WOOLWORTHS GROUP RETIREMENT FUND
MAKING THE DIFFERENCE TO YOUR RETIREMENT

WOOLWORTHS GROUP RETIREMENT FUND

BOARD OF TRUSTEES ANNUAL REPORT

2020

1 MARCH 2019 – 29 FEBRUARY 2020

Woolworths Group Retirement Fund Annual Board of Trustees Report 2020

This report covers the period from 1 March 2019 to 29 February 2020 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 29 February 2020 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, tax and other applicable 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 29 February 2020, 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) – *vacancy to be addressed with 2020 trustee election*

Professional Advisors

The Board is assisted by the following professional advisors:

Principal Officer	:	Mr K Titley (retired, effective 30 September 2019) Mr M Allen (effective 1 October 2019)
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
Ruffer LLP
Lansdowne Partners
Ardevora Global Equity
Lindsell Train Global Equity
GQG Global Equity
Resolution Capital Global Property
Auditors : Deloitte & Touche

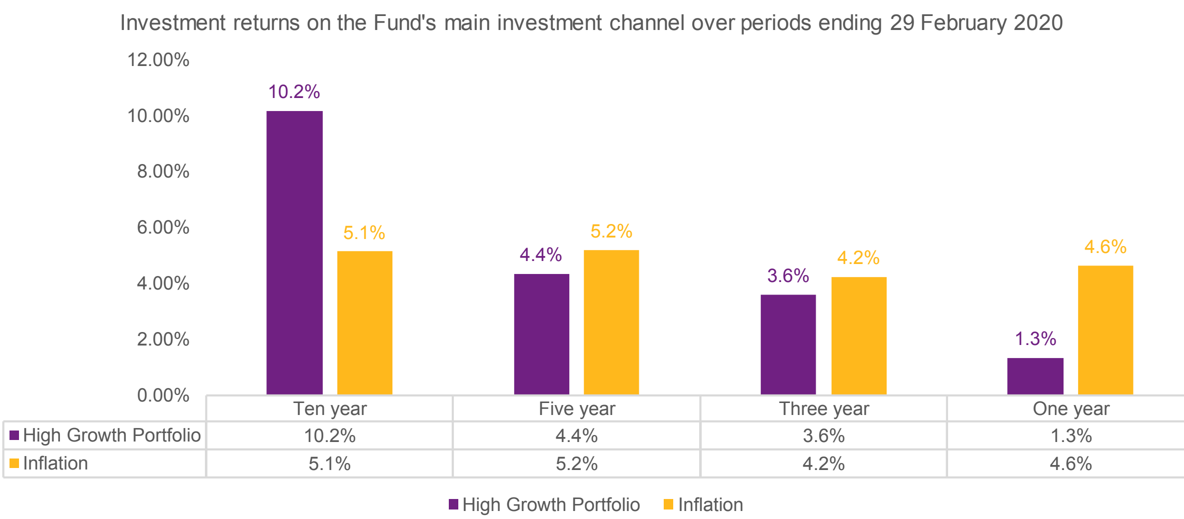
Rule amendments

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.

There were no rule amendments for the period covered by this report.

The Fund's investments

The chart below shows the returns, after costs, of the Woolworths Group Retirement Fund's main investment portfolio over different periods – ten, five, three and one year – and compared to the rate of inflation over the same periods. The returns are for periods ending 29 February 2020, and are the returns earned **per year** over those periods.



	Ten year	Five year	Three year	One year
High Growth Portfolio	10.2%	4.4%	3.6%	1.3%
Inflation	5.1%	5.2%	4.2%	4.6%

The investment returns over the long term, the ten-year return, are very good and, importantly, exceeded inflation. This is what you want to see from your retirement savings over this longer-term time period. However, over shorter periods (as you move towards the right-hand side of the chart), the returns, while still positive, are not as good. Over these shorter time horizons the returns to this investment channel have been lower than inflation.

You may recall that the Q1 of 2020 newsletter showed the Fund's performance to the end of December 2019. That performance looked much better than what you see above, with the returns being higher than inflation over most periods. 2019 was a great year for investments, with financial markets in South Africa and across the globe performing well.

What caused the one, three and even five year returns to change so much over two months?
In January 2020 the world began to hear about the Covid-19 (or coronavirus) outbreak in China. The outbreak in China quickly spread across the world and by March 2020, barely two months later, was declared a global pandemic. Global financial markets began to react to the spreading pandemic towards the end of January and into February 2020. The fall in markets over the first three months of this year was so dramatic (more on this below) that it has affected more than just the one-year figures, dragging even the longer term (three and five year) investment performance down.

