

FAIRHEADS

Benefit Services (Pty) Ltd

TIMES



FAIRHEADS

Benefit Services

Authorised financial services provider

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

UNCLAIMED BENEFITS – R7.5 BILLION ON BEHALF OF 938 000 MEMBERS

By David Hurford, Director: Marketing & Consulting

According to the Financial Services Board, registered unclaimed benefit funds currently hold around R7.5 billion in assets on behalf of close to 1 million members. That's around R7 500 per member that's sitting in unclaimed funds, generating administration

fees for the administrator and investment fees for the investment manager.

A cursory review of the fee structures of many of these funds reveals a fundamental flaw in the funds, one which urgently needs to be addressed.

Essentially, administrators and investment managers who are charged with finding "missing" members have no incentive to do so. In fact, because they charge fees based on a percentage of assets, there is a dis-incentive to finding the members and paying out their benefits.

Further, a closer understanding of what is required to trace members is needed. Traditionally, the relationship between the retirement funds and their members has been facilitated by the employer or union – and much of the retirement fund's consulting focus has been on keeping the employer or union happy. However, in the case of unclaimed benefits, the employer no longer has a role to play because the very fact that the funds are in an unclaimed fund means that the member no longer works for the employer.

At Fairheads, we believe that a new approach is required, which is why we are launching two unclaimed benefit funds, the Fairheads Unclaimed Benefit Preservation Pension Fund and the Fairheads Unclaimed Benefit Preservation Provident Fund. ▶



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MESSAGE FROM THE CEO



Richard Krepelka,
Chief Executive Officer.

Welcome to this new year issue of Fairheads Times. Much like 2016, 2017 will doubtless bring challenges as we continue to do business in a somewhat turbulent economic and political environment, both globally and locally.

In this context, Mike Adsetts, Investment Strategist at MMI Investments and Savings, has written an interesting macro-economic and investment overview in this issue. We also announce the launch of two new unclaimed benefit funds through which we believe Fairheads is ideally placed to help make a dent in the mountain of unclaimed benefits in South Africa.

Beneficiary fund education needs to extend to retirement fund members too and David Hurford, Executive Director, has written about the benefits of beneficiary funds from a personal estate planning point of view.

I hope you find the articles interesting and wish you all the very best for the year ahead.

Thank you.

Sincerely

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UNCLAIMED BENEFITS

Fairheads has long been South Africa's leading independent beneficiary fund provider, having looked after and paid out over 200 000 members and beneficiaries. We have developed sophisticated communication methods and accessibility options for members to interact with us and have a proven track record in tracing those who are unaware of the benefits that are due to them.

Our intention is to use the capabilities we have developed in the unclaimed benefits space to make significant inroads into the huge unclaimed benefits problem our country faces.

EXPERT TRACING CAPABILITY

Our multi-level approach to tracing ensures that finding missing members is done effectively without incurring the high costs associated with many funds. We have

developed innovative tracing mandates which use client profiling, and have effectively used our field agent programme to work with employers to trace missing members.

And by combining our expert capabilities with a fee structure which incentivises finding and paying out members, we believe we are perfectly placed to do so. Some of the features of this fee structure are low administration fees with an emphasis on a fixed Rand fee and institutional investment fees negotiated with arm's length managers.

Our aim is to help alleviate some of the financial hardships faced by many South Africans by helping them to get what is rightfully theirs. ■

Contact: David Hurford, Director: Marketing and Consulting, at david@fairheads.com

EXCITING NEWS!!!

In keeping with our aim of returning benefits to members, the Board of the Fairheads Umbrella Beneficiary Fund is pleased to announce **a reduction in the fees charged to member accounts**, effective the 1st of March 2017. This is just one of the many benefits of belonging to one of the largest umbrella beneficiary funds in the country.

	Old Fee	New Fee
Acceptance Fee	1%	0.5%
Administration Fee	1.8%	1.8%
Reporting & Governance Fee	R24.50	R20.00

All other fees remain unchanged. For full details, please consult your member statement or agreement.

2016 A PIVOT YEAR FOR THE WORLD?

**By Mike Adsetts, Investment Strategist,
MMI Investments and Savings**

There are many times in history that, on reflection, marked a transition or at least an acceleration of the change to the status quo. 2016 may very likely turn out to be one of those years, where there was a change in balance of the world economic and political systems with far-reaching implications for the future.

