Woolworths Group Retirement Fund Annual Board of Trustees Report 2019

This report covers the period from 1 March 2018 to 28 February 2019 and is intended to inform you about the financial progress of the Woolworths Group Retirement Fund ("the Fund"), and other developments in respect of the Fund over this period.

The Board of Trustees ("the Board") is pleased to advise members that the Fund's audited annual financial statements for the financial year ended 28 February 2019 have been submitted to the Financial Sector Conduct Authority ("FSCA"). The Fund received an unqualified audit opinion from its external auditors and the Fund's Actuary has confirmed that the Fund remained in a sound financial position as at the financial year end.

The Fund is a separate legal entity from Woolworths and its operation is governed by the Pension Funds Act 1956, as amended.

The Fund operates and exists for you, the member, and your dependants. It is ***your*** Fund and, as a member, you and the other members are the only people that will benefit from its existence.

Who manages my Fund?

The Fund is managed by a Board of six Trustees, three of whom are elected by you, the member, and three who are appointed by Woolworths. The Board's duties include:

- Managing the Fund according to its rules and in compliance with pension fund and tax laws.
- Taking all reasonable steps to protect your interests.
- Acting with care, diligence and in good faith.
- Avoiding conflicts of interest.
- Acting with fairness towards all members and beneficiaries.
- Ensuring proper control systems are in place.
- Ensuring you get appropriate and adequate communication.
- Taking reasonable steps to ensure contributions and benefits are paid on time.
- Obtaining expert advice in areas in which the Board does not have expert knowledge.
- Ensuring efficient operation and administration of the Fund's business.

As at 28 February 2019, the Fund's Board of Trustees ("the Board") was constituted as follows:

Employer-appointed Trustees	Mr J Novak (Chairperson) Ms C Butler (Vice-Chairperson) Mr C du Plessis
Member-elected Trustees	Mr B Mabudafhasi Mr L Mabula Mr S Thomas
Alternate Trustees	Mr J Crowhurst (Employer-appointed) Mr A Narshi (Employer-appointed) Mr Y Limbada (Member-elected) Vacant (Member-elected)

Professional Advisors

The Board is assisted by the following professional advisors:

Principal Officer	:	Mr K Titley (Independent)
Benefit Consultants	:	Alexander Forbes Financial Services
Investment Advisors	:	Willis Towers Watson
Actuary	:	Mr G Velcich of Alexander Forbes Financial Services
Investment Administrator	:	Alexander Forbes Investments (previously Investment Solutions)
Asset Managers: Local	:	Allan Gray Limited Coronation Asset Managers Prudential Portfolio Managers Investec Asset Management Alexander Forbes Investments – Shari'ah Portfolio Abax Investments

Asset Managers: Offshore:		Orbis Investment Management (offshore)
		Ruffer LLP (offshore)
		Lansdowne Partners (offshore)
Auditors	:	Deloitte & Touche

Rule amendments

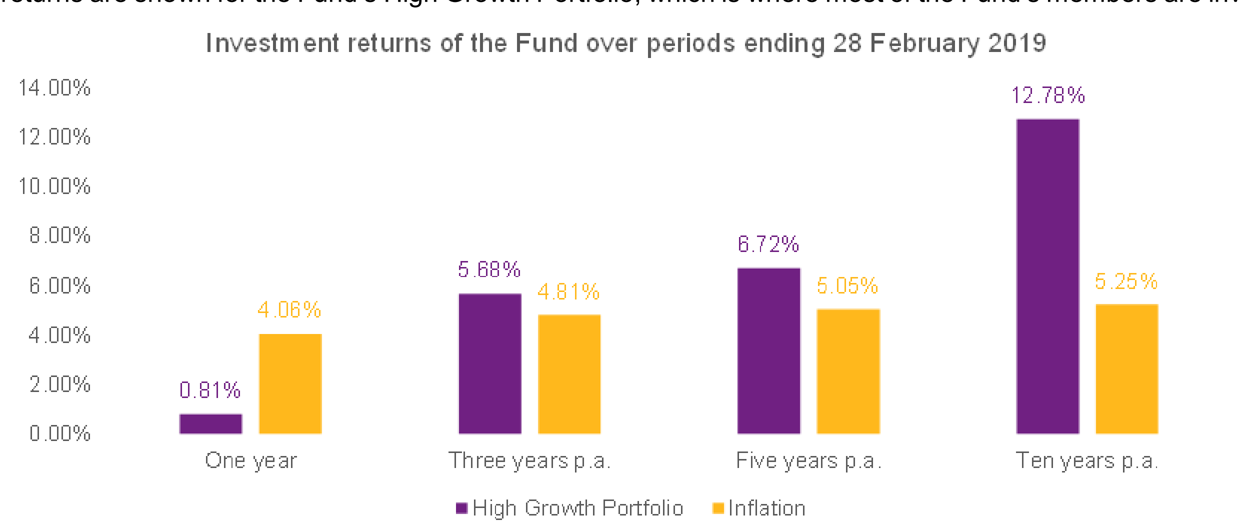
The Fund operates in terms of a set of rules which also makes provision for the rights and benefits that should apply to you, the member. The rules are registered by the Registrar of Pension Funds and approved by the South African Revenue Service (SARS). Changes made to the rules are called amendments and must also be registered by the Registrar of Pension Funds and approved by SARS.