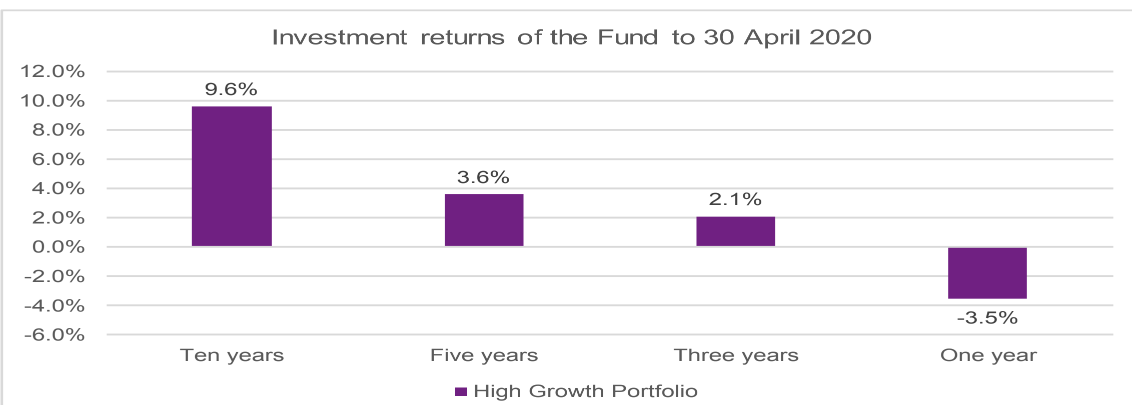
As the reality of the extent of the pandemic, and the inevitable economic knock-on effect, spread across the world, fear dominated investment markets. South Africa's financial markets fell along with the rest of the world. Given that we are a developing country and are less equipped to deal with the emerging social and health crisis created by the pandemic than more developed nations, such as the United States and Europe, the fall was even greater. The South African economy was already weak coming into this crisis, which will make it more difficult to resource the response and to recover afterwards.

In a concerted attempt to contain and slow the spread of the disease governments across the world, including South Africa, imposed lock-downs on their populations and economies. This is expected to lead to the largest collapse in economic output since World War II (WW2). Indeed, March saw the largest monthly decline in USA industrial production since WW2, and the United Kingdom suffered a 5.8% fall in gross domestic product, the biggest monthly decline on record.

To say that these are very tough, unusual and uncertain times risks understatement. A good word is "unprecedented" – the world has not seen a comparable situation for just more than a century, the last being the 1918 influenza pandemic. Many people are naturally fearful and anxious about their health, and that of their loved ones, as well as possibly their jobs and ability to earn an income. On top of these real concerns, those with retirement savings may now also be deeply concerned to see the impact on financial markets, and therefore on the value of their retirement savings.

Fortunately, there is a bit of good news. As is often the case with financial markets, there was a recovery in market prices following the sharp falls in March. Markets were up for the month of April, although not enough to make up for the large losses that occurred in March. We caution however that there is still much uncertainty, as it is not clear at this stage how or when the virus will be contained or how economic activity will respond to the various stimulus and relief packages provided by governments. Therefore, it is possible that the extent of the damage that the lock-downs are causing to economies is not yet fully reflected in the financial markets. Investment markets may not fully recover for some time, and may continue to show fairly big swings – in both directions [we call this volatility], as investors respond to changing circumstances.

The performance of the main investment portfolio of the Fund as at 30 April 2020 is shown below. As one may expect this looks **much worse** than the performance as at the end of February, due to the effect on the Fund's investments of the significant market crash which occurred in March. However, it also looks **much better** compared to performance at the end of March. For example, the one year return as at the end of March was -11%, compared to the one year return at the end of April of -3.5%! This is the kind of volatility referred to above, and can be expected to continue for some time.



The events of 2020 have still not significantly impacted the long-term performance, with the ten year returns still looking good. However, the impact on shorter term performance is clear. [Note that official inflation figures are always lagged by about a month, and so are not yet available for April, and so not shown.]

So where to from here?

1 The long-term history of financial markets shows that, with time, the market has always recovered and more than made up losses after previous market crashes, although this can, of course, **not** be guaranteed. Recovery from any economic crisis requires patience, and we feel that coming out of this particular crisis may require even more patience. If you are **<u>not</u> close to retirement** (more than seven years away) you can take **some comfort** from

knowing that you have time for your retirement savings to recover. Remember how bleak things looked during the financial crisis of 2008 and the recovery that had taken place to the end of 2019? Time is on your side.

