National Fund for Municipal Workers

Benchmark of Excellence

Annual report

1 July 2016 – 30 June 2017

NFMW

Fund of choice

Celebrating 20 years!

Index

Our vision

To be the benchmark of excellence in providing retirement benefits to local government employees.

Our objectives

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.

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 being on growing the retirement benefits in a competitive and risk conscious manner.

About us

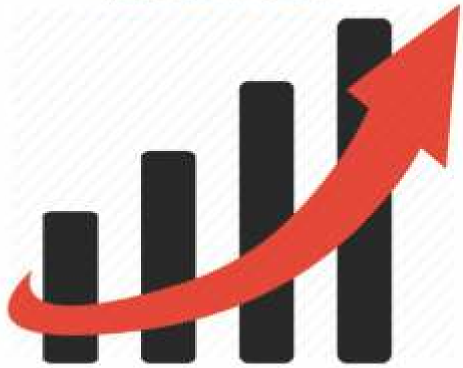
The National Fund for Municipal Workers (NFMW) is a defined contribution retirement fund, established after negotiations at Bargaining Council level between the employer and trade unions and is registered in terms of the Pension Funds Act. It has grown to one of largest funds within local government and with a membership base of more than 45 000 throughout South Africa, it is the fund of choice. The low fee structure translates to less of our members' contributions going towards cost and more towards their retirement savings.

We take pride in providing excellent service and we **N**ever **F**orget our **M**embers' **W**orth!

Key highlights for the 2016/2017 financial year

R1,21 BILLION

Increase in assets



From R12.38bn to R13.59bn

R47 million

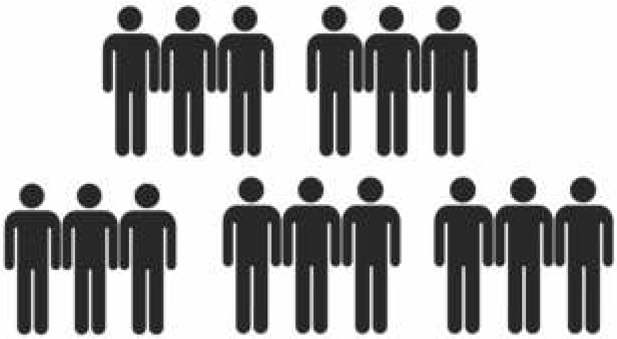
Risk profit

Repaid to members as additional investment return declarations

Membership increased to more than

45 000

members



Positive returns

on ALL investment portfolios

Aggressive growth annualised 5-year return

IMPROVED BENEFITS

R 42 000

Increased funeral cover for member and spouse (Category C)

No risk cover-option on Category A and Voluntary funeral and critical illness cover

OVERALL WINNER!

COMMUNICATION STRATEGY

2017 IRFA BEST PRACTICES CHALLENGE AWARDS

Chairman's overview

Ron Field (Chairperson)

This year marks an important milestone for the National Fund for Municipal Workers as we celebrate 20 years of providing retirement benefits to employees within Local Government. Being a member of the NFMW for the past 19 years, I have seen this fund grow from strength to strength to one of the largest funds within Local Government.

Serving as the Chairperson of this dynamic fund, I have again realised the importance of having a dedicated team of people who work towards the same goal. The goal is to ensure that the NFMW remains an industry leader in benefit provision, investment returns and in the service rendered to its members. I am pleased to report that with the dedication of my fellow Trustees, partnered with the outstanding leadership of the management team, the NFMW has had another successful year.

The fund's investment portfolios delivered excellent returns when compared to the South African investment industry, outperforming their respective benchmarks and providing some of the highest returns, compared to other local government funds. This was despite the challenging investment environment. These returns are a testament to the fund's disciplined and unwavering investment approach which remains focused on achieving long-term investment growth for our members.

The crucial decisions made in early 2016 and the subsequent significant actions taken by the Board resulted in a reduction in the overall running cost of the fund. The low running cost and good investment returns contribute to ensuring that our members can reach their individual retirement goals.

The fund's dedication to its members and their financial wellbeing, however, goes beyond retirement. With the post-retirement products, the NFMW living annuity and the NFMW Golden income life annuity underwritten by MMI, we offer members who do not have the means (or do not want) to source their own pension benefits after retirement, with retirement products at a much lower cost compared to external products. These products are also in line with the latest default regulations being implemented by National Treasury.

Another highlight for the NFMW was the award received for the fund's Communication Strategy at this year's Institute of Retirement Funds Africa – Best Practices Industry Awards. This prestigious award is evidence of the fund's commitment to achieving its objectives and a clear indication that the fund is on the right track with its recently enhanced communication strategy. I am extremely proud of this achievement and would like to thank the Communications Committee, Mrs. Cathy Vorster, our Communication specialist, the team of Communication consultants and everyone else involved for their contributions to the successes of this fund.

The Board of Trustees takes its fiduciary obligations seriously and in conjunction with the Principal Executive Officer, continually ensures that all the fund's service providers are committed to the same high ethical standards and will not hesitate to act, should they not comply. To assist in this function, the fund has appointed a Deputy Principal Executive Officer. I would like to welcome Mr. Leslie Ndawana, who we believe will further contribute to the effective management of this fund with the level of experience and skill that he brings to the table.

A special welcome also to all the members who joined the NFMW during this year, congratulations on making the best decision. To all our members or their dependants who lost loved ones, our sincere condolences.

On behalf of the Trustees, I would like to take this opportunity to thank all the role players who contributed to the success of the NFMW. The Principal Executive Officer, Mr. Sean Samons, your expertise and industry knowledge have proven invaluable. Thank you for your loyalty and ongoing dedication in assisting the board members to fulfil their fiduciary duty.

My fellow Trustees, my earnest gratitude for your support, professionalism and effective management. You have been steadfast in your continued commitment to advance the NFMW to even higher levels. It has been a privilege to work with you.

To the staff for your hard work and dedication, thank you. To our service providers for the quality service, your expert advice and guidance throughout the year, our sincere appreciation.

Finally, I thank all NFMW-members and employers for the trust that you place in us and for your continuous support. You can be assured of our sustained best effort to ensure the success of the NFMW. I am optimistic about the future of this fund and confident that we will remain the benchmark of excellence and at the forefront of retirement funds in Local Government.

They say coming together is a beginning, keeping together is progress, but working together is success.
Here is to the next 20 successful years within Local Government!

On behalf of everyone at the NFMW, we wish you a peaceful festive season and a prosperous 2018.

Yours sincerely

RJ Field

Principal Executive Officer's review

Sean Samons (Principal Executive Officer)

The 2016/2017 financial year was yet another successful year for the National Fund for Municipal Workers, delivering exceptional returns, the membership base growing to nearly 46 000 members and the fund's assets increasing by more than R1,21 billion.

There have been numerous developments within the fund and the retirement industry during the year under review. Not forgetting the economic and political developments, with the cabinet reshuffling, the subsequent weakening of the rand and the country's credit downgrade, which created concern amongst most retirement fund members on the possible impact these events could have on their retirement savings.

The good news is that the NFMW's investment portfolios delivered positive returns, despite the volatile economic and political environment. This was mainly as a result of the well-diversified balanced investment portfolio maintained by the fund. The objective of the fund remains to add real returns (i.e. returns in excess of inflation) to its portfolios over time. The NFMW continues to utilise 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.

The fund has significantly outperformed its objectives over the past three, five and seven years and again managed to outperform its major competitors, thereby remaining one of the top-performing retirement funds within local government.

Benefit improvements implemented on 1 July 2017 included the increase of the funeral benefit in the Category C (main) fund for the member and qualifying spouse at no additional cost. A no risk cover-option for members 40 years and older was added in the Category A (2%) fund. The fund also introduced voluntary funeral cover for extended family members, a voluntary funeral conversion option and critical illness cover.

The well-managed group risk benefit scheme has resulted in a risk profit of R47 million for the fund. All profits of the scheme are repaid to members by means of additional investment return declarations.

The new default regulations which are aimed at promoting good fund governance and improving the retirement outcomes of retirement fund members will be implemented soon. The NFMW can proudly confirm that it already complies with all these requirements in providing default investment portfolios (the Life Stage investment strategy) that is suited for our membership profile. The default preservation (deferred) option allows members who resign, are retrenched or dismissed from employment to retain their benefit in the fund with the fund credit continuing to grow with fund returns. The fund's two post-retirement products, the NFMW living annuity and the NFMW Golden income life annuity underwritten by MMI, offer members a cost-effective option at retirement. This also ensures compliance with the requirement that the fund should have an annuity strategy in place.

