



**PetroSA**

# Retirement Fund

[www.petrosaretirementfund.co.za](http://www.petrosaretirementfund.co.za)

# NEWSLETTER

**ISSUE NUMBER: 3/2018**  
**September 2018**

## ALL ABOUT YOUR FUND AND WHAT IT DOES FOR YOU

Dear members

Welcome to your newsletter. Your trustees are determined to make sure that it is useful and informative. It is our aim to inform you through the newsletters of the following:

- Trustee decisions that relate to your Fund benefits;
- Developments in the retirement fund industry;
- Your benefits and investments.

### INSIDE THIS ISSUE



We trust you will enjoy the read.

- Investment news
- Flexible contributions
- New web-site
- Draft regulations update
- Feedback on recent roadshows
- Retirement planning workshops
- General information
- General information on costs
- General information on investments

Board of Trustees  
September 2018

**If you have any questions on the Retirement Fund, please contact the Principal Officer: Mr R Buhr on (021) 929 3133.**

#### Disclaimer:

The information contained in this newsletter does not constitute advice by either the Board of Trustees or its advisors. If you need advice you should seek the assistance of an independent professional financial advisor.

# INVESTMENT NEWS

Below are the annualised investment returns for all the portfolios over different measurement periods until 30 June 2018. Please note that the returns are shown after deducting investment manager fees:

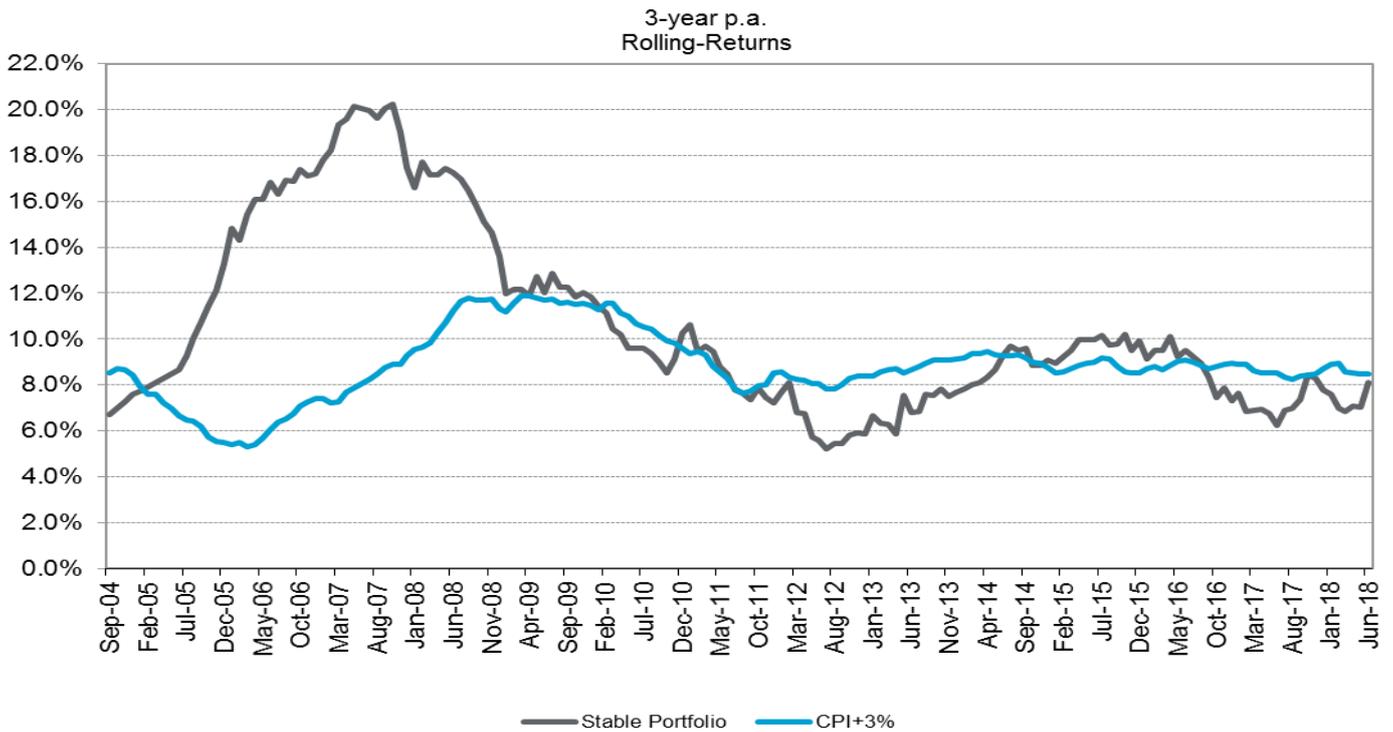
Portfolio	Investment Objective	Measurement period	Actual Return p.a.	Target Return p.a.
<b>Market-Linked portfolio</b>	CPI + 5% p.a. net over a rolling 7-year period	7 years	13.8%	10.7%
<b>Stable Portfolio</b>	CPI + 3% p.a. net over a rolling 3-year period	3 years	8.1%	8.5%
<b>Money Market Portfolio</b>	CPI + 1% p.a. net over a rolling 1-year period	1 year	8.7%	5.6%
<b>Shari'ah Portfolio</b>	CPI + 4% p.a. net over a rolling 5-year period	5 years	8.4%	9.7%

