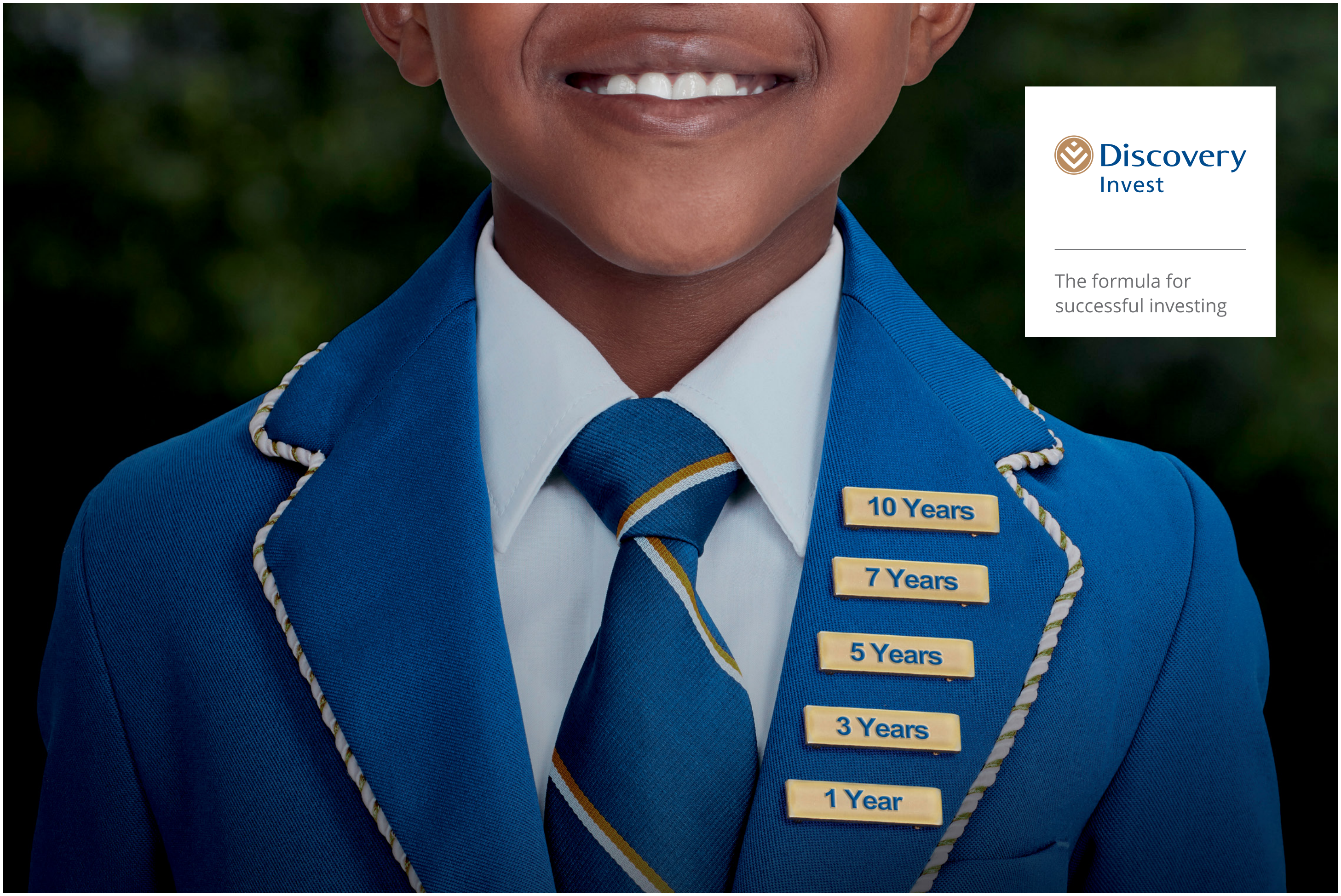

Discovery Invest Balanced Funds

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Kenny Rabson,
CEO of Discovery Invest

