

## The benefits of using unit trusts for retirement planning

Unit trust based Retirement Annuities (RAs) are increasing in popularity as disillusioned investors switch from life insurance based RAs to the more flexible unit trust based structure. They provide investment access to selected unit trusts and remain among the best savings vehicles for retirement over the longer term. This, despite the series of rulings against conventional life insurance based RAs by Pension Funds Adjudicator, Vuyani Ngalwana. The Adjudicator took issue over high surrender fees imposed by insurers on investors who wanted to reduce payments, terminate policies or switch funds. In several cases brought before him, penalties and costs had eroded more than half of the cash values of the policies.

The criticism of conventional RAs, is justified and necessary, but the good news is that appropriately structured unit trust based RA products have existed for some time for investors without the encumbrances objected to by the Adjudicator. For example, the Allan Gray unit trust based RA has exceeded the Adjudicator's current standards since launch because Allan Gray is committed to keeping it as simple and transparent as possible. We also only have one RA product on offer – reducing the risk of making an inappropriate choice or being confused by the different options and additional "bells and whistles" available.

In the current environment there are a number of benefits to saving for retirement with an RA that invests in unit trusts:

**Transparency and low cost:** Unit trusts have transparent fees, no penalties for surrender or discontinuation and negotiated adviser fees. Fees charged across the Allan Gray retail product range are consistent with our approach to fees across our business: transparency is absolute and investor interests are aligned with our own. Because costs and any adviser fees / commissions are paid "as and when" an investment is made, and are disclosed in a totally transparent manner, investors are able to not only monitor them and see the discrete amount that is charged, but more of the money contributed goes into the actual investment. A further benefit of unit trusts is that it is very easy to monitor what the underlying units are worth as prices are published in many daily newspapers.

**Choice:** There is a choice of funds to choose from. Unit trusts are classified according to the geographic areas in which they invest, and in terms of the type of underlying asset (shares, bonds, property or cash) in which they invest. However with the number of unit trusts available greater than the number of listed shares on the JSE, collective investment schemes have become increasingly specialised in terms of their mandates and demand increasing sophistication to understand and assess. Investors need to take great care that the profile of the unit trust they select meets their needs and risk profile. Allan Gray takes pride in the fact that we have not developed a large complicated range of unit trusts, and have kept our range (and the choices available) focussed and therefore easier for the average investor to understand, whilst catering for a range of investor needs.

**Flexibility:** Investors can switch between funds at no cost. So, for example, if an investor's outlook changes, he can switch easily and cost effectively to a lower risk or more aggressive fund. Moreover, should one wish to reduce or stop making contributions there is no penalty for doing so (nor for re-starting or increasing contributions) – and in this way, a unit trust based product provides flexibility through changing circumstances. This is of particular importance for the self employed or those who change jobs, as a unit trust based RA is fully portable and can cater for variable cash flows.

**Unit Trusts are an ideal home for longer term investments:** Retirement savings are by definition long-term investments, which make unit trusts an ideal investment option for RAs. In order to benefit from the superior returns available over the long-term from "wealth creating" unit trusts, investors must live with the risk of some shorter term volatility, which they are able to do in retirement savings vehicles such as RAs, because of the time horizons. Conversely, it may not be ideal to invest in such unit trusts using money that may be needed at short notice, as there then may be no choice but to sell units and thus realise a loss if the markets - and therefore the unit trust investment - is down when the money is needed.

**Access to investment performance:** Allan Gray's investment objective is long-term wealth creation for our clients, which is achieved by compounding inflation-beating returns over a long period. We are not swayed by the vagaries of market sentiment nor trying to predict economic, political or share market trends. The Allan Gray 'wealth creating' unit trusts delivered exceptional market and inflation beating returns to our investors in 2005 (which by the way, are well above normal and unlikely to be sustained), but it is the long-term track record that we are more proud of and the long-term outlook that we are most concerned with.

The danger of waiting for legislative change to conventional RA product structures means that investors will be faced with the cost of delay. The remarkable returns of the past few years already represent a massive opportunity cost to those who delayed contributing to an investment. Combining a disciplined approach to saving for retirement with the power of investment decisions based on fundamental research and the significant tax benefits of RAs have rewarded and will continue to reward investors in Allan Gray's RA.

**Commentary by Johan de Lange, Director, Allan Gray Investor Services**

The Allan Gray Retirement Annuity Fund is administered by Allan Gray Investment Services Limited, an approved fund administrator. Allan Gray Investment Services Limited is also an authorised administrative Financial Services Provider. The underlying investment options of the Allan Gray individual life and retirement products are 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. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Allan Gray Unit Trust Management Limited is a member of the ACI. Allan Gray Limited is an authorised Financial Services Provider.