FAIRHEADS TIMES

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FAIRHEADS
Benefit Services
Authorised financial services provider

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

BENEFICIARY FUNDS – WE ALL SHARE THE RESPONSIBILITY

By Giselle Gould, Business Development Director

Looking back on 2018, I believe it is a time for deep reflection on our society. What a year it has been, with a change of President, several changes of Finance Minister, and a few commissions of enquiry under way. The Nugent and Zondo commissions have been unearthing horror upon horror and yet – much as the Truth and Reconciliation Commission went some way to healing wounds of the past – so too I hope that the investigations into State Capture and all its related evils will make space for a better ethical environment to take root.

Very few industries have been untouched by the culture of corruption, sadly the beneficiary fund industry among them.

Let us be frank. There are various stakeholders involved when entities like beneficiary fund service providers fall apart in the financial services sector. The most recent example is exceedingly unfortunate, especially given that it is only just over 10 years since a similar corruption scandal hit umbrella trusts.

If a child has lost a breadwinner and is dependent on the assets that they were allocated by a retirement fund, then it is incumbent on all stakeholders in a caring society to work together to support such children 100 per cent.

A beneficiary fund is registered with the Financial Sector Conduct Authority and it is also regulated by the FSCA. Regulation is regulation and it needs to be scrupulous. Fund trustees are responsible for sourcing preferred service providers to the fund and ensuring that they apply proper procurement principles. Trustees also have to monitor the service provider against the expected service standards for which they have appointed them.

APPOINTING A SERVICE PROVIDER

Following below is a reminder for trustees of what needs to be done in the appointment of a beneficiary fund service provider:

- What steps have been followed in the selection process for a service provider? Have you kept properly minuted records of this process?
- Are you following a scorecard process? For example, the Preferential Procurement Policy Framework Act provides guidelines on how to rate a provider in terms of technology, capacity, reputation and history.
- Have you done proper reference checks on your service provider? Including going beyond the names that they gave you?
- Does your service provider have a governance policy?
- Is the service provider subjected to an annual audit? Which auditor is used and is there auditor rotation? ►

In this issue

Message from the CEO

I can scarcely believe it is nearly the end of 2018. Fairheads has enjoyed an exceedingly productive year and we trust that you have experienced the high level of service and efficiency that we always strive to deliver. The Fairheads family is passionately committed to our purpose, by initiatives such as our innovative work-from-home programme which you can read about on page 3.

The provision of administration and trusteeship for beneficiary funds remains the core of our business and it is fitting that Giselle Gould, Director: Business Development, updates readers on the very real benefits that are derived by members of well-run beneficiary funds. As David Hurford, Director: Marketing & Consulting, points out in his article on page 6, beneficiary funds offer a level of care that not all financial products are able to achieve.

Elsewhere, we provide an update on our perennially successful guardian roadshows, as well as an overview of the markets.

It remains for me to thank staff and clients alike for their loyalty and to wish you and your loved ones all the best over the holiday season.

Sincerely
Richard Krepelka,
Chief Executive Officer

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MONITORING

Simple checks and balances should be in place, like whether families that should be receiving income are actually receiving it. Do children who become of age receive their final benefits within a reasonable time? What is the track record of your service provider in this regard? Has it enabled the support and education of these minors to allow them to become financially active citizens – as it promised?

You should be requesting regular updates of the status of beneficiary accounts. Ensure that financial statements are submitted on time and that they are unqualified. Satisfy yourself that the investment returns are reasonable. Compliance always has to be of the highest standard.

Sometimes these simple checks are all that is required and yet they can make the world of difference – especially to those whose livelihoods are influenced by the decisions that trustees may make on their behalf.

BEYOND AGE 18

Has the beneficiary fund been able to build enough trust with members so that they may actually trust them to take further care of their assets while they are at a tertiary institution or acquire other employable skills? At Fairheads we are noting a growing rate of "discretionary money", that is, accounts that are not terminated at age 18 through the choice of the member as they know that their money is safe with us – indeed safer and more beneficial than some bank accounts.

CORPORATE GOVERNANCE

As a trustee, you should make sure that the benefits promised in terms of the beneficiary fund rules are actually delivered; that the benefits are optimal with minimal risks; and that the process of delivery of these benefits is credible and worthy of the trust of the members.

