Letter to investors

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Dear valued investor

Treasury's Retirement Reform proposals are significant in their implications. In previous editions, we touched on many of these Reforms. In this newsletter, Denver Keswell provides insights about the proposed tax-free savings vehicle. We welcome this and any incentive that encourages South Africans to save more and be less dependent on the state in their old age.

The ultimate goal of all the Retirement Reform proposals, is to ensure that as many South Africans as possible have enough money to retire comfortably. As we move into the detailed parts of the legislation, it is useful to step back and remind ourselves of the guiding principles of successful retirement investing.

As a starting point, you should have a clearly defined goal and understand how much money you need to have accumulated by the time you retire. This depends on your circumstances, but a reasonable rule of thumb is to accumulate sufficient assets to provide an income of 60%-70% of your final salary.

To achieve this kind of income you need to:

- **Save 15%-20% of your salary for as long as possible, ideally 35-40 years:**
  The longer you save, the more your investments will benefit from the power of compounding. This is why you should start saving as early as possible. An early start and preservation (retaining your investments when you change jobs) are so important that they are likely to become compulsory under new legislation.

- **Invest in an appropriate investment vehicle to achieve sufficient returns (inflation plus 4%-5%):**
  Many young investors do not take enough risk and are not sufficiently exposed to growth assets such as equity and property. Too many members invest in low-risk default options, but the perceived safety of 'low volatility' masks the very real opportunity cost of not having exposure to growth assets that can outperform inflation. A potential solution is for default options to be life-stage models - members are invested in a high proportion of growth assets when young, and as they near retirement, their risk profile gradually decreases.

- **Ensure that your fees are reasonable and competitive:**
  This includes all aspects of the value chain and includes asset management fees, advice fees and administration charges.

- **Have the emotional discipline to stick to your plan!**
  In the preface of the book, 'The Intelligent Investor' by Benjamin Graham, Warren Buffett wrote:
  "To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework".

As always, thank you for the tremendous support. We are proud of the excellent long-term returns our fund range has delivered clients. We are however acutely aware that these are history. We therefore commit all our resources to ensuring that we continue to deliver on our current and future mandates and, in doing so, assist you in achieving your investment goals.

Happy long-term investing

Nic Andrew