

Member Investment Choice



**Sentinel Mining Industry Retirement Fund
(Sentinel)**

Reg No: 12/8/1215

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Content

IMPORTANT INFORMATION	3
INTRODUCTION	4
PLANNING FOR RETIREMENT	4
HOW MUCH MONEY WILL YOU NEED WHEN YOU RETIRE	5
YOUR RETIREMENT AGE	5
INVESTMENTS AND YOUR RETIREMENT	5
UNDERSTANDING THE RISKS	6
MANAGING THE RISKS	7
Appropriate asset allocation	7
Period of investment	7
Diversification	8
THE INVESTMENT PORTFOLIOS	8
Wealth Builder Portfolio	8
Inflation Protector Portfolio	9
Pension Protector Portfolio	10
Shari'ah Portfolio	10
Money Market Portfolio	11
100% Capital Protection Portfolio	11
MEMBER INVESTMENT CHOICE	12
THE LIFE STAGE MODEL	12
INDIVIDUAL MEMBER CHOICE	13
PITFALLS AND COMMON MIC ERRORS	15
A too conservative investment choice	15
Attempts at market timing	16
HOW TO EXERCISE AN INVESTMENT OPTION	16
LEGAL DISCLAIMER	17
GLOSSARY OF INVESTMENT TERMS	18
CONTACT DETAILS	22

Important Information

Note

This booklet explains the different options members have regarding investment choice. You are urged to take the time to read it carefully because your decisions will have an impact on the quality of your retirement.

The subject of investments is complex and if you require any further information, please contact the Fund.

For an explanation of investment terms, please refer to the “Glossary of Investment Terms” provided in this booklet.

Disclaimer

The topic of investments is complex; therefore, every attempt has been made to simplify the content of this booklet.

Readers should note that:

- past investment performance is not necessarily an indication of future investment performance;
- the information contained in this booklet does not constitute advice, either by Sentinel Mining Industry Retirement Fund, Mine Employees Pension Fund or its staff; and
- members may need to seek expert financial and/or investment advice before making decisions tential expenses once you retire.

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Member Investment Choice Introduction

For many of us, planning for a comfortable retirement is something we only start thinking about when we are older, when the time is right! This normally happens when we are in our 50's and can no longer postpone it. Unfortunately, this can create enormous problems the day we do decide that we are old enough to start planning for retirement, as we then may realise that we have lost valuable time that could have been used to design and manage a proper financial, retirement and estate plan.



Retirement Savings

The amount of money you have accumulated in your retirement funds over your working career.

We should not think about retirement savings as something that will be needed when we get older, but rather view it as an income replacement that will deliver the day we can no longer work to earn a salary. Your Fund will, hopefully, only start paying a lifelong pension from the day you retire. You may, however, become permanently disabled or die before you reach retirement age and a pension payment from the Fund could, therefore, start much earlier than expected.

This booklet explains the different options available to you with regard to Member Investment Choice (MIC). You are urged to take the time to read it carefully because your decisions may have a huge impact on the ultimate quality of your retirement.

Planning for retirement

Do you know that:

- your retirement savings are probably the largest asset you will ever own?
- most individuals only start to think about their retirement provision a few years prior to retirement, when it's too late to start saving for retirement or make a meaningful difference to actual retirement savings?
- the proper management of the your Funds assets is critical to you, because as a member of a defined contribution retirement fund, you carry the investment risk?
- Less than 7% of South Africans retire with sufficient capital to maintain their standard of living?

Defined Contribution

A retirement fund with a set contribution rate and benefits that are based on the value of your retirement savings.

How much money will you need?

What percentage of your final salary / income do you think you would need to maintain a comfortable standard of living after you retire? To answer this question, you need to think about your potential expenses once you retire.

You may need less money because:

- your house should be paid for in full by the time you retire;
- your children will probably no longer be financially dependent on you;
- your travelling costs may reduce as you no longer need to travel to work every day; and
- your debt could possibly be settled.

Certain expenses will, however, increase. Medical expenses in particular can rise dramatically as you get older.

As a general guideline, you should financially have a comfortable retirement if your annual retirement income is between 70% and 80% of your annual pre-retirement income. It is important to note that income refers to all forms of income. This includes all benefits received from your employer such as salary, allowances, overtime, and any other benefits e.g. housing.

However, this is only a guide and each person's circumstances are different. It is therefore strongly recommended that you, prior to actually retiring, accurately determine if your post-retirement income will be sufficient to cover your expected expenses.

Your retirement age

If you want to retire young, say at age 50, you will need to accumulate more retirement savings and at a quicker rate than a person who retires later, simply because you and your spouse will need to live off these savings for a longer period of time.

Retiring at age 60, rather than at age 50, means that you have 10 years longer to save for retirement but also that you will need less retirement savings to provide the same amount of pension income due to you being older at date of retirement.



Investments and your retirement

The age at which you plan to retire is an important factor when considering how your retirement savings should be invested. Generally, the younger you are, the more exposure you can have to investments that offer higher returns over the long term, even if these investments contain more risk and volatility than other investments over the short term. This is because you have time on your side before retirement. Investment markets have always gone up after dropping and you have the time to wait for these markets to go higher again!

Volatility

The potential for an investment to rise and fall over a relatively short period of time.

