



PetroSA Retirement Fund

www.petrosaretirementfund.co.za

NEWSLETTER

**ISSUE NUMBER: 4/2019
NOVEMBER 2019**

ALL ABOUT YOUR FUND AND WHAT IT DOES FOR YOU

Dear members

Welcome to your last newsletter for 2019. 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.

Board of Trustees
November 2019

- **Member contributions allocated towards retirement saving – what really goes into your account?**
- **Competitive analysis of investment manager fees and costs**
- **Beneficiary nominations forms**
- **Planning for Retirement workshops - 2020**
- **Investment news**
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 - ✓ **About the Fund (including Fund costs)**
 - ✓ **Contributions & Benefits**
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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.

MEMBER CONTRIBUTIONS – WHAT REALLY GOES INTO YOUR MEMBER INDIVIDUAL ACCOUNT?

As you know, you have the option of contributing to the Fund at various levels as indicated in the table below. However, not all of this amount is invested in your behalf. Some of this contribution rate is allocated towards meeting the running expenses of the Fund such as administration, consulting services, audit services etc. The allocation towards Fund expenses is 0.35% of pensionable salary.

The table below shows the available contribution rates; the deduction for Fund expenses and the exact contribution allocation which is allocated to your Member Individual Account on a monthly basis.

CATEGORY OF EMPLOYMENT	% CONTRIBUTION	CONTRIBUTION TOWARDS EXPENSES	FINAL CONTRIBUTION RATE ALLOCATED TOWARD YOUR MEMBER INDIVIDUAL ACCOUNT
A	7.5%	0.35%	7.15%
B	10.0%	0.35%	9.65%
C	12.5%	0.35%	12.15%
D	15.0%	0.35%	14.65%
E	17.5%	0.35%	17.15%
F	20.0%	0.35%	19.65%
G	22.5%	0.35%	22.15%
H	25.0%	0.35%	24.65%
I	27.5%	0.35%	27.15%

Below is an example of how the amounts are calculated and allocated:

Example	
Member's pensionable salary =	R20 000 per month
Member's chosen contribution rate=	12.5% = R2500
Allocation towards fund expenses =	0.35% = R70
Contribution rate allocated towards the Member Individual account =	12.15% = R2 430

COST REVIEW

A review was done regarding the competitiveness of the expense allocation of 0.35% during October 2019 and are pleased to inform you that out of 20 funds reviewed the PetroSA Retirement Fund expense allocation was the third lowest. Most funds have an expense allocation of between 0.4% and 0.5% of pensionable salary.

In addition to the fund expenses as above, the investment management costs were also reviewed. The fees payable on each portfolio (for the 12 month period ending 31 January 2019 – the fund's year-end) were compared to those which would be payable for a similar portfolio offered by a multi-manager. The results are shown in the table below.

Portfolio	Estimated PetroSA manager charges	Multi-manager portfolio charges
Market-linked portfolio	0.58%	0.85%
Stable Portfolio	0.59%	0.78%
Money Market Portfolio	0.10%	0.27%
Shari'ah Portfolio	0.96%	1.00%

As can be seen from the above, the Fund's investment charges are very competitive relative to a multi-manager portfolio.

BENEFICIARY NOMINATION FORMS – ENSURE YOUR NOMINATED DEPENDENTS AND BENEFICIARIES ARE UPDATED WITH YOUR FUND

Although, this is a topic we put in all our newsletters, it is important that we remind our members of this very important information. All members of the PetroSA Retirement Fund, are required to complete a dependant and beneficiary nomination form.

Why is it so important to complete a nomination form?

According to Section 37C of the Pension Funds Act, Trustees are required to decide how your benefits are distributed amongst your dependents and nominees by considering their financial dependency on the member as well as other relevant considerations.

This nomination form serves as an expression of your wishes and is a very important guideline to the Trustees in case of your death. It is the duty of the Trustees to trace your dependants and nominated beneficiaries as well as to investigate their circumstances to make impartial and fair decisions regarding the distribution of your death benefit.

Make sure that you provide the correct contact details

The death benefit will only be paid to your beneficiaries once all these investigations are completed. It is therefore crucial that you update your nomination form when and if your circumstances and wishes change.

