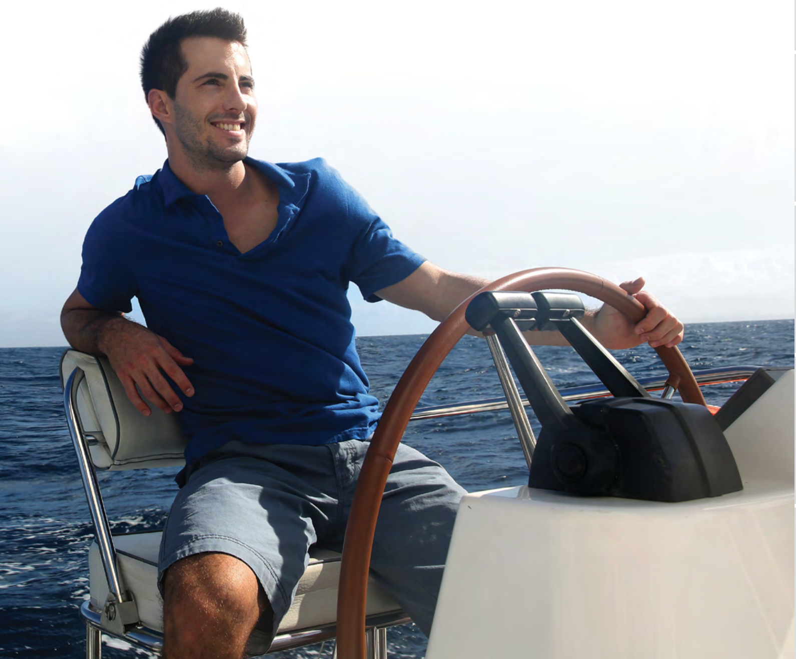
momentum

investments

# protected investments

## educational guide

wealth

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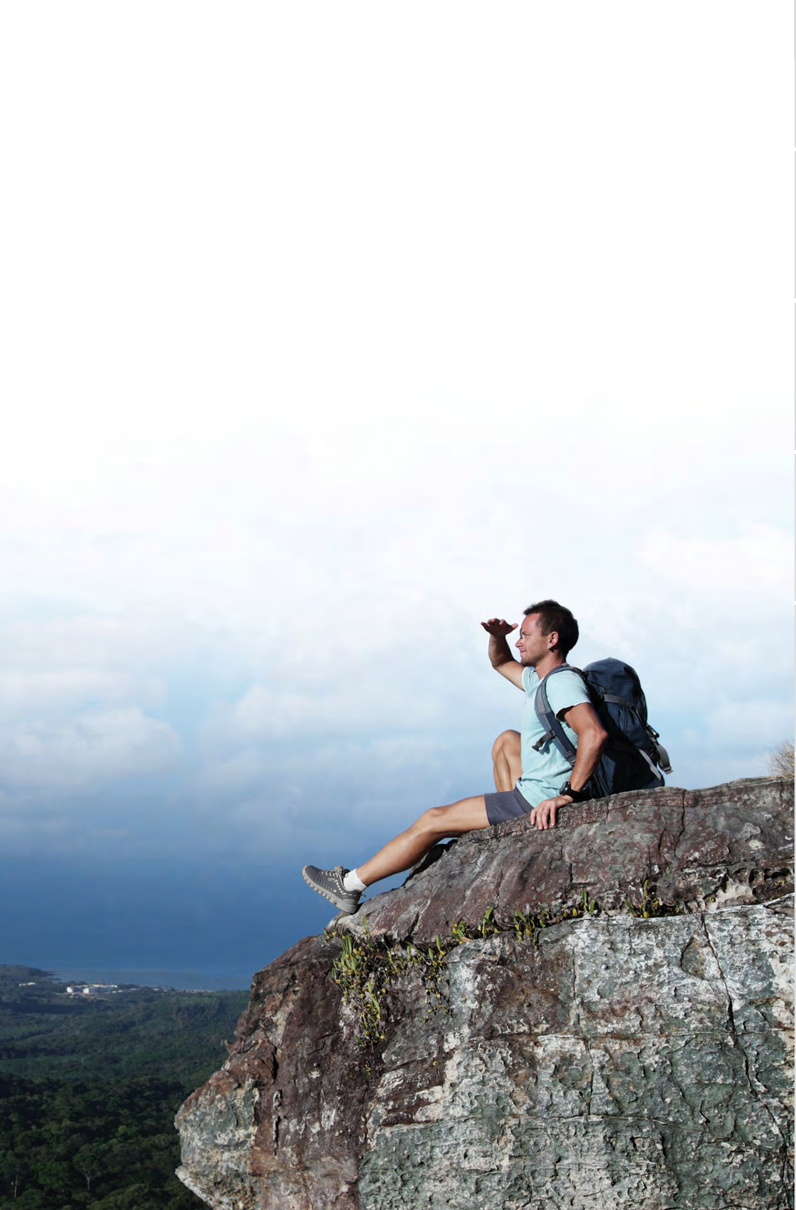
# 01

