



Understanding the interaction between choice returns and investment risk in your PPS Profit-Share Account

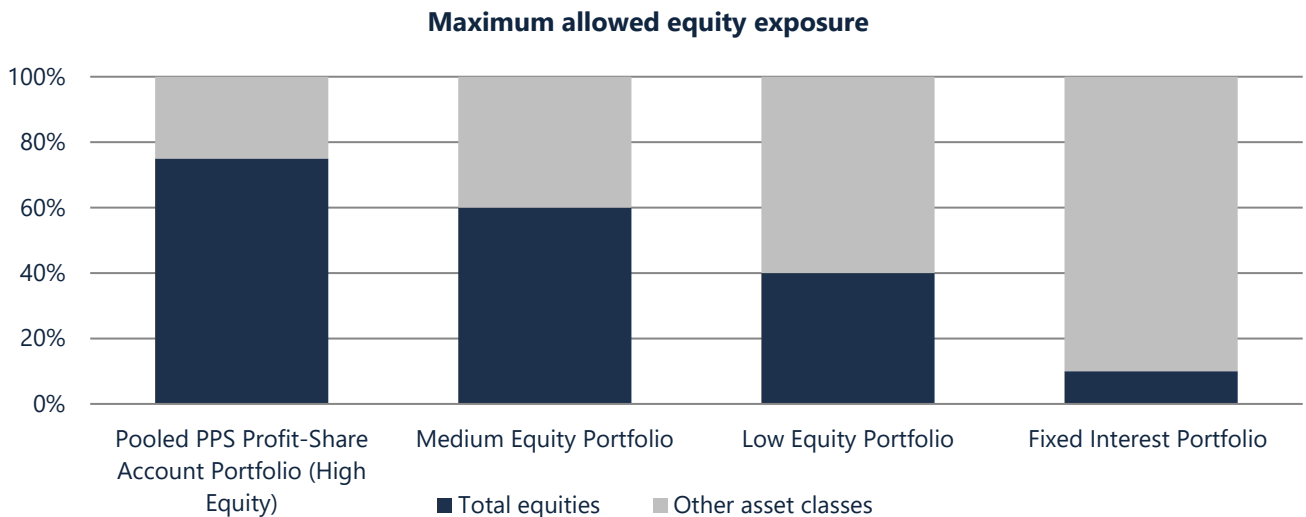
How does the PPS Profit-Share Account Portfolio Choice benefit work?

If you are approaching retirement and are concerned about capital loss in your PPS Profit-Share Account, this benefit provides the opportunity for you to reduce the investment risk. This benefit is available to members aged 55 and above.

What is the key difference between the choices available?

The most important difference is the maximum allowed exposure to equities. A higher equity allocation is likely to lead to higher long-term returns. However, it may also result in a greater risk of shorter-term capital loss.

Maximum allowed equity exposure is indicated by the blue areas in the chart below:



How does the PPS Profit-Share Account Portfolio Choice benefit help to manage the risk?

This benefit allows you to reduce the equity exposure in your PPS Profit-Share Account. By doing so, you can progressively reduce the risk of incurring sizeable short-term losses.

How do I determine my personal risk profile?

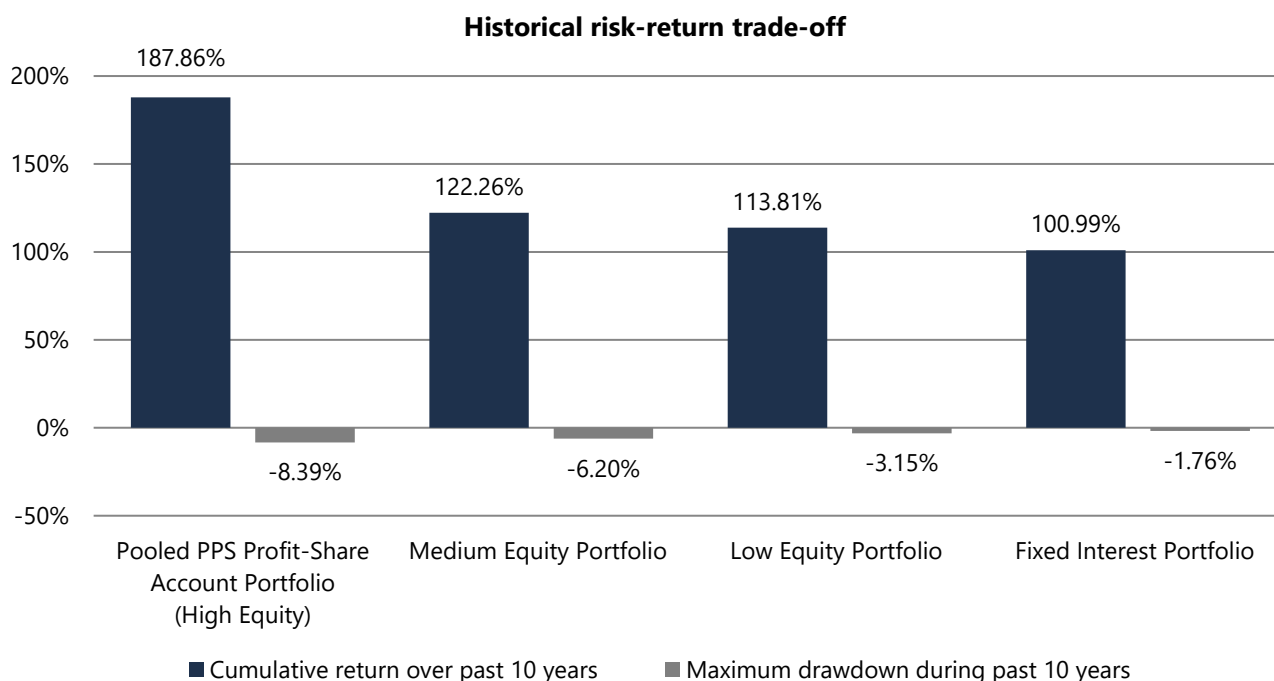
If you still have a good number of years until you retire or until you intend to utilise the savings in your PPS Profit-Share Account, you may very well wish to remain invested in the Pooled PPS Profit-Share Account (High Equity Portfolio) for the time being. Should you be comfortable with the level of risk in this portfolio, you may have enough years left to recover from short-term losses which may occur in the near future.

