

momentum

investments

Momentum Enhanced Growth Option

Technical guide



Momentum Enhanced Growth Option

The Momentum Enhanced Growth Option is an **endowment** underwritten by Guardrisk Life Limited and administered by Momentum Wealth (Pty) Ltd.

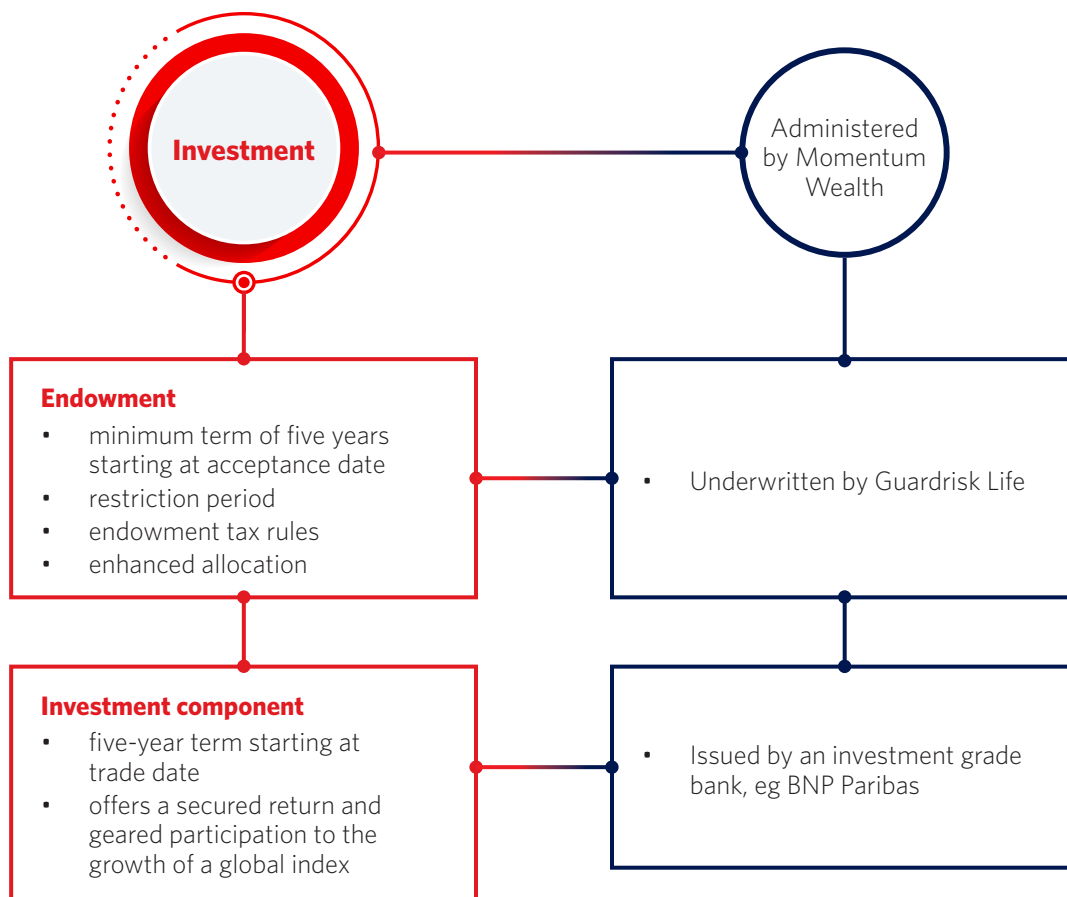
The underlying **investment component** is a **five-year solution** offering investors:

- an **enhanced allocation** at the trade date of the investment;
- the certainty of a **minimum secured return** in South African rand at the end of the investment term; and
- **exposure** to a diversified global **index** with **unlimited growth potential**.

Investors looking for **growth** from an index backed by an investment grade bank **with capital protection** can consider investing in the **Momentum Enhanced Growth Option** as part of their overall investment strategy.

Investors have the **peace of mind** of a minimum secured return at the end of the investment term on the money they invested, even if the expectation of growth above the participation threshold doesn't materialise.

