



LEGAL
PROVIDENT FUND

SPOTLIGHT

In this 3rd edition of Spotlight for 2024 we focus on the following:

2024 investments in review

Investment returns as at 31 December 2024

Two-pot system: Tax implications when you withdraw from your savings pot

Where to find Fund information and documents

Register on AF Connect

What do you need to do?

Please read this important communication. In this edition, we focus on setting retirement goals and planning to achieve your goals. The Fund strongly encourages you to:

- ✓ Register and use AF Connect.
- ✓ Visit the Fund's website to access information about the Fund and a summary of the Fund benefits, which is contained in the member booklet:
www.legalprovidentfund.co.za
- ✓ Obtain advice from an accredited financial planner to assist you in making any important financial decisions.





2024 INVESTMENTS IN REVIEW

Looking back at 2024, South African investors found themselves in a complicated and uncertain financial market landscape, much like that experienced over the past couple of years following the COVID-19 pandemic. This volatility was mainly driven by:

- continued geopolitical conflict across the middle east and parts of Europe and
- many countries taking to the voting polls and electing new leadership regimes.

The re-election of Donald Trump as the 47th president of the United States of America (US) has also contributed to this uncertainty, due to the unpredictability of his stance in policies, relationships and his erratic behaviour.

We now look at the broader macroeconomic landscape in 2024 and provide some thoughts on the outlook for 2025:

2024 in review

2024 can be characterised as a year of twists and turns, with election outcomes reflecting a rejection of the status quo.

On the macroeconomic side, growth proved to be resilient, despite concerns earlier in the year that tight monetary policy would weigh on economic activity.

In line with expectations at the beginning of last year, disinflation continued, affording central banks the opportunity to begin easing interest rates in the second half of the year.

Locally, the year was full of positive surprises. The formation of the GNU following the elections and the alleviation of load shedding contributed to a shift in positive sentiment. But water rationing reared its head and the cost of living increased fueled by electricity price increases.

Growth remained low, however, there is a clear recovery path. The benign inflation backdrop afforded the South African Reserve Bank (SARB) room to lower interest rates by 50 basis points (bps) in the second half of 2024.

The supportive macroeconomic backdrop saw global equities return 19.2% over the year, while global bonds consolidated by 2.9%.

2025 outlook

The outlook for 2025 is murky, with material policy changes on the horizon by the new US administration.

Slow but still solid global growth is expected but with wide dispersions amongst geographies and a non-zero chance of recession.

It is anticipated that the disinflation trend will continue, but at a slower pace, with some risk of increases because of possible tariff wars started by the US.

Central banks will likely continue to ease central interest rates gradually towards neutral or below neutral where growth is weaker.

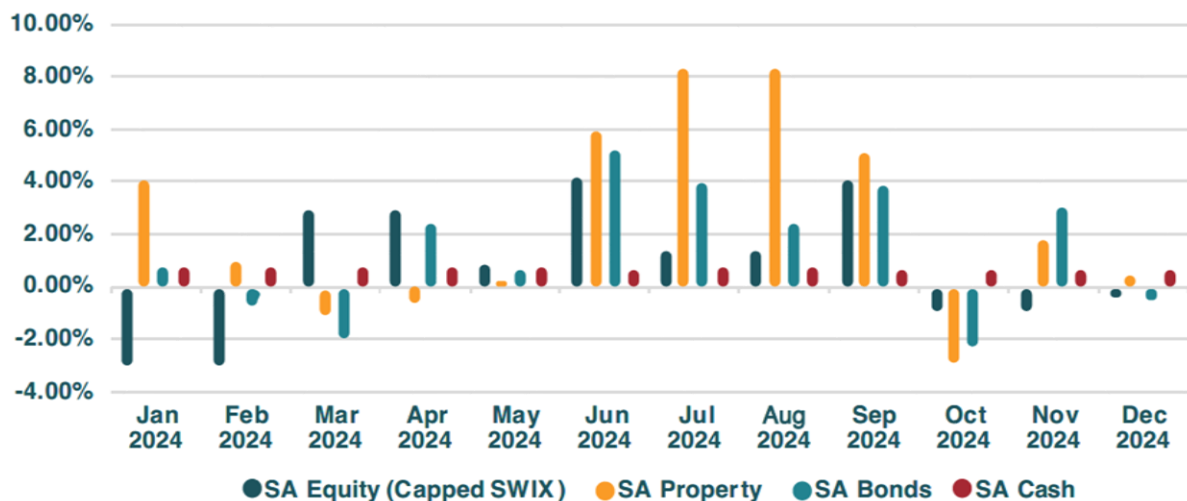
There is a high degree of uncertainty around the outlook, with risks tilted to the downside. Extreme policy shifts in the US could induce a much more severe supply and inflation shock on the global economy.