## MONITORING OF LONGER TERM PERFORMANCE OF THE PORTFOLIOS

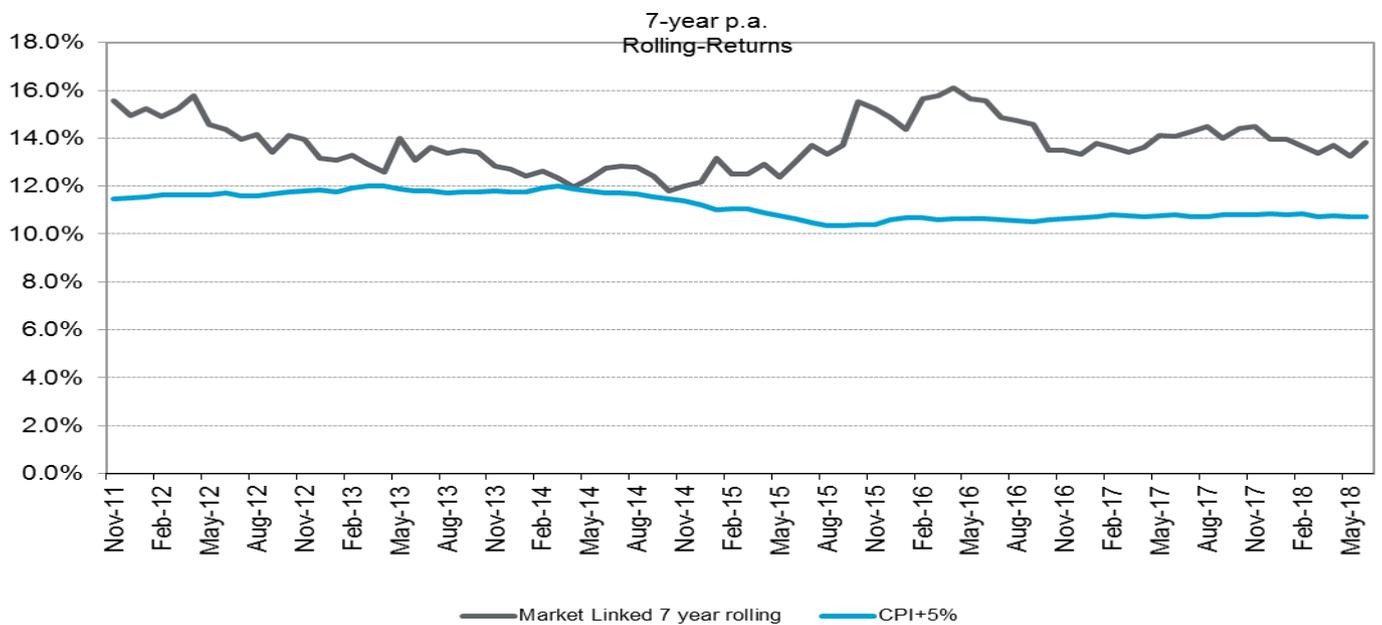
To give you an indication of how the Market-linked, Stable and Money Market portfolios compare to each other at 30 June 2018, the chart below shows the performance of each portfolio relative to their investment objective over their respective rolling periods in years to the end of June 2018.



