



Note to Clients:

**The Discovery Recurring Dollar
Endowment Plan**

Introduction

Discovery recently launched an endowment plan which allows clients to invest offshore in US Dollars on a monthly basis. This is a first for South African investors and comes at a time when the issue of investing offshore is topical. Until now investors were only able to invest a lump sum of \$18,000 and more, which placed direct offshore investments out of reach for many. It is an endowment product with a minimum term of 5 years.

GMI has spent the past two months assessing the product, and we met with the investment managers recently to get more insight into the underlying investment portfolios. The final outcome of this due diligence process is a decision to offer the product to our clients. The product is not perfect but we believe that it can add meaningful value to our clients over time.

Monthly Contribution Amounts

Investors are able to invest a minimum of US\$200 per month up to a maximum of US\$4,000 per month. Investors may not make lump sum contributions to this product. Investors will have an automatic annual contribution increase of US Inflation, but no more than 10% per annum in Dollars. The monthly premium can only be taken from an investor's South African bank account and not from an offshore bank account.

How are contributions taken out?

Investors are allowed to take out R1,000,000 a year as a Single Discretionary Allowance (SDA) without requiring a tax clearance from SARS. The contribution comes out of investors' annual SDA, hence the cap in the allowable monthly investment amount. The investor does not need to apply to the SARB or to SARS for clearance for these funds.

Investment Portfolios

Investment choice is limited to three risk profiled investment portfolios. Investors have a choice of either the Conservative, Moderate or Aggressive fund. The funds are managed by Riscura, one of South Africa's largest asset consultants in the institutional space. They use Exchange Traded Funds

(ETFs) as building blocks in the portfolio, which is good from a costing perspective. The jury is still out on their ability to manage offshore mandates and we will be keeping a close eye on them. We are also concerned at the asset allocation of the Conservative fund, and will be recommending that clients consider the Moderate and Aggressive funds instead for now. We will inform clients when this view changes.

Fees

This was another area of concern for us. This product’s remuneration structure is the same as local endowment funds, whereby an upfront fee is paid and a reduced ongoing fee. We debated this issue the most as GMI has a proud tradition of not offering investment products that pay upfront fees. One of the concerns that we have around upfront fee products is that they charge a penalty to the client for stopping premiums. However, if we as GM Investments were to drop our initial fee by 50%, then any penalties would fall away if the client were to stop their premiums. We feel that this is a good compromise position and have taken the decision to discount our fee by 50% for all investments into this product. The annual fees are shown in the table below:

Fee	Conservative	Moderate	Aggressive
Asset Management	1.15%	1.20%	1.25%
Administration	0.80%	0.80%	0.80%
Advice	0.35%	0.35%	0.35%
Total	2.30%	2.35%	2.40%

The advice fee reflects the 50% discounted advice fee.

The initial advice fee is calculated using a formula. This is disclosed when the client makes the investment, and this fee will also be discounted by 50%.

Investor Profile

This product is suited to investors that do not have a lump sum to commit to a direct offshore investment. It is also suitable for the investor that is concerned about the volatility of the currency and does not want the timing risk associated with a lump sum investment. It is a useful option for clients planning on sending their children to study overseas, or clients who are planning to emigrate at some point in the future. Investors that can afford a monthly investment of at least R4,000 per month can consider this product. This gives the investor some capacity if the currency were to weaken. The minimum investment of \$200 per month currently translates into R3,000 a month premium.

Please do not hesitate to contact your adviser at GM Investments if you would like to discuss a possible investment into this product, or email Craig on craig@gminvestments.co.za if you have any specific queries.