CAPE MUNICIPAL PENSION FUND

INVESTMENT CHOICE GUIDE

Legal disclaimers

Investment is a complex area and every attempt has been made to simplify this guide for ease of understanding. This may result in some areas being covered in relatively little detail. Readers of this guide should note that:

- Past investment performance is not necessarily a guide to future investment performance; and
- The information contained in this guide does not constitute advice by the Board of Trustees of the Cape Municipal Pension Fund, its staff or by its advisors.

IMPORTANT CONSIDERATIONS

- For many members your benefit in the Cape Municipal Pension Fund is probably the single largest asset you will ever own. Most people do not realise this.
- Also, did you know that very few people worry about whether they will have enough money for their retirement until closer to the time? Of course, the problem with this is that you may be left with too little time to rectify the situation should it emerge that you have made insufficient provision for your retirement.
- The Trustees are committed to improving retirement outcomes for members. This guide forms part of the Fund's education initiative to help achieve these outcomes.

Defined Contribution – what this means

You are a member of a Defined Contribution fund. Your retirement benefit therefore depends on two factors, namely:

- The amount of the monthly contributions made to the Fund on your behalf; and
- Most importantly, the investment returns you earn on these contributions.

You, the member, carry the risk of whether the investment returns earned on your pension saving contributions will be sufficient to provide you with a reasonable income at retirement. Given that this is probably the largest asset you will own, it is worth thinking more about its investments and the risks you face now.

The Fund provides an automatic investment plan (the so-called life stage model), which is intended to build members' retirement capital prior to retirement and protect this capital as retirement approaches.

The purpose of belonging to a Pension Fund

The reason that you are part of a Pension Fund, is to ensure that both you and your employer **save money towards your retirement.** This means that you should only access this money when you reach retirement – which in your case is at 65 years of age.

How much you will need for your retirement

Every person has different personal circumstances and different financial needs that arise from their personal circumstances. Some will therefore need to save more and others less for their retirement.

The following is basic criteria for a member to retire with a reasonable pension equal to approximately 75% of their final salary at retirement:

- A member with an average career progression and 35 years of service (assuming that members who change jobs will preserve their retirement savings);
- Retirement funding contributions of at least 15% of pensionable salary (in this Fund both the member and the City of Cape Town (CoCT) contributions exceed this number by far);
- Earning an investment return of about 4.5% per year over and above inflation (this is called a 'real-return') for the 35-year period

What kind of investments will give members a sufficient investment return over the long-term

As stated above, a 'sufficient' investment return is generally considered to be an annual return of 4.5% over and above inflation over a 35-year period, or longer.
There are different types of investments that the asset managers can invest money in.

In this guide you can learn more about how to achieve this by covering the following topics:

- **The Main asset classes in which you can invest your pension savings**
- **The key Investment risks you face as a member of the defined contribution section**
- **How the Fund's Life Stage Model works**
- **Choosing your own portfolios**
- **Common mistakes members make when investing**
- **Fact Sheets on all the portfolios**

MAIN ASSET CLASSES

There are different types of investments and they are called 'asset classes'. The assets in which the Fund invests your money are equities, bonds and cash. These asset classes are available both in South Africa and offshore.

One cannot explain all the intricacies of these asset classes in a document such as this, but the following provides an overview.

Equities (or shares)

When an investor owns the equity (or shares) of a company, he/she effectively owns part of that company. Equity prices are sometimes affected by market sentiment. Sometimes investors are negative towards the market and even if the company in which you have invested is doing well, its shares may still fall in value.

Equities can be bought and sold on stock exchanges throughout the world. The South African stock exchange is called the Johannesburg Stock Exchange (JSE). The two main features of equities (compared to bonds and cash) are:

- Historically, over the long term, equities have been the asset class that provided the highest investment return; and
- Equities have had the highest volatility (or highest risk of reducing in value), especially over shorter measurement periods.

This makes sense – logically investors should look to be rewarded by higher investment returns for taking on more risk.

Bonds

The Government (and some large companies like Transnet, Telkom, ESKOM and SASOL) are regular borrowers of money. So, they issue bonds that invite investors (like the asset managers of your Fund) to lend them money. The bond will set out the interest the borrower will pay, and the date on which the loan will be repaid.

The market value (price) of a bond at any point in time depends on interest rates and, importantly, that price can decrease. By way of example, let's say the Fund owns a bond that is worth R1 million, which is currently earning 8% per annum. If interest rates now increase to 10% per annum, the market value of the bond will fall because no investor will be prepared to pay R1 million to earn a 8% return when they now can earn 10% elsewhere!

The extent to which the price of a bond falls (rises) if interest rates rise (fall) depends on the period before the loan is repaid. If the repayment of the loan is a long way off, the investor will look for a much lower price because he/she needs to be compensated for the difference between 10% and 8% for a longer period.

Government bonds and other large corporate bonds can be bought and sold easily on the Bond Exchange of South Africa (BESA, now a division of the JSE) and other world markets.

Over the long term, bonds are expected to provide a lower investment return than equities, but a higher return than cash. Bonds are less volatile (or risky) than equities but are vulnerable to the risk of an unexpected rise in inflation, unless the repayments are inflation-linked. The Government issues both inflation-linked and conventional or "nominal" bonds.