The **Stable portfolio** has delivered some 2.7% per annum above inflation for the last three years, which is short of the investment objective of 3% per annum, due to the Performance of the Prescient Positive Return Fund. This is illustrated below:



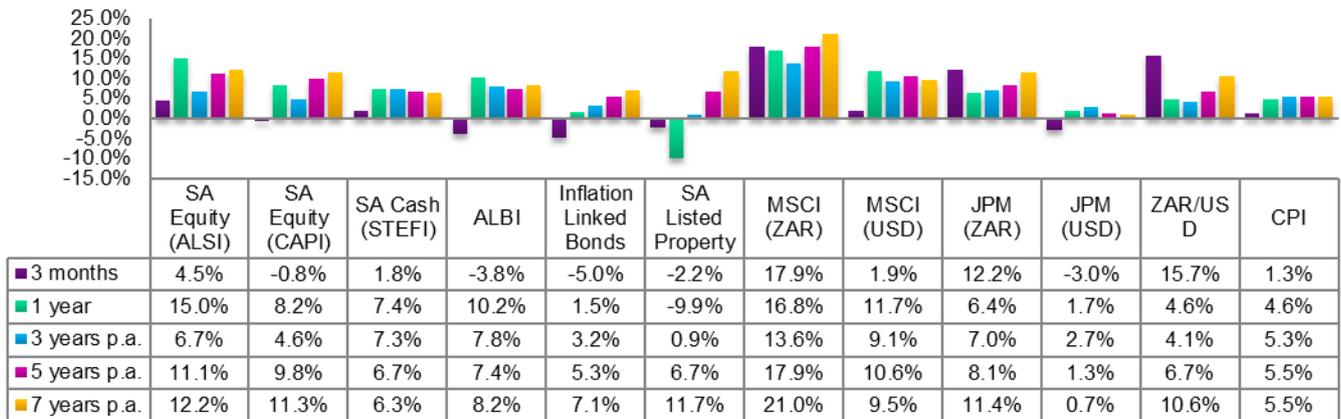
The **Market-linked portfolio** (which is the portfolio for the wealth-building stage of the life stage model) has delivered an exceptional 8.3% per annum above inflation over the last seven years, compared with the long-term investment objective of 5%. This is illustrated below. Such performance is not expected to be sustainable in the long-term, and we caution members to expect more moderate performance in this portfolio over the next seven to ten years. Effectively the returns over the past few years have been “borrowed” from the future.



## COMMENT ON INVESTMENT PERFORMANCE

The graph below shows the performance of the various sectors of the market during various measurement periods ended 30 June 2018 (source: INet).

Major Index Returns: up to 7 years



An explanation of the different sectors appears below:

ALSI:	South African equities as measured by the All Share Index
CAPI:	All Share Index with a maximum contribution of 10% for any one share.
SteFI:	South African short term fixed interest investments (cash)
ALBI:	South African all bond index
MSCI:	Morgan Stanley Capital Index – equities in developed overseas markets
JPM:	JP Morgan Government Bond Index
ZAR/USD:	Rand investment in US Dollars (positive numbers show a “weakening” rand).
CPI:	South African inflation rate

Looking at performance of various asset classes over the last 5 years SA equities (which comprise the major part of retirement fund assets) delivered some 5.6% per annum above inflation. The other sectors that delivered returns significantly above inflation were global shares (12.4% p.a. above inflation – in Rand terms), global bonds (2.6% p.a. above inflation – in Rand terms), and SA listed property (1.2% p.a. above inflation).

