Investment Basics

What suits you?

Disclaimer

This document is provided for informational purposes only. You should not rely only on this information for your retirement planning or as a substitute for advice from a financial professional. We encourage you to consult independent financial professionals to discuss how this information applies to your specific financial situation. Ensure you have a full understanding of the commission and fee structure of the advisor you select. Plannera Pensions & Benefits (Plannera) is not liable for any damages resulting from any retirement planning guidance based on the information presented in this booklet. As a member of the Plan, it is your responsibility to educate yourself about the Plan, using the documents, information and tools available through Plannera and outside sources.

Working Outside Saskatchewan

The plan provisions described in this booklet are contained in Saskatchewan pension legislation. Please contact PEPP if you are or were working outside Saskatchewan. Your pension may be subject to the legislation of another province.

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Why should I invest?

Money doesn’t grow on trees – but it may grow when you invest it.

Rather than stockpiling money under your mattress, investing allows you to make your money work for you. By investing, your money may generate more money through *investment earnings*.

Investing may help you achieve financial goals that will shape your future. Retirement is one of these goals.

PEPP’s goal is to ensure that our members are well informed about the Plan and the choices they can make within the Plan. This booklet explores the basics of investing with the Public Employees Pension Plan (PEPP). Always feel free to call our staff with any questions.

Saving for Retirement

PEPP is a key way to save for retirement, but it is not the only source of retirement income. Sources of retirement income include: government [Canadian Pension Plan (CPP) and Old Age Security (OAS)], employment (PEPP), and personal [savings accounts and Registered Retirement Savings Plans (RRSPs)].

Member Responsibilities

Investing is a personal decision. As a PEPP member, you are responsible to:

- make investment decisions and understand that they will affect your account balance and ultimately impact your retirement;
- be informed about the Plan using the documents, information, and tools available;
- determine the amount of personal savings you need for retirement outside of PEPP; and
- consult a qualified financial advisor with knowledge of the pension industry to discuss your specific financial situation.

Time Horizon

It is important to consider your time horizon when choosing your investment option. Your *time horizon* is the length of time you have to invest.

In general, time horizons can be grouped into three categories:

- Short-term: less than five years;
- Medium-term: five to 15 years; or
- Long-term: over 15 years.

When you retire, you may have different investment needs. Depending on the retirement option you choose, your time horizon may change.

For more information about the income options available to you in retirement, see the *Retirement Income Options* booklet on our website at www.plannera.ca

What is Risk?

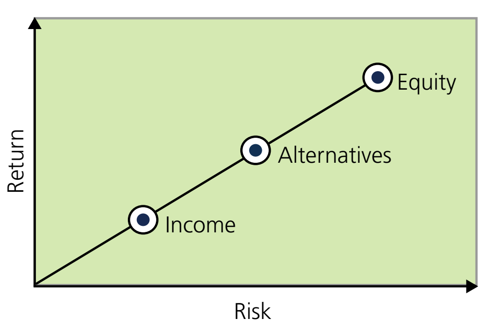
All types of investments hold some degree of risk. *Investment risk* is the chance that an investment's actual return will be different than expected. Each investor has a different tolerance for risk, depending on his/her personal circumstances, time horizon, and comfort level with investing.

Volatility

Market volatility is a form of investment risk; it is the degree of unpredictable change over time in an investment. If the price of an investment moves up and down rapidly over short periods of time, it has high volatility. If the price changes in small amounts over long periods of time, it has low volatility.

Risk and Return

This illustration shows the relationship between risk and return for the asset classes PEPP is invested in. Generally, investors willing to sacrifice a degree of safety (by investing in more volatile investments) are rewarded with greater expected returns. As an investor, it is important for you to choose investment options that have a level of risk you're comfortable with.



Asset Classes

PEPP funds are invested in a variety of sectors and geographical markets with different asset classes. A different degree of risk is associated with each asset class. Some of the asset classes that PEPP's funds are invested in are:

- Income (Bonds): Bonds are debt instruments issued by companies or governments for a defined period of time (maturity) at a fixed interest rate. The company or government makes interest payments to the investor and repays the principle at maturity. These types of assets have lower risk and lower potential returns.

- Alternatives: Alternative investments are a financial asset that does not fall into one of the conventional investment categories, such as stocks, bonds and cash. Alternative investments for institutional investors such as pension plans can include private equity, liquid alternatives, commodities, real estate and infrastructure.

