Vickers & Peters
LIFESTYLE AND ASSET PLANNING

Around the Table with Vickers & Peters Financial Planning

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Vickers & Peters Fund of Funds Name Change

Vickers & Peters Financial Planning (VPFP) would like to inform you of the name change of the Vickers and Peters Fund of Funds range.

We have taken a decision to rename the funds in conjunction with the extensive rebranding exercise of Vickers & Peters and Ampers&nd Asset Management, our Asset Manager, which has been transpiring over the last year.

The change will have no impact on the funds whatsoever. The shareholding, management, portfolio composition and structure remain identical. The only change is the name of the funds.

The anticipated date of the name change is 4 November 2012. Ampers&nd remains committed to providing you with a comprehensive best-of-breed service and an investment solution most suited to your requirements. Ampers&nd's investment philosophy, processes and procedures remain unchanged, and the same dedicated team will continue to adopt a consistent and prudent approach to protecting and managing your wealth.

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Vickers & Peters and Ampers&nd would like to take this opportunity to thank you again for your continued support. We look forward to continuing our journey with you.

The range of funds will be renamed as outlined below:

Current Fund Name	New Fund Name
VPFP CPI Plus 2 Fund of Funds	Ampersand Momentum CPI Plus 2 Fund of Funds
VPFP CPI Plus 4 Fund of Funds	Ampersand Momentum CPI Plus 4 Fund of Funds
VPFP CPI Plus 6 Fund of Funds	Ampersand Momentum CPI Plus 6 Fund of Funds

Make sure there are no gaps in your insurance cover

Risk benefits such as life cover and disability cover form an integral part of an overall financial plan. The reason why insurance cover is so valuable is that it allows you to cover an immediate need and plan for financial security today. Without insurance cover you would have to carry the risk until the day you have hopefully saved enough money or accumulated enough assets to cover your financial obligations and achieved your financial objectives.

The problem for many, even with insurance cover, is that over time the gap between financial risk and financial security doesn't close but gets wider. One reason for this is simply failing to recognise the need and the appropriate level of cover required to cover the need.

One of the most overlooked risk benefits is critical illness. Critical illness is often mistakenly believed to be automatically covered through medical aid or misconstrued for disability cover. Failing to identify the gap between your disability cover and your medical aid cover can leave you with a gap in your insurance cover and the inability to cover your medical expenses at a time when you need cash the most.

The cost of surviving an illness can be one of your biggest lifetime expenses. Unless death is from an unnatural cause such as a car accident, it will most likely arise from a critical illness. But the chances are you will not die suddenly. With medical advances it is more likely that you will live a long, but costly life with a critical illness. So the question is not if, but when will you get a critical illness? How long will you live with the illness? And what will the cost be?

Consider the following:

- One specific treatment for rheumatoid arthritis (not covered by most medical aids) results in a bill of more than R100 000.00 per year.
- On average, a stroke would cost between R500 000.00 and R1 million over the lifetime of a patient.
- The lifetime cost of Alzheimer's disease is more than R1 million.
- A 40 year old non-smoking male with a relatively advanced cancer now has a 50% chance of surviving another 5 years and a 30% chance of surviving another 25 years.
- Half of all bankruptcies are due to a critical illness, and of those 75% had medical aid. (Ref: illness and injury contributors to bankruptcy. Health Affairs, Feb.2005)

With the level of critical illness cover now standardised by the FSB and Competition Commission by introducing the SCIDEP* disclosure grid, consumers now know what they are paying for and when critical illness products will pay out. This allows you to effectively use critical illness insurance to bridge the gap between disability cover and what is covered by your medical aid.

Notes:

SCIDEP (Standard Critical Illness Development Project) requires that every critical illness benefit is benchmarked against a set of ASISA definitions for the four most common critical illnesses (Cancer, Heart Attack, Stroke, Coronary Artery By-pass Graft (CABG) and the percentage pay-out for these four illnesses.

Example: SCIDEP disclosure grid

Insurer A				
	Cancer	**Heart Attack**	**Stroke**	**CABG**
Severity A	100%	100%	100%	100%
Severity B	100%	100%	100%	100%
Severity C	50%	50%	50%	0%
Severity D	50%	50%	50%	0%
Insurer B				
	Cancer	**Heart Attack**	**Stroke**	**CABG**
Severity A	100%	100%	100%	100%
Severity B	100%	100%	100%	100%
Severity C	100%	100%	50%	25%
Severity D	50%	100%	50%	0%

If you are aware that you currently do not have critical illness cover or would like your financial advisor to update your Financial Needs Analysis (FNA) and review your gap cover, please do not hesitate to contact us.

