

GERMISTON MUNICIPAL RETIREMENT FUND

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Member Investment Guide

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INTRODUCTION

This guide aims to help you to make informed decisions about your investment strategy for retirement.

As a member of the Germiston Municipal Retirement Fund ("the Fund"), you can choose from a range of investment strategies. You are encouraged to meet with a Certified Financial Planner who can help you draw up a holistic financial plan.

UNDERSTANDING YOUR RETIREMENT OBJECTIVES

In order to effectively guide and empower all the members, Old Mutual Corporate Consultants has conducted an analysis of the Fund using information provided by the Fund's administrators. This analysis provides an indication of the above-inflation investment return each member needs in order to retire comfortably.

How much is enough to retire comfortably?

The answer to this question differs from one member to the next, depending on their personal circumstances. In general, a pension of around **70-75% of your final working salary** (i.e. just before you retire) is considered as a reasonable target pension to be able to retire 'comfortably'. Importantly, this pension needs to grow in line with inflation. Note that this is simply a target and is not guaranteed. Depending on a few factors (e.g. your age at retirement, the type of annuity you choose at retirement, the costs of annuities at that time, how your pension needs to increase during retirement, etc) you will generally need between 8 - 15 times your annual salary before retirement.

Important assumptions

The analysis requires a few assumptions. The assumptions agreed upon by your Fund's trustees are:

- ~ retirement age: 65
- ~ inflation: 6% p.a.
- ~ salary growth rate: 7% p.a.
- ~ expected time in retirement: 15 years for males (i.e. to age 80) and 20 years for females (i.e. to age 85)

The analysis conducted by Old Mutual Corporate Consultants should not be seen as advice as to what investment choice you should make. Rather, the analysis merely indicates the **minimum** investment return you need based on your current situation and the above assumptions. It is critical that you think carefully about your personal circumstances, the risks associated with your chosen investment strategy as well as your time to retirement and probable time during retirement.

The importance of preserving

One of the main reasons why people fail to accumulate enough savings for their retirement is because they do not preserve their savings when they change jobs. So while taking the cash from your Fund when you change jobs may seem like a good idea, remember that it will be extremely difficult to catch up later. This is why you should always preserve your retirement savings.

SELECTING A PORTFOLIO THAT TARGETS YOUR RETIREMENT OBJECTIVES

The investment strategy adopted by your Fund aims to reflect the differing retirement objectives of the members. To cater for these needs, the strategy makes use of three portfolios with different objectives and therefore different risk and return characteristics. You can choose one portfolio or a combination of any number from the

three available portfolios to suit your personal retirement objectives

THE THREE PORTFOLIOS:

Market Portfolio (CPI + 5%)

The Market Portfolio (CPI + 5%) is a balanced portfolio targeting a return of 5% above inflation over rolling 5-year periods. This portfolio is suitable for members that have a long investment horizon (5 years or more) and who are concerned about managing inflation risk.

Stable Portfolio (CPI + 3%)

The Stable Portfolio (CPI + 3%) is an absolute return portfolio that targets a return of 3% above inflation over rolling 3-year periods. This portfolio is focused on protecting retirement savings when stock markets deliver weak investment returns, while limiting capital volatility in returns. This is a conservative portfolio that aims for superior returns to the money market whilst striving for capital preservation over any 12-month period. It is suitable for members with an investment horizon of between 2 and 5 years and are uncomfortable with the wide range of possible returns that are possible with the Market Portfolio.

Money Market Portfolio (CPI + 1%)

The Money Market Portfolio is invested solely in cash and near-cash instruments. It has the lowest risk profile of the 3 available portfolios and targets the lowest return above inflation. This portfolio is generally suitable for members that have an investment horizon of less than 2 years or for members that are very risk averse. The Money Market Portfolio is not suitable for long-term savings.

You will notice that the Trustees have added each portfolio's target return in brackets next to their names. This was done for ease of reference and the trustees aim for this to make it easier for you to choose the strategy that will give you the best possible chance of achieving your retirement objective. **The target returns are merely targets for each portfolio and performance is not guaranteed.**

As mentioned, you can invest in one or any combination of the above portfolios. The Trustees have given you a few options to choose from and each portfolio has its own unique investment approach and objective.

