Information Booklet: Member Investment Choice

University of the Witwatersrand

August 2021

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1 Background

The University of the Witwatersrand Retirement Fund (UWRF) is a defined contribution fund, where the level of the investment returns of the assets in the UWRF has a direct influence on the benefits that are payable to members at withdrawal and retirement. Members are thus carrying the full investment risk, which means that they are exposed to the risk associated with fluctuations in the investment market.

You may therefore decide on how you want your Fund Credit and future contributions to be invested based on your intended retirement date rather than the age you have attained. After all, you know best what your needs and circumstances are. If you have reached age 55, or have less than 10 years to your intended retirement and you wish to invest more conservatively, you have the option to move to the Conservative Portfolio. In addition, if you have reached the age of 60, or have less than 5 years to your intended retirement you have the option to switch to a Capital Protection Portfolio. The individual investment choice of the UWRF allows you to choose the investment portfolio that suits **your needs.**

The Trustees of the fund have adopted a responsible investment approach in deploying the funds (assets) of its members into investments that will earn adequate risk-adjusted returns over the long term. As such the Trustees have designed 4 investment portfolios which caters for its member's needs, most notably with different risk profiles.

- The default option is the Growth Portfolio. All members are automatically invested in this portfolio unless they make an election to the contrary. This portfolio was designed for members who are aged under 55, with more than 10 years to intended retirement.
- The Conservative Portfolio was designed for members who have reached age 55, or with less than 10 years to their intended retirement.
- The Capital Protection Portfolio was designed for members who have reached age 60, or with less than 5 years to their intended retirement.
- The Shari'ah Portfolio was designed for those members who subscribe to the laws of Shari'ah and/or the Muslim faith.

Switches are allowed to and from any of the Portfolios on an annual basis at any time of the year. Only one switch per calendar year is allowed but a combination of multiple Portfolios are not permitted. A member may choose any of the portfolios even though they were designed for members of a certain age/term to retirement age (or religious belief).

The Trustees of the UWRF cannot be held responsible for your individual investment choice.It is therefore of great importance that you study this document and familiarise yourself with the contents, or contact an independent financial adviser to provide you with appropriate financial and investment advice.

Please note that the University of the Witwatersrand:

- Does not provide basic investment advice
- Does not accept any responsibility for any loss or potential loss incurred by members followingtheir choice of investment portfolio; and
- Encourages you to consult with an independent financial advisor before making investmentdecisions.

2 The Basics of Making an Investment Choice

There are a few basic investment principles you need to consider when choosing the appropriate investment portfolio for your retirement fund savings. Portfolios differ in asset class exposures, and members must understand the nature and various risks of these portfolios when making a choice. Every member has different needs, circumstances and preferences that need to be taken into account in making an investment choice and you have to ensure that you choose the appropriate portfolio for your specific needs and circumstances.

There is always a balance between expected investment returns and taking on investment risk. Higher expected investment returns are associated with higher investment risks and vice versa. Although this may not always happen in practice, especially not in the short-term, it would be prudent and important to accept this principle for long-term investments like retirement fund investments.

Ideally, one would like to get a very high return for taking very little or no risk. This is unfortunately not consistently achievable. You have to weigh up the different risks and expected returns of the various portfolios and choose the appropriate one that best accommodates your specific needs. It should be borne in mind that investment losses only occur if you have to disinvest from the Fund at a time when the markets have fallen, if you have not disinvested and the markets rise again you will not have locked in the investment loss.

The trustees have recognized this risk for members who are approaching retirement and have included options for members who are approaching retirement. Members who have reached age 55, or are within 10 years of intended retirement and qualify to do so, may switch into the less risky Conservative Portfolio. Likewise members who are close to retirement say within 5 years (or less of intended retirement) and qualify to do so may switch into the Capital Protection Portfolio.

Capital risk

Although your capital is not explicitly guaranteed, meaning that what you put into the investment portfolio that you select could reduce, the Growth Portfolio is expected to grow with relatively high investment returns in comparison with the other low risk portfolios and could be expected to outperform the Conservative Portfolio and the Capital Protection Portfolio over the long-term**.** It is expected that the investment volatility in the short term will be higher for the Growth Portfolio, which may result in negative returns over a short period of time.

Inflation risk

Inflation can be measured as the rise in the cost of living. Your investments need to at least keep pace with inflation to preserve the purchasing power of your benefits.

- The Growth Portfolio aims to deliver real returns in excess of inflation over the longer term with a set investment objective of Inflation plus 4.50% p.a. measured over 3 year rolling periods.