Who can you nominate as your dependants?

- Your spouse
- Child of any age
- Anyone dependent on you for financial assistance or whom you have assisted financially in some way or another (Life-partners, nieces and grandparents etc.)

Have you informed your dependants?

In the event of your death, your dependants may need financial assistance and so the Trustees would want to pay your death benefits as soon as possible. Please make sure that your nominated beneficiaries have access to the necessary information to assist with the processing of your death benefit claim. They will need to:

- Contact your Employer
- Provide your Employer with details of those who were financially dependent on you
- Supply the required documents as advised by your Employer
- Stay in contact with your Employer to ensure that should additional information be required the Employer can get in touch with them.

Make it easy....

It is recommended that you arrange with one of your family members to be the main contact and to provide contact details to your Employer in the event of your death. Also ensure that this person is aware of who is financially dependent on you.

Forms are available from the PetroSA Human Capital Department and the Retirement Fund Web-site.

PLANNING FOR RETIREMENT WORKSHOPS

A repeat of these workshops, which were held in July 2019, will take place again towards the end of January 2020. You will be notified within the next few weeks regarding the final dates and venues

Choosing the right pension is not an easy decision to make. 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

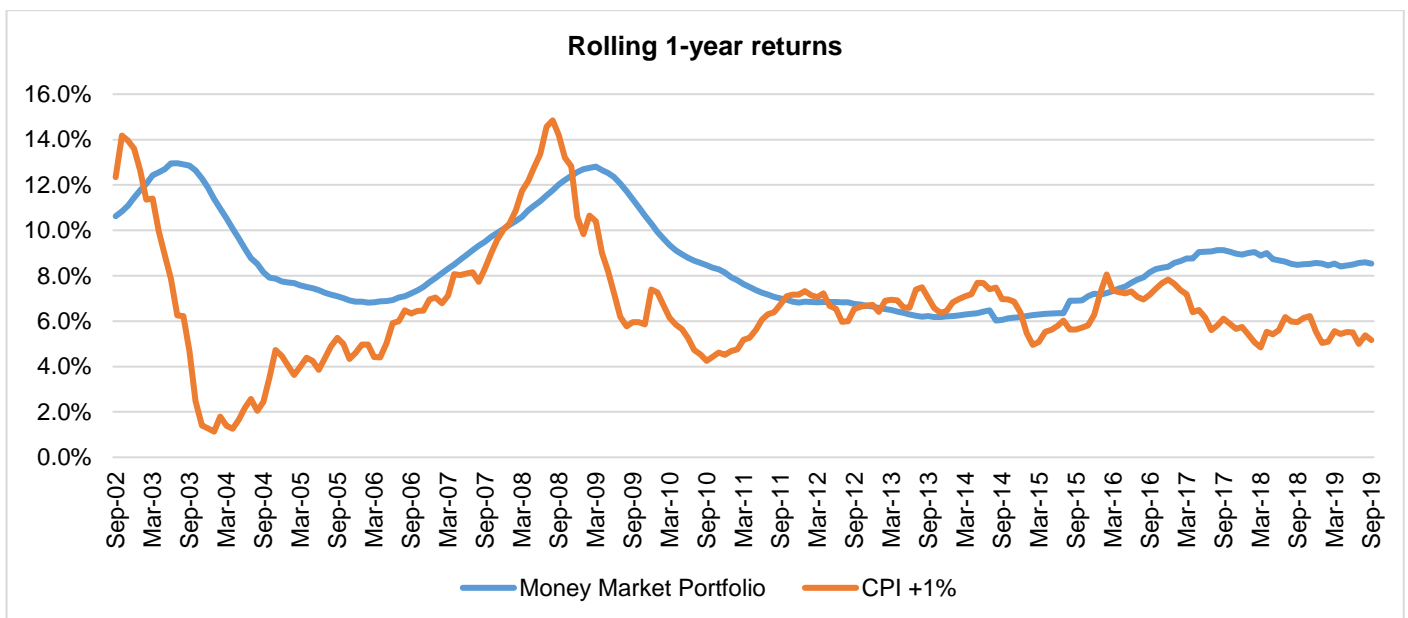
Below are the annualized investment returns for all the portfolios over different measurement periods until 30 September 2019. Please note that the returns are shown after deducting investment manager fees:

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	11.5%	10.5%
Stable Portfolio	CPI + 3% p.a. net over a rolling 3-year period	3 years	6.4%	7.8%
Money Market Portfolio	CPI + 1% p.a. net over a rolling 1-year period	1 year	8.5%	5.2%
Shari'ah Portfolio	CPI + 4% p.a. net over a rolling 5-year period	5 years	4.6%	9.1%

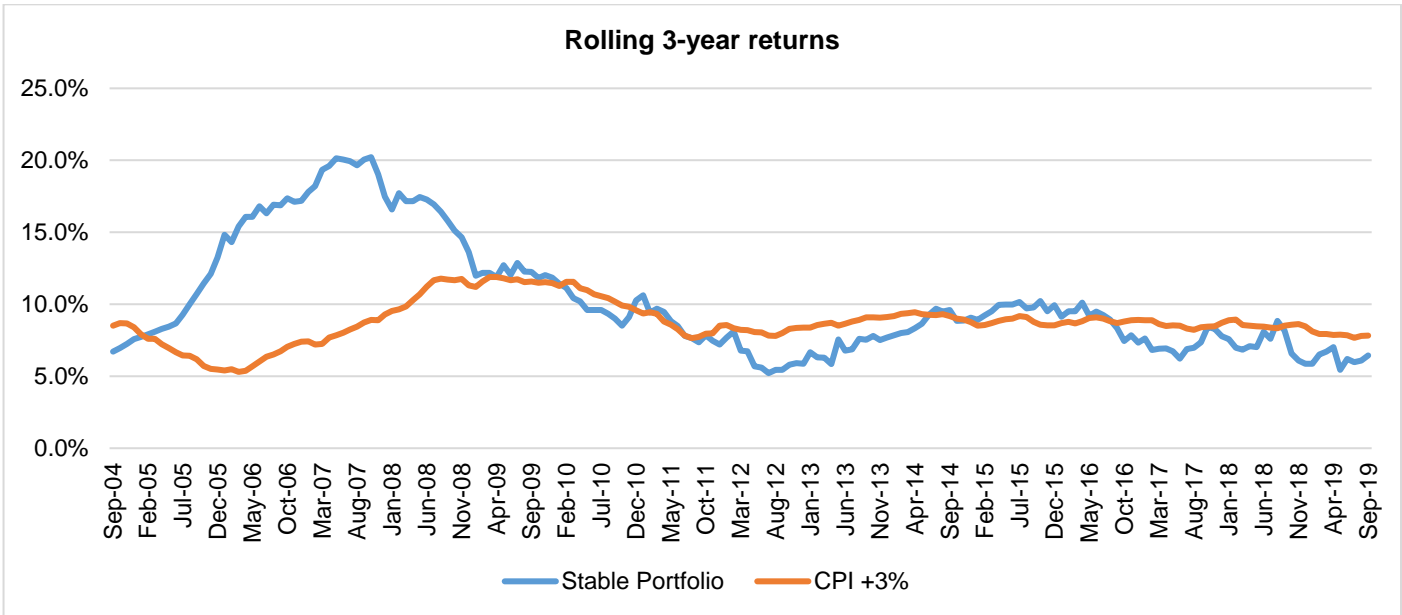
MONITORING OF LONGER TERM PERFORMANCE OF THE PORTFOLIOS

To give you an indication of how the Market-linked, Stable and Money Market portfolios compare to each other at 30 September 2019, 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 2019.