The default strategy

It often happens that certain members do not feel confident enough to make a choice. The Trustees have designed the default life stage model to provide an investment strategy that will be appropriate for the majority of the Fund members.

The default strategy is a life stage model. In this strategy, younger members are invested in the Market Portfolio (CPI + 5%) and when they reach age 57, they are gradually switched to the Stable Portfolio (CPI + 3%). Finally, at age 64, members are switched to the Money Market Portfolio (CPI + 1%). Members are advised to note the following:

- the default life stage model is designed on the assumption that most members will retire at age 65
- the Rules of the Fund allow for members to retire between the ages of 55 and 65
- switching between the portfolios takes place in stages over a number of years in order to protect members from any unfortunate outcome as a result of market movement

This guide gives more information on the 3 investment portfolios, the default life stage strategy and the choices you have as a member.

THE KEY RISKS YOU FACE

As a member of the Germiston Municipal Retirement Fund, your retirement benefits will depend on two factors, namely:

- How much money the employer and you save (contribute) each month for your retirement; and
- The investment returns you earn on these contributions.

In a defined contribution fund, you carry the risk of whether your contributions and the investment returns you earn will be enough to provide you with a reasonable income at retirement.

It is therefore important for you to understand what investment risks affect your retirement savings and how best you can manage these risks. In terms of

investment risks, you are mainly exposed to 'Inflation Risk' and 'Final Payment Risk'. These are explained in more detail below.

Inflation Risk

This refers to the risk that the money you save each month for your retirement will not earn you high enough investment returns to beat inflation and provide reasonable retirement benefits.

An average member with a full career needs his/her investment returns to be around 4.5% (after investment fees) higher than inflation each year. This is generally enough to provide satisfactory retirement benefits for a comfortable retirement.

As a general rule, the further you are from retirement, the more you are exposed to inflation risk.

Final Payment Risk

This is the risk you face when your investment period becomes short i.e. as your time to retirement becomes shorter. The key risk is that when you receive your benefit, the market is at a low point.

As a general rule, your final payment risk becomes greater as you approach retirement.

The following examples highlight whether final payment risk applies to you or not:

- You will be retiring from the Fund shortly. When the time comes you plan on buying a life annuity. The initial pension you will receive will largely depend on your total retirement savings. In this example you face "final payment risk" (and have a short investment horizon) because you face the possibility of a reduced lump sum saving (and consequently your initial pension) should there be any large negative investment returns.
- You are 20 years away from retirement and will be resigning soon. You plan on preserving your resignation benefit for your retirement. In this case you have a long investment horizon and do not face final payment risk.

MORE INFORMATION ABOUT THE 3 PORTFOLIOS

Market Portfolio (CPI + 5%)

This portfolio has been designed to deal mainly with inflation risk.

This is a balanced portfolio diversified amongst a number of asset classes. As such, it is exposed to the performance of these markets and the return you earn from this portfolio over any period may be positive or negative, depending on market conditions.

Page 8 contains a detailed fact sheet on the Market Portfolio.

Stable Portfolio (CPI + 3%)

This is a balanced portfolio that is more conservative than the Market Portfolio (CPI + 5%) in its investment objective. Because it is suitable for members within 2 to 5 years of retirement, it has been designed to deal mainly with final payment risk.

Page 9 contains a detailed fact sheet on the Stable Portfolio.

Money Market Portfolio (CPI + 1%)

This portfolio is generally suitable for members who are less than 2 years away from retirement; and are therefore risk-averse and uncomfortable with the possibility of earning a negative investment return in the short term.

This portfolio deals exclusively with final payment risk and not inflation risk.

Page 9 contains a detailed fact sheet on the Money Market Portfolio.

DEFAULT LIFE STAGE MODEL

What is a Life Stage Model?

Your Fund Credit is your accumulated retirement savings, which consists of the value of your retirement contributions to the Fund, those made by your Employer on your behalf, and investment returns earned on these amounts.

