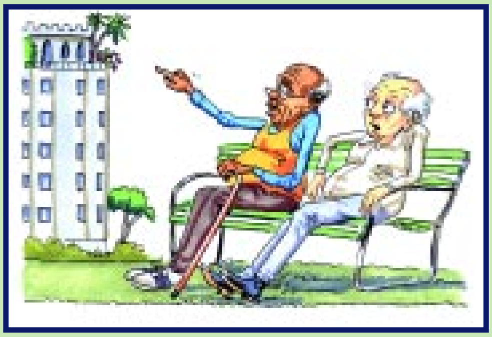
INVESTING FOR THE FUTURE

Why it is important to start planning for your retirement NOW!

There are many types of investment which build up capital or provide monthly income when you retire.

Retirement funds

Some employers offer a **retirement fund**. This may be a **pension fund or a provident fund**. Find out more about it and what **your** responsibilities are. When you retire, your retirement fund benefits will be paid out to you. By law, at retirement only **one-third** of a *pension fund* may be taken in **cash** (after tax) while the other **two-thirds** must be **invested** to give you a regular income. You may want to **inves**t your one-third **lump sum payout** as well! If you belong to a *provident fund*, you may receive either a **monthly pension** or a **lump sum** which you should use to buy a monthly pension.



Even if you have a retirement fund which guarantees an income for the rest of your life, it is unlikely that you will have **enough** money to live on **comfortably** when you retire. **How do you make sure your retirement fund beats inflation and lasts as long as you do?** You will receive a **benefit statement** once a year, which will give you details of the current position of your fund. Review your situation regularly and make adjustments to your investments when necessary. It is important to invest extra money while you are still working.

Some retirement funds allow for top-up contributions. If yours doesn't, you should make additional investments (usually a retirement annuity or an endowment policy) as soon as you can.

The important thing is to invest as much money as you can every month to make sure your retirement fund will be enough to live on safely and securely when you are old. Avoid cashing in a retirement fund if you change your job — but if you do, transfer the money to a **preservation fund**.

Lump sum investments

If you have a lump sum to invest, decide what your objective is and choose the appropriate investment, depending on when you will need the money. Each type of investment has its own risks, rewards, time-frames and advantages, depending on your reasons for investing.

Example 1: If you become entitled to a **lump sum payment** from your pension or provident fund when you resign from a company, you should transfer it to a **preservation fund**. This would not only save you from being taxed on the lump sum now, but also ensure that it is there for your retirement.

Example 2: If you wanted to put away a medium-sized **lump sum** for five years or more, a unit trust portfolio may be a better option.

Example 3: If you are interested in **investing** R50 000 or more for at least five years at a time, you should consider a single premium endowment policy.

Retirement annuities

Retirement annuities are a good, safe form of investment because nobody will ordinarily have access to the funds before the selected maturity date. Even in the event of insolvency, a retirement annuity is relatively safe. The maturity date may be set anywhere between the ages of 55 and 70. You can always leave the funds to continue growing until you are ready to start drawing from them.

Although there are many variations to choose from, there are two main types of retirement annuity. **Conventional annuities** are managed by life assurance companies and other service providers, and **living annuities** are managed by you. Living annuities are not a wise choice unless you are familiar with managing investments and have a lot of capital to ride out market downturns. You may want to invest your one-third cash payout. A **voluntary purchase annuity** could be the answer. This is bought with a lump sum and is a good investment if you unexpectedly find yourself with money to spare; an inheritance, for example.

The conventional or fixed-interest annuity

With a **conventional or fixed-interest annuity**, you **pay in your sum of money** and, in return, you are paid a **fixed income every month** for the **rest of your life**. The insurer takes responsibility for fluctuations in the market and the risk that you may live longer than the average.

The **advantage** of a conventional annuity is that your **regular monthly income is guaranteed for life**. The **disadvantages** are that you get the **same income every month** or year, regardless of inflation and **your investment dies with you**.