Effective and regular communication continues to form an essential part of the day-to-day responsibility of the fund to all stakeholders. Educating our members on the benefits and options provided by the fund is done using different mediums. I would like to encourage you to familiarise yourself with these benefits and options by attending the information sessions conducted by the fund, reading the communication you receive from the fund and by contacting the fund's call centres in Pretoria and Bellville.

The fund is committed to the highest levels of corporate governance, compliance and transparency and utilises four board sub-committees to support its role in managing and monitoring the affairs of the fund. The Board of Trustees is ultimately accountable and responsible for the management and performance of the fund and they uphold this responsibility by overseeing the strategic direction and leadership by ensuring good corporate governance and ethics.

My sincere appreciation to the Board of Trustees, the board sub-committees and 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.

My gratitude to all the staff in the office of the Principal Executive Officer for providing the highest standard of management and administration. To our service providers and strategic partners, Sanlam the administrator, Mosaic Investment Consultants the asset consultant, KPMG the fund's auditors, OMT the IT support provider and MIP the system provider and most of all to the dedicated NFMW staff, for your hard work and dedication to the successes of this fund, my earnest appreciation.

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

Yours sincerely

SL Samons

Fund management

The Board of Trustees is ultimately accountable and responsible for the management and performance of the fund. They uphold this responsibility by overseeing the strategic direction and leadership by ensuring good corporate governance and ethics, with their sole purpose and function being to act in the best interest of all beneficiaries.

The Board of Trustees consists of 12 member employee representatives who are elected on a provincial basis and one employer representative appointed by SALGA. There were no vacancies on the Board of Trustees during the year under review, with the next elections scheduled to take place in 2018.

Due to the size of the fund, many functions are delegated to various committees of the board. The committees are the Executive Committee, Investment Committee, Legal Committee and the Communications Committee. 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 fund held four Board of Trustee meetings, 11 Executive Committee meetings, 11 Communications Committee meetings, nine Investment Committee meetings and 11 Legal Committee meetings.

NFMW Board of Trustees at 30 June 2017

Back row from left to right: EA Schutte; HS Rossouw (Chairperson – Investment Committee); CCK Antonio (Chairperson – Communications Committee); NC Cindi; KG Booysen; CJ Labuschagne; PS Mofokeng; A Tiemie; R Solomons; JCG Burger (Chairperson – Legal Committee); L Geldenhuys

Front row from left to right: ME Jantjie; SL Samons (Principal Executive Officer); RJ Field (Chairperson – Board of Trustees); MC Makgalemele (Insert: NF Ratlhaga - SALGA-appointed trustee)

Legal and technical matters

Rule amendments

The Board of Trustees resolved at Pretoria on 16 March 2017 that the following Rules of the Fund be amended with effect as set out below;

From 1 July 2012:

1. Replace Rule 4.1.1 and Rule 4.1.2 with the following:

4.1.1 MEMBERS, other than CATEGORY A-MEMBERS and CATEGORY B-MEMBERS shall make monthly contributions to the FUND equal to a percentage of their REMUNERATION as agreed between the LOCAL AUTHORITY and the MEMBER, as set out in the SCHEDULE, less the amount of the MEMBER'S contributions that are payable to the NATIONAL GROUP LIFE INSURANCE SCHEME FOR MUNICIPAL WORKERS, administered together with this FUND.

Notwithstanding any provision to the contrary contained in the agreement, the monthly contributions must at least equal the monthly contributions made by the MEMBER to the OLD FUND immediately prior to the date on which he became a MEMBER of the FUND, subject to an absolute minimum contribution of 5% of his REMUNERATION per month.

CATEGORY C-MEMBERS, appointed after 1 July 2012, who are not part of the SCHEDULE shall make monthly contributions to the FUND equal to 7.5% of their REMUNERATION.

2. Replace Rule 4.1.2 with the following:

4.1.2 CATEGORY A-MEMBERS shall make monthly contributions to the FUND equal to at least 2% of their REMUNERATION, as set out in the SCHEDULE, less the amount of the MEMBER'S contributions that are payable to the NATIONAL GROUP LIFE INSURANCE SCHEME FOR MUNICIPAL WORKERS, administered together with this FUND.

CATEGORY A-MEMBERS, appointed after 1 July 2012, who are not part of the SCHEDULE shall make monthly contributions to the FUND equal to 2% of their REMUNERATION.

3. Replace Rule 4.2.1 with the following:

4.2.1 The LOCAL AUTHORITY shall make a monthly contribution in respect of each MEMBER, other than a CATEGORY A-MEMBER and a CATEGORY B-MEMBER, equal to the percentage as described in the agreement between the LOCAL AUTHORITY and the FUND. With effect from 1 July 2012, all LOCAL AUTHORITY contribution for new employees appointed by the LOCAL AUTHORITY on or after 1 July 2012, who are CATEGORY C-MEMBERS, will be 18% of the

MEMBER'S REMUNERATION, less the amount of the LOCAL AUTHORITY'S contributions that are payable to the NATIONAL GROUP LIFE INSURANCE SCHEME FOR MUNICIPAL WORKERS, whether the LOCAL AUTHORITY is in the SCHEDULE or not.

Notwithstanding any provision to the contrary contained in the agreement, the monthly contributions must be at least equal to the monthly contributions made by the LOCAL AUTHORITY to the OLD FUND in respect of such an employee immediately prior to the date on which he became a MEMBER of the FUND, subject to an absolute minimum contribution of 5% of his REMUNERATION per month, less the amount of the LOCAL AUTHORITY'S contributions that are payable to the NATIONAL GROUP LIFE INSURANCE SCHEME FOR MUNICIPAL WORKERS, administered together with this FUND.

4. Replace Rule 4.2.2 with the following:

4.2.2 In the case of a CATEGORY A-MEMBER the LOCAL AUTHORITY shall make a monthly contribution to the FUND equal to at least 2% of the MEMBER'S REMUNERATION, less the amount of the LOCAL AUTHORITY'S contributions that are payable to the NATIONAL GROUP LIFE INSURANCE SCHEME FOR MUNICIPAL WORKERS, administered together with this FUND.

From 1 March 2017

5. The insertion of the definition COUNCILLOR in Part 2 of the Rules

COUNCILLOR: A member of a municipal council in terms of the Local Government Municipal Structures Act, 1998 (Act 117 of 1998);

6. The definition MEMBER is replaced with the following

MEMBER: An ELIGIBLE EMPLOYEE or COUNCILLOR whose membership of the FUND has been registered with the Fund by his EMPLOYER or LOCAL AUTHORITY and who participates in the FUND.

7. The following is added as rule 3.3

3.3 **Special provisions in respect of COUNCILLORS**

3.3.1 Subject to the provisions of the preceding RULES, a COUNCILLOR may become a MEMBER of the FUND as from the first day of the month coinciding with or the next month following his becoming eligible to do so based on the provisions contained in his term of office arrangement.

3.3.2 All the provisions of the RULES shall apply mutatis mutandis to any COUNCILLOR, unless in conflict with this RULE.

3.3.3 The provisions applicable to RULES 6.1, 6.2 and 8.4 in respect of early retirement due to ill-health and redundancy or retrenchment shall not apply to a COUNCILLOR unless specifically provided for in his term of office arrangement.

8. The following is added as rule 3.4

3.4 Termination of membership of a COUNCILLOR

3.4.1 Apart from the existing provisions contained in these RULES and subject to legislation, a COUNCILLOR may terminate his membership of the FUND on the happening of specific events:

(i) His term of office as a COUNCILLOR comes to an end in any manner;

(ii) A change in status from full-time COUNCILLOR to part-time COUNCILLOR;

(iii) The COUNCILLOR ceases contributions due to a restructuring of his remuneration package.

3.4.2 In the event of a COUNCILLOR ceasing contributions and electing to terminate his membership of the FUND in terms of this RULE, the MEMBER's SHARE shall be paid to him.

The COUNCILLOR may elect to preserve such benefit in terms of RULE 8.1.

9. Replace Rule 12.2.1 with the following:

12.2.1 Twelve MEMBER elected TRUSTEES

The BOARD OF TRUSTEES may where necessary or in the event that no nomination is received from a particular Province, combine Provinces before nominations are called for should the number of MEMBERS in a Province not justify the allocation of a seat.

These TRUSTEES shall be elected by the MEMBERS in the nine Provinces on a proportional basis. One seat shall be allocated to each Province or combined Provinces where the FUND has active MEMBERS, and the remainder of the twelve seats will be allocated among the Provinces on a proportional basis as determined by the BOARD OF TRUSTEES at a meeting held at least ninety days prior to the date of the election of a new BOARD OF TRUSTEES, in accordance with the formula-

$$\frac{\text{Total number of potential votes}}{12} = \text{number of MEMBERS per representative seat}$$

Any MEMBER of the FUND shall be eligible for nomination and election as a TRUSTEE provided that contributions to the FUND on his behalf exceeds any contributions made on his behalf to any other fund providing retirement benefits for employees in Local Government.

