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with **BRENTHURST**

IN THIS ISSUE

Money market funds offer safety and low volatility, but often fail to outpace inflation, causing real value erosion over time.

Income funds, on the other hand, aim to deliver better returns with moderate risk by investing in bonds and credit instruments, often with added tax advantages.

INVESTING WITH SA'S

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IS YOUR MONEY REALLY SAFE, OR JUST STANDING STILL?

SUZEAN HAUMANN | CERTIFIED FINANCIAL PLANNER®, BWM TYGER VALLEY

If you've parked your savings in a money market fund, you're not alone. In fact, you're part of a growing wave of South African investors who've chosen to play it safe.

After years of slow economic growth and a currency that swings like a pendulum, it's understandable. When the financial world feels uncertain, safety sounds like the smartest option.

And the numbers prove it. According to industry statistics, South Africans have invested more than R988 billion – that's over 30% of all local fund assets – in interest-bearing funds, such as money market investments.

Meanwhile, only 18.6% of assets are allocated to equity funds, which are designed to grow wealth over time.

It's a clear sign that investors are uncertain. But here's the problem: playing it safe might be costing more than you realise.

WHEN SAFETY DOESN'T BEAT INFLATION

Money market funds do what they promise: they aim to protect your capital and deliver a steady, low-risk return. But those returns are often modest, and they can shrink quickly when interest rates drop.

Meanwhile, inflation doesn't take a break. If your returns aren't keeping up with rising prices, the real value of your money is actually diminishing.

You may not see it right away, but over months and years the impact adds up. The money you worked hard to save might not stretch as far as you expected.

SO, WHAT ARE YOUR OPTIONS?

Stay in cash and risk falling behind, or take on more risk than you're comfortable with? There's a middle ground, and it's one that more people should be made aware of.

WHAT IS AN INCOME FUND?

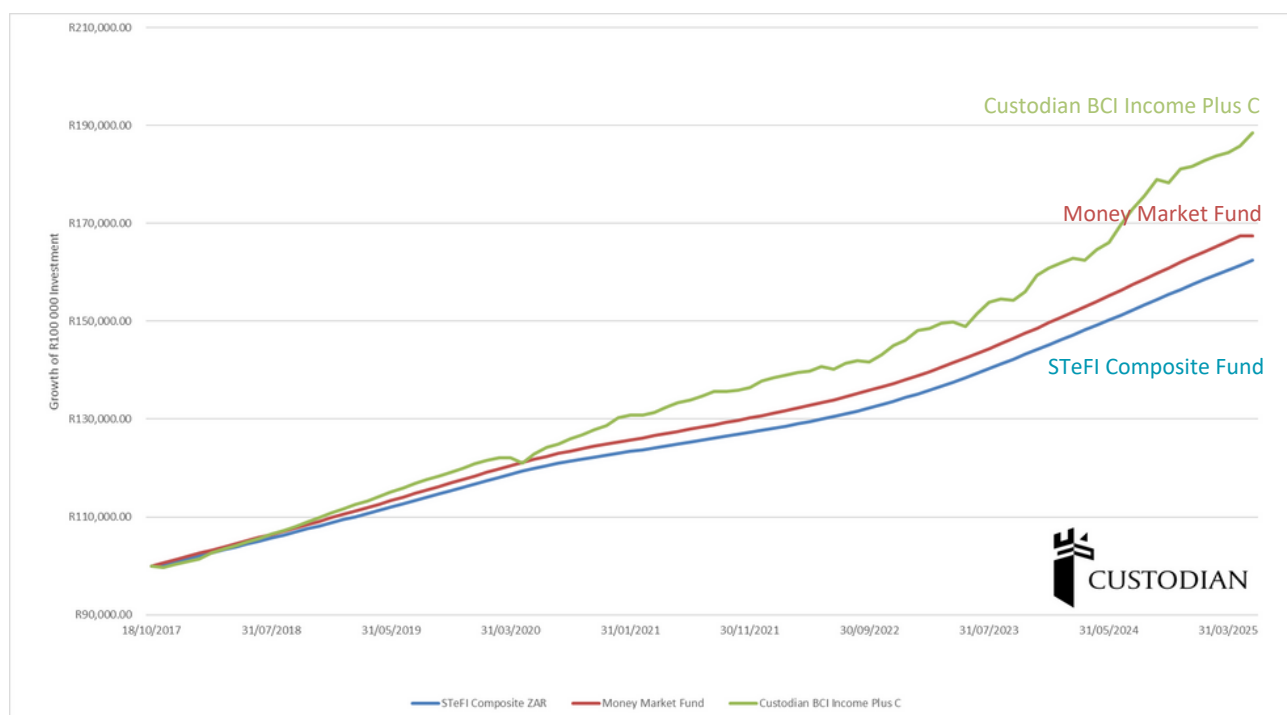
An income fund is a type of interest-bearing investment, but it's not the same as a money market fund. While both aim for capital stability and regular income, income funds cast a wider net.

