THE GLACIER INVEST LIVING ANNUITY INCOME SOLUTIONS

June 2020

SMOOTH SAILING IN THE GOLDEN YEARS

When you retire, one of the most important decisions you have to make is how to best employ your retirement savings to generate an income that will meet your needs for the rest of your life. You want to make the most of what you have, to ensure you get what you deserve: the smoothest retirement journey possible.

Many people choose to invest their retirement savings in a living annuity to provide them with an income during retirement. Living annuities allow your money to continue working while you have a well-earned rest; however, their link to financial markets also means that they come with certain risks. Financial markets are volatile, and severe market downturns can set back your retirement capital substantially.

While market volatility cannot be controlled, experience and skill can navigate any market storm. We invite you to trust the experts at Glacier Invest for a smooth sailing retirement.

GLACIER INVEST: LEADERS IN DISCRETIONARY FUND MANAGEMENT

Glacier Invest blends world-class investment capability, superior operational scale and pricing power, and revolutionary technology to bring you the future of portfolio construction.

Glacier Invest draws on the full expertise and capabilities within Sanlam to offer world-class portfolio management and consulting. Our team of highly experienced investment professionals work with intermediaries to create and manage bespoke portfolios. These skilled individuals conduct robust macro-economic and fund manager research to inform the portfolio construction process and manage risk in a new world where change is the only constant, and adaptation is key to survival.

At Glacier Invest, our distinct competitive edge lies in our skill, our scale and the simplicity of our solutions.

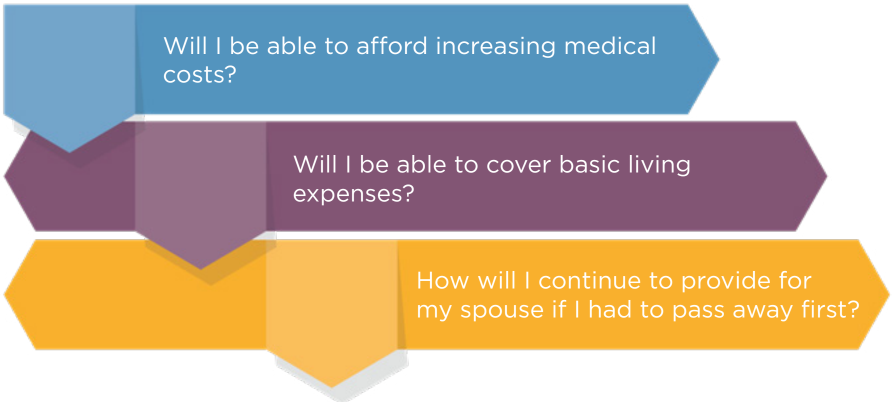
- The **skill** of our experienced investment professionals ensures broad and in-depth research into markets and asset managers to create tailored investment solutions.
- With the largest amount of assets under management in the Discretionary Fund Management industry, our **scale** allows us to invest in cutting-edge investment technology, and to negotiate better fee deals with asset managers. This means that our clients can access the very best asset managers at the very best costs in the industry.
- **Simplicity** – the back-end may be complex, and the systems that connect our various elements may be intricate, but for our interface and interactions, we are committed to seamless, elegant simplicity.

The size and experience of our investment team is a crucial differentiator in the SA DFM market – it ensures that the financial advisers that have partnered with us have security in the knowledge that they have partnered with the best.

WE CONTEMPLATE YOUR CHALLENGES SO THAT YOU DON'T HAVE TO

Common concerns about retirement

We know you look forward to retirement, but we also know that any new life stage comes with a degree of uncertainty. You may be concerned about a number of things:



Reality doesn't always match the retirement dream

A survey conducted by Brand Atlas in 2019 highlighted that:

- A very small number of South Africans get it right to save enough to retire comfortably
- More than half of South African pensioners can't make ends meet
- About a third of retirees are dependent on financial help from the government
- A third don't have enough funds to cover medical expenses
- A third are still in debt after they stop working
- More than half still have adult dependants to support.

Source: Sanlam Benchmark Symposium, 2019 and Retirement Reality Report 2019, Brand Atlas, September 2019

Choosing the right retirement income solution is not simple

Choosing the retirement income option that best suits your needs takes diligence, care and attention to detail. We highly recommend that you discuss your options with your financial intermediary to help you make an informed decision.

IF YOU'VE INVESTED IN A LIVING ANNUITY, THERE ARE MANY ADVANTAGES AS WELL AS RISKS

Advantages

Investing in a living annuity can help you make the most of what you have so you can live your best life possible. This flexible and personalised investment product allows you to:

- **protect the purchasing power of your income:** By exposing the source of your income to market returns, you have the opportunity to let your income keep pace with, or beat inflation.
- **amend your income level** (within legal limits) and frequency of payments once a year, so you can adapt your cash flow to your changing needs
- **ensure that your underlying investments match the level of risk** you feel comfortable with

When you die, the available money is transferred to your beneficiaries as a legacy. They can receive it in cash or continue with the annuity.

