

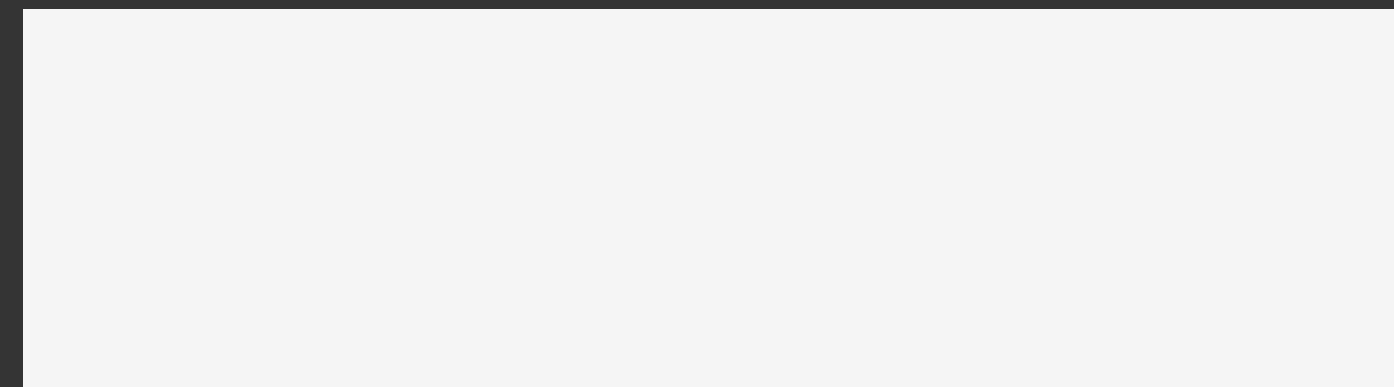
PRUDENTIAL INVESTMENT MANAGERS

A guide to investing in unit trusts

A basic introduction to the world
of investing in unit trusts for the
South African investor

BOOK
5 OF 6

After investing: what
should you know?



Contents

How unit trusts work

BOOK 5 OF 6

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01

Is my money safe?

Yes, unit trusts are governed by the Collective Investment Schemes Control Act, No. 45 of 2002 (CISCA) and regulated by the Financial Sector Conduct Authority (FSCA).

Independent trustees oversee unit trust schemes and the assets of the unit trust funds are held in safe custody at a financial institution. The assets of a unit trust are managed by a registered CIS Manager who needs to be approved by and registered with the FSCA, as well as comply with CISCA. Unit trusts are also required to act in accordance with certain codes of conduct and guidelines laid out by the Association for Savings and Investment South Africa (ASISA). (Refer to the Glossary for explanations of ASISA, the FSCA and CISCA.)

This does not mean that your assets are safe in terms of investment losses. Investment losses depend on how the unit trust funds are invested – in theory, any unit trust can incur an investment loss, and unit trusts are not guaranteed against losses.

02

Are there any guarantees?

No, there are no performance guarantees offered by a unit trust investment or the unit trust management company.

Investors in the unit trust take on the market risk associated with the investment objective and mandate of the fund. Past performance is not necessarily a good indicator of future performance.

03

What information will I receive about my investments?

As a new investor, you will receive a welcome letter from Prudential showing your initial transaction.

Thereafter, for unit trust funds that make distributions monthly (like the **Prudential Income Fund**) you will receive a monthly statement showing the latest value of your investment(s) and any transactions over the period. For those funds that make distributions quarterly or bi-annually, you will receive quarterly statements. You will also receive transaction statements after a transaction on your account has been processed. See **BOOK 6 - CHAPTER 3** on how units are priced for more details.

Most unit trust management companies, including Prudential, also provide daily price updates for all of their unit trusts (excluding money market funds) on their websites. You can sign up to view your account information and register to transact on your unit trust account should you wish to add more funds, withdraw funds, etc. The **Prudential website** provides all the forms necessary for any type of transaction.

04

Are there any lock-in periods?

No, unit trusts do not lock you into minimum periods of investment. You can withdraw your investment from your unit trust fund at any time.

05

What is a withdrawal?

Also known as a repurchase or redemption, this is when you sell some or all of the units that you own in a unit trust fund. The proceeds are then paid into your bank account.

06

Can I request that the proceeds of a withdrawal be paid to a third party?

No, third-party payments are not allowed for security reasons.

The proceeds of a withdrawal can only be paid into the bank account that the unit trust company has on record for you. Please see **BOOK 2 - CHAPTER 2** for an explanation of FICA.

07

Can I have a regular withdrawal from a unit trust fund?

Yes, some investors invest a lump sum amount and use their unit trust to pay them a regular income.

You can set up a regular withdrawal on your unit trust fund for various amounts over various periods. It is important to note that if your real return (after taking inflation into account) on your investment is not higher than your regular withdrawal, you may erode your capital. Regular withdrawals should be done in consultation with your Financial Adviser.

08

How easy is it and how long does it take to access my money?

If a unit trust company receives your withdrawal instruction before their applicable cut-off times and provided all the relevant documentation is in order, the transaction will be processed on the same day.

If the instruction is received by the company after their cut-off times, the transaction will be processed the following day. Once the transaction has been processed, the proceeds should reflect in your bank account within two working days.

09

What if I miss a debit order payment?

Prudential does not charge any fees should you miss a payment, but your bank may do so. Prudential will cancel a debit order after three consecutive payments have been missed.