The structure



The endowment

Special features of the product

Enhanced allocation

The product offers the investor an enhanced allocation. This means that we will add 3% to the investment amount at the investment trade date, rounded down to the nearest R100.

The additional 3% will participate in all the features of the investment component. At the end of the investment term, the investor will get a return assuming that he invested 3% more than he actually did.

The value of the enhanced allocation only applies to investors who stay for the full investment term. It falls away if the investor makes any withdrawals during the investment term.

Enhancing investor value for lower adviser fees

The investment component includes adviser fees. A maximum upfront adviser fee of 3%, plus VAT where applicable, is included. If the financial adviser chooses to take less than the maximum adviser fee, we will further enhance the investment's allocation with the difference.

For example, if a financial adviser and client agree on an adviser fee of 2%:

- We will invest an additional 1% of the investment value into the investment component in increments of R100.
- If there is any remainder due to rounding, we will invest it in the money market portfolio.
- The additional 1% will participate in all the features of the investment component. At the end of the investment term, the investor will get a return assuming that he invested 1% more than he actually did.

This enhancement will not fall away if the investor makes any withdrawals during the investment term.

Tax treatment

The investment is taxed according to the rules that apply to endowments and any proceeds, including any enhanced allocation(s), that the investor receives from the endowment will be after tax.

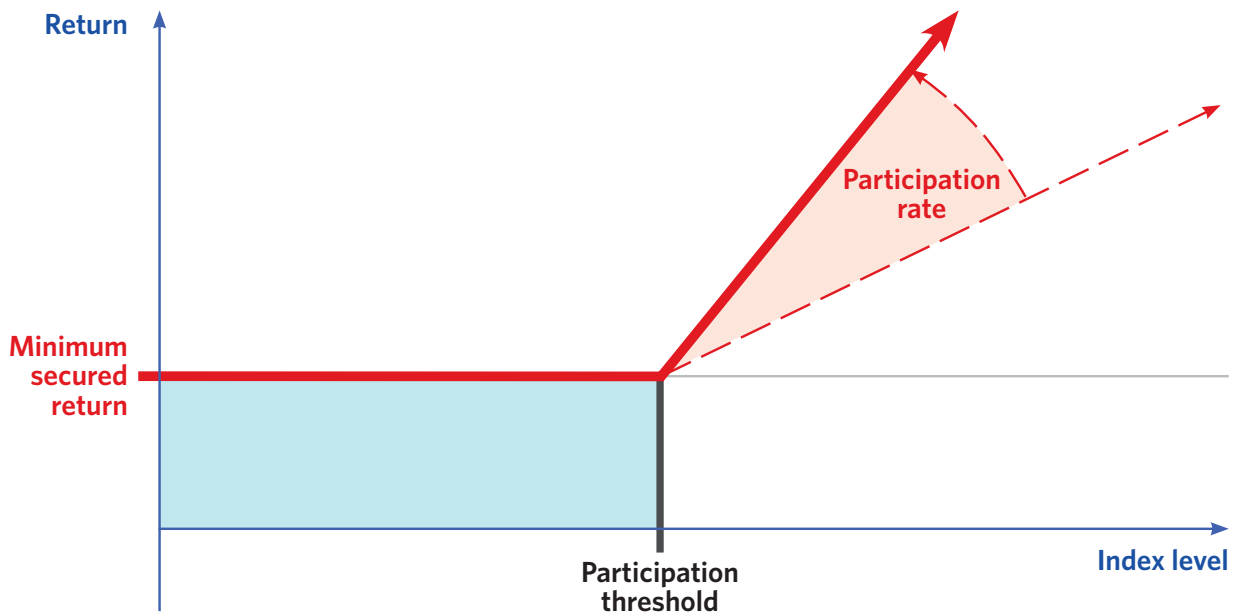
Current tax rates applicable for individuals (July 2019):

Tax	Rate	Applies to
Income tax	30%	Secured return and interest in money market
Capital gains tax	40% of any capital gain will be taxed at the same income tax rate of 30%. This means an effective tax rate of 12%.	Returns above the participation threshold

Any changes in South African tax legislation will affect the tax that applies to the investment.

