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FAIRHEADS Benefit Services
Authorised financial services provider
Southern Africa's leading independent service provider of beneficiary funds and umbrella trusts

LET ASISA'S NEW STANDARD APPLY TO BENEFICIARY FUNDS TOO

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

Wouldn't it be nice to be able to buy a financial services product knowing exactly what it will cost, and what it will do for you? It seems that many financial services professionals have made an art out of obfuscation, confusing the consumer to such an extent that they either run screaming or resign themselves to a state of ignorance.

Fairheads has a long and proud history of leading the beneficiary fund industry with products, service and innovation. We have also been at the forefront of making our fee structure simpler to understand by removing the many layers of cross subsidisation which exist with many other service providers.

In 2014, we developed an industry first Comparison Rate which attempted to compare beneficiary fund service providers' costs structures. Our hope was that this would make it easier for trustees to spend more time on considering the value proposition of the service provider – what do they actually do for the minor dependent members in the beneficiary fund?

The model, which was independently reviewed by IAC (Pty) Ltd, a leading employee benefits actuarial firm, revealed some interesting results. **Often, the service providers with low administration fees actually proved more expensive when taking into account the high investment fees that they charge.**

While the Comparison Rate model provided some great insights into the costs of various service providers, because it was developed by Fairheads it would always be subject to an allegation of bias. This is why Fairheads called on the industry to adopt a standard for comparison which all service providers could use.

Thankfully the Association for Savings & Investments South Africa (ASISA) has developed, from 1 October 2016, a new standard for calculating the Effective Annual Cost (EAC) of an investment. The EAC outlines how ASISA members will disclose costs in retail products to the advisors and consumers who use their products. As a result they can compare cost structures across various investment products in a simple, transparent and standardised way. The standard prescribes inclusion of all costs associated with the financial services product, including investment management charges, advice charges, administration charges and any other costs which could be incurred. ▶

IN THIS ISSUE

Message from the CEO

Richard Krepelka, Chief Executive Officer.

Fairheads has long been at the forefront of beneficiary fund development by helping to draft the provisions within the Pension Funds Act which created beneficiary funds; by lobbying Government to secure significant tax advantages for lump sum death benefits; and by providing information and reasoning for exempting beneficiary funds from tax.

We do this because we have a passionate belief in protecting children's assets and making sure that we play our part in helping them to get the best possible educational and general well-being outcomes.

We are constantly looking to innovate in ways that will lead to efficiencies and savings to the benefit of members.

With costs and transparency in mind, please also read the article on Fairheads' decision to adopt ASISA's new standard for calculating the Effective Annual Cost (EAC) of an investment.

Elsewhere we update you on our guardian roadshows and field agents programme and Olefile Moea tackles the thorny issue of retirement reform.

Finally, it is with some pride that we also run a piece on the two industry accolades Fairheads has won this year.

None of this would be possible without the loyal support of our stakeholders.

Thank you.

Sincerely

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Although not a member of ASISA, at Fairheads we believe this is a great step forward for the financial services industry in general. We have adopted the EAC for all Fairheads disclosures and call on all beneficiary fund service providers to do the same.