Provided that where a COUNCILLOR is also a MEMBER of the FUND and is nominated to fill the position of a TRUSTEE, such COUNCILLOR shall only be elected by MEMBERS as a MEMBER elected TRUSTEE.

Reasons for amendments

1. The Board had to amend the Rules of the Fund in July 2012 to comply with the Registrar of Pension Fund's instructions that contribution rates need to be reflected in the Fund's rules. The Fund's administrator who was appointed from 1 June 2016 informed the Fund that there were discrepancies in the administration of the Fund as a result of the schedule being part of the rules and some participating employers and members not being made provision for in the schedule. With this rule amendment, this is corrected so that there is provision for contribution rates for all participating employers and members.

2. To make provision for Councillors to become members of the Fund.

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, allowing 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 2016 to 30 June 2017.

A copy of the Rules of the fund and the Rule amendments are available on the fund's website www.nationalfund.co.za and can be requested from the fund's offices.

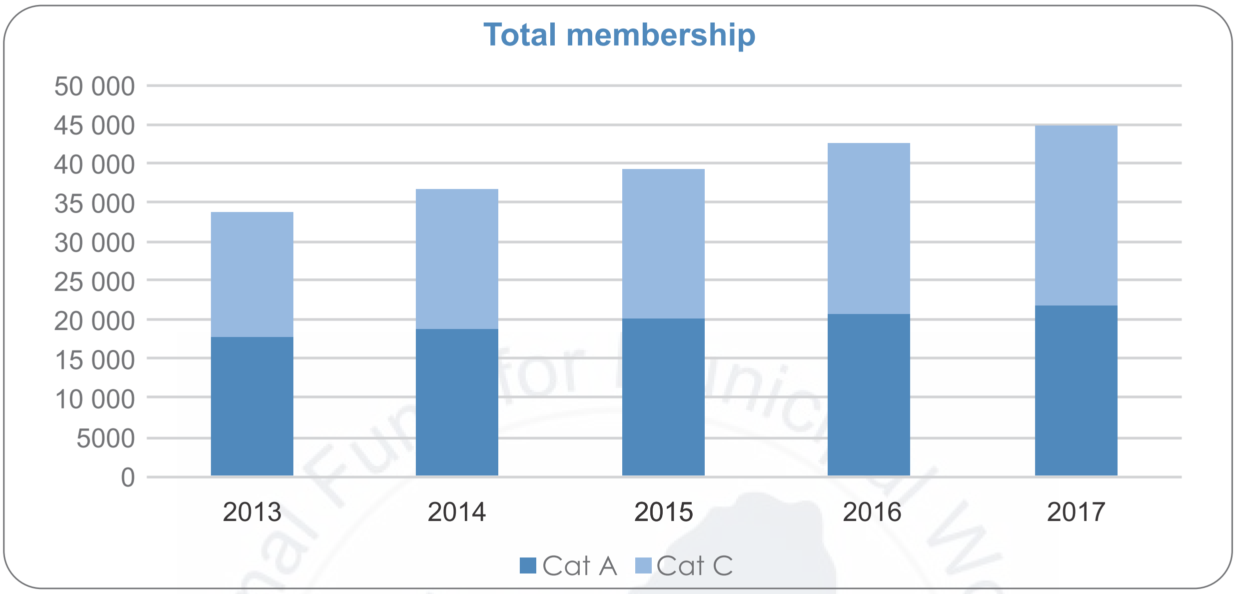
Net assets and funds as at 30 June 2017

	*30 June 2017 R	30 June 2016 R
ASSETS		
Non-current assets	**13,394,543,384**	**12,109,552,735**
Property and equipment	20,472,797	16,222,795
Investments	12,905,433,852	11,660,677,361
Housing loans	91,979,774	101,893,596
Loan receivable	376,656,961	330,758,983
Current assets	**199,025,103**	**269,478,475**
Accounts receivable	36,181,053	77,272,340
Contributions receivable	99,194,127	89,676,394
Cash at bank	63,649,923	102,529,741
Total assets	**13,593,568,487**	**12,379,031,210**
FUNDS AND LIABILITIES		
Members' funds and surplus account	**13,177,863,945**	**11,983,516,934**
Members' individual accounts	13,136,508,988	11,894,035,055
Amounts to be allocated	41,354,957	89,481,879
Reserves		
Reserve accounts	55,901,815	
Total funds and reserves	**13, 233, 765, 760**	**11,983,516,934**
Non-current liabilities		
Unclaimed benefits	15,727,768	19,500,472
Current liabilities	**344,074,959**	**376,013,804**
Benefits payable	308,459,445	327,087,238
Accounts payable	35,615,514	48,926,566
Total funds and liabilities	**13,593,568,487**	**12,379,031,210**

* As at the date of issuing this report, the 2017 Annual Financial Statements were in the process of being audited. The audited financial statements are available on the fund's website www.nationalfund.co.za.

