

# IFA BULLETIN

## Breaking News



### New Charging Structure

#### Deferred Sales Charge Removed

#### KEY BENEFITS OF CHANGE

1

The allocation of profit to a Participant's ledger account will not suffer an ongoing monthly charge due to the initial commission. The reduction in the expenses of the Program due to the way in which initial commission is now being treated will be 0.6% p.a.

2

The longer the participation the better the return as Participants will not be unfairly charged a proportion of newer Participant's initial commissions.

3

Existing participant's returns are not penalised by the amortisation of the sales charge of new Participants.

4

Commission is matched to exit penalty for each Participant. This is different from the current "melting pot" approach where each commission is charged to the whole fund. Now the changing value of a Participant's assignment during their time in the Program will not have any effect on the amount of effective commission charge they incur.

5

The Fund can now offer a flexible commission menu.

6

The Fund is able to accept institutional clients in a way that it could not previously.

7

Easier administration of Participant's ledger accounts.

Following a strategic review, the Foundations Program will be changing the way in which the initial commission is charged. This change has been designed to benefit clients and provide greater flexibility for advisors. In short, we will be removing the amortisation of this charge, from 1 July 2008.

All Participants will have their ledger balances debited with their proportion of the initial fee that has not been amortised at that date. This is not a new fee and only applies upon exit from the Program.

As an example the following table indicates the levels of unamortized initial charge that will be transferred to a Participant's Ledger account depending on the time they have been in the Program:

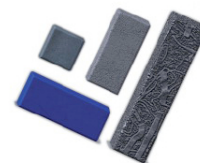
One year	2.4%
Two years	1.8%
Three years	1.2%
Four years	0.6%

The allocation of the unamortised initial commission will be specific to each present Participant.

After the 1 July 2008, new Participants will have the initial commission amount applied immediately to their ledger accounts.



# Q&A



## Why are we doing this and what does this mean?

### *What is a Deferred Sales Charge?*

Amortising commission paid out on day one creates a deferred sales charge i.e. the charge feeds through over time and reduces the overall profit of the Program.

### *Why are deferred sales charges being used and what is the problem associated with them?*

Deferral of initial commission has become standard practice in the market, so funds do it as they do not want to appear unfavourably with their competitors. It can, however, make it harder for the client of a fund to understand the applicable charges.

### *What other issues are relevant to the use of Deferred Sales Charges?*

The Program wants to ensure transparency and openness with Participants on all aspects of the Program including deferred initial commission and allocate it in such a way as to ensure fairness among all Participants.

### *What is the main problem with Deferred Sales Charges as they are currently expressed?*

The accounting mechanism used in the treatment of deferred initial commission is:

- a. The Program pays initial commission to the IFA upon acceptance of the Participation. For accounting purposes the Program then treats the initial commission as an asset charging 1/60 of the initial commission in each month to the Program's income account for 60 months. The payment of the

initial commission results in a drag on performance of the Program

- b. Profit allocation to each Participant's ledger account is made after deduction of the monthly initial commission charge. This present method does not differentiate between investors and as such results in an inequitable allocation of profits to Participants, even after a Participant has been invested in the Program for 60 months.

### *What effect does this change have on the return from the Fund?*

The cost to the Fund is reduced by approximately 0.6% per annum by making this change. Due to the effects of compounding, the return from the Fund is improved by slightly more than this.

### *Why are you making these changes now?*

The regulations are changing so it is necessary to do so and the board believe that this is a good opportunity to simplify the fund and enhance returns.

### *Will this change adversely affect existing participants in the program?*

Absolutely not. The change will enhance the return to all Participants as the commission charge (0.6%) comes out as a cost to the fund from 1 July. The returns they will achieve will be correspondingly higher.

