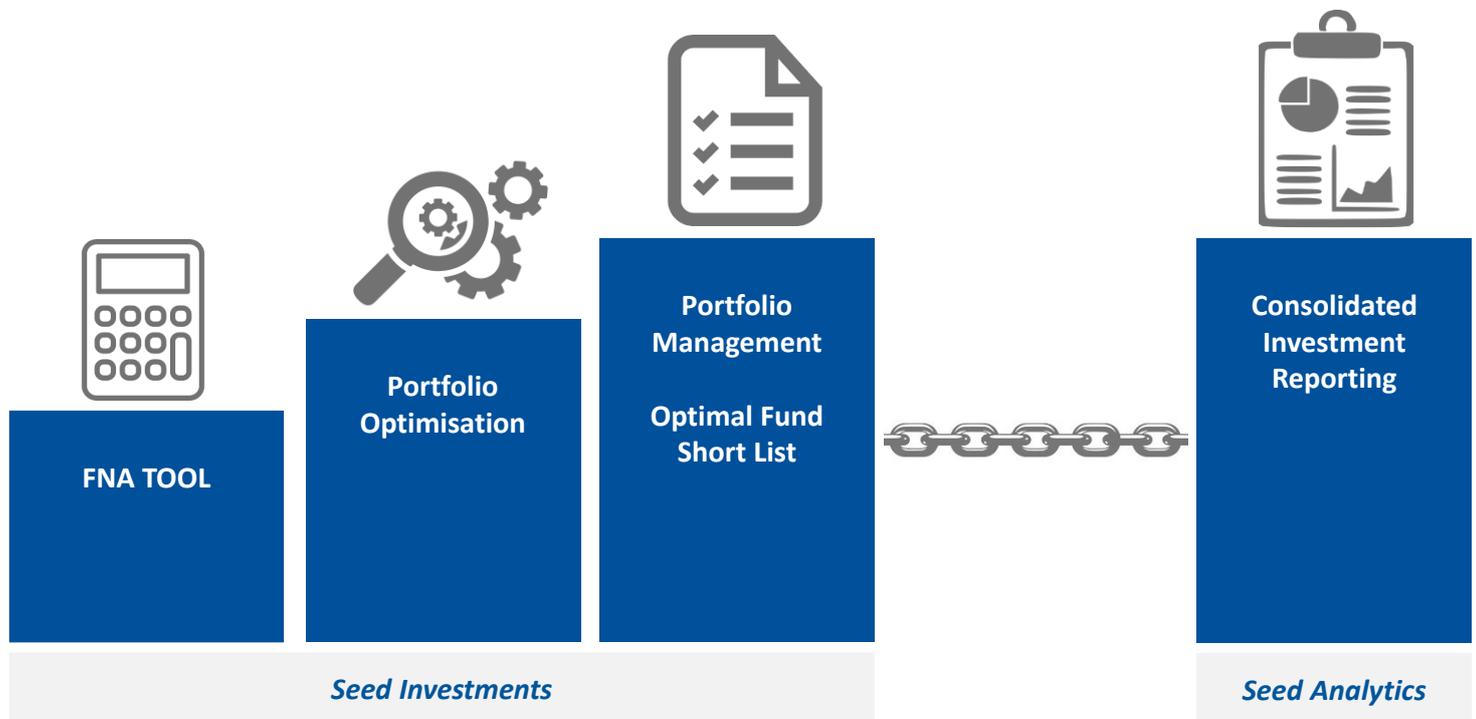


A Deeper Understanding of the Seed Financial Needs Analysis Tool

The Seed Plug 'n Play Solution is our end-to-end value offering that empowers Advisors to build a successful investment business. While every broker aims to establish a profitable investment book, with a stable and growing annuity income stream, there are many challenges along the way:

- A consistent and repeatable initial advice process
- Ongoing portfolio management, risk management and rebalancing of client portfolios
- Continual client service, including reporting on asset values and fund due diligence research
- Meeting regulatory requirements (FAIS/RDR/TCF)

The Seed Plug 'n Play Solution helps Advisors take on - and overcome - these challenges, while consistently adding value for their clients.



