



# PetroSA RETIREMENT FUND NEWSLETTER

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

**ISSUE NUMBER: 2/2017**

**June 2017**

Dear members

This is your newsletter and 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.

We ask you to think about topics you would like to see in the newsletter. Please pass your constructive comments and suggestions to the Principal Officer of the Fund or contact any of the trustees.

## **INSIDE THIS ISSUE**



We trust you will enjoy the read.

Board of Trustees  
June 2017

- **Investment news**
- **Retirement planning sessions**
- **Comparison of living annuity costs**
- **Flexible benefit design – implementation date**
- **Your Board of Trustees**
- **General information**
- **Other interesting articles: The impact fees have on your living annuity**

## **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.**

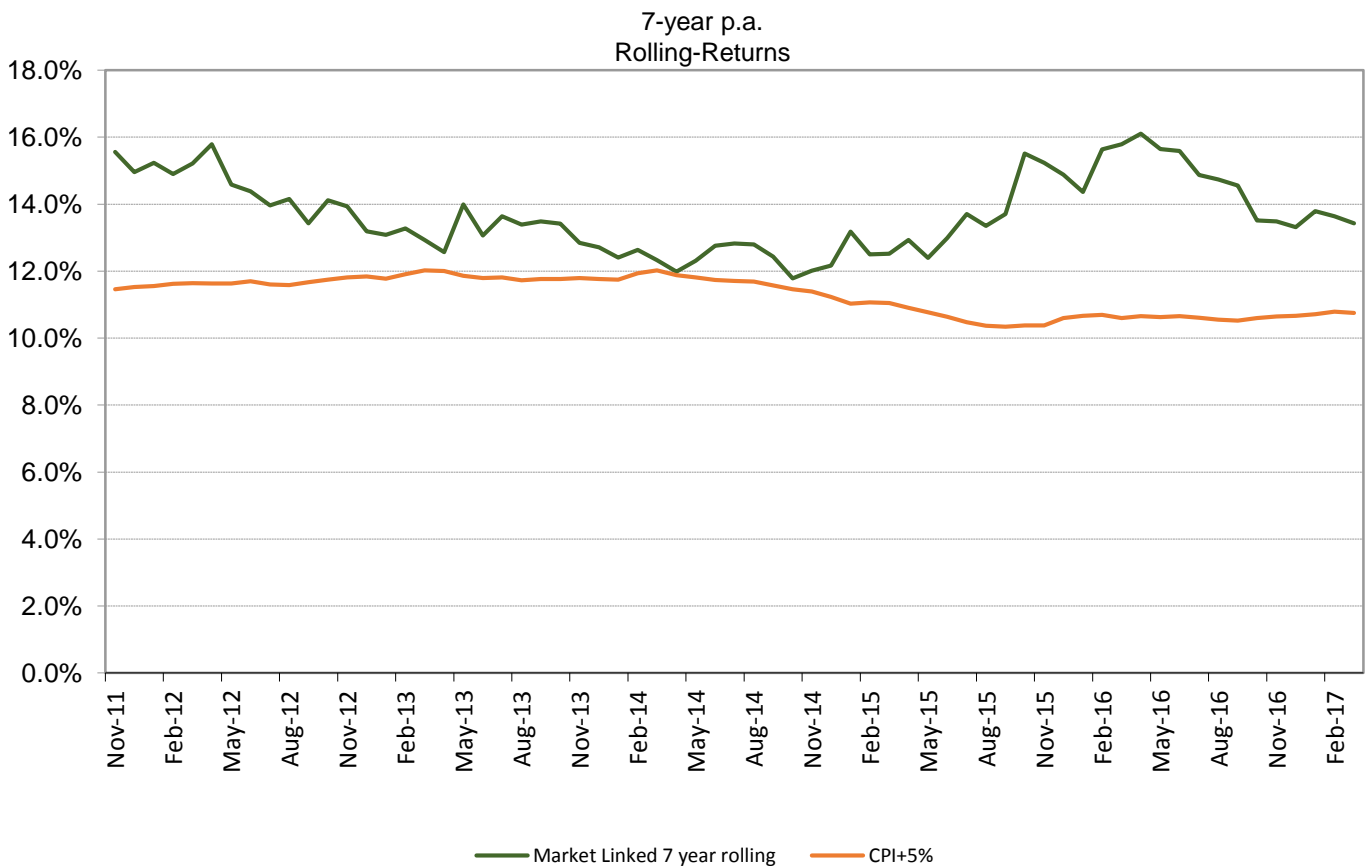
# INVESTMENT NEWS

Below are the annualised investment returns for all the portfolios over different measurement periods until 31 March 2017. Please note that the returns are shown after deducting investment manager fees:

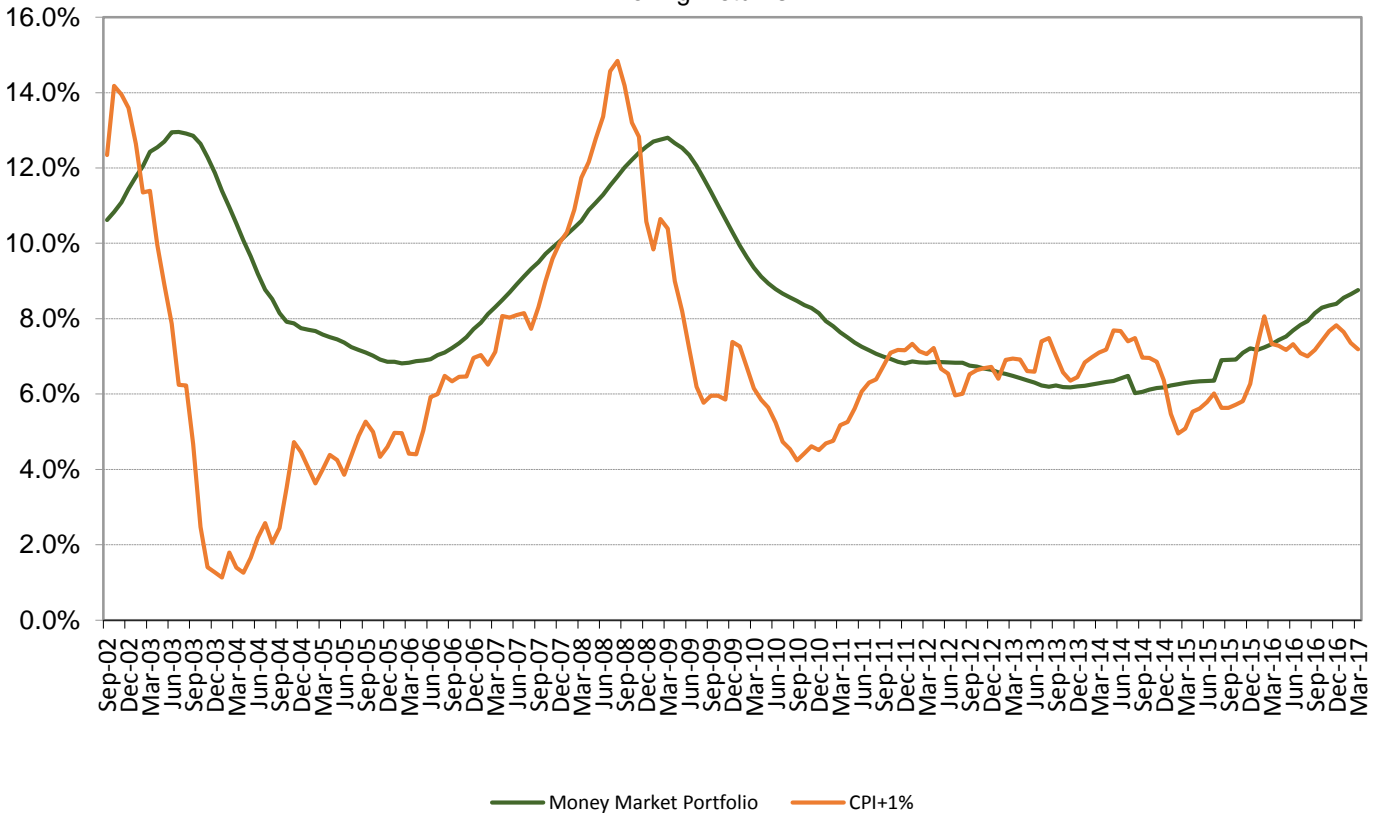
Portfolio	Investment Objective	Measurement period	Actual Return p.a.	Target Return p.a.
Market-Linked portfolio	CPI + 5.0% p.a. net over a rolling 7-year period	7 years	13.4%	10.8%
Stable Portfolio	CPI + 3% p.a. net over a rolling 3-year period	3 years	6.9%	8.6%
Money Market Portfolio	CPI + 1% p.a. net over a rolling 1-year period	1 year	8.8%	7.2%
Shari'ah Portfolio	CPI + 4.0% p.a. net over a rolling 5-year period	57 months	10.1%	10.0%