THE BENEFITS

At a time like this, it is important to remember the many benefits provided by beneficiary funds:

Protection of minors' assets

- Minors' funds are taken care of, invested in prudential investment vehicles and stretched as far as possible to cater for educational and other wellbeing needs.

- Lump sums that are paid out to a minor's guardian or caregiver are not guaranteed to be used in the best interest of the child, and in many cases, this leads to money being squandered, leaving little for the child's care.
- The guardian or caregiver will be paid a regular stipend, with additional amounts requested being subject to the scrutiny of the trustees. These capital payments are usually paid directly to the provider of the goods or service (e.g. the school) to ensure the money is used appropriately.

Expert investments and institutional pricing

- The investment management and asset allocation of beneficiary funds allows members to benefit from expert investment knowledge which has been gained over many years of managing minors' money, which is quite different from the investment management of contributory retirement funds.
- Investments are pooled, creating an opportunity for significant savings when it comes to fees.

Significant tax advantages

- Beneficiary funds are wholly tax exempt, both in terms of income and capital distributed from the fund. There are few better investment vehicles available in South Africa today, from a tax perspective.

Value for money pricing

- Beneficiary fund costs, like those of retirement funds, have reduced over time despite the extensive benefits of a very well-tailored service.

In conclusion, trustees are well advised to remind themselves of the many benefits that beneficiary funds offer. And to do the checks that are listed above. Returning to my opening theme, perhaps, above all, it is important to interrogate a potential service provider about how committed they are to the responsibility of governance. Unless they can deliver in the way they promised and are 100 per cent compliant, do not appoint them. ■

It's all about employee engagement

By Olefile Moea, Executive Director

As an administrator, at Fairheads we believe our business is very far from being "stuck in the back-office" – in fact, we believe the human element has never been more important. If you don't have the right people doing the right thing, your clients will know all about it. That is why employee engagement is so important.

Best practice would have administrators create employee engagement forums where staff can voice their opinions, engage and be heard.

At Fairheads, we formed employee engagement forums – with a surprising outcome. Staff expressed concern about the stress in their lives created through transport to and from work – and most people know about the traffic problems in South Africa's major cities. This concern happened to coincide with a call from the City of Cape Town on employers to help stagger working hours in an effort to ease traffic congestion.

We listened to our staff and – sparked by the appeal from the City – we decided to try a Work from Home programme. Initially piloted with 12

claims assessors, we were struck by the increase in productivity and so decided to roll out the programme to more staff. We now have nearly one third of our staff complement of around 200 working from home – and all are benefitting. ►

Perhaps the biggest benefit of all is a sense of gratitude. At Fairheads we have found that our staff are truly grateful to be given the opportunity to work from home.

There are **social** benefits. Staff get the opportunity to take their kids to school, and avoid stressful commuting. They also save on transport costs. They need to commit to being contactable during office hours and complete their daily allocation of work. They also need to participate in Whats App groups.

There are **societal** benefits – we reduce the number of cars and commuters on the road.

And there are **business** benefits. We reduce certain overheads by having staff work from home.

Naturally a work-from-home programme will only work if there is a sound culture within a company, with a strong degree of trust. There are also certain precautions and rules that need to be in place to make such a programme work:

- We provide each staff member with a company desktop computer that has been locked down and is not able to be loaded with software other than that from the company.
- Staff need to come in to the office once a month for a team meeting.
- IT systems need to be robust – we provide remote dial-in which is quick and secure.
- Clearly the programme only applies to non-frontline staff.

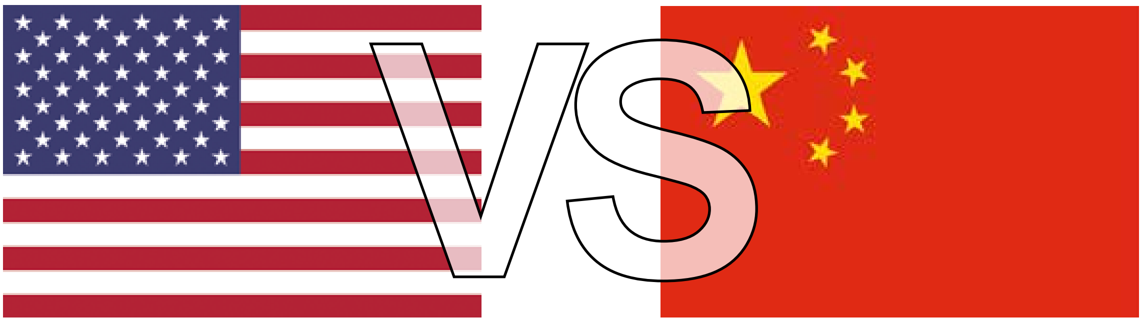
Perhaps the biggest benefit of all is a sense of gratitude. At Fairheads we have found that our staff are truly grateful to be given the opportunity to work from home. They know that if they abuse the system they will be recalled and so we find that there has been very little abuse. A sense of loyalty to the company has increased and staff turnover vastly reduced.

