

# MEMBER INVESTMENT Booklet



**ISASA**

Independent Schools Association of Southern Africa

## PENSION SCHEME AND PROVIDENT FUND

### INTRODUCTION

This document explains the Funds' investment strategy and the various investment portfolios available to members. This document is applicable to Pension Scheme Part I, Pension Scheme Part II and Provident Fund members, throughout this document collectively referred to as "the Funds".

There are three factors that determine how much money you will have built up in your retirement fund by the time you retire:

- 1 The contributions you and your employer pay into the Fund;
- 2 The investment returns earned on those contributions;
- 3 The period you contribute to the Fund and earn investment growth.

Each member has different needs, circumstances and preferences that need to be taken into account in making an investment choice. You must ensure that you choose the appropriate portfolio that suits your specific needs and circumstances.

### INVESTMENT STRATEGY

The aim of the Funds' investment strategy is to target an income at retirement of approximately 75% of the salary that you earned before retirement. To achieve this you and your employer will need to contribute at least 15% of your salary per month to the Fund over a period of at least 35 years.

The overall objective of the investment strategy is to provide members with flexibility and an investment approach that will, in the Trustees' view, best meet their retirement needs. The investment strategy complies with Regulation 28 of the Pension Funds Act, which governs the way in which retirement funds invest retirement savings.

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# THE “ABC” OF INVESTMENTS

## “A” IS FOR ASSET CLASSES

A portfolio can have portions invested in various asset classes or investments such as shares, bonds and cash. It is important to know the asset classes that make up the various portfolios offered by the Funds. These asset classes have a mix of local and offshore (overseas) investments.

TYPE OF ASSET	DESCRIPTION
<b>SHARES</b>	You buy a share or part of a company. The value of the share can be seen by reading the prices quoted on the Johannesburg Stock Exchange (JSE). This is the most risky investment type since the return on this investment is directly determined by the performance of the company you are invested in. This means you could have a negative return if the company does not perform well over the short term. An investment in shares should provide you with high returns over the long term, however, your investments will be affected by short term market fluctuations.
<b>BONDS</b>	These are loans to the government, large semi-government organisations and companies. Bond values can change from time to time because the value depends on interest rates. Although bonds do experience volatility, they are usually less volatile than shares. Inflation-linked bonds are bonds that guarantee a return at least equal to inflation if held to maturity.
<b>CASH</b>	Cash is when you lend money to the bank by making a cash deposit. In return for your deposit the bank pays you interest. This is the safest investment type, except for the risk that the returns may not keep up with inflation over the long term.
<b>SPECIALIST ASSET CLASSES</b>	
<b>SOCIALLY RESPONSIBLE INVESTMENTS (SRI)</b>	Socially Responsible Investments (SRI) combine investors' financial objectives with a commitment to social concerns. This is done in the environment of the overall investment strategy of the Fund, such that the investment should be attractive on its own merits, and not only on socially responsible grounds. The holding of these investments should lead to a more widely diversified portfolio, which should have the effect of increasing flexibility of investment and of reducing risk.
<b>ABSOLUTE RETURN INVESTMENT</b>	The primary objective of a real return fund is always to earn returns above inflation by a stated margin. The secondary goal is to avoid negative returns over rolling 12-month periods. Absolute Return investments are used in investment strategies where there is a requirement for a lower level of risk with a reasonable level of growth potential. This investment has the ability to vary its allocation to equities depending on whether the market is cheap or expensive. This introduces extra flexibility within the portfolio. (Please refer to the section on the Performer portfolio later on in this document.)
<b>ALTERNATIVE INVESTMENT</b>	An alternative investment is an asset that is not one of the conventional investment types, such as stocks, bonds and cash. Alternative investments include private equity, hedge funds, managed futures, real estate, commodities and derivatives contracts.

The number of years you have left until retirement is an important factor in your investment choice. It is generally accepted that the more years to retirement, the higher the risk one can afford to take (if the markets fall, you have enough time to recover any loss).

For periods longer than 10 years, the local equity market has never recorded a negative return. History has shown that in the long run the equity market rewards an investor with inflation-beating returns. However, in order to be able to reap the rewards the investor must be able to tolerate short-term volatility.

