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MoneyMarketing

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Is SA's economy on life support – or has it been thrown a lifeline?

BY MOHAMMED NALLA
CFA, Founder: Magic Markets and Moe-Knows.com

Budgets are usually unpleasant things. Their sole purpose is to reconcile unlimited needs and wants with limited resources. I have always been amazed at the fanfare and focus that the national budget tends to receive in South Africa relative to other countries, although given the parlous state of the sovereign's finances in the country, it is probably imperative that every citizen be fully engaged when it comes to considering and mapping SA's fiscal future.

That said, the deluge of media coverage around budget time often fills the discourse with more noise. It is often important to step back from the noise in order to 'see the wood for the trees'.

This piece is not about the budget - much ink has been spilt on the 'data'. Instead, I'll focus on what it means for longer-term investment potential in SA, as well as key considerations of investors considering both onshore and offshore assets.

I have been following, analysing, and dissecting the budget for most of my career, starting during the tenure of Trevor Manuel. For the last several years, my expectations around the budget have been generally dismal. Consequently, the bar was set low. For context, Minister Tito Mboweni's 2021 budget managed to exceed what I believe were reasonably modest expectations.

The gauntlet has been set down. Much rides on the Minister's ability to rein in the unruly public sector wage bill, and this will very much be the 'make or break' moment. Minister Mboweni may balk at the thought, but dare I say that if he succeeds, he may be remembered in the same vein as Thatcher who managed to reign in the labour movement in the UK during the 1980s to steady the UK's fiscal ship.

Mohammed Nalla

This is an odd analogy to make for a man who served as the Minister of Labour in the Mandela era, but the reality is stark. The choice that stares us in the face is one of fiscal stability and increased capacity for service delivery vs fiscal and economic ruin.

Should he succeed, the narrative will shift from one of continuing to tread water, to one of constructive rebuilding of an economy that literally stares over the precipice. There is a deep need to reignite growth in the South African economy. After negative per capita GDP growth for the last seven years, it is high time.

'Operation Vulindlela' is the name of an initiative driven by the Presidency and National Treasury to push ahead on structural reform aimed at getting the inter-ministerial cogs moving. It needs to migrate from being just a buzz word (of which many people still aren't aware), to the sharp end of the sword in driving the initiatives outlined in the both the State of the Nation Address and Budget.

Investment (both by the public and private sectors) remains anaemic. At a collective 18% of GDP, it is a long way off the 30% + levels seen in Asia, which spurred the growth of the Asian tigers and continues to spur the growth of the economic behemoth that is China. In fact, SA's premise of higher growth during the Medium-Term Expenditure Framework relies heavily on gross fixed capital formation; and perhaps as a signal of intent, corporate income tax is set to be decreased from 2022 onward.

Despite this, when comparing SA to other emerging markets or even developed market peers, the growth rates expected over the medium term are uninspiring. After a post-pandemic bump of 3.3% expected this year (off a low base), growth is expected to average a measly sub 2% over the following two years. This compares unfavourably to the average of over 5.5% in the BRICS countries and even relative to the 3.8% average in the US.

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Simply put, the cost benefit analysis does not favour SA, which is viewed very much as an ex-growth market. This explains why foreign investor appetite for the country has been dominated by large investments in 'yield seeking' investments (like bonds) over 'growth seeking' investments (like equity). In fact, even on this score, foreign holdings of South African government bonds fell to around 30% (from peaks around the mid-40s a few years back), with the slack being taken on to South African bank's balance sheets.

Treasury's strategy over the coming years sees government bond issuance decrease as cash balances are run down. They will also favour the longer end of the yield curve to decrease the refinancing risk, as well as continuing to tap into investor appetite for duration in the bond market. There is also mention of another Sukuk (Islamic Bond) as well as Retail Savings Bonds in order to tap additional sources of funding.

The problem with a macro view is that it sometimes ignores the minutiae of where true potential may exist. There is little left for government to invest in the economy when 20% of all revenue is directed to debt service and the rest allocated to social services. This is why private sector investment is key.

Initiatives like the Infrastructure fund, being run through the DBSA, just got offered a further R18bn and will be aimed at partnering with the private sector to invest in projects. These include network infrastructure in water and telecoms, agriculture and clean energy, to name a few.

These are the types of investments which would entice both domestic and foreign capital. What is key here is also the need to create investment vehicles to facilitate investment from the general public and investment houses. The Section 12J incentive for venture capital investment has been deemed to be sub-par and is being phased out by the middle of the year. As such, more innovative ideas need to be considered.

Internationally, Special Purpose Acquisition Vehicles (SPACs) have been used with great efficacy in bringing greenfield projects to market and could be an avenue to explore in SA where SPACs have been implemented on the JSE in the past. Incorporating these with other existing initiatives, like tax free savings accounts and retirement products, would allow institutional and retail investors alike a mechanism to tap into the much-touted infrastructure build program.

Little mention was given to State Owned Enterprises in the current budget, although my position on this remains clear. The portfolio should be tidied up and opened to the private sector. This should inject a degree of competitiveness into the respective markets covered while liberating the sovereign's balance sheet. The detail of a discussion on this is the scope of another article.

Sectors like mining and agriculture were key to the revenue overshoot in this budget, but primary industries are fickle and relying too heavily on them will be a misstep. Yes, they contribute considerably to job creation and were also largely responsible for the first current account surplus in about 20 years, but SA can't afford to be a one-trick pony.

The cutback in social grants may be offset by tax rebates to taxpayers from an over-compensation in 'bracket creep'. This may just be Treasury's way of putting money back into the pockets of taxpayers, albeit modest. The impact on consumer businesses will need to be seen, although a generalised deleveraging by consumers amid economic uncertainty may remain a drag.

So, what is my approach as someone invested both in and outside of SA? Well, in short, SA is a country with tremendous potential. However, that potential is contingent on a number of political factors that impact the probability of success and decent returns. It would not be my 'top pick' in an emerging markets basket, and the risk/reward ratio still tends to favour offshore jurisdictions. However, it is also not an investment destination to be ignored.

"The gauntlet has been set down...and this will very much be the 'make or break' moment"

South African bonds present a compelling investment class given their high interest relative to the rest of the world, but would require the ability to hedge out some of the forex risk. Aggregate exposure to listed equities in SA already represent a large offshore bias (think Naspers/Prosus, etc) and as such, a more nuanced approach is required.

For those considering utilising their offshore investment allowance, I have always been a proponent of global diversification. However, be cognisant of the fact that one's assets must be viewed relative to one's liabilities, and if you live in South Africa, those liabilities tend to be in rand.

Should the Infrastructure Fund yield some interesting projects packaged in accessible and investor friendly structures and vehicles, I would be quite keen and excited as I believe that these sectors as indicated above, present considerable upside potential and growth.

South Africa is not down and out, but it remains on life support. We've managed to buy a little more time, yet it's high time for government to step up and partner with the private sector to inject the medicine while ensuring that vested political interests don't turn off the machines in the meantime.

Mohammed Nalla, CFA is the Founder of Magic Markets and Moe-Knows.com. He consults on all matters Markets, Money and Macro. Follow him on Twitter @MohammedNalla or subscribe at moe-knows.com

EDITOR'S NOTE

I'm sure most of you will remember Mohammed Nalla, the writer of our cover story. As Nedbank's Head of Strategic Research: Global Markets, he was a regular visitor to *Business Day TV* where I was a producer. He then moved on to the PIC where he was Head of Economic Research. He's now based in Canada from where he co-produces the top-rated Magic Money podcasts – if you haven't already subscribed to them, I urge you to do so.

Many of us were pleasantly surprised by finance minister Tito Mboweni's budget speech, with both the rand and the bond market firming as he spoke. There is currently a rumour doing the rounds that the minister won't be in his position for much longer. There is no doubt that he will leave – but not yet. Just before this issue went to print, President Ramaphosa, in conversation with the SA National Editor's Forum, stressed that he was not in the process of replacing Mboweni who, he added, was doing "an extremely good job".

Mboweni has always been a reluctant finance minister. We should all be grateful that he agreed to take the job, if only for a while.

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PROFILE

Ian Jones
CEO, Fundhouse

How did you get involved in financial services – was it something you always wanted to do?
I always wanted to be a paediatrician growing up, until I realised the sight of any blood didn't really work for me! I ended up studying actuarial science at UCT and working as an actuary in the life insurance sector for a number of years. In the early 2000s, I had the opportunity to consult to asset managers while working in Sydney and soon realised the investment industry is where my real passion lay.

What was your first investment – and do you still have it?
I'm giving my age away a bit, but my first job was with Norwich Life in Cape Town and I invested R100 into their local equity fund each month, trying to follow the regular savings mantra. But after Norwich was taken over by Fedsure and then Fedsure by Investec, I sold the investment and used it as a deposit on my first home – so in many ways the investment still lives on, just in another form.

What have been your best – and worst – financial moments?
My best moment was probably buying my first house in Cape Town in 1997. I was very fortunate to be able to enter the market before house prices increased materially. I don't envy my three sons trying to enter the Cape Town property market in years to come. My worst moment was probably selling Naspers a couple of years ago, thinking the investment case had paid off and the stock was looking expensive! The positive of watching Naspers' price continue to rise has been opening my mind to the potential of certain tech companies around the world and how conventional investing wisdom needs to be continually tested.

> "My advice would be to try to ignore all the noise out there in the market and on social media"

What do you tell investors who are worried about their investments due to South Africa's current economic environment and COVID-19?
As hard as it may be, my advice would be to try to ignore all the noise out there in the market and on social media. Many of the views expressed are based on self-interest rather than being measured and well-reasoned. While South Africa's economic reality makes for sober reading at the moment, ignoring valuation and currency levels can lead to emotional decision making. It was not too long ago that many had given up on the SA market and were moving all their savings offshore at over R19 to the US dollar. Offshore diversification is crucial for any investor but needs to account for personal circumstances (e.g. local liabilities) and be part of a sound financial plan.

What's the best book on investing that you've ever read – and why would you recommend it to others?
It's difficult to choose just one, but I would pick Michael Mauboussin's *More Than You Know: Finding Financial Wisdom in Unconventional Places*. The book is an excellent blend of practical advice, investment theory and thoughts on how psychology influences investment decision making. I enjoyed how he uses examples from outside investments (e.g. horse racing, gambling) to illustrate his thought process. It really helped me to understand how crucial the concept of choice vs risk is.

VERY BRIEFLY


Kim Catechis

Franklin Templeton has announced that Kim Catechis, currently Head of Investment Strategy at Martin Currie, will join the newly launched Franklin Templeton Investment Institute – the firm's forum for investment insights and their practical application – as Investment Strategist effective 1 April 2021. Catechis will continue to be based in Edinburgh, Scotland, and will report to Stephen Dover, Chief Market Strategist and Head of Franklin Templeton Investment Institute.

Catechis' new role is "a natural evolution of his work sharing investment insights on global themes at Martin Currie, a specialist investment manager within Franklin Templeton, allowing a broader group of clients at Franklin Templeton to benefit from his well-rounded expertise cultivated over three decades in the investment industry". With a focus on supporting Europe, the Middle East and Africa (EMEA), Catechis will "deliver timely investment thought leadership and actionable insights to current and prospective clients, distribution professionals and other stakeholders".


Andrew Hardy

Momentum Global Investment Management (MGIM), Momentum Investments' international investment management division, has appointed Andrew Hardy as Director of Investment Management as the business positions itself for further growth in the UK. Effective immediately, Hardy will assume full oversight of MGIM's UK Investment Team and will be responsible for managing relationships with key clients and partners.

MGIM says in a statement that Hardy is a long-standing member of its London-based investment team, having been with the company since 2005. He has been co-Head of Research for the last five years and a Portfolio Manager for over 10 years, leading the management of the Harmony Portfolio multi-asset range and global developed and emerging market equity funds, with combined assets under management of around £2.2bn. During his time at the company, he has also played an important role in developing MGIM's investment philosophy and process, while supporting business strategy and development.

Alexander Forbes says it is honoured to contribute to a multi-stakeholder effort to support the South African government in its efforts to eliminate violence against women and children. President Cyril Ramaphosa launched the fund on 4 February 2021.

The company has agreed to administer the Gender-Based Violence and Femicide (GBVF) Response Fund 1 pro bono for 12 months. The company will also provide asset management and actuarial services where required. It will house contributions from the private sector and other organisations, which will be used to support projects aimed at eliminating all forms of violence against women and children.

RICHARD RATTUE
Managing Director,
Compli-Serve SA

How technology has shaped financial services

A little shy of two decades ago, prior to Compli-Serve SA's official launch, I penned an article on how technology was impacting financial services and, importantly, financial advice. I thought it would be interesting to review some of my statements, in light of the present day, as well as to peer ahead. "It has invaded almost all business sectors in one form or another," I had written – and how true this still stands, as technology has invented whole new business concepts and changed others beyond recognition. Financial advisory businesses are no exception. The addition of a global pandemic has further shaped how the land lies, and technology has many times been the hero in keeping numerous livelihoods going.

"Technology is the force no one can stop"

The same question I posed all those years ago is a going concern today: if the public can buy their investments directly online, why would they need an adviser to assist them? The advisers who can bring value, embracing the essential digital component required in business, and who can successfully answer this question, are the survivors.

In short, a 'survivor' will have to combine effective and ethical portfolio management with the high service levels clients expect, together with disclosure and 24-hour access in the quickest possible time. That statement is directly from the past but still true and, through using technology, it is easier for an adviser to fulfil these obligations.

Where is tech going?

