PetroSA

RETIREMENT FUND NEWSLETTER

ALL ABOUT YOUR FUND AND WHAT IT DOES FOR YOU

ISSUE NUMBER: 1/2017 **March 2017**

Dear members

Welcome to the first newsletter for 2017. This is your newsletter and your trustees are determined to make sure that it is useful and informative. It is our aim to inform you through the newsletters of the following:

- Trustee decisions that relate to your Fund benefits;
- Developments in the retirement fund industry;
- Your benefits and investments.

We ask you to think about topics you would like to see in the newsletter. Please pass your constructive comments and suggestions to the Principal Officer of the Fund or contact any of the trustees.

INSIDE THIS ISSUE

We trust you will enjoy the read.

Board of Trustees
March 2017

PetroSA

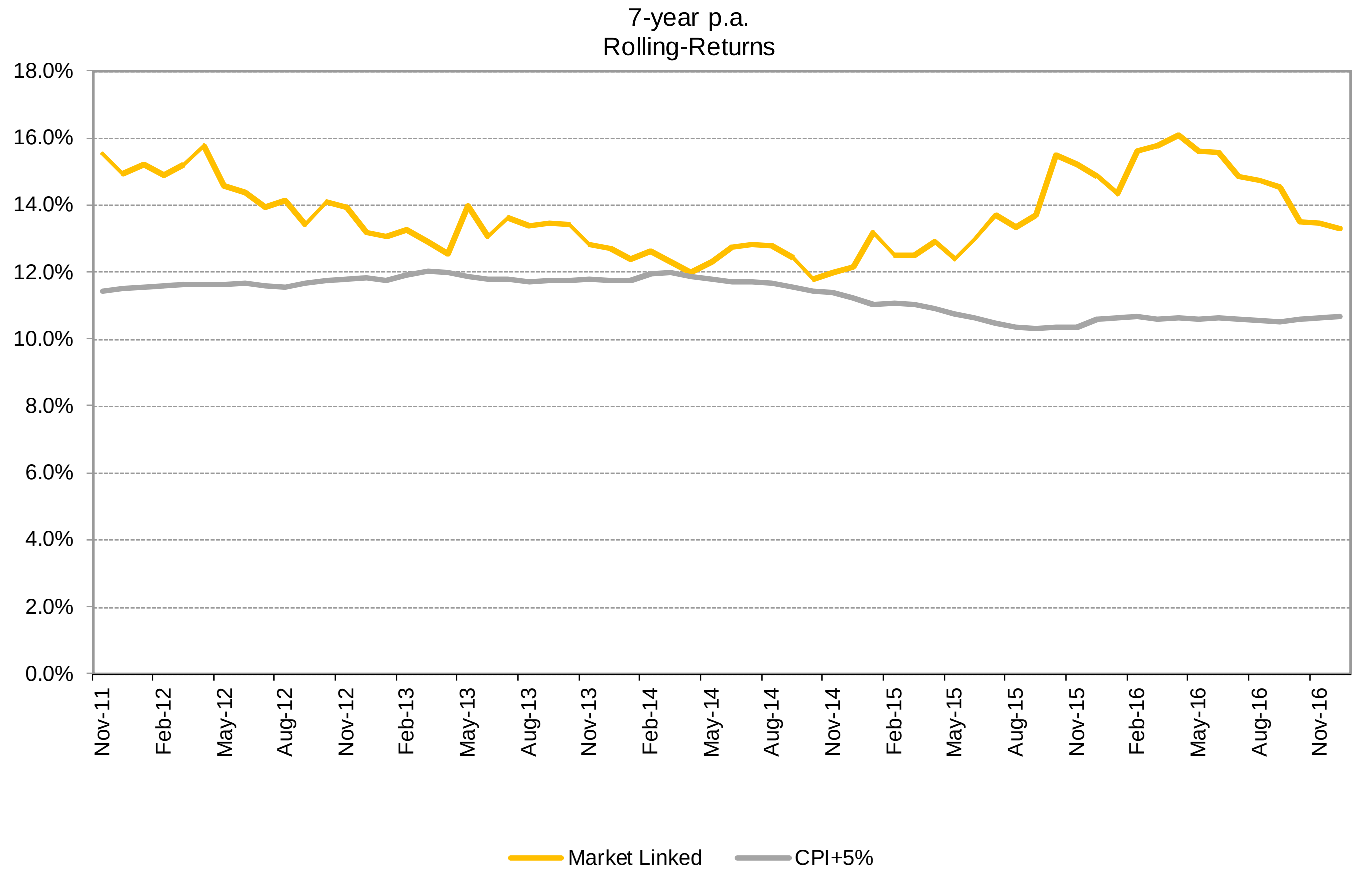
INVESTMENT NEWS

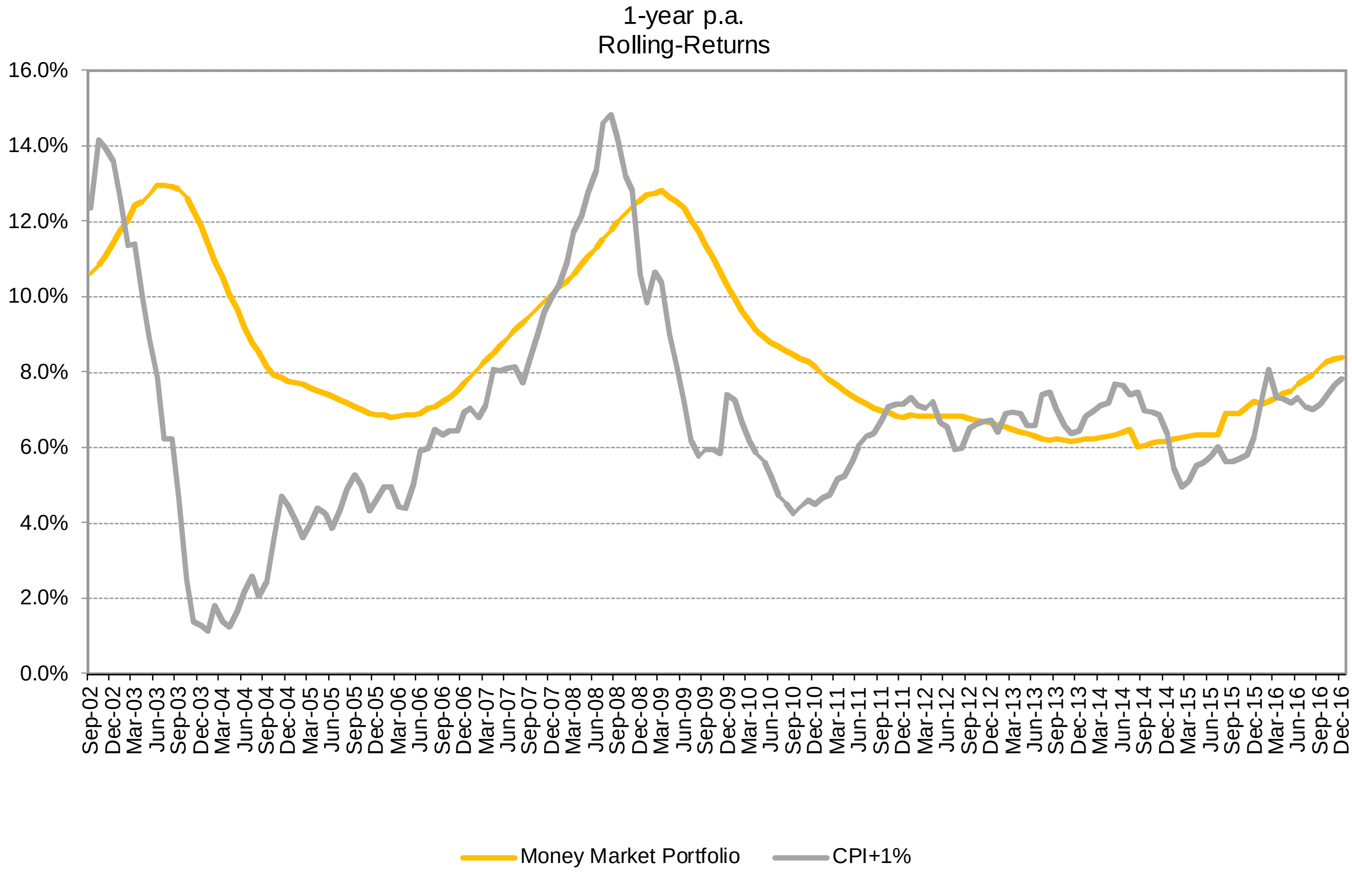
Below are the annualised investment returns for all the portfolios over different measurement periods until 31 December 2016. Please note that the returns are shown after deducting investment manager fees:

Portfolio	Investment Objective	Measurement period	Actual Return p.a.	Target Return p.a.
Market-Linked portfolio	CPI + 5.0% p.a. net over a rolling 7-year period	7 years	13.3%	10.7%
Stable Portfolio	CPI + 3% p.a. net over a rolling 3-year period	3 years	7.3%	8.9%
Money Market Portfolio	CPI + 1% p.a. net over a rolling 1-year period	1 year	8.4%	7.8%
Shari'ah Portfolio	CPI + 4.0% p.a. net over a rolling 5-year period	54 months	10.1%	9.8%

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 2016, 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 2016. The Shari'ah Portfolio was implemented on 1 July 2012 and therefore a 5-year period has not yet been completed as at 31 December 2016.




1-year p.a.
Rolling-Returns
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Sep-02
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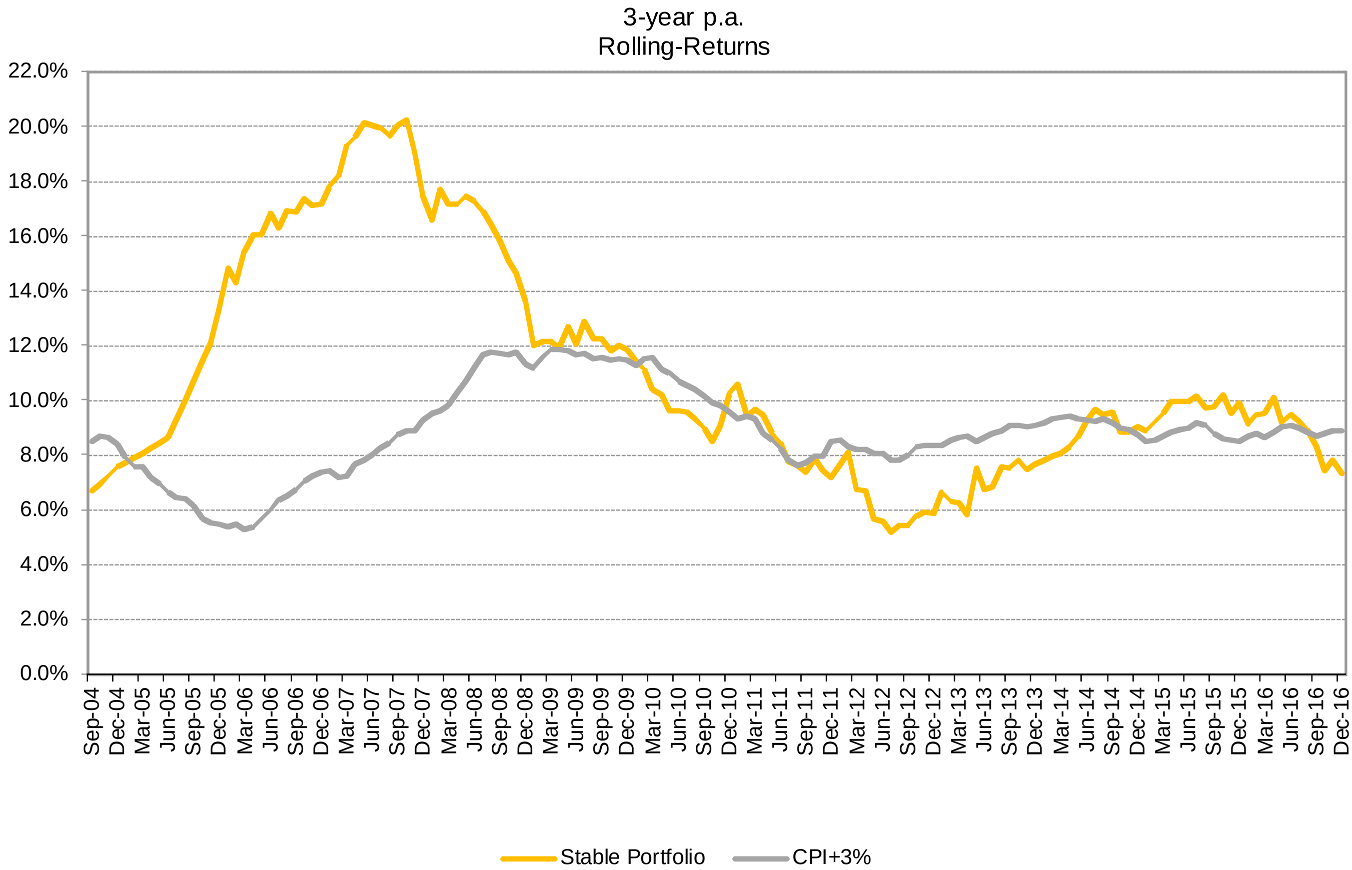
Money Market Portfolio
CPI+1%


