PetroSA
RETIREMENT FUND

ISSUE NUMBER:

2/2018

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 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.

Board of Trustees
June 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.

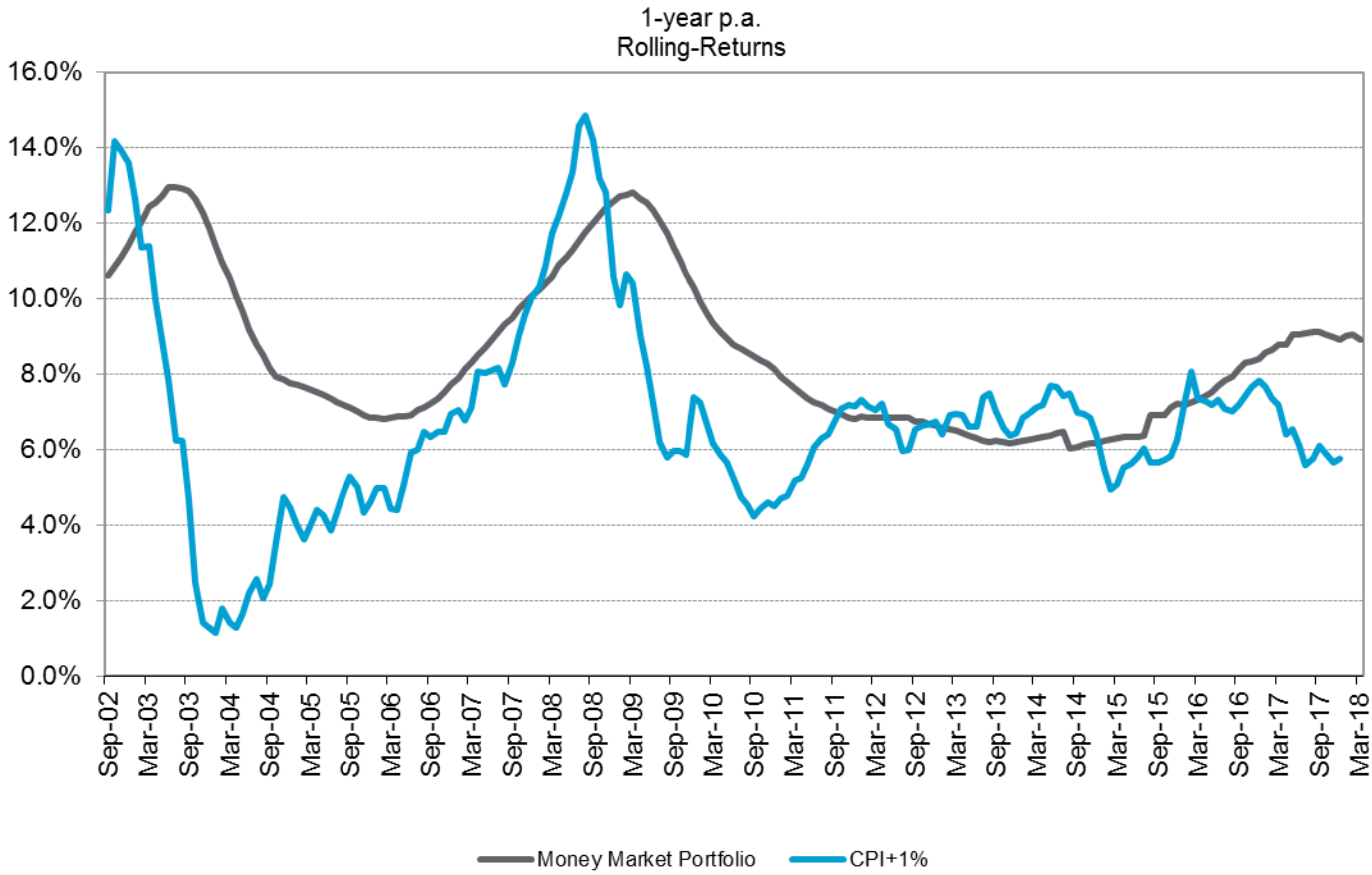