The investment component

It is important to understand the various terms used with structured investments and what they mean. We illustrate the specific parameters for an investment component at proposal stage and finalise it on the trade date.



The index

The index is the performance engine behind the returns that the investment will generate. The value of the index at the end of the five-year investment term relative to its value at the trade date determines the benefits that the investor will receive.

We show the relevant index on the trade sheet of the tranche that will trade next.

Secured return

The secured return is the minimum return that an investor will get at the end of the investment term. For example, if the secured return is 15%, every R100 invested will grow to at least R115 at the end of the investment term, before tax. The minimum secured return is treated as interest income for tax purposes.

Participation threshold

If the index grows by less than the participation threshold over the investment term, the investor will receive the secured return.

If the index grows by more than the participation threshold over the investment term, the investor will receive a return higher than the secured return.

The participation threshold is usually the same as the secured return (based on the previous example it would be 15%), but it can happen that some investment components have different values.

Participation rate

If the index grows by more than the participation threshold over the five-year term, the growth above this level is geared. This means that all growth above the participation threshold is multiplied by the participation rate at the end of the investment term.

For example, if the participation rate is 300%, then all growth above the participation threshold will be multiplied by three to determine the investment value. If the participation rate is 500%, then all growth above the participation threshold will be multiplied by five to determine the investment value.

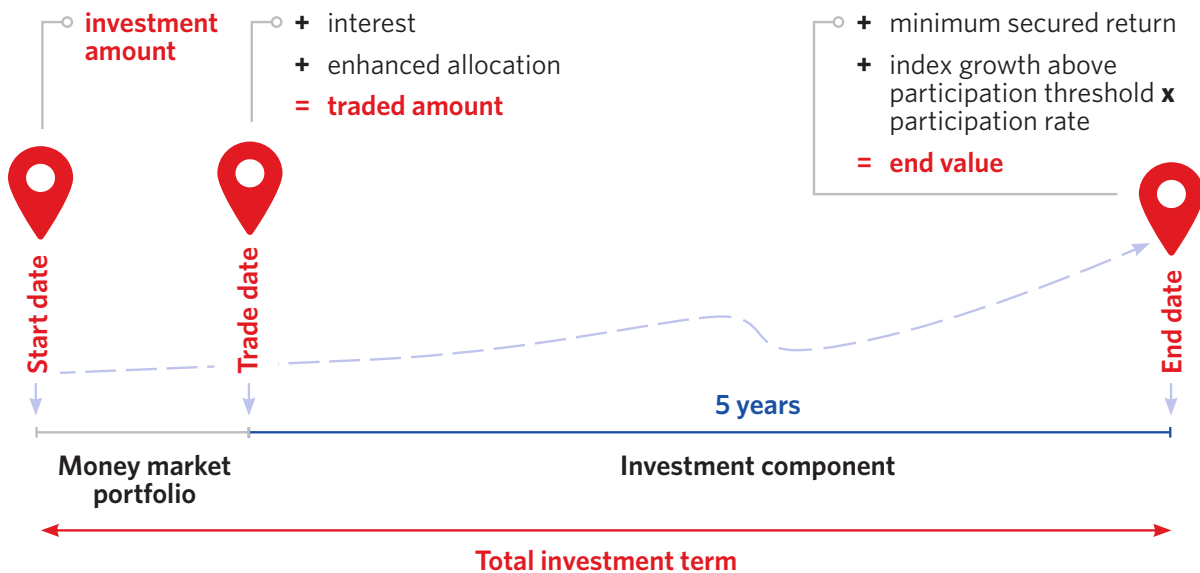
For tax purposes, all growth above the secured return is treated as capital gains.

The issuer of the investment component

The investment component is issued by an investment grade bank (example BNP Paribas), called the issuer. The issuer provides the secured return and participation. The investor takes on the credit risk of the issuer which means that if the issuer should become insolvent, it is possible that they will not be able to pay the investor's initial investment amount and the investment growth on it at the end of the five-year investment term.

It is important to note that no guarantees are provided by Guardrisk Life Limited or Momentum Wealth.

