

NEWSFLASH

INVESTMENT

Strategy changes



ISASA

Independent Schools Association of Southern Africa

PENSION SCHEME AND PROVIDENT FUND

NEW INVESTMENT MODEL IN 2017

WHY CHANGE IS NECESSARY

One of the main focus areas of the Board of Trustees is to constantly review and assess our Funds' investment strategies, to make sure they are appropriate given changing market conditions, whilst keeping track of new developments in the industry.

The recent discussion paper on retirement industry charges issued by National Treasury emphasizes how many investors are prejudiced by excessive fees, choice and complexity, by poor disclosure and governance, and by conflicts of interest.

After receiving expert advice from the Funds' investment consultants, the Board has considered how to simplify the Funds' investments and lower some investment charges to the benefit of members.

As a result, the Board has adopted the following changes with effect from 1 September 2017:

- 1. Adopting a new Goals-based Life Stage model as the default investment strategy** (Reducing the number of portfolios in the Life Stage model from 5 to 2).
- 2. Introducing an alternative Index-tracking Life Stage model** as an option for members who wish to minimize fees.
- 3. Introducing an option of a Shari'ah-compliant portfolio.**

NEW INVESTMENT MODEL 2017

CONTENTS

WHY CHANGE IS NECESSARY	01
NEW GOALS-BASED LIFE STAGE MODEL	02
ALTERNATIVE INDEX-TRACKING LIFE STAGE	04
SHARI'AH PORTFOLIO	04
HOW WILL THESE CHANGES AFFECT YOU	05
IN SUMMARY	05

NEW GOALS-BASED LIFE STAGE MODEL

The new **Goals-based Life Stage model** consists of just **two investment portfolios** (Performer and Protector) and has a greater focus on assisting members to achieve their **retirement income** goals. The Goals-based Life Stage model will be adopted as the default investment strategy from 1 September 2017.

The new Goals-based Life Stage model targets better retirement outcomes for members by designing the pre-retirement portfolio to be more aligned to the income solution that members will invest in at retirement.

HOW IS GOALS-BASED INVESTING DIFFERENT FROM TRADITIONAL INVESTING?

- It defines risk as being the risk of you falling short of your main goal, which is to meet your minimum income requirements during retirement.
- It uses investment strategies and asset classes that are more resilient in relation to the projected income that will be achieved for a member at retirement.

The new Goals-based Life Stage model aims to give you more certainty about the amount of pension you can expect at retirement.

Growing your savings for retirement

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.

Preparing for retirement

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

5 years to Retirement

2 years to Retirement

Normal Retirement Age



The new strategy keeps you invested in the growth portfolio (that is Performer) for an additional two years compared to the previous Life Stage model. You therefore start preparing for retirement at five years from retirement and not seven years from retirement, which was the case in the previous Life Stage model.

Growing your savings for retirement



Performer Portfolio

The new 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.

The Performer portfolio differs from the existing High Growth portfolio in that the underlying investment managers are mandated to determine the split of the investments between the underlying asset classes (principally shares, property, bonds and cash) and the allocation between local and offshore investments.

Under the previous High Growth portfolio the investment managers were responsible for a single asset class e.g. shares and had no such discretion over asset allocation, which was set by Investment Solutions.

Please note that the investment fees for the new Goals-based Life Stage portfolios are slightly higher as the underlying asset managers are tasked with asset allocation (whereas the old Life Stage had fixed asset allocation).

Preparing for retirement



Protector Portfolio

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 money switches 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.

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.

If you're not invested in the existing Life Stage model and have made an active choice to invest in other portfolios, you will be switched to the closest match to your existing choice as per the personal communication to be sent to you under separate cover. To avoid this, you need to make a new active choice.

ALTERNATE INDEX-TRACKING LIFE STAGE

As of 1 September 2017 this alternative option will be available.

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, 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.

INDEX-TRACKING LIFE STAGE MODEL

The Index-tracking Life Stage model is similar to the default Life Stage 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 index-tracking portfolios are:

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



SHARI'AH PORTFOLIO

This alternative option has been available from 1 April 2017.

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.

PORTFOLIO OBJECTIVE

The Shari'ah High Growth portfolio is a multi-asset class or balanced portfolio that maintains a relatively large holding in equity instruments. The objective is to provide a relatively high rate of capital growth, when compared to other asset allocation funds. The portfolio will also invest in property and approved bond (sukuk) instruments.

The portfolio is based on a selection of underlying investments that comply with the criteria for Shari'ah investments. It is classified as a multi-managed high-equity portfolio that is well diversified by asset class in accordance with Regulation 28 of the Pension Funds Act 24 of 1956.

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Portfolio options



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HOW WILL THESE CHANGES AFFECT YOU?

PORTFOLIOS NO LONGER AVAILABLE

After 1 September 2017 the following portfolios fall away:

Current Life Stage Model
High Growth
High/Medium Growth
Medium Growth
Medium/Conservative Growth
Conservative Growth

GETTING IN TOUCH

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PROFESSIONAL ADVICE

You are encouraged to get advice from your financial adviser or broker to consider your investment needs.

If you do not have a financial adviser to assist you, you can obtain one via the

Financial Planning Institute www.fpi.co.za

or you can phone the **Old Mutual helpline** for financial advice: **0860 388 873**.

NEW PORTFOLIOS AVAILABLE

From 1 September 2017 the following new portfolios are available:

Goals-based Life Stage model portfolios

Performer Portfolio
Protector Portfolio

Passive Life Stage model portfolios

Balanced Index Fund
Conservative Index Fund

Shari'ah compliant portfolio

Shari'ah High Growth

The following existing portfolios will remain available to members:

Member Individual Choice portfolios

Banker (cash)
Absolute Stable Growth Fund (smoothed bonus)

IN SUMMARY

From 1 September 2017 you may elect:

1. The new **Goals-based Life Stage model**
2. The new **Passive Life Stage model**
3. Make your own investment choice, using any one or a combination of the seven portfolios listed in right hand column above.

You will find an investment switch form on the website at www.isasapensionfund.co.za or www.isasaprovidentfund.co.za.

Please make sure your portfolio selections add up to 100%!

You will receive further communication from the Funds to explain what your options are and how the change affects you.

With effect from 1 July 2017 the name of the Funds' investment manager, Investment Solutions, changes to Alexander Forbes Investments.