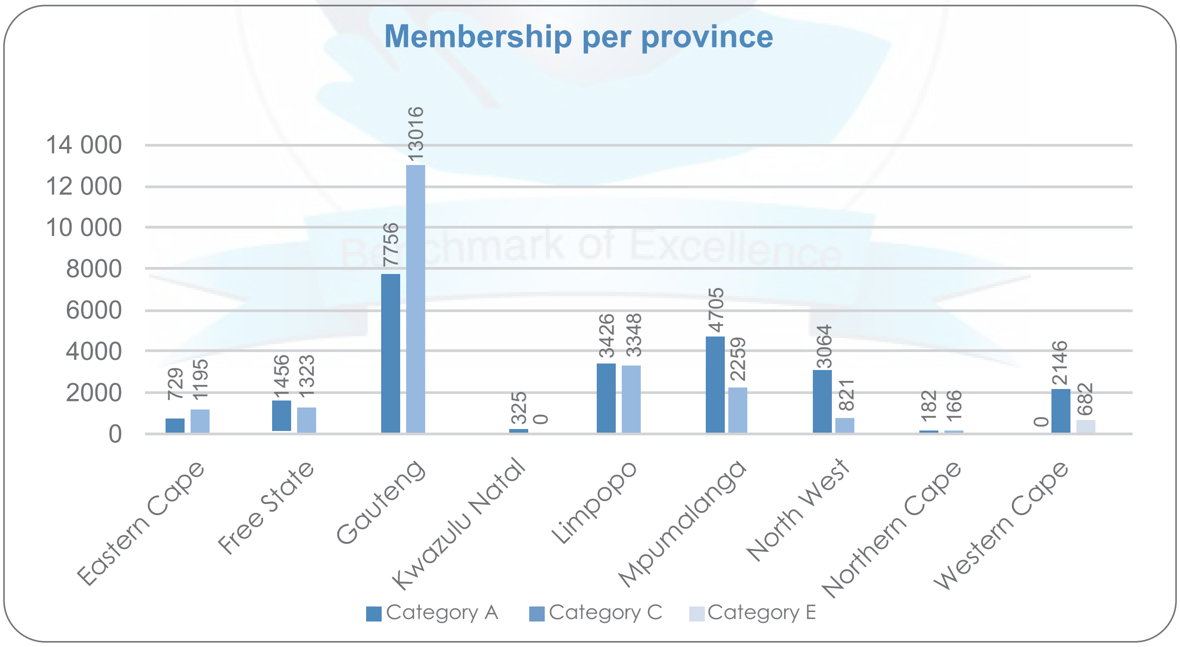
Administrative feedback

MEMBERSHIP INFORMATION



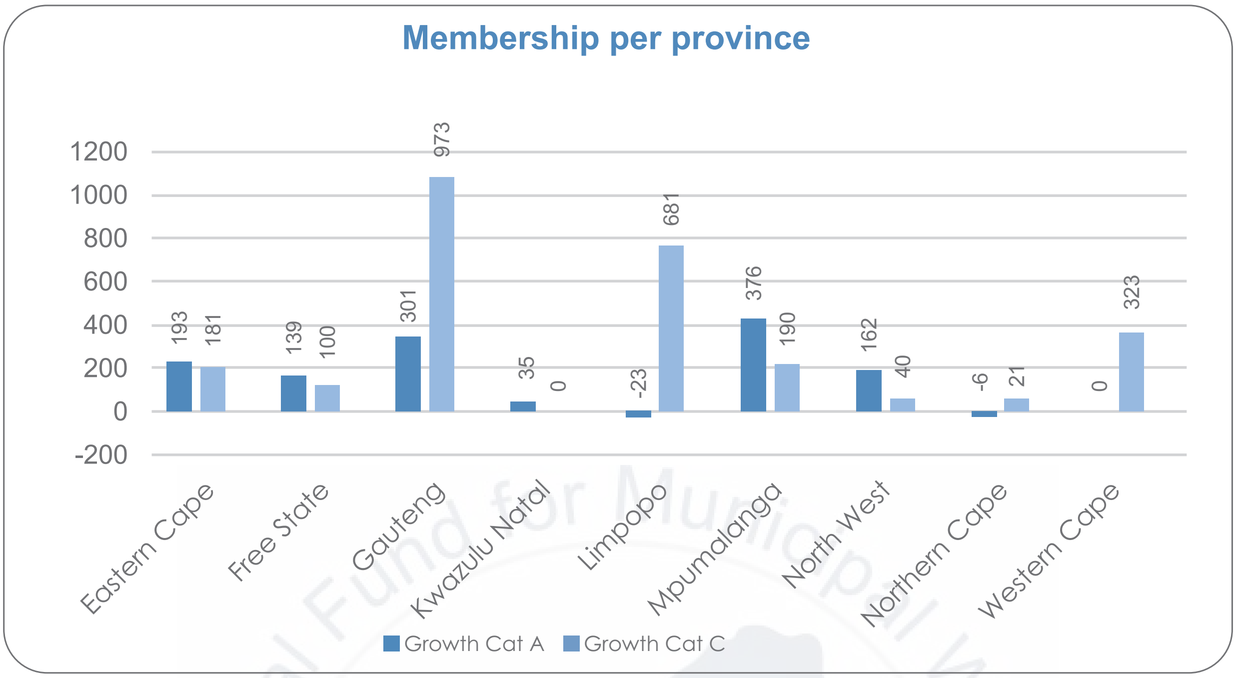
During the 2016/2017 financial year, the membership in Category A has increased by 6%. The membership in Category C has increased by 4%. Since the 2013 financial year, the total number of members has increased by 33%.

Membership per province

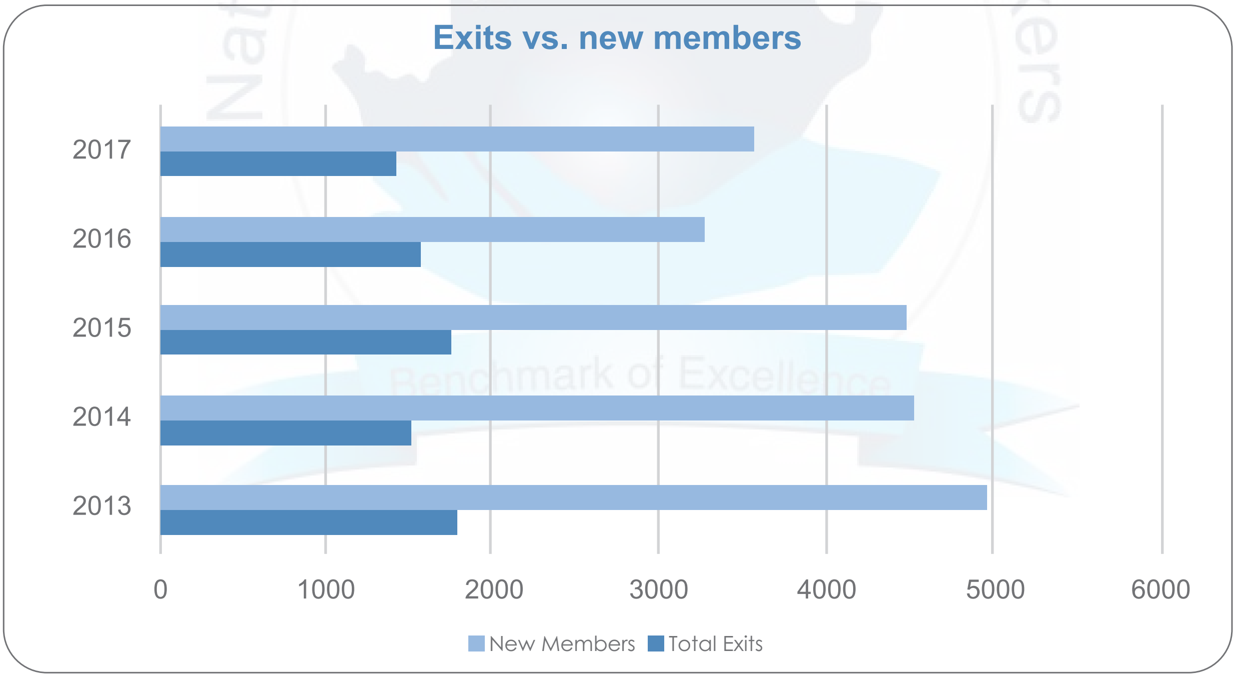


The province with the highest combined growth in percentage is Eastern Cape with 24.1% (374 members). However, the provinces showing the highest growth in number of members are Gauteng (1274 members), Limpopo (658 members) and Mpumalanga (566 members).

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



The following graph illustrates the number of exits vs. the number of new members gained per annum for the period 2013 to 2017:

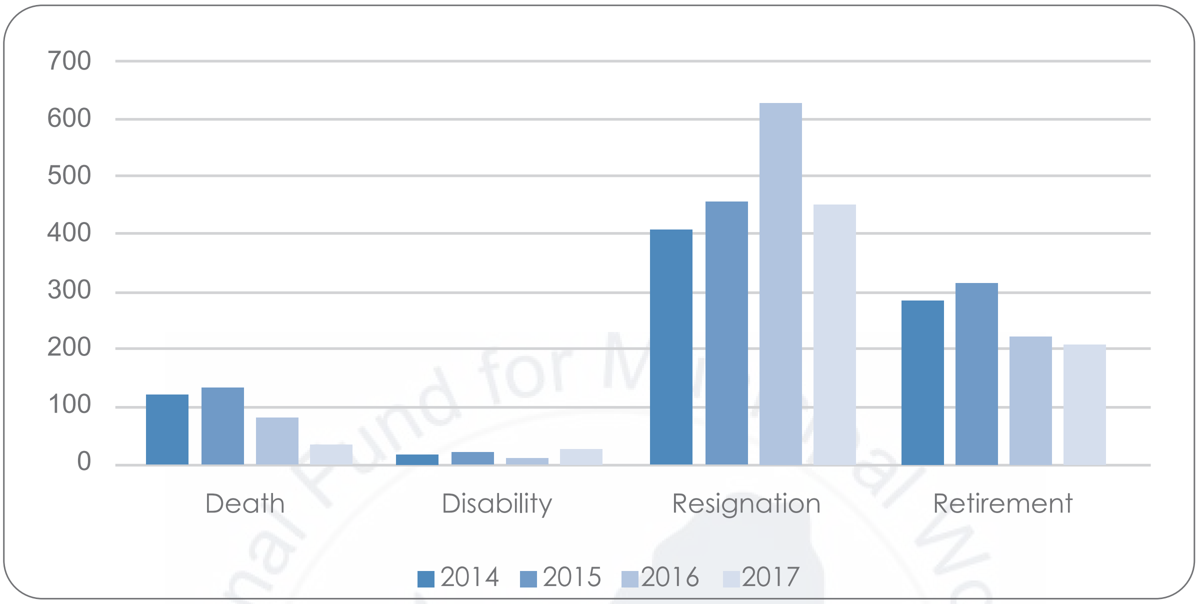


The number of exits per 100 new members during 2017, was 40.

FUND EXITS

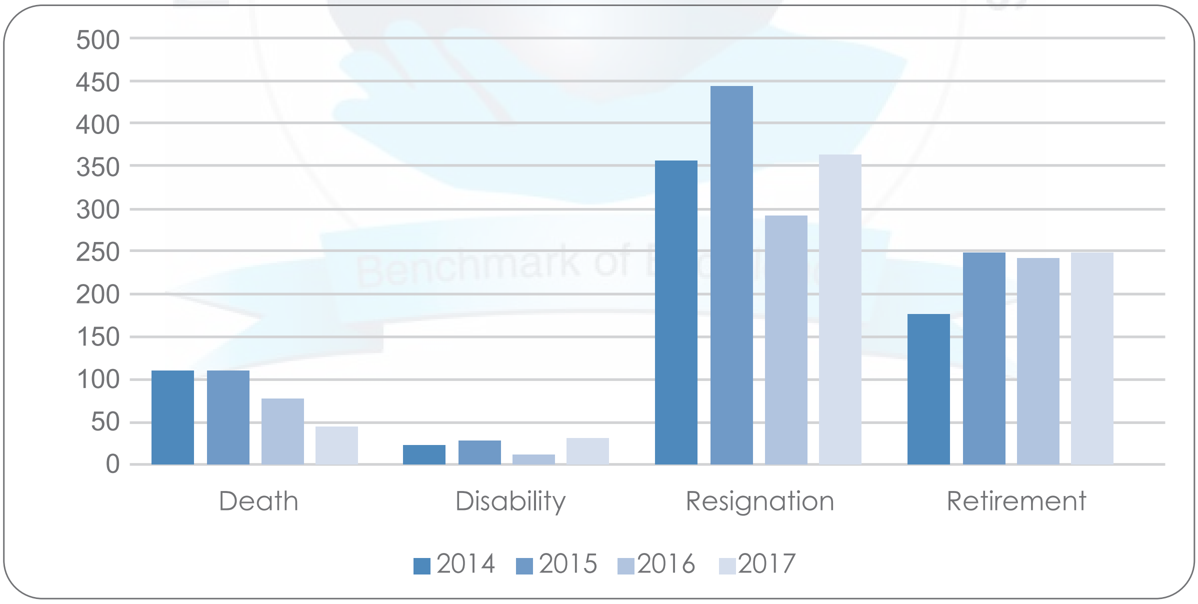
The following two graphs contain a comparison between the total number of exits per category, for the period 2014 to 2017 for Category A and Category C, respectively:

Category A: All exits



When compared with the 2016 financial year, the total number of exits in Category A has reduced by 23% during the 2017 financial year.

