

COLLECTIVE INVESTMENT SCHEMES



FSB
FINANCIAL
SERVICES
BOARD

INTRODUCTION

This booklet will provide you with information on the importance of understanding ways in which Collective Investment Schemes (“CIS”) can work for you to invest or save money.

There are three different types of Collective Investment Schemes, namely Collective Investment Scheme in Securities, Collective Investment Scheme in Property and Collective Investment Scheme in Participation Bonds, each of which will be explained.

| | |
|--|-----------|
| DEFINITIONS..... | 3 |
| CHAPTER 1: Collective Investment Scheme in Securities | 9 |
| • What is a Collective Investment Scheme in Securities? | 10 |
| • Benefits of Investing in Collective Investment Schemes in Securities | 11 |
| • Frequently Asked Questions in respect of Collective Investment Schemes in Security | 15 |
| CHAPTER 2: Collective Investment Scheme in Property..... | 18 |
| • What is a Collective Investment Scheme in Property? | 19 |
| • Income from a Collective Investment Scheme in Property | 19 |
| • Where to buy a Collective Investment Scheme in Property..... | 19 |
| • When do you receive your income from a Collective Investment Scheme in Property? | 20 |
| • Who to contact to buy a Collective Investment Scheme in Property. | 20 |
| CHAPTER 3: Participation Mortgage Bond Scheme | 21 |
| • What is a Participation Mortgage Bond Scheme?..... | 22 |
| • Income from a Participation Mortgage Bond Scheme | 22 |
| • Conditions for Investing in a Participation Bond Scheme | 23 |
| • Who to contact to invest in a Participation Bond Scheme | 23 |

Definitions



Assets

These are possessions such as buildings, furniture, vehicles, etc. However, relating to a CIS, it could be shares, bonds, deposits, money market instruments or real estate. Assets are paid for and form part of the portfolio.

Collective Investment Schemes (CIS)

A CIS, is a type of investment vehicle used by investment managers to pool investors' money to enable them to access investments which they might not otherwise be able to access in their individual capacities. Through a CIS an investor can also achieve a spread of investments in assets such as shares, bonds, deposits, money market instruments, real estate etc. One of the main characteristics of a CIS is that investors get to share the risks and benefits of their investment in a scheme in proportion to the participatory interests in the scheme.

Debit order

Regular payments e.g. a monthly amount taken from your bank account.

Dividend

Money paid out of company profits. Whereas bank deposits pay out interest, shares pay out dividends.

Equities

Shareholders participate in the risks as well as the profits of the company in which they invest. Except where there are different classes of shares, all shares have equal rights and shareholders benefit in proportion to their shareholding. The term generally refers to ordinary shares.

Income

The money received at a specific time which could be monthly, quarterly, semi annually or annually depending on which CIS product you have invested in. This could take the form of interest or dividends.

Interest

A payment made in return for the use of borrowed money.

Investment

The process of putting money in an investment product.
(See definition of “Asset” above).

Investor

Anyone who purchases investment products with the expectation of achieving profit and/or income.

Investment Manager

An investment manager is an individual or company that has been registered in terms of the Financial Advisory and Intermediary Services Act (FAIS) Act, to manage a portfolio on behalf of investors.

JSE Limited

A licensed exchange where securities are bought and sold.

Liquid Assets

Assets in the form of cash or near cash.

Lump Sum Investment

A once-off investment by an investor.

Property

Something owned for example a house or land. In relation to a participation mortgage bond scheme, it includes buildings like shopping centers, factories or office blocks.

Property Developer

Person developing the property referred to above.

Rental Income

Income received from the tenant renting property.

Shares

Part ownership of a company, which gives the right to share in the profits of the company as well as residual assets upon liquidation.

Securities

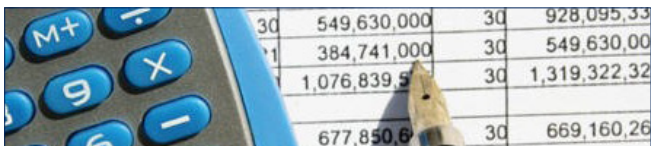
A general term for shares, bonds, money market instruments and debentures.

