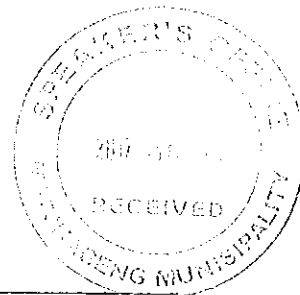


CIRCULAR: MCPF 3/2017

TO : MEMBERS & MUNICIPALITIES

ATTENTION: EXECUTIVE MAYORS / MAYORS; SPEAKERS;
CHIEF WHIPS; MEMBERS OF THE MCPF; MUNICIPAL
MANAGERS AND CHIEF FINANCIAL OFFICERS

DATE : 29 November 2017



FEEDBACK ON THE STATUS OF THE FUND

The purpose of this letter is to provide an update on key developments in the Fund since our appointment by the Registrar of Pension Funds ("the Registrar") as Trustees in terms of Section 26(2)(a) of the Pension Funds Act ("the Act") in February 2017.

We are cognisant of the members' concerns and frustrations, specifically that certain information has not been communicated and that the benefit statements as at 30 June 2016 have not been issued.

We want to assure members that we have been investigating the affairs of the Fund as mandated by the Registrar, diligently and purposefully and at all times have acted and will continue to act with the best interests of the members in mind. We have met with the Registrar and engaged all providers and continue doing so to regularise the Fund's affairs and make it compliant with the requirements of the Act.

Our mandate as Section 26 Trustees includes, without limitation:

- Assisting the Registrar with the inspection into the affairs of the Fund;
- Meeting the objectives and fulfil the object and duties of a Board as required by the Act, including dealing with the late submission of the financial statements, actuarial valuation, Regulation 28 reports, SARB reports and benefit statements;
- Dealing with the arrear contributions, any data rebuild or any other dysfunctional aspect of the Fund; and
- Assessing the liability of the previous board of trustees for any losses that may have been suffered by the Fund.

As Section 26 Trustees has been required to report regularly to the Registrar. To this effect, the Registrar has been furnished with reports on 23 March 2017 and on 30 June 2017. The next report is due on 30 November 2017.

We remind you of the previous communications from ourselves as follows:

- 5 March 2017: Our appointment in terms of section 26(2)(a) of the Act;
- 5 May 2017: Cautionary Suspension of Ms M Mlinjana and appointment of Ms T Swait as interim Principal Officer; and
- 31 May 2017: Reinstated Risk Benefits to comply with the rules of the Fund and the Act.

All communication is posted on the MCPF website: www.mcpf.co.za.

Our investigations to date have focused on both statutory and operational requirements of the Fund. A significant amount of time and effort has been spent in addressing the issues brought to the Registrar's attention in particular regarding property investments as well as allegations of misconduct with regards Ms Mlinjana, certain members of the previous board and some service providers.

As this communication is long, for ease of reading, we have included Annexures.

Ms Mlinjana's suspension and resignation prior to disciplinary proceedings commencing

Whilst an investigation was commissioned by the previous trustees from the Fund's auditors, Ngubane & Company regarding the alleged irregularities by Ms Mlinjana, that fact finding review has been overtaken by further events and notably the in depth inspection concluded by the FSB regarding those allegations and others related thereto (referred to below).

On 24 April 2017, we placed Ms Mlinjana on cautionary suspension, pending a disciplinary enquiry due to the serious allegations of misconduct.

On 19 July 2017, subsequent to the release of an Inspection Report issued under the Inspection of Financial Institutions Act, 1998, the Registrar addressed a letter to Ms Mlinjana advising her that he had reason to believe she was not fit and proper as a Principal Officer and gave her opportunity to respond, failing which he would object to her continued appointment as a Principal Officer.

On 24 July 2017, the day before her disciplinary hearing was to take place, Ms Mlinjana resigned. We accepted her resignation and draw your attention to the fact that this does not preclude further investigations and actions being taken by the current Board as deemed necessary or as recommended by the Inspector.

