24.51 to the pound) through the period before settling at R14.76 to the dollar (R19.68 to the pound) at the end of June as the currency was whip-sawed by sentiment-driven foreign speculators.

While the ratings agencies were somewhat appeased by the appointment of Pravin Gordhan as Finance Minister after the surprise sacking of Minister Nene, the country's deteriorating fiscal position remains of concern. Economic growth in the country has all but stalled as the commodity cycle remains weak and domestic manufacturing continues to fall despite the expected boost to exports from the weaker currency. The recent drought affecting much of the country has decimated agricultural exports and caused food prices (and general inflation) to rise with the poor being the hardest hit. As a result of weaker commodity prices and slower growth, unemployment rose to well above 25% while consumer confidence hit recent lows. A series of interest rate hikes did little to prevent the currency from depreciating but has had a series impact on consumption and indebtness with many creditors in arrears.

Despite the high level of debt, retail sales remained robust until recently when new vehicles sales dropped sharply. Affordability in general has decreased as wages have not kept pace with the increased prices of imported goods.

Economic outlook

The normalisation of US and global interest rates remains key to economic stability in the medium term. The US economy appears to have stabilised, albeit at a far lower growth rate, but the stability is not guaranteed as a stronger dollar can put pressure on trade with the rest of the world as US products become more expensive. The Federal Reserve has emphasised the reactionary nature of it's actions and will likely wait for a sustained improvement in multiple data points including employment, housing, wages and inflation before committing to further interest rate hikes. This process could take longer to unwind than previously expected as uncertainty remains regarding the strength of the main economies.

We expect continued volatility as the world grapples with the impact of Brexit, slower growth in China and the normalisation of global interest rates. When the Fed eventually raises interest rates – at least one hike is still expected in 2016 – equity and bond markets are expected to re-rate and potentially suffer losses as the higher cost of borrowing is factored into corporate profitability and company valuations. The developed world's bond markets are likely to see higher long term yields (from record low levels currently) which will result in capital losses from that asset class.

South Africa's fortunes are inextricably tied to that of its trading partners the US, EU and China and the prices of commodities. With lower global growth expected, commodity prices will likely remain depressed for some time which will continue to put pressure on local mining operations. Fortunately, the weak rand will provide a much-needed boost to domestic mining and manufacturing operations' cash flow and large job losses from these companies are unlikely. Domestic manufacturing, however, remains on the back foot despite the weaker rand (which improves the competitiveness of local products) as labour productivity remains low. The exception is the motor industry that has boosted exports even as domestic demand stagnates.

Local consumers remain heavily indebted and consumption is likely to fall further as the prices of imported goods rise and disposable income is spent on necessities like food and transport instead. A series of interest rate hikes were halted early in the year as the SARB predicted that inflation would remain within the target band of 3% to 6% for much of their forecast period. We believe the SARB will keep interest rates at current levels to reduce the pressure on the consumer and stimulate growth.

In June, the impact of the weak rand was evident as exports surged while expensive imports fell – a good sign for the Government's current account balance. The credit rating agencies are monitoring developments with the country's finances for further signs of deterioration following their warnings of a potential downgrade to junk status earlier in the year. South Africa has until year end to effect growth-boosting changes to policy and lower the current account deficit.

The ratings agencies have emphasised several key areas that, if improved or sustained, could result in South Africa averting the downgrade. These are:

- ❖ A growth recovery driven by a stabilisation in the electricity supply and fewer interest rate hikes.
- ❖ A stabilisation of government debt ratios, specifically debt-to-GDP, achievable through increased growth and/or reduced expenditure. Rating agencies were somewhat appeased by the most recent budget speech by Minister Gordhan that reiterated Government commitment to spending within its means.
- ❖ Institutional integrity, as shown recently by the independence of the monetary and fiscal institutions as well as the constitutional court, must remain intact.
- ❖ Structural reforms to restore consumer, business and investor confidence.