There are **variations** of the conventional annuity, which address its disadvantages, but often have drawbacks of their own. These are the *conventional escalating annuity*, which provides a guaranteed income for life and a guaranteed annual increase at a specified rate — but initially pays out less than a fixed annuity — and the *conventional "with profits" annuity* which also guarantees an income for life and offers protection against inflation. Another option is a *joint life annuity*, which ensures that after one spouse dies, the surviving one will continue to receive an income. You can see that you need to look at all the options carefully before deciding what will suit your needs best.

The living annuity

With a living annuity, you — and not the insurer — take both the investment and the mortality risk. Briefly, the income depends on the growth of the sum of money invested. And that growth depends on the behaviour of the stock market — if it does well, your capital will increase; if it falls, your capital decreases.

The question to ask yourself is, "Can I manage the investment and do I have enough capital to survive market setbacks?" Chances are your answer will be "no", unless you will have additional sources of income.

The composite annuity

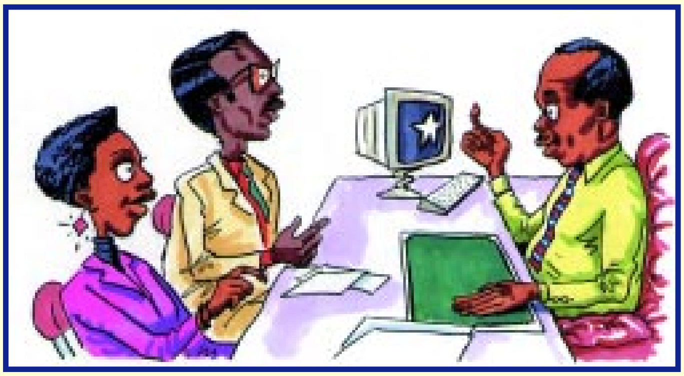
Composite annuities are a mixture of conventional and living annuities and to some extent offer the best of both worlds — flexible income from the living annuity part and a guaranteed income (security) from the conventional annuity part.

The advantages and disadvantages of all these alternatives need to be balanced against each other and weighed up carefully. Your own particular circumstances and needs must be taken into account.

Get advice from a professional adviser before choosing a product. You are making decisions that will have an impact on the rest of your life!

Investment advice from the experts

- **Invest for the long term** and treat recommendations to keep changing your portfolio with caution as changes are costly.
- **Invest in quality**. Whatever you invest in, buy shares with potential. Past performance is not necessarily a guide to how an investment will perform in the future. Seek the advice of a professional.
- **Don't swap investments unnecessarily.** Find out about any charges that apply and penalties that will be incurred if you change an investment.
- **Go for growth when you are young and income as you get older**. Young people can afford to take risks while older people close to retirement need to be more cautious.
- **Stick to the basics**. Gimmicks emerge from time to time, but are based on greed. Avoid them!
- **Diversify** your investments geographically as well as according to investment type. The better the spread, the less the risk.



- **Check all charges and make sure they are explained.** Remember, each time you make a change to your portfolio, charges are incurred.
- **Don't let investments and markets rule your life**. Enjoy your health, your family and your friends. Time is far more precious than money. So don't let the state of the stock market rule your life.
- **Watch out for people who claim to be investment gurus**. Nobody can predict with any certainty what is going to happen tomorrow.
- **Take responsibility for your investments**. If you don't understand investments, appoint an adviser, but this does not mean that you abdicate your responsibility.
- **Make sure you keep up with investment developments**. A well-informed investor has better control of his or her future.
- **As your circumstances change**, you may want to change the beneficiaries nominated in your policies, your retirement funds or your will. You and your beneficiaries must make sure the company where you have your retirement fund always has your most recent details. **Advise them immediately of any change of address, telephone number etc**.

WHAT ARE SHARES?