**Note: Members who are a long way from retirement are encouraged to adopt a long-term investment strategy. Don't be deflected by short-term market changes and ultimately your overall objective, which is to build retirement capital. To get out of the market when things get tough is not the way to build wealth.**

If you need to start living on your retirement benefit within say the next 3 to 7 years, you are likely to be more focused on preserving the capital you have accumulated up to now. Generally speaking, if you are within 3 to 7 years of retirement you should be invested in the Stable Portfolio in the life stage range. However this depends on individual circumstances and, as always, we strongly encourage members to seek expert advice on their retirement planning. Ask the principal officer if you would like assistance in finding a reputable and expert independent financial advisor.

# FLEXIBLE MEMBER CONTRIBUTIONS

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This particular important area was discussed in detail at this year's member feedback session. The table below which demonstrates the number of members of this Fund that are contributing to each category was shown. As can be seen, the majority of members are contributing at the lower contribution rates (70% of the total membership). Again, the importance of members increasing their contribution rates was explained and encouraged at the presentations. This has been highlighted below:

Category of employment	%	Number of members in each category	% of total membership	
A	7.5	435	34%	<b>WARNING: Consistent choice of these two categories will result in inadequate retirement savings. If you are contributing at this level, you will need to catch up and contribute more later to be able to save enough for a comfortable retirement.</b>
B	10.0	164	13%	
C	12.5	289	23%	Default contribution rate
D	15.0	107	8%	
E	17.5	189	15%	
F	20.0	38	3%	
G	22.5	17	1%	
H	25.0	9	1%	
I	27.5	24	2%	

In order to provide a reasonable retirement benefit you should ideally structure your package so that PetroSA contributes at least 15.0% of your pensionable salary for your retirement savings. Possibly the main reason why you **might** have structured your package on a lower retirement savings contribution rate is to pay off debt (for example your housing bond) quickly.

If you have elected a lower contribution rate for the period that you might be paying off a debt, then it is very important that you increase your retirement contribution as soon as the debt is paid.

**Note: There is a huge risk of inadequate retirement benefits if you make too low allocation for retirement savings.**

## NEW WEB-SITE

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As mentioned in the previous newsletter, a new web-site has been designed for the PetroSA Retirement Fund. The site is an **internet site**, therefore access is easily available to all members and pensioners. The site name is: <http://www.petrosaretirementfund.co.za/>.

Please also remember to check the **Alexander Forbes Online facility** where you can check your own information on a real time basis and access various tools and calculators. You will need a pin to access this facility. Please contact:

Selfie Lotz:	021 809 3737	e-mail: lotzS@aforbes.co.za
Tracy Pedersen:	021 809 3721	e-mail: pedersenT@aforbes.co.za

# DEFAULT REGULATIONS - UPDATE

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Earlier this year we summarized the default retirement fund regulations that National Treasury issued which have to be complied with by 1 March 2019. Below is a brief summary of the regulations, together with the progress we have made thus far:

## SUMMARY OF THESE REGULATIONS

### Regulation 37 – Default investment portfolios

With regard to a default investment portfolio, all retirement funds with a defined contribution category (such as your Fund) need to have such a portfolio.

The default investment portfolio(s) is one where members are invested if they do not make an active investment decision. Such a portfolio should be appropriate, reasonably priced, well communicated to members, and offer good value for money. Members must also not be locked into such a portfolio and must be offered the opportunity to change out of such default at least on an annual basis. Trustees are required to monitor the default investment portfolios regularly to ensure continued compliance with these principles and rules.

**The Fund already complies in that it has a default investment portfolio – this is the lifestage portfolio. Trustees will continue to assess whether the default remains suitable for members.**

### Regulation 38 – Default preservation and portability

Default preservation: where membership of a fund is compulsory due to conditions of employment (as with most normal pension and provident funds), the funds will need to change their rules to allow for default preservation i.e. funds must allow resigning workers to leave their accumulated retirement savings in the specific fund.