Cash

Such an investment is like your bank savings account or a 30-day fixed deposit. Government bonds that have a term of less than 12 months before the loan is repaid are regarded as “near cash” investments. Such investments are also called “money-market instruments”.

Because such investments have a very short term (i.e. less than 12 months) they are much less affected by changes in interest rates than bonds and are the least risky of the three asset classes described above.

Cash and “near cash” is expected to provide the lowest return of all the asset classes over the long-term.

It is important to emphasize that investing in cash is not entirely risk free. In certain market conditions the bank or institution where you invest your money may default, as SAAMBOU clients found out a few years ago.

International (global) investments

Investments in equities, bonds and cash can be made either in South Africa or internationally.

The main additional factors introduced by international investment are: -

- The investor can be exposed to the companies that are the best in the world at their business.
- The South African equity market is very small (it represents less than 1% of the total world stock market capitalization). By investing internationally, the Fund is exposed to a much wider opportunity set of investments.
- The fund is exposed to currency changes. Say, $1 currently costs R7 and the Fund invests R7 million in the USA (i.e. $1 million). If the Rand immediately “weakens” so that $1 now costs R10, the Fund will profit since its $1 million investment is now worth R10 million. Obviously if the Rand “strengthens” to say R5, then the Fund’s R7 million investments will reduce to R5 million and the Fund will make a loss.
- There is different investment risk in different countries. For example, the US stock market has historically been less risky than the South African stock market.

It is important to highlight that the primary benefit from investing internationally is the diversification across different economies. Such diversification gives you greater protection should investment returns in South Africa be poor in relation to other markets. However, it is also important to note that every economy and investment market goes through “highs” and “lows”, and it will not always be true that it is better to invest in the developed world markets. It is also true that globalization has meant that the world’s different economies are more closely linked to each other today than they were in the past, and in addition, many of the shares now listed and traded on the JSE are in fact businesses that operate all around the world and not just in South Africa.

THE KEY INVESTMENT RISKS YOU FACE

The concept of risk and reward

It is very important to understand that the word “risk” in this context means the risk of losing money over short periods. Thus, it is assumed that younger members should be invested in a higher risk portfolio, because being far from Normal Retirement Age it does not matter if the value of their investment falls over short periods, **provided** that the “reward” is a higher investment return over longer periods.

For older members it is assumed that a negative return over short periods is not acceptable because they are so close to retiring, and therefore they are placed in a portfolio which is unlikely to lose money over short periods. The “price” for this security is a lower return.

Historically, statistics have shown that over the long term, equities out-perform (have a higher growth than) other asset classes. Equities are more volatile (unpredictable) and can experience negative returns over shorter measuring periods. Equities can therefore be referred to as “riskier” over short periods. This is often referred to as the ‘risk/reward payoff’.

Bonds and cash are more conservative, and any negative returns are generally small compared to the potential negative returns on equities. The “risk/reward” payoff is lower with these asset classes, i.e. less likely to have negative returns but also the expected investment returns will be lower.

So, in order for an investment to provide sufficient returns for retirement, it is necessary to have sufficient exposure to equities. Bonds and cash are appropriate for short to medium term periods where there is very little chance of negative returns – either in the short or long term. However, the extent of the expected returns from bonds and cash in the long term will be lower than from equities, and they may not out-perform inflation sufficiently.

The Life Stage Model investment portfolios that members will be invested in will contain a mix of the different asset classes that have been described above. This is discussed later on in the guide.

The objective of each portfolio will determine the different mix of the various asset classes, for example a conservative portfolio will have less equities but more bonds and cash.

Key investment risks

As your Fund is a Defined Contribution arrangement, you carry the risk of whether the investment returns earned on your retirement saving contributions will be sufficient to provide you with a reasonable income at retirement.

On this basis it is crucial that you understand what investment risks impact on you and how best you can manage these risks. In this regard you are exposed to two main risks, namely:

- Inflation risk; and
- Capital or Final payment risk.

Inflation risk

This refers to the risk that the money that you and the CoCT set aside monthly as your pension saving (currently some 23% of your pensionable salary) does not earn sufficient investment returns to provide a reasonable retirement benefit.

For an average employee with a full career, you need your investment returns to be something like 4.5% per annum higher than price inflation (after allowing for investment manager fees) to provide for reasonable retirement benefits. By a reasonable retirement benefit we mean that an employee with 35 years service and an average career progression would be able to retire with a pension of some 75% - 80% of his/her pensionable salary at retirement; although such a pension is not guaranteed.

As a general rule, the further you are from retirement, the more you are exposed to inflation risk.

There may be periods of time where there is a risk of *deflation* in some economies, and even in the South African economy. Deflation happens when the loss of investor confidence is so great that people defer buying assets, because they expect that prices will fall even further. The economy will have to slow down and asset prices will have to fall low enough until people start to feel confident to invest at the cheaper levels. In these circumstances, bonds and cash are the asset classes that will probably give the most protection to an investor.

Capital or final payment risk

This is the risk you face when your investment horizon becomes rather short – the key risk is that when you receive your benefit the market is at a low point.