- Equities (Stocks): Equities indicate ownership in a corporation. Equities generally outperform other long-term investments and offer the opportunity for the greatest possible return, but also have the greatest risk.

Diversification

It is risky to put all your eggs in one basket. Not all investments move up and down in value at the same time or at the same rate. Diversifying your investments helps keep risk as low as possible while maximizing your returns.

Diversification is a strategy designed to reduce your exposure to investment risk by spreading your investments over a variety of sectors, geographical regions, and asset classes. Diversification reduces the overall risk because the positive performance of some investments off-sets the negative performance of others.*

The Plan aims to reduce the overall level of risk within the funds by investing through different investment managers in a well-diversified portfolio of asset classes within each fund, with the exception of the Bond and Money Market Funds.*

*The Bond and Money Market Funds invest solely in fixed income assets.

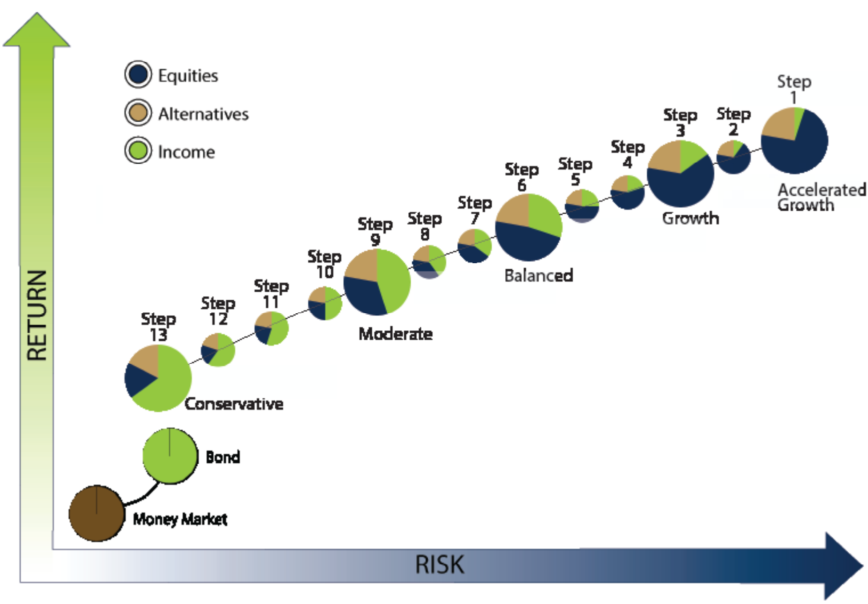
Introduction to PEPP

The funds offered by PEPP have been designed to serve the needs of members with varying levels of risk tolerance.

PEPP's more conservative investment funds are weighted more heavily toward income investments, where PEPP's more aggressive funds are weighted more heavily toward equities and alternatives.

The more conservative investment funds have lower risk and lower potential return, where more aggressive funds have a higher risk and higher potential return.

Over the long run, investors who take on more risk expect to be compensated with higher returns than investors that invest in less risky funds.



Your PEPP Pension

PEPP is a *defined contribution* (DC) pension plan. In a DC plan, there are individual accounts for each plan member. At retirement, you are entitled to receive a pension based on your account balance.

Your PEPP *account balance* is made up of your contributions, your employer's contributions and investment earnings.

Your contributions and your employer contributions purchase units in a fund. PEPP offers eight investment choices. You may invest in up to three funds at one time. Choose from six asset allocation funds (PEPP Steps, Conservative, Moderate, Balanced, Growth or Accelerated Growth) and two specialty funds (Money Market or Bond).

You may invest in one asset allocation fund at a time, and add one or both of the specialty funds or invest solely in specialty funds. Asset allocation funds invest in a variety of markets with different asset classes (equity, alternatives and income). The Bond and Money Market Funds invest strictly in fixed income assets.

Management and Administration

PEPP's investment funds are managed by professional investment managers contracted by the Public Employees Pension Board.

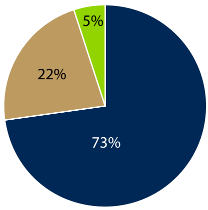
The Plan is administered by Plannera Pensions & Benefits (Plannera).

PEPP's Asset Allocation Funds

Equities
Alternatives
Income

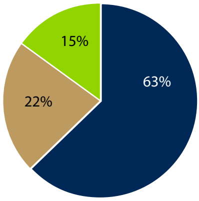
Accelerated Growth Fund

The Accelerated Growth Fund offers the highest risk and highest potential return in the PEPP investment funds. Its goal is to provide capital growth over the long-term. It invests primarily in equities, with some investments in alternatives and income.