Category C: All exits



When compared with the 2016 financial year, the total number of exits in Category C has increased by 10% during the 2017 financial year.

When comparing the combined number of exits during the 2017 financial year with the combined number of exits during the 2014 financial year, two exit categories have shown a decrease: death by 65% and retirements by 1%. Disability has increased by 53% and resignations by 7%.

Benefit improvements

The NFMW provides market-leading benefits and the Board of Trustees is constantly looking at ways of improving these benefits to best suit the members' needs whilst at the same time ensuring that the costs of these benefits are kept to a minimum.

The following benefit improvements were implemented effective 1 July 2017 within Category C (main fund) and Category A (2% fund).

Category C - funeral benefit improvement for the main member and qualifying spouse.

DEPENDANTS	CATEGORY C COVER (cost of the cover is 0.252% of pensionable salary)	CATEGORY A COVER (cost of the cover is 0.065% of pensionable salary)
Main member	**R42 000**	R11 000
Qualifying spouse	**R42 000**	R11 000
Qualifying child 6 years and older (above 21 years of age must be a full-time student and/or disabled	R22 000	R 4 500
Qualifying child from 26 weeks of pregnancy to 6 years of age	R10 000	R 4 500

Category A - an additional risk option category was added (A0) which allows members 40 years and older the option of electing no death and disability cover. The risk categories on both the Category C and Category A-funds are provided below. Members are encouraged to constantly review their risk category to ensure that it is still best suited to their individual needs.

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) Total risk cover cost 0,252%	Funeral cover only	Funeral cover only
A100 Total cost 1,263%	1 x Annual pensionable salary + fund credit	1 x Annual pensionable salary + fund credit
A0 (40 years and older) Total risk cover cost 0,065%	Funeral cover only	Funeral cover only

IMPORTANT TO NOTE: The risk option you choose will determine the benefit that will be paid out in case of death and disability. The cost of the cover indicated above, as a percentage of pensionable salary, is deducted from the monthly employer contributions.

VOLUNTARY FUNERAL AND CRITICAL ILLNESS COVER The fund also introduced voluntary funeral cover for extended family members, a voluntary funeral conversion option and critical illness cover. These benefits are offered by Sanlam to NFMW members on a voluntary basis and are payable via direct debit order. The full terms and conditions applicable to these benefits are contained in the policy documents available on the fund's website.

NFMW *post-retirement products*

The Board of Trustees of the fund established voluntary post-retirement default options, the NFMW Golden income life annuity underwritten by MMI and the NFMW Living Annuity, for members who do not have the means (or do not want) to source their own pension benefits after retirement. In short it means that members do not have to make use of an external product provider but may instead select an 'in-fund' default living or life annuity.

The major advantage for members is a cost benefit, as the fees on the fund's default options are lower when compared to the products available from external providers (life insurance companies or investment platforms). There will be a low charge for benefit administration services. The investment management fees will be similar to the existing pre-retirement portfolios.

Members can choose a constant income stream after their working life in the form of a pension payable for life i.e. a guaranteed or life annuity. Alternatively, your income level post retirement can be self-determined by way of a living annuity.

NFMW GOLDEN INCOME WITH-PROFITS LIFE ANNUITY

The default life annuity offered by the NFMW is underwritten by MMI. The following standard features will apply when this option is chosen by members:

- It provides a guaranteed monthly pension for life.
- It will target pension increases equal to 75% of inflation every year i.e. your pension will increase annually by a targeted 75% of inflation, but is dependent on the actual investment return.
- The guarantee period is 10 years/120 months i.e. if you pass away within 10 years after retirement, the full pension will still be paid (to a beneficiary) for the remainder of the 10-year period. If you pass away more than 10 years after your retirement date, pension payments will cease unless your spouse is still alive, subject to a joint life annuity purchase.
- If you are married, the life annuity will be a compulsory joint life annuity that will pay the spouse 75% of the pension should you pass away.
- If you are unmarried and you pass away during the guarantee period (within 10 years of retirement), the balance of the pension will be paid to your beneficiaries/nominees.
- The amount of pension will only be determined once you have reached retirement age. The pricing should be favourable compared to what external life annuity product providers will offer.
- If you and your spouse pass away after the 10-year guarantee period, no further payments will be due / payable to your beneficiaries.
- Provision is made for a 13th cheque which is payable in November every year i.e. in effect two months' worth of pension is paid every year in November.
- You will pay income tax at your personal income tax rate on the amount of pension received.

NFMW LIVING ANNUITY

The default living annuity offered by the NFMW is managed by the Board of Trustees and provides members with the option to partake in such a product without purchasing it from an external provider. However, certain guidelines and rules will apply to the fund's default living annuity option which need to be carefully considered before choosing this default option:

- There is no pension guarantee i.e. your pension/income is based on the drawdown rates expressed as a percentage of assets.
- The minimum investment amount is R1.5 million. This provides for some longevity risk mitigation.
- The assets of the default living annuity may be invested in any of the following NFMW individual investment portfolios: Capital Protector, Stable Growth, Capital Growth and Aggressive Growth. This may depend on your financial position and required drawdown rate.

  The following maximum drawdown/income rates apply to the NFMW living annuity:

Age	Maximum drawdown rate
If aged < 70 on invested amounts below R5m	6% per annum
If aged < 70 on invested amounts above R5m	8% per annum
Older than 70 and younger than 75	10% per annum
Older than 75 and younger than 80	12% per annum
Older than 80 and younger than 85	15% per annum
Older than 85	17.5% per annum

The minimum income drawdown rate is 2.5% per annum.

- The balance retirement capital in your living annuity account will remain part of the fund's assets. As a result, all benefits are subject to the terms of the Pension Funds Act.
- A flat administration fee of R70 per annuitant per month will be levied and actual investment management fees will apply as per the NFMW investment portfolios. On average, the total fee will be approximately one-third of industry norms. This beneficial fee structure will result in a fee saving of between 1% and 2% per year compared to externally-provided living annuities.
- No commissions are payable(advice fee where agreed, may be applicable).
- You will pay income tax at your personal income tax rate on the amount of income received.

POST-RETIREMENT CHOICE

- Please contact the fund's appointed in-fund counsellors who will guide you through the process to make a post-retirement investment choice.
- A brief needs analysis will be completed to assess your financial position.
- The in-fund counsellor will provide you with relevant information pertaining to your specific situation and discuss the various post-retirement fund options.
- If you select one of the fund's default options, a relevant Post-retirement option-form and disclaimer will be provided to you confirming your annuity choice in writing.
- On completion, the forms will be sent to the fund for processing. The process and final arrangements in respect of your pension payments will be communicated to you in writing.

