



DEFINED BENEFIT



DEFINED CONTRIBUTION

DE BEERS PENSION FUND

INVESTMENT UPDATE NOVEMBER 2008

Dear Member

The past few months have been characterised by financial and economic turmoil around the world as banks and leading financial institutions have closed their doors, largely as a result of the collapse of the sub-prime mortgage market. A sub-prime mortgage is a mortgage granted to a borrower with a lower credit rating. This is riskier for the lender. Many borrowers have defaulted on payment, causing a crisis for the lenders.

Thanks to sound economic policy by both government and the Reserve Bank, South African banks and insurance companies are not as badly affected by the global turmoil as their foreign counterparts. However, in line with global markets, our share market has also experienced a sharp decline, which has been made worse by foreign investors tending to sell off investments (shares) in emerging markets in favour of less risky assets in other established economies.

The South African share market (represented by the Johannesburg Securities Exchange All Share Index - ALSI) has fallen by 27.5% for the period 1 January 2008 to 31 October 2008. However, due to the Trustees having adopted a diversified investment strategy for the Fund's assets, the impact of the market decline on the Fund was reduced. These assets, which are managed by a variety of specialist local and foreign equity, bond and cash managers, have in fact declined by significantly less in the same period. Below is a comparison of the returns on the various Fund portfolios compared to the JSE All Share Index over the same period.

Fund Returns: 01/01/2008 - 31/10/2008	
ALSI (JSE All Share Index)	-27.5%
DB Pensioners	-3.36%
DB Working Members	-9.21%
DC Working Members	
High Equity Portfolio	-9.49%
High/Medium Equity Portfolio	-5.64%
Medium Equity Portfolio	-3.53%
Medium/Low Equity Portfolio	-0.08%
Low Equity Portfolio	2.20%

It is important to understand how the current global crises impacts on investors in South Africa, and to be aware of the factors you may wish to consider before taking any action regarding your retirement savings and any other investments you may have. Therefore, we urge you to read the information provided on the next few pages carefully.

For working members who belong to the Defined Contribution section of the Fund, we have also included some guidelines on financial planning, depending on which stage of life you are in and how close you might be to retirement. It might be useful to see how your planning matches up to the goals contained in these guidelines, and whether you are on track to a financially secure retirement. However, before you make any changes to your current portfolio, we strongly advise that you consult an independent and qualified financial adviser.

The Trustees

De Beers Pension Fund

HOW ARE THE FUND'S INVESTMENTS MANAGED?

In 1998, the Trustees established an Investment Committee, consisting of Trustees. It reports regularly to the full Board of Trustees and has the authority to mandate investment managers to manage the Fund's investments. The committee monitors returns and the performance of the managers on an ongoing basis to ensure that all managers adhere to their mandates.

In formulating and deciding on an appropriate investment strategy, the Investment Committee consults with the Fund Actuary and investment consultants to ensure that best practice is achieved. Different investment strategies are applied to different "portfolios" across the Fund, depending on the asset/liability structures – for example the DB working member assets are managed differently to the DB pensioner assets, and the DC working members assets are managed on a life-stage basis so that all members (both working members and pensioners) can expect the best possible strategy in the management of the Fund's assets over the long term.

Based on these principles, the Trustees believe that the Fund has the capacity and the expertise to create an investment platform which aims - but does not guarantee - to generate investment returns in excess of inflation over the long term.

YOUR RETIREMENT BENEFIT AND DEALING WITH THE MARKET TURMOIL

We recently saw some highly respected global investment banks and insurers collapsing or needing additional capital to remain solvent as a result of the worsening financial markets.

What does this mean for members of the De Beers Pension Fund?

DC section working members

- Your retirement savings are linked to the performance of the share market. Therefore the uncertainty reflected in the share market means that your retirement savings are fluctuating in value in line with the market and your retirement savings are probably at a lower level now than they were at the beginning of the year.
- The Fund is designed in such a way that members approaching normal retirement age are invested by default in less volatile assets than members with a longer time left to retirement at age 60. In terms of the default, members who are closer to retirement (and who therefore have a shorter investment horizon) will typically be less exposed to volatile assets such as shares and will therefore earn relatively better returns than younger members when markets experience volatility, as is currently the case.
- Members may however opt out of the default option, in which case the impact on investment returns will depend on the alternative portfolio chosen.
- The retirement savings of members who are still some way from retirement will also probably be at a lower level than they were at the beginning of the year, but, depending on the time to retirement, this should not be a major concern as there should be sufficient time to recover any losses incurred as a result of downturns in the share market.

