

10X

INVESTMENTS

10X Retirement Annuity Fund

Annual Trustee Report

Fund Year ending 31 December 2017

Registration number: 12/8/37961 **SARS approval number:** 18/20/4/42168

Registered address: Suite 105, Sovereign Quay, 34 Somerset Road, Green Point 8005

FROM THE CHAIRMAN

This report aims to provide members of the 10X Retirement Annuity Fund (“the Fund”) with information about the Fund in addition to the personalized information contained in the annual benefit statement.

As the Fund is a defined contribution arrangement, your eventual retirement benefit is based on the growth of net retirement contributions with net investment return over the period of your membership. Long term investment growth is therefore a key aspect and you are encouraged to seek professional advice from an accredited financial planner in order to understand how the benefits of the Fund fit into your overall financial plan.

During the 2017 Fund year (1 January 2017 to 31 December 2017), the investments of the Fund have grown from R509 million to R803 million. The trustees are satisfied with the steady and significant growth in the Fund since inception.

FUND MANAGEMENT

The Fund is managed by a board of trustees (“the Board”), of whom two must be independent of 10X Investments (Pty) Ltd. The Fund is served by an independent principal officer.

The Board is ultimately responsible for the governance of the Fund, in particular exercising oversight over the administration of the Fund, the investment of Fund assets and the payment of Fund benefits.

The following persons served as the Fund officers over the 2017 Fund year:

Name	Position on the Board	Occupation	Qualifications
Jonathan Mort	Chairman Independent Trustee	Attorney	BA, LLB Admitted Attorney of the High Court of South Africa
Paul Slack	Independent Trustee	Chartered Accountant	BComm (Hons)(Financial Management) CA (S.A.)
Sohini Castille	Sponsor Employed Trustee	Head of Consulting	BComm
Tracy Jensen	Sponsor Employed Trustee	Actuary	BSc (Hons) (Statistics & Actuarial Science), MSc (Financial Mathematics), Member of Institute & Faculty of Actuaries
Dalene Willemse	Principal Officer (independent)	Independent Trustee and Principal Officer	BA, B Proc, LLB

During the year, Mr Nathan resigned as trustee due to work commitments and Ms Sohini Castille was appointed as sponsor employed trustee.

INVESTMENTS

The broad principles of the Investment Policy Statement of the Fund, as adopted by the Board, are:

1. The Fund matches the asset allocation in respect of each member to the member's anticipated investment term, which is called **life stage asset allocation**.
2. The costs of investment are minimized.
3. Investments are spread over a variety of asset classes, in the form of a diversified portfolio.

For the period from 1 January 2017 to 31 December 2017, the returns earned under the Fund have been as follows:

	<i>Benchmark</i>	<i>Actual</i>	<i>Tracking Deviation¹</i>
10X High Equity	13.6%	13.6%	0.0%
10X 60% Equity	12.4%	12.4%	0.0%
10X Medium Equity	11.6%	11.7%	0.1%
10X 40% Equity	10.1%	10.4%	0.2%
10X Low Equity	8.5%	8.9%	0.4%
10X Defensive	6.8%	7.4%	0.6%

The average cost per member (including investment charges, benefit administration charges and Fund costs) over the period is approximately 0.80% p.a. of investments, compared with 0.91% p.a. over the previous year.

Investment Overview for the period from 1 January 2017 to 31 December 2017:

Financial market returns

2017 was a year marked by strong asset class returns set against a largely bearish backdrop. Locally, concerns regarding South Africa's credit rating, State Capture as well as the Steinhoff collapse dominated headlines. Internationally, it was the seeming impasse in Brexit negotiations and a nuclear standoff between the United States and North Korea. Despite all the negative headlines, members who remained fully invested throughout the year earned returns in excess of the long-term return expectations.

Below we offer some basic insights into the performance of our different asset's classes:

SA Equities delivered a strong 12-month return of 16.9%. This was welcomed after modest SA equity returns in both 2016 (2.9%) and 2015 (3.0%). Equity markets rallied in the second half of the year, initially driven by the resource sector on the back of firmer metal prices and a withdrawal of the revised Mining Charter. The market rallied into the end of the year on the back of positive news both locally, with the election of President Ramaphosa as the new leader

¹ The Tracking Deviation percentage reflects the difference in investment returns between the actual Lifestage portfolio and the benchmark. It is calculated as $1 - (1 + \text{Benchmark}) / (1 + \text{Actual})$.

Please refer to the 10X website (www.10x.co.za) for more information on the Life-stage portfolios and the underlying indices tracked..

of the ANC, and internationally with President Trump's tax cuts which were seen to be supportive of corporate profits.