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## **“B” IS FOR BE PROACTIVE IN MONITORING YOUR FINANCIAL PERFORMANCE**

As an investor you should monitor the performance of your investments on an annual basis. It is your responsibility to ensure that you receive your annual benefit statement and that you monitor the growth of your investments.

A young investor needs to have greater exposure to equity investments to ensure capital growth over the long term. An investor who is closer to retirement needs a more stable investment portfolio that contains greater exposure to cash and bonds. Financial equity markets may take as long as ten years to recover from a severe downturn and, if you do not have ten years left before retirement, such a market downturn may have a severe impact on your retirement provision.

Make sure that you consult an accredited financial adviser if you feel unsure about the level of growth that you should be earning.

## **“C” IS FOR CONTROL YOUR RISK**

To control your risk you need to understand what your appetite for risk is, i.e. what level of risk you feel comfortable with. For some members it is more important to earn the highest possible return over the long term, regardless of market fluctuations. For others, it is more important to preserve capital and rather forfeit possible returns for stability in capital value. In arriving at an assessment of your risk appetite you would need to consult with your financial adviser.

Diversification is a strategy that can best be described as “Don’t put all your eggs in one basket.” The strategy involves spreading your money among various investments (shares, bonds and cash) in the hope that, if one investment loses money, the other investments will more than make up for those losses.

## **WHAT PORTFOLIOS ARE AVAILABLE TO ME?**

Members may choose between

- **Default Goals-based LifeStage model**
- **Passive LifeStage model**
- **Any combination of the portfolios offered.**

## **DEFAULT GOALS-BASED LIFESTAGE MODEL**

The Default Investment Strategy (Goals-based LifeStage portfolio) consists of the following 2 portfolios:

1. **PERFORMER PORTFOLIO**
2. **PROTECTOR PORTFOLIO**

The Default Goals-based LifeStage Model was designed by the Trustees in consultation with retirement fund investment experts and has a greater focus on assisting members to achieve their **retirement income** goals.

## HOW DOES DEFAULT GOALS-BASED LIFESTAGE WORK?

**As you age**, your investment time horizon reduces (the number of years you have left until you retire). As a result, the level of investment risk you may be willing to take will be reduced. A **gradual transfer of investments** from more volatile investment portfolios to less volatile investment portfolios takes place.

### VOLATILITY

*Volatility is the tendency for the value of an investment to go up or down over short periods of time.*

### Growing your savings for retirement



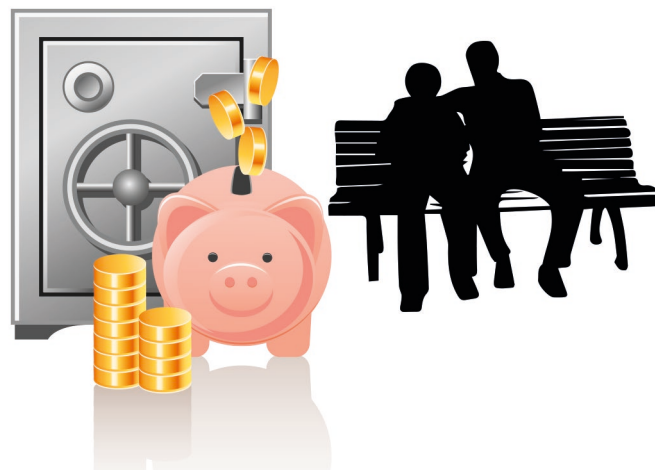
#### PERFORMER PORTFOLIO

The first stage in the Life Stage investment strategy focuses on **growing your savings for retirement**. This is when you have a long time to retirement and can take more investment risk to increase potential investment returns.

The Goals-based Life Stage model uses the **Performer portfolio** that has a high exposure to shares and other growth assets to grow your money until you have five years left until your normal retirement age.

In the Performer portfolio the underlying investment managers are mandated to determine the split of the investments between the underlying asset classes (principally shares, property, bonds, cash and alternative investments).

### Preparing for retirement



#### PROTECTOR PORTFOLIO

The second stage focuses on preparing for retirement. The goals-based investment strategy focuses on protecting the level of projected pension income.

