



**PetroSA**

# **Retirement Fund**

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

# **NEWSLETTER**

**ISSUE NUMBER: 4/2018**

**November 2018**

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

Dear members

Welcome to your final newsletter for 2018. 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
- General items.

### **INSIDE THIS ISSUE**



We trust you will enjoy the read.

As this is our last newsletter for the year, we would like to take this opportunity to wish all our members and pensioners a prosperous and healthy 2019.

Board of Trustees  
November 2018

- MTN and Tiger Brands investment update
- Default investments
- Retirement Workshops
- Investment news
- Annexure 1: GENERAL INFORMATION\*\*
  - ✓ About the Fund (including Fund costs)
  - ✓ Contributions & Benefits
  - ✓ General information on investments
  - ✓ Other General information

\*\* This is a brand new section we have put in place. This section will now be a standard on-going feature that will appear in every newsletter going forward. This for ease of reference for members of the Fund.

#### **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.

## COMMENT ON TIGER BRANDS AND MTN GROUP

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Members may be aware of the decline in the share prices of Tiger Brands Limited and MTN Group Limited during this year. The Fund's portfolios have some exposure to Tiger Brands Limited and MTN Group Limited. The driver of the share price decline for Tiger Brands Limited relates to the outbreak of Listeriosis earlier this year, and the likely financial impact that this will have on company profits.

The driver of the share price decline for MTN Group Limited relates to news flow from Nigeria; namely a letter from the Central Bank of Nigeria (CBN) regarding the remittance of dividends between 2007 and 2015 which the CBN claims needs to be refunded, and a letter from the Attorney General in Nigeria giving notice to MTN Nigeria of their intention to recover approximately USD 2 billion in taxes (MTN Nigeria's assessment of the amount is USD 700 million and they believe that the amount owed has been settled).

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 exposure to Tiger Brands was 0.39% of total assets and to MTN was 1.33% of total assets at 30 June 2018. In light of such limited exposure, any potential loss that may be caused from the share price decline 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 Tiger Brands and MTN, to understand their investment case for each company. 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 any single company.

## FOR YOU TO CONSIDER - DEFAULT INVESTMENTS

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Just a reminder that if you do NOT make an investment choice, you will be invested as follows:

- **If you are in service** – Life Stage Model – this transitions you from the most aggressive portfolio to the least aggressive portfolio during the 10 years prior to your normal retirement date (age 65).
- **If you leave employment but choose to leave your benefits in the fund** – you will remain invested in the same portfolio in which you were while in employment. Importantly if you were invested in the Life Stage model, you will continue to be invested in this way and be transitioned into a less aggressive portfolio during the 10 years prior to your normal retirement date.
- **Note: If you are thinking of taking a living annuity at retirement, the Lifestage model transitions into a less aggressive portfolio may not be appropriate for your needs and you should consider whether the Life Stage model is the right one for your needs.**
- **If you are a living annuitant**, you will be invested in the Stable portfolio.

## FOR YOU TO ATTEND - RETIREMENT PLANNING WORKSHOPS

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The Fund will in future be holding pre-retirement workshops at various venues twice a year. At the workshops, the different pension options available at retirement and the pros and cons of each option were discussed in detail.

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.

