

Fact File

LOCAL ENDOWMENT



Contents



About the Discovery Endowment



Our Endowment is built on the best thinking, the most tax-efficient structures and the best investment strategies so you can take advantage of optimal investment opportunities. This fact file will allow you to understand your Endowment and how you can make it work better for you.

An endowment is a tax-efficient structure where investment growth (interest, rental income and foreign dividends) within your Endowment is taxed at 30% while capital gains are taxed at 12% for individual investors. We will also need to withhold Dividends Tax at a rate of up to 20%. We will calculate and deduct this tax against your investment on your behalf. When you realise your investment at the end of your investment term, no further tax will be payable.

This fact file is designed for your easy reference.

You may select to structure your Endowment with or without a life assured

If you select to have your Endowment structured with a life assured, and the life assured dies before the end of the investment term, the proceeds will become payable to the chosen beneficiaries. If you select to have your Endowment structured without a life assured (i.e. structured as a sinking fund), the investment will continue after the death of the investor until the end of the investment term or until earlier realisation.

In terms of current legislative restrictions one withdrawal is permitted during the first five years of your investment. Any withdrawal in the first five years may not exceed the contributions accumulated at 5% per year compound interest. After five years, you may make withdrawals from your investment as required.

Contributions to the Endowment

You may make a once-off lump-sum contribution or recurring monthly contributions to the Endowment. If you made a lump-sum contribution, then additional (ad hoc) contributions into your investment will not be permitted. In this case a new Endowment will be started for any additional contributions, with another five-year restriction period.

If you have chosen to make recurring monthly contributions, you may also be entitled to make additional contributions into your Endowment. To prevent having to start a new five-year restriction period when an additional contribution is made, the value of any additional contributions is limited so that the total contributions (including additional contributions) in any given investment year will not be more than 120% of the greater of the contributions paid in the previous two years. If the contribution is larger than this, a new Endowment will have to be started with another five-year restriction period.

Conversions, enhancements, updates and new offers

From time to time, we may offer options to you to modify or update your investment to newer versions of benefits, convert your investment into an alternative one (either by starting a new investment or restructuring this existing one), or to take up new offers or enhancements.

Terms and conditions may apply to these options if they become available.

Lump-sum contributions to your Endowment

Investment Boost

The Investment Boost is available on lump-sum contribution Endowments, and provides you with a boost to your initial investment. It is not available on recurring-contribution investments.

Different investment choices qualify for different boost percentages. The boost percentage is tiered and is based on your initial investment size, with larger boost percentages for larger investments as shown in the boost table below.

Boost percentage		
Investment Value	Qualifying Discovery funds	Cogence funds and the Discovery Diversified Income Fund
First R2 million	12.50%	6.25%
Next R2 million	15.00%	7.50%
Next R2 million	17.50%	8.75%
Next R2 million	20.00%	10.00%
Next R2 million	35.00%	17.50%
Above R10 million	20.00%	10.00%

The boost percentage is calculated for each of your investment choices and the total boost percentage is applied to your total contribution to determine your initial boost. A minimum investment size is required to qualify for the Investment Boost. Your boost value will be shown on your investment schedule. The Investment Boost will grow at a rate of 4.2% compounded each year.

After five years, you will have the option of withdrawing 30% of the boost plus growth, or reinvesting it into your Endowment. After 10 years the remainder of the boost plus growth will become available to you.

Qualifying Discovery funds include the Discovery range of funds (excluding the Discovery Money Market Fund and the Discovery Diversified Income Fund), Escalator Funds based on Discovery funds, and Target Retirement Date Funds.

The list of funds as well as the boost table may be updated from time to time.

Rules for the Investment Boost

What if I switch my money into or out of qualifying funds?

When you make a switch on your investment, the total boost percentage across all your investment choices will be recalculated.

- If this boost percentage has reduced after the switch, the Investment Boost will be reduced proportionally.
- If this boost percentage has increased after the switch, the Investment Boost will not be re-calculated and will remain the same.

What if I withdraw my money from my Endowment?

The boost will be reduced proportionally if you withdraw from your investment. If the total value of your Endowment falls below the minimum amount required for the boost as a result of a withdrawal, your boost will fall away.

What if I die?

Any outstanding boost that has not been paid to you will fall away on your death before the end of the first 10 years.

EXAMPLE

John invests R5 000 000 into an Endowment.

