



Frequently Asked Questions about Target Date Funds

What are target date or lifecycle funds?

Target date funds, which are also called lifecycle funds, are designed to offer a convenient way to invest for a person expecting a financial need around a particular date e.g. Retirement, children's education expenses, purchase of property etc. A target date fund pursues a long-term investment strategy, using a mix of asset classes (or asset allocation) that Saudi Hollandi Capital adjusts to become more conservative over time. Research shows that asset allocation is one of the most important factors in long-term portfolio performance.

Target date funds are designed to help investors avoid some of the most common investment mistakes. Their features include:

- **Diversification across asset classes:** Target date funds invest in a mix of asset classes, including stocks (equity), bonds (fixed income), and cash.
- **Avoiding extreme asset allocations:** Research shows that some young workers invest very conservatively, by allocating all or almost all of their accounts to fixed income investments, while some participants nearing retirement invest very aggressively, allocating all or almost all of their accounts to equity. Target date funds follow professionally designed asset allocation models to eliminate such extremes.

- Automatic rebalancing: Target date funds are automatically rebalanced periodically to maintain their target asset allocation, so that swings in the markets do not throw a participant's allocation off course. Research shows that systematic rebalancing tends to improve a portfolio's long-term performance.
- Automatic adjustment for changing risk profile: The asset allocation of a target date fund is adjusted to become more conservative over time to account for factors that affect an investor's risk profile: a shorter time horizon, fewer chances to make contributions to savings, and greater sensitivity to capital market swings.

Saudi Hollandi Capital offers target date funds with target dates spaced at 5, 10, 15, 20 and 25-year intervals to meet the needs of investors across a wide range of ages. For example, an individual anticipating retirement in 2035 could invest in a 2036 fund, while one expecting to retire in 2018 might choose between a 2016 fund, a 2021 fund, or a combination of the two.

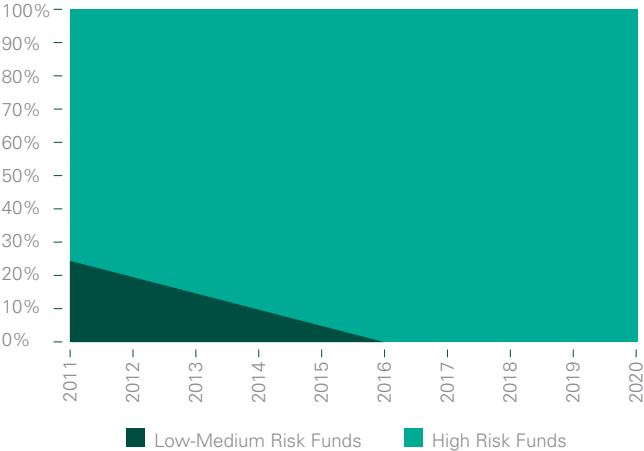
What is a target date fund's "glide path"?

The glide path is the asset allocation path that the target date fund follows to become more conservative over time. Since discussions of asset allocation usually focus on the percentage of the portfolio invested in equities, the glide path reflects the declining percentage of equities in the portfolio as it approaches the target date.

Figure 1

Target Date Fund 2016

Percentage allocation

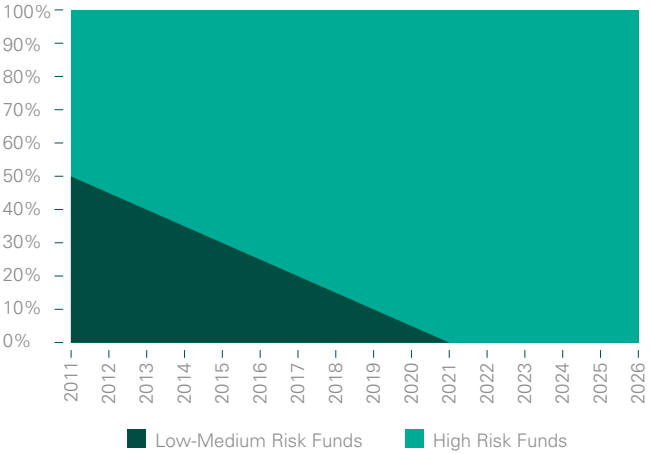


The three figures illustrate examples of different "glide paths" for the asset allocation of different target date funds. This fund allocates 25% of its assets to equity funds which decreases by 5% every year and 75% in fixed income and money market funds which increases by 5% every year. It reaches its most conservative allocation (0% equity) 5 years later.

Figure 2

Target Date Fund 2021

Percentage allocation



This target date fund has half of its assets in equity funds and half in fixed income and money market funds. It reaches its most conservative allocation (0% equity) within ten years.

Figure 3

Target Date Fund 2031

Percentage allocation



This target date fund allocates 100% of its assets to equity and follows a steadily declining glide path of 5% over the next 20 years.

What does the date in a target date fund name mean?

The date in a target date fund name generally means the date at which the “typical” investor for whom that fund is designed for would need his financial savings and stop making new investments in the fund.

Target date does not mean the date at which an investor should cash out the entire target date fund investment. Generally, target date funds are designed to be held beyond its target date, to offer a continuing investment option for the investor.