FINANCIAL MARKETS OVERVIEW – 2018

By Asim Gani, Managing Director, IAC

INTERNATIONAL

Global equities capped off a strong 2017 ending 23.1% higher, buoyed by good growth and labour market data suggesting solid momentum among the economies of the United States, Europe and Asia. This year began with the best calendar-year start for equity markets for 30 years on the back of widespread positive macroeconomic data. The World Bank reported that global economic growth had been stronger than expected in 2017 and issued a bullish forecast of 3.1% for 2018. New US Federal Reserve Chairperson Jerome Powell surprised investors by highlighting the strength of the US economy and the suggestion of four interest rate hikes in 2018. Growth in the Eurozone ended 2017 on a high note, leaving full-year growth at a healthy rate of 2.5%. Brexit negotiations on Britain leaving the 28-member state European Union continued with hopes of a transition deal being agreed. Citizens still rate immigration and terrorism as the two main concerns facing the EU.



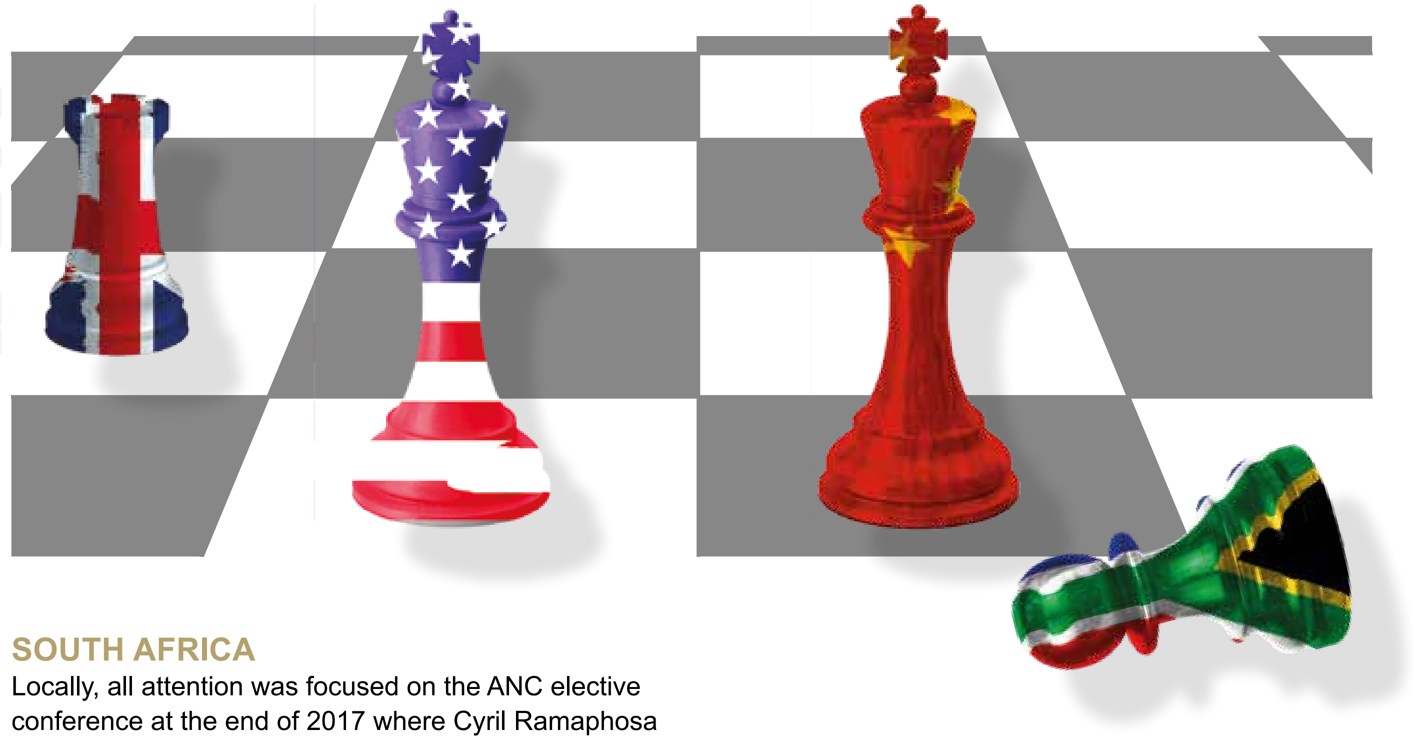
The US has demanded a $200bn cut in China's trade surplus by 2020.