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%
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Dec-16
Stable Portfolio
CPI+3%

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COMMENT ON INVESTMENT PERFORMANCE

The Fund's portfolios have delivered good returns over the relevant measurement periods. In particular 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%. We caution members to expect more moderate performance in this portfolio over the next seven to ten years as inflationary pressures build up in the South African economy and real returns on all asset classes become harder to find.

The Stable portfolio has delivered some 1.5% per annum above inflation for the last three years, which is below the investment objective of 3% per annum. The Trustees are considering the removal of one of the existing two asset managers in this portfolio, and the appointment of two new managers in their place. Further information will be provided to you once the decision has been made.

Looking at performance of various asset classes over the last 7 years SA equities (which comprise the major part of retirement fund assets) delivered some 6.9% per annum above inflation. The other sectors that delivered returns significantly above inflation were global shares (13.4% p.a. above inflation – in Rand terms), global bonds (5.3% p.a. above inflation – in Rand terms), and SA listed property (12.3% p.a. above inflation). SA inflation linked bonds delivered a return of 3.2% 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.

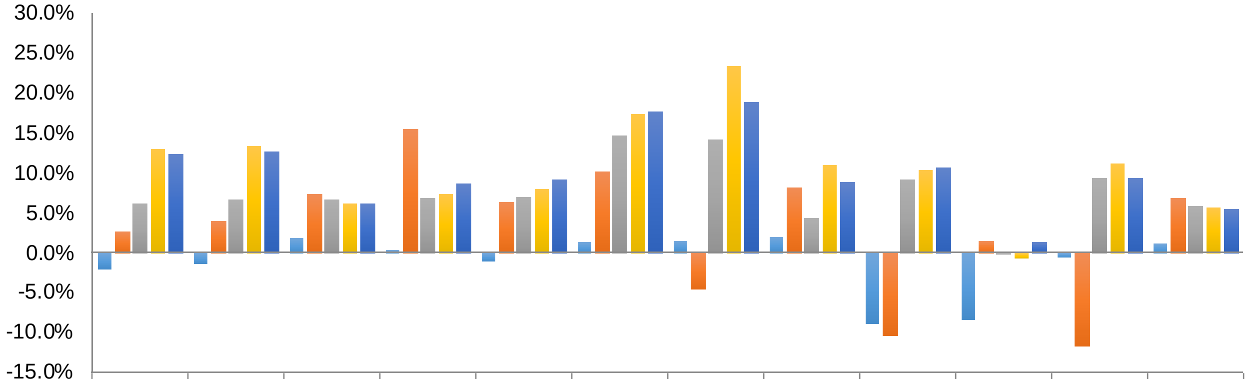
Important note:

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.