Your "Capital risk" generally becomes more acute as you approach retirement. The following examples highlight the nature of Capital risk and whether this risk applies to you or not:

- You will be retiring shortly. At that time, you intend securing a *pension annuity*. The initial pension you will receive will depend critically on the amount of your retirement savings at retirement. In this example you face "Capital risk" (and have a short investment horizon) because you do not want your retirement savings (and consequently your initial pension) reduced by investment losses.
- You are 20 years' from retirement and will be resigning soon. You intend preserving your resignation benefit for your retirement. In this case you have a long investment horizon and do not face Capital risk.
- You are 20 years' from retirement and will be resigning soon. You intend using your resignation benefit to pay off your house bond. In this case you face Capital risk because if the market goes down sharply you will have less to repay your house bond.

Since it is expected that most members will choose a pension annuity at retirement, as a general rule, the closer you are to your retirement age, the more you are exposed to "Capital risk".

You need to decide which of the above two risks is currently more important to you. If you do not feel you can make this decision, then you can do either or both of the following:

(i) Let the Trustees make the investment decision for you. The model (Life Stage Model) that the Trustees will follow is explained in the next section of this guide; or
(ii) Speak to an independent financial adviser who knows your financial circumstances.

Please note that the Trustees cannot advise you – they can only provide information.

THE LIFE STAGE MODEL

Members who want the Trustees to choose the investment portfolio for them will be invested according to the Life Stage Model. In other words, if you do not want to make any investment decision yourself, your money will be invested according to the Life Stage Model explained in this section.

The life stage portfolios comprise three portfolios, namely the **Market Portfolio**, the **Low Equity Balanced Portfolio** and the **Money Market Portfolio**.

- Your money will automatically be invested according to the Life Stage model unless you make a positive choice to invest your money in another way (i.e. one or more of the “own choice” portfolios).

- The model assumes that the major determinant of whether you wish to manage your inflation risk or capital risk is *the period until your retirement*.

- Up until recently, the Fund had different Normal Retirement Ages, depending on when a member joined the Fund. Due to the varying normal retirement ages, the Life Stage Model took into account the situations of members who retired with a normal retirement age of 60, 62 or 65.

- The normal retirement age is now 65 for all members of the Fund and the Life stage model changed accordingly. The implementation of the new uniform NRA of age 65 in the current Life Stage Model would have impacted on members who were already in transition based on the former NRA of 60 or 62 (Members with a former NRA of 65 were not affected, as nothing changed for these members).

  Members aged 61 and younger who were in the Old Life Stage Model were transferred to the Current Life Stage Model. Members aged 62 and older remained in the Old Life Stage Model.

  Members who were unhappy with this were allowed to opt out of the Life Stage Model and become own choice members.

The model *does not take into account the possibility* that you may be planning to resign soon and intend spending your resignation benefit.

The next sections explain the:

- The Market Portfolio
- The Low Equity Balanced Portfolio
- The Money Market Portfolio
- Transition between the life stage portfolios

The Market Portfolio

The Market Portfolio has been designed to deal mainly with inflation risk. According to the life stage model your money will be invested exclusively in the Market Portfolio up to the end of the month in which you are 6 years away from your normal retirement date.

The Market Portfolio has an investment objective to deliver an investment return that is 5% p.a. higher than price inflation over the longer term (after manager fees) *although this return is not guaranteed and will depend on investment market conditions*.

The assets of this portfolio are invested in a mix of shares and bonds (local and offshore). As such it is exposed to the performance of these markets and the return you earn from this portfolio over a period may be positive or negative depending on market conditions.

A detailed fact sheet is included at the end of the guide.

The Low Equity Balanced (LEB) Portfolio

The Low Equity Balanced (LEB) Portfolio has been designed to deal mainly with inflation risk. However, it also aims to some extent to deal with the final payment risk you face.

According to the life stage model your money will be invested fully in the Low Equity Balanced Portfolio 5 years prior to your normal retirement age. (The transition between the Market and Low Equity Balanced Portfolio is explained below)

The investment objective of the Low Equity Balanced Portfolio is to earn an investment return (after manager fees) that exceeds inflation by 3.5% p.a. over at least 5 years. It is important to note that this level of return is not guaranteed and will depend partly on market conditions.

The assets of this portfolio are invested in a mix of shares and bonds (local and offshore). As such it is exposed to the performance of these markets.

This portfolio does not provide any performance guarantees or capital guarantees. However, the portfolio should produce consistent positive returns that are targeted to beat inflation over 3- to 5-year periods. It is possible that in any given month the return could be negative. However, the negative return is not likely to be material, and it is unlikely that there will be a material negative return over any 12-month period.

It is important to understand that whilst negative returns over a 12-month period are unlikely, **they are not impossible**. In summary, over periods of 3 to 5 years you can expect:

- a low probability of capital losses, and
- a high probability of returns above inflation.

It will not protect your capital as well as the Money Market Portfolio, but it is expected to provide a better investment return than cash over 3 to 5 years.

A detailed fact sheet is included at the end of the guide.

The Money Market Portfolio

The investment objective of the Money Market Portfolio is to perform in line with the published money market index. The money will be 100% in cash and other instruments that have a term of up to 12 months. The average duration of the portfolio may not exceed 180 days. (Note that we are using the name Money Market Portfolio, which is familiar to Fund members, although in reality it would be more correct to call this the Money Market Portfolio, as it does not invest only in cash deposits.)

This portfolio will give you a return similar to that achieved by money market Unit Trusts. It important to understand that this portfolio does not provide a guarantee – it is possible that in extreme events that bank in which the Fund invests your money fails.

