FAIRHEADS
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FAIRHEADS
Benefit Services
Authorised financial services provider

Southern Africa's leading independent service provider of beneficiary funds and umbrella trusts

A TOUGH YEAR

By David Hurford, Director: Marketing and Consulting

2018 was, to put it mildly, a difficult year for investment markets with over 90 percent of all asset classes recording negative returns for the period. Trade tensions between the United States and China, Brexit jitters, sovereign debt concerns in Italy and Argentina, emerging market currency concerns – particularly in Turkey, and an end to fiscal stimulus in the US were just some of the global issues weighing on investors' minds.

From a South African perspective, political and policy uncertainty coupled with higher than expected fuel prices negatively impacted consumers and in turn local company earnings. Woes at State Owned Enterprises like Eskom and SAA increased the risk to South Africa's sovereign debt rating and policy noise about land expropriation negatively affected business confidence, as well as our ability to attract foreign direct investment. ►

In this issue

MESSAGE FROM THE CEO

The markets over the past six months have been volatile, and most asset classes have been negatively impacted. As David Hurford, Director: Marketing & Consulting, concludes in our lead article, we look forward to a more positive outlook and better performing markets, both locally and globally.

Jonathan Mort, the well-known pension funds attorney, examines umbrella trust arrangements as an alternative to the Guardian's Fund. Elsewhere in this issue we discuss the success of our unclaimed benefits funds and explain how we have managed to improve our BBBEE scorecard rating.

I hope you enjoy the read.

Sincerely,
Richard Krepelka
Chief Executive Officer

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Negative performance on this scale is unprecedented in modern times and has the potential to cause great panic amongst investors which is why it is important to remind ourselves about some fundamentals to investing.

TIME IN THE MARKET, NOT TIMING THE MARKET

Trying to time the markets to buy when the price is low and sell when the price is high sounds like a good plan. The only trouble is that in today's highly complex and interconnected world, it is virtually impossible to accurately predict when prices will rise or fall. As a result, being out of the market can cause negative returns.

By taking a longer-term view which matches your investment horizon and staying invested results in better returns. In fact, few things destroy value as much as selling when performance has been poor because the losses are locked in.

BIGGER RETURNS REQUIRE MORE RISK

The most important concept in investing is the risk versus return paradigm. It makes sense that those investors who take greater risk should receive a greater reward. But additional risk means that there is a higher chance of losses. So investors need to balance their growth expectations with how much they are willing to lose over their particular investment term.

In the context of beneficiary funds and umbrella trusts, the approach towards investing money has always been a conservative one. Investment portfolio risk profiles are matched to the investment horizon for each member, resulting in a unique blend of investments. Simply put, younger members with more time to termination will generally be invested in higher growth assets, whereas those who are closer to their termination age will generally be invested in more conservative, lower growth assets. This has in fact proven to be the right strategy over the past year, because older members were protected against much of the losses in the market because they were invested in cash and low risk income funds which gave returns in excess of inflation.

STAYING THE COURSE

The Boards of Trustees monitor the performance of the investments of the fund, and with the advice of the appointed asset consultant will make the necessary adjustments to the investment strategy as required. The fundamentals of the fund however will not change, being to firstly protect capital, then generate enough income for short term needs and finally to generate growth above inflation.

Trustees need to avoid making short term decisions to the strategy which would negatively impact long term investment performance, while balancing the need to give members and beneficiaries the best possible returns.

As 2019 sets in, we look forward to a more positive outlook and better performing markets, both locally and globally.

Fairheads working at BBBEE score

Understanding our score under the revised charter, and what we're doing about it

By Zukiswa Peter, Financial Manager

In late 2017 the Finance Sector Charter in consultation with the Department of Trade & Industry (DTI) released the Finance Sector Charter BBBEE scorecard, with the aim of providing a more targeted and appropriate approach towards broad based black economic empowerment in the sector.

Fairheads is committed to transforming our economy and welcomes the new code which allows for greater opportunities in terms of Skills Development, and Enterprise and Supplier Development.

Under the previous codes Fairheads was on Level 2. Under the new system, however, we dropped to Level 6, something which many companies experienced as they adjusted to the new thresholds.

The Board of Fairheads mandated that we should improve our BBBEE level to a minimum of Level 4 by the end of February 2019, and further to a minimum Level 3 by the end of February 2020.

HOW THE SCORECARD WORKS

The new BEE scorecard sets out various elements under which points can be earned. They are:

ELEMENT	POINTS AVAILABLE
Ownership	23
Management Control	20
Skills Development	20
Enterprise and Supplier Development	35
Socio-economic Development and Consumer Education	5

Fairheads, as a wholly owned subsidiary of Vunani Limited, earned full points for Ownership, and as an empowered organisation scored very well for Management Control. However, in the areas of Skills Development, and Enterprise and Supplier Development, we were presented with some new opportunities to earn additional points to improve our overall rating.