While some aspects have already been addressed to some extent, the local government elections and potential changes to cabinet could create increased uncertainty regarding the prospects for reform. Global factors, such as the effects of Brexit, could also hamper the country's growth prospects and increase the chances of a downgrade in December.

In conclusion, the uncertain economic and political environment both locally and globally will naturally affect asset prices and the returns on equity and bond markets. We therefore expect modest returns from the equity and capital markets for the remainder of 2016 and into 2017 as global markets slowly come to terms with a world of slower growth, low inflation, and lower (but possibly rising) interest rates.

Asset class returns: 30 June 2016

The table below indicates the returns of the different asset classes over various periods ending June 2016. With a number of economic and political setbacks, it is no surprise that local and global markets generated low returns for the period.

For South African investors, global assets and local listed property were the only investments to deliver double digit returns for the past one-year period as the weaker rand boosted the value of global assets. The local listed property market now has a 30% exposure to global assets (foreign property companies) which effectively hedges that asset class against rand weakness.

Global equities struggled through the year in review with the MSCI AC World Index being down as much as 15% in mid-February (from 1 July 2015) before ending June down just 4.7% for the period. When translated into rand, global equities gained 15.1% and contributed meaningfully to portfolio returns. Global bonds gained 11.9% in USD (35.2% in rand) benefiting from record low developed market interest rates and low inflation. Local bonds (+5.2%) underperformed cash (+6.8%) as yields rose on the back of higher domestic inflation and worries about a potential ratings downgrade while the JSE All Share Index managed a marginally positive return of 3.8% thanks largely to companies with offshore operations. While the returns from local asset classes may seem relatively poor, investors must understand that the past year has been characterised by extreme volatility and market turmoil as policy makers engage in unprecedented actions to improve demand and stimulate growth.

Uncertainty surrounding global growth and company profitability remains and we therefore recommend that investors temper their return expectations for the next 5 – 10 years. High double digit returns from domestic asset classes are highly unlikely and unexpected rand strength could negatively impact the returns of global assets in the short to medium term.

Date: 30/06/2016	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Equities	3.8%	13.0%	13.8%	12.6%
Bonds	5.2%	6.3%	7.9%	8.4%
Property	11.0%	14.3%	18.5%	18.8%
Cash	6.8%	6.2%	5.9%	7.3%
Global Bonds (R)	35.2%	17.9%	18.7%	12.4%
Global Equity (R)	15.1%	19.8%	22.0%	9.9%
Inflation	6.1%	5.8%	5.7%	6.4%
Rand Dollar Exchange Rate	20.8%	14.2%	16.8%	7.5%

FUND INFORMATION

The fund's international managers performed well compared to the local managers as they again benefited from the rand's depreciation in the last financial year. During the past 12 months, investors with more exposure to the "higher risk" asset classes (specifically equities) were not rewarded with higher returns for taking on additional risk. However, over longer periods we expect the historic risk-reward relationship to remain intact.

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

Type	Asset Manager
RSA Balanced	Kagiso Islamic Balanced Fund
Tactical Asset Allocation	Prescient TAA Fund
RSA Active Equity	Allan Gray Domestic Equity Fund
RSA Active Equity	Coronation Equity Fund
RSA Active Equity	SIM Unconstrained Equity Fund
RSA Active Equity	Mazi Equity Fund
RSA Bonds	Investec Tri-Alpha Bond Fund
RSA Bonds	Coronation Active Bond Fund
RSA Bonds	Futuregrowth Infrastructure Bonds Fund
RSA Listed Property	Catalyst Property Fund
RSA Listed Property	Metope Property Fund
RSA Alternative Assets	OMAI Ideas Fund
RSA Alternative Assets	Investec Credit Income Fund
RSA Alternative Assets	Futuregrowth Development Equity Fund
RSA Cash	Atlantic Asset Management Cash Plus
RSA Cash	SIM Active Income
RSA Cash	Securitised Debt
International Assets	Orbis Global Institutional Equity Fund
International Assets	Morgan Stanley Global Brands
International Assets	Investec Global Franchise
International Assets	ACPI Global Credit Fund
International Assets	Nedgroup Investments Global Equity Fund
International Assets	Catalyst Global Real Estate Fund
International Assets	Coronation Global Emerging Markets Fund
African Assets	Novare Africa Property Fund II

