STANLIB Platform
Investment Portfolio information

STANLIB

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Key terms

STANLIB Wealth Management ("STANLIB")

STANLIB Wealth Management (Pty) Limited (Reg. No. 1996/005412/07) (590) is the administrator of your investment and is an authorised financial services provider (FSP) in terms of the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS).

Unit trust portfolio/Collective investment scheme

An investment product in which many different investors pool their money into a portfolio, which is managed by professional i nvestment managers, according to the mandate of the portfolio.

Investor ("You, Your")

The person or legal entity who has invested in the available investments with us. For example, individual, trusts, and other legal entities may invest.

Investment manager

The licensed and registered party who manages the investment portfolio.

Investment portfolio

Unit trusts, share portfolios, and other solutions which you can choose to invest in via your investment account.

Investment account

Your STANLIB account, for which you will receive an account number.

Financial adviser

The person you have appointed to provide you with financial advice and intermediary services.

Financial services provider

Your adviser is employed by the financial services provider (FSP). The FSP is required to be correctly licensed by the Financial Service Board to provide specific services. STANLIB will check this for you.

Model portfolio

Investors with a similar risk outlook, return objective, and investment timeframe have their money invested in a range of investment portfolios by a specialist manager. The Investment manager tailors the mix and proportion of investment portfolios in a model portfolio to the needs of that group of Investors. This grouping of investment portfolios is known as a Model Portfolio.

Share portfolio

An investment portfolio of securities such as equities, bonds, and derivatives held directly on an exchange and not via a unit trust fund.

Business day

A business day is any day other than a Saturday, Sunday, or South African public holiday. We only do business on business days.

Unit trust portfolio disclosures

Please take note of the following important regulatory disclosures relating to unit trust solutions:

- Collective investment schemes are generally medium to long-term Investments.
- The value of participatory interests or the investment may go down as well as up; and past performance is not necessarily a guide to future performance;
- Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending.
- The manager does not provide any guarantee either with respect to the capital or the return of a portfolio.
- Investments placed with the investment manager are made and will be administered subject to the provisions of the Collective Investment Schemes Control Act, No. 45 of 2002, in accordance with the deeds of the relevant manager. In the event of insufficient liquidity, the manager may borrow up to 10% of the market value of the portfolio.
- An initial manager charge may be payable to the investment manager of the local collective investment scheme(s). The purchase of participatory interests ("units") within products will be at a reduced initial manager charge compared to the standard charge levied on units purchased directly from the manager. Statutory charges will also be levied by managers and will need to be taken into account in calculating the charges for the investment.
- A service charge based on the portfolio's market value is also payable to the manager of the local collective investment scheme(s). The service charge is deducted by the manager from the income before the declaration of distribution(s). All distributions by the manager will be reinvested in the portfolio from which the distribution is made. For details on income

distributions, please refer to the relevant investment's portfolio fact sheet. The client understands that manager service charges may be increased. The manager through STANLIB will give the client three months prior notice of such increase.
- Unit prices are calculated on a net asset value basis by determining the total market value of all assets in the portfolio, including any income accruals, less any permissible deductions from the portfolio, divided by the units in issue. The following costs may be deducted from the portfolio: financial adviser charge, Marketable Securities Tax, Value Added Tax, auditors' charge, bank charges, trustee and custodian charge, Regional Services Council levies, and the service charge of the manager.
- It is important to note that if you want to withdraw from your unit trust, the sale may be delayed due to ring-fencing. This is caused by the large sale of units in the unit trust fund above a certain threshold, and is intended to ensure that the sale of a large number of units will not force the investment manager to sell the underlying assets at a price which could negatively affect investors. We may delay the sale of units or the payment of the proceeds from a unit trust fund for which ring-fencing has taken place.

Exchange traded funds

- Exchange traded funds may be listed on an exchange and may therefor incur additional costs;
- Refer to the Fund factsheet of the exchange traded fund for information regarding the difference between an exchange traded fund and other collective investment scheme portfolios; the index that the exchange traded fund tracks and how it will track the index; where an investor can view the index and its performance as tracked by the exchange traded fund; the tracking error of the exchange traded fund; where the index tracking portfolio engages in securities lending activities, information on such securities lending activities, the percentage of securities lent out, the names of all the counterparties related to these activities as well as the risks associated with counterparty exposure.

Money market portfolios

- A money market portfolio is not a bank deposit account;
- The total return to the investor is made up of interest received and any gain or loss made on any particular instrument; in most cases the return will merely have the effect of increasing or decreasing the daily yield, but that in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio.
- Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures; and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed.

Fund of Funds portfolios

- A fund of funds is a portfolio that invests in portfolios of collective investment schemes that levy their own charges, which could result in a higher fee structure for the fund of funds;

Model portfolio solutions

Your financial adviser may choose to invest your money through a model portfolio solution. You will need to sign a mandate with the Investment manager of the model portfolio to allow them to manage the model portfolio investment or your behalf.

You may invest in a mixture of model portfolios and investment portfolios within your account. The investment portfolio allocation within a model portfolio is managed by the Investment manager on your behalf, and you are therefore not permitted to amend this via a switch instruction. You may send us an instruction to switch into or out of a model portfolio solution.

If you wish to make an additional contribution to the model portfolio, this will be invested according to the investment portfolio allocation specified by the Investment manager. If you wish to make a withdrawal from the model portfolio, this will be processed through a proportionate withdrawal from the investment portfolios within the model portfolio.

It is important to note that:

- If you change your financial adviser, you may be required to move out of your model portfolio solution if the solution is available exclusively to clients of the financial adviser.
- If you withdraw or switch from model portfolios, you may be required to switch your money into alternative investment portfolios if the investment portfolios you are invested in are not available outside of the model portfolio.

Personal share portfolio solutions

You and your financial adviser may choose to invest your money into a personal share portfolio solution. This is a portfolio of directly owned securities such as equities, bonds, and derivatives. The investment manager selects the securities based on specific investment objectives and risk profiles. You may need to sign a mandate with the Investment manager of the share portfolio to allow them to manage your investment.

Please note that we only offer share portfolios within the:

- Classic Retirement Annuity Fund
- Classic Preservation Pension Plan
- Classic Preservation Provident Plan
- Classic Linked Life Annuity

- You may invest in a mixture of personal share portfolios and investment portfolios within your account. You may only be allowed to invest up to 75% of your investment into your personal share portfolio if your Investment manager cannot manage the full investment in terms of the requirements of Regulation 28. It is important to remember that if you want to invest or move money from your personal share portfolio, you need to send this instruction to us, and you won't be able to instruct the Investment manager directly.
- Some personal share portfolios may have an investment minimum which is higher than our standard STANLIB minimum investment amount. Please refer to our investment portfolio list for details.
- Money for investment into personal share portfolios will only be placed in the portfolio once a personal share portfolio account has been opened. This may take up to five business days.
- If you choose to invest into a personal share portfolio and another investment portfolio, we will only be able to process your instruction into both of these when we have opened your share portfolio account. Your investment into a unit trust fund or other investment portfolio may therefore be delayed.
- If you have an existing share portfolio account directly or invested via another retirement fund, you may request to invest this into your STANLIB investment account through a stock transfer. We will accommodate these requests wherever possible.
- We will report your personal share portfolio as a single investment portfolio in your account. We will not provide details on the underlying instruments within the share portfolio itself. Your Investment manager will provide you with a statement reflecting this information.
- Please note that a request to withdraw or switch from a personal share portfolio can take up to 60 days to process, depending on market conditions and the instruments in which you are invested.
- The investment manager will charge you fees to manage your personal share portfolio, which may include a fee for managing your money, a brokerage fee, and any taxes, STRATE fees, and JSE fees. Please refer to the Investment Mandate for full details. These fees are deducted within the share portfolio unit trust. They will reflect on your share portfolio statement from the investment manager, you will not see an explicit deduction coming off your STANLIB investment account.
- We do not charge you any additional administration fees when you invest in a personal share portfolio.

Hedge fund solutions: regulatory disclosures

The risks and characteristics contained in this section represent some of the more general risks and characteristics prevalent in hedge fund portfolios. The list below should not be seen as exhaustive.

Investment strategies may be inherently risky – hedge fund strategies may include leverage, short-selling, and short-term investments. In addition, hedge fund portfolios often invest in unlisted instruments, low grade debt, foreign currency, and other exotic instruments. All of these expose investors to additional risk. However, not all hedge fund managers employ any or all of these strategies and it is recommended that investors consult their advisers to determine which strategies are being employed by the relevant manager and which consequent risks arise.

Leverage usually means higher volatility – hedge fund managers may use leverage. This means that the hedge fund manager borrows additional funds, or trades on margin, in order to amplify his investment decisions. This means that the volatility of the hedge fund portfolio can be many times that of the underlying investments. The degree to which leverage may be employed in any given hedge fund portfolio will be limited by the mandate the client has with the manager. The limits laid down by the mandate should be carefully reviewed in making an investment decision.

Short-selling can lead to significant losses – hedge fund managers may borrow securities in order to sell them short, in the hope that the price of the underlying instrument will fall. Where the price of the underlying instrument rises, the client can be exposed to significant losses, given that the manager is forced to buy securities (to deliver to the purchaser under the short sale) at high prices.

Unlisted instruments might be valued incorrectly – hedge fund managers may invest in unlisted instruments where a market value is not determined by willing buyers and sellers. The hedge fund manager may have to estimate the value of such instruments, and these estimates may be inaccurate, leading to an incorrect impression of the fund's value. Investors should ensure that objective valuations are performed for all instruments in a portfolio and that the manager uses the services of a competent administrator.