INVESTMENT NEWS

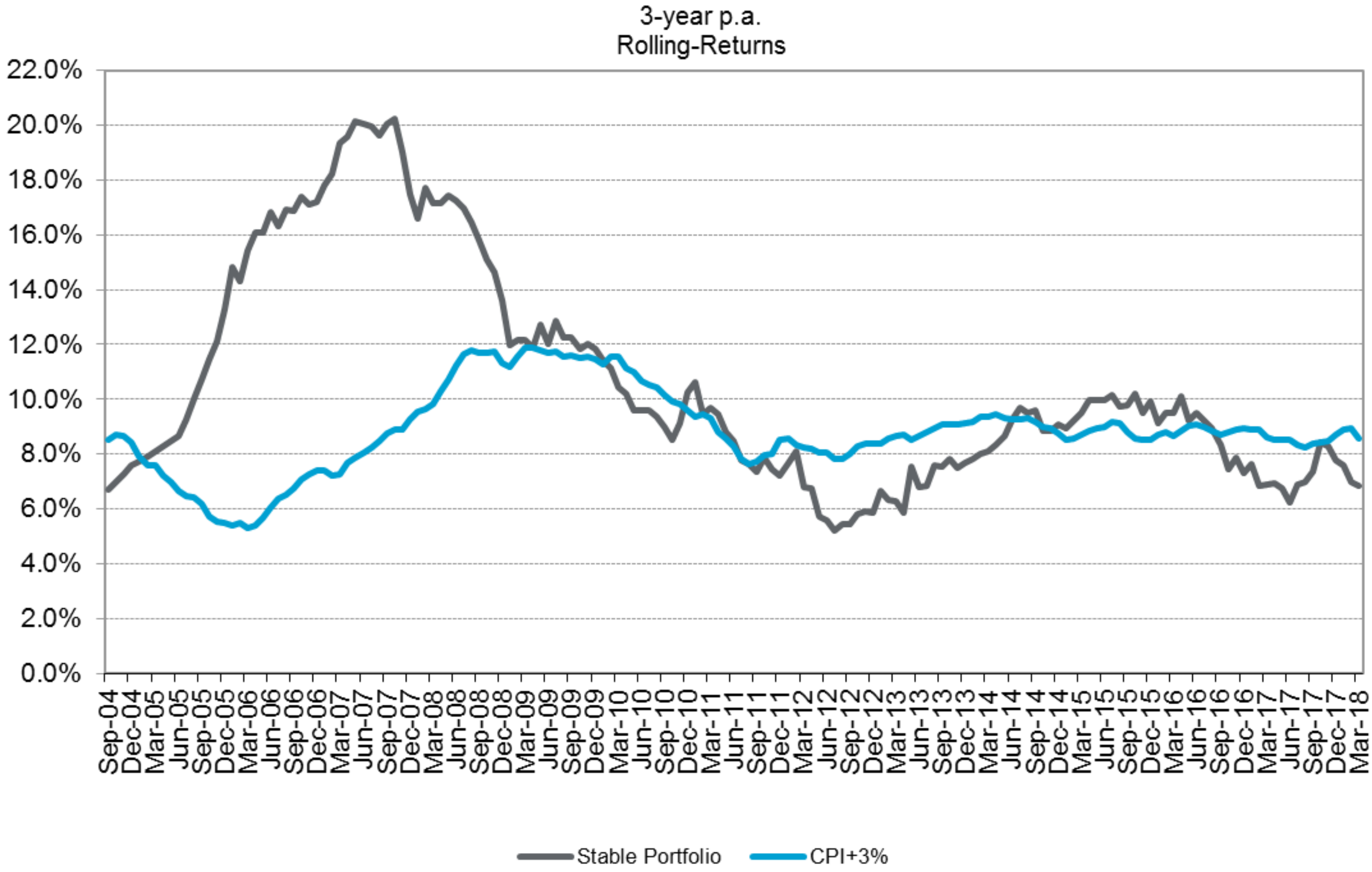
Below are the annualised investment returns for all the portfolios over different measurement periods until 31 March 2018. Please note that the returns are shown after deducting investment manager fees:

Portfolio	Investment Objective	Measurement period	Actual Return p.a.	Target Return p.a.
Market-Linked portfolio	CPI + 5% p.a. net over a rolling 7-year period	7 years	13.4%	10.7%
Stable Portfolio	CPI + 3% p.a. net over a rolling 3-year period	3 years	6.9%	8.5%
Money Market Portfolio	CPI + 1% p.a. net over a rolling 1-year period	1 year	8.9%	4.8%
Shari'ah Portfolio	CPI + 4% p.a. net over a rolling 5-year period	5 years	7.8%	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 March 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 March 2018.




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
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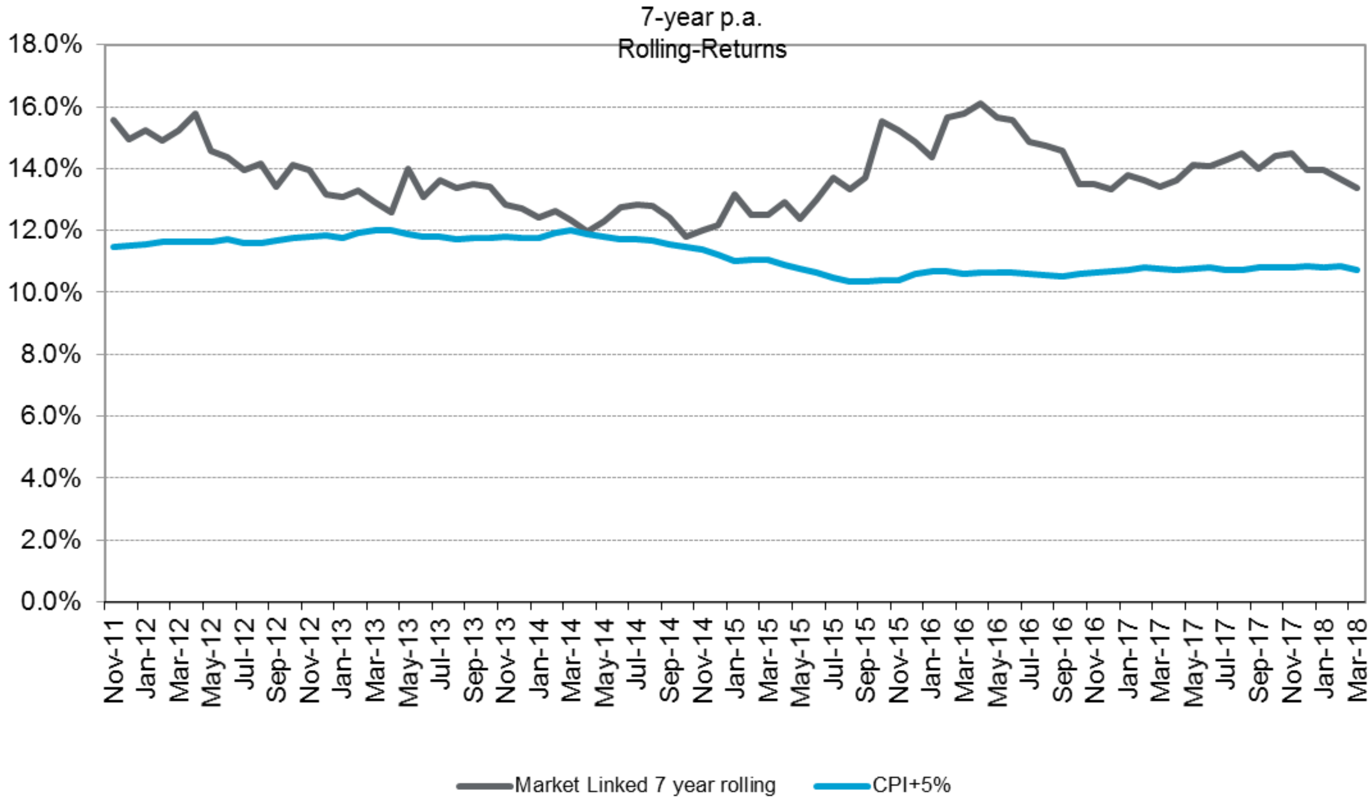
Mar-18
Stable Portfolio
CPI+3%