Rule amendment number 3 was approved by the Board on 12 February 2019 and was effective from 1 November 2018. The amendment provides for:

- The increase in early retirement age from 50 to 53 years, in order to align with Woolworths' practice;
- A correction to clarify the way in which an Employer Trustee vacancy is filled.

The Fund's investments

The chart below shows the returns, after costs, on the Woolworths Group Retirement Fund's investments over different periods – one, three, five and ten years – compared to the rate of inflation over the same periods. The returns are shown for the Fund's High Growth Portfolio, which is where most of the Fund's members are invested.



Saving for retirement is a long term project, taking the whole of your working life. The good news is that, over the longer term (more than ten years), the Fund's High Growth Portfolio has earned returns that are comfortably higher than inflation. However, you will notice that over the shorter term – specifically the past year - the High Growth Portfolio earned a return much lower than the rate of inflation. This is mostly because of the particularly poor performance of South African shares over this period. If you had invested in South African shares *only*, over the past year you would have lost money (about 6% of your investment). If you invested in South African bonds *only*, you would have earned a return close to the rate of inflation over the year (just over 4%) and if you had invested in international shares *only*, you would have earned a substantial 19% on your investment.

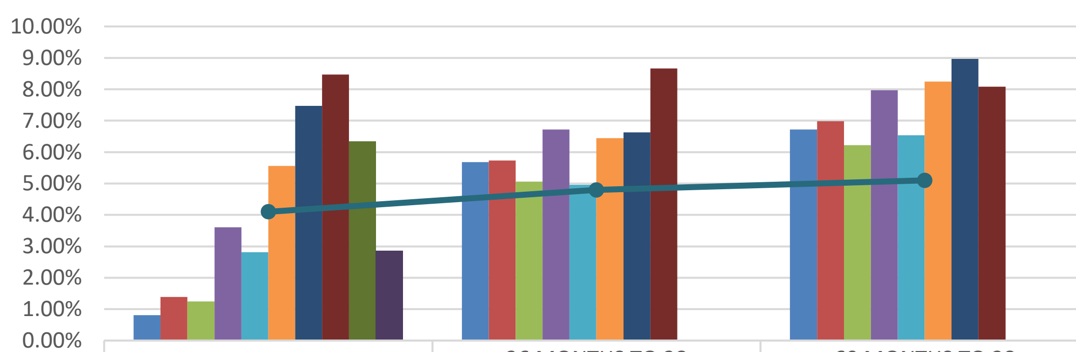
With the benefit of hindsight, it would be natural to wonder why the Fund did not invest all of the members' retirement savings in international shares at the beginning of the period to earn the highest possible return. The simple answer is that predicting investment returns is difficult, as no-one knows what the future will bring, especially in the near term. In addition there are a number of legal provisions which impose limits on the extent to which retirement funds can invest in the various investment instruments available.

There are always many different factors which impact investment returns, both at home in South Africa and across the rest of the world. In South Africa, some of the current challenges include electricity supply disruption, extremely high unemployment, low growth in consumer spending and low savings levels, economic policy uncertainty, as well as high debt levels and poor governance of state owned enterprises such as Eskom and Transnet. Globally, developments in the "trade war" between the USA and China have a notable effect on investment markets, as do other geopolitical events such as Brexit and the growing conflict between the USA and Iran. The "noise" and flow of news around these events can change from positive to negative, and back again, which in turn causes global financial markets to quickly change from positive to negative, and vice versa. In the short term, we don't know what the outcome of these issues will be, and so we don't know where the good investment returns will come from or, for that matter, where the losses will come from. However, we do know how the different segments of investment markets tend to perform over the **long term. Over the long term** the performance of the market is generally not driven by short term changes in news flow and whether investors are generally feeling positive or negative at a point in time, but is usually driven by more predictable fundamental factors.

The sensible thing to do is to spread the investment of our retirement savings across different segments of the market, making sure that our investments are not over-or-under-exposed to any important segment. To use a common saying; "*do not put all your eggs into one basket*". The Fund's assets [your retirement savings] are invested across a wide range of investment segments, including shares, bonds and property, both in South Africa and internationally, to help manage the risks and to smooth out the overall investment return that members will earn over the long term. This is called **diversification** and is one of the most fundamental investment strategies. You might give up some of the potentially higher returns of a particular segment, but this is to avoid making big losses if one part of the market falls.

Given the high level of political and economic **uncertainty we are currently facing**, retirement fund members must take care to be **reasonable** in their expectations of what it is possible for investment markets to deliver going forward. The most important response is to **keep what is already saved invested in the Fund** and to **<u>not</u>** withdraw these savings until reaching retirement. This allows the maximum amount of time possible for your money to work for you! This is especially important since we do not know what markets will do over the next year, or even over the next five years. Long term investors – retirement savers like you – need to be **patient, focused and consistent** in order to reap the rewards of real returns [returns above inflation] necessary to **secure a reasonable retirement**.

