

Property Income

Earn a tax-efficient, monthly annuity income that can increase each year and potentially earn capital growth from a carefully selected property portfolio.

Benefits

- **Earn a monthly income** that can increase annually
- Protect your investment against inflation
- **Growth potential** from property
- **Minimise tax** on your income

Who can invest?

- **Any South African resident**, 18 years or older, who needs an income and would like to grow their capital.
- Investors must invest in rands (a minimum of R50 000 applies).
- **Investors who have a lump sum** from non-retirement funds (also referred to as discretionary money).
- **Individual investors** who wish to take advantage of the favourable tax treatment of Section 10A of the Income Tax Act.
- **Pension funds and non-profit companies** who wish to make a tax-free investment.
- **Companies, close corporations, and trusts** can invest but they don't benefit from the favourable tax treatment of Section 10A.
- **Investors with a moderate risk profile** who understand investing in property.

PRODUCT SUMMARY

Cadiz Property Income pays you a monthly annuity income that can increase each year, with potential capital growth linked to the Cadiz Property Portfolio.

Key information

Nature of the investment	The Cadiz Property Investment Trust is the linked investment which underpins a voluntary annuity and an endowment. Both policies are underwritten by Cadiz Life Limited.
Investment currency	South African rand
Minimum investment	R50 000
Minimum investment term	Five years, which can be extended
Access to your money	<ul style="list-style-type: none"> You have a 30-day cooling-off period to change your mind. If you change your mind within this period we will sell the underlying investment at market value and pay you this plus any financial adviser fees that have been included in the cost of the investment. This value may be lower than the initial amount you invested. If you surrender your investment after the 30-day cooling-off period we will sell the underlying investment and pay you the market value, which may be lower than the initial amount that you invested. In addition, policy benefits payable to you are subject to any limitations in terms of the Long-term Insurance Act, 1998. Within the five year restriction period, policy benefits are limited to a maximum of the initial investment amount accumulated at 5% per annum from implementation date to the date of liquidation. <p>In the case of surrender it may take Cadiz a period of time to liquidate your investment, in which case we will inform you of the liquidation date. This liquidation period may involve the liquidation of a property; and your surrender payment will only be made once the sale proceeds are received. You will continue to receive an income until this happens.</p> <p>You may not take a loan or make ad hoc withdrawals from the investment.</p>
Monthly income	<p>Your income payments are linked to the variable income generated by the Cadiz Property Investment Trust.</p> <p>Income Payments: You will receive monthly payments which we expect to grow annually to protect you against inflation.</p> <p>Income payments and fund values will be communicated by means of a monthly fund fact sheet available on our website www.cadiz.co.za. Your individual valuations are also available on our secure website which you can access daily. Every six months we will send you a valuation indicating the latest value of your investment plus the income payments made to date.</p>
Capital growth	100% (excluding any initial financial adviser fee) of your capital is invested into the Cadiz Property Investment Trust. The Cadiz Property Investment Trust exposes your capital to a carefully selected commercial property portfolio.
Underlying risks	<p>Liquidity risk: Your investment is linked to the Cadiz Property Investment Trust. Should you wish to surrender your investment, the Cadiz Property Investment Trust may need to sell properties to liquidate your investment. The Cadiz Property Investment Trust will hold liquid cash for surrenders and it will have access to bank funding, but if it does need to sell properties you may have to wait until these sales can be completed before we can pay your money back to you. You will continue to earn income and your capital will continue to enjoy the growth benefits of the Cadiz Property Investment Trust during this time.</p> <p>Property risk: Your investment performance is underpinned by the Cadiz Property Investment Trust. The assets of the Cadiz Property Investment Trust have been carefully selected to provide steady income and capital growth. It should be noted that the income, capital value and capital growth are not guaranteed but are rather a function of our ability to select good properties at reasonable values, with strong creditworthy tenants, and to manage those properties well.</p>
Fees (incl VAT)	<p>The following fees, including VAT, are included in the investment pricing:</p> <p>Asset management fee: 1.71% per annum</p> <p>Financial adviser fees that you agree with your financial adviser: Flexible fee structure as per the application form either upfront or payable monthly which is deducted from your capital on a monthly basis.</p>
Other fees and costs	The management of a property portfolio includes a number of expenses associated with the asset class. Acquisition costs include legal and transfer costs and an initial fee of 1.14% (including VAT). There are also ongoing property management and maintenance fees of up to 4% of the fund income. All these fees and costs are within industry norms.
Important administrative dates	<p>Closing date for applications: 2nd business day of each month or as otherwise stipulated</p> <p>Implementation date (the start date of your policies): 5th business day of each month</p> <p>Income payment date: 1st business day of each month</p>
Risk rating	 <p>Low Medium High</p>

