UCT RETIREMENT FUND

Investment Roadshow Presentation Living Annuitants

27 February 2014

Board of Trustees: 01.01.2014 to 31.12.2016

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Agenda

1. What is a Living Annuity?
2. Managing your ILLA
3. 2014
4. Investment Channels Available
5. Summary of Investment Returns
6. Exits from a ILLA
7. Life Annuities
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9. Summary

What is a Living Annuity?

- A Living Annuity (LA) is an annuity (or pension payment) that should "live" for the rest of your life time.
- Your retirement capital was used to set up an account from which annuity or pension payments (usually called drawdowns) are made, fees are deducted and investment returns added (these can be negative).
- A living annuity allows you to set your income level within the official drawdown limits (currently between 2.5% and 17.5%) and allows you to select a range of investments in respect of the capital that will generate the annuity.
- Neither the percentage nor the Rand income level selected is guaranteed for life.

Risks

As a Living Annuitant, your responsibility increases in that you assume **mortality risk** over and above the **investment risk** that you carry.

The level of income may be too high and may not be sustainable if:

1) You live longer than originally expected; or
2) The return on the capital is lower than that required to provide a sustainable income for life.

Risks associated with Living Annuities (disadvantages)

- As a living annuitant, there are four important risks, namely:

- Investment risk
- Inflation risk
- The risk of living too long!
- Drawing risk

Managing your UCTRF Living Annuity

Drawdown percentage

- A drawdown is the percentage of annual income which a Living Annuitant chooses to receive for the year.
- You must elect your annuity/pension level annually. The pension can be paid to you monthly, quarterly, biannually or annually.

- The Administrator of the Fund will send your Annual Income Change form to you for completion within two to three months of your annuity anniversary date.
- Please complete and return this form to the Administrator by the due date to ensure the continuous payment of your pension.

Years before your income will start to reduce:

ANNUAL DRAWDOWN PERCENTAGE	NET INVESTMENT RETURN (before inflation & after all fees) 2.5%	5%	7.5%	10%
2.5%	21	30	>50	>50
5%	11	14	19	33
7.5%	6	8	10	13
10%	4	5	6	7
12.5%	2	3	3	4
15%	1	1	2	2
17.5%	1	1	1	1

2014

2014 poses two challenges to the UCTRF:

1) educating members about Living Annuities and the conditions under which a Living Annuity is the right option at retirement ***and where it is not;***

1) re-visiting options for providing access to a conventional **With Profits Life Annuities** at retirement, where an insurer takes on longevity risk and the downside of investment risk.

The investment channels available

The Trustees have designed **four investment channels** to deal with the different needs of members

These investment channels are: -

- The **Income Fund** (also called Portfolio A), which deals mainly with your "final payment risk";
- The **Smoothed Bonus Fund** (also called Portfolio B), which deals in part with your "final payment risk" and in part with your "inflation risk";
- The **Balanced Fund** (also called Portfolio C), which deals mainly with "inflation risk"
- The **Shari'ah Fund** (also called Portfolio D), which also deals mainly with "inflation risk", but is somewhat more conservative than the Balanced Fund and is managed according to Shari'ah investment principles

Change in Portfolio C Strategy

- Investec and Allan Gray both follow what is called a "Value" investment style and the Investment Committee considered appointing a third SA equities manager for Portfolio C, or in place of Investec, that also followed a "Value" investment style.

- The Board of Trustees in December 2013 decided to appoint a third equity manager, **Abax**, to manage a portion of the Portfolio's SA equities component, and to reduce the allocation to Investec significantly.

How do I choose an investment portfolio?

- As a Living Annuitant you have exactly the same Portfolio options to choose from as you had as an active member/ deferred pensioner of the Fund, i.e. Portfolio A, B, C and D.
- Living Annuitants have different needs and requirements when it comes to investments and the risks they, as pensioners, can accommodate.
- In general, as a living annuitant ages, his/her investment horizon shrinks and less volatile investment choices are warranted (e.g. more in Portfolios A and B and less in Portfolio C).
- Each Portfolio in the UCTRF has its own unique risk profile and you choose the portfolio that is most suitable for you and with a risk profile that closely matches your needs and expectations.

