



ANNUAL REPORT

1 JULY 2018 - 30 JUNE 2019



NFMW *Fund of choice!*

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Our objectives

The fund's primary objective is to provide benefits for its members upon their retirement or withdrawal and for their dependants or nominees in the event of the death of such member.

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.

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 our fund.

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 registered in terms of the Pension Funds Act. It has grown to be the largest fund within local government. With a membership base of more than 50 000 throughout South Africa, it is the fund of choice in the local government space. The low fee structure translates to less of our members' contributions going towards cost and more towards their retirement savings.

We pride ourselves in providing
excellent service and we
Never Forget our Members' Worth!

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 or the risk benefits policy, the actual Rules of the Fund and policy will prevail.

NFMW YEAR IN REVIEW

2018/2019 Key highlights

INVESTMENTS

R17,49 bn

Total fund assets increased to R17.49 billion from R15.78 billion in June 2018. (Page 11)

Positive returns on all investment portfolios

Close to R690m of the increase in assets is attributed to investment returns whereas new inflows came to R1.025bn for the financial year. (Page 18)

NFMW MEMBERSHIP

More than 50 000 members

Strengthening the NFMW's positioning as the largest fund in Local Government. (Page 6)

GOVERNANCE

4 Best Practice industry awards

The NFMW was amongst the **Best of the Best** at the 2019 IRFA Best Practices Awards walking away with four awards including a Gold Standard Award. (Page 5)



25%

More than 25% of assets managed and invested through transformed asset managers. (Page 2 & 18)

IMPROVED BENEFITS

Reduction in risk cover cost

An overall reduction in cost in all membership categories. (Page 12)



R48 500

Funeral cover increased from R11 000 to R11 500 (Category A) and from R44 000 to R48 500 (Category C) at no additional cost to the member. (Page 13)

R130 million

More than R130 million in risk profit paid since 2012 with additional profits expected to be paid in 2020. (Page 4)

94,82 on B-BBEE scorecard

This translates to a B-BBEE level 1 contributor demonstrating our commitment to transformation, transparency and adherence to codes of good practice. (Page 10)

Compliance

with all statutory and regulatory requirements

This includes complying with the default regulations that came into effect 1 March 2019, the submission of the required actuarial valuation report as at 30 June 2018 and financial statements as at 30 June 2019. (Page 2 & 4)



Chairman's overview

Albeit a challenging environment, 2019 was another year of many success stories for the National Fund for Municipal Workers, with the NFMW having won several industry excellence awards we demonstrated that we are the Fund of Choice in Local Government.

As I mentioned in my inaugural Chairman's report last year, one of our areas of focus is continual strengthening of our governance processes. I am delighted to report that the Board and all its Committees conducted all the scheduled year-meetings and other special meetings that were necessary to attend to the business of the fund. These meetings were attended by more than 90% of the Board and Committee members and had the correct number of trustee members in attendance to constitute a quorum, as per the rules of the NFMW and the mandates of various Committees. This is important as all the decisions are taken after robust discussions at various Committee and Board meetings.

Through the work of the Committees and the Board, the fund has managed to review various service-provider contracts to ensure that the terms and conditions are still relevant and to ensure that the fund and its members continue to receive value from the contracted service providers.

I can confirm that the fund has submitted all the statutory requirements to the authorities in order to comply with the relevant legislation. This includes submission of the required actuarial valuation report as at 30 June 2018 and financial statements as at 30 June 2019, which are summarised on page 11 in this report.

Transparency is a value that we highly cherish as a fund, hence various communication initiatives that the fund continually pursues and have pursued over the past year, driven by the Communications Committee. The Board of Trustees will continue to entrench this value in and through our stakeholders such as the authorities, staff members and our service providers. As a result of open communication and transparency, the NFMW is receiving important insights from its stakeholders which have assisted the Board to inform some of its policy decisions.

In 2018, the fund set a target that 30% of the assets of the fund should be managed through transformed managers by 2021. I am happy to report that our transformation agenda has yielded dividends. I can report to our membership that more than 25% of assets under management is now being managed and invested through transformed asset managers, this is ahead of the plan we had when the 30% target was set. This was achieved without compromising the investment returns.

However, the fund has since revised the target to challenge itself on such a critical matter which is also part of the national discourse. In 2019, the target has been revised to 40% by 2023. The fund is confident of achieving this target within the set time. Also, through our systematic transformation programme, the fund managed to embed elements such as female empowerment, broad-based beneficial structures and inclusion of previously disadvantaged within the fund-created financial eco-system. Our engagement with some of the so-called untransformed asset managers and other service providers, has resulted in a positive change in their organisational structures and their attitude towards transformation.

It is my view that transformation, if accepted and properly implemented, is to the sustainable benefit of all of us regardless of gender, colour, creed, race or religion.



Mr. Charles Antonio
Chairperson of the
Board of Trustees

The NFMW is fully aware and monitoring the process of pension funds rationalisation at the SALGBC. As a fund, we are also impatiently waiting for the completion of this process and the realisation of the wishes of our potential and future members to join the NFMW. We are looking forward to this challenging and equally inspiring process.

It is with great sadness that our country has witnessed unprecedented levels of violence against women and children. Gender-based violence MUST stop! On behalf of myself and the Board of the NFMW, we are appealing to all our members to actively participate in the curbing of gender-based violence. Members, my colleagues and counterparts, let us all take this responsibility and act against this barbaric phenomenon that has gripped our nation. Let us build the future of our nation together.

Equally so, let us close ranks with the authorities and condemn xenophobic attacks against our fellow Africans and/or other foreign nationals. We condemn these opportunistic, irresponsible and criminal acts which negatively impact the cordial diplomatic relations that existed between our nation and other global/African communities. This has a detrimental effect on investor confidence, trade and the socio-economic improvement of African economies. The NFMW takes a stand against such ills!

We have also heard in the press and get a sense of an increase in the levels of corruption and maladministration within the private sector and various spheres of government. This is detrimental to economic growth and investor/market confidence, and in turn negatively affects the investment markets in which the NFMW invests [please read the investment notes provided on page 18 of this report].

This maladministration has directly affected some of our members due to some municipalities failing to pay pension contributions, as required by law. We call upon those in authority to assist in addressing these matters. Although the situation looks gloomy, we choose to see light and hope for the future of our nation!

My sincere appreciation to our two Board members, Messrs K. Booysen and R. Solomons, who are retiring from service and from the Board at the end of November 2019. These Board members have served on the Board for more than two decades. We wish them all the best in their retirement.

- To my fellow Board members, I salute your commitment to service.
- To the NFMW's Principal Executive Officer and Deputy Principal Executive Officer, your knowledge of the retirement funds industry and competence are unparalleled, and I say thank you for your commitment to the cause of the NFMW and for sharing your expertise.
- To our staff members, you are the fulcrum of the fund and the Board expresses its unreserved appreciation for all your efforts. Know that we appreciate you!
- To the service providers, we are grateful that you chose to be part of the big-winning NFMW team. Thank you for your technical skills.
- And importantly to our membership, we say thank you for your ongoing support, the NFMW is at your service. Contact us at any time for assistance in relation to your NFMW retirement savings.

Wishing you and your family all the best for the year 2020!

Yours sincerely
CCK Antonio

Principal Executive Officer's review

The 2018/2019 financial year delivered stable investment returns, the membership base grew to more than 50 000 active members and the fund's assets increased by more than R1,7 billion to R17,49 billion.

The NFMW's investment portfolios once again delivered positive returns, despite the volatile economic and political environments. This is mainly as a result of the well-diversified and balanced investment portfolio maintained by the fund, appointment of world class investment managers and application of independent asset consulting advice. The objective of the fund remains to add real returns (i.e. returns in excess of inflation) to its portfolios over time and returns in excess of the respective investment portfolios' long-term objectives. 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. The fund's investments have managed to outperform those of major competitors over the long term, thereby remaining one of the top-performing retirement funds within local government.