# INVESTMENT NEWS

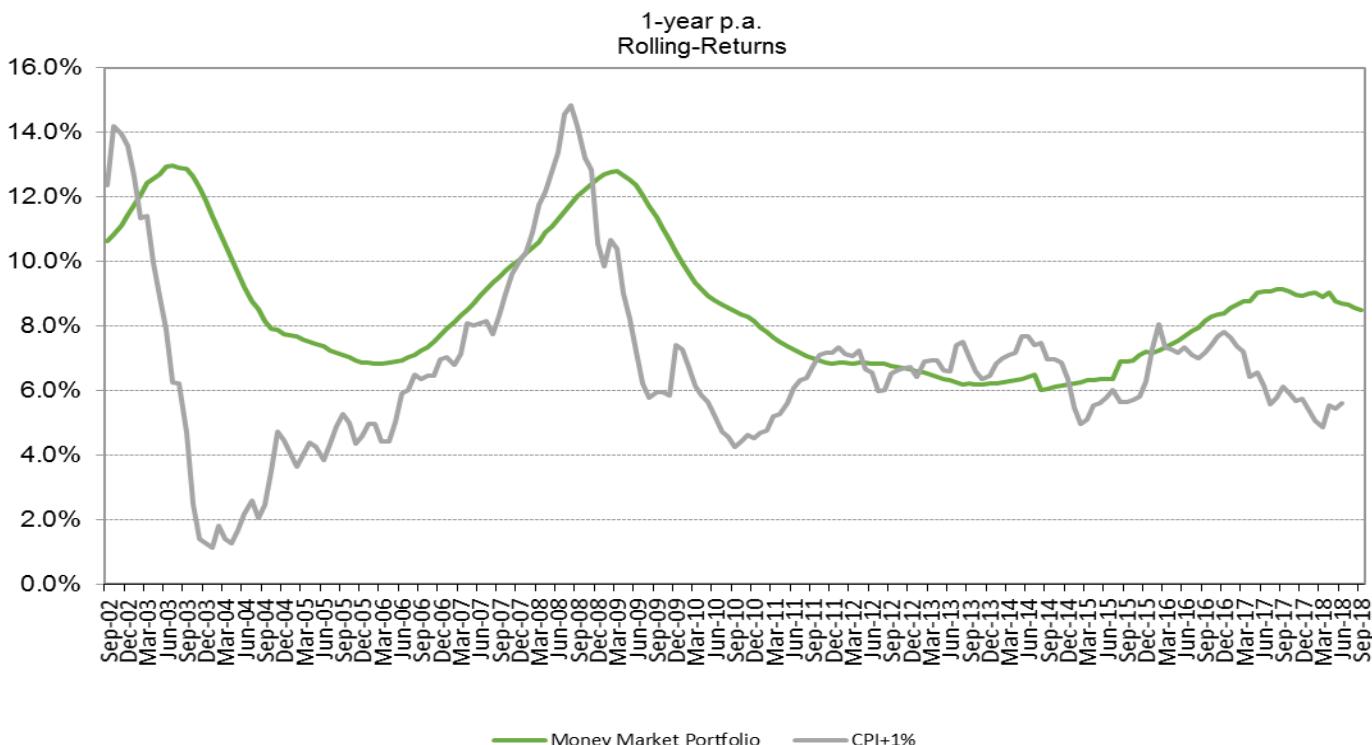
Below are the annualized investment returns for all the portfolios over different measurement periods until 30 September 2018. Please note that the returns are shown after deducting investment manager fees:

Portfolio	Investment Objective	Measurement period	Actual Return p.a.	Target Return p.a.
<b>Market-Linked portfolio</b>	CPI + 5% p.a. net over a rolling 7-year period	7 years	13.7%	10.7%
<b>Stable Portfolio</b>	CPI + 3% p.a. net over a rolling 3-year period	3 years	8.2%	8.5%
<b>Money Market Portfolio</b>	CPI + 1% p.a. net over a rolling 1-year period	1 year	8.5%	6.0%
<b>Shari'ah Portfolio</b>	CPI + 4% p.a. net over a rolling 5-year period	5 years	8.8%	9.6%

