



management
company

Effective Annual Cost

October 2016
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Explanation and
Frequently Asked Questions

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EFFECTIVE ANNUAL COST - EAC

WHAT IS THE EAC?

In line with the outcomes of Treating Customers Fairly, the Association of Savings & Investment SA (ASISA) has introduced the Effective Annual Cost (EAC).

With its introduction in October 2016, investors (both prospective and existing) and their financial planners will be able to compare charges on most retail investment products, and their impact on investment returns, across the various regulatory wrappers so that investors are placed in a position to make better informed decisions around retail savings and investment product choices.

The standardized disclosure measures the charges that an investor will *likely* incur in purchasing and holding a financial product, and does not attempt to measure the features of a financial product.

WHY THE MOVE TO EAC?

EAC was introduced to allow clients and financial planners to compare costs easily between different investment vehicles. EAC provides a standardised and transparent view of all the costs related to new or existing investment vehicles. It combines existing cost disclosure techniques to provide an overview of all costs associated with a product.

ASISA members currently used two methods of disclosing costs:

- **Total Expense Ratio (TER) and Transaction Costs (TC)** method of disclosing costs is a retrospective approach and does not take advice and initial fees into account. This is used to illustrate the charges associated with the management of collective investment schemes and life funds.

- **Reduction in Yield (RIY)** is used for investments sold through life insurance companies but whilst this method incorporates the relevant advice and initial fees, it has a forward outlook and relies on assumptions based on various estimations of expected costs. The way in which this method is calculated has not been consistent between the various companies. As the name implies, the RIY calculates by how much a return is reduced due to the effect of charges.

The EAC disclosure not only takes advice fees and initial fees into account but it incorporates all fees associated with financial products, including unique fees and charges on certain funds (e.g. capital charges on bonus or smoothed funds).

	RIY	TER	TC	EAC
What is it?	Reflect gross return less return after expenses. Reflects future cost	Impact of costs on actual fund performance Reflects historic cost	Impact of costs incurred in buying and selling the underlying assets of a Financial Product Reflects historic cost	Includes all the components of TER,TC and RIY Past and future costs
What is included?	Includes: <ul style="list-style-type: none"> • Administration fees • Advice fees • Asset management fees • Initial and on-going fees 	Includes: <ul style="list-style-type: none"> • Asset management fees • Performance fees • Bank charges • Trustee fees • Audit fees 	Includes <ul style="list-style-type: none"> • Brokerage • Securities transfer tax 	Includes <ul style="list-style-type: none"> • Administration fees • Advice fees • Investment management fees (TER+TC) • All other costs (Eg termination charges etc)
Time period?		Reflects cost over previous three years on an annualised basis	Reflects cost over previous three years on an annualised basis	Reflects costs on four intervals: <ul style="list-style-type: none"> • 1 year • 3 years • 5 years • Term to maturity

WHICH FINANCIAL PRODUCTS WILL EAC APPLY TO?

The EAC applies to the following financial products:

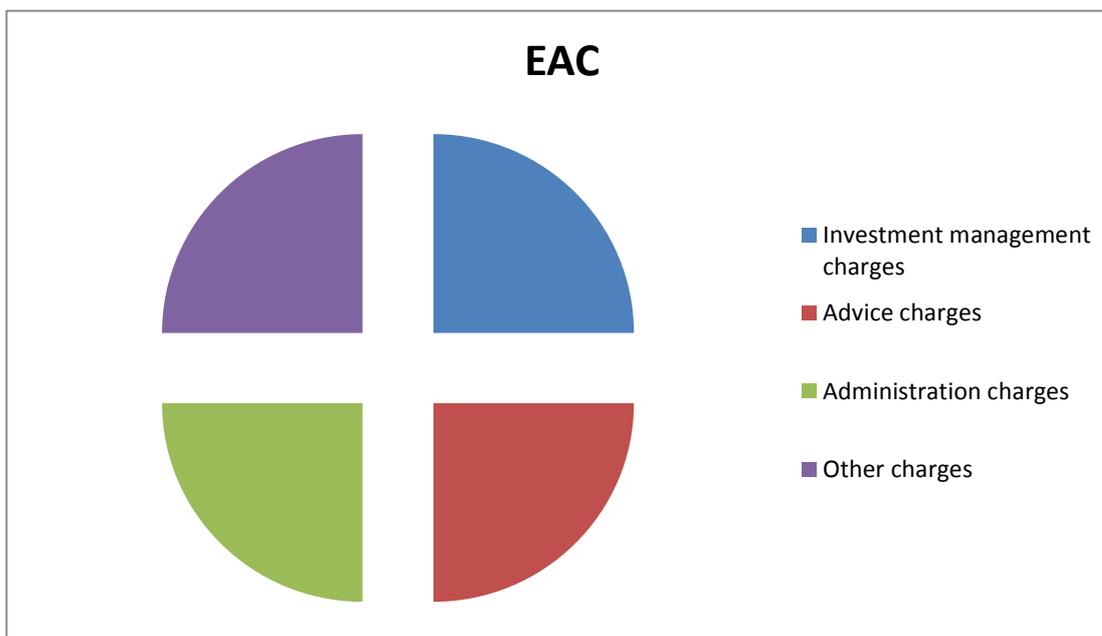
- Collective Investment Schemes (including foreign collective investment schemes duly approved for marketing in South Africa)
- Contracts under a linked investment service provider (LISP) licence
- All insurance contracts (other than pure risk-based insurance contracts)
- Compulsory and voluntary purchase guaranteed non-profit life annuities
- Products wrapped in a life wrapper
- Memberships of retirement annuity and preservation funds

WHAT IS INCLUDED IN THE EAC?

All charges that an investor incurs and will incur over the relevant period are to be included in the EAC measure for that Financial Product. Where a charge is not available, a reasonable best-estimate is used and explained in the free text notes.

The EAC comprises four separate components into which various charges are allocated. The components are:

- investment management charges (IMC);
- advice charges;
- administration charges; and
- other charges.



HOW IS EAC CALCULATED?

The EAC is calculated separately for each of the four components in isolation and then summed to derive the EAC for the Financial Product as a whole. The value of each of the components, as well as the total EAC will be displayed in a table at four mandatory periods (1, 3, 5 and 10 years or term to maturity). It assumes that the client will disinvest at the end of these respective periods.

Refer to table in “How is EAC disclosed”

Charges which can be expressed as an ongoing percentage of the investment value are simply added together. Charges which cannot be expressed as an ongoing percentage are amortised over the relevant period and disclosed accordingly.

The calculation takes account of the type and timing of the investment (lump sum or debit order) and whether there are any initial or ongoing fees applicable, as well as costs incurred in the administration and management of the product. This may entail forecasting the growth of your investment at a predefined rate, but note this does not mean your investment will necessarily grow at this rate.

The detailed calculation methodology is available on request.

HOW IS EAC DISCLOSED?

EAC is disclosed in a table as follows:

The Effective Annual Cost (EAC) is a measure which has been introduced to allow you to compare the cost you incur when you invest in different financial products. It is expressed as a percentage of your investment amount. The EAC is made up of four charges, which are added together, as shown in the table below. Some of the charges may vary, depending on your investment period. The EAC calculation assumes that an investor terminates his or her investment in the financial product at the end of the relevant periods shown in the table.

Impact of charges	1 Year	3 Years	5 Years	Term to maturity 10 years.
Investment management ¹	x.x%	x.x%	x.x%	x.x%
Advice ²	x.x%	x.x%	x.x%	x.x%
Administration ³	x.x%	x.x%	x.x%	x.x%
Other ⁴	x.x%	x.x%	x.x%	x.x%
Effective Annual Cost	x.x%	x.x%	x.x%	x.x%

In addition, there may be free text notes explaining some of the costs included.

1. Investment Management Charges is the weighted average of the TER plus TC of the underlying funds and investments. Less any rebates which you may receive.
2. Advice Charges are the financial planning costs that are paid to your financial adviser on your behalf, including initial and ongoing fees as applicable on both lump-sum and recurring investments. Where the adviser fee is not facilitated by us or where there is no advisor on record, the advice charge will be 0%.
3. Administration Charges are the costs relating to the administration of financial products. For direct investments, the administration charge is included in the TER+TC listed above and the Administration Charge will thus be 0%.
4. Other Charges is a catch-all for all remaining charges, such as termination charges, penalties, loyalty bonuses, guarantees, smoothing or risk benefits, and charges for risk benefits such as a premium-waiver benefit. This component is only shown in the EAC table where it has a non-zero value.

The EAC will depend on your fund selection and how the markets perform during the term of your investment. All charges include VAT where applicable.

WHEN WILL EAC BE DISCLOSED?

EAC disclosure is being phased in from 1 October 2016. Initially disclosure will be made to new investors only or existing investors into new product and will take the form of an EAC estimate in response to the investor's application form. The calculation will be based on the information provided by the investor, as well as historical data relating to the fund selected.

All existing products will also have to be brought into line with the EAC standard when there is change to the contractual terms of the product. The deadlines for compliance for existing products are:

- 01st October 2017 for products sold after 01 April 2010 the investor must receive EAC of the products invested in on at least an annual basis and before a qualifying event occurs. Qualifying event is any additional investment into existing products;
- 01st October 2018 for products sold after 01 April 2000 and before 01 April 2010 the investor must receive EAC of the products invested in on at least an annual basis and before a qualifying event occurs. Qualifying event is any additional investment into existing products; and
- 01st October 2019 for products sold before 01 April 2000 the investor must receive EAC of the products invested in on at least an annual basis and before a qualifying event occurs. Qualifying event is any additional investment into existing products;

The EAC table will also be shown on the investor statement in response to defined trigger events. Example an additional investment into an existing fund, debit order instructed or a switch of units into a new fund effective 22 October 2016.

The EAC table will also reflect on investor quarterly statement effective January 2017 for period 01 October 2016 – 31 December 2016.

An EAC calculator will be made available to investors and prospective investors via our website <https://secure.omia.co.za/UT/IP> and via the websites of our investment management partners. This functionality is anticipated to be available in December 2016. Until then, kindly contact our Client Services for any EAC calculation scenarios you might require.

IP MANAGEMENT COMPANY CONTACT DETAILS

If you have any questions about your investment, please email us on clientservices@ipmc.co.za or call 021 673 1340. Alternatively contact your Investment Manager or Financial Adviser

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