

# PetroSA RETIREMENT FUND

ISSUE  
NUMBER:

3/2017

## NEWSLETTER

ALL ABOUT YOUR FUND AND WHAT IT  
DOES FOR YOU

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.
- Investment news
- Investment workshops and member feedback sessions
- Retirement planning sessions
- Junk status- What does this mean?
- The importance of preservation
- The impact your contributions make to your final fund benefit
- Difference between PetroSA and PetroSA Retirement Fund
- Your Board of Trustees
- General information

### INSIDE THIS ISSUE



We trust you will enjoy the read.

Board of Trustees  
September 2017

#### 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.

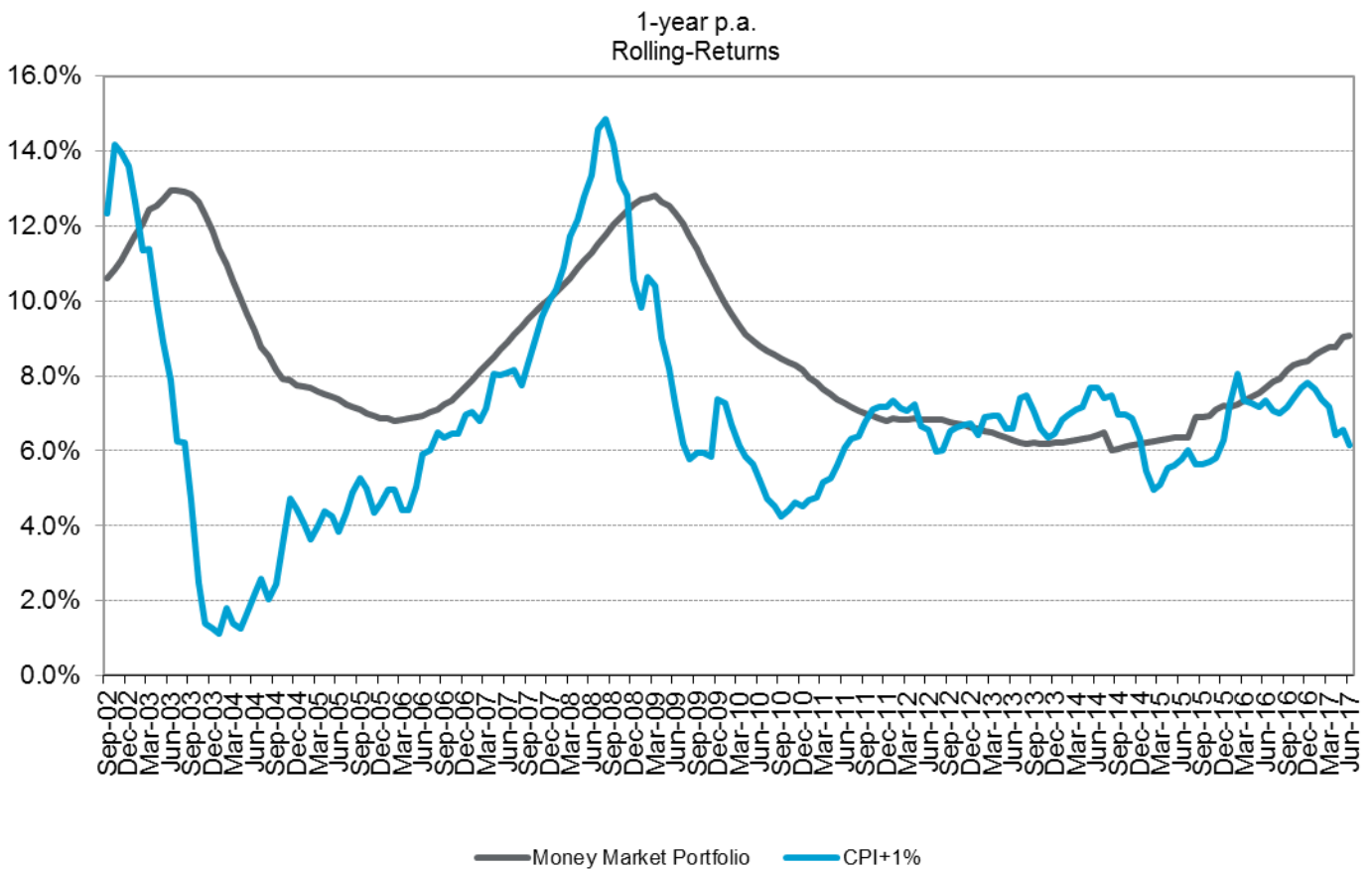
