INVESTMENT MODEL / *ANNEXURE A*

TFG Retirement Fund uses a life-stage investment model to gradually move members approaching retirement out of the Active Member Balanced Portfolio.

The Active Member Balanced Portfolio is designed for members who are still some years away from retirement, and can therefore afford to be invested in high growth assets, which carry some measure of risk. Assets need to be invested in high growth assets in order to meet the long term goals the trustees have targeted.

Members have an option to commence a de-risking phase at five years prior to retirement. The life-stage investment model consists of five increments of risk-reducing portfolios - each based on the number of years to a member's normal (or elected early) retirement date.

Portfolio Name	Years to retirement	Active Member Balanced	De-risking Portfolio	Prescient Positive Return	Banker Cash
1. Balanced	More than 5 years	100%	-	-	-
2. **Default** De-risking 20 Portfolio	5-4 years	80%	20%	-	-
3. **Default** De-risking 40 Portfolio	4-3 years	60%	40%	-	-
4. **Default** De-risking 60 Portfolio	3-2 years	40%	60%	-	-
5. **Default** De-risking 80 Portfolio	2-1 years	20%	80%	-	-
6. **Default** Prescient Positive Return Fund	Less than 1 year	-	-	100%	-
OPTIONAL: Investment Solution Banker Portfolio (Cash)	2 – 0 years	-	-	-	100%

In order to have an adequate retirement benefit, it will be necessary to take on some investment risk, because investing in low risk assets for a long period of time means that you lose out on greater returns that are available in portfolios that have more equities (risky assets) over a long period of time.

PORTFOLIO *DESCRIPTIONS*

Active Member Balanced

A balanced portfolio of shares, property, cash, bonds and offshore investments designed by the Trustees to achieve performance greater than inflation over time. The Trustees, using professional advice, combine the portfolios of top quality investment managers to succeed in this objective without exposing the members to undue risk. A secondary objective of the Trustees is to perform better than the average South African retirement fund.

De-risking Portfolio

The Life Stage Module De-risks over a period of 5 years from the balanced portfolio to the Prescient Positive portfolio as per the table above. (See Active Member Balanced and Prescient Positive Return Fund for the portfolio description).

Prescient Positive Return Fund

A conservatively managed portfolio that aims to protect capital while providing the prospect of generating a return greater than that achieved on cash over a 12 month rolling period. The portfolio is designed to participate in market returns during periods of strength and aims to protect capital over a 12 month rolling period, in weak markets.

OPTIONAL

Investment Solutions Banker Cash Portfolio

A 100% cash portfolio is available to members approaching retirement (i.e. who are within 24 months of retirement).The Investment Solutions Banker portfolio, may be particularly attractive to members retiring in the near future who do not wish to have any exposure to market volatility and who may therefore choose to switch their member share into this portfolio. (For other members, it would not be advisable to be invested in the cash portfolio for prolonged periods of time, as it offers no real growth.) Please note that switching to the cash portfolio will only be allowed within 24 months of a member's actual retirement date.

INVESTMENT MODEL / *ANNEXURE A*

GENERAL INVESTMENT *PRINCIPLES*

As a member of a defined contribution fund, **you carry the investment risk**. It is therefore important that you are aware of the different types of risk to which you will be exposed, as you may end up with less money than you expected as a result of it. What may be regarded as the 'safest' investment option may NOT be the safest for *you*.

No matter how your money is invested, **it will always be exposed to some level of risk** - in other words, the possibility of a poor return. So, even though you are aiming to grow your money, there is always a chance that you may lose value, or that your money may not grow as much as you expect.

There are many kinds of investment risk. The two main types that you should be concerned about are:

- **Inflation risk: This refers to the chance of your investment not growing enough to beat inflation. It is the primary risk that all members face and which investment funds aim to manage.**

- **Volatility risk: This refers to the variability, or "ups and downs", of the market that affects the value of your member share. Volatility risk can be reduced by switching to asset classes that yield more reliable returns - i.e. returns with lower variability - such as cash. However, investors are generally rewarded with higher returns for bearing higher variability, which is why investment in more conservative asset classes will reduce your potential of earning higher returns.**

These risks usually "work against each other"'. By reducing volatility risk, you may be increasing your inflation risk, and the other way around.

Different kinds of investments (called investment classes) vary when it comes to inflation versus volatility risk:

Cash - Cash usually offers the lowest investment return and has no volatility risk (i.e. its value is not dependent on market forces). Other forms of investment require a trade-off between higher returns than that which you can earn in the money market (loosely described as "cash") and volatility risk.

Bonds - Government bonds usually offer a higher return than cash. Since they are subject to market movements if they are traded, they do carry some volatility risk. The value of bonds also varies with interest rate levels in the market- the longer the term of the bond, the more sensitive it will be to changes in the interest rate. However, investors who are willing to face these risks are usually rewarded with returns that are higher than those of cash.

Equities - When you buy equities, you are buying a "share" or part of the underlying company. As a shareholder, you should earn dividends, which are your portion of the distributable profit of the company. In order to compensate investors for accepting the risk that a company might fail to deliver earnings in excess of a risk free rate, shareholders in companies receive returns (in the form of dividends and capital growth) that are generally higher than the returns they could expect if they invested in long-term government bonds. However, the price of these higher returns is increased volatility. Shares rise and fall on the various stock exchanges on which they are traded according to supply and demand in the market place. If you are forced to sell shares when the market is down, you could get less than you would expect from the long-term trend. There are occasions when these losses may be considerable (balanced by other times when the gains could be considerable). Although it is almost impossible to predict when significant market shifts will happen, it is also important to note that the effect of volatility is reduced over the long term, which means that the longer you remain invested in a particular share the less risky it becomes.

Remember that even though you may choose a portfolio which seems safer because it carries less investment risk (for example a portfolio invested more in cash than equities), you may have to face the possibility that your investment does not keep up with inflation.

TFG
retirement fund
you can never start too early