The UK FTSE 100 had a strong start to the second quarter on the back of a weaker Sterling due to Brexit-related uncertainty. On the political front, a historic meeting between the leaders of North and South Korea committed to denuclearisation and sought ways to increase investment co-operation and integration between the two countries. According to the World Bank, India with the second largest population of 1.35bn is projected to regain its position as the world's fastest growing major economy, advancing 7.3% this fiscal year and 7.5% in the next two years. Global equities were plagued by increased volatility due to heightened political risk, while Italy's new populist government added to market concerns.

The global trade war began with the US announcing tariffs on Chinese imported goods, with China retaliating. The US has demanded a $200bn cut in China's trade surplus by 2020. The Shanghai Composite Index slumped on the impact of this trade war. China announced measures to accelerate the opening of Chinese markets to foreign companies, notably the car industry. The US also announced a new set of sanctions against Russia, targeting Russian individuals and entities.

US President Donald Trump's tax cuts started to impact on the economy with second quarter GDP growth strong at 4.2%, the fastest pace in four years. Against this backdrop, the US S&P 500 index bull run continued, becoming the longest in history on 22 August. The index is up 9.0% in 2018, outperforming all other major markets.

The UK economy had a modest rebound, driven by a recovery in the services sector, with retail sales performing well as a result of the good weather and the Soccer World Cup. However, in Europe, politics overshadows fundamentals. Emerging markets continued to struggle in 2018 as the US dollar strengthens and emerging markets' currencies weaken, which impact on their current account and fiscal deficits due to dollar-denominated debt.



SOUTH AFRICA

Locally, all attention was focused on the ANC elective conference at the end of 2017 where Cyril Ramaphosa was elected ANC President. Domestically-focused companies were boosted by expectations of improved policies from the new ANC leadership. The General Retail and Banking sectors rallied 15.6% and 15.2% respectively in December. A strong last quarter contributed to a return of 21.0% for the All Share Index in 2017. Bonds also rallied with the All Bond Index delivering a 10.2% return for the year. The SA economy grew by 1.3% in 2017.

The local currency remained strong at the start of 2018 as the new ANC President committed to rooting out corruption, taking a firm stance on the unaffordability of nuclear energy and overhauling the boards of State-Owned Enterprises. Jacob Zuma resigned as President of SA in February with business-friendly Cyril Ramaphosa appointed as his successor. The swearing in of Cyril Ramaphosa as the new president of SA, a well-received national budget, and the appointment of key ministers to portfolios in the economic cluster boosted financial shares.

However, the SA economy shrank by a shocking -2.2% in the first quarter of 2018 as the agriculture sector shrank -24.2%, affected by the drought in the Western Cape – a reminder to investors that financial markets do not always track the direction of one's economy in the short term. The SA economy dipped into a recession for the first time since 2009 as GDP for the second quarter shrank by -0.7%. In September, the president announced a stimulus plan to revive the economy. This included a change in the country's visa policy and finality on the revised Mining Charter.

Up to 30 September 2018, the JSE All Share Index has lost 3.8% in 2018 dragged down by Industrial shares (-11.8%), with Financials losing 6.8% while Resources gained 21.0% on a weaker Rand. The All Bond Index rose 4.8%. Consumer inflation came in at 4.9% in August, but upside risks remain as world oil prices surge. The Rand has depreciated by 14.4% against the US dollar in 2018.

We are facing a volatile environment both locally and from offshore. It is in times like this that investors make emotional investment decisions which in most cases turn out to be poor ones. Make sure your investment strategy suits the outcomes you are after and then stick to it. ■

Level of care offered by a beneficiary fund no comparison to an annuity

By David Hurford. Director: Marketing and Consulting

We have occasionally been asked by Boards of Trustees on whether they should consider purchasing an annuity on behalf of a minor or rather pay a lump sum to a beneficiary fund.

Very broadly, we recommend a beneficiary fund over an annuity. This is not because we are in the business of administering beneficiary funds but rather because we believe the fiduciary and taxation aspects of a beneficiary fund outweigh those associated with an annuity. The detail is complex and beyond the scope of this brief article but essentially these aspects include flexibility, taxation, age of majority, pricing and trusteeship.

WHAT ARE WE DEALING WITH?

Beneficiary funds are classified as a pension fund organisation, with the weight of the Pension Funds act behind them. Members have recourse to the Pension Funds Adjudicator.

An annuity on the other hand is a broad term used to describe various financial products available in the market. Essentially, an annuity involves swapping a present value sum of money for a series of future payments. There are two main types of annuity:

- a living annuity where the investment risk lies with the annuitant;
- a life annuity where the investment risk lies with the long term insurer. Note that with a basic life annuity, the payments end upon the death of the life insured. This issue can be mitigated by attaching various guaranteed structures to the products.

FLEXIBILITY

Payments made into a beneficiary fund retain significant flexibility in terms of rates of drawdown, capital distributions and income recipient, whereas these are either fixed or inflexible for an annuity product.

Rate of drawdown

When purchasing an annuity, the annuitant is provided with certainty around the timing of future payments, and the amount of those payments depending on the type of the annuity purchased (life versus living). In the case of a life annuity, the drawdown rate cannot be altered, and in the case of a living annuity, the drawdown can only be adjusted once per annum and must be between 2.5% and 17.5% per annum. This may suit those who are able to accurately predict their future cash flow needs.

In contrast, the drawdown rate for a beneficiary fund remains fully flexible, within the constraints of trustee approval. (The trustees will assess any request to increase the regular monthly drawdown and determine whether it is in the best interests of the minor member to do so).

Capital assistance

Where future cash flow requirements are uncertain or unpredictable, a beneficiary fund may be more appropriate. Examples of uncertain or unpredictable cash flow requirements are school fees, unforeseen educational expenses such as extra lessons or medical emergencies.

Beneficiary funds are geared to assist members with capital requests, subject to an assessment by the trustees as to whether the payment is in the best interest of the member. There is no cost for additional capital drawdowns.

Income recipient

In the case of a minor dependant, regular income and capital payments are paid to the guardian or caregiver (or directly to the service provider).

A reality of our social structure is that the person caring for the child changes over time. A beneficiary fund provides for changes in guardianship, including guardianship disputes which can be quite complex, whereas an annuity product provider may not generally possess this capability. ▶

TAXATION

Depending on whether the annuity is considered voluntary or compulsory, the taxation on the retirement fund benefit may be deferred. (A holistic examination of the taxation of annuities is beyond the scope of this article; we note that the tax treatment can be complex). A compulsory annuity is not included in the lump sum benefit which attracts tax, but rather the annuity payments are taxed in the hands of the annuitant (in this case, the minor dependant.)

In contrast, benefits paid to a beneficiary fund are paid from post-tax money, i.e.tax is paid on the lump sum and then distributed to the beneficiary fund. Beneficiary fund organisations are tax exempt, both in terms of income and capital gains and there are therefore no further tax considerations.

AGE OF MAJORITY

Section 37(c)(3) of the Pension Funds Act provides for the benefit to be paid in more than one payment in such amounts as the board may from time to time consider appropriate and in the best interest of the dependant or nominee.

The point I wish to emphasise is that beneficiary funds are set up with a high level of care in mind.

However, the provision goes on to prescribe the terms of those payments with regard to the rate of return, and further stipulates that the balance of the benefit must be paid to the dependent or nominee on the date at which he or she attains the age of majority or dies.

Section 37(c)(5) excludes beneficiary funds from the provisions of section (3).