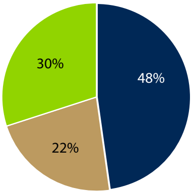
Growth Fund

The Growth Fund is an aggressive fund, offering relatively high risk and relatively high potential return. Its goal is to provide capital growth over the long term by investing primarily in equities, complemented by investments in alternatives and income.



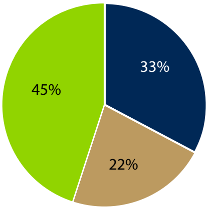
Balanced Fund

The Balanced Fund offers relatively balanced potential risk and return. The goal of this fund is to provide long-term capital growth. The Balanced Fund provides a target weight of 48 per cent for equities, 30 per cent income, and 22 per cent alternatives.

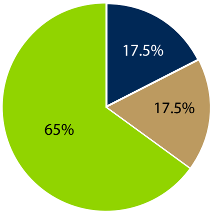


Moderate Fund

The Moderate Fund is designed to provide a balance of security and long-term growth by balancing the risk and potential returns of the major asset classes. The fund targets an asset mix of 45 per cent income, 33 per cent equities and 22 per cent alternatives.



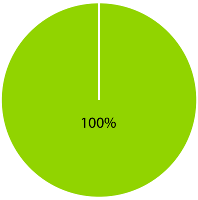
Conservative Fund



The Conservative Fund is designed to provide returns with less fluctuation. By focusing mainly on income investments, it offers lower risk and lower potential for return than the other PEPP asset allocation funds. In addition, the fund provides an equal investment in equities and alternatives with a target weight of 17.5 per cent each.

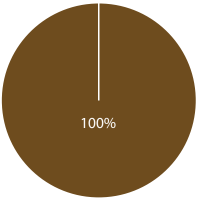
PEPP's Specialty Funds

Bond Fund



The Bond Fund invests in fixed income and money market assets. Investors choosing this fund will need to be comfortable with the relatively low expected returns and volatility that result from investing primarily in bonds.

Money Market Fund

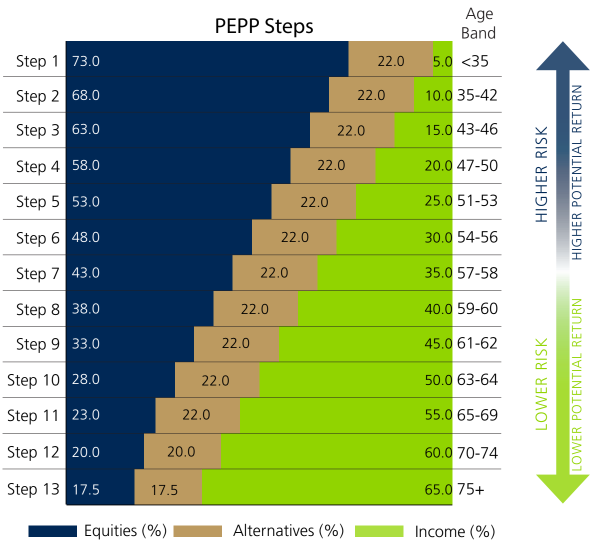


The Money Market Fund invests solely in money market instruments through a single investment manager. The objective of this fund is to preserve capital. The fund is the most conservative within PEPP and offers the lowest level of risk but provides the lowest potential of returns.

Note: For a more detailed description of each of PEPP's funds, see the Fund Fact Sheets on our website at www.plannera.ca

PEPP Steps Fund

The PEPP Steps Fund is a lifecycle investment option made up of 13 steps. Members enter the fund at the step that matches their age, and then are automatically moved into more conservative asset mixes as they progress through the age bands. This fund may be an appropriate investment option for Plan members who prefer a hands-off approach to investing.