## MONITORING OF LONGER TERM PERFORMANCE OF THE PORTFOLIOS

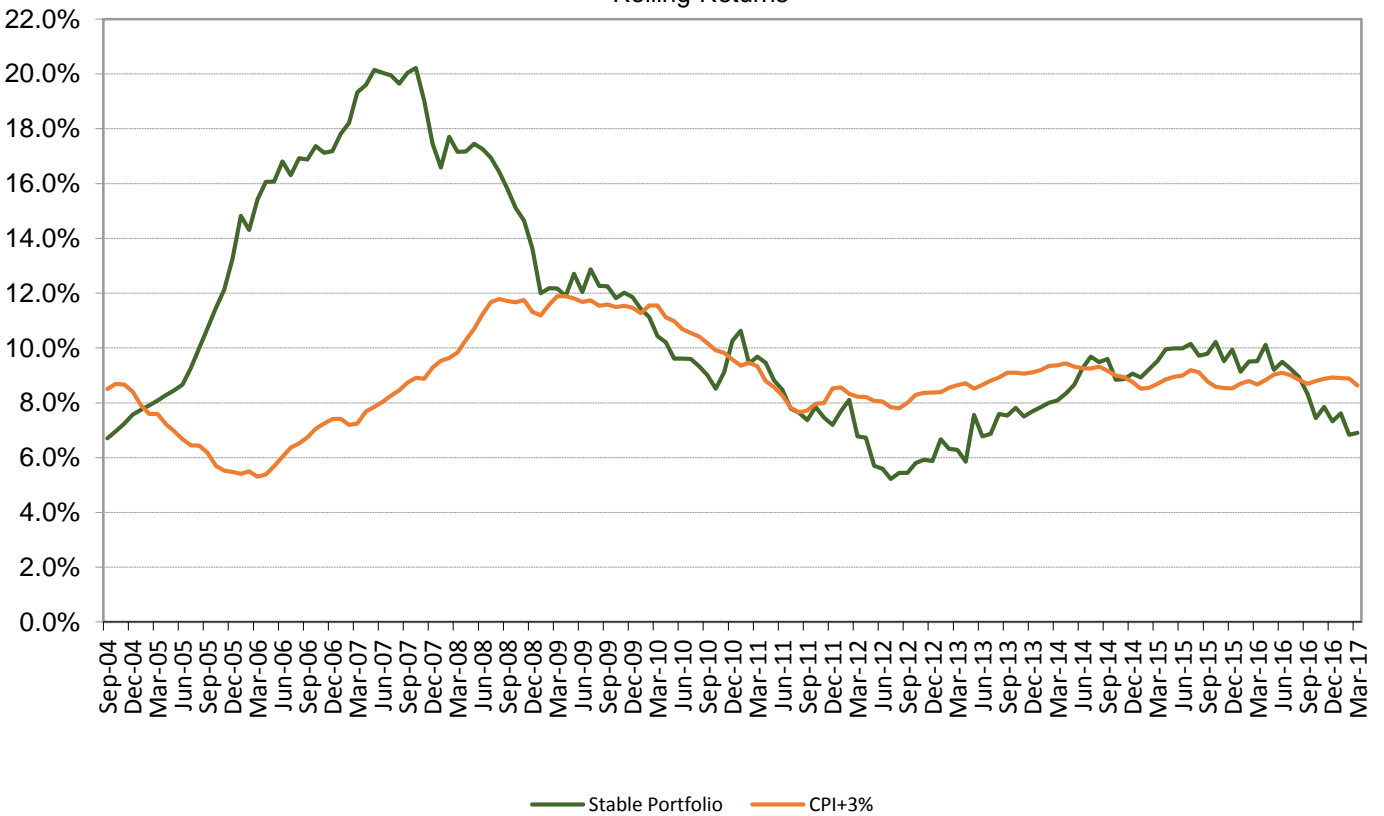
To give you an indication of how the Market-linked, Stable and Money Market portfolios compare to each other at 31 March 2017, the chart below shows the performance of each portfolio relative to their investment objective over their respective rolling periods in years to the end of March 2017. The Shari'ah Portfolio was implemented on 1 July 2012 and therefore a 5-year period has not yet been completed as at 31 March 2017.



