ARE LIFESTAGE INVESTMENT STRATEGIES STILL APPROPRIATE?

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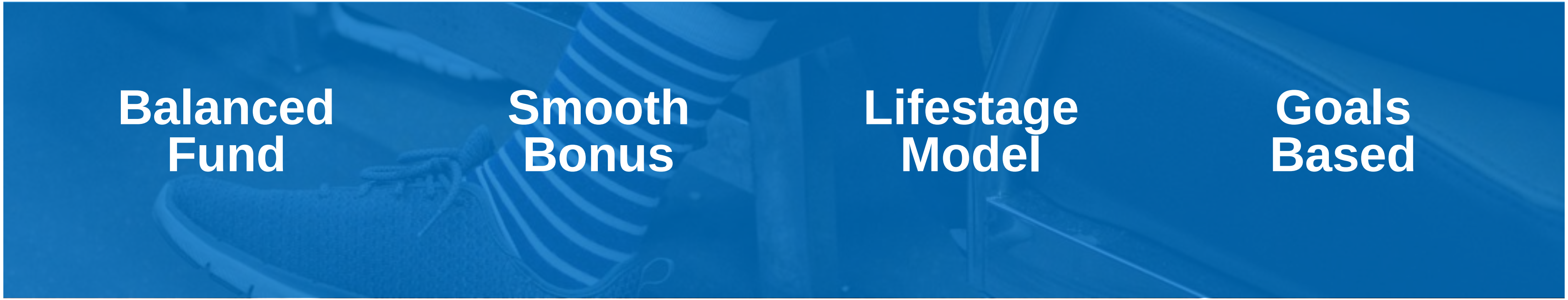
TYPICAL RETIREMENT APPROACHES