Discovery Invest highlights

The 10th year in the history of Discovery Invest has seen us notch up several accomplishments:

We were ranked in the PlexusCrown Survey (URL: https://www.discovery.co.za/assets/template-resources/investments/plexcrown-survey-q4.pdf) as the fourth best collective investment scheme management company in South Africa as at end December 2017. Our overall score showed excellent improvement, moving from the 12th to the 4th spot between March and December 2017. This significant improvement came on the back of improved performance from all three funds in the Balanced range and, in particular, the Discovery Balanced Fund moving from four to five crowns.

During the fourth quarter of 2017, Discovery Invest showed strong growth outpacing all peers, as per the Association of Savings and Investment South Africa (ASISA) quarterly report for that period. We remain well exposed to the equity market movements with a combined 80% of funds under management in equities and asset allocation funds. The UBS report on Unit Trust Ups and Downs for the fourth quarter of 2017 shows despite lacklustre SA equity markets over the past three years (7% per year total return), Discovery has shown material asset growth of 28% over this period, which is higher than the broader industry.

Top Quartile Performance

The Discovery Balanced Funds have given investors a top quartile performance for the last decade.

The table below shows the fund return and quartile ranking for each fund over the respective terms:

Fund	1 Year	Quartile	3 Year	Quartile	5 Year	Quartile	7 Year	Quartile	10 Year	Quartile
Discovery Balanced	10.85%	1	6.24%	1	10.78%	1	11.45%	1	9.98%	1
Discovery Moderate Balanced	10.73%	1	6.55%	1	9.83%	1				
Discovery Cautious Balanced	10.53%	1	6.61%	1	8.58%	1				

Source: Profile Data. Data as at 28 February 2018

Assumptions: Fund performance is calculated net of fund management fees. Three year, five year, seven year and ten year performance figures are annualised.

Balanced Funds overview

Our Balanced Funds invest in a blend of assets, such as equities, bonds, cash and property, allowing investors to take advantage of the benefits of diversification. We aim to keep the funds within specified risk ranges, and at the same time maximise the potential for growth.

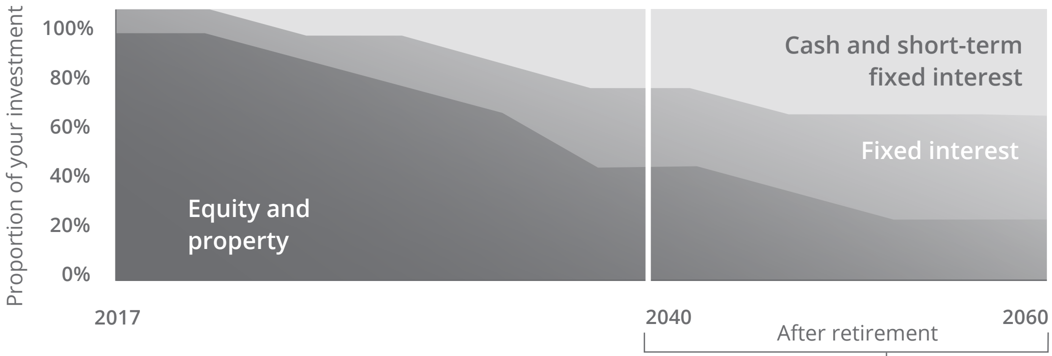
We look for shares that are reasonably priced, with expectations of positive, sustainable earnings growth. The share selection considers macroeconomic conditions and whether there will be broader acceptance of the investment opportunity from investors.

We offer three funds to suit investors’ different attitudes to risk: the Discovery Cautious Balanced Fund, the Discovery Moderate Balanced Fund, and the Discovery Balanced Fund. These funds are managed following the same philosophy. Our Target Retirement Date Funds are also part of our multi-asset range, and follow a similar philosophy.

