Today's retirement funds must amongst other things give priority to protecting the benefits of members close to retirement.

Asset Consultants

ALEXANDERFORBES
Securing your financial well-being

Date: 09 March 2022

Planning for Tomorrow

It is important to provide members with a holistic investment solution that remains suitable throughout their retirement journey, to ensure a smooth transition from employment to retirement.

Many retirement funds are faced with the tough prospect of ensuring members retire comfortably. Trustees therefore typically need to consider ways to:

- safeguard asset values
- to reduce exposure to short-term equity market risk for those members near retirement.

This process is known as **de-risking** and it can have implications for how the member portfolio are structured and managed. Investment committees therefore must ensure that they are not looking at the process from a purely transactional level, and are instead considering the entire process:

- the effect on performance,
- fee value and its impact on risk/return diversification at the total portfolio level.

Retirement Risk Zone

1. The Retirement Risk Zone is the critical period leading into and just after retirement when the retirement nest egg is most vulnerable to market downturns. Some have said it is the five years before retirement and the five years after retirement.

2. The retirement risk zone should be important to members and trustees alike because short term portfolio losses due to markets during this time can have significant long term effects on the longevity of your portfolio.

3. When planning for retirement, retirees need to really review their portfolios and see how much exposure they have to market risk. The losses in the retirement risk zone (the period early in retirement) can have devastating long-term effect to a member’s benefit.

Pension Risks

- Legislation
- Benefits
- Interest rates
- Inflation
- Asset performance
- Longevity
- Corporate bond spreads
- Data accuracy
- Pensions knowledge loss
- Salary growth
- Regulatory bodies
- Trapped surplus
- Perceived value
- Communication

Determinants of a risk profile

- There are four key factors to consider when weighing up member risk profile:
- 1. Goals
  - The first area to think about is what a member is investing for. Having a clear goal in mind, allows them to build an investment portfolio that suits them.
- 2. Investment time frame
  - This one links directly to what member goals are; when do they plan to access their initial investment and the returns it's hopefully generated?
- 3. Capacity for loss
  - No one wants to think about losing money when they invest. However, it's an important consideration to make. If the fund investments were to perform poorly and decrease in value, how would this impact the member and their lifestyle?
- 4. Overall attitude to risk
  - Whilst the above four factors are influential, a members overall feelings about risk are too. They should feel comfortable with all the financial decisions they make, including the level of risk taken when investing.