# What are protected investments?

## 1. What are protected investments?

Protected investments (also called structured products) are customised investment products where the investment is structured to meet a specific need. This need may be to provide capital protection or provide exposure to a specific type of asset, or a combination of both. The performance may be linked to one or more underlying assets such as a basket of shares, commodities, an index or even hedge funds. Protected investments offer exposure to growth assets, while also providing protection against losing your initial investment amount.

For example, if you are nearing retirement you may be a conservative investor concerned with preserving your savings. If you are younger and have a long-term investment horizon, you may have a moderate to aggressive investment profile and want more exposure to growth assets. Conservative investors can buy a protected investment that gives some exposure to the upside returns of the market, without having the risk of losing their original investment in a market downturn. Moderate and more aggressive investors can choose a protected investment with more exposure to growth assets, allowing them to take more risk to achieve potentially higher returns.



# 02

# Protected investments in context

**This section covers:**

2.1 Background

2.2 A new generation of protected investments

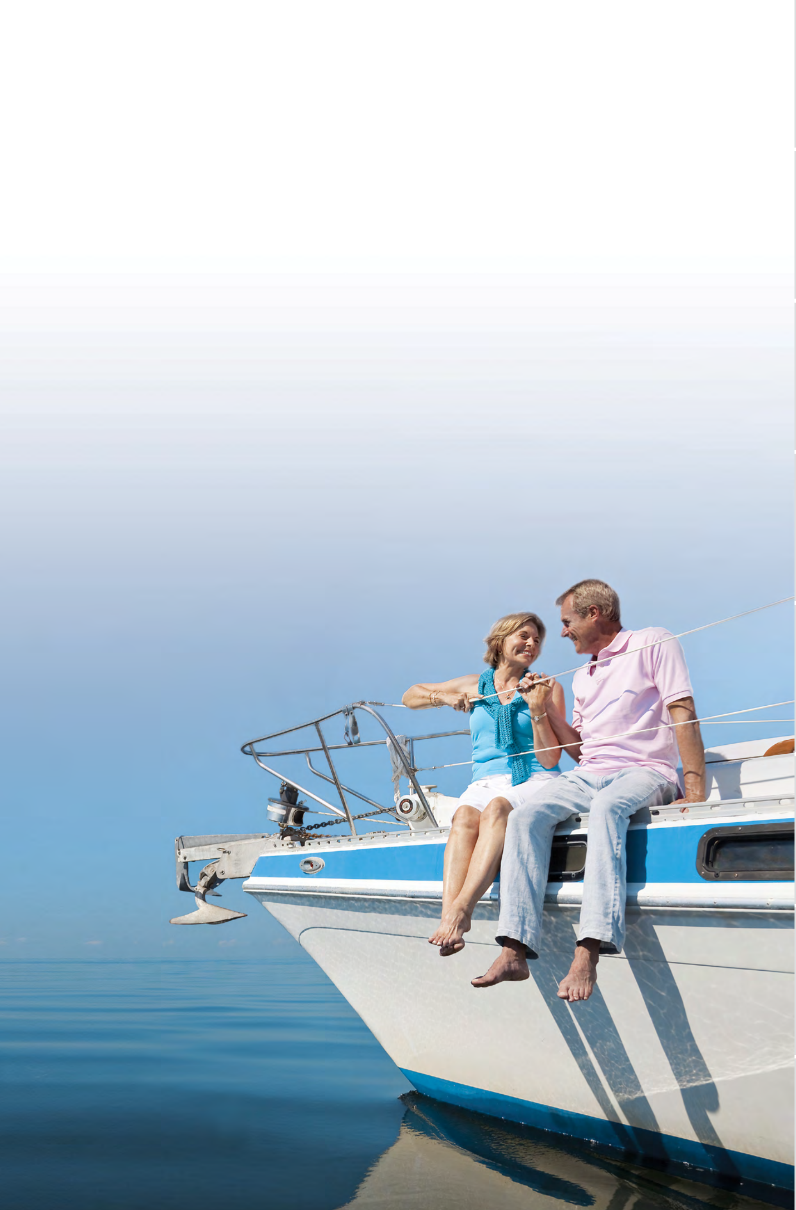
# 2. Protected investments in context

## 2.1 Background

Today, protected investments are playing an increasingly important role in the ever-changing investment landscape. They first appeared in the 1970s, and have evolved into mainstream investment products for investors all over the world. The industry currently represents a significant part of the European and UK investment market with global annual sales exceeding R5 trillion.

## 2.2 A new generation of protected investments

Although the protected investments industry has grown substantially over the years, it is still widely misunderstood. Historically, these investments were often seen as complex and restrictive. Today's protected investments are more in line with other investments. Global legislation has increased transparency, and the market is now more tightly regulated. These new generation protected investments are innovative investment solutions that provide investors with access to different underlying assets and various payoff profiles, underpinned by detailed investment research and robust investment rationale.



# 03

# The building blocks of protected investments

## 3. The building blocks of protected investments

While protected investments vary in design, they typically include at least two components, usually a safe asset and a growth asset. You can purchase the pre-packaged investment rather than buying into these assets separately. Protected investments usually have the following common features:

- **Capital protection:** One of the main features of a protected investment is that it protects some or all of your initial investment amount by placing a proportion of your money into a safe asset such as a zero-coupon bond (a bond bought at a significant discount that pays out a lump sum at maturity), a medium-term note (a corporate bond that typically matures at a fixed date) or a money market fund (a short-term, low-risk and highly liquid investment). A safe asset provides capital protection by making sure that some or all of your investment amount is paid back when your investment reaches maturity.

There are typically two types of protection:

- Hard protection guarantees that the initial investment amount is returned at maturity, regardless of how the underlying asset has performed.
- Soft protection provides a guarantee linked to the performance of the underlying asset at maturity. This means the guarantee could be 100% of your initial investment amount or less, depending on how the product is structured.

- **Investment returns:** Once fees have been paid, the balance of your initial investment amount is used to buy exposure to growth assets. This is usually done through derivatives. Derivatives are financial instruments that provide exposure to a reference asset, without an investor actually owning the reference asset. The growth assets within a protected investment are often referred to as underlying assets and can typically be listed shares; equity indices such as the ALSI Top 40, FTSE 100 or S&P 500; commodities such as oil, gold or wheat; foreign currencies, bonds etc. Basically if a derivative market for an asset exists, it can be used as a growth asset within a protected investment. The underlying asset is used to calculate the return of the investment at maturity.

- **Fixed term:** Most protected investments have a fixed term, typically between three to seven years.

- **Parties involved:** The investment provider, in this case, Momentum Wealth, develops and makes the protected investment available to investors. The counterparty is typically the party providing the capital guarantee. It is important to remember that if the counterparty becomes insolvent or is unable to honour its obligation, you may not get your investment amount back.

- **Payoff profiles:** Protected investments have varying payoff profiles based on how the investment is structured (i.e. what the underlying asset is, its performance, and the investment provider's view of the markets). A payoff profile refers to when and how a protected investment will pay out, which gives investors a clear picture of the potential returns of a protected investment and also the maximum losses that could be incurred, if this applies (some protected investments offer a 100% guarantee on the amount invested).