- The Conservative Portfolio also aims to deliver real returns in excess of inflation over the medium to longer term but with a lower risk profile and a set investment objective of Inflation plus 3.00% p.a. (net of fees) measured over 3 year rolling periods.

- The Capital Protection Portfolio is designed for members close to retirement who wish to protect capital and should deliver a small real return in excess of inflation over shorter periods. It therefore aims to achieve Inflation plus 1.00% p.a. (net of fees) measured over 1 year rolling periods.

- The Shari'ah Portfolio has been introduced to cater for the particular needs of members of the Fund. This portfolio is suitable for Muslim investors requiring a Shari'ah-compliant investment portfolio. The portfolio will be invested in a variety of domestic and international asset classes. The underlying investments will comply with Shari'ah requirements as prescribed by the Auditing Organisation for Islamic Financial Institutions. The portfolio targets capital growth over the long-term while limiting short term market fluctuations.

Alternative sources of income for retirement

If you have a substantial amount of capital saved elsewhere for your retirement, e.g. retirement annuities, you may be able to consider taking some investment risk with your UWRF money. You could then consider investments offering a potentially high capital growth at a higher risk. However, if your UWRF savings are your main source of capital for retirement, you may want to take a more cautious approach regarding your investment choices.

Don't keep all your eggs in one basket

No single type of investment or investment manager can be expected to be the best performer under all circumstances. As a result, many professional investors recommend that you diversify your investments in order to reduce risk.

There are a couple of different ways to go about this. One approach is to choose a variety of investments with different levels of risk and return potential. The other approach is to invest in a managed fund with more than one underlying investment manager. With a multiple manager fund, you achieve diversification without having to make the investment mix or investment manager decisions yourself. In addition, you reduce volatility without substantially sacrificing long-term growth.

The investment portfolios that you can choose from have all been carefully constructed and include multiple asset managers to diversify the risk.

How much risk can you handle?

When all is said and done, you are the one who has to live with your investment decisions. It's important that you feel comfortable with the decisions you make. Some people feel strongly that their investments should earn the highest possible return, and they're prepared to live with the accompanying risk. Others might want the same high investment return, but are not comfortable with the risk they'd have to take to achieve it. For others, avoiding risk is a matter of financial necessity - they just can't afford to take the risk of a loss that certain investments may present.

The trustees have given you the option to reduce your investment risk depending on your envisioned retirement date (or other financial needs). If for example you want to reduce your risk whilst approaching retirement, you may want to move into the Conservative Portfolio within a period of 10 years to your intended retirement date. You can also choose the Capital Protection Portfolio to protect your capital for example, this may be suitable within 5 years (or less) from retirement.

3 Investment Time Horizon

Always think long term

When making investment decisions, it's important to think long-term, particularly if you have many years left until retirement. If the value of your investment drops, remember that significant year-to-year fluctuations in returns are historically normal for equities and, to a lesser degree, balanced funds. However, we know that higher risk asset classes like listed equities and property have historically provided greater returns in the long run than less risky type assets (fixed interest investments), such as government bonds or cash. The Growth Portfolio for example will have a higher exposure to assets like equities which means that this portfolio will be more volatile in its return profile than the lower risk portfolios i.e. the Conservative and Capital Protection portfolios.

Your age is important

The number of years you have until retirement will determine how important capital protection and inflation risks are to you. If you have less than 10 years until retirement, the risk of losing capital becomes more significant and you may choose not to expose your Fund Credit to fluctuations/volatility in the investment markets. You may not want to risk losing capital when you are counting on a certain income when you retire. A younger person will therefore have a long enough investment time horizon to aim for higher growth and ride the investment risk and fluctuations/volatility in investment returns, which generally means that the Growth Portfolio is more suitable for younger members.

Determine your investment time horizon

Your investment time horizon is the length of time you have left until you retire. Many professional investors point out that people who are still many years away from retirement may be able to realise the long-term growth potential of equity investments, while those close to retirement may wish to concentrate on investments that aim to preserve their retirement savings. It may be useful to think of your investment time horizon as having three distinct phases: the Growth, Maintenance and Pre-Retirement phases. The table below gives some guidance for members when thinking about your investment time horizon:

Phase	Time Horizon	Investment Risk
Growth Phase	From the time you start working until 10 years before youretire.	You may be able to tolerate a higher level of investment risk in order to maximise expected returns, since there is sufficient time to recover from market downturns. The Growth Portfolio is the most suitable portfolio during this phase.
Maintenance Phase	From when you are within 10 years of retirement.	You may not be able to afford to risk toomuch of your retirement savings in equity investments during this period, since there is less time to recover from market downturns. However, you maystill be able to pursue moderate returns through reduced risk investments, such as the Conservative Portfolio, which has a lower exposure to the equity markets.
Pre-Retirement Phase	The period within 5years or less before retirement.	Your primary goal will likely be to preserve the funds you have accumulated. So, you may want to move the money in your Fund Creditinto the Capital Protector Portfolio when you approach retirement.