The table below illustrates the investment return per life-stage portfolio since January 2008 up to the end of October 2008.

Investment returns: 01/01/2008 - 31/10/2008	
High-Equity	-9.49%
Medium-High Equity	-5.64%
Medium Equity	-3.53%
Medium-Low Equity	-0.08%
Low Equity	2.20%

As indicated above, the JSE All Share Index (ALSI) has declined by 27.5% since January 2008. The table on the previous page shows that the diversified life-stage investment strategy (consisting of varying proportions of shares, bonds and cash) adopted by the Trustees has significantly reduced the negative impact of the financial crisis on members' Fund Credits.

DC section pensioners with in-fund living annuities

- Your retirement savings are linked to market performance. This means that your retirement savings are fluctuating in value in line with the market. The extent of this instability will depend on the investment option you selected, but over time your savings should recover any losses incurred as a result of falls in the market.

DB section working members

- Your retirement benefits are defined in the Fund's Rules and hence not linked to market performance.

DB and DC section pensioners (excluding any amounts in in-fund living annuities)

- Your current pension is guaranteed and not linked to market performance. A large portion of the pensioner liabilities are backed (or matched) by structures providing inflation-linked cash flows.
- However, the affordability of annual pension increases is linked to market performance. Therefore, although a large portion of the pension obligations are matched, the uncertainty in the market will impact on short-term pension increases.

What should DC working members and pensioners with in-fund living annuities be doing?

- **Firstly, do not panic!!** Decisions should be made for the long term, not based on short-term sentiment.
- Shares do go through bad periods, but historically they have outperformed all other asset classes over the long term.
- Over the long term, you need to invest in shares to build-up enough savings - or retain sufficient savings - to retire comfortably or remain comfortably retired.
- Given the current volatility in market prices, it could be dangerous to switch out of your investment portfolio, because you may exit at the bottom just before a recovery and lose out on the potential gain.



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- If you leave the Fund and you remain in the share market, you should not realise any losses as long as you preserve your withdrawal benefit tax-free by transferring it to another fund with the same underlying investment strategy as you had within the De Beers Pension Fund. If you are about to withdraw from the Fund, it is essential that you speak to a professional and qualified financial adviser for guidance in this regard.
- If you are approaching normal retirement (age 60) and you are on the default option, you will already be switched into a lower risk portfolio (as outlined on p.2). However, if you are not near retirement age, and you

elect to switch to a more conservative portfolio option too soon, you could miss out on returns that might help you to achieve the best possible benefit at retirement. Speak to a professional financial adviser for guidance prior to making any changes.

- Whether you are invested in the default option, or have made your own investment choice, you should stick to the long-term asset allocation that matches your risk profile and remain focused on your long-term financial plans. In addition, if you are nearing retirement, you should ensure that your existing investments match the annuity product that you will receive in retirement. If you are concerned that your investments are not properly positioned, we suggest that you consult a financial adviser to get appropriate advice.
- At current market levels, and depending on which portfolio you are invested in, the Fund's asset managers are using your monthly contributions to buy investments at relatively cheap prices. The global financial crisis has caused a number of shares to fall to levels that are not necessarily a true reflection of their underlying value. This creates attractive buying opportunities with potentially good returns over the longer term.

ARE YOU ON TRACK WITH YOUR RETIREMENT PLANS?

How far are you from retirement? Twenty years? Perhaps it's just around the corner. Do you have a plan for retirement and, if so, are you on track? This article aims to give you some ideas about the retirement planning decisions you should be making depending on how close you are to retirement.

20 – 30 years old

Start planning TODAY! It's never too early, but often too late! Many of the decisions and actions you make today will affect your life later. If retirement seems to be a very long way off into the future, take a look at your parents or their friends and ask yourself where you would like to be at their age. The chances are that people who are financially secure in their retirement did some serious planning during their working life to achieve and maintain their lifestyle.

Preserve your Fund withdrawal benefit: People in this age bracket have either just entered the job market or may have changed jobs several times by the time they reach 30. Although it is tempting to take your withdrawal benefit in cash and spend it to service debt, buy a new car or go on an overseas trip, it is much wiser to preserve your retirement savings when you change from one employer to the next (and from one retirement fund to another). There are different ways of preserving your retirement savings. You may consider investing it in your new employer's fund or an existing or new retirement annuity (RA), or deferring your pension benefit in the De Beers Pension Fund or a preservation pension fund. In this way, you will ensure that your retirement nest egg keeps growing.