Mr. Sean Samons
Principal Executive Officer

Benefit improvements implemented on 1 July 2018 and 1 July 2019 included the increase of the funeral benefit in the fund for the member and all qualifying dependants and the overall risk benefit fees also reduced across all categories and risk benefit options. The well-managed group risk benefit scheme continues to generate profits, with total profits paid to the fund amounting to more than R130 million since the introduction thereof in March 2012, with additional profits expected to be paid during 2020. All profits of the scheme are repaid to members by means of additional investment return declarations.

New default regulations aimed at promoting good fund governance and improving the retirement outcomes of retirement fund members were implemented with effect from 1 March 2019. The NFMW can proudly confirm that at the time, it had already complied 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 also has three post-retirement products, the on-balance sheet NFMW living annuity (managed as part of the fund's assets), the off-balance sheet NFMW Golden income living annuity and the NFMW Golden income life annuity underwritten by MMI. These annuities offer members a cost-effective option at retirement and they also ensure 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. To this extent, the fund educates its members on the benefits and options provided by the fund using different mediums.

We furthermore would like to encourage members to familiarise themselves with the benefits and options of the fund by attending the information sessions conducted by the fund, reading the communication received from the fund or by contacting the fund's call centres in Pretoria and Bellville. Please furthermore ensure to inform the fund of any changes in your contact details.

The fund was honoured to have received numerous awards from the Institute of Retirement Funds Africa (IRFA). Walking away with four Best Practices industry awards in the following categories:

- Financial management and reporting
- Governance
- Investment practices
- Gold standard award

These awards are testament to the fund's compliance with all regulatory and other statutory requirements.

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. The Board of Trustees also made great strides towards transformation within the fund and its service providers. The fund also voluntarily reports its transformation and BEE-credentials to the Financial Sector Conduct Authority (FSCA) and already has a BEE score level 1.

My sincere appreciation to the Board of Trustees, the Board sub-committees and specifically the Chairperson, Mr Charles Antonio who has led the fund through a challenging year. They can only be commended 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 this extent, my sincere appreciation to the Deputy Principal Executive Officer, Mr Leslie Ndawana, the Board's fund's secretariat, Ms Jansen van Rensburg and my Personal Assistant, Ms De Fortier for your unwavering support and efforts in making the NFMW the benchmark of excellence.

To our service providers and strategic partners, Sanlam the administrator, Mosaic the fund's asset consultant, PWC the fund's auditors, OMT the fund's IT support provider, the fund's actuary Ms Grobler, the fund's Compliance Officer, EBS, all the investment managers and most of all, to the dedicated NFMW-staff, for your hard work and commitment in contributing to the successes of this fund, my earnest appreciation.

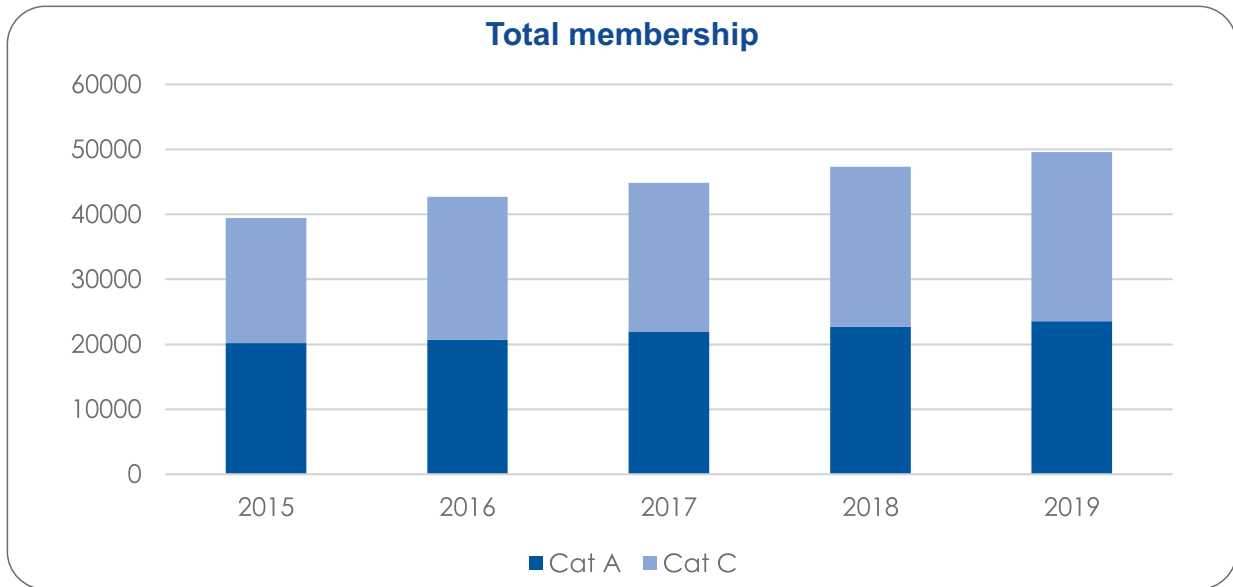
To all participating employers and members for their continued loyal support, I express my sincere gratitude.