These phases should be considered as guidelines only. You must always consider your personal risk tolerance and other sources of retirement income. Please contact an independent financial advisor to assist you with your investment decisions

4 How Does The Portfolios Work?

What are my choices?

You can invest your fund credit and future contributions into any one of the following investment portfolios. These portfolios have been designed to cater for a number of different member investment risk profiles, which have been explained above. On joining the Fund, you will have to select any of the four investment portfolios. If you do not know which portfolio to select, you will automatically be placed in the Growth Portfolio, which is the default portfolio of the Fund.

The current portfolios are as follows:

- Growth Portfolio - please refer to Annexure A
- Conservative Portfolio - please refer to Annexure B
- Capital Protection Portfolio - please refer to Annexure C
- Shari'ah Portfolio - please refer to Annexure D

Can I switch between portfolios?

Switches are allowed to and from any of the Portfolios on an annual basis at any time ofthe year. Only one switch per calendar year is allowed and multiple Portfolios are not permitted. Members are also entitled to switch to the Shari'ah Portfolio at any age on an annual basis.

How is my benefit calculated?

The administrators of the UWRF purchase units in your chosen portfolio on a monthly basis with your net monthly contribution*. The number of units purchased in any given month is determined by the unit price recorded by the Benefit Administrator on the actual day that the contributions are invested.

* Refer to example below.

Let us assume that you joined the UWRF on 1 October 2020, your net monthly contribution is R1,200 and you elected to have 100% of your contributions invested in the Growth Portfolio.

The following is an illustration of the movement of your Fund Credit in the portfolio:

Month	Net Monthly Contribution	÷	Unit Price	=	Number of Units Purchased
October 2020	1,200		142.67		8.41
November 2020	1,200		140.11		8.56
December 2020	1,200		143.36		8.37
January 2021	1,200		141.53		8.47
Total units as at 31 January 2021					**33.81**

The Fund Credit Rand value amount (as from inception October 2020 to 31st January 2021) would be calculated as below:

	Units Accumulated	x	Unit Price	=	Fund Credit
31 January 2021	33.81	x	141.53	=	R 4,785.13

If you were to calculate the actual Rand value of your Fund Credit during the month of February 2021 it would be different every day, depending on the unit price i.e. until your next investment your number of units will stay constant but the Rand value of your Fund Credit would be change depending on the actual unit price daily. For example:

	Units Accumulated	x	Unit Price	=	Fund Credit
1 February 2021	33.81	x	140.34	=	R 4,743.54
6 February 2021	33.81	x	142.98	=	R 4,834.15

Published investment returns versus actual returns received

Members of the UWRF often have questions relating to the manner in which investment returns are allocated to their benefits. There could be many reasons why published investment returns are not exactly reflected as expected on member's benefit statements. Some of the reasons are addressed below and the following should be borne in mind when checking any calculations:

i. <u>Only a net contribution is invested every month</u>

   Please note that the net contribution (after deduction of administration charges and riskbenefit premiums will be invested into your Fund Credit), and not the full deduction made from your salary.

ii. <u>Investment fees are deducted from a member's benefit each month</u>

   Investment fees and necessary expenses need to be allowed for and may affect your fund credit or the unit price from time to time.

iii. <u>Timing of the investments and disinvestments are important</u>

   The actual date of investment and the unit price on that day will also have an influence on the total return and members need to know the date and unit price of investments in order to calculate returns accurately.

iv. <u>Comparing fund credits with colleagues or peers</u>

Please also note that comparing fund credits with colleagues and or peers will seldom yield a like for like comparison, as various factors influence one's fund credit build-up over time. Factors which may influence this include: portfolio choice and switches, contribution rates, pensionable salary levels, transfers from other funds, additional voluntary contributions etc.

5 Definitions

Assets

Something you own that can be sold for cash or exchanged for another item of value. Your house, car, furniture, jewellery, savings and other investments are all assets. However, in terms of investments, assets mainly refer to equities, property, bonds and cash (local and offshore).