Risk Profile

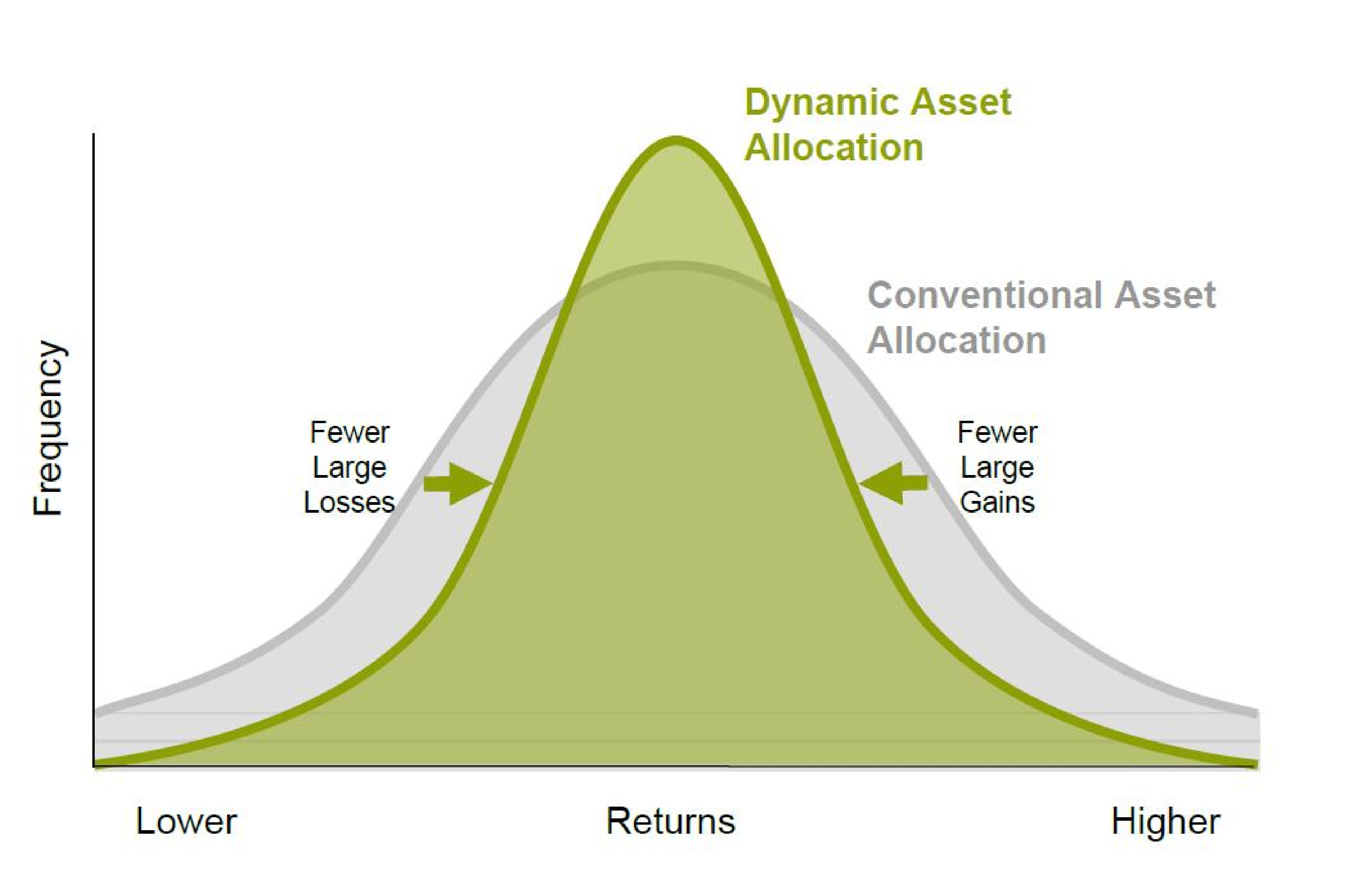
- **Conservative**
  - Seeking safety of capital, minimal risk and minimum or low returns
  - * Possible Allocation - Equity: 0-10%; Debt and others: 90-100%
- **Moderately Conservative**
  - Willing to take small level of risk for potential returns over medium to long term
  - *Possible Allocation - Equity: 10-30%; Debt and others: 70-90%
- **Moderate**
  - Looking for relatively higher returns over medium to long term with modest risk
  - *Possible Allocation - Equity: 40-60%; Debt and others: 40-60%
- **Moderately Aggressive**
  - Seeking to maximise returns over medium to long term with high risk
  - *Possible Allocation - Equity: 70-90%; Debt and others: 10-30%
- **Aggressive**
  - Willing to take significant risks to maximise returns over the long term
  - *Possible Allocation - Equity: 90-100%; Debt and others: 0-10%

Transitioning

- Determining when to switch to a more conservative portfolio for capital preservation

- **Step 1 – understand their current financial position**
- **Step 2 – determine their post retirement income needs**
- **Step 3 – put together a financial plan**
- **Step 4 – determine what they need to do now**
- **Step 5 – review their income, goals and progress**