Yours sincerely

SL Samons

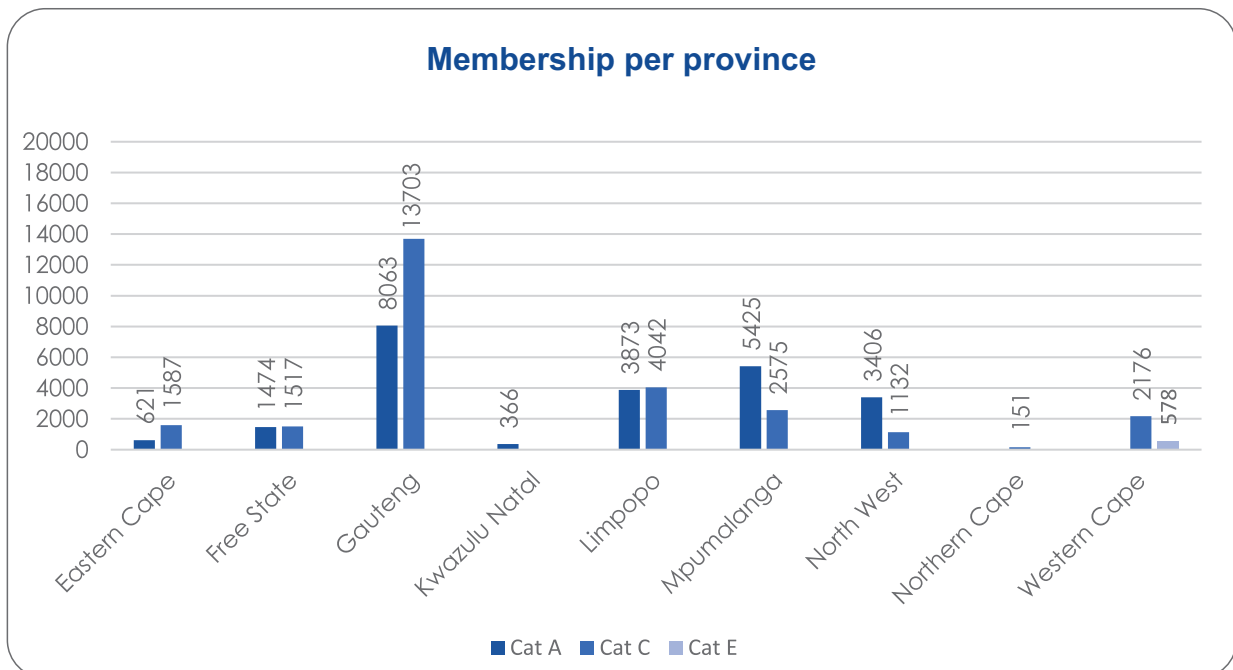
Administration feedback

MEMBERSHIP INFORMATION



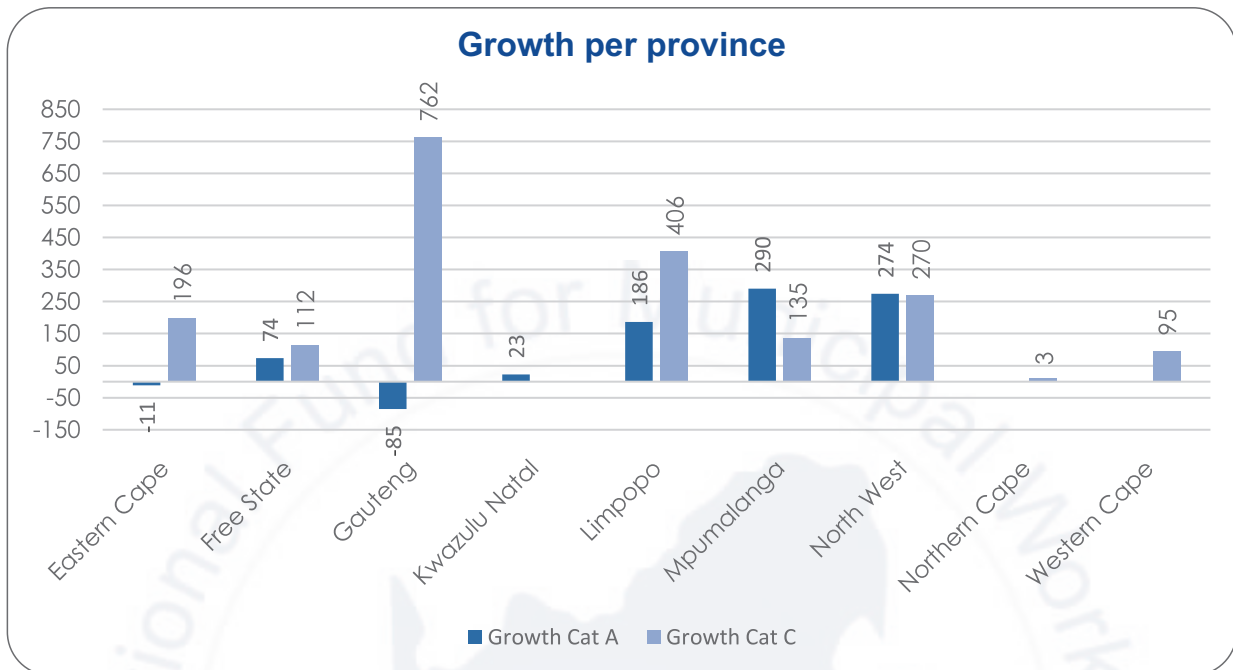
During the 2018/19 financial year, the membership in Category A has increased by 4% and the membership in Category C has increased by 6%. The total number of members has increased by 26%, since the 2015 financial year.

Membership per province

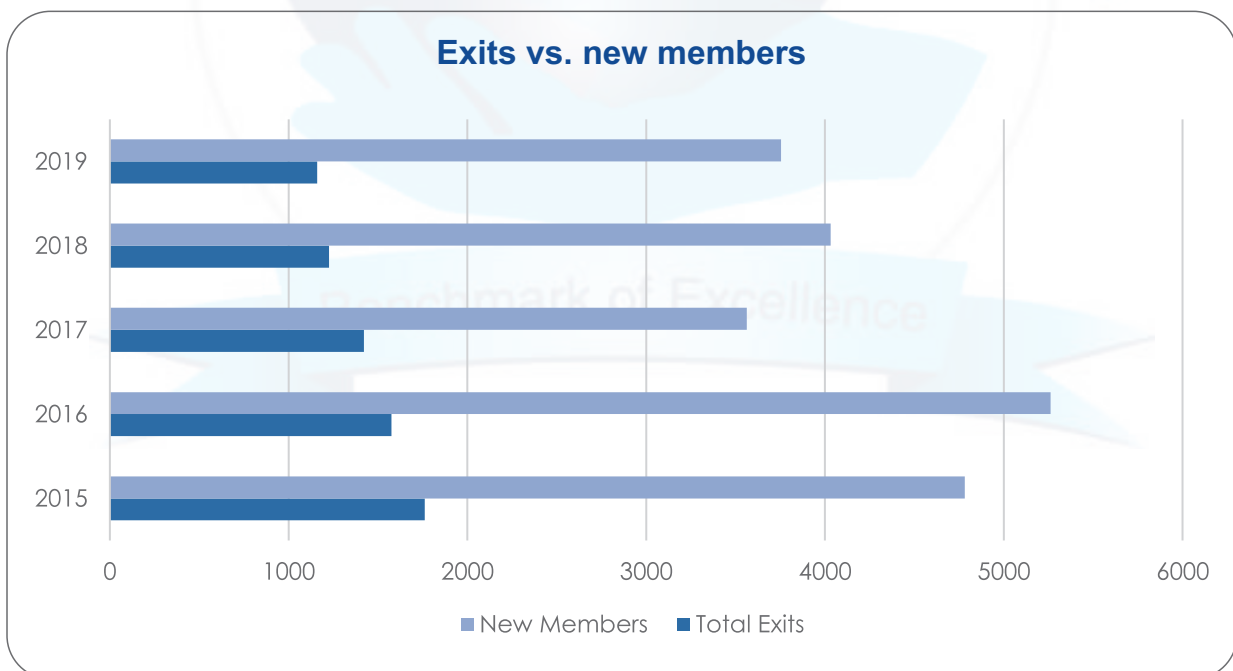


The provinces with the highest combined net growth in number of members are Gauteng (677 members), Limpopo (592 members) and North West (544 members).

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



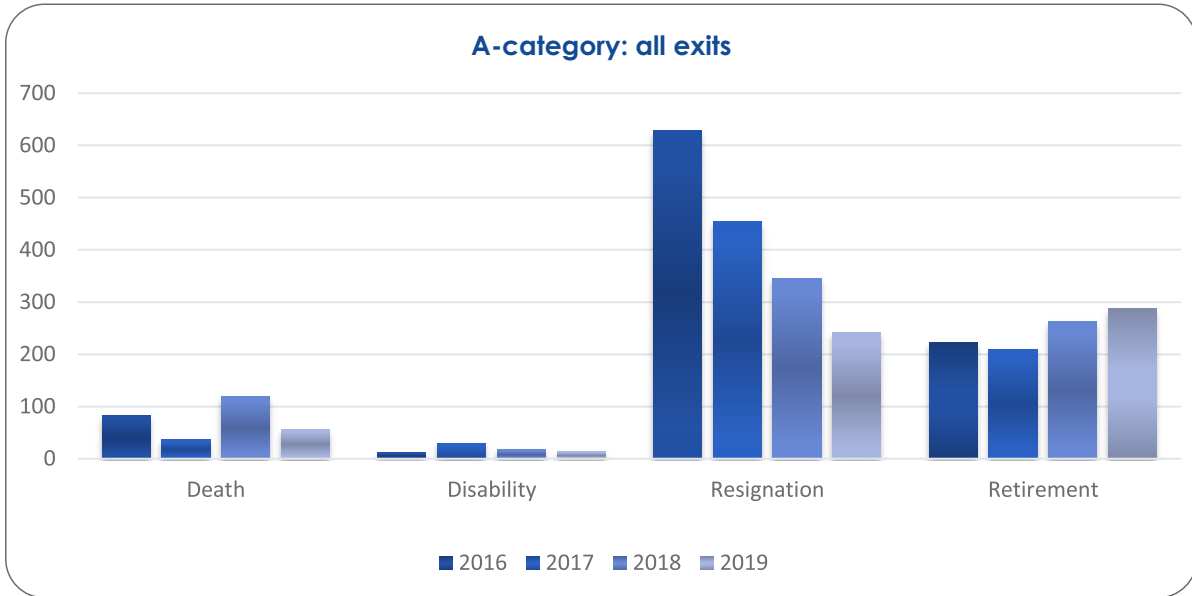
The following graph illustrates the number of exits vs. the number of new members gained per annum for the period 2015 to 2019:



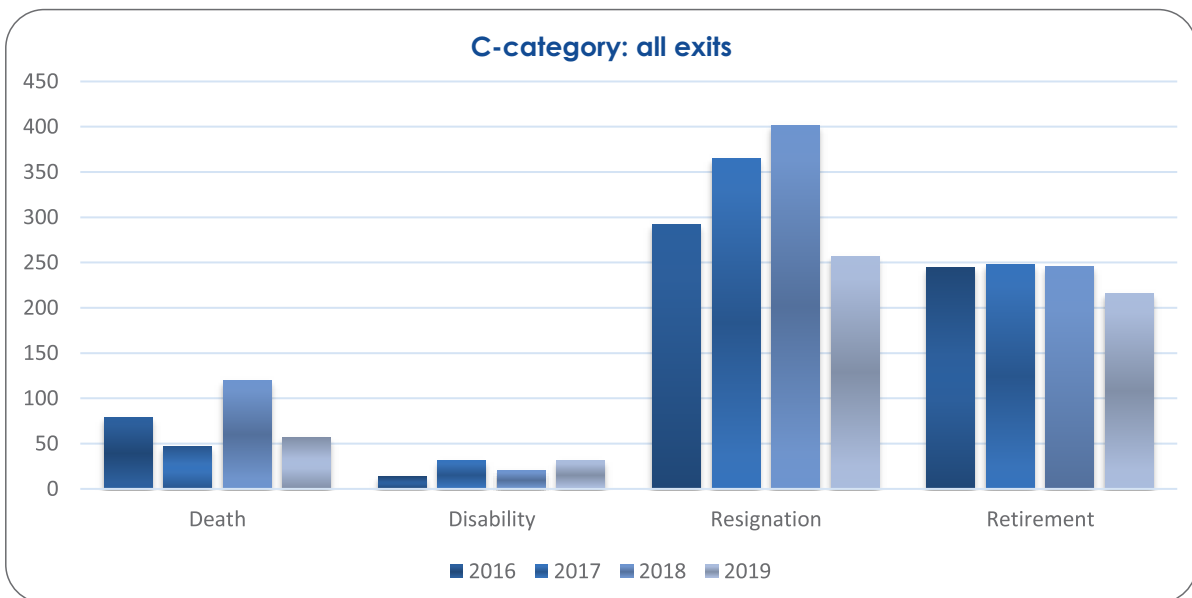
The number of exits per 100 new members during 2019, was 31.

FUND EXITS

The following two graphs contain a comparison between the total number of exits per category, for the period 2016 to 2019 for Category A and Category C, respectively:



When compared with the 2018 financial year, the total number of exits in Category A has decreased by 20% during the 2019 financial year.



When compared with the 2018 financial year, the total number of exits in Category C has decreased by 29% during the 2019 financial year.

When comparing the combined number of exits during the 2019 financial year with the combined number of exits during the 2016 financial year, disability exits have shown an increase of 22%, while all other categories have shown a decrease: death with 53%, retirements with 1% and resignations with 33%.

Fund management

NFMW - Board of Trustees

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 as per the applicable legislation and the provisions of the fund rules. The Board of Trustees comprises of 12 trustees, elected by members on a provincial basis and one trustee appointed by the South African Local Government Association (SALGA).



Mr. C C K Antonio
Chairperson of
Board of Trustees



Ms. M C Makgalemele
Chairperson of
Communications Committee



Mr. H S Rossouw
Chairperson of
Investment Committee



Mr. E A Schutte
Chairperson of
Legal Committee



Mr. K G Booysen
Trustee -
Legal Committee



Mr. N C Cindi
Trustee -
Communications Committee



Mr. L Geldenhuys
Trustee -
Investment Committee



Ms. M E Jantjie
Trustee -
Communications Committee



Ms. C J Labuschagne
Trustee -
Legal Committee



Mr. P S Mofokeng
Trustee -
Investment Committee



Mr. N J Nkuna
Trustee -
Legal Committee



Mr. P R Nolutshungu
SALGA-appointed trustee -
Investment Committee



Mr. R Solomons
Trustee -
Legal Committee

Due to the size of the fund, many functions are delegated to various committees of the board. The various 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 eight Board of Trustee meetings, nine Executive Committee meetings, seven Communications Committee meetings, eight Investment Committee meetings and eight Legal Committee meetings. All these meetings had the required number of trustees in attendance to constitute a quorum, as per the terms of reference for the respective Committees.

NFMW B-BBEE scorecard

In terms of the Financial Sector Codes of good practice to the Broad-Based Black Economic Empowerment Act, retirement funds are expected to voluntarily measure themselves against the targets set in these codes and are awarded points.

The retirement funds scorecard has the following measurement elements upon which points are awarded:

Board and executive management participation

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

Preferential procurement

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

National Fund for Municipal Workers Scorecard				
Management Control Scorecard				
	Points	Target by June 2021	Achievement	Points awarded
Board and executive management participation	20			
Exercisable voting rights of black board members as a percentage of all board members	8	50%	67%	8,00
Exercisable voting rights of black female board members as a percentage of all board members	4	25%	17%	2,67
Principal Officer, executive and senior management	8	50%	63%	8,00
Preferential Procurement Scorecard				
	Points	Target	Achievement	Points awarded
B-BBEE Procurement spend from all empowering suppliers	35	75%	116%	35,00
B-BBEE Procurement spend from empowering suppliers who are QSEs or EMEs	10	15%	9%	6,15
B-BBEE Procurement spend from empowering suppliers who are at least 51% black owned	25	15%	23%	25,00
B-BBEE Procurement spend from empowering suppliers who are at least 30% black woman owned	10	8%	18%	10,00
Score out of 100				94,82
Level obtained				1

The Board is pleased to report that the fund measured itself against all the above elements. Overall the fund scored 94.82 points, which translates to making the fund a B-BBEE level 1 contributor. This demonstrates to our members and stakeholders our commitment to transformation, transparency and adherence to codes of good practices.

Fund rules and amendments

The fund rules were revised in totality with effect from 1 January 2019. A copy of the revised Rules of the Fund is available on the fund's website www.nationalfund.co.za and can be provided upon request from the fund's offices. There were no rule amendments registered during the year under review.

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: 4th Floor, Riverwalk Office Park, Block A,
 41 Matroosberg Road, Ashlea Gardens, Pretoria,
 South Africa, 0181
 Telephone: 012 346 1738 | Fax: 086 693 7472
 e-mail: enquiries@pfa.org.za

Please note that the complaint must first be addressed to the fund in writing with the allowance of 30 days for the fund to resolve the complaint.

There have been no adverse findings made against the fund by the Pension Fund Adjudicator for the period 1 July 2018 to 30 June 2019.

NFMW SERVICE PROVIDERS

- SANLAM – Administrator
- Employee Benefits Studio – Compliance and legal advisor
- OMT – IT-support
- Alexander Forbes (Gerda Grobler) – Actuarial services
- Mosaic – Asset consultants and investment administrator
- PWC – Auditors
- Asset managers – See Annual Investment report

Net assets and funds provided as at 30 June 2019

	*30-Jun-19 R	30-Jun-18 R
ASSETS		
Non-current assets	17 193 742 456	15 488 902 090
Property and equipment	15 809 176	19 139 368
Investments	17 176 288 751	15 467 424 381
Housing loans	1 644 529	2 338 341
Current assets	296 180 175	290 691 826
Accounts receivable	28 036 279	77 701 806
Contributions receivable	72 400 818	76 144 708
Cash at bank	195 743 078	136 845 312
Total assets	17 489 922 631	15 779 593 916
FUNDS AND LIABILITIES		
Members' funds and surplus account	16 994 214 233	15 311 322 291
Members' individual accounts	16 916 995 314	15 198 086 524
Amounts to be allocated	77 218 919	113 235 767
Reserves		
Reserve accounts	117 600 954	93 532 967
Total funds and reserves	17 111 815 187	15 404 855 258
Non-current liabilities		
Unclaimed benefits	18 062 134	25 579 044
Current liabilities	360 045 310	349 159 614
Benefits payable	322 694 805	310 253 884
Accounts payable	37 350 505	38 905 730
Total funds and liabilities	17 489 922 631	15 779 593 916

*At the date of issuing this report, the 2019 financial statements were in the process of being audited. The audited financial statements are available on the fund's website www.nationalfund.co.za.