Balanced Fund

Smooth Bonus

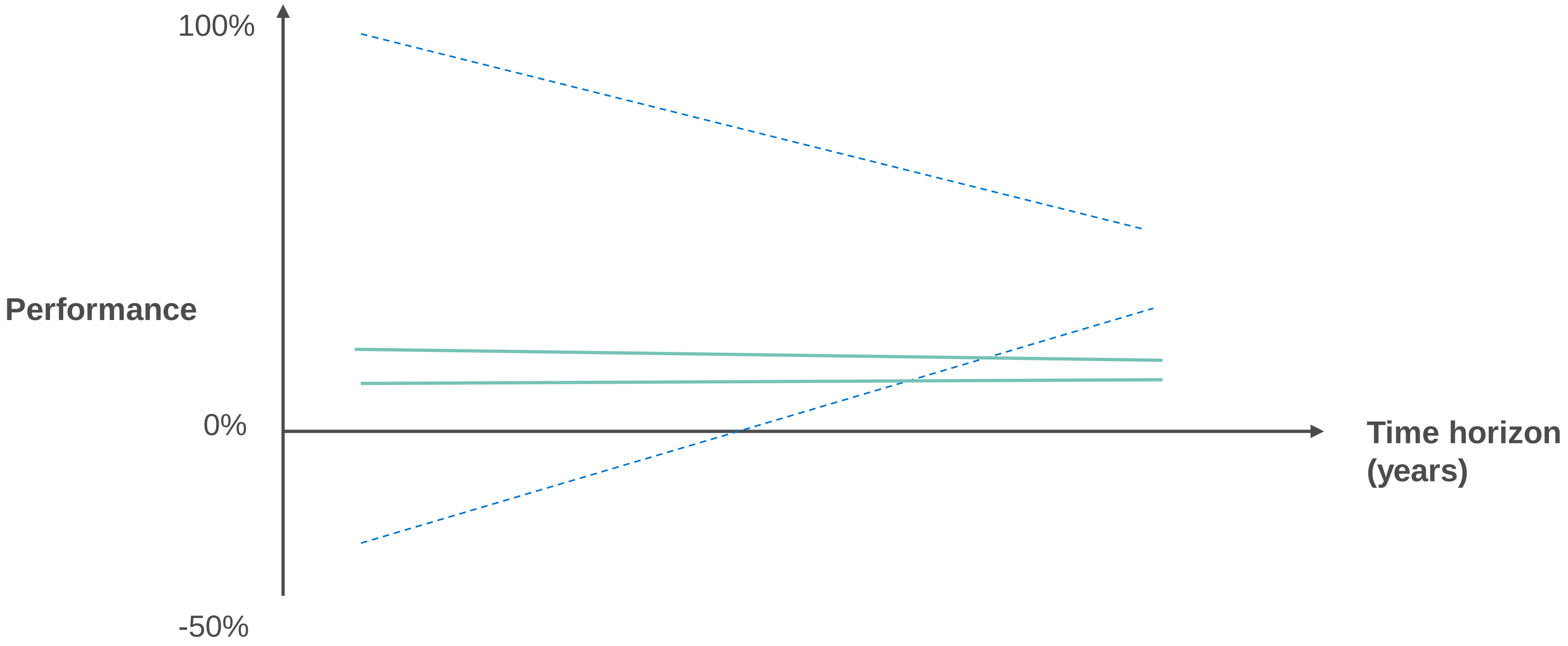
Lifestage Model

Goals 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

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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

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

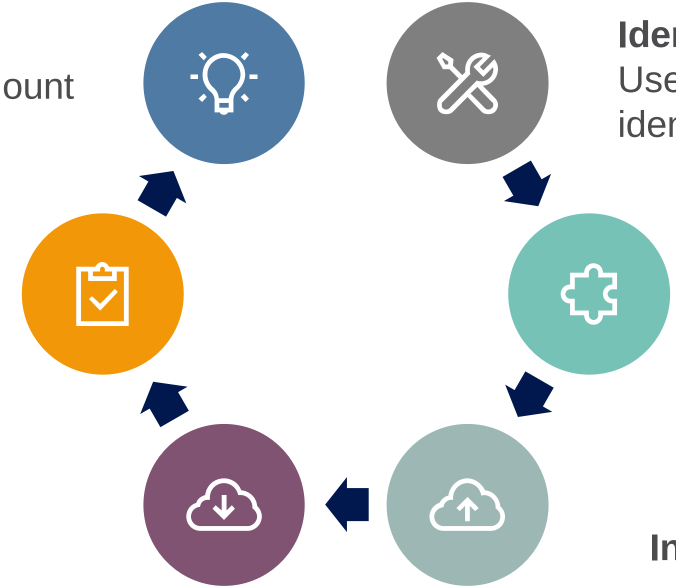
GOAL-BASED (OR OUTCOMES BASED INVESTING)

GOAL-BASED INVESTING

- Focuses on attaining personal and lifestyle goals
  - In this case it would be retiring comfortably
  - 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
  - Currently, on track to retire with R20,000 pm, hence below “benchmark”