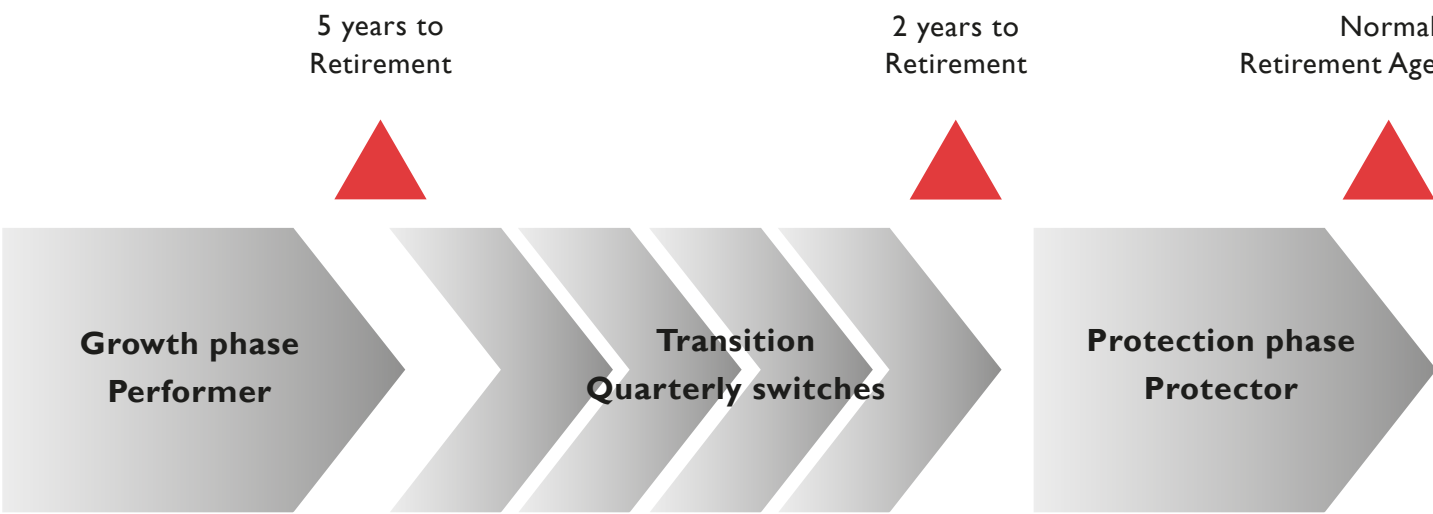
You start preparing for retirement at five years from retirement and the Protector portfolio is used as you get closer to retirement. This portfolio uses advanced ways of managing risk. It aims to protect your retirement money from losing value over a two-year period, while still allowing you to earn returns from your investment.

The Protector portfolio has been designed to meet the following specific requirements:

- The portfolio value is highly correlated to the changes in price of an inflation-linked income stream for members
- The portfolio is capable of preserving capital over a two-year time horizon
- The portfolio is able to generate real returns, i.e. above inflation, over a two-year horizon.

# HOW ARE THE PRINCIPLES OF THE DEFAULT GOALS-BASED LIFESTAGE MODEL PUT INTO PRACTICE?

Your Fund Credit and ongoing contributions are automatically switched from the Performer portfolio to the Protector portfolio every three months for three years, starting from five years before normal retirement age. In the last two years before normal retirement age, all of the money stays invested in the Protector portfolio.



## 5 YEAR DE-RISKING OF THE DEFAULT GOALS-BASED LIFESTAGE MODEL WORKS AS FOLLOWS:

5 YEAR DE-RISKING: Number of months from retirement			
From Months		To Months	
		Performer	Protector
More than 60 months from retirement		100.00%	0%
60	58	92.31%	7.69%
57	55	84.62%	15.38%
54	52	76.93%	23.07%
51	49	69.24%	30.76%
48	46	61.55%	38.45%
45	43	53.85%	46.15%
42	40	46.15%	53.85%
39	37	38.45%	61.55%
36	34	30.76%	69.24%
33	31	23.07%	76.93%
30	28	15.38%	84.62%
27	25	7.69%	92.31%
24	0	0%	100.00%



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## **PASSIVE LIFESTAGE MODEL**

The reason for the introduction of index-tracking (also called passive) portfolios is to ensure that the Fund remains at the forefront of investment thinking in the industry and addresses issues and concerns raised by National Treasury and members in relation to high costs.