Bond

A bond is actually an "IOU" certifying that the bondholder has loaned money to a corporation or government and describing the terms of the loan (repayment period and interest rate). A bond usually pays interest at regular intervals. The principal amount of the bond (the amount you loaned) is repaid at maturity. Capital profits and losses can be made based on market fluctuations mainly due to changes in market interest rates.

Capital

In terms of retirement funds, the amount of money invested in retirement fund assets over time. For example, your monthly contribution invested into the UERF can be referred to as your capital invested.

Cash

In the investment world cash usually refers to money market instruments issued by Banks or other financial institutions and may include money held on call, fixed deposits, negotiable cash deposits and treasury bills. Short- term bonds with an outstanding term of less than 12 months are also normally classified as cash.

Defined Contribution Fund

A fund where the member and the institution (or company) contribute set amounts based on a percentage of a member's salary.

Equities

Listed equities are shares traded on the stock market. Investment in equities gives you the opportunity to achieve high returns over the *long-term,* but your investments are affected by short-term market and currency fluctuations. Capital profits and losses can be made based on depending on these market fluctuations.

Fund Credit

The total value of your benefits in the UWRF, equal to:

- The full value of any member or employer transfer credit into the fund by or on behalf of the member; plus
- The full value of your own contributions; plus
- The company's contributions towards retirement benefits; plus
- The investment earnings earned in the portfolios you selected after provision for investment fees.

Investment Manager

The investment manager is an investment house, asset manager, a financial services provider, or institution (like an insurer) who invests the Fund's assets on behalf of the members and have the expertise to invest the assets wisely.

Local Balanced Fund / Managed Portfolios

Most of these portfolios are designed to meet the legal requirements for retirement funds in South Africa, which are governed by Regulation 28 of the Pension Funds Act. These portfolios reduce investment risk by combining investments of secure interest earning instruments (e.g. bonds and cash) and higher risk capital growth investments (like equities and property).

Long-term

Usually refers to a period of more than 5 years.

Short-term

Usually refers to a period between three months and three years.

Unit Price

This is the factor calculated on a daily basis that is applied to calculate a member's fund credit on any given day. The unit price is therefore a measure of the actual performance of a portfolio for a particular period.

Volatility

The tendency of an investment to experience price swings. A highly volatile investment experiences dramatic price movement over short periods of time.

6 The Investment Portfolios

The Trustees of the UWRF regularly completes an in depth investigation into the Fund's investment and membership structure. During the course of the investigation the Trustees established the most optimal investment strategy for the Fund and its members, given the Fund's unique risk and liability profile.

As such the Trustees have designed 4 investment portfolios which caters for its member's needs, most notably with different risk profiles.

As indicated above the portfolios available to members are as follows:

- Growth (Default) Portfolio
- Conservative Portfolio
- Capital Protector Portfolio
- Shari'ah Portfolio

Appendix 1 - Growth Portfolio

Background

All members in the UWRF who have not elected to invest in the Conservative, Capital Protection or the Shari'ah options will automatically be invested in the Growth Portfolio.

Return Objective

The Trustees appreciate that most members desire to achieve meaningful inflation-beating returns over the long term. The Growth Portfolio aims to deliver real returns in excess of inflation over the longer term with a set investment objective of Inflation plus 4.50% p.a. measured over 3 year rolling periods.

Risk Objective

History indicates that equities are likely to yield the best returns over the long term, and are also likely to beat inflation. The Growth Portfolio therefore invest a substantial portion of its investments in equities, which implies that negative real returns are likely over some short term periods. The Risk objective of the Growth Portfolio is to produce positive returns over rolling 12-month periods 75% (probability) of the time.

Asset Allocation

The portfolio has been carefully constructed to employ diversification across a range of asset classes (e.g. equities, fixed interest and cash) and geographic regions. Further diversification is also achieved by spreading investment management appointments between more than one asset manager ensuring a blend of different investment styles and philosophies.

In order to achieve the above objectives the Growth Portfolio will be invested into the asset classes indicated below. The percentage exposure to each asset class will determine the level of risk and return for this portfolio.

Asset Class	Growth Portfolio
Local Equity	**42%**
Local Fixed Income	**20%**
Local Property	**5%**
Local Cash	**3%**
Foreign Equity	**30%**
Total	**100%**

Suitability

Members with a long-term investment horizon looking to maximize capital growth whilst acknowledging this will lead to volatile and increased likelihood of negative returns in the short term. Members with more than 10 years to retirement.

Appendix 2 - Conservative Portfolio

Background

In establishing the investment objectives of the Conservative Portfolio, the Trustees have recognised the need to cater for the more conservative investment needs of those members who are approaching retirement and want to limit their equity exposure.