As you get older and closer to retirement, the need to protect your retirement savings becomes more important. Ideally your retirement savings should be invested in lower risk assets, even if this means that investment returns will be lower, which provide greater protection to your retirement capital when markets are weaker.

To provide for this change in your investment strategy as you move closer to retirement, your Funds offer Member Investment Choice (MIC). The MIC program consists of a structured life stage investment approach and also the option for individual members to choose different risk profiled portfolios depending on their individual requirements.

Investment Strategy

This is the way or manner that you invest consisting of a plan and set goals.

Understanding the risks

In defined contribution retirement funds, such as Sentinel and the MEPF, the final value of your retirement capital depends on the following three key factors:

How much you and your employer contribute to your retirement savings

You need to save a minimum of 15% of your total income for retirement. If your contributions are only based on, say, 60% of your income, it will almost be impossible to accumulate retirement savings that will amount to around 75% of your final income at retirement date.

Retirement Capital

The amount of money you have saved for retirement in your retirement funds. Same as retirement savings.

The period over which you have saved for retirement

You need to save on average for about 35 years (non-stop) to retire in comfort. If you resign or are retrenched and you spend your retirement savings, it will be very difficult, if not impossible, to accumulate sufficient retirement capital prior to retirement age.

The investment growth earned on your retirement savings

On average, investment growth of $\pm 5\%$ in excess of inflation is needed over the above 35 year period, to generate sufficient retirement savings.

Growth or Return

The amount by which your capital increases excluding contributions made to the Fund.

In addition, two main risks that can potentially affect the value of your retirement capital are:

Inflation Risk

This is the risk that your retirement savings do not earn sufficient investment returns during your working years to provide reasonable retirement benefits. Typically, you need an average real return (i.e. return above inflation) of 4.5% to 5.0% per year over your total working career (± 35 to 40 years) to provide for reasonable retirement benefits.

Inflation

The increase in cost of living also known as CPI.

Exit Risk

This is the risk that your chosen investment portfolio's return is at a low or even negative at the date when you retire from or take a benefit from the Fund. However, if you plan to re-invest your benefit in another approved retirement fund on withdrawal, the exit risk should not be as significant, as your capital will probably be re-invested in largely the same market.

It is, however, also important to note that when reinvesting into another retirement product on withdrawal from the Fund, a number of costs and commissions may be levied by the service provider that you have chosen, which will reduce the value of your capital transfer.

Managing the risks

There are three main ways to manage inflation and exit risk. These are:

- **Appropriate asset allocation**

Historically, equities (shares) have given returns significantly higher than inflation and are therefore seen as an appropriate asset class to protect against inflation risk. However, equities are also more volatile (they tend to go up and down in value more often) than other asset classes. This means that equities are a less suitable asset class for managing exit risk.

On the other hand, cash (money market) is a highly appropriate asset class to manage exit risk as the value does not fluctuate dramatically. Cash, however, does not provide an investment return of much more than inflation. Therefore, cash is not suitable for managing inflation risk.

Much can be done to manage both inflation and exit risk by selecting appropriate asset classes or investment portfolios that favour the one asset class over the other.

- **Period of investment**

While equities are regarded as a more suitable asset class for managing inflation risk, it is clear that their market value can go up and down quite sharply in a relatively short period of time.

This volatility is most extreme when the investment period is short. The following table shows the best and worst average returns, after deducting inflation (i.e. the real return*), of the JSE Top 40 Index earned over **any** one, three, five and ten-year period since 1960:

Period	1 year	3 years	5 years	10 years
Best returns	70.02%	35.90%	23.84%	17.52%
Worst returns	-29.76%	-14.88%	-4.84%	-1.07%

* Methodology:

- Annual equity and inflation figures from 1960 to 2011, annualised returns
- Real return calculated using geometric differences
- Geometric average calculated over each rolling period

This table indicates that if you are going to be saving for retirement for over the long term, the bulk of your retirement savings should be in equities. To provide an adequate pension, your capital must grow above the inflation rate. Even if the market goes down in the short term, it should not worry you unduly because over the long term, equities have proven to effectively counter this inflation risk. Over the worst 10-year period since 1983 (between 1994 and 2003), the JSE Top 40 Index gave a real return of 3.77% per year.

Of course, if your time period before retirement or exiting the Fund is short, you cannot afford to be overexposed to equities. For example, in 2008 the stock market went down by 28.38% in real terms, which would have had a major impact on members close to retirement who were still invested in equities.

Asset Allocation

The weighting of asset types in an investment portfolio. Also known as Asset Mix.

Equities

Refers to the asset class also known as shares.

JSE

Refers to the Johannesburg Securities Exchange.

- **Diversification**



The third method that can be used to manage the abovementioned risks is diversification. Another way of describing diversification is to “not put all your eggs in one basket”.

Research has shown that when some asset classes go down (e.g. equities), others go up (e.g. bonds). Spreading your investments between different asset classes can, therefore, reduce risk.

Your Funds investment portfolios are designed to incorporate all these methods so as to reduce risk in line with the Fund’s membership profile, with each portfolio designed to target a specific area of risk.

The Investment Portfolios

Investing retirement savings based on a “one size fits all” approach is not ideal, because different people have different needs and views about how their retirement savings should be managed - not every person plans to retire at the same age and each individual has a unique financial position / requirement.