The Money Market Portfolio has been designed to deal fully with **"Capital risk"**. According to the life stage model your money will be invested fully in the Money Market Portfolio for the 12 months before your normal retirement age. (The transition between the Low Equity Balanced Portfolio and Money Market Portfolio is explained below.)

A detailed fact sheet on the Money Market Portfolio is included at the end of the guide.

Transitioning between the Life Stage Portfolios

According to the Life Stage model, the money you have invested in the Market Portfolio will be transitioned in 2 equal annual instalments starting at the end of the month immediately following your **transition birthday**. Your **transition birthday** is when you are 6 years away from your normal retirement age. This means that by the end of the month one year after your transition birthday you will be fully invested in the Low Equity Balanced Portfolio, where it will remain for three years.

Two years before your normal retirement age, your savings in the Low Equity Balanced Portfolio will be transferred to the Money Market Portfolio in 2 equal annual instalments. For the 12 months before your normal retirement age, therefore, all your money will be in the Money Market Portfolio.

The diagram below show the life stage model (taking into account a Normal Retirement Age of 65 for all members).

	Allocation of Member Credit			Allocation of future contributions		
Month following birthday	**Market Portfolio**	**LEB Portfolio**	**Money Market Portfolio**	**Market Portfolio**	**LEB Portfolio**	**Money Market Portfolio**
58 and younger	100%	0%	0%	100%	0%	0%
59	50%	50%	0%	0%	100%	0%
60	0%	100%	0%	0%	100%	0%
61	0%	100%	0%	0%	100%	0%
62	0%	100%	0%	0%	100%	0%
63	0%	50%	50%	0%	0%	100%
64	0%	0%	100%	0%	0%	100%

Important assumptions of the Life Stage model

The life stage model is based on a number of important assumptions, namely:

- **The life stage model assumes that you will retire at age 65 .**
- **So, if you intend to retire at age 55, you may wish to consider transitioning your retirement savings in the LEB Portfolio from age 49 onwards (as opposed to age 59 as would be the case with the life stage model). Importantly you will need to indicate this choice by sending in an Investment Choice Option Form.**
- **Your money will automatically be invested according to the life stage model unless you make a positive choice to invest your money in another way (i.e. your choice of one or more of the own-choice portfolios).**
- **The model is also based on an "average risk appetite". To the extent that your risk appetite is more conservative or aggressive than average, the life stage model may not be appropriate.**

Background information regarding the previous Life Stage Models and how it affects members

The new Life Stage Model was implemented on 1 February 2019. The previous Life Stage Model (with the different normal retirement ages was introduced on 1 January 2012. Prior to this date the Life Stage Model was made up of the Market Portfolio and the Stable Portfolio. This was later changed once again and the Life Stage Model was then made up of the Market Portfolio and the Money Market Portfolio. This of course means that there are still members whose Fund Credits are fully or partly invested in the Stable Portfolio, under the previous Life Stage Model.

The Stable Portfolio has, however, been discontinued for new investments and become closed to new entrants since 1 December 2008. Members who have part of their Fund Credits invested in the Stable Portfolio will remain invested in this portfolio (unless they opt out as "own choice" members.)

A detailed fact sheet is set out at the end of this guide. It is important to note that certain limitations may apply if you decide to take your money out of this portfolio at a later stage.

CHOOSING YOUR OWN PORTFOLIOS

You may make a positive choice to invest your Fund Credit and future pension savings contributions in a different way to the Life Stage Model. You will need to inform the Fund of this election (see Investment Choice Option Form). This section deals with the:

- Portfolios available
- Range of choices you have
- Investment switching

You should be careful in using an own choice portfolio in an attempt to "time the market". There is strong evidence that professional investment managers are not able to time the market correctly on a consistent basis (see trying to "time the market").

Portfolios available

You may elect to invest your money in any of, or combination of, the:

- Market Portfolio
- Low Equity Balanced (LEB) Portfolio
- Shari'ah Portfolio
- Money Market Portfolio

Detailed fact sheets are set out at the end of this guide.

Bear in mind that there are still members whose Fund Credits are fully or partly invested in the Stable Portfolio and those members should particularly note the penalty that may apply in adverse market conditions if you want to switch out of the Stable Portfolio.

If you choose to take a housing loan directly from the Fund, you will in effect be investing your retirement savings in a fifth investment channel (please see the section dealing with Housing Loans).

Range of choices you have

You may make a separate choice of how you want to invest your Fund Credit and how you would like to invest your future pension savings contributions. For example, you may choose to invest your Fund Credit in the Low Equity Balanced Portfolio and your future pension savings in the Market Portfolio.

Investment Switching

What is switching?

If you make a voluntary choice to change part or all of your retirement fund investment from one portfolio to another, this is a switch. It is voluntary and **requires your specific instruction**.

Are there any restrictions on switching between the portfolios?

There are no restrictions on how you can allocate your money between the portfolios. For example, you can invest your future contributions differently from your accumulated retirement savings.

When can I switch?

Members may change their investment choice on a monthly basis.

What do I need to make the instruction?

You will need to complete an Investment Choice switching form. These forms are available from the Pension Fund Offices.

To whom must I send my instruction?

The completed switching form must be sent to Alexander Forbes by following the instructions on the switch form. **It is your responsibility to ensure that Alexander Forbes receives this form. The fax number is (011) 263 2948.**

What are the deadlines?