Target Retirement Date Funds

This range of funds aim to provide a life-long savings solution for those who are saving for retirement. Dynamic adjustment of the investment strategy allows us to meet investors' needs from inception to post-retirement in a single fund. This means the investor never needs to switch between funds to suit different life stages. Instead, there is a smooth transition from growth to income investing as opportunities present themselves.

The graph below shows the asset class changes or dynamic asset allocation for an investor planning to retire in 2040.



01

20+ years before you retire

Allocation to equities is relatively high so that you may benefit from long-term growth potential. Allocation to fixed-income investments, on the other hand, is quite low because they are considered lower-return investments relative to equity and property.

02

As your retirement date approaches

The allocation to equities will decrease in favour of lower-risk, fixed-income investments.

03

After retirement

The asset management team continues to adjust the fund's risk profile for a further 20 years into retirement to provide an adequate level of income.

The content in this document does not include the full detail. Certain terms and conditions and qualification criteria apply.
The information in this document must be read with the relevant fact files.

Investment team

Right at the beginning of our journey, we identified Investec Asset Management as a leader in the asset management industry. That is why in 2007, we chose to partner with them and outsource the actual day-to-day management of our funds to their leading team of fund managers.

The investment team that runs both our Balanced Funds and our Target Date Retirement Funds is made up of 24 investment professionals with a combined wealth of knowledge and a collective 419 years of experience in the asset management industry.

The team is led by Chris Freund, manager of the Balanced Fund range, who has more than two decades of experience in investment management. He is a qualified CA (SA) and a CFA charterholder. Other key team members include Rűdiger Naumann, Samantha Hartard, Hannes van den Berg and Rhynhardt Roodt.

“A team of professionals with a collective 419 years of experience in the asset management industry.”

