

# Member Investment Choice

# KZN

MUNICIPAL PENSION FUND



## INTRODUCTION

The KZN Municipal Pension Fund offers individual Member Investment Choice (MIC). In terms of this MIC arrangement, members can either choose to:

- 1** Invest in the **KZN Lifestage model** (this is also the default investment strategy for members who do not make a choice); or
- 2** Invest in one or more of the **Member Investment Choice** portfolios offered by the Fund (for members who do not feel that the Lifestage model is appropriate for them).

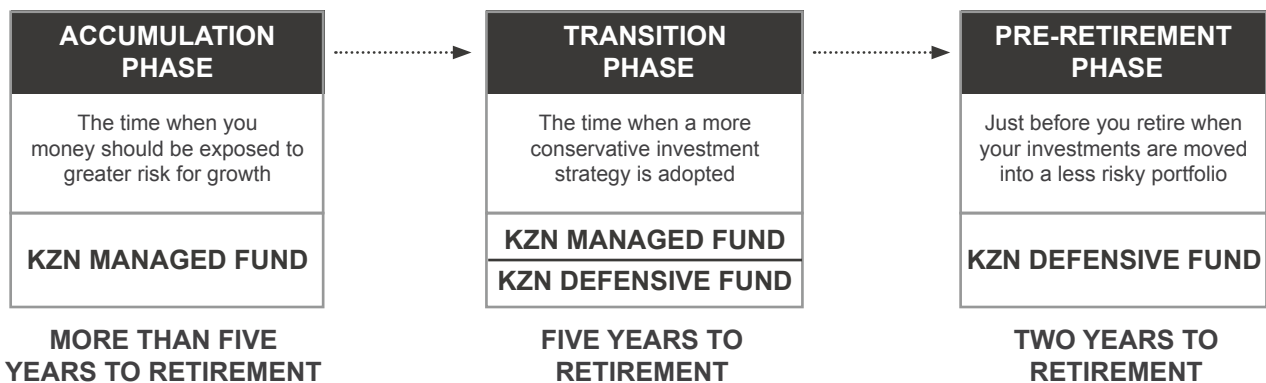
The purpose of this communication is to advise you of the various investment options available to you as a member of the KZN Municipal Pension Fund.



## KZN Lifestage Model - Active Members

The Trustees believe that the KZN Lifestage Model will lead to a **more appropriate matching of the members' investment strategies** prior to retirement with their post retirement strategies, **no matter what type of pension they choose** at retirement age.

Members will **gradually and automatically transfer** into the KZN Defensive Fund (a less volatile portfolio) as they approach their normal retirement age. Switches between portfolios are gradual and staggered, which means that these are not dependent on market conditions on any single day. Switches take place as part of an overall strategy and not as an attempt to time the investment markets. The way in which the KZN Life Stage Model works is illustrated below:



## Summary of alternative member investment choice portfolios available to members

### Definitions

- **Withdrawal benefit:** This is the money you will get from your fund when you leave your job (whether you resigned, were retrenched or dismissed).
- **Retirement benefit:** This is the money you will get when you leave the fund when you retire.
- **Annuity:** A pension that you can buy from the Fund or an insurance company using your retirement benefit.
- **Investment:** An investment is an asset bought to generate income over time, or grow in value so it can be sold at a higher price at a future point in time.
- **Preservation fund:** A savings vehicle for your withdrawal benefit. You can't contribute to a preservation fund, but you can transfer all your savings from a pension or provident fund to a preservation fund to save your benefit, instead of taking cash when you change jobs.
- **Compound interest:** This is when you earn interest not only on the capital (initial amount invested) but also on interest already earned.
- **Volatility:** The tendency of the value of an investment to go up or down, particularly over short periods of time.
- **Inflation:** The rate of increase in prices. Consumer price inflation refers to price increases measured by the consumer price index (CPI), which reflects changes in the prices of a basket of goods and services.
- **Investment Return:** The profit or loss made from investing your retirement benefits. The higher the investment returns, the higher the benefits you will eventually get from your fund. Investment returns can go down over short periods of time, in which case the value of your benefits will decrease.



The Trustees believe that the KZN Lifestage Model will be suitable for most members as it adapts members' investment strategies as they approach retirement and their investment needs and risk tolerance changes. As a result, the KZN Lifestage Model has been implemented as the Trustees' choice default portfolio.

Age is, however, not the only factor that would influence a member's tolerance for risk and therefore the most suitable investment portfolio for that person. The other factors to consider would include:

- Possible early retirement
- Alternative sources of retirement savings
- Post retirement investment strategy i.e. with-profit annuity/living annuity
- Resignations (although theoretically this should not affect a member's long-term investment strategy, although a member may require the capital on resignation)
- State of health.

Individual member investment choice (MIC) caters for those members who feel their needs are not catered for within the KZN Lifestage Model. Therefore, members are offered the following options to alternatively select from a range of other portfolios e.g. to better reflect their risk tolerance:

**KZN Aggressive Fund** – This Fund is an aggressive fund that aims to maximise investment returns over the longer term. The fund maintains a high exposure to growth assets, such as local and foreign equities and gains additional exposure to growth assets via investments in local property and private equity. The fund's asset allocation is fixed and the fund makes use of specialist asset managers to select the most attractive securities to invest in within each asset class. Due to its high allocation to growth assets, the fund has a high chance of capital loss in the short term, but is expected to achieve real growth of capital over the long-term. As a result, the fund is best suited to members who have a longer term (7 years or more) investment horizon.