# INVESTMENT NEWS

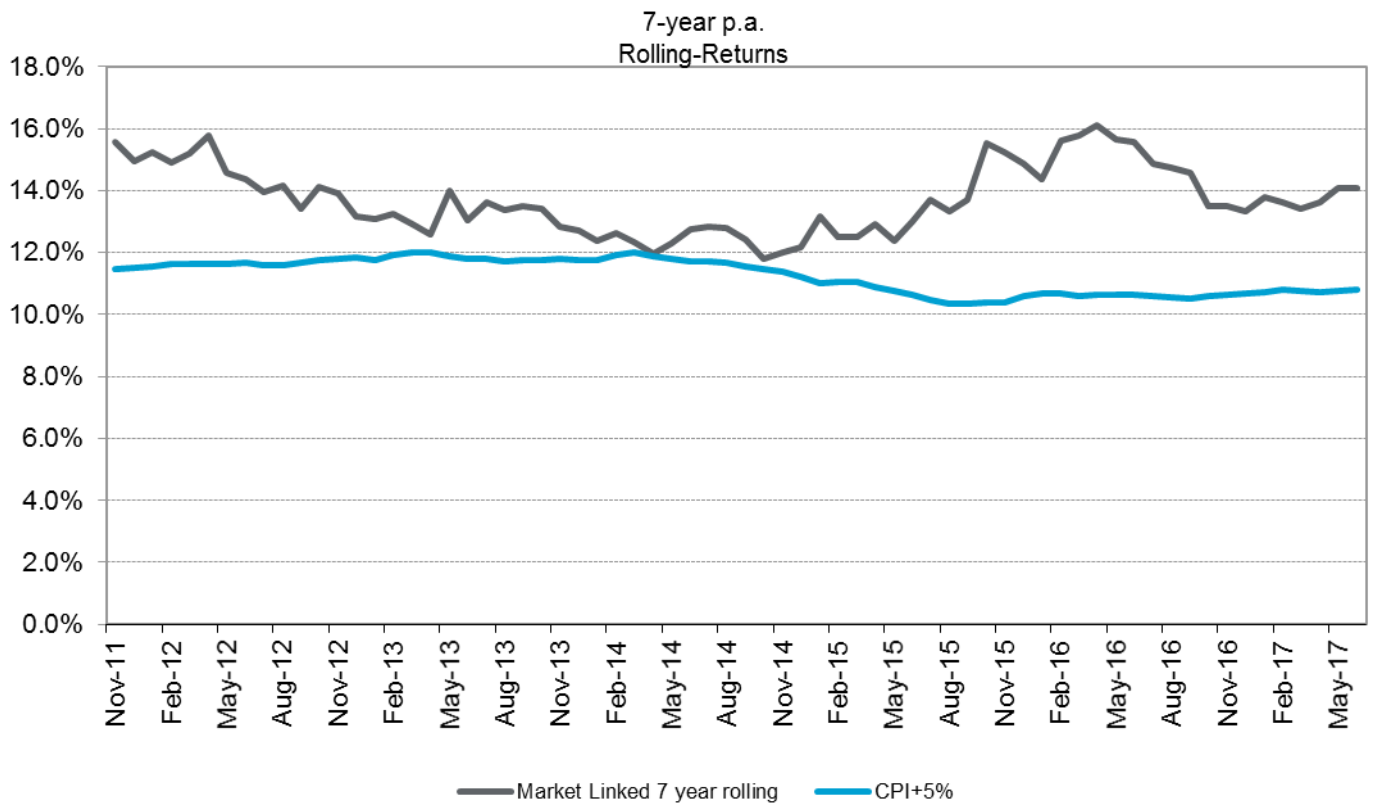
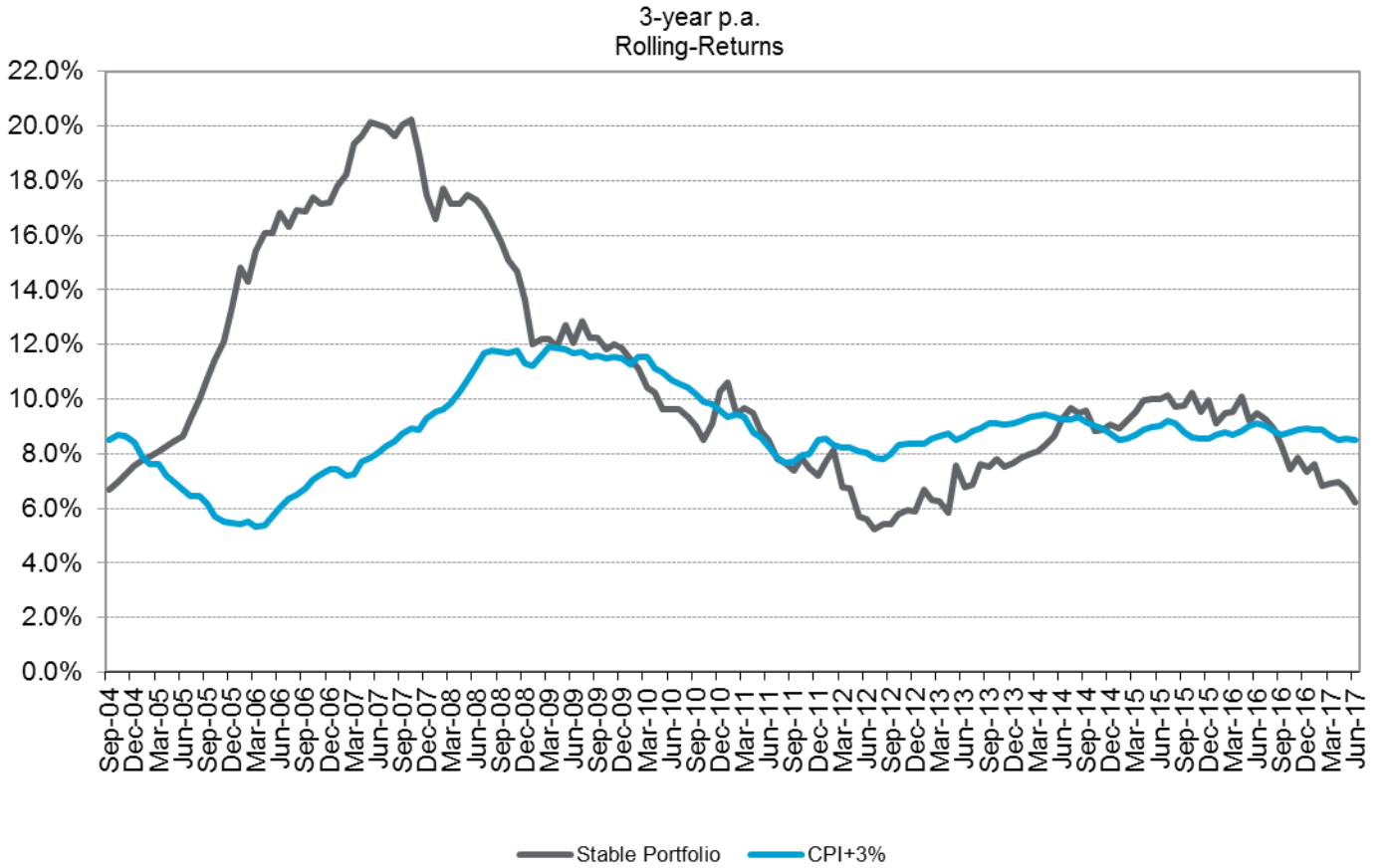
Below are the annualised investment returns for all the portfolios over different measurement periods until 30 June 2017. Please note that the returns are shown after deducting investment manager fees:

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	14.1%	10.8%
Stable Portfolio	CPI + 3% p.a. net over a rolling 3-year period	3 years	6.2%	8.5%
Money Market Portfolio	CPI + 1% p.a. net over a rolling 1-year period	1 year	9.1%	6.1%
Shari'ah Portfolio	CPI + 4.0% p.a. net over a rolling 5-year period	57 months	9.4%	9.9%

## 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 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 June 2017. The Shari'ah Portfolio was implemented on 1 July 2012 and therefore a 5-year period has not been completed as at 30 June 2017.





## COMMENT ON INVESTMENT PERFORMANCE

The Market-linked portfolio (which is the portfolio for the wealth-building stage of the life stage model) has delivered an exceptional 8.6% per annum above inflation over the last seven years, compared with the long-term investment objective of 5%. Such performance is not sustainable, 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.

The Stable portfolio has delivered some 0.6% per annum above inflation for the last three years, which is well short of the investment objective of 3% per annum. The Trustees have been keeping a close watch on the performance of this portfolio and after reviewing alternative asset managers, decided to replace one of the asset managers. Therefore with effect from 3 August 2017, the trustees replaced the Prescient Positive Return Fund with the Investec Cautious managed Fund and the Coronation Inflation Plus Fund. We will explain these changes and the reasons in more detail in next quarter’s newsletter.

Looking at performance of various asset classes over the last 7 years SA equities (which comprise the major part of retirement fund assets) delivered some 8.0% per annum above inflation. The other sectors that delivered returns significantly above inflation were global shares (15.3% p.a. above inflation – in Rand terms), global bonds (4.9% p.a. above inflation – in Rand terms), and SA listed property (10.8% p.a. above inflation). SA inflation linked bonds delivered a return of 2.8% p.a. above inflation over the same period.

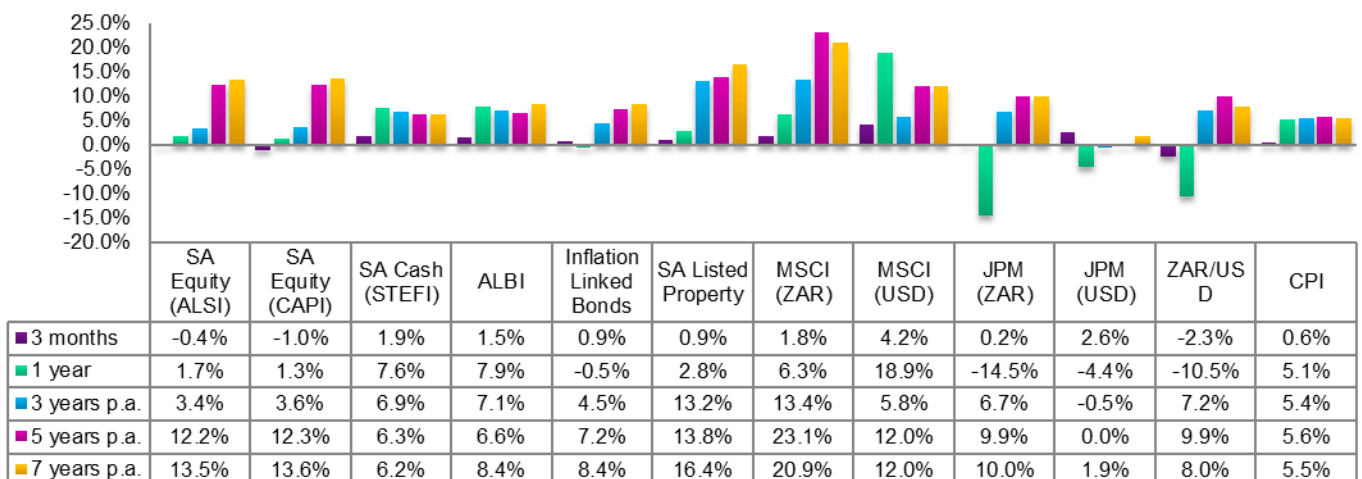
If you need to start living on your retirement benefit within say the next 3 to 7 years, you are likely to be more focused on preserving the capital you have accumulated up to now. Generally speaking, if you are within 3 to 7 years of retirement you should be invested in the Stable Portfolio in the life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

