Unilever SA Pension Fund

Getting Ready for Retirement

<u>**Effective 1 March 2017**</u>

Practical Issues

Introduction

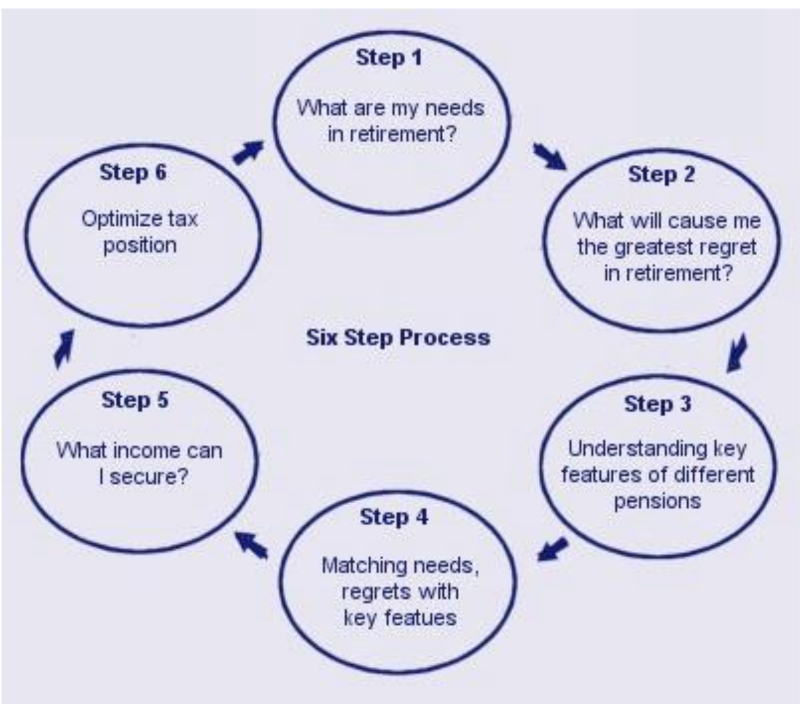
Your retirement is an important milestone in your life. The purpose of this guide is to assist Defined Contribution (DC) members in wisely investing the money they receive from the Unilever SA Pension Fund (USAPF).

If you are retiring soon, the USAPF will inform you of the total amount of your retirement benefit. (If you do not have this information you can request it from the USAPF's Pensions Officer.)

On receiving this information, the two most important questions you probably have are:

- How should I invest my retirement money?
- What amount of income can I expect to get monthly from this investment?

You may find the following "6 step process model" useful in helping you answer these rather complex questions.



I trust that you find the information contained in this guide useful.

Dave Druce

Principal Officer

Legal disclaimers

Investing your retirement capital is a complex area and every attempt has been made to simplify this guide for ease of understanding. This may result in some areas being covered in relatively little detail. Readers of this guide should note that:

- The information contained in this guide does not constitute advice by either the Board of Trustees, nor its advisors; and
- Members may need to seek expert financial advice before making a decision.

Step1: Your retirement needs

Basic needs

This is the *minimum income* that you and your dependents would require in your retirement to retain your *basic quality of life*.

Your basic needs typically include the money you need for:

- Accommodation;
- Food for you and your family;
- Clothes;
- Medical expenses; and
- Transport.

Pensioners have different expectations from life - some pensioners may feel that an income of R5 000 per month is enough to cover their basic needs; others may feel that they need an income of R40 000 a month to meet these needs.

The reality is that many people end-up retiring without enough money to meet even their basic needs in retirement.

Discretionary needs

Very few people earn enough money, either whilst they are working or in retirement, to be able to meet their discretionary needs. Such an income allows you access to most of the things you desire in life.

Exercise

What monthly income do you require to meet your basic needs in retirement?	
What percentage is this of your current salary?	

Step 2: What risks do you face in retirement?

Having defined your needs, one needs to consider what key risks you face in meeting those needs and how one can manage these risks. In managing your risks you should be most concerned about minimizing the chance of outcomes that cause you a great deal of regret and difficulty.

As a pensioner, there are three important risks you must deal with in how you invest your retirement savings in order to meet your needs, namely:

- **Investment risk**
- **Inflation risk**
- Somewhat surprisingly, the **risk of living too long**!

Investment risk

Investment risk refers to the chance that the investment return you earn on the money you invest at your retirement is insufficient to provide a reasonable income throughout your retirement.

As a former member of a defined contribution arrangement, you should be aware of and have experienced investment risk. As you know investment risk depends largely on the asset class (e.g. shares, bonds or cash) in which you invest your money and your investment horizon (i.e. long, medium or short term).

Inflation risk

One of the big risks you face in retirement is that inflation reduces the buying power of your pension.

It is very difficult to predict the future course of inflation (i.e. it may go much lower or maybe it could increase sharply). It is therefore important that you invest your retirement money, or at least that part which covers your basic needs, in such a way that your income goes up each year more or less in line with inflation.

Risk of living too long

This seems like an unusual risk - but the longer you and your dependents live, the more money you need whilst you are on pension.

Many people have a pessimistic view of how much longer they will live once they retire. The following table shows, how long, on average a male and female are expected to live if they retire at different ages.

Retirement age	**Life expectancy**	
	Male	Female
55	22 years	27 years
60	18 years	22 years
65	14 years	18 years

The above figures may well understate the position, because as medical research improves (and it is currently improving at a dramatic rate), the life expectancy of people may increase.

Step 3: Key features of a pension

Now that you have an understanding of:

- What monthly income you need to cover your basic and discretionary needs; and
- The important risks you face in retirement.

The next step is to understand the key features of a pension. Any pension really has the five key features described below – consider them carefully because next you will be asked to vote for which feature you value most highly.

Choice

Choice means the feature that you can choose each year the amount of income you receive and also how your money is invested. Such choice means that you have the flexibility to change your pension according to your needs every year.

A vote for this feature would indicate that you attach a lot of value to choice.

The investment expertise you must have to manage your pension

Some pensions require you to have a great deal of expertise in investing and managing your money.

