NATIONAL TERTIARY RETIREMENT FUND

MEMBER COMMUNICATION

JUNE 2022

Change in Life Stage Model

This note deals with the change to default investment strategy (the so-called "Life Stage Model") that the Board of National Tertiary Retirement Fund ("NTRF") has decided to implement with effect from 1 September 2022. Your money will almost certainly be invested according to the Life Stage Model (as very few members have elected an own choice strategy) and so this change is very likely to affect you.

However, the change only affects how your money is invested in the last two years before you reach your normal retirement age. Consequently, members that 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 a 1 000 words and so the figures 1 and 2 below compare the current and new Life Stage Models respectively for a member that has a normal retirement age of 65. The Life Stage Models designed around a normal retirement age 60 will be adjusted similarly.

Figure 1: Current Life Stage Model

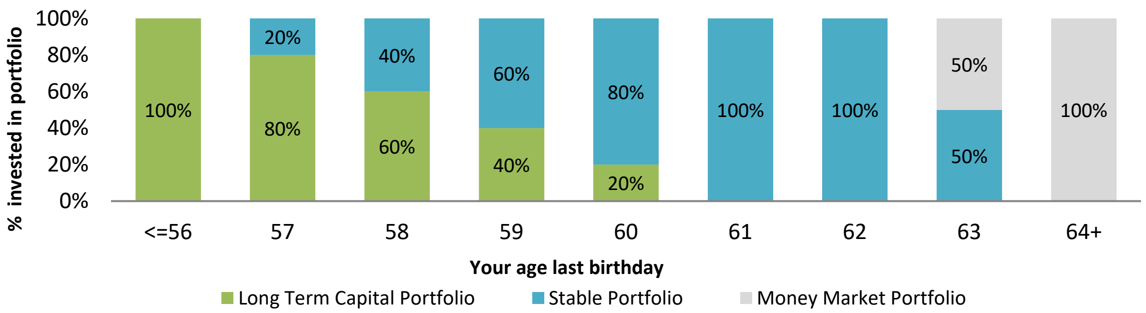
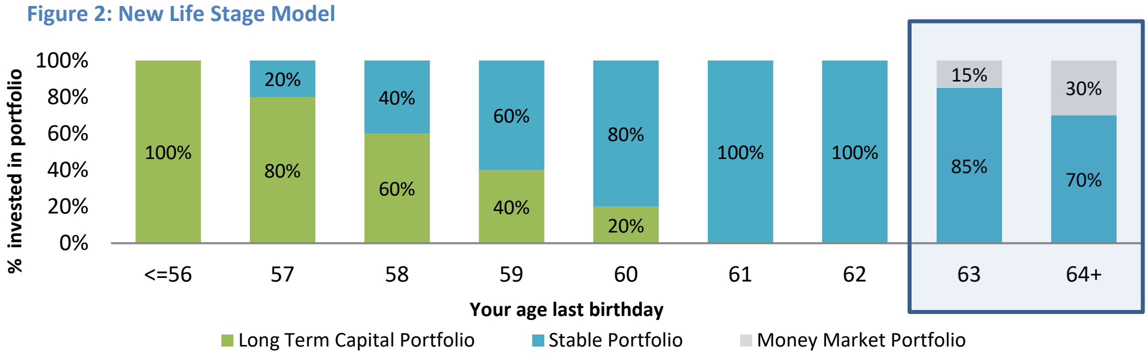


Figure 2: New Life Stage Model



As you can see, the main change is that whereas currently all your retirement savings is invested in the Money Market Portfolio, the new model only invests 30% of your money in this channel. <u>This means that the new Life Stage Model takes on more risk than the current strategy.</u> The potential reward for taking on this higher risk a bigger benefit at retirement but, of course, this is not guaranteed.

Why is the model being changed now?

There are two reasons for this change, namely:

- The first and most important reason is rather complicated, but 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 at least, particularly over the next few years. So, whilst the Money Market 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.

  So, the decision to invest 70% on your money in the Stable Portfolio once you turn 64 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. 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?

<u>Members that are 62 or younger as of 1 September 2022 (note the age is 57 if your life stage is designed a normal retirement age of 60[1])</u>

Your money will automatically be invested according the new Life Stage Model and so only 15% of your Fund Credit will be transitioned into the Money Market Portfolio when you turn 63 (or 58).

If you are uncomfortable with this change you can elect an "own choice" investment strategy by completing the attached option form. Importantly you only need to complete such a form if you on longer want your money invested according to the Life Stage Model. However, if you are entitled to a conditional retirement benefit (and most members who joined the Fund on or before 1 December 1994 are entitled to this benefit), you must invest your money according to the Life Stage Model.

<u>Members that are 63 (58) or older as of 1 September 2022</u>

No change will be made to how your retirement savings are invested. For example, if you are 64 (59) or older all your money will continue to be invested in the Money Market Portfolio. Likewise, if you are aged 63 (58), 50% of your retirement savings will be moved to the Money Market channel at the end of the month in which you turn 64.

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[1] Irrespective of the normal retirement age of members as contracted with their employers (this is 65 in respect of most members but there are some employers who indicated a normal retirement age of 60 to NTRF), the Fund provides investment options in that you can elect an investment strategy designed around a retirement age of 65 or 60. If you don't choose a retirement age for your investment strategy, your retirement age will be taken as the age nominated by your employer.

You can however select to

(a) Change your strategy to that of the new Life Stage Model; or

(b) Elect an own choice portfolio[2], although the Fund would not expect you to do so because your investment strategy is not changing.

Summing up change in Life Stage Model

The Board has decided to change the Fund's default investment strategy (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 a bigger benefit at retirement but, of course, this is not guaranteed.

If you are 62 or younger (or 57 or younger if normal retirement age is 60), your money will automatically be invested according to the new Life Stage Model unless you elect an own choice portfolio. On the other hand, if you are 63 or older (or 58 or older) your investment strategy will be unchanged, unless you fill in a 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.

Monthly switches

The Fund allows monthly switching and for a monthly switch to be effected, a member is required to submit the option form by the 15th of the month. The current practice is that, if the option form is submitted on 15 June the switch will be effected 1 July. However, should the member submit the form on 16 June, the switch will be processed on 1 August only as the monthly deadline of the 15th was missed.

So as to reduce the time between the submission and implementation of the form, the Board of the NTRF resolved to change the current practice and align the switch date with the month-end. This will result in any switch form submitted in the month being processed on the 1st of the following month. This change will be made at the same time as the amendment to the Life Stage Model (i.e., 1 September 2022).

[2] However, if you are entitled to a conditional retirement benefit (and most members who joined the Fund on or before 1 December 1994 are entitled to this benefit), you must invest your money according to the Life Stage Model.