Momentum Enhanced Growth Option timelines



The above diagram does not show the impact of tax, refer to section on tax for applicable tax rates.

Fees and impact on market values

All fees are included in the structure, so an investor who stays for the full investment term will receive the payoff profile as promised, without experiencing any changes because of fee deductions.

The effect of fees on early withdrawal will be illustrated in the Effective Annual Cost on the fee and benefit proposal. The fees can be categorised into advice and administration.

Adviser fees

Adviser fees of up to 3% (before VAT) are included in the structure. If the financial adviser takes less than this maximum level, the balance will be reinvested into the component for the investor's benefit.

The adviser fees are included as an upfront fee. Therefore, shortly after the trade date, the market value of the investment will reduce. This does not impact the profile of the investment at the end of the term. The decrease in market value will also be offset by the increase resulting from the enhanced allocation.

Administration fees

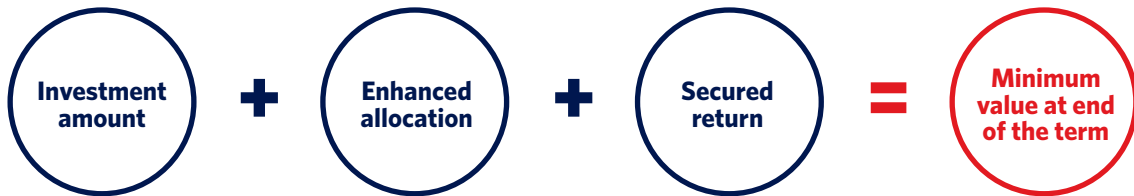
Administration fees are not taken upfront but are included in the structure as a yearly cash flow.

The market value of the investment may drop around each policy anniversary to reflect the administration fee cash flow. These cash flows will not impact the secured return, the participation rate or the investment profile at the end of the investment term.

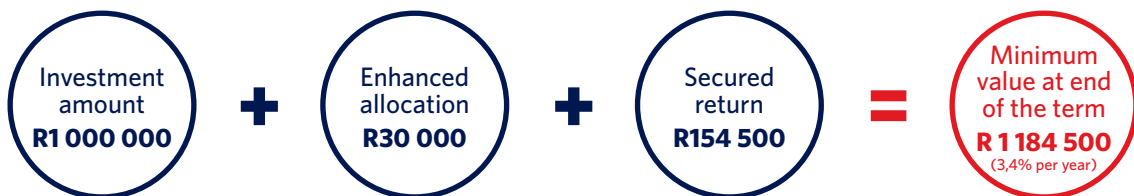
Examples illustrating return profiles

What happens if the index growth is less than the participation threshold over the five-year term?

If the index growth is negative or lower than the participation threshold, an investor will still get the minimum secured return (before tax) at the end of the investment term.



For example, assume an investor invests R1 000 000 in the Momentum Enhanced Growth Option, with a secured return and participation threshold of 15%. If the index growth is less than 15%, or negative over the term, the investor will get the following returns:



Calculation:

Enhanced allocation = Investment amount x 3%
= R1 000 000 x 3% = R30 000

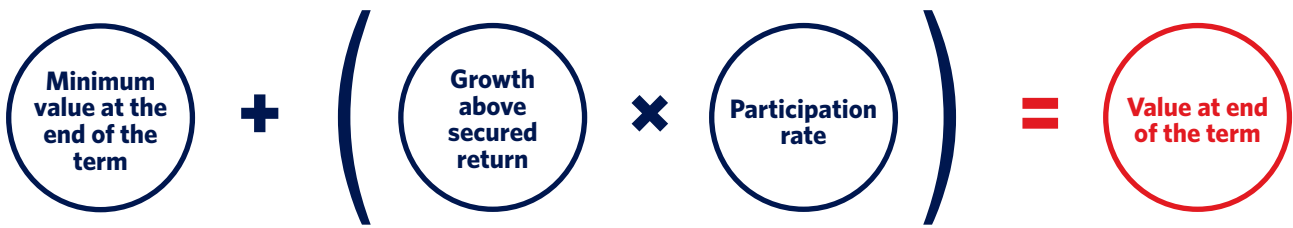
Secured return = (Investment amount + Enhanced allocation) x 15%
= (R1 000 000 + R30 000) x 15% = R154 500