Fixed income instruments may be low-grade – hedge fund managers may invest in low-grade bonds and other fixed-interest investments. These investments are more likely to suffer from defaults on interest or capital. They are also more likely to have volatile valuations when the market changes its view on credit risk. The mandate should also limit the extent (lowest acceptable rating and maximum percentage exposure) to which low-grade debt can be acquired by the client. Investors should review the mandate to gain an appreciation of the maximum possible exposure applicable to the relevant mandate.

Exchange rates could turn against the fund – a hedge fund manager might invest in currencies other than the base currency. For example, a South African hedge fund manager might invest in UK or US shares. The portfolio is therefore exposed to the risk of the rand strengthening or the foreign currency weakening.

Other complex investments might be misunderstood – in addition to the above, hedge fund managers might invest in complex instruments such as but not limited to futures, forwards, swaps, options, and contracts for difference. Many of these will be derivatives, which could increase volatility. Many will be "over-the-counter", which could increase counterparty risk. Many exotic instruments may also be challenging for the manager to administer and account for properly. Investors should enquire into how these instruments are objectively and independently valued.

The client may be caught in a liquidity squeeze – given their often short-term nature, hedge fund managers need to be able to disinvest from or close certain positions quickly and efficiently. But market liquidity is not always stable, and if liquidity were to decrease suddenly, the hedge fund manager might be unable to disinvest from or close such positions rapidly or at a good price, which may lead to losses.

The prime broker or custodian may default – hedge fund managers often have special relationships with so-called "prime" brokers. These are stock-brokers that provide the required leveraging and shorting facilities. Prime brokers usually require collateral for these facilities, which collateral is typically provided using assets of the relevant client, and consequently such collateral might be at risk if the prime broker were to default in some way. A similar situation could occur with the custodian of the client's funds.

Regulations could change – legal, tax and regulatory changes could occur during the term of the investor's investment in a hedge fund portfolio that may adversely affect it. The effect of any future legal, tax, and regulatory change or any future court decision on a hedge fund portfolio could be substantial and adverse.

Past performance might be theoretical – hedge fund portfolios are on occasion marketed using theoretical or paper track records. Past performance is seldom a reliable indicator of future performance. Theoretical past performance is often an even less reliable indicator, and investors should place a lower significance on these.

The manager may be conflicted – the hedge fund manager might be managing other hedge fund portfolios or other traditional investment funds. The investor should ensure that sufficient controls are in place to manage any conflicts of interest between the different funds.

Hedge fund structures are often complex – as mentioned above, hedge fund structures are not fully regulated and they are often housed in legal structures not originally meant for pooled hedge funds, for example, partnerships and companies. Given the many risks listed above, investors need to ensure that any structure is robust enough to contain any unlimited losses.

Manager accountability may be vague – hedge fund portfolios are often managed by specific individuals and investors should ensure that sufficient controls are in place for the times when the manager is being covered for by colleagues. In addition, a hedge fund structure (a fund of funds) and its managers or advisers may rely on the trading or investing expertise and experience of third-party managers or advisers, the identity of which may not be disclosed to investors. This constitutes an additional risk for investors, which they must take into account.

Fees might be high – hedge fund structures' fees may be significantly higher than the fees charged on traditional investment hedge funds. Investments should be made only where the potential returns justify the higher fees.

Fees might be performance-based – hedge fund manager's fees are usually performance-based. This means that the managers typically get a higher fee when their portfolios outperform specified performance targets, which might lead to riskier positions being taken. Investors need to ensure that performance fees allow for a fair sharing of both the good and the bad.

Transaction costs might be high – given the often short-term nature of investment positions, hedge fund portfolios are often traded more aggressively. This implies more stock-broking commission and charges being paid from the portfolio, which is ultimately for the client's account. Again, investments should be made only where the potential returns make up for the costs.

Transparency might be low – a hedge fund manager's performance is often the result of unique proprietary strategies or contrarian investment positions. For obvious reasons, managers will want to keep these confidential. Managers are therefore less likely to disclose trades to their investors, and holdings might be disclosed only in part or with a significant delay

Dealing and reporting might be infrequent – a hedge fund manager's performance can often be disturbed by irregular cash flows into or out of the hedge fund structure. For this reason, hedge fund managers often limit the frequency of investments and withdrawals. Similarly, the manager may choose to report infrequently on performance and other statistics. Investors should ascertain, prior to investing, the nature and frequency of reporting.

Withdrawals might not be easy – as mentioned above, the frequency of withdrawals might be limited to monthly or quarterly dates. In addition, the manager may impose notice periods or lock-ins in order to ensure that he has the necessary time for his investment positions to deliver their desired results.

Our contact details:

Queries:

Email: contact@stanlib.com

Tel: +27 (0) 860 123 003

Instructions:

lispinstructions@stanlib.com

Compliance Department:

Email: LISPRiskandCompliance@stanlib.com

Registered Office: 17 Melrose Arch Boulevard, Melrose Arch, 2196

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