

THE FAIRHEADS UMBRELLA BENEFICIARY FUND NEWSLETTER



FAIRHEADS
Benefit Services

February 2018

This newsletter serves to update retirement fund trustees and other interested parties on the Fairheads Umbrella Beneficiary Fund. We hope you find it of value.

MESSAGE FROM THE CHAIRPERSON

Reflecting on 2017, it is fair to say that South Africa has been a challenging place to do business and we can be certain that this challenging environment will continue in 2018 and for some time to come. It is therefore with great pride that we can report that our Fund has continued to grow steadily and remains the largest independent beneficiary fund in the country.

The Board of Trustees have remained committed to the key differentiators of the Fund, being an independent approach to investments, administration excellence, ease of access for our members and high levels of communication where we engage in active dialogue with our membership. These core pillars are the embodiment of the principles of Treating Customers Fairly (TCF).

The Fund's investment strategy aims to strike a balance between capital protection and growth, and under the guidance of the Fund's asset consultant, the Trustees are confident that the selected portfolios will continue to meet their respective mandates. Read more on this in our investment section.

The Trustees have continued to find innovative ways to remove obstacles for members and their guardians while

remaining ever conscious of the fiduciary role which they play. Many of the Fund's policies and processes have been simplified to make it easier to access the Fund's services. The use of technology has played a significant part in this never ending quest for efficiencies, with the administrator investing heavily in state of the art systems to enhance the member experience.

Our award winning guardian roadshows were once again a great success with thousands of members and their guardians attending to learn more about their Fund. We invited our younger members to attend so that the process of educating them can start early, with fantastic results. More on this in our Guardian Roadshow section.

These are certainly challenging times, but with the vision, will, focus and determination, we look forward to continuing to deliver a meaningful service to our members in 2018 and for many years to come.

Regards

Robyn Cowie

Independent Trustee and Chairperson
Fairheads Umbrella Beneficiary Fund





RISK MANAGEMENT

We asked **William Lourens, Head of Internal Audit and Risk, at Fairheads Benefit Services**, to provide some insight into Fairheads' approach to managing risk and optimising opportunities in a demanding business environment: "Enterprise risk management is driven by dedicated and passionate individuals who have been strategically placed and empowered. Under their leadership our risk maturity has advanced in leaps and bounds. Risk management and compliance feeds directly into our processes and procedures, ensuring a timely response to risk changes, while capitalizing on opportunities."

Achieving a balance between operational efficiency and a control framework that ensures our clients are safe with us is paramount. Decisions made are academic by nature and supported by sufficient business information. The flow and consolidation of business information across all levels of defence is vital in maintaining this balance. For this purpose, we have invested in software that ensures the integration of Risk Management, Compliance and Assurance work. Our software ensures the seamless transfer and management of risks between business units as well as external sources such as Auditors and Trustees. Accurate and timely business information is critical for effective risk management. Combined assurance work performed across all levels of defence is utilised to measure performance and ensure the adequacy and effectiveness of our control framework.

Our enterprise risk management framework is ever evolving to ensure that we are in line with best practice and the latest guidelines. COSO forms the basis of our framework and we have embraced the guidelines offered by King III and the continuation into King IV. Enterprise risk management is critical in achieving the governance outcomes of: an ethical culture, good performance, effective control and legitimacy. These outcomes are at the heart of King IV and have been communicated throughout our group to ensure a uniform application and understanding. Strategic objectives are thus set and aligned across the group with sufficient oversight committees to ensure continuous monitoring."

FUND GOVERNANCE

In a world where corporate and government failures are in the media on a daily basis, it is important for funds to review the governance frameworks in place which are meant to prevent these failures. The Board of Trustees of the Fairheads Umbrella Beneficiary Fund ("the Board") see good governance as being accountable, transparent, inclusive, effective and efficient.

Governance is the formulation of policies and procedures that sets out how decisions are made. This includes how stakeholders are considered and engaged in the decision making process. It further requires that the Board acts in good faith and in the best interests of the stakeholders, considering all the circumstances.

The Board, as a fiduciary, is required to act in a manner that upholds the rule of law, the rules of the Fund, various regulations and the highest values and ethical principles. Policies and procedures are formulated with this in mind to ensure good governance.

The Financial Services Board ("FSB") has prescribed the minimum policies and procedures that a pension fund requires to ensure good governance. These policies are: a Code of Conduct, an Investment Policy Statement, a Communication Policy, a Performance Assessment Tool and a Trustee Training Policy.

However, the Board considers many other policies to be vital in ensuring that governance is not just treated as a checkbox. Of these, the most important are a procurement policy and a trustee expense policy. The former of these ensures appropriate business practices in relation to the procurement of services, and the latter guides trustees as to the appropriate recovery of expenses.

These policies are crucial to the success of any Board. They, however, do not work in isolation and must be implemented and continuously monitored in order to ensure success.

KPMG

The developments at KPMG and the revelations of their conduct which has been widely publicised is of great concern to the Board of the Fairheads Umbrella Beneficiary Fund.

KPMG has been the auditor of the Fund since its inception in 2009. It was for this reason that the Board undertook to review their appointment in June 2017, prior to the public announcements by KPMG and SARS.

The Board has been satisfied with the audit work done to date and the membership of the Fund can rest assured that the governance standards and operational excellence of the Fund has not been compromised.



The Board has engaged with KPMG to inform them of the intention to review the auditing services of the Fund, which is anticipated to be finalised by the end of the financial year.

