THE LIFE STAGE MODEL

Members who want the Trustees to choose the investment portfolio for them will be invested according to the Life Stage Model. In other words if you do not want to make any investment decision yourself, your money will be invested according to the Life Stage Model explained in this section.

The life stage portfolios comprise three portfolios, namely the **Long-term Growth Portfolio**, the **Medium-term Protection Portfolio** and the **Short-term Protection Portfolio**.

- Your money will automatically be invested according to the Life Stage model unless you make a positive choice to invest your money in another way (i.e. one or more of the “own choice” portfolios).

- The model assumes that the major determinant of whether you wish to manage your inflation risk or capital risk is *the period until your retirement*.

The model *does not take into account the possibility* that you may be planning to resign soon and intend spending your resignation benefit.

The next sections explain the:

- Long-term Growth Portfolio
- Medium-term Protection Portfolio
- Short-term Protection Portfolio
- How you transition from the Long-term Growth to the Medium-term Protection and then to the Short-term Protection Portfolio; and
- Key assumptions underlying the default Life Stage Model
The Long-term Growth Portfolio

The Long-term Growth Portfolio has been designed to deal mainly with inflation risk. According to the life stage model your money will be invested exclusively in the Long-term Growth Portfolio until 7 years before your retirement age.

This means that your money will be invested 100% in the Long-term Growth Portfolio until 7 years before your retirement age i.e. 58.

The investment objective of the Long-term Growth Portfolio is to earn a real return of 5.5% p.a. (after deducting the investment manager’s fees) in excess of the price inflation rate over any 5-year period, although this return is not guaranteed.

The assets of this portfolio are invested in a mix of shares and bonds (local and offshore). As such it is exposed to the performance of these markets and the return you earn from this portfolio over a period may be positive or negative depending on market conditions.

A detailed fact sheet on the Long-term Growth Portfolio is set out at the end of this guide.

The Medium-term Protection Portfolio

The Medium-term Protection Portfolio has been designed to deal mainly with “Capital risk”. According to the life stage model your money will be invested fully in the Medium-term Protection Portfolio for the 5 years between your 58th and 63rd birthdays. (The transition between the Long-term Growth Portfolio and Medium-term Protection Portfolio is explained below.)

The investment objective of the Medium-term Protection Portfolio is to earn a real return of 3.0% p.a. (after deducting the investment manager’s fees) in excess of price inflation over any 5-year period, although this return is not guaranteed.

The assets of this portfolio are invested in a mix of shares, bonds and cash. The overall objective of this portfolio is to achieve stable and consistent positive returns, with a very small probability of capital loss over any 12-month period.

A detailed fact sheet on the Medium-term Protection Portfolio is set out at the end of this guide.

The Short-term protection portfolio

The Short-term Protection Portfolio has been designed to deal fully with “Capital risk”. According to the life stage model your money will be invested fully in the Short-term Protection Portfolio for the 12 months before your retirement age i.e. from age 64. (The transition between the Medium-term Protection Portfolio and Short-term Protection Portfolio is explained below.)

The investment objective of the Short-term Protection Portfolio is to achieve substantial security of capital, but without guarantees. It is expected to earn a real return of 2% p.a. (after deducting the investment manager’s fees) in excess of price inflation over any 5-year period, although this return is not guaranteed.

A detailed fact sheet on the Short-term Protection Portfolio is set out at the end of this guide.
Transitioning between the Life Stage Portfolios

According to the Life Stage model, the money you have invested in the Long-term Growth Portfolio will be transitioned in 5 more or less equal instalments starting at the end of the month immediately following your transition birthday. Your transition birthday is your 58th. This means that by the end of the month 5 years after your transition birthday you will be fully invested in the Medium-term Protection Portfolio, where it will remain for one year.

From your transition birthday onwards, your monthly retirement saving contributions will be apportioned between the Long-term Growth Portfolio and the Medium-term Protection Portfolio. The proportion invested in the Medium-term Protection Portfolio will be increased over the next 5 years, so that by the end of the 5-year period 100% of the retirement saving contributions will be invested in the Medium-term Protection Portfolio.

One year before your normal retirement age of 65, all your savings in the Medium-term Protection Portfolio will be transferred to the Short-term Protection Portfolio. For the 12 months before your normal retirement age, therefore, all your money will be in the Short-term Protection Portfolio.

A detailed fact sheet on the Short-term Protection Portfolio is set out at the end of this guide.

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<tr>
<th>Month-end following birthday</th>
<th>Allocation of Member Share</th>
<th>Allocation of future contributions</th>
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<td>Long-term growth</td>
<td>Medium-term protection</td>
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The average net real investment return in respect of a member who transitions through the three default portfolios in accordance with the Life Stage model is expected to be 4.5% per annum above consumer price inflation, which is consistent with the return required to meet the target retirement benefit for a member who has 35 years service at retirement.

**Important assumptions of the Life Stage model**

The life stage model is based on a number of important assumptions, namely:

- The life stage model assumes that you will retire at age 65 in terms of the rules of the CPUT Retirement Fund.

  For example, if you intend to retire at age 60, you may wish to consider transitioning your retirement savings in the Medium-term Protection Portfolio from age 53 onwards (as opposed to age 58 as would be the case with the life stage model). Importantly you will need to indicate this choice by sending in an Investment Choice Option Form.

- Your money will automatically be invested according to the life stage model unless you make a positive choice to invest your money in another way (i.e. your choice of one or more of the own-choice portfolios).
• The model assumes that the major determinant of whether you wish to manage your inflation risk or capital risk is the period until your retirement.

The model does not take into account that you may be planning to resign soon and intend spending your resignation benefit.

• The model is also based on an “average risk appetite”. To the extent that your risk appetite is more conservative or aggressive than average, the life stage model may not be appropriate.