On the face of it, this would exclude the purchase of any annuity which cannot be converted to a lump sum once the minor dependant attains the age of majority, and may preclude the retirement fund trustees from stipulating a termination condition greater than age 18.

PRICING

Comparing the cost of a beneficiary fund with that of an annuity is difficult, because the costs of the annuity are not easy to determine. One would have to take the capital, term, interest rate, commission and fees into account, which means that every case would be different depending on when the annuity is purchased (and what the yield curve looks like). Please contact me directly at david@fairheads.com if you would like to examine the pricing issue in more detail. Fairheads has calculated an Effective Annual Cost (EAC) for its products based on the ASISA measure and we can help you examine this more closely.

TRUSTEESHIP

Beneficiary funds are registered pension fund organisations and are overseen by a Board of Trustees. The Trustees have a fiduciary duty to the members of the fund to act in their best interest and ensure that the benefit is protected.

In contrast, an annuity is usually purchased from a registered long term insurer and falls under The Long Term Insurance Act.

The point I wish to emphasise is that beneficiary funds are set up with a high level of care in mind. The experience and expertise required to achieve this are significant because the operations of the fund are highly administrative and labour intensive.

In closing I would like to leave you with the following considerations:

- Proof of existence – A beneficiary fund is not only required to ensure that the guardian and child are alive, but must also confirm that the child remains in the care of the guardian.
- Guardianship changes – In circumstances where the child moves from one caregiver to another, an assessment must be conducted to ensure that the new caregiver is caring for the child, and understands how the benefit can be used.
- Guardianship disputes – In circumstances where there is a dispute about who is caring for the child, high level investigations are required, often involving the use of social workers.
- Prudent use of funds – Significant time is taken to counsel guardians about prudent use of funds. This includes helping them to budget, directing them to government agencies for supplementary assistance, and setting out a capital request budget which will allow the child to complete their education. ■

Guardian roadshows ventured into new areas

By Olefile Moea, Executive Director

We held our ever-popular annual guardian roadshows from August to October this year, venturing into certain geographic locations for the first time.

Our philosophy is that ALL guardians and members should have access to information and education and that is why we booked venues, sometimes at huge effort, in areas we had not visited before. Of the 14 workshops we held, 11 were in places new to us. These included venues in the Eastern Cape (Mqanduli, Libode, Elliotdale, Ngquleli and Idutywa), in KwaZulu Natal (Estcourt, Inanda, Amamzintoti, Harding), and in Mpumalanga (Acornhoek, Driekop).

Skilful use of geomapping allowed our team to identify suitable venues; not necessarily those where there are the highest concentration of members, but venues which are easier for some guardians to travel to.

Our strategy paid off, with surprisingly higher-than-expected attendance in most new venues. The welcome we received was heartwarming for the teams who had worked long hours, handling the logistics, making presentations and attending to one-on-one queries. The Facebook comments below give you a sense of some reactions from guardians and members.

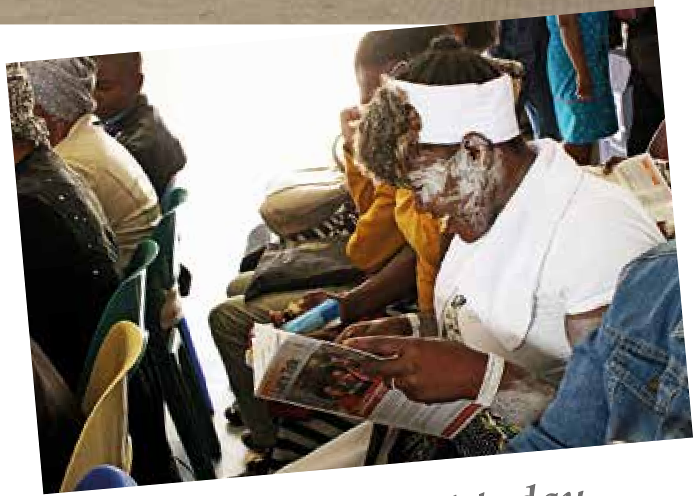
"Mina ngibonga indlela abasebenzi bakhona abonomusa ngayo nesineke sabantu, ngathola usizo kakhulu ngalolusuku."

I would like to thank you for the way you work, your patience and passion for what you do, thank you very much, you really helped me that day.