## **WHAT IS THE DIFFERENCE BETWEEN ACTIVE AND PASSIVE INVESTMENTS?**

**THE ACTIVE INVESTMENT MANAGER** aims to exploit market inefficiencies by purchasing securities (equities and bonds) that are undervalued or by selling securities that are overvalued as well as shifting exposure between the asset classes (equities, bonds, alternatives, cash etc) based on their relative attractiveness. Either of these methods may be used alone or in combination. Depending on the goals of the specific investment portfolio, active management may also serve to lower the volatility relative to the benchmark index.

**PASSIVE INVESTMENT MANAGEMENT** is an investment strategy that aims to track a benchmark index as closely as possible at the lowest possible fees. There is no intention to try to outperform the benchmark index.

## **PASSIVE (INDEX-TRACKING) LIFESTAGE MODEL**

The passive Index-tracking LifeStage model is similar to the default LifeStage in that it uses just two portfolios and the time horizons for the switches from the growth portfolio to the protection portfolio are the same, i.e. starting from five years to retirement and ending at two years from retirement. The important differences are that the two portfolios are low cost index-tracking portfolios and the protection portfolio is NOT goals-based.

The two index-tracking portfolios are:

- **Balanced Index Fund**
- **Conservative Index Fund.**

## INVESTMENT PORTFOLIO SELECTION

Depending on the Fund you belong to:

- ✓ **Pension Scheme Part II or Provident Fund, both defined contribution funds (DC); or**
  - ✓ **Pension Scheme Part I, defined benefit fund (DB)**
- you or your school have the following investment portfolios to choose from:

### PENSION PART II (DC) AND PROVIDENT FUND (DC) - MEMBER INVESTMENT CHOICE

If you make no active investment choice, you will automatically be invested in terms of the Funds' default Goals-based LifeStage Model. However, if you wish to make your own portfolio selection you may select one or a combination of any of the eight portfolios available and listed below:

#### **THE ACTIVE GOALS-BASED BALANCED LIFESTAGE MODEL (DEFAULT PORTFOLIOS)**

- ✓ Performer portfolio
- ✓ Protector portfolio

#### **THE PASSIVE LIFESTAGE MODEL OR THE UNDERLYING PORTFOLIOS**

- ✓ The Balanced Index Fund
- ✓ The Conservative Index Fund

#### **SMOOTH BONUS PORTFOLIOS (AGP50 PORTFOLIO AND AGP80 PORTFOLIO)**

A smoothed bonus portfolio is a portfolio which has been enhanced to provide more participation in market returns, whilst retaining the feature of smoothing returns and providing a level of capital guarantee (in certain circumstances). The capital guarantee is only activated when a negative bonus is declared and historically this has never happened. (See p.8 for how guarantees are calculated)

**The two Smooth Bonus portfolios are:**

- ✓ Absolute Smooth Growth Portfolio that provides a 50% capital guarantee (AGP50)
- ✓ Absolute Stable Growth Portfolio that provides an 80% capital guarantee (AGP80)



The AGP50 portfolio has the same underlying assets as the AGP80 portfolio and also provides the same smoothing mechanism but has a lower fee and results in a 0.5% pa higher return for members.

Both portfolios target a return of inflation plus 5.5% per annum over rolling 3-year periods while maintaining a relatively high exposure to growth assets.

#### **SHARI'AH HIGH GROWTH PORTFOLIO**

Shari'ah High Growth portfolio is a portfolio that conforms to Islamic Law. Shari'ah law prohibits an investment portfolio from investing in companies which are involved in gambling, alcohol, non-permitted entertainment, tobacco, pork and other defined forbidden activities, including the earning of income from interest.

Members who elect this portfolio for religious reasons can be assured that the underlying portfolio managers adhere to the prescribed guidelines as all investments are thoroughly screened and analysed to ensure conformity to Shari'ah Law.

#### **BANKER (MONEY MARKET AND CASH)**

The Money Market portfolio is a portfolio invested in short-term money market instruments and cash that should deliver returns in excess of those expected from bank deposits.

### 3 EASY STEPS TO UNDERSTANDING THE ABSOLUTE GROWTH PORTFOLIO GUARANTEES

Absolute Growth Portfolios offer investors exposure to growth assets (like equities, property and alternative assets) while smoothing out the ups and downs typically associated with investing in these assets. These smoothed returns are passed on to investors in the form of bonuses.

