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INCOME FUNDS OFFER PENSIONERS A WELCOME ALTERNATIVE

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This option won't suit everyone, and returns aren't guaranteed, but there are clear benefits to adding an income fund to your post-retirement investment strategy.

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With investors having had to stomach highly volatile markets over the past few years, it's easy to think that pensioners have no way of avoiding value destruction. This isn't entirely true, although rapidly rising prices have taken cash and money markets out of the equation because their returns aren't keeping up with the pace.

There's never a one-size-fits-all solution, but if you're retired and have some savings in low-return investments, then you might want to consider an income fund.

This option won't suit everyone, and returns aren't guaranteed, but there are clear benefits to adding an income fund to your post-retirement investment strategy.

Brenthurst Wealth Management (PTY) LTD FSP No. 7833

WHO BENEFITS MOST FROM AN INCOME FUND?

You shouldn't be surprised to hear that income funds are best suited to people who depend on earning an income from their investments. In most cases this would be retirees.

Investors in this age group are generally conservative by nature because they don't want to put their future income at risk. This is also why money market funds have been so popular for more than a decade, as South African investors have shied away from volatile or low-performing equities.

WHAT ARE THE BENEFITS OF AN INCOME FUND?

Income funds aim to achieve a better than money market return whilst maintaining an extremely low risk profile. Another benefit of an income fund, compared to an investment in the money market, is that investors get daily pricing, meaning investors have a liquid investment, whereas money market accounts can have a lock-in period from days to years.

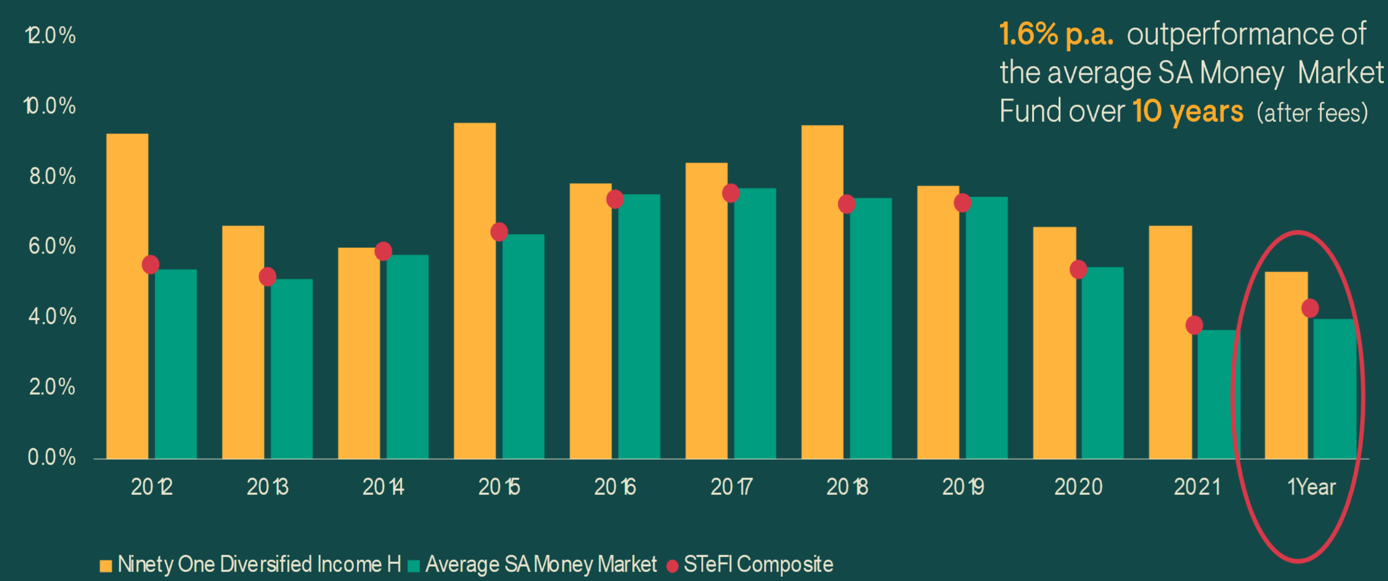
Retired investors are particularly sensitive to fluctuations in the value of their investments, which is why they prefer less volatile assets. However, with the cost of living rising rapidly, the returns from traditional safe havens, such as cash and money markets, are struggling to beat inflation.

INCOME FUNDS HAVE A PROVEN TRACK RECORD OF OUTPERFORMING MONEY MARKET RETURNS.

Research shows that approximately R1,5 trillion is invested in South African retail bank deposits. This is an enormous amount of money which can be exposed to better growth in income funds, without taking on that much risk.

NINETY ONE DIVERSIFIED INCOME FUND

A BROADER OPPORTUNITY SET WITH FLEXIBLE ASSET ALLOCATION



SOURCE: Ninety One

Past performance is not a reliable indicator of future results, losses may be made. Source: Morningstar, 31 July 2022, performance figures above are based on lump sum investment, NAV based, inclusive of all annual management fees, gross income reinvested. Initial charges are not applicable to this fund. Fees are not applicable to market indices, where funds have an international allocation, this is subject to dividend withholding tax, in South African Rand. * Inception date simulation date: 01 September 2008. Annualised performance is the average return per year over the period. Individual investor's performance may vary depending on actual investment dates. Highest and Lowest returns are those achieved during any rolling 12 months over the period specified. Since inception*: Jul-12 13.4% and Jan-14 4.5% The Fund is actively managed. Any index is shown for illustrative purposes only.