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
Jan-12
Mar-12
May-12
Jul-12
Sep-12
Nov-12
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Jan-16
Mar-16
May-16
Jul-16
Sep-16
Nov-16
Jan-17
Mar-17
May-17
Jul-17
Sep-17
Nov-17
Jan-18
Mar-18
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 7.9% 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 1.5% 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 (discussed later in this 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 4.7% per annum above inflation. The other sectors that delivered returns significantly above inflation were global shares (10.8% p.a. above inflation – in Rand terms), global bonds (1.5% p.a. above inflation – in Rand terms), and SA listed property (1.8% p.a. above inflation).

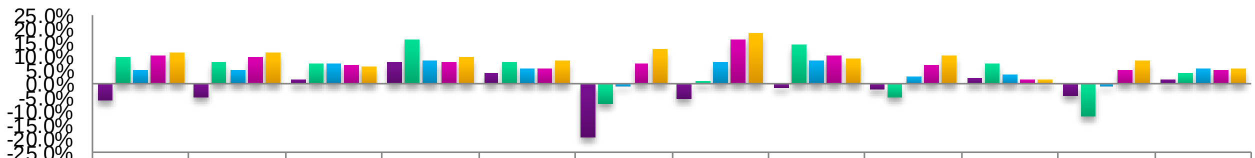
If you need to start living on your retirement benefit within say the next 3 to 7 years, you are likely to be more focused on preserving the capital you have accumulated up to now. Generally speaking, if you are within 3 to 7 years of retirement you should be invested in the Stable Portfolio in the life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

The graph below shows the performance of the various sectors of the market during various measurement periods ended 31 March 2018 (source: INet).