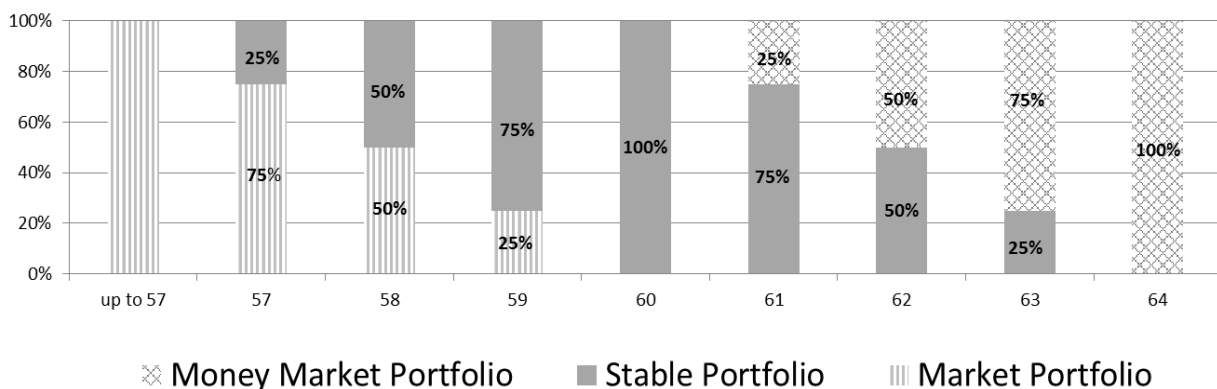
A life stage model is a way of investing a member's Fund Credit in such a way that

there is an appropriate balance of risk and expected investment return at different stages in the member's working life. Those members who do not submit an option form selecting one or a combination of any of the 3 portfolios will be placed in the default investment strategy, which is a life stage model.

Simply speaking, younger members who have a long time to go before retirement should be aiming for long-term investment returns well above inflation. History has shown that the best way to achieve this is to invest in a market-linked portfolio with significant exposure to shares. However, the problem with this type of investment strategy is that returns can be volatile and can even be negative over certain periods.

It is important to realise that a long investment horizon allows young members to "ride out" this volatility, provided that they do not allow their emotions to drive them to switch at the wrong times or for the wrong reasons. Members with a shorter investment horizon, such as those approaching retirement, require more certainty around how much money they are likely to have in the Fund at retirement. Accordingly, the Fund's life stage model aims to lower the investment return volatility as members get closer to retirement by moving their savings into a portfolio with a lower risk profile.

The graph below shows your Fund's default life stage model:



At the time of each phased switch in the Default Life Stage Model the asset allocation (Fund Credit) of the member will be set as per the split between the portfolios as indicated in the graph above. Members should note that the balance in the portfolios during the year between switches

can vary as a result of the differences in the performance of the underlying assets in each portfolio.

How does the Fund's default life stage model work?

The Fund's default life stage model is designed for members who plan to retire at age 65. If you plan to retire at a different age, be careful of using the default life stage model. In this case, you are encouraged to make your own investment choice to coincide with your planned retirement date.

For members who are far from retirement, the strategy focuses on managing inflation risk so the members' Fund Credits are invested in the Market Portfolio (CPI + 5%). At age 57, i.e. 8 years before the assumed retirement age, members will be switched gradually to portfolios that begin to focus on managing final payment risk. The Fund Credit is gradually switched from the Market Portfolio into the Stable Portfolio (CPI + 3%) and then into the Money Market Portfolio (CPI + 1%). The switching between portfolios takes place in stages between age 57 and age 64. The reason for this transition is to mitigate any risk of loss that might result from a market fall on the same day that the money is switched.

If you want to choose your own investment portfolio, you need to complete the **Investment Option Form, Section D.**

You can select any combination of the 3 portfolios. However, you must use round-

number percentages e.g. 60% Market Portfolio (CPI + 5%) and 40% Stable Portfolio (CPI + 3%). We recommend that you invest your Fund Credit in a strategy that most closely matches your retirement objectives.

SWITCHING BETWEEN PORTFOLIOS

The Trustees have designed the default life stage model to provide an investment strategy that will be appropriate for the majority of the Fund members.

However, the Trustees recognise that a single model will not suit all members, which is why you have the option to make your own choices from the Fund's range of 3 investment portfolios.

The Trustees encourage you to take a long-term view when considering how to invest your retirement fund assets.