Discovery Invest

A well-resourced and

Strategy Leader

Chris Freund

Portfolio Management Team

Chris Freund

Rűdiger Naumann

Samantha Hartard

Hannes Van den Berg

Rhynhardt Roodt International

Investment Specialists

Hanre Rossouw
Sector Head – Commodities & Resource

Grant Irvine-Smith
Sector Head – Quantitative

Chris Steward
Sector Head – Financial

Terry Seaward
Portfolio Manager

Samantha Hartard
Sector Head – Industrials

Unathi Loos
Portfolio Manager

Neil Stuart-Findlay
Sector Head – Real Estate

Daniel Sacks
Portfolio Manager

Balanced Fund team

experienced investment team

Ann-Maree Tippoo
Analyst

Sarine Barnard
Analyst

Kristin Milne
Analyst

John Thompson
Analyst

Luqman Hamid
Analyst

Lazarus Shigwedha
Portfolio Manager

Specialists Research Groups

Malcolm Charles
SA Sovereign Bonds

Simon Howie
SA Corporate Bonds

Russel Silberston
Global Rates & FX

Phillip Saunders
Macro & Asset Allocation

Global Investment Infrastructure Support

Louis Niemand
Investment Director

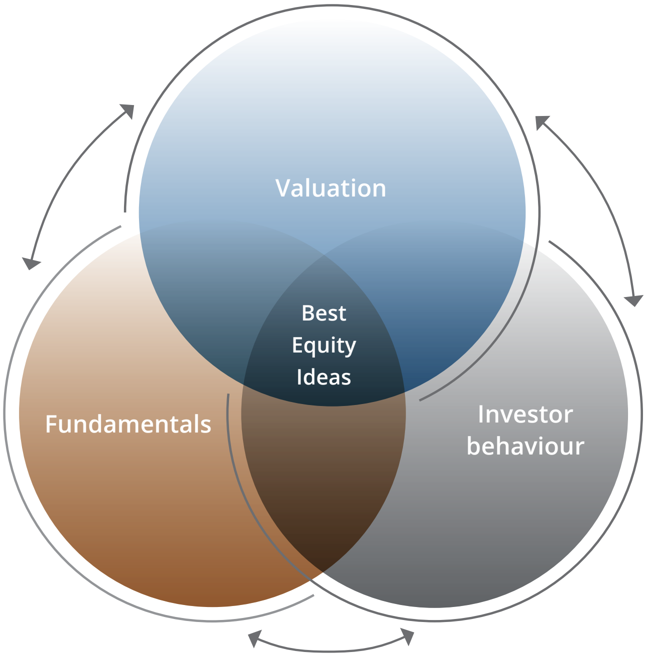
Lusanele Magwa
Product specialist

Global Investment Infrastructure Support

- Implementation
- Risk & Performance
- Environment, Social and Governance (ESG)
- Dealing

Investment philosophy

The investment philosophy for the Balanced Funds and Target Date Retirement Funds is essentially the same. The core principles include delivering real returns over time, and investing in companies where expected future profits are being revised upwards, trading at reasonable valuations. A global perspective is critical in understanding the economic cycle that drives the asset allocation process for these funds. Three questions dictate the investment criteria for both Balanced Funds and Target Date Retirement Funds:



01 **Valuation:**
What price are we paying for the investment opportunity?

02 **Fundamentals:**
Are the earnings, income or economics improving?

03 **Investor behaviour:**
Will capital follow our investment thesis?

The range of Target Retirement Date Funds includes:

- Discovery Target Retirement Date 2020
- Discovery Target Retirement Date 2025
- Discovery Target Retirement Date 2030
- Discovery Target Retirement Date 2035
- Discovery Target Retirement Date 2040
- Discovery Target Retirement Date 2045
- Discovery Target Retirement Date 2050

Investment style

Our fund managers use the earnings revision investment style in our flagship range of Balanced Funds. The fund manager chooses to invest in companies that are trading at reasonable valuations where expected future earnings are being revised upwards.

Earnings revisions is a strong sentiment indicator. An improvement in the outlook for a company is typically reflected in the market's earnings expectations for the company being revised higher. The share prices of companies that are receiving positive earnings revisions typically outperform, whereas those companies where the outlook is deteriorating could see earnings estimates being revised lower by the market.

Discovery Invest balanced funds manager, Chris Freund expands:

Q: What information is taken into account when it comes to earnings revisions?

A: Our belief is that markets are made at the margin. In other words, new information is what moves share prices because known information is already embedded in a company's share price. For example, known information such as future expectations around profit growth and cash flow growth is already embedded in a share price.

If people change their mind about those future expectations, then the share price changes in line with that.

We observe changes in expectations, either up or down. For example, if people were expecting profit growth to be 10% per annum for the next two years and suddenly they change that expectation to 13% per annum, then the share price would automatically adjust to reflect those improved expectations.

Q: Based on earnings revisions, how do you decide when would be the best time to buy a share?

A: We typically find that there is autocorrelation of revisions upwards or downwards. That means that once the share price revisions start to move in one direction, there is a very high probability of them continuing in that direction. Once it starts moving up, we are still in a position to buy and benefit from the second half of that upwards share price movement.

Q: How do you guard against being overoptimistic?

A: As portfolio managers, even when our view on a share is quite bullish, we tend to be cautious and typically increase our allocation in small increments. That typically protects our investors should we get it wrong. That said, paying close attention to changing market trends and specifically the valuation on a company, helps us to not get too comfortable and overoptimistic on a position especially after it has done exceptionally well.

Q: Does that mean the earnings revision investment philosophy is quite simple, compared to, for example value investing?