1-year p.a.  
Rolling>Returns



3-year p.a.  
Rolling>Returns



## COMMENT ON INVESTMENT PERFORMANCE

The Fund's portfolios have delivered good returns over the last three- and five-year periods. We caution members to expect more moderate performance in these portfolios over the next five years as inflationary pressures build up in the South African economy and real returns on all asset classes become harder to find. Most recently, the local economy was affected by weak economic growth and political instability.

Despite this, 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 6.8% per annum above inflation. The other sectors that delivered returns significantly above inflation were global shares (17.3% p.a. above inflation – in Rand terms), global bonds (5.8% p.a. above inflation – in Rand terms), and SA listed property (10.1% p.a. above inflation).

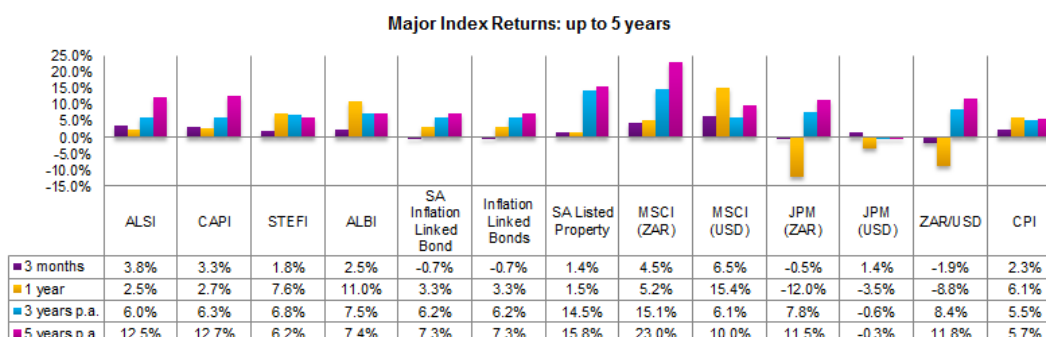
If you need to start living on your retirement benefit within say the next 3 to 7 years, you are likely to be more focused on preserving the capital you have accumulated up to now. Generally speaking, if you are within 3 to 7 years of retirement you should be invested in the Stable Portfolio in the life 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.

### Important 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.**

## MARKET OVERVIEW

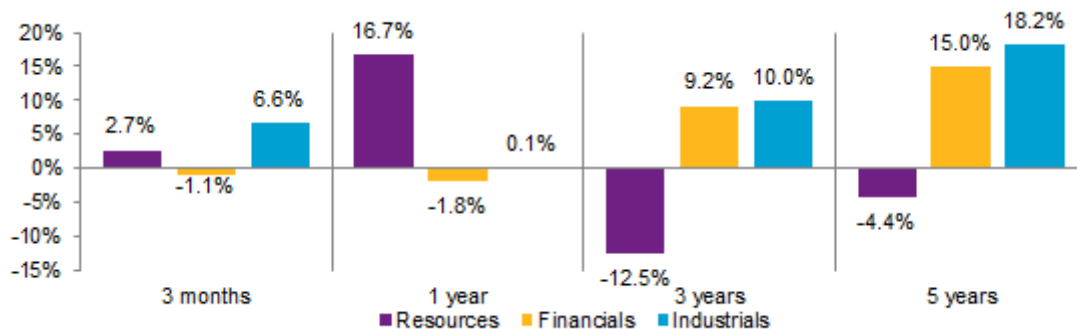
The graph to the right shows the performance of the various sectors of the market during the 3 months ended 31 March 2017 (source: Micropal).