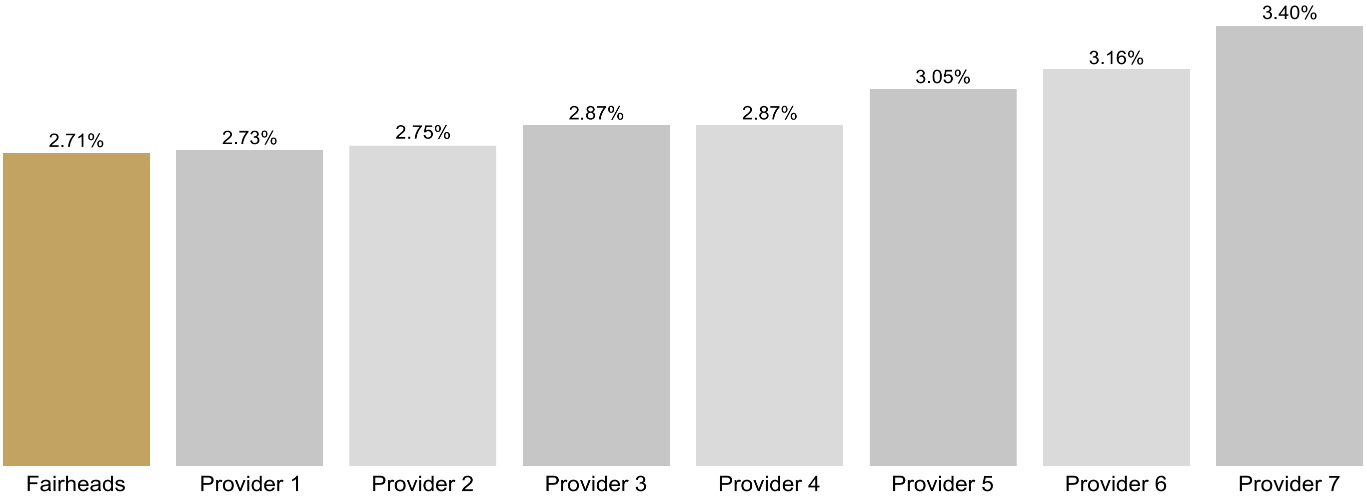
HOW DO THEY STACK UP?

Table 1 (following page) shows the EAC for eight beneficiary funds, each managed by a different service provider and commenced for a term of 18 years for an amount of R100 000. Included in the features of the product are monthly income distributions of 5% per annum of the capital introduced, as well as capital distributions of 5% of the capital introduced, escalated annually by 5%.

Using the ASISA standard methodology it is easy to see which fund is the cheapest over the full term. It's not quite that simple for trustees when looking at each service provider's fee structures! We sourced fees from publicly available sources for the largest beneficiary fund service providers.

Interestingly, the results are consistent with those of Fairheads' Comparison Rate model in that more often than not service providers with low administration fees

Table 1: Effective Annual Cost across eight beneficiary funds



Fair and transparent outcomes can be ACHIEVED FOR ALL

are usually the ones which charge the highest costs – giving credence to the old adage that if something looks too good to be true, it probably is.

This gives further weight to the fee and reform work being spearheaded by National Treasury, and particularly the Retail Distribution Review paper which is currently out for comment. One of the aims of this review is to put an end to advisers placing their clients' funds into products and services based on the level of remuneration that they earn, rather than the suitability of the product.

Fairheads hopes that this same sentiment is carried across the entire financial services industry so that more fair and transparent outcomes can be achieved for all. We call on the beneficiary fund industry to adopt the EAC.

The other side of the T-coin

By Olefile Moea, Executive Director

We are cognisant of the retirement pressures that we face as a nation and the consequences of not saving for retirement. This is why the authorities have put forward the idea of compulsory partial annuitisation of lump sum benefits on retirement. As we all know, the idea is a fairly contentious one and therefore consultations are ongoing with all parties to decide when and how retirement reform's "T-day" should be implemented in full.

The one side of the T-coin is painted with good intentions but the other is painted with unintended challenges when seen from the side of ordinary workers.

During the working life of an ordinary employee, such as a miner, the daily challenge remains creating a better life for himself and his family. The salary that he earns is used to survive in the present and the lump sum at retirement is the hope of this present changing in the future. This might sound like a contradiction but let's explore it a bit!

THERE ARE BASICALLY THREE OPTIONS

Take an employee who hails from the rural areas and grew up in a hut. He works and lives in the city, but when he goes back home, he still sleeps in the same hut. After seeing the houses in the city and witnessing how people buy new houses, his only wish is to one day have his own house. There are three options to attaining this wish; one is to use his salary to obtain a bond and make monthly repayments which is a challenge as this will simply not leave enough money to send home for the family to survive.

The second option is to wait in line for the government to build him an RDP house. In light of the fact that the family is big and there are several huts in the estate, how many RDP houses will have to be built? If he does not obtain an RDP house, the option will be to renovate the one RDP house to fit the whole family – thus reverting to option one of having to secure finance.