SA Property was the strongest asset class, delivering (17.2%), which is well above the average long-term return. The return was mainly driven by capital appreciation, as opposed to yield. This can be evidenced by the reduced dividend yield of many property stocks.

SA Bonds category is split equally between nominal government bonds (+10.2%) and inflation-linked government bonds (+2.9%). The combined return of (+6.6%) was in line with average long-term return. The backdrop of falling inflation is supportive of nominal bonds, whilst inflation-linked bonds, which provide a hedge against inflation, tend to suffer.

SA Cash delivered 7.1%, beating CPI inflation (5.3%) by 1.8%. This is a significant real return for cash, above the long-term expected return for this asset class. Against the backdrop of falling inflation The South African Reserve Bank was conservative in only cutting the Repo Rate by 25 bps once during 2017.

International Equity. Despite significant rand strength, international equities delivered a strong return, driven predominately by the continuing bull market in the US. In dollars, the asset class was up 22.8%. After accounting for the stronger rand this translated into a local return of 13.2%.

International Cash. US interest rates climbed during the year, ending at 1.5%, however this asset classes return was primarily driven by the rand. After a volatile year, the rand strengthened significantly into year-end with International Cash returning -9.6% in 2017.

10X Portfolios

Each 10X portfolio blends the returns of the various asset classes in proportion to its asset allocation. With all growth assets (SA Equity, SA Property and Int. Equity) delivering strong returns, the 10X portfolios out-performed the expected long-term returns above inflation.

The High Equity portfolio delivered the strongest return in 2017, with each portfolio's return incrementally decreasing down to the defensive portfolio. The returns generated in 2017 were in line with the long-term characteristics of each portfolio, portfolios with Higher Equity allocations delivering stronger returns.

The end of 2017 marked a 10-year track record for the 10X Investment Strategy. Over the 10 years the High Equity portfolio delivered a real (after-inflation) return of 5.5% pa. What is important to note is that this 10- year period includes the Global Financial Crisis of 2008, which can be considered a 1 in 50-year event. Over 7 years, the High Equity portfolio beat inflation by 7.1% pa.

FROM THE FINANCIAL STATEMENTS

The Fund is audited annually and the audited financial statements, once approved by the Board, are submitted to the regulating authority (Financial Sector Conduct Authority or “FSCA”) for scrutiny.

Some basic information has been extracted for this report and members are entitled to view the revenue account and balance sheet at the registered office of the Fund.

INCOME & EXPENDITURE	2017	2016
	R	R
Receipts	319, 173, 135	162, 569, 660
Investment income	73, 538, 256	5, 739, 139
Transfers from other funds	129, 197, 331	60, 785, 945
Contributions	116, 437, 548	95, 883, 235
Payments	(19, 797, 049)	(19, 766, 159)
Administration expenses ²	(249, 885)	(159, 889)
Benefits	(19, 547, 164)	(19, 606, 270)
Net income	299, 376, 086	142, 803, 501
BALANCE SHEET		
	2017	2016
	R	R
Assets	813, 244, 589	514, 046, 561
Investments	803, 401, 141	509,488,905
Transfers receivable	-	695,273
Contributions receivable	421, 528	304,436
Cash at bank	9, 421, 920	3,557,947
Funds and liabilities	813, 244, 589	514,046,561
Members' individual accounts	806, 613, 361	511,646,557
Current liabilities	2, 062, 025	2,400,004

FUND GOVERNANCE

Since the inception of the Fund, the Board has developed governance policies for the Fund, in accordance with the guidelines set out in PF Circular 130. The governance policies and procedures adopted by the Board to date are the following:

- Code of Conduct
- Policy on gifts
- Risk Management Policy
- Investment Policy Statement
- Communication Policy
- Education and Training Policy

² The administration expenses paid by the Fund only relate to the administration fees levied by the administrator. Currently, other expenses such as the trustee fees, principal officer fees, audit fees, FSCA levies and fidelity insurance premiums are borne by 10X Investments (Pty) Ltd.

- Policy on Unclaimed Benefits
- Annual Board appraisals

BOARD MEETINGS AND ATTENDANCE

Over the 2017 Fund year, the Board held meetings on the following dates (attendance is reflected by “✓”):

Date	J Mort	S Nathan	P Slack	S Castille	T Jensen	D Willemse
24/03/2017	✓	✓	NA	NA	✓	✓
19/06/2017	✓	NA	✓	✓	✓	✓
13/09/2017	✓	NA	✓	✓	✓	✓
12/12/2017	✓	NA	✓	✓	✓	✓

**NA means that the trustee was not required to attend the meeting.*

SUB-COMMITTEES

The Board has established, in line with PF Circular 130, Board sub-committees to ensure that the Board’s governance responsibilities are carried out more effectively. Each sub-committee operates in terms of a written mandate and is evaluated annually.