A vote for this feature indicates that you rate *your investment competence highly* and will therefore attach a great deal of value to this feature.

Security

Security means the extent to which your annual pension (excluding any future pension increases) is certain to be paid.

A vote for this feature says that it is important for you have "peace of mind" with respect to your pension.

Inheritability

Inheritability means the extent to which your dependents will benefit from your pension when you die. A narrow form of inheritability is when only the people that are financially dependent on you (e.g. your spouse) continue receiving a pension when you die.

A broader form of inheritability is when even people that are financially independent (e.g. your adult children) continue receiving a pension after you and your spouse have died.

A vote for this feature indicates that you attach a high value to the *broader form* of inheritability.

Unilever

Costs associated with the pension

Different forms of pension have higher associated cost structures. Higher costs are not necessarily bad, but you need to receive adequate benefits for these higher costs.

A vote for this feature indicates that you want to keep the costs associated with your pension as low as possible.

Choose the features you assign the most value to

You are given four "votes" to allocate to the above features. You are allowed to weight your vote - for example, if you feel that the inheritability is the only feature that is important, you could cast all four votes for inheritability.

Feature	**Number of votes you cast for this feature**
Choice	
Your required investment expertise	
Security	
Inheritability	
Low cost structure	

Step 4: Different kinds of pensions and their key features

In this section we consider the main types of pensions offered by the USAPF and market and what the key features of these pensions are. Of course, the final step is to match this with your preferred features of a pension.

The two main types of pension offered by the market are a:

- Life annuity; and
- Living annuity

Life annuity

A life annuity typically has the following features:

- The current amount of the pension is guaranteed for the rest of your life. (This guarantee depends on the party providing your pension meeting its obligation even in extreme market conditions.)

- On your death typically 50% of your pension will be paid to your surviving spouse for the rest of her/his life. (You can elect the percentage pension that will be paid to your spouse on your death.) Should your spouse pre-decease you, there will be no change to your pension.

  A concern sometimes raised about a life annuity is that you don't get the full value of your retirement capital if you and your spouse die soon after you retire. This is the "insurance premium" you pay for having the promise that your pension will be paid even if you live much longer than expected (e.g. to age 100).

- The pension should increase each year. (However, in poor market conditions no pension increase may be granted.) Once an increase is granted, the new higher level of pension becomes guaranteed. (You can sometimes elect the basis on which the annual increase should take place.)

- You require no investment expertise in managing such a pension. The USAPF or the Insurer providing the pension will manage the underlying assets on your behalf.

- For most members this pension has a lower investment fee cost structure because you will not require on-going financial advice on how to manage your savings which is expensive (note that the additional charge payable for the guarantees provided will partially offset this).

- With a life annuity through an insurance company you can decide at the outset on the basis on which your pension should increase each year and the percentage pension paid to your spouse on your death. However, you do not have the flexibility to change these terms once your pension starts to be paid.

In order to check your understanding of the features of a life annuity, please complete the following table by giving each of the key features a rating of 0 to 4. A rating of 4 indicates that this feature is strongly represented; a rating of 0 means that the life annuity does not contain this feature.

Feature of a life annuity	Your rating
Choice	
You must have a high degree of investment expertise	
Security	
Inheritability	
Cost structure	

Our rating of the features is set out in the table below. You can check your understanding of a life annuity by comparing your rating to ours.

The rating is somewhat subjective so you should not be concerned if your rating is 1 point higher or lower than others. On the other hand if your rating for a feature is much higher or lower than ours then you should revisit your understanding of a life annuity.

Feature of a life annuity	Our rating	Reason for rating
Choice	1	Only have choice at the start of the pension
You must have a high degree of investment expertise	0	USAPF or Insurer makes the investment decisions
Security	4	The current pension is guaranteed, subject to very small counter-party risk (but future increases are not guaranteed)
Inheritability	2	Your surviving spouse continues to receive a pension on your death
Cost structure	3	This is a cheaper pension structure in the market if one allows for the cost of financial advisor

Living annuity

A living annuity operates like an Investment Account as is explained below.

- At retirement your money is invested in your Investment Account.
- Your Investment Account is credited with the investment returns (positive or negative) you earn on your money.
- Importantly, you must decide how to invest your Investment Account. Of course, you should receive expert advice in this regard.
- Each year you can take between 2.5% and 17.5% of the balance in your Investment Account as a pension. (This 2.5% and 17.5% limit is set by the South African Revenue Services.) You need to decide on the level of your drawings. The Fund is required to monitor this drawdown level to make sure this is appropriate in terms of your future life expectancy.
- When you die, your dependents take over your Account. Those relatives that are financially dependent on you take over the Account first. When they die, the balance in your Investment Account can be paid to your financially independent children. In this way your retirement capital can have value beyond your death as well as the death of your spouse.
- Your Investment Account can begin to run out of money and you may be left with a very low income in retirement. This can typically happen if:
    1. The investment return you earn on your Investment Account is low.
    2. The monthly drawings you make from your Investment Account are too high.
    3. You (and your spouse) live much longer than expected.
- The cost structure of a living annuity is typically higher than that of a life annuity as the investment fees are higher and you need to pay for the on-going advice you receive from an advisor regarding your investment strategy and monthly drawings.
- You can apply for your Investment Account to secure a life annuity at any time. The later you do this, the less expensive the life annuity becomes.

As above, in order to check your understanding of the features of a living annuity, please complete the following table by giving each of the features a rating of 0 to 4.

Feature of a living annuity	**Your rating**
Choice	
You must have a high degree of investment expertise	
Security	
Inheritability	
Cost structure	

Our rating of the features is set out in the table below. Again you can check your understanding of a living annuity by comparing your rating to ours.

Feature of a living annuity	Our rating	Reason for rating
Choice	4	You have the flexibility to vary your income and investment strategy each year
You must have a high degree of investment expertise	4	You will need to decide where your money is invested, although you may take advice in this regard
Security	1	There is a risk of running out of money if investment returns are poor, you draw too much pension or you live too long
Inheritability	4	Your surviving spouse continues to receive a pension on your death
Low cost structure	2	This is a more expensive structure in the market. With the Fund it's cheaper

Which type of pension best meets your needs?