These Portfolios also offer members guarantees to protect them from the impact of severe market downturns. These guarantees protect members' capital and bonuses to various degrees and apply to investors who remain in the portfolios until they reach one of the following defined benefit events:

- ✓ Retirement
- ✓ Death
- ✓ Ill-health retirement
- ✓ Retrenchment
- ✓ Resignation

#### STEP 1: UNDERSTANDING YOUR SMOOTHED FUND VALUE

At any given point, your investment in the Absolute Growth Portfolio will have a 'smoothed fund value'. In most instances your smoothed fund value will be the benefit amount that you will be paid when you reach one of the defined benefit events listed above.

Each time you contribute towards your investment, your contributions are used to purchase units (portions of the portfolio) at the portfolio's unit price. Your smoothed fund value is determined by simply multiplying the unit price by the number of units you have in your investment as follows:

**Smoothed fund value = Unit price x No. of units**

When it comes to the above simple calculation, it is important to note the following:

- ✓ The unit price is impacted by bonuses. Positive bonuses increase the unit price and negative bonuses decrease the unit price.
- ✓ The number of units applicable to your investment is impacted by various cash flows. Contributions increase the number of units while disinvestments and charges decrease the number of units.

So, if the unit price = R10 and you have 100 units in your investment, your smoothed fund value will =  $R10 \times 100 = R1,000$ .

#### STEP 2: UNDERSTANDING YOUR GUARANTEED UNIT PRICE

Your guaranteed unit price is the lowest price you can be paid for each unit you have in your investment when you exit the portfolio due to a defined benefit event. The guaranteed unit price is determined as follows:

**Guaranteed unit price = Guarantee percentage x Highest historical unit price**

The guarantee percentage in the above calculation is different for each of the Absolute Growth Portfolios. The guarantee levels available to members are as follows:



**Absolute Smooth Growth Portfolio 50% guarantee**



**Absolute Stable Growth Portfolio 80% guarantee**

Your guaranteed unit price can thus be determined by simply multiplying your selected portfolio's guarantee percentage by the highest unit price that your units have reached since your investment began.

So, if you are invested in the Absolute Stable Growth Portfolio and the highest unit price your units have reached to date = R10, your guaranteed unit price =  $80\% \times R10 = R8$ .

#### STEP 3: UNDERSTANDING YOUR GUARANTEED FUND VALUE

Your guaranteed fund value is the lowest value you can be paid if a defined benefit event occurs. You will receive your guaranteed fund value even if your smoothed fund value has fallen below this value.

Your guaranteed fund value is determined by simply multiplying the number of units you have by their guaranteed unit price:

**Guaranteed fund value = Guaranteed unit price x number of units**

Note that while your guaranteed unit price can never fall below a level it has reached in the past, your guaranteed fund value can rise and fall depending on the guaranteed unit price and the number of units that you have in your investment at any time. Positive bonuses and contributions will thus increase your guaranteed fund value and disinvestments and charges will decrease your guaranteed fund value.

So, if the guaranteed unit price = R8 and you have 100 units in your investment, your guaranteed fund value will =  $R8 \times 100 = R800$ .

**For more information on the above and practical examples, please visit the Fund website and refer to the Old Mutual Guarantee Guide.**



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## **PENSION PART I (DB) - SCHOOL CHOOSES PENSIONERS**

The investment portfolio is the AGP50 portfolio.

### **SCHOOLS**

The school may select any of the following 3 investment portfolios in whichever proportion is preferred:

- ✓ **AGP50 portfolio**
- ✓ **AGP80 portfolio**
- ✓ **Performer portfolio**

Pension Part I (DB) Schools which may want to consider the AGP50 portfolio are welcome to consult the Fund Actuary, Stephen Walker; Tel: 021 509 5152 or Email: [SWalker2@oldmutual.com](mailto:SWalker2@oldmutual.com)

## **DEFERRED MEMBERS/RETIREEES**

The Funds allow you to defer your retirement, i.e. leave your Accumulated Credit (Fund savings) in the Funds and continue membership in your personal capacity after reaching normal retirement age and leaving your employer. This means that you are no longer required to take your retirement benefit from the Funds immediately. You will not be allowed to make further contributions to the Funds upon reaching your retirement age and cover for death, disability and funeral benefits (if applicable) will cease.

