PetroSA
RETIREMENT FUND

ISSUE NUMBER:

1/2018

N E W S L E T T E R

ALL ABOUT YOUR FUND AND WHAT IT DOES FOR YOU

Dear members

Welcome to your first newsletter for the year. 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.

Board of Trustees
March 2018

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.

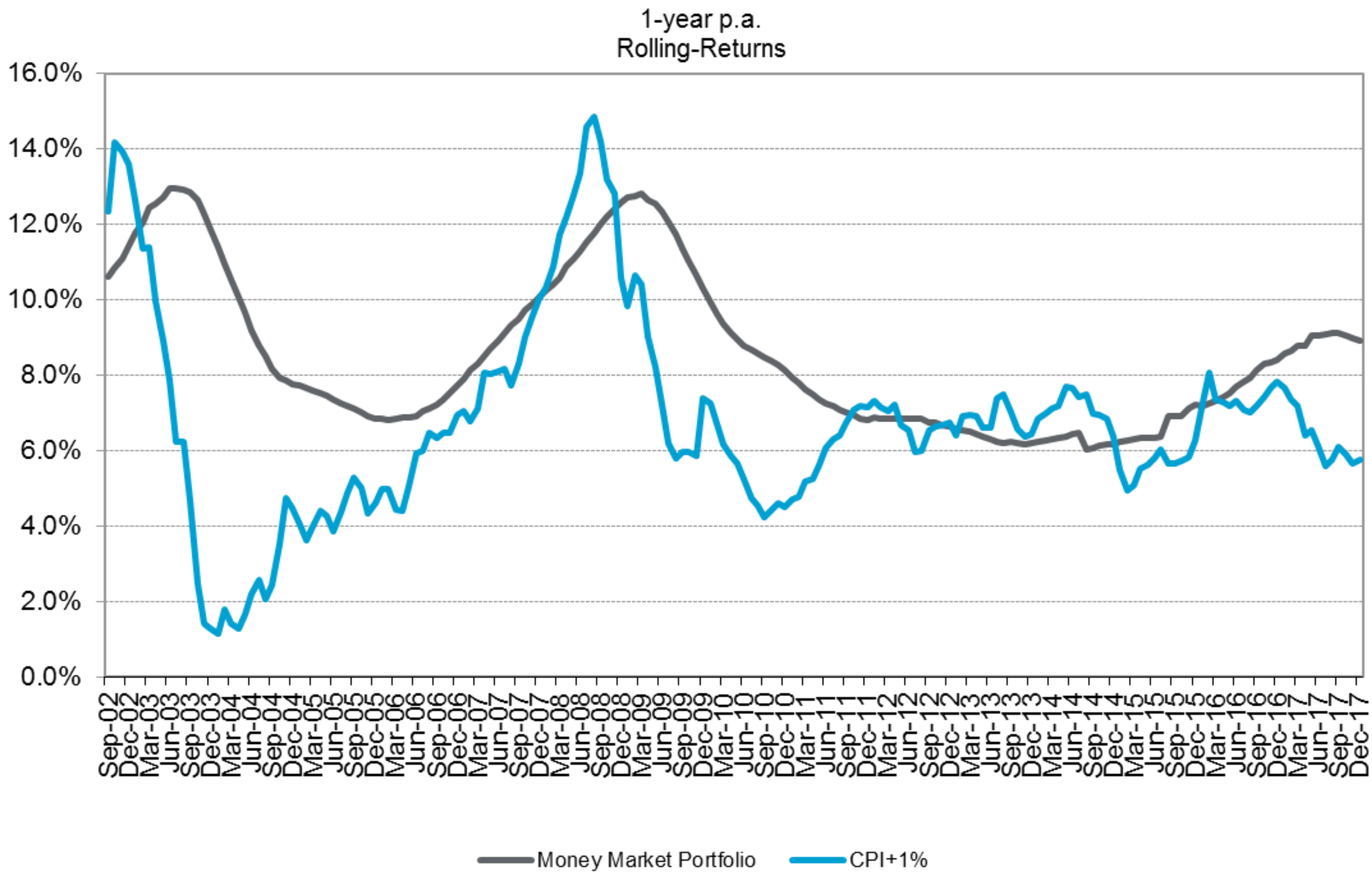
INVESTMENT NEWS

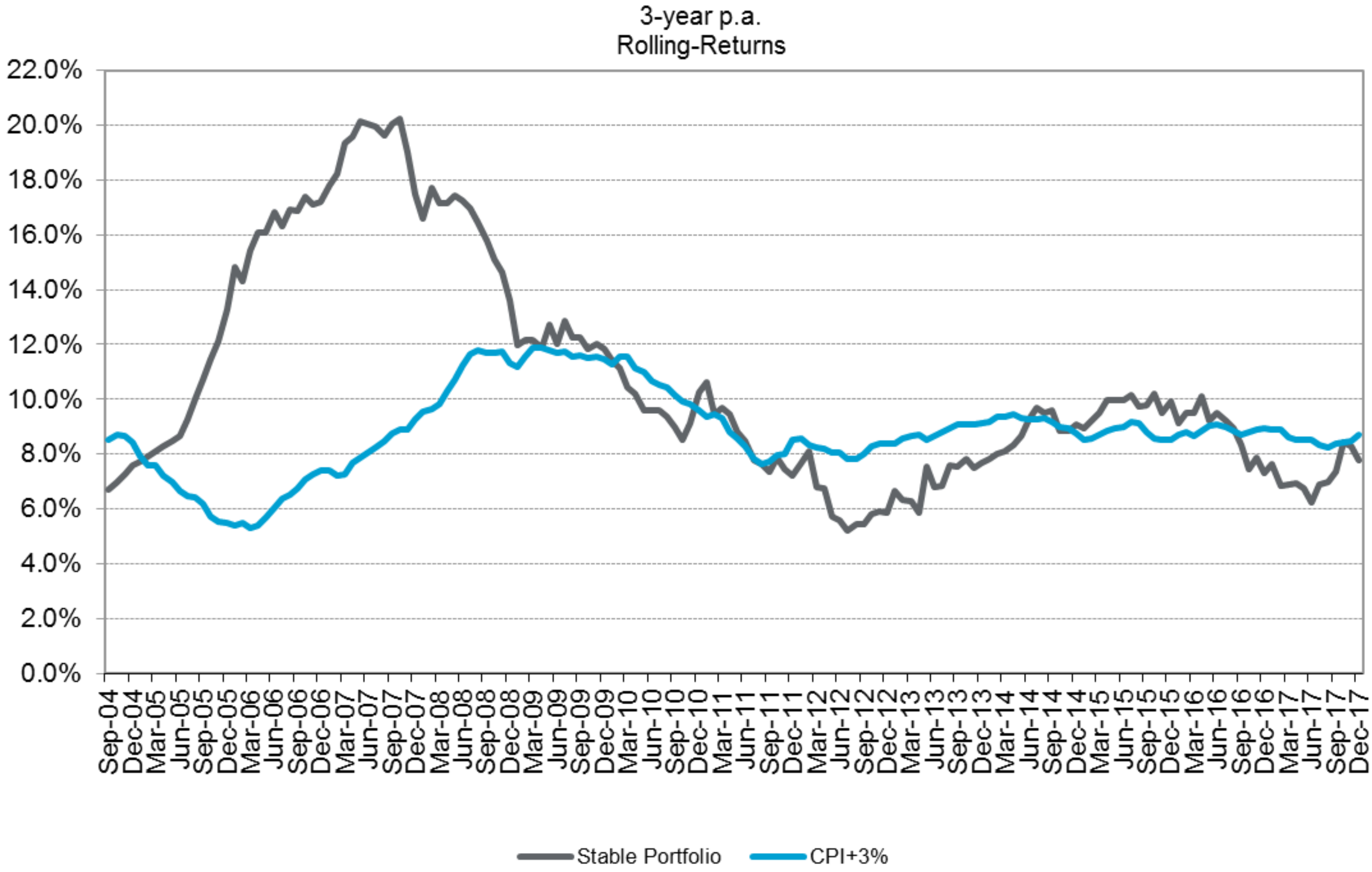
Below are the annualised investment returns for all the portfolios over different measurement periods until 31 December 2017. Please note that the returns are shown after deducting investment manager fees:

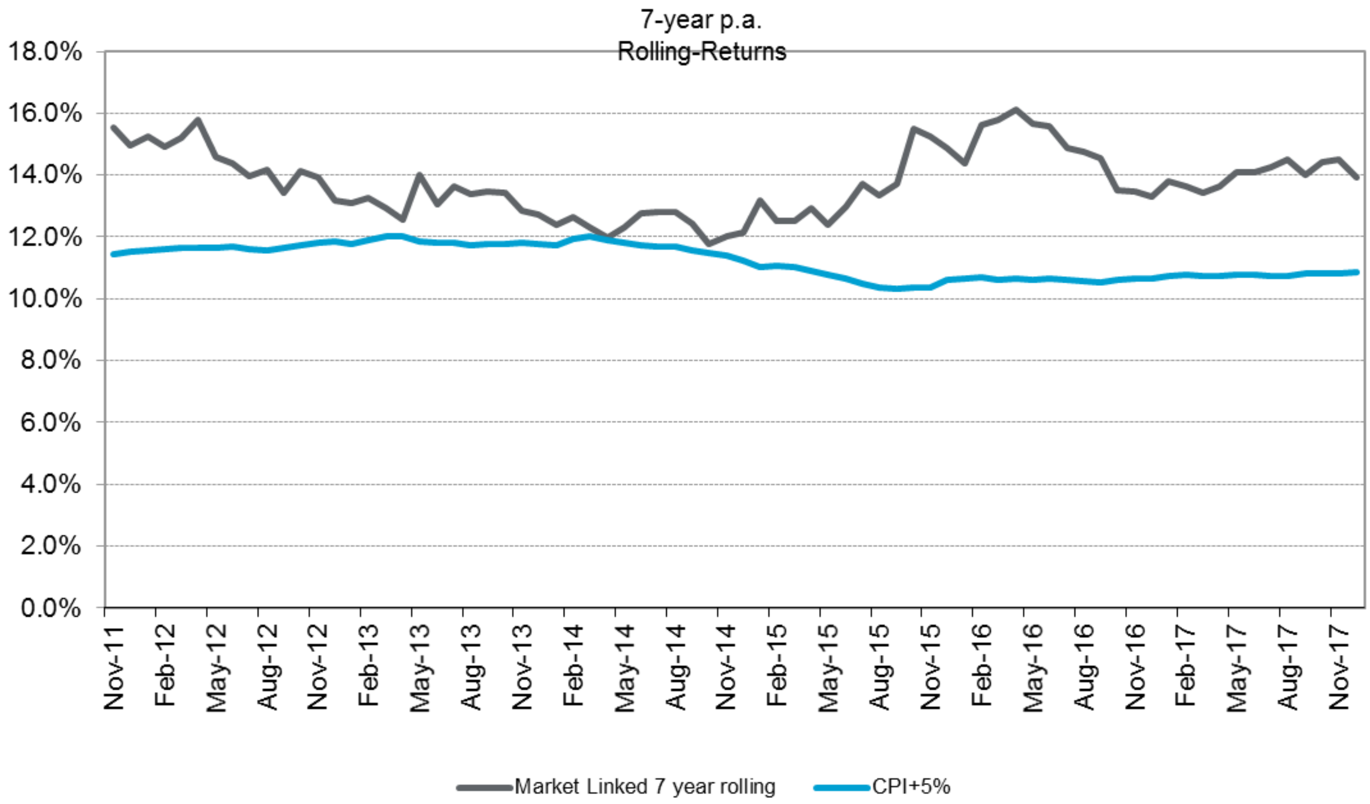
Portfolio	Investment Objective	Measurement period	Actual Return p.a.	Target Return p.a.
Market-Linked portfolio	CPI + 5% p.a. net over a rolling 7-year period	7 years	13.9%	10.9%
Stable Portfolio	CPI + 3% p.a. net over a rolling 3-year period	3 years	7.8%	8.7%
Money Market Portfolio	CPI + 1% p.a. net over a rolling 1-year period	1 year	8.9%	5.7%
Shari'ah Portfolio	CPI + 4% p.a. net over a rolling 5-year period	5 years	8.9%	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 31 December 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 December 2017.