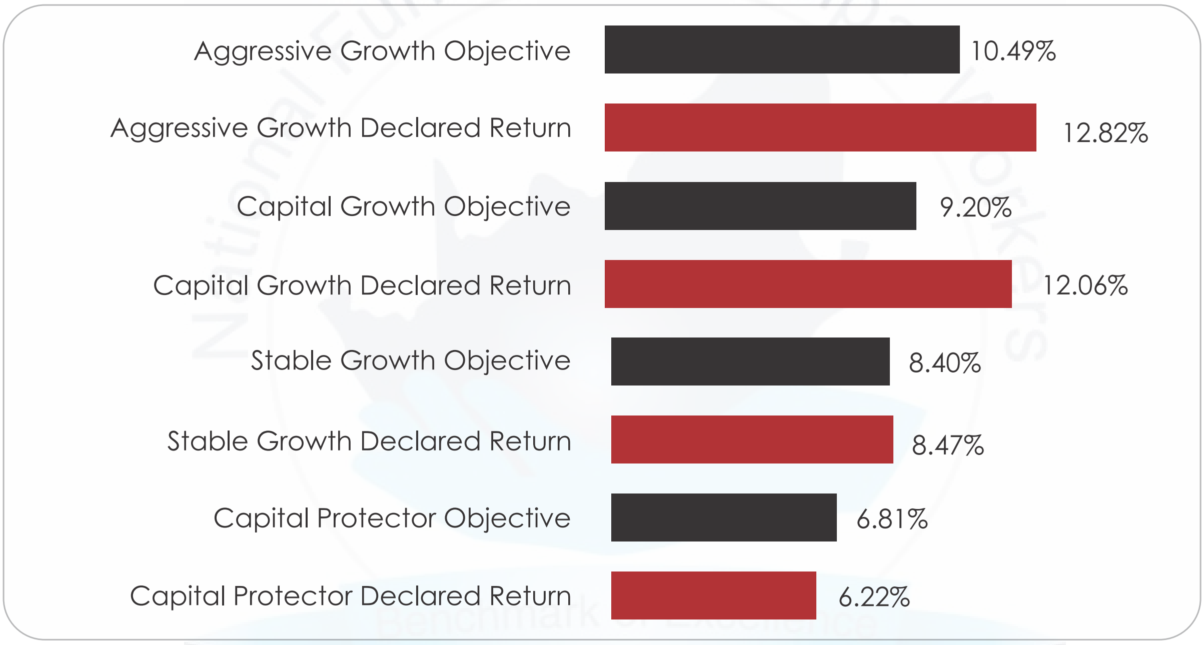
Please contact the fund for more information. Tel. 012 743-3009 or 012 743-3039

Annual investment report

Executive summary

The NFMW increased its total assets over the financial year by more than R1,21 billion (from R12,38 billion to R13,59 billion) at the end of June 2017. Just over R700m of this increase is attributed to investment returns and new inflows of R570m for the financial the year.

The fund's excellent long-term track record puts it on par with the best global balanced managed portfolios in South Africa and ahead of its peers in local government. It remains the fund's objective to add real returns (i.e. returns in excess of inflation) to its portfolios over time, ensuring a sound retirement for its members. This is clearly demonstrated in the graph below, showing the various portfolio returns over the last 5 years compared to their respective investment objectives – please refer to graph below for the annualised five-year portfolio returns in red.



The fund maintained its well-diversified balanced investment portfolio during the year, with this approach protecting the fund during times of high volatility in local and global markets as well as the extreme currency volatility experienced during the financial year. The fund's international assets and tactical asset allocation positioning (in particular) performed well in difficult market conditions.

The fund appointed one additional international manager and made some changes to asset manager mandates during the financial year. It also increased its long term strategic asset allocation to international assets by slightly reducing its strategic long-term exposure to investments in Africa. The highlights of these changes during the course of the financial year are briefly noted below:

1. Prescient was appointed as the tactical asset allocation manager for some of the fund's portfolios early in 2016. Their mandate was adjusted during the financial year, allowing for international equity and bond market protection and positioning at opportune times.

2. The Vulcan Value Equity Fund was appointed as an additional offshore equity manager. It is expected that their exposure to mid and large cap offshore equities will complement the existing offshore equity mandates and provide good returns over the longer term.

3. Additional contributions were made to the fund's alternative assets to further diversify the portfolios and improve long-term returns. Over the past year the fund has made further contributions to its development equity fund that finances small-to-medium community-based businesses and contributed to infrastructure and alternative energy projects.

4. The fund revised its strategy on Africa by reducing its long-term strategic allocation to these investments by 2.5%. It increased its exposure to international assets to offset the change and will increase its emerging market exposure over time.

THE YEAR IN REVIEW

Global

Globally, it was an extraordinary year in terms of events which will shape the future of the world's economic well-being. Brexit in the UK, the election of Donald Trump as the US president and various other geopolitical events dominated the news flow and created pockets of enormous uncertainty and nervousness in global markets.

However, looking back, global markets largely ignored the impact Brexit will have on the UK and broader global economy. Furthermore, European political risk abated as elections in the Netherlands and France saw an end to the strong wave of populism in the Eurozone. Meanwhile, Germany, in particular, shrugged off the effects of a weaker euro and posted new highs in terms of its consumer and business confidence, as the weaker euro made German companies more competitive globally. This puts Europe firmly on the map for improved growth going into 2018 and beyond.

Stepping back to November 2016, global markets were whipsawed as investors tried to make sense of the Donald Trump election victory and to assess what that meant for future global trade and growth. Initially equity markets reacted negatively to the news (down as much as 5% on the day) but quickly recouped all losses. The big expectation was for Trump to boost economic growth by promoting domestic employment, infrastructure spending and through the introduction of tax cuts. Although still early days for Trump, very few of those promises have materialised so far. In fact, during the first half of 2017, bond markets appeared to be pricing in very little chance of Trump succeeding in rolling out his various growth-oriented plans.

Foreign investors continued their search for yield throughout the year, especially after various indications that the US Fed will only gradually increase rates in the US, and globally, interest rates still remained accommodative. Cyclical sectors and emerging markets were the main beneficiaries of the flight to more risky assets (and bonds) as investors shunned the expensive but “safe” high quality stocks and developed market bonds in favour of cheaper stocks and higher yielding bonds offered by emerging markets.

Local

The past 12 months saw South Africa's bond, equity and currency markets in turmoil, mainly as a result of political actions, political commentary and renewed government infighting as one might expect in an ANC leadership election year. However, one still needs to realise that the local market remains very much dependent on foreign investors who largely dictate the fortunes of our bond and equity markets.

March 2017 marked a turning point when a cabinet reshuffle and change in leadership at the finance ministry contributed to an 8% drop in the rand as markets reacted to the firing of Pravin Gordhan and the subsequent appointment of Malusi Gigaba as finance minister. Ratings agencies did not take kindly to this action (particularly in the context of a low local economic growth environment) and almost immediately downgraded South Africa's foreign credit rating. As a result, South African business and consumer confidence took a knock and remain at extremely low levels, no doubt reflective of these actions and sentiments.

It came as no surprise that South Africa's economy slipped into a technical recession as the first quarter GDP-growth figures showed a decline of 0.7% following a 0.3% decline in the last quarter of 2016. This poses a serious problem for our policy makers who are wrestling with rampant unemployment and a growing social welfare budget. Earlier in the year, higher taxes for most South Africans were announced, which should narrow the budget deficit and stabilise debt as economic growth and revenue collection fall short of expectations - but this action may have unintended longer-term consequences.

In the end the search for yield by foreign investors continued, and as a result, the local equity market decoupled from global markets in June 2017 (the All Share Index lost 3.1%) as the strong rand sank resources companies which in some cases had risen more than 100% in 2016.

The past 12 months have been difficult for local markets as negative political sentiment and an uncertain global economic backdrop caused extreme volatility on the South African bond, equity and currency markets. The rand traded roughly between R12.50 and R14.70 to the dollar through the period before finally settling at R13.06 to the dollar at the end of June 2017.

Economic outlook

Continuing from last year, the normalisation of US interest remains key to the economic stability and fortunes of global markets in the medium term. The US economy has stabilised at an annual growth rate of between 2% and 3% with inflation expectations of between 1.5% and 2%.

The US Federal Reserve is expected to increase rates at a slow pace over the next 12 months on the back of healthy domestic economic fundamentals. However, their future interest hiking decisions will very much remain "data dependent" keeping a close watch on the inflation rate, further strengthening of the labour market and economic as well as wage growth. President Trump will remain under pressure to deliver on at least some of his promises while congress remains highly polarised which will make it difficult for the Republicans to pass any significant bills/laws.

Moving over to the Eurozone, the economic fundamentals appear to be improving as consumer spending remains robust and the labour market stabilised amid high consumer confidence. Moody's upgraded the region's global growth expectations for 2017 and 2018 as, in their opinion, risks relating to a European Union exit, increased protectionism and the rise of populism have subsided. Europe may very well turn out to be the bright spot in developed markets over the short to medium term.

Meanwhile Chinese growth remains above 6.5% per annum with the expectation that the GDP-growth rate will be maintained in the foreseeable future. Risks, however, remain that a tightening of credit (and financial regulation) in China could cause a slowdown in economic activity with an emphasis on housing-related investments while a potential leadership reshuffle at their upcoming National Congress would create uncertainty regarding the region's future economic direction.