WHY INVEST IN PROPERTY?

Low income yield environment	Strong property fundamentals	Increased portfolio diversification
South Africa's current low interest rate environment has diminished potential income returns received on traditional annuity income products. Property provides the opportunity to receive higher monthly income which may increase annually.	Despite the global crisis, South African property has proved to be reasonably resilient. It is our view that the opportunity to provide consistent returns from the current South African commercial property market remains.	Property returns have a traditionally low correlation with other asset classes which allow investors to increase portfolio diversification and reduce portfolio volatility.

How does property generate income and capital returns?

- The total return received from a property is equal to the income return plus any capital growth (Income Return + Capital Growth = Total Return).
- The income return is the total rent received, less all the management and operating costs, otherwise known as the net rental income from the property.
- Capital growth is achieved by increasing the value of the property through refurbishment/development or a general increase in value of the area in which the property is located. Capital gains of a property are realised when it is sold or refinanced.

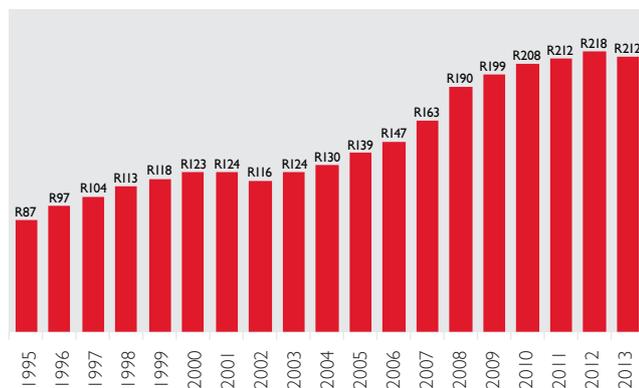
Consistency of property income returns

Property income is earned from rentals which typically escalate annually at a rate specified in a lease agreement. Sometimes escalations are linked to an index such as the Consumer Price Index (CPI), but more commonly a fixed rate is applied for the duration of the lease. Although the precise structure of lease agreements varies across property types (ie. office, retail and industrial) it is nonetheless typical that income returns from commercial property increase at least in line with inflation.

Over the 18 year period from 1996 – 2013 the annual income return on South African commercial property grew at an average rate of 5.2% annually.

The graph below shows the annual net income return that would have been earned on a once-off investment of R1000 made on 1 January 1995. Note the consistency of net income growth.

Consistency of income



Source: IPD, 2014

Property's ability to outperform inflation

Income can be eroded by reduced spending power as a result of inflation over time. As illustrated, commercial property has consistently beaten inflation over the period 1995 – 2013. The average total return over the period was 15.6%, while CPI averaged 6.1%.

Property return vs inflation



Source: Bloomberg & IPD, 2014

Asset class comparison

Property has a compelling risk/return profile in comparison to other asset classes.

On a risk return basis property provided an average return of 15.6% and a volatility of 6.7%. Property has an extremely attractive return history with moderate volatility.

Risk (volatility) and return are linked. It is generally understood that to get more return you must take more risk.