3-year p.a.
Rolling-Returns
22.0%
20.0%
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Sep-04
Dec-04
Mar-05
Jun-05
Sep-05
Dec-05
Mar-06
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Jun-11
Sep-11
Dec-11
Mar-12
Jun-12
Sep-12
Dec-12
Mar-13
Jun-13
Sep-13
Dec-13
Mar-14
Jun-14
Sep-14
Dec-14
Mar-15
Jun-15
Sep-15
Dec-15
Mar-16
Jun-16
Sep-16
Dec-16
Mar-17
Jun-17
Sep-17
Dec-17
Stable Portfolio
CPI+3%


7-year p.a.
Rolling-Returns
18.0%
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Nov-11
Feb-12
May-12
Aug-12
Nov-12
Feb-13
May-13
Aug-13
Nov-13
Feb-14
May-14
Aug-14
Nov-14
Feb-15
May-15
Aug-15
Nov-15
Feb-16
May-16
Aug-16
Nov-16
Feb-17
May-17
Aug-17
Nov-17
Market Linked 7 year rolling
CPI+5%

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 8.3% per annum above inflation over the last seven years, compared with the long-term investment objective of 5%. 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.

The Stable portfolio has delivered some 2.0% 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 5 years SA equities (which comprise the major part of retirement fund assets) delivered some 6.4% per annum above inflation. The other sectors that delivered returns significantly above inflation were global shares (15.6% p.a. above inflation – in Rand terms), global bonds (3.2% p.a. above inflation – in Rand terms), and SA listed property (8.4% p.a. above inflation).

The Shari'ah Portfolio also fell slightly short of its investment objective. There were two main reasons for this. In 2016 the returns were driven by South African bonds, while equities performed poorly. Since the SA bond asset class is not Shari'ah compliant, the portfolio could not benefit from the strong returns on these assets. In 2017, SA equities performed strongly, but the bulk of the return was generated by a handful of shares, most of which are non-Shari'ah compliant, meaning that the portfolio could not benefit from the returns available.

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.

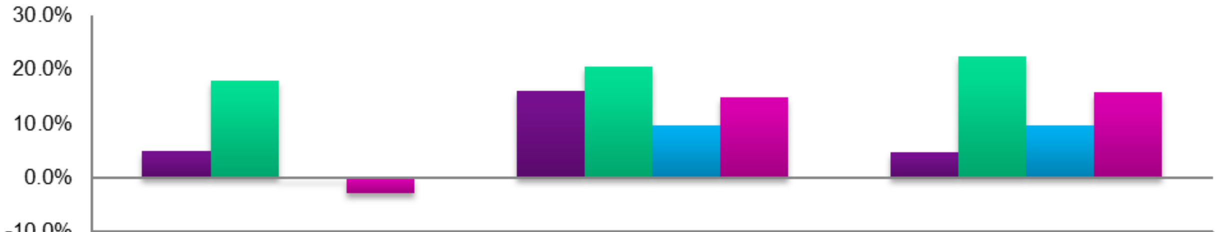
The following chart shows the return on the major indices for the period to 31 December 2017 (source: Micropal).