**KZN Managed Fund** – This Fund is a moderately aggressive fund that aims to achieve above average returns over the longer term. The fund can invest across all local and foreign asset classes and makes use of good quality asset managers to do this. The selected asset managers have the freedom to select the allocation to each of these asset classes and the most attractive securities to invest in within each asset class. Due to its relatively high allocation to growth assets (such as local and foreign shares and private equity), the fund has a high chance of capital loss in the short term, but is expected to achieve real growth of capital over the long-term. As a result, the fund is best suited to members who have a longer term (5 years or more) investment horizon.

**KZN Global Balanced Fund** - This is a moderately aggressive fund that aims to achieve above average returns over the longer term. The Fund makes use of a blend of good quality asset managers who are mandated to invest across all local and foreign asset classes, via fully discretionary global balanced mandates. The selected asset managers have the freedom to select the allocation to each of these asset classes and the most attractive securities to invest in within each asset class. Due to its relatively high allocation to growth assets (such as local and foreign shares and private equity), the Fund has a high chance of capital loss in a short term, but is expected to achieve real growth of capital over the long-term. As a result, the Fund is best suited to members who have a longer term (5 years or more) investment horizon.

**KZN Defensive Fund** – This Fund is a low risk fund that aims to balance the needs of members that are approaching retirement; to preserve their capital, to maintain exposure to growth assets and maintain the level of income that can be secured at retirement. The fund is well diversified between asset classes, both locally and internationally, but is managed within conservative parameters. The fund's asset allocation is fixed and the fund makes use of specialist asset managers to select the most attractive securities to invest in within each asset class. Due to its relatively low allocation to growth assets, the fund has a low chance of capital loss in the short term and is expected to achieve moderate real growth of capital over the long-term. The fund is best suited to members who have a short to medium term (1-3 years) investment horizon.

**KZN Moderate Fund** – This Fund is a 50%/50% combination of the KZN Managed Fund and KZN Defensive Fund. It is a fund with moderate risk that aims to deliver real growth but with less volatility. The portfolio is well diversified and invests across all local and foreign asset classes and makes use of good quality balanced asset managers and specialist asset managers within certain asset classes.

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This MIC approach caters for members who wish to have the freedom to choose from a range of portfolios and therefore more closely match the investment strategy to their own personal circumstances.

**The Trustees strongly urge members to seek professional guidance from a certified Financial Advisor prior to making any investment decisions.**

**Important Note:** If you make use of one of the MIC investment options, you will not automatically be switched to the lower risk portfolios as you approach retirement (as compared to the KZN Lifestage Model), unless you submit a switch form to the Fund instructing that your benefits be switched to the KZN Lifestage Model.

Should you require any assistance or further information regarding this option (including fund fact sheets for each of the investment portfolios), please contact the Front Office on 031 322 9001.

Over the longer term returns are expected to be less volatile but at the same time lower than for a typical balanced fund, because of the 50% exposure to the KZN Defensive Fund. Due to its moderate allocation to growth assets, the fund has a moderate chance of capital loss in the short term, but is expected to achieve real growth of capital over the long-term, albeit lower than that of a typical balanced fund. As a result, the fund is best suited to members who have medium term (3-5 years) investment horizon.

**KZN Islamic Fund** – This Fund is a moderately aggressive fund that aims to provide steady long term returns and capital growth. The fund is invested in a wide variety of domestic and international asset classes such as equity, sukuk and listed property. The selected asset managers have the freedom to select the allocation to each of these asset classes and the most attractive securities to invest in within each asset class. The underlying investments will comply with Sharia requirements as prescribed by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) as well as the prudential investment guidelines set out in *Regulation 28 of the Pensions Funds Act*. Due to its relatively high allocation to growth assets, the fund has a high chance of capital loss in the short term, but is expected to achieve real growth of capital over the long term. As a result, the fund is best suited to members who have a longer term (5 years or more) investment horizon.

**KZN Money Market Fund** – This Fund is a low risk fund that aims to achieve above average money market returns that perform in line with or slightly better than inflation over time. The fund invests only in money market instruments and cash. Specialist asset managers are appointed to select the best money market instruments to investment in and the fund maintains a high degree of liquidity and capital preservation. The fund has little or no chance of capital loss and is not expected to achieve any significant real growth of capital over the long-term. As a result, the fund is best suited to members who have a very

#### **Default Portfolio for In-Fund Living Annuities**

This option is a 50% / 50% combination of the KZN Managed Fund and the KZN Defensive Fund. It is a Fund with moderate risk that aims to deliver real growth but with less volatility. The portfolio is well diversified and invests across all local and foreign asset classes and makes use of good quality balanced asset managers. Over the longer term returns are expected to be less volatile but at the same time lower than for a typical balanced Fund, because of the 50% exposure to the KZN Defensive Fund. Due to its moderate allocation to growth assets, the Fund has a moderate chance of capital loss in the short term, but is expected to achieve real growth of capital over the long-term, albeit lower than that of a typical balanced Fund. As a result, the Fund is best suited to members who have medium term (3-5 years) investment horizon.

Due to regulations the Trustees have chosen the following four investment options available to the in-fund living annuitants:

- \* KZN Global Balanced Fund
- \* KZN Managed Fund
- \* KZN Defensive Fund
- \* KZN Money Market Fund