



1 July 2022

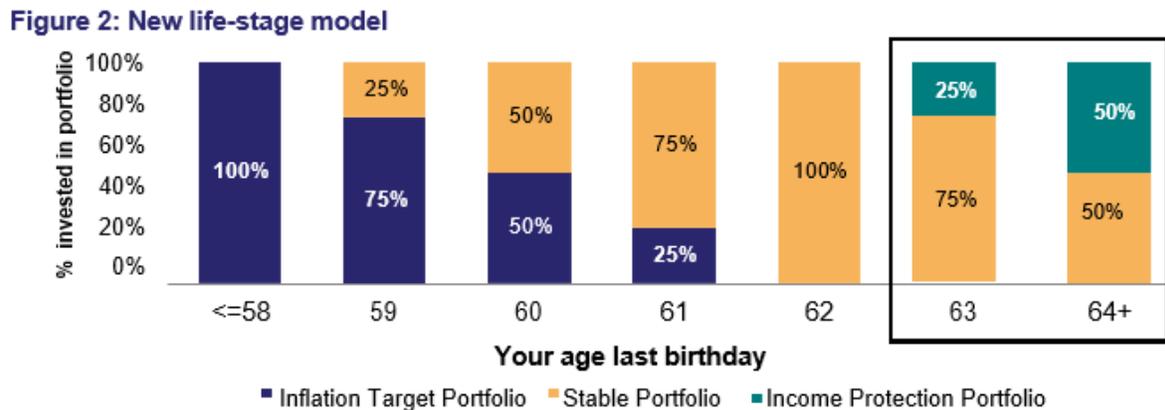
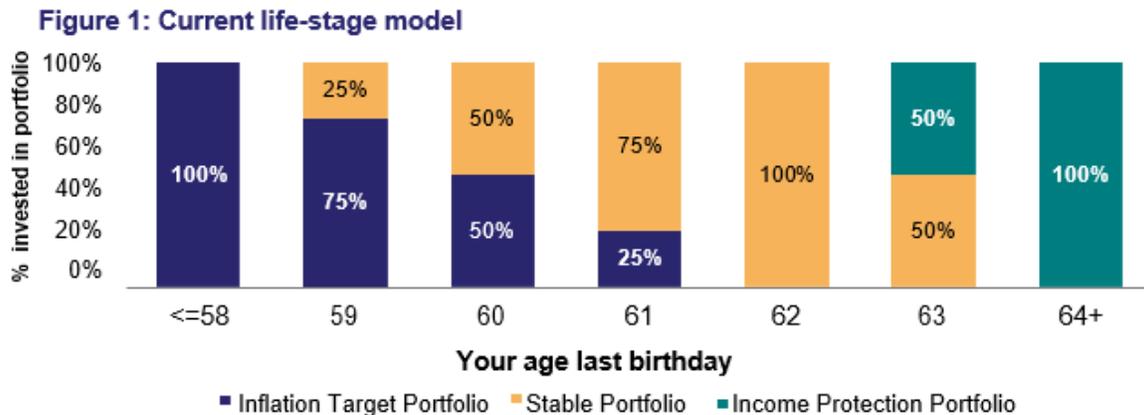
Dear Member

This letter deals with a change to the default investment strategy, the life-stage model, that the Board of Trustees (“the Board” or “the Trustees”) of the University of South Africa Retirement Fund (“the Fund”) has decided to implement with effect from 1 August 2022. Your money will almost certainly be invested according to the life-stage model as very few members have elected an own choice investment strategy and so this change is very likely to affect you.

The change only affects how your money is invested in the last **two** years before you reach your normal retirement age. Consequently, members who are close to normal retirement age must read this note carefully. If you are still some way from reaching this age, the change will have no immediate impact, but you should take note of the life-stage model change.

What is the change to the life-stage model?

Often a picture says more than 1 000 words and so the figures 1 and 2 below compare the current and new life-stage models respectively for a member who has a normal retirement age of 65.



As you can see, the change is made from age 63 where currently 50% of your benefit would be invested in the Income Protection Portfolio while with the new life-stage model only 25% of your benefit at 63 is invested in the Income Protection Portfolio. From age 64, the current model provided for a 100% investment in the Income Protection Portfolio whilst the new model provides for only 50% of your money being invested in this channel. **This means that the new life stage model takes on more risk and can therefore be more volatile than the current strategy.** The potential reward for taking on this higher risk is a bigger benefit at retirement but, of course, this is not guaranteed.

NOTE: The Fund allows members to elect a retirement age of 55,60 or 65. However, most members have not elected to specify their retirement age in which case your normal retirement age is taken to be that specified in your employment contract. This is 65 for most members, but 60 for Usaf employees and disability income claimants whose benefit came into payment before 1 July 2015. Consequently, the life stage model for you is structured around the retirement age you have elected, or if you have made no such election, your contracted normal retirement age.

Why is the model being changed now?