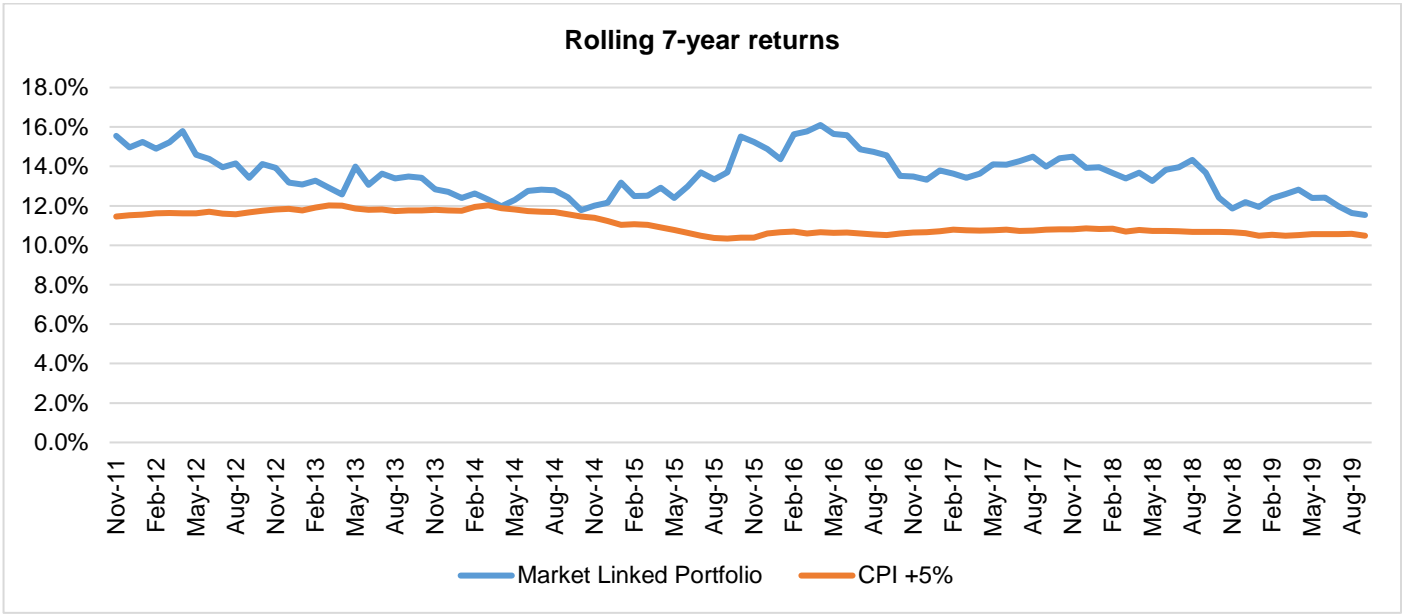
The **Money Market portfolio** has delivered some 4.4% per annum above inflation for the last year, which is well in excess of the investment objective of 1% per annum above inflation. This is illustrated below:



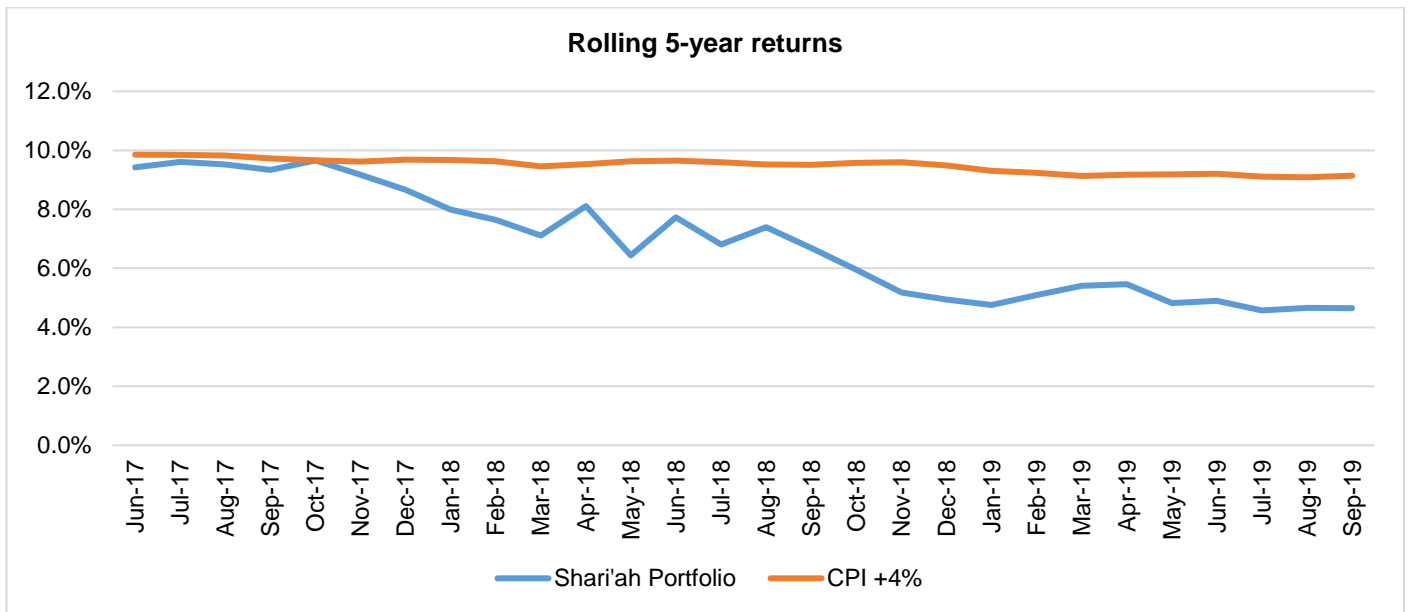
The **Stable portfolio** has delivered some 1.7% per annum above inflation for the last three years, which is short of the investment objective of 3% per annum above inflation. This is illustrated below:



The **Market-linked portfolio** (which is the portfolio for the wealth-building stage of the life stage model) has delivered 6.3% 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.



The **Shari’ah portfolio** has delivered 0.4% per annum below inflation for the last five years, which is short of the investment objective of 4% per annum above inflation. Comment around the performance of the Shari’ah portfolio was provided in the June 2019 newsletter on page 3. This is illustrated below:



MARKET COMMENTARY

It was a mixed quarter for global equities, with developed markets (DM) making small gains while emerging markets (EMs), declined (measured in US dollars). US and European equity markets outperformed within the DM complex, lifting the performance of DM equities into positive territory.

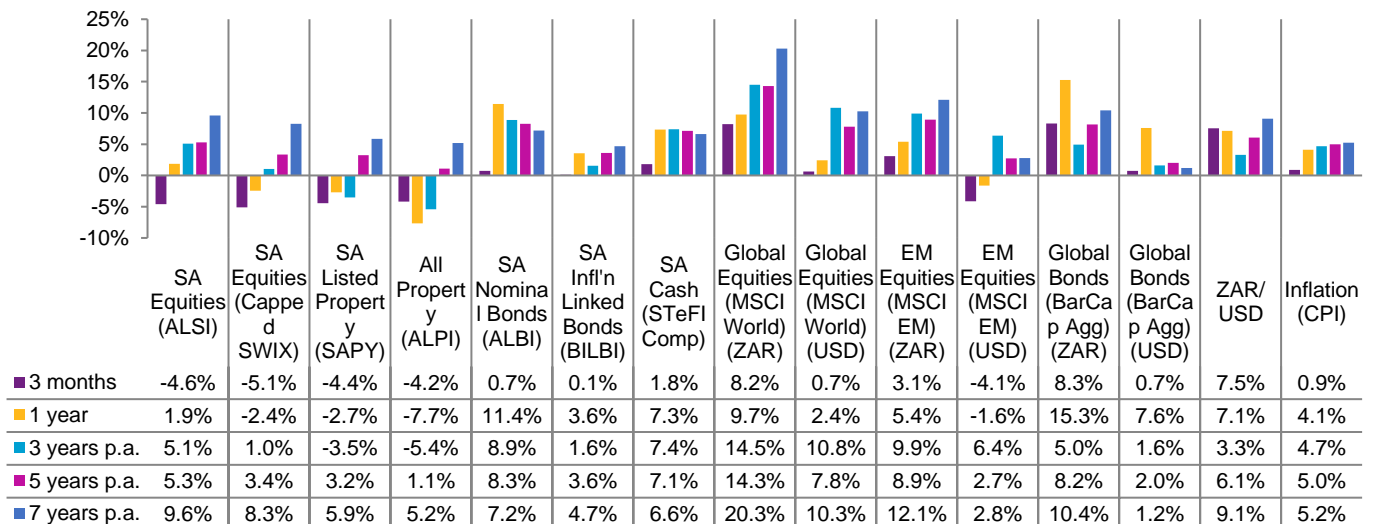
EM shares came under pressure on the back of US-China trade tensions and a slowing global economy. The MSCI EM Index fell 4.1%, underperforming the MSCI World Index, which advanced 0.7%. The MSCI All Country World Index was up 0.1% for the quarter. All numbers expressed in US dollars.

The local equity market had a disappointing quarter and underperformed the broader EM market. The Capped SWIX fell 5.1%, while the JSE FTSE All Share Index retreated 4.6%.

Returns from domestic equities and listed property for periods of up to five years have been notably poor and well below long-term expected real returns.

The rand weakened on the back of renewed EM currency weakness over the quarter, depreciating 7.5% against the US dollar, 4.1% against the British pound and 2.9% against the euro.

The graph below shows the performance of the various sectors of the market during various measurement periods ended 30 September 2019 (source: INet).



An explanation of the different sectors appears below:

ALSI:	South African equities as measured by the All Share Index
Capped SWIX	South African equities Shareholder Weighted Index (Each share capped at 10%)
ALPI:	South African listed properties as measured by the All Property Index
BILBI:	Barclays Inflation - linked Bond Index
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
BarCap:	Barclays Capital Global Aggregate Bond Index
ZAR/USD:	Rand investment in US Dollars (positive numbers show a “Weakening” rand).
CPI:	South African inflation rate

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	Vacant
A Futter (Chairperson)	H Rauch	A Zokufa	L Tromp
W Kruger	L Tofu	N Gumede	J Lichaba
L Moser	Vacant	A de Lange	T Manne

COMMUNICATION

More information is provided via the following:

- **Fund Website** for all Fund information: 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
- **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

Mossel Bay (and offshore and Voorbaai):

Dorothy Cedras

(044) 601 2540

dorothy.cedras@petrosa.co.za

COSTS

Administration and Fund costs (applicable from 1 June 2019)

- 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 R54.39 pmpm (per member per month) plus VAT)
- Deferred members – Administration costs of R41.00 pmpm plus VAT deducted from deferred pension account
- Deferred pensioners – Administration costs of R41.00 pmpm plus VAT deducted from member individual account
- Living annuitants – Initial fee = R994.65 plus VAT. Administration costs of R 99.46 pmpm plus VAT deducted from living annuity balance.

Switching costs (cost of changing investment decision) – first switch in the year is free. Thereafter R 435.15 plus VAT is deducted from your account per switch.

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

Portfolio	Manager	Fee charged
Market linked	Allan Gray Equity	0.5% p.a. plus 20% of the out-performance of the benchmark (FTSE/JSE All Share Index) capped at 2%
Market linked	Coronation Equity	0.2% p.a. plus 20% of out-performance of benchmark (FTSE/JSE Capped Shareholder Weighted Index) over preceding 12 months capped at 1% (base fee reduced to 0.1% p.a. from 1 Oct 2018 until a performance fee becomes payable)
Market linked	Abax Equity	0.45% p.a. plus VAT
Market linked	Investec Bonds	0.35% p.a. changes to 0.4% on out-performance of All Bond Index (ALBI)+2%
Market linked	Coronation Bonds	0.2% p.a. plus 10% of out-performance over ALBI over preceding 12 months capped at 1%
Market linked	Futuregrowth IDB	0.5% p.a. plus VAT
Market linked	Sygnia(WTW Diversified Global Balanced)	0.695% p.a. (0.073% p.a. for Sygnia administration plus 0.08% p.a. AMX platform fee plus approx. 0.542% p.a. for the underlying manager fees).
Stable	Allan Gray Global Stable	0.4% p.a. plus 20% of the out-performance of the benchmark (AF 3 Month Deposit Index) subject to a 1.8% overall fee
Stable	Coronation Inflation Plus	0.70% p.a.
Stable	Investec Cautious Managed	0.65% p.a.
Money Market	Investec Money Fund	0.09% p.a.
Shari'ah	27Four	0.75% p.a. plus VAT approximately but depends on underlying manager allocation.