Globally, equity market valuations remain elevated (especially in the developed markets) and the risk of a market pull-back/correction must be factored in, especially if the US Federal Reserve sticks to its expected interest rate hiking cycle. This will put pressure on the bond and equity markets to re-rate and potentially suffer losses, as the higher cost of borrowing is factored into valuations. Emerging market currencies are also expected to come under severe pressure in this scenario.

Locally over the medium term, the South African economy is experiencing a low growth environment with a real risk of a prolonged period of stagflation (low growth, high unemployment and high inflation). It is hoped that a collaboration between business, labour and government can materialise after the ANC elective conference in December 2017, which will hopefully kick-start the economy again and create a sustainable growth environment. However, another credit rating downgrade will deal a further blow to consumer and business confidence while a renewed bout of rand weakness will result in less inflation relief. In such a scenario, expectations of lower interest rates will fade, and the already highly indebted consumer is likely to come under more pressure and continued low economic growth.

In summary, the uncertain economic and political environment both locally and globally will naturally affect asset prices and the returns expectations from all asset classes. As a result, we remain very cautious on return prospects, especially for equities and bonds over the shorter term as a rising interest rate environment could negatively affect asset valuation. The focus remains on the fund's long-term investment strategy, creating consistency and protecting against severe, negative market events.

Asset class returns: 30 June 2017

The table on the next page indicates the returns of the different asset classes over various periods to 30 June 2017. With a number of economic and political setbacks, it is no surprise that local and global markets generated low returns over the period.

It was a difficult 12-month period, as none of the major asset classes delivered double digit returns. The best performing asset class was local bonds which delivered a return of 7.9%. Even local listed property struggled and could only manage a 2.8% return for the 12 months. The volatile rand ended at R13.06 to the dollar, and strengthened over the 12-month period which detracted 11.1% from offshore investment returns.

Local equities struggled on the back of low growth, low consumer and business confidence as well as political uncertainty, and only managed a 1.7% return. Global equities (in rand terms) delivered a slightly better return of 3.0% (i.e. the MSCI AC World Index) whilst the rising interest rate environment (in the US) put some pressure on US treasury yields, resulting in a negative rand return of 15.1% for global bonds.

Investors have not been rewarded for taking on additional risk through equity exposure during the last 12 months (and even more so over the last three years). This scenario may well continue for some time, as we see interest rate levels normalise globally over the medium term. Even though global growth stabilised of late, the uncertainty surrounding central bank monetary policies and ultimately 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.

The table below shows how difficult the investment environment has been, with the returns achieved by the main asset classes over various periods. As noted above, the last year was particularly difficult for most asset classes:

Date: 30/06/2017	1 Year	3 Years	5 Years	10 Years
Equities	1.7%	3.4%	12.2%	9.3%
Bonds	7.9%	7.1%	6.6%	8.4%
Property	2.8%	13.2%	13.8%	14.3%
Cash	7.6%	6.9%	6.3%	7.3%
Global Bonds (R)	-15.1%	6.7%	9.9%	10.4%
Global Equity (R)	3.0%	10.5%	20.0%	8.3%
Inflation (R)	5.4%	5.4%	5.7%	6.2%
Rand Dollar Exchange Rate	-11.1%	7.1%	9.9%	6.4%

FUND INFORMATION

The fund's equity centric international managers performed well compared to the local managers in spite of the rand strength during the last financial year. As mentioned above, 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.

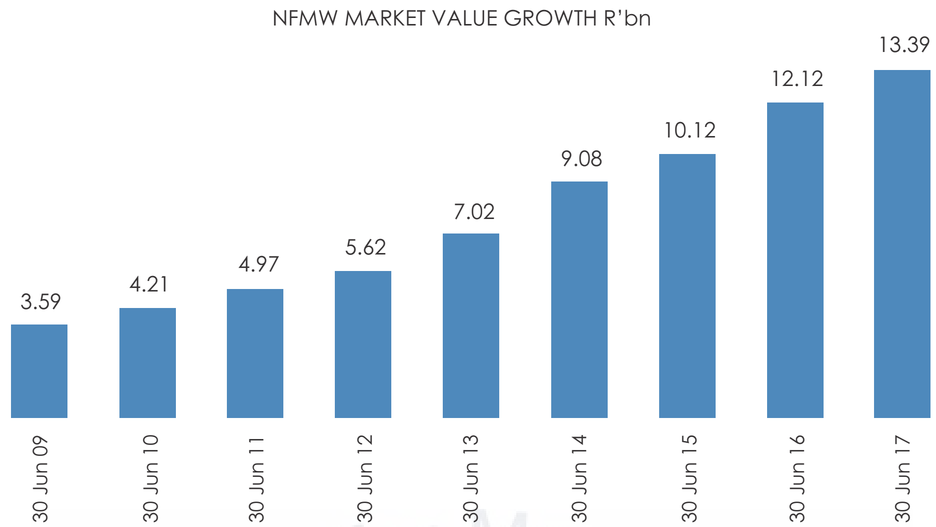
A list of the fund's appointed asset managers is provided in the table below:

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	Denker 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

A REVIEW OF FUND PERFORMANCE AND POSITIONING

Total fund growth

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



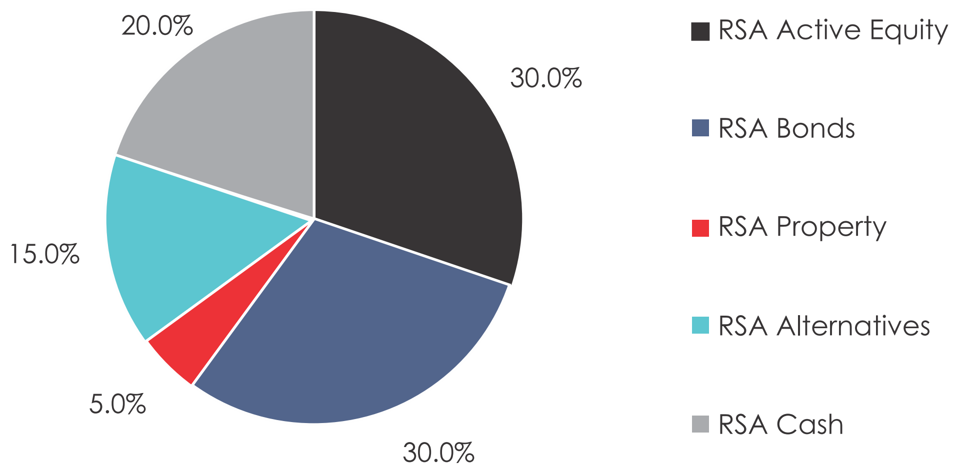
Capital Protector

The objective of the Capital Protector portfolio is to achieve 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 8.54% for the one year ending June 2017 as the Active Income fund benefited from high yields on short-term money market and bond instruments.

Stable Growth

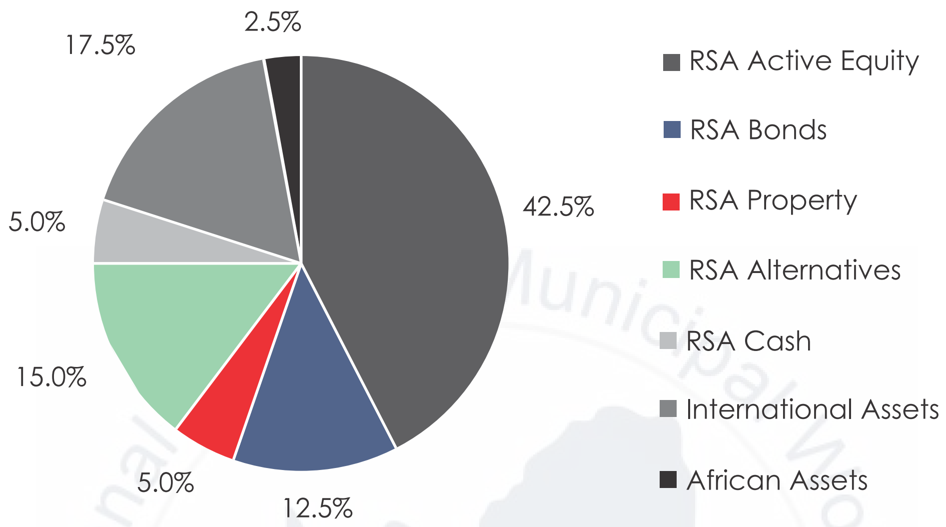
The Stable Growth portfolio aims to achieve 2.75% p.a. above inflation over time. Currently the portfolio's assets are managed by a range of specialist asset managers with the aim to maximise returns with the minimum amount of risk measured over longer periods of time.

