

Dear Investor

Merging of Escalator funds in your investment

Thank you for investing with Discovery.

You are currently invested in an Escalator fund. This fund uses an algorithm designed by Deutsche Bank or BNP Paribas to dynamically allocate between an underlying risky component and a cash component. As markets fall, the algorithm allocates more to the cash component and vice versa. In addition, the Escalator funds have a guarantee of 80% of the highest value the Escalator fund has ever reached. This is all explained on the monthly fund fact sheets.

The impact of COVID-19

From January 2020 to March 2020, markets around the world dropped due to fears surrounding COVID-19. In response, the Escalator fund algorithms allocated more to the cash component, which cushioned your investment and protected you from significant losses.

Some Escalator funds still have a large portion invested in cash

Since then, as markets recovered, some of the individual algorithms governing the Escalator funds have slowly started switching back into their respective underlying risky components while others have remained largely or entirely in cash. The algorithm does this to maintain the guarantee levels if the falls in the risky components were significant.

If sharp market rises occur, clients invested in these Escalators may miss out on these upward swings. As a result, we will be merging these Escalator funds over the next few months into others with a higher exposure to their respective risky assets and a more diverse asset allocation.

Proposed mergers

The list of Escalator funds, their current allocation to their risky assets and the funds that we plan to merge them into are indicated below.

Escalator fund	Allocation to risky asset as at 28 May 2021	Merging into
Discovery Escalator - Discovery Flexible Property Fund	30.22%	Discovery Escalator – Discovery Balanced Fund
Discovery Geared Escalator - Discovery Flexible Property Fund	30.15%	
Discovery Geared Escalator - Nedgroup Investments Rainmaker Fund	34.24%	
Discovery Geared Escalator - Ninety One Property Equity Fund	30.99%	
Discovery Escalator - Discovery Global Equity Feeder Fund	19.60%	
Discovery Geared Escalator - Discovery Global Equity Feeder Fund	19.53%	

Escalator fund	Allocation to risky asset as at 28 May 2021	Merging into
Discovery Geared Escalator - Discovery Global Multi-Asset Fund	23.89%	Discovery Escalator – Discovery Global Multi-Asset Fund
Discovery Life Escalator - Discovery Equity Fund	0.00%	
Discovery Life Escalator - Foord Equity Fund	42.17%	Discovery Life Escalator – Discovery Balanced Fund
Discovery Life Escalator - Nedgroup Investments Rainmaker Fund	38.26%	
Discovery Life Escalator - Ninety One Property Equity Fund	16.93%	
Discovery Life RSA Escalator Fund	42.15%	

The Escalator Funds that we plan to merge clients out of have low allocations to their risky assets at present. The Escalator funds that we are merging into have higher allocations to their respective risky assets and have a risky asset that is equally or more diversified.

Discovery Escalator fund	Allocation to risky asset as at 28 May 2021
Discovery Escalator - Discovery Balanced Fund	100%
Discovery Escalator - Discovery Global Multi-Asset Fund	100%
Discovery Life Escalator - Discovery Balanced Fund	93.50%

For more information about these funds, please refer to the fund fact sheets available at www.discovery.co.za > **Investments** > **Investment funds** > **Choose your Discovery funds**.

The Discovery Life Escalator – Foord Equity Fund merger will begin on 15 July 2021

The first Escalator fund to be merged is the Discovery Life Escalator – Foord Equity Fund. The merging process into the Discovery Life Escalator – Discovery Balanced fund will start on 15 July 2021.

We will continue to monitor how the other Escalator funds behave to ascertain when the other mergers will happen. We will communicate more details in this regard if they affect your portfolio.

Options available to you

1. You can switch into any other fund on our platform

Before the date of the merger, you may switch into any fund available on the Discovery Invest platform. If you prefer to remain in funds with a high exposure to cash and money market instruments, you may switch into the Discovery Money Market Fund or the Discovery Diversified Income Fund.

You can switch into another fund by logging in to www.discovery.co.za and navigating to your investment allocation or by submitting a completed *Switch request* form to invest_servicing_support@discovery.co.za. Please speak to your financial adviser to ensure you select the fund that's right for you.

2. You can remain invested in your current fund selection

If you decide to remain invested in your current fund selection, your assets may be merged per the previously described merger proposal. If you are invested in the Discovery Life Escalator – Foord Equity

Fund, your fund will begin to be merged into the Discovery Life Escalator – Discovery Balanced Fund on 15 July 2021.

Please note that the guarantee level that will apply will be 80% of the highest value of the Escalator into which your fund is being merged. This may result in a different effective guarantee value to the one you're currently experiencing. Please note that capital gains tax will apply on any switch and the merger (if applicable).

Contact us

If you would like more information, please contact your financial adviser or call us on 0860 67 57 77. You can also email us at invest_support@discovery.co.za.

Regards



Lance Geyser

Chief Operating Officer
Discovery Invest

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This letter for information only and must not be taken as financial advice. For tailored financial advice, please contact your financial adviser.

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