The Seed Financial Needs Analysis (FNA) Tool is a comprehensive, flexible financial planning tool that slots in nicely as part of the initial advice process. This Tool enables Advisors to do an annual cashflow and asset value projection, starting from the accumulation phase and leading up to retirement all the way through to the drawdown phase. In addition, the FNA Tool allows for the different tax treatment of Compulsory Investment Products (Pension Funds, Provident Funds, Retirement Annuities, Living Annuities, etc) and Discretionary Investments. All amounts are presented in real terms (i.e. adjusted for inflation) to make it much easier for the end client to interpret the results.

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The Seed FNA Tool includes a separate client database that resides on the Advisor's own PC, and is their responsibility to safeguard. Each quarterly updated version of the Seed FNA tool will access this same client database, which means previous work for existing clients can be reviewed and updated easily.

FNA Inputs

The Seed FNA Tool has the following simple inputs:

- **Asset base** - The client's current assets of both a Compulsory and Discretionary nature are listed, and the split between the two is instrumental in determining an optimal drawdown strategy in order to reduce total tax.
- **Contributions** - This section records the annual contributions for each of the assets currently listed. The FNA Tool also makes allowance for planned once-off contributions, such as the proceeds from the sale of an illiquid asset that will come into the retirement asset pool at some stage in the future.
- **Income Requirements** - The income requirement, net of tax during retirement, has a massive bearing on the overall outcome. Brokers can assist here by helping the client set their sights low initially as part of a base case scenario. Once again, the FNA Tool allows for ad hoc lump sum cashflow needs, such as university fees, children's weddings, or that well-deserved vacation just after retirement.
- **Investment Strategy** - Together with the level of contributions and income, the client investment strategy determines the overall retirement outcome to a large degree. The Advisor can set a bespoke investment strategy, in partnership with the client, by looking at their risk profile and specific goals. In general, brokers should encourage younger clients to embrace growth assets while they still have the benefit of a long investment horizon. Risk-averse clients may fall well short of their retirement goals if they select a strategy that is too conservative.

Alternatively, the broker can select Seed's default investment strategy, which sets aside the required income for the next three years into a Conservative bucket (CPI + 1% to 2%), the income for years 4 and 5 into a Moderate bucket (CPI + 3% to 4%) and then allocates the remainder into a Balanced bucket (CPI + 5% to 6%) that is designed to deliver high real growth. As a result, the client always has a pool of Conservative and Moderate assets that can be drawn down for retirement income, while the Balanced portion is allowed to grow uninterrupted.

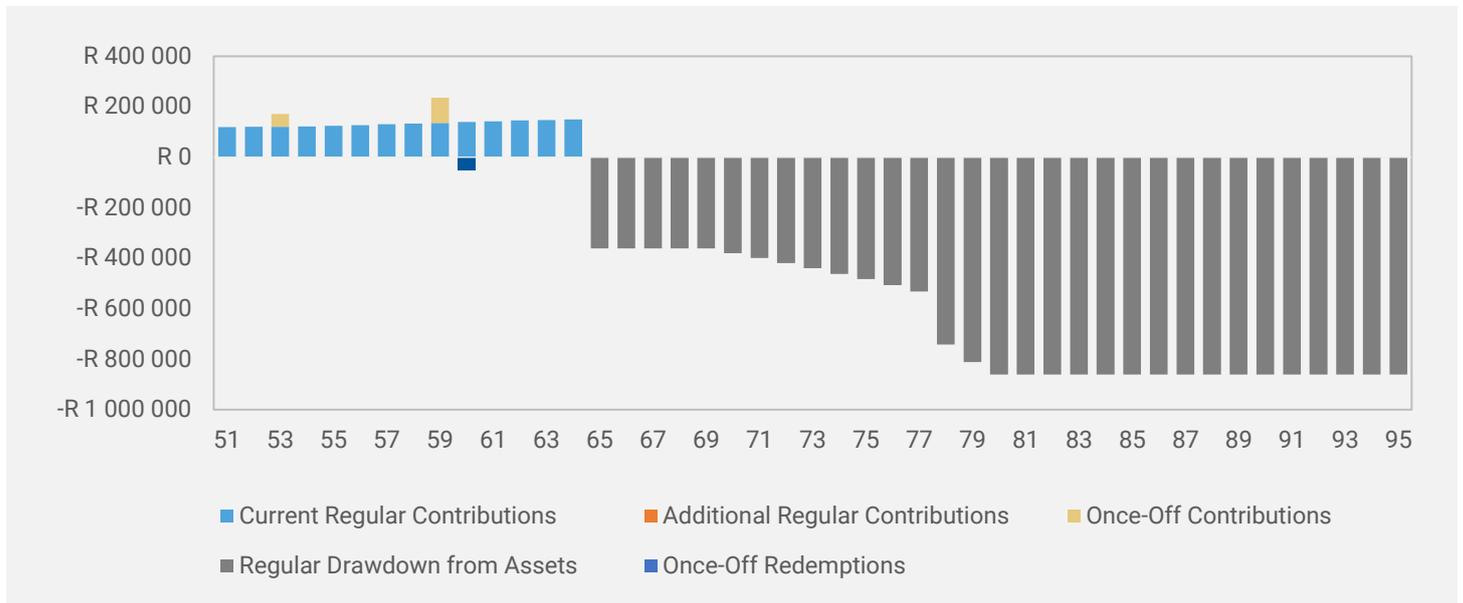
- **Fund Selection** - The FNA Tool is linked to the latest Seed Short List, which was recently discussed in detail by Tawanda Mushore in "A Deeper Understanding of the Short List" ([click to read article](#)). This means that, at the implementation stage, the Advisor is able to populate each of the Conservative, Moderate and Balanced strategies with a combination of approved funds from the Short List.