He has chosen to invest half his money in qualifying Discovery funds and the other half in the Discovery Diversified Income Fund.

Based on this initial investment, John will qualify for a boost percentage on his qualifying Discovery funds equal to:

$$(2\,000\,000 \times 12.5\% + 2\,000\,000 \times 15\% + 1\,000\,000 \times 17.5\%) \div 5\,000\,000 = 14.5\%.$$

The boost percentage on his Discovery Diversified Income Fund will be equal to 7.25%.

The total boost percentage for John's investment is $50\% \times 14.5\% + 50\% \times 7.25\% = 10.875\%$.

John's Investment Boost will therefore become: $R5\,000\,000 \times 10.875\% = R543\,750$. John's investment of R5 000 000 will grow in line with the funds he chooses. The boost of R543 750 will grow at 4.2% per year, with 30% of it paying into his Endowment after five years and the remaining amount paying after 10 years.

Protection Boost if you die (Life Booster)

This benefit will increase the first R2 000 000 of the investment by up to 15% on your accidental death if you are the life assured. If your Endowment is structured without a life assured (i.e. as a sinking fund), the boost will apply on the accidental death of the owner of the investment (if applicable).

The size of the boost will depend on the investor's Vitality status on the last investment anniversary before the death.

The boost is included with all Endowments, and will end when the investment is terminated. This benefit will also apply to recurring Endowments.

The boost will only apply if the cause of the death is accidental. Accidental death means death as a result of a sudden and unexpected event that happens at a known place and time, and has a visible, violent and external cause. The boost does not apply:

- To the Investment Boost portion
- On the death of the investor, if the life assured is not the investor
- If the life assured or investor is younger than 14 years of age at the start of the investment
- On death that is self-inflicted or is due to suicide or assisted suicide.

Phasing in your lump-sum contribution

Lump-sum contributions may be phased in monthly via the Discovery Money Market Fund or the Discovery Diversified Income Fund. (These are known as phase-in funds.) If you want to phase in your investment, the full contribution amount will be invested into your phase-in fund. The contribution amount (plus interest) will be divided by the number of phase-in periods you chose and the amount derived will be withdrawn in the first month from the phase-in fund and invested proportionately in the investment options selected.

In the second month, the remaining amount will be divided by the number of phase-in periods remaining and invested. This will continue until all the money is phased in. You can choose to phase your investment in over a period of 3, 6, 9 or 12 months.

Your selected phase-in period (if applicable) is reflected on your investment schedule.

Please note that if you phase in from the Discovery Money Market fund, the contribution boost will not apply.

Fees applicable to your Endowment

Certain fees will be payable on your Endowment.

The fees are categorised into initial fees and annual fees and are payable to:

- Discovery Invest for administering your investment
- Your financial adviser for performing financial planning on your behalf
- The investment managers to the underlying investment choices you have selected.

Initial fees

Discovery Invest initial fees

if you are making a lump-sum contribution into your Endowment, your initial fee is based on the size of your contribution.

If you invest more than R600 000 you will pay no initial fees.

If you invest less than R600 000, you will pay fees on a tiered structure as follows:

Contribution amount	Initial fees as a percentage of contribution amount
First R100 000	1.75%
Next R250 000	1.20%
Next R250 000	0.60%

The figures in the table will be increased by 15% to offset VAT expenses.

100% allocation or upfront payment

You can choose the 100% allocation option when making a lump-sum investment, which means that you avoid the initial fees payable to Discovery Invest and your financial adviser being deducted from your investment upfront. The value of the fees are instead increased and paid in monthly instalments over the next five years. However, if you exit your plan within the first five years, unpaid fees resulting from the 100% allocation will be charged on your plan.

The amount that you will have to pay over the five years is the Discovery initial fee and the financial adviser initial advice fee (including VAT if applicable) multiplied by 1.262. This is divided over 60 months and paid in level monthly instalments. If you choose this option, 100% of your initial contribution amount is allocated to the underlying investment options at inception of your contract.

Financial adviser initial advice fee

On a lump-sum contribution, your financial adviser may charge an initial advice fee as a percentage of your contribution amount, which we will pay over to your financial adviser from your contributed amount. You can negotiate with your financial adviser to determine your initial advice fee.

EXAMPLE

Example of how the fee calculation works:

Lump-sum contribution

On a lump-sum contribution of R75 000, based on the Discovery Invest initial fee scale, the fee of 2.0125% (incl VAT) amounts to R1 509.38.