AUDIT AND RISK SUB-COMMITTEE (ARC)

Members:

- P Slack (Chair)
- T Jensen
- M Matsoari (Accounting Manager of the Administrator)
- D Willemse

Objective:

To ensure that the interests of the Fund and its stakeholders are properly protected in relation to financial reporting and internal controls. This includes carrying out such investigative work and oversight responsibility relating to the financial reporting, internal controls and risk management of the Fund as, within the cost parameters agreed by the Board, furthers the governance purposes of the Fund.

COMMUNICATIONS SUB-COMMITTEE

Members:

- S Castille (Chair)
- D Willemse
- C Neill (Marketing Manager of the Administrator)

Objective:

To make recommendations to the Board regarding the methods by which the Board should exercise its duty to communicate properly to the stakeholders in the Fund.

DEATH BENEFIT SUB-COMMITTEE

Members:

- S Castille (Chair)
- J Mort
- D Willemse

Objective:

To investigate the circumstances regarding the circle of dependents and nominated beneficiaries of a deceased member and to report to the Board on its findings, in order to assist the Board in the distribution of any lump sum death benefit on an equitable basis.

CONTRACTS SUB-COMMITTEE

Members:

- T Jensen (Chair)
- J Mort
- D Willemse

Objective:

To investigate and report to the Board on any matter relating to the contractual arrangements of the Fund.

SERVICE PROVIDERS

The Fund's service providers are the following:

Auditors:	Ernst & Young Inc.
Benefit Administrator:	10X Investments (Pty) Limited
Investment Administrator:	10X Investments (Pty) Limited
Nominee Company:	Ferbros Nominees (Pty) Limited (Investec is holding company)

LEGAL ISSUES

RULES AND AMENDMENTS

The Fund is operated in terms of a registered set of rules, which can be viewed by members at its registered office. Copies can be provided to members electronically. Hard copies can be provided on payment of a fee to cover the cost of time, printing and postage.

Revised General Rules were registered for the Fund in June 2018. The main purpose of the revision of the rules was to consolidate previous amendments and to update the rules in accordance with changes in legislation.

COMPLAINTS

No complaints were lodged against the Fund with the Pension Funds Adjudicator during the 2017 Fund Year.

LEGISLATIVE CHANGES

Stakeholders should take note of the following legislative changes effected during the 2017 Fund Year, as well as further developments to the date of distribution of this report:

1. Taxation Laws Amendment Act, No. 17 of 2017 ("TLAA")

The TLAA was promulgated on 18 December 2017. The following key provisions affecting retirement funds are of importance:

1.1 Postponement of annuitisation requirement for provident funds to 1 March 2019

In 2015, amendments were made to the Act regarding the tax treatment of provident funds in order to enhance preservation of retirement fund interests during retirement. As a result, provident funds will be treated like pension and retirement annuity funds

and will be required to annuitise benefits. This implies that on retirement, members of the provident fund will be permitted to take up to a third of the retirement benefit as a lump sum and will be required to annuitise at least two thirds. This will only be applicable for contributions made to a provident fund after the implementation date. All contributions made before the implementation date, and growth on those contributions, may still be taken as a lump sum on retirement.

The above-mentioned amendments were to come into effect on 1 March 2016, but in February 2016, Government postponed the annuitisation requirements for provident funds for two years until 1 March 2018. The postponement was done in order to provide sufficient time for the Minister of Finance to consult with interested parties, including National Economic Development and Labour Council (NEDLAC), regarding the annuitisation requirements for provident funds after the publication of the comprehensive policy document on social security, and to report back to Parliament on the outcome of those consultations no later than 31 August 2017.

The discussions have not been finalised yet, therefore the TLAA postponed the implementation of the annuitisation requirements for provident funds for one year from 1 March 2018 to 1 March 2019. The Minister of Finance's report referred to above has also been postponed for another year, until 31 August 2018.

1.2 Transferring retirement benefits after retiring from employment

In 2014, changes were made in the Income Tax Act to allow individuals to defer payment of their benefits following retirement from service. As a result, members of retirement funds are allowed to keep their retirement benefits within their funds past retirement from service.

In terms of the TLAA, members who retired from service will now also be able to transfer their retirement benefits to a retirement annuity fund. This change took effect on 1 March 2018. A transfer of such benefits to any other fund, e.g. a preservation fund, is however still not allowed.