How you voted for the features

In this section you should compare the number of votes you cast for each feature separately with the key features of a life annuity and a living annuity.

Feature of a life annuity	Your rating	Number of votes you cast
Choice		
You must have a high degree of investment expertise		
Security		
Inheritability		
Cost structure		

Feature of a living annuity	Your rating	Number of votes you cast
Choice		
You must have a high degree of investment expertise		
Security		
Inheritability		
Low cost structure		

As a starting point you should choose the type of pension that contains most of the features you have voted for.

If you are in ill-health

An important exception in your decision making process is if you know that you (or your spouse) are in ill health at the time when you retire.

In this case a living annuity may be a suitable pension form. Life annuities are usually priced based on a normal life expectancy - a life annuity is clearly an expensive option if you have a shorter life expectancy than normal.

Of course the key difficulty with this is that very few members have sufficient information to take the view that their life expectancy will be shorter than normal. People often under-estimate how long they will live after retirement, particularly with improving medical techniques and research.

If your "basic needs" pension is much lower than the total pension you can secure

The USAPF has a "pension calculator" that will help you to calculate the pension you can buy with your retirement savings (see next section).

Some people may find that their "basic needs" pension is much lower than the total pension that they can secure.

It is easy to conclude that a life annuity (which targets increases each year more or less in line with inflation) is the best form of pension to meet your "basic needs" pension. On the other hand a living annuity seems best suited towards meeting your "discretionary needs". (Providing inheritability for your independent children is generally a luxury.)

In this case you may elect to use a life annuity to provide your "basic needs" and living annuity to cover your "discretionary needs".

If you were to emigrate

If you were to emigrate on retirement, a living annuity represents a mechanism for taking your pension out of South Africa relatively quickly.

Given that you are now living offshore you ideally need to receive a pension based in the currency of your new home as opposed to Rand. With a living annuity you can draw a maximum of 17.5% of your Investment Account balance each year (subject to age based limits). In this way you can accelerate the transfer of your pension offshore. However you will of course pay more income tax if you draw out the maximum.

Quick guideline

If in order to meet your basic needs pension you need to draw more than 7% of the capital you invest in a living annuity you should seriously reconsider whether a living annuity is appropriate for you. (This rule does not apply if you know you are in ill health at your retirement.)

Step 5: What pension can I secure with my retirement savings?

Step 5 in the process is to develop an understanding of the pension you can secure with your retirement capital. The answer to this question depends largely on the exact form of the pension you elect.

In this regard the USAPF has two calculators:

- A **life annuity calculator** - but first you need to decide on the exact form of your life annuity; and
- A **living annuity calculator** - again here you need to decide on the exact form of your living annuity

These calculators can be accessed via the Intranet or the Principal Officer's office will do the calculations for you.

What pension options do I have from the Unilever (SA) Pension Fund?

The most important decision you need to make is whether to receive your pension as a life annuity or as a living annuity (or as some combination of a life and living annuity).

The previous sections have tried to assist you in making this decision. The final step in the process is to decide whether to receive your pension from the USAPF or from a third party financial services organization.

The USAPF only provides detailed information about the pension options it provides. *If you require advice on the pension options outside the USAPF you should contact a financial advisor*.

The USAPF offers you the option of a life annuity and/or living annuity from the USAPF. Certain restrictions apply to these annuities – these restrictions are explained in the next section.

It is important to emphasize that you still have the option of securing your pension outside the USAPF. If you elect this option you will leave the USAPF with your retirement money and you and your dependents will have no further claim against the USAPF.

Life annuity option from the USAPF

The USAPF offers a life annuity in the form of what is called a "With-Profit pension". All the features of a life annuity are contained in this pension, and *the term "With-Profit" relates to the basis on which future pension increases will be determined*.

How a With-Profit Pension works

The USAPF works out your monthly pension (payable for the rest of your lifetime and reducing to 50% of this amount for your surviving spouse) assuming that the USAPF can only earn an interest rate of 3.5% p.a. on your money. You may choose more than 50%, (up to 100% for your surviving spouse, but your starting pension will be reduced accordingly.

The calculation of your pension will also allow for the monthly administration cost the USAPF will incur in the payment of your pension.

Pension increase policy

The annual pension increase each year will be calculated by the Fund Actuary as follows:

- The smoothed investment returns earned on all the pensioner money invested in this pool and investment expenses, *plus (or minus)*
- Any profits (or losses) incurred on account of pensioners living shorter (longer) than allowed for in the initial calculation and/or administration expenses being lower (or higher) than allowed for – these items are expected to be small, *minus*
- The 3.5% p.a. return already taken into account in calculating the monthly pension

Another way of looking at this is that if the USAPF were to earn a return of 3.5% p.a. higher than price inflation (after deducting the insurance charge, tax and expenses) over the long term, and there are no mortality and expense profits or losses, it should be able to grant pension increases more or less in line with inflation. <u>Such inflation matching increases, however are not guaranteed.</u>

It is important to note that:

- The Trustees will smooth the actual investment return earned on underlying assets according to a formula. This formula will aim to limit the degree of cross-subsidy between different generations of pensioners.

  The consequences of this smoothing formula are important since:

  (a) The pension increase granted each year is likely to be very different from inflation as it is linked to investment returns as opposed to inflation; and

  (b) If investment returns are poor, a nil pension increase is possible.

  (c) The Fund will use a portion of the insurance saving to build-up a "solvency reserve" inside the Unilever SA Pension Fund that would be used solely to protect the financial position of the With Profit Fund.

  (d) There is the possibility that your pension could decrease if the investment and longevity experience is very poor and the "solvency reserve" proves insufficient. Whereas you may have understood that your pension is "guaranteed" there would have been extreme circumstances where such a guarantee would not have been honoured either by the Unilever SA Pension Fund or the insurance company. In future the "guarantee" will be expressed as a pension "payable for life".

  (e) In extremely unlikely events, such as a South African government bond default or major stock market collapse, pensions may be reduced but the nature of the investment strategy and the building of an appropriate, but not excessive "solvency reserve", mitigate against any significant reduction in pensions already being paid.