Investors may choose to purchase target date funds with dates other than the date that they will be needing their funds. An investor who expects a financial need in 2031, for example, might select a 2026 fund (to be more conservative) or a 2036 fund (to be more aggressive).

Is there a difference between risk adjusted funds and target date funds?

Yes. Risk adjusted funds offer a mix of asset classes to provide a predetermined level of risk and generally use words such as “conservative,” “moderate,” or “aggressive” in their names to indicate the fund’s risk level. Risk adjusted funds do not change their asset allocations over time. Target date funds, by contrast, are usually identified by their specified target date (“2016 fund,” “2026 fund,” etc.) and adjust their asset allocation over time to become more conservative.

Use of Target Date Funds

Who should use these funds?

Investors who would like to hold a mix of asset classes and who would like their portfolio to be adjusted to become more conservative over time may prefer investing in a target date fund over managing their own portfolio of funds. SHC will rebalance and adjust the fund to offset market fluctuations and investors' evolving risk profile. To achieve the same benefits with a self-managed portfolio, an investor would have to monitor the individual funds in his or her portfolio and regularly transfer money between them.

What are the advantages or disadvantages of target date funds for long-term investing, compared to picking my own investments?

Research shows that asset allocation is one of the most important factors in long-term portfolio performance. Target date funds provide age-based asset allocations that are professionally constructed and managed, that are periodically rebalanced, and that become more conservative over time. Target date funds invest in multiple asset classes, ranging from domestic and international stocks to corporate and government bonds to cash. To achieve the same benefits with a self-managed portfolio, an investor would have to be able to invest in a range of asset classes, to monitor the individual funds in his or her portfolio, and regularly transfer money among them to offset market fluctuations and evolving risk tolerance.

Target date funds avoid the extremes in asset allocation that are observed in some portfolios, in which some young workers allocate all of their funds to fixed income investments, while some investors near retirement allocate all or almost all of their funds to equity investments.

Target date funds do not, however, take into account the individual risk tolerance of any particular investor or any investor's individual circumstances, including any holdings of other assets.

Investors in target date funds should be aware of how a particular fund intends to reach its investment objectives and what risks that fund's strategies might entail, just as they would with any other investment. This information is disclosed in the terms and conditions of each fund. Investors may find additional helpful information, such as fund fact sheets, at SHC's website.

I'm a conservative investor. How should I pick a target date fund?

An individual investor may have more or less tolerance for the investment risk than the investor for whom a fund with a particular target date is designed for. If an investor feels that the asset allocation mix associated with the investor's target date involves more risk than he or she wants to assume, the investor can choose a fund with a target date that will occur prior to the investor's expected financial need. An investor who is less risk-averse than the fund's target investor might choose a fund with a target date that will occur after the investor's expected financial need.

Safeguards for Target Date Fund Investors

What are the investor safeguards in target date funds?

Target date funds include several layers of investor safeguards. Like all mutual funds, target date mutual funds are subject to regulatory and disclosure requirements under the Capital Market Authority laws. Target date funds operate as funds of funds—funds that invest in other mutual funds—which must meet additional, strict requirements.

Can an investor lose money in a target date fund?

Yes. As with any investment, target date funds can lose money. The mix of assets in a target date fund is intended to diminish the risk of loss, but, as demonstrated by market events in 2008, sometimes stocks, bonds, and other assets in a target date fund's portfolio may lose value simultaneously. The specific risks of investing in a particular target date mutual fund are disclosed in the fund's terms and conditions. While target date funds are managed to reduce equity market exposure and, therefore, equity market risk over time, target date fund investors, like all investors, are exposed to market risk and other risks associated with the fund's portfolio.

Design of Target Date Funds

Where can investors find information on how their target date fund is designed?

Investors have many tools to assist them in learning more about a target date fund. Target date funds disclose the design of the target date fund, including its asset allocation and glide path, in the terms and conditions. An investor receives the prospectus upon purchasing the fund; in addition, an investor can request a prospectus from SHC, and typically can view it on SHC's website.

Target date funds hold a lot of stock, which can be risky. Aren't employees being forced to take more risk than they want, particularly in volatile markets?

An investor is not required to stay in a particular target date fund. Each investor can and should decide whether he or she is comfortable with the fund's investment approach. The investor can always make an affirmative election to invest in other investment options offered by his or her plan, including a target date fund with a different target date holding a larger or smaller percentage of equities.

Target date funds pursue a long-term investment strategy that should not be judged by short term market fluctuations. Research shows that holding a mix of asset classes in a portfolio is one of the most important factors in long-term portfolio performance. Portfolios that do not hold any equity are likely to underperform in the long term. SHC designed its target date funds with the long term in mind, based on many factors, including various investment-related risks and assumptions about investors for whom the fund is designed.

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Fees mentioned in the T&C will be applied. Changes in currency rates may have an adverse effect on the value and the price of the investment. To ensure proper understanding of the fund and its suitability for you according to your risk tolerance, we recommend that you seek a specialized investment advisor.

More information about the fund and the risk associated with investing in them are available in the terms and conditions applicable to that fund. These terms and conditions can be obtained from any of SHC's branches or SHC's website.

At any time SHC or its affiliates may have a position in the underlying securities or provide significant advice or securities business services to the issuer of those securities.