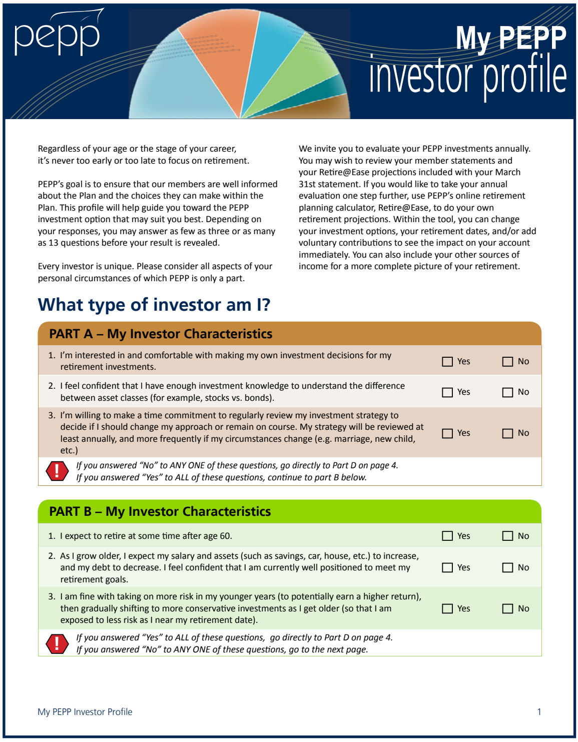
Target asset mixes

Default Investment Option

The PEPP Steps Fund is the default investment option for PEPP. New PEPP members are initially enrolled in PEPP Steps, but any member may choose to invest in the fund at any time. Until the member informs us otherwise, all contributions (employee, employer, and voluntary) are invested in the PEPP Steps Fund.

Members may transfer into or out of PEPP Steps at any time using PLANet or the *Investment Option Changes* form.

My PEPP Investor Profile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My PEPP investor profile

Regardless of your age or the stage of your career, it's never too early or too late to focus on retirement.

PEPP's goal is to ensure that our members are well informed about the Plan and the choices they can make within the Plan. This profile will help guide you toward the PEPP investment option that may suit you best. Depending on your responses, you may answer as few as three or as many as 13 questions before your result is revealed.

Every investor is unique. Please consider all aspects of your personal circumstances of which PEPP is only a part.

We invite you to evaluate your PEPP investments annually. You may wish to review your member statements and your Retire@Ease projections included with your March 31st statement. If you would like to take your annual evaluation one step further, use PEPP's online retirement planning calculator, Retire@Ease, to do your own retirement projections. Within the tool, you can change your investment options, your retirement dates, and/or add voluntary contributions to see the impact on your account immediately. You can also include your other sources of income for a more complete picture of your retirement.

What type of investor am I?

PART A – My Investor Characteristics		
1. I'm interested in and comfortable with making my own investment decisions for my retirement investments.	☐ Yes	☐ No
2. I feel confident that I have enough investment knowledge to understand the difference between asset classes (for example, stocks vs. bonds).	☐ Yes	☐ No
3. I'm willing to make a time commitment to regularly review my investment strategy to decide if I should change my approach or remain on course. My strategy will be reviewed at least annually, and more frequently if my circumstances change (e.g. marriage, new child, etc.)	☐ Yes	☐ No

If you answered "No" to ANY ONE of these questions, go directly to Part D on page 4.
If you answered "Yes" to ALL of these questions, continue to part B below.

PART B – My Investor Characteristics		
1. I expect to retire at some time after age 60.	☐ Yes	☐ No
2. As I grow older, I expect my salary and assets (such as savings, car, house, etc.) to increase, and my debt to decrease. I feel confident that I am currently well positioned to meet my retirement goals.	☐ Yes	☐ No
3. I am fine with taking on more risk in my younger years (to potentially earn a higher return), then gradually shifting to more conservative investments as I get older (so that I am exposed to less risk as I near my retirement date).	☐ Yes	☐ No

If you answered "Yes" to ALL of these questions, go directly to Part D on page 4.
If you answered "No" to ANY ONE of these questions, go to the next page.

My PEPP Investor Profile 1

My PEPP *Investor Profile* is designed to help you measure your attitude about risk and return, and find out what type of investor you are. The profile will help guide you towards a PEPP fund that may suit you.