The Inspection Report

On 31 May 2016, the Registrar ordered that the affairs of the Fund be inspected. The inspector's report was completed at the end of June 2017. The key findings of the Inspection Report relate to three property transactions whereby in excess of R270 million of the Fund's assets were used to acquire properties and to pay the Fund's former attorneys for a due diligence investigation they were instructed to perform on the Fund's R40 million investment in the Sampada Private Equity Fund.

The Registrar furnished us with the Inspection Report to deliberate and determine what action is required to ensure the members' best interests are protected. We wish to inform members that our own investigation into the Fund's affairs corroborate the findings of the inspector and that we have instituted the necessary remedial action and in the process of appropriate further actions is in progress.

Please note that the report is not for public distribution and we cannot furnish you with a copy. However, the key findings of the inspector are briefly summarised under Annexure A.

The Impact of the Properties purchased using the assets of the Fund

As you are aware, in 2015 the Fund became self-administered and all its assets fell under the control of the officers of the Fund. At the same time, the then officers of the Fund decided to change the investments of the Fund and in particular caused properties to be purchased from Isago At N12 Development (Pty) Limited ("Isago"; Reg. No. 2006/029695/07) and J Post Investments (Reg. No. 2011/009090/07; "J Post").

Three property transactions were entered into between June 2015 and March 2016. All monies due to the sellers of the properties were paid to the Fund's attorneys at the time, as summarised below:

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Three property transactions were entered into between June 2015 and March 2016. All monies due to the sellers of the properties were paid to the Fund's attorneys at the time, as summarised below:

Date	Description	Assessed Value	Amount Paid	Amount overpaid
June / July 2015 (first purchase)	1 st Isago transaction – to purchase 11 stands	R46 562 000	R137 060 808	R90 408 808
March 2016 (second purchase)	Purchase of Willows Office Park from J Post	R40 003 600	R70 000 000	R29 996 400
March 2016 (third purchase)	2 nd Isago transaction – to purchase 12 th stand	R39 996 000	R64 727 300	R24 731 300
Total		R126 561 600	R271 788 108	R145 136 508

The assessed fair and best market values reflected in the above table were determined by an independent property valuer and reported upon to us in valuation reports in August 2017.

Your attention is brought to the fact that the 11 stands forming part of the 1st Isago transaction effected in June 2015 are not yet registered in the name of the Fund as there are a number of legal requirements Isago has to resolve with the City of Matlosana before the necessary clearance certificates can be issued so that the properties can be registered in the Fund's name. As a result, the full value of this property will be impaired in the 30 June 2016 Annual Financial Statements. The market value will be written back when the transaction is perfected and the properties are registered in the name of the Fund or when the funds are paid back.

The Willows Office Park and the 12th stand purchased respectively from J Post Investments and Isago were registered in the name of the MCPF Property Company (Pty) Limited, which is wholly owned by the Fund.

Legislative breaches occurred with the purchase of the properties and we have obtained legal advice on these transactions and are identifying appropriate legal remedies to ensure such remedies are in the best interests of the Fund. These transactions were complicated and prejudicial to the Fund and its members and will therefore take some time to resolve. The adjustments to members shares, as a result of the losses incurred due to the property transactions, has been that a return of -1.372% in July 2017 and -3,802 % in August 2017 were declared.

We remind members that the Fund's investments are approximately R1.6 billion, with the bulk of the assets in other asset classes such as equities, bonds and money market. Whilst the property losses are significant and have resulted in negative adjustment to investment returns in July & August 2017, the remaining assets invested continue to grow and are managed by a number of registered investment managers.

We are also in the process of reviewing the Fund's investment strategy, investment managers and asset consultants to ensure that members interest are in good hands.

Expense analysis

The past practice of the Fund has been to set aside 6% of pensionable salaries less the cost of the risk benefits for the operational running costs. The benchmark for operating expenses was determined to be 2.75% of salaries but this is not a fixed percentage.