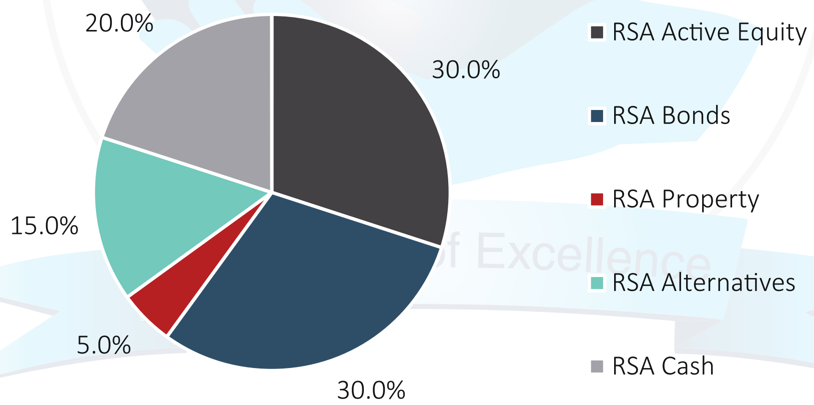
Capital Protector

The objective of the Capital Protector portfolio is to achieve a real return of 1% p.a. above inflation over time while protecting members' value over all reasonable time periods. The portfolio's assets are primarily invested in an Active Income mandate managed by Sanlam Investment Management. The portfolio also has exposure to a small portfolio of securitised debt and a conservatively-managed enhanced cash portfolio.

The portfolio returned 7.44% for the one year ending June 2016 as the Active Income fund benefited from high yields on short-term money market and bond instruments.

Stable Growth

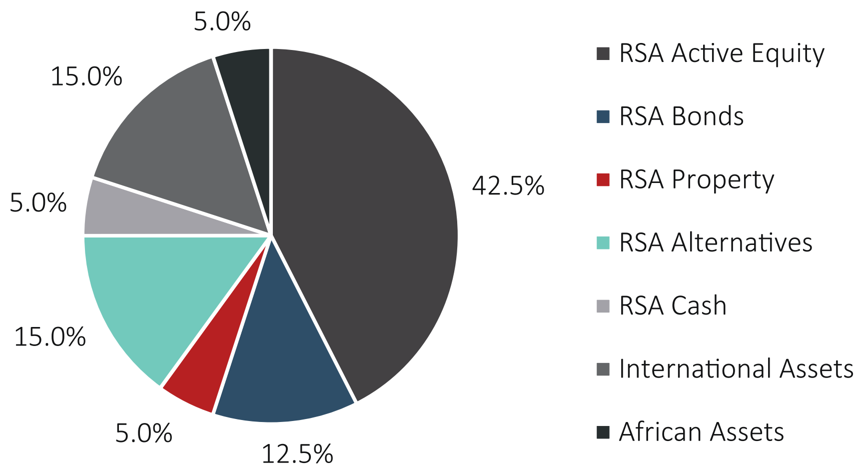
The Stable Growth portfolio aims to achieve a real return of 2.75% p.a. above inflation over time. Currently the portfolio's assets are managed by a range of specialist asset managers with the aim to maximise returns with the minimum amount of risk measured over longer periods of time.



The Stable Growth portfolio returned 8.47% for the one year to June 2016. The portfolio's exposure to high-yielding cash and credit funds (42% of the portfolio) and property added significant value over the period while protecting capital in times of market uncertainty. Due to its capital protection focus, this portfolio has no exposure to potentially volatile offshore assets.