Key investment risks and their mitigating factors

Key risks	Risk mitigation
Liquidity in the event of a redemption	<p>The following process will facilitate redemptions:</p> <ul style="list-style-type: none"> • The investment is linked to the Cadiz Property Investment Trust. • The Trust holds liquid cash for surrenders and it has access to bank funding, but should the need arise to sell fixed property to cover redemptions, you may have to wait until these sales can be completed before we liquidate your investment. • You will continue to earn income and your capital will continue to enjoy growth benefits of the Cadiz Property Investment Trust during this time.
Variable monthly income	<p>Your monthly income payments are linked to the variable income generated by the fixed property owned by the Cadiz Property Investment Trust. Any non-payment of monthly rental will directly impact your annuity.</p> <p>We select strong creditworthy tenants to occupy the buildings.</p> <p>The Properties have been carefully selected to provide steady income and capital growth.</p>
General market risk	<p>Capital growth of the fund is dependant on the value of the property held by the Cadiz Property Investment Trust. This value is directly and indirectly influenced by the general economic and political climate.</p>

COMMON QUESTIONS

How much annuity income will you get each month?

We will give you a quote detailing the level of income that you may expect to receive from your investment. The income rates change monthly depending on the performance of the Cadiz Property Investment Trust. We expect the income levels to increase over time and offer protection against inflation.

What happens after you complete an application form, sign the quote, and invest?

1. When we receive your money, we will invest this in our South African rand client account. This will accumulate interest on your behalf until the second business day of the following month. We will write to you and your adviser to acknowledge receipt of your application within five working days.
2. We will invest your money into the Cadiz Property Investment Trust to provide you with monthly income and capital growth potential.
3. We will issue your policy documents within 21 business days after implementation, and your financial adviser will give this to you.
4. We will pay your income directly into your bank account on the first business day of each month.

How will we keep you informed?

We will send you a statement for the six months to 30 June and 31 December each year showing the details of your investment. You may also access this information online via our secure website at www.cadizonline.co.za. Every month we will provide a fund fact sheet which you may access online at our website www.cadiz.co.za.

What happens to your investment in the event of your death?

We will transfer the policies to your estate or beneficiaries, depending on your instructions and legislation. They may decide to keep or surrender the policies.

What happens every five years?

You are invested into a voluntary annuity and an endowment. At the end of each five-year period we will automatically reinvest your investment and provide you with monthly income for a further five years, unless you choose to terminate your investment.

What are the tax considerations?

The income you earn is in the form of an annuity. For natural persons only a portion of your annuity income should be taxable in accordance with Section 10A of the Income Tax Act.

We deduct and pay tax on your behalf and issue you with an annual tax certificate.

In order to determine the tax payable we assume that the income payments you receive are your sole source of income and:

- apply tax tables to the taxable portion of your investment;
- pay the tax across to SARS; and
- issue you with a tax certificate every year so that you can include this in your tax return.

You may also provide us with a tax directive or a specific rate of tax that we should withhold on your behalf. All other known tax liabilities are provided for within the investment based on our understanding of the Income Tax Act.

Will you need tax advice?

You are advised to seek tax advice on every investment you make. Any reference to the anticipated tax treatment is not intended to constitute tax advice to you.

How safe is your investment?

Your investment performance will be driven by the performance of the Cadiz Property Investment Trust which we have created on a bespoke basis. The asset managers have many years of experience in selecting and managing property. These managers have been tasked with finding properties that have strong rental streams and stable to moderate capital growth. It is anticipated that the income growth will protect you against inflation and that the growth in capital will also act as a hedge against inflation.

How does Cadiz Property Income compare to other Cadiz annuity offerings?

	Cadiz Income Series	Cadiz Property Income
Liquidity	Five-year minimum term and liquidity at market value	Five-year minimum term and liquidity is dependent on liquidity in the Cadiz Property Portfolio
Yield	Fixed or increasing rate for five years	Rental yields should increase over time offering protection against inflation
Tenant risk	–	Strong tenants are key when selecting our buildings. Any non-payment of monthly rental will directly impact your annuity
Credit risk	Low (only blue-chip counterparties)	Full exposure to the Cadiz Property Portfolio
Taxation	Annuity is favourably taxed in terms of Section 10A of the Income Tax Act	Annuity is favourably taxed in terms of Section 10A of the Income Tax Act for natural persons

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