The Fund's administration platform will allow you to switch your investments between portfolios once every year on 1 June. This is subject to the applicable switching request being received by the administrator at the specified date (refer to the application form). A member will be allowed one further switch between portfolios during the following year at an administration cost of R500. The forms for these switches can be obtained from the Fund's office, cnr. Rendell and Nagington Roads, Wadeville, Germiston.

The contents of this document do not constitute investment advice and members considering making their own investment choices in particular are advised to seek expert advice from an adviser registered in terms of the FAIS Act before making an investment decision.

In addition, members who elect to make their own investment choice should note that they are required to sign the declaration on the enclosed option form, which indemnifies the Fund against any potential claims arising from any losses that may be suffered as a consequence of the decision to elect investment choice.

COMMON MISTAKES

Although it may be attractive to choose your own portfolio, it is worth noting two

common mistakes made by members when selecting portfolios.

Investing too conservatively

When faced with investment choice, members often choose a portfolio that is too conservative i.e. too low risk. This error can have significant negative financial consequences and could result in members retiring with too little funds to meet their needs.

For example, if a 25-year old member decides to invest his/her retirement savings in the Stable Portfolio (CPI + 3%) over his/her entire working life (i.e. for 35 to 40 years), he/she could end-up with a pension significantly lower than what he/she could have received if he/she had invested more appropriately according to his/her long investment horizon.

So, if you are young, you should ideally invest mainly to manage inflation risk i.e. in the Market Portfolio (CPI + 5%).

Trying to time the market

Very often investors try to 'time the market' i.e. attempt to avoid losses by selling before the stock market falls (behavior driven by fear) or make profits by buying into an upward trending (behavior driven by greed). In reality, this is extremely difficult to get right, even for professional investment managers. Doing this means you could lose out on the benefits of simply remaining invested, thereby diminishing your savings and losing out on inflation beating returns.

By avoiding these two common, and costly, mistakes you will give yourself a good chance of earning the returns you need to retire comfortably.

FACT SHEET

MARKET PORTFOLIO (CPI + 5%)

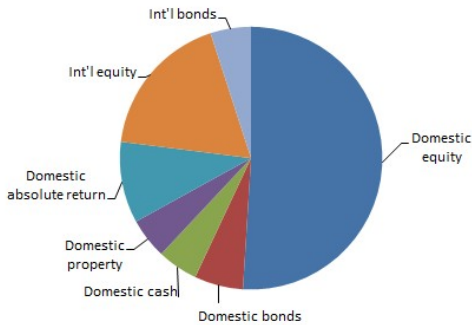
Investment horizon	Risk appetite
Long term (5 years+)	Moderate, but courage and patience are needed

The Market Portfolio (CPI +5%) aims to deliver an investment return that is 5% above inflation per annum over a 5 year rolling period.

The return on these assets can be volatile over the short term, thus increasing the chances of losses over short investment periods. The investment return target is not guaranteed and will depend on market returns and investment manager skill.

Asset allocation

The graph below shows the strategic asset allocation:



Specialist investment managers are used to manage each asset class. The actual asset allocation of the portfolio at any time will vary within pre-defined bands around this strategic asset allocation.

Performance characteristics

The Market Portfolio is invested in a mix of asset classes (both local and offshore). As such it is exposed to the performance of these markets and the return you earn from this portfolio over any period may be positive or negative depending on market conditions.

This means that the performance of this portfolio is likely to be different from that of the average equity fund – generally

delivering better performance in weak markets, but possibly underperforming in strong markets, although this outcome is not certain.

The offshore portion of the investment performance is linked to the Rand/Dollar exchange rate. A stronger Rand erodes performance while a weaker Rand enhances performance.

Underlying asset managers

The investment managers currently appointed for the Market Portfolio (CPI + 5%) are as follows:

MANDATE	INVESTMENT MANAGER
SA Equity	Allan Gray
	Coronation
	Old Mutual
	Visio
SA Bonds	Aluwani
SA Absolute Return	Coronation
	Prescient
SA Property	Catalyst
SA Cash	Investec
Int'l Equity	Orbis
	GinsGlobal
Int'l Bonds	PIMCO

FACT SHEET

STABLE PORTFOLIO (CPI + 3%)

Investment horizon	Risk appetite
Medium term (2 to 5 years)	Conservative

Investment objective

The Stable Portfolio (CPI + 3%) aims to deliver an investment return that is 3% above inflation per annum over any 3-year period. As such, it aims to offer returns that are above money market investments while striving for capital preservation over any 12-month period.