Major Index Returns: up to 7 years

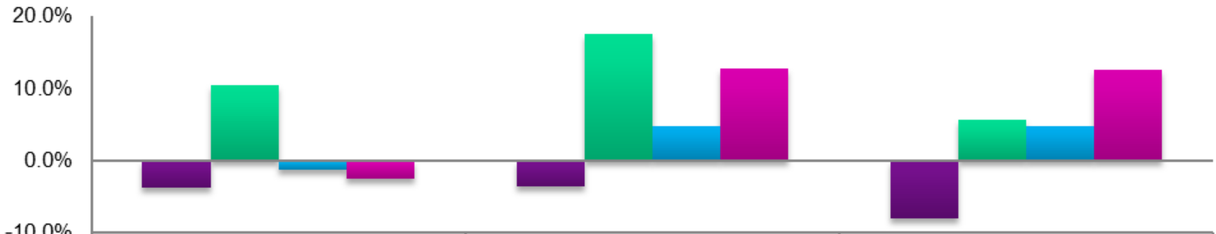


	SA Equity (ALSI)	SA Equity (CAPI)	SA Cash (STEFI)	ALBI	Inflation Linked Bonds	SA Listed Property	MSCI (ZAR)	MSCI (USD)	JPM (ZAR)	JPM (USD)	ZAR/USD	CPI
3 months	-6.0%	-5.1%	1.8%	8.1%	4.0%	-19.6%	-5.4%	-1.2%	-2.2%	2.2%	-4.3%	1.4%
1 year	9.6%	8.0%	7.5%	16.2%	7.8%	-7.1%	0.9%	14.2%	-4.9%	7.6%	-11.6%	3.8%
3 years p.a.	5.1%	4.8%	7.2%	8.6%	5.6%	-0.5%	7.8%	8.6%	2.4%	3.2%	-0.7%	5.4%
5 years p.a.	10.0%	9.9%	6.6%	7.7%	5.3%	7.1%	16.1%	10.3%	6.6%	1.3%	5.2%	5.3%
7 years p.a.	11.4%	11.4%	6.3%	9.4%	8.4%	12.8%	18.4%	9.3%	10.1%	1.6%	8.3%	5.5%

An explanation of the different sectors appears on the next page.

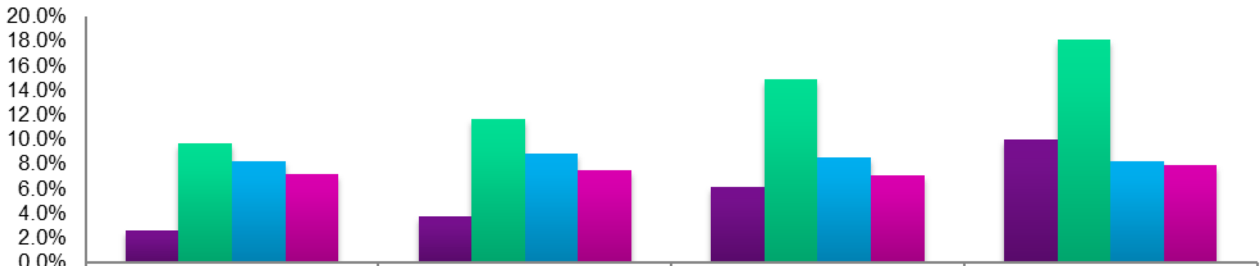
ALSI:	South African equities as measured by the All Share Index
Capped SWIX:	All Share Index with a maximum contribution of 10% for any one share.
SAPY:	South African listed property index.
ALBI:	South African all bond index
SteFI:	South African short term fixed interest investments (cash)
MSCI:	Morgan Stanley Capital Index – equities in developed overseas markets
MSCI EM:	Morgan Stanley Capital Index – equities in developed overseas markets
BarCapAgg:	The Barclays Capital Global Aggregate bond index
CPI:	South African inflation rate
ZAR/USD:	Rand investment in US Dollars (negative numbers show a “strengthening” rand).

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



	Resources	Financial	Industrial
3 months	-3.8%	-3.6%	-8.0%
1 year	10.4%	17.6%	5.7%
3 years p.a.	-1.3%	4.7%	4.8%
5 years p.a.	-2.5%	12.8%	12.5%

The chart below shows the performance of the different sectors of the SA bond index for periods ended 31 March 2018:



	0-3 yrs	3-7 yrs	7-12 yrs	12+ yrs
3 months	2.6%	3.8%	6.2%	10.0%
1 year	9.6%	11.7%	14.9%	18.1%
3 years p.a.	8.2%	8.9%	8.5%	8.2%
5 years p.a.	7.2%	7.5%	7.1%	7.9%

STRATEGIC CHANGES TO THE STABLE PORTFOLIO

Up until 3 August 2017, the Stable Portfolio consisted of a 50%:50% blend of the Prescient Positive Return Fund and the Allan Gray Global Stable Fund.

Due to the underperformance of the Prescient Positive Return Fund the Board of Trustees carried out a review of alternative "absolute return" funds on offer. It was decided to terminate the Prescient Positive Return Fund. The strategic allocation of the Stable Portfolio was changed to 50% Allan Gray Global Stable, 25% Coronation Inflation Plus and 25% Investec Cautious Managed. Each of the three underlying managers follow a different approach to achieving absolute (positive) returns. The expectation is that the portfolio will be more robust against changing market conditions in future.