You must inform the Fund's administrator by the 20th of the month if you want a switch to be implemented on the first day of the next month. (If you do not submit your option form before this cut-off date, your switch will be implemented on the first of day of the month two months hence).

What happens after I have made my instruction?

The administrator will transfer the money between the investment managers and will amend your Fund record to allocate your retirement savings to your new portfolios.

How will I know my instruction has been carried out?

It is your responsibility to ensure that the Fund's Administrator has received your option form.

What is the cost of switching?

In each **calendar year** you will be entitled to **one free switch**.

You will be charged for **any additional switch** in the 12-month period. At this time, the fee for an additional switch is R300 plus VAT, which will be deducted from your retirement savings at the time of the switch.

Why will I be charged for additional switches?

The administration fees that the Fund pays include an allowance for a certain (assumed) number of members to make one switch in each 12-month period. The administration costs of any additional switches must be passed to the member who uses the facility more frequently. The principle is that the "user pays". Members who do not switch frequently will not wish to subsidise those who do.

The trustees do not expect that the switching facility will be widely or frequently used.

Are these charges fixed?

The switch charge is a fixed Rand amount. It is not affected by the amount of money that you switch. Note that the trustees may decide to increase the charge at some stage in the future.

Are there any investment penalties if I switch?

There are no penalties on switching out of any of the portfolios, except for those members that have part or all their money invested in the Stable Portfolio, who may be affected by switching penalties in some circumstances. You should refer to the Fact Sheets at the end of this guide to understand the performance characteristics of the various portfolios as well as the possible switching penalties of the Stable Portfolio.

Can I opt back into the Life Stage Model?

If you **at any time** make a positive choice to invest differently from the Life Stage portfolio, then in future you will always need to advise the Fund if you want to switch portfolios - this means that you cannot opt back into the Life Stage Model.

COMMON MISTAKES

Although it may be attractive to construct your own portfolio, it is worth pointing out the following two common mistakes members make with own choice portfolios.

Choose an investment strategy that is too conservative

The South African and international experience is that when faced with investment choice, members often choose too "conservative" a channel relative to the risks they face. This error can have material negative financial consequences.

For example, if a 25-year old member decides to invest his/her retirement savings in the Money Market Portfolio over his/her entire working life (i.e. for 35 to 40 years), he/she could end-up with a pension some 40% to 60% less than had he/she invested more appropriately according to the life stage model.

So, if you are young and you are not concerned about your "final payment risk", you should invest primarily to manage your inflation risk as the life stage model does automatically.

Trying to "time the market"

Experience shows that some members believe that they can "time" the share market. This means they try to get out at the "top of the share market" and buy back in at the bottom of the share market (i.e. they aim to get both decisions right).

The reality is that the vast majority of expert investment managers cannot "time" the market effectively. Expressed another way, it is very difficult to get the market "timing" right consistently.

The evidence to date shows that Pension Fund members who try to "time" the market almost always get it wrong. In fact the evidence shows that members expose more money to the equity market when it has gone up sharply (possibly the worst time to do so) and avoid the share market after a sharp fall (typically the best time to get back into the share market).

If you can time the market correctly consistently, you are almost certainly in the wrong job!

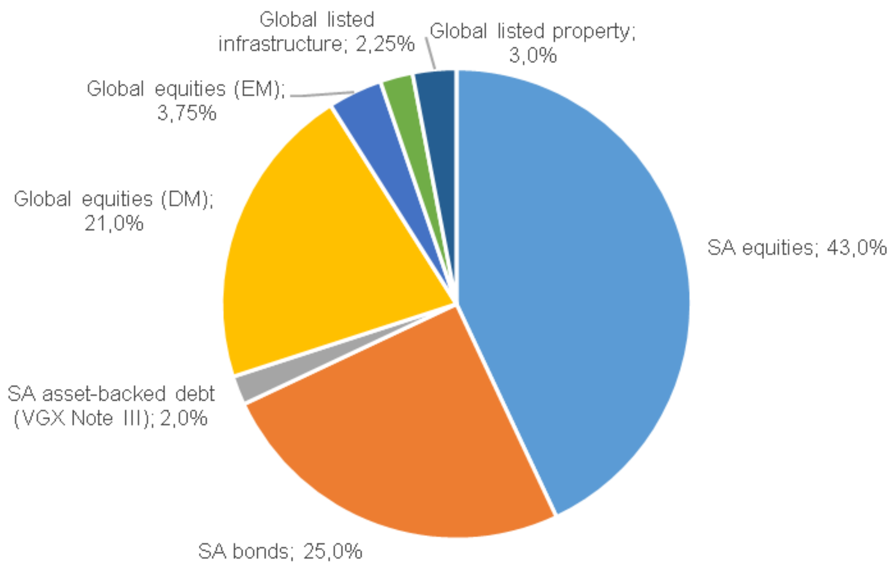
FACT SHEET: MARKET PORTFOLIO

Investment objective

The MP aims to deliver 5% p.a. (net of fees) out-performance of "*headline inflation*" (or CPI) over any rolling 8-year period. Please note that this level of return is not guaranteed and will depend critically on market conditions.

Asset allocation

The envisaged strategic asset allocation of the Portfolio is shown in the chart below:



The actual allocation of the portfolio will vary within pre-defined parameters around this strategic asset allocation. This means that the actual asset allocation will not always correspond exactly to the pie chart. The trustees may also decide to make changes to the investment strategy from time to time – this could affect the asset allocation as well as the choice of investment firms to manage the portfolio.