The Trustees therefore follow a multi-portfolio approach whereby each portfolio is designed for specific member circumstances and different risk profiles. Professional asset managers are selected to manage the assets of these portfolios and the selection of these managers, as well as the managers themselves, are dynamically managed by the Funds for maximum performance efficiency.

The investment portfolios offered by the Funds aim to provide above average levels of investment returns within acceptable risk tolerance ranges, over time.

WEALTH BUILDER PORTFOLIO

This is an investment portfolio designed for younger members wanting to capture strong equity market (share market) performance over the longer term, even though higher levels of volatility may be experienced over the short term. The Wealth Builder Portfolio has a higher expected risk and return profile than the other portfolios because it has the largest exposure to the South African and foreign equity markets (a greater proportion of the assets are invested in shares both locally and internationally). The risk of short term negative growth is, therefore, greater but the potential for higher longer term growth is also most likely.

PORTFOLIO DESCRIPTION	
Investment strategy	Aggressive — High equity exposure
Goal	Higher risk portfolio for those younger members wishing to capture strong market performance over and above inflation
After tax benchmark	Inflation plus 6.5% (not guaranteed)
Risk tolerance	8% around the benchmark
Recommended for	Members who have more than 12 years to retirement
Other	This portfolio is included in the Life Stage Model and is the default choice for members who have more than 12 years to retirement

ASSET ALLOCATION - Wealth Builder Portfolio

<i>ASSET CLASS</i>	<i>MIN</i>	<i>MAX</i>	<i>TARGET</i>	<i>ASSET CLASS</i>	<i>MIN</i>	<i>MAX</i>	<i>TARGET</i>
SA Equity	46%	56%	51%	SA Money Market	2%	4%	3%
SA Property	3%	9%	6%	Africa Equity	3%	9%	6%
SA Bonds	0%	2%	0%	Foreign Equity	19%	25%	24%
SA CPI Linked Bonds	6%	16%	10%	Foreign Bonds	0%	2%	0%

INFLATION PROTECTOR PORTFOLIO

This portfolio has less risk than the Wealth Builder Portfolio and is a medium risk portfolio. It is designed for members who are within 12 years, but not closer than five years, from retirement.

Although it is expected that this portfolio will have lower returns than the Wealth Builder Portfolio over the long term, it should also reflect less volatility due to its lower exposure to equities. This portfolio is suitable for members wanting to move out of the Wealth Builder portfolio, but still require more potential growth from their investments than is offered by the Pension Protector portfolio.

PORTFOLIO DESCRIPTION

Investment strategy	Moderate — Medium equity exposure
Goal	Medium risk portfolio for members further from retirement but who still have inflation out-performance goals, and a concern for performance substantially below this level
After tax benchmark	Inflation plus 6.2% (not guaranteed)
Risk tolerance	6% around the benchmark
Recommended for	Members who have between 5 -12 years to retirement
Other	This portfolio is included in the Life Stage Model and is the default portfolio for members who have between 5 & 12 years to retirement

ASSET ALLOCATION - Inflation Protector Portfolio

<i>ASSET CLASS</i>	<i>MIN</i>	<i>MAX</i>	<i>TARGET</i>	<i>ASSET CLASS</i>	<i>MIN</i>	<i>MAX</i>	<i>TARGET</i>
SA Equity	41%	51%	46%	SA Money Market	2%	4%	3%
SA Property	3%	9%	6%	Africa Equity	3%	9%	6%
SA Bonds	0%	2%	0%	Foreign Equity	19%	25%	24%
SA CPI Linked Bonds	7%	23%	15%	Foreign Bonds	0%	2%	0%

PENSION PROTECTOR PORTFOLIO

The Pension Protector Portfolio is a lower risk investment, designed for members who are close to retirement. This portfolio aims to offer higher levels of protection with reduced volatility whilst still providing a certain degree of real return (return above inflation).

Due to a lower exposure to equities, returns are anticipated to be less volatile than both the Wealth Builder and Inflation Protector Portfolios whilst long term investment returns are also expected to be lower than the Wealth Builder or Inflation Protector portfolios.

PORTFOLIO DESCRIPTION	
Investment strategy	Conservative — Higher fixed interest exposure
Goal	Low risk portfolio for members close to retirement - aims to protect returns, capital and purchasing power, as well as providing a certain amount of pension 'cost' protection
After tax benchmark	Inflation plus 5.8% (not guaranteed)
Risk tolerance	4% around the benchmark
Recommended for	Members who are within 5 years of retirement
Other	This portfolio is included in the Life Stage Model and is the default portfolio for members within 5 years from retirement

ASSET ALLOCATION - Pension Protector Portfolio							
ASSET CLASS	MIN	MAX	TARGET	ASSET CLASS	MIN	MAX	TARGET
SA Equity	30%	40%	35%	SA Money Market	2%	4%	3%
SA Property	4%	10%	7%	Africa Equity	3%	9%	6%
SA Bonds	0%	2%	0%	Foreign Equity	19%	25%	24%
SA CPI Linked Bonds	17%	33%	25%	Foreign Bonds	0%	2%	0%

SHARI'AH PORTFOLIO

The Shari'ah Portfolio is not part of the Life Stage Model and is a specific portfolio that aims to meet members' investment goals without compromising Islamic Law. This portfolio is provided by an external service provider and adheres to Shari'ha Law.