Assuming that you and your financial adviser agreed to a 2% financial adviser initial advice fee on your initial R75 000 contribution, that works out to an additional cost of R1 725 (incl VAT).

So if you paid your Discovery Invest initial fee and financial adviser initial advice fee in one go, you would pay the sum of these two amounts:

Discovery invest initial fee	R1 509.38
Financial adviser initial advice fee	R1 725.00
Total initial fees	R3 234.38

Therefore, with your initial contribution of R75 000 - less fees - an amount of **R71 765.62** would be invested into your underlying fund choices.

What if you chose 100% allocation?

If you rather chose to pay the Discovery Invest initial fee and financial adviser initial advice fee over five years, so that the total contribution of R75 000 is invested into the underlying fund choices, you will then pay the total initial fee of R3 234.38 multiplied by 1.262, over five years.

$$R3\ 234.38 \times 1.262 = R4\ 081.79$$

So instead of paying R3 234.38 immediately, you will instead pay R4 081.79 spread over 60 monthly instalments of R68.03.

In this example, the fee remains constant at R68.03 for the 60 months.

Investment manager initial fees

Please remember that certain investment management companies may charge initial fees for investing in their funds. The initial fees applicable to each fund can be found on the respective fund fact sheets available on www.discovery.co.za.

Annual fees

Discovery Invest annual administration fee

The annual fee charged for administering your lump-sum Endowment is 0.55% of your investment fund. This fee will be divided by 12 and deducted monthly. The fee will be increased by 15% to offset VAT expenses.

Financial adviser annual advice fees

Your financial adviser may also charge an annual advice fee as a percentage of your investment fund value for managing your investment fund. Units will be redeemed on a monthly basis for this as 1/12th of the advice fee selected, increased by VAT. Discovery Invest will deduct these from your investment on behalf of Discovery Life and pay these over to your financial adviser.

Investment manager annual fee

The investment managers to your underlying investment choices will normally charge an annual management fee as a percentage of your investment in their fund. This fee is divided by 365 and deducted daily in the unit prices provided by the investment manager to Discovery Invest. The annual fees that apply to each fund can be found on their respective fund factsheets available on www.discovery.co.za.

Fee and benefit reviews

Fees, boosts and any benefits quoted at inception are not fixed and may be reviewed during the investment contract term.

Before any change, we will inform you in writing about the changes, as well as the options available to you.



Recurring contributions to your Endowment

Contribution Waivers

You can purchase Contribution Waivers for severe illness or disability on a Discovery **recurring contribution** Endowment. This ensures that your contributions continue in the event of ill-health or disability.

This benefit waives all contributions and automatic contribution increases until the end of the contract term or age 65 next, if earlier, in the case of a claim. The premium for the Contribution Waiver, as well as the cover for the Contribution Waiver will expire at the end of the contract term or the investment anniversary preceding age 65.

For the Contribution Waivers to apply, the investor must satisfy the Category A criteria of the Capital Disability Benefit or Severity A criteria of the Severe Illness Benefit (as defined in the Discovery Life Plan Guide). The premium for the Contribution Waiver benefit is a percentage of the Endowment Plan contributions and will be deducted before the remaining amount is invested.

Medical exclusions you are not covered for

Claims will not be admitted for conditions, physical defects, illnesses, bodily injuries or diseases that you have suffered from, were aware of, or have received medical treatment or advice for during three years prior to the commencement of the Contribution Waiver benefit.

Annual contribution increases

If you've chosen recurring contributions, you can also choose to have an annual automatic contribution increase (ACI) added to your investment. This means that your contributions will increase each year on the anniversary of your Endowment by the ACI option selected.

You can choose an ACI of 0%, CPI, 10%, 15% or 20% per year.

Definition of CPI

CPI is defined as the latest available CPI at the time of producing the investment anniversary letters and is capped at 15% per year.

Remember that at the end of the term of your investment, you may choose to continue or stop your contributions. You also have the choice of whether to keep your investment with us or to realise your investment.

Discovery Invest fees and financial adviser fees

The way fees are charged for recurring contributions (monthly or annually) are different to that of lump-sum contribution fees. There are two possible fee structure options.

Option 1

Discovery Invest annual administration fees, including commission recoupment

You pay an annual fee of 3.5% of the size of your investment fund. This will be increased by 15% to offset VAT expenses. This is an annual fee, so the amount is divided by 12 and charged monthly. A portion of this fee is used to recoup the cost of the commission that we pay to your adviser at the start of your investment.