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 July 2018.

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.

Below is an interesting article regarding ways in which members can potentially achieve an adequate retirement.

10 COMMON INVESTMENT MISTAKES THAT CAN RUIN YOUR RETIREMENT

This article was published in News24 on Apr 22 2018 and has been edited.

Here are the 10 mistakes retirement savers often make, and how to avoid them:

Mistake #1: Saving too little

The main reason most people miss their retirement goal is because they don't save enough. The basics of a successful retirement model is that people should save 15% of their gross salary throughout their working life (an average of 35 years) and invest in a balanced high equity fund that charges low fees.

The PetroSA Retirement Fund allows you to pay as much as 27.5% towards your retirement savings. In August each year members have an opportunity to increase their contributions if they so wish. We encourage members to re-look at what at you are contributing and think carefully about increasing your contribution rate if you are paying too little.

Mistake #2: Paying high fees

Fees matter a lot more than most people imagine. In the context of a 6.5% real return (that is after inflation), every 1% paid in fees reduces the return by more than 15%. If investors are paying 3% in fees the return will be reduced by 45%, which means that more than half of the real annual return is lost to fees.

The asset management fees payable in the PetroSA Retirement Fund are substantially less than 1%.

Mistake #3: The wrong asset mix

Choosing an asset mix that mirrors personal risk tolerance, such as conservative or risk averse, but is not appropriate for the investment time horizon can have an adverse effect on a retirement outcome. It is important to grow your savings at a high rate for most of your savings period, which is why you should be invested in a high equity fund. A lower growth portfolio would be insufficient in the context of a 35-year savings plan, based on a 15% savings rate.

A life-stage solution, where one can automatically be switched to the appropriate portfolio as the time horizon changes, is a simple and effective solution.

The PetroSA Retirement Fund has a Life Stage Model that does just this. However, for members not in the Life Stage Model it is worth reviewing whether or not you are in the correct investment portfolio.

Note: In July we will be holding member feedback sessions which includes a section on Investment education. We encourage all members to attend these sessions.

Mistake #4: Investing in an underperforming fund

When it comes to retirement investing, it is more important to eliminate the downside risk and reach the minimum savings goal than to entertain upside risk in the hope of overshooting the savings goal. No one should be gambling with something as important as their retirement savings.

The PetroSA Retirement Fund's investment performance over the long-term has been outperforming its target.

Mistake #5: Emotional switching

Chopping and changing investment Portfolios, especially during periods of market turbulence, often leads to buying high and selling low. Investors should rather stick to their plan and avoid the temptation to switch or try to time the market.

The PetroSA Retirement Fund encourages members to take an appropriate long-term view.

Mistake #6: Inadequate diversification

If you are over-invested in one asset class, you assume concentration risk, the risk that one investment will have a disproportionate impact on your savings outcome. As a retirement investor, you cannot afford the downside risk as it may ruin your pension. Savers should invest in various asset classes (equities, bonds, property and cash), each providing exposure to many different underlying securities, held across different currencies (local and international).

The PetroSA Retirement Fund does just this – it invests in various asset classes and diversifies across asset managers and geographies.

Mistake #7: Saving outside retirement funds

Tax-free deductions and investment returns can potentially increase the value of your retirement savings by up to 30%. And you score again because your retirement income is almost always taxed at a lower average rate than the marginal tax you saved on your contributions.

Mistake #8: Starting to save too late

Few people in their 20s worry about retirement but, ideally, we should start saving towards retirement from our first pay cheque. We should keep it up throughout our working life (around 35 years on average). It is important to remember that contributions are only one source of your future retirement income. The other is the net investment return you earn on your contributions. The sooner you start contributing to your retirement fund, the longer your money has to grow.

Members start contributing to the PetroSA Retirement Fund as soon as they join the employ of PetroSA.