Money market funds stick to short-term instruments, such as Treasury bills and bank deposits. These are extremely low-risk, but they also come with limited return potential, especially when rates are declining.

Income funds, on the other hand, invest in a broader mix of interest-paying assets. These often include:

- **Government bonds**
- **Corporate bonds**
- **Credit instruments**
- **And other fixed-income securities**

Because of this broader approach, income funds are able to target higher returns than money market funds, while still managing risk carefully.



Source: Morningstar (Returns from 19/10/2017 to 31/05/2025)

Think of it this way; money market funds aim to keep your money still. Income funds aim to move it forward – steadily, and without stepping too far outside your comfort zone.

WHY INCOME FUNDS MIGHT MAKE MORE SENSE RIGHT NOW

1. **Better return potential:** By investing in longer-term and higher-yielding instruments, income funds often earn more than money market funds, especially when interest rates start to drop.
2. **Inflation protection:** While no fund can guarantee to beat inflation, income funds have historically delivered stronger real (after-inflation) returns over time.
3. **Professional oversight:** Fund managers actively manage these portfolios. They respond to market conditions, adjust holdings when interest rates shift and keep an eye on credit risk, so you don't have to.
4. **Still relatively low risk:** Income funds aren't exposed to the same ups and downs as equity funds. They aim for stability, just with a bit more earning power.

THE TAX DIFFERENCE COULD ALSO SURPRISE YOU

Another often-overlooked benefit of income funds is how they're taxed.

Here's how money market and income funds compare, using a simple example of a R100,000 investment:



MONEY MARKET FUND

- All returns are treated as interest income; taxed at your full marginal rate, which could be anywhere from 18% to 45%.
- Let's say you earn interest of 7% a year. That's R7,000 a year.
- If you're younger than 65 years, then your first R23,800 of interest is tax free. Your R7,000 will, therefore, not be taxed.
- However, if your interest earned is above the annual exclusion - for example, R70,000 - then your tax will be as follows:
 - $R70,000 - R23,800 = R46,200$
 - $R46,200 \times 27\%$ (your assumed marginal tax rate) = R12,474 tax payable



INCOME FUND

- Let's assume you earn 6% in annual distributions, split evenly between interest and dividends, plus 4% annual capital growth.
- The R3,000 dividend income is taxed at 20%: R600 per year.
- The R3,000 interest income falls below your exemption, so no tax on that.
- After 10 years, your investment gains R48,024 in capital growth.
- You get a R40,000 capital gains tax (CGT) exemption, leaving just R8,024 taxable.
- At a 30% tax rate, CGT amounts to R962.
- Total tax over 10 years: Just R6,962 – less than a third of the tax calculated in the money market example.

So, not only could you earn more when investing in an income fund, but you might also retain more of what you earn.

IS AN INCOME FUND RIGHT FOR YOU?

If you're saving for something in the next few months, money market funds might still be the right tool. But if your investment horizon is one to two years, or longer, it may be time to consider a smarter alternative.

An income fund can give you the security you're looking for, with a better shot at keeping your money growing ahead of inflation.

It's not about chasing risky returns, it's about making sure your savings don't quietly fall behind.

I understand that deciding where to invest can be overwhelming.

The role of an investor/client's advisor is to guide them and assure them that they are making the right decisions, which will benefit them during retirement.

Do consult with an experienced, qualified advisor if you want to understand how to balance your investments for your long-term benefit.



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SUZEAN is head of the Tygervalley office as well as one of the company's key individuals. She is a CERTIFIED FINANCIAL PLANNER® and a registered member of the Financial Planning Institute of South Africa.

She has experience in various aspects of financial planning, focusing on investment and retirement planning. Suzean is also a qualified foreign exchange consultant for the company with a wealth of knowledge in offshore investments.

Suzean joined Brenthurst Wealth in 2010 and is fully qualified to give advice on all investment matters.

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