In addition to this challenge are the other financial responsibilities he carries, such as children's school fees, uniforms, medical costs, food for the family and travelling costs for both himself and the family.

There is one hope – the third option if you wish – that allows this employee to survive in the present whilst looking forward to the day his dream is attained in the future. This option is contained in an envelope – a benefit statement that indicates the amount that will fulfil his dream when he reaches retirement age. In the employee's mind, the option is "survive for now with this salary to fulfil a daily living and attain the big dreams at retirement".

"Survive for NOW with this salary to fulfil a daily living and attain the big dreams at retirement."

There are many examples of employees who have attained this goal, built houses with their retirement money, bought cars and put their children and grandchildren through school. Granted, some have ended up with zero balance bank accounts and have to depend on the government's pension grant. Is this a painful experience? It depends on which side of the coin you're looking at. One side of the coin shows that the dream which has been a work in progress for years is achieved. On the other side you are sleeping in a house and not a hut, but surviving on a government pension only.

ADDITIONAL CHALLENGES

If we had to assume that the employee has one of his dreams achieved e.g. to have a house, whether built by the government or bonded, is it easier to accept one side of the T-coin to the other? Again it depends on perspective.

Another scenario is that some employees are heavily indebted and depend on their retirement lump sum to set them free. If their lump sums are annuitised, will this solve the issue of indebtedness?

Socio-economic conditions and family structures in South Africa also present challenges. Due to high unemployment rates, parents end up having to take care of their children well past their youth days. This is despite having put them through tertiary institutions successfully. Add to this most grandparents' biggest challenge seen from a beneficiary fund perspective – that of grandparents having to take care of their grandchildren due to parents succumbing to HIV/AIDS. How will the T-coin fall for these grandparents as they worry about their grandchildren's survival should they pass away? Will annuitisation help given that it would provide a monthly sum? But what happens if the grandparents depart – will the grandchildren survive?

RESPONSIBILITY LIES WITH ALL ROLE PLAYERS

It appears that there are many perspectives to how the T-coin will fall but in every scenario the socio-economic impact must be considered. Each role player will have to fully play its role in order to ensure that retirees are not left with a bitter taste in their mouth as one aspect of their socio-economic requirements were not met.

One role player, the government, has outlined its intention and the merits for its case. South Africa doesn't have the resources to provide pension grants to each citizen in retirement and consequently it is imperative for currently employed citizens to start saving for their retirement. Compulsory annuitisation is the only way to force people to cater for their retirement. Although this is not yet implemented, perhaps government could consider the option of allowing those with very low retirement thresholds the option of a state pension. This will provide parity in all strata of the workforce, allowing those with low salaries and therefore low retirement benefits nonetheless to fulfil their dreams.

Having two thirds of your pensionable lump sum annuitised might be a realistic option but it can be a huge shock to someone who has spent their working lives knowing that they will get their entire benefit when they retire. Perhaps a phasing-in option may be apt, with the prospective retiree educated and properly counselled on the choices they will have to make at retirement.

It might be possible to appease negative voices if the retiree is given a product that will ensure that they have an income that will sustain them during their retirement and any shortfalls are clearly highlighted in advance so that government intervention in the form of a grant can be triggered.

The government has indeed taken some positive intial steps and must be applauded for increasing the tax-free threshold

The government has indeed taken some positive intial steps and must be applauded for increasing the tax-free threshold for lump-sum benefits and leveling the playing fields between provident and pension funds (which was always confusing to employees).

That said, the envisaged retirement reform is going to be a shifting landscape and clearly there is a need to tread carefully. All role players have the obligation to ensure that those that will be affected are clearly informed of the pros and cons. A major retirement reform of this nature requires a system change and, above all, properly trained and informed financial advisers who will put the client's needs before any product commission. This is where the government and the industry as a whole will have to be more vigilant – if not, the T-coin will not drop in favour of the retiree. ■

FAIRHEADS RECOGNISED THROUGH TWO INDUSTRY ACCOLADES

Giselle Gould, Director: Business Development

Fairheads has won recognition this year on two occasions, as described below. We would like to thank all stakeholders, especially our staff, for making this possible.

IMBASA YEGOLIDE AWARD

In June 2016, at the BATSETA conference, Fairheads was announced as Trust & Beneficiary Administrator of the Year. We were particularly pleased about this, as the submission was based on what Fairheads is doing in terms of Treating Customers Fairly (TCF), something we hold very close to our hearts.

Excerpt from the submission document:

"The Board of Directors is committed to ensuring that the principles of TCF are applied in all areas of our day-to-day business activities and our TCF Policy is integral to that objective.

Our Policy is structured in accordance with the Financial Services Board guidelines to ensure that we consistently deliver fair outcomes to our clients.

In adopting the TCF principles we recognise that fair treatment of our clients is about adding value to the service we offer our clients. We strive to meet the unique needs of our clients by offering transparent, efficient and professional services. We constantly monitor our performance and welcome feedback from our clients to identify areas for improvement."

IRFA BEST PRACTICE AWARD – GOLD FOR COMMUNICATION

At the IRFA Conference in August, Fairheads Benefit Services was awarded with a Gold Standard Certificate for Excellence in Communication.

Our award submission was titled "Going to the People" and covered our overall communication strategy. The essence of this strategy is to make it easy for members to communicate with us and access our services, thereby aiming to reduce the number of unclaimed benefits (and increase the number of compliant accounts) to ensure that members get what is entitled to them.

Our member-centric, accessible approach is paying off in all areas of our business. The award affirms our core purpose of enriching people's lives by protecting and administrating fiduciary monies.

The primary purpose of beneficiary funds is to allow minor dependents to subsist and complete their education in the event that they lose a breadwinner. We believe that beneficiary funds serve a critical social role especially in a region such as Southern Africa where education is fundamental to the broader social upliftment of our community.

Reaching out to guardians and members

During the first half of 2016 our **field agents**, Lerato Mokgobu and Themba Manzana were busy on the road, covering vast distances to make contact with guardians and members who needed our help.

The areas visited were Limpopo, Mpumalanga, Lesotho, Eastern Cape and KwaZulu Natal.

The trips are planned in a highly targeted manner, based on the number of members who may not have provided their latest proof of life and families who clearly need help understanding how beneficiary funds work.

Approximately 1800 documents were collected, showing once again the power of this very personalised communication strategy.

Since July, Lerato and Themba are having a well-earned break from the road (although it is rumoured they may be needed in Mozambique this year still), while our **guardian roadshow** programme kicks in for the second half of the year.

GUARDIAN ROADSHOWS

"We carry their dreams. Our role is to fulfill somebody's dream."

That is how Olefile Moea, Director and project sponsor of the guardian roadshows, describes the primary objective of this outreach programme which Fairheads Benefit Services pioneered some 6 years ago.

Olefile says that the events can often be exceedingly poignant. They are often started off with spontaneous group prayer and this year at Embalenhle (formerly Secunda), a guardian dropped down on her knees at the front of the large hall and, in a powerful loud voice, for about five minutes called for blessings on the meeting, on Fairheads and on those children who are misguided, maybe taking drugs etc.

"It is very humbling, very real and often sobering to see so close up the true nature of what people are dealing with, their realities and their dreams," says Olefile. He says that this year, more than ever, it is evident that there is high unemployment among guardians and many households are desperately trying to make ends meet. Rustenburg was one of the towns visited where it is clear that the economic climate and state of the mining industry have had a devastating impact on employment. In other towns, such as Potchefstroom (a first for the programme), service delivery protests also had the potential to delay guardians in getting to the venue.

Venues are decided based on sophisticated geo-mapping techniques through which Fairheads determines the optimal locations for guardians to travel to. Thus, while Khayelitsha in Cape Town is always a major venue, some guardians from further afield find it difficult to get there and so this year for the first time workshops were held in Stellenbosch and Worcester.

Some new findings and trends have emerged this year. Olefile describes them thus:

- The three-year rolling programme is having the effect of "absence makes the heart grow fonder", with a huge eagerness by guardians to attend, interact and find out more.
- Fairheads is addressing the age 18 issue upfront and explaining that we are lobbying on the industry's behalf to see if the authorities could extend the age at which termination pay-outs are made to members. As a result, this pre-empts many queries and concerns guardians have around this important issue.
- Word of mouth is the most powerful communication tool of all. For every guardian we talk to, the message and information gets out to many others as guardians interact with each other.

So, while fairly sobering, Fairheads' guardian roadshow programme is at least engaging people face to face, making the service highly accessible and providing vital education.

Olefile says: "It remains exciting and it continues to amaze me."

What Fairheads staff had to say:

ERIC SOPENI: It's always humbling to see how grateful our guardians are to see and interact with us. ▶

THEMBA MANZANA: What I experienced/learned this year is to always bend with the wind because you never know what might happen. And smile at people genuinely because no matter what they are going through they will smile back.

LERATO MOKGOBU: Our compact skilled team gave their all to ensure that our guests went back home with a better knowledge on how to make the beneficiary fund work for them.

NOMBI SEKALELI: I enjoyed being face to face with clients, listening to their frustrations, sharing the challenges and making them understand why there are rules, procedures, processes and regulations.

I feel privileged to be chosen as one of the people taking the message of hope, care and transparency to our clients.

I observed that clients appreciate honesty and the respect displayed to them and the fact that Fairheads shares some of their frustrations e.g. members receiving their funds at age 18 vs 21. ■

Can SA escape a downgrade?

by Nitisha Singh, Investment Analyst, Maitland

The big three ratings agencies (Standard & Poor's, Moody's and Fitch) granted South Africa a reprieve earlier this year as they all chose not to downgrade the country towards or into "junk" status. However this reprieve may be short-lived as political issues seek to overshadow the recent fiscal and economic progress that the country has made.

The ratings agencies consider a combination of qualitative and quantitative factors when assessing a country. The political environment is of vital importance and the agencies will evaluate the government and how the policy making environment can assist the economy. The government and their institutions need to be accountable and have a degree of transparency. The economic landscape is also of importance as these factors are often seen as the drivers within an economy. Rating agencies will look at the sources of growth and income, the level of diversity within the economic environment and whether the economy is stable. They also look at how a country stacks up in a global ▶

context in terms of debt levels, transactions and liquidity. The sustainability of a sovereign's debt burden and deficit is also explored, and the agencies scrutinise monetary and other policy decisions to assess how these may impact the strength of capital markets and the financial system. The rating that a country achieves will closely reflect the status of each of these factors and ratings are frequently considered by investors when evaluating the risks and opportunities of investing within or into a country.

The current political situation within South Africa has placed the country in a difficult position. Government debt to GDP reached 50.1% in 2015, the highest level ever recorded over the period 2000 - 2015. Despite having relatively peaceful elections in August, the results of which exposed a significant waning of ruling party support and healthy opposition party prominence, government debt levels may remain under pressure if the ruling party fails to deliver on its GDP growth and fiscal targets or worse, acts irrationally in an attempt to maintain its position.

The political landscape has once again been thrown into a state of disarray as a consequence of the public exchange of communication between the finance minister and the South African Police Service's investigative unit, the Hawks. Added to this are lingering concerns of widespread corruption and allegations of state capture, now the subject of Thuli Madonsela's final report before she vacates the office of Public Protector. The rating agencies have warned that continued political squabbles may push the government off the path to fiscal consolidation.

On the economic front and under the reign of the current finance minister, steps have been taken to curb excessive spending. There have also been some positive economic data releases including better-than-expected mining and manufacturing numbers, positive retail sales numbers, higher trade surplus figures and a relatively stronger currency. This has helped lift second quarter GDP levels to 3.3% on a quarter-on-quarter basis, as shown in the graph below. However, political woes may dampen growth prospects for the remainder of 2016. The immediate reaction to the situation regarding the Hawks and the finance minister was a sell-off in South African bonds and equities. During August 2016, South Africa saw net foreign outflows totalling R3.4 billion. If the finance minister is replaced before the end of his term by what is perceived as an inadequate replacement, this could have dire economic consequences for the country.