The employee, however, will still have the right and option to transfer these to any other fund prior to retirement. On leaving employment, the fund must give a member a paid-up certificate, and any new fund which a member joins must request such paid-up certificates and offer to the member the transfer of their fund from the old fund to the new fund.

**Again, the Fund already complies in most respects. Rule amendments to ensure that the rules contain all the relevant provisions are being considered. Communication material is being reviewed to ensure that this contains all the relevant information.**

**The administrators of the Fund are ensuring that the fund has the processes in place regarding the paid-up certificates and their management.**

### Regulation 39 – Annuity strategy

Retirement funds should also follow a so-called annuity strategy. There are two main types of annuities – a living annuity and a life annuity.

A life annuity, once chosen or defaulted into, becomes irreversible. This means that choosing a life annuity when you retire is a big commitment, and funds will therefore ask retiring members to indicate beforehand what type of annuity (e.g. life or living annuity) should be paid.

The “default” annuity should also be appropriate for members, well communicated and should offer good value for money. Members should be given access to retirement benefits counselling to assist them in understanding and giving effect to the annuity strategy.

**The Fund already complies in most areas. The Trustees are reviewing the costs of the in-fund living annuity, and communication is being reviewed to ensure that this contains all the relevant information and that it is distributed to members at the appropriate time.**

### Retirement benefit counselling

Members must receive counselling to understand the options available to them prior to leaving employment (to decide whether to take their retirement savings in cash, transfer, or leave their savings in the fund); prior to transferring their benefits post employment (when they had chosen to leave their benefits in the fund); and prior to retirement (to understand the fund annuity strategy).

**The Fund already complies in most areas. Communication is being reviewed to ensure that it contains all of the relevant information and is provide to all members at all appropriate times.**

## INVESTMENT WORKSHOPS AND GENERAL MEMBER FEEDBACK SESSIONS

These sessions were held during July 2018 in Cape Town; Mossel Bay; and Saldanha Bay.

At these sessions the following information was covered in detail. See Agenda on the right:

As can be seen, we revisited other important Fund issues e.g. the flexible contributions and how your contribution rate can affect your final retirement benefit. Also included in the presentation was a detailed section on Investments.

These sessions were generally very well attended.

**AGENDA**

- Recap of how the Fund works
- Retirement savings assumptions
- Flexible benefit design
- Summary of benefits
- Postponement of certain tax laws
- Investments
  - Asset classes
  - Types of portfolios
  - Overview of Life Stage Model and Own Choice Portfolios
  - Investment strategy change to Stable Portfolio
  - Switching rules
- Investment performance
  - Various measurement periods
- Comments on investment performance

PetroSA Retirement Fund

## RETIREMENT PLANNING WORKSHOPS

The Fund held their annual pre-retirement workshops at the venues as mentioned above. At the workshops, the different pension options available at retirement and the pros and cons of each option were discussed in detail. If you are over the age of 50, we urge you to attend these workshops when they are presented once again.

**Choosing the right pension is not an easy decision to make. So it is for the reasons mentioned above that we encourage you to attend these retirement planning sessions in future – even if you have previously attended; where you will receive in-depth education on all the options available to you. This in turn will pave the way for an easier decision-making process.**

# GENERAL INFORMATION

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Due to the importance of the following items, they are standard features and are repeated in subsequent newsletters.

## 1. YOUR BOARD OF TRUSTEES

Member trustee elections recently took place. The following members comprise your new Board of Trustees

Member Elected Trustees	Member Elected Alternates	Employer Appointed Trustees	Employer Appointed Alternates
S August**	JP Rhode	O R Mohapanele**	A de Lange
A Futter (Chairperson)	H Rauch	A Zokufa	L Tromp
W Kruger**	L Tofu**	N Gumede**	J Lichaba
L Moser	Vacant	Vacant	T Manne

\*\* These members are based in Mossel Bay. The rest are based in Cape Town.