Minimum secured value = Investment amount + Enhanced allocation + Secured return
= R1 000 000 + R30 000 + R154 500 = R1 184 500

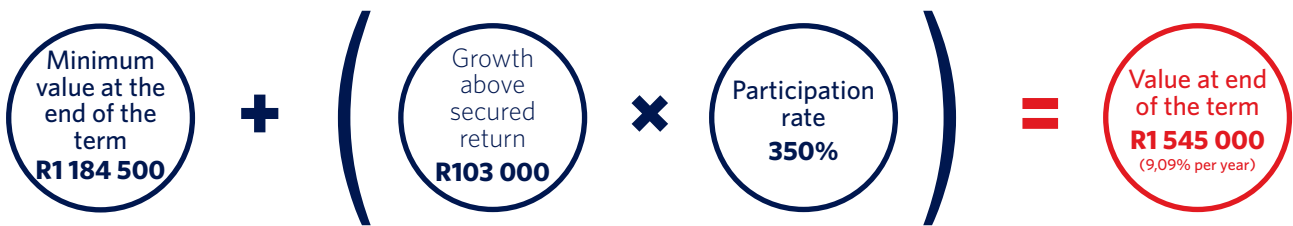
The values shown are before tax. In this example, tax will reduce the value at the end of the term to R1 138 150, which is a return of 2,6% per year.

What happens if the index grows by more than the participation threshold over the five-year term?

If the index grows by more than the participation threshold over the investment term, the investor will get additional returns above the minimum secured value.



Continuing the example above, assume that the participation rate is 350% and the index grows by 25% over the five-year term.



Calculation:

Growth above secured return = (Investment amount + Enhanced allocation) x (Index growth - Secured return)
 = R1 030 000 x (25%-15%) = R103 000

Minimum secured value = Minimum value at end of term + (Growth above secured return x participation rate)
 = R1 184 500 + (R103 000 x 350%) = R1 545 000

The values shown are before tax. In this example, tax will reduce the value at the end of the term to R1 455 390, which is a return of 7,79% per year.

Note: The numbers above are for illustrative purposes only and assume that the investor hasn't made any withdrawals during the investment term. The values shown are based on current tax rates.

General rules

Investors

The Momentum Enhanced Growth Option is only available to individual investors, and trusts with natural persons as beneficiaries. No other entities can invest.

Investment amounts

The minimum investment amount is R50 000. Investors can only invest lump sum amounts. It is not possible to invest additional amounts in the product after the trade date.

Insured persons

An insured person is a requirement for any endowment. An individual investor will always be an insured person for the investment. Trust investors must nominate at least one insured person.

Legally, the investment will end if the last living insured person dies before the end of the investment term. Appointing additional insured persons will allow the investment to continue if the first insured person (usually the owner) dies. Insured persons are not entitled to any benefits from the investment, but they enable the investment to continue after the death of any other insured persons. This is especially important for structured products.

The Momentum Enhanced Growth Option requires at least one insured person to be younger than 80 at the start of the investment.

Beneficiaries

The investor can nominate beneficiaries for this investment. There are two types of beneficiaries:

Beneficiary of ownership

A beneficiary of ownership can be nominated if there are other insured persons nominated for the investment. If the owner of the investment dies during the investment term, we will transfer the investment to the beneficiary of ownership with all rights and benefits of the investment attached to it. The nominated beneficiary can be an individual or a trust with natural person beneficiaries.

Beneficiary for proceeds

If the last insured person dies during the investment term, the investment must end and the proceeds must be paid out. Beneficiaries for proceeds can be nominated to receive the proceeds of the investment, or we will pay it out to the deceased estate. The proceeds will equal the market value of the investment, including the enhanced allocation. This may be more or less than the original investment amount.

Loans and cessions

No loans are available on the Momentum Enhanced Growth Option.

The investor can cede this investment as security to another party. Once ceded, the cession holder must approve all future changes on the investment. The cession holder only has a claim to the investment if the investor defaults on any debt obligations he or she may have with the cession holder.

