

## **FACT SHEET - The Fairfund Umbrella Beneficiary Fund**

REGISTRATION NO. 12/8/37890/1

### **When to use a beneficiary 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 a beneficiary fund or 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 fund is to receive lump sum death benefits from transferor funds (approved funds) and administer them for the benefit of the beneficiary fund member (dependant). Approved funds include transfers from other registered beneficiary funds and trusts.

### **Product features**

- Only section 37C death benefits (approved benefits) payable by a registered fund for the benefit of a dependant or nominee may be paid to a beneficiary fund. This can be for a minor or major if considered appropriate by the retirement fund trustees.
- The regulator's main purpose in creating a new legal vehicle, the beneficiary fund, was to offer greater protection to dependants of lump sum benefits under the Pension Funds Act.

### **Legal and governance**

- Start date 01 January 2009.
- Registered with the Financial Services Board
- Regulatory environment
  - Pension Funds Act
  - Financial Services Board
  - Financial Institutions (Protection of Funds) Act
- Annual audit is performed on the fund.
- Board has independent trustee representation.
- Fund must report to FSB annually on financial statements.
- Fund rules are registered and approved by the FSB.
- 13B administration licence required.
- Fund is FICA exempt.
- Fund has administration agreement with administrator setting out duties and service standards.

### **Administration**

#### **SET UP**

- Member account set up
- On completion and submission of an application form, together with payment and required supporting documentation, a member 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**

Transfer from a retirement fund

- Lump sum payments from approved funds are after tax benefits.\*
- The fund is exempt from tax.
- Any payment to a member is tax exempt.\*

\* As per proposed changes in the second draft of the Taxation Laws Amendment Bill 2009.

## **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 member account or a group of member accounts is/are transferred to another approved beneficiary fund 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, INVESTMENT TRANSITION FEE AND ANY OTHER FUND 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.