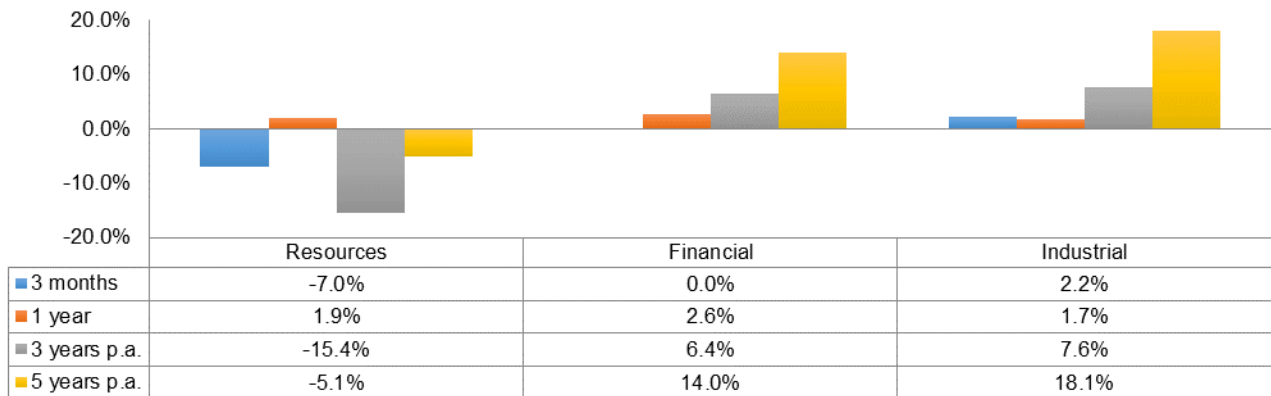
The following chart shows the return on the major indices for the period to 30 June 2017 (source: Micropal).

Major Index Returns: up to 7 years

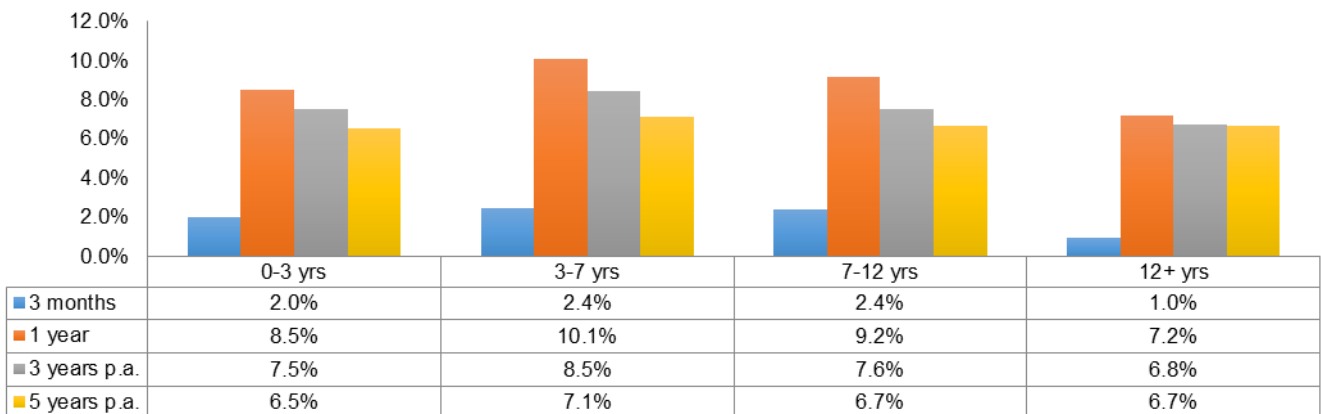


CPI: South African inflation rate  
 ZAR/USD: Rand investment in US Dollars (positive number shows a weakening Rand).  
 JPM: JP Morgan - Government bonds in developed overseas markets – performance measured in Rands  
 MSCI: Morgan Stanley Capital Index – equities in developed overseas markets – performance measured in Rands  
 ALBI: All Bond Index - South African bonds  
 SteFI: South African short-term interest-bearing investments – South African cash  
 CAPI: All Share Index with a maximum contribution of 10% for any one share. The weightings are rebalanced monthly  
 ALSI: All Share Index - South African equities

The following chart shows the performance of the broad sectors of the SA equity market for periods to 30 June 2017:



The chart below shows the performance of the different sectors of the SA bond index for periods ended 30 June 2017:



# INVESTMENT WORKSHOPS AND GENERAL FEEDBACK SESSIONS

These sessions were held during June and July –in Cape Town; Mossel Bay; Tzaneen; Bloemfontein 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. (See article below on the importance of preserving your benefit). Also included in the presentation were the Taxation Laws changes with the emphasis on the new changes in the Fund rules whereby members will be permitted to increase their monthly contributions to 27.5%.

These sessions were very well attended.

## 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. These workshops also recently took place in Mossel Bay, Saldanha Bay and Cape Town.

Again, these sessions were very well attended. Feedback collected after the sessions indicated that members found the sessions to be extremely beneficial, enjoyable and informative.