If there is a security cession on the investment, the cessionary will receive the proceeds.

Outright cessions (transfer of ownership) are allowed where the new owner is an individual or a trust with natural person beneficiaries. We will transfer the investment to the cessionary with all rights and benefits of the investment attached to it. All beneficiary nominations will be cancelled.

Other investment components

The Momentum Enhanced Growth Option does not allow for choice of investment components. It only includes the investment component and the money market. The money market is used if any portion of the investment is too small to purchase additional shares in the investment component.

Partial withdrawals

The Momentum Enhanced Growth Option allows for one withdrawal throughout the investment term. If a partial withdrawal is taken the enhanced allocation will fall away.

When we receive a request for a specific amount we will sell any assets in the money market and the correct amount of shares to cover the amount requested (rounded up to the nearest share) based on the prevailing share price at the time. The proceeds that we receive will be taxed and we will pay out the net amount to the client.

It is therefore important to note that the client will not receive the amount that is specified on the withdrawal application form.

What can cause the investment to end during the investment term?

This product is suitable for investors who can remain invested for the full term of five years. These investors will receive the full benefits of the secured return, the participation and the enhanced allocation. Payments before the end of the term will be based on market value at the time, which could be more or less than what was originally invested.

Cool off

If this investment is not what the investor requires, the investor can request a cool off within 30 days of receiving the new business confirmation, but not more than 60 days after the start date of the investment.

On cool off we will cancel the whole investment. We will base the value that the investor receives on the market value of the investment at the time. We will reverse all adviser and administration fees. If the investment component has traded the enhanced allocation will fall away.

Surrender or full withdrawal

After the cool-off period, the investor can do a full withdrawal before the end of the investment term. The investor will receive the market value of the investment at that time. It is important to remember the following:

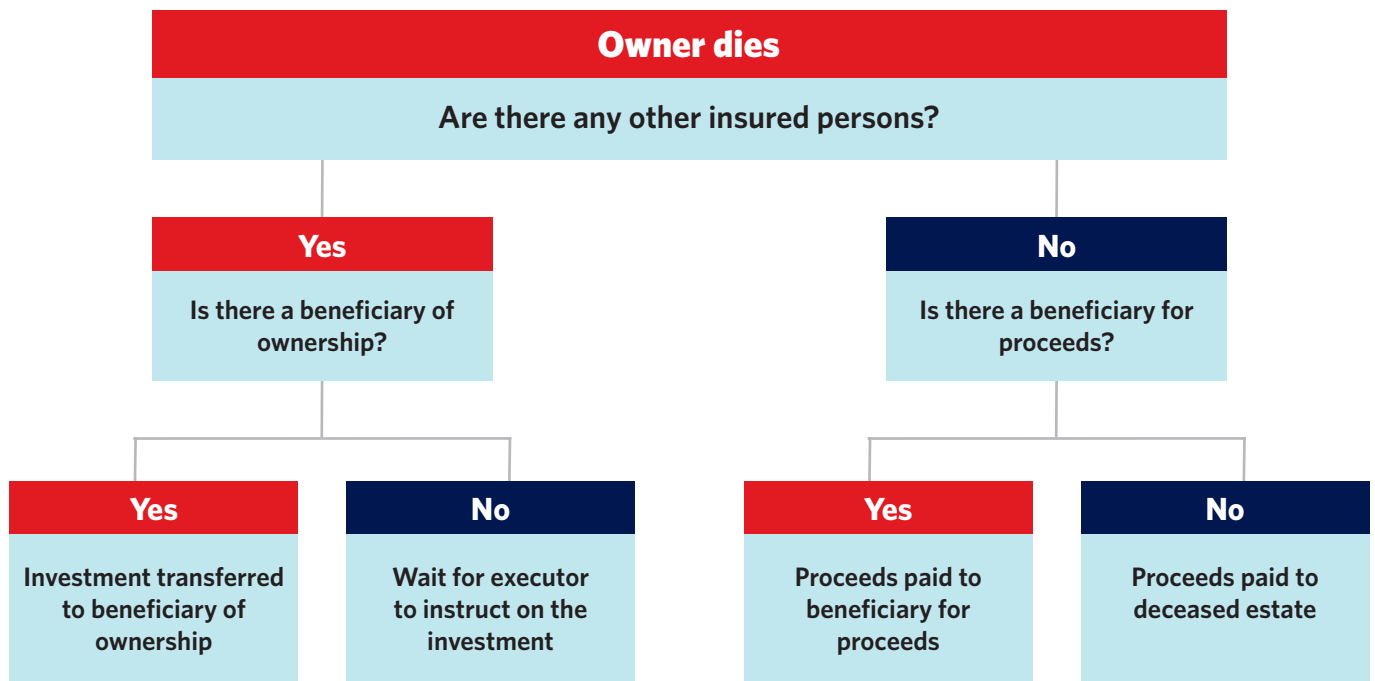
- The enhanced allocation (3%) will fall away and the market value will be based on what the investor invested.
- Any enhanced value due to the financial adviser taking less than the maximum adviser fee will not fall away and will contribute to the market value.
- The secured return and participation rates do not apply before the end of the investment term.
- The maximum amount that we can pay out to the investor during the investment term is the initial investment amount grown at 5% per year until the time of the withdrawal. (according to endowment rules).