MARKET OVERVIEW

The following chart shows the return on the major indices for the period to 31 December 2016 (source: Micropal).

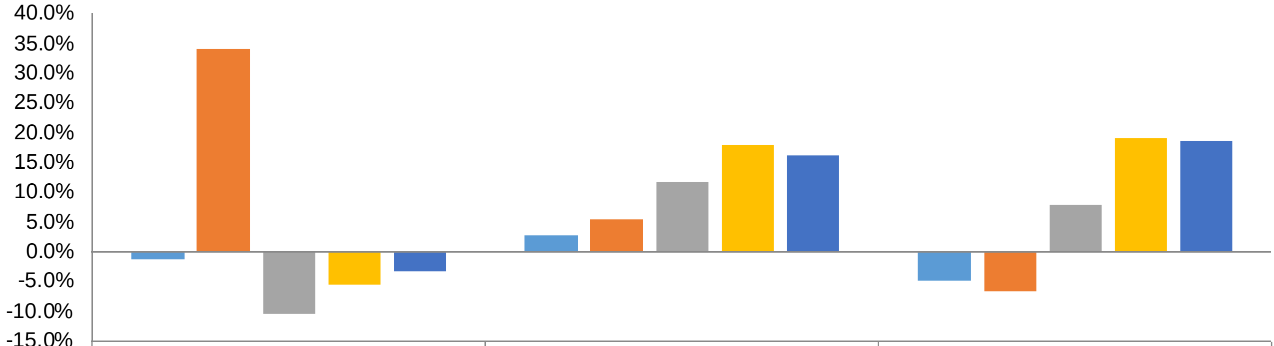
Major Index Returns: up to 7 years



	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	-2.1%	-1.3%	1.9%	0.3%	-1.1%	1.3%	1.4%	2.0%	-8.8%	-8.3%	-0.6%	1.2%
1 year	2.6%	3.9%	7.4%	15.5%	6.3%	10.2%	-4.6%	8.2%	-10.4%	1.6%	-11.7%	6.8%
3 years p.a.	6.2%	6.7%	6.6%	6.9%	7.0%	14.7%	14.1%	4.4%	9.1%	-0.1%	9.3%	5.8%
5 years p.a.	13.0%	13.3%	6.1%	7.4%	8.1%	17.3%	23.4%	11.0%	10.3%	-0.7%	11.1%	5.7%
7 years p.a.	12.3%	12.7%	6.2%	8.6%	9.2%	17.7%	18.8%	8.8%	10.7%	1.4%	9.2%	5.4%

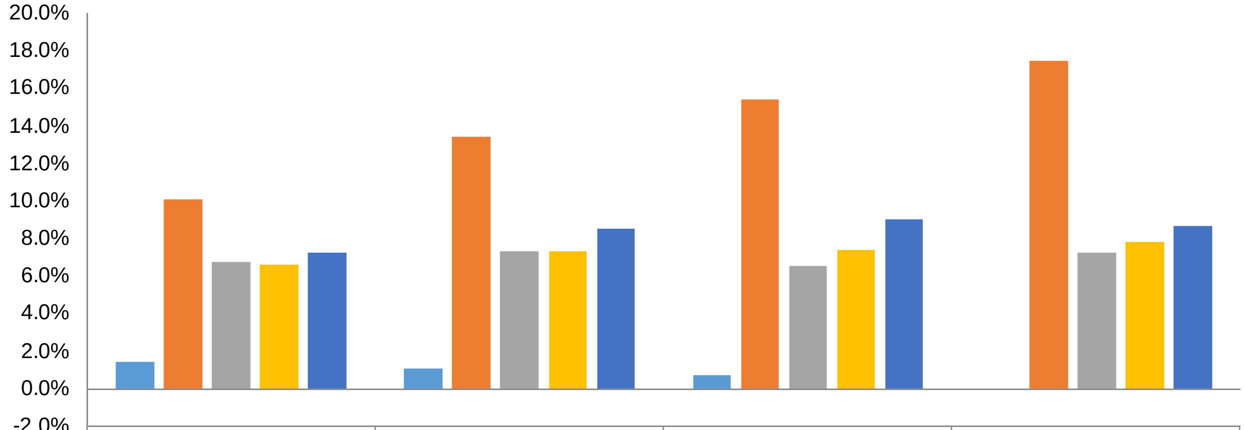
CPI:	South African inflation rate
ZAR/USD:	Rand investment in US Dollars (positive number shows a weakening Rand).
JPM:	JP Morgan - Government bonds in developed overseas markets – performance measured in Rands
MSCI:	Morgan Stanley Capital Index – equities in developed overseas markets – performance 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 2016:



	Resources	Financials	Industrials
3 months	-1.2%	2.9%	-4.7%
1 year	34.2%	5.4%	-6.6%
3 years p.a.	-10.3%	11.7%	8.0%
5 years p.a.	-5.5%	18.1%	19.0%
7 years p.a.	-3.3%	16.3%	18.7%

The chart below shows the performance of the different sectors of the SA bond index for periods ended 31 December 2016.



	0-3 years	3-7 years	7-12 years	12+ years
3 months	1.4%	1.1%	0.7%	0.0%
1 year	10.1%	13.4%	15.4%	17.5%
3 years p.a.	6.8%	7.3%	6.6%	7.2%
5 years p.a.	6.6%	7.3%	7.4%	7.8%
7 years p.a.	7.2%	8.5%	9.0%	8.6%

MARKET COMMENTARY FOR THE QUARTER ENDING 31 DECEMBER 2016

- Political events fuelled global market volatility over the fourth quarter. Donald Trump's unexpected victory in the US elections initially incited a flight to safe haven assets, but after markets had digested the outcome, the prospect of a Trump administration spurred some optimism in developed markets (DMs). DM stocks rallied amid speculation of fiscal stimulus in the US, while some emerging market (EM) equities struggled under the weight of rising DM yields, a stronger US dollar and the prospect of protectionist US trade policy. The MSCI World Index delivered 2.0% in US dollar terms over the quarter, outperforming global bonds which fell 7.1% in US dollar terms.
- The local economy continues to be plagued by weak economic growth, political instability and social tensions. During the fourth quarter, the release of former public protector Thuli Madonsela's "state capture" report added strain to an already fragile economy. However, local markets were granted some reprieve following the National Prosecuting Authority's decision to withdraw legal proceedings it had instituted against Finance Minister Pravin Gordhan and the avoidance of a sovereign credit rating downgrade over the quarter.
- The FTSE/JSE ALSI fell 2.1% over the last three months, underperforming local cash and bond returns. The ALBI ended the period almost flat, delivering 0.3% over the quarter. Nominal bonds outperformed their inflation-linked counterparts, which fell 1.1%. Nominal bonds were the best performing asset class over the last year, with the ALBI returning a stellar 15.5% in stark contrast to its poor performance in 2015.
- The South African Reserve Bank left the repo rate unchanged at the November meeting but higher than expected inflation reinforced more hawkish rhetoric. Despite its volatility, the rand remained relatively resilient over the fourth quarter supported by a moderate improvement in our terms of trade. The rand strengthened by 0.6% against the US dollar, by 5.4% against the pound sterling and by 6.7% against the euro. Over the last year, the rand has emerged as one of the strongest currencies against a firmer US dollar, appreciating by 11.7%.
- Rand strength and relative valuations proved the key determining factors for sector performance during 2016. Financials showed their defensive character, emerging as the largest outperformer over the three month period. A relatively stable rand and the avoidance of a sovereign credit rating

downgrade supported the performance of the sub-index. Banks were the main contributor to the sector's performance, delivering a return of 11.0% over the quarter.