# 04

# Benefits of investing in protected investments

# 4. Benefits of investing in protected investments

- Protected investments are designed to help investors pursue a broad range of portfolio objectives including risk management, protection of your initial investment amount and diversification.
- Protected investments pay a return at maturity that was clearly defined at the start of the investment. This allows you to clearly understand how an investment will perform, both from a positive performance and downside risk perspective.
- Protected investments offer the potential opportunity to earn a higher return than those offered by traditional investments. This can be achieved if ʻgearingʼ of returns are structured into the investment.
- While other investments charge high performance fees and guarantee costs, protected investments compare favourably as they are relatively cost-effective with all applicable fees disclosed upfront.
- Protected investments are offered as part of discretionary and compulsory investment products that offer investors tax benefits.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# Investment consideration

## 5. Investment consideration

- The protection typically only applies if you hold your investment for the full term. Early withdrawal can result in capital losses. This means that they are not suitable for investors who may need to access their investment amount during the investment term.

- Where protected investments provide liquidity during the term, it can be used to enhance the protection on offer. This can be done in instances where the market value before maturity is higher than the original investment amount. Investors can then sell-out of the investment and buy into a new investment, thereby locking-in the growth and setting a new higher protection level. Just be aware of the fees involved when considering this option.

- Some protected investments do not offer full capital protection at maturity. In some cases, this may result in a maturity payment that is less than the original amount invested.

- Pay particular attention to the reference asset the protected investment's performance is linked to. If the reference asset is a price return index it means that dividends do not form part of that index. More well considered protected investments 'reward' investors for not receiving dividends, either by way of gearing, where the price returns are enhanced, or by way of higher return caps.

- Protected investments are subject to counter-party risk. This means that the repayment of the initial investment amount and growth is dependent on the issuer's credit risk. If an issuer becomes insolvent, you can lose your entire investment amount. It's important to pay close attention to the financial strength and credit worthiness of protected investment issuers.

- Investors could lose some or all of their investment based on the performance of the underlying asset. This is especially true if so called "barriers" are in place, where once they are breached losses become permanent. So pay particular attention to what is protected and what is subject to market performance.

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# The role of protected investments in portfolio planning

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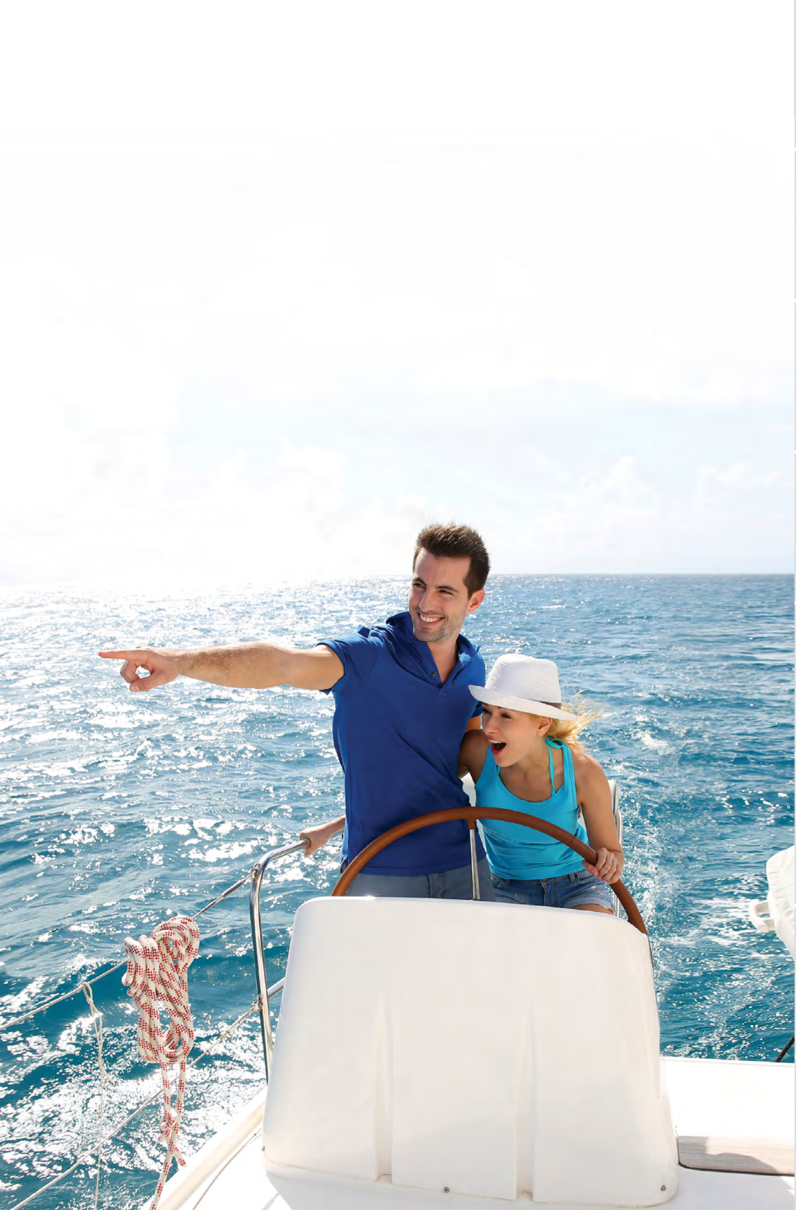
## 6. The role of protected investments in portfolio planning