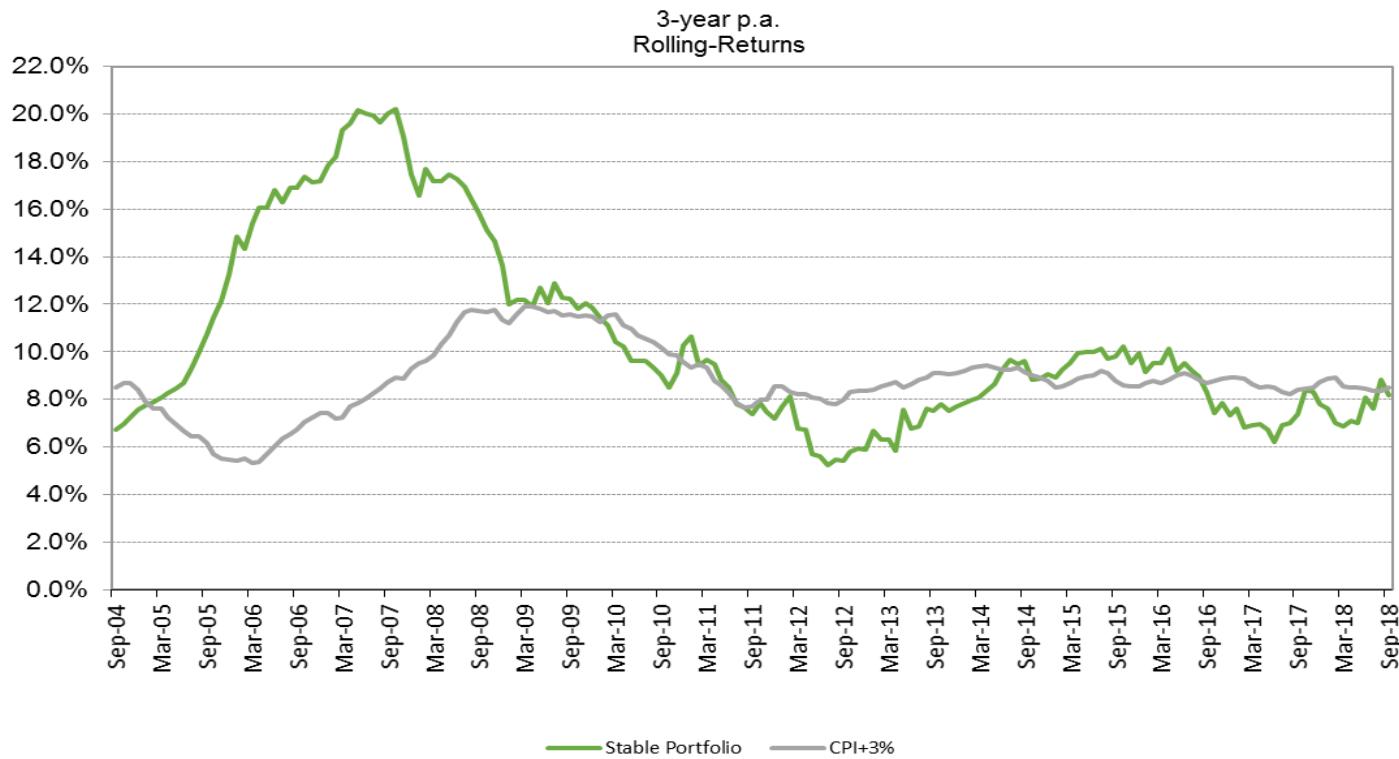
## MONITORING OF LONGER TERM PERFORMANCE OF THE PORTFOLIOS

To give you an indication of how the Market-linked, Stable and Money Market portfolios compare to each other at 30 September 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 September 2018.