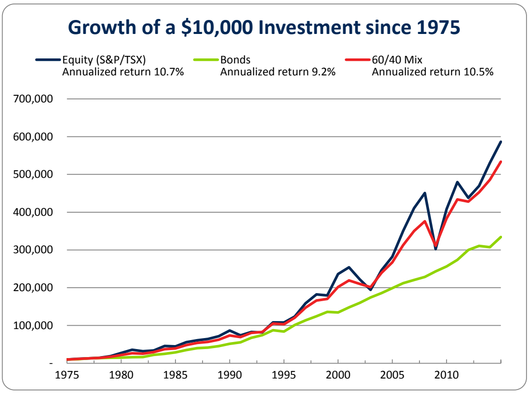
Consider using the profile when selecting your investment option and/or when there has been a significant change in your personal situation. The profile is available on our website at www.plannera.ca

A Long-term Perspective

Choosing an appropriate PEPP investment fund should be a long-term strategic decision that is based on your ability to cope with risk and the length of time you have until retirement. Changes to this decision should be made as the factors that affected the original decision change – they should not be based on short-term market fluctuations.

Financial markets are unpredictable in the short-term and may rise or fall on very short notice – this is a normal part of economic cycles. Making hasty changes to your investment decisions based on short-term market fluctuations can have long-term consequences. For example, during a market downturn, movements back and forth between funds can potentially double losses and result in fees which may lower your return further.

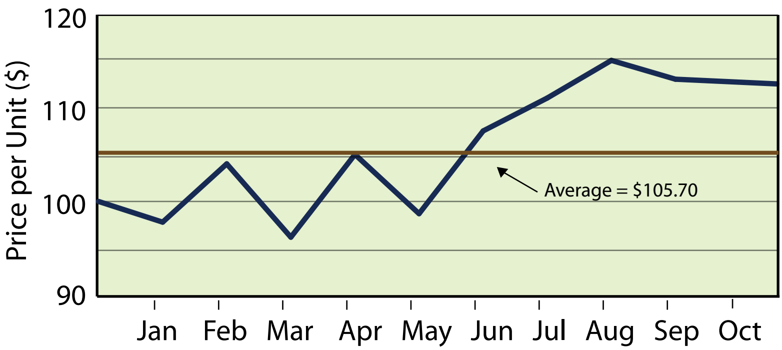
Stay the course and focus on your long-term retirement goals. Historically, the long-term market trends have been upward. The graph shows three scenarios of how a $10,000 investment would perform over the last 40 years if invested in different funds (equity fund, bond fund and 60/40 equity/bond fund).



The Benefits of Regular Investing

As a PEPP member, you automatically contribute to your PEPP account every pay period through payroll deduction. Making regular contributions helps smooth out the highs and lows of the market. This allows you to acquire more units when the unit value is low and fewer units when the unit value is high. Over time, if the value of all your units rises, the net asset value of your fund rises as well. This minimizes volatility and fosters steady growth of your investment over the long term.

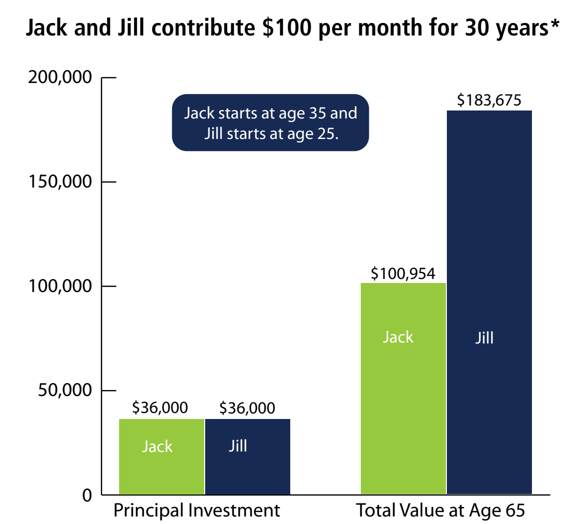
An Example of the Benefits of Regular Investing*



*This is an example only - the unit values in this example do not reflect PEPP's unit values.

The Benefits of Investment Earnings

By making contributions to PEPP (regular or voluntary), your account balance will grow exponentially over time. The longer you are a PEPP member, the longer and faster your account balance may grow in value because your investment earnings are re-invested.



*Jack and Jill's PEPP investments are yielding an six per cent annual return.
The returns that Jack and Jill earn are continually reinvested in their PEPP accounts.

For example, Jack and Jill both contribute $100 per month to their PEPP account, yielding a six per cent annual return, for 30 years ($36,000 over 30 years). Jill starts contributing at age 25 and then stops at age 55, but stays invested in PEPP - her account balance continues to earn investment earnings for the next 10 years. Jack contributes to PEPP from age 35 to age 65. By age 65, Jill's account balance is $82,721 more than Jack's.

