

September 2016

Dear Adviser

### **Implementation of Effective Annual Cost**

PSG Wealth (PSG Life Ltd and PSG Invest (Pty) Ltd) is required to implement the new industry standard for disclosing and reporting investment charges, known as Effective Annual Cost (EAC). All members of the Association for Savings and Investment South Africa (ASISA) are required to adopt the new standard on EAC.

#### **Why is EAC being implemented?**

EAC is aligned to the outcomes of the TCF framework. Specifically Outcome 3, which requires financial product providers to ensure clients are kept appropriately informed before, during and after the point-of-sale. It also ensures the use of plain language to enable clients to understand what is disclosed and what to compare. For the detailed technical description of EAC and our disclosure obligations, please [click here](#) to read the ASISA standard.

#### **Benefits of EAC**

The improved information assists you in presenting the cost comparisons between different financial products available to your clients. In turn it allows clients to make better informed decisions when choosing between different financial products.

#### **How will EAC affect you and your clients?**

##### Effective date

From 1 October 2016 an EAC calculation must be disclosed to your clients when considering or taking up a new investment. The EAC will also be disclosed in the client's new business PSG Wealth welcome pack. Further disclosure requirements will be phased in over time by ASISA and we will keep you up to date with those requirements.

##### Process for completing an EAC calculation for new business

The EAC disclosure will form part of the normal discussion between you and your client and kept with your record of advice. From 1 October 2016, our investment illustration will automatically include the EAC calculation on the output document. The EAC disclosure replaces the previous fee disclosures in the investment illustrator. We are also building a manual EAC calculator that will provide the required EAC disclosure output in the event that an investment illustration is not available online. The manual EAC calculator will be available at <http://tools.psg.co.za/EAC/Index.html>.

#### **How will EAC be calculated and disclosed?**

The EAC must be disclosed as set out in the below format as prescribed by ASISA:

**EFFECTIVE ANNUAL COST**

The Effective Annual Cost (EAC) is a measure which has been introduced to allow you to compare the charges you incur and their impact on investment returns when you invest in different Financial Products. It is expressed as an annualised percentage.

The EAC is made up of four components, which are added together, as shown in the table below. The effect of 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 [x] years
Investment Management <sup>1</sup>	[x]	[x]	[x]	[x]
Advice <sup>2</sup>	[x]	[x]	[x]	[x]
Administration <sup>3</sup>	[x]	[x]	[x]	[x]
Other <sup>4</sup>	[x]	[x]	[x]	[x]
<b>Effective Annual Cost</b>	<b>[x]</b>	<b>[x]</b>	<b>[x]</b>	<b>[x]</b>

- Investment Management Charges** are the total of the weighted Total Expense Ratio (TER) and the transactional costs of the underlying Financial Products. Where the TER and/or transactional costs are not available the average will be used. A rebate of [x] from the investment manager has been deducted (if a rebate is received for more than one fund the percentage rebate will be expressed as a weighted average).
- Advice Charges** are the financial planning costs that are paid to your financial adviser on your behalf. These include initial and annual charges on both lump-sum and recurring contributions. Where the adviser fee is not facilitated by us or where the client is not making use of a financial adviser, the advice charge will be reflected as 0%.
- Administration Charges** are the administrative costs relating to the administration of Financial Products. These may include an administrative financial services provider's ongoing charge for processing your instructions, communicating with you, providing you with statements and making payments to you. These may also include the process and governance charges of the PSG Wealth retirement products.
- Other Charges** are the remaining charges, such as termination costs and penalties.

**General:** Please note the charges may depend on the Financial Product you select, your fund selection in the Financial Product and how the markets perform during the term of your investment. All charges include VAT at the prevailing rate where applicable.

**Please contact us if you have any questions**

Please contact your investment specialist or your dedicated client service team if you have any queries.

Kind regards



**David Chard**  
**Head of Life and Invest**