Mistake #9: Cashing in savings on changing jobs

Not preserving what has already been saved is a very common mistake in South Africa: up to 80% of fund members have at some point cashed out their savings when they changed jobs. Not preserving is like starting late: people lose not just the accumulated savings, but the return on those savings for the remainder of the savings term. The foregone return becomes a big number when a fund is cashed in 30 years ahead of time.

The PetroSA Retirement Fund offers members a choice of preserving their benefit should they resign.

Mistake #10: Underestimating how much money is required

Using a quality retirement calculator (based on accurate inputs and assumptions) provides a good sense of where savers stand relative to their goal, and what they could do to improve their savings outcome. When it comes to retirement planning, various factors are beyond your control, such as the macroeconomic environment and stock market performance, which makes it even more important to understand and control the many factors that you can.

The PetroSA Retirement Fund has a retirement calculator in place via the Alexander Forbes web-site.

FLEXIBLE MEMBER CONTRIBUTIONS

As a member of the PetroSA Retirement Fund, you may structure your package and contribution category as you wish. Depending on your selected contribution category, PetroSA will contribute (expressed as a percentage of your pensionable salary) to the Retirement Fund according to the following table. Also shown on this table is the number of members of this Fund that are contributing to each category.

CATEGORY OF EMPLOYMENT	%	NUMBER OF MEMBERS IN EACH CATEGORY	% OF TOTAL MEMBERSHIP *
A	7.5	435	34%
B	10.0	164	13%
C	12.5	289	23%
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%

**These numbers have been rounded off.*

The contributions that are made are tax- deductible. As can be seen above, the majority of members are contributing at the lower contribution rates (70% of the total membership).

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.

You can restructure your package yearly (on the annual salary review date). If you don't exercise a choice by around 10 August yearly (the actual date is confirmed and advised to you in advance) you will be kept in your current contribution category (if you never make a choice you are defaulted into Category C).

Note: You have an opportunity coming up soon to increase your contributions. We encourage you to think about the potential risk you may face over the long term should you not increase your contribution rate.

NEW DIRECTIVE ON GIFT POLICIES FOR RETIREMENT FUNDS

A Directive on the prohibition on the acceptance of gratifications was issued on 8 March 2018 and became effective on the same date.

The most important new provision contained in the Directive is that the Registrar of Pension Funds has "directed that the following types of gratification are automatically not permitted to be accepted, agreed or offered to be accepted by a board member, principal officer, deputy principal officer, employee of a retirement fund, valuator, auditor, administrator, employee of an administrator or other officer or service provider to a fund, from any other person connected in whatsoever manner to a service provider of a fund, or from any potential future service providers, in which such principal officer, deputy principal officer, employee of a retirement fund, valuator, auditor, administrator, employee of an administrator or other officer or service provider to a fund or other officer serves:

1. any gratification which objectively viewed, creates a conflict of interest with their fiduciary duty towards the fund;
2. token gift/s that exceed/s the annual limit set by the board in terms of the fund's gift policy, which annual limit shall not be more than R500.00 per annum in aggregate from any one service provider;
3. any gratification relating to local or international due diligences including, but not limited to, subsistence, travel or accommodation;
4. any gratification relating to local or international entertainment or sporting events including, but not limited to, subsistence, travel or accommodation; and
5. conferencing costs or board of fund expenses."

The Board of Trustees is reviewing its Code of Conduct to ensure that it is aligned with this Directive and in this way ensuring full compliance.

NEW WEB-SITE AND COMMUNICATION UPDATE PLANNED FOR JUNE 2018

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 going to be: http://petrosaretirementfund.co.za/. and this will go live very soon.

YOUR BOARD OF TRUSTEES

Member Elected Trustees	**Employer Appointed Trustees**
JP Rhode	W Fanadzo
A Futter	A Zokufa
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.

Member trustee elections are currently underway. As soon as the final results are known, we will inform everyone thereof.

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.