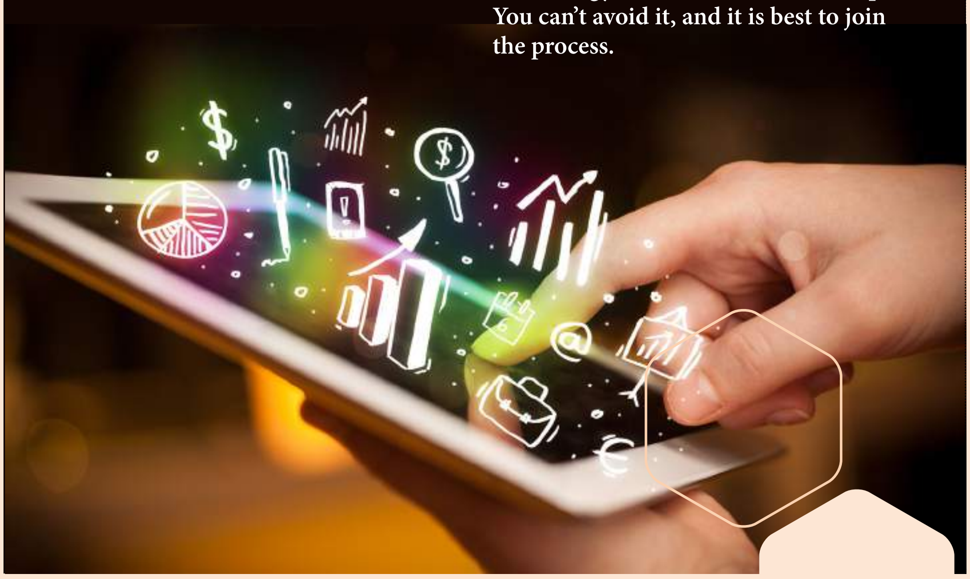
We can only expect technological capabilities to increase exponentially and for more competition to come onto the market – from robo-advice offerings to more application-based options for younger investors. Going forward, capturing millennial and Generation Z investors will be no easy task for advisers who will need to be positioned to capitalise on those who are hungry for non-traditional personal finance solutions, with on-demand access.

It will be very difficult (impossible really) for the financial adviser of the future to operate without some key technologies in place – from client management software to cloud-based operations. It can take time to integrate but it's important to get it right.

We have seen financial services remain largely resilient over lockdowns and the like, as the industry has slowly kept up digital integration. But adoption of technology does not guarantee survival. It is simply a ticket to the game.

It can help to improve many processes and outcomes, by getting the right advice for your practice and to consider the best technology applicable to your business. It is also wise to include your compliance officer in your technology acquisition process, to assist with any legislative requirements and key compliance considerations.

The exponential growth of the Internet and e-commerce will only continue to fuel change for the foreseeable future. Technology is a force no-one can stop. You can't avoid it, and it is best to join the process.



DE WET DE VILLIERS
Director: Private
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BOBBY WESSELS,
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Tighter rules for retirement fund withdrawals by South Africans living abroad

New tax laws introduced during January 2021, require South Africans living abroad to have been non-tax residents in South Africa for a continuous period of three years on or after 1 March 2021, in order to have early access (before retirement) to their retirement savings. Previously, individuals could access their pension preservation fund, provident preservation fund and retirement annuity fund (collectively referred to as 'retirement savings') either upon emigrating for exchange control purposes through the SA Reserve Bank (SARB) (so-called 'financial emigration'), or when reaching the age of 55.

The tax law changes (which take effect on 1 March 2021) directly relate to the phasing out of the 'financial emigration' concept. In addition to this, the February budget proposed further changes in the taxation of these retirement savings.

The changes are brought about due to, according to Treasury, the anomaly which arises between the Income Tax Act No. 58 of 1962 (the Act) and some of the Double Tax Agreements (DTA) entered into by South Africa, which could result in those retirement savings that would otherwise be taxable in South Africa (as South African source income) being excluded from our tax net by virtue of the DTA.

To counterbalance this, Treasury has proposed that the Act be amended to deem individuals leaving South Africa (ceasing to be tax resident in South Africa) to have withdrawn from the retirement savings on the day prior to ceasing their South African tax residency. Where the retirement savings are left in South Africa, the withdrawal tax payment will be deferred until that individual withdraws their retirement savings or when they eventually retire. A tax credit will be provided for the deemed retirement withdrawal tax as calculated when the individual ceased to be a South African tax resident.

"The tax law changes directly relate to the phasing out of the 'financial emigration' concept"

While there is still a lot of uncertainty about how this proposal will be implemented, as it currently stands, it would seem as though the tax on the retirement savings will be triggered on the day prior to ceasing tax residency, but would only become payable when the individual actually withdraws the funds. The proposed deferred nature of the tax payment relates to the lack of liquidity should the funds not be withdrawn or even if the fund cannot be withdrawn.

The 2021 Budget may not have brought too many surprises from a wealth tax perspective; however, the continual development of legislation in respect of those looking to move abroad will keep taxpayers on their toes. Therefore, our advice for anyone who works abroad while being an SA tax resident, or who emigrates, is to understand the new rules and complexities to ensure they are not caught off guard by any unintended tax consequences.

SARAH NEWCOMB
Behavioural Economist,
Morningstar Inc.

and SAMANTHA LAMAS
Behavioural Researcher,
Morningstar Inc.

‘Stories drive financial behaviour’

After seeing an Internet meme predicting a ‘double bottom’ – a phenomenon in which a stock or index hits an extreme low a second time (resembling the two bottom points in the letter ‘W’) – I’m half expecting to see my retirement savings shrink back to March 2020 levels, or worse.

I know better than to make rash decisions with my long-term investments based on an unsolicited infographic, but even experts have to be on guard against the persuasive power of a simple, emotionally charged story.

Why can stories be so powerful? Because stories drive financial behaviour. The specific stories we decide to believe and internalise will play an influential role in shaping our future decisions – for better or worse. Whether a client is asking you to put their money into cash or wildly speculative investments, they are doing so based on a story in their mind.

You can start helping clients avoid these rash financial behaviours by recognising the underlying stories behind them.

Where our stories are essential – and where they’re dangerous

It’s a basic function of the human psyche to make sense of our lives through story. We’re constantly exposed to thousands of stimuli through our physical senses and thoughts, and filtering out what we perceive to be noise helps focus our attention on what we deem important.

From this pared-down set of filtered stimuli, we then weave a meaningful narrative into a story of what happened in that moment.

But in addition to stories that help make sense of our personal experiences, we are also exposed to other people’s stories on a daily basis. Cultural, political and social narratives fill the airwaves. Memes, jokes, soundbites and slogans slide along every media feed. All of these stories add to the stimuli we are already trying to sift through.

How stories drive financial behaviour

Each specific financial move a person decides to make is a strategy, or an attempt, to meet their goals. That strategy is based on an underlying story that they believe about the factors in play. If you disagree with their methods, you can argue yourself hoarse about the strategy itself, but if you don’t deal directly with the underlying story that informed their strategy, you will not move them.

For example, let’s say your client wants to cash out during a market downturn. At that moment, the story they are telling themselves may be depending on recency bias – our tendency to overweigh recent occurrences when making decisions. Thus, when your client sees the market plunge, they believe it will continue to do so and think they need to cut their losses now. In this case, cashing out is only a strategy, while the belief that the market will not recover is the crux of the problem.

As an adviser, it’s important to differentiate between the strategy and the underlying story that informed that strategy. That’s because to persuade a person to change their strategy, you need to start with the story they already believe.

How to start understanding people’s stories

Getting clarity about the stories your clients believe about money can be challenging, in part because many people are unaware that there even are storylines running through their reasoning. We tend to take our own views as fact rather than perspective, so simply asking a client to tell you what stories they’re using isn’t realistic. The following questions can help you get clients talking in a way that reveals some of their internalised stories:

- Can you give me an idea of your financial life up to this point? Beginning in childhood, what have been the major financial events that you think have shaped your life the most?
- When you think about difficult financial times in the past, how well have you ‘bounced back’, financially and/or emotionally?

These questions are easier for your clients to answer and can help you tease out their stories. They also make for great conversations that can help you identify goals, hopes or fears that might otherwise not have been apparent, even to them.

That said, there are some stories that contribute to wellbeing and resilience, and others that increase stress and erode wellbeing. By learning to recognise these two types of storylines, you can help direct your clients’ mental stories toward the healthier type – giving them a better chance of resilience, regardless of how events play out.

Better stories, better strategies

Research suggests that how we tell our personal story can make a big difference, not only in our overall wellbeing, but also in our ability to be resilient after setbacks or trauma.

Dan McAdams is a professor of psychology at Northwestern University in Evanston, Illinois, who specialises in narrative psychology. He says that personal stories can be grouped into one of two categories: Contamination stories and Redemption stories.

- **Contamination stories** have the following narrative arc: “I was going along just fine, then BIG UGLY THING HAPPENED, and it contaminated my life. Now things are not what they could have been as a result.”
- **Redemption stories** have the same beginning and middle, but the end is different. Redemptive stories sound like: “I was going along just fine, then BIG UGLY THING HAPPENED, and it forced me to grow and evolve. Now, I’m a better person and my experience adds to my uniquely valuable perspective.”

In our personal lives, the redemptive narrative style can have long-lasting, positive effects. Several studies of people who have faced traumatic events have found a positive link between the redemptive storytelling style and greater wellbeing later in life (measured in terms of positive emotions, life satisfaction, and personal resilience after setbacks). Researchers have even found positive health effects.

For instance, I once met a man who owns a wildly popular curiosity shop in the Midwest. He told me that even though he is currently living his dream, it wasn’t always this way. In the 2008 global financial crisis, he lost everything. “I mean everything,” he said. “Even my relationship with my son.”

After the devastation, however, he reassessed his priorities and life goals, and embarked on the path that led him back to financial prosperity, but with a deeper happiness and satisfaction than he had before. I’ve never met a person who spoke more fondly of their personal financial losses. His story is a redemptive tale that spins crisis into opportunity, and he comes out on top in the end.

“Getting clarity about the stories your clients believe about money can be challenging”

When your clients talk about their financial lives, listen carefully for themes of contamination versus redemption in their story. Are they the hero at the end, or the victim? This makes a big difference in how they will approach similar situations in the future.

Editing client stories

“Until you make the unconscious conscious, it will direct your life and you will call it Fate” – Carl Jung

Once we are conscious of the stories we’re working with, then we can question, challenge and, if necessary, rewrite them. When you recognise a contamination storytelling style, you can help clients revise their story to a redemptive style. Here are a couple of tricks I’ve personally used to help turn some BIG UGLY THINGS into cherished memories of positive turning points:

1. Imagine a time traveller (alien, angel or other) appeared to you and told you that this exact financial situation becomes one of your proudest transformative moments. How would you imagine that plays out?
2. If you knew this moment was the opportunity to make one major change to your financial life, what change would you make?

Stories will always be with us

Whether it’s COVID-19, Bitcoin, economic boom, or collapse, there will always be stories surrounding us, vying for our attention. Internally, no matter what we experience, we will translate it into a meaningful story arc. We can’t avoid these stories; they are everywhere. What we can control is the stories we choose to adopt and internalise, and the narrative style we use to tell them.

Choosing to rely on stories of redemption, positive transformation, and making meaning from chaos is an effective way to protect ourselves from the physical, psychological and financial effects of stress and uncertainty.

Listen critically to the stories you are telling yourself. Listen critically to the stories you hear from others. Then, challenge those contamination stories and become the hero of a redemption tale instead.


You cannot know what the future holds, but **you can always be prepared**.
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MOHAMED NAEEM EBRAHIM
Head: Retail, FNB Islamic Banking

ZIYAAD KHAN
Head: Commercial, FNB Islamic Banking

Demand for Islamic banking continues to grow in SA

An increasing awareness and understanding that every obligation attached to one's wealth needs to be fulfilled in the proper manner, is spurring a local boom in demand for alternative financial products and services from Islamic financial services providers.

Underscoring the increase in demand, the Banking Association of South Africa (BASA) said at its first Islamic Finance Conference, held in September last year, that much of what is required to help the country address its economic challenges can be found in the fundamental tenets of Islamic banking: fairness, transparency, risk-sharing and socio-economic responsibility.

According to BASA, the value of Islamic financial services products grew strongly, with deposits reaching R37bn (2019: R35bn) and advances amounting to R14.6bn (2019: R12.4bn) in the year to the end of June 2020. Globally, Shari'ah-compliant financial assets are now worth $2tn.

Naeem Ebrahim, Head of Retail at FNB Islamic Banking, says the bank is seeing that Islamic banking is increasingly adopted as a credible alternative to conventional banking for both Muslims and non-Muslims alike.

Speaking about the principles-based construct upon which Islamic Banking is built, he says Shari'ah-compliant investment products are underpinned by several principles established through Islamic Commercial Law. These principles include, but are not limited to, the prohibition of dealing in interest, the avoidance of investing in companies that deal in impermissible industries, and ensuring complete transparency as well as the exclusion of excessive uncertainty when contracting.

"Investors, irrespective of their religious conviction, are assured that their money is not invested in any companies that engage in morally questionable activities and actions that cause social harm.

"At FNB Islamic Banking, customers are also guaranteed that all deposits placed, or funds advanced to finance the purchase of an asset, are managed within a separate, ring-fenced treasury," says Ebrahim.

FNB Islamic Banking offers clients compliant investment solutions catering for varying customer preferences with regard to investment periods, access to funds and risk profiles. Furthermore, investors over the age of 55 qualify for preferential profit rates on the bank's Islamic Term Deposit.

Ziyaad Khan, Head of Commercial at FNB Islamic Banking, says the key difference between conventional and Islamic banking is in the relationship that the bank has with its customer and the contracts that govern and manage that relationship.

Khan explains, "In a conventional banking relationship, deposit and lending transactions typically involve monetary exchange, with interest being either earned or charged thereon. In an Islamic banking relationship, money is never commoditised. Transactions are structured such that there is always a trade or service agreement facilitating the customer's requirement.

"So, with regards to Shari'ah-compliant investments, one of the most prominent types of agreements is that of a participatory agreement. The customer contributes the funds and the bank contributes managerial and entrepreneurial skills in terms of where and how these funds are placed. Naturally, the said investment is conducted according to strict Shari'ah guidelines and the bank and customer share the profits on a pre-agreed ratio."

He says investing with FNB Islamic Banking enables customers to invest in an alternative investment vehicle, while still maintaining healthy returns, superlative safety, and the highest codes of ethics. "An example is our Islamic 48-hour Cash Accelerator, which allows businesses to maximise returns on their stagnant working capital cash balances.

"At FNB Islamic Banking we understand that cashflow requirements of a business are at times unforeseen. Accordingly, funds placed in this investment are not locked in for extended periods – a 48-hour notice period is all that's required to get access to these funds. The notice can even be concluded on our app or online, catering for the highly mobile entrepreneur of today," Khan says.

Khan adds that it is important to note that all FNB customers, whether they are banked conventionally or with FNB Islamic Banking, share the same stellar customer experience – for example, they have access to the award-winning rewards programme eBucks. The plethora of online and app capabilities of FNB's renowned digital platform are also available to all Islamically banked customers.

"This, and us strictly adhering to and applying sound Shari'ah principles in our savings and investment products, are key cornerstones of what we believe makes FNB Islamic Banking the premier Islamic banking institute in South Africa," says Ebrahim.