- The term "With-Profit" is derived from the fact that your future pension increases will depend mainly on the investment profits, (and to a much lesser extent on the mortality and expense experience) of the pensioner pool.

A detailed fact sheet on the With-Profit pension, including the investment strategy for this asset pool is set out at the end of this document.

Specific conditions that the USAPF imposes on a With-Profit Pension from the USAPF

If you wish to receive a With-Profit Pension from the USAPF you need to fulfill the following conditions:

- If you are married at the time of your retirement you need to make provision for a pension of at least 50% of your pension *(before commutation)* to be paid to your surviving spouse on your death. (If you marry after retirement no provision is made for a spouse's pension.)

- You and your spouse will need to sign a declaration that you understand future pension increases are not guaranteed and will depend on future investment profits and to a lesser extent mortality and expense experience.

- You will not have the option to convert your With-profit into a living annuity at any time in the future. You may, however, purchase a With-Profit Pension from outside the Fund. In doing so, a conversion factor as determine by the Fund actuary will be applied in order to determine the transfer value.

Other With-Profit service providers

Most insurers (e.g. Old Mutual, SANLAM, Momentum Life and Liberty) provide a With-Profit Pension that is similar in structure to that provided by the USAPF.

The main differences compared to the With-Profit Pension provided by the USAPF are:

- The Insurer generally uses its in-house asset management team to manage the pensioner asset pool. In this way the Insurer has an inherent potential conflict of interest. The Trustees of the USAPF select the investment managers that will manage the pensioner asset pool.
- The USAPF has a higher offshore exposure than most insurers. Over the longer term this is expected to provide diversification.
- The guarantee, investment and other expense charges levied by the Insurer are not usually disclosed. All these charges are disclosed by the USAPF.
- The Insurer will usually pay a commission to the broker that introduces the business. The USAPF does not pay commission.
- The Insurer’s pension increase may be affected by losses on other parts of their business. Such losses may be charged to the With-profit policyholders as was done by the Equitable Life in the United Kingdom. There is no such contagion risk in the USAPF.

The Trustees emphasise that there is no guarantee that the USAPF will deliver a better pension benefit (taking into account increases) than a particular Insurer. All that the USAPF offers is a well-managed and transparent process for a With-Profit Pension.

Other types of life annuities not provided by the USAPF

The main three other types of life annuity are:

- An **inflation-linked pension** – as its name implies such a pension will increase each year in line with inflation. This is an ideal pension to buy, but unfortunately it is expensive. If you wish to receive a pension with increases guaranteed to match inflation, the Insurer will work out your pension assuming an investment return of some 1.5% to 2.0% p.a. currently.

- A **guaranteed escalation pension** – as it name implies such a pension will increase each year at a fixed guaranteed rate (e.g. 5% p.a.) However, if inflation is lower than the guaranteed rate, the increase will be limited to inflation.

  The most important consideration is that you need to choose the level of the guaranteed annual increase. The danger is that you end-up choosing too low a level of annual increase when future inflation turns out to be higher (i.e. you are exposed to inflation risk).

  On the other hand if you choose too high a level of increase (which you will pay for) and future inflation turns out to be lower, your increases may be limited to inflation (i.e. you would have overpaid for the guarantee).

  The advantage of this approach compared to a With-Profit Pension is that the annual level of pension increase is guaranteed.

- A **level annuity** – as the name implies this pension is fixed at its initial level and will not increase in future.

  A level annuity can be misleading because the initial pension provided will be materially higher than that provided by a With-profit or guaranteed escalation pension. By electing a level annuity you expose yourself to significant inflation risk.

  You could experience a high degree of regret if you elect a level annuity and future inflation is high and you (and/or your spouse) live a long time.

  We need to be clear that investing in a level annuity is not necessarily a bad investment. If you invest in a level annuity at a time when interest rates are very high and future inflation turns out to be low, a level annuity will be a very good investment. The problem is that there are other scenarios for example, high inflation, where you could experience a high degree of regret by investing in a level annuity as your level pension may not adequately allow for increases in the cost of living.

Living annuity from the USAPF

If you elect a living annuity from the USAPF, a Living Annuity Capital Account will be maintained in your name. Your Living Annuity Capital Account will be built up as follows:

- The initial amount of your retirement capital that you elect to invest in a living annuity; plus
- The investment return earned on the balance in your account after deducting investment management expenses and retirement fund tax. (No retirement fund tax is currently payable); less
- The pension paid to you; less
- The administration and advisory expenses

Flexibility available to living annuitants

You have the following flexibility:

- You may invest your retirement capital in the same investment channels offered to in-service members of the defined contribution section. The same conditions and limitations will apply to these portfolios as for in-service members.

  Please note that there is no default portfolio for a living annuity and you must decide where your money is invested.

  Should you wish to make any changes to your asset mix, please complete the attached ***Own Choice*** form.
- You will need to choose your monthly pension annually on the anniversary of your retirement within the requirements of the Income Tax Act. This Act currently requires that your monthly pension be fixed for 12 months and be between 2.5% and 17.5% (this limit refers to annual pension and not monthly pension) of the balance in your Living Annuity Capital Account at your choice date.
- You need to specify the channels from which the disinvestments must be made to pay your monthly pension.
- You may elect to convert your living annuity into a With-Profit Pension from the USAPF at any time.

Conditions applicable to a living annuity from the USAPF

If you elect to receive a living annuity from the USAPF, the following conditions will apply:

- If you are married at retirement you will be required to secure a With-Profit Pension of at least R1 700 per month from the USAPF. (If you are unmarried, the minimum With-Profit Pension is R850 per month.)

  If your retirement capital cannot secure a With-Profit Pension of at least this amount, you do *not* have the option of a living annuity from the USAPF. The above limitation is imposed to ensure that you (and your spouse) do not become a burden on the State in time.

- You will be required to change your monthly pension if at any time it exceeds 17.5% of the then balance in your Living Annuity Capital Account. (This requirement is consistent with the Income Tax Act.)

- You are advised to seek advice annually on your investment strategy and pension draw down from a registered financial advisor. You will need to pay for such advice (typically from your Living Annuity Capital Account).