According to an actuarial review of the Fund's expenses for the period 1 July 2016 to 31 December 2016, there was a significant over-run in administration costs. Expressed as a percentage of payroll, the administration costs amounted to 12.65%. In monetary terms, the administration fees for the six-month period amounted to R73 million, including various once-off fees amounting to R55 million. These once-off fees include due diligence investigation fees of R34 753 394 paid to the

Fund's attorneys at the time who were commissioned to do the due diligence exercises of, *inter alia*, the Sampada Private Equity Fund, mentioned above. The above created a deficit that had to be funded by using a portion of the Fund's investment returns. In order to curb unnecessary expenditure, we have reviewed all contracts and are in the process of terminating contracts of unwarranted or expensive service providers.

Cost of Risk Benefits

In our previous communication to you on 31 May 2017, we highlighted that the increase in the death benefits to 7 times annual pensionable salary and some ancillary benefits as at December 2016, was not in line with the registered rules of the Fund, which provided for a benefit of 3 times annual pensionable salary. As such the provisions of the Act were also being contravened and we had no choice but to reinstate the previous insured risk benefits, as they existed prior to 1 December 2016.

On the basis that the Fund membership and claims remain similar to the past, the current cost for the next 3 years for the 3 times annual pensionable salary and the funeral benefits of R20 000 (member & spouse), R10 000 (children) will be 3,17% of pensionable salaries.

As part of the broader review of the Funds affairs, we deliberated on the risk benefits and agreed that the higher death benefits were not affordable. The higher benefits would have resulted in a cost escalation over the next year to a premium of 6,3% of salaries – an increase of 93% – and over the following four-year period would have increased by a further 14,2% per annum to a cost of 9,4% of salaries.

You should also be aware that if the higher death benefits are paid, the impact of the employer's contribution on your accumulated benefits are significantly reduced because less of the employer's contributions are allocated to saving for retirement benefits. This will not be in the best interests of the majority of members who will either retire or withdraw from the Fund. We are satisfied that the re-instatement of 3 times pensionable salary is reasonably affordable and adequate.

The Fund will however continue to review risk benefits to ensure they are appropriate, in line with the market norms and if improvements become necessary to benefit all members, they will be implemented provided they are on a cost-effective basis. Please remember non-contributory members are not covered for these insured risk benefits. Refer to Annexure C for further details.

Status of the Member Accounts and Benefit Statements

The Fund can only issue your benefit statements once the Fund's records have been audited.

The Fund's draft financial statements for 30 June 2016 were submitted to the Registrar by 30 September 2017 and the final annual financial statements will be submitted once the audit report is received. The working papers for the 30 June 2017 Annual Financial Statements has commenced. We will endeavour to have the financials statements audit ready by 31 December 2017. The audit will commence in January 2018.

Please refer to Annexure B for further information on the status of the Funds membership records and status of the annual financial statements.

Housing Loans

The Fund allows members to apply for housing loans through Standard Bank. However, the Fund is not party to determining if a loan will be granted or not and its only obligation is to act as a guarantor. Standard Bank reviews the loan application according to their normal lending criteria.

It is members' and Municipalities' responsibility, in terms of their contract with the banks to ensure that the repayments are deducted and paid every month. Members taking loans must ensure that their repayments are deducted from the payroll each month.

Recently Standard Bank suspended the granting of loans because of various members defaulting on their repayments. Furthermore ABSA, the previous home loan provider, requested settlement of the loans by the defaulters. The Fund will look at other appropriate providers for pension backed housing loans.

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Non-payment of Contributions

Municipalities have a legal obligation in terms of the rules of the Fund and the Act to pay contributions in respect of each councillor who is a member of the Fund. Annexure C sets out further details and in particular important implications for members when no contributions are received by the Fund.

Communication with Members

We are in the process of setting up provincial meetings where all members can interact with us. These meetings will be held in the major centres in the provinces. Exact dates and invites will be issued in due course. Further updates will be provided as and when the Board conclude their reviews or as and when appropriate. For any further inquiries contact MCPF Marketing and Communication Manager, Azwifarwi Phuravhathu on 011 220 0000/063 4074632 and email azwifarwi@mcpf.co.za

Members are requested to note that this communication and any previous communication will be posted on the fund website: www.mcpf.co.za. The Fund wishes to offer other platforms to communicate and have requested emails and mobile numbers for all members. We would appreciate assistance from all Municipalities and members in this regard.