- Resources ended the three month period in negative territory as platinum and gold mining stocks weighed on the sector's performance. However, over the last year the sector has delivered a strong return of 34.2%. This is in stark contrast to an exceptionally weak performance in 2015. Globally, the outlook for commodities remains uncertain but China's increased infrastructure spending, together with expectations of an infrastructure-driven fiscal policy in the US, have been supportive of commodity prices, while an OPEC agreement to cut back on oil production boosted the price of Brent crude oil in December.
- Industrials continued to underperform on the back of demanding valuations and rand strength, ending the quarter in negative territory. Health care and consumer services were the main detractors from the sector's performance over the quarter.
- Political uncertainty, EM risk aversion and higher US interest rates weakened investor sentiment towards local bonds over the fourth quarter, despite an uptick in risk appetite towards year-end. Nominal yields have risen across most of the curve since the previous quarter, with the yield on the benchmark R186 bond rising 24 basis points over the period. The "12+ year" sub-index, which has been a significant outperformer over the last year, ended the fourth quarter flat.
- Investors have generally not been compensated for holding the longest-dated bonds. This feature arises partly from many institutional investors being prepared to pay more for long-dated bonds to match their long-term liabilities. The high returns from shorter-dated maturities relative to longer-dated maturities is also reflective of a hawkish SARB determined to retain its inflation-fighting credibility.

BUDGET OVERVIEW 2017 – RETIREMENT FUNDING CONTRIBUTIONS

- The rate at which you can claim a tax deduction for contributions to a retirement fund remains 27.5 percent of the greater of your gross remuneration or taxable income. The tax deduction is capped at R350 000 for the tax year.
- There was no change to the tax rates on the lump sums you can withdraw from your retirement fund at retirement, and you take still take up to R500 000 tax-free.
- There was no change to the tax rates on the lump sums you can withdraw from your fund on resignation. You can still take the first R25 000 tax-free.

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.

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.

FLEXIBLE BENEFIT DESIGN - CHANGE IN CONTRIBUTION CATEGORIES

Once again, a reminder to members that the rules of the Fund have been amended to enable members who wish to do so, to take advantage of making greater provision for retirement savings in a tax efficient manner.

The changes to the contribution categories will be implemented as soon as the Financial Services Board has registered this amendment. Once registered we will inform all members, and everyone will be given another opportunity to select their contribution rates as follows:

CONTRIBUTION CATEGORY	CONTRIBUTION RATE % OF PENSIONABLE SALARY
A	7.5
B	10.0
C	12.5 (the default rate)
D	15.0
E	17.5
F	20.0
G	22.5
H	25.0
I	27.5

YOUR BOARD OF TRUSTEES

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 Tracy Pedersen: 021 809 3721

OTHER INTERESTING ARTICLES:

Possible delay in compulsory pensions for provident fund members

PERSONAL FINANCE / 25 February 2017 written by Laura du Preez. This article has been edited.

Members of provident funds, such as the PetroSA Retirement Fund, may enjoy another year of tax deductions for contributions to their funds without being forced to buy a pension with these tax-incentivised savings.

At the post-budget briefing this week, discussions about what is known as compulsory annuitisation are continuing within the National Economic Development and Labour Council.

In March last year, a tax deduction for contributions to a provident fund was introduced. Government had hoped to compel provident fund members to use their tax-incentivised savings accumulated from that date to buy a pension at retirement, in the same way that pension fund members are obliged to do.

Generous concessions were made to allow provident fund members to continue at retirement to withdraw in full any savings accumulated at that date, to exempt savings made after that date (but not exceeding an amount of R247 000) from being used to buy a pension, and to enable members close to retirement (those aged 55 or older on March 1 last year) to continue to withdraw their savings in full.

These concessions meant that many provident fund members would not be forced to use their retirement savings to buy a pension for more than a decade, but some trade unions still raised objections to compulsory annuitisation. As a result, the implementation of these measures was delayed until March next year but it appears that it may be delayed even further.

Kindly note that this article does not constitute financial advice. All information and opinions provided are of a general nature and are not intended to address the circumstances of any individual.

IF YOU HAVE ANY QUESTIONS on the Retirement Fund, please contact the Principal Officer: Mr R Buhr on (021) 929 3134.