**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.**

## JUNK STATUS – WHAT DOES THIS MEAN?

As anticipated earlier this year, South Africa was down-rated to “junk status” by two of the three main credit rating agencies. Many members of Retirement Funds of course are concerned about their savings and future investment prospects. For this reason we have put together an explanation of the meaning of “junk status” and how it affects members of retirement funds such as yours.

Firstly, one needs to understand [what a credit rating is](#)

The best way to understand it is as if you apply for a credit card. The bank looks at how much money you earn and whether you will be able to pay back the money you borrow.

So, the credit ratings agencies (S&P and Fitch) looked at South Africa and decided that:

- They are not happy with how South Africa’s economy is currently being managed;
- They are concerned that the Government will not be able to keep its spending within manageable limits.

AGENDA	
<b>Investment Choice</b>	- Overview of Life Stage Model and Own Choice Portfolios - Switching rules
<b>Investment Performance</b>	- Monthly returns (last year) - Various measurement periods
<b>Comments on Investment Performance</b>	
<b>General</b>	- New Tax Laws - Postponement of certain Tax laws - Flexible Contributions/ Changes in Category of Employment - Summary of Benefits - Beneficiary Nomination Forms

They therefore downgraded South Africa's Credit Profile to "below investment grade". This is commonly referred to as "junk status". It means that many institutional investors (such as retirement funds) worldwide will not be permitted to lend money to the South African government (by investing in government bonds) Not only does this significantly reduce the total number of investors able to invest in South Africa, it also forces the SA government to issue their bonds at higher interest rates. In order to fund the higher interest bill, the Government will need to find money by cutting expenditure elsewhere.

### How does this affect you?

In the short term, this will not directly affect you. However, higher borrowing costs for South Africa as a nation could lead to higher interest rates and higher inflation, which would mean that

- Food, electricity and petrol prices will increase;
- You will pay more interest on money that you borrowed, such as your mortgage bond on your house; and
- Business confidence will decline, resulting in reduced overall investment in commercial and industrial enterprises, slower economic growth and continued poverty for many people.

In short, it is a downward spiral, which will continue until specific efforts are made to regain investment grade.

### What happens to your RETIREMENT SAVINGS?

It is very important to note that you should not move your money based on what the markets are doing. Times of financial turbulence are nothing new. Retirement Fund assets are managed with a long-term view in mind and the Fund's investment managers are assessed and chosen for their quality and basis of their track records over the long-term. The Fund's investment portfolios are well diversified across different investment strategies, asset classes, asset managers and geographies. In short your Fund's future investment performance is **not entirely dependent** on whether or not South Africa is rated as investment grade or junk by the rating agencies.

## THE IMPORTANCE OF PRESERVATION



### Why preserve your benefit?

Research has shown that it is most important for members not to take their retirement benefit in cash when they change jobs, but rather to preserve it as part of their provision for retirement. Younger members in particular are often tempted to take their benefit in cash at termination of employment, because they believe they still have lots of time to save for retirement. Research shows that if a member with 10 years' service takes their benefit in cash at termination of employment, that member will have to increase future contribution rates quite substantially (by more than 10% per month) over the remaining term in order to yield a pension equalling 75% of their pensionable salary at retirement.

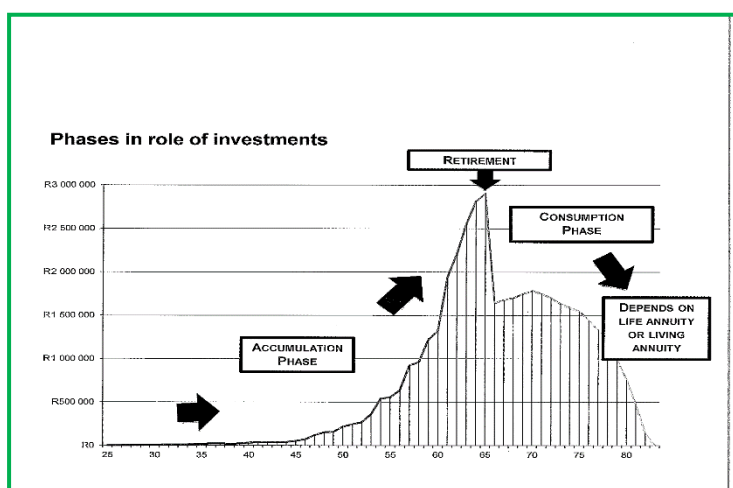
### Why do we refer to 75% of pensionable salary at retirement and what does this mean?