Keep a budget: You're never too young (or too old) to draw up a budget. Now is the time to become disciplined about saving and keeping track of your finances. Any spare cash at the end of the month should be used wisely, for example to pay off debt, to top up investments, etc.

Manage your debt: Debt remains the biggest pitfall for most people. Don't dig yourself into a debt hole just to wear the latest fashions or drive a faster car. Stick to your budget and spend your money wisely. Pay off your credit card(s) each month and, if possible, try not to buy on credit - rather save up for expensive items.

Boost your retirement savings: The sooner you start to think about saving for retirement, the better. Consider making Additional Voluntary Contributions (AVCs) to the Fund, or investing in additional savings vehicles, such as RAs, endowment policies or unit trusts. It's always a good idea to discuss these and other savings options with your financial adviser to make sure you choose the ones that are the most appropriate for your circumstances.

Find a financial adviser: It's always wise to start off with a good plan and to review it regularly as your circumstances change. Getting professional and expert advice will help you avoid inappropriate investment decisions and could save you a lot of money in the long run.

31 – 45 years old

Many of the principles discussed above will continue to apply during this phase of your life, for example, sticking to your budget and managing your debt.

Review your strategy with your financial adviser: During this phase, you should be concentrating on consolidating your retirement planning strategy, reviewing the performance of your investments and making any necessary adjustments. Your personal circumstances (marriage, children, job status, etc.) may also have changed, which may require you to reconsider some of the decisions that you have made. You could, for example, consider taking out additional RAs, unit trusts or other investment options if you have disposable income available to do so.

At this stage, it is a good idea to have a firm handle on your debt and you should look for ways to pro-actively reduce it, for example, by overpaying your home loan so that you may be bond-free as soon as possible.

46 – 60 years old

Early retirement: You are now in the run-up to retirement. You may even be contemplating early retirement. While this may be an appropriate decision for some, you must remember that your retirement benefit is directly linked to how much both you and your employer have contributed to the Fund. The earlier you retire, the fewer the contributions that will have been made into your Fund account compared to someone who contributes up to normal retirement age. What's more, you should bear in mind that, in general, people live longer these days; they therefore spend more years in retirement and subsequently need more money to fund this phase of their lives.

Please note that the Defined Contribution section life-stage model presupposes retirement at age 60. Members considering early retirement should consult their financial adviser about the advantages and disadvantages of early retirement and which of the portfolios would be appropriate given their circumstances and retirement planning.

Defined Contribution section: If you retire from the Defined Contribution section of the Fund, you can convert your Fund Credit to an annuity within the Fund, or buy an annuity from an insurance company with at least two-thirds of your Fund Credit. Up to one-third of your Fund Credit can be paid to you in cash, but this may be subject to tax. There are several types of annuities to choose from at retirement. A financial adviser will be able to explain them to you in detail and help you to decide which will best suit your needs.

Defined Benefit section: If you retire from the Defined Benefit section of the Fund, you will receive a pension based on the benefit formula. Up to one-third of your pension can be commuted for cash, but this may be subject to tax.

Thinking practically about retirement: As you approach retirement, you should ideally have no significant debt and have made provision for adequate emergency funds. Your planning should have been done with your dependants, expenses, tax, liquidity of funds and avoidance of the erosion of capital in mind.

At this stage, you should also be considering retirement aspects such as housing (do you want to stay in your current house or do you want to move to something smaller, or even a retirement village?), post-retirement job prospects (are there any skills you could be acquiring now, contacts that you should be making, etc., that will help you to take up a new "job" once you have retired?), your health (medical aid costs are always on the rise - the better you look after your health now, the less your medical bills will be once you have retired).

Meet regularly with your financial adviser: You should continue to meet regularly with your financial adviser to review your retirement planning strategy and to ensure that you are still on track. You may also consider discussing estate planning and updating your will with your financial adviser, especially if you are within 10 years of retirement.

Saving for your retirement dreams, whatever they may be, requires discipline and commitment. When retirement comes, it will be up to each one of us to be satisfied with the plans and sacrifices we made along the way. You ultimately choose your retirement outcome, so take action today to make sure you have the retirement you've always dreamed of!