Asset Allocation to Preserve Accumulation



Lifestage Model

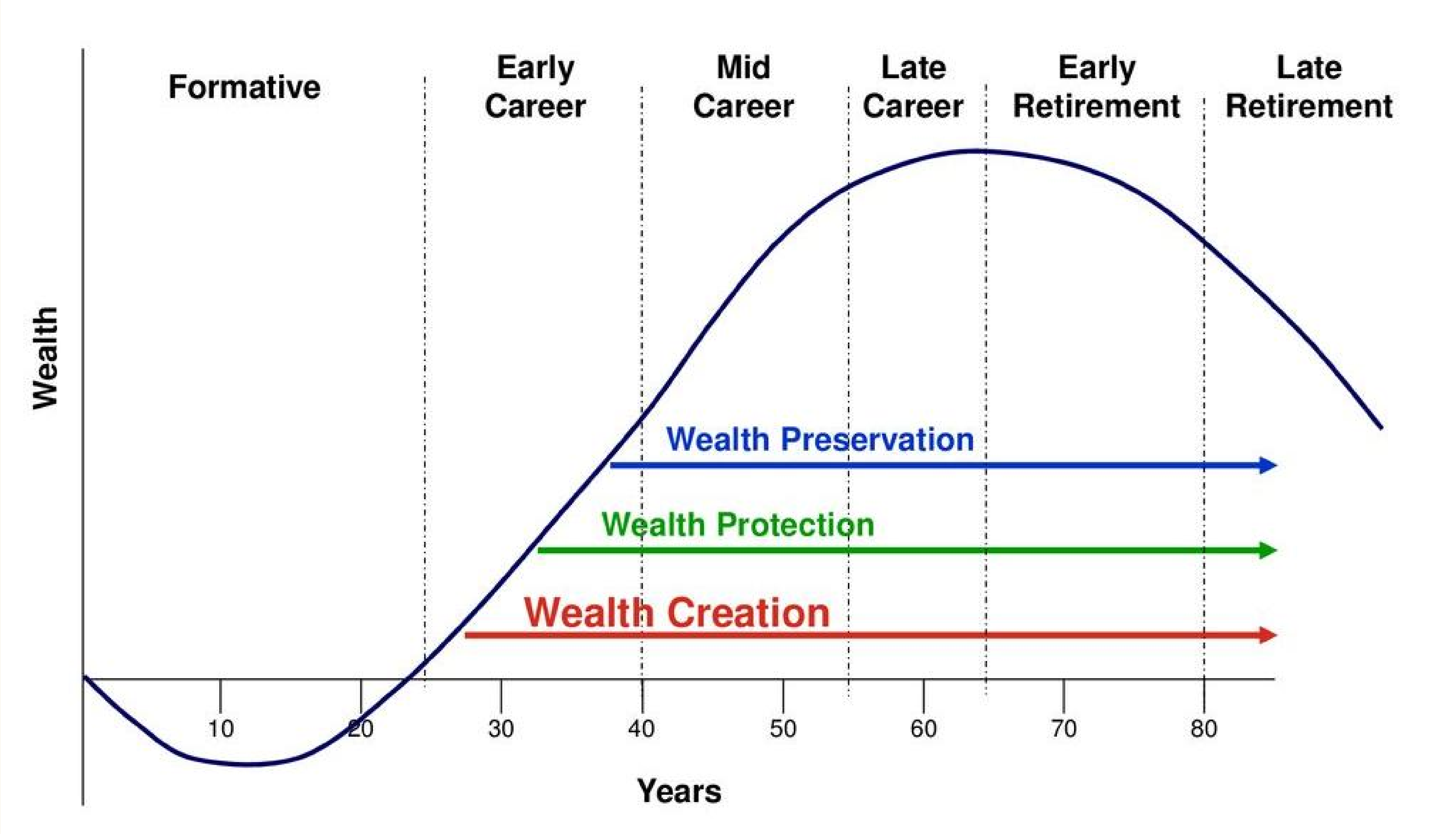
Life Stage Investment Model

- A life stage model means member retirement savings are gradually moved from a higher risk investment portfolio to a more conservative investment portfolio as the member gets closer to normal retirement or the their planned retirement date.
- This is called de-risking. The reason for de-risking is to protect member retirement savings against market volatility ,as the member gets close to retirement.
- In the Fund de-risking would happen automatically as the member nears normal or planned retirement.

What are the stages of the Life Stage Investment Model?

1ST STAGE	2ND STAGE	3RD STAGE
You are GROWING your savings	You are PREPARING for retirement	You are on RETIREMENT