Similarly, if you previously opted for a low-risk choice such as the Fixed Interest Portfolio but now find that you have a longer investment horizon than previously anticipated, you may be comfortable to take on slightly more risk in exchange for potentially greater returns. In this instance, you may wish to move to the Low Equity Portfolio or even the Medium Equity Portfolio.

However, if you envisage that you will need to supplement your existing retirement savings with the savings in your PPS Profit-Share Account within the next few years, you may place greater emphasis on limiting the impact of potential capital losses. In this instance, you may wish to reduce your equity exposure and opt for a more conservative investment strategy. Here the Low Equity Portfolio or the Fixed Interest Portfolio may be more desirable to you, as they will significantly lower the potential impact of an unexpected market downturn.

What are the historical returns and losses for each choice?

Cumulative choice returns over the past ten years are indicated by the blue bars in the chart below. The maximum drawdown (short-term loss) experienced by each of the choices during the same period is represented by the grey bars.



Note: The performance shown is as at 31 August 2019 and is net of all underlying manager and administration fees and reflect the returns experienced by members (gross of taxes). Source: PPS.

Because equity markets have performed strongly over the last 10 years, the Pooled PPS Profit-Share Account Portfolio (High Equity) has outperformed the Medium Equity Portfolio, Low Equity Portfolio and Fixed Interest Portfolio due to it having the highest equity allocation and greater exposure to market growth.

However, when market losses occurred, the Pooled PPS Profit-Share Account Portfolio (High Equity) was also hardest hit. Had you retired during a market downturn, your PPS Profit-Share Account would have suffered the greatest loss if it was still invested in the pooled portfolio. On the other hand, the Fixed Interest option will offer the greatest protection during falling markets, as it has the lowest equity exposure.

It is therefore essential that you do not base your investment decision purely on performance history but also take your personal risk profile into account.

What is the key objective of the portfolios?

Fixed Interest Portfolio:	The portfolio aims to provide investors with capital protection over the short term.
Low Equity Portfolio:	The objective is to provide capital growth with a preservation overlay. The portfolio aims to outperform CPI + 2% per year over the medium term.
Medium Equity Portfolio:	The portfolio's objective is capital growth over the medium to long term, while aiming to outperform the annual objective of CPI + 4.
Pooled PPS Profit-Share Account Portfolio (High Equity):	The primary objective is to maximise capital growth over the medium to long term. In order to target the annual growth objective of CPI+5.3%, it has a relatively high exposure to equities.

Why is Pooled PPS Profit-Share Account Portfolio Choice so heavily weighted towards equities?

Equity tends to outperform all other asset classes (such as property, bonds and cash) over the long term. However, it also carries the highest investment risk and may lead to short-term volatility. This means that when markets fall, investments with higher equity exposures will suffer greater losses. Investors who have sufficient time to recover from such short-term losses (which tend to smooth out over time) may choose to take on the higher risk associated with high-equity investments, in exchange for greater potential long-term returns. However, investors who have shorter investment horizons or who place greater emphasis on the security of their savings may prefer to opt for a lower-risk strategy by reducing their equity exposure.

What fees are associated with these choices?

You will be charged an annual administration fee of 0.52% (incl. VAT) to access the PPS Profit-Share Account Portfolio Choice benefit.

Current annual asset management fees for the PPS Profit-Share Account choices are competitive with those charged for other individual member choice options:

- | | |
|---|---------------------|
| • Fixed Interest Portfolio: | 0.63% (incl. VAT) |
| • Low Equity Portfolio: | 0.69% (incl. VAT) * |
| • Medium Equity Portfolio: | 0.75% (incl. VAT) * |
| • Pooled PPS Profit-Share Account Portfolio (High Equity): | refer below ** |

You pay no initial asset management fees, no initial administration fees and no initial or annual advice fees. There are also no associated transaction fees. Choices marked with a * also pay the institutional cost of the underlying managers. These will vary depending on the combination of managers selected.

**What fees are associated with the Pooled PPS Profit-Share Account Portfolio (High Equity)?

The PPS Board decides on asset manager appointments within the pooled portfolio and uses the scale of those appointments to negotiate institutional pricing. As with other specific internal costs that the Board incurs in providing services to PPS members, these fees are not reported. However, all performance reporting in the Annual Financial Statements is provided net of fees.

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