Note that such an investment return is not guaranteed and will depend on market returns and investment manager skill.

Asset allocation and performance characteristics

This is a conservative balanced portfolio with an absolute return mandate. This means that the investment managers will aim to deliver positive returns during all market conditions. In order to achieve this, the underlying investment managers of the portfolio take responsibility for which asset classes to use and which instruments within those asset classes. Derivative instruments are used at times to protect against losses.

The portfolio is managed in such a way that the risk of achieving a negative return is minimised over a rolling 12-month period. Please note that over shorter time periods (e.g. 6 months), there is a higher chance of negative returns and this may occur during certain months.

Underlying asset managers

The Stable Portfolio (CPI + 3%) is currently invested in a combination of the Prescient Positive Return Fund and the Coronation Inflation Plus Fund.

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MONEY MARKET PORTFOLIO (CPI + 1%)

Investment horizon	Risk appetite
Short term (less than 2 years)	Very conservative

Investment objective

The Money Market Portfolio (CPI + 1%) aims to achieve returns that are in line with a published money market index (i.e. the composite STEFI).

Note that investment returns are not guaranteed and will depend on market returns and investment manager skill.

Asset allocation

The portfolio will invest mainly in cash and near-cash instruments (i.e. cash type investments with a maximum term of 12 months).

Performance characteristics

This portfolio aims to deliver a fairly stable investment return, which is similar to the return available from short-dated money market instruments. The portfolio is designed to provide a high degree of capital security.

It is highly unlikely that this portfolio will deliver a negative return in any month.

Underlying asset managers

The Money Market Portfolio (CPI + 1%) is currently managed by Investec Asset Management.

WHAT YOU NEED TO DO NEXT...

- (i) Ensure that you have carefully read and understood this Member Investment Guide.
- (ii) Contact an independent financial adviser (registered in terms of the FAIS Act) if you require investment advice. (Please note that neither the Trustees nor the Human Resources Division can provide you with investment advice).
- (iii) Complete the attached Investment Option Form if you wish to change your investment option.

- **Remember:**

It is not necessary to complete an investment option form if you are satisfied with the portfolios you are currently invested in.

Included is a letter that shows your current investment options as well as the changes if any.

- (iv) Read the Investment Option Form carefully, with particular attention to the declaration at Section C.
- (v) Complete and sign your investment option form confirming your investment decision and e-mail it to members@gmrf.co.za or admin@gmrf.co.za by the date specified on the Option Form.

(vi) PLEASE NOTE that if your form is not received before the deadline date, your money will by default be invested in accordance with the Life Stage Model or remain in the Portfolios as per your previous Investment Choice Option Form.

Remember – the choice you make will affect your retirement benefits.

LEGAL DISCLAIMER

Investing retirement fund savings is a complex area and every attempt has been made to simplify this guide for ease of understanding. This may result in some areas being covered in relatively little detail.

Please note that any information in this communication relating to any financial product or financial advice:

- Serves merely as a factual communication / display of the financial product and or advice;
- Does not constitute an express or implied recommendation, guidance or proposal that any particular transaction in respect of such financial product and/or advice is appropriate to your particular investment objectives, financial situation or particular needs;
- Is not meant as advice as contemplated in the Financial Advisory and intermediary Services Act.
- The investment return objectives specified in this guide are not guaranteed – the actual returns achieved will depend inter alia on capital markets and investment manager skill;

Members should consult their own registered financial advisers to ascertain what options are appropriate before effecting any changes.

The Board of Trustees and the Principal Officer have made every reasonable effort to ensure that the information contained herein is true and correct. The Board of Trustees and the Principal Officer will not accept liability due to any loss, damage, costs and/or expenses which may be sustained or incurred directly or indirectly as a result of any error or omission contained herein and use of this information as a recommendation constituting financial advice.