Capital Growth

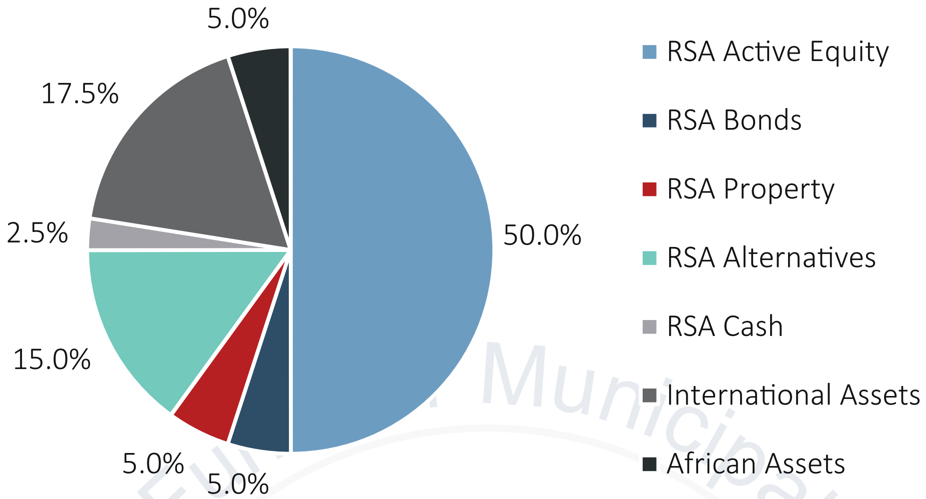
This portfolio has a higher equity allocation than the Stable Growth and Protector portfolios and includes investments in foreign assets. The Capital Growth portfolio aims to achieve a real return of 3.5% p.a. above inflation over time. The portfolio's assets are managed by a range of specialist asset managers with the aim to maximise returns with the minimum amount of risk measured over longer periods of time.



The Capital Growth portfolio returned 11.45% for the one year ending June 2016. The main contributors to performance were offshore assets that benefited from rand weakness and an overweight allocation to high-yielding domestic fixed interest funds. The portfolio's allocation to alternative assets (credit and infrastructure) also contributed meaningfully to returns.

Aggressive Growth

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

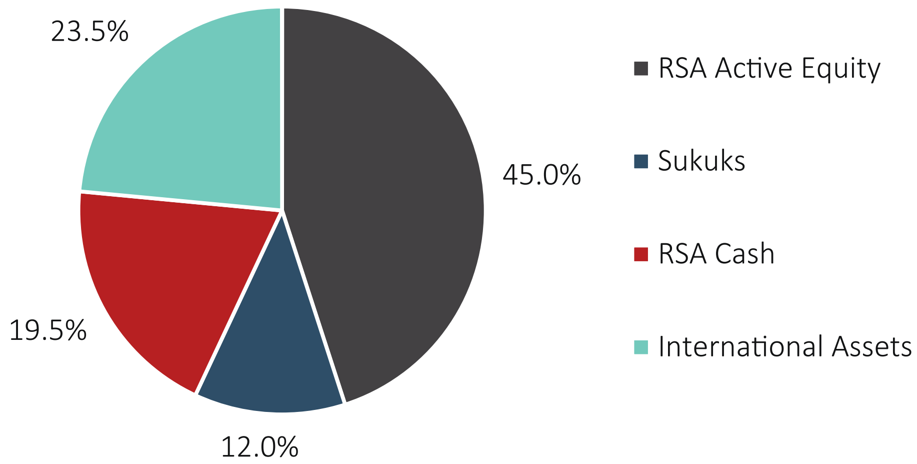


The Aggressive Growth portfolio returned 10.58% for the one year ending June 2016. The main contributors to performance were offshore assets that benefited from rand weakness and the allocation to alternative assets (credit and infrastructure).