## 2. COMPLETION OF CLAIM FORMS ON LEAVING THE FUND

Claim forms that are not completed correctly will result in unnecessary delays. It is therefore important that you read the claim form thoroughly, fill in all relevant information and then submit the claim to your Human Capital department who in turn will submit this to Alexander Forbes by no later than the 3<sup>rd</sup> working day of the month following your termination of employment. If this is not adhered to, the benefit will remain in the Fund and will be invested in the underlying portfolio for another month. We ask you to please insert your contact details on these forms e.g. cell numbers, so that Alexander Forbes is able to contact you if necessary.

## 3. EXITS FROM THE FUND

### A. DEATH

#### The importance of completing beneficiary nomination forms

**If you have already submitted a beneficiary nomination form in the past and your personal situation has altered, it is necessary for you to submit a new form to replace the old one.**

In the event of your death, the benefit paid by the PetroSA Retirement Fund is allocated as follows:

The Trustees will have complete discretion as to how the benefit payable by the PetroSA Retirement Fund (i.e. your Member Individual Account) will be allocated to your dependents. This Trustee power is derived from Section 37C of the Pension Funds Act, which requires the Trustees to allocate any Retirement Fund benefit to those persons that were most financially dependent on you (usually your spouse and children).

However, in the event of there being no spouse or financially dependent children, your benefits will be paid to your financially independent children, or your nominated beneficiaries. A nomination in your will is not sufficient to indicate how you wish your retirement savings to be allocated in the event of your death.

**By completing the forms (and keeping them updated), you will be advising the Fund to act according to your wishes in the event of your death (subject to Section 37C above). This information will also help to speed up the pay-out process in the event of your death. Forms are available from the PetroSA Human Capital Department and the Retirement Fund Intranet Website.**

## B. RESIGNATION

### How to speed up the benefit payment when leaving the Fund

When you leave the Fund, an income tax number is required in order to pay out or transfer your benefit. All members of the Fund who are not registered as tax-payers and thus do not have a personal income tax number must register and obtain a personal income tax number. It is important to do so in order to avoid unnecessary delays when a benefit needs to be paid out.

Just a reminder to members that if you resign there are other alternatives available to you rather than taking the benefit as a cash lump sum. These include the following:

- You can transfer your benefit to the Fund of your new employer;
- You can transfer your benefit to an approved Preservation or Retirement Annuity Fund; or
- You can preserve your benefit in the PetroSA Retirement Fund.

In all these cases, your benefit will not be taxed at the point of resignation.

## 4. TAX TREATMENT OF LUMP SUMS ON RETIREMENT, RETRENCHMENT AND DEATH

The following table summarises the tax treatment of lump sums payable in terms of the rules of a retirement fund on retirement, retrenchment or death. It is based on our current understanding of the tax scales in the Income Tax Act. The application of the tax laws is complex, and **if you want to properly understand your potential tax liability you should not rely on this table, but you should consult an expert financial planner.**

Lump sum death or retirement benefit	Tax liability
R0 to R 500 000	0%
From R500 001 to R700 000	18% of taxable income exceeding R500 000
From R700 001 to R1 050 000	R 36 000 plus 27% of taxable income exceeding R700 000
Exceeding R1 050 001	R130 500 plus 36% of taxable income exceeding R1 050 000

## 5. TAX TREATMENT OF LUMP SUMS ON WITHDRAWAL

The following table summarises the tax treatment of lump sums payable in terms of the rules of a retirement fund on withdrawal (other than retirement, retrenchment or death). It is based on our understanding of the tax scales in the Income Tax Act.

The application of the tax laws is complex, and **if you want to properly understand your potential tax liability you should not rely on this table, but you should consult an expert financial planner.**

Lump sum resignation benefit	Tax liability
R0 to R 25 000	0%
From R25 001 to R660 000	18% of amount above R25 000
From R660 001 to R990 000	R 114 300 plus 27% of amount above R660 000
R990 001 and above	R203 400 plus 36% of amount above R990 000
The tax-threshold of R25 000 is cumulative and applies to the aggregate amount of a member's resignation over the member's lifetime.	
The R 25 000 tax-free amount plus the resignation lump sum(s) taken will reduce the R500 000 tax-free amount at retirement.	