The net returns (after investment fees) earned on the investment portfolios underlying the Automatic Life Stage and Life Stage Choice options for various periods ending 28 February 2019 are set out in the first graph, below.



	12 MONTHS TO 28 FEBRUARY 2019	36 MONTHS TO 28 FEBRUARY 2019 (Annualised)	60 MONTHS TO 28 FEBRUARY 2019 (Annualised)
High Growth	0.81%	5.68%	6.72%
Growth	1.39%	5.73%	6.98%
Medium Growth	1.25%	5.06%	6.22%
Medium Conservative	3.61%	6.72%	7.97%
Conservative	2.81%	4.96%	6.54%
Stable	5.56%	6.44%	8.25%
Prescient*	7.47%	6.63%	8.97%
Banker	8.47%	8.66%	8.08%
Shari'ah new**	6.34%	0.00%	0.00%
Final Year Portfolio***	2.86%	0.00%	0.00%
SA Inflation	4.10%	4.80%	5.10%

* *This portfolio terminated on 13 September 2018. The return reflected for the 12 month period is therefore an annualized return for the 6 month period from 1 March to 13 September 2018.*

** *Participation in this portfolio commenced on 1 August 2017, when the assets in the old Shari'ah portfolio were transferred to the new Shari'ah portfolio.*

*** *Participation in this portfolio commenced on 13 September 2018, when the assets in the Prescient Pensioner Local portfolio were transferred to the Final Year Portfolio.*

The investment fees charged on these portfolios range between 0.27% and 1.17% per annum depending on (but not limited to) the portfolio, fee structure and foreign exposure.

Membership details

Fund membership as at the end of the 28 February 2019 and 28 February 2018 financial years was as follows:

	2019	2018
Membership at start	31 687	30 912
Plus: *New entrants*	7 590	7 826
Transfers from other funds	38	34
Adjustments	(6)	
Less:		
Withdrawals	6 587	6 887
Retirements	83	113
Deaths	75	72
Transfers to other funds	0	0
Retrenchments	12	13
Membership at end	32 552	31 687

Contributions

Members contribute to the Fund at a rate of 7.5% of their Fund salaries.

In addition, the Employer contributes at the default rate of 10.5% of Members' Fund Salaries. Of this amount, not more than 3% of Members' Fund Salaries may be applied towards the cost of the separate insured disability arrangement; the Fund's insured death benefits and Fund expenses. The balance of the Employer's contribution, after the deduction of these costs, was applied to Members' retirement savings as tabulated below.

	As at 28 February 2019
Employer contribution	10.500%
Less:	
• Separate disability insurance	1.028%
• Insured death benefits	0.549%
• Fund expenses	0.660%
Employer allocation to retirement savings	**8.263%**

Important Notes

Flexible Contribution Rates

The employer contributes to the Fund at a fixed default rate of 10.5% of members' fund salaries less the costs mentioned above, unless a member opts for a different contribution rate. A range of optional higher employer contribution rates enable members to choose to enhance their retirement savings. Members have the option to change the rate at which the employer contributes on their behalf to either, 13%, 15.5%, 18% or 20% of their fund salary. New members may elect which employer contribution rate will apply to them on entering service and all members will, from time to time, have the option to change their employer contribution rate, subject to agreement with the employer. The default rate is applied to those members who do not exercise an option.

Flexible Lump Sum Group Death Benefit

Members aged 53 years and older may elect to reduce their death benefit from a lump sum of four times annual fund salary to a lump sum of twice annual fund salary, with the resulting saving on insured death benefit premiums being allocated to retirement savings. As at 28 February 2019, this saving amounted to 0.514% of annual fund salary.

Financial Report

The Fund's Revenue Account and Balance Sheet for the financial years ended 28 February 2019 and 28 February 2018 are set out below.

REVENUE ACCOUNT	**2019 (R'000)**	**2018 (R'000)**
Accumulated Funds - Start	5 236 328	4 824 976
Income		
Contributions	617 411	577 155
Transfers Received	19 097	9 133
Reinsurance recoveries	35 586	19 764
Investment income	5 213	3 866
Other income	11	0
Capital Appreciation	84 496	441 310
Expenditure		
Fund expenses	(22 279)	(21 184)
Reinsurance premiums	(35 342)	(32 561)
Investment Manager Fees	(22 593)	(24 801)
Benefits and Transfers Out	(523 446)	(561 330)
Accumulated Funds - End	5 394 482	5 236 328

BALANCE SHEET	**2019 (R'000)**	**2018 (R'000)**
Accumulated funds		
Share Account	5 376 970	5 219 325
Reserve Account	17 512	17 003
	5 394 482	5 236 328
Represented by		
Investments	5 349 601	5 196 510
Current assets	126 031	94 643
Current liabilities	(75 168)	(51 727)
Unclaimed Benefits	(5 982)	(3 098)
	5 394 482	5 236 328

Registered Office and Contact Information

Written queries can be forwarded to the Fund's registered address below:

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