Benefit improvements

The fund understands the impact that high cost can have on a member's retirement savings and therefore always endeavours to keep it to a minimum. After performing the annual review of the death, disability and funeral benefits, the fund was able to increase the funeral cover benefit and at the same time reduce the risk cover cost! This cost saving on the risk cover benefits and the administration cost which remains at only 0.5% of pensionable salary, translate to more of our members' contributions going towards their retirement savings.

With effect from 1 July 2019 members also have the option to elect no death and disability cover in the fund, (Category A0 and C0), irrespective of their age. It is important that members make informed decisions when electing a risk cover option, especially when opting for no cover, considering their own personal circumstances, financial dependants, cover with another insurer, but most importantly that they consult with a qualified financial advisor.

REDUCTION IN RISK COVER COSTS Risk cover costs are deducted monthly from the employer contributions and are determined by the risk cover category elected. Members have the option to change their risk category twice a year effective 1 January and 1 July and when their personal status changes. Medical underwriting may be required. The cost of the death and disability cover reduced effective 1 July 2019.

CATEGORY	DEATH COVER	DISABILITY COVER
Category C (main fund)		
C1 Total cost reduced from 1.187% to 1.114%	1 x Annual Pensionable salary + fund credit	1 x Annual Pensionable salary + fund credit
C3 Total cost reduced from 2.946% to 2.740%	3 x Annual Pensionable salary + fund credit	3 x Annual Pensionable salary + fund credit
C5 Total cost reduced from 4.090% to 3.905%	5 x Annual Pensionable salary + fund credit	3 x Annual Pensionable salary + fund credit
C0 Only funeral cover cost 0.293%	No cover Fund credit becomes payable	No cover Fund credit becomes payable
Category A (2%-fund)		
A100 Total cost reduced from 1.231% to 1.154%	1 x Annual Pensionable salary + fund credit	1 x Annual Pensionable salary + fund credit
A0 Only funeral cover cost 0.075%	No cover Fund credit becomes payable	No cover Fund credit becomes payable

IMPROVED FUNERAL BENEFIT All members and their qualifying family members are covered for the funeral benefit, irrespective of the risk cover category elected. The funeral cover increased with effect from 1 July 2019 at no additional cost to the member.

QUALIFYING DEPENDANTS	CATEGORY C COVER	CATEGORY A COVER
Main member	Increased from R44 000 to R48 500	Increased from R11 000 to R11 500
*Qualifying spouse/Life-partner	Increased from R44 000 to R48 500	Increased from R11 000 to R11 500
Qualifying child 6 years and older (above 21 years of age must be a full-time student, unmarried and/or disabled)	Increased from R22 000 to R24 250	Increased from R4 500 to R4 700
Qualifying child from 26 weeks of pregnancy until 6 years	Increased from R10 000 to R11 000	Increased from R4 500 to R 4 700

*Members must ensure that their life-partners are registered with the fund, by completing and submitting the [Application for registration of a life-partner-form](#) in order to qualify for the funeral benefit.



NFMW post-retirement products

There are many factors to consider as you are nearing retirement and are faced with the very important decision on which product(s) to invest your hard-earned retirement savings in. It can be quite overwhelming and daunting as making the wrong decision can have dire consequences.

The Board of Trustees of the National Fund for Municipal Workers established voluntary post-retirement default options, the NFMW Golden Income With-Profits Life Annuity underwritten by MMI and the NFMW Living Annuity, for members who want to manage 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 management and investment fees on the fund's default options are significantly 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 and the investment management fees will be similar to the existing pre-retirement portfolios.

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

For those members who cannot or do not want to manage their own pension benefits by making use of the in-fund NFMW living annuity, an out-of-fund living annuity designed exclusively for ex-NFMW members is also available.

NFMW LIVING ANNUITY

The default living annuity offered by the NFMW is managed by the Board of Trustees. 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 NFMW prescribed 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: NFMW Living Annuity Capital Protector, NFMW Living Annuity Stable Growth, NFMW Living Annuity Capital Growth and NFMW Living Annuity Aggressive Growth. This may depend on your financial position, financial needs, health 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 of retirement capital in your living annuity account will remain part of the fund's assets. Any remaining assets after your death will be disposed of in terms of your nomination form and in accordance with your beneficiary's wishes.
- **A flat administration fee of R73.44 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 may result in a fee saving of between 1% and 2% per year compared to externally provided living annuities.
- **No commissions are payable** (an advice fee where agreed, may be applicable).
- You will pay income tax at your personal income tax rate on the amount of income received.

NFMW GOLDEN LIVING ANNUITY (out-of-fund living annuity)

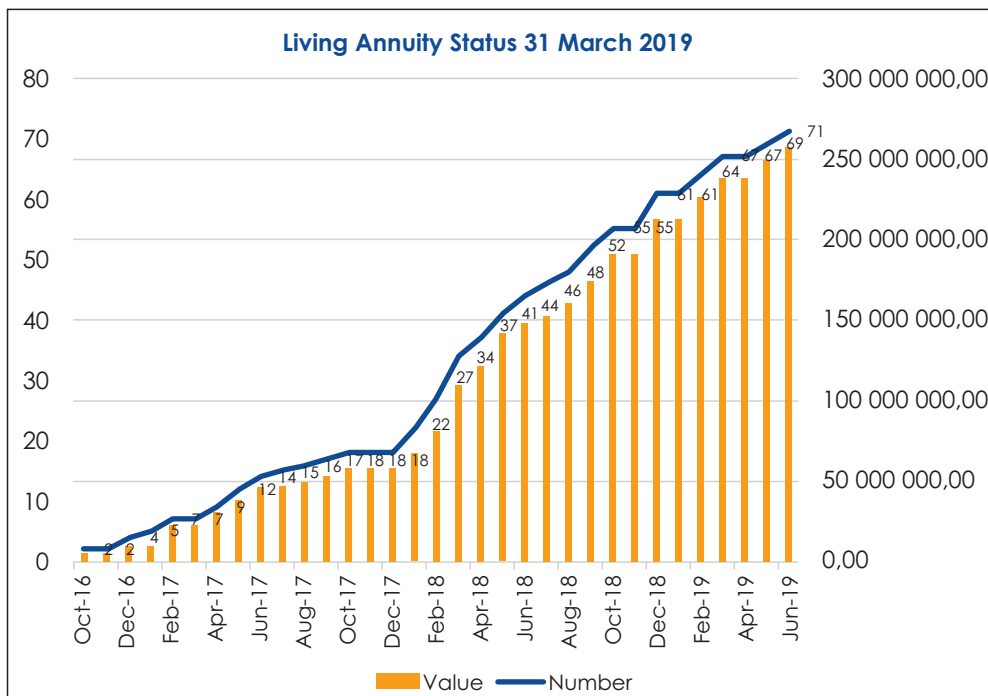
The Board of Trustees approved an NFMW Golden Living Annuity for those members who are unable or do not want to access the in-fund NFMW living annuity. Certain guidelines will apply to the Golden living annuity option which need to be carefully considered:

- Available to active and former members of the National Fund for Municipal Workers.
- Qualifying members may combine amounts from other retirement funds (pension, provident, preservation and retirement annuity funds) and existing Living Annuities in this product at the same pricing levels.
- Minimum investment amount R100 000.
- This living annuity has low investment fees when compared to average available and comparable retail living annuities in South Africa. Lower fees translate into enhanced investment returns, which could lead to higher income or your pension lasting longer.
- At retirement your money is invested in an established risk-profiled portfolio which will be credited with the investment returns (positive or negative) that you earn on your living annuity fund value.
- Importantly, you must decide how to invest your fund credit. Please consult with your own financial advisor or one of our approved financial advisors accredited to promote the NFMW Golden Living Annuity.
- It is a flexible pension, where you can decide how much money to draw each year as an income. The law allows you to draw between 2.5% and 17.5% of your fund value each year. However, it is important to draw your income responsibly to provide you with a sustainable income throughout your retirement. A financial advisor can assist you to decide on the right level of income to ensure that you do not run out of money.
- Upon your death the balance of your fund value will be paid to your estate or your nominated beneficiaries. Section 37C of the Pension Funds Act does not apply.
- Your spouse will have the option to continue with the living annuity at the same pricing levels that you enjoyed while belonging to the living annuity.
- A living annuity provides you with an income and you may only access your capital once your remaining fund reduces to below the value set by regulation, which is currently R50 000, or R75 000 if the retiring member invested his/her full member share and did not access cash benefits.
- Advisor fees are capped at 50% of industry standards.
- Discounted administration fees compared to retail living annuities.
- Fee comparison based on R2 million invested in the NFMW GLA Low Income portfolio:

	Retail Living Annuity	NFMW Golden Living Annuity
Asset management fees	1.68%*	1.22%
Administration fees	0.58%	0.26%
Advisor fees (maximum)	1.15%	0.58%
Total annual fees	3.41%	2.06%
	Total monthly saving	R2 250

*Retail Asset Management Fee is based on the average fee payable in the ASISA Multi-Asset High Equity Sector Average

The following graph illustrates the increase of the net value of the In-fund NFMW Living annuity as at 31 March 2019.



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:

- 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 ten years/120 months i.e. if you pass away within ten years after retirement, the full pension will still be paid (to a beneficiary) for the remainder of the ten year period. If you pass away more than ten 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 ten 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 ten-year guarantee period, no further payments will be due or 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.

INTERESTED? FIVE EASY STEPS TO FOLLOW

1. Please contact the fund's appointed in-fund counsellors on (012) 743 3000. They will guide you through the process to make a post-retirement investment choice.
2. A brief needs analysis will be completed to assess your financial position.
3. The in-fund counsellor will provide you with relevant information pertaining to your specific situation and discuss the various post-retirement fund options. Please note that this is not financial advice as contemplated by the FAIS Act.
4. If you select one of the fund's default options, the applicable Post-retirement option-form and disclaimer will be provided to you confirming your annuity choice in writing.
5. 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.



Annual investment report

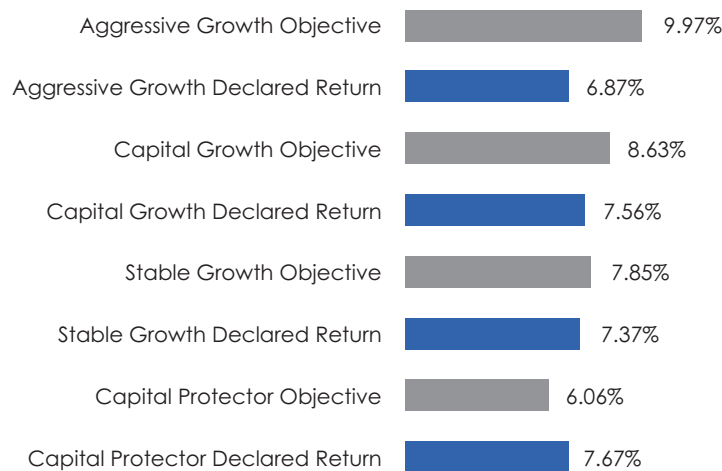
EXECUTIVE SUMMARY

The 2018 - 2019 financial year turned out to be difficult for investors, as the global growth slowdown and trade war between the US and China intensified. Globally, central banks changed their course of action and started to lower interest rates, again providing much needed liquidity in markets across the globe. Locally, economic conditions did not improve enough to fuel business confidence and fixed direct investment.

However, despite the difficult economic backdrop, the fund increased its total assets over the financial year by more than R1.7 billion (* from R15.78bn to R17.49bn) at the end of June 2019. Close to R690m of this increase is attributed to investment returns whereas new inflows came to R1.025bn for the financial year.

The fund's excellent long-term track record stayed intact as it maintained its good performance alongside the best global balanced managed portfolios in South Africa and on par with 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. The graph shows the various portfolio returns over the last five years compared to their respective investment objectives – please refer to the graph below for the annualised five year portfolio returns in red.

*Including the non-current assets of R291 million.



There was no need to change the fund's well-diversified and balanced investment portfolios during the year as this approach protects the fund during times of high volatility in local and global markets, as well as against extreme currency volatility which we again experienced during the last financial year. From a return perspective, the asset classes adding the most value during the year were international assets, alternative assets (e.g. infrastructure and renewable energy investments) as well as tactical asset allocation positioning which performed well in challenging market conditions.

The fund improved and expanded its strong focus towards its transformation programme and added four new empowerment managers to its investment structure. More than 77% of the fund's asset are now managed by asset managers with a B-BBEE level above 2, and 25% of assets are managed by >51% black-owned businesses. Argon, Legacy Africa and Vunani were all appointed to manage local equity mandates (implemented in June 2019), whereas Terebinth got the go ahead to manage a flexible income mandate (implementation date expected during September 2019).

Some changes were made to the fund's long-term strategic asset allocation, most notably the slight decrease in the alternative asset class exposure, and an increase in offshore assets for the Capital Growth and Aggressive Growth portfolios. All portfolios remain Regulation 28-compliant, which governs the allocations to various types of assets, and are well balanced and optimised to achieve their various investment objectives over the longer term.

The fund's appointed tactical asset allocation manager (Prescient) continuously managed the fund's tactical asset allocation in a challenging economic environment, navigating a global growth slowdown, geopolitical risks, Brexit chaos and arguably a turnaround in the global interest rate cycle.

THE YEAR IN REVIEW

The downturn and volatility experienced in the market over the last year (especially between August and December of 2018) can mostly be attributed to various global and local economic events. Volatile data flows and geopolitical events e.g. the ongoing US/China trade war and Brexit contributed significantly to the uncertainty experienced in global markets.

In addition, the stable and synchronised global economic growth cycle (experienced to a large extent in 2017 and early 2018), started losing momentum, fuelling some recessionary fears which impacted investor confidence and sentiment in a significant way. Any fear of a global recession will result in investors taking a more cautious (risk-off) stance which normally triggers a sell-off in global equity markets.

During the last 12 months markets remained concerned that President Trump's stance on tariffs would result in further growth slowdown, which caused central banks across the globe to remain accommodative in their policy stances. Lower interest rates therefore remain on the cards in the US and most other developed markets for the foreseeable future. The signalling of interest rate cuts in the US unfortunately gave a message of concern to the market, as rates are normally lowered during challenging economic periods.

Have a look at the graph below – all in US dollar terms – which shows the value of \$100 invested in various markets across the world since 1 July 2018. Note that the volatility experienced in global markets is by no means isolated to South Africa only, as emerging markets and the UK also struggled in a similar fashion.



Of course, we all know that South Africa is struggling with low economic growth, high unemployment, a current account deficit, rising debt and various challenges at the State-owned enterprises (SOEs). On top of that South Africa's market fortunes remain very much linked to the global risk and economic environment.

South Africa's biggest stumbling block to a higher growth scenario remains structural reforms. For some years now, South Africa has been experiencing low economic growth and missed out on the global "synchronised growth" period between 2015 -2018. To some extent, this can be attributed to economic policy uncertainty, lack of policy implementation and low levels of fixed direct investment (mainly due to a lack of business confidence). For example, Eskom and its continued operational challenge remains one of the biggest risks for South Africa's economy.

Unfortunately, during the last 12 months, the investment environment in South Africa was frustrating, as the slow pace of policy reform together with pockets of turmoil in global markets weighed on sentiment and ultimately, good investment returns.

Slowly but surely, we are seeing some positive signs towards an improved economic backdrop as President Cyril Ramaphosa starts to consolidate his administration and address some of the economic challenges facing the country. Positive steps towards improved governance in some SOEs, maintaining the independence of the NPA, the appointment of a new SARS-commissioner and the finalisation of the mining charter will, over time, all contribute to the economy.

