



**iTransact**  
Making the market simple™

# Don't let the cost of investing cost you your Retirement



## Your clients financial well being is dependent on declaring war on fees

The outcome of great battles is often the result of small victories. Nowhere is this truer than when confronting the daunting task of saving for one's retirement. The prospect of having to scrimp and save, and endure a standard of living far below the one enjoyed while working, is one that is faced by far too many South Africans as they enter retirement.

### NEVER FORGET THE HURDLE

If there is one thing that needs to be understood when undertaking this process, it is this: Never forget the hurdle. The hurdle will be present year in and year out, it is relentless; and must provide the absolute minimum return your clients investments need to deliver to keep their wealth growing in "real" terms. The hurdle is inflation, and everything you consider when planning retirement should revolve around how to generate the maximum returns above inflation with the minimum amount of risk.

### DON'T BE FOOLED BY GROSS RETURNS, LOOK AT NET RETURNS

Most of us should have an idea by now that it is baskets of diversified equities that over the long-term provide the best real returns. They are also extremely volatile, but the volatility more than compensates for the returns long-term investors will stand to gain by using them.

But whether using equities, bonds, cash or property (or a combination of all of them) the returns they deliver are gross returns. What has often been forgotten is the degree to which fees affect investors net returns. A simple table illustrates this point:

**The Investment Platform  
for Exchange Traded  
Products**

<b>INVESTMENT RETURN PER ANNUM</b>	<b>15%</b>
<b>Annual costs (inclusive of VAT and all averages)</b>	
• Financial advice fees	1%
• Investment management fees	1%
• Fund expenses	1%
• Product / investment platform administration fees	1%
<b>Sub Total</b>	<b>4%</b>
Annual inflation	6%
<b>Total costs</b>	<b>10%</b>
<b>Actual investment return (Return – Total costs)</b>	<b>5%</b>

Source: InvestorCentre 2015

## Fees Destroy Returns

Taking the JSE's long run average annual return of 15% over the last hundred years or so, we can see the effect of reasonably priced fees on an investors net return. But inflation is actually always the first "expense" – the hurdle. After we have deducted inflation, we are left with a 9% (15% – 6%) real return. With our 9%, we then have to pay the fees associated with our investment (4%) along each step of the process, and in doing so, get left with a 5% real return. So by deducting 4% from our initial real return of 9%, we almost halve the real return generated by the portfolio!

So paying attention to fees is of crucial importance. It is for this reason that Itransact has designed a suite of products for use in retirement annuities that seeks to minimize fees at every stage of the investment process.

In an **ideal** world,  
with no costs...



You keep **all**  
of your returns

With **1%** costs,



You lose almost **17%**  
of your returns

With **2%** costs,



You lose **31%**  
of your returns

With **3%** costs,



You lose almost **42%**  
of your returns

This is a substantial loss

With **4%** costs,



You lose over **50%**  
of your returns

A dire situation

With **5%** costs,



You lose out on **61.1%**  
of your investment

## ETFs OFFER COST EFFECTIVE RETIREMENT ANNUITY SOLUTIONS

Itransact were the first in South Africa to offer low cost ETF based Retirement Annuities and remain leaders and pioneers in low cost investment products.

The Itransact Conservative, Cautious, Moderate, Growth and Maximum RA portfolios have all been constructed using passive strategies synonymous with ETFs. Not only have ETFs demonstrated how hard it is for active managers to consistently outperform a market index, but their fees are a fraction of what active products charge.

### HOW WE CONSTRUCT OUR PORTFOLIOS

The process of portfolio construction begins by choosing which index to use for each asset class. The indexes are selected to provide broad and well diversified exposure to each of the markets they represent. This includes domestic cash, equities, bonds and listed property; and international equities. Commodities have been avoided on account of their volatility, but commodity and resource companies are represented in the equity indexes. Once the indexes have been selected, the portfolios will use ETFs that aim to replicate the performance of each respective index ("indexation").

Each asset class has its own risk profile. So the five products vary in the degree to which each asset class is weighted in the respective portfolio. For instance, the

Conservative portfolio has a higher weighting towards fixed income and cash than the Growth portfolio does, and all meet the prudential guidelines for investments of this nature.

While the idea is to maximize returns above inflation over the long term, the closer retirement age comes, the more conservative the investor should be with the more volatile asset classes. The Itransact suite accommodates for this by giving investors the choice to "moderate" their investment savings as retirement approaches.



### THE ITRANSACT RETIREMENT ANNUITY IS TRULY LOW COST

On a like for like basis, Itransact comes in at a fraction of the cost of a conventional retirement annuity. The RA portfolios have a Total Expense Ratio (TER) of approximately 0.5%. The use of the Itransact platform is tiered:

Effective Annual Cost	1 Year	3 Years	5 Years	10 Years
Company A	4,0%	4,4%	4,3%	2,9%
Company B	30,1%	10,6%	5,9%	3,2%
Company C	5,5%	4,9%	3,7%	3,7%
<b>Itransact</b>	<b>1,4%</b>	<b>1,3%</b>	<b>1,2%</b>	<b>1,2%</b>

Based on a R1000 per month debit order escalating at 5% per annum, excludes financial advice fees

The maximum amount payable is approximately 1.2% per annum over 10 years, which is about one third of what investors will pay in more conventional products. The roughly 2% p.a. the products save investors will lead to an enormous difference over twenty or thirty years.

There are also some user-friendly features that make the Itransact platform attractive to use. The minimum amount for a lump-sum investment is R5,000 with a R300 minimum for debit orders. There are also no penalties for suspending or amending debit order contributions.

These products have been designed to give the investor the best chance of investment success at the lowest possible cost. Simple to understand, easy to use, and extremely cost effective, there really is no better alternative.

**Contact Your Itransact Business  
Development Consultant  
Or Call 0861 432 383 Today  
For More Information**

## INVESTOR OFFER

**Note that all Section 14 transfers to Itransact  
will attract a flat platform fee of 0.35% (excl VAT)  
per annum**

**Financial Advisor Fees (Excl Vat)  
Maximum Of 3% Upfront and a maximum of 1% ongoing  
(please note that no up front commission may be charged on section 14 transfers)**