The Board wishes to advise that Mr Lance Joel, a Section 26 Board Trustee, has resigned. The Fund will continue to work with Mr Joel as a point of contact with SALGA in ensuring the interest of members are met.

The interim Principal Officer's contract ends 30 November 2017. The Trustees will advise in due course of a new Principal Officer. In the interim please contact the Company secretary Elias Msiza on Elias@mcpf.co.za.

Conclusion

We believe as a Section 26 Board that notwithstanding the challenges raised above and in the annexures, sufficient work has and will continue to be done to correct the weaknesses in the Fund, and lapses in governance in order to put the Fund on a sound footing. Further, the Section 26 Board is also fully committed to recovering all losses identified, as far as possible. To that end, we have engaged the relevant specialists to identify the most effective routes available to us to recover those losses. We are also actively engaging with the relevant prosecuting authorities. This is done to benefit the members. We encourage you as members to work with us in turning this unfortunate situation around.

We wish you and your families a safe holiday season and all the best for 2018.

Yours Faithfully



JAN MAHLANGU

CHAIRPERSON: MCPF BOARD OF TRUSTEES
MUNICIPAL COUNCILLORS PENSION FUND

ANNEXURE A

Inspection Report Findings

Below is a summary of the Inspection Report Findings prepared by the FSB.

1. In the first property transaction in June 2015, the Fund paid a total of R137 million upfront to acquire 11 undeveloped stands in Klerksdorp. These properties are not yet registered in the name of the Fund as there are a number of legal requirements to be resolved before the properties can be registered in the Fund's name. The inspectors view was that only two previous trustees can claim that they took all reasonable steps to ensure that the interests of the members were protected or that the rules of the Fund or the provisions of the Act were complied with. It is the Inspector's opinion that the officers of the Fund failed to act with due care and diligence and have, in her opinion, contravened the provisions of section 2(a) of the Financial Institutions (Protection of Funds) Act ("the FI Act"). Furthermore, the disclosure in the Fund's audited financial statements for the year ended 30 June 2015, that the Fund owns the 11 stands purchased from Isago, was incorrect.
2. The second property purchased for a total of R70 million was in Midrand, Johannesburg in March 2016. The inspector recommended that the conduct of certain officers and the law firm concerned be referred to the relevant law enforcement agencies for further investigation.
3. The third property was a 12th stand purchased in Klerksdorp for an amount R64,7 million in March 2016. Here the inspector noted that once again the purchase price was paid upfront but that this time the agreement was only concluded by the former PO, in the absence of a board resolution, after the monies had already been paid. This constituted a breach of Section 2 of the FI Act.
4. On the advice of the former lawyers, the Fund established a private company MCPF Property Company (wholly owned by the Fund) to manage the properties that the Fund had invested in. At the time, the Fund contravened Section 19(5D) of the Act as the officers of the Fund did not obtain the requisite approval from the Registrar to acquire shares in a company that the Fund would control. The 12th stand and Willows property has been transferred into the Property Company's name. The trustees and PO did not inform the Registrar that the properties were to be registered in the name of the Property Company.
5. At the time of effecting the second and third property transactions, it became evident that the Fund would breach the prudential investment guidelines as set out in Regulation 28 of the Act based on the purchase prices of the properties. The transactions were nonetheless effected.
6. The Inspector's view is that although certain Trustees took reasonable steps to ensure that the interests of the members were protected, the officers of the Fund failed to act with due care and diligence and have, in her opinion, contravened the provisions of the FI Act. The Inspector further noted that she was of the opinion the property investment that was not suitable for the Fund.
7. As for the due diligence investigation into the Fund's investment in Sampada, the fees paid to the attorneys instructed were unauthorized.

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ANNEXURE B

Status of the Member Accounts and Benefit Statements

The Fund can only issue members benefit statements once the Fund's records have been audited. As indicated, the delay in the 30 June 2016 benefit statements has been due to the delay in finalisation of the audited financial statements. The Fund's audited financial statements will be issued in due course. It is intended that the 30 June 2017 benefits statements will be issued after the 30 June 2017 audit is complete in 2018.