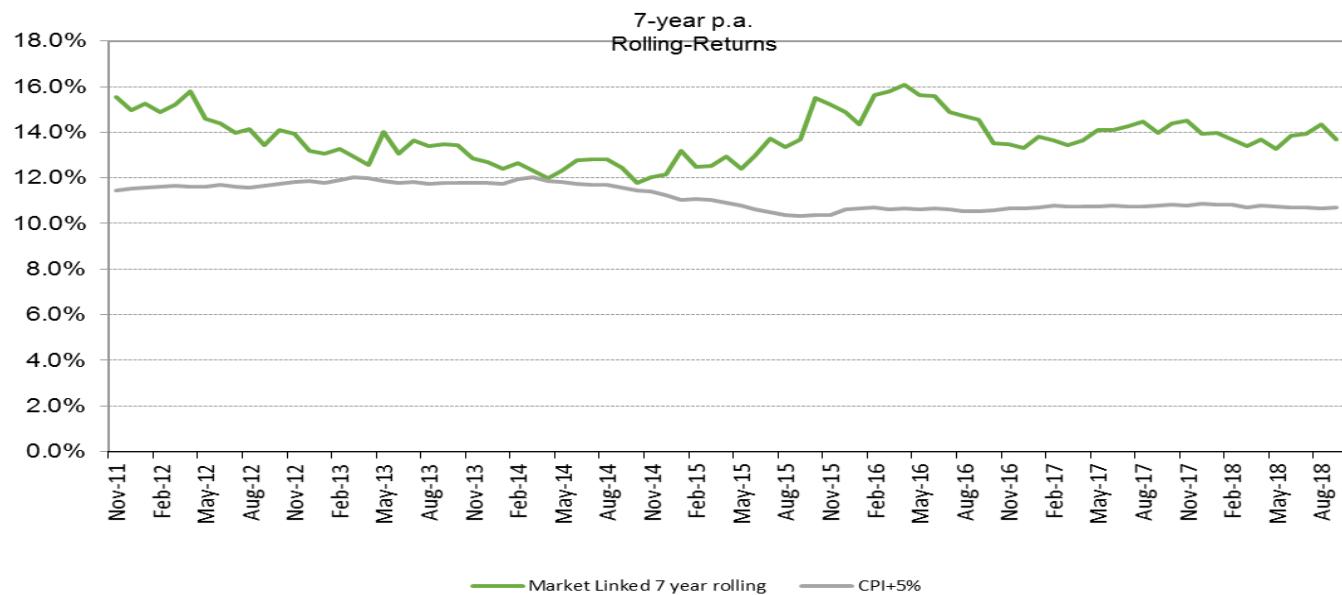
The **Money Market portfolio** has delivered some 3.6% per annum above inflation for the last year, which is well in excess of the investment objective of 1% per annum above inflation. This is illustrated below:



The **Stable portfolio** has delivered some 2.8% per annum above inflation for the last three years, which is short of the investment objective of 3% per annum above inflation, due to the performance of the Prescient Positive Return Fund (which was terminated in the third quarter of 2017). This is illustrated below:

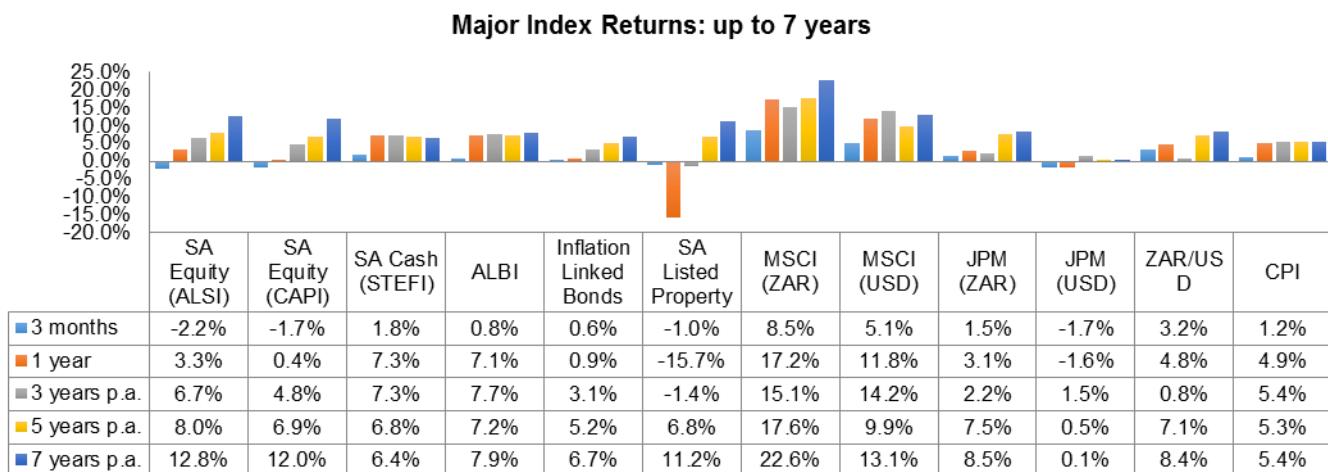


The **Market-linked portfolio** (which is the portfolio for the wealth-building stage of the life stage model) has delivered an exceptional 8.3% per annum above inflation over the last seven years, compared with the long-term investment objective of 5% above inflation. This is illustrated below. Such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



## MARKET COMMENTARY

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



An explanation of the different sectors appears below:

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

Local markets experienced a volatile quarter underpinned by a challenging global backdrop and poor local economic data releases. A second consecutive quarterly contraction in economic growth (as measured by GDP) has placed the South African economy in a recession. Persistent uncertainty and risk pertaining to key issues of land reform, the economy's large twin deficits and the financial position of state-owned enterprises dominated the local narrative over the quarter.

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 2.7% per annum above inflation. The other sectors that delivered returns significantly above inflation were global shares (12.3% p.a. above inflation – in Rand terms), global bonds (2.2% p.a. above inflation – in Rand terms), and SA bonds (1.9% p.a. above inflation).

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

# ANNEXURE 1: GENERAL INFORMATION

The information contained below are standard items that will appear in every newsletter going forward.

- About the Petro SA Retirement Fund
- Contributions and Fund benefits
- Investments
- Other general information

## ABOUT THE PETROSA RETIREMENT FUND

- **Established** on 1 February 1996.
- Membership of the Fund is **compulsory** for all employees

### MISSION AND VALUES

- **Honesty** – the Fund will always act towards its members in a transparent and honest manner
- **Empowerment** – the Fund has a focus on providing members with education which aims to empower members to understand their benefits and make the right decisions
- **Innovation** – the Fund aims to be at the forefront of developments in the retirement fund industry

### GOVERNANCE

The Fund is separate from the Employer and is managed by the Board of Trustees.

The Board of Trustees =

- 4 individuals elected by members of the Fund + 4 individuals appointed by the Employer
- Term of 3 years
- Meets at least 4 times a year
- Responsibilities are to run the Fund in the **best interest of the members** and manage the Fund in terms of the **Rules and applicable laws**
- The Rules of the Fund can be obtained from the Principal Officer on request – details below

Your Board of Trustees are:

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

### COMMUNICATION

More information is provided via the following:

- **Fund Website** for all Fund information: [www.petrosaretirementfund.co.za](http://www.petrosaretirementfund.co.za)
- **Newsletters** will be issued quarterly
- **Presentations and workshops** are held regularly. Please attend these to learn more!
- **Benefit statements** showing your benefits will be issued annually towards the end of March
- **Projection statements** showing the expected pension that your retirement savings are likely to provide will be issued annually with your benefit statements towards the end of March
- **Alexander Forbes Online facility** where you can check your own information on a real time basis and access various tools and calculators: [www.alexanderforbes.co.za](http://www.alexanderforbes.co.za)
- **Fund Rules** can be obtained from the principal officer (details below) or from the Fund website.

## QUESTIONS OR QUERIES- PLEASE CONTACT:

The Principal Officer: Reinhard Buhr  
Address: 151 Frans Conradie Drive, Parow, 7500, Cape Town  
Telephone: (021) 929 3133  
E-Mail: reinhard.buhr@petrosa.co.za

## CHANGE IN ADDRESS OR PERSONAL DETAILS

Please notify the Human Capital department in writing.