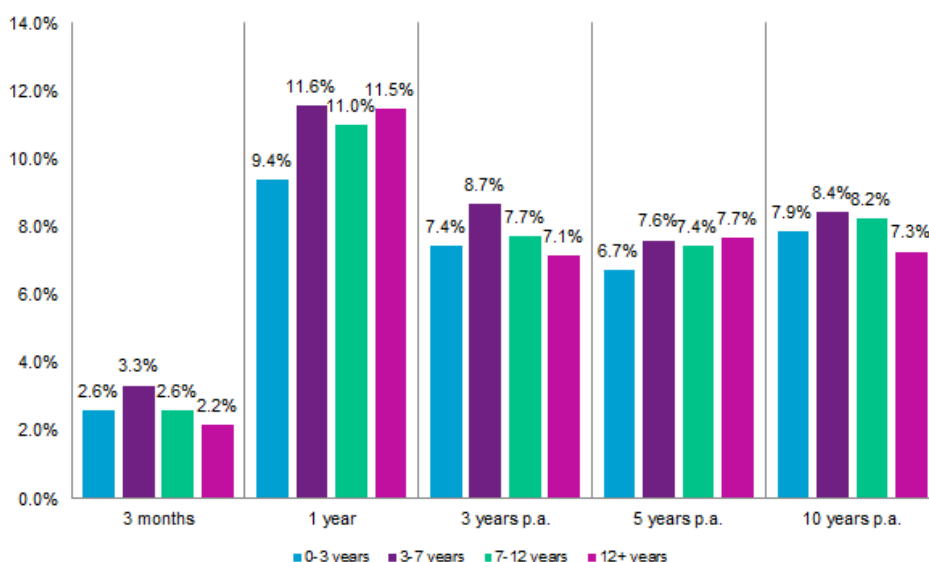
An explanation of the different sectors appears below.

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

The chart below shows the performance of the three sectors of the SA equity market for periods to 31 March 2017:



The chart below shows the performance of the different sectors of the SA bond index for periods to 31 March 2017:



## MARKET COMMENTARY FOR THE QUARTER ENDING 31 MARCH 2017

- Global equities delivered robust gains in the first quarter, with the healthy risk appetite supporting EMs. The MSCI EM composite delivered 11.5% in US dollar terms over the quarter, outpacing the MSCI World Index (reflecting DMs) which gained 6.5%. Global bonds underperformed equities, with the Barclays Capital Global Aggregate delivering 1.8% in US dollar terms over the period.
- The local economy continues to be plagued by weak economic growth and political instability. Political uncertainty rose during the last week of March when President Jacob Zuma recalled then Finance Minister Pravin Gordhan and his Deputy, Mcebisi Jonas, from an international investor roadshow. On March 30th, fears of a cabinet reshuffle became a reality as the President announced extensive changes to his administration including the removal of both Gordhan and Jonas.
- The initial market reaction saw local bonds and equities sell-off sharply but a global risk-on environment provided some reprieve to local markets. Against a favourable EM backdrop, the FTSE/JSE ALSI gained 3.8% over the quarter, outperforming local cash and bond returns. The ALBI gained 2.5% over the quarter. Nominal bonds outperformed their inflation-linked counterparts, which fell 0.7%.



- While risk-on sentiment supported the performance of local equities in January, political tensions denied local equities the full benefit of the favourable EM backdrop in the first quarter. The cabinet reshuffle weighed heavily on Financials, as bank stocks bore the brunt of the sell-offs.
- Fluctuations in the rand over the quarter drove equity sector performance. Initial rand strength weighed on the performance of dual-listed shares, seeing Industrials and Resources decline into negative territory in February before advancing at quarter-end on the back of renewed currency weakness. Resources delivered an exceptional performance in January as commodity prices improved.
- Rand strength (albeit highly volatile), stable global bond yields and a favourable EM backdrop supported the performance of local bonds over most of the first quarter. However, political risk kept market uncertainty elevated until bond yields spiked in the wake of the cabinet reshuffle. Surprisingly, the market reaction has been relatively benign in the nominal bond space, with yields eventually stabilising as some investors used the opportunity to capitalise on high yields.
- Over the long-term, one would expect long-term bonds (“12+ year”) to offer a 1.0% p.a. to 1.5% p.a. higher return than short-dated bonds as investors need to be compensated for the uncertainty regarding future inflation (the so-called “term premium”). However, over the ten year period there has been no term premium for investors in SA bonds in the “12+ year” category versus all shorter-dated categories.
- Investors have generally not been compensated for the risk associated with holding the longest-dated bonds. This feature arises partly from many institutional investors being prepared to pay more for long-dated bonds to match their long-term liabilities. The high returns from shorter-dated maturities relative to longer-dated maturities is also reflective of a hawkish SARB determined to retain its inflation-fighting credibility.

