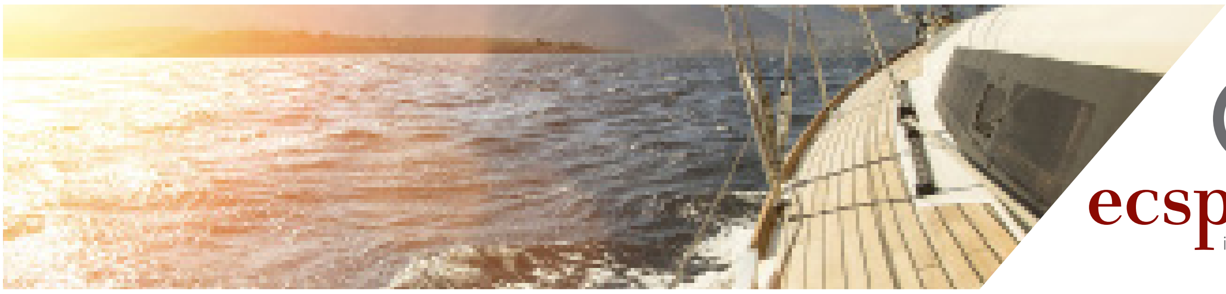

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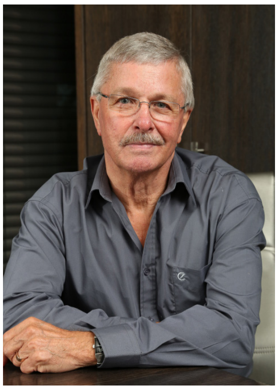
JSE breakthrough for Ecsponent



Dr. Anton Hay - Marketing Director
Ecsponent Financial Services

Ecsponent's growth continues despite the current climate of global economic uncertainty. On 20 June, the company's ordinary shares' listing moved to the JSE's main board and is now trading under the Financial Services – Specialised Financing sector.

This milestone was achieved owing to the group's continuous growth over the past five years and its compliance with the JSE's stringent Listings Requirements. In the past financial year, the group's revenue increased by 178%, while its assets grew by 210%.

Ecsponent initially listed on the JSE's Venture Capital board in 1998, with two subsidiaries. Under the guidance of a new management team that joined the group in 2010, the group today has 22 subsidiaries in four countries and is well positioned to continue its growth trajectory.

The move to the exchange's main board is expected to create greater trading liquidity and boost trading volumes of its ordinary shares. It is also expected to contribute to the group's objectives to reduce its cost of capital which in turn will increase profit potential.

Additionally, since Ecsponent has been listed on the JSE for many years, the group will continue to raise investment capital through its preference shares programme, which was approved by the JSE for a total amount of R5 billion.

These preference shares have been listed under the preference share section of the JSE since October 2014.

The JSE is one of the best regulated stock exchanges in the world and is seen as the gateway to investment in Africa with a market capitalisation of $150 billion. The solid infrastructure and modern systems attract sizeable international capital. The JSE's role is to act as a watchdog to ensure that listed companies adhere to strict regulations to protect the interests of investors.

With both the parent company and its products listed and regulated by the JSE, investors have security and peace of mind.

The true nature of investment risk

What does risk mean?

Security and risk are two sides of the same coin when it comes to investments. Of course we all want high returns, but often forget that risk forms an integral part of any investment. Where are the real risks and how can one thrive in spite of them?

Risk lies in ourselves

We tend to think the biggest investment risks lie in external factors, but in reality it is in ourselves. Emotions often cloud our judgement and the distinction between reality and expectations fades. Our bodies respond to these feelings of stress, fear and distrust by producing a chemical reaction to protect us from harm.

The true nature of investment risk

Hence, we respond in one of four ways: ***Fight*** – defend the investment at all costs; ***Flight*** – withdraw and hide behind group consensus; ***Freeze*** – make no change; or ***Anguish*** – make a half hearted choice. These reactions are all counterproductive as they hinder objective analyses of risk and reward.

So, if risk and reward go hand-in-hand…

What are the risks?

1. Market

This is the risk that the value of investments may drop, due to market changes which can be caused by a variety of factors, including changing market sentiment, or fluctuations in interest rates or foreign currencies – which are largely outside investors' control. Recently, we have also seen that geopolitical tensions, terrorist attacks and domestic unrest can easily affect financial markets negatively.

2. Inflation

This is the worst type of risk and we're exposed to it if our investments do not keep up with the rate of inflation. Over time our buying power is diminished and the same amount of money can buy fewer goods and services. There is also the risk that you will outlive your capital.

3. Concentration

It is ill advised to invest all your money in the same type of investment. Reduce risk by diversifying your investments. Diversification significantly reduces the risk of capital loss and underperformance.

4. Liquidity

Life is unpredictable and therefore it is wise to invest enough money into liquid investment products for a rainy day.

5. Capital

This is the possibility that the company or investment vehicle incurs problems that could put your capital at risk.

6. Costs

South Africa's savings and investment products are among the most expensive in the world. Therefore, it is worth shopping around for the best possible cost structures, especially when considering that a 1% annual cost reduces total yield by 30%.

Lost opportunities

The famous saying "he who dares not, wins not" applies here as more people have suffered losses by not investing at all, compared to investors who have lost money in direct equity investments.

Risks can be managed

Seasoned investors analyse their investment options carefully and consider the risk and reward of different scenarios. Of course there are certain kinds of risks that should always be avoided and others that should be managed. Getting the objective advice of a financial advisor is often beneficial to identify the types of risk and your appetite for them.

Size can influence risk, especially for bigger companies

All companies, small or large, are exposed to risk, although smaller companies are often more streamlined and can make decisions more effectively to respond to changing market conditions. The investor will also be handsomely compensated if the smaller company manages its risks effectively over the years. Additionally, whether big or small, investment companies are held to the same regulatory and legislative requirements. Rather let governance and regulation inform your choices as well as performance potential than size in isolation.

Volatility does not equal risk

Since 1961 equity investments have outperformed all other asset classes over periods of five years and longer. Therefore, do not confuse volatility in the market with risk. In the stock market you buy shares in a company and as a co-owner you share in the profits. If there is value in a company, it will be preserved and grow despite temporary fluctuations.

Preference shares reduce the risk in investment portfolios

If your risk profile shows little appetite for direct equity investments, it is worth considering preference shares. Ecsponent's Class B preference shares offer a fixed rate of 11.2% per annum or 14% per annum if invested for five years. As your returns are fixed, there is little market or inflation risk. Your capital risk is limited as the investment falls under the highly regulated environment of the JSE and the costs involved are not passed on to the investor. Ecsponent's subsidiaries are widely diversified in financial services, biotechnology and mining and engineering supplies to minimise concentration risk. It also trumps other risks such as inflation, liquidity and opportunities, but with significant opportunity for reward.

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