

April 2014

Dear Adviser

SWITCHES AND REBALANCES BETWEEN CLASSES OF THE SAME FUND VIA THE SECURE WEBSITE**This notice is only applicable to Voluntary Investment Plan (VIP) and Endowment products.**

It has recently come to our attention that an unintended Capital Gains Tax ("CGT") event is caused for certain switch and rebalance scenarios where switches or rebalances are done between different fee classes of the same fund. Certain unit trust funds are registered with more than one fee class, to indicate different cost structures. The underlying assets of the fund remain the same, irrespective of the fund class applicable. In principle, a switch or rebalance between classes of the same fund should therefore not be liable for CGT.

The following switch or rebalance scenario causes the unintended CGT event:

- The investor is invested in more than one unit trust fund (for our example each of these funds are of class A)
- The investor wants to switch all or some (as long as it is more than one fund) of the units held to multiple unit trust funds (for our example each of these funds are of class E)

The examples below illustrate how these transactions trigger tax.

Example 1 – CGT will be caused if a switch for multiple funds is done

| Source funds | | Destination funds | |
|---------------------|----------------|---------------------|-------------|
| PSG Equity Fund (A) | R12 000 | PSG Equity Fund (E) | 60% |
| PSG Income Fund (A) | R8 000 | PSG Income Fund (E) | 40% |
| | R20 000 | | 100% |

All units from both source funds will be sold to purchase units in the destination funds. Thus, in our example, the holdings in PSG Equity Fund (A) will be switched R7 200 to PSG Equity Fund (E) and R4 800 to PSG Income Fund (E). The R4 800 switched to the PSG Income Fund (E) fund will result in CGT. The same principle applies to the switch out of the PSG Income Fund (A).

To prevent such instructions from causing unintended CGT events, it is advisable to load a singular transaction for each switch between fund classes.

Example 2 (alternative method) – CGT will not be caused if separate switches are done

| Source funds | | Destination funds | |
|---------------------|----------------|---------------------|-------------|
| PSG Equity Fund (A) | R12 000 | PSG Equity Fund (E) | 100% |
| | R12 000 | | 100% |

| Source funds | | Destination funds | |
|---------------------|---------------|---------------------|-------------|
| PSG Income Fund (A) | R8 000 | PSG Income Fund (E) | 100% |
| | R8 000 | | 100% |

Loading a transaction as two separate switches (as illustrated in example 2 above) will not result in CGT.

We are working on a solution to enhance the switch and rebalance functionalities, thereby minimising the possible CGT.

Should you have any enquiries, please contact your PSG Product Specialist or one of our Client Service Consultants on 0800 117 180 or clientservice@psg.co.za.

We thank you in advance for your cooperation and continued support.

Kind regards



Chris Swart
Head of Operations