

FACT SHEET - The Fairfund Trust

MASTERS REFERENCE T1012/91

When to use a trust fund

On the death of a member of a retirement fund, benefits (which include insured benefits if payable by the fund) become payable to dependants or nominees. Section 37C of the Pension Funds Act sets out a number of options for trustees to deal with the payments.

Where it is not suitable to pay the benefits direct to the dependant, nominee or guardian/caregiver, the benefits may be paid to an umbrella trust, subject to certain criteria. These options are normally considered in the case of minor dependants/ nominees or persons with a legal disability.

Objectives

The objective of the trust is to receive lump sum death benefits from unapproved schemes, trusts or approved funds (subject to approval/nomination criteria) and administer them for the benefit of the trust beneficiary (dependant).

Product features

- Benefit payments from unapproved funds e.g. group life, MVA claims and other policies, may be paid into an umbrella trust.
- In addition to this, death benefits payable in terms of section 37C may be paid into a trust, provided
 - a) a trust is nominated by the member, or
 - b) at the request of a major dependant or nominee, or
 - c) at the request of a person recognised in law as the person responsible for managing the affairs or meeting the daily care needs of a dependant or nominee.

Legal and governance

- Established 1991.
- Registered with the Master of the High Court and South African Revenue Services.
- Regulatory environment
 - Trust Property Control Act
 - Master of the High Court
 - FAIS Act
- Annual audit is performed on the fund (not a statutory requirement).
- Board has independent trustee representation.
- No requirement to submit annual financial statements to Master of the High Court.
- Trust deed registered with Master of the High Court.
- Trust is FICA compliant.
- Fund has administration agreement with administrator setting out duties and service standards.

Administration

SET UP

- Beneficiary sub-account set up
- On completion and submission of a deed of settlement, together with payment and required supporting documentation, a sub-account is established.

REGULAR PAYMENTS

Regular (monthly/quarterly) payments are made to members/beneficiaries or their guardians/caregivers as a fixed amount determined in the application form or a discretionary amount determined by the administrator.

SPECIAL PAYMENTS

Special payments are requested by members/beneficiaries or their guardians/caregivers to pay for specific once-off or annual requests e.g. school fees and related costs, medical or other special requests.

TERMINATIONS

Member accounts/sub-accounts are generally terminated on attaining age of majority (18) unless the member/beneficiary has a legal disability or the member/beneficiary consents to the ongoing management of the account.

REPORTING

To members / beneficiaries

- Annual member/beneficiary statements
- Annual tax certificates
- Annual certificates of existence
- Quarterly investment reports (available on request)

To consultants and retirement fund trustees

- Membership registers
- Financial statements
- Quarterly investment reports

Taxation

- Lump sum payments into trust are after tax benefits.
- The trust is a vesting trust and therefore has no tax liability.
- All interest income and capital gains vest in the beneficiaries and are subject to individual tax rates.
- The majority of beneficiaries' income is below the tax threshold and therefore they have no tax liability unless they have other taxable income.

Fees and costs

Management fees (excl VAT)

CAPITAL INTRODUCTION FEE - 1.0 % (minimum R219.22 per member)

ANNUAL ADMINISTRATION FEE - 1.8 % per annum (annual minimum of R328.83 per member)

TRANSACTION FEE - 2 % of each amount paid

REPORTING FEE - R10.96 per member per month

TRANSFER FEE - In the event of the entire fund being transferred to another administrator, fund or trust, an amount equal to 1 % of the market value of assets under administration is payable in the month of transfer of the assets. In the event that a beneficiary sub-account or a group of beneficiary sub-accounts is/are transferred to another approved trust subject to the approval of the trustees, the full transaction fee shall apply.

Rand denominated thresholds (minimum fees and reporting fees) will be adjusted at the beginning of each financial year for inflation (CPI).

Other fund costs

BANK CHARGES - Charges are allocated monthly to each member account on a daily weighted average basis on the current account balance.

AUDIT FEES, FIDELITY COVER - These fees are charged to each member account on a pro rata market value basis.

INDEPENDENT TRUSTEE, ASSET CONSULTANT, LEGAL CONSULTING, COMMUNICATION, FIDELITY COVER, INVESTMENT TRANSITION FEE AND ANY OTHER TRUST RELATED COSTS - These fees and other related costs in respect of professional services rendered to the beneficiary fund or trust fund are charged to each member account as and when incurred on a pro rata market value basis.

INVESTMENT FEES - Investment fees are deducted from the underlying portfolios under separate mandates from the relevant investment manager.

STATUTORY LEVIES AND TAXES - Where applicable, these will be paid to the relevant authorities and charged to the appropriate member account.

Investments

Investment managers are appointed by the trustees. The investment manager's performance is monitored and reported on a quarterly basis. The investment vehicles used include registered collective investment schemes that are transparent on fees and performance.

Due to the fiduciary nature of our beneficiary services, the investments are managed on a conservative basis. The primary objectives are:

- Provision of liquidity for regular and special payments
- Preservation of capital with a low risk profile.

Three investment vehicles are used in combination depending on individual member needs and based on the investment horizon and income requirements. The choice of the investment manager for any investment product remains with the trustees.

Call deposits

A percentage of funds are held on call deposits, spread amongst South Africa's leading banks (A1 + rating or higher) to provide immediate liquidity. Interest is paid monthly.

Income fund

The objective is to maximise income on a monthly basis by achieving returns in excess of the money market and interbank call rate while maintaining a high degree of liquidity and capital preservation. This objective is met using a registered collective investment scheme.

Balanced fund

Where accounts have capital in excess of that necessary to generate income, a portion of the fund is invested for capital appreciation. This objective is met using a registered collective investment scheme. The fund has a prudential mandate to achieve long term capital growth within an environment of moderate risk.

There is an investment policy statement in place which includes an asset allocation model. This is reviewed regularly by the trustees and when appropriate by an independent asset consultant.