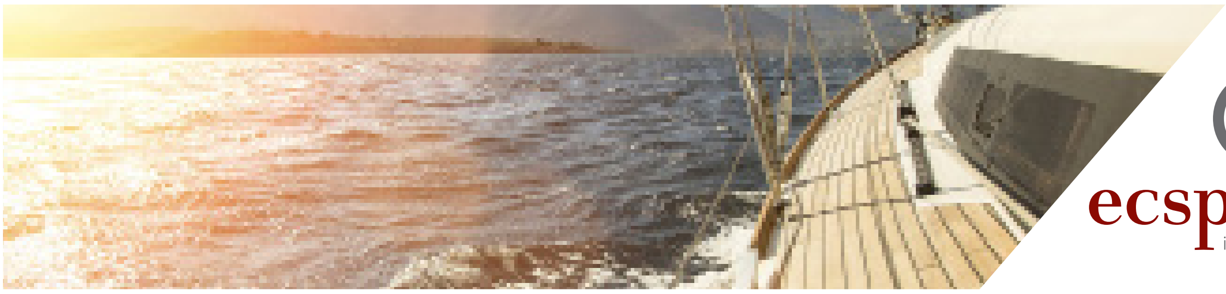

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Cost cannibalise your investment returns

Investment fees can significantly reduce returns, but soon new regulations will be implemented to compel product providers to disclose the full cost components of their products. This will place investors in a fair position to compare products based on net returns, with fewer surprises at the time of first review.

In a developed country like Canada, where investment fees are among the highest in the world, an investment can attract an overall fee as high as 2.5%. Yet in South Africa, it is not uncommon for financial service providers and institutions to charge up to 3% and even 3.5% for a standard unit trust investment.

What fees are charged?

Locally, only the fund management and administration fees are sometimes used to determine the total expense ratio (TER). The calculation fails to include the fees a broker might charge or charges by the "investment platform," which represents the fees charged by all the companies involved in managing the portfolio. An adviser is at liberty to charge an initial and annual fee of between 0.5% and 1.5% and a platform can charge between 0.1% and 0.3%. These fees exclude administration fees.

Adding to the fee structure is the addition of a "performance fee" – charged if a fund beats its benchmark.

Sadly, the benchmark's returns are often hardly higher than the inflation rate, meaning fund managers receive bonuses taken directly from investors' returns.

South Africa is one of only a few countries where performance fees are allowed. But why should a fund manager earn a performance bonus for doing a good job, i.e. meeting the set investment goal? Does a surgeon get a bonus for performing an operation successfully?

Transparent cost structures

In the same way as compounded growth/interest multiplies your investment value in time, the reverse applies to compounded cost. As an investor, you ideally want to sacrifice as little of your returns to costs and fees as possible, while at the same time knowing you are earning a good return on investment.

The good news is that from 1 June this year, members of the Association for Savings and Investment South Africa (ASISA) will be obliged to comply with new standards, called Effective Annual Cost (EAC), which will be effective from October. These standards will enable investors to compare the cost of various savings and investment products and their impact on investment returns.

Euné Engelbrecht - CEO

The EAC will standardise the costs product providers levy, which for the first time will enable investors to compare the cost of different products in a meaningful way.

This standard is consistent with the framework relating to the fair treatment of customers who should be fully informed before, during and after an investment has taken place.

At Ecsponent, there is no initial fee and all investment quotes show the investor's expected net rate of return, depending on their tax situation, over a five-year period.

By offering a 100% allocation from start, your investment has a much better potential for growth.

Ecsponent's preference share programme is regulated by the JSE and it provides Ecsponent with the capital needed to grow (see the how we have grown in 2015). The advantage for you as investor is that there are no management or other fees and additionally you are assured of a specific rate of return on your investment.

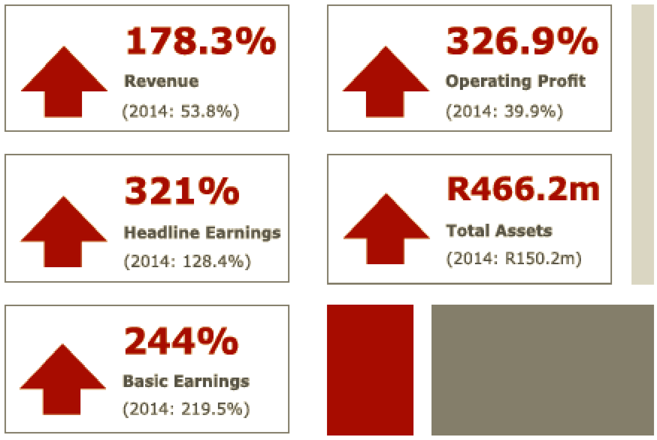
Case study

- James invests R2 million.
- The first R1 million is invested with a provider that charges an up-front fee of 3.5% plus VAT.
- The second R 1 million is invested with Ecsponent with 100% of the capital allocated.
- The investments achieve the same yield of 70% over a period of five years.
- At the end of the term, James will have R67, 830 more in his account with Ecsponent than on the first R1 million he invested. If this R67, 830 is invested at 8% per annum, it will be worth R464, 532 in 25 years' time.

When the numbers are compared like that, a fee of 3.5% charged amounts to so much more.

Strong year-end results and future vision

We are pleased to share with you that our annual financial results for the year ending December 2015 have shown exceptional growth, with profits after tax increasing by 281% to R19.9 million. Highlights from our group's operations in the 2015 results include:



More ways to grow with us

In 2015, preference share dividends accruing to investors amounted to R25.1 million and investors will continue to reap the benefits of this programme in future as we continue to build on the group's strong financial performance. For more information about our 2015 financial results, please visit www.ecsponent.com/investor-relations

However, our continued growth, coupled with Ecsponent's recent acquisition of a majority stake in Clade Investment Management to enhance our asset management capabilities, leaves us well positioned to grow our investment offerings to give you a wider choice of products. This means that soon you will have the opportunity to benefit from our forward-thinking investment approach, using widely-known investment products such as retirement annuities, endowments, living annuities etc.

Please contact your Ecsponent representative for more information.

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