Meanwhile, emerging markets remain vulnerable to the risk of a more pronounced economic slowdown in China.

A significant change locally was the implementation of legislation introducing the two-pot system for retirement fund members on 1 September 2024.

The graph on the next page summarises the impact of local events, coupled with everything happening globally, on local financial markets in 2024, with investments falling and rising (referred to as “volatility”) on a monthly basis.

Monthly returns of local investments over 2024



Source: Alexander Forbes Investments

Despite starting the year off in negative territory, local equities ended the year strongly. Positive performance in key sectors, like financials, contributed to local market strength, despite resources dragging performance down over the year.

Global equities had another strong year, mostly driven by big technology stocks, the so-called “Magnificent 7”.

Our bond markets delivered strong results, responding to renewed confidence in our markets and attracting foreign investments. Global bond markets ended the

year relatively flat on the back of rising interest rates across the globe and persistent stubborn inflation.

The star of the year was local property bouncing back strongly after a bouncy period following the COVID-19 pandemic, driven by increased demand in both residential and commercial real estate.

Cash and money market instruments provided a safe harbor for investors seeking liquidity and capital preservation, while providing stable, strong returns over the year.

In times of heightened uncertainty, we may be inclined to react impulsively rather than keeping our focus on the long-term and ignoring short-term volatility. One of the cardinal rules of investing is to diversify. Diversification is an effective way to manage risk, especially in times of uncertainty.

Diversification helps to absorb the shock of events affecting financial markets and their impact on your investments. Not only does diversification help provide you with more comfort and certainty in ultimately reaching your goal, but it can also help you experience smoother investment returns that compound into better investment performance over long periods of time.

Diversification is key

Basing investment decisions on past performance is a common mistake many people make. The search for the best asset manager, asset class or management style consumes a lot of time as most people anxiously compare their investments against that of their peers. After all, no one wants to have a little, while others have a lot. And just as you think you have “it”, the market changes and today’s top performers become tomorrow’s runner-ups.

The journey towards achieving your investment goal is as important as the investment goal itself. The magic of diversification is its ability to offer a mix of investments that are tied to your goal and expectations both through investment returns and the journey in getting to your investment destination.

The table below shows how different asset classes have performed over the past ten calendar years. Different asset classes enjoy different degrees of success depending on prevailing market conditions. What is clear is that last year's best performer is not necessarily this year's best performer.

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Global Equity	SA Bonds	SA Equity	Global Bonds	Global Equity	Global Equity	SA Listed Property	SA Inflation	Global Equity	SA Listed Property
Global Bonds	SA Listed Property	SA Listed Property	SA Bonds	SA Equity	Global Bonds	Global Equity	SA Cash	Balanced	Global Equity
SA Listed Property	SA Cash	Balanced	SA Cash	Balanced	SA Bonds	SA Equity	SA Bonds	Global Bonds	SA Bonds
Balanced	SA Inflation	SA Bonds	Global Equity	SA Bonds	SA Equity	Balanced	SA Equity	SA Listed Property	Balanced
SA Cash	Balanced	Global Equity	SA Inflation	SA Cash	Balanced	SA Bonds	Balanced	SA Bonds	SA Equity
SA Equity	SA Equity	SA Cash	Balanced	SA Inflation	SA Cash	SA Inflation	SA Listed Property	SA Equity	SA Cash
SA Inflation	Global Equity	SA Inflation	SA Equity	Global Bonds	SA Inflation	SA Cash	Global Equities	SA Cash	SA Inflation
SA Bonds	Global Bonds	Global Bonds	SA Listed Property	SA Listed Property	SA Listed Property	Global Bonds	Global Bonds	SA Inflation	Global Bonds

Source: Alexander Forbes Investments

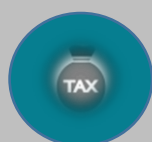


INVESTMENT RETURNS AS AT 31 DECEMBER 2024

The investment returns for the Fund's chosen portfolios, over various periods to 31 December 2024, are provided below. Note that the Fund has not always invested in certain portfolios over all the periods reported, therefore, the returns for periods that don't apply will not be reflected.

Name	3 Months	1 Year	3 Years	5 Years	Since Inception	Launch Date
Accelerator						
Gross of Fees	2.07%	17.44%	10.42%	13.20%	10.34%	30 Jun 2016
Net of Fees	1.94%	16.61%	9.62%	12.29%	9.49%	
Benchmark	1.94%	16.68%	9.63%	11.62%	8.74%	
Banker						
Gross of Fees	2.40%	10.06%	8.72%	7.54%	8.54%	23 Aug 2001
Net of Fees	2.35%	9.81%	8.47%	7.28%	8.18%	
Benchmark	1.94%	8.20%	6.95%	5.77%	7.07%	
Conservator						
Gross of Fees	2.33%	15.07%	10.49%		11.36%	19 Apr 2021
Net of Fees	2.14%	14.03%	9.54%		10.39%	
Benchmark	1.50%	12.43%	8.54%		9.46%	
Performer						
Gross of Fees	2.72%	15.80%	10.17%	12.55%	11.79%	02 May 2012
Net of Fees	2.54%	14.90%	9.24%	11.60%	10.80%	
Benchmark	1.89%	14.46%	9.62%	11.12%	10.52%	

Name	3 Months	1 Year	3 Years	5 Years	Since Inception	Launch Date
Real Return Focus						
Gross of Fees	2.55%	14.36%	10.13%	10.85%	9.91%	08 Aug 2006
Net of Fees	2.33%	13.17%	9.05%	9.74%	8.88%	
Benchmark	1.00%	7.05%	9.34%	8.96%	10.27%	
Shari'ah High Growth						
Gross of Fees	2.15%	9.35%	6.36%	10.73%	9.39%	03 Jul 2017
Net of Fees	1.95%	8.20%	5.25%	9.54%	8.21%	
Benchmark	0.32%	6.14%	2.01%	7.87%	7.36%	



TWO-POT SYSTEM: TAX IMPLICATIONS WHEN YOU WITHDRAW FROM YOUR SAVINGS POT

The two-pot (also referred to as the two-component) system was implemented on 1 September 2024. The two-pot system allows you access to a limited portion of your retirement savings (your savings pot), without having to terminate service with your employer. But your savings pot should ideally only be accessed in times of severe financial emergencies. Access to your “savings pot” is known as a “savings withdrawal benefit”. There are conditions to taking a savings withdrawal benefit, including that the benefit is taxed at your **own individual rate of tax** (also referred to as the marginal tax rate as determined by the personal income tax table).

When you take a savings withdrawal benefit, the Fund administrator must apply for a tax directive from SARS. SARS will issue a directive detailing the Rand amount of tax to deduct from the benefit. The Rand amount will include **arrear tax owed to SARS**. If you have arrear taxes owing to SARS, SARS will instruct the Fund to pay the amount owed to SARS including the tax due on the savings withdrawal benefit claim, which may result in the amount paid being significantly reduced, or the entire amount that a member is claiming, being paid to SARS.

More about individual tax rates

When you take a savings withdrawal benefit (also referred to as a “SWB”), the amount withdrawn is treated as **income**. Income is taxed according to your personal income tax rate. SARS will decide how much tax must be deducted and the Rand amount will reflect on the tax directive issued. After the SWB claim has been processed, an IRP5 will be issued to you reflecting the tax deducted and paid to SARS.

As the SWB payment is treated as income in the tax year of assessment, and the amount of taxable income over the tax year is only known at the end of the tax year (when tax assessments are filed), there may be instances where too little tax (or possibly too much tax) was deducted. This means you may be required to pay a further amount of tax to SARS when your tax assessment is filed. SARS may also owe an amount to you. Here we are focusing on when you owe arrear taxes to SARS as you generally don't budget or plan to pay in tax in the tax year of assessment. The Fund encourages you be aware that there are two instances where your tax could be understated, and you would owe SARS tax:

1. Where the SWB amount pushes you into a higher marginal tax bracket.

The current individual tax rate tables for the period March 2024 to February 2025 are as follows:

Taxable income	Rate of tax
R0 - R237 100	18% of taxable income
R237 101 - R370 500	R42 678 + 26% of taxable income above R237 100
R370 501 - R512 800	R77 362 + 31% of taxable income above R370 500
R512 801 - R673 000	R121 475 + 36% of taxable income above R512 800
R673 001 - R857 900	R179 147 + 39% of taxable income above R673 000
R857 901 - R1 817 000	R251 258 + 41% of taxable income above R857 900
R1 817 001 and above	R644 489 + 45% of taxable income above R1 817 000

Example – this example is used to illustrate the possibility

If a member's taxable income for the tax year would have been about R370 500 per year and they received an SWB payment of R30 000, their taxable income for the year increases to some R400 500. This will increase their marginal tax rate from 26% to 31%, resulting in a higher tax rate on part of their income.



Please note that the guiding principle on the amount of tax payable is that all taxable income earned, including the gross SWB paid, will determine the final marginal tax rate applicable.

Any under or over deduction of tax will be settled in favour of the taxpayer or SARS on assessment during the annual "filing season".

2. Where estimated taxable income at SWB claim stage is understated

When the Employer provides member data to the Fund each month, the Employer provides the agreed Fund salary, which is the salary that is used to calculate the contributions required to be paid to the Fund. This is generally referred to as "pensionable salary".

Whilst some Employers apply a Total Cost of Employment remuneration approach (meaning that pensionable salary and taxable income are more likely to be similar), many employers use a basic + remuneration approach where Fund salary (or pensionable salary) is usually an amount that is lower than taxable income.

When the two-pot system was implemented, the Fund could only use Fund salary as an estimate of taxable income to apply for the necessary tax directive. Once SARS realised that, as the retirement industry does not maintain taxable income, tax deducted for many SWB claims would be understated, SARS advised that it would use its own records to estimate taxable income for SWB claim directives.

This means that it is likely that if you took a SWB earlier in September 2024 you will owe SARS tax.

To summarise:

From 1 September 2024 to 29 September 2024

It was mandatory for the Fund to record an estimate for taxable income to obtain a tax directive. Where pensionable salary is reflected in the member's record, the taxable income estimate is the pensionable salary. Pensionable salary is usually lower than taxable income and therefore tax could be understated. The member could owe SARS tax.

From 30 September 2024 onwards

SARS confirmed on 30 September 2024 that estimated taxable income is not a mandatory field. SARS itself would undertake the required checks using the available taxable income information recorded in the taxpayer's file to calculate the tax to be deducted. It is therefore more likely that tax would not be understated, and the member may not owe SARS tax.

Many retirement funds enabled SWB access digitally and members themselves were thus able to insert their estimated taxable income. Some members chose to understate their taxable income, some even used "zero" as their estimated taxable income. This resulted in SARS issuing a statement advising that intentionally understating taxable income is a criminal offense and there would be criminal law consequences for such behaviour.



Important note: Once a tax directive is issued, a SWB claim cannot be cancelled. If a member is unhappy with the amount of tax deducted, the member cannot change their mind. Members are therefore strongly encouraged to use the two-pot tax calculators made available by the Fund administrator to estimate tax on a SWB claim. Where a member is uncertain about their compliance status, the member can obtain a statement of account via their eFiling profile to determine whether any arrear taxes are owed to SARS.



AF CONNECT

Alexforbes has **three ways** for you to connect with your retirement investments, making it easy for you to stay informed and in control.

AF Connect



- ✓ Visit mymoneymatters.alexforbes.com to log in.
- ✓ Select **Register** and follow the menu prompts.
- ✓ Once you have registered, you will receive confirmation that your registration is complete.

AF Mobile App



- ✓ App available as a FREE download on the Apple App Store, Google Play Store, and the Huawei App Gallery.
- ✓ Search for **Alexforbes**.

WhatsApp



- ✓ Save **+27 60 043 9601** to your contacts.
- ✓ Type **Help**, select **Register** and follow the menu prompts.

Reminder: Where to find Fund information and documents



FUND WEBSITE: www.legalprovidentfund.co.za

The Fund's [website](http://www.legalprovidentfund.co.za) gives you access to the following at the click of a button:

- ✓ Information about the Fund
- ✓ Benefits and fees
- ✓ Investment strategy
- ✓ Communication
- ✓ Forms

Questions?

If you have any administration (such as billing schedules, claim payments, statements or forms) please contact:

zzlegalprovadmin@alexforbes.com