More about investments and investment risks

You may want to know more about investments and investment risks to help you decide what investment portfolios to choose if your retirement fund offers you a choice. When you consider your options, keep in mind that the default investment option in a retirement fund that is chosen by the trustees, is suitable for most people.

Also keep in mind the two important things to know about the investments that retirement savings are invested in:

1. We expect the value of investments to grow over longer periods of time.
2. Over shorter periods of time, the value of investments can go down.

For this reason, it's better to focus on long periods like 5 or 10 years when you look at your retirement savings.

Different types of investments

Shares

Shares, also known as 'equities' among investment professionals, are where you buy a share or part of a company. Shares usually make up the biggest part of retirement fund investments.

Company

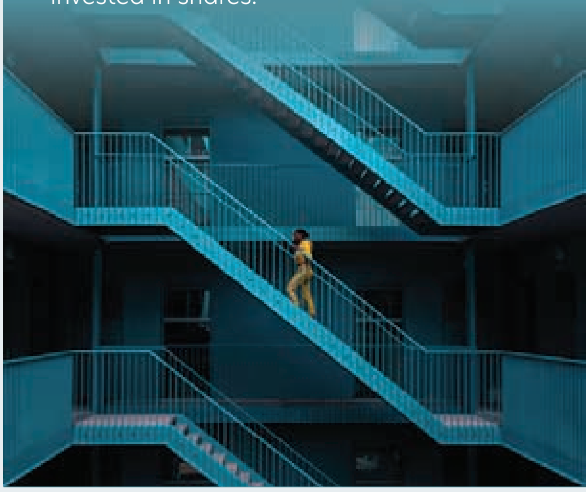
Share of ownership in a company

You can make money from your share in two ways:

Firstly ...	Secondly...
As a shareholder, you can share in the profits of the company. Your portion of the profit that the company makes is called a dividend.	When you buy a share, you expect that the price of the share will increase over time, so that you can sell the share for more than you paid for it.

Retirement funds have share investment limits

South African legislation limits the amount of money that retirement funds can invest in shares to 75% of the fund's investments. The amount invested in shares depends on whether the investment portfolio is a safe or risky portfolio. The safer the investment portfolio, the less money will be invested in shares. The riskier the investment portfolio, the more money will be invested in shares.



The value of a local share can be seen by reading the prices quoted on the Johannesburg Stock Exchange (JSE), an electronic marketplace where shares are bought and sold.

These are the prices at which the shares were bought and sold, and are determined by the amount people are prepared to pay or receive to either buy or sell their shares on the stock exchange.

The value of shares can change often and quickly compared to other types of investments. However, shares do tend to give the best growth over long periods.

Property

Property investment takes two forms. The first is buying a physical property and the second is to buy shares in property trusts such as those listed on the Johannesburg Stock Exchange.

Investors who buy property expect that they will be able to sell that property for more than they paid for it, and will be able to rent out the property, getting an income from the investment. The property portion of a fund's portfolio would seldom be more than 10% of the money of the fund.

Investment properties can provide a long-term income stream that typically increases over time.

Bonds (debt instruments)

With bonds, a portfolio or individual investor lends money to the government, a parastatal or a large company that agrees to pay interest on the amounts loaned. It also agrees to give the initial investment, also called capital, back on an agreed date.

Investors typically invest in bonds because they are safer than investing in shares but riskier than cash, although they also generally give better growth than cash over a longer time period of three to five years.

Bonds usually make up between 15% and 30% of investment portfolios and are, therefore, the second largest investment type in most portfolios.

Bond values can change quickly because the value depends on interest rates which change from time to time. Bond values usually increase when interest rates decrease (go down) and decrease when interest rates go up. Bond prices go up and down but usually less than shares and are usually seen as safer investments than shares with less potential to grow.

Cash

A portfolio or individual investor places money with a bank, and the bank pays interest based on the amount of the deposit. Investing in cash is also called a money market investment. Cash investments usually earn interest and the value usually doesn't go up and down much. Cash also has low or no potential to grow.

A retirement fund will normally not have a large amount of its money invested in cash because although it may be a safe investment, the interest earned will not be much more than inflation which will reduce the fund's ability to achieve its objectives.

Cash is generally considered the safest investment type, because the value of the investment is not expected to fall. But over longer periods of time of two years, the growth in cash investments is usually less than other investment types.

How safe are your retirement savings and how do we give your savings the best chance of growing?

Retirement fund regulations require your savings to be diversified. This means that your savings are invested in different types of investments and the amount in each investment is limited to protect your savings.

Each investment ranges from safer to riskier:

Safer investments

Cash + **Bonds**

Safer investments like **cash and bonds** mean that your money is more protected from losses.

Riskier investments

Shares + **Property**

Riskier investments like **shares and property** mean that there is a chance of losing your money.

Why spread your investments over different types of investments?

Don't put all your eggs in one basket – **it's too risky.**

The portfolio invests in different types of investments with different investment managers.

Safer investments
less chance of losing value

Riskier investments
higher chance of losing value

We expect riskier investments to grow your money better than safer investments over longer periods of time. This is why we don't put everything into safer investments.