

The life cycle model choices and investment

In the life cycle model you can choose between different investment strategies considering your own risk appetite.

The most important key facts

- Considering one's individual risk appetite and investment duration, the suitable investment group can be chosen.
- Possibility to choose your preferred investment group before inclusion into the pension fund (this first choice is not considered a change, and therefore does not reduce the amount of changes you can make in the future)
- The investment strategy can be changed up to three times.

What are the advantages of the life cycle model?

- **Freedom of choice:** The prospective beneficiaries decide upon the investment strategy and consequently the correlating risks is also at their discretion.
- **Consideration of needs:** Younger people normally carry higher risk funds hoping for higher yields. The risk appetite usually declines over time and a stable pension becomes the primary goal. The life cycle model allows for consideration of the individual risk appetite.
- **Transparency:** The capital and the contributions are invested in the chosen investment group. This can be seen in the yearly contribution and benefit information.

What are the challenges of the life cycle model?

- **Emotional decisions:** Any decisions to change the investment group have to be well considered and planned rationally for the future.
- **Avoiding pro-cyclical decisions:** A fundamental challenge of the life cycle model is to avoid cyclical decisions. For example, decisions to change the investment group based on bad press, a market downturn, or any number of other cyclical performance challenges would be problematic as a likely outcome would be that the change of investment groups would occur at a time when equity courses are low and a following increase of equity courses will – because of the change of the investment group - not have an effect.

The basic framework of choosing an investment group before inclusion into the pension fund:

- You are able to make this choice, if you are an employee, who will be included into the pension fund on or after 1.9.2014.
- In order to make this choice a written declaration (use the form "Arbeitnehmererklärung") needs to be made and delivered to the university at least one week prior to your inclusion. Your employer will then forward your declaration to Valida.
- Upon your inclusion your funds will be administered in your chosen investment group, if the "Arbeitnehmererklärung" has reached Valida in time before your inclusion.

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The basic framework of changing an investment group:

- A maximum of three changes can occur. (A change into or out of the security pension does not count, neither does a possible choice upon inclusion into the pension fund.)
- Any changes of the investment group have to occur before retirement. A beneficiary cannot change the investment group.
- Surviving family members of an employee, who dies before retirement, can choose an investment group if they do so at the time when applying for their benefits.
- Before any change can occur the pension fund will provide extensive information.
- In order to change the investment group, a written declaration needs to be made.
- The written statement has to reach Valida Pension AG by 31 October of any year. The change then occurs 1 January of the following year. At retirement the change can occur at any time of the year.

Why is a defensive investment strategy a reasonable strategy shortly before retirement or for short time employment contracts?

Shortly before retirement or in case of a short time employment contract (and therefore a short investment duration), not much time remains to counterbalance any variability within the capital market. Instead of maximum capital gain the goal is often stable yields; therefore a defensive investment strategy can be a reasonable choice in such circumstances.

Earlier in a career with years left to counterbalance any potential downturns, capital growth can be the primary goal.

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For more information on choices and investments, please consult our brochure "The life cycle model – choices and investment"

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