### **DEFINED CONTRIBUTION (PART II) AND PROVIDENT FUND MEMBERS:**

All the existing portfolios that are available to active Part II and Provident Fund members will be made available to Deferred Retirees. These portfolios are:

ACTIVE PORTFOLIO	PASSIVE PORTFOLIO	SMOOTH BONUS PORTFOLIOS
Performer	Balanced Index	AGP50
Protector	Conservative Index	AGP80
Shari'ah High Growth		
Banker		

### **DEFAULT INVESTMENT - DEFINED CONTRIBUTION (PART II) AND PROVIDENT FUND MEMBERS:**

If no investment choice is made at the date a member elects to defer, the member's retirement savings will be invested in the portfolio(s) they were invested in prior to the date employment ceased.

### **DEFINED BENEFIT (PART I) MEMBERS:**

All the portfolios listed above that are available to Part II and Provident Fund members are available to Part I Deferred Retirees, but each Deferred Retiree must make an active choice.

### **DEFAULT INVESTMENT - DEFINED BENEFIT (PART I) MEMBERS:**

Effective 1 October 2018, the AGP50 portfolio is the default investment vehicle for Part I members who do not provide an investment instruction when deferring their retirement.



## PRESERVER (PAID-UP) MEMBERS

If you leave the Fund, you will automatically become a Paid-Up member of the Fund after 120 days, unless you actively elect another option. This is the Fund's Default Preservation strategy that is in line with the new Default Regulations.

When you become Paid-Up you will be known as a Preserver member in terms of the Rules of the Fund. As an in-Fund Preserver member, you will also not be allowed to contribute monthly to the Fund and the insured benefits (death, disability and funeral) will fall away.

Your benefit as a Preserver member will remain invested in the same portfolio it was invested in when you were an active member (before you left the school), until you choose another investment portfolio from the list of eight available Member Choice Investment Portfolios (as listed above).

The benefit will be automatically invested in the AGP50 portfolio for Pension Scheme Part I members who become Preserver members if no investment choice has been made.

Fact sheets for all the available portfolios can be found on the Funds' website at [www.isasaprovidentfund.co.za](http://www.isasaprovidentfund.co.za) or [www.isasapensionfund.co.za](http://www.isasapensionfund.co.za)

## THE BALANCING ACT

To choose an investment portfolio, you need to balance a number of aspects, such as:

- **appetite for risk**
- **other investments**
- **years to retirement**

When all is said and done, you're the one who has to live with your investment decisions. It's important that you feel comfortable with the decisions you make. Also remember to proactively keep track of the investment performance of your portfolios and to change investment portfolios when your risk profile or term to retirement changes



## HOW DO I CHANGE MY PORTFOLIO?

Members who have access to the internet are able to change their investment portfolio online on the Old Mutual website. Online switches can be made at any time and at no cost. In order to use the Old Mutual website you will need a Client ID number. You can find your Client ID number on your benefit statement or by phoning Old Mutual.

You can also change your portfolio by doing a manual switch. Switch forms can be obtained from your Bursar. You will be able to change your portfolio choice three times a year on 1 March, 1 July and 1 November at no cost. Additional switches can be made at a cost of R250 plus VAT per switch.

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***“Each member has different needs, circumstances and preferences that need to be taken into account in making an investment choice. You must ensure that you choose the appropriate portfolio that suits your specific needs and circumstances.”***

### THE LAST WORD

It is strongly advised that you consult a personal financial advisor before making your choices, particularly if you do not accept the default Goals-based LifeStage Model.

In addition to the communication material provided to you, the ISASA website ([www.isasa.org](http://www.isasa.org)) contains a considerable amount of detail on the investment options that will help you make your decision in consultation with your financial advisor. You may direct queries to your school's Bursar or the Principal Officer. However please note that neither are qualified to provide financial advice, and in terms of current legislation, are in fact not permitted to give financial advice.

### CONTACT DETAILS

Should you have any queries, please contact the Fund at  
[www.isasapensionfund.co.za](http://www.isasapensionfund.co.za)

**Please note:** Nothing in this document, when read in isolation and without professional advice, should be construed as solicitation, offer, advice, recommendation, or any other enticement to acquire or dispose of any financial product, advice or investment, or to engage in any financial transaction or investment. Members should consult with an authorized financial advisor prior to making any financial decisions. Historical performance may not correlate to future performance.