SALIEGH SALAAM
Portfolio Manager, Old Mutual Investment Group

Shari'ah – the value of aligning investments with purpose

Old Mutual (pioneers in ethical investing) and Al Baraka Bank (pioneers in Islamic Finance) have worked together to combine the principles of ethical and Shari'ah investing, creating our joint investment: The Old Mutual Albaraka Shari'ah Funds.

In March 2020, we launched the Old Mutual Albaraka Income Fund. This fund has delivered above-inflation returns since its inception (as at December 2020).

This income fund is the fourth in our Shari'ah suite of funds, comprising:

- Old Mutual Albaraka Income Fund
- Old Mutual Albaraka Balanced Fund
- Old Mutual Albaraka Equity Fund
- Old Mutual Global Islamic Equity fund.

Growth of sukuk

Our Shari'ah funds are invested in Islamic bonds or sukuks, an Arabic word that means 'certificates'.

Unlike bonds that indicate a debt obligation, a sukuk offers the holder ownership of a physical asset. Another way to look at a sukuk is to think of it as a share certificate in an unlisted joint venture, for example a wind or solar farm. Sukuks are priced according to the value of the physical assets as well as the credit rating. The sukuk will increase in value when the assets increase in value, whereas profits from bonds correspond to a fixed interest rate or credit rating.

According to Refinitiv, one of the world's largest providers of financial markets data and infrastructure, sukuks were launched in several non-Muslim countries in 2020, including Hong Kong, Luxembourg, South Africa (the Old Mutual Albaraka Income Fund), Senegal and the United Kingdom. They conclude that the growth has been aided by the continued innovation in sukuks, keeping up with digital innovations, which has seen an introduction of green, blockchain and inflation-linked sukuks.

The important link between ethical and ESG investing

Shari'ah investing principles have historically been interpreted by scholars to determine what the minimum standards are that an investment must satisfy to meet the requirements of Islamic Law. Our investment approach incorporates the higher purposes and objectives of Islamic Law by actively incorporating ESG principles and United Nations Sustainable Development Goals (UNSDGs), sharing common values with the higher objectives of Islamic Law – which, among others, seeks the preservation and protection of life, resources and the environment. We go beyond the literal meaning of the law, raising the bar to incorporate the purposes and objectives behind Shari'ah, integrating both Shari'ah standards and ESG principles into our investment process. The wealth created from this investment approach is also shared with disadvantaged communities in support of UNSDGs.

Addressing social issues

Old Mutual and Al Baraka partnered with The South African Muslim Charitable Trust (SAMCT) in 2008 to act as a conduit for the provision of funding assets, services and other resources to approved public benefit organisations. Funds are distributed to improve the health and development of people, irrespective of race or religion.

VICTORIA REUVERS
Managing Director,
Morningstar Investment
Management South Africa

The disconnect between financial markets and economies

The seeming disconnect between the performance of financial markets versus that of economies across the globe has left many investors scratching their heads. We often get asked how it is possible for financial markets to increase in value, while the economy is shrinking.

It goes without saying that we live in extraordinary times. The South African economy had never faced such an abrupt cease in trade and/or economic activity as with the commencement of the nationwide lockdown on 27 March 2020. The same can be said for other economies around the globe. As economies started to reopen, many investors were left scratching their heads – the recoil in financial markets painted a very different picture from the economic outlook.

It is not surprising that markets experienced some of the sharpest falls in asset prices during the first quarter of 2020. The JSE All Share Index lost more than 30% from the start of 2020 until 23 March 2020. What was surprising to see was the speed of the recovery hereafter – since 23 March 2020 (the bottom of the sell-off), the market is up more than 70% (as at February 2021), making COVID-19 seem like a mere short-term disruption.

The economy, however, tells a very different story, with one of the largest contractions in GDP ever recorded, coupled with sky-high unemployment numbers.

How are financial markets flourishing when economies are falling apart? Let's have a look at financial markets in more detail, more specifically the equity market.

Equity market

The equity market is forward-looking and prices of stocks/shares/bonds (any listed liquid instruments) are determined by the supply and demand of investors. Investors that are buying these instruments are expecting positive outcomes looking forward. Sellers, on the other hand, expect the price of the stocks/shares/bonds to decrease in value.

So how do you know if you should be buying or selling? Ultimately, you need to consider the value of the company. The intrinsic value of a company can be estimated by taking its future expected earnings and discounting the future cashflow with an appropriate discount rate to ascertain what the value of those future earnings are worth now (or at the time one buys the listed equity).

The factor that has changed most notably in the above equation is the significant drop in interest rates – not only in South Africa but globally as well. With interest rates decreasing by 3% since the start of 2020, the discount rate being used to calculate the worth of future earnings is now significantly lower. This will result in future earnings being worth more today than before the interest rate cuts.

When the economy is slowing, the South African Reserve Bank (SARB) cuts interest rates to stimulate financial activity. This benefits businesses in that they enjoy the ability to finance operations, acquisitions and expansions at a cheaper rate, thereby increasing their future earnings potential, which, in turn, also leads to higher share prices[1]. The reduced financing cost also increases future earnings figures.

Companies also have control over aspects that contribute to the current value of the company. Companies can use times of uncertainty as justification to cut their cost base and, in doing so, increase their bottom line/earnings. In other words, the leaner operational costs will result in higher expected future earnings.

In short, market crashes reset valuations of listed companies and provide investors with the chance to invest into opportunities that might not have been available or even an option previously, due to prices being too high. This 'opportunity' buying cycle subsequently drives up market prices.

The last factor that can't be ignored, and one that is especially important in the South African landscape, is that listed companies that sell products offshore are not reliant on how the South African economy performs. These shares are more broadly known as rand hedges (with the weaker rand also working in their favour).

If one looks at every company listed on the JSE, the majority of companies are not reliant on the South African economy to generate earnings. These are companies with business interests that are either predominantly outside of South Africa, or entirely outside of South Africa.

In fact, 69% of the revenue generated by the top 40 companies listed on the JSE was generated from outside of South Africa for the 2019 calendar year[2]. In essence, when you are investing in the South African equity market (as represented by the Top 40), only 31% of company revenues are reliant on the South African economy[3].

This is possible due to the fact that some of the largest companies on our stock exchange are dual-listed companies. In other words, these companies are listed on more than one country's stock exchange. For example, the BHP Group is listed on the London Stock Exchange as well as the Johannesburg Stock Exchange. While the BHP Group used to have operations in South Africa, currently the company does not generate any earnings in South Africa.

There are many similar examples on our stock market and most of these companies carry larger weightings in the index. We call these rand hedge shares. In short, if the rand weakens, it is a benefit to own these shares as they generate earnings in offshore currencies. So, as an investor, you are hedging your currency exposure even though you are investing in a South African listed equity.

Local government and economy

In contrast with forward-looking equity markets, Government GDP numbers are backward-looking. GDP is the value of goods and services produced/rendered in a country during a certain period. It provides a snapshot of a country's economy, and is used to estimate the size of an economy and its growth rate.

Due to stringent lockdown rules in South Africa, several sectors came to a complete standstill and, therefore, did not contribute to growing our GDP rate. As an example, in South Africa, GDP numbers are highly dependent on mining, agriculture, manufacturing and construction (to name but a few) – most of which had to halt operations for quite some time. In addition, many of the companies that contribute to our GDP numbers are not listed entities but rather privately held and/or small business.

Unemployment is another number that has a different effect on economies when compared to listed companies. When a company retrenches employees, it immediately lowers the expenses of the business and can potentially grow earnings (if income is unchanged) but the opposite is true for an economy. When someone is retrenched and they can't find an alternative job, they move from being paid by a company to being paid by the economy, and thus increasing the expenses of the government.

> "Due to stringent lockdown rules in South Africa, several sectors came to a complete standstill"

In closing

Investors too often redirect their attention away from the destination to the journey when faced with a lot of outside noise. Much like in other walks of life, we can lose focus, making us susceptible to capitulation or giving up at the moments when fortitude and resolve pay off most.

Patiently allocating to assets that will help you achieve your financial goals should remain key. So, if you catch yourself getting down about the state of our economy, or speculation around government policies or trying to predict what is next, always remember why you are investing in the first place.

There's no doubt that the current market conditions are unsettling. It is at these moments that we would discourage investors from making changes that could harm their ability to reach their financial goals. It is often during these difficult times that we have the greatest opportunity to add value for our clients, acting rationally when others struggle to do so.

[1]Source: Investopedia https://bit.ly/3ugqPDw
[2] Source: Ninety One Asset Management as at 31 May 2020
[3] Source: Ninety One Asset Management as at 31 May 2020

View Morningstar Investment Management's disclaimer at https://bit.ly/3dvqSW1

Eight years old and still highly flexible

Launched in February 2013, the Laurium Flexible Prescient Fund (the Fund) has successfully grown to be the seventh largest fund in the South African Multi-Asset Flexible category at R2bn. The Fund is widely accessible across the platforms in the South African market, available for Tax Free Savings, direct investments and living annuities. The eight-year annualised performance of 11.5% places it 3/33 in the category over time, outperforming the average of the category by 4.3% per year. These returns have been achieved in difficult markets at an average exposure over time of 80% to equities and property. **With this in mind, those who have used the Fund as a proxy equity building block have been rewarded, outperforming 81/83 of the general equity funds at lower volatility over the past eight years.**

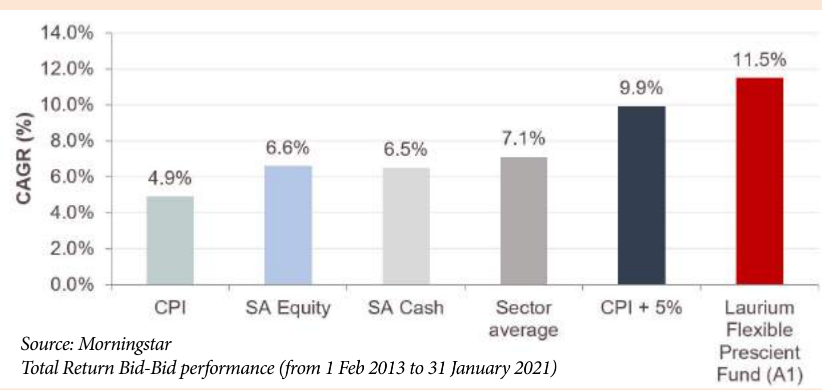
Key to this performance is asset allocation, select special situations and successful stock-picking based on strong fundamental analysis by an experienced cohesive team.

The annualised performance chart (Graph 1) compares the Fund against its benchmark of CPI+5%, prominent SA indices and the South African Multi-Asset Flexible sector average.

The first quarter of 2020 was a significant stress test for almost all funds, regardless of asset class, especially those higher up on the risk spectrum. One of the primary objectives of the Fund is to outperform the SA equity market over time at lower levels of volatility. In the volatile first quarter of 2020, the Fund outperformed the falling SA equity market by 9.2%. It then participated strongly in the market recovery, finishing the year in positive territory, generating 5.7% net of fees. In a year of extremes and low inflation, the Flexible Fund achieved a real return of 2.5% above inflation and alpha of 5.1% when compared to the SA equity market in 2020.

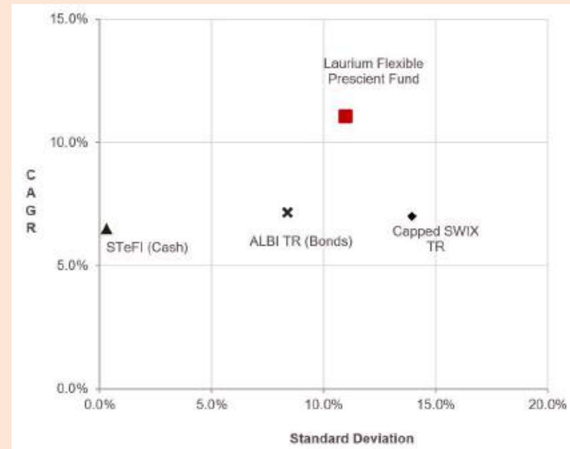
The Fund has managed to protect capital without sacrificing performance on the upside and has outperformed the market, but with much lower volatility, as evidenced by Graph 2, which shows Compound Annual Growth Rate (CAGR) vs. Risk (volatility).

GRAPH 1: ANNUALISED RETURN - 1 FEB 2013 TO 31 JAN 2021



Source: Morningstar
Total Return Bid-Bid performance (from 1 Feb 2013 to 31 January 2021)

GRAPH 2: RISK VS RETURN - 1 FEB 2013 TO 31 JAN 2021



A reminder of how the mandate works: The Fund may invest in any asset class up to any limit. It is not subject to the limits of Regulation 28 but per the South African Multi-Asset Flexible category, it is subject to the SARB limitations of a maximum of 30% offshore and 10% in Africa. In the Laurium Flexible Prescient Fund, we cannot go short, but may vary our net exposure to the equity market by including cash, bonds or other instruments depending on relative valuations of these asset classes.

Over the past eight years, Laurium Capital has grown as a business from a team of 12 with R1.7bn assets under management (AUM) to a team of 30 people with R33bn in AUM across hedge, equity, fixed income and multi-asset funds, with a broad, diversified investor base, both locally and offshore.

Mike Titley, Business Development, Laurium Capital

Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. A schedule of fees, charges and maximum commissions is available on request from the Manager. There is no guarantee in respect of capital or returns in a portfolio. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request.

Laurium Capital (Pty) Ltd is an authorized FSP (FSP34142). Prescient Management Company (RF) (Pty) Ltd is registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). For any additional information such as fund prices, fees, brochures, minimum disclosure documents and application forms please go to www.laurium.com. Annualised performance: Annualised performance shows longer term performance rescaled to a one-year period. Annualised performance is the average return per year over the period. Actual annual figures are available to the investor on request. Highest & Lowest return: The highest and lowest returns for any one year over the period since inception have been shown. NAV: The net asset value represents the assets of a Fund less its liabilities.