Protected investments can be used as an integral part of portfolio planning. They can be used in conjunction with other investments where defined returns and capital protection balance high-risk, unprotected equity strategies. If you are a more conservative investor, protected investments can complement lower-risk portfolios by offering better-than-cash returns without risking the investment amount.

With protected investments, you can create a well-diversified portfolio including a variety of assets and markets that may be otherwise difficult to access, with built-in protection levels. This means you can benefit from market growth without buying directly into the market. This creates asset diversification into potentially volatile markets without necessarily increasing risk to the investment amount.



# 07

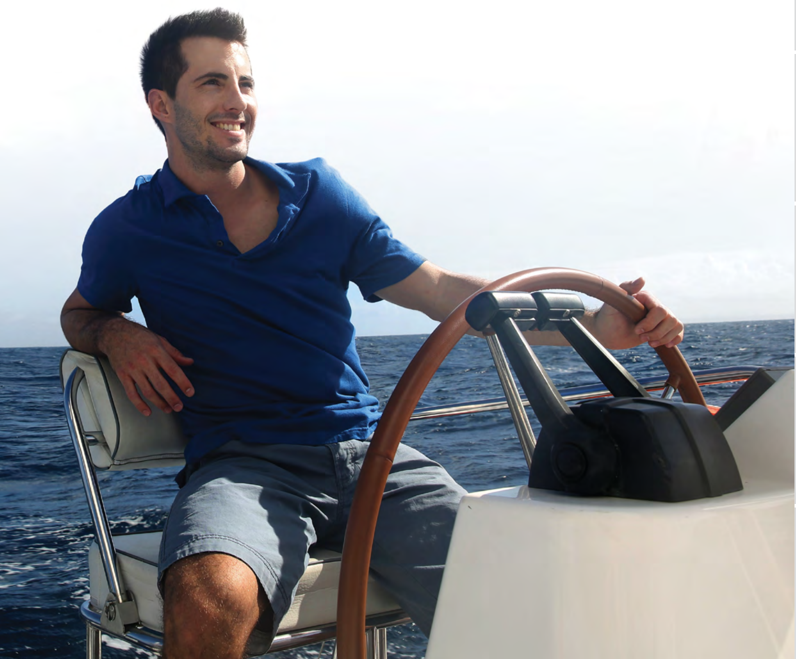
# Protected investment opportunities

## 7. Protected investment opportunities

We offer investors a wealth of protected investment opportunities:

| Need | Investment |
|---|---|
| Protect your whole investment amount | • Protected Index Plan<br>• Global Growth Allocator<br>• Capital Plus fund |
| Protect a portion of your investment amount | • Prosperity Fund range |
| Protect your investment amount and investment returns | • Guaranteed Endowment Growth plan |
| Protect your investment amount and your income | • Capital Protector<br>• Guaranteed Endowment Income plan |
| Protect your income | • Life annuity<br>• Term linked annuity |

For more information about how to invest, please speak to your financial adviser.

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# Contact details

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