Major Index Returns: up to 7 years

	SA Equity (ALSI)	SA Equity (CAPI)	SA Cash (STEFI)	ALBI	Inflation Linked Bonds	SA Listed Property	MSCI (ZAR)	MSCI (USD)	JPM (ZAR)	JPM (USD)	ZAR/USD	CPI
3 months	7.4%	8.4%	1.8%	2.2%	1.5%	8.3%	-3.2%	5.6%	-7.4%	1.0%	-8.3%	0.9%
1 year	21.0%	17.5%	7.5%	10.2%	2.9%	17.2%	11.4%	23.1%	-3.3%	6.8%	-9.5%	4.7%
3 years p.a.	9.3%	8.7%	7.1%	6.9%	4.3%	11.7%	12.4%	9.9%	4.2%	1.9%	2.3%	5.6%
5 years p.a.	11.9%	11.6%	6.5%	6.3%	4.9%	13.9%	21.1%	12.3%	8.2%	0.3%	7.8%	5.5%
7 years p.a.	12.5%	12.4%	6.2%	8.0%	8.0%	16.0%	20.5%	10.2%	10.9%	1.4%	9.4%	5.6%

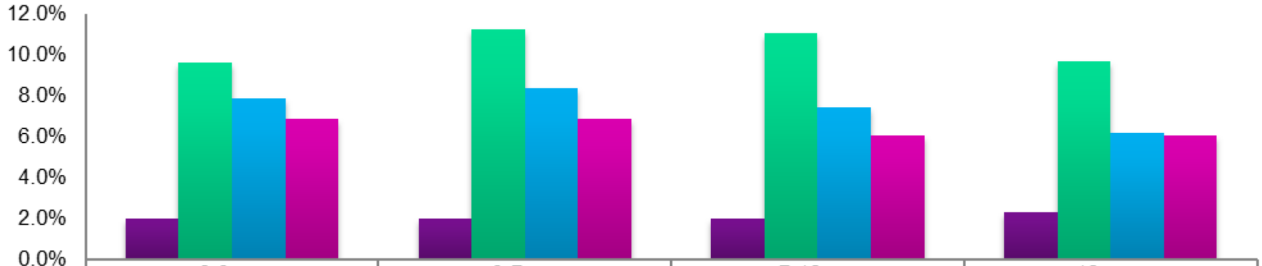
CPI:	South African inflation rate
ZAR/USD:	Rand investment in US Dollars (positive number shows a weakening Rand).
JPM:	JP Morgan - Government bonds in developed overseas markets – performance measured in Rands
MSCI:	Morgan Stanley Capital Index – equities in developed overseas markets – performance 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 31 December 2017:



	Resources	Financial	Industrial
3 months	4.9%	16.0%	4.7%
1 year	17.9%	20.6%	22.5%
3 years p.a.	-0.1%	9.7%	9.7%
5 years p.a.	-2.9%	14.9%	15.8%

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



	0-3 yrs	3-7 yrs	7-12 yrs	12+ yrs
3 months	2.0%	2.0%	2.0%	2.3%
1 year	9.6%	11.2%	11.0%	9.7%
3 years p.a.	7.9%	8.4%	7.4%	6.2%
5 years p.a.	6.9%	6.9%	6.0%	6.1%

IMPACT OF FUND'S EXPOSURE TO STEINHOFF

The Fund's portfolios have some exposure to Steinhoff International Holdings and / or Steinhoff Investment Holdings. The decline in the share price of Steinhoff International Holdings has been widely reported. The driver of this dramatic decline was a SENS notice issued by the Board on accounting irregularities – accompanied by the concurrent resignation of the firm's CEO, Markus Jooste.

As you know, the primary investment philosophy of the Fund is to act as an investor and not a speculator; meaning that the fund will adopt a long term investment horizon and will not be deflected by short term price fluctuations. The Fund's investments are very well diversified. Diversification gives members greater protection when investment returns are poor in relation to certain markets. The Fund's total exposure to Steinhoff (both directly and indirectly) was 1.17% of total assets at 01 December 2017. In light of such limited exposure, any potential loss that may be caused from the Steinhoff debacle is not going to affect the Fund's ability to deliver on its long term real return objectives.