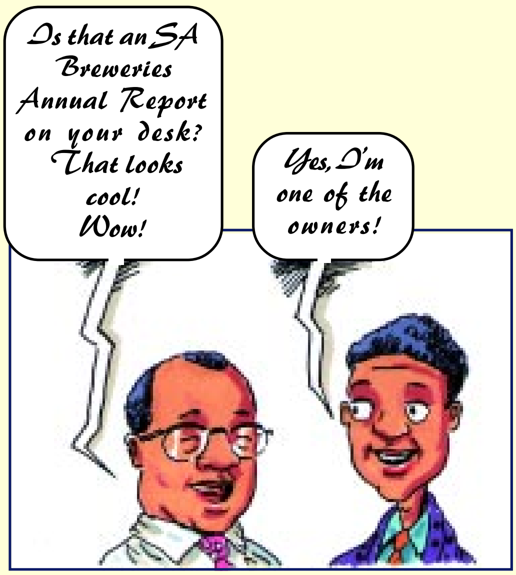
A share that you buy on a stock market is exactly that! If you own shares, you own a small part of that company.

Companies issue shares to raise the capital they need. Shares of most of the biggest companies in South Africa are “listed” on the JSE Securities Exchange (the “stock market”). This means they are “public companies”. Any member of the public has the right to own a part of a listed company. All you have to do (if you have the money) is go to a **stockbroker** and ask him or her to buy you some shares in Company X. And there you are, you own a bit of that company!

It works like this ...

A **listed company** issues **shares** to the public — usually many millions. These are then traded on the stock exchange. You decide the company is a good investment, so you buy, say, 1 000 shares.

Because the company sometimes does well and sometimes not so well, the **price** of the shares can **vary** from one day to the next. Other factors, such as the **overall economy**, also affect share prices.



As a result, next month or next year, the shares you bought may be worth more (or even less) than what you paid for them.

While you own the shares, you receive any **dividends** that the company **declares**. Dividends are the way companies reward shareholders by making distributions of a portion of profits.

Some people have grown wealthy by buying shares when they were cheap and then selling them when prices went up.

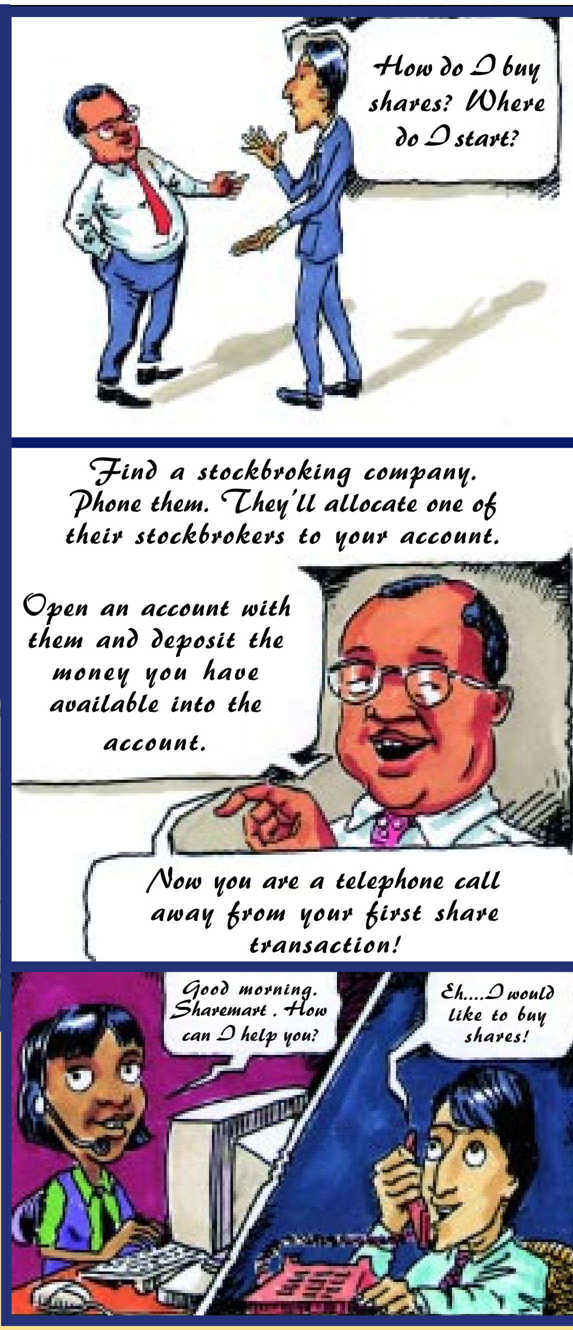
Would you like to invest in shares?