## RETIREMENT PLANNING WORKSHOPS

The Fund holds pre-retirement workshops annually for all members. At these workshops, the different pension options available at retirement and the pros and cons of each option are discussed in detail. If you are over the age of 50, we urge you to attend these workshops when they are presented. The next workshops will be held during June and July 2017.

**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.**

## COMPARISON OF LIVING ANNUITY COSTS – PURCHASING FROM THE FUND OR FROM OUTSIDE THE FUND

When you get to retirement, you have a choice of different types of pensions. These options are discussed in great detail at the retirement workshops that are held annually. One of these options is a choice of purchasing a Living Annuity. This Living Annuity can either be purchased from the PetroSA Retirement Fund (in-house) or from an outside service provider.

There is a material cost difference between the two options. Purchasing an in-house living annuity will be a fraction of the cost if one compares it to an outside living annuity. The reason for this is that the member does not pay for financial advisor fees (initial fees as well as recurring annual fees). Furthermore, the administration fees charged outside the Fund are much higher than the in-house option. Unfortunately, members often do not understand the potential consequences of these fees.

The last article in this newsletter looks into this matter in more detail. We encourage members to read this carefully before making long-term financial decisions.

## FLEXIBLE BENEFIT DESIGN - CHANGE IN CONTRIBUTION CATEGORIES

The rules of the Fund have been amended (this rule has been registered by the Financial Services Board) to enable members who wish to do so, to take advantage of making greater provision for retirement savings in a tax efficient manner. The new selection in contribution rates will be as follows and will be implemented with the next flexible choice date effective 1 August 2017:

CONTRIBUTION CATEGORY	CONTRIBUTION RATE % OF PENSIONABLE SALARY
A	7.5
B	10.0
C	12.5 (the default rate)
D	15.0
E	17.5
F	20.0
G	22.5
H	25.0
I	27.5

Members who would like to start contributing at a higher rate with immediate effect, can do so in their personal capacity outside the Fund, using retirement annuity policies.

## YOUR BOARD OF TRUSTEES

---

Member Elected Trustees	Employer Appointed Trustees
JP Rhode	W Fanadzo
A Futter	O Mohapanele
L Moser (Chairperson)	M Sebothoma
MM Nene	Vacant

The Board of Trustees is there to assist members. Members must feel free to contact them if necessary.

## GENERAL INFORMATION

---

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

### 1. 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 Web-site.**

#### 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.

##### **Note:**

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.



## 2. COMPLETION OF CLAIM FORMS

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. 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

## 4. 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.	

## 5. ALEXANDER FORBES ON-LINE FACILITY

In order to access the Alexander Forbes on-line facility, a pin-code is required. This is available from Alexander Forbes. Should you require any further administrative assistance please contact:

Selfie Lotz: 021 809 3737 Tracy Pedersen: 021 809 3721

## OTHER INTERESTING ARTICLES:

---

### **The impact fees have on your Living Annuity**

*09 June 2015 – 10x Investments - This article has been edited*

For most people, cost is an important consideration in almost every purchase decision. However, it seems that when it comes to critical financial decisions, such as buying an investment product, it is not always the case. Many South African retirement investors therefore also overlook the fees on their living annuity, or rather, the impact these fees will have on the longevity of their savings.

A living annuity is an investment product that provides you with an income from your retirement savings. Unlike a life annuity, it gives you the flexibility to choose your income each year (subject to regulatory limits) and how your money is invested. The downside is that you bear the risk of outliving your savings, or that your annual income does not keep pace with inflation. Your annual draw-down rate – the percentage of your investment value that you draw as income – plays a big part in how long your money will last.

If you buy a living annuity you run the risk of outliving your savings. One of the three most critical elements you must consider is the fees you will be paying. Very few people appreciate that their capital is reduced both by their draw-down and by the fees they pay. To assess the full impact on your capital, you must add the fee rate and draw-down rate - both expressed as a percentage of capital. The higher the fees, the sooner the money will run out. Or alternatively, the higher the fees, the lower your draw-down rate will need to be, to sustain a given level of income.