Economic outlook

Globally the risk to escalating international trade wars and tensions remains one of the biggest threats to a sustainable global growth scenario. Any such escalation will also impact South Africa with its strong trade links to both Europe and Asia. The fear of a (global) recession will probably remain with us for the foreseeable future – or at least until the uncertainty created by the US/China trade war has been completely removed through a negotiated trade deal.

Furthermore, the global shift away from quantitative easing to tightening has stalled in late December 2018 and is not expected to return soon given the concerns about a much lower global growth scenario. This has caused a significant drop in global bond yields which may stay low for some time. Rising inflation may stop this cycle, but the combination of technological advances, lower productivity, worsening demographics and increased competition will most probably ensure that inflation stays benign. Considering all of this together with lower energy prices, inflation is bound to stay low for some time to come.

The investment environment therefore remains challenging: a typical South African investor would look to diversify investment offshore, given the South African economic backdrop and fundamentals. However, with high equity valuation levels in the developed market (notably the US), low yields and interest rates as well as a slowing global growth scenario, there are few places to hide.

As for South Africa, the road ahead will be tough as President Ramaphosa needs to transform the economy by improving business confidence, encourage fixed investment spending, focus on job creation and eradicate corruption whilst creating stability and more certainty for sustainable economic growth. Locally, fiscal consolidation must become a priority, together with improved tax collections, debt control and, of course the turnaround of the SOEs. The path to recovery for South Africa may well be as follows:

1. Structural reforms and policy certainty
2. Improved levels of business and consumer confidence
3. Increased levels of local and foreign investment
4. Inclusive economic growth
5. Job creation and reduced poverty

Asset class returns: 30 June 2019

It was another difficult year as uncertainty in global markets created much volatility. The four-month period between August and December 2018 was extremely challenging as markets digested the escalating trade war and rising US interest rates. The rate hike cycle in the US ended abruptly late in December 2018, but this time with recessionary fears attached. Lower rates are normally associated with good news, but this time the lowering of rates translated into slower expected global growth...

As such, all major asset classes struggled to deliver double digit returns, except for local bonds which was the best performing local asset class with a return of 11.5%. Listed property struggled again and could not even return 1% for the year. Equities struggled to beat inflation over the period with a return of only 4.4%. The volatile rand ended at R14.10 to the dollar, and depreciated slightly over the 12-month period, adding 2.7% to offshore investment returns.

Global equities (in rand terms) delivered a return of 7.0% (i.e. the MSCI AC World Index) whilst the volatile interest rate environment added some value as US treasury yields ended the year slightly lower. Offshore bonds managed 8.7% in rand terms over the 12-month period.

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 staying low for the foreseeable future. The uncertainty surrounding the US/China trade war and Brexit remains and we therefore recommend that investors temper their return expectations for the next five to ten years. High double digit returns from domestic asset classes are unlikely and unexpected rand strength could negatively impact the returns of global assets over the medium term.

The table below shows how difficult the investment environment has been, showing the returns achieved by the main asset classes over various periods. As noted above, the last couple of years were particularly difficult for most asset classes, with only global equities reaching double figures over a five-year period:

Date: 30 June 2019	1 Year	3 years	5 years	10 years
Equities	4.4%	6.9%	5.8%	13.5%
Bonds	11.5%	9.9%	8.6%	9.0%
Property	0.8%	-2.3%	5.6%	13.0%
Cash	7.3%	7.4%	7.1%	6.6%
Global Bonds (R)	8.7%	0.2%	7.1%	8.6%
Global Equity (R)	7.0%	8.1%	10.6%	15.2%
Inflation	4.5%	4.7%	5.0%	5.2%
Rand Dollar Exchange Rate	2.7%	-1.4%	5.8%	6.2%



FUND INFORMATION

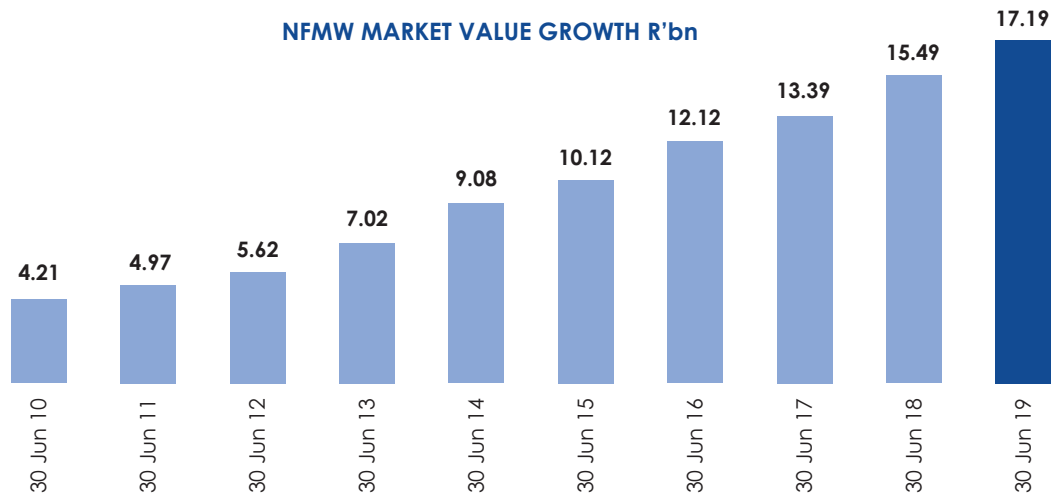
The fund's equity-centric international managers performed well compared to their peers during the last financial year. Alternative assets like infrastructure and renewable energy projects housed in the Omigsa Ideas fund, together with the fund's tactical asset allocation manager ensured that the fund's performance kept pace with other similar risk profiled funds and portfolios throughout the industry. Unfortunately, investors have not been rewarded for taking on additional risk (through equity exposure) during the last couple of years. However, over longer periods we still expect the historic risk-reward relationship to remain intact making use of a slight tilt towards alternative assets which may offer good real returns during times when more traditional asset class returns reflect the struggling economic fundamentals. 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 Investment Management
RSA Active Equity	Allan Gray Domestic Equity Coronation House View Equity Denker Equity Mazi Equity Benguela Equity Argon Equity Legacy Africa Equity Vunani Equity
RSA Bonds	Prowess Bonds Futuregrowth IDBF
RSA Listed Property	Catalyst Property Metope Property
RSA Alternative Assets	OMAI Ideas Futuregrowth Development Equity
RSA Cash	Ashburton Cash Plus SIM Active Income Securitised Debt Investec Credit income
International Assets	Allan Gray Orbis Equity Vulcan Value Equity Morgan Stanley Global Brands Investec Global Franchise Rubrics Global Credit Nedgroup Global Equity (Veritas) Catalyst Global Real Estate Coronation Global Emerging Markets
African Assets	Novare Africa Property Fund II

A REVIEW OF FUND PERFORMANCE AND POSITIONING

TOTAL FUND GROWTH

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



Excluding the fund's bank account balances.

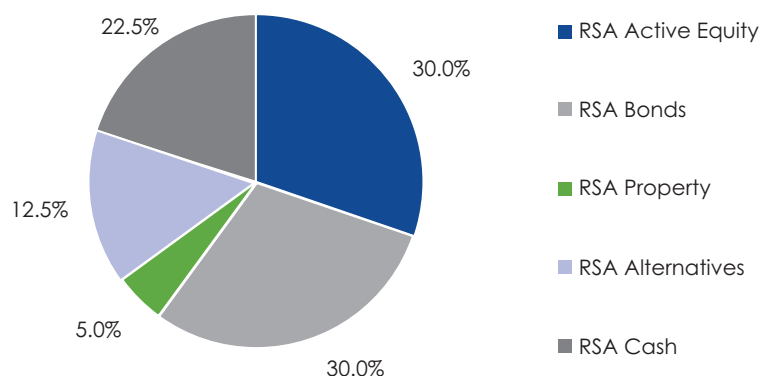
Capital Protector

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 together with a combination of other cash managers. As such, the portfolio also has exposure to a small portfolio of securitised debt and a conservatively managed enhanced cash portfolio.