AUDIT

Section 15 (1) of the Pension Funds Act of 1956 requires that pension funds provide their prescribed audited financial statements to the Registrar within six months of the financial year-end.

The audit of the Fund for the year ending 28 February 2017 was completed by the independent auditors, KPMG, with no significant matters being reported to the trustees.

The Fund received an unqualified audit report and the financial statements were timeously submitted to the Registrar.

The external audit of the Fairheads Group was also completed timeously without any significant matters reported on. All FSB and other statutory reports were submitted timeously to the relevant authorities.

COMMUNICATING FREEDOM OF CHOICE TO MAJOR MEMBERS

Much of the effort in administering beneficiary funds has traditionally been focussed on paying out members' benefits and terminating their membership of the Fund once they reach the age of majority. In fact, until recently the reduction in overdue terminations was one of the key success measures employed by the Board of Trustees to evaluate the performance of the administrator.

At the same time, the Boards of transferor retirement funds, guardians and many others have voiced strong concerns about paying out large benefits to members when they reach the age of 18. Many of these members are still in school and the consequences of the sudden payment of relatively large amounts of money can be devastating, if not managed properly. Guardians at our annual roadshows have complained about children dropping out of school as a result of these payments, with the money being squandered in a matter of months. There have even been cases where the guardians have been actively hiding the fact from the minor member that money is held in the Beneficiary Fund, to prevent such a situation.

More recently however, the Board adjusted the strategy away from simply paying out benefits at age 18, to one which emphasises the freedom of choice for members. There is no restriction on funds being held in a beneficiary fund with a major member's consent, and it is arguable that for many, this is a very good investment vehicle to house these benefits because of the low fees, institutional investment management and tax exemption that applies to these funds.

Communication is therefore key: the message is simply that members can retain their membership in the Fund, and can request it when they need it, either in part or in full. There are no termination fees, lock in periods or any other restrictions on retaining membership of the Fund. The administrator is then able to focus efforts on those who are not aware of their benefits to ensure that they are fully informed and can access their money when they require it.

INVESTMENT PERFORMANCE: TEMPTED TO CHANGE LANES

The Fund's Investment Policy Statement provides a clear and unequivocal philosophy in relation to the investment of member's funds – "In terms of the Board of Trustees' fiduciary responsibility...the greatest emphasis is placed on security of capital, secondarily on income, then only on capital growth."

It is within this prudential approach that the Trustees' reviewed the Fund's investment performance throughout the past year and avoided the urge to take any short term decisions. Navigating the markets has for the most part been a daunting prospect and the temptation to 'change lanes' has been great at times, which is why it is so important to have a deep and fundamental commitment to the investment philosophy.

The Fund uses four different investment portfolios to execute its strategy: a **money market portfolio** for short term liquidity requirements, an **income fund** for enhanced cash yield, a stable fund which exposes members to a small percentage of equities, and a **balanced fund** which provides opportunity for longer term growth.

The cash and money market portfolios performed particularly well, with a special mention of the **Prescient Income Provider Fund** which outperformed both its benchmark and its peers with continued strong performance.

The stable and balanced funds recovered some of the losses from previous years, with the balanced fund in particular, returning to double digit growth for the year. The Trustees' selection of stable and balanced mandates from managers with a proven track record and well diversified portfolios, also assisted the Fund to avoid significant losses as a result of the Steinhoff fallout.

In a volatile market, credit downgrades and a never ending series of scandals, it is critical for the Trustees to monitor and evaluate the performance of the investment managers, while at the same time staying true to the Fund's investment philosophy.

GUARDIAN ROADSHOWS AND FIELD AGENTS

The 2017 guardian roadshows were held in Gauteng, Eastern Cape and KwaZulu Natal. More than a thousand guardians/caregivers and members of the Fairheads Umbrella Beneficiary Fund attended, and were able to access our services and learn first-hand all they need to know about their beneficiary fund.

A special focus was placed on engaging with our members 15 years and older in order to educate them about the

Beneficiary Fund and lay the foundation for them to make informed decisions about how to use their funds at termination. SMS's were sent to guardians and caregivers, inviting members 15-17 years old to attend the roadshows.

The Field Agent program continued to make inroads into reducing the number of non-compliant clients and unclaimed benefits. In 2017, we had a two-pronged approach. Firstly, a branch SMS campaign focussed on inviting clients to their nearest Fairheads walk-in client service centre or TEBA branch. The second approach saw Field Agents visiting areas with a concentration of non-compliant clients who had not visited the walk-in centres. They carried out very successful house visits to specific clients, where required.

SERVICE PROVIDERS

Administrator	- Fairheads Benefit Services (Pty) Ltd
Asset Consultants	- RisCura Solutions (Pty) Ltd
Investment Managers	- Stanlib Ltd
	- Prudential Investment Managers
	- Prescient Investment Management
	- Coronation Fund Managers
Auditors	- KPMG Inc.
Bankers	- First National Bank
Independent Trustee	- Tashia Jithoo (Of Counsel: Pensions and Financial Regulation, Bowmans)
Independent Trustee and Chairperson	- Robyn Cowie
Independent Principal Officer	- Karen Quinlan
External Tracing	- ICTS/XDS/TEBA Ltd

SUMMARY

The Fund continues to strive to improve on all key areas, governance, investments, operations and communication. Please feel free to contact us with any queries you may have or if you require more information on any of the matters raised in this newsletter.

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