A: Earnings revision could be said to be a more short-term behaviourist philosophy compared to, for example, value investing which is a longer-term philosophy which emphasises mean reversion. However, not all earnings revisions are equal. For example, for several years, Anglo American's earnings revisions were being revised downwards and the company's share price fell dramatically between January 2012 and January 2016. But then the share price reacted to balance sheet concerns where people thought that the company would need a rights issue. That had very little to do with changes in earnings expectations. Once it was established that Anglos would not need a rights issue, the share price turned around. That's an example of where you need a broader fundamental team like we have – a team that looks at more than just earnings revisions and focuses on the sustainability of earnings revisions trends.

Key characteristics of the Discovery multi-asset fund range

	Discovery Cautious Balanced Fund	Discovery Moderate Balanced Fund	Discovery Balanced Fund	Target Retirement Date Funds
Objective	To grow income and capital over the short to medium term	To provide steady income and capital growth from an actively managed portfolio	To achieve high returns over the long term with moderate volatility	To provide long-term real returns with the appropriate levels of risk for investors, taking into account investors' target retirement dates
Who should invest?	Suitable for investors looking to access a diversified mix of asset classes, with an emphasis on capital protection and low risk	Suitable for investors looking to access a diversified mix of asset classes to achieve moderate returns with reduced levels of volatility	Suitable for investors looking to access a diversified mix of asset classes and stable growth over the long term	Suitable to investors looking for an actively managed approach and a complete investment solution for retirement
Benchmark	Peer group average	Peer group average	Peer group average	Headline CPI + a stipulated percentage that depends on aggressiveness of the various funds
CPI target*	CPI + 3%	CPI + 4%	CPI + 5%	Same as benchmark
Equity exposure	Equity exposure is limited to 40%	Equity exposure is limited to 60%	Equity exposure is limited to 75%	Equity exposure varies per fund and depends on the risk strategy of the fund
Offshore exposure	25% maximum	25% maximum	25% maximum	25% maximum
Regulation 28 compliant?	Yes	Yes	Yes	Yes
Fund manager	Chris Freund			Rudiger Naumann

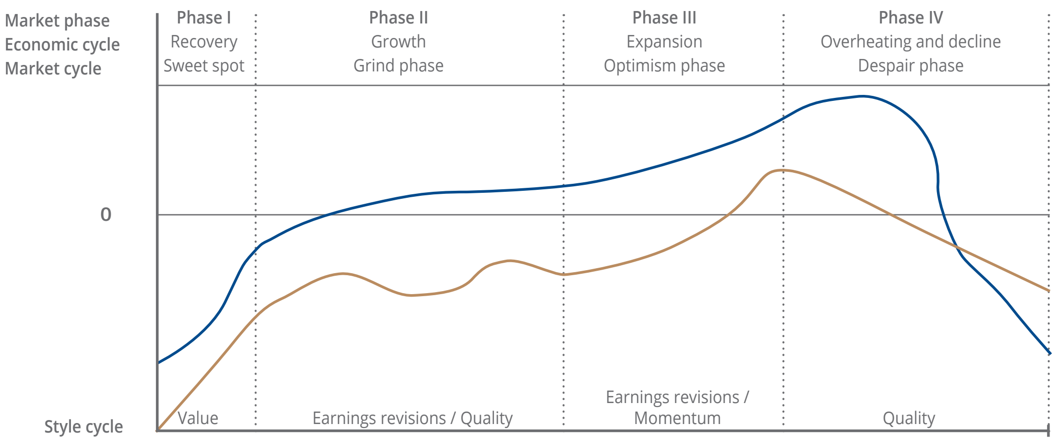
** Target is gross of fees*

Source: Investec Asset Management, August 2017

Blending investment styles within a portfolio

Balanced funds use different measures and styles to implement ideas. Some follow quality or growth stocks. Others use price momentum or earnings momentum. As shown in the diagrams below, each investment style performs differently at different points in a market cycle, at any given time.