The portfolio returned 8.36% for the year ending June 2019 as the active income fund benefited from high yields on short-term money markets and bond instruments.

Stable Growth

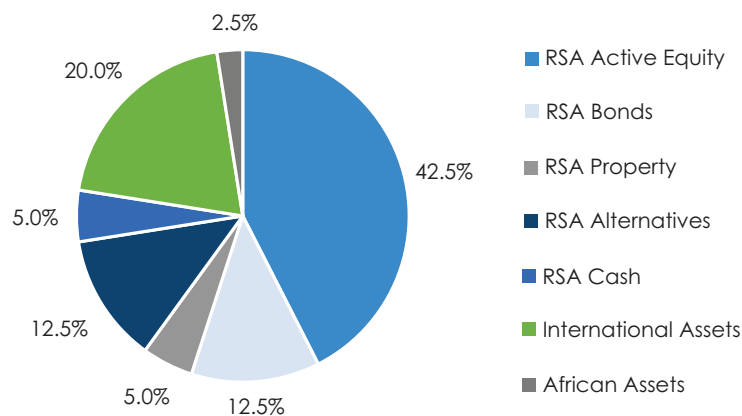
The Stable Growth portfolio aims to achieve a real return of 2.75% p.a. above inflation over time. Currently the portfolio's assets are managed by a range of specialist asset managers with the aim to maximise returns with the minimum amount of risk measured over longer periods of time.



The Stable Growth portfolio returned 6.54% for the year to June 2019. 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 and delivered excellent returns for those members close to retirement.

Capital Growth

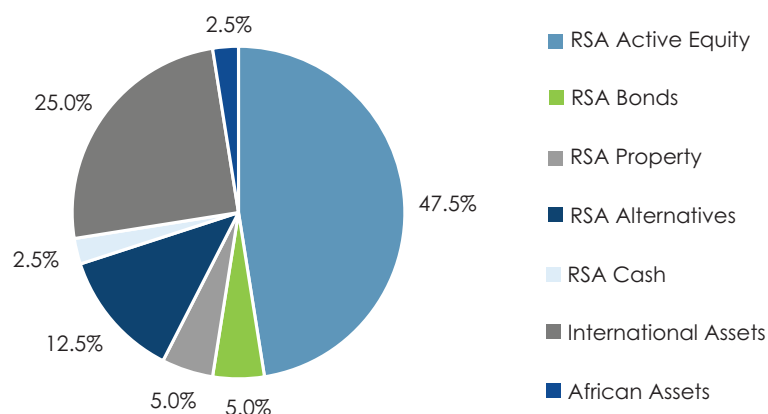
This portfolio has a higher equity allocation than the Stable Growth and Protector portfolios and includes investments in foreign assets. The Capital Growth portfolio aims to achieve a real return of 3.5% p.a. above inflation over time. The portfolio's assets are managed by a range of specialist asset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



The Capital Growth portfolio returned 4.61% for the one year ending June 2019. The main contributors to performance were offshore assets and the tactical asset allocation decisions throughout the year. However, the portfolio's local equity managers detracted from performance given the South African economic backdrop and fundamentals.

Aggressive Growth

The Aggressive Growth portfolio's assets are managed by a range of specialist asset managers with the aim to maximise returns with the minimum amount of risk measured over longer periods of time. This portfolio was the best performing portfolio over the last five years, 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.

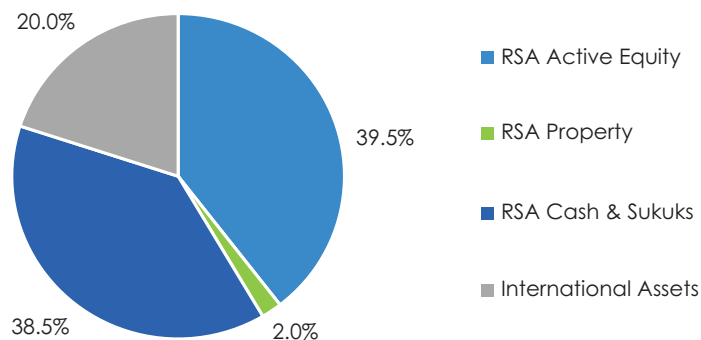


The Aggressive Growth portfolio returned 3.76% for the year ending June 2019. The main contributors to performance were offshore assets that benefited from rand weakness and the tactical asset allocation decisions throughout the year. However, the portfolio's local equity managers detracted from performance given the South African economic backdrop and fundamentals.

The higher risk portfolios (higher equity exposure) struggled during the year which is reflected in the lower returns for those members invested more aggressively. Investors were not rewarded for taking on additional risk through a higher equity or offshore exposure. As previously stated, this scenario may well continue for some time, as the relative safety of bonds and cash at this point still trumps the volatility of the more risky asset classes i.e. equity, property and offshore assets linked to our currency's fortunes.

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, sukus 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 Shariah portfolio returned 4.66% for the year to June 2019. Returns were impacted by the portfolio's exposure to shares and the relatively low yield offered by local sukus.



NET BONUSSES

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-18	0.64%	1.21%	0.41%	0.17%	0.53%
Aug-18	0.53%	0.06%	2.30%	3.08%	3.53%
Sep-18	0.93%	-0.47%	-1.45%	-1.85%	-1.29%
Oct-18	0.58%	-1.85%	-3.12%	-3.42%	-2.45%
Nov-18	0.63%	0.26%	-1.65%	-2.49%	-2.20%
Dec-18	0.64%	1.33%	0.79%	0.66%	0.77%
Jan-19	0.79%	2.16%	2.11%	1.97%	0.61%
Feb-19	0.45%	0.54%	2.36%	3.00%	2.66%
Mar-19	0.58%	0.90%	1.68%	1.94%	1.33%
Apr-19	0.72%	1.70%	2.04%	2.27%	1.86%
May-19	0.88%	-1.24%	-2.91%	-3.51%	-2.56%
Jun-19	0.69%	1.84%	2.20%	2.22%	2.01%
Total Net Bonus	8.36%	6.54%	4.61%	3.76%	4.66%

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

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

The fund continued with its active drive to ensure regular, effective communication and member and employer education using various mediums. In addition to the standard communication issued by the fund, which included printed, electronic, SMS-communication and member information sessions, we also introduced WhatsApp and Telegram as a quick and cost-effective means of communication between the fund and its members.

We are also delighted to report that there has been a significant increase in the number of members attending the information sessions conducted by the fund. The Communication Consultants had the opportunity to engage with more than 12 600 members at the 327 sessions conducted during the year under review. This shows that members are showing an active interest in their fund and we would like to thank each member who took the time to attend a session and the employer for providing the fund with the opportunity and platform. A huge NFMW-welcome to all the new members who joined the NFMW, congratulations on choosing the fund of choice in Local Government!

Members are encouraged to use the communication channels to engage with the fund in order to equip themselves with the information and tools they need to take control and ensure the best possible retirement outcome.



SOCIAL UPLIFTMENT PROJECTS

The fund continued with its social upliftment initiative, providing financial assistance through 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 Alliance Church of South Africa.

Picture: On the left is Mr. Clive Cindi (NFMW-Trustee), with Mr. Strauss Ntuli (Communication Consultant) and Pastor Mfundo of the Alliance Church of South Africa.

Important reminders

- Members must ensure that nomination forms for the funeral benefit and for death benefits have been filled in and are up to date. This will facilitate a faster service, should the need arise. Please also register life-partners to ensure that there are no unnecessary claim payment delays.
- Members are encouraged to update their contact details with the fund. This can be done by contacting the fund or by completing the online form on the website where you can also subscribe to receive your communication electronically from the fund.

Our members, our pride, our biggest ambassadors!

As the fund continues to grow its membership and footprint throughout South Africa, we will continue to rely on the support and trust of our members to ensure that we remain the fund of choice within Local Government.



Like the fund's Face book page www.facebook.com/nationalfundformunicipalworkers for more pictures and regular updates.
 Connect with us on WhatsApp and Telegram on 063 645 7110





N F M W

Annual report

1 July 2018 - 30 June 2019

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