



member alert

a beginner's guide to investing for retirement

Investing and planning for retirement is something which doesn't come naturally to many of us. By virtue of your membership in a retirement fund, you are already on your way to investing for your future. Every month, you or your employer (or both) make contributions to the fund on your behalf. The contributions are saved towards your retirement.

These monthly contributions are then invested either as per your employer's default investment strategy or in accordance with your own instructions (provided your fund option allows member investment choice). Each investment strategy has one or more underlying investment portfolios.

Investing for retirement is a long-term process and can be overwhelming if you do not understand how these investment portfolios are put together within the parameters set out by law. This note covers some basic investment principles. Understanding these principles will assist you to make informed decisions about your investments.



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What is an investment portfolio?

A portfolio can have portions invested in various asset classes or investments such as **shares, bonds and cash**.

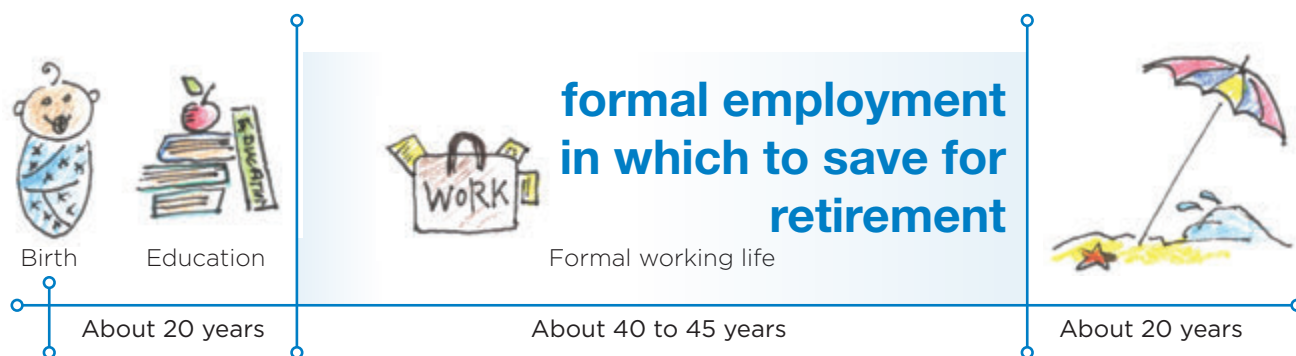


Cash This is the safest investment type, except for the risk that the returns may not keep up with inflation over the long term.

Bonds These are loans to the government and other large semi-government organisations. These are less risky than shares.

Shares You are part owner of a company. This is the most risky investment type since the returns of this investment are 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 but your investments will be affected by short-term market fluctuations.

Investment principle 1: Retirement investments are long term

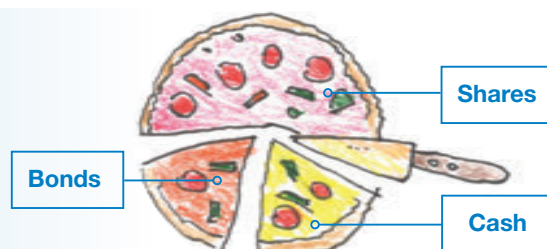


Statistics show that people live a lot longer now than they did in the past. If we view the above timeline we note that most people retire between the ages of 60 to 63, leaving only 40 to 45 years of formal employment in which to save for retirement.

The trustees of a retirement fund have to assume that members will stay with the company and be members of the fund for the long term. They have to take this long-term horizon (40 years) into consideration when designing their investment strategies. In general terms, trustees aspire to design portfolios that beat inflation by significant margins over the long term. This necessitates creating portfolios that carry with them a degree of risk. As we will see later on in this document you need to take risk in order to achieve investment growth.

What is asset allocation?

Asset allocation involves dividing an investment portfolio among the different asset types, such as shares, bonds, and cash. The process of determining which mix of assets to hold in a portfolio is made by the investment manager. The asset allocation that works best for you at any given point in your life will depend largely on your time horizon to retirement and your ability to tolerate investment risk.



Time Horizon Your time horizon is the expected period (number of months, years, or decades) you will be investing until you reach your normal retirement date. An investor with a longer time horizon may feel more comfortable taking on a riskier, or more volatile, investment because he or she can wait out slow economic cycles and the inevitable ups and downs of the markets. When retirement fund portfolios are constructed, they are done on the basis that members will usually have a long period to invest (their time horizon) until they reach retirement. There are special portfolios that are designed to protect members' assets when they are close to retirement.