Performance characteristics

This portfolio does not provide a guarantee. It aims to deliver a good return relative to inflation. It has a long-term investment horizon and one should only measure its performance over a minimum of 5 years or longer.

About 65% of the SA equity component is managed according to a contrarian long term investment style, and all the current international equity managers have a similar valuation bias. Given the strong focus such investment managers have on placing a fair value on the long term value of a Company (and only buying "bargains"), they are likely to under-perform the market significantly when sentiment dominates. Market sentiment dominates pricing at the top of a mature bull market or at the bottom of the bear market.

The performance of this portfolio is thus likely to be somewhat different from that of the average Retirement Fund, as represented in the published investment surveys – generally delivering better performance in weak markets, but under-performing at the bottom of the bear market and the top of a mature bull market.

Investment managers

The current investment managers for the Portfolio are:

- SA equities: Allan Gray Limited, Coronation Asset Management, Ninety One, Visio, ABAX, Sanlam Satrix
- SA bonds and cash: Ninety One, Prescient Investment Management and Future Growth Asset Management
- International equities: Hosking Partners, Ardevora, Veritas Asset Management, Contrarius Investment Management, Lindsell Train, Lansdowne Partners, Metropolis, Coronation, GQG Partners, Pzena, Sands Capital
- Global Listed Infrastructure: Maple-Brown Abbott
- Global Property: via Sygnia

The manager targets are to outperform specific market indices. The Trustees will change the investment manager if they become concerned that the manager will not deliver the required level of investment performance to the Fund.

Charges

You are credited with a net investment return each month – this means that investment management fees and other expenses, such as custody fees, have already been deducted.

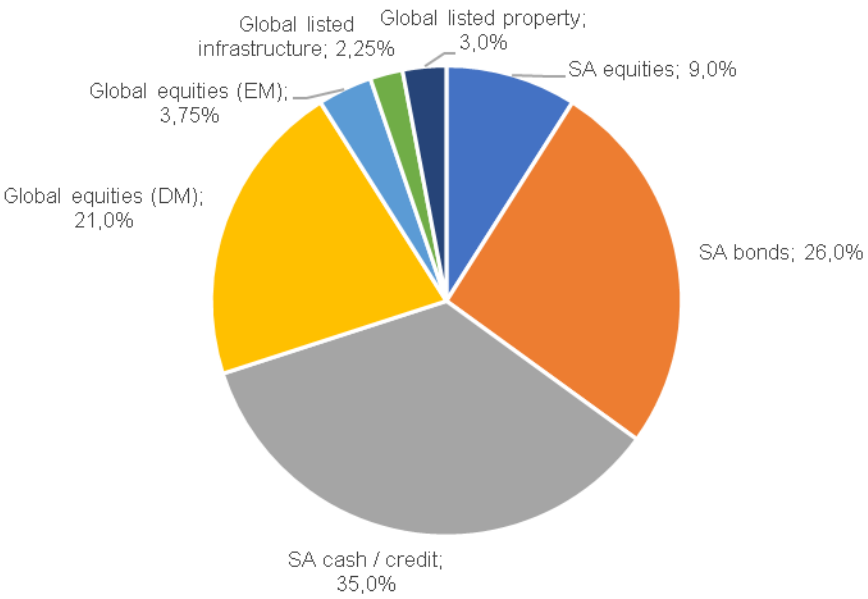
FACT SHEET: LOW EQUITY BALANCED (LEB) PORTFOLIO

Investment objective

The investment objective of the Low Equity Balanced (LEB) Portfolio is to deliver 3,5% p.a. (net of fees) out-performance of "*headline inflation*" (or CPI) over any rolling 5-year period. It is important to note that this level of return is not guaranteed and will depend partly on market conditions.

Asset Allocation

The strategic asset allocation of the Portfolio is shown in the chart below:



This is much more conservative than the Market Portfolio.

The actual allocation of the portfolio will vary within pre-defined parameters around this strategic asset allocation. This means that the actual asset allocation will not always correspond exactly to the pie chart. The trustees may also decide to make changes to the investment strategy from time to time – this could affect the asset allocation as well as the choice of investment firms to manage the portfolio.

Performance characteristics

This portfolio does not provide any performance guarantees or capital guarantees. However, the portfolio should produce consistent positive returns that are targeted to beat inflation over 3- to 5-year periods. It is possible that in any given month the return could be negative. However, the negative return is not likely to be material, and it is unlikely that there will be a material negative return over any 12-month period.

It is important to understand that whilst negative returns over a 12-month period are unlikely, **they are not impossible**. In summary, over periods of 3 to 5 years you can expect:

- a low probability of capital losses, and
- a high probability of returns above inflation.

It will not protect your capital as well as the Money Market Portfolio, but it is expected to provide a better investment return than cash over 3 to 5 years.

Investment Managers

The investment managers for this portfolio are:

- SA equities: Allan Gray Limited, Coronation Asset Management, Ninety One, Visio, ABAX, Sanlam Satrix
- SA bonds and cash: Ninety One, Prescient Investment Management and Future Growth Asset Management
- International equities: Hosking Partners, Ardevora, Veritas Asset Management, Contrarius Investment Management, Lindsell Train, Lansdowne Partners, Metropolis, Coronation, GQG Partners, Pzena, Sands Capital
- Global Listed Infrastructure: Maple-Brown Abbott
- Global Property: via Sygnia

Charges

You are credited with a net investment return each month – this means that investment management fees and other expenses, such as custody fees, have already been deducted.