We appointed Integrity Retirement Fund Administrators (Pty) Limited ("Integrity"), to check membership records and finalise the financial records for the audit. Integrity is a former service provider to the Fund and has the necessary technical and institutional knowledge to check and finalise the build-up of the member accounts as at 30 June 2017. Integrity also assisted in litigation against one of the Fund's former administrators, which was recently successfully concluded.

Although, in the past, projects were undertaken to reconcile member records due to changes in administrators this exercise was never fully completed as, for example, the former actuaries and Integrity services were terminated before this could be completed. As it is necessary to resolve the challenges with the member records on the administration system and review the internal controls, we have re-engaged Integrity to finalise the exercise.

Integrity are currently in the process of verifying all the members, the member share values as at 30 June 2017, using the previous member records and the Actuary's member values and where necessary will update the administration system accordingly. This verification and data rebuild exercise will be completed by 31 December 2017. Once completed, the Fund's actuaries will verify that the membership records are valid.

We are aware of the frustration in the delays in the payment of benefits to exiting members and beneficiaries, however the Fund instituted a rigorous verification process to ensure that the benefit payments are correct. This process has compromised the normal service deliveries; however, we are of the opinion that this verification is critical and prudent in managing the affairs of the Fund as mandated by the Registrar.

Integrity are further assisting with the 30 June 2017 Annual Financials Statements and it is expected these will be concluded by 31 December 2017. The auditors will start their audit in January 2018. As mentioned this will enable the Fund to issue 30 June 2017 member benefit statements as soon as possible thereafter.

Integrity was also appointed to assist with the recovery of the Fund's claim against SARS, a matter that has been ongoing since November 2010. The Fund is expecting to recover approximately R40 million, adjusted for any possible underpayments.

Member records

In addition to the project by Integrity to validate the member values and address the arrear contributions, the Fund is taking steps to obtain accurate information from the Municipalities to update your membership information on the administration system. This will include receiving correct pensionable salaries, identity numbers as well as email and mobile contact details.

Your contact details will be used to communicate directly with you and we should appreciate it very much if you could confirm your details and suggest that you use this opportunity to update any nominee forms for the disposition of death benefits. Your HR contact, who is in contact with the Fund administrators should be able assist you in this regard.

ANNEXURE C

Non-payment of Contributions & Implications for Members

As noted Municipalities have a legal obligation in terms of the rules of the Fund and the Act to pay contributions in respect of each Councillor who is a member of the Fund. The Fund also has a legal duty to ensure the contributions are paid on time each month and to recover contributions not paid to the Fund.

There are a number of members and Municipalities that appear to have stopped contributing to the Fund. Your attention is drawn to the fact that the Pension Funds Adjudicator has recently confirmed that members must continue contributing whilst they remain a Councillor. Municipalities may also not cease deducting contributions on the instruction of the member. Claims to withdraw a benefit whilst still a Councillor are not permissible in terms of the rules.

Steps are being taken to address the non-payment of contributions and ensure that all parties comply with the rules and the Act in this regard. The Trustees appeal to both members and Municipalities to co-operate in ensuring these breaches are rectified.

To those members who have ceased contributing for 3 consecutive months or more we wish to remind you that you are not covered for the funeral and the insured death benefits (3 x annual pensionable salary).

The premiums for the insured death benefits for a non-contributing member are deducted from the Member's Share for a maximum of 4 months, thereafter if the contributions are still not paid to the Fund, the only death benefit payable on the death of the non-contributing member is the accumulated Member Share in the Fund. This may be detrimental as their beneficiaries will only receive the member's accumulated value in the Fund, which may not be sufficient. The insured death benefits and funeral benefits are a valuable benefit for Councillors' families. It should be noted that outdated benefit statements prior to member ceasing contributions cannot be relied on by their beneficiaries. We recommend that Members' nomination of Beneficiary forms are updated and submitted to the Fund via your HR/ contact.

Furthermore, Municipalities have an obligation to pay across the contributions within 7 days after the month for which they are deducted and submit a full contribution schedule matching the payment with all the relevant contributions and member details. Late payment of contributions results in the Municipalities being requested to pay the late payment interest on those contributions. It has come to the Trustees' attention that requests for the payment of the late payment interest on the contributions are rarely paid to the Fund. We will appreciate if this situation can be corrected.