Fee refund

You also qualify for a refund every five years of a portion of all Discovery Invest annual administration fees paid in the previous five years. This proportion is 45% on qualifying Discovery funds, and 20% on other funds.

Qualifying Discovery funds consist of Discovery funds (excluding the Discovery Money Market Fund), Escalator Funds based on Discovery funds and Target Retirement Date Funds. The list of qualifying funds may be updated from time to time.

Each refund includes investment growth accrued on the fees paid in the five-year period.

Reducing or stopping your contributions or surrendering your investment

If you reduce or stop your contributions before the end of the investment term, or make a withdrawal from your investment before the end of the term of your investment, we may levy an early exit fee.

- If you surrender your investment or stop paying your contributions (make your investment paid up), this fee will be a maximum of 15% of your investment fund in the first month, reducing linearly to zero over five years.

- If you reduce your monthly contribution, the exit fee will be applied as described above but will only be applied to a portion of the investment fund. This portion is equal to the percentage reduction in your contribution.
- If you reduce your contributions or make a partial withdrawal, the cumulative balance of the fee refund will be proportionately reduced.
- If you stop your contributions or make a full withdrawal, all future fee refunds will cease.

Option 2

Financial adviser initial advice fee

Your financial adviser may receive initial fees as a percentage of your contribution as-and-when you pay your contribution. This will also be deducted from the contribution you pay. If you only pay a contribution once a year, your financial adviser will only receive the financial adviser's fee once a year.

Discovery Invest annual administration fees

You pay an annual administration fee based on your investment fund size.

Investment fund size	Discovery Invest annual administration fee
First R250 000	0.75%
Next R250 000	0.65%
Next R250 000	0.60%
Next R250 000	0.45%
Over R1 million	0.30%

These are annual fees, so the fee is divided by 12 and charged monthly. These fees will be increased by 15% to offset VAT expenses.

Your financial adviser may also charge an annual advice fee as a percentage of your investment value. This will be deducted in addition to the annual fees above. Discovery Life will deduct these fees from your investment on behalf of Discovery Invest and pay these over to your financial adviser.

Reducing or stopping your contributions or surrendering your investment

You will not pay any early exit fees or paid-up fees if you stop or reduce your contributions or surrender your investment.

Fees payable to the investment manager (Option 1 and Option 2)

Please remember that certain investment management companies may charge initial fees for investing in their funds. The investment managers will also normally charge an annual management fee as a percentage of your investment in their fund. This fee is divided by 365 and deducted daily in the unit prices provided by the investment manager to Discovery Invest.

The initial and annual fees applicable to each fund can be found on the respective fund fact sheets available on www.discovery.co.za.

Fee and benefit reviews

Fees and any benefits quoted at inception are not fixed and may be reviewed during the investment contract term.

Before any change, we will inform you in writing about the changes, as well as the options available to you.



Choosing the underlying funds

Investment choices that are available

Your contributions to the Endowment will be invested in the underlying investment options that you have selected. The investment options selected and the apportionment of the contributions between these investment options will be reflected on your investment schedule.

If any of the underlying investment options are capped or cease to exist, we may switch your investment into an alternative and request an instruction for a new selection from you.

Our range of investment options

Discovery funds

Our range of funds caters for a full range of risk profiles. There are single-manager unit trust funds which offer flexibility and control for clients with specific investment objectives, while the multi-manager funds and model portfolios offer solutions for clients who want an additional layer of investment manager diversification.

We have partnered with Ninety One SA (Pty) Ltd, one of South Africa's leading asset managers to manage the range of single-manager Discovery funds.

Through our association with international banks, we are able to provide investors with access to new-generation investment methodologies. Depending on the structure chosen, you are able to get exposure to local, as well as global returns. Because these are not unit trusts, they are not regulated by the Collective Investment Scheme's Act.

Cogence Model Portfolios

Cogence Model Portfolios leverage the expertise of a full range of local and international asset managers, offering a range of risk-profiled solutions. These are advised by BlackRock and RisCura.

External funds

We also offer access to a wide range of external investment managers' funds to provide flexibility in your investment choice. These are considered "other funds" for the Investment Boost and fee refund benefit.