Zukiswa Peter, Financial Manager

The Fairheads Executive identified an opportunity to partner with a micro-enterprise called Brain eBox, founded and led by Sheree Comninellis (read more on page 8 about this remarkable company). This initiative involved funding the development of a leadership and development e-learning course and enrolling 11 of our staff in the programme. This is a win-win situation – not only are we investing and helping to grow a BEE supplier but we are also training our staff at the same time.

As a result, we improved our BBBEE score to Level 4 by the end of February 2019, and fully expect to achieve a minimum Level 3 by the end of February 2020.

STAFF TRAINING AT FAIRHEADS

Fairheads has always had a strong training ethos. In addition to our extensive in-house, on-the-job training, we send staff on short courses related to their work. We also have a bursary system whereby we pay in full for studies as long as the studies are relevant to the staff member's job description.

As part of our consumer education drive we have also donated R16,000 to the ASISA Fundisa Fund over the past year.

Fairheads has always had a strong training ethos.

Contrasting the payment of a minor's inheritance to the Guardian's Fund with umbrella trust arrangements

By Jonathan Mort of Jonathan Mort Inc, Attorneys

It is common for an inheritance in the form of cash to be payable to a minor beneficiary (under the age of 18 years). If that minor beneficiary has a guardian (the father or mother of the minor, or a person appointed as guardian by the High Court) the inheritance can be paid to that guardian who must use the inheritance for the benefit of the beneficiary. When the beneficiary reaches majority, the guardian must pay to them the inheritance remaining and provide an accounting to the beneficiary, if required, as to how the inheritance has been used for his or her benefit.

If the minor beneficiary has no guardian then the cash inheritance must be paid to the Guardian's Fund. The Guardian's Fund is administered by the Master of the High Court, and the operation of it is set out in chapter V of the Administration of Estates Act. The cash held by the Guardian's Fund is invested by the Public Investment Corporation (PIC). In terms of the most recent annual report of the Guardian's Fund that was able to be located for this article, as at 31 March 2017 the Guardian's Fund held assets of R12,2 billion.

The most important information about monies held by the Guardian's Fund for minor beneficiaries is:

- For as long as the beneficiary is a minor, interest accumulates and is compounded monthly. The current rate is 7.8%.
- If monies are needed for the maintenance, health or education of a minor then application must be made to the Master for that. The requirements for this are quite burdensome: amongst other things, the Master requires the fingerprints of both the beneficiary and the guardian, completion of an application form, confirmation of the bank account to which the amount must be paid, an affidavit and proof of ID. The risk of losing the inheritance through fraud is thus very low.
- Payments can be made directly to the school or health care provider.
- When the minor reaches majority (18, or on marriage if earlier than 18), the minor must apply for the benefit to be paid to him or her. Interest is not payable after age 18, unless the beneficiary is under some other legal disability (such as curatorship).
- There is no fee payable to the Master for the administration of the inheritance, for making payments whilst the beneficiary is a minor and on reaching majority, or in respect of the investment of the monies.
- The Master does not undertake any tracing exercise of beneficiaries entitled to payment of their inheritance. Instead, there is a list published annually in the Government Gazette (which it would be very unlikely any beneficiary would see) of amounts unclaimed.
- If the beneficiary does not claim the inheritance from the Guardian's Fund 30 years after becoming a major (i.e. by age 48) then the amount held for him or her is forfeited to the State.
- The capital and interest of the monies kept by the Guardian's Fund are effectively guaranteed by the State and there is thus almost no investment risk.

In short, an inheritance kept in the Guardian's Fund is safe and the income is a little higher than inflation (at current rates). There are also no costs involved. But it is quite an effort to claim from the Guardian's Fund and because there is no effort to trace beneficiaries it is possible that a minor beneficiary may not know that there is an inheritance due to him or her when attaining majority, in which event, if claimed later, no interest would be paid after the age of 18. And if the beneficiary never claims the inheritance, it will go to the State in the end.

There are alternatives to having the inheritance kept in the Guardian's Fund for a minor beneficiary. Where an amount is received from employment-related benefits of a deceased retirement fund member, the trustees of the retirement fund can opt for it to be paid into a beneficiary fund. Another option – which is the focus of this particular article – is for it to be held in a trust either in the will of the deceased (a will trust) or in another trust set up to hold inheritances (a professional inheritance trust). In terms of a will trust, a trustee would have to be appointed by the Master in terms of the Trust Property Control Act. As a professional person or firm would either act as trustee or assist the trustee, there would be costs involved, and so it is often not worthwhile to set up a will trust in your will unless the inheritance due to the minor is greater than R500 000.

An inheritance kept in the Guardian's Fund is safe and the income is a little higher than inflation.

In the professional inheritance trust, such as the Fairheads Legacy Trust, this would:

- Be administered by professional trustees. Although this would be at a cost it would usually be lower than a trust established in the will of the deceased. This is an umbrella trust with multiple beneficiaries' accounts.
- Invest the inheritance at institutional rates, usually on a conservative basis so that although there is some investment risk that is a very low risk. But this would usually give a better return that the interest rate payable by the Guardian's Fund.
- Usually provide for an easier application process for payment of maintenance, health and educational costs than the Guardian's Fund.
- Allow the inheritance to be kept to a later age than 18 if the will said so. It is common for the will to say age 21 or age 25, which is better than age 18 because at age 18 the beneficiary is usually still at school, and the later a beneficiary receives the inheritance, the more likely it is that they will use it sensibly.
- Trace the beneficiary when they are entitled to the inheritance so that they receive it then with little risk of it becoming unclaimed and ultimately reverting to the State.

Importantly, if you are a guardian and you hold the money for the minor beneficiary, you can ask a professional inheritance trust to administer that money in the same way as if the will required it to be paid to that trust. This is a good way of protecting the inheritance of the minor in case you pass away or you do not have the financial skills to manage such money.

If you want to put in place an arrangement for a professional inheritance trust you should:

- Check that the trustees are appointed in terms of the Trust Property Control Act;
- Check that either the trustee or the trust administrator is licensed in terms of the Financial Advisory and Intermediary Services Act;
- Ask what the costs are;
- Ask what the investment arrangements are, and the costs of those. Be especially careful if the administrator invests in its own products.
- Ask what the process is for the monies to be paid for maintenance, health or educational needs of the beneficiary, and when the trust ends;
- Ask what professional indemnity cover there is for the trustee and the administrator;
- Ask for a copy of the most recent audited financial statements of the trust to see that they were not qualified statements and that they were done by a reputable firm of auditors;
- If necessary, consult a professional adviser to assist you.

Fairheads Legacy Trust helps family in need

By David Hurford, Director: Marketing & Consulting

This good-news case study shows how the Fairheads Legacy Trust product can effectively be used to receive assets from an existing testamentary trust, thus alleviating the administrative burden on those running the trust, such as a lawyer who sets up a stand-alone trust.*

In 2018 Fairheads was approached by a family who had lost a parent, leaving a spouse and two young children behind. The spouse was struggling financially and had had to sell off various assets simply to sustain the children. In terms of the Will of the deceased spouse, a testamentary trust had been provided for the minor children and accordingly the Executor, a lawyer and family friend, had created a trust.

As is often the case, a stand-alone family or testamentary trust is costly and administratively challenging to operate. While with the best interests of the family at heart, the lawyer in question did not have the systems or capacity to manage the investments, attend to income and capital requests, nor to account for the latter. As a result the surviving spouse in the case study in question was frustrated in her attempts to obtain funds to sustain the children.

Fairheads was asked by the family to approach the lawyer and explained to her how the Fairheads Legacy Trust operates. She was interested and in fact relieved to know about the existence of the product. She applied to the Master of the High Court to have the trust deed amended, allowing assets to be transferred to our umbrella trust.

The family will now have easier access to funds and peace of mind, knowing that the assets are invested with best-of-breed asset managers, a model is in place for calculating the impact of income and capital requests, the administration is "sorted" and they can approach us if they have any questions.

** Some details have been changed to protect the confidentiality of the client.*

WHAT IS IT?

The Fairheads Legacy Trust is an umbrella trust arrangement which has been designed as a cost-effective, professionally administered vehicle to safeguard assets on behalf of beneficiaries. The benefits are:

- experienced trusteeship
- benefits of scale
- strong governance
- professional and expert management.

The Legacy Trust can accept assets from:

- Deceased estates
- Inter-vivos trusts
- Testamentary bequests
- Road Accident Fund (RAF)
- Medical malpractice payments
- Life insurance payments
- Disability policies
- Retirement funds
- Private trusts
- Discretionary savings for education or any other purpose.

Success with unclaimed benefits

In April 2018 Fairheads took over two unclaimed benefit funds from the Sygnia group and launched the Fairheads Unclaimed Benefit Preservation Pension Fund and the Fairheads Unclaimed Benefit Preservation Provident Fund.

It was logical for us to take over the administration of these funds as we have a proven track record in tracing those who are unaware of the benefits that are due to them. Our intention is to use these capabilities to help alleviate the huge unclaimed benefits problem our country faces.

Judy McKenzie, Team Leader at Fairheads Benefit Services, says: “Since inception of our two unclaimed benefit funds, we have made successful contact with and paid out 89 members. A further 345 members have been contacted and we’re awaiting documentation from them to prove their address, ID and proof of employment linking them to our records.”

The team says it is quite overwhelmed by the success thus far as in some cases the initial information they had was very scant. When they started out, they developed a bespoke system, covering training, forms and processes, trying to tailor it around a client centric approach.

Fairheads needs to tread a fine line between risk and “return” – unclaimed benefits have a high rate of attempted fraud and Fairheads’ internal audit requirements will not allow tracers to push too hard for personal information. Yet at the same time they are keen to encourage the member to know what is due to them.

Indeed, this is the very problem that Bernard Wentzel, Unclaimed Benefits Signatory, describes: “You can imagine if you call up someone out of the blue to say that benefits are due to them and ask them to prove their address and ID, they will more often than not think it is a scam and at the very least want to know who Fairheads is. This can be very frustrating when you are genuinely wanting to verify that you are speaking to the right person and you know that a pay-out could possibly turn their life around.”

Bernard says the answer to the challenge lies partly in referring the member to the website of the Financial Sector Conduct Authority (FSCA) where a national database exists of those to whom benefits are owed. In

The Fairheads unclaimed benefits team: from left, Judy Mckenzie (Team Leader), Sifiso Yako (Assessor), Natalie Johnson (Senior Team Leader), Bernard Wentzel (Signatory) and front, Nikki Jacobs (Manager).

addition, he will refer people to the Fairheads website where they can see the company is a registered financial services provider and has a long and robust track record as a service provider and administrator in the employee benefits industry. Members are also encouraged to visit a Fairheads walk-in centre.

HOW WE GO ABOUT IT

Various means are used, which include telephone calls, SMS and letters to previous addresses. We search for people using home affairs and credit bureau checks as well as tapping into employer networks.

Some examples of success

- As reported in Fairheads Times in 2018, we managed to trace a 77-year-old disabled man who finally believed our approach was genuine. His landlord brought him into our Cape Town offices with all the necessary papers, but it transpired that he did not have a tax number and so needed a directive from SARS. We took him in person to SARS to apply for the directive, not an easy task for a disabled person, and all we are waiting for now is the directive before being able to proceed with the pay-out of around R190,000.
- In another example, we had a death benefit due to a member who could not be traced. We sent letters to multiple previous addresses, with one of them reaching the daughter of our member. She was able to confirm that her father had passed away in 2012 and she did not know there was a benefit of some R50,000 due to her. After processing all the paperwork and completing the Section 37C

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A Brain-e move

Brain eBox
Your Online Classroom

In just four years, Sheree Comninellis, founder and CEO of **Brain eBox**, has germinated an idea into a successful company that offers training and development around the country. Her flexible and empowered team of 12 provide both e-learning via a virtual classroom or facilitated courses in person. Unlike most online training courses which are commoditised, the Brain eBox team partners with the client to provide a bespoke solution.

Sheree has a background in training and development in large corporates and contact centres. While in the corporate world, she started to realise that HR departments were focusing most of their energy on new joiners and that ongoing training and development for existing employees was sometimes lacking.

"There was a gap that needed to be filled and I decided to create an online classroom to take to market. We created our first course which was an induction programme for over 100 employees around the country. What an adventure!" Sheree says.

Brain eBox's association with Fairheads arose after Anthea Usher, Training Officer, met Sheree at an HR event. Fairheads asked Brain eBox to develop a course to train compliance assessors in 2018. This proved so successful that Fairheads has embarked this year on a generic management programme for 11 staff members, accredited with the Services Sector Education and Training Authority (Seta) and conducted through Brain eBox.

Anthea says, "We've established a strong collaborative relationship with Brain eBox and they are adding immense value to our training landscape. Having undergone training themselves on our business processes, they are able to provide great, customized e-learning programs. We are very excited about the future of this partnership."

Regarding the future, Sheree says that her team's vision is to develop courses for individuals in addition to corporate clients – and always to ensure that the business is sustainable. That means to keep on growing whilst maintaining the high standards for which they are known.

Read too the story on page 3 which outlines the actions Fairheads is taking to improve its BBBEE level.

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investigations, we were able to pay out the lump sum benefit to her.

- In another instance, we were able to track down the ID number of the daughter of one of our members. We contacted her and she confirmed that her mother had worked for a certain employer and exited in the 1980s. After processing all the paperwork, we were able to pay out the lump sum benefit of over R80,000 to the member.

We have learned through our beneficiary fund experience that tracing members requires out of the box thinking, and often just taking that one extra step can result in success. As an example of this, we have been successful at tapping into past employee networks. By finding one or two past employees of a company, we are often able to find others who worked there and have benefits outstanding. It would be impossible to do this if we simply did credit bureau searches.

It is this approach to focus on the outcome, and not the process which sets us apart from other unclaimed benefit providers.

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