

ARE LIFESTAGE INVESTMENT STRATEGIES STILL APPROPRIATE?

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TYPICAL RETIREMENT APPROACHES



Balanced Smooth Lifestage Goals Fund Bonus Model Based



WHAT IS LIFESTAGING?



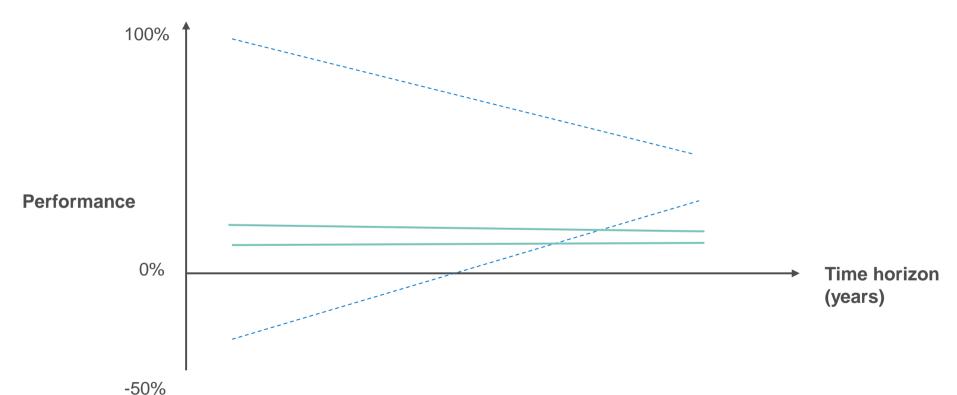
TYPICAL LIFESTAGE MODEL





FUNNEL OF DOUBT





ASSET ALLOCATION THE TOOL



High risk portfolio

- High Equity & Property
- Low bonds and cash

Medium risk portfolio

- Moderate equity & property
- Moderate bonds and cash

Low risk portfolio

- Low equity & property
- High bonds & cash
- Smoothing?

LIFESTAGE STRATEGIES





- 1. Maximises investment returns
- 2. Offers a one-stop approach which is appropriate for most members
- 3. Low maintenance, as most investors aren't engaged in their investments e.g. transitioning
- 4. Removes a lot of the difficult and confusing decisions from the investor

- 1. One-size fits all approach, meaning an impersonal asset allocation approach
- 2. May become too conservative too quickly for certain investors



GOAL-BASED (OR OUTCOMES BASED INVESTING)



GOAL-BASED INVESTING



- Focuses on attaining personal and lifestyle goals
 - In this case it would be retiring comfortably
 - O Eg. Current salary is R50,000 pm, aim to retire with an income of R40,000pm

- Performance is measured by the success of investments in meeting an individual goal
 - Ourrently, on track to retire with R20,000 pm, hence below "benchmark"

PROCESS - GOALS-BASED



Retirement

At retirement, receive the amount achieved from the approach.

Rebalance portfolio when goal changes
Strategy changes when

the goals changes

Probability

Aim to achieve the goal



Identify your goal

Use of a questionnaire to identify specific goals



Build a view of long-term returns for asset allocation and portfolio construction

Investment Strategy

Use the portfolios available to build a strategy to meet your goal

GOAL BASED STRATEGIES



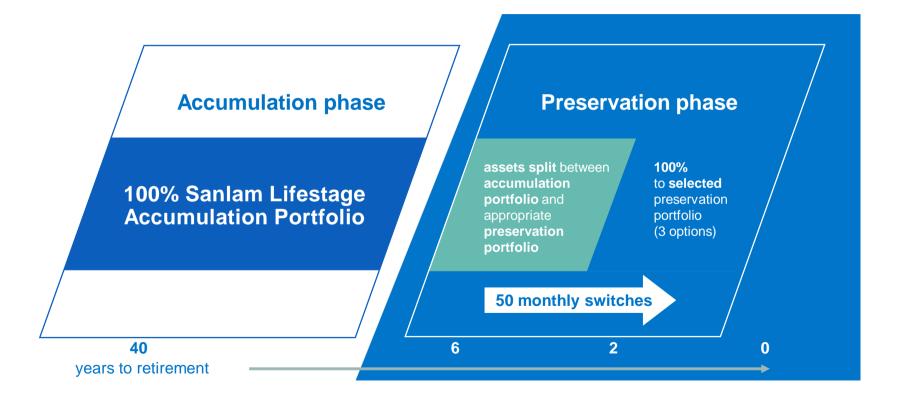


- 1. Focuses on targeted income goals
- 2. Personalized strategy takes into account individual circumstances
- 3. May be easier to communicate
- 4. Easier to check whether you are on the right track

- 1. Most retirement fund members lack the financial literacy required to set an informed outcome target
- 2. A high % of members are currently unengaged, frequent updating of information might not be possible
- 3. Contributes to belief perseverance investors sticking with the wrong goal for much longer

SANLAM LIFESTAGE STRATEGY





PRESERVATION PORTFOLIOS

Is this not goal-based to some extent?

Capital Protection
Preservation Portfolio



Guaranteed or WP annuity

Inflation Annuity
Target Portfolio



Inflation-linked guaranteed annuity

Living Annuity
Target Portfolio



Investment-Linked Living Annuity



LET'S COMPARE – EXTREME EXAMPLE



EXAMPLE





50 years old, saves 27.5% of salary

Target Replacement Ratio of 75%

Lifestage – Will be invested aggressively

GBI – Will be invested more conservatively as need low return to achieve Target Replacement Ratio

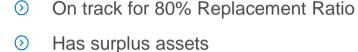


Jane

- 50 years old, saves 1% of salary
- Target Replacement Ratio of 75%
- Lifestage Will be invested aggressively
- GBI Will be invested aggressively as need very high return to get close to Replacement ratio

EXAMPLE





Should Joe be more aggressive, as he has "spare" assets to make up for poor returns?





Jane

- Requires perfect market timing, but high probability of adverse market timing impact (especially in Preservation phase)
- **(2)** Adverse market impact would likely leave her worse off than had she derisked (like in a lifestage model)

OTHER COMPLEXITIES



- Communication can be mis-interpreted
 - 74% actual RR vs 75% target RR means a Funding level of 99%
- "Guard-rails" which limit the active allocation position
 - For young members, the individualisation has the effect of simply reducing risk
- Actual vs perceived value of matching just a portion (e.g 15%) of the income?
- O Complexity vs costs

FIT FOR PURPOSE



- Ompeting life-goals which are non-retirement in nature
- Most members don't save enough (nor preserve), hence "doomed to failure"
- Those who have the capacity to take on more risk should be able to take it on
- What about other assets that form part of an individual's plan? E.g preservation funds, paid up mortgage, PRMA, TFSA's, endowments)
- Looking forward
 - Integration with financial advice, big data and Al
 - More integrated retirement savings ecosystem



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The Flying Automobile to Be the Car

of the Future



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Simplicity is the ultimate sophistication.

Leonardo da Vinci

thank you®