There are two reasons for this change, namely:

- The first and most important reason is that the investment return signature of the Stable Portfolio is a closer match to the pricing basis of the pension you may elect to receive from the Fund. What this means is that in most, but not all, scenarios where the Stable Portfolio delivers a poor return, the price of securing a pension from the Fund will become cheaper. If this is indeed the case, the fact that the Stable Portfolio earned a poor return is of less consequence, because it is now cheaper to secure the Fund's pension.

On the other hand, in most, but again not all, scenarios where the Stable Portfolio delivers a strong return, the price of securing the Fund's pension may become more expensive.

- Money market interest rates in South Africa are low and may deliver a return lower than inflation, particularly over the next few years. So, whilst the Income Protection Portfolio will almost certainly deliver a positive investment return in any month, this return may be less than inflation, which is not an ideal outcome for members.

The decision to invest 50% of your money in the Stable Portfolio once you turn 64 (see figure 2 above) is directed at increasing the chances of you earning an above inflation return in the year before you retire, but this comes with more risk and volatility. Up until mid-March 2020 it was unnecessary to take on such risk because money market interest rates were 1.5% to 2.5% p.a. above inflation.

How will this change affect me?

Members that are 62 or younger as at 1 August 2022 (note this age is 57 or younger if your life-stage is designed around a normal retirement age of 60 and 52 or younger if your life stage is designed around a normal retirement age of 55)).

Your money will automatically be invested according to the new life-stage model and so only 25% of your Fund Credit will be transitioned into the Income Protection Portfolio when you turn 63 (or 58 or 53) – see figure 2.

If you are uncomfortable with this change you can elect an “own choice” investment strategy by completing the Fund's investment option form. Importantly you only need to complete such a form if you no longer want your money invested according to the life-stage model. **Remember**, if you are entitled to a minimum retirement benefit, and most members who joined the Fund before 1 September 1996 are entitled to this benefit, you must invest your money according to the life-stage model if you wish to retain this guarantee.

Members who are 63 (58 or 53 for life-stage model retirement age 60 and 55 respectively) or older as of 1 August 2022

- If you are currently aged 63 (58 or 53 if you elected a retirement age of 60 or 55 respectively) your money is currently invested 50% in the Stable Portfolio and 50% in the Income Protection Portfolio. Your money will remain invested in this 50%:50% proportion when you turn 64 (or 59 or 54); expressed another way, it will NOT be switched 100% to the Income Protection Portfolio. In this way you merge into the new life-stage model from age 64 (59/54) onwards.
- If you are currently aged 64 or older (or 59+ or 54+ if you elected a retirement age of 60 or 55 respectively), you will remain fully invested in the Income Protection Portfolio and the change in the life stage model has NO effect on you.

You can however select to:

- (a) Change your strategy to that of the new life-stage model, which means if you are aged 64 (or 59 or 54) or older, 50% of your retirement savings will be moved back into the Stable Portfolio and if you are aged 63 (or 58 or 53) a further 25% of your retirement savings will be moved back into the Stable Portfolio so that you have 75% of your money invested in this Portfolio; or
- (b) Elect your own choice portfolio. **Remember**, if you are entitled to a minimum retirement benefit, and most members who joined the Fund before 1 September 1996 are entitled to this benefit, you must invest your money according to the life-stage model if you wish to retain this guarantee.

Should you wish to select either the new life-stage model or an own choice portfolio, please complete the Fund's Investment Switch form and submit that to Alexforbes before or by 29 July 2022. The switch form is available on the Fund's website, or by clicking [HERE](#).

Summary

The Board has decided to change the Fund's default investment strategy, the life-stage model mainly to establish a closer link between how your money is invested in two years before your normal retirement age and the price for which you can secure a Fund pension. The change is further motivated by low local money market interest rates which may not even exceed inflation.

The effect of the change is to increase the risk associated with investing your money in the two years leading up to your normal retirement age modestly. The potential reward for taking on this higher risk is a bigger benefit at retirement but, of course, this is not guaranteed.

If you are 62 or younger (or 57 or younger if your life-stage is designed around a normal retirement age of 60 and 52 or younger if your life stage is designed around a normal retirement age of 55), your money will automatically be invested according to the new life-stage model unless you elect your own choice portfolio. On the other hand, if you are 63 or older (or 58 and 53 or older) your money will remain invested in the same mix of Stable and Income Protection Portfolio and importantly if you are 63 (or 58 or 53) your money will NOT be transitioned fully into the Income Protection Portfolio when you turn 64 (or 59 or 54), unless you fill in an investment switch form to change it.

The change to the life-stage model is modest, but the Board believes that the new model is better aligned to the long-term interest of members.

NOTE: To enable the administrators to implement the new life-stage model the Fund will go into a closed period for the month of August 2022. This means that the administrator will not be able to process any claims and that you will not be able to view your Fund value via AF Online for the month of August 2022.