MINEWORKERS PROVIDENT FUND

RESPECT DIGNITY LEGACY

MINEWORKERS PROVIDENT FUND

INVESTMENT

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What does it mean to invest for your retirement?

Every month, members have financial obligations that they must meet. For instance, they may need to pay their monthly rent or mortgage bond, pay for school fees, send money home to support family, buy groceries, pay tax and contribute towards their retirement savings. The purpose of this booklet is to explain what happens to the money that members contribute to the Mineworkers Provident Fund.

Inflation

Before explaining how members' monthly provident fund contributions are invested, it is important to first talk about **inflation**. Inflation is the rate at which the price of goods and services increase over time. Inflation reduces the buying power of money over time.

For example, the below picture shows the prices of everyday household goods in the 1980's.

The cost of **2kg of rice was just R3.25** then, yet today, the same quantity of **rice costs approximately R45.00**. The increasing price of these goods is inflation at play.

So, what we learn from this is that when saving money for an event that will occur in many years to come, such as retirement, it is important to invest it in a way such that the money grows at a faster rate than the rate of inflation. By so doing, members will not only be able to maintain the buying power of their money, but also grow their money at a faster rate than inflation, thereby increasing the value of their money.

The compounding effect

Every month when members contribute towards retirement, the contributions are invested on their behalf in the financial markets. Because of the way in which the money is invested, the money will grow because of interest earned, dividends paid and capital growth. The longer members remain invested for, the more they will have at the end of their working term. This is because of compounding which is explained below.

The money that members ultimately retire with at the end of their working life is made up of two components – contributions and growth earned from investing those contributions

Monthly Contributions by member + Growth earned from investing member contributions = Value at retirement

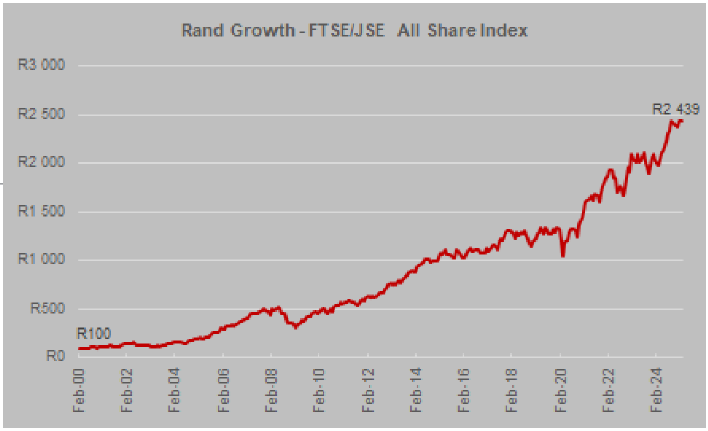
As a member, if you think back to the first retirement contribution that you made when you first started working, that contribution, in that first month, earned growth from being invested. The following month, the growth you earned in the previous month also earned its own growth. In other words, in month two, you earned growth on your new contribution, and you earned additional growth from the first month's growth. Over time, all your contributions and the growth that you earn on top of your already existing growth all goes into your retirement savings pool. The ongoing investment of contributions and continued re-investment of growth earned on those contributions is referred to as the compounding effect. However, it is important to bear in mind that the benefits of compounding can only be achieved if members remain invested over the long term.

So where is your money invested?

Firstly, your money is invested in South Africa and in the rest of the world. Then, some of your money is invested in the shares of companies listed on stock exchanges, some is invested in cash deposits with banks, some in government bonds and some is invested in property. The reason why we do not invest all your money only in shares is because we do not want to put all your eggs in one basket. By spreading your money, the opportunity to earn growth increases and so does the ability to manage risks. Let us try and understand these different areas of investment better.

Shares of companies listed on a stock exchange

Some examples of shares listed on the stock exchange are MTN, Telkom, Old Mutual, Capitec, Sibanye Stillwater, Harmony Gold, Anglo American and Clicks. There are many stock exchanges around the world. The South African one is called the Johannesburg Stock Exchange (JSE). The performance of all the companies listed on the JSE is combined and measured through the All-Share Index (ALSI). As a member, because your contributions are invested in such shares, you are a part-owner of some of these companies. Let us look at how the ALSI has grown over time.



The graph displayed above shows that if a member contributed R100 twenty five years ago in 2000 and that R100 was invested on the JSE, today that R100 is worth close to R2400. This rate of growth is higher than inflation, meaning that members' savings will maintain their buying power over the long term. It is for this reason that members' assets are partly invested in shares – so that they can benefit from the growth and protection against inflation. It is important to note that shares do not always go up and there will be periods when they go down as is evident from the graph. They normally go down when there is uncertainty in the global economy such as the Covid-19 pandemic and the global financial crisis of 2007.

Bonds

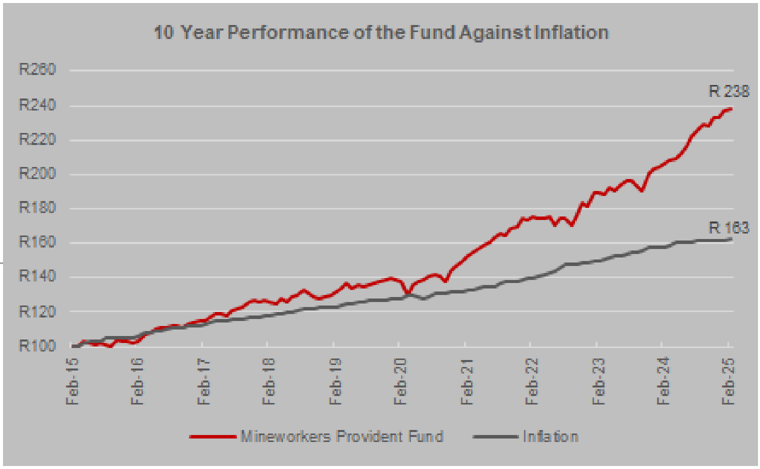
With bonds, members money is lent on to companies and to government entities to help them grow. In return, these companies and government entities pay interest to members for lending them the money. This is another way in which member contributions earn growth. Like shares, bonds too are also sensitive to negative news, but they tend to be less risky than equities. Because they do not carry as much risk, the potential growth that can be earned on bonds over the long-term is less than that of shares.

Cash

Investing in cash is like depositing money in a bank account to earn interest. Of the three types of investments, this is the least risky over the long-term. The potential growth that can be earned on cash investments is not as high as that of shares or bonds over the long term.

Mineworkers Provident Fund has a strong history of delivering growth for members ahead of inflation

The graph below illustrates the importance of investing for retirement as well as the success of Mineworkers Provident Fund in delivering inflation beating growth. For example, if you contributed R100 towards your retirement through Mineworkers Provident Fund 10 years ago, today that R100 has grown to R238. If you did not contribute towards retirement, your R100 would still only be R100.



It is important to be patient when saving for retirement. Investments go through cycles whereby they fall and rise over the short term. But if members remain invested over the long-term and withstand the up and downward movements of their investments, it is expected that they will reach retirement in good standing.

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