When you invest in shares, you invest indirectly in the economy of the country.

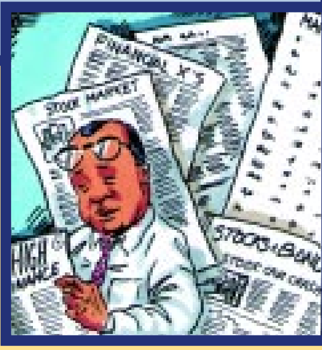
But there are a few basic rules to bear in mind.

How to get started ...

If you want to invest in shares, you first have to open an account with a registered stockbroker. Investors do not buy shares directly from the JSE, but through a stockbroking firm which is a member firm of the JSE. When you approach a member firm, one of its stockbrokers will discuss the proposed investment with you. It is highly likely that he or she will also give you advice. You need to decide which shares to purchase and how much to invest, preferably with a view to a medium or a long-term investment of not less than three years. On instruction from your stockbroker, a dealer at the JSE executes your order at the price agreed upon. Alternatively, you may impose certain price limits, within which the dealer must buy or sell your shares, but these limits should be reasonable with regard to time and price.



Basic rules for investing in shares



- Share prices go up and down. Shares are therefore **riskier** than investing in a bank or in an investment policy.
- If you choose a successful company in the first place, the value of your shares is more likely to **continue** growing.
- **Never borrow** money to buy shares and never use money you may need soon. Only use money that you have set aside especially for long-term investment.
- If your **share portfolio** loses value, get professional advice, don't panic! Shares are for the long term — ideally 5 years or more.
- A good investment plan is to put a regular monthly amount into a special **savings account**. As soon as you have enough in your account, you buy shares in the company of your choice. Do this year in and year out, and your wealth can grow.
- If you don't have specialist knowledge, **don't chop and change between companies**. If the general share market goes down, ride it out. If your particular company's shares go down, ask your stockbroker to explain why. If the company is doing badly, it may be wise to sell, and buy shares in a better company.
- Remember, there are also costs involved in buying and selling shares.
- Never buy shares in unlisted companies or through a person who is not a stockbroker or registered intermediary. Be especially careful if a person calls on you or advertises, encouraging you to buy shares.
- Remember — in the stock market "your word is your bond". Be very clear in what you say to your stockbroker. Your verbal instruction is a binding agreement between the two of you!

UNIT TRUSTS (LOCAL AND FOREIGN)

An easier way of investing in shares and other assets

We have all heard stories of individuals becoming wealthy by investing in shares on a regular basis. But, for most of us, the stock market is a confusing, dangerous place — and we don't have the time or knowledge to build an appropriate portfolio.

Unit trusts provide a way for you to invest in shares, bonds, cash and other securities, without requiring a detailed knowledge of the markets. Each unit trust has specific objectives and a portfolio manager who aims to achieve the objective of the portfolio through an investment strategy. This is done by investing the pool of money in the fund in a variety of underlying assets.

Types of unit trusts

The type of asset class of each unit trust is largely determined by the objective of that unit trust.

There are unit trusts that specialise in a particular market sector, such as gold shares, industrial shares or technology shares. These unit trusts are commonly known as **equity unit trusts**. Other unit trusts may invest in less risky instruments such as bonds. **Bonds** are "loan instruments", usually issued by the government to raise money. Unlike equities, which may fluctuate daily, bonds offer a **fixed rate of interest** for the entire period of the bond (usually 5 years or more).

Money Market unit trusts invest in short-term interest-bearing instruments. These funds have a **very low risk** profile with very little volatility. An investment period of 6—12 months is suitable.