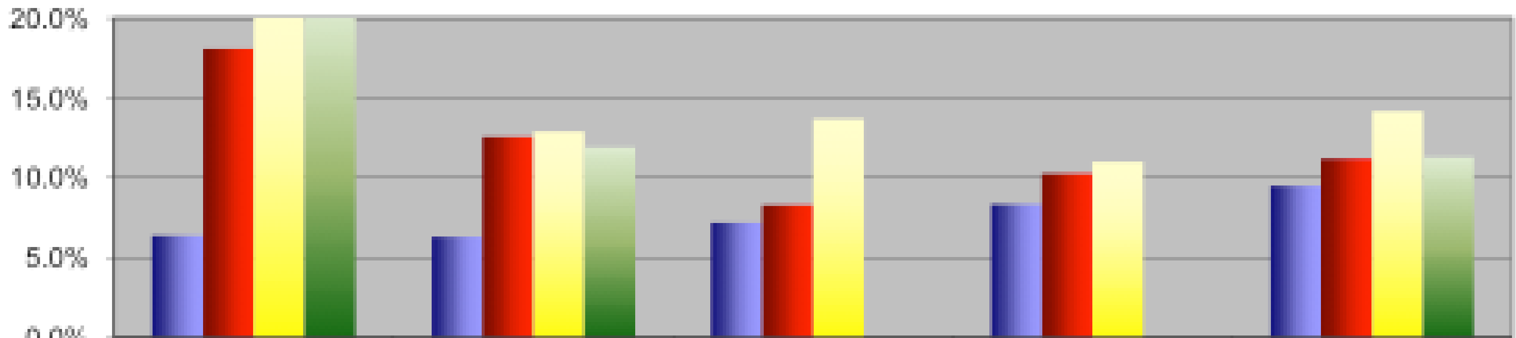
How important are historic returns when choosing an investment portfolio?

- Portfolios invested in shares will usually have good returns in some years and poor returns in other years. But over a twenty-year period, their chance of achieving good returns is high. It is therefore not a good idea to look at short-term historic returns when deciding on which portfolio to choose. Typically, members switch out of poor performing portfolios when markets fall and are not there to reap the good returns when these portfolios eventually recover.

2013 SUMMARY OF INVESTMENT RETURNS

The chart below shows the annual performance since inception (1 January 1995) and over the 1-year, 3-year, 5-year and 7-years ended 31 December 2013.

UCT Retirement Fund
Returns per annum to 31 December 2013



	1 yr	3 yrs	5 yrs	7 yrs	Since inception (01/01/95)
Portfolio A	6.4%	6.3%	7.2%	8.3%	9.5%
Portfolio B	18.1%	12.5%	8.3%	10.2%	11.2%
Portfolio C	20.7%	12.9%	13.7%	11.0%	14.2%
Portfolio D	20.5%	11.9%			11.3%

Portfolio A Portfolio B Portfolio C Portfolio D

Over the last 7 years (to 31 December 2013) the Balanced Fund (Portfolio C) has delivered the highest return, but it also has the most risk. It is possible for the Balanced Fund to show very low or even negative returns in some years. This is important to understand, especially for members nearing retirement who plan to move from the Fund and may move to a diffefrent type of investment at retirement.

Monthly Performance

- The table shows the monthly returns for the four portfolios during 2013. These figures are shown after investment manager fees.
- Note: inception date is 1 April 2010 for Portfolio D, 1 January 1995 for the other portfolios.

Month	Portfolio A	Portfolio B	Portfolio C	Portfolio D
Jan-13	0.52%	0.96%	4.41%	3.44%
Feb-13	0.44%	1.16%	-0.52%	-0.16%
Mar-13	0.43%	1.31%	1.92%	1.59%
Apr-13	0.47%	1.36%	-1.69%	-1.32%
May-13	0.51%	1.31%	5.85%	7.68%
Jun-13	0.58%	1.61%	-4.03%	-3.70%
Jul-13	0.45%	1.46%	2.77%	3.41%
Aug-13	0.45%	1.46%	2.52%	1.79%
Sep-13	0.66%	1.46%	3.49%	1.61%
Oct-13	0.69%	1.46%	3.09%	2.26%
Nov-13	0.44%	1.61%	-0.55%	0.80%
Dec-13	0.54%	1.61%	2.16%	1.83%
Total for past 12 months:	**6.37%**	**18.10%**	**20.72%**	**20.54%**
Total since inception (p.a.):	**9.49%**	**11.18%**	**14.19%**	**11.28%**

As you would expect, the Balanced Fund (Portfolio C) shows the largest variation in monthly returns, reflecting the riskier nature of this portfolio, but with the highest returns since inception.