Raging Bull Awards 2021: All the winners

This year, the Raging Bull Awards ceremony – that usually includes a black-tie gala dinner – was a much scaled-down affair, due to the coronavirus pandemic, taking the form of a video presentation live-streamed on the Internet. Here are all the winners:

CERTIFICATES

Straight performance over three years

Best South African Equity Resources Fund
Ninety One Commodity Fund
Best South African Equity Mid- and Small-Cap Fund
Coronation Smaller Companies Fund
Best South African Multi-Asset Flexible Fund
Long Beach Flexible Prescient Fund
Best South African Multi-Asset Low Equity Fund
Amplify SCI Wealth Protector Fund
Best South African Multi-Asset Medium Equity Fund
Foord Conservative Fund
Best South African Multi-Asset High Equity Fund
Long Beach Managed Prescient Fund
Best South African Multi-Asset Income Fund
Sasfin BCI Flexible Income Fund
Best South African Interest-Bearing Short-Term Fund
Truffle SCI Income Plus Fund
Best South African Interest-Bearing Variable-Term Fund
Absa Bond Fund
Best (SA-Domiciled) Global Multi-Asset Flexible Fund
MI-PLAN IP Global Macro Fund
Best (SA-Domiciled) Worldwide Multi-Asset Flexible Fund
Naviga BCI Worldwide Flexible Fund
Best (FSCA-Approved) Offshore Europe Equity General Fund
T Rowe Price European Equity Fund
Best (FSCA-Approved) Offshore United States Equity General Fund
Franklin US Opportunities Fund
Best (FSCA-Approved) Offshore Far East Equity General Fund
Templeton China Fund
Best (FSCA-Approved) Offshore Global Fixed-interest Bond Fund
Allan Gray Africa Ex-SA Bond Fund
Best (FSCA-Approved) Offshore Global Real Estate General Fund
First World Hybrid Real Estate Plc

Risk-adjusted performance over five years

Best South African Multi-Asset Low Equity Fund on a Risk-Adjusted Basis
Absa Inflation Beater Fund
Best South African Multi-Asset Medium Equity Fund on a Risk-Adjusted Basis
Kagiso Protector Fund
Best South African Multi-Asset High Equity Fund on a Risk-Adjusted Basis
Gryphon Prudential Fund
Best South African Multi-Asset Income Fund on a Risk-Adjusted Basis
Sharenet BCI Income Plus Fund
Best South African Interest-Bearing Short-Term Fund on a Risk-Adjusted Basis
Prescient Yield QuantPlus Fund
Best South African Interest-Bearing Variable-Term Fund on a Risk-Adjusted Basis
Absa Bond Fund
Best South African Real Estate Fund on a Risk-Adjusted Basis
Harvard House BCI Property Fund
Best (SA-Domiciled) Global Equity General Fund on a Risk-Adjusted Basis
Anchor BCI Global Equity Feeder Fund
Best (SA-Domiciled) Global Multi-Asset Low Equity Fund on a Risk-Adjusted Basis
STANLIB Global Balanced Cautious Feeder Fund
Best (SA-Domiciled) Global Multi-Asset High Equity Fund on a Risk-Adjusted Basis
Ninety One Global Strategic Managed Feeder Fund
Best (SA-Domiciled) Global Multi-Asset Flexible Fund on a Risk-Adjusted Basis
MI-PLAN IP Global Macro Fund
Best (SA-Domiciled) Global Real Estate Fund on a Risk-Adjusted Basis
Reitway BCI Global Property Feeder Fund
Best (SA-Domiciled) Worldwide Multi-Asset Flexible Fund on a Risk-Adjusted Basis
Select BCI Worldwide Flexible Fund

TROPHIES

Straight performance over three years

Best South African Equity General Fund
Fairtree Equity Prescient Fund
Best South African Interest-Bearing Fund
Absa Bond Fund
Best (SA-Domiciled) Global Equity General Fund
IP Global Momentum Equity Fund
Best (FSCA-Approved) Offshore Global Equity Fund
Anchor Global Equity Fund

Risk-adjusted performance over five years

Best South African General Equity Fund on a Risk-Adjusted Basis
Fairtree Equity Prescient Fund
Best South African Multi-Asset Equity Fund on a Risk-Adjusted Basis
Absa Inflation Beater Fund
Best South African Multi-Asset Flexible Fund on a Risk-Adjusted Basis
Long Beach Flexible Prescient Fund
Best (FSCA-Approved) Offshore Global Asset Allocation Fund on a Risk-Adjusted Basis
PSG Wealth Global Flexible Fund of Funds

MANAGER OF THE YEAR AWARDS

Offshore Manager of the Year
T Rowe Price
South African Manager of the Year – 3rd Place
H4 Collective Investments
South African Manager of the Year – 2nd Place
MI-PLAN
South African Manager of the Year
Ninety One

Note: SA and Offshore Managers of the Year received Raging Bull Awards (trophies), the two runners-up to the SA Manager of the Year received certificates.

Agility during volatility behind Amplify's success

Amplify Investment Partners' commitment to investment returns, through partnerships with independent next-generation asset managers, has been rewarded with the Amplify SCI* Wealth Protector Fund winning the multi-asset low equity category at the 2021 Raging Bull Awards for straight performance over three years.

Amplify, which has a bouquet of long-only unit trusts and hedge funds managed by hand-picked, agile and independent asset managers, has seen most of its funds outperform peers and benchmarks, despite the volatility and uncertainty in local and global markets. "This speaks to our ability to pick good managers in the boutique space, and the ability of those fund managers to apply dynamic strategies during volatility," says Marthinus van der Nest, Head of Amplify.

The Amplify SCI* Wealth Protector Fund, managed by Truffle Asset Management, is a multi-asset solution with a cautious risk profile. Its objectives are to provide capital protection over a rolling one-year period and generate income over the medium term at low levels of volatility. The fund's exposure to South African and foreign markets is capped at 40% for equities, 60% for bonds and 50% for cash. The limit for foreign exposure (including Africa) is 40% and 20% for property. Its benchmark is CPI +3% over a three-year rolling period. The fund returned 10.64% (annualised) over three years against a benchmark return of 6.96% and a 4.96% return by its peers. Over one year, the fund returned 10.06% against 6.34% (benchmark) and 5.18% (peers).

Winning at the Raging Bull Awards "proves the point that smaller managers, with their agility, are able to adapt to the difficult markets we have had over the past three years", van der Nest says. "That agility has shone through, as the fund managers have been able to adjust their portfolio, given the different information streams coming through the market, and this has given them an advantage and enabled them to protect client investments in volatile times."

**Sanlam Collective Investments*
Amplify Investment Partners (Pty) Ltd is a wholly-owned subsidiary of Sanlam Investment Holdings and an authorised Financial Services Provider. Sanlam Collective Investments (RF) (Pty) Ltd is a registered Manager in terms of the Collective Investment Schemes in Securities. A schedule of fees can be obtained from the Manager. Maximum fund charges include (incl. VAT): Manager initial fee (max.): 0.00; Manager annual fee (max.): 1.00%; Total Expense Ratio (TER): 1.09%. The Manager retains full legal responsibility of the third party portfolio. The registered name of the fund is Amplify Sanlam Collective Investments Wealth Protector Fund. The full basis of the award is available from the Manager.

Marthinus van der Nest, Head: Amplify Investment Partners


RAGING BULL AWARDS
CELEBRATING 25 YEARS
WINNER
2020

Truffle continues to deliver

For the second consecutive year, the Truffle SCI Income Plus Fund is recognised at the Raging Bull Awards.

The Truffle Sanlam Collective Investments Income Plus Fund was launched by boutique manager Truffle in September 2016. The fund is predominantly invested in bank issued and corporate floating rate bonds. The fund aims to achieve higher yields of income than money market portfolios, while preserving capital.

Hannes van der Westhuyzen, one of the co-founders of Truffle, has managed the fund since its inception. Palvi Kala joined him as co-manager in 2018.

Hannes answered the following questions about the fund:

What is Truffle's investment philosophy regarding managing the Income Plus Fund?

Truffle follows a multi-strategy approach in targeting benchmark-beating returns. We use a combination of credit and duration to generate alpha. A key focus is capital preservation, and we, therefore, avoid risky credit. We do not invest in instruments with ratings below BBB+. We potentially could earn a higher yield on a bond with a lower rating, but we will not invest in it because, on a risk-adjusted basis, capital preservation is more important than a small increase in yield. Investors in the income fund space want the assurance of receiving a steady income stream while still preserving their capital. We therefore seek to mitigate against duration risk by keeping the overall duration in the fund as low as possible without impacting the return.

To what factors do you attribute the fund's out-performance over the past three years?

When Basel III was introduced in South Africa, we identified the new bank subordinated Tier 1 and Tier 2 bond classes very early in their evolution as a viable investable asset class. We conducted a thorough analysis of the instruments and set prudent risk parameters and then invested in these bonds from the outset. This was hugely beneficial to the fund, as well as for all Truffle's multi-asset funds where we manage the fixed income allocation in the same manner, as the yields we achieved were significantly higher than what we perceived the risk to be. Since then, these spreads have narrowed, which resulted in gains for the fund over and above the interest coupons.

What opportunities and challenges will the fund face over the coming year, and, following from this, how will you be positioning the fund?

The biggest challenge for all income funds is to stay relevant in a risk-on environment where equities could deliver significantly higher returns during 2021 than other asset classes. During 2020 we saw short-term rate cuts of 3% and a dramatic steepening of the yield curve with long bonds still yielding north of 10.5%. We also expect equity markets to deliver returns in excess of 12% for the year.


Hannes van der Westhuyzen, Portfolio Manager, Truffle SCI Income Plus Fund

Because of the dramatic cuts in short-term interest rates, investors that rely on their interest income to meet monthly expenses could be tempted to seek higher returns elsewhere, albeit with a high degree of capital risk and income volatility.

Despite the above, our focus in the fund is to continue to deliver respectable returns in this low interest rate environment by making use of longer dated fixed rate bonds with higher yields but without adding undue risk to the capital of the fund.

MM

Offshore

SUPPLEMENT

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Using endowments when investing offshore

BY MARTIENS BARNARD
Marketing Actuary,
Momentum Investments

When investing directly offshore in hard currency, i.e. after converting rand to foreign currency, financial advisers generally have two options to consider on an offshore investment platform: a pure offshore investment or an offshore endowment.

For local investments, clients could benefit from using endowments as part of their personal financial plans, especially high-income earners. These clients could pay up to 45% tax on interest earned on their local investments, and capital gains tax of up to an effective rate of 18%. When using an endowment, these rates effectively reduce to 30% and 12%. In both instances, dividend withholding tax of 20% applies.

Here, the potential tax benefit is often weighed against the restrictions that apply to an endowment. An endowment has a prescribed minimum term of five years. During any restriction period, a client can make one loan and one withdrawal. Any withdrawal is limited to a maximum of contributions plus 5%.

When it comes to offshore investments, there is more to this choice than merely considering the tax efficiency of an endowment and the restrictions prescribed by legislation. Certain international endowments consist of multiple underlying policies, which means that clients have increased access to their money.

Offshore endowments have many benefits that are not as well known, although some of these benefits also apply to local endowments. Generally, an endowment can have the following role players: the investment owner (policyholder), the insured life or insured lives, and the beneficiaries. A beneficiary can be a beneficiary for proceeds and/or a beneficiary for ownership.

Depending on how the endowment is structured with regards to different combinations of role players, the endowment and its proceeds are treated differently in the event of death of the investment owner or the last insured life (if applicable). The endowment can be structured in such a way that it follows the intent of the client. For example, who the ultimate owner should be or who should benefit from the proceeds. An endowment can also hold estate planning benefits; for example, a potential saving on executor fees and, in some instances, even on estate duty and capital gains tax.

The most compelling reason for using an offshore endowment is probably when it comes to situs tax and probate.

In short, situs tax is a type of tax equivalent to South African estate duty. Probate is a procedure where a legal authority approves a will as the valid and last will of a deceased testator. The probate process can be expensive, complex and time-consuming, which means that the winding up of a South African deceased estate could be delayed.

Situs tax and probate can be avoided by using an optimally structured offshore endowment.

> "The most compelling reason for using an offshore endowment is probably when it comes to situs tax and probate"

Another benefit of an endowment is that the legislation provides protection in the event of the insolvency of the investment owner's estate when an insured life has been added (for example, on the Momentum International Endowment Option: Life insurance bond). Note that there are various requirements that must be met for this to be true; for example, the policy must have been in force for at least three years.

The most effective way to invest in an offshore endowment is to use the services of a reputable and established offshore investment platform.

We have more than two decades of direct offshore platform experience. Our offshore investment platform, Momentum Wealth International, was established in Guernsey in 1999. Guernsey was our jurisdiction of choice as it offered an efficient regulatory and fiscal framework, together with investor protection policies. Based on our criteria at the time, we considered Guernsey the safest financial services centre.

The Momentum International Endowment Option (offshore endowment) is available as the Life insurance bond or the Capital redemption bond, a sinking fund without insured lives. This offers various structuring options for financial advisers to make sure that, on death, the transfer of ownership or payment of the proceeds can be handled according to the client's wishes.

We believe that our comprehensive range of products, investment funds and other investment components places us at the forefront of international investment solutions to cater for every client's offshore investing needs.

Your client's offshore investment isn't just another investment. It's unique and personal to them. We can help you with the offshore investment solutions your clients need to help them achieve their goals.

A simple way to consider global equities

Headlines can be misleading. The global equity market is a vast selection of companies operating across industries and regions, with different ambitions, different prospects, and different payoffs for investors. So, when we read a headline that generalises, such as 'S&P reaches new highs' or 'Equities are expensive', how much notice should we take of this information?

What should we do when these generalisations tell us that now either is or isn't the time to invest in global equities?

We can start by differentiating across the equity market, to better understand the opportunity set available. It goes without saying that across a broad equity market, like the S&P in the US, or the FTSE in the UK, on average the set of investment opportunities is, well, average. This shouldn't be surprising. Across a broadly diversified basket of equities, at least half of them you probably don't want to own: Companies that are in distress and unlikely to recover; companies with large growth prospects who ultimately don't deliver; or simply an average company, going about its business, making positive but pedestrian returns. In fact, the number of laggards far outweighs the number of winners. Surely we can do better?

Peter Foster, Chief Investment Officer, Fundhouse

Secondly, we need to reflect on the general mood of the market, which has a tendency to push prices higher the more complacent and risk-seeking investors become. This can lead to the point where the average market of shares is not only average in prospect, but is overpriced too. Arguably, this is where we are today. But, does this mean we follow the headlines and don't invest? No.

If we rather aim for a more specialist approach, we can also begin to distance ourselves from generalist thinking and behaviours to identify opportunities where the payoff is above average.

