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Investing in Retail Bonds in South Africa

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BONDS FOR RETAIL INVESTORS

South African Government Bonds typically trade in units of R1 million and more on the Bond Exchange, which therefore makes them inaccessible for the smaller investor.

Two relatively recent developments help cater for smaller investors, namely SA Retail Savings Bonds (issued by the SA Treasury) and Exchange Traded Funds (ETFs) that are listed on the JSE, but give access to an underlying portfolio of Government Bonds.

RSA Fixed Rate Retail Savings Bonds are issued for investments over 2 years to 5 years. The current fixed interest rate ranges from 7,25% for a 2 year RSA bond to 8,00% for a 5 year bond. Investors are required to hold their RSA bonds until maturity, i.e. they are "locked in" for 2 to 5 years, depending on which Retail Bond they chose. The minimum investment is R1000, with a maximum of R5 million.

Investors can opt to receive half yearly interest payments or to automatically have these dividends reinvested to provide a total return. Investors in RSA Retail Savings Bonds can only withdraw their money after 12 months and then with the payment of a penalty, so are effectively "locked in" for the period of the bond (2 to 5 years).

The **Investec zGOVI ETF** offers investors a JSE listed security which invests in a portfolio of 9 different RSA Government Bonds with maturities of 3 to 30 years. Because it invests in a spread of bonds, it typically offers a better yield and capital return than the RSA Retail Savings Bonds. The yield of the Investec zGOVI ETF is automatically reinvested on behalf of the investor to provide a total return fund.

The zGOVI ETF benchmarks the GOVI Index, calculated by FTSE/JSE, exactly replicating the duration and maturity of this index. Capital gains or losses incurred by price changes in the index, arising from changes in interest rates, accrue to investors, thereby offering the prospects of capital gains, which are not provided by RSA Retail Savings Bonds.

INFLATION-LINKED RETAIL BONDS

The SA Treasury also issues **RSA Inflation-Linked Retail Savings Bonds**, which have the benefit of both the capital and the interest rate (coupon) of the bonds being inflation adjusted. The bonds are issued for maturities of 3, 5 or 10 years. The inflation adjustment is done semi-annually, where the value of the bond and its interest rate payment, is adjusted by the change in the CPI over the previous six month period. There is no option to reinvest the interest payments on these RSA Inflation-Linked Bonds.

These RSA bonds give the investor protection against the inflationary erosion of the purchasing power of their capital. Whilst the interest rate paid is only between 2% to 3% per annum, this rate also is inflation adjusted and so over time will increase in line with the rise in inflation.

BIPS (Rand Merchant Bank) Inflation-X ETF - This ETF tracks an index of all 6 inflation linked bonds issued by the SA Government. It has the following advantages over the RSA Inflation-Linked Retail Bonds:

- The index is reweighted monthly with inflation adjustments taken into account, and not only every 6 months as is the case with RSA Savings Bonds.
- The interest rate is distributed quarterly to investors and not semi-annually as is the case with RSA Inflation-Linked Bonds.
- The investor can buy or sell their BIPS ETFs at any time, through the JSE, and are not locked-in until maturity.

Performance Data **Total Returns on Retail Bonds**		
Fixed Rate Bonds	**1 Year**	**2 Years (p.a.)**
RSA Retail Savings Bond	7,25%	7,50%
zShares GOVI ETF	12,80%	12,08%
Inflation-Linked Bonds		
RSA Inflation-Linked Retail Bond	6,15%	7,56%
BIPS Inflation-X ETF	13,93%	12,26%
Sources: *SA National Treasury.* *etfSA Monthly Performance Survey* *(as at 30 January 2012).*		

The ETFs available to retail investors offer a clear advantage in performance, as they reflect the full impact of capital changes, plus reinvestment of yields.

The RSA Retail Savings Bond can be purchased from Post Offices or through the Treasury website or Pick 'n Pay branches. The ETFs can be purchased from any stockbroker or through the ETFSA website (www.etfsa.co.za). etfSA accepts investments from R1000 for lump sums or can facilitate regular debit order investments from R300 per month.

For more information, please contact:

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