BRENTHURST WEALTH USES A RANGE OF INCOME FUNDS, OF WHICH THE MI-PLAN ENHANCED INCOME FUND AND NINETY ONE DIVERSIFIED INCOME FUND ARE OUR FAVOURITES.

- **The Mi-Plan Enhanced Income Fund has an incredible track record – ranking 1st in its fund class over periods from one to ten years.**
- **The Ninety One Diversified Income Fund, on the other hand, has outperformed the average SA money market fund for the past 10 years, as is reflected in the performance graph above.**

If you are one of the many South Africans with a fair amount of cash in your bank account or money market account because you fear market volatility, then an income fund is a far better option to ensure retention of your buying power.

An added advantage of income funds is that the management fees, usually between 0.75% and 1%, are much lower than that of equity funds.

WHAT IS AN APPROPRIATE INVESTMENT HORIZON?

To be clear, I'm not suggesting you switch your entire portfolio to an income fund, but this option does make sense as a hedge against inflation if you're risk averse. However, I do suggest that you remain invested in the income fund for at least 12 months so as to reap the benefits thereof, and if possible, stay invested for a further 12 months.

Moreover, these funds can also be used by someone who needs to park funds in anticipation of a large purchase, such as a house. Parking your money in an income fund offers you both the inflation hedge, as well as liquidity to access your money when you need it most.

Unlike buying bonds directly, where the timing of your purchases or sales impact your returns, income funds don't have the same constraints. The fund manager of an income fund is actively buying and selling bonds of various terms to maintain a balance within the fund which translates to optimal returns.

HOW MUCH INCOME FUND EXPOSURE DO I NEED?

If you're very risk averse, you might find the nature of income funds really appealing. However, placing 100% of your investments into income funds is not advisable.

Our advice to post-retirement investors is to keep at least 50% – 60% of their investments in equities and, as a general rule of thumb, we aim for a 10% – 30% allocation to income funds.

The reason we suggest maintaining equity exposure is that it is the driver of investment returns, which you will need if you are to beat inflation in the long run.

WE ALL KNOW THAT MARKETS CAN BE UNCERTAIN. SO, IF YOU CAN'T STOMACH THAT UNCERTAINTY, BUT WANT TO EARN MONEY MARKET-BEATING RETURNS, THEN INCOME FUNDS CERTAINLY ARE YOUR FRIEND.

SONIA DU PLESSIS

Certified Financial Plan-

SONIA DU PLESSIS WON THE INAUGURAL TITLE OF TOP FINANCIAL ADVISOR IN 2019, AND PLACED SECOND IN THE 2022 AWARDS

Sonia heads up the Stellenbosch office and has been in the financial services industry since 2001. She won the inaugural title of Top Financial Advisor in SA at the 2019 Intellidex Top Private Banks and Wealth Manager awards and placed second in the 2022 awards.

She previously worked for Magnus Heystek International as well as ABSA Private Bank, where she gained valuable experience in investment and life insurance matters.

Sonia obtained a BCom degree in 2001 from the University of the Free State and attained her CERTIFIED FINANCIAL PLANNER® designation in 2004.

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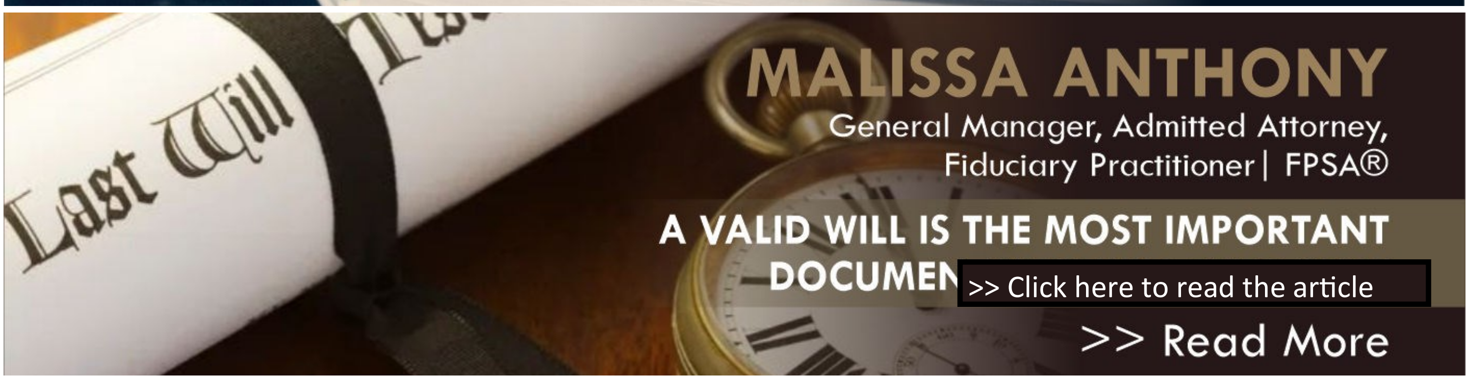

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