Voluntary Contributions

To help meet your retirement goals, you may wish to make additional voluntary contributions to PEPP. Making voluntary contributions allows you to benefit now *and* in retirement. Your contributions allow you to grow your retirement savings while claiming tax deductions.

The Benefits:

- Making voluntary contributions to PEPP is convenient. Your contributions are taken directly off your pay cheque. Contact your employer's payroll department if you want to make voluntary contributions to PEPP.
- Voluntary contributions are flexible. You may choose to make a one-time contribution from your pay cheque or make contributions with each pay cheque for several pay periods. You may choose the amount you would like to contribute.
- You can lower your taxable income for immediate tax savings every time you make a contribution.
- You can take advantage of PEPP's low administration fees by making voluntary contributions.

The Considerations:

- The yearly limit for pension contributions is the lower of 18% of your current year's pensionable salary or the dollar limit specified by the Canada Revenue Agency (CRA).
- Both required contributions and voluntary contributions to your PEPP account reduce your RRSP room. You are responsible to make sure you are under your annual contribution limit.
- Your voluntary contributions are *locked-in* (may only be used for retirement income) until you terminate from a PEPP employer.

The PEPP Advantage

Some of the advantages of investing in PEPP are:

- Low fees: PEPP's fees are lower than most outside investment funds with similar asset mixes. PEPP does not earn a profit from fees. PEPP fees cover only actual costs of operating the Plan.
- More ways to save: You and your employer contribute to your PEPP account every pay-period. You may also make additional voluntary contributions.
- Professional investment management: PEPP's investment funds are managed by experienced, professional investment managers.
- Consolidation: You may transfer monies from other registered pension plans, RRSPs, and LIRAs into PEPP at any time.
- Tools for you: You can use the PEPP Retirement Planner, our online retirement planning tool, which is accessible through PLANet, our online account tool. Visit our website at www.plannera.ca, to calculate different scenarios for your retirement.

Additional Resources

You may access other resources relating to investments on our website or by calling PEPP. Some investment resources are:

- Retirement planner - our online retirement planning tool - it allows you to estimate the savings you will have at retirement based on your current account balance.
- *Your Path to Retirement*- this series of workshops helps you learn the importance of having a personal financial plan, the value of your pension plan, and how to manage your pension account.
- Ready, Set, PEPP - this presentation focuses on topics like PEPP services, Plan provisions, PEPP's investment funds, and basic investing.
- Information Summary - information about PEPP, our investment funds, risk factors, and performance objectives.
- Current Unit Values and Historical Unit Values - lists unit values for each fund.
- Fund Fact Sheets - provides detailed information about each investment fund.
- *My* PEPP *Investor Profile* - a questionnaire that measures your attitude about risk and return, and guides you toward a PEPP fund that may suit you.
- Fund Performance Bulletins - provides benchmarks, and annual and annualized investment return rates on a fiscal year basis.
- Fees and Expenses brochure - explains PEPP's administration and investment fees.
- PEPP *Talk* on *Changing Your Investment Options* - explains how to make inter-fund transfers and change the way your contributions are invested.
- PEPP *Talk* on *Units and Unit Values* - explains what a unit value is and how PEPP's unit values are declared.

Investment Terms

Benchmark: A standard against which a security or investment manager can be measured. Some examples include: S&P500 and S&P/TSX.

Investment Consultant: A person or company that assists Boards, Commissions and Committees in long-term investment planning, formulating investment strategies, and monitoring investment performance and compliance.

Investment Manager: A person or company that is responsible for managing the securities of a pension or benefit plan. The manager employs people with expertise within the investment industry and performs the buying and selling of investments on behalf of the plan.

Investment Returns: The increase in value of an investment over its original cost. A $100 investment that increases to $110 would have an investment return of $10 or 10%.

Non-Registered Account: A savings account that is not registered with the government for tax advantages. While investment income earned from a non-registered account is taxable, there are no contribution limits.

Rate of Return: The fund rate of return is the gain *or* loss, in percentage terms, of the fund for a specific period of time. The fund may be the entire pension fund or a specific fund from the PEPP Fund Line-up (PEPP).

Registered Pension Plan (RPP): A trust fund providing pension benefits to employees upon retirement that is registered with the Canada Revenue Agency (CRA).

Unit: When you contribute to PEPP, you purchase units in the investment fund(s) you choose. The value of your account is equal to the unit value multiplied by the number of units owned.

Unit value: The dollar value of a single unit of an investment fund.

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Administered by **Plannera Pensions & Benefits**

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