2 If you are **<u>at</u> your retirement age** there is also **some good news**. Due to the market crash (which also affected the bond market) and the very low interest rates, it is now cheaper to buy a pension income than it was six months ago. So even if the value of your retirement savings fell, you are not necessarily worse off overall, as you will likely be able to afford a similar level of income as before the market crash.

3 If you are within six or less years to retirement age, your retirement savings will be transitioned, over time, to a less risky investment channel to add some protection to your savings as you near retirement.

These are the toughest of times, with so many things to worry about. We hope that this communication helps to make things a bit clearer, at least with regard to your retirement savings. You can rest assured that the lock-down has not disrupted the smooth running of the Fund and the intentional governance of the Fund by the Trustees. The Trustees remain in close contact with all of the Fund's service providers, especially the expert advisors and investment managers. The Board and its advisors continue to keep a close eye on developments in the financial markets and on the Fund's strategy on behalf of members. We trust that this assurance will enable you to focus on what matters most at this time: **keeping yourselves and your families safe and well**.

Membership details

Fund membership as at the end of the 29 February 2020 and 28 February 2019 financial years was as follows:

	2020	**2019**
Membership at start	32 552	31 687
Plus: *New entrants*	6571	7 590
Transfers from other funds	30	38
Adjustments	(1)	(6)
Less:		
Withdrawals	5 832	6 587
Retirements	107	83
Deaths	63	75
Transfers to other funds	0	0
Retrenchments	128	13
Membership at end	33 022	32 552

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.

For the period ended 29 February 2020 the following employer contribution rate options apply:

a) 10.5% of the member's fund salary*;
b) 13.0% of the member's fund salary;
c) 15.5% of the member's fund salary;
d) 18.0% of the member's fund salary;
e) 20.0% of the member's fund salary.

* If a member does not at any time elect any of the aforementioned contribution rates, then the employer contribution rate of 10.5% of his fund salary shall apply.

The balance of the Employer's contribution, after the deduction of these costs, was applied to Members' retirement savings as tabulated below.

Members who enjoy the four times annual fund salary death benefit	As at 29 February 2020
Employer contribution	10.500%
Less:	
• Separate disability insurance	0.759%
• Insured death benefits	0.863%
• Fund expenses	0.644%
Employer allocation to retirement savings	**8.234%**

Members over 53 years old who may opt for the lesser two times annual fund salary death benefit with the residual saving on the lower premium rate being allocated towards retirement savings	As at 29 February 2020
Employer contribution	10.500%
Less:	
• Separate disability insurance	0.383%
• Insured death benefits	0.863%
• Fund expenses	0.644%
Employer allocation to retirement savings	**8.610%**

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 29 February 2020, this saving amounted to 0.376% of annual fund salary.

Financial Report

The Fund's Revenue Account and Balance Sheet for the financial years ended 29 February 2020 and 28 February 2019 are set out below.

REVENUE ACCOUNT	**2020 (R'000)**	**2019 (R'000)**
Accumulated Funds - Start	5 394 482	5 236 328
Income		
Contributions	652 222	617 411
Transfers Received	7 690	19 097
Reinsurance recoveries	31 661	35 586
Investment income	5 390	5 213
Other income	0	11
Capital Appreciation	98 013	84 496
Expenditure		
Fund expenses	(23 666)	(22 279)
Reinsurance premiums	(28 152)	(35 342)
Investment Manager Fees	(18 320)	(22 593)
Benefits and Transfers Out	(514 249)	(523 446)
Accumulated Funds - End	5 605 071	5 394 482

BALANCE SHEET	**2020 (R'000)**	**2019 (R'000)**
Accumulated funds		
Share Account	5 589 610	5 376 970
Reserve Account	15 461	17 512
	5 605 071	5 394 482
Represented by		
Investments	5 555 674	5 349 601
Current assets	144 120	126 031
Current liabilities	(87 439)	(75 168)
Unclaimed Benefits	(7 284)	(5 982)
	5 605 071	5 394 482

Registered Office and Contact Information

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

The Principal Officer
Woolworths Group Retirement Fund
C/o Alexander Forbes Financial Services
Block A
The Boulevard
Searle Street
Woodstock
7925

Tel.: +27 21 401 9300
Fax: +27 21 415 5551
Email: wgrfmbrqueries@aforbes.co.za
Fund website: www.wgrf.co.za