Annual Investment Choice

- Because the fund is a member-investment choice fund, the Trustees believe that it is necessary that all members have the fullest opportunity to make informed decisions about these matters.
- The UCTRF Investment Guide (available on the UCTRF website) is a first step to help you with regard to investment decisions.
- The UCTRF Website www.uctrf.co.za has a toolkit which includes a living annuity and life annuity calculator. We encourage you to read this and use the Website.

EXITS FROM A LIVING ANNUITY

Can I transfer my Living Annuity with the UCTRF to another insurer?

- You may use the balance in your Living Annuity Account to purchase either a Living Annuity or a Life Annuity from another Insurer. This represents a transfer in terms of Section 14 of the Pension Funds Act which requires the approval of the Registrar of Pension Funds – this is a routine process but unfortunately tends to delay the transfer.

Can I withdraw the capital from my Living Annuity?

- If the living annuity balance falls below the amount prescribed by the Commissioner, at that time, the pensioner or beneficiary as the case may be, may commute the amount and be paid this in cash. Otherwise, you cannot withdraw the capital.

What is a Life Annuity (Pension)

- Receive a guaranteed income for the rest of your life (life annuity)
- If you choose the life annuity, you will be provided with a guaranteed income throughout your retirement years as long as you are alive.
- You will receive the annuity income after the deduction of any required tax throughout your lifetime.
- On death, the annuity income will end (unless you choose a life annuity with a guaranteed payment term and you die before the end of the guarantee term).
- Traditional guaranteed annuities, which are bought from life assurance companies, are based on prevailing long-term interest rates, your age and your gender.
- The older you are, the higher the pension you will be paid, because the life assurance company does not expect that you will live as long as someone who is younger.
- Women are expected to live longer than men, so they receive a lower monthly pension, but on average over time the same as earlier-dying men.

Life Annuity Policy Options

- **Annuity income increase rate:** You can choose at what level to have your income increase at each policy anniversary.
- **Guarantee term:** You can choose to have your income payable for a guaranteed period. This ensures that on death before the end of the guarantee term, your annuity income will continue until the end of the guarantee term. The income will be payable to your chosen beneficiaries.
- **Joint annuity:** You can choose to have your income payable for as long as you or your spouse is alive. You may also choose to have your income decrease to a certain level after the first death for the remainder of the life of the surviving spouse

What happens to my living annuity in the event of my death?

- Your beneficiary or beneficiaries inherit your capital balance in your living annuity account.
- The remaining capital can continue to be paid to your beneficiary or beneficiaries as it was paid to you, or it can be taken as any other pension that may be purchased, or your beneficiaries can elect to take a lump sum payment.
- The allocation is determined by the Trustees in terms of Section 37C of the Pension Funds Act 24 of 1956.
- Your benefit in the Fund should be distributed to financial dependants; or Financial dependants and nominees; or If there are no financial dependants, to nominees (but any deficit in your estate first has to be settled); or
- If there are no dependants or nominees, to your estate.

Nomination of Beneficiaries

- You MUST complete the nomination of beneficiaries under the separate Group Life Assurance Scheme:

  complete and return form HR155

- You MUST complete the recommendation of beneficiaries under the UCTRF:

  complete and return form HR151

In Summary

- A Living Annuity is different from a life annuity (pension). It is not guaranteed for life, so your money can run out.
- You invest a cash lump sum with the Fund, and then withdraw a monthly pension from that amount. The bigger your capital (amount invested) and the higher your investment returns, the more you will be able to withdraw. The smaller your invested capital, the less you will be able to withdraw.
- You will receive a monthly pension for as long as there is money available in the Fund.
- You can select to withdraw between 2,5% and 17,5% of the remaining capital. Please note that the Fund has a discretion to limit your withdrawal (see Fund Rules).
- You will have a range of investment portfolios to choose from if you are in the UCTRF (and with most ILLA products).
- The remaining capital in the event of death after retirement, is paid out to dependants or nominees (if in a retirement Fund) or to nominees (with other ILLAs).
- Payments are not guaranteed for life as you can run out of money before you die.
- This is usually not a viable option for a member with a relatively small lump sum at retirement, and no other significant assets to support him/her for the remainder of his/ her life.

Information Resources

- UCTRF website www.uctrf.co.za
- Investment choice roadshows (held in February)