# GENERAL INFORMATION ON COSTS

## Administration and Fund costs (applicable from 1 June 2018)

- Active members – Fund costs are funded from a deduction from the contribution rate – currently 0.35% of pensionable salary, but this is reviewed annually. (This includes an allowance for administration cost of R51.99 pm (per member per month) plus VAT)
- Deferred members – Administration costs of R 35.66 pm plus VAT deducted from member individual account
- Phased retirees – Administration costs of R 51.99 pm plus VAT deducted from member individual account
- Living annuitants – Initial fee = R950.91 plus VAT. Administration costs of R 95.09 pm plus VAT deducted from member individual account.

**Switching costs** (cost of changing investment decision) – first switch in the year is free. Thereafter R416.01 plus VAT is deducted from the member individual account per switch.

**Investment management fees** are deducted from the return earned on the investments as follows:

Potfolio	Manager	Fee charged
Market linked	Allan Gray Equity	0.5% p.a. plus 20% of the out-performance of the benchmark capped at 2%
Market linked	Coronation Equity	0.2% p.a. plus 20% of out-performance of SWIX over preceding 12 months capped at 1%
Market linked	Abax Equity	0.45% p.a. plus VAT
Market linked	Investec Bonds	0.35% p.a. changes to 0.4% on out-performance of ALBI+2%
Market linked	Coronation Bonds	0.2% p.a. plus 10% of out-performance over ALBI over preceding 12 months capped at 1%
Market linked	Sygnia(WTW Diversified Global Balanced)	0.09% p.a. plus underlying manager fee
Stable	Allan Gray Global Stable	0.4% p.a. plus 20% of the out-performance of the benchmark subject to a 1.8% overall fee
Stable	Coronation Inflation Plus	0.70% p.a.
Stable	Investec Cautious Managed	0.65% p.a.
Money Market	Investec Money Fund	0.1% p.a.
Shari'ah	27Four	0.30% p.a. plus underlying manager fee

# GENERAL INFORMATION ON INVESTMENTS

## INVESTMENTS

The Fund offers you **MEMBER INVESTMENT CHOICE**. You need to decide which portfolios you want the contributions to be invested in from a range of portfolios (combinations are also permitted) as highlighted in the table below.

Portfolio name	Target return and comment	Asset allocation
<b>Market Portfolio</b> <b>Linked</b>	Target return CPI + 5% per annum Highest potential return; highest volatility; highest chance of negative returns over short periods Most appropriate for long term investing (>10 years)	51% SA equities (managed by Allan Gray, Coronation and Abax) 24% SA bonds (managed by Investec and Coronation) 25% offshore (various managers across bonds (15%); equity (70%) and listed property (15%))
<b>Stable Portfolio</b>	Target return of CPI + 3% per annum Lower volatility than the Market Linked portfolio	Managed by Allan Gray, Coronation and Investec Asset allocation determined by the manager
<b>Money Portfolio</b> <b>Market</b>	Target Return of CPI + 1% per annum Least appropriate for long term investing Most chance of capital preservation	Managed by Investec
<b>Shari'ah Portfolio</b>	Target returns of CPI + 4% per annum Adheres to Shari'ah principles of the ban of interest and the ban on investment in certain sectors – eg conventional financial, alcohol and tobacco; non-halaal food production; some entertainment (eg casinos) and arms manufacturing.	Managed by 27Four Asset allocation determined by the manager

You can change the investment choice at any time.

If you do not make this choice or want the Trustees to choose the investment portfolio for you, your contributions will be invested according to the **LIFE STAGE MODEL** (which is the default).

The Life Stage Model transitions you from the most aggressive portfolio (the Market Linked) to the least aggressive portfolio (the Money Market) in the 10 years prior to retirement as follows:

