



FACT SHEET

DISCOVERY INVEST



Discovery Invest aims to become South Africa's premier long-term savings provider, with the objective of being recognised globally for the effectiveness of our Shared-Value Insurance model in investment.

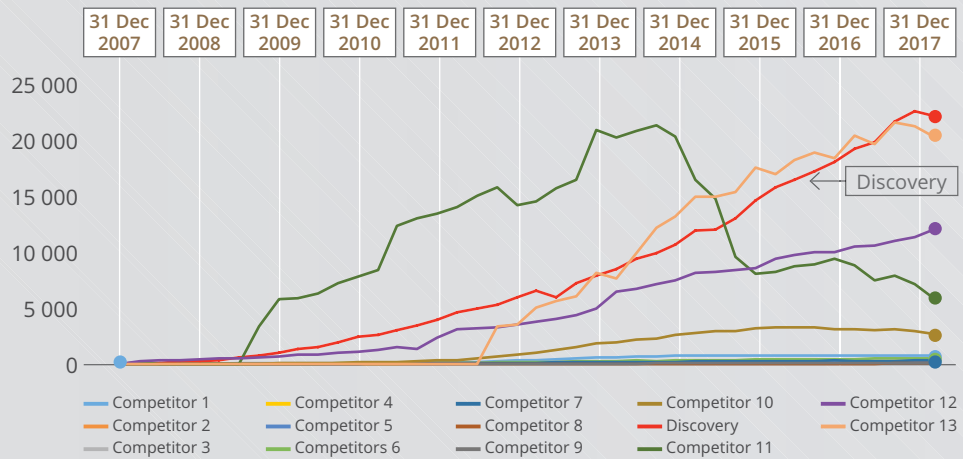
Looking at the retirement landscape, less than 6% of South Africans can retire comfortably, leaving over 90% with a significant retirement shortfall. This is exacerbated by the trend of increased longevity due to medical advances, and the impact this has on sufficient levels of retirement savings. Through the Shared-Value Insurance model, clients are encouraged and rewarded for positive behaviour changes that would result in increased retirement savings.

Clients are encouraged to invest for longer, invest more, become healthy and withdraw income wisely in retirement. We reward clients for these positive behaviour changes with boosts to their retirement savings that significantly increase their retirement funds. Through rewards for positive behaviour, clients are able to significantly reduce the gap in retirement savings.

The actuarial dynamics underlying this model manifest in above-market long-term outcomes for clients and sustainable profitability for Discovery Invest, and has a positive societal value in closing the retirement savings gap.

Key data in our business

Assets under Administration (AUA) growth since December 2007 – Asset growth rebased to 100 as at 31 December 2007



Source: Investec Asset Management Data (end December 2017).

DISCOVERY INVEST HAS CONSISTENTLY BEEN ONE OF THE FASTEST-GROWING UNIT TRUST COMPANIES BASED ON YEAR-ON-YEAR GROWTH IN ASSETS UNDER ADMINISTRATION (AUA)

We achieved a

26%

three-year compound annual growth rate in AUA

DISCOVERY INVEST HAD A RECORD MONTH OF NEW BUSINESS

in June 2018

DISCOVERY INVEST HAS MORE THAN 288 000 clients

THE BUSINESS HAS BEEN IN EXISTENCE FOR ONLY

11 years,

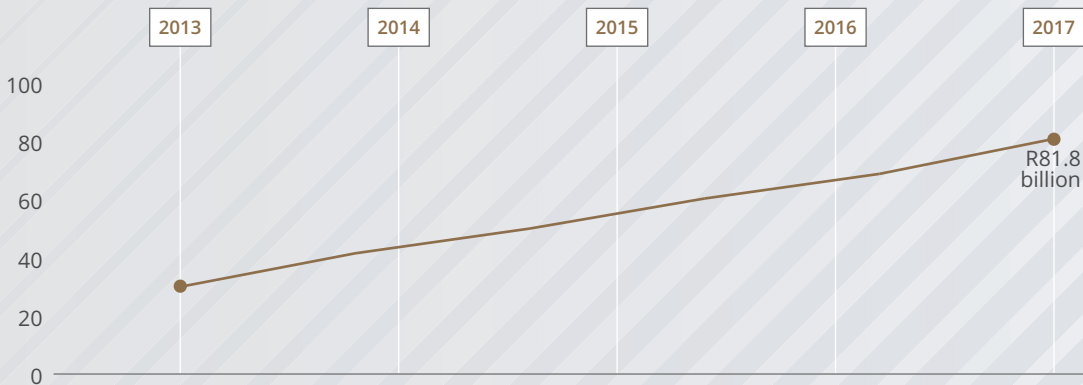
with growth in AUA of

18%

over the year to R81.8 billion as at June 2018

Source: UBS South African insurance sector Q2 2018 Unit trusts ups and downs.

Assets under administration (AUA) (R billion)



Our funds have been top quartile performers as at 30 June 2018, and:

DISCOVERY BALANCED FUND was the top quartile performer for years one, three, five, seven and 10

DISCOVERY MODERATE AND CAUTIOUS BALANCED FUNDS were top quartile performers in years one, three and five

THE THREE DISCOVERY DYNAMIC ASSET OPTIMISER FUND OF FUNDS were top quartile performers in one year

THE DISCOVERY GLOBAL VALUE EQUITY FEEDER FUND was a top quartile performer in years one and three

Source: Morningstar

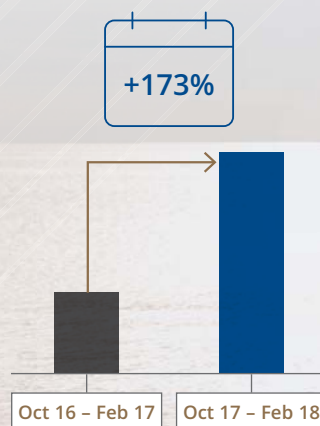
How shared value is implemented in Discovery Invest

Our shared-value approach to investing is unique. We offer investment plans that encourage positive behaviour change. Clients are rewarded for making sound financial decisions and living a healthy lifestyle.

They are encouraged to invest earlier and for longer, save more, select sustainable income drawdown levels in retirement, and to maintain a healthy lifestyle through engagement in Vitality. Healthier clients' funds remain invested for longer. This allows us to earn additional fees and enables us to share surplus profits with our clients in the form of significant boosts to their retirement savings.

Since we have introduced the shared-value model into our products, we have seen significant positive behavioural change from our clients. Clients are saving on average three years longer in pre-retirement compared to the average South African investor. They are also improving their Vitality statuses and reducing their yearly retirement income drawdown rates.

Clients are saving on average 173% more in additional contributions into our lump sum Core Retirement Annuity for the period ending February 2018, relative to the period ending February 2017.





DISCOVERY INVEST

OPERATIONAL REVIEW



BUSINESS REVIEWS

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Discovery Integrated Annual Report 2018

The key issues that impacted our business this year

2018 performance

Operating profit

↑ 19%

to R885 million

↑ 18%

AUA to R81.8 billion

77%

of linked funds

are in Discovery funds

In May 2018, Discovery Invest launched an Umbrella Fund together with a revised Group Risk PayBack product

under a new Discovery employee benefits solution

1

Closing the financial savings and retirement gap

Global trends are indicating that people are spending more time in retirement due to a longer life expectancy. This has resulted in a retirement funding gap. To help address this issue, Discovery Invest's Shared-Value Insurance model encourages and rewards clients to change their savings and drawdown behaviour. Following the success of this approach with our individual investment products, we have now also extended this offering to corporates. During the year, we launched our Umbrella Funds business, which is a combination of our umbrella employee benefits offering and our Group Risk offering. We introduced a number of improvements to our products, as well as targeted offerings. These included our Purple offering for high net-worth clients with unmatched boosts for clients younger than 30 years of age. We also introduced a competitive Flexible Investment Plan with zero administration fees.

2

Managing lapse rates

Difficult market and economic conditions have seen an increasing rate of withdrawals across the industry. Discovery Invest continues to track and investigate lapse and paid-up rates carefully to understand the causes.

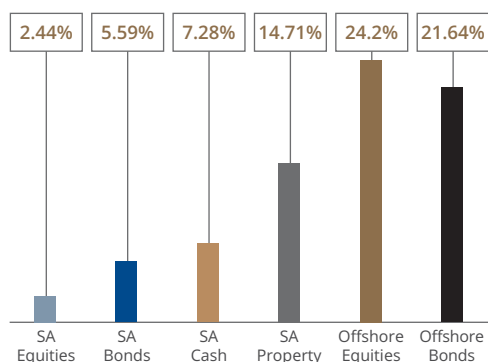
Our distribution model, new initiatives, integration with other Discovery products such as Vitality and Discovery Life, and unique incentives, ensure our clients stay invested and continue to close the retirement gap. Lapse rates continued to decline over the past two years and remained below the expected value at year end.

3

Current economic environment and market conditions

We continued to face tough economic conditions during the year. Returns on property have been negative and South African equities low.

Latest one-year returns on asset classes as at 12 September 2018



In these conditions, people are generally risk averse. Thus, we placed an even greater emphasis on maximising value for clients through our Shared-Value Insurance model, strong distribution force and several appealing offers. Based on positive financial and health behaviours, we can give value to clients independently of market conditions. For example, clients investing in our Linked Annuity were treated as having at least Silver Vitality status for the first two years on determining their retirement income boosts. This gives clients time to achieve a Vitality status that gives them the maximum possible rewards.

Our focus on improving the client and financial adviser experience combined with these initiatives allows us to perform well in tough markets.

In addition to top quartile performance, as at 30 June 2018:

Discovery Invest ranked as one of **the top five unit trust managers** in the country*.

Discovery Invest had the **8th highest net retail flows in the industry**, with the Discovery Balanced Fund having the **9th highest industry flows****.

* PlexCrown Survey: Discovery Balanced, Discovery Moderate Balanced and Discovery Cautious Balanced Funds all achieved 5 Crowns.

** ASISA stats from Investec Report 2018 Q1. Retail funds excluding money market, and fund of funds including reinvestment.

4

Expand distribution

A critical component of our growth is to continually expand our distribution channels, with distribution through independent financial advisers, an important focus.

Currently, almost 70% of our business originates from tied agents and 30% from independent financial advisers. To ensure ongoing expansion across our distribution channels, we ensure we have compelling products. We offer enhanced products for younger clients, for clients who reinvest their Discovery Life cash back, and a Purple range to meet the needs of high-net-worth clients.

Amendments to Fit and Proper regulations during the period require all financial advisers to complete an examination. To assist in this process, we have made substantial progress with the development and implementation of relevant product and investment training programmes.

5

Continual innovation

We continue to innovate and develop new offerings to ensure ongoing growth and differentiation. For example, we launched share portfolio capabilities in Q1 of 2018, and continue to offer an offshore investment option through our Guernsey branch. Our share portfolio offers clients new avenues to generate returns and the flexibility to seamlessly carry their portfolios across to our platform. Discovery Invest also acted as the foundation for the launch of VitalityInvest in the United Kingdom, which uses a similar model, benefits and connection to Vitality.



OUTLOOK

Discovery Invest's aim is to be recognised for our investment model and the value it offers.

We will achieve this through:

1. Ongoing product innovation, which will involve continued differentiated offerings, as well as ensuring that each investment plan is best of breed in value, and offers a competitive position.
2. Focusing on distribution through penetrating the IFA market, targeted campaigns and increasing sales from all agents.
3. Exceptional service with a fully-automated functionality, which will translate into a more client-centric focus and lower operating costs.
4. Continued technological advancements, which will build on the online offering for financial advisers and the interactive client statements.
5. Harnessing opportunities that the launch of Discovery Bank will create.

Q Are your fees under pressure?

A Fees around the world have been consistently under pressure, including fees in the chain of advice, administration and asset management. Research* has indicated that administration fees, over the 10-year period from 2008 to 2018, have reduced on average by approximately 0.21%.

To evaluate our current position, we compared the effect of reducing fees against positive behaviour change. This fee reduction of 0.21% on average over the past ten years equates to around seven days of additional investment growth. However, when looking at the effect of behaviour change, clients who invested in our Flexible Investment Plan for a month longer would have experienced significantly higher extra investment growth. It is therefore evident that the impact of positive behaviour change, such as investing for longer, is more valuable than reducing fees.

* moneyweb.co.za/investing/sas-top-unit-trusts-over-ten-years

Q Explain the impact of utilisation of assessed losses.

A Our assessed tax loss is reaching its end and the advantage of the integration on endowments will fall away. In the past, we provided gross of tax returns on endowments. We have therefore restructured our recurring endowment plans to be more competitive by giving clients a portion of their administration fees back after five years. We have also revamped the Flexible Investment Plan for clients with a discretionary investment need.

Q Give more information on Umbrella Funds.

A Our new Umbrella Funds offer has the Shared-Value Insurance model and Vitality as the foundation. For example, the Fund encourages clients to transfer, rather than use, any retirement savings when changing employment. Clients also receive various boosts to their retirement savings before and during retirement. These boosts are based on increasing contributions towards retirement funding as they earn more, preservation of retirement funds when changing employment, and when they get healthier and drive better. They can also reinvest PayBack on Group Risk premiums in the Umbrella Fund.

Q Tell us more about the Retail Distribution Review (RDR) and your readiness for implementation.

A We continued to engage with the Financial Services Board (now Financial Services Conduct Authority) on regulations around the RDR and are well positioned to respond to any required changes. We have also been working hard to implement requirements of the Protection of Personal Information Act and have made good progress on its practical implementation.

Q How do your products cater for older people?

A Our Linked Retirement Income Plan offers clients income boosts of up to 50%. The boost is based on how healthy clients are, measured by their engagement in Vitality, as well as their level of income withdrawals.