MEMBERS' INTERESTS

As in previous years, we continued our approach of engaging with members directly, with the aim of educating them and encouraging them to talk with their guardian or caregiver about their fund.
For example, we reminded them about the need to apply for an ID when they turn 16 as so much in life depends on having this crucial document – registering for tertiary education, opening a bank account etc. ►

Here too we were pleased with the turnout and interest shown by these young adults whom we are proud to empower and call our members.



"Ngiphume nginolwazi oluningi kabi, ngithanda ukubonga kakhulu kubasebenzi bakaw Fairheads."

I got a lot of information (at the roadshow); thank you to Fairheads staff.

"Harding was great today, the presentation was clear, and the stuff from Fairheads were very helpful and kind! Thanks guys!"

If you have not already seen the video, please do visit our website or click below to view the video we made of the guardian roadshows – it will give you a good idea of this pioneering grassroots communication exercise in practice.

www.fairheads.com/watch-2018-guardian-roadshow/

Funds need an active relationship with their members

By Olefile Moea, Executive Director

Traditionally, the employer has been the first point of contact for retirement fund members seeking information on their retirement fund and other queries. This is starting to change as the industry moves into an era of consolidation towards umbrella funds. The inter-relationship between employee, employer and fund is starting to give way to one which sees a lesser role for the employer, and a more direct relationship between the member and the fund. In years to come, could one expect to see a move towards members choosing their own retirement fund product, as is the case in Australia?

It is all the more important therefore that the fund itself steps into the gap and builds an active relationship with the member. Many funds are doing this but some need to build this capability from scratch. Beneficiary funds have much experience in this regard, because there has never been a strong inter-dependent relationship with the deceased member's employer. Beneficiary funds have therefore operated more of a "retail" relationship with the end member, allowing them to access services without going through the employer.

To build a relationship with members, a fund needs to understand who they are and what their needs are. But equally, it is imperative that the member understands what the fund is, what to expect from it, and how to use it. If your fund's communication strategy simply relies on the occasional SMS and annual newsletter as the only forms of communication, you may need to consider upping your game.

The first step is to build a multi-channel distribution strategy which facilitates dialogue with your members. Channels could include:

- Walk-in centres – although relatively expensive to operate, face to face contact can make the world of difference for members to discuss fund matters with someone who can provide holistic solutions to them
- Telephone – through a multilingual contact center– – ideally the system should recognise the phone number and match the member with an agent who speaks their preferred language
- SMS – this is most effective, although the important thing is to ensure up-to-date records based on the member's most recent nomination form
- Annual newsletter in multiple languages – this should be in plain language, educational and simple to understand
- Member roadshows where members can engage with the fund
- Field agent programmes for those who cannot travel far.

Communication also needs to be two-way – feedback is needed from members in order to gauge their needs and meet them accordingly. This can be obtained by way of a simple survey conducted via the contact centre agents.

You may wish to underpin the distribution strategy with a series of service principles which can guide the communication. These could be:

- Be respectful
- Provide a holistic solution
- Empower the member
- Ensure compliance and safety

In essence, the important thing to bear in mind is ease of access for the member. Everything else can flow from there.Let's not let the member get left behind in this new era of umbrella fund products.

This article was first published on www.ebnet.co.za/administrator-s-corner

To build a relationship with members, a fund needs to understand who they are and what their needs are.

GIVING CHILDREN A SAFE SPACE

Afterschool programmes play a vital role in our society, providing children with a safe space where their minds can be stimulated and giving parents the peace of mind that their children are taken care of when they cannot be there. In poverty-stricken or disadvantaged areas, the latter is especially important as children are vulnerable to being drawn into gangsterism, drug abuse and crime.

Thanda is a community-based organisation in rural KwaZulu Natal whose comprehensive operation includes an afterschool programme that has 763 children enrolled across six schools. Fairheads has partnered with Thanda to contribute towards the excellent work they are doing.

Fairheads' contribution towards the programme has ensured that 84 children at Umsinsini Primary School are participating in engaging and educational activitiesn and having loads of fun!

In addition to providing educational programmes to learners, Thanda upskills local youth by hiring and training them as afterschool facilitators — creating opportunities for these young people to develop their capacities and skills and providing role models for future generations.

Read and watch more about the groundbreaking work being done by Thanda at www.//thanda.org/ and https://youtu.be/rKrBYJERWSg

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