The issues surrounding the finance minister also appear to have dulled consumer and business sentiment which were already sitting at low levels. The Rand was battered towards the end of 2015 and the early parts of 2016, however the volatile currency has recovered over the last few months, reaching a high of R13.19 against the US dollar. With the finance minister debacle and the possibility of higher interest rates in the US the Rand has softened once again, with many analysts forecasting a further blow-out of the currency if the political squabbling persists.

Whilst South African equity has historically produced significant returns for investors, return in recent periods has been more range bound. On a global scale, many developed equity markets are considered to be expensive and/or not offering sufficiently compelling opportunity. Within the last few months emerging markets, including South Africa, have looked relatively attractive and benefited from the global search for yield. Hawkish comments from the US Federal Reserve slowed the emerging market rally for a period of time, although markets welcomed the Fed's news of keeping interest rates unchanged for the time being.

With economic growth stuttering, volatility rearing its ugly head and the political environment potentially seeking to create havoc, the question remains how best to protect and grow your capital? From a South African point of view and given the risks inherent in our market, portfolio diversification across asset classes and global markets remains a key element of downside protection in the face of heightened volatility.

Moody's analysts recently created a slightly positive recalibration of downgrade expectations as they noted their own expectation of downgrade probability to be about one third, although also cautioning that a rating cut was likely if GDP growth this year falls below their 0.2% estimate. Analysts from Standard & Poor's on the other hand, have cautioned that political issues "may be detrimental to economic growth and investor confidence." It is in South Africa's best interest for politicians to get their house in order, or face a rating downgrade and an uncertain economic future. All eyes will be focussed on the rating agencies due to review the country's rating in December.

Maitland is a global advisory and fund administration firm

Kliptown Youth Program: leading a community out of poverty, one child at a time

(left) Yvonne Mahlatji, Fairheads Consulting Manager, Thulani Madondo, KYP Executive Director, and (right) Themba Manzana, Fairheads Field Agent.

Grade 1 to 4 KYP members loved their Fairheads bags and yummy treats they were given

We popped in at the the Kliptown Youth Program (KYP) centre in Soweto recently to spoil the children with some treats and catch up on how the organisation is doing. Fairheads has been a proud CSI partner for a number of years. We are always blown away by KYP's achievements and the number of people who see a brighter future for themselves because of this organisation's unfailing dedication to the upliftment of their community.

KYP's mission is simple – **to provide opportunities that will enable young people to rise out of poverty.** They provide educational support and afterschool programs to Kliptown's children. These include tutoring, athletics, and arts programs. They strive to enable their members to "be active community members, to have dreams, and most of all to have hope for the future."

Hope is not an easy sell in the township of Kliptown, one of Soweto's oldest townships - overwhelming poverty and unemployment with the accompanying ills of crime and drugs characterise the township. The community lacks basic services such as electricity, proper sanitation and schools.

This is what drives the group of dynamic young people who lead the organisation to never give up. Many of them were born and raised in Kliptown, including their Executive Director and co-founder of KYP, Thulani Madondo. Thulani was chosen as one of the 2015 "21 ICONS South Africa". 21 ICONS is a visual celebration of the lives of men and women who have shaped the world around them for the better. In 2012, he was honoured as one of the Top 10 CNN Heroes from a pool of 45,000 nominations coming from 100 countries.

Read more about the Kliptown Youth Program at www.kliptownyouthprogram.org.za

KYP's achievements

- Provides 460 meals and 460 sandwiches per day from Monday to Saturday.
- Provides transport for students whose schools are 5km and more away from home.
- 428 members currently in grades 1 to 12
- 97 members and community members currently engaged in post-matric training
- 11 members currently enrolled at university
- 10 students enrolled in highly recommended and prestigious schools.
- 88 members from seven grade 12 classes have passed their high school matric exams since KYP's founding
- 33 young men and women who were part of KYP are now employed, supporting their families
- 10 former beneficiaries are financial donors to KYP through the monthly debit order system
- 15 out 18 Grade 12 learners successfully passed Grade 12 in 2015
- All staff members of the organization are studying in different fields of study for staff development

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