The unipolar world dominated predominantly by the United States is well and truly behind us, with the ascendancy of China and, in general, the Asian economic block. The election of US President Donald Trump is expected to accelerate this trend, especially if the US purposefully steps away from its historical role of global player and influencer. Closer to home, this is very apparent in the increased presence of China in Africa, reasonably to secure a steady and dependable pipeline of resources to feed into China's economy.

If early indications are anything to go by, geopolitical tensions may also migrate gradually east, as the US and Russia find common interest and pull an unwilling European Union along with them. The tensions will increasingly be felt between Chinese and US influence, as China starts to assert its place as a global super power.



often perceive that they have lost out, as a result of increasing globalisation and trade. This has led to dissatisfaction with the current way of doing things and has allowed relatively surprising results (Brexit, the election of Donald Trump as US president, the No referendum to reform in Italy leading to the resignation of Matteo Renzi as Prime Minister). 2017 potentially has more surprises in store, with the forthcoming French presidential election as well as German and Dutch elections.

These issues have not remained global issues and have also affected our own shores. Who can argue that the general dissatisfaction with the ANC-led government caused a massive stay away of significant numbers of ANC supporters, allowing the opposition

A key feature of 2016 was the rise of populism and anger at business-as-usual governance

'DISESTABLISHMENTARIANISM'

Another key feature of 2016 was the rise of populism and anger at business-as-usual governance. The fancy economic word that has been coined is 'disestablishmentarianism', which has arguably arisen as a result of the financial mechanisms (think quantitative easing and low interest rates) that have been successful in fuelling relatively slow global growth, and has predominantly benefitted those who already have capital (think the wealthy and business elites). The lower-to-middle classes around the world have not benefitted from this growth and

DA and EFF to take over control of the significant metros in South Africa? There is much debate on the implications of this and the longer-term political landscape, but at the core is the same theme of dissatisfaction with the status quo.

WHAT DOES IT ALL MEAN FOR INVESTMENTS?

What has this political and economic backdrop resulted in from an investment perspective and what can be expected from a continuation of the trends outlined above? ►

Looking at returns for 2016, generally it was a disappointing year, with local equities delivering 4.2% (FTSE/JSE Shareholder Weighted Index), global equities delivering negative 5.3% (MSCI World Index in rand terms) and global bonds delivering negative 10.4% (Citigroup World Government Bond Index in rand terms) for the year to 31 December 2016. In general, the year was marked by significant volatility, driven to a large degree (in the shorter term) by market sentiment and news flow.

Fortunately, there were some bright spots in terms of asset class returns, with fixed-interest-related asset classes delivering decent returns. Listed property generated a return of 10.2% (FTSE/JSE SA Listed Property Index), bonds delivered a return of 15.5% (BEASSA All Bond Index) and cash delivered a return



of 7.4% (Short-term Fixed Interest Composite Index) for the year to 31 December 2016. This does not reflect any superior fundamental value of these asset classes but rather demonstrated a recovery from the effects of 'Nenagate' in December 2015, as well as the South African economy managing to dodge the ratings downgrade 'bullet' for the year. The jury is still out on whether South Africa can avoid a downgrade and this will have a significant effect on the potential returns of interest-rate-driven asset classes.

So, what then does the future hold? After years of monetary-driven policies (quantitative easing and low interest rates), their success and sustainability are gradually drawing to an end. Although there are still significant sources of liquidity in global markets (continued quantitative easing from the likes of the European Central Bank and Bank of Japan), there is clearly a process of transition underway to start to increase interest rates. This was again demonstrated when the US Federal Reserve increased interest rates by a further 0.25% in December 2016. It will fundamentally

make developed economy bonds an unattractive asset class going forward.

After two years of generally lacklustre returns, equities are generally looking like a better proposition, albeit within the context of relatively low levels of global growth. There are significant risks from a political perspective – do populism and disestablishmentarianism continue to run rampant, changing the European environment, will US President Donald Trump affect the trajectory of globalisation and trade, does increasing and aggressive competition between the US and China result in global economic fallout? Regardless of the outcome of these risks, the overhang of excessive debt is likely to lead into a world of lower levels of returns, consistently, from all asset classes going into the future.

... the overhang of excessive debt is likely to lead into a world of lower levels of returns

This is without a doubt an exceedingly difficult environment within which to manage investments responsibly, especially in the short term. Momentum Investments has over time adopted and followed a more outcome-based investments philosophy; defining what the company is trying to achieve, aware of the risks it needs to take and how much time it needs to let lapse for its investments to generate their rewards. The key is sensible diversification across many different asset classes in proportions that allow you to reasonably achieve your desired (and possible) investment outcomes. Increasing alternative asset classes, investment innovation as well as paying the appropriate fees for specific exposures are going to be key components to ensure continued investment and financial success.