Risks

Living annuities are not guaranteed for life. The number of years that a living annuity will last depends on the performance of the underlying investments, how much income you withdraw, and how long you live.

- **Investment risk:** The investment returns from your underlying investment portfolio may be worse than expected and negatively affect income and capital

- **Sequence risk:** Market volatility can pose a significant risk for investors just before or just after retirement, when their retirement capital is at its most vulnerable to the impact of market downturns. Should there be a downturn in the market and not enough time for the investment to recover before retirement, it can significantly deteriorate their retirement capital. Suffering a loss of retirement capital early in retirement can have a detrimental impact on an investor's future capital and potential to sustain their retirement income. When drawing a retirement income after suffering a capital loss, an investor essentially locks in this loss and reduces the amount of capital that is left to grow

- **Inflation risk:** The risk that the purchasing power of the income provided by your chosen product is eroded due to the level of income not keeping up with inflation

- **Longevity risk:** If you live longer than the initial estimate, you run the risk of outliving your capital. This could mean that there will be insufficient capital in later years to provide your required income. A longer time horizon also compounds the eroding effect of expense inflation on the purchasing power of your income

Mitigating longevity and sequence risk in a living annuity

To mitigate these risks, we believe that a traditional approach to portfolio construction is not sufficient. After retirement, investors require some protection against market downturns and volatility.

To mitigate longevity risk, or the risk of an investor running out of retirement savings, investment returns (what the investment gains) should keep up with the income withdrawals from the investment (what the investment loses). Therefore, the portfolio manager should focus on preserving and growing capital within the living annuity portfolio.

Mitigating sequence risk requires a focus on reducing the effects of market volatility on the living annuity portfolio, so that the ups and downs of the market are not reflected in exactly the same way within the performance of the living annuity portfolio.

WE HELP ENSURE THAT YOUR RETIREMENT SAVINGS LAST AS LONG AS YOU NEED THEM TO

During a time as challenging as the one we currently find ourselves in, a traditional approach to portfolio construction for income drawing retirees is just not going to be enough. A new way of thinking is required when it comes to navigating retirement.

Glacier Invest has a new way of thinking to suit a new world

At Glacier Invest, we spend our time looking for new solutions to solve persistent problems in retirement planning. We have therefore adopted a progressive new approach to living annuity portfolio construction. We continuously analyse the investment landscape, and a range of investment tools that could boost, support or protect the capital and income stream of clients.

We use contemporary investment instruments and apply an **asymmetrical*** approach to portfolio construction to mitigate downside while capturing upside. This approach focuses on managing more consistent sequence of returns and ultimately mitigating the risk of one's capital running out. We aim to give you peace of mind that your retirement is being looked after in a more predictable manner based on your needs and objectives, so you can have more certainty around income withdrawals.

**An asymmetrical approach is designed to reduce volatility in returns, preserve capital and offer downside protection. It aims to provide higher and more positive returns, and lower and fewer negative returns through active risk management, so that you can grow your wealth when markets are flourishing and protect it when markets are struggling.*

We aim to produce returns that keep up with drawdown rates

If a living annuity is managed in such a way that you only withdraw the return on the investment as an income, the capital can be kept intact. It's important to bear in mind, though, that the remaining capital base after income would need to grow by inflation each year for your income to sustain your lifestyle in the face of inflation eroding your purchasing power over the years.

If the average living annuitant draws 6.5% of their investment value every year, this means that their investment returns would need to average a rate equal to inflation plus 6.5% per year after fees.

We harness specific portfolio construction tools

We use portfolio construction tools that – to an extent - can mitigate longevity and sequence risk in retirement by pursuing an asymmetrical distribution of returns. The tools used are hedge funds, smoothing techniques and alternative assets.

1. Hedge funds behave unlike the markets

Hedge funds behave independently to the movements in financial markets. They therefore provide a return that is less correlated to the rest of the portfolio. This should assist in limiting losses when markets fall, and potentially help to enhance returns in a low return environment. Hedge funds were originally designed to protect against unforeseen shocks to investment portfolios and can be valuable as part of a well-balanced investment strategy.

In order to provide returns that are less correlated to what happens in the markets, hedge funds often use additional investment strategies to improve their performance. Therefore they can be expected to generate a better return than traditional funds.

2. Smoothing techniques create more income stability

Smoothing techniques can reduce volatility and sequence risk in a living annuity portfolio. By holding back excess returns in good years and releasing them back to investors in years when markets perform poorly, the investor has a more stable return experience on a year-by-year basis.

3. Alternative assets are there to boost returns

To achieve the after-inflation returns that retirees require to enable them to use as little as possible of their capital, a living annuity portfolio needs return boosters. Fortunately, there are various alternative assets that can do this job: hedge funds, private equity, mezzanine debt, and unlisted instruments, to name a few. These offer opportunities to generate significant returns independent of the movements within the publicly traded market. They are expected to generate higher returns and can form a crucial part of a solution that aims to assist investors in reducing sequencing and longevity risk.

Alternative assets have unique risks associated with them

We have full confidence in our asset management skill and our exceptional portfolio construction capabilities. The best interests of clients are of primary importance to us and investment instruments are chosen very carefully. It is, however, important to acknowledge the risks associated with alternative assets.

Hedge funds: Some hedge fund managers may invest in derivatives. Derivatives use leveraging, which means that various financial instruments or borrowed capital is used to increase the potential return of an investment. This may change the volatility of the portfolio.

Unlisted instruments: The determination of the market value of unlisted instruments is slightly delayed. The value of such instruments may therefore have to be estimated, and if these estimates are not accurate, it may lead to a temporary incorrect impression of the fund's value.

Private equity: High-net-worth investors or institutions invest money in new companies or start-ups that have great growth potential. These investors are expected to invest in the new company for several years, as start-up companies take time to generate earnings. This makes it more difficult for investors to get in or out of the investment in private equities. The potential success of these start-up companies may also have been over-estimated by the investors, and they could fail, leading to losses for those who invested in them.

Mezzanine debt: Investors finance the expansion of established companies. It offers very high returns, but if the borrowing companies go out of business, lenders can lose money.

THE GLACIER INVEST LIVING ANNUITY INCOME SOLUTIONS

Actively managed portfolios to reduce longevity and sequence risk

The Income Solutions focus on:

- increasing predictability and consistency of income, and
- protecting capital during market downturns

Our solutions are actively managed by professional investment managers, and continuously monitored to ensure that they deliver on both their return and risk objectives. Underlying investment managers' strategies are monitored to ensure that they continue to add value and remain relevant to the portfolio objectives. Switches between investment funds are made in accordance with market conditions to minimise risk and ensure consistent performance in accordance with clients' investment needs and goals.

Our solutions are well-diversified, with asset manager strategies that are different, yet complement each other to achieve a smoother return profile.

Each Living Annuity Income Solution consists of a combination of collective investment funds, hedge funds and smoothing policies. Specific returns are targeted while taking income withdrawals into account.

** Risk profiles vary from conservative to aggressive. Your personality and personal circumstances determine how much investment risk you are willing to take on.*

The Glacier Invest Income Solution spectrum

This collection of **model portfolios** covers a variety of risk profiles and the one that is most suitable for you will be determined by your risk profile, your income requirements and your retirement capital amount.

- The Glacier Invest 2.5% Real Income Solution targets an investment return of 2.5% after taking inflation into account (therefore, a return of inflation + 2.5%). Investors in this solution are expected to draw an annual income of 2.5% of their investment value.

  Similarly:
- The Glacier Invest 3.0% Real Income Solution targets an investment return of 3.0% after taking inflation into account;
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OUR COMMITMENT TO YOU

Glacier Invest's new thinking with regard to portfolio construction is aimed at solving two risks specific to living annuities. We'll continue to research and use the full range of appropriate portfolio construction tools available to reduce longevity and sequence risk within living annuities and provide a sufficient and stable retirement income for life.

WHAT ARE MODEL PORTFOLIOS?

A model portfolio is a portfolio consisting of underlying collective investment funds managed according to a specific investment mandate.

FEES AND CHARGES ARE PAYABLE

Fees are charged for the administration and management of your investment. Glacier's annual administration fee and the annual financial intermediary fee are deducted by repurchasing units from the investment in an Investment-Linked Living Annuity.

Platform charges for investing in the Glacier Investment-Linked Living Annuity

Glacier's administration fees
Glacier charges an annual administration fee.

Financial intermediary fees
You and your financial intermediary agree on the fees for financial advice and services provided. You may renegotiate these fees at any time.

Investment management fees
The managers of the collective investment funds in which you invest via our platform will charge a fee.

The fees are set out in the application form, investment confirmation, applicable mandates and fund fact sheets of the individual funds.

Discretionary fund management fees, for investing in the Glacier Invest Living Annuity Income Solutions

Annual wrap fund management fee
The annual wrap fund management fee is payable to Glacier Invest for the investment management services we provide.

If your chosen income solution consists of a wrap fund together with a smoothed bonus fund, Glacier Invest will not receive a wrap fund management fee for the portion invested in the smoothed bonus fund.

Annual wrap fund advisory fee
A wrap fund advisory fee may be payable to your financial intermediary for advisory services provided to the investment committee on your behalf and for your benefit. Your financial intermediary's input is considered in the investment management process and may affect the outcome of investment decisions made by the investment committee.

Value-added tax (VAT) payable on fees
VAT is payable on fees where applicable.

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