Cape Town (and Tzaneen, Bloemfontein and SFF):

Reinhard Buhr  
(021) 929 3133  
[reinhard.buhr@petrosa.co.za](mailto:reinhard.buhr@petrosa.co.za)

Mossel Bay (and offshore and Voorbaai):

Dorothy Cedras  
(044) 601 2540  
[dorothy.cedras@petrosa.co.za](mailto:dorothy.cedras@petrosa.co.za)

## COSTS

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

- Active members – Fund costs are funded from a deduction from the contribution rate – 0.35% of pensionable salary (This includes an allowance for administration cost of R51.99 pppm (per member per month) plus VAT)
- Deferred members – Administration costs of R35.66 pppm plus VAT deducted from deferred pension account
- Deferred pensioners – Administration costs of R51.99 pppm plus VAT deducted from member individual account
- Living annuitants – Initial fee = R950.91 plus VAT. Administration costs of R 95.09 pppm plus VAT deducted from living annuity balance.

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

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

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

# YOUR CONTRIBUTIONS AND FUND BENEFITS

## CONTRIBUTIONS

You need to decide how much you want to contribute to the Fund (as a percentage of your pensionable salary which is typically 80% of your total guaranteed package) from the following categories:

7.5%; 10%	<b>WARNING:</b> Consistent choice of these two categories will result in inadequate retirement savings. If you are contributing at this level, you will need to catch up and contribute more later to be able to save enough for a comfortable retirement.
12.5%	Automatic - if you do not make a choice
15%; 17.5%; 20%; 22.5%; 25%; 27.5%	As a general rule of thumb, a 15% contribution over 35 years of service will provide a reasonable retirement benefit.

- You can change the contribution every year on the salary review date (August)
- The contributions are tax deductible (subject to certain limits)

Go to the retirement fund calculator on the **Alexander Forbes online facility** ([www.alexanderforbes.co.za](http://www.alexanderforbes.co.za)) to check the impact that your contribution rate choice has on your expected retirement benefit.

## RESIGNATION, RETRENCHMENT and DISMISSAL BENEFITS

<b>When?</b>	When you leave employment, are retrenched or dismissed
<b>What?</b>	Your member individual account
<b>How?</b>	<p>You can leave the <b>full benefit in the Fund</b> (become a deferred member) and transfer it or retire from the fund later (This option is not available on certain dismissals)</p> <p>OR</p> <p>You can <b>transfer the full benefit</b> to another Fund</p> <p>OR</p> <p>You can take the <b>full benefit in cash</b> as a lump sum (though this will be subject to tax, will materially affect the ability for you to reach a financially comfortable retirement and is in general not advised)</p> <p>OR</p> <p>You can choose a <b>combination of cash and transfer</b></p>
<i>* Please note that though the benefit paid from the fund on resignation and retrenchment is the same, this benefit is taxed differently</i>	

## 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.	

Further and more detailed information will be provided to you on exit.

## DEATH BENEFITS

<b>When?</b>	When you die while being a member of the Fund (active member or deferred member or pensioner)
<b>What?</b>	Your member individual account
<b>How?</b>	The Trustees will allocate your death benefits in line with Section 37 C of the Pension Funds Act (but may be guided by your beneficiary nomination form)

## RETIREMENT BENEFITS

**When you retire from service, you can choose to remain a deferred pensioner in the Fund** i.e. stay invested in the Fund **until you choose** to retire from the Fund. (Should you die prior to retiring from the Fund, your benefit will be allocated in terms of Section 37 C of the Pension Funds Act). **OR you can choose to immediately retire from the Fund.**

**The retirement benefit payable when you choose to retire from the Fund is as follows:**

<b>When?</b>	When you choose to retire from the Fund (which can be after retirement from employment) Normal retirement age is 65 years (unless you have different conditions of service) Early retirement is permitted from the age of 55.
<b>What?</b>	Your member individual account
<b>How?</b>	You can take the <b>full benefit in cash</b> as a lump sum (though this will be subject to tax) OR You can use the <b>full benefit to buy a pension</b> from an insurer or from the Fund (the pension payments will be subject to tax) OR You can take <b>some of the benefit in cash</b> and use the rest to buy a pension from an insurer or the Fund

The pension offered by the Fund is called a **living annuity**, which functions like a bank account where you decide where the money is invested (within certain limits); and how much pension you take (within certain limits).