- If you are married at the time of your retirement, your spouse would need to co-sign the declaration form the USAPF requires.

- If you were to die before your spouse, your surviving spouse would "stand in your shoes" for the living annuity.

- Once you and your spouse have died, the balance in your Living Annuity Capital Account will be paid to your remaining dependants in such proportion as the Trustees decide. (Importantly this means that you cannot specify who should benefit from your remaining living annuity balance – only the Trustees have this discretion in terms of the Pension Funds Act.)

USAPF administration and switching fees

With-Profit Pension

The fees levied by the USAPF for a 100% With-Profit Pension are currently R85 (including VAT) per month and comprise:

- R38 general administration fee from Alexander Forbes, deducted up-front for life by means of a reduction of your gross monthly pension.
- R47 general administration fee, which will reflect on the monthly payslip.
- These fees will be revised annually if necessary and you will be advised of such changes.

Living Annuity

Monthly fees charged for a living annuity pension from the USAPF are currently R75 (including VAT), and comprise:

- R75 living annuity fee from Alexander Forbes

If you have the combination of a With-profit and living annuity you will see total charges of R75 reflecting on your payslip comprising:

- R28 record maintenance fee from Alexander Forbes
- R47 general administration fee from Alexander Forbes

Both fees will reflect on the monthly payslip, and will be revised annually if necessary and you will be advised of such changes.

The Living Annuity administration fees allow a living annuitant to change, free of charge, the investment strategy of their Living Annuity Capital Account and/or pension drawdown once a year, on the anniversary of their retirement. Should a pensioner wish to change this investment strategy and/or draw-down more than once in a calendar 12 month period, a switching fee, the same as that applied to in-service members, will be charged.

What next steps you must take

The USAPF will hold regular sessions at all the major Unilever centres for members approaching retirement. You will be invited to attend one of these sessions. At this session the information contained in this guide will be explained and you will have the opportunity to ask questions.

It is expected that the attendees at these workshops will be well placed to decide upon the type of pension they wish to select and, if a Living Annuity is chosen, the appropriate ***Own Choice*** portfolio to suit their circumstances.

Fact sheet: SA Bond Portfolio

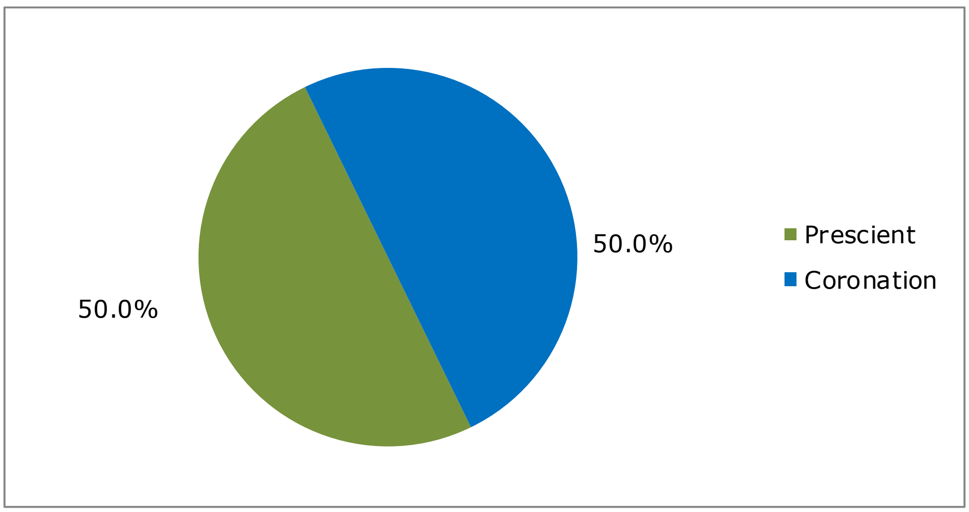
This portfolio is only applicable to members that elect a living annuity from the USAPF.

Investment objective

The SA Bond Portfolio is expected to give a return slightly above cash over the medium to long term albeit with a higher degree of volatility. The investment objective of the portfolio is to earn a return that is some 2.5% p.a. higher than South African inflation over periods of 3 or more years. **The performance of this portfolio is not guaranteed and will depend on the behaviour of interest rates**.

Manager Allocation

The strategic manager allocation of the Portfolio is shown in the chart below:



The actual allocation of the Portfolio will vary within pre-defined parameters around this strategic allocation.

Performance characteristics

This portfolio does not provide a guarantee. It aims to deliver performance in excess of that achieved by the benchmark (i.e. the All Bond Index).

Charges

The following charges apply to this portfolio:

- Investment management and custody fees (incl. VAT): approximately 0.30% per annum

Fact sheet: SA Cash

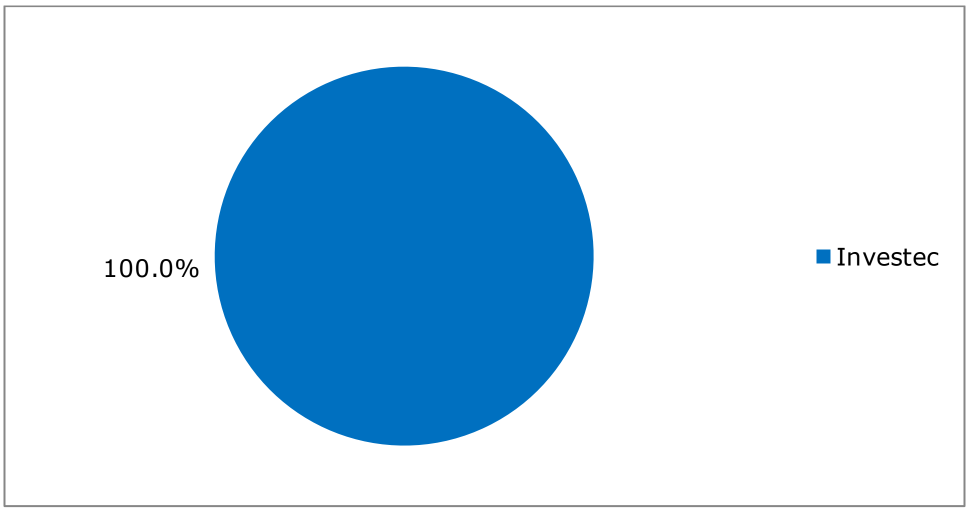
This portfolio is only applicable to members that elect a living annuity from the USAPF.

Investment objective

The SA cash Portfolio is expected to give the most stable return but also the lowest return of the various portfolios. The investment objective of the portfolio is to earn a return that is some 1.0% p.a. higher than South African inflation over periods of 1 to 2 years. **The performance of this portfolio is not guaranteed and will depend on the level of interest rates.**

Manager Allocation

The strategic manager allocation of the Portfolio is shown in the chart below:



Performance characteristics

This portfolio does not provide a guarantee. It aims to deliver performance in excess of that achieved by the cash benchmark (i.e. the STeFI).

Charges

The following charges apply to this portfolio:

- Investment management and custody fees (incl. VAT): approximately 0.11% per annum.

Fact sheet: Capital Growth Portfolio

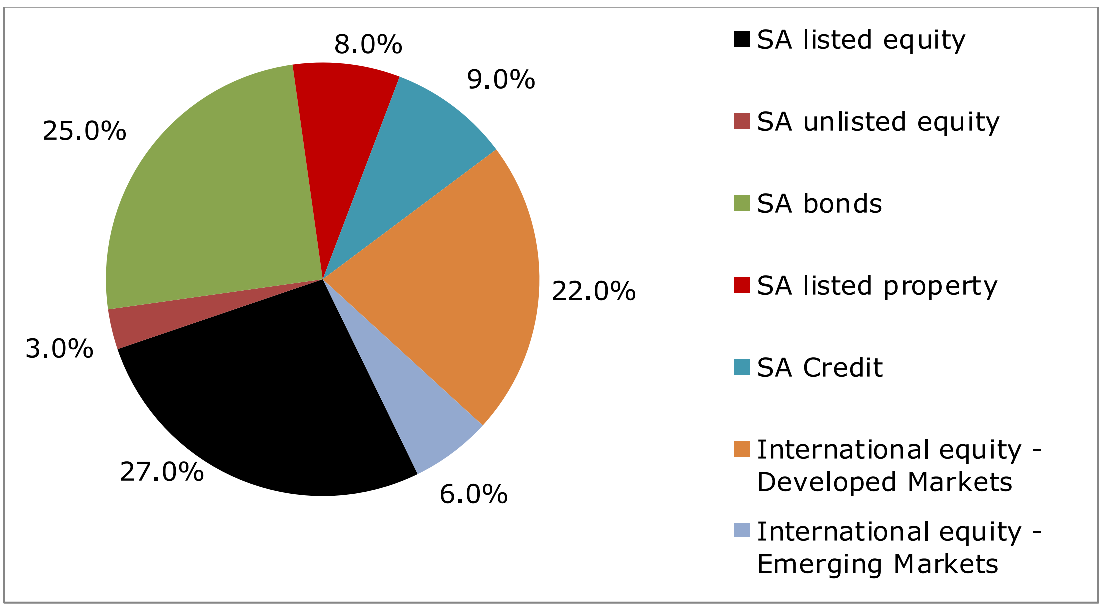
This portfolio is only applicable to member, that elect a living annuity from the USAPF.

Investment objective

The investment objective of the Capital Growth Portfolio is to achieve a net real return (after fees) relative to SA price inflation of 4.5% p.a. over periods of 5 or more years. **Please note that this level of return is not guaranteed and will depend critically on market conditions.**

Asset allocation

The strategic asset allocation of the Portfolio is shown in the chart below:



Thus the portfolio has a 66% strategic allocation to equities (incl. SA property) and 34% strategic allocation to bonds and credit.

The actual allocation of the Portfolio will vary within pre-defined parameters around this strategic asset allocation.

Performance characteristics

This portfolio does not provide a guarantee. It aims to deliver a good return relative to inflation. It has a long-term investment horizon and one should only measure its performance over a minimum of 5-years.

Investment managers

The current investment managers for the Portfolio are:

- SA listed equity: Allan Gray Limited, Abax Investments, Coronation Asset Management, and Visio Capital Management
- SA unlisted equity invested in infrastructure: Old Mutual
- SA bonds: Coronation Asset Management and Prescient Investment Management
- SA listed property: Investec Asset Management
- SA credit: Investec Asset Management
- International equities: UNIVEST

The managers' target is to outperform specific market indices.

Charges

The following charges apply to this portfolio:

- Investment management and custody fees (incl. VAT): approximately 0.52% per annum excluding performance fees.
- The following managers earn a performance fee:
    - Abax SA listed equity: performance fee of 20% of net out-performance above benchmark (high watermark system applies).
    - Investec SA listed property: performance fee of 20% of out-performance above the benchmark (high watermark system applies and catch-up of prior under-performance).
    - Investec SA credit: performance fee of 20% of out-performance above benchmark (high watermark system applies).

Fact sheet: Stable Growth Portfolio

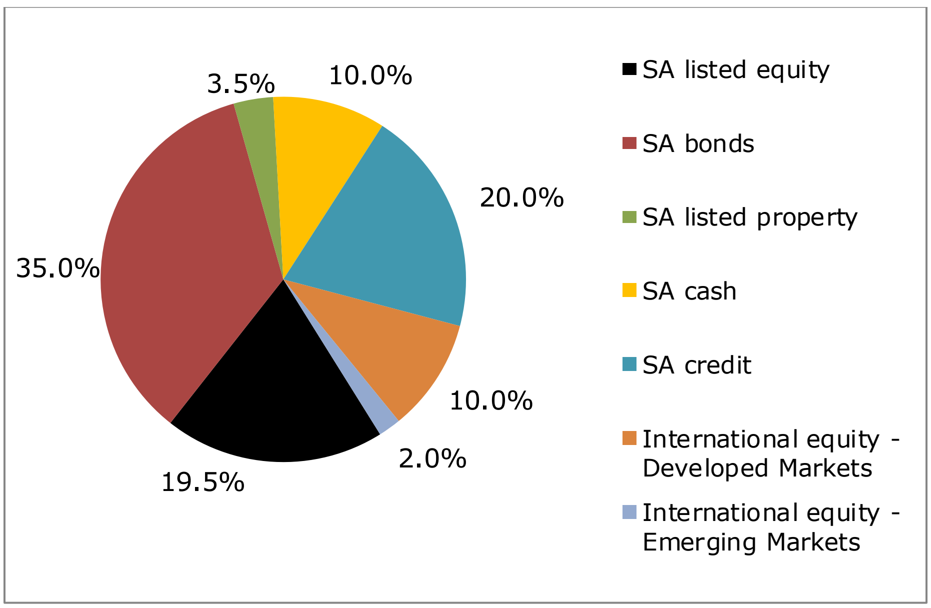
This portfolio is applicable to active members and members that elect a living annuity from the USAPF on retirement.

Investment objective

The investment objective of the Stable Growth Portfolio is to achieve a net real return (after fees) relative to SA price inflation of 3.5% p.a. over periods of 3 to 5 years. This portfolio is expected to show a greater degree of capital stability than the Capital Growth Portfolio. **Please note that this level of return is not guaranteed and will depend critically on market conditions.**

Asset allocation

The strategic asset allocation of the Portfolio is shown in the chart below:



Thus the portfolio has a 35% strategic allocation to equities (incl. SA property) and 65% strategic allocation to bonds and cash.

The actual allocation of the Portfolio will vary within pre-defined parameters around this strategic asset allocation.

Performance characteristics

This portfolio does not provide a guarantee. It aims to deliver a good return relative to inflation. A moderate degree of equity exposure provides the portfolio with some scope for inflation beating returns over the medium term. The bond and cash component provides a high degree of return certainty over the medium term. It has a long-term investment horizon and one should only measure its performance over a minimum of 5-years.

Investment managers

The current investment managers for the Portfolio are:

- SA listed equity: Allan Gray Limited, Abax Investments, Coronation Asset Management, and Visio Capital Management
- SA bonds: Coronation Asset Management and Prescient Investment Management
- SA cash: Investec Asset Management
- SA credit: Investec Asset Management
- SA listed property: Investec Asset Management
- International equities: UNIVEST

The managers' target is to outperform specific market indices.

Charges

The following charges apply to this portfolio:

- Investment management and custody fees (incl. VAT): approximately 0.39% per annum excluding performance fees.
- The following managers earn a performance fee:
    - Abax SA listed equity: performance fee of 20% of net out-performance above benchmark (high watermark system applies).
    - Investec SA listed property: performance fee of 20% of out-performance above the benchmark (high watermark system applies and catch-up of prior under-performance).

Fact sheet: Income Protection Portfolio

This portfolio is only applicable to members that elect a living annuity from the USAPF.

Investment objective

The investment objective of the Income Protection Portfolio is to earn a return that is some 2.0% p.a. higher than South African inflation over periods of 2-3 years. **Please note that this level of return is not guaranteed and will depend critically on market conditions.**

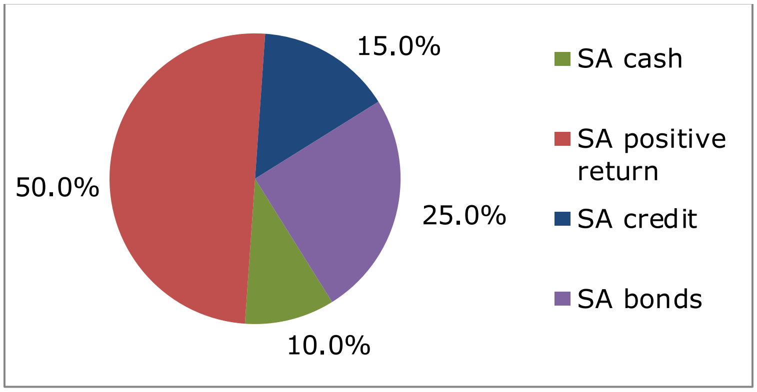
Any money you pay into the Income Protection Portfolio (i.e. contributions and amounts transferred into this portfolio) is invested with the objective of protecting capital and so is **substantially protected from that point** (i.e. it should not go down in value over any 1-year measurement period). The Income Protection Portfolio aims to provide a return in excess of that provided by a money-market portfolio, while providing a degree of capital protection over rolling 1-year periods.

It is important to highlight that although your money is invested so that the capital is protected, **the USAPF cannot, unfortunately, guarantee that your money will be protected at all times**. In extreme market conditions the party that is managing the capital protection may fail to achieve on this objective, in which case the capital protection will not apply.

Asset allocation

The USAPF will invest the portfolio in such a way so as to provide a positive return but also capture some of the upside potential of the equity market. A portion of the portfolio will be invested in a Positive Return mandate which has some equity market exposure but which at the same time has in place derivative protection to avoid exposure to large unexpected downturns in the equity market. The investment manager actively manages the derivative exposure so as to maintain the level of protection and also optimise upside potential within the overall constraint of managing downside risk. A portion is invested in cash, credit and bonds. This portion may experience capital losses in the short term if interest rates increase significantly.

The strategic asset allocation is shown below:



The actual allocation of the Portfolio will vary within pre-defined parameters around this strategic asset allocation.

Performance characteristics

This portfolio is expected to provide returns above that of cash investments. It is important to highlight that although your money is invested so that the capital is largely protected, **the USAPF cannot guarantee that your money will be protected at all times** as the party providing the protection may fail on its objective of preserving capital in extreme market events.

Investment managers

The investment managers for the Portfolio will be:

- SA Positive Return: Prescient Investment Management
- SA cash: Investec Asset Management
- SA credit: Investec Asset Management
- SA bonds: Coronation Asset Management and Prescient Investment Management

The managers' target is to outperform specific market indices.

Charges

- Investment management and custody fees (incl. VAT): 0.43% per annum.

Fact Sheet: Moderate Growth Portfolio

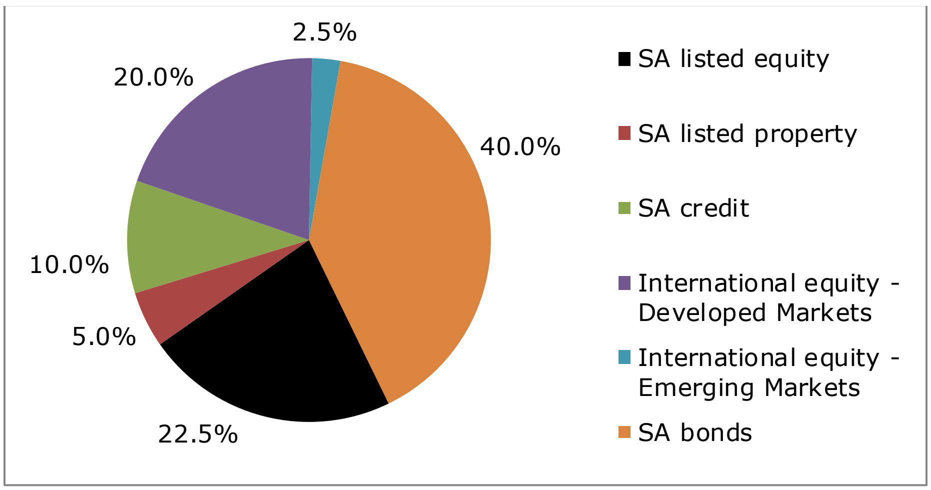
This portfolio is only applicable to members that elect a living annuity from the USAPF.

Investment objective

The investment objective of the Moderate Growth Portfolio is to achieve a real return (after deducting management expenses) relative to price inflation of 4.0% p.a. over periods of 5 or more years. Such a return, however, is not guaranteed. This level of return should allow the portfolio to deliver increases close to inflation over the longer term.

Asset allocation

The strategic asset allocation of the Portfolio is shown in the chart below:



The actual allocation of the Portfolio will vary within pre-defined parameters around this strategic asset allocation.

Investment managers

The current investment managers for the Portfolio are:

- SA listed equity: Allan Gray Limited, Abax Investments, Coronation Asset Management, and Visio Capital Management
- SA bonds: Coronation Asset Management and Prescient Investment Management
- SA listed property: Investec Asset Management
- SA credit: Investec Asset Management
- International equities: UNIVEST

Charges

The following charges apply to this portfolio:

- Investment management and custody fees (incl. VAT): approximately 0.45% per annum excluding performance fees.
- The following managers earn a performance fee:
    - Abax SA listed equity: performance fee of 20% of net out-performance above benchmark (high watermark system applies).
    - Investec SA listed property: performance fee of 20% of out-performance above the benchmark (high watermark system applies and catch-up of prior under-performance).

Fact Sheet: With-Profit Pension Portfolio

This portfolio is only applicable to those members who elect a life pension payable from the USAPF.

In addition, on retirement, members who have assets less than a pre-defined limit can switch into the With-profit policy. Members with assets over the limit can invest in the With-profit policy up to the limit with the balance of assets taken as a living annuity.

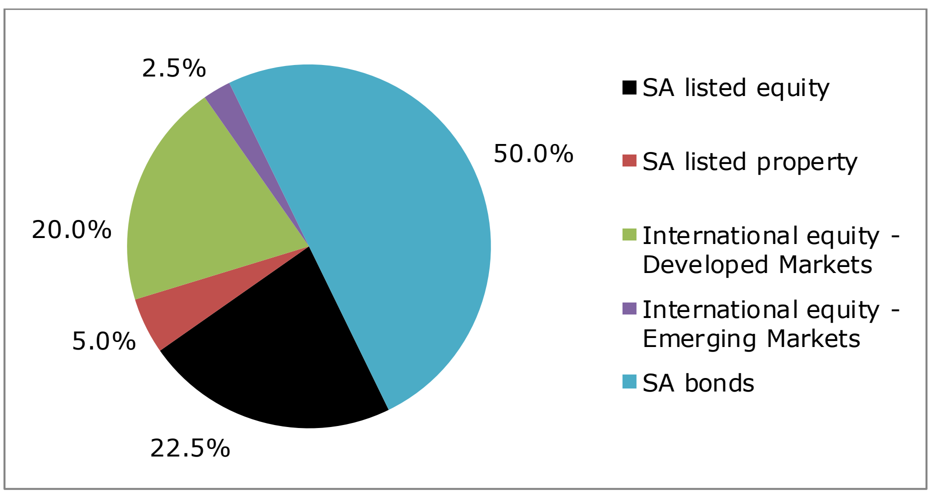
The assets backing the pensioner With-Profit Pensions will be invested in a separate pool with the USAPF. This asset pool will be known as the With-Profit Pension Portfolio.

Investment objective

The investment objective of the With-Profit Pension Portfolio is to achieve a real return (after deducting management expenses) relative to price inflation of 4.0% p.a. over periods of 5 or more years. Such a return, however, is not guaranteed. This level of return should allow the portfolio to deliver increases close to inflation over the longer term.

Asset allocation

The strategic asset allocation of the Portfolio is shown in the chart below:



Thus the portfolio has a 50% exposure to SA Bonds, 45% exposure to equities and a 5% exposure to SA listed property.

The actual allocation of the Portfolio will vary within pre-defined parameters around this strategic asset allocation.

Investment managers

The current investment managers for the Portfolio are:

- SA listed equity: Allan Gray Limited, Abax Investments, Coronation Asset Management, and Visio Capital Management
- SA bonds: Coronation Asset Management and Prescient Investment Management
- SA listed property: Investec Asset Management
- International equities: UNIVEST

Charges

The following charges apply to this portfolio:

- Investment management and custody fees (incl. VAT): approximately 0.44% per annum excluding performance fees.
- The following managers earn a performance fee:
  - Abax SA listed equity: performance fee of 20% of net out-performance above benchmark (high watermark system applies).
  - Investec SA listed property: performance fee of 20% of out-performance above the benchmark (high watermark system applies and catch-up of prior under-performance).