A Deeper Understanding of the Seed Financial Needs Analysis Tool

FNA Outputs

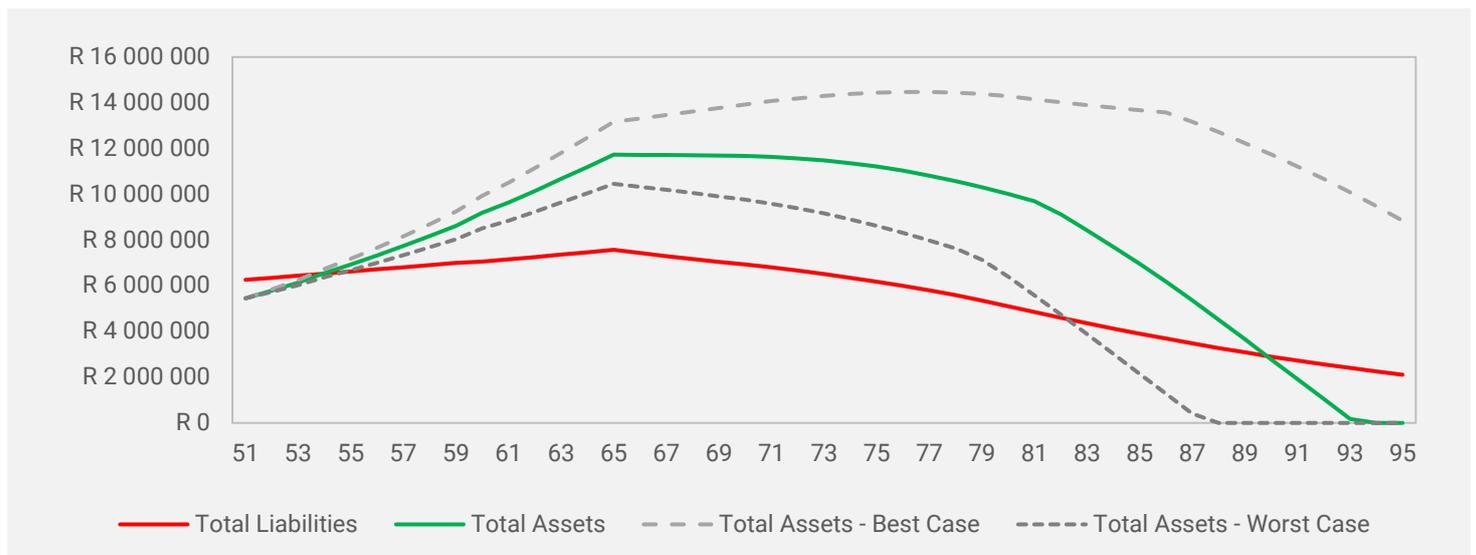
Given all the required inputs, the Seed FNA Tool produces the below outputs:

• **Cashflow Analysis** - The Seed FNA Tool estimates the regular and once-off contributions and drawdowns from a client's current age, all the way up to age 95. The chart below illustrates that this example client plans to make once-off contributions at ages 53 and 59, a once-off redemption at age 60 and then needs an annual retirement income that increases from ages 70 to 80 while remaining constant in real terms.



A Deeper Understanding of the Seed Financial Needs Analysis Tool

• **Asset and Liability Projection** - The chart below illustrates the progression of our example client's assets and liabilities over time. The liabilities are calculated as the present value of the future income stream required from the pool of retirement assets. It is clear from the chart that, although assets are less than liabilities at first, the annual contributions and portfolio growth results in a very favourable position at the retirement age of 65. Ultimately, the client's capital is expected to last until age 93, which is a very reasonable outcome.



• **Investment Strategy Document (ISD)** - The ISD puts a comprehensive financial plan in the hands of your client. It details the client inputs used and provides all the output charts and analyses on cashflows, assets and liabilities.

Seed Weekly

A Deeper Understanding of the Seed Financial Needs Analysis Tool



1. Summary of Your Information

Item	Value
Name and Surname	TestClient Retirement
Current Age	50
Expected Retirement Age	R 190 000
Total Value of Assets	R 171 000
Total Annual Contributions	R 20 000
Annual Regular Contributions	R 10 000
Annual One-Off Contributions	R 10 000
Age Range of Income in Retirement	65 to 80
Basic Income Required during Retirement, net of tax	R 22 000
Annual Real Increase in Income Required	3.50%
Age Range of Increase in Income Required	75 to 80

2. Your Investment and Income Requirements

We understand that your main investment objective is to retire at age 65 with financial freedom and be able to receive a targeted pension of R 30,000 per month net of tax. You have indicated that you will increase your contributions by 10.00% p.a. in real terms from ages 50 to 65. You have also indicated that you require an annual real increase of 3.50% in your income from ages 75 to 80. We also understand that you prefer to manage your assets in a being annuity environment (i.e. managing the assets outside a guaranteed life annuity arrangement). Please note that this DCA needs to be updated regularly (i.e. once every three years or sooner if your asset base or personal circumstances change significantly in the interim). The graph below illustrates the total cash flows that your portfolio should finance in the future, as well as your current contributions and additional contributions you've indicated.

3. Size of Your Assets and Liabilities

In order to match your assets with your liabilities we need to understand the following:

- Current value of your assets
- Your expected future income needs at retirement
- The real growth of your assets in the future
- The real requirements of the different assets in the different market conditions

We define liabilities as the present value of your future income requirements after retirement. Assuming you invest all your assets into the selected asset allocation, the graph below illustrates the likely outcome. The graph illustrates the projection of your assets and liabilities, and takes account of contributions, income drawdowns and taxes.

4. Funding Level of Your Assets and Shortfall Probability

Your funding level is the value of your assets divided by the value of your liabilities. This is calculated at every age in the future. A funding level of less than 100% means that you have less than R1 of assets to finance every R1 of liability. A funding level of more than 100% means that you have more than R1 of assets to finance every R1 of liability. If your funding level at retirement is less than 100%, then you may need to consider buying a guaranteed life annuity instead. The graph below illustrates your funding level over time.

Start Your Journey Today!

The Seed FNA Tool is an easy-to-understand Retirement Planning and Discretionary Investment Tool built to help guide the Advisor, as well as their client, through their investment planning process. It is a valuable resource in the hands of an Investment Advisor, and the output document is an important retirement roadmap for clients.

Should you wish to arrange a demo session of the Seed Plug 'n Play Solution, please email Adriaan Giessing, Head of Distribution, on adriaan@seedinvestments.co.za. Alternatively, you can give him a call on 082 320 5827.

Kind regards,



Cor van Deventer CFA, FASSA
Portfolio Manager

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