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%	WARNING: 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) to check the impact that your contribution rate choice has on your expected retirement benefit.

RESIGNATION, RETRENCHMENT and DISMISSAL BENEFITS

When?	When you leave employment, are retrenched or dismissed
What?	Your member individual account
How?	<p>You can leave the full benefit in the Fund (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 transfer the full benefit to another Fund</p> <p>OR</p> <p>You can take the full benefit in cash 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 combination of cash and transfer</p>

** Please note that though the benefit paid from the fund on resignation and retrenchment is the same, this benefit is taxed differently*

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

When?	When you die while being a member of the Fund (active member or deferred member or pensioner)
What?	Your member individual account
How?	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:

When?	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.
What?	Your member individual account
How?	You can take the full benefit in cash as a lump sum (though this will be subject to tax) OR You can use the full benefit to buy a pension from an insurer or from the Fund (the pension payments will be subject to tax) OR You can take some of the benefit in cash and use the rest to buy a pension from an insurer or the Fund

The Fund will provide you with quotations for a **life annuity**, which is purchased from an insurer and guaranteed until your death. The Fund also offers 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

This tax free amount is a once in a life-time amount so, if you have previously taken a tax free amount, this will be deducted from your R500 000 tax free amount at the time when you retire.

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.petrosaretirementfund.co.za

- Funeral benefits
- Spouses cover
- Benefits should you be regarded as disabled
- Personal accident benefits

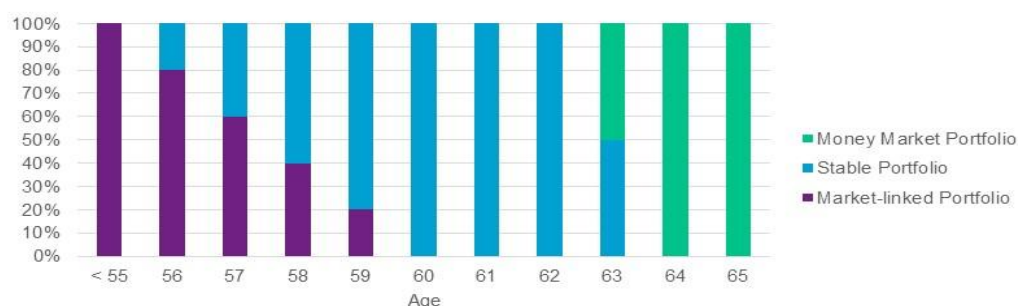
GENERAL INFORMATION ON INVESTMENTS

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

Portfolio name	Target return and comment	Asset allocation (as at 30 September 2019)
Market Linked Portfolio	Target return CPI + 5% 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)	Strategic asset allocation determined by the Board. 46% SA equities (managed equally by Allan Gray, Coronation and Abax) 24% SA bonds (managed by Investec (37.5%), Coronation (37.5%) and Futuregrowth (25%)) 30% offshore (various managers across bonds (15%); equity (70%) and listed property (15%))
Stable Portfolio	Target return of CPI + 3% per annum over a rolling 3 year period Lower volatility than the Market Linked portfolio	Actual asset allocation determined by the managers. 18.8% SA equity + 3.7% SA property 33.0% SA bonds + 12.8% SA cash 28.0% offshore + 3.6% other (managed by Allan Gray (50%), Coronation (25%) and Investec (25%))
Money Market Portfolio	Target Return of CPI + 1% per annum Least appropriate for long term investing Most chance of capital preservation	100% SA cash and money market instruments (managed by Investec)
Shari'ah Portfolio	Target returns of CPI + 4% 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-halaal food production; some entertainment (eg casinos) and arms manufacturing.	Strategic asset allocation determined by the manager 38% SA equities + 5% commodities 30% SA murabahah contracts 19% offshore equities + 5% offshore sukuk 2% offshore listed property + 1% non-interest bearing cash (managed by 27Four Investment Managers)

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 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.

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 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.