FACT SHEET: MONEY MARKET PORTFOLIO

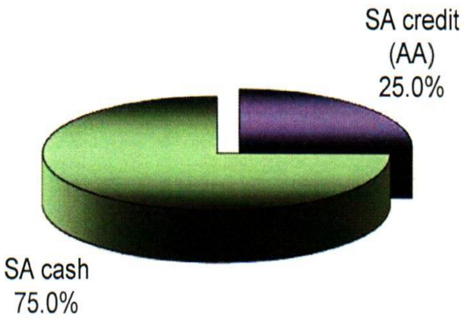
Investment objective

The investment objective of the Money Market Portfolio is to deliver investment performance ahead of the STEFI (Composite) Index over a measurement period of 12 months. Based on current monetary policy this return is expected to be some 1% to 1.5% p.a. higher than "headline inflation" after the deduction of all fees and taxes.

Asset allocation

This portfolio will be 100% in cash and other instruments that have a term of up to 12 months.

The average duration of the portfolio may not exceed 180 days. (Note that we are using the name Money Market Portfolio, which is familiar to Fund members, although in reality it would be more correct to call this the Money Market Portfolio, as it does not invest only in cash deposits.)



Performance characteristics

This portfolio will give you a cash-like return. It important to understand that this portfolio does not provide a guarantee – it is possible that in extreme events that one of the banks in which the Fund invests your money might fail (default), in which case there could be a negative return from the Money Market Portfolio.

Risk constraints

The money is only invested with banks and institutions that have a strong credit rating. The money is also split between various institutions so that you are not over-exposed to a particular bank or institution.

Investment manager

The current investment manager for the Money Market Portfolio is Prescient Investment Management and Ninety One Credit Income Fund 2.

Charges

You are credited with a net investment return each month – this means that investment management fees and other expenses, such as custody fees, have already been deducted. The investment fees are very low compared to the Market and LEB Portfolios.

FACT SHEET: SHARI’AH PORTFOLIO

The key feature of the Shari’ah Portfolio is that it adheres to the following Shari’ah principles:

1. The ban on interest: Interest must not be charged or paid on any financial transaction, as interest is deemed unlawful by Shari’ah.

2. The ban on financing certain economic sectors: Companies involved in the following activities are not Shari’ah compliant:
   - Conventional financial services;
   - Alcohol and tobacco;
   - Non-halaal food production or processing activities;
   - Entertainment (casinos, gambling and pornography);
   - Weapons and arms manufacturing.

It is important to note that the investment restrictions listed above may result in Shari’ah compliant funds performing differently to funds with similar investment objectives which are not subject to these restrictions. In other words, the Shari’ah compliant funds may at times give better or worse investment returns than funds with a similar investment. This will happen during periods when the prohibited companies either do extremely well or extremely poorly.

Features of the portfolio

Appointed Multi-Manager

The Fund has appointed 27four Investment Managers (an authorised financial services provider) as the multi-manager responsible for the construction of the Fund’s Shari’ah Portfolio. All investments meet Shari’ah principles as interpreted and laid down by the 27four Shari’ah Supervisory Board. The investment process ensures adherence to Shari’ah principles which the 27four Shari’ah Supervisory Board monitors closely on a regular basis. The specific investment product that the Fund will invest in is the **27four Shari’ah Multi-Managed Balanced Fund**.

Multi-Manager investment process

27four combines different asset managers for each asset class, each manager with a different set of skills. The portfolio is therefore diversified by investing in a combination of Shari’ah compliant equity fund managers locally and internationally, Sukuk (“Islamic bonds”) and direct physical exposure to gold bullion.

Investment objective

The Shari’ah Portfolio aims to deliver a real return of 4% (after deducting management expenses) in excess of SA price inflation over any rolling 8-year period. This investment return *is not guaranteed* and will depend on market returns and investment manager skill.

Performance characteristics

The assets of the 27four Shari’ah Multi-Managed Balanced Fund are invested in a mix of Shari’ah compliant shares (local and offshore) and local “Islamic bonds”. The Fund has a lower weighting to equities and a higher weighting to fixed income assets than the Fund’s Market Portfolio. This means that the Shari’ah Portfolio should provide a somewhat greater cushion against negative returns in the equity markets in the short term than the Fund’s Market Portfolio. However, over the long term it may not perform as well as the Fund’s Market Portfolio due to the fact that it has fewer assets invested in equities than the Market Portfolio.

This portfolio is exposed to the performance of markets, and the return you earn from this option over shorter periods may be positive or negative depending on market conditions.

Asset allocation

Shari'ah Portfolio will be invested in a balanced, multi-managed Shari'ah compliant investment product.

Charges

Investment management fees and multi-manager fees: between 0.75% and 0.85% p.a. excluding VAT. This depends on the underlying asset allocation.

The member pays these fees, which are deducted from the investment return credited to you.