Return Objective

The objective of this portfolio is to protect the real purchasing power of the members closer to retirement. As such the portfolio has specifically been designed to protect the real purchasing power of a member's retirement fund benefits within 10 year from retirement. The Conservative Portfolio also aims to deliver real returns in excess of inflation over the medium to longer term but with a lower risk profile and a set investment objective of Inflation plus 3.00% p.a. (net of fees) measured over 3 year rolling periods.

Risk Objective

Although this is a substantially more conservative option than the Growth Portfolio, the portfolio will still have some exposure to equities, and may experience some negative returns from time to time. The Risk objective of the Growth Portfolio is to produce positive returns over rolling 12-month periods 80% (probability) of the time.

Asset Allocation

The portfolio has been carefully constructed to employ diversification across a range of asset classes (e.g. equities, fixed interest and cash) and geographic regions. Further diversification is also achieved by spreading investment management appointments between more than one asset manager ensuring a blend of different investment styles and philosophies.

In order to achieve the above objectives the Growth Portfolio will be invested into the asset classes indicated below. The percentage exposure to each asset class will determine the level of risk and return for this portfolio.

Asset Class	Conservative Portfolio
Local Equity	42%
Local Fixed Income	20%
Local Property	5%
Local Cash	3%
Foreign Equity	30%
Total	100%

Suitability

Members who require capital growth and are comfortable with some volatile and negative returns from time to time. This portfolio is an option that may suit members who have reached age 55, or have less than 10 years to intended retirement.

Appendix 3 - Capital Protection Portfolio

Background

In establishing the investment objectives of the Capital Protection Portfolio, the Trustees have recognised the need to cater for those members who are close to retirement and want to protect their capital.

Return Objective

The Capital Protection Portfolio is designed for members close to retirement who wish to protect capital. As such the portfolio has specifically been designed to not put capital at any undue risk. In order to achieve this, the portfolio has zero exposure to equities and will only invest in money market instruments i.e. cash. The portfolio should deliver a small real return in excess of inflation over shorter term periods, and therefore aims to achieve Inflation plus 1.00% p.a. (net of fees) measured over 1 year rolling periods.

Risk Objective

The portfolio is very conservative and will have no exposure to high risk assets like equities. The Risk objective of the Capital Protection Portfolio is to produce positive returns over rolling 12-month periods 100% (probability) of the time.

Asset Allocation

In order to achieve the above objectives the Capital Protection Portfolio will be invested into cash, as classes indicated below.

Asset Class	Capital Protection
Local Equity	**0%**
Local Fixed Income	**0%**
Local Property	**0%**
Local Cash	**100%**
Foreign Equity	**0%**
Total	**100%**

Suitability

Members close to retirement who require capital security and no negative returns or members with a specific need to invest in a cash only portfolio.

Appendix 4 - Shari'ah Portfolio

Background

The Trustees of the Fund have also decided to include a Shari'ah compliant portfolio for members of the Muslim faith and those members who do not desire to invest in various investments that are prohibited from a religious and a moral point of view.

The law of Shari'ah does not allow investment in shares of companies, such as conventional banks and insurance companies, who pay or earn interest as a part of their normal business activities. Also excluded are companies involved in certain other business activities which contravene the principals of Shari'ah law, such as the company's manufacturing, producing or selling alcoholic beverages, pork, non-halaal foodstuffs or companies who are involved in activities that include gambling, night clubs, pornography etc.

If some income from interest-bearing accounts is included in the dividends of the company, the proportion deemed to be interest must be donated to charity.

Return Objective

The Shari'ah Portfolio aims to deliver real returns in excess of inflation over the medium to longer term but with a medium risk profile and a set investment objective of Inflation plus 3.00% p.a. (net of fees) measured over 3 year rolling periods.

Risk Objective

The portfolio is of medium risk with some exposure to equities and may therefore experience some negative returns from time to time. The Risk objective of the Shari'ah Portfolio is to produce positive returns over rolling 12-month periods 85% (probability) of the time.

Asset Allocation

In order to achieve the above objective the portfolio will be invested in a pooled fund managed by an appropriate investment manager. Its asset allocation may vary between ranges as indicated below:

Asset Class	Shari'ah Portfolio
Local Equity	**50% - 60%**
Local Fixed Income	**25% - 35%**
Local Property	**10% - 18%**
Foreign Equity	**5% - 10%**

Suitability

This portfolio is suitable for Muslim investors requiring a Shari'ah-compliant portfolio appropriate for retirement investment.