Further and more detailed information will be provided to you on retirement.

## 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

**NOTE: The following benefits are not paid by the Fund but are provided for by a separate insurance policies. For the sake of completeness we have listed them in this guide. For more details on these benefits please go to the website at [www.petrosareirementfund.co.za](http://www.petrosareirementfund.co.za)**

- Funeral benefits
- Benefits should you be regarded as disabled

- Spouses cover
- Personal accident benefits

# GENERAL INFORMATION ON INVESTMENTS

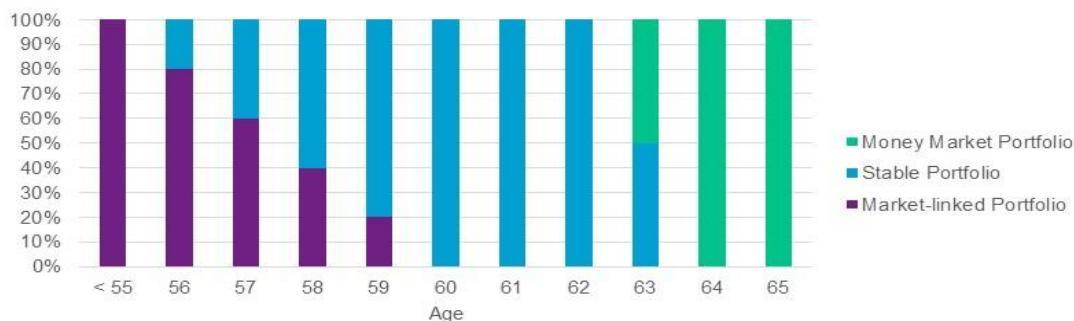
## INVESTMENTS

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

Portfolio name	Target return and comment	Asset allocation
<b>Market Linked Portfolio</b>	Target return <b>CPI + 5%</b> per annum over a rolling 7 year period  Highest potential return; highest volatility; highest chance of negative returns over short periods  Most appropriate for long term investing (>10 years)	<b>51% SA equities</b> (managed by Allan Gray, Coronation and Abax) <b>24% SA bonds</b> (managed by Investec and Coronation) <b>25% offshore</b> (various managers across bonds (15%); equity (70%) and listed property (15%))
<b>Stable Portfolio</b>	Target return of <b>CPI + 3%</b> per annum over a rolling 3 year period  Lower volatility than the Market Linked portfolio	Managed by Allan Gray, Coronation and Investec  Asset allocation determined by the manager
<b>Money Market Portfolio</b>	Target Return of <b>CPI + 1%</b> per annum  Least appropriate for long term investing  Most chance of capital preservation	Managed by Investec
<b>Shari'ah Portfolio</b>	Target returns of <b>CPI + 4%</b> per annum over a rolling 5 year period  Adheres to Shari'ah principles of the ban of interest and the ban on investment in certain sectors – eg conventional financial, alcohol and tobacco; non-halal food production; some entertainment (eg casinos) and arms manufacturing.	Managed by 27Four  Asset allocation determined by the manager

You can change the investment choice at any time (costs of changing are shown on page 6).

If you do not make this choice or want the Trustees to choose the investment portfolio for you, your contributions will be invested according to the **LIFE STAGE MODEL** (which is the default for in-service members). The Life Stage Model transitions you from the most aggressive portfolio (the Market Linked) to the least aggressive portfolio (the Money Market) in the 10 years prior to retirement as follows:



If you like this model, you can also choose to be invested in it by selecting this option on the option form.

If you make no investment choice when you become a deferred member, you will remain invested in the portfolio in which you were invested in prior to becoming deferred – if this is the Lifestage model you will continue to be transitioned as usual.

If you make no investment choice on becoming a living annuitant, you will be invested in the Stable portfolio.

## **. OTHER GENERAL INFORMATION**

### **COMPLETION OF CLAIM FORMS ON LEAVING THE FUND**

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

### **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.