Death of an insured person

If the last insured person dies during the investment term, we will pay out the market value of the investment. This value will include the value of the enhanced allocation if the investment has already traded.

What will happen to the investment when the investor dies?

The investor, if an individual, will always be the first insured person for the investment. If the investor dies during the investment term, the following will happen:



The values on death are as follows:

1. If transferred to a beneficiary of ownership or estate (where at least one insured person is still alive) then the investment continues and the enhanced allocation stays in place.
2. If paid to beneficiary for proceeds or estate (all insured persons are no longer alive). The market value of the investment, including the enhanced allocation, will pay out. This may be more or less than the original investment amount.

Tranches

The Momentum Enhanced Growth Option works on a tranche basis. Momentum Wealth will provide information on the latest parameters as well as the expected trade date for each tranche. A fee and benefit proposal can be obtained through the Quota system and will include all the relevant information that investors need to be aware of.

What are the requirements for new business?

We need the following information for all new applications for the Momentum Enhanced Growth Option:

- A valid fee and benefit proposal signed by the investor.
- The investment amount(s) must reflect in our bank account by the last payment date as set out in the fee and benefit proposal.
- All fully completed application forms and related documents must be submitted by the closing date of the tranche.

How can advisers become accredited to sell the Momentum Enhanced Growth Option?

Independent financial planners

- Broker house must have signed the Guardrisk Life intermediary agreement.
- Broker house must have signed the annexure to the Momentum broker house agreements.
- Adviser must be appropriately licensed to sell the Momentum Enhanced Growth Option.

Momentum Financial Planners

- Advisers will be provided with an annexure to sign after completing the applicable product training.

Important: We cannot issue a case if the required agreements are not in place. Please ensure that these agreements are signed well in advance of the trade date to avoid a case where we cannot trade.

How to get the relevant adviser broker house documents to sign (independent financial planners):

- The business consultant or branch requests the agreement and annexure from the sales support team (WFOPsSalesSupport@momentum.co.za)
- The team generates the agreements within two working days and sends them to the business consultant or branch to forward it to the brokerage for signing.
- The brokerage signs and returns the agreement and the annexure to WFOPsSalesSupport@momentum.co.za and the team activates the agreement on the system within 24 hours.
- The broker house will be informed that the agreements have been loaded.

Why must the above mentioned documents be signed?

Due to the role Guardrisk plays in this investment, the revised policyholder protection rules (PPR), specifically Rule 12.2.2 issued under Section 65 of the Long Term Insurance Act, stipulates that:

“An intermediary agreement must be entered into directly between the insurer and the intermediary concerned and may not be entered into by a third party acting on behalf of either the insurer or the intermediary.”

Important timelines for the Momentum Enhanced Growth Option

The Momentum Enhanced Growth Option is a tranche-based investment that trades approximately every 8 weeks. We will communicate the trade date of every tranche.