Your Board of Trustees, in consultation with the Fund's Investment Consultants, have been engaging the asset managers who hold shares in Steinhoff, to understand their investment case for the company. Any action they take will be monitored by the Board and its consultants. Cautious, considered and measured approaches are necessary during uncertain times such as these. The asset managers must be given the opportunity to assess matters and respond in a manner that ensures that the best interest of the Fund and its members are served.

We urge you not to take alarmist views of your retirement funding in light of these events. The Fund's portfolios are diversified, and your retirement savings do not depend on the future of Steinhoff, or indeed any single company.

In this regard, members should note that the portfolio has outperformed its investment objective for all periods ending on 31 December 2017.

SUMMARY: DRAFT REGULATIONS –
How will this affect you as well as your Fund

With effect from 1 September 2017, National Treasury gazetted new retirement fund regulations that will ensure members of retirement funds get good value for their savings and be able to retire comfortably. In brief, the regulations compel the board of trustees of retirement funds to:

- **Make provision for a default investment portfolio to contributing members who do not exercise any choice regarding how their savings should be invested**
- **Offer a default in-fund preservation arrangement to members who leave the services of their employers before retirement**
- **For retiring members, a fund should have an annuity strategy with annuity options, either in-fund or out-of-fund, and can only “default” retiring members into a particular annuity product after a member has made a choice.**

Member defaults should be relatively simple, cost-effective and transparent. The default regulations will require that trustees assist members during the accumulation of savings and retirement phases.

SUMMARY OF THESE REGULATIONS

- 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 investment portfolio(s) should be appropriate, reasonably priced, well communicated to members, and offer good value for money. Trustees are required to monitor investment portfolios regularly to ensure continued compliance with these principles and rules.

  Investment performance fees will be allowed, but subject to a standard to be issued by the Financial Services Board. Loyalty bonuses may not be paid.

- Default preservation funds – where membership of these funds is compulsory due to conditions of employment (such as pension and provident funds) – will need to change their rules to allow for default preservation, as some of these funds currently do not allow resigning workers to leave their accumulated retirement savings in the specific fund.

  The employee, however, will have the right and option to withdraw, upon request, the accumulated savings or be able to transfer the funds to any other fund. Employees will also be required to first seek retirement benefit counselling before they make a decision on whether to withdraw the funds, transfer them or leave them in the previous employer’s fund.

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

  A life annuity, once chosen or defaulted into, becomes irreversible. To improve management of this irreversibility, it was decided that funds should ask members to indicate beforehand what type of annuity (e.g. life or living annuity) should be paid.

  This required pre-selection by the members makes the purchase of an annuity a “soft default” by having the member “opt-in” instead of “opting-out”. Therefore a member must first indicate which annuity product he or she would prefer.

  The “default” annuity should also be appropriate for members, well communicated and 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.

You will note that in many areas above the PeroSA Retirement Fund is already compliant, however we are working hand in hand with the Fund's consultant to ensure that we comply with all the necessary changes as required by March 2019.

NEW WEB-SITE AND COMMUNICATION UPDATE PLANNED FOR MARCH/APRIL 2018

As mentioned in the previous newsletter, a new web-site is currently being designed for the PetroSA Retirement Fund. The site will no longer be an intranet site, but an **internet site,** so that everyone has access. The existing intranet site is therefore no longer operational.

Furthermore, a set of communication modules for all members of the Fund is currently being drafted. Once finalized, all members of the Fund will receive a copy of the pack via e-mail. These modules have been broken down into similar categories as the new web-site. We hope that this will make a difference in understanding the workings of your Retirement Fund.

YOUR BOARD OF TRUSTEES

Member Elected Trustees	Employer Appointed Trustees
JP Rhode	AA Zokufa
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 3rd 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	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.