PROCESS - GOALS-BASED



Identify your goal
Use of a questionnaire to identify specific goals

Asset Allocation
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

Probability
Aim to achieve the goal

Rebalance portfolio when goal changes
Strategy changes when the goals changes

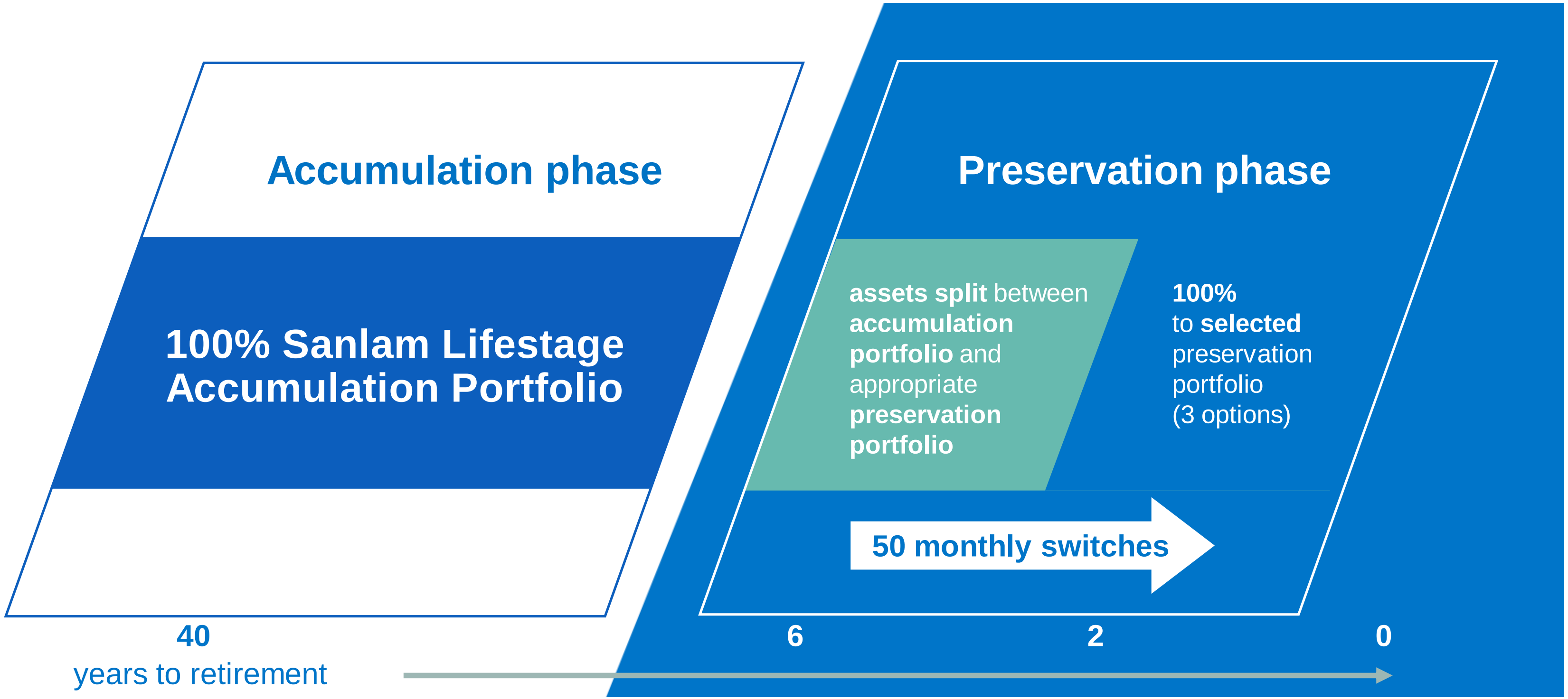
Retirement
At retirement, receive the amount achieved from the approach.

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?

1	Capital Protection Preservation Portfolio	Guaranteed or WP annuity
2	Inflation Annuity Target Portfolio	Inflation-linked guaranteed annuity
3	Living Annuity Target Portfolio	Investment-Linked Living Annuity

LET'S COMPARE – EXTREME EXAMPLE

EXAMPLE

Joe

- 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

Joe

- On track for 80% Replacement Ratio
- Has surplus assets
- 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)
- Adverse market impact would likely leave her worse off than had she de-risked (like in a lifestage model)

OTHER COMPLEXITIES

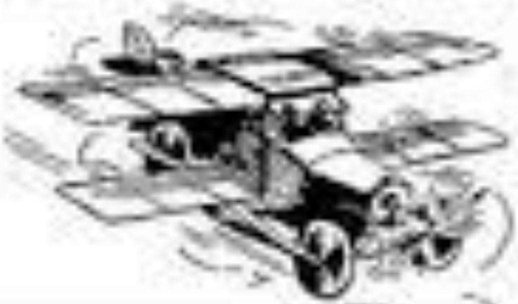
- Communication can be mis-interpreted
  - 74% actual RR vs 75% target RR means a Funding level of 99%
- “Guard-rails” which limit the active allocation position
  - For young members, the individualisation has the effect of simply reducing risk
- Actual vs perceived value of matching just a portion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

FIT FOR PURPOSE

- Competing 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 AI
  - More integrated retirement savings ecosystem

Invention, Mechanics and the Hor

The Flying Automobile to Be *the* Car of the Future



An Improved

Simplicity is the ultimate sophistication.

Leonardo da Vinci

thank you

Sanlam
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