Important dates to note are:

Trade date - this is the date on which the starting value of the index is recorded.

Quote closing date - After this date no further fee and benefit proposals can be drawn. All applications must be submitted by this date to be eligible for this tranche.

Last deposit or collection date - All money must reflect in the relevant bank account by this date.

These dates are communicated on the fee and benefit proposal of the relevant tranche.

What happens if we receive a different amount than what was shown on the fee and benefit proposal?

If the amount on the fee and benefit proposal differs from what we receive from the investor, we will invest and trade any amount that is in the Momentum Money Market Fund at the trade date. We will confirm the new minimum secured value in the trade confirmation that we send to the investor. If the total amount received is below the product minimum we will not be able to trade and will communicate with the investor.

What is the process after we receive the investment amount?

When we receive an investor's investment amount(s) and accept the application, we invest the money in the Momentum Money Market Fund where it will start earning money market returns. The investment will remain in this portfolio (unit trust) until the trade date. We will allocate the interest earned and deduct any tax applicable, but we won't charge any administration fees on the money market portfolio.

On the trade date we will move the money from the money market portfolio into the Momentum Enhanced Growth Option investment component, in multiples of R100 with the remainder staying in the money market portfolio for the duration of the investment term. We will also add the enhanced allocation and adviser fee enhanced allocation (where applicable).

Once we have received the first investment amount, we will send out a new business confirmation letter to the investor showing the investment amount received and restating any important disclosures made. This confirmation will be sent once we receive the first investment amount from the client. All subsequent money that we receive will reflect on the trade confirmation letter that the client receives after the trade date.

When will adviser fees be paid?

We will apply adviser fees on the date that the issuer confirms the trade and allocation takes place for the client (usually 10 working days after the trade date). Adviser fees will be based on the amount that we transfer from the money market portfolio into the investment component on the trade date (this does not include the enhanced allocation). The date on which the adviser fees are applied will be before close off for the month, unless there is an unexpected delay from the issuer.

How many beneficiaries can an investor nominate?

The investor can use the application form to nominate up to five beneficiaries for proceeds. If more beneficiaries are required, the investor can use the beneficiary nomination form.

One beneficiary for ownership can be nominated if the investor is an individual.

What happens if the outstanding requirements are not finalised before a trade date?

The Momentum Enhanced Growth Option will launch in different tranches with different secured returns and participation rates between each tranche. Each tranche will have a trade date that we will confirm to the investor on the trade sheet as well as the fee and benefit proposal.

If outstanding requirements are not finalised and the trade date is missed, we will transfer the investment value into a new endowment with a new investment number, so that it can be part of the next tranche.

Trade dates will typically be between one and two months apart.

What happens if the Momentum Enhanced Growth Option investment component does not trade on the expected trade date?

In certain cases the investment component may not trade. This could happen if market conditions are particularly volatile and result in significant adverse changes to the parameters of a tranche. In such cases we will communicate with investors on the process forward.

Momentum Wealth

Legal status: Registration no 1995/008800/07
Registered as an authorised financial services provider (FSP657)
Physical address: 268 West Avenue, Centurion, 0153
Postal address: PO Box 7400, Centurion, 0046, South Africa
Tel: 0860 114 930
Fax: 012 671 8209
Email: client@momentum.co.za

Guardrisk Life Limited

Legal status: Registration no 1999/013922/06
Physical address: The Marc Tower 2, 129 Rivonia Road, Sandton, 2196
Postal address: PO Box 786015, Sandton, 2146
Tel: 011 669 1000 / 0860 333 361
Email: complaints@guardrisk.co.za/info@guardrisk.co.za
Compliance department: Compliance@guardrisk.co.za

Ombud for Long-term Insurers

ShareCall: 0860 103 236
Tel: +27 (0) 21 657 5000
Fax: +27 (0) 21 674 0951
Email: info@ombud.co.za
Post: Private Bag X45, Claremont, 7735

Fais Ombud

Tel: +27 (0) 12 428 8000
Fax: +27 (0) 12 347 0221
Post: PO Box 35655, Menlo Park, 0102

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