For instance, value investors will search for temporarily underpriced equities. But to do this successfully, they need to also avoid the legions of permanently underpriced equities. Currently you can buy a value-focused fund at roughly half the valuation of the market as a whole. This is a meaningful opportunity.

Growth investing has merit too, where the target is the exciting multi-bagger equity like a Tesla or an Amazon. If you read the headlines now, you would stay well clear of growth shares, but what's to say that the next Tesla or Amazon is not out there as we speak? A single ten-bagger could offset the general deflation in growth shares, should optimism levels recede. By generalising, we limit our access to opportunities like these and the wealth they can create.

There are various other avenues we can explore too: Emerging market funds that don't focus on Chinese technology such as Alibaba and Tencent, but rather on the less crowded sectors of the market that offer opportunity far from the headlines stories. There are funds that invest in high-quality shares but do care about the price they pay, allowing investors to access these consistent performers without paying over the top for them; or funds that aim to seek out the innovative businesses of the future, where disruption of the status quo drives future growth and earnings.

These headlines can create the illusion that investing is simple and binary, yet in reality it is complex and subtle. Thinking about the opportunity set in simple terms can often clear up the confusion and ambiguity brought on by sentiment and headlines. There is always something to pique the interest in global equity investing.

Predictable dividends offshore in the most uncertain times

BY SCOTT COOPER
Investment Professional, Marriott

In the past 12 months, the spread of COVID-19 has forced us to change the way in which we live our lives in order to protect ourselves and others. In a matter of weeks, office buildings and schools were closed, engrained daily routines set aside, and many interactions important to our mental wellbeing replaced by online applications.

These forced restrictions accelerated many changes which were already in motion, such as online shopping and working from home. The behavioural shifts led to a change in spending patterns, as consumer spending shifted towards online platforms and digital services like Amazon and Zoom. As a result, there were a number of winners and losers in international investment markets.

A number of stocks (such as airlines, energy companies and shopping mall owners) came under significant pandemic-related pressure during the year. However, the growth in online interactions was a major catalyst for strong returns in the S&P Information Technology sector, which surged almost 44% during 2020. Interestingly, three companies (Apple, Amazon and Microsoft) accounted for over 53% of the whole S&P 500's total return in 2020.

If you removed the largest 30 stocks by market cap, the total return for the index was negative in 2020 – a stark contrast to the 18.4% total return delivered by the index as a whole. Although the technology sector was a clear winner in 2020, it has become increasingly expensive. For example, at the time of writing, Amazon is trading on a Price to Earnings ratio in excess of 80.

At Marriott, our philosophy when managing our International Investment Portfolios is to build robust, global investment portfolios that will deliver reliable, long-term returns and a growing income stream for our investors. These portfolios are characterised by global, market-leading companies, with strong brands and a history of delivering reliable dividend growth over time. Further, it is vital that the equities within our portfolios are purchased at appropriate valuations. This approach has served our investors well, both in 2020 and over the longer term.

It is estimated that dividends declined by approximately 20% globally in 2020, as many companies held on to their cash to endure lockdowns. We are pleased to report that none of the offshore companies in which we invest cut their dividends in 2020, as highlighted in the chart.

On average, our offshore stocks managed to grow their dividends by approximately 6%, demonstrating the resilience of the companies in which we invest. From a capital growth perspective, the end results were also good, with our two international share portfolios – Income Growth Portfolio and Balanced Portfolio – delivering 10.9% and 10.3% in Sterling respectively, gross of investment management fees.

Our investment philosophy and filter process delivered what it was designed to deliver, when our investors needed it most: reliable income, low volatility and more predictable investment outcomes.

Investors can invest in these stocks with Marriott in the following ways:

- Marriott's offshore share portfolio - International Investment Portfolio
- Marriott's international unit trusts (using your annual individual offshore allowance of R11m)
- Marriott's local feeder funds, which invest directly into our international unit trust funds (rand-denominated).

Don't be swayed by market hype

BY CLYDE ROSSOUW
Co-Head: Quality, Ninety One

The last few weeks of 2020 were characterised by market exuberance and a large appetite for risk. Positive vaccine news, reduced political uncertainty following the US election, and expectations of further stimulus measures sparked optimism that we would see a wide-spread economic recovery. In turn, we witnessed a rotation to more cyclical stocks, i.e. cheaper, more economically sensitive, lower-quality shares. Equity market indices across the world, including emerging markets, experienced a very strong end to the year.

The rally has continued into 2021. Typically, in this part of the cycle, investors tend to value a very broad exposure to markets when an economic recovery seems on the cards. We also witnessed this after the Global Financial Crisis, and during the height of quantitative easing (QE) stimulus in 2013/14.

> "We require a high degree of resilience from the companies in which we invest"

Therefore, when the market becomes convinced there is money to be made everywhere, the attraction of owning high-quality businesses that have defensive business models may seem less appealing. But this doesn't mean we will change our investment strategy. Why? Because we have seen that these businesses create a very attractive outperformance footprint over time.

The average business within the Ninety One Global Franchise portfolio delivers a 26% return on invested capital, relative to 16% for the average business in the MSCI ACWI. This means that, on average, our portfolio companies earn a return of 26 cents for every dollar of capital invested. That is much higher (1.6 times) than the average businesses in the index.

Our quality focus means that we do not always buy market favourites – if they do not meet our strict investment criteria. We typically like companies that have material barriers to entry, the ability to compound growth over time, strong balance sheets and reasonable valuations. We require a high degree of resilience from the companies in which we invest. Our investment team has successfully managed clients' money through many different market conditions and economic cycles. We do not get sucked into the market hype of chasing stocks when valuations are stretched. Instead, we stick to our investment philosophy and process, which has enabled us to create long-term wealth for our investors on a consistent basis.

Tesla, for example, is now one of the top ten stocks in the world in terms of its market capitalisation (market cap), and benchmark index huggers may feel compelled to own the share. The company has no doubt done an amazing job in launching the electric battery car. While likely to take substantial market share over the next decade, Tesla won't have the marketplace all to itself. We believe other vehicle manufacturers will participate strongly in this segment and the market will become quite fragmented. We believe the current market cap of $375bn is overdone, given the company's lack of profitability, high debt levels, and questions around volumes and future market share. Essentially, investors are already paying for a de-carbonised world where the internal combustion engine is extinct and Tesla batteries have dominant market share.

Stimulus-induced reflation trades can be short-lived, if led more by sentiment than fundamentals and not supported by long-term sustainable growth. This has been the case on several occasions historically, and current uncertainty again gives us reason for caution. Our quality investment approach has a proven ability to outperform over the long term, and the current opportunity remains attractive in both absolute and relative terms.

What's to gain from investing offshore

Offshore investing offers South Africans unique and compelling benefits – the most fundamental of which is spreading your overall investment risk.

Diversification is a cornerstone of long-term investment strategy, and essentially refers to spreading your risk. This is important because there are many factors that can affect individual assets or classes of assets – from global pandemics to societal and cultural trends, downgrades in a country's investment status, property or oil prices, import and export regulations, the rise or collapse of a multinational, and innovations or automation within a specific industry, to name a few.

Because assets all perform differently under changing conditions or events, the goal is to balance your overall portfolio so you're not adversely affected by big changes.

> "It's worth noting that the JSE accounts for less than 1% of the global equity market"

"Gaining offshore exposure is an excellent idea for medium- to long-term investors. Almost everything we buy is impacted in some way by the global economy. It's estimated that up to 64% of household expenditure is impacted by currency movements – so portfolios need diversification to cater for this," Discovery Invest's Head of R&D, Craig Sher, says.

Discovery Invest in 2020 launched a much-enhanced global investment solution that uses shared value to create the world's first exchange-rate enhancer, and offers investment choices advised by world leaders in asset management, BlackRock and Goldman Sachs.

The first advantage of global investing is geographical diversification. The JSE offers investors a degree of international exposure because many locally listed companies are multinationals. However, this is limited to the specific geographic regions these companies operate in.

Secondly, global investing gives you access to new opportunities in sectors that perform strongly, but are not readily available on the local market. Technology, for example, makes up over 20% of the S&P 500 and has achieved a return of close to 50% over the last year. Auto manufacturer Tesla was up over 500% over one year, and industries like renewable energy and healthcare are also well-primed for growth.

"It's worth noting that the JSE accounts for less than 1% of the global equity market, so a significant majority of investment potential lies beyond our borders," says Sher.

Craig Sher, Head: R&D, Discovery Invest

Finally, there's currency diversification. Having investments in hard currencies like US dollars, British pounds or euros can help even out the volatility of the rand, and a combination of assets in rand and other currencies will make for a more balanced portfolio as overall losses and gains average out.

"A great way to enter the global market is to take advantage of Discovery Invest's world-first exchange-rate enhancer," says Sher.

The Discovery Global Endowment lets medium- to long-term investors buy in at much lower than the prevailing exchange rate on qualifying investment choices. This provides, by far, the best effective currency conversion for your money, no matter when investors decide to start a global investment.

"Starting is something all investors should consider. A properly diversified investment portfolio is far less at risk of poor performance or irreversible capital loss. It's also well positioned to gain from the global economic recovery taking hold amid vaccine rollouts for COVID-19," Sher concludes.

Were any stock markets cheap going into 2021?

Global stocks are expensive, on pretty much every measure, but there are some mitigating factors.

DUNCAN LAMONT
Head: Research and Analytics, Schroders

Where is the value in stock markets today? This is a difficult question to wrestle with. At face value, the bad news is that everywhere looks to be at nosebleed-red levels of expensiveness.

Of the 25 measures in our regular stock market valuation grid (five markets and five measures for each), 16 are more than 20% expensive than their median of the past 15 years, five are between 10% and 20% expensive, and a further three are up to 10% expensive. Only one is in the green and even then, only just.

The US is flashing the most warning signs. It is more expensive than at any point in history outside of the dotcom boom. This is especially important as it has an almost 60% weight in the global stock market (MSCI All Country World Index). What happens to the US market will have a major impact on most investors' returns.

Prepare for lower returns

There is no way to get around the fact that stock markets are expensive. This doesn't have to mean they will crash, though. What investors should prepare for, however, is the prospect of low long-term returns. In our recently released 10-year return forecasts, we are only forecasting global equities to return 4.3% a year over the next decade – better than the negligible returns offered by cash and bonds, but well short of long-term and recent historical experience.

There is the caveat that valuations are a long-term tool and have very little predictive power in telling you what might happen over shorter time horizons. With expectations for improving sentiment, a pickup in economic activity and a supportive fiscal and monetary policy environment, a more positive near-term outlook is quite reasonable.

> "The US is flashing the most warning signs"

However, given that our 2020 Global Investor Study found that individuals in most countries were hoping for returns of more than 10% over the next five years* (with US individuals most ambitious at 15%), many people are probably in for sore disappointment.

** Note that these return expectations were at their total portfolio level, so also including any cash, bonds and other assets held.*

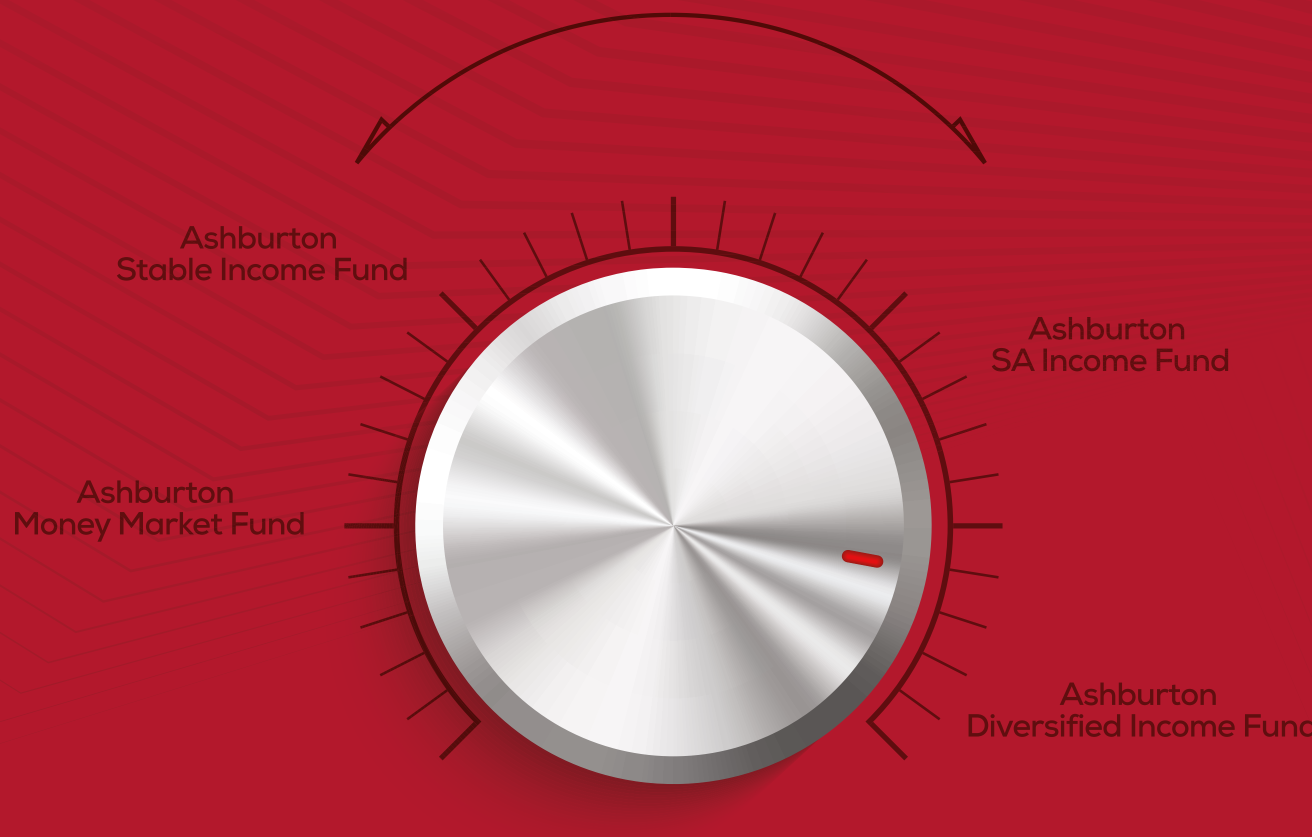
This document may contain 'forward-looking' information, such as forecasts or projections. Please note that any such information is not a guarantee of any future performance and there is no assurance that any forecast or projection will be realised.
The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.
Past Performance is not a guide to future performance and may not be repeated.

Valuations vs. 15-year median (29 January 2021)

Equity market	CAPE	Forward P/E	Trailing P/E	P/B	Dividend yield
US	33 (23)	23 (15)	32 (19)	4.3 (2.8)	1.5 (2.0)
UK	13 (13)	14 (12)	18 (14)	1.6 (1.8)	3.3 (3.8)
Europe ex. UK	20 (16)	18 (13)	23 (16)	2.0 (1.7)	2.2 (3.2)
Japan	21 (23)	18 (14)	25 (16)	1.5 (1.3)	2.0 (2.0)
EM	16 (15)	16 (11)	23 (14)	2.1 (1.7)	1.9 (2.6)

Key: >20% | 10-20% | 0-10% (Expensive) | 0-10% | 10-20% | +20% (Cheap)

Source: Datastream Refinitiv, MSCI and Schroders. Data to 29 January 2021. Figures are shown on a rounded basis. Assessment of cheap/expensive is relative to 15-year median in brackets.


Ashburton
Stable Income Fund
Ashburton
SA Income Fund
Ashburton
Money Market Fund
Ashburton
Diversified Income Fund

Diversifying through pragmatic conviction

BY JARROD CAHN
Portfolio Manager for the Credo Global Equity Fund

Diversification is one of the core principles of investing. It is an important consideration when deciding upon asset allocation, investment styles, managers or individual securities. The premise is, of course, that the only thing that can protect against negative unforeseen consequences is to avoid having all of one's investments in the same vulnerable position. Don't put all your eggs in one basket, indeed.

In 2021, as we face the prospects of another uncertain COVID year, this theme seems to take on new importance for equity investors. There have been some equity funds and managers who did very well in 2020 by investing in a relatively small group of tech-driven, growth-style stocks. Having everything on red just before the roulette wheel falls on that colour can produce terrific returns – but it is certainly a high-risk strategy to keep betting on red continuously. At some point the wheel will land on black.

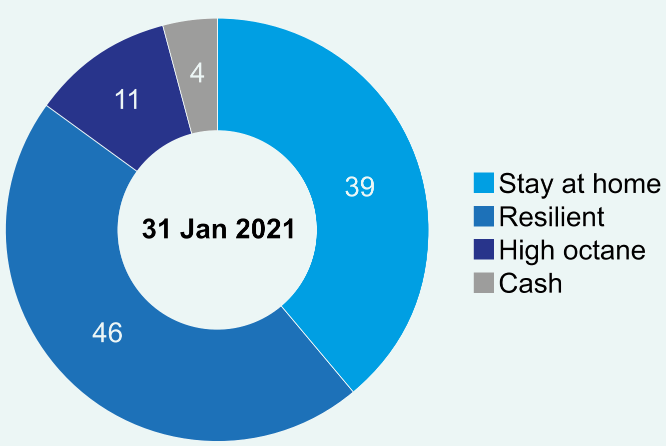
> "This is the conundrum facing equity managers today: at what point will the market shift?"

This is the conundrum facing equity managers today: at what point will the market shift? Some continue to place their bets on the same companies and themes that delivered over 2020. Credo's approach is somewhat different. Rather than placing everything on red, Credo has instead continued to invest in a diversified pool of high-quality companies.

Some of these companies will do well in conditions where economies are locked down (so-called 'stay-at-home' stocks). Others may be facing challenges in a COVID-19 environment but are poised to perform strongly when economies start to normalise again ('high-octane' stocks). There are also those with mixed fortunes, where one part of the company is doing well but not others, as well as those that are indifferent to COVID-19 because their business models carry on regardless of lockdown ('resilient' stocks).

Every stock should be a good standalone investment with conviction behind the investment thesis. In line with Credo's investment philosophy, every holding needs to demonstrate good value. Put another way: don't overpay, even for good assets. Finally, the time horizon should be longer than just the next quarter. A well-diversified portfolio should look ahead at least three to five years.

Credo Global Equity Fund
portfolio allocation by stock type (%)



With all that in mind, the Credo Global Equity Fund seeks to position itself in a sensible, pragmatic way. As the chart indicates, 85% of the Fund (31 Jan 2021, by value) was either in stay-at-home or resilient stocks. As and when the economies open up, the resilient stocks (46%) will get a kicker from the small but important high-octane stock allocation.

COVID-19 restrictions remain an unknown. Funds that have placed a bet on quick economic recovery might be left exposed if the vaccines are less effective than originally thought. Those betting against a recovery are probably being unduly pessimistic. Clearly, though, betting everything on just a single outcome seems ill-advised over the long run when there are so many risky uncertainties. One more reason to adopt a pragmatic approach to investing with conviction.

An African solution to a South African problem

BY NIKOLAAS DELPORT
Business Development iDFM, RisCura

Over the last two decades, many companies have delisted from the JSE. In its 1988 peak, it had 754 companies listed, which was down to 274 at the end of 2020, with no slowdown in sight.

Although the reasons for delisting differ, major contributors include the popularity of private equity investment vehicles and the high regulatory burden placed on listed companies. This has been further exacerbated by low market values generally trending sideways and the COVID-19 pandemic.

For South African asset managers running Regulation 28-compliant funds for the retirement industry, this has caused a peculiar problem as their South African equity component, over time, has become less diversified, which is posing an increased concentration risk.

Current South African retirement fund regulation allows funds to invest 30% offshore and, over the years, asset managers have maximised on this allocation, bringing a market advantage to their investors. This has allowed retirement fund members to gain access to tech-heavy developed markets and fast-growing emerging markets while also benefiting from a weakening South African rand.

But an often underutilised and misunderstood offshore allowance is the additional 10% offshore African allocation, allowing a Regulation 28-compliant fund to invest a maximum of 40% offshore.

This can ease the concentration risk posed by the contracting South African equity universe while, at the same time, allowing fund managers to avoid decreasing their current developed market and emerging market offshore allocations.

It's important not to disregard Africa over negative headlines, even if some countries seem to be poorly run and saddled with corruption. Negative headlines do not warrant the dismissal of the entire continent as an investment destination. As an example, recent South African newspaper headlines don't paint SA in a positive light necessarily but, living here, we know that life goes on and there are many attractive investment opportunities.

Dig a little deeper and you will find about 180 well-run listed companies across Africa outside of SA, with sufficient liquidity, operating in fast-growing economies, at incredibly attractive multiples to invest in. Re-allocating South African equity exposure to African equity is a good option to boost investment diversification.

> "An often underutilised and misunderstood offshore allowance is the additional 10% offshore African allocation"

Africa as an asset class has historically been quite volatile but, importantly, weakly correlated to other asset classes. By adding 5% African equity exposure, the entire portfolio volatility decreases, while also increasing the rand hedge component of the portfolio.

The best way to gain access to Africa is through a specialised, active African equity manager. Investing in Africa has certain nuances and requires many onsite visits that are performed best when you are 100% focused on the single asset class. It helps to have this focused specialist. The underdeveloped nature of African financial markets enables a talented manager to add sufficient alpha.

Additionally, passive managers seldom consider Africa as an asset class. And with index investing in its infancy in Africa, passive strategies ultimately prevent access to this asset class and are capturing additional capital in South Africa.

Within the current regulatory constraints, pension fund trustees should encourage their Regulation 28-compliant fund managers to resolve a uniquely South African problem by investing in Africa.

Value and growth – two sides of the same coin

BY SHMUEL SIMPSON
Investment Analyst,
36ONE Asset Management

Pigeonholing is a handy tool we use to make sense of massive amounts of information we absorb. By classifying phenomena into clearly defined categories, it makes it a lot easier not to be overwhelmed.

But the obvious risk is that such an approach can result in misclassification due to our inability to see nuances of a particular situation. Instead of making the effort to clearly identify a situation, we rely on the convenience of pigeonholing.

Investors are often guilty of this behaviour – at times greatly so.

Take, for example, the traditional classification of value and growth. Some value investors will look for stocks that are statistically cheap on a P/E basis and conclude that there is value to be found. Conversely, fast-growing companies often trade at very high multiples and on the surface seem very expensive. Traditional value investors will often shun these 'growth' companies as they don't fit the classic definition of a cheap stock.

In an economy where technology is becoming essential, investors must be cognisant of the exponential growth potential in many technology companies. Network effects and scaling ability of certain SaaS companies mean that what may seem expensive may, in fact, not be the case.

Many of the large-cap technology companies like Microsoft and Facebook may have looked very expensive a few years ago when valued at simple forward P/Es. However, a deeper, more nuanced analysis would have revealed the growth potential inherent in these companies and that they could have been viewed as value plays.

Hindsight is 2020, and while it's easy to look back and see how certain growth stocks were in fact value stocks, the key is having the foresight to see earnings potential before the market does. It's easy to simply write off companies as either expensive or fads due to superficial analysis and preconceived notions of value.

Taking a longer-term view also implies greater risk. It is difficult to be certain of what the future holds three to four years out. Technology evolves and certain products or services may become obsolete. Therein lies the opportunity for greater returns.

Value and growth should not be viewed as two distinct investing styles – rather, both should be incorporated into a more comprehensive investment process. Growth informs value and is often a key element of a true 'value' stock. Companies that have strong structural tailwinds with a long runway, are at times undervalued because of the market underappreciating the growth potential.

Superficial analysis is easy, but true value is found in an in-depth understanding of growth.

We at 36ONE remain style agnostic. We combine growth, value and quality stocks within the portfolios for the potential of high returns with less risk. We look for companies with quality management and structural growth opportunities, while still trading at reasonable prices considering our implied expectations.

The 36ONE Global Equity Fund PC applies this philosophy while investing mainly in global equities listed on recognised exchanges. South African investors can also access the fund through our rand-denominated feeder fund, the 36ONE BCI Global Equity Feeder Fund.

What your clients should know about offshore trusts

BY JOHAN ODENDAAL
Managing Director, Corpag South Africa

For many South Africans, the concept of a trust is unfamiliar or difficult to understand.

In simple terms, a trust can best be described as a relationship: an arrangement whereby ownership of assets are transferred from one person (the settlor) to another person (the trustee) to hold for the benefit of others (the beneficiaries). The trustee becomes the legal owner, while the beneficiaries become the beneficial owners.

When faced with a decision to establish a trust in an overseas (or offshore) jurisdiction located thousands of kilometres from South Africa, the concept can become even more intimidating. These concerns persist despite the high level of fiduciary duties and licensing requirements imposed on the trustee by equity and the local trust laws, which clients are often not aware of.

Considering the uncertain economic and political climate in South Africa, the need among South Africans to diversify internationally and move some of their wealth abroad continues to increase. Overseas trusts remain extremely relevant to this process of 'externalisation' and a necessary tool used as part of a family's global succession plan.

Overseas trusts are generally used by South Africans in a 'private client' capacity, for example by wealthy families who are taking some of their assets offshore and who have the need for a mechanism to be put in place whereby an independent, professional trustee will ensure that the family is looked after in a responsible manner, which broadly aligns with the settlor's wishes. Another scenario in which the use of an overseas trust can be very beneficial, is one where a local entrepreneur is looking to expand his or her businesses internationally and might want to consider growing and preserving wealth abroad. Many, however, are unacquainted with the flexible international solutions available, in particular as far as it relates to ensuring that the settlor of the trust is comfortable with transferring legal ownership to the trustee.

Perhaps, these can best be explained by an example:

Having built up a successful procurement business in South Africa importing electronic goods from China, Mr S has recently agreed to terms for his products with two international buyers. He will sell at a significant profit and transact in US dollars to benefit from potential currency advantages. Mr S's domestic business generates sufficient wealth to support his family in South Africa. He wants to take a long-term view and diversify risk, and is therefore considering leaving some external profits outside South Africa. His children are finishing high school in a few years' time, and he wants to send them to the United Kingdom or United States to study.

Depending on where his buyers are located, Mr S would best be advised to incorporate a legal entity in a well-regulated and reputable jurisdiction with a beneficial tax regime to 'house' his international business. His main concern is how to keep these profits 'safe' without having to repatriate them to South Africa or exposing them to excessive taxes in South Africa. Mr S is very cautious of surrendering 'legal ownership' of the shares in the overseas business within the normal concept of a trust. Acting as joint trustee alongside the professional trustee might be one option but, as well as being a burdensome process, this could have negative tax consequences in SA for Mr S.

There are a number of alternatives that Mr S might want to consider, depending on his personal and commercial circumstances:

1. Private Trust Company

Trust law in a number of overseas jurisdictions allows for the creation of a Private Trust Company (PTC) to act as the trustee of a trust governed by its laws, provided that each beneficiary of the trust is a person connected – by blood, marriage or adoption – to the settlor of that trust.

PTCs provide the settlor with a means of retaining a greater degree of control over trust assets without compromising its validity. PTCs are also preferred vehicles for establishing a family office structure because they provide a mechanism for family members, such as children and grandchildren, to become involved.

2. Appointing a Protector

A protector is a person appointed under the trust deed to direct or restrain the trustees (when necessary) in relation to their administration of the trust. The concept of a protector developed in offshore jurisdictions where settlors were (perhaps understandably) concerned about appointing a trust company in a small, distant country as sole trustee of an offshore which is to hold a great deal of the settlor's wealth.

There are a number of reasons that a settlor may wish to appoint a protector in relation to a trust, including that:

- protectors allow a great degree of flexibility when dealing with changes in circumstances;
- the settlor may be concerned that the trustee may not pay sufficient attention to his or her wishes;
- the settlor wishes certain powers to be withheld from the trustees; or
- the settlor wishes a third party to act as a main point of contact.

3. Purpose Trust

A few jurisdictions allow for the creation of non-charitable purpose trusts (NCPT), where the trust fund can be used for a purpose that is not charitable, provided that its purpose cannot be regarded as 'impossible', 'against public policy' or 'immoral'. The document establishing the NCPT – the 'trust deed' – must state the purpose for which the trust has been created and must appoint an 'enforcer' to ensure that the terms of the trust are met.

4. Trustee Advisory Committee

Another commonly used technique is to name a trustee adviser or a Trust Advisory Committee (TAC). A TAC may advise the trustee without actually making decisions. The TAC may consist of two to five individuals, which may include a parent or other family member, an attorney, a social worker, a care manager, an accountant, a nurse, a physician, or any combination thereof.

These mechanisms can provide business people like Mr S with a legally sound way of creating and preserving wealth abroad, while also ensuring that he is comfortable with surrendering ownership. When contemplating such important decisions, it is always best to first consult with your attorney, tax adviser, as well as a reputable fiduciary service provider.

Corpag is boutique, global corporate, trust and fiduciary service provider with offices in 20+ countries globally. We opened our first African office in Cape Town in September 2020. For more information, see: https://www.we-are-corpag.com/index.html

"Overseas trusts are generally used by South Africans in a 'private client' capacity"

Why professional advice makes offshore investing less intimidating

MICHAEL SUMMERTON
Head of Marketing and Proposition, INN8

"Urgh, these teenagers will be the death of me!" thought Linda* as her 17-year-old daughter slammed the phone down on her mid-sentence after a heated debate around family dinner plans, dating during COVID, and her daughter's (very light on planning, low on funding) plans for studying veterinary science in the UK next year.

While everything seemed contentious of late, it was the study plans that kept Linda awake at night. More precisely, making sure the little funding she had managed to save up over the years wouldn't be wasted at R20 to the pound! (While she refused to admit it out loud to her husband, the fact that her daughter would literally be setting up her life on a completely different continent also kept her awake).

At 52, Linda had competing priorities:

- burning the midnight oil to try keep income flowing during challenging times when it seemed like so many had suffered severe COVID-related financial setbacks;
- trying to retain some semblance of normality for her two teenage daughters who had struggled with home school last year; and
- planning for the long term, including their tertiary education, and Linda's eventual retirement, which at present seemed like a distant mirage, rather than a practical objective.

Linda had also caught the recent headlines around the fiscal deficit, the likelihood of increased taxes, something about an 'expat' tax and, in the case of emigration, mooted red tape when accessing one's retirement funds.

Fortunately, Linda had performed some research, had consulted a financial adviser, and was considering a proposal for moving a portion of her investments offshore. While the adviser had explained her options around product choice, different investment managers, and asset allocation matching up to her risk appetite, there were practical insights about offshore investing that Linda found valuable from her consultation:

Turning your rand into foreign currency can be done from your cellphone

These days, there are many excellent providers who will help you obtain any relevant tax clearances and exchange your money into your preferred currency, all for a reasonable fee.

If you prefer to do things yourself, there is an app for that! Simply download Shyft from Standard Bank and transfer rand from your bank account into your Shyft account. Once available in the app, you make use of your annual allowance from the Reserve Bank, of up to R1m per calendar year, to purchase any number of different foreign currencies (in real time!) from the comfort of your sofa. You can then make payments to your selected offshore provider (or even your daughter) from the app by entering their banking details.

The key here is getting the IBAN correct (IBAN is not so scary when you realise it simply stands for International Bank Account Number).

But what about the tax?

Depending on the type of product Linda selects, either the product provider will pay any taxes on her behalf (in the case of an offshore endowment), or Linda will be provided with a tax information certificate, which she can either give to her accountant or disclose the data according to the correct codes as part of her annual online tax submission.

Jeff from marketing says Linda should have 100% of her assets offshore

Deciding on an appropriate offshore allocation is a very personal choice. But before Linda decides how much of her discretionary savings to shift offshore, it was worth understanding how much offshore exposure she currently already has.

Among the myriad choice of offshore products, funds and features, what is often overlooked is how to mitigate your currency exposure using your existing retirement savings. Alongside her primary residence and business, Linda's retirement savings make up a significant portion of her assets. As a business owner, Linda has a retirement annuity that she contributes to monthly, as well as a handful of pension and provident preservation funds she accumulated during her earlier corporate career changes. Between the two of them, Linda and her husband have a large portion of their wealth in 'compulsory' savings vehicles. Linda can select up to 30% in foreign assets via her retirement savings using a feeder fund (which is a South African unit trust, denominated in rand, that invests offshore using the foreign allowance of the retirement annuity fund).

> "Deciding on an appropriate offshore allocation is a very personal choice"

Fast forward a few years and once Linda enters retirement, two thirds of her retirement savings will probably end up being used to purchase a 'post-retirement' vehicle that pays a regular income out to her. This might be something called a living annuity. The good news is that within a living annuity, Linda can place up to 100% of her capital in a feeder fund and increase her exposure to foreign assets and markets without any need to exchange her rand for forex.

What was the name of that app again?

Like most things in life, once Linda learned a bit more about the topic, and sought the advice of a qualified professional, offshore investing was not nearly as intimidating as she thought initially.

"Now just how to convince my daughter that her alternate plan of a gap year in Thailand is not nearly as attractive as it sounds," Linda thought as she drifted off to sleep.

**Names have been changed to protect the innocent*

Time to plan your future in Cyprus

'The best time to plant a tree was 20 years ago. The second-best time is now.' – Chinese Proverb

With COVID-19 putting the world in state of suspension, global travel restrictions are a reality and most countries are in some form of lockdown. As vaccine rollouts take place worldwide, there is optimism that the pandemic infections will start easing off.

It is perfect timing to take a breath, do some reflection and start working on a plan for you and your family's future in Cyprus.

Cyprus is an English-speaking, ex-British colony and full EU member, and an extremely popular European destination for investors. Not only has it been voted as having the best permanent residency programme on offer, but also huge investment is pouring into the economy with all the infrastructure developments and the enormous natural gas fields.

There's never been a better time to explore investing in Cyprus. The three main benefits of investing there are to secure permanent residency, the fantastic lifestyle and the country being a secure investment destination.

Your Plan B

The permanent residency programme on offer in Cyprus has been voted as the best in Europe because three generations in the same family line all get permanent residency in four months. This includes dependent children up to age 25, as well as the parents and the parents-in-law of the main investor. Permanent residency status is for life, the permit never expires nor needs to be renewed. Another benefit is that you do not need to live in Cyprus to retain your residency status. Cyprus permanent residents can apply for EU citizenship following their physical presence in the country for a number of years.

The lifestyle

It is fabulous living in Cyprus! Being an ex-British colony, there is no language barrier – everyone speaks English and all the documentation is in English. Cyprus has a relaxed, stress-free lifestyle offering an ideal family environment. There are excellent schools and tertiary education institutions (all Euro-accredited), and the healthcare facilities and medical care are first rate. The golf courses are world class, the countryside is beautiful and Cyprus has 65 blue-flag status beaches, the cleanest seas in the Med and a mountain range where it snows for three months of the year. This is a country for enjoying and exploring.

Safe investment destination

Properties in Cyprus offer excellent value for money when compared to other European countries – especially homes right on or near to the Med. The lush and beautiful western side of the country is similar to the Western Cape and enjoys the biggest demand and highest growth.

Unlike some other European countries, as an ex-pat you are not restricted to buying only in Special Designated Areas (SDAs), nor are you prescribed to stay in the country every year to retain your residency. Being able to rent your property out has the added benefit of earning you a decent euro-based income. There is a high demand for both long-term rentals and short-term holiday lets. Not only will your asset generate income for you, but you also have complete peace of mind that the property purchase is legitimate, and your ownership guaranteed.

Your trusted partners

Cypriot Realty – a proudly South African company in operation for 13 years with offices in Sandton, Cape Town and Cyprus – is your trusted partner to realise your Plan B in Europe. We are recognised and respected as Southern Africa's authoritative investment specialists promoting Cyprus as an ideal destination for acquiring EU citizenship or permanent residency, for property investment, for immigration or retirement and starting an EU-based business. We understand investors' needs, and we have an impressive track record showcasing our success.

Property inspection trips

We arrange personalised property inspection trips for you to travel to Cyprus to view the property options and to experience for yourself the lifestyle on offer. From arranging meetings with taxation and legal specialists, to opening up your offshore bank account – we hold your hand every step of the way. Contact us for a confidential meeting to discuss how Cyprus can fit in with your offshore plans – we will assist and guide you in achieving your Plan B.

Offshore investing as a diversifier

BY MICHAEL DODD
Head: Equities, Old Mutual Multi-Managers

One of the most effective ways to manage risk in an investment portfolio is through diversification, which has been called the 'free lunch' when it comes to risk management. Rather than investing in one singular stock, sector, asset class or geography, diversification is about spreading the risk across all of these. Investors need to have different types of investments in their portfolios, so that when the inevitable down days come for some, they can be offset by others that are moving in the opposite direction. The best way to manage risk in your portfolio is to have diverse investments and assets – in other words, a broad range – spread along the investment spectrum.

Investing can be scary because it is your hard-earned money at stake. But it is relatively simple to manage investment risk within a whole investment portfolio context using diversification. Ultimately, no one knows what the future holds, and what works in one year may not necessarily work in the next. Rather than betting on one single outcome, spreading the risk across different assets ensures you always have something in your portfolio that is working on your behalf.

However, investors need to be careful of over-diversifying in a way that doesn't improve the risk and return characteristics of their portfolio. We often see investors who've put together too many funds that are all doing the same thing and not bringing anything different to the mix. In the investment world, we sometimes call that 'diworsification,' because it actually worsens things.

Offshore investing – a form of diversification

In the context of South African portfolio management, investing offshore is classified as 'geographic diversification.' With South Africa making up only 0.5% of the world markets, diversifying offshore gives investors the opportunity to invest their money in various markets – developed, emerging, frontier and in stocks that may not be available on the Johannesburg Stock Exchange (JSE).

Offshore investing can sound unattainable to the average South African. However, there are many ways for South African investors to invest offshore. One such way could be through buying a unit trust or investing in a balanced fund that has offshore exposure.

> "In addition to diversifying our portfolios at stock, sector and asset class levels, we also diversify at an asset manager level"

At Old Mutual Multi-Managers, diversification is one of the cornerstones of our investment philosophy. In addition to diversifying our portfolios at stock, sector and asset class levels, we also diversify at an asset manager level. Here we allocate money to investment managers, both locally and globally, that we believe are best suited to manage this money on our clients' behalf.

Old Mutual Multi-Managers has recently launched a range of offshore funds, which are currently open to all South African investors via the Old Mutual International (OMI) platform. These funds offer pure equity, aggressive balanced and moderate balanced options. In line with our investment philosophy, the offshore range of funds aim to achieve their investment objectives through diversification at manager and asset class level. The asset classes the funds have exposure to are: global equity (developed and emerging markets), global cash, global fixed income and global property.

The need to think – and invest – for the long term

BY STANLIB
in partnership with Columbia Threadneedle Investments

When we look back on 2020's headline market return in years to come, it will tell us very little about this extraordinary year. A 17% return from global equities, for instance, is an outcome few would associate with a year that delivered the deepest global recession since World War II.

STANLIB's offshore partner in the management of global equity and balanced funds for the past nine years, Columbia Threadneedle Investments, believes that the astonishing volatility disguised by that number brought with it two important reminders. The first is the importance of being active, something Columbia Threadneedle Investments believes is vital in both asset allocation and security selection. The other is the need to think – and invest – for the long term.

Back in March 2020, as countries were essentially shut down to contain the spread of COVID-19, uncertainty permeated the valuation of pretty much every asset class. Yet, at the same time, unprecedented global policy stimulus was released into credit and labour markets, as policymakers committed vast resources to prevent the public health crisis morphing into a deeper structural one.

STANLIB Global Balanced portfolios were presented with a rare opportunity to 'lean in' to those markets that had been badly beaten up, but which looked well-positioned to benefit from the extraordinary policy measures – notably global equities and higher-grade corporate credit.

> "The strength of the market recovery that followed emphasised the importance of holding one's nerve"

The strength of the market recovery that followed emphasised the importance of holding one's nerve. Those who were not able to think long term may have missed out on the opportunity to participate in the strongest month for global equities since 2009.

But just as policymaker interventions dragged risk markets higher, there was huge variation in the post-crash return profile of different asset classes and companies. The ability to be active within asset classes too, was even more important in a year when certain sectors became almost un-investable.

An overarching theme across assets we held within the Global Balanced portfolios was quality. In equities, for instance, our stock-picking colleagues were seeking companies with strong balance sheets, high free cashflow and healthy returns on capital.

When the COVID-19 case count rose rapidly in January 2021 across the US and Europe, the immediate economic outlook associated with renewed lockdowns seemed darker. Yet, risk asset prices had never been higher.

It is worth remembering that stock markets are only a subset of the economy, and equities are forward-looking. So, we must be too, and in looking to the future, share the optimism reflected in risk markets today.

A favourable US election outcome has removed some large tail risks and brought with it some fiscal reprieve. Furthermore, the number of vaccines with greater-than-expected efficacy is creating investment opportunities in more cyclical areas of the world. The foundations for a more sustainable cyclical recovery have been set.

Our most recent moves within the STANLIB Global Balanced portfolios have been to tweak our equity allocations higher once more, with a joint focus on quality companies that also stand to benefit from a cyclical upturn. For instance, in the drinks business, Pernod should benefit from a re-opening of bars and restaurants, and Disney has already seen considerable uptake on its subscription service, but the broader business stands to benefit as its parks reopen.

Meanwhile, within the global bond sub-portfolios, we have trimmed our duration overweights. This proved helpful in 2020 as government bond yields found new lows, but the outlook for sovereign duration may be challenged in the recovery scenario we anticipate. Importantly, however, our expectations are that there will not be a meaningful rise in bond yields, and those low discount rates remain a powerful support to sustain risk asset valuations.

Meet Isabel Botha: Enjoying financial freedom and financial security

Isabel Botha, Freelancer

Freelancers can now insure their income against the risk of injury and illness, even for something as minor as a fractured hand or the flu.

BY: FMI (A Division of Bidvest Life Ltd)

The gig economy is nothing new. Freelancers have been around for decades. However, this particular market segment is growing exponentially year on year as advancing technology enables increased accessibility to fluid work projects and contracts.

Many individuals today prefer to work on a freelance basis. Take 27-year-old graphic designer, Isabel Botha, for example. She left a secure job in the advertising industry to make a go of it on her own. She's part of a growing trend of individuals who prioritise flexibility over stability, choose self-reliance over dependency, and prefer financial freedom over financial security. She feels that working for herself really gives her the footing to follow her dreams. Isabel now employs two other people, so she feels like she's making an impact in her own way, by empowering other freelancers to earn an income on their own terms.

However, as a freelancer, Isabel doesn't have many of the securities that permanent employees enjoy, such as sick leave. For her, no work means no pay. "If I don't work tomorrow, I don't get paid for tomorrow," she says. "That's why my income protection policy is so important to me – it allows me to do what I do." Isabel understands her risk of experiencing an injury or illness, and without the right insurance in place, she'd be left without a back-up plan. FMI's 2019 claims statistics show that a person her age has a 96% chance of being unable to work for longer than two weeks due to an injury or illness during their working career.

Like anyone who has their own business, but especially a one-man-band like Isabel, the consequences of experiencing an injury or illness without cover to rely on would be devastating. But freelancers like Isabel haven't always been able to get income protection. The nature of their job is often associated with inconsistent work, unpredictable income patterns and informal or unreliable contracts, making it difficult for insurers to assess their risk profile or to know how much to insure them for.

However, FMI has been able to pave a new way by simply changing how they define freelancers and assess their risk. FMI is now able to offer income protection to freelancers and other independent contractors, redefining what life insurance means to this up-and-coming market.

"Given that the way we are working is changing, and that it's becoming less common for people to work in traditional occupation statuses, the insurance industry needs to make cover available to more diverse work statuses in order to remain relevant," says Leza Wells, FMI's Chief Product Actuary.

To watch Isabel's story and other real stories, go to www.fmi.co.za/impacters

The impact of COVID-19 vaccines on your clients' long-term insurance

One of the primary objectives of scientists around the world over the past year has been the development of a vaccine for the COVID-19 virus. This has resulted in the development of several vaccines that appear to be effective against the virus. In fact, according to Dr Reinhardt Erasmus, Medical Officer at Momentum, "Several vaccines had become available at the end of 2020 with more than 40 candidate vaccines already being tested in human trials, and over 150 of these vaccines in pre-clinical trials."

The overall purpose of vaccines

Vaccination is the best way to save millions of lives and end a pandemic's devastation. Dr Erasmus confirms the effectiveness of vaccines by stating, "Vaccines are estimated to save more than five lives every minute. They protect communities against preventable diseases, which directly impacts social and economical welfare across the globe." Over a number of decades, there have been countless examples of the positive impact of vaccines. The most noteworthy of these is smallpox, which was eradicated, and polio, which is on the verge of being defeated.

According to The World Health Organisation (WHO), 86% of the world's children currently receive essential, lifesaving vaccines, which is a dramatic increase from an estimated 20% in 1980. This protects them and their communities against a range of infectious diseases, but this level of protection can only be achieved through a strong global effort to increase access to vaccinations and the affordability thereof.

"We are not going to ask clients to specifically disclose if they have been vaccinated"

COVID-19 vaccines in a nutshell

"Without getting too technical, COVID-19 vaccines aim to 'train' the recipient's immune system to fight off the infection when the virus is encountered," Dr Erasmus comments. He adds, "Vaccines achieve this in multiple different ways, depending on the mechanism used. It should be noted that even though vaccines for COVID-19 have been developed at an unprecedented speed, safety criteria had to be stringently followed in pre-clinical and clinical developmental stages."

The COVID-19 virus is a serious disease that has infected more than 78 million people across the globe in only 10 months, and killed 1.7 million of those infected. This raises a serious concern of this virus having the potential to overwhelm health systems worldwide, leading to deaths for people with other ailments that would otherwise have been treated. Although behavioural measures such as mask-wearing, physical distancing and isolating while symptomatic did contribute a great deal towards slowing the spread of the virus, vaccines offer a better and more effective path to eliminate the COVID-19 virus.

Hesitancy and typical misconceptions about COVID-19 vaccines

Dr Tedros A Ghebreyesus, Director-General of the WHO, highlights the fact that many people are sceptical about receiving the COVID-19 vaccines, and addresses the number of misconceptions that exist about these vaccines, "We're not just fighting an epidemic; we're fighting an infodemic. Fake news spreads faster and more easily than this virus and is just as dangerous."

Dr Erasmus further clarifies, "The uncertainty that arises during a disease outbreak can create vulnerability for the spread of false information. Disinformation is created to monetise, polarise and politicise. These three motivators are generally behind false statements and should be recognised. People should not be afraid to speak to their medical practitioners about their concerns. Many myths about efficacy and safety are one conversation away from being discredited. There is no such thing as a trivial question."

The likelihood of complications or side-effects from COVID-19 vaccines

"It is unrealistic to expect any medical treatment to be 100% free from side-effects," according to Dr Erasmus. He adds, "Pain at the injection site, fever, fatigue, and headaches are some of the common side-effects associated with most vaccines. Even though these can be discomforting, they are usually transient in nature and do not last more than a few days. Serious side-effects, such as anaphylaxis, which is a life-threatening allergic reaction, are extremely rare."

In line with a client-centric approach, it is very important to inform clients about the possible impact of COVID-19 vaccines on their insurance. Janet Brodie, Chief Underwriting Officer at Momentum, states, "In the unlikely event that a claim is submitted where the COVID-19 vaccine is mentioned as a possible cause for the claim, we will continue to assess the claim according to our standard definitions and criteria – even in the unlikely case of clients having severe side-effects from the vaccine."

She continues, "Our claim definitions do not specifically exclude events that are accelerated or brought about by the vaccination, and we will assess claims according to the specific benefits the clients have. For example, we will still look at the listed claim events linked to critical illness benefits. When the vaccine is received, the immune system is stimulated to provide protection. If, in the very unlikely and severe event of someone passing away following a vaccination, the claim will not be repudiated."

Brodie adds, "With regard to proof of vaccination, even though Momentum supports the official scientific view of the protective power of vaccines, we do not require clients to be vaccinated and therefore would not require explicit proof of them being vaccinated."

A futuristic outlook

Going forward, one cannot help but wonder how similar scenarios will affect underwriting practices. Brodie answers this by saying, "This is obviously something we are continuously monitoring but we do not believe the vaccination will change our current underwriting practices. We are not going to ask clients to specifically disclose if they have been vaccinated. We will, however, expect them to complete our application form accurately and comprehensively, which will include disclosure of any special investigations, as well as other symptoms they may have experienced in the case of side-effects."

Brodie also provides an opinion regarding the way that future product design might be shaped by the COVID-19 virus. "During the product design process, we will typically stick to elements for which we have enough evidence from data. It is unlikely that COVID-19 vaccinations will lead to different product designs until such time that there is more data available about the long-term effects. A more pressing question is to establish if the COVID-19 virus will become an annual occurrence, such as flu, or remain prevalent as a new disease on a more permanent basis."

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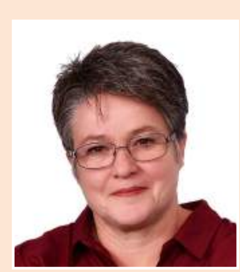
Dr. Reinhardt Erasmus, Medical Officer, Momentum



Janet Brodie, Chief Underwriting Officer, Momentum

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Coping with a spike in COVID funeral claims

Official mortality figures for the second COVID-19 wave, which began in late 2020, have already exceeded those of the first wave, meaning that it is most likely funeral claims will increase as well.

During the peak of the first wave of the COIVD-19 pandemic, between June and September 2020, Liberty found itself having to manage a substantial spike in mortality claims of around 200% above normal levels.

This increase was expected, and the company had earlier in the year set in motion a series of emergency plans to deal with the surge as the full extent of the global pandemic became clear.

As things turned out, the spike in claims coincided almost exactly with the sudden rise in the number of COVID-19-related deaths observed during the middle of the year by the South African Medical Research Council.

"We knew from predictions issued by government and global health bodies, as well as our own research and modelling, that there would be a spike in COVID-19-related deaths as the disease took hold in South Africa. The implications for us as an insurer were obvious straight away. The unavoidable fact was that we would be dealing with a lot more mortality claims," says Gontse Sekhitla, Lead Specialist: Risk Product Development at Liberty Corporate.

An emergency operational management team was convened to figure out how the company would respond and what resources would be needed to meet the demand of the growing claims.

To get a handle on the bigger picture, a Liberty war room was formed where automated daily reports of funeral and death claims were processed and managed.

It was clear from the beginning that additional capacity was going to have to be added, considering the scientific projections of the progress of COVID-19.

"One of the first steps we took was to employ temporary extra staff and extend the working hours of the claims team. We got involved in training a bigger operations and servicing team on mortality claims as well.

"For example, one of our goals was the transfer of money to claimants' bank accounts within three hours of authorisation. This makes a big difference to families who have experienced a death from COVID-19. It means they can get on with the funeral arrangements by giving their loved ones a dignified send-off without having to deal with the added trauma of lengthy administration."

All of this was sometimes easier said than done, given that the country was in the middle of a pandemic, and the company had to deal with load shedding, which inevitably lead to connectivity issues.

> "To get a handle on the bigger picture, a Liberty war room was formed"

"We decided to move between five and 10 staff on site to the Liberty Buildings to mitigate this risk. We also invested in UPS power banks for our claims team to maintain service levels in coping with the number of claims.

"Keeping abreast with the Government publications, South African Medical Research Council updates, press reports and hospital admissions, as well as the feedback we got from some of our clients, really aided us in our planning," says Sekhitla.

The measures put in place proved to be highly successful, with almost 100% of claims being dealt with quickly and according to the planned timelines, so that bereaved families could have comfort.

"Our planning worked out well. It seemed like we were really going into the unknown at one stage, but we are pleased to have been able to honour our commitments and to have assisted those families affected during the first COVID-19 surge in 2020," says Sekhitla.

"Currently, South Africa is experiencing a second wave, and it would be fair to say our experiences during the first wave has equipped us in dealing with another surge in mortality. A lot of the learnings we experienced during the first wave will hopefully be to the benefit of clients."


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NASHALIN PORTRAG
Head: FundsAtWork,
Momentum Corporate

A holistic approach to employee benefits is good for you and your clients

Has your doctor ever spoken to you about the benefits of a holistic approach to health – a view that looks at the whole person and all the different aspects of good health? Interestingly, the same thinking is relevant to the 'health' of a business.

More South African employers are recognising the benefits of investing in the financial, mental, emotional and physical wellness of their employees. Their employee benefits mix not only helps them win the war for talent acquisition and retention but also makes employees feel appreciated, protected, and invested in the success of the business.

However, the employee benefits mix is often delivered on a somewhat fragmented basis with little, if any, integration between the different elements. This is changing, with some leading service providers now rewarding employers for providing a comprehensive package of employee benefits and removing obstacles that prevent financial advisers from delivering a more holistic solution.

Nowadays, progressive employee benefits providers offer programmes that recognise and reward employers for providing employee benefits, as well as behaviours like engaging regularly with their employees and making sure their workplace is safe and healthy. Some employers can earn financial rewards of up to R600 per employee per year on programmes like these.

Employers participating in these programmes not only benefit from improved employee engagement, but can invest their rewards in initiatives that further boost engagement levels and help sustain business continuity in challenging times.

Programmes are now also available to support and reward financial advisers who want to unlock the benefits of a holistic approach for their clients.

The employee benefits industry is highly regulated and financial advisers have to meet specific licencing and accreditation requirements to sell different employee benefits. For example, a financial adviser may be licensed to sell group retirement benefits but not other group benefits like health solutions. This means financial advisers without all the necessary accreditations are limited in what they can sell and may miss out on the benefits of offering their clients a holistic solution.

> "Programmes are now also available to support and reward financial advisers"

However, if the financial adviser participates in a service provider's programme, which gives them access to a dedicated team of experts licensed in all the product solutions, they are able to leverage the value of a more holistic approach. This team works alongside the financial adviser, sharing valuable insights to help inform the implementation of tailored interventions that positively influence employees' financial outcomes and strengthens their client relationship.

Furthermore, participation in such a programme helps the financial adviser to optimise their earnings and secure recurring income.

A great example for demonstrating the benefits of a holistic approach is the positive impact that an Employee Assistance Programme (EAP) can have on absenteeism and disability benefits.

Historically, EAPs operated outside the employee benefits mix, focussing on employees' emotional and mental health. However, the expansion of these programmes to address work-life issues, such as legal and financial support, family relationships and physical health, means EAPs are now perfectly positioned to help reduce some of the stressors that can result in absenteeism and disability.

When an employee returns to work after a disability, the EAP can also help facilitate a speedier, less stressful, more successful return. Plus, data analytics generated by an EAP can help identify high-risk areas and drive appropriate preventative interventions.

In these challenging economic times, financial advisers should carefully consider how their clients can extract greater value from their employee benefits, as well as ways to optimise their earning potential and strengthen the sustainability of their brokerage.

Education: the gift that keeps on giving

The global pandemic that turned 2020 on its head demonstrated the value of thinking ahead. While thousands of South Africans were left without work because of the national lockdown, a significant number of knowledge workers – people whose main asset is their knowledge – were able to continue working, from home.

According to a recent study in the US, jobs that can be performed remotely tend to be more secure and better paid than jobs that require your physical presence.

Research conducted by Cornell University showed that the demand for jobs that require specialised Science, Technology, Engineering and Maths (STEM) qualifications is at an all-time high. At the same time, the cost of teaching STEM subjects is ballooning. STEM courses and degrees are often the most expensive for high schools and universities to produce.

"Gaining knowledge through a good education remains the surest way to safeguard financial wellbeing, but it takes long-term planning on the part of parents," says Karabo Ramookho, Strategic Retail Marketing Manager at Old Mutual.

While the South African government has expressed its commitment to increasing the output of more graduates with STEM degrees, the rising costs of good teachers at primary and high schools are generally passed onto parents.

"Parents may appreciate it's the quality of education children receive before entering university that lays the foundation for their future success, but the costs of providing this quality education quickly add up," she adds.

Cost of education

The average cost of a year at a public primary school is currently R21 200 or about R2 120 a month if you pay over 10 months. If you choose to send your child to a private school, it will set you back R61 900 for the year or R6 190 per month.

"This could be quite a significant portion of your monthly budget if you don't have any other financial provision to cover these costs, and excludes any additional expenses for uniforms, stationery, technology requirements (like an iPad and regular data), extramural activities, sports or club fees and extra tuition," she points out.

"If your child starts Grade 8 this year, prepare to cover the costs of R183 900 for their five years of public high school. If you choose private high schooling, the costs soar to about R533 000 over the five-year period. In addition to this, you'll need to fork out R230 600 for a three-year undergraduate degree or tertiary diploma."

She adds that if your son or daughter wants to specialise with an honours, masters or doctorate degree in the STEM field of their choice, you will need to add the costs of several more years of studying.

Planning makes it possible

"These figures can be daunting and reinforce why it is important for parents to start planning early for their children's future. With the right planning, advice and focus, it is possible to give your child a strong foundation that opens opportunities. As they say, the best time to start saving is when your child is born. The second-best time to start is today."