Note on performance of Capital Growth vs. Aggressive Growth portfolio: the Capital Growth portfolio outperformed the Aggressive Growth portfolio by slightly less than 1% due to portfolio positioning that was better suited to the uncertain environment. As cash and bonds both outperformed local equity, the Capital Growth portfolio benefited from a slightly higher bond exposure, a lower equity exposure and a higher cash exposure through the year.

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 Shariah portfolio returned 4.21% for the one year to June 2016. Returns were negatively impacted by the portfolio's exposure to resources shares and the relatively low yield offered by local sukuks.

NET BONUSES

The net bonuses declared over the past twelve months were as follows:

	Capital Protector	Stable Growth	Capital Growth	Aggressive Growth	Shari'ah Portfolio
July 2015	0.58%	0.86%	1.37%	1.18%	-0.95%
August 2015	0.56%	-0.36%	-1.16%	-1.48%	-1.43%
September 2015	0.53%	0.11%	-0.04%	-0.60%	-2.05%
October 2015	0.71%	2.35%	4.43%	5.12%	4.46%
November 2015	0.32%	-0.71%	-0.69%	-1.29%	-1.74%
December 2015	-0.17%	-1.61%	0.35%	0.74%	0.12%
January 2016	0.98%	0.62%	-1.06%	-1.57%	-3.06%
February 2016	0.48%	0.89%	1.37%	1.53%	4.61%
March 2016	0.97%	3.56%	4.45%	4.78%	3.23%
April 2016	0.76%	1.46%	0.76%	0.75%	2.07%
May 2016	0.43%	0.06%	1.94%	2.17%	1.81%
June 2016	1.05%	1.03%	-0.63%	-0.95%	-2.53%
Total Net Bonus	7.44%	8.47%	11.45%	10.58%	4.21%

The fund follows a well-diversified investment strategy that lowers expected risk, but strives to maintain positive, exceeding benchmark returns. It employs active 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.

Conclusion

The board of Trustees is confident that the fund's investment structure will continually add value to members' retirement savings and adapt to industry developments. The portfolios are managed in such a way to provide members with peace of mind and prudent growth to secure a prosperous retirement.

Communication feedback

Effective and regular communication forms an essential part of the day to day responsibility of the fund towards all fund stakeholders. Our objective as the National Fund for Municipal Workers is to always keep our members informed about what is happening in the fund, educate them so they understand the benefits they enjoy as members, guide and provide them with the necessary tools through ongoing interaction and equip them to make informed decisions to ultimately retire financially sound one day.

With statistics indicating that less than 7% of South Africans can afford to retire, our main focus for the 2015/2016 financial year was again on striving towards achieving this objective. Our communication consultants travelled thousands of kilometers to visit employers throughout South Africa in order to conduct HR training sessions, member information sessions and meet with some of our more than 43 000 members.

With the move towards self-administration, we had our work cut out for us towards the end of the financial year, to communicate the various changes. This also presented the opportunity to rebrand the fund and introduce new and innovative ways of not just communicating, but also educating our stakeholders. This was done through various communication mediums and included:

- ✓ Poster, electronic and sms communication were used to communicate the change in contact details.
- ✓ New Category C and A information booklets were produced to include the new benefit improvements.
- ✓ We launched a brand new modern and simpler website www.nationalfund.co.za, which contains fund benefit information, fund rules and Board of Trustee information. It also provides a secure interactive facility where members can view their current fund credit information, investment portfolios, risk cover option and beneficiary information.
- ✓ We produced new educational videos to explain the benefits and services provided by the fund.
- ✓ We introduced social media platforms (Facebook and LinkedIn) to encourage member interaction.

The fund believes in constantly measuring the effectiveness of its communication and we have received invaluable feedback from our members at the information sessions conducted. Thank you to all the members who attend these sessions, as it assists us with providing you with the necessary tools to make informed decisions regarding your retirement savings.

