

Limit losses with a unit price guarantee

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The Wealth Edge Endowment Plan, underwritten by Sanlam Developing Markets Limited and administered by Sanlam Life Insurance Limited, is a tax-efficient solution, which allows clients to take advantage of exposure to investment markets.

With all the uncertainty currently being experienced in the wake of Covid-19, the nervousness of clients to invest in the market is understandable. Clients need to be reassured however, that volatility in investment markets is to be expected, and that markets do recover. [The importance of not getting distracted by short-term market movements](#) is important to understand, so that they can benefit from this recovery.

Despite the evidence that, over the long term, investing in equity markets delivers better returns, clients place more value on limiting losses, rather than maximising gains. The optional unit price guarantee on the Wealth Edge Endowment Plan helps clients to balance both objectives.

Optional unit price guarantee

The optional unit price guarantee, which applies at the end of the initial five-year period of the investment, ensures that the unit price in calculating the maturity value is at least at a certain level. More detailed information around the optional investment guarantee can be found [here](#).

To understand how the guarantee could have provided some protection during the recent market decline, a simple practical example is considered. A client with a moderate risk profile is assumed to be holding a well-diversified portfolio. The client invests R1 000 000 on 1 April 2015.

Table 1

Fund	% Held	Guarantee Applicable
SATRIX Balanced Fund	20%	Not Available
SIM Inflation Plus Fund	20%	Greater of 100% initial unit price or 95% of the highest unit price
Allan Gray Balanced Fund	10%	80% of the highest unit price

Coronation Capital Plus Fund	15%	Greater of 100% initial unit price or 90% of the highest unit price
Prudential Inflation Plus Fund	20%	Not Available
Nedgroup Investments Opportunity Fund	15%	Greater of 100% initial unit price or 90% of the highest unit price

The model portfolio used above, together with others catering for different risk profiles, may be found [here](#).

The graph below shows how this investment would have performed over the five-year period, as well as the impact of the recent market crash on the value of the investment.



Figure 1

Source: Initial data from Morningstar

The total return over the five-year period for each of the funds, is compared to the return achieved with the optional investment guarantee selected.

Table 2

	SATRIX Balanced	SIM Inflation Plus*	Allan Gray Balanced*	Coronation Capital Plus*	Prudential Inflation Plus	Nedgroup Investments Opportunity*	Total Return
Without Guarantee	-9%	5%	1%	-8%	-10%	-12%	-6%
With Guarantee	-9%	10%	2%	0%	-10%	2%	-1%

*These funds have the optional investment guarantee applied to them.

Source: Initial data from Morningstar

The total return on this portfolio as at the end of 2019 was 11%. As can be seen from the graph, the recent market crash resulted in a sharp and steep decline in the client's investment portfolio. The return for the first three months of 2020 was -14%, which resulted in the total return over the five-year period being -6%. The return with the guarantee selected was -1%. While the client still experienced a loss with the guarantee selected, this loss is 5% less than if the guarantee had not been selected.

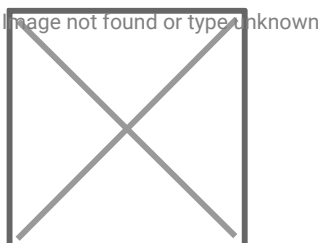
To understand the benefit of the guarantee further, one could look at the performance of the individual funds. The Nedgroup Investments Opportunity Fund without the guarantee, for example, gave a total return of -12% over the five years whereas the return with the guarantee was around 2%, which is 14% higher.

While investment markets can sometimes be volatile and losses are unpredictable, having additional protection in the form of the optional unit price guarantee allows the client to limit these losses but also benefit from market upside when markets are rising.

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