

2004 – A Review

As with any new and growing business, change is ongoing. The first GrayIssue of 2005 provides you with a brief review highlighting some of the major changes experienced across all of our product offerings.

COMPLIANCE:

- With effect from 1 July 2003 the Financial and Intelligent Centre Act (Act no. 38 of 2001) required all management companies to amend business processes to include the mandatory identification and verification of any potential client before establishing a business relationship or concluding a transaction with that client.
- Another major impact for the industry was the implementation of the Financial Advisory and Intermediary Services Act (Act no. 37 of 2002). All Financial Services Providers needed to register with the Financial Services Board by 30 September 2004 in order to act in an advisory and/or intermediary capacity on behalf of their clients.

ALLAN GRAY UNIT TRUSTS

Allan Gray Money Market Fund

- On 1 July 2004 the Allan Gray Money Market Fund fee was reduced from 0.5% p.a. (excl. VAT) to 0.25% p.a. (excl. VAT).

Allan Gray Global Fund of Funds

- The mandate of the Allan Gray Global Equity Fund of Funds changed from an equity-based portfolio to represent a balanced mandate and as a result the name of the Fund was changed to the Allan Gray Global Fund of Funds. This meant that the Fund changed sectors from Foreign Equity to Foreign Asset Allocation Flexible.
- In addition, the Allan Gray management fee was dropped to 0% whilst the management fee of the underlying funds still applies.
- The Fund has been open for investment for some time given that we have had sufficient capacity available for our clients to invest. Please note that whilst we qualify for capacity throughout the year, it still requires Reserve Bank approval to move the funds offshore.

Allan Gray Bond Fund

- Prior to the launch of the Allan Gray Bond Fund on 1 October, our unit trust funds sought to address the needs of those long-term investors who have differing risk profiles. We had however, not catered for the investor who seeks:
 - Limited capital growth combined with a high income yield.
 - An investment that will have lower volatility than that provided by typical equity or asset allocation funds.
 - An investment that will have a low correlation with the stockmarket.
- The opportunity therefore existed for us to add to our existing suite, the Allan Gray Bond Fund, for such investors.

ALLAN GRAY'S INDIVIDUAL RETIREMENT PRODUCTS

- The Allan Gray Retail retirement product minimums were reduced quite considerably. The new lump sum minimum applicable to the Allan Gray Retirement Annuity Fund and Endowment Policy is R20 000. For the Provident and Pension Preservation Funds the minimum is R50 000 and the Living Annuity, R100 000. The ad hoc contributions and debit order minimums have also changed. The changes are detailed on the website and on the relevant forms.
- Switching fees are no longer applicable for switches done on the underlying unit trust investment options.
- The maximum initial advice fee on the Living Annuity was reduced from 3% to 1.5%. This reduction brings Allan Gray in line with industry norms. The 1.5% maximum initial fee used commonly in the industry originates from the maximum commission of 1.5% allowed on living annuities.
- In terms of FAIS, Allan Gray Limited and the Financial Services Provider need to make known to the client certain disclosures including those pertaining to fees and charges. The Allan Gray Pre-Investment Disclosure (PID) document in respect of the Allan Gray products incorporating the Retirement Annuity, Living Annuity, Endowment Policy and Pension/Provident Preservation Funds was released in September. The PID's replaced the existing quote forms.
- The South African Revenue Services advised that the accrual of an annuity (for tax purposes) cannot be deferred by selecting a payment mode of quarterly in arrears, half-yearly in arrears or annually in arrears. To comply with this SARS requirement, we amended the payment modes of the Allan Gray Living Annuity to monthly in arrears; quarterly in advance; half-yearly in advance or annually in advance.

Commentary by Anne Mayers, Head of Retail Client Services and Administration, Allan Gray Unit Trust Management Limited

The underlying investment options of the Allan Gray retirement products are the unit trusts. Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from Allan Gray Unit Trust Management Limited. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. A fund of funds unit trust only invests in other unit trusts, which levy their own charges, which could result in a higher fee structure for these portfolios. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Member of the ACI. The Allan Gray Living Annuity and Endowment Policy are both underwritten by Allan Gray Life Limited. Allan Gray Limited and Allan Gray Life Limited are authorised Financial Services Providers.