

SA Retail Government Bonds vs. Core Income Model Portfolio as an Investment Option

Local as well as global equity markets have faced immense pressure and sizeable losses during the course of 2022. For conservative investors looking to protect their capital, whilst earning a return above the current bank call rate, our local South African Retail Government Bonds could provide an attractive investment option.

What are RSA Retail Savings Bonds?

Fixed Rate Retail Savings Bonds earn a market-related fixed interest rate, which is priced off the current government bond yield curve and is payable on regular interest payment dates until maturity. Different interest rates apply depending on which bond maturity is purchased.

RSA Retail Savings Bonds have been designed to be as accessible as possible for the general public to invest their money, while earning secured and market related returns on their investments.

Currently, the Fixed Rate Retail Savings Bond series consists of bonds with 2-year, 3-year and 5-year terms.

Features of Fixed Rate Retail Savings Bonds

- Rolling maturities of two years, three years and five years
- Offers fixed rate until maturity
- Investment amount R1 000 to R5 million
- Interest payment option – payments received semi-annually or monthly (monthly repayments for over-60s only)
- Option of reinvesting payments

Current Fixed Rate Retail Bonds on Offer

Bond Maturity	Fixed Rate
2 Year Fixed Rate	9.50%
3 Year Fixed Rate	9.75%
5 Year Fixed Rate	11.50%

Pros of Investing in Fixed Rate Retail Bonds

- Earn a high return priced off the current South African Bond Yield Curve
- Capital protection from declines in the market
- Guaranteed returns over the life of the bond
- No administrative fees are levied

Current Yield on Local All Bond Index:

10.2%

Retail Bonds are offered on 2-year, 3-year, and 5-year time horizons

Returns are guaranteed over the life of the Retail Bond

Early withdrawal is subject to penalty

Cons of Investing in Fixed Rate Retail Bonds

- Funds are locked in for the maturity of the bond
- Withdrawal of funds prior to maturity will be subject to penalty
- Interest Income earned on the RSA Retail Savings Bonds is subject to Income Tax, a higher tax rate than capital gains tax
- Once a bond is purchased, the rate earned is fixed for the term of the loan and will not increase if the interest rates on the Government Bond Yield Curve increase
- Once the Bond matures investors will need to either reinvest or find an alternative investment solution
- If markets run during the lifetime of the bond, the bond investment will not participate in any of the market growth

Core Income
Model Portfolio
Current Yield
7.8%

Which investors are best suited to invest in RSA Retail Savings Bonds?

Due to the lock-up period associated with investing in Local Retail Savings Bonds, these investments will not be suitable for all investors. Investors who draw a regular income from their investment portfolios will be unable to do so if invested in Retail Savings Bonds. As a result, these investors should look to only invest a portion of their capital in Local Bonds and keep the balance in a more liquid solution.

Core Income
Model Portfolio
TIC
0.44%

Investors looking to earn high levels of capital growth are also less suited to invest in RSA Retail Savings Bonds due to the lack of exposure to equity markets. Over time equity markets generally outperform bond markets, causing bond investors to miss out on future market growth.

Overall, these Savings Bonds are best suited for low-risk, high-net-worth individuals who will not need to access their capital over the lifetime of the bond, and who do not require the higher levels of capital growth offered by the equity market.

The Core
Income Model
offers daily
liquidity

A more liquid Alternative: The Core Income Model Portfolio

The lock-up period and subsequent illiquidity of funds associated with investing in local Retail Savings bonds can dissuade a large percentage of investors from investing in these fixed income instruments. Furthermore, the opportunity costs of investing in Retail Savings bonds are potentially very large, considering the possibility that markets run over the medium term.

As a result, most investors may be better suited to invest in a high-yielding, low-volatility, income solution that doesn't exhibit any of the liquidity constraints presented by retail bonds. The **Core Income Model Portfolio** provides a highly liquid solution for investors wishing to protect their capital whilst earning an above-cash yield, whilst also allowing for quick and easy withdrawal and deployment should markets start to run. This Model Portfolio has a current yield of 7.8% with a total investment cost of 0.44%, well below the average income fund available in South Africa.

Allows for
immediate
withdrawal with
no penalty

For more information on how to access the Core Income Model, please contact your financial adviser. In these volatile times, consulting your financial advisor is key to achieving your investment goals.

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