1.3 Deduction in respect of contributions to retirement funds

The deduction for employee contributions to a pension fund was historically included in section 11(k), while deductions for contributions to a retirement annuity fund were included in section 11(n). As part of the wider retirement reform objectives, the tax deductibility of contributions to retirement funds was harmonised across all retirement funds through a replacement of section 11(k) from 1 March 2016, where the same deduction now applies to both employer and employee contributions to pension funds, provident funds and retirement annuity funds.

The inclusion of the deduction in section 11(k) has created technical complications, since the opening proviso states that deductions under section 11 relate to taxable income derived from the carrying on of a trade. However, not all allowable contributions to retirement funds relate only to income generated from the carrying on of a trade, which led to a specific exemption for retirement annuity funds under 11(n)(i)(ff) before 1 March 2016. The previous location of the provision dealing with deductions for contributions to retirement funds under section 11(k) could also create anomalies, such as generating an assessed loss from contributions to retirement funds that are above the allowable limit when taxable capital gains are a part of the higher limit.

To remove the inconsistencies and anomalies that arise from the previous location of the provisions that allow for a limited deduction for retirement fund contributions under section 11(k), a new section 11F has been inserted to effect this deduction.

The proposed amendments will be deemed to have come into effect on 1 March 2016.

1.4 Disallowing the exemption for a lump sum, pension or annuity from a SA retirement fund or insurer in respect of foreign service

Section 10(1)(gC) of the Income Tax Act allowed a South African resident, who was employed outside of South Africa, to receive the retirement benefits that they earned or accrued while outside of South Africa, tax-free. This exemption did not apply to benefits received by a South African tax resident from a South African retirement fund. It only applied to a benefit received from a foreign fund, and an amount transferred to a South African fund from a source outside of South Africa for that member. This provision only applied to benefits paid by a fund, and not to annuities paid by an insurer.

Section 10(1)(gC) has been amended to include an annuity income paid by a South African insurer in respect of annuities to SA residents. Annuity income arising from foreign services rendered and paid by a South African insurer to a SA resident will be taxed, but it will be tax exempt if paid by a foreign insurer. This amendment will be effective from 1 March 2018.

2. The FSB evolves into the FSCA

With effect from 1 April 2018, the Financial Services Board (FSB) has transitioned into a new regulator, the Financial Sector Conduct Authority (FSCA). The FSCA is a dedicated market conduct regulator for the South African financial services industry.

The Financial Sector Regulation (FSR) Act was signed into law in August 2017. This Act implements the twin peaks regulatory system in South Africa. The Minister of Finance has now signed the Commencement Notice of the FSR Act, which formally establishes two new authorities, the FSCA and the Prudential Authority with effect from 1 April 2018.

The FSCA's mandate is to ensure improved market conduct outcomes in the South African financial sector. The objectives of the FSCA are to:

- (a) Protect financial customers by promoting their fair treatment by financial institutions, providing financial education programs and promoting financial literacy;
- (b) Enhance and support the efficiency and integrity of financial markets;
- (c) Assist in maintaining financial stability.

The FSCA will issue conduct standards and will have strengthened enforcement powers to meet its objectives.

There will be no immediate drastic changes due to the implementation of the FSCA mandate, but rather gradual changes over the course of the year as the FSR Act is phased in. Immediate changes effective from 1 April 2018 are as follows:

- (a) An interim management committee, consisting of former FSB Executive Committee members, will manage the FSCA with minimal disruption until a Commissioner has been appointed;
- (b) All communications, regulatory actions and decisions will now be in the name of the FSCA and no longer the FSB. New email addresses, stationery, branding and logo are effective;
- (c) A new website www.fsc.co.za is live;
- (d) The FSB Appeal Board is replaced with a Financial Sector Tribunal. Any entity aggrieved by an FSCA decision may approach the new tribunal.

During the course of this year there will be gradual changes within the FSCA, such as new functional organisation design that is aligned with the mandate of the FSCA. There will also be upskilling of current staff and recruitment of new skills and expertise to address the broader mandate of the FSCA.

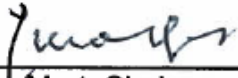
FUND CONTACT DETAILS

The contact details for the administrators of the Fund are as follows:

Administration company	10X Investments (Pty) Ltd
Contact person	Rodney Baron
E-mail	info@10x.co.za
Telephone	+27 21 412 1010
Postal & Physical address	Suite 105 Sovereign Quay, 34 Somerset Road, Green Point, 8005

Should you wish to contact the Board in writing, you can address your correspondence to:

The Principal Officer
10X Retirement Annuity Fund
c/o 10X Investments (Pty) Ltd
Direct email: dalene@legaltech.co.za



Jonathan Mort: Chairman of the Board

19.10.2018

Date