Although the intent of this article was not to position outcome-based investing, the principles briefly outlined above form a solid foundation for you to think about how and where to invest as well as what to expect in 2017 and the coming years. ■

FUND COMMUNICATION

By Olefile Moea, Executive Director



For a fund to service members to their satisfaction, communication channels have to be in place and must meet the member's communication needs. Over the years, Fairheads has made available a choice of communication channels with our members in order to allow them the easiest access possible.

The one channel that is the preferred method by most clients is telephonic. This is not surprising given the opportunity of expression that this offers. As compared to written communication, telephonic offers immediate response to all queries. It is also important to note that having this channel in the context of South Africa will not work if the only available language is English. If we are to meet clients' needs, as stated above, we need to communicate with them in their preferred language. For many years now, Fairheads has operated a multi-lingual contact centre.

Written communication is still in use and continues to be a medium through which members are sent capital request and official documents for example. However, telephonic communication remains the method of resolving what could not be written. This is evident by the number of calls we receive post receipt of documentation.

Given the geographic location and resource challenges that most of our members face, any opportunity to interact with us at no cost is appreciated. This is

apparent from high attendance at the many roadshows we have conducted over the years and the face to face conversation witnessed. These roadshows continue to be the pillar of our face to face conversation and they allow for education of guardians and beneficiaries on our processes and new information. Communication is a two-way channel; the roadshows also allow members to express their opinions on challenges they may face with our service or in their daily lives. We can continue to listen and note their needs and act on them in order to ensure we provide the service they need.

NEW GENERATION COMMUNICATION

It is no surprise that younger members seem to prefer social media in communicating with us. There is a notable increase in the number of Facebook posts we receive from our younger members. We envisage huge growth in this channel of communication and with it comes the opportunity to instantly communicate with our members.

Another notable increase is the number of emails we receive. We will be focusing on increasing this through collection of email address at any interaction point with our members. Given the current challenges with our postal system, the use of social media, email and telephonic communication is definitely on the rise. This offers us opportunities to communicate with our members quickly and, most importantly, to service them quickly.

Members continue to communicate with us through TEBA offices by submitting documents at TEBA branches. For members in areas where these offices are located, they no longer have to wait for snail mail but know that their documents are instantly sent directly to Fairheads.

In conclusion, Fairheads has a multi-pronged approach to communication with members in order to allow maximum access to our services. We are aware of the growing need for digital communication and gearing up accordingly. ■

NEWSFLASH!

The Fairheads Johannesburg client walk in centre has moved from from 45 Commissioner Street to: 26 Ameshoff Street (Corner Ameshoff and Melle Streets, with entrance in Melle Street), Braamfontein. New telephone numbers: 010 005 5290/1/2/3

CONSULTANTS CORNER: MEETING ERIC SOPENI

Eric Sopeni, based in Fairheads' Cape Town office, has been promoted to Consultant for several major clients. Eric is no stranger to the industry having worked for Fairheads for 11 years, gaining invaluable experience in senior roles across various departments. Fairheads Times caught up with him in between meetings.

How does the new job feel?

Great! I love the interaction with clients and getting to know the business on a more strategic level. I find my background years in Fairheads have equipped me well. For example, I was involved in the guardian roadshows from inception some six years ago and was responsible for the presentations in the various Nguni languages. Now, when I chat to Boards of Trustees about the roadshows, I can do so from the heart and truly give them a sense of the important role the roadshows play in making beneficiary funds understandable and accessible to guardians and caregivers.

Tell us a bit about your career?

I joined Sigma Health Fund in 2001 as a reconciliations clerk after graduating with a small business diploma in Cape Town where I was born and brought up. In 2005 I joined Fairheads gaining initial experience in what was our call centre back then, moving up to administrator and later team leader of our new business team. I was also responsible over the years for leading a quality assessment team and heading up the tracing team.

In 2014 I moved into an account manager role, while retaining responsibility for the administration teams of various accounts.

I now work closely with (Directors)

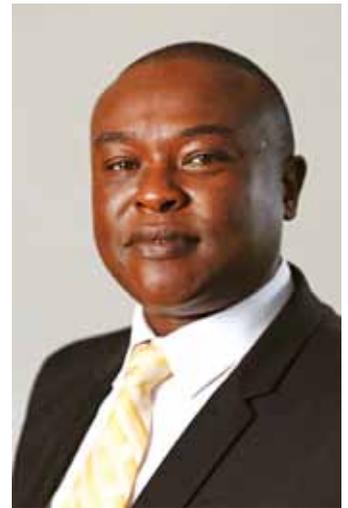
David Hurford and Olefile Moea and report directly to Yvonne Mahlatji, Consulting Manager. I travel fairly frequently to Johannesburg as part of my work.

Where do you see beneficiary funds going?

Although the industry is nearly eight years old, there is still much education to be done. The trend is definitely towards umbrella funds, which make sense given the economies of scale. I think there is still tremendous growth ahead as people start to understand and appreciate the tax and other benefits that the beneficiary fund vehicle brings.

What do you do outside work?

I'm very much a family man, married with two young daughters. I love socialising and being with people. I am also nearly finished with some additional studies through Milpark – a Higher Certificate in Financial Planning. ■



BENEFICIARY FUNDS AS AN ESTATE PLANNING TOOL

By David Hurford, Director: Marketing & Consulting, Fairheads Benefit Services

Note: While awareness of beneficiary funds is now far wider among trustees, consultants and other industry players, this is not the case for the average retirement fund member. Further member communication is needed in order to educate members about the advantages of beneficiary funds and to let them know that they can indicate their use if they wish on their nomination form. Fairheads is playing its part in helping to inform the public at large, as shown in

this "personal finance"-type article that we wrote last year. Please feel free to use it in your own member communication.

Beneficiary funds are mistakenly seen by many as a product for the poor, to be used exclusively when there is no one competent to take care of the financial affairs of minor dependents of deceased retirement fund members.

Ironically this could not be further from the truth, however many financial advisors have little or no

understanding of the excellent benefits afforded by these vehicles.

Beneficiary funds are exempt from tax, both in terms of investment returns and distributions from the fund and there is, therefore, a compelling reason to look a little

compounded over 10 years, represents close to R1 million extra available to the dependent.

The best part of a beneficiary fund is that retirement fund death benefits can be split between a lump sum payment and a beneficiary fund.

Beneficiary funds are exempt from tax

more closely at them as an effective estate planning tool. This is especially the case given the Davis Tax Committee's review of tax laws in relation to trusts, and the current uncertainty that this has created.

WHAT EXACTLY IS A BENEFICIARY FUND?

Beneficiary funds were established in 2009 under the Pension Funds Act to provide a vehicle to house death benefits due to minor dependents of deceased retirement fund members. Death benefits which accrue as a consequence of the deceased's retirement fund or other employment benefits are excluded from their estate, and it is the trustees of the retirement fund who must use their discretion to determine the best use of the money.

The responsibilities of trustees are clearly set out in Section 37C of the Pension Funds Act, and in some cases they will use their discretion to insist that money payable to minor dependents is placed in a beneficiary fund.

Beneficiary funds are classified as a "pension fund organisation" under the Pension Funds Act and are subject to the same high standards of regulation and governance as a retirement fund. They are therefore a very safe vehicle, affording recourse if needed, to the Pension Funds Adjudicator.

A TOOL FOR ESTATE PLANNING

The case for beneficiary funds to be used more extensively by individuals in their estate planning is compelling. The tax exemption afforded to these funds means that all benefits placed in them are completely free from tax – both capital gains and income earned. And when the benefit is paid out to the dependent, no tax is payable.

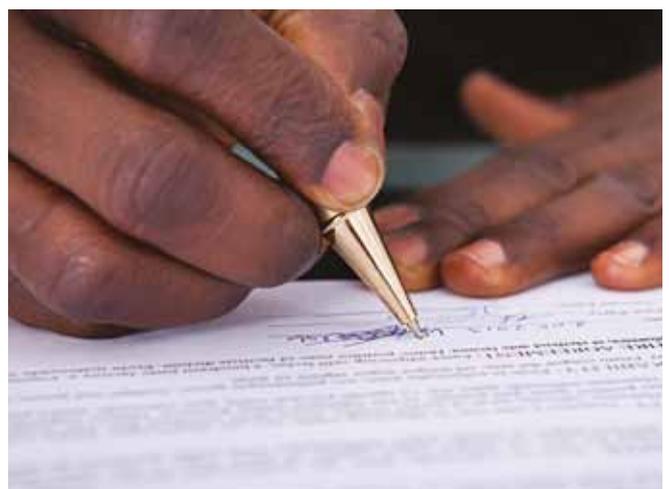
On a benefit of R2 million this could represent a difference of as much as 2% per annum to the investment returns (assuming 10% per annum investment return with no other income earned by the taxpayer and 2017 tax rates applied). This saving,

WHAT MUST I DO?

So what do you do to ensure your death benefits are placed into a beneficiary fund?

Trustees are required by law to determine who your dependents are, decide the level of their dependency and finally decide on how that money will be paid to them. This is often a time consuming and difficult task which can be made quicker and easier by following these simple steps:

1. Make sure your nomination form is up to date, and include all particulars of your dependents. Specify that death benefits should be paid to a beneficiary fund;
2. Speak to your loved ones about the options available to them should you pass away;
3. Write a letter to the trustees explaining your financial affairs, your relationships and your wishes. The trustees do not have to follow these wishes, but any additional information that they have to make a fair and equitable decision will be welcomed.



In a sense then, beneficiary funds are "mainstreaming" and we at Fairheads recommend that planners and higher-net worth individuals give serious consideration to this strictly regulated, tax-effective savings vehicle. ■

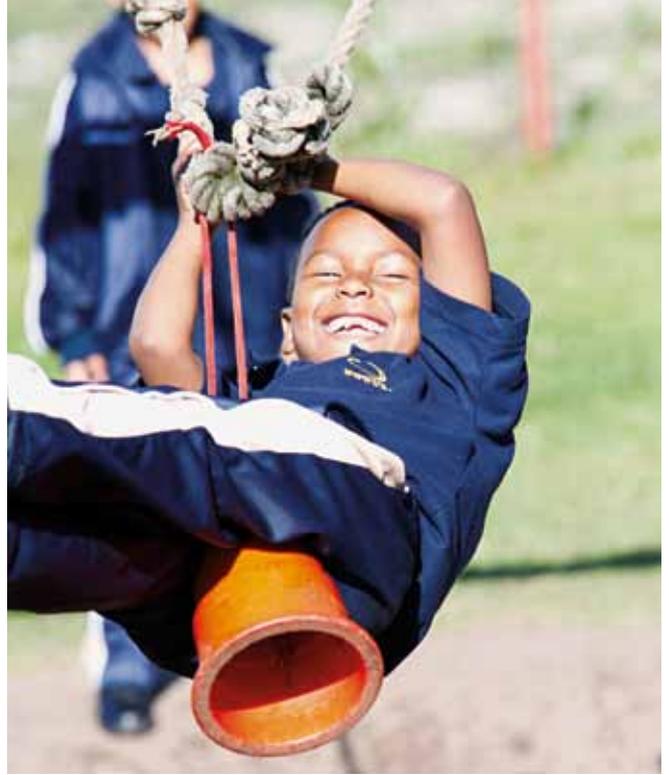
MEET ELIHLE

Fairheads has had a wonderful relationship with Christel House School in Ottery, Cape Town for the past two years. We have been happy to support the school in their mission to provide a holistic, uplifting education to children from disadvantaged communities.

So when we were looking to add some fresh faces to our brand last year, we looked no further than the learners at Christel House. One of these learners, Elihle Maloyi, captured a special place in our hearts with his bright, happy face and love of life. We are delighted to share his story with you.

Elihle is 7 years old and currently in grade two at Christel House. He resides in Langa, Cape Town with his mother, grandma, aunt, two siblings and two cousins.

Elihle simply loves Christel House. He says he enjoys coming to school as he likes learning and more so learning to write and making arts and crafts. He enjoys playing soccer, on-on and volley ball with his peers. His favourite teachers are Miss Amanda, his 2016 class teacher, who he says is very kind and makes him feel welcome and then Miss Carol as she is simply the best principal in Elihle's opinion. His favourite food at school are the boerewors rolls with chips and their daily snacks. He even enjoys nap time!



When he gets home each day he first helps his grandma with chores, does his homework then heads out to play with two friends in his area. They enjoy playing soccer and watching movies.

Elihle aspires to be a chef when he grows up as he loves eating good food and helping his grandma cook at home.

When asked why he likes attending Christel House, he says that he enjoys the food, travelling safely on the bus each day to and from school and learning from his teachers. He also looks forward to going to high school so he can work on computers and play soccer for the school team.

We certainly look forward to having you score a lot of goals for our teams in the future, Elihle! ■

Christel House School provides a holistic education to more than 700 learners from the most disadvantaged communities in Cape Town. The school provides regular health care, nutritious daily meals, guidance counselling, career planning, family assistance and post-matric support.



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