Wealth comes slowly

Although there are a number of benefits of a unit trust, such as the fact that a unit trust may be purchased for as little as R100 a month, it is important to remember that economic markets fluctuate. In order to gain the most from your unit trust investment, **equity unit trusts** should ideally be kept for a period of 3 — 5 years at least. This way the daily fluctuations are ignored and one can benefit from the expected gradual **long-term growth** in the market.

Diversification

Balanced unit trusts invest in all three types of instruments — shares, bonds, and cash. This provides important **diversification**. You should always consider diversifying when investing. This is because, in the event of one company, or even an entire market sector performing poorly, your entire portfolio could lose value. However, by investing across different asset classes, as well as both locally and offshore, you can **spread the risk**.

Risk

When purchasing a unit trust, it is advisable to seek the advice of a **financial adviser.** The financial adviser will be able to determine your **risk profile**, based on such factors as your age, marital status, dependents, health, and so on. Such a risk profile will determine whether an individual would prefer an aggressive investment or a more conservative type of investment. Generally younger investors should have a greater appetite for risk, due to their longer-term investment horizon and may prefer investing in the more volatile equity trusts with higher growth potential in the long term.

Diversify your investments

Do not "place all your eggs in one basket". By investing in a number of **different types of investments**, should one type of investment, for example, shares, not perform, only the amount of money invested in the shares will be affected. Money invested in **bonds**, for example, may provide a better return, therefore reducing the amount of value in the portfolio that may be lost at any given time.

RETAIL BONDS

A safe, secure and risk-free investment opportunity

RSA Retail Bonds are a **savings product** issued by the **South African Government** and give private individuals an opportunity to invest in government-issued securities. Because these bonds are in effect "loan instruments" issued by the government to raise funds, they are backed by the credit of the government and therefore represent a **low risk investment**. Retail bonds therefore give you an ideal opportunity to invest in the country's economy. By making retail bonds available to the general public, the government also hopes to create an awareness of the importance to save.

Types of retail bonds

Retail bonds are available in three maturities: **2 years** (the 2-year RSA Retail Bond), **3 years** (the 3-year RSA Retail Bond) and **5 years** (the 5-year RSA Retail Bond). The **maturity** refers to the **term of investment**, or the length of time before your investment capital is repaid to you. The retail bond you choose will depend on how long you want to save your money, and what the interest rates for the different retail bonds are at the time that you want to buy. Access to three different maturities allows you to choose the investment term to suit your needs.

Guaranteed returns

RSA Retail Bonds earn a **fixed market-related interest rate** which is determined at the time of purchase. This interest rate is called the **prevailing interest rate**. All three retail bonds, that is, the 2-year, 3-year and 5-year, earn different interest rates which is the prevailing interest rate on the date of purchase. Because the interest rate for retail bonds is fixed for the whole investment period, you know exactly what the return on your investment will be. You also have the option of reinvesting the interest at the same rate as the retail bond, thereby ensuring the **guaranteed growth** of your capital.

Affordability

Retail bonds are very affordable. A **minimum** of only **R1000** is required to purchase a bond. **No fees, commissions or charges** are payable when buying these bonds, making them an even more attractive investment opportunity. The only charge is a penalty charge payable if you withdraw any portion of the amount before the expiry of the investment period.

How to get started...

You can buy an RSA Retail Bond at any one of the following places:

- By purchasing online on the RSA Retail Bond website at www.rsaretailbonds.gov.za
- By posting an Application Form to the National Treasury: The Head, Asset and Liability Management Division, The National Treasury, Private Bag x115, Pretoria 0001
- At any Post Office.

If you wish to buy an RSA Retail Bond, you will need:

- A valid South African ID book
- Your personal bank account details
- A completed Application Form
- An amount not less than R1000.

Remember that you need to be a South African citizen or permanent resident to be able to buy an RSA Retail Bond.

For further information about retail bonds call the RSA Retail Bond Helpline at **012-3155888**, or visit the RSA Retail Bond website at **www.rsaretailbonds.gov.za**