The Stable Growth portfolio returned 6.60% for the one year to 30 June 2017. The portfolio's exposure to high-yielding cash and credit funds 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

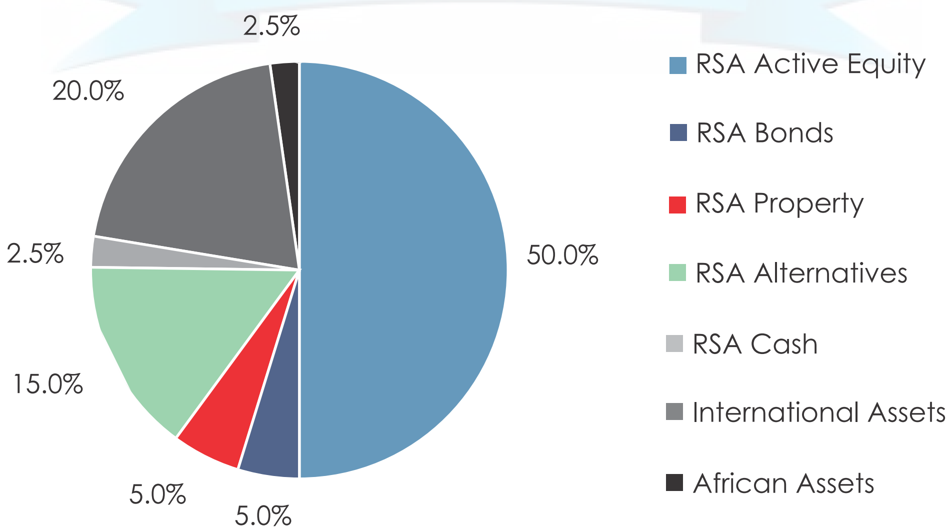
This portfolio has a higher equity allocation than the Stable Growth and Protector portfolios and includes investments in foreign assets. The Capital Growth portfolio aims to achieve a real return of 3.5% p.a. above inflation over time. The portfolio's assets are managed by a range of specialist asset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



The Capital Growth portfolio returned 5.35% for the one year ending June 2017. The main contributors to performance were offshore assets that benefited from rand weakness and the tactical asset allocation decisions throughout the year. The portfolio's allocation to bonds and equity 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 obtain maximum returns with the minimum amount of risk measured over longer periods of time. This portfolio has been the best performing portfolio over 5 years due to having the largest weighing equities and international assets. This portfolio is structured with an investment objective of CPI plus 4.75% p.a.

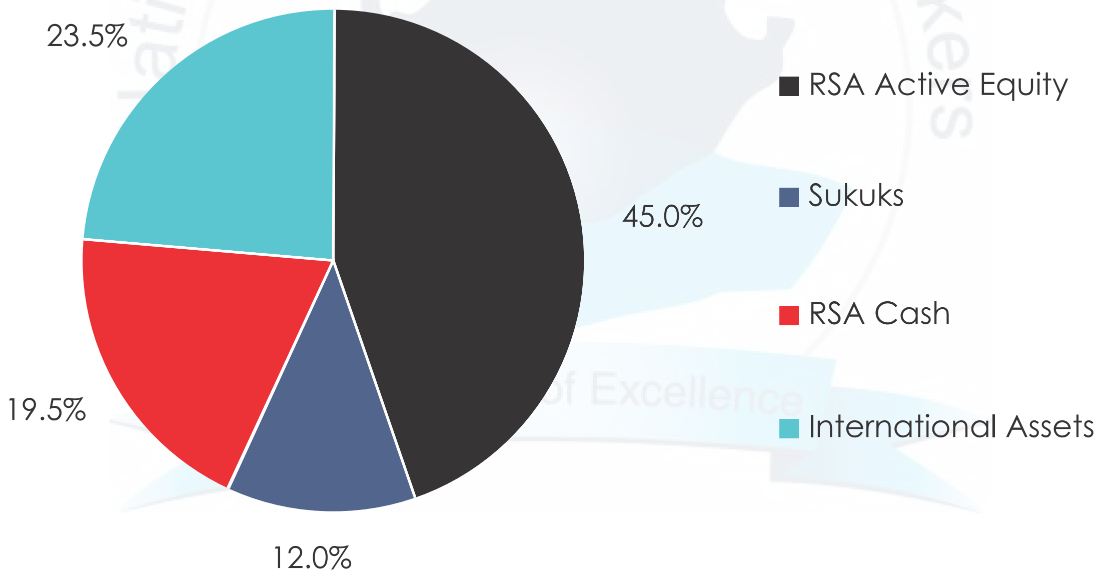


The Aggressive Growth portfolio returned 4.83% for the one year to 30 June 2017. The main contributors to performance were offshore assets that benefited from rand weakness and the tactical asset allocation decisions throughout the year. The portfolio's allocation to bonds and equity also contributed meaningfully to returns.

The less risky portfolios (i.e. Capital Protector and Stable Growth portfolios) outperformed the higher risk portfolios (i.e. Capital Growth and Aggressive Growth portfolios) due to portfolio positioning that was better suited to the uncertain environment. As cash and bonds both outperformed local equity and local property, the less risky portfolios benefited from this by maintaining a lower equity exposure and a higher cash and bond exposure throughout 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 is 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 comply with Shari'ah requirements as prescribed by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).



The Shari'ah portfolio returned 5.68% for the one year to 30 June 2017. Returns were 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 and per financial year were as follows:

	Capital Protector	Stable Growth	Capital Growth	Aggressive Growth	Shari'ah Portfolio
Jul-16	0,76%	1,74%	1,01%	0,93%	2,32%
Aug-16	0,56%	-0,42%	1,09%	1,40%	2,08%
Sep-16	0,82%	1,50%	-0,21%	-0,49%	-1,19%
Oct-16	0,65%	-0,53%	-1,81%	-2,08%	-2,09%
Nov-16	0,48%	-0,42%	0,36%	0,53%	1,86%
Dec-16	0,79%	1,43%	0,95%	0,91%	0,66%
Jan-17	0,72%	1,26%	1,49%	1,57%	1,88%
Feb-17	0,74%	0,22%	-0,03%	-0,21%	-0,58%
Mar-17	0,65%	0,63%	1,36%	1,48%	1,52%
Apr-17	0,80%	1,56%	2,14%	2,27%	1,22%
May-17	0,66%	0,29%	-0,04%	-0,25%	-1,40%
Jun-17	0,59%	-0,80%	-1,02%	-1,24%	-0,61%
Total Net Bonus	8,54%	6,60%	5,35%	4,83%	5,68%

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%

FUND STRATEGY

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

We had a busy and productive year, in rolling out the various mediums used to communicate with and educate fund stakeholders. The Communication consultants who are tasked with direct liason with the members and employers travelled extensively and conducted more than 400 information sessions attended by over 7000 members. A big NFMW thank you to all the employers for allowing these on-site sessions and to the members who took the time to attend.

The fund reviews the communication strategy on a regular basis to ensure that it is in line with the fund's primary objectives.

The recently reviewed strategy was entered in the 2017 IRFA Best Practices Awards competition and won the overall prize in this specific category.

Ron Field (Chairperson of the Board) and Charles Antonio (Chairperson of the Communications Committee) in the middle receiving the award.

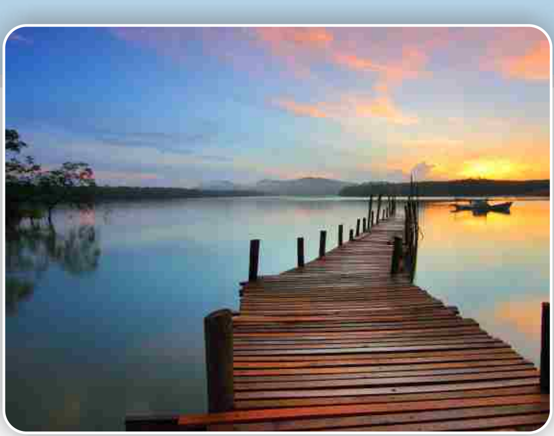
The fund will continue with its best efforts to communicate with and educate fund members on the benefits and options available to them. The fund encourages members to read the communication, attend the information sessions, review their benefit statements and make sure that they are familiar with the options available to them to ensure a favourable retirement outcome.

Your checklist

The fund has my correct and updated details	✓
Cell phone number (I receive sms-notifications)	
Postal address (I receive my benefit statements via post)	
E-mail address (I receive the monthly mailers)	
Beneficiary and dependant information for the death benefit	
Dependant information, including my registered life partner, where applicable	

REGISTER FOR ELECTRONIC COMMUNICATION – You can receive your communication quicker from the fund whilst assisting the fund in cutting down on printing and mailing cost by registering to receive your communication via e-mail from the fund. All you need to do is provide us with your e-mail address and ID-number by sending it to info@nationalfund.co.za or registering on the fund website.

Our members, our pride, our biggest ambassadors!



Annual report

1 July 2016 – 30 June 2017

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