Security

An asset securing the repayment of a loan or some other obligation, for example, a house that is used as security and can be sold by a lender in case a loan is not repaid.

Underlying assets

These are the assets owned by the portfolio.
(See definition of “Assets” above).



| | | | |
|----|-------------|----|--------------|
| 30 | 549,630,000 | 30 | 928,095,33 |
| 31 | 384,741,000 | 30 | 549,630,00 |
| | 1,076,839,5 | 30 | 1,319,322,32 |
| | 677,850,6 | 30 | 669,160,26 |

The difference between Savings and Investments

Savings enable you to plan for your future and that of your family. You may wish to own a home and by saving for a deposit to buy the home you can then apply for a home loan and if the application is successful, you can prepare to buy a home. You may also want to save enough money to pay for your children to study at tertiary level.

Investments have some of the same characteristics as savings. Generally investments make it possible for you to use your money to make more money. Instead of spending your extra money, you can invest this money, either regularly or as and when you have money to invest. Investing money for when you are older and no longer able to work allows you to save money for your retirement when you no longer earn a wage or a salary.

In order to make savings and investments possible and part of your lifestyle, it is important that you budget for this. You should list the amounts for your savings and your investments under your expenses and this will help you to make sure that you put money away regularly to provide for your future.

One way in which you can save or invest money for your future is to put money in a CIS.

CHAPTER 1

Collective Investment Scheme in Securities



What is a Collective Investment Scheme in Securities?

Collective investments (also known as unit trusts or participatory interests) are investments in which many different investors put their money together or pool their money into a portfolio, and then this pooled money is managed by professional investment managers. These professional investment managers invest this pooled money in different assets. These assets include a wide range of local and international shares or equities of companies listed on an exchange, bonds, property and money market instruments.

The total value of the pool of invested money is split into equal portions called participatory interests or units. When you invest your money in a Collective Investment Scheme portfolio, you buy a portion of the participatory interests in the total Collective Investment Scheme portfolio. The assets of a collective investment scheme portfolio are held by the trustees. These trustees are big banks in South Africa.

The participatory interest price, also known as unit price or the net asset value (NAV), depends on the market value of the underlying investments in which the pool of money is invested. This participatory interest price rises and falls (fluctuates) according to the value of the underlying investments. The participatory interest price is calculated daily.

Benefits of investing in Collective Investment Scheme in Securities

Affordable and easy

These collective investments are affordable as you can invest small amounts of money and this makes it possible for more people to easily invest in underlying assets that they normally would not be able to afford, such as shares on the JSE Ltd.

Spreads risk

As collective investments may be invested in a range of underlying assets, it means that your eggs are not all in one basket. The risk associated with your investment is therefore spread amongst the different underlying assets. If any of these assets perform poorly, your total investment will not necessarily perform poorly as there are other assets that may have done very well. It is also advisable that an investor should not invest in only one type of Collective Investment Scheme portfolio, but rather in different types, for example, equity, income, balanced etc. Always remember to discuss these options with your Financial Advisor.

Good returns

The longer you leave your money invested, the greater the opportunity for your investment to grow. An investment in a Collective Investment Scheme in Securities can be repurchased at any time, however, it is advisable that you invest the money for at least 3 – 5 years. The reason for this is that the value of the participatory interests of a Collective Investment Scheme in Securities can go up or down. If invested for a longer period of time, one can expect to see the benefit of the long-term growth in the market.



Professional investment management

An investment manager manages your investments for a fee. An investment manager must be registered with the Financial Services Board as a financial services provider in terms of the FAIS Act. You can call the FSB's Contact Centre (contact details below) to find out if the investment manager is registered with the FSB.

Your money is accessible

Collective Investments in Securities are easy to sell which means that you can sell all or part of your investment at any time. However, it is recommended that you invest your money for at least 3 to 5 years so that your investment can grow.

Different investment options

Collective Investment Schemes in Securities offer flexible investment options as you can make:

- Lump sum investments – these can be made at any time once you have opened your collective investment account;
- Debit order investments – you can make regular payments, e.g. monthly, into your account; and
- Switching – as there are many different collective investment portfolios, you can switch between different portfolios at little or no cost.

You always know how much you own

Participatory interest prices are published in daily newspapers and are also available directly from the collective investment scheme manager with whom you made your investment.

You can calculate the value of your investment at any time by multiplying the number of participatory interests you own by the price of participatory interest of the portfolio you are invested in. Investors are also kept informed by the manager as they are sent regular statements and investment reports. This allows investors to be kept informed about the performance of their investment and in what assets their Collective Investment Scheme is invested.

Every Collective Investment Scheme must be approved by and registered with the Registrar of Collective Investment Schemes at the Financial Services Board in terms of the Collective Investment Schemes Control Act, 2002 (“the Act”) and must comply with the provisions of the Act. This Act states how all Collective Investment Schemes are to be administered, regulated, and supervised.

Where to invest

There are many different types of Collective Investment Scheme portfolios available. It is therefore recommended that you consult with a registered financial advisor for more information.

It is important that, before you select a portfolio in which to invest, you first understand what you are investing in, and that you carefully consider the amount you commit to invest. A registered financial advisor should assess the amount of risk that you are prepared to take and advise you accordingly. Factors such as your age, health, income, alternative liquid assets, financial knowledge, whether or not you have dependents and what your investment goals are will all influence your choice of investment.



Frequently Asked Questions in respect of Collective Investment Schemes in Securities

1. Q: Who should invest in a Collective Investment Scheme?

A: Anyone who wants to accumulate wealth in the medium to long term and is prepared to achieve this by accepting a certain level of risk.

2. Q: How much do I need to invest in a Collective Investment Scheme?

A: It depends mostly on the type of portfolio. Some portfolios require as little as R40 per month but most portfolios expect you to invest between R300 and R500 per month.

3. Q: How are payments made?

A: Payments can either be made on a monthly basis through debit orders or via lump sum payments, depending on the fund requirements.



4. Q: *What are the fees and charges?*

A: Upon purchase of a portfolio, you will be charged an initial fee. Typically, this charge ranges from 0% to 5% excluding VAT depending on the asset type of the portfolio. As this is not a compulsory charge, some CIS managers do not require you to pay an initial fee. Expenses incurred by the portfolio such as an annual management fee, trustee fee, administrative fee and others are deducted from the portfolios. Some portfolios also charge a performance fee based on the out-performance of a certain benchmark. Costs of investing in Collective Investment Schemes differ amongst various managers offering investments. Investors should be aware of the various costs involved in the portfolio in which they are investing.

5. Q: *Do I need to pay tax on profits?*

A: Collective Investment Schemes are taxed on their interest income and capital gains components. For the interest income there is an exemption of R16 500 for natural persons under the age of 65 years and R24 500 for individuals 65 years and older. With regard to capital gains tax, individuals are taxed at the current marginal rate of 25% for any capital gains when they sell their equity based investments. These figures are subject to adjustment every year.

6. Q: *Do Collective Investment Schemes provide for dividends and income distribution?*

A: Many portfolios reinvest this income, others give back this money to investors through income distribution. However, one would have to check with the portfolio concerned as to how often they distribute their income, which could be monthly or quarterly, sometimes once or twice a year.

7. Q: *Can I switch between portfolios?*

A: You may switch between portfolios i.e. sell your participatory interests in one portfolio and reinvest the proceeds in another portfolio. But one would have to be aware of the costs involved.

8. Q: *How do I keep track of my Collective Investment Scheme's performance?*

A: You can keep track of the performance of your Collective Investment Scheme in the major newspapers. To keep you updated over the longer term, you will also receive annual or semi-annual reports on your fund's performance, as well as market reviews and outlook.

9. Q: *What are the advantages and disadvantages of investing in Collective Investment Schemes?*

A: One of the major advantages of Collective Investment Schemes is that they offer investors the ability to diversify their assets, while one of the disadvantages is that most portfolios purchase equities whose value can be volatile during market downturns.

CHAPTER 2

Collective Investment Scheme in Property



CHAPTER 2: Collective Investment Scheme in Property

What is a Collective Investment Scheme in Property?

- A Collective Investment Scheme in property is where different investors pool their money for investment directly in property.
- A Collective Investment Scheme in property consists of a number of different types of properties e.g. industrial, factories, shopping centers etc. in different areas within a town, city or the country or even overseas.

Income from a Collective Investment Scheme in Property

A Collective Investment Scheme in property brings current and future income to the investor as follows:

- the investor gets a portion of the rental income of the property.
- the properties are expected to increase in value over time and this is reflected in the increased price of a unit or participatory interest.

Where to buy Collective Investment Scheme in Property?

- Participatory interests of a Collective Investment Scheme in property can be bought and sold on the JSE Limited.
- The smallest number of participatory interests that can be bought is 100 participatory interests.
- Buying and selling these participatory interests is just like buying and selling shares in a company that is listed on the JSE Limited.
- You cannot buy a Collective Investment Scheme in property with a monthly debit order.

- You can read about the prices of a participatory interest of a Collective Investment Scheme in property on the JSE Limited pages of most newspapers in the “Real Estate” section.

When do you receive your income from a Collective Investment Scheme in Property?

- Income is distributed to investors every six months.
- Once received, investors are taxed on that income.
- According to the Income Tax Act of South Africa, income from Collective Investment Schemes in Property is treated as interest. Collective Investment Schemes in property are taxed on their interest income and capital gains components. For the interest income there is an exemption of R16 500 for natural persons under the age of 65 years and R24 500 for individuals 65 years and older. With regard to capital gains tax, individuals are taxed at the current marginal rate of 25% for any capital gains when they sell their investments. This amount and marginal rates is decided on by the South African Revenue Services every year.

Who to contact to buy Collective Investment Scheme in Property?

Contact a registered Financial Services Provider.

CHAPTER 3

Participation Mortgage Bond Schemes



CHAPTER 3: Participation Mortgage Bond Schemes

What is a Participation Mortgage Bond Scheme?

- A Participation Mortgage Bond Scheme is when a licensed scheme accepts money from investors and lends it to institutions/individuals in order to develop property. A mortgage bond is registered over the property making the property the security for the loan.
- When you invest in this scheme, you as the investor pay money into the scheme. The scheme puts the money of investors together and lends it to people or companies that develop property.
- When property developers apply for a loan from the scheme, the scheme registers a bond over the property and the property then becomes the security for the loan.
- This means that if the property developer does not repay the loan according to the agreement with the scheme, the scheme can take over the property and sell it.
- The money from the sale can be used to pay back investors.

Income from a Participation Mortgage Bond Scheme

- The investor will only receive a monthly income on the amount of money invested. There is no capital growth on the amount invested.
- The income comes from the interest that the scheme earns from lending money to property developers.
- The interest received by the investor normally could be higher than the interest received for the same type of investment with a bank.
- The reason for this is that there could be a higher risk when investing in such a scheme than when investing with a bank.

Conditions for Investing in a Participation Mortgage Bond Scheme

- The investment is fixed for a minimum period of 5 years. This means that you cannot cancel your investment and get your money back before 5 years have passed.
- Even after 5 years, you can only get your money back when the scheme finds a new investor in your place.

Who to contact to invest in a Participation Mortgage Bond Scheme

Contact a registered participation bond manager.





CONTACT DETAILS:
FSB Call Centre
0800 20 20 87 / 0800 11 04 43

Physical Address
Block B, Riverwalk Office Park
41 Matroosberg Road
Ashlea Gardens, Extension 6
Pretoria, 0081