Escalator Funds

The Escalator Funds are designed to provide unlimited upside potential in bull markets, while offering downside protection in bear markets. You are protected at a level of at least 80% of the highest value the Escalator Fund has ever reached. This ensures that if markets are down when you want to realise your investment, you have the guarantee that you will always be able to realise at least 80% of the highest value of your Escalator Fund.

The fund is calculated with reference to a mix of assets that dynamically rebalances between an underlying riskier asset and a cash component on an ongoing basis.

This rebalancing is done according to a defined algorithm. As the performance of the riskier asset improves, the allocation to the riskier asset increases. If the performance of the riskier asset falls, the allocation to the riskier asset decreases.

We provide a range of Escalator and Life Escalator Funds with various unit trusts as the underlying riskier asset that you may choose from. Escalator Funds with Discovery funds as the underlying riskier asset are considered qualifying Discovery funds for the Investment Boost and the fee refund benefit.

Invest Aware: What you should know about Escalator Funds

- They are based on a riskier asset and a cash component. The riskier asset may be a Discovery unit trust, an external unit trust, an index or set of indices (the list of funds is available from Discovery Invest). The value of the fund at any time is based on the market value of both the underlying riskier asset and the cash component.
- The 80% dynamic market value guarantee level is based on the overall value of each Escalator Fund and not on the value of the riskier asset only. The guarantee applies at all times and not only at the end of a specified time.
- The guarantee that the Escalator Funds will not fall below 80% of the highest value reached (the guarantee level) is a guarantee provided by Deutsche Bank and not Discovery Life Limited. This means that the investor bears the risk if Deutsche Bank is unable to meet the guarantee for any reason whatsoever.
- The allocation between the riskier asset and the cash component is determined through an algorithm which enables the guarantee at any time.

Switching between investment options

You may switch between investment choices at any time, subject to our practice at the time.

A switch will be subject to any initial fees levied by the investment managers to which the funds are switched. Switches may affect the Investment Boost and the fee refund benefit.

Business Practices

How should I issue instructions to Discovery Invest?

Instructions may be given online through our website at www.discovery.co.za or in writing using the relevant forms where applicable. Written instructions must be sent to us by email to invest_support@discovery.co.za. You may request the forms by calling us on 0860 67 57 77 or by emailing us at invest_support@discovery.co.za. We may require additional supporting documents for certain instructions.

Will I receive regular benefit statements on my investment?

We will provide a quarterly statement reflecting your investment values during a specified period (or previous quarter). You can view all the details of your investment at any time, including your Investment Boost, by logging in to our digitally enabled website at www.discovery.co.za.

What happens if an investment choice that I selected is unavailable?

It may happen that we are unable to continue offering a certain investment option as an investment choice. If this happens, we will inform you accordingly and request an instruction to select a new investment choice. If you don't make a choice, we will switch your investment into an alternative investment that is available.

Misrepresentation

The information given to us in your application form, or any other documentation that you provide in support of your application, forms the basis upon which your investment is issued.

If you fail to disclose any information, or provide false information or distort information when applying for your investment, we will be entitled to suspend your cover from the start date of your investment. In addition to this, we will also be entitled to:

- Refuse to pay out any current or future claims that are related to the misrepresentation or non-disclosure
- Adjust your premium or contribution from the date of the misrepresentation or non-disclosure
- Recover monies already paid to you for claims that relate to the misrepresentation or non-disclosure
- Cancel certain benefits or your entire investment with immediate effect, and retain any premiums or contributions paid to us or Discovery Life as a penalty.

Fraud

Your investment and all its benefits will be cancelled should you:

- Submit a fraudulent claim
- Use any fraudulent means or devices to make your claims
- Provide false information in order to obtain a benefit
- Knowingly allow anyone acting on your behalf to provide false information in order to obtain a benefit
- Deliberately and wilfully conspire to cause the illness or disability that gives rise to a claim.

Consent to disclosure

You have to consent to the exchange of information, including medical information, between Discovery Invest, Discovery Life, Discovery Health, Discovery Health Medical Scheme, Discovery Insure, Discovery Bank, any medical practitioner you have consulted, or any other life insurance office.

Contact details

Please remember that in addition to talking with your financial adviser, if you have any questions or service needs, you can call us on 0860 67 5777.

You can also visit www.discovery.co.za for additional resources and a downloadable version of this Fact File (downloadable as a PDF file).



Discovery Invest

Contact Centre 0860 67 57 77 | invest_support@discovery.co.za | www.discovery.co.za

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