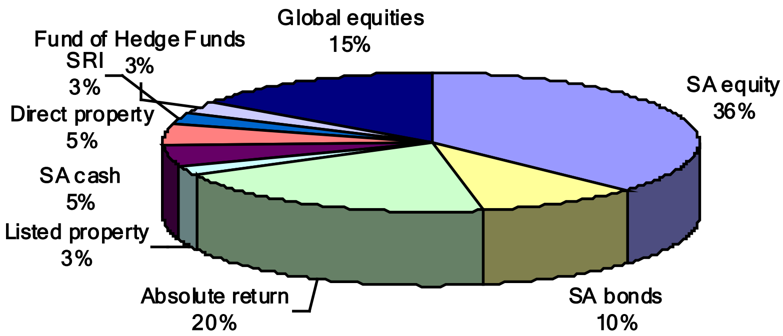
FACT SHEET: STABLE PORTFOLIO – CLOSED TO NEW CASH INFLOWS

Investment objective

The investment objective of the Stable Portfolio is to earn an investment return (after fees and charges) that exceeds inflation by 3.5% p.a. over a 5-year measurement period.
The Stable Portfolio also aims to provide protection of the contributions you invest in this portfolio (i.e. the capital you invest including switches in from other channels) and in this way deals with your final payment risk.

Asset Allocation

The Stable Portfolio is an Insurer Guaranteed Fund. The Insurer will typically invest the underlying assets as follows:



Performance characteristics

The Insurer will **smooth** the investment returns earned on the underlying assets, usually over a period of 5 to 10 years. It does so by declaring a bonus. Smoothing means that the investment returns earned in good years are used to subsidize the investment return of poor years.

The bonus declared consists of two components, namely a vested portion (this part is guaranteed) and a non-vested portion. The non-vested bonuses may be removed in adverse market conditions at the discretion of the Insurer.

Stable Portfolio Accounts

Your investment in the Stable Portfolio consists of two accounts, namely your vested and non-vested account.

Vested Account

Your vested account is the build-up of the pension savings contributions you and the City pay, plus the vested bonus the Insurer declares, plus periodic transfers from the non-vested account, minus the investment management expenses and charges. The balance in your vested account is guaranteed.

Non-vested Account

The non-vested account consists of non-vested bonuses declared by the Insurer. The Insurer may remove these non-vested bonuses in adverse market conditions at its discretion. This means that the balance in your non-vested account is **not guaranteed**.

At the end of each six months, a percentage of the balance in the non-vested account shall be transferred to the vested account. This percentage is at the discretion of the Insurer.

What capital protection is provided?

The Stable Portfolio aims to provide protection of the money you pay into this portfolio (i.e. your capital) and the vested bonuses the Insurer declares. It does not provide protection of the non-vested bonuses the Insurer declares, as the Insurer may remove these bonuses at its discretion (although this is unlikely to happen except under extremely bad investment conditions).

There are, however, three scenarios under which your capital (and the vested bonuses declared) is not protected, namely:

- If investment markets are weak and you opt to switch out of the Stable Portfolio within 5 years from first investing in the Stable Portfolio

- If investment markets are weak and the Fund opts to terminate the Stable portfolio without letting the Insurer pay the termination benefit in instalments. This is a highly unlikely scenario, but the risk remains.

- If the Insurer that provides the protection of your capital is unable to meet this when the Fund calls on this guarantee. Again, this is a highly unlikely scenario, but there is this risk. (The Insurer is regulated by the Financial Services Board, which monitors the financial strength of all the South African insurance companies and requires them to hold reserves at a specified level.)

Switching out of the Stable Portfolio

If you invested in the Stable Portfolio you may incur some financial loss in some circumstances, if you want to switch your money out of this portfolio into another channel. This includes switching it to a homeloan. *Please note this does NOT apply if you are receiving a benefit payment as a consequence of leaving the Fund*. If you wish to switch out of the Stable Portfolio and you have been invested in it for fewer than 5 years, the amount you will receive is the **lesser** of:

- The total balance of your vested and non-vested account; and
- The market value of the underlying assets based on the actual investment return earned on your money (after deducting the cost of the guarantee, shareholder charges and the investment management fee.)

In effect this means that if the investment returns have been poor and you wish to switch out, you will be credited with the actual net investment performance rather than the smoothed return.

No switch penalty will be applied to a member account that has existed for 5 years or longer. However, if investments were switched in to the Stable Portfolio at a date after you first invested in it, and the switch amount was significant – greater than 20% of the amount that you had invested in the Stable Portfolio on the preceding 31 December – the switch amount will be placed in a separate member account, and switch penalties may apply to this separate account in its first five years if you choose to switch out again. The rules relating to switch penalties are highly complex, and you are strongly advised to **ask** before switching out, rather than relying on this summary.

Investment manager

The investment manager for the Stable Portfolio is Momentum.

Charges

The following charges apply to this portfolio:

- Investment management and custody fees: The member pays the investment management and custody fees (the fees are deducted from the investment return credited to you, i.e. the bonuses declared by the Insurer).
- Capital charge of 1% per annum: This is the cost of providing the guarantee. This charge is deducted from the underlying assets before the bonuses are declared, so it also has the effect of reducing the net investment return credited to you.

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INVESTMENT CHOICE GUIDE

Our Mission

The mission of the Fund is to provide reasonable and competitive benefits as defined in the Fund's rules and taken together with our vision statement and values.

Our Vision

To strive to be at the top of the league by providing good investment performance, an effective administration service and sound governance together with ongoing communication and education of our members.

Our Values

Honesty – open and transparent.

Empowerment – Member education.

Innovation – At the forefront of developments in the retirement fund industry.