ANNEXURE C

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who are the beneficiaries? Are the councilors going to benefit?

How will the councilors benefit from all properties and land bought by their money?

NB { She is also a church member of controversial proclaim Prophet Shepard Bushiri church. The pledge and paid R2 million to this Prophet. She also paid over R450,000.00 to this prophet. What is strange is that after she transfer an amount of R9,918,000.00 to the SMM(220000176,630242,160806,11 6357,DEBIT TRANSFERMSMM DUE DELIGENCE,CASHFOCUS,-9918000.00,429317559.52). then she paid that R2million in Bushiri church.

We must remember this is the money of the public service who are now unemployed.

During the November 2015 there was communication that Mildred will go to maternity leave till the end of March 2016. And trustee Leslie Primo was elected as acting PEO till end of March. But suddenly changed. Because she is hiding something barely within a month she returns to work. Trustee Primo as a legal person he should have been able to identify this strange behavior and be aware that is an element of crime which someone wanted to conceal. I attached documentation regarding in regard to that

- **The fund not having enough money to pay all exiting councillors**

Currently the fund doesn't have enough money to pay all the councilors. They even manipulated the system not to generate interest for the councilors

- **Movement from Marble Tower Johannesburg to Midrand willows office park service provider who was doing partitioning**

The service provider which was constructed for partition at willows park, she did not receive her payments directly from the fund to her own bank account. Her money was paid to one of the employee personal account KHALA Massa to pay service provider. This is very strange indeed

- **Overseas trips**

She is constantly taking overseas trip, she wears very expensive clothes

- **Qualification as CEO**

I believe Municipal Councillors Pension Fund is a Financial Services Provider, I believe to be CEO of every financial institution the first requirement is to have a Degree, but Mildred Nosisa Mlinjana she is

- Dismissal of staff. losing cases at labour court
 - Personal body guard and drivers
 - Exploiting employees
 - Nepotism
 - Irregular Appointment of legal Compliance Manager
-
- **Corruption and stealing money Mildred Nosiza Mlinjana – Mashinini**

I would like to inform all the members of the media and other municipalities stakeholder including some of the board members (trustees) of the fund (**Municipal Councillors Pension Fund** about the corruption and stealing member money by its current CEO Mildred Nosiza Mlinjana – Mashinini.

For a reference of my allegation I have attached a copy of bank statement to proof it

You will all notice from the below bank transaction extracted from the bank statement that she paid herself an amount of **R152,197.27**. on **Saturday the 06 August 2016**, this transaction was not done by payroll which is **Anchen Inggs** nor finance personnel and without any approval of the board.
(220000176,630242,160806,116362,DEBIT TRANSFERMN MLINJANA,CASHFOCUS,-152197.27, 429146455.55)

She uses fund account as her own personal account to pay some Pastors, she paid Pastor Molepo alleged prophet an amount of **R1,800**. (220000176,630242,160806,116359, DEBIT TRANSFERPASTOR MOLEPO, CASHFOCUS,-1800.00,429298652.82). this is consider stealing from the fund. She also brings this prophet in the office and command them to pray the employees without their permission. And if they refuse threatened to dismiss them

Another suspicious amount is an amount of **R14,215.37** to **repair her laptop**. There are also number of cell phones she bought with the fund money that range from R33,000.0 which proof of payments was forward to FSB.

Since she became PEO / CEO she managed to manipulate the board members to buy **11 lands** and property for the fund, the reason is that she has interest in property business, her company name is **DIBAPADI Properties**, and she never disclose it to the board members. She co-own this company with her husband Zachariah Zakes Mashinini. They used this company to purchase all the lands and property for the fund (**MCPF Willows Park office in Midrand**). They benefit improperly from all MCPF property transactions. They own fleets of expensive cars (**Jaguar XJ premium luxury, Audi's, Mercedes-Benz, doubles caps bakkies**) cars. They also own four paid up house. They recently bought another house in Midrand and do renovations to their previous house.