Save up to 40% on your child's university fees

The reduction in the age of majority from twenty-one to eighteen* brings with it a tax and estate planning opportunity. There can be little doubt that a parent's expenses in respect of a child will usually peak when the child reaches university going age, at around the age of eighteen. Thus for a parent facing the prospect of funding a three to five year degree, a way of funding university fees with pre-tax income should be an opportunity worth at least some consideration.

The age of eighteen is significant in this context because it is the age at which a child ceases to be a minor. From an income tax perspective it is also the age at which the deeming provisions contained in section 7(3) of the Income Tax Act cease to apply to income which is attributable to a parent's gratuitous disposition.

Section 7(3) is applicable where income accrues to a minor child by reason of a donation, settlement or other disposition made by a parent of the child. When applicable, the section deems the portion of the income received by or accrued to the minor child to be that of the donor-parent. An interest free loan to a trust has been held to be a gratuitous disposition falling within the scope of section 7(3) and the income which is attributable to the interest free loan has been held to be that of the parent and not of the minor child to whom the income accrued. Similarly, where assets are gratuitously disposed to a trust (e.g. via interest free loan by a parent and where a child is the beneficiary, the income accrued to this child is deemed that of the parent.)

However, section 7(3) refers specifically to "minor child". Once the child ceases to be a minor (at age 18) or by marriage, prior to turning 18, the deeming provisions of section 7(3) no longer apply and the minor will be taxed on all the income accruing to him/her.

In the Minister of Finance's Budget speech during February this year he announced an increase in both the income tax thresholds as well as the basic interest exemption.

The 2012 income tax thresholds and basic interest exemption for persons under the age of 65 are R59 750 and R22 800 respectively. Therefore, assuming an investment return of 8% - it is possible for a parent to dispose of - by way of an interest-free loan to a child, or to an inter vivos trust established for the benefit of the child – an interest producing investment of R1 031 875 without any taxable income being attributable to him. In addition, no tax will be payable by the child because income accruing to the now adult child will be below the annual tax threshold. It is, in a sense, therefore, possible for parents to fund university fees out of pre-tax income.

Note that section 7(3) ceases to apply "from the date" that a child ceases to be a minor. This means that where a child attains majority during the tax year it will be necessary to do an apportionment of the deemed income so that the donor-parent is only taxed on the income accruing to the child during the portion of the tax year during which he was a minor.

Reducing the parent's estate for estate duty purposes

By reducing the loan due by the trust using the parent's annual donations tax concession of R100 000 per parent, the loan account can be settled by the time that the child eventually finishes his/her studies. In this way, the parent is not only saving 40% on university fees but also saving estate duty on the asset/s transferred to the trust.

Cautionary: Note that where the loan account has been reduced by utilising annual donations, the income which no longer accrues to or is received by the minor child will once again accrue to the parent/s - this time in terms of section 7(5) of the Act.
Notes: *1 S 5 of the Children's Act 38 of 2005.

Market & Fund Performance Update

- By Tarryn Cameron

Macro Overview

The third quarter of 2012 has been dominated by central bank stimulus and monetary easing across the globe.

Beginning on 5 July, The European Central Bank (ECB) cut interest rates by 0.25%, largely in line with market expectations. The ECB also cut the deposit rate to 0.00%, an even more significant move given the large quantum of cash the European banks have on deposit. The Bank of England (BoE) announced a third round of quantitative easing, increasing their asset purchase programme by £50 billion and the People's Bank of China (PBoC) cut rates for a second time. The South African Reserve Bank followed suit on 19 July with a largely unexpected 0.50% cut in interest rates, taking the local prime interest rate to the lowest level since 1974.

On 6 September, the ECB announced the much anticipated bond purchase programme known as Outright Monetary Transactions (OMT), in which the Bank pledged to purchase an unlimited amount of government bonds (that will be fully sterilised) in the secondary market.

Continuing with positive news, Germany approved the European bailout fund (ESM) on 12 September. The European Stability Mechanism (ESM) is an international organisation which provides financial assistance to members of the Eurozone in financial difficulty. The ESM is intended to replace existing temporary funding programmes, the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM).

On 13 September, the US Federal Reserve Bank finally announced the much anticipated QE3, undertaking to purchase $40 billion of Mortgage Backed Securities per month until the unemployment rate outlook improves substantially, as well as continue Operation Twist until the end of 2012 and maintain historically low interest rates until mid-2015.