High-level outline of economic and stock market performance through a cycle

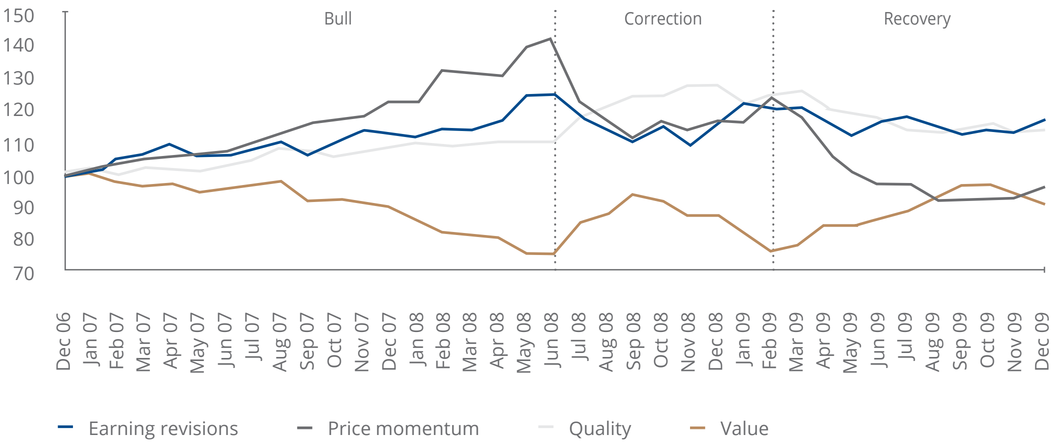


Source: Investec Asset Management

- In bull markets, earnings revisions lag price momentum but do not experience the same drawdown following inflection points.
- Quality does well at corrections while value does well following inflection points.
- Earnings revisions and quality provide more consistent returns compared to the extreme of value and price momentum.

In the following diagram, we show you a historic example of how the different investment styles would have performed during the extreme market conditions in the three year period from December 2006 to December 2009.

Extreme market conditions give a sense of how different styles behave



Source: Investec Asset Management (three years to 31 December 2009)

Where do the Discovery Balanced Funds fit in?

The Discovery Balanced Fund range has what we call a unique alpha signature, which means that it generates outperformance differently to other balanced funds.

These funds will typically do well in the growth and expansion phase of the stock market and economic cycle. The earnings revision style of selecting equities is negatively correlated to value and has a low correlation with quality and price momentum.

Practical implications – choosing a suitable fund for your client

When you are helping your clients determine their investment goals and objectives, you must complete a risk profile assessment. This risk profile assessment will help you determine each client's risk appetite, which in turn has a bearing on which Balanced Fund would be the appropriate investment for them. All three Balanced Funds are suitable for investors looking to access a diversified mix of asset classes – with subtle tweaks in each fund category to accommodate differing risk appetites.

Discovery Cautious Balanced Fund: This fund is suitable for investors looking for capital protection and low risk. Investors benefit from stable returns over the short to medium term.

Discovery Moderate Balanced Fund: This fund is suitable for investors who want to achieve moderate returns with reduced levels of volatility. It offers stable returns at lower levels of volatility than a typical equity or balanced fund.

Discovery Balanced Fund: This fund is suitable for investors looking for steady, stable growth over the long term. The targeted higher performance allows for high returns at moderate levels of volatility.

Target Retirement Date Funds: These funds are designed to provide long-term real returns with the appropriate levels of risk for investors, taking into account their target retirement dates.

Discovery Invest

Contact centre 0860 67 57 77 | info@discovery.co.za | www.discovery.co.za

Discovery Invest

What to know before investing in Collective Investment Schemes (unit trusts)

Before you invest in a Collective Investment Scheme, there is important information you should know, for example, how we calculate the value of your investment, what could affect the value of your investment, the investment charges you may have to pay, etc. This notice sets out the information in detail. Speak to your financial adviser if you have any questions about this information or about your investment.

What the investment is

This Fund is a Collective Investment Scheme (also known as a unit trust fund) regulated by the Collective Investment Scheme Control Act (CISCA). Collective Investment Scheme in securities are generally medium to long-term investments (around three to five years).