- When you retire it is assumed you can survive on about 75% of your pre-retirement pensionable salary. This percentage is referred to as the "Net Replacement Ratio" or NRR;
- In order to achieve this NRR you need approximately 15% of your pensionable salary going to retirement savings over a 30 to 35 year period and;
- You need to earn a return over the long term (7 years and longer) of 4.5% above inflation.

As far as years of service goes, it is not difficult to reach this 30 to 35 year benchmark if members in general **preserve** their retirement benefits as and when they change employers.

As a member of the PetroSA Retirement Fund, the contributions you pay are based on what you choose on an annual basis. Many members of the Fund are still paying way too little and nowhere near the “ideal 15%” over the long term. At the recent presentations held, this factor was discussed in detail as well as the importance of members increasing their contributions. (The impact of the contributions you make is discussed below).

## THE IMPACT YOUR CONTRIBUTIONS MAKE TO YOUR FINAL FUND BENEFIT



The Graph to the left shows how, the contributions you make during your working life-time, impacts on what your final Fund Credit will be. In particular, it depicts clearly how your Fund Credit increases dramatically from around age 55 to 65. The longer and the more you contribute, the more you will have in your Fund Credit. However, if you decide to retire early at age 55, your Fund Credit will be drastically less than if you retire at age 65.

The more you have at retirement, the better your pension will be to sustain you throughout your years of retirement.

## THE DIFFERENCE BETWEEN PetroSA “THE EMPLOYER” AND PetroSA “THE RETIREMENT FUND”

Many members of the Fund have often asked the question regarding the difference between PetroSA and PetroSA Retirement Fund. To clarify this, below is a brief overview:

- The PetroSA Retirement Fund is an entirely separate legal entity from PetroSA, and is governed by the Pension Funds Act. It is registered as a “pension fund organisation” under FSB registration number 12/8/32679. It is approved by SARS for tax purposes as a “provident fund” under SARS approval number 18/20/4/37625.
- The members’ benefits are protected by the Pension Funds Act which places the sole responsibility for directing and controlling the Fund on the board of trustees. The trustees are not only bound by the Pension Funds Act and the provisions of the rules of the PetroSA Retirement Fund, but also by trust law. For this purpose, there is no difference between employer-appointed and member-elected trustees.
- PetroSA is the sponsor and principal employer, and therefore can make decisions which affect the Fund’s existence (and of course the future employment of its employees). However, PetroSA cannot make any decision that impacts on members’ accrued benefits in the Fund. This means, for example, that the rights of current members and pensioners in the Fund are fully protected against any decision of the employer. The control rests solely with the trustees.
- In the event that the Fund is placed into liquidation, the Registrar of Pension Funds must first approve the trustees’ appointment of the liquidator, and additionally must approve the liquidation and distribution account



before any money is allocated to members or secured with other approved retirement arrangements (such as insured annuity contracts). Essentially, the liquidator assumes the role and responsibilities of the board of trustees, and has the same obligations to protect members' benefits.

- The fund is actuarially sound and is well managed. An actuarial valuation is carried out annually by the independent actuary. An entirely independent service provider is appointed to administer the Fund, and reports to the trustees each quarter end on the operations of the Fund. The administrator itself carries professional indemnity insurance and their appointment is reviewed every three years.
- The trustees do not handle money. All assets of the Fund are invested in pooled insurance policies with highly-rated asset managers locally and internationally. The trustees are supported by independent investment consultants on the selection (and firing) of asset managers. The trustees review investment performance quarterly, and carry out a triennial review of investment strategy.
- Loss of assets through fraud or gross negligence is extremely unlikely given the governance structure and separation of key functions of the Fund's operations. The trustees, administrators, actuaries, investment consultants and asset managers carry professional indemnity and fidelity insurance as appropriate. The investments are very well diversified across asset managers, asset classes, strategies and geographies, and a thus loss is extremely unlikely (unless such catastrophe is so widespread that it affects the entire financial system).

## YOUR BOARD OF TRUSTEES

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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

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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 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.

#### **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.**

<b>Lump sum death or retirement benefit</b>	<b>Tax liability</b>
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.**

<b>Lump sum resignation benefit</b>	<b>Tax liability</b>
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	e-mail: lotzS@aforbes.co.za
Tracy Pedersen:	021 809 3721	e-mail: pedersenT@aforbes.co.za

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