CHOOSING THE RIGHT SAVINGS PLAN

When recommending a savings product, several factors should be considered when identifying the right one for your clients.

A well-established company, located in a highly regulated jurisdiction are important factors to consider. However, it's the different product features, fund options and charges that will be the main areas of focus. Invariably, it's going to be the charges and the impact they have on what the client might get back that will feature highest of all – so what's the best way to do this?

UNDERSTANDING THE IMPACT OF PRODUCT CHARGES

At first glance, most offshore savings plans look very similar, but the way in which product charges are taken can differ greatly.

Needless to say this can be confusing when comparing different products. For example, some companies choose to include charges in the unit price of a fund whereas others such as RL360 choose to deduct all charges at a product level.

Whichever way the charges are deducted, the result will have an impact on the fund performance. This is also known as the **Reduction in Yield** (RIY) and is a good measure when comparing different products.

RL360 AND REDUCTION IN YIELD (RIY)

Our quotes system gives you the option to include RIY figures when creating a pre-sales illustration. This will allow you to demonstrate to your clients the impact of all the product charges on the potential return of the monies they invest.

SO WHAT ABOUT THE OTHER PRODUCT PROVIDERS?

Can they provide you with RIY figures so that you can compare products on a true like for like basis?

- If the answer is yes, do they include **all** product charges - that includes non-direct charges such as mirror fund charges, bid/offer spreads and credit card charges.

- If the answer is no, then you need to ask the question why not?

RL360 includes all the product charges in their RIY figures so you know there are no nasty surprises.

For more information about Regular Savings Plan, please read the literature suite, available to download from: www.rl360.com/rsp

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REDUCTION IN YIELD (RIY)
EXAMPLES

The examples below demonstrate in simple terms how Reduction in Yield (RIY) impacts on the growth of an investment.

1

CLIENT 1 INVESTS $5,000 IN FUND A

- After one year their investment grows to $6,000

- The return or "Yield" is $1,000 (20%)

- For managing the money, Fund A deducts a 1.00% charge as follows: $6,000 x 1.00% = $60.00

- Deducting the 1.00% charge from the Yield results in a net return of $940

- To calculate the RIY divide the 1.00% charge by the original investment: $60.00/$5,000 = 0.012 (or 1.20%)

- To calculate the effective rate of return, simply deduct the RIY from the Yield: 20% - 1.20% = 18.8% (Effective rate)

The client's initial investment grew by 20% over the year. However, after allowing for charges, the net return was 18.8%. The RIY was 1.20%.

2

CLIENT 2 INVESTS $5,000 IN FUND B

- After one year the initial investment grows to $8,000

- The return or "Yield" is $3,000 (60%)

- For managing the money, Fund B deducts a 1.00% charge as follows: $8,000 x 1.00% = $80.00

- Deducting the 1.00% charge from the Yield results in a net return of $2,920

- To calculate the RIY divide the 1.00% charge by the original investment: $80.00/$5,000 = 0.016 (or 1.60%)

- To calculate the effective rate of return, simply deduct the RIY from the Yield: 60% - 1.60% = 58.4% (Effective rate)

The client's initial investment grew by 60% over the year. However, after allowing for charges, the net return was 58.4%. The RIY was 1.60%.

3

CLIENT 3 INVESTS $5,000 IN FUND C

- After one year, the initial investment grows to $10,000

- The return or "Yield" is $5,000 (100%)

- For managing the money, Fund C deducts a 1.00% charge as follows: $10,000 x 1.00% = $100

- Deducting the 1.00% charge from the Yield results in a net return of $4,900

- To calculate the RIY divide the 1.00% charge by the original investment: $100.00/$5,000 = 0.02 (or 2.0%)

- To calculate the effective rate of return, simply deduct the RIY from the Yield: 100% - 2.00% = 98.0% (Effective rate)

The client's initial investment grew by 100% over the year. However, after allowing for charges, the net return was 98.0%. The RIY was 2.00%.

You can see from all 3 examples how the charge remained the same in percentage terms (1.00%) but as a monetary amount, it differed based on the performance of each investment.

Putting this another way, where charges are taken as a percentage of the value of an investment, as the Yield increases, so does the monetary value of the charges taken. This results in an increase in the RIY and reduction in the Effective rate of return.

The examples above are theoretical and are not based on any RL360 product.

IMPORTANT NOTES

For financial advisers only. Not to be distributed to, nor relied on by, retail clients.

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