Risk Tolerance is your ability and willingness to experience both positive and negative returns on your investments. An aggressive investor, or one with a high-risk tolerance, is more likely to risk negative returns over the short term in order to get better results over the long term. A conservative investor, or one with a low-risk tolerance, tends to favour investments that will preserve his or her original investment and provide very little negative returns over time (although the returns will also be lower).





Investment principle 2: Shares outperform the other asset classes over time

History has shown that in the long run the equity (shares) market rewards an investor with inflation beating returns, but to be able to reap the rewards the investor must be able to tolerate short-term volatility.

It is for this reason, that the trustees of the Sanlam Umbrella Fund offer portfolios with a high equity (share) content especially for younger members who still have a long time to retirement and who are able to take on additional investment risk.

It is important to note that current legislation requires that a maximum of **75% of a retirement fund investment portfolio** can be invested in equities (shares).

Investment principle 3: There is no reward without risk

When it comes to investing, risk and reward are very closely linked. You've probably heard the phrase "no pain, no gain" - those words come close to summing up the relationship between risk and reward. Don't let anyone tell you otherwise: All investments involve some degree of risk. Over the long term even cash has an element of risk because the returns of a cash portfolio may be below inflation which means that the purchasing power (how much you can buy with your money) is decreasing.

The reward for taking on risk is the potential for a greater investment return. If you have a financial goal with a long time horizon, you are likely to make more money by carefully investing in asset categories with greater risk, like shares or bonds, rather than restricting your investments to assets with less risk, like cash equivalents.

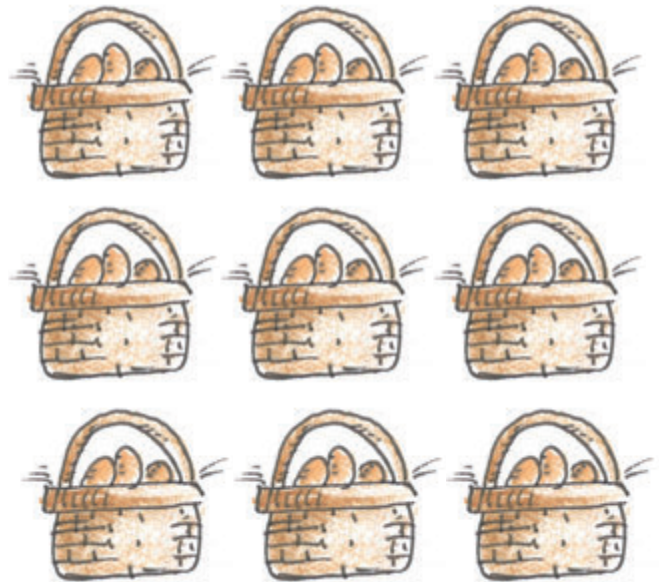
**NO PAIN
"NO GAIN!"**

Investment principle 4: Diversification is key

Diversification is a strategy that can be best 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.

By including different asset classes with investment returns that move up and down under different market conditions within a portfolio, an investor can protect against significant losses. Historically, the returns of the three major asset classes (shares, bonds and cash) have not moved up and down at exactly the same time. Market conditions that cause one asset class to do well often cause another asset class to have average or poor returns. By investing in more than one asset class, you’ll reduce the risk that you’ll lose money and your portfolio’s overall investment returns will have a smoother ride. If one asset class’s investment return falls, you’ll be in a position to counteract your losses in that asset category with better investment returns in another asset category.

In addition, asset allocation is important because it has a major impact on whether you will meet your financial goal at retirement. If you don’t include enough risk in your portfolio, your investments may not earn a large enough return to meet your goal.



So why are we telling you this?



It is important that you understand the reasons behind the construction of the various investment portfolios offered by your retirement fund. **Those portfolios with a higher allocation to shares (as opposed to bonds and cash that make up the rest of the portfolio) are typically there for younger members or members with a long time horizon who want to maximise their long-term returns and take on slightly higher risk. Similarly, the portfolios that have fewer shares in them, with a higher exposure to bonds and cash are typically for members who are closer to retirement and have a shorter time horizon.**

You may need to approach a professional financial adviser to assist you with your retirement planning and to formulate an appropriate investment strategy for you.

Remember

with adequate planning, preparation and enough information it is possible that you can retire with peace of mind, realising your hopes and dreams for the future.