10

What is a switch?

This is a withdrawal from one unit trust fund and using the proceeds to buy units in another unit trust fund. These are allowable at any time, and Prudential does not charge for switching between its own unit trusts.

11

What is a transfer of ownership?

This is when an investor wants to transfer full ownership of their unit trust investment to another person or entity.

There is no withdrawal of units from the market – the units are simply “booked over” into the other person’s name. There are tax benefits of transferring units between spouses, as this is seen as a “rollover event” and no capital gains tax (CGT) is applicable in this case.

However, with transfers that are not between spouses, the person or entity transferring the units may incur CGT, depending on whether a profit or loss was made on the investment. See **BOOK 4 - CHAPTERS 3 TO 7** for more about CGT.

12

How do I invest more money?

You can invest more money by completing the unit trust company's additional investment form or by transacting online.

You can find Prudential's form [here](#). You can make payment into the unit trust fund via an Electronic Funds Transfer (EFT) or, alternatively, the unit trust company can electronically collect the funds from your bank account.

13

Can I invest in unit trusts on behalf of my children?

Yes, as the parent or legal guardian, you are able to open a unit trust investment in the minor's name. You will be required to sign all documentation until the minor reaches the age of 18.

14

Can I nominate
a beneficiary?

No, unit trusts are classified as an asset and therefore will form part of your estate and be executed as per your Last Will and Testament.

15

Can I cede my
unit trust?

Yes, your assets within a unit trust fund can be used as collateral and a cession may be applied to the investment.

Glossary of unit trust terminology

Term	Definition
ASISA - Association of Savings and Investment South Africa	The industry body which assists the FSCA with the regulation of the financial services industry. Its members include most South African financial services providers, including asset managers, insurers and banks.
Beneficiary	A person who derives advantage from something, especially a trust, will, or life insurance policy.
Capital gain/loss	The increase (or decrease) in the price of an asset such as equity, property or other investments that leads to a profit (or loss) when it is sold.
Capital Gains Tax (CGT)	A tax levied on profit from the sale of an asset such as equity, property or other investments when it is sold.
Cession/To cede	Legally, the formal giving up of rights. Also, to give away ownership of something.
Collective Investment Schemes Control Act, No. 45 of 2002 (CISCA)	CISCA regulates the administration, management and sale of collective investments.
Compound interest	Interest added to the principal of a deposit or loan so that the added interest also earns interest from then on. This addition of interest to the principal is called compounding.
Dividend income	Income from dividends paid to shareholders in a company.
Financial Services Conduct Authority (FSCA)	A unique and an independent institution established by statute (Financial Services Board Act, 97 of 1990), to oversee the South African non-banking financial services industry in the public interest. The FSCA is responsible for ensuring that the regulated entities comply with the relevant legislation, as well as capital adequacy requirements to promote financial soundness of these entities and thereby protecting the investing community.
Fund of Funds	A fund that is comprised of holdings in other funds (and therefore not invested directly in the underlying assets).
Institutional investors	Corporate investors such as pension funds and medical aids.
Interest income	Income received from investments such as bonds and money market instruments (cash) that pay interest.
Linked Investment Services Provider (LISP)	A platform run by a financial services company offering a variety of investment products, including unit trusts, from different asset managers.

Term	Definition
Multi-asset fund	A unit trust that invests in more than one type of asset. For example, balanced funds can invest across most asset classes.
NAV price of a fund	The Net Asset Value (NAV) of a fund is the market value of investments, plus cash held, dividends accrued and interest accrued, less the liabilities due by the fund. The value of each unit can be calculated by dividing the value of the fund by the number of units that have been issued.
Participatory interest	Units owned by an individual in a unit trust fund.
Principal	The amount originally invested or deposited in an account or fund.
Rand-cost averaging	The technique of buying a fixed rand amount of a particular investment on a regular schedule, regardless of the share price. More shares are purchased when prices are low, and fewer shares are bought when prices are high.
REIT/REIT income	A Real Estate Investment Trust (REIT) is a type of listed property company that is governed by strict regulations in terms of its structure and operations. Distributions paid by REITs to shareholders are taxed as income, at the individual's marginal income tax rate.
Return/Total return	The percentage gain or loss in the value of a unit trust over a period of time. The total return includes both income/distributions paid to the investor and the change in asset value (capital gain).
Standard deviation	Also known as risk/volatility. This measures the amount of variation or difference in the monthly returns on an investment. The larger the annualised monthly volatility, the more the monthly returns are likely to vary from the average monthly return (i.e. the more volatile the investment).
Total Expense Ratio (TER)	The TER measures the direct costs involved in managing a unit trust. The TER shows the charges, levies and fees relating to the management of the portfolio and is expressed as a percentage of the average net asset value of the portfolio, calculated for the year to the end of the most recent completed quarter.
Weighted average base cost method	This method is used to calculate the base cost for CGT purposes. It is the weighted average price paid for the units.
Withdrawal	To take money from an account or investment; also known as redemption/repurchase.
Yield	The income return on an investment; specifically, the interest or dividends received from an asset. This is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

A guide to investing in unit trusts

Book 5 ends here

PLEASE READ BOOK 6:

How unit trusts work

OTHER BOOKS IN THIS SERIES:

Ready to get
started?

**INVEST NOW IN
UNDER 10 MINUTES!**

**For more information, speak to your financial
adviser or contact our Client Services Team on
0860 105 775 or**

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