Updated contact information is important!

We once again wish to reiterate and highlight the importance of ensuring that your contact details are updated and correct. Without your correct contact details, we cannot communicate with you, so no newsletters, sms notifications or benefit statements can reach you. Please therefore ensure that you provide us with your updated details, through completing the Change of personal details-form or completing the electronic form available on the website. Also remember that we can only send you fund credit sms notifications if you are registered for this service. Please register for this service by completing the Request for fund value via sms-form.

A reminder to also;

- Update your beneficiary nomination form. Death benefit payments are subject to Section 37C of the Pension Funds Act. The nomination form is used as an important guideline when the trustees decide on who the benefit should be paid out to.

- Register a life partner and dependants and keep their details updated. Incorrect, outstanding or outdated information can cause unnecessary delays in the processing and payments of claims.

Social upliftment projects

The fund continued with its social upliftment initiative, in providing financial assistance through its social upliftment projects. This was possible through the generous donation from the fund's service provider Mosaic Investment Consultants who sponsored R20 000 to the Letlhabile Care for the Aged.

Fund benefit improvements

Members of the NFMW received a significant improvement on their benefits, with increased funeral cover and a reduction in the risk as well as the administration cost. Changes effective 1 July 2016:

Improved funeral cover

DEPENDANTS	CATEGORY C COVER Cost of cover (0,252%)	CATEGORY A COVER Cost of cover (0,065%)
Main member	R40 000	R11 000
Qualifying spouse/Life partner	R40 000	R11 000
Qualifying child 6 years and older (above 21 years of age must be a full-time student, unmarried and/or disabled)	R22 000	R 4 500
Qualifying child from 26 weeks of pregnancy until 6 years	R11 000	R 4 500

A reduction in risk cover cost

CATEGORY	DEATH COVER	DISABILITY COVER
C1 Total risk cover cost 1,217%	1 x Annual pensionable salary + fund credit	1 x Annual pensionable salary + fund credit
C3 Total risk cover cost 3,022%	3 x Annual pensionable salary + fund credit	3 x Annual pensionable salary + fund credit
C5 Total risk cover cost 4,195%	5 x Annual pensionable salary + fund credit	3 x Annual pensionable salary + fund credit
C0 (40 years and older by individual member choice) Total risk cover cost 0,252%	No cover	No cover
A100 Total cost 1,263%	1 x Annual pensionable salary + fund credit	1 x Annual pensionable salary + fund credit

Reduction in administration cost and risk administration fees

The administration cost of the fund was reduced from 0.5928% to only 0.50% of pensionable salary. The elimination of the risk administration fee and the reduction in risk fees have resulted in an approximate annual saving of R6 million.

These changes are effective from 1 July 2016 and a full summary of benefits is available on the fund website www.nationalfund.co.za

Board of Trustees as at 30 June 2016

Ron (RJ) Field
Chairperson – Board of Trustees and Exco

Charles (CCK) Antonio
Chairperson Communications Committee and Exco member

Dricus (HS) Rossouw
Chairperson Investment Committee and Exco member

Kobus (JCG) Burger
Chairperson Legal Committee and Exco member

Louwrens (L) Geldenhuys
Trustee - Investment Committee and co-opted Exco member

Christina (MC) Makgalemele
Trustee – Communications Committee

Rina (CJ) Labuschagne
Trustee – Legal Committee

Kevin (KG) Booysen
Trustee – Legal Committee

Sticks (PS) Mofokeng
Trustee – Investment Committee

Evelyn (ME) Jantjie
Trustee – Communications Committee

Clive (NC) Cindi
Trustee – Communications Committee

Robert (R) Solomons
Trustee – Co-opted trustee - Legal Committee

Eugene (EA) Schutte
Trustee – Legal Committee

August (A) Tiemie
Trustee – Co-opted trustee - Communications Committee

Francis (NF) Ratlhaga
SALGA appointed trustee – Investment Committee

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