*Government estimates the industry average fee for living annuity investors at approximately 2.5% (plus VAT) of the investment balance, made up of 0.75% for advice, 0.25% for administration and 1.5% for investment management. But 2.5% in fees represents 50% of a 5% drawdown rate i.e. total fees can equal half your retirement income.*

*Another article published in Moneyweb shows a different fee structure. (It is important to note that fees can even go as high as this shown below)*

*The financial advisor would typically charge an annual fee of 1.14% (1% plus VAT), the administration fee would generally be around 0.57% (0.5% plus VAT) and the total expense ratio (TER) in a typical Balanced Fund would be roughly 2.2%. This brings total annual fees to 3.91%. These are ongoing annual fees charged as percentages of capital.*

The cost is high because most living annuity providers follow an expensive active management approach, they offer unnecessary ‘bells and whistles’ that add to administration costs, and require the involvement of an advisor. If you intend to make your savings last, and draw down conservatively (between 4% - 6% pa), the fee impact is highly significant. For example, drawing down at 5% from a high equity portfolio can sustain your income 25 more years, if you pay lower fees; and even for a low equity portfolio, you stand to gain an added five to ten years of income.

You may have little bargaining power to negotiate the fees charged on your living annuity product, but you do have the choice to select a low cost provider (e.g. the in-house facility offered to members by the PetroSA Retirement Fund). When selecting a provider, make sure you know all the applicable fees before making your selection. Many companies are masters at obscuring their fee structure. But don't just consider fees. Also assess the provider in terms of the investment portfolios available and the services provided. For example, how easy is it to access information, how strong are the planning tools, how transparent is the reporting, how responsive is the provider?

Always take into account the fees you pay. If you invest in a living annuity with high fees you will most probably not get the optimal pay-back on your retirement savings.

Fortunately, for members of the PetroSA Retirement Fund, a more cost effective option is available. Below is a table showing a comparison of the expected costs of drawing a living annuity. The cost structure of the PetroSA Retirement Fund living annuity option is compared with a retail living annuity. (The assumed cost structure of the illustrated retail product is likely to be the cheapest that most individuals can negotiate in practice):

**EXAMPLE: R 1 000 000 IN MEMBER ACCOUNT**

**PetroSA :**

- Initial fee **R975.84 – once off** (Including VAT) per member account
- Ongoing admin fee: **R97.58 per month** (Including VAT) per member

**The amounts above are the same for everyone regardless of how much is in the Member Account**

**Retail :** (This is based on the best case-scenario)

- Initial 1% (can vary anywhere between 1% - 2%)
- Ongoing 0.75% of first R250 000  
0.50% of next R500 000  
0.25% of the balance

Initial fee: R10 000 Plus VAT = **R11 400 once-off**

Ongoing: R 5 000 per annum = R416.67 per month Plus VAT= **R475.00 per month**

**This is based on an amount of R 1 000 000 in the Member Account – the more the member has the higher the amounts will be**

**On a R1 million retirement capital amount, and assuming a 5% annual “draw-down”, the starting monthly pension in the illustrated retail product will be R3 644.16 compared with R4 065.02 in the PetroSA Retirement Fund. This is a potential difference of over R5 000 in the first year!**

**The above ignores the fact that the investment management fees applicable for the PetroSA Retirement Fund are charged at institutional rates, which are materially lower as a percentage of your investment portfolio than would be applicable in an individual retail living annuity policy. These fees are deducted from the investment returns before they are allocated to your account. The lower the investment management fee as a percentage of your retirement capital, the higher your expected future investment return. This makes the PetroSA Retirement Fund even more compelling as an option. Despite the cost advantages of the in-house living annuity option, some members may still prefer a retail living annuity option on the grounds that a wider choice of investment portfolios may be available outside the Fund.**

***Kindly note that this article does not constitute financial advice. All information and opinions provided are of a general nature and are not intended to address the circumstances of any individual.***

**IF YOU HAVE ANY QUESTIONS on the Retirement Fund, please contact the Principal Officer: Mr R Buhr on (021) 929 3133.**