On 19 September, the Bank of Japan expanded their asset purchase programme by ¥10 trillion (US$126 billion) to ¥80 trillion (approximately US$1 trillion), aiming to boost their economy.

In the last week of September, the PBoC injected the equivalent of US$57.92 billion into money markets (the largest weekly injection on record), in a further attempt to stimulate sliding growth.

Finally, on 27 September, Spain announced a tough 2013 austerity budget, paving the way for a successful bailout application. To date, Spain has not yet made this application, despite the fact that it has large funding requirements due at the end of October 2012.

As indicated, there has been a surplus of stimulus into global markets in recent months, which have had a significant positive impact on sentiment and prices. The underlying economic fundamentals, however, have not changed materially. In particular, US unemployment remains high and the US housing recovery is still lagging. The UK economy has returned to recessionary territory, after two consecutive quarters of negative growth. China, the world's second largest economy, has seen declining growth and a material downturn in trade activity, which poses additional concerns for world growth. Finally, the issues in Europe have by no means been resolved.

We perceive the current environment as unchartered and uncertain territory and thus remain cautious in our approach at this time.

Performance – what added and what detracted?

All asset classes gained momentum over the last quarter, on the back of net positive sentiment surrounding the latest wave of monetary stimulus sweeping across the world.

In particular, equities, both locally and globally, have seen strong gains as added stimulus fuels investor risk appetite. Inflation-linked bonds also realised solid returns on the back of the potential inflationary pressure that the additional stimulus could add over the long term. But by far the greatest recipient of positive flows was local listed property, which secured 10.98% return for the quarter.

Offshore gains were further enhanced by a weaker rand/US dollar exchange rate.

Overall, performance of the VPFP funds was boosted by positive contributions from all underlying asset classes.

Position going forward

In the midst of the current uncertain environment, we believe it is of ever increasing importance to focus on the fundamentals of investing. Our investment philosophy remains embedded in the search for value and sustainable investment skill. We believe that additional emphasis on active management is imperative at this time, particularly in the area of instrument selection within the various underlying asset classes. We firmly believe this strategy will assist in adding value for our clients during market uncertainty and volatility.

We continue to view offshore equity as the asset class offering the greatest value, while government fixed interest, particularly offshore, remains the most overpriced. We therefore remain overweight offshore equity (with more of an emphasis on active management) and materially underweight government fixed interest (particularly offshore).

Within the local portfolios, we seek to maximize offshore exposure on rand strength, when the opportunity presents itself.

VPFP Fund Performance for the Period Ending 28 September 2012

	3 Month		6 Month		1 Year		2 Years		3 Years		4 Years		Inception	
	Return	Risk	Return	Risk	Return	Risk	Return	Risk	Return	Risk	Return	Risk	Return	Risk
VPFP CPI + 2	**4.96%**		**8.01%**		**14.16%**	**2.555**	**23.10%**	**2.468**	**35.03%**	**2.767**	**47.04%**	**3.484**	**46.00%**	**4.621**
Investment Objective (CPI + 2%)	1.31%		3.41%		7.08%		15.05%		21.45%		31.76%			
VPFP CPI + 4	**5.71%**		**7.46%**		**15.11%**	**3.958**	**22.50%**	**3.657**	**34.23%**	**4.013**	**45.50%**	**5.043**	**39.26%**	**6.516**
Investment Objective (CPI + 4%)	1.80%		4.41%		9.17%		19.58%		28.71%		42.36%			
VPFP CPI + 6	**6.20%**		**7.16%**		**16.26%**	**5.836**	**23.68%**	**5.321**	**36.14%**	**6.063**	**46.29%**	**7.424**	**31.98%**	**9.551**
Investment Objective (CPI + 6%)	2.29%		5.41%		11.26%		24.21%		36.25%		53.58%			
JSE All Share Total Return Index	**7.26%**		**8.31%**		**24.43%**	**12.023**	**28.91%**	**11.106**	**56.14%**	**13.323**	**68.17%**	**16.893**	**26.60%**	**18.646**

(CPI Benchmark as at 31 August 2012)

Inception 12/05/2008

Source: MoneyMate

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Our services include…

- Pre and Post Retirement Planning
- Local and Global Investments
- Business Assurance – Key person and Partnership
- Personal and Group Life Assurance
- Employee Benefit Advice and Products
- Tax and Estate Planning

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