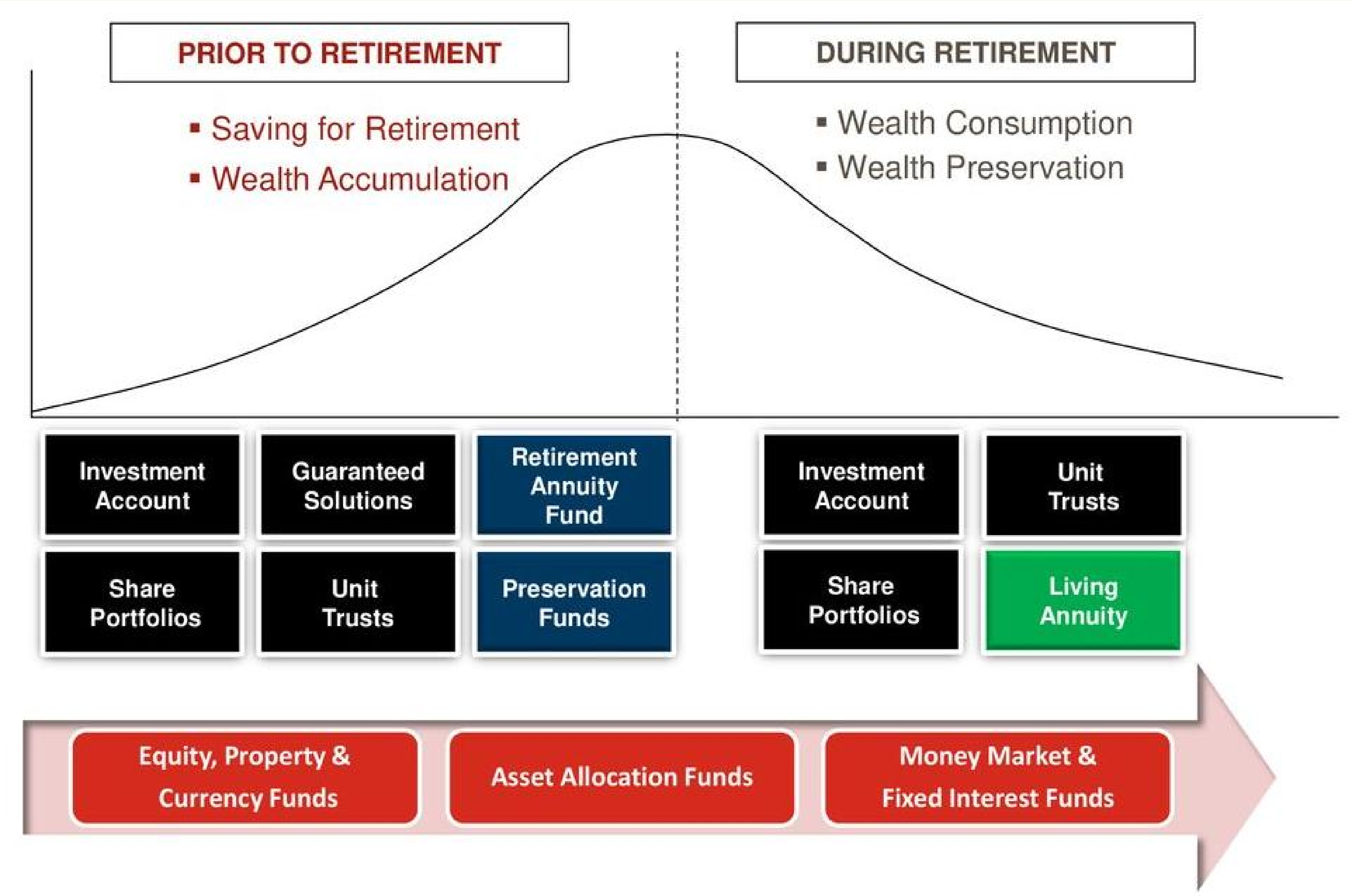
Lifestage Approach to Financial Planning



Life Stage Investment Solutions

	Early Career	Mid Career	Late Career	Early Retirement	Late Retirement
Age	25-40	41-55	56-65	66-75	75+
Investment Objective	Wealth Creation	Wealth Creation	Wealth Creation and Preservation	Wealth Preservation and Consumption	Wealth Consumption
Required Returns	Inflation +5/6/7			Inflation +3/4/5	
Time Horizon	Long	Long	Long	Long - Medium	Short - Medium
Risk Tolerance	High	High	Moderate to High	Moderate	Moderate to Low

Meeting Lifestage Needs



Why the Default Lifestage Model

- Some members will not make a choice
- A single default portfolio is inappropriate
- Members have different time horizons
- Suitable for a moderate (slightly conservative investor)
- Portfolios switched automatically

Pre Retirement Switch

Definition of Pre Retirement Switch

- A conservative investment portfolio designed for members closer to retirement that have a lower ability to take risk.
- Conservative model portfolios generally allocate a large percentage of the total to lower-risk securities such as fixed-income and money market securities.
- The main goal of a conservative portfolio is to protect the principal value of a members portfolio. That's why it is often referred to as capital preservation portfolios.
- A moderately conservative portfolio works for the member who wishes to preserve most of the portfolio's total value but is willing to take on some risk for inflation protection.

Capital preservation securities include:

- The key consideration when selecting assets for capital preservation is volatility. Volatility is how much given securities or accounts fluctuate in value.

  - High-yield savings accounts
  - Treasury bills
  - Municipal bonds
  - Savings bonds
  - Certificates of deposits (CDs)
  - Annuities

Who should go into PRS

- Members close to retirement
- Members with low risk appetite
- Members who have a short timeframe for investing and can’t risk losing their assets to market volatility
- Members who want to safeguard their assets rather than using high-risk strategies to continue to grow their portfolios

Drawbacks of Conservative Portfolio

- **Does Capital Preservation Have Drawbacks?**
- Although a capital preservation strategy may provide peace of mind for members who need to keep their assets protected, it does have several drawbacks:
  - **Lower interest rates:** Capital preservation isn't designed for growth. Typically, assets used for asset preservation pay less than 2% interest as opposed to stocks and other higher-volatility assets, which can bring in an interest rate of more than 7%.
  - **Inflation:** Inflation may erode the value of an investment over time. Although the pula amount in a members portfolio is preserved, inflation can reduce the purchasing power so that, in practical terms, a members portfolio loses value.
  - **The lure of new securities:** Members may be lured by new, unproven securities, which can turn out to be unstable if an economic downturn occurs costing members money.

Recap

Recap

- Capital preservation is a conservative investment strategy aimed at protecting a members money and avoiding loss inside your portfolio. It is often used by retirees or people approaching retirement who have a low risk tolerance and short-time horizon.
- The objective of capital preservation is to safeguard a members money, usually for the short term. Growth is not the primary goal.
- Volatility is an important consideration when deciding on what vehicle to use for capital preservation.
- As people age, preserving cash and capital becomes more important. Time horizons are shorter, giving members a smaller window to grow funds and rebound from losses.
- Financial experts recommend reducing your risk with age. Market volatility is a bigger threat as members near retirement because they need the money soon — not in 30 years, like a younger member.
- Member assets needed within the next three to seven years should be invested conservatively, with a focus on protecting principal.
- Lifestage Model and Preservation portfolio give funds the ability to protect the benefits of members close to retirement.

Thank You

- This document has been prepared for use by clients of the Alexander Forbes Group. Any other third party that is not a client of the Alexander Forbes Group and for whose specific use this document has not been supplied, must be aware that Alexander Forbes Group shall not be liable for any damage, loss or liability of any nature incurred by any third party and resulting from the information contained herein. The information contained herein is supplied on an "as is" basis and has not been compiled to meet any third party's individual requirements. It is the responsibility of any third party to satisfy himself or herself, prior to relying on this information that the contents meets the third party's individual requirements.

- Nothing in this document, when read in isolation and without professional advice, should be construed as solicitation, offer, advice, recommendation, or any other enticement to acquire or dispose of any financial product, advice or investment, or to engage in any financial transaction or investment. A third party should consult with an authorized financial advisor prior to making any financial decisions.

- Alexander Forbes has taken all reasonable steps to ensure the quality and accuracy of the contents of this document and encourages all readers to report incorrect and untrue information, subject to the right of Alexander Forbes to determine, in its sole and absolute discretion, the contents of this document. Irrespective of the attempts by Alexander Forbes to ensure the correctness of this document, Alexander Forbes does not make any warranties or representations that the content will in all cases be true, correct or free from any errors. In particular, certain aspects of this document might rely on or be based on information supplied to Alexander Forbes by other persons or institutions. Alexander Forbes has attempted to ensure the accuracy of such information, but shall not be liable for any damage, loss or liability of any nature incurred by any party and resulting from the errors caused by incorrect information supplied to Alexander Forbes.