Who manages the investment

Discovery Life Collective Investments (Pty) Ltd branded as Discovery Invest is the manager of the Fund. Discovery Invest is a member of the Association of Savings and Investment South Africa (ASISA).

You decide about the suitability of this investment for your needs

By investing in this Fund, you confirm that:

- we did not provide you with any financial and investment advice about this investment
- you have taken particular care to consider whether this investment is suitable for your own needs, personal investment objectives and financial situation.

You understand that your investment may go up or down

01 | The value of units (known as participatory interests) may go down as well as up.

02 | Past performance is not necessarily a guide to future performance.

03 | Exchange rates may fluctuate causing the value of investments with international exposure to go up or down.

04 | The capital value and investment returns of your portfolio may go up or down. We do not provide any guarantees about either the capital or the returns of a portfolio.

How we calculate the unit prices and value the portfolios

01 | We calculate unit trust prices on a net-asset value basis. (The net asset value is defined as the total market value of all assets in the unit portfolio, including any income accrued and less any allowable deductions from the portfolio divided by the number of units in issue.)

02 | The securities in Collective Investment Schemes are traded at ruling prices using forward pricing. (Forward pricing means pricing all buy and sell orders of units according to the next net-asset value).

03 | We value all portfolios every business day at 4pm, except on the last business day of the month when we value the portfolios at 5pm.

04 | For the money market portfolio, the price of each unit is aimed at a constant value. This means that all returns are provided in the form of a distribution and that a change in the capital value will be an exception and only due to abnormal losses.

05 | Buy and sell orders will receive the same price for that day if we receive them before 11am for the money market portfolio and before 2.30pm for the other portfolios.

06 | We publish fund prices every business day with a three-day lag on www.discovery.co.za.

About managing the portfolio

01 | The portfolio manager may borrow up to 10% of the portfolio's market value from any appropriate financial institution in order to bridge insufficient liquidity.

02 | The portfolio manager can borrow and lend scrip.

03 | The portfolio may be closed in order to be managed according to the mandate (if applicable).

Fees and charges for this investment

There are fees and other charges for this investment.

The fees and charges that apply to this investment are included in the net asset value of the units so you do not have to pay any extra amounts. These fees and charges may include:

- The initial fund management fee
- Commission
- Bank charges
- Custodians fees
- Incentives (if applicable)
- Auditors' fees
- Trustees fees
- Brokerage fees
- Market Securities Tax

You can ask us for a schedule of fees, charges and maximum commissions.

The total expense ratio (TER)

01 | A percentage of the net asset value of the portfolio is for fees and other charges relating to managing the portfolio. The percentage is referred to as the Total Expense Ratio (TER).

02 | A higher TER does not necessarily imply poor return, nor does a low TER imply a good return.

03 | The current TER is not an indication of any future TERs. If fees go up, we expect that the TER will increase.

04 | During any phase-in period, the TERs do not include information gathered over a full year.

Transaction costs (TC)

01 | Transaction costs (TC) is a measure that investors and advisers can use to work out the costs they will incur in buying and selling the underlying assets of a portfolio.

02 | The transaction costs are expressed as a percentage of the daily net asset value of the portfolio calculated over three years on an annualised basis. (This means amount of interest, expressed by a percentage, that an investment earns each year on average over a three years.)

03 | Transaction costs are necessary costs in administering the Fund. They affect the Fund's returns. They should not be considered in isolation as returns may also be affected by many other factors over time, including:

- market returns
- the type of fund
- the investment decisions of the investment manager
- the TER.

04| Where a fund is less than one year old since it started, the TER and transaction costs cannot be calculated accurately. This is because:

- the life span of the fund is short
- calculations are based on actual data where possible and best estimates where actual data is not available.

05 | The TER and the TC shown on the fund sheet are the latest available figures.