PORTFOLIO DESCRIPTION	
Investment strategy	Shari'ah compliant balanced portfolio
Goal	Designed to meet the needs and investment goals of those members not wanting to compromise Islamic law
After tax benchmark	Inflation plus 4.0% (not guaranteed)
Risk tolerance	4% around the benchmark
Other	This portfolio is not included in the Life Stage Model and is only available as a member choice portfolio

ASSET ALLOCATION - Shari'ah Portfolio			
ASSET CLASS	MIN	MAX	TARGET
SA Equity	35%	50%	45%
SA Sukuk	25%	35%	30%
SA Money Market	1%	5%	5%
Foreign Equity	0%	30%	20%

MONEY MARKET PORTFOLIO

This portfolio is invested exclusively in money market assets and is not part of the Life Stage Model. Assets include amongst others, cash, call deposits, treasury bills and bankers acceptances. It is designed for members who have already decided to take a benefit from the Fund and who want to protect the value of their fund capital prior to the payment of such benefit. The Cash Portfolio is therefore only suitable as a 'parking lot' over the very short term as it gives no protection against inflation risk over time although the asset mix is designed to maximise returns over time when compared to a pure cash investment.

PORTFOLIO DESCRIPTION	
Investment strategy	Very conservative
Goal	Very low risk portfolio for those members wishing to avoid market volatility over the short term. Not appropriate for medium to longer term investment horizons
After tax benchmark	Cash return plus 1%
Risk tolerance	1% around the benchmark
Recommended for	Members requiring a high level of capital value protection over the very short term
Other	This portfolio is not included in the Life Stage Model and is only available as a member choice portfolio
Asset allocation	100% Money Market

CAPITAL PROTECTION PORTFOLIO

The Capital Protection Portfolio is a pooled structured product provided by an external service provider and does not form part of the Life Stage Model. It is specifically designed for risk-averse and conservative investors who require their retirement capital to be 100% protected whilst still having some degree of participation in both the South African equity (65% Top40 price performance) and fixed income (35% basket of RSA Government Bonds) markets.

Retirement capital invested in this portfolio is 100% protected (no possibility of negative investment returns) whilst positive investment returns vest at the end of each month as these returns are declared at the end of a month. If returns are negative, your capital is 100% protected and no negative growth is allocated. If returns are positive, the declared return is added to your capital and this new total value becomes your investment for the next month which is then 100% protected. Once a positive investment return has been declared it can, therefore, not be forfeited.

PORTFOLIO DESCRIPTION	
Investment strategy	Conservative with 100% Capital Protection
Goal	Capital guaranteed low risk portfolio, ideal for members who wish to protect against adverse market movements whilst still retaining some degree of participation in equity and bond markets
After tax benchmark	Capital guarantee
Risk tolerance	Capital guarantee
Recommended for	Members requiring a high level of capital value protection
Other	This portfolio is not included in the Life Stage Model and is only available as a member choice portfolio
Asset allocation	65% Equities through JSE Top140 Index price performance 35% Fixed Income through basket of RSA Government Bonds

Member Investment Choice

The Fund provides members with two investment avenues:

- **Life Stage Model**

If you are unsure about choosing an appropriate investment portfolio, you may prefer the Fund to make the investment choices for you. For this purpose, Sentinel and MEPF, offer a Life Stage Model whereby the Funds take care of your investment decisions by automatically switching your retirement savings from one investment portfolio (Life Stage Model portfolios) to the next as you get older, in order to reduce investment risk as you approach retirement (your 'normal retirement age' as recorded by the Fund).

It is very important for you to realise that retirement age is the age recorded by the Fund as being applicable to all employees of your employer and that this age is not the age at which you may wish to retire on.

In addition, the above "Life Stage Model" investment switches are only applicable to the Life Stage Model portfolios and exclude the Shari'ah Portfolio, Money Market Portfolio and Capital Protection Portfolio.

- **Individual Member Choice**

You may want more control over the way your retirement savings are invested. To enable this, you also have the option to make your own decisions about which portfolio/s are best suited to your circumstances, irrespective of your age. (The Life Stage Model is, however, designed to reduce volatility as you approach retirement, and it is, therefore, recommended that you seek financial advice should you decide not to follow the Life Stage Model.)

The Life Stage Model

Research both in South Africa and abroad has shown that most members prefer Trustees, with appropriate advice at their disposal, to make investment decisions on their behalf.

The Life Stage Model offers a different investment portfolio and strategy for each stage of your life. It is based on the principle that when you are far from retirement, the focus should be on managing inflation risk as you can afford to take higher risk as to increase your investment return. As you grow older and approach retirement, the focus shifts to managing exit risk so that your retirement savings are not negatively affected by market volatility just before retirement.

An advantage of the Life Stage Model is that your Fund Credit (retirement savings in the Fund) will automatically be moved from one portfolio (and investment strategy) to the next as you get closer to retirement, therefore removing the need for you to manage your retirement savings on an on-going basis.

The Life Stage Model is the default investment option which means that unless you select an investment option, the Fund will automatically invest your Fund Credit based on this Model.

How the Life Stage Model works

The Life Stage Model assumes that the best indicator of the type of risk (inflation or exit) you need to focus on is the length of time you have left before your retirement. Based on this, your retirement savings will therefore be invested as follows:

- If you are more than 12 years from normal retirement age, the Life Stage Model will invest your retirement savings in the Wealth Builder Portfolio, where the focus is exclusively on managing inflation risk.
- If you have between five and 12 years to normal retirement age, your retirement savings will be invested in the Inflation Protector Portfolio. This assumes that your focus is still on managing inflation risk, but that you should also start to manage exit risk.
- When you are five years from normal retirement age, your retirement savings will be invested in the Pension Protector Portfolio and remain invested in this portfolio until your retirement. This portfolio's composition is well aligned with the Fund's pensioners' portfolio.

General rules of the Life Stage Model

All members in the Life Stage Model will be switched to the next portfolio the month after they reach the recommended age of that portfolio. These portfolio switches are done with no fee being charged.

Individual Member Choice

If, for any specific reason now or in the future, you do not want your retirement savings invested according to the Life Stage Model, you can elect how these retirement savings are invested (within certain limits as detailed below). You are also able to elect how your future contributions are invested and this need not be in the same portfolio as your retirement capital. It is, however, advisable that you obtain expert financial advice before making any investment choice.

It is important to note that the investment return earned by members on their retirement savings will depend on the investment performance of their chosen investment portfolio.

You are also able, after exercising an investment option, to select the option of returning to the Life Stage Model.

The image shows a 'MEMBER INVESTMENT CHOICE (MIC) ELECTION FORM' from Sentinel Mine Employees Pension Fund. It contains fields for member number and identity number, and checkboxes for 'SINGLE EMPLOYEE PENSIONABLE' and 'SPECIAL, WIDOW, SURVIVOR, RETIREMENT FUND'. Section A, 'FUND CHOICE', allows selection of portfolios for 'Existing Contributions' and 'Future Contributions' with percentage allocation boxes. Section B, 'FUTURE CONTRIBUTIONS', includes checkboxes for 'Invest in the Life Stage Model', 'Invest in the Pension Protector Portfolio', 'Invest in the Inflation Protector Portfolio', and 'Invest in the Wealth Builder Portfolio'. The form also includes a signature line and a date field.

How Individual Member Choice works

You can elect to invest your **retirement capital** (Fund Credit) as follows:

- Wealth Builder Portfolio; **or**
 - Inflation Protector Portfolio; **or**
 - Pension Protector Portfolio; **or**
 - Shari'ah Portfolio;
- and a portion, or all of**, your retirement capital in the:
- Money Market Portfolio; **and / or**
 - Capital Protection Portfolio.

Your **future monthly retirement contributions** can be invested in any **ONE** of the following portfolios (this portfolio does not need to be the same portfolio as selected for your retirement capital):

- Wealth Builder Portfolio; **or**
- Inflation Protector Portfolio; **or**
- Pension Protector Portfolio; **or**
- Shari'ah Portfolio; **or**
- Money Market Portfolio.

Example 1: A member can elect to invest, say, 30% of retirement capital into the Money Market Portfolio, 70% of retirement capital into the Pension Protector Portfolio and future monthly retirement contributions into the Wealth Builder Portfolio.

Example 2: A member can elect to invest, say, 25% of retirement capital into the Pension Protector Portfolio, 25% of retirement capital into the Capital Protection Portfolio, 50% of retirement capital into the Money Market Portfolio and future monthly retirement contributions into the Inflation Protector Portfolio.

General Rules For Switching Portfolios

- You may switch between portfolios at any time on condition that the Fund receives a correctly completed Member Investment Choice Election Form.
- Should you elect to switch a portion or all of your retirement savings to a Capital Protection Portfolio, the portion to be switched to the Capital Protection Portfolio will first be switched to the Cash Portfolio and remain invested in the Cash Portfolio until the next Capital Protection Portfolio switch date that you qualify for.
- All Life Stage Model switches and the first two member elected switches per calendar year are free of charge; thereafter a fee (currently 0,10% of capital switched with a maximum of R5,000) will be levied per switch.
- Your monthly contributions must be invested in **one** of the following: Wealth Builder Portfolio, Inflation Protector Portfolio, Pension Protector Portfolio, Shari'ah Portfolio or Money Market Portfolio.
- You cannot select more than **one** of the following portfolios to invest your retirement capital (Fund Credit) into: Wealth Builder Portfolio, Inflation Protector Portfolio, Pension Protector Portfolio or Shari'ah Portfolio.

Additional Conditions And Rules For The Capital Protection Portfolio

Investment into and disinvestment from the **Capital Protection Portfolio** occurs on the first working day of each month. Upon maturity of a one month investment period, the value of your investment in the portfolio (capital plus any growth) will be re-invested by default in the same portfolio, unless you notify the Fund otherwise. Capital protection, however, is only provided if your investment is held for a full month in the Capital Protection Portfolio.

Termination is allowed at month end in the event of you qualifying for and applying for a benefit from the Fund. Disinvestment at any time other than month end will result in no capital protection being applied to the month of termination. These terminations will take place at the market value of the portfolio which may be below the 100% capital protection level.

- If 100% of your retirement savings is invested in the Capital Protection Portfolio, future contributions must be invested into one of the other four portfolios.
- Investment and disinvestment dates will be the 1st working day of every month.
- Members, who elect the Capital Protection Portfolio, must notify the Fund at least 10 working days before the end of a month in the prescribed manner.
- Termination of a Capital Protection Portfolio investment at any time, except month end, will result in capital protection being forfeited. In this event, protection falls away and the actual return achieved by the portfolio, positive or negative, will be earned.
- At the end of each monthly investment period your investment in the Capital Protection Portfolio will by default be re-invested into the next monthly Capital Protection Portfolio unless you notify the Fund via a correctly completed MIC Option Form otherwise.
- **NON-CONTRIBUTORY MEMBERS** – An amount of at least R5 000 of your retirement savings must be invested in one of the other five portfolios should you decide to invest 100% of retirement capital into the Capital Protection Portfolio.

IMPORTANT

Members can elect to switch into the Capital Protection Portfolio at any time. The value of investment that is to be switched into the Capital Protection Portfolio will, however, first be invested into the Money Market Portfolio and remain invested there until the next Capital Protection Portfolio investment date.

Pitfalls and Common MIC Errors

Member Investment Choice is generally regarded as an appropriate offering to members of a defined contribution fund. There are, however, two errors members commonly make when they exercise investment choice.

A TOO CONSERVATIVE INVESTMENT CHOICE

International experience shows that, when faced with investment choice, members often choose a portfolio that is too conservative, relative to the risks they face. This can have very negative consequences on a member's retirement. For example, young members who decide to invest in the Pension Protector, Money Market or Capital Protection Portfolio over their entire 35 to 40 year working lives could end up with a pension of 20% to 35% less than if they

had simply followed the Life Stage Model.

Therefore, if you are young and not concerned about exit risk, you should invest primarily to manage your inflation risk. This means that for peace of mind, you should rather invest in the Wealth Builder Portfolio (up to 12 years from retirement) or the Inflation Protector Portfolio (between five and 12 years from retirement) as per the Life Stage Model recommendations.

ATTEMPTS AT MARKET TIMING

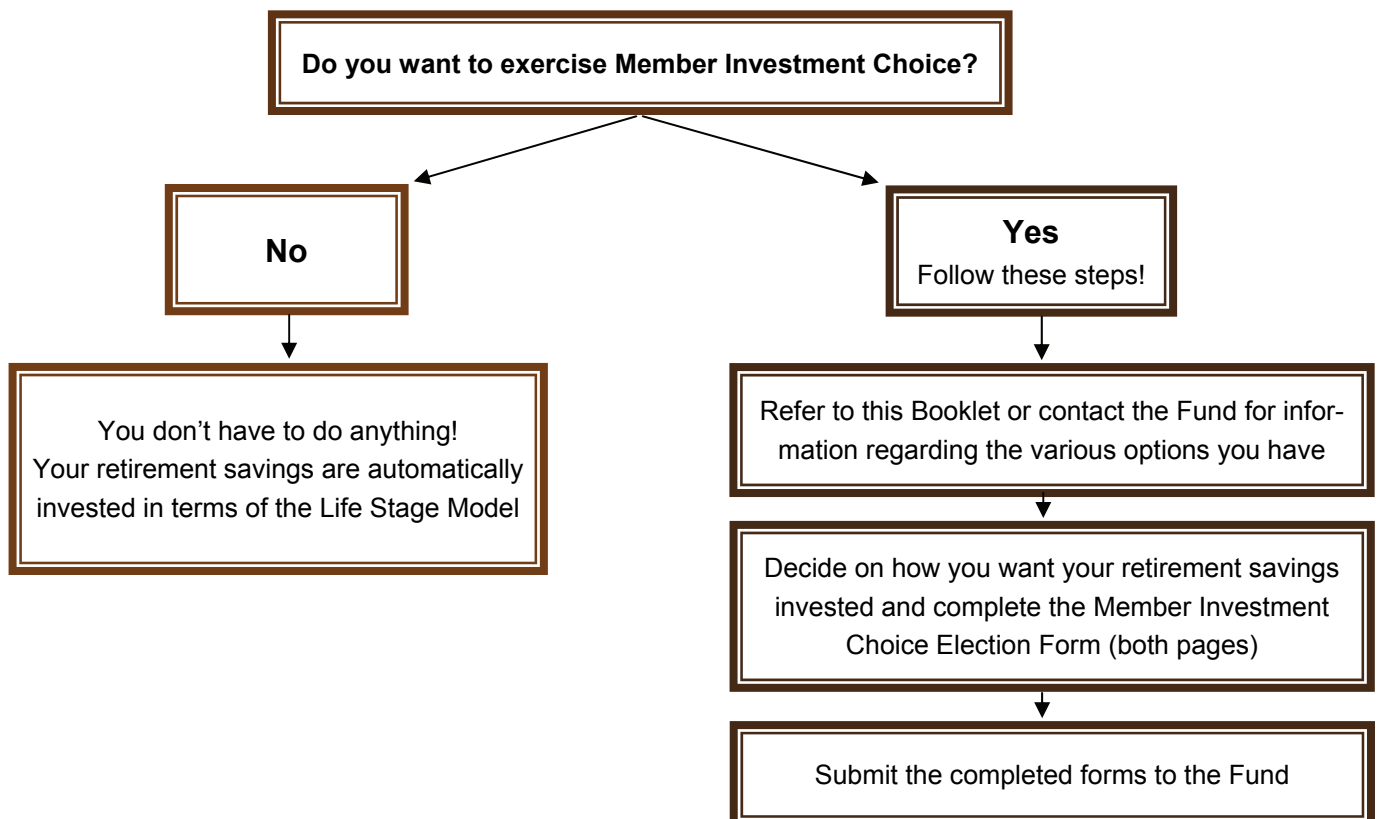
Some members believe that they can “time” the equity market. This means they attempt to disinvest at the ‘top of the share market’ (when the equity market is at a high) and re-invest at the ‘bottom of the share market’ (when the equity market is at a low).

Both South African and international experience shows that the vast majority of expert investment managers can’t ‘time’ the market effectively, not to mention how difficult – if not impossible – it is to get market ‘timing’ consistently right.

Members who try to ‘time’ the market will mostly get it wrong. An amateur investor normally ‘chases’ the share market when it’s near a high (typically the worst time to do so) and avoids the share market after a sharp fall (typically the best time to get ‘back in’).

Therefore, members are cautioned against trying to ‘time’ the market. History proves that the best results are achieved by taking a long-term view on investing your retirement savings. The Life Stage Model was specifically designed with this in mind.

How To Exercise An Investment Option



WHAT IS EXPECTED OF YOU?

This booklet is aimed at providing you with general investment insights and details of the Member Investment Choice product offered by your Funds.

When exercising investment choice, you are cautioned to do so only if you fully understand the consequences of your decisions. You are further encouraged to contact the Funds should you require any assistance with Member Investment Choice.

Should you decide to exercise an investment option or manage your retirement savings differently, for example, if you need to manage your exit risk earlier as a result of say, retirement prior to normal retirement age, you can do so by submitting the relevant forms to the Fund.



Legal Disclaimer

The topic of investments is complex; therefore, every attempt has been made to simplify the content of this booklet. Readers should note that:

- past investment performance is not necessarily an indication of future investment performance;
- the information contained in this booklet does not constitute advice, either by Sentinel Mining Industry Retirement Fund, Mine Employees Pension Fund or its staff; and
- members may need to seek expert financial and/or investment advice before making decisions.

Glossary of investment terms

TERM	DEFINITION
All bond Index	Benchmark in SA used to measure the performance of the Fixed interest or Bond Market. Indicator of minimum performance required by fixed interest portfolio managers. Split into a variety of maturity bands and credit ratings, including government and parastatal bonds. Other local bond index alternatives are the LIBI and the GOVI.
All share Index	Market capitalization weighted benchmark in SA used to measure the performance of the Equity market/universe. Indicator of minimum performance required by equity portfolio managers. Split into a variety of industry groupings, as well as market capitalization or 'size' groupings, all of which can be used to benchmark specialist portfolios.
Asset Allocation	The percentage weighting of exposure of assets in an investment portfolio among different asset classes (equities, bonds, property, cash and overseas investments). Also known as Investment Mix.
Benchmark	<p>A relevant reference portfolio for active or passive fund management. This benchmark will capture the required performance and risk characteristics of the portfolio and indicates the universe of available yet appropriate investments.</p> <p>Benchmark quality is assessed on a variety of criteria including relevance, investibility, measurement and transparency.</p> <p>Trading costs and efficiency of replication are also important. The goal of the active manager is to exceed the benchmark's return, while the passive manager will attempt to match such returns.</p>
Bonds (fixed interest instruments or gilts)	This asset class normally consists of longer (than call) dated debt instruments where interest and final capital are known in advance. They are priced and affected by interest rates and generally, unlike short-term cash, have some level of capital risk.
Cash & Money Market	Normally refers to investments in the money market and includes cash on deposit and certain interest bearing instruments that mature within 12 months.
Contrarian investing	A contrarian investor is one that invests in shares that are over-sold by the 'herd' or common investor i.e. bucks the trend. Generally, the market, analysts and investors neglect these shares; liquidity dries up until the shares find favour once again. Such shares usually display 'deep value' or low price to book ratios and high dividend yields. The contrarian factor, however, generally manifests itself in recent relative underperformance together with relative cheapness. A typical contrarian investor is Allan Gray.

TERM	DEFINITION
Derivatives	Derivatives refer to contracts on various assets, purchased or sold, subject to certain rules over an indicated time period. In other words, a collective term for securities whose prices are based on the prices of another (underlying) investment, Futures, swaps and options are the most common, all allowing one to change the payoff profile of the assets in the portfolio without necessarily entering the market directly. These instruments are used to gain and sell exposure to various assets efficiently, quickly and at low cost.
Dividend yield	The dividend per share over the previous 12 months divided by the current price per share. This value needs to be adapted for expected dividend receipts / growth when used to forecast future income from the asset.
Duration	<p>A measure of the sensitivity of fixed interest investments and portfolios to changing interest rates, quantified as the average discounted term of all cash flows in the portfolio (quantified in years). The behavior of a bond of duration X (or average term X) will be similar for small interest rate movements as a zero coupon bond of the actual term to maturity X. This measure allows various portfolios of different cash flows then to be compared against others by the characteristics of a common platform of zero coupon bonds.</p> <p>Duration is an important measure of the interest rate sensitivity of a fixed interest portfolio and a more sophisticated measure of the maturity of the holdings in the portfolio. Hence this value is crucial in managing the risk of an interest rate portfolio, with portfolios of higher duration being impacted more by any given (parallel) interest rate move than another portfolio of lower duration</p>
Earnings yield	Similar to dividend yield but dividends replaced with earnings per share. The difference between the measures is influenced by the payout ratio.
Equities/Shares	Equity refers to the asset class of all shares, of which some are listed and some un-listed. Owning shares means owning a portion of the fortunes of a particular company. The risks of this asset class are fairly high relative to other asset classes and absolute benchmarks in the short term. Equity gains are taxed for most investors, however, pension fund capital gains are currently exempt from CGT (Capital Gains Tax).
Exposure	Exposure refers to the instantaneous capital exposed to asset price risk, usually quantified relative to the size of the portfolio (as %). Exposures are important in risk management as they quantify the propensity for risk. No exposure; no risk and no extra return. Hence in attempting to outperform a benchmark it is important to take exposure bets. This becomes more complicated if the portfolio contains derivatives and other non-linear or geared assets.

TERM	DEFINITION
Growth investing (style or shares)	Growth refers to an attribute of all shares, specifically the anticipated earnings growth of a share over the future. In its purest form growth investors would purchase shares with high-anticipated growth as under certain assumptions this would result in high performance. In theory, investors are attracted to growth at a reasonable price—a style of investment that recognizes that high growth investments can become too expensive. This implies a hybrid of the value and growth styles. See Value investing.
Inflation Linked Bonds (ILB) or CPI Linked Bonds	Bonds where the interest and or the capital redemption proceeds are grown each year by the increase in inflation. The real yield achievable on government backed ILB can be seen as the risk free return achievable on assets over the appropriate term to maturity. These bonds are also traded on real yields (e.g. R189 bonds).
Inflation risk	In the Riscura reports, inflation risk refers to the risk (or tracking error) the portfolio has relative to inflation—CPI or CPIX as required. Given that inflation represents the growth rate of most pension liability cash flow streams, this risk analysis can also be likened (although with adjustment) to a form of liability risk.
Investment performance / Growth / Return	The performance of an asset or portfolio which generally involves a portion of income e.g. dividends or interest, and a portion of capital gain / loss or price increase / decrease.
Liability	Refers to the financial commitments, objectives or desires of an investor of the assets invested. For example: a defined benefit pension fund's long-term obligation or liability is to meet pensioner payments as and when they fall due through the assets and funding.
Liquidity	The ability of an investment to be easily converted into cash with little or no loss of capital and minimum delay. An example of a highly liquid asset is a short-term bank bill or promissory note, while direct property is a relatively illiquid investment.
Liquidity risk	The risk that an investment may not be easily converted into cash with little or no loss of capital and minimum delay.
Market	The place where assets are bought and sold i.e. the price of assets is determined.
Maturity	The date on which a loan, bond, mortgage or other debt, derivative or fixed interest security is due to be repaid or actioned.
Passive management (Indexation)	Managing a portfolio to match (not exceed) the return of a predefined benchmark, consensus or market index. This form of management is generally low cost, efficient and allows stable relative performance.

TERM	DEFINITION
PE ratio	The ratio of price of an asset to the earnings of that same asset. Used in the equity market for determining value of a share per unit of earnings.
Regulation 28	Regulation 28 of the Pension Funds Act indicates important investment guidelines for pension funds including exposure restrictions and the need for trustees to carry out sufficient work on initial fund strategy and ongoing risk management to ensure beneficiary's interests are acknowledged and protected by the funds and trustees.
Relative performance	A measure of performance relative to a benchmark, peer group, also known as active return.
Risk	This is a measure of the volatility of a portfolio, which gives insight into how much the absolute return of the portfolio will vary over time. It is the volatility of an investments' absolute return as apposed to its return relative to a benchmark. It is measured in terms of standard deviation at a point in time (normally annualized).
Risk aversion / risk tolerance / risk appetite	An investor's attitude to risk is influenced by the impact of risk on the finances of the investor, as well as age, wealth, dependants etc. This quantifies the ability and desire of an investor to take risk and is moulded by the consequences of the risks actually occurring. This risk is best quantified by looking at the maximum loss and individual can bear, financially and emotionally.
Stock selection	The selection of an individual security within an asset class or sub sector of the asset class. For example, stock selection in relation to equity investments is made after analyzing the financial standing, future earnings prospects and valuation of the shares of the company concerned. Along with asset allocation, stock selection is a key way in which managers add value.
TOP 40 Index	Similar to All Share Index, however constituents limited to largest most liquid 40 shares of the JSE. This index is used for derivatives on SAFEX, as well as for benchmarking large cap portfolios / mandates.
Value investing (style or shares)	Value refers to an attribute of all shares, specifically the price one pays for anticipated earnings of a share over the future. Value investors attempt to find cheap shares given the future cash flows of a company. Deep value investors generally avoid high growth shares and do not include any risky potential income or asset values in assessing the value of the total company. See Contrarian, Growth Investing.
Volatility	The extent of fluctuation in share prices, exchange rates, interest rates, etc. The higher the volatility, the less certain an investor is of return, and therefore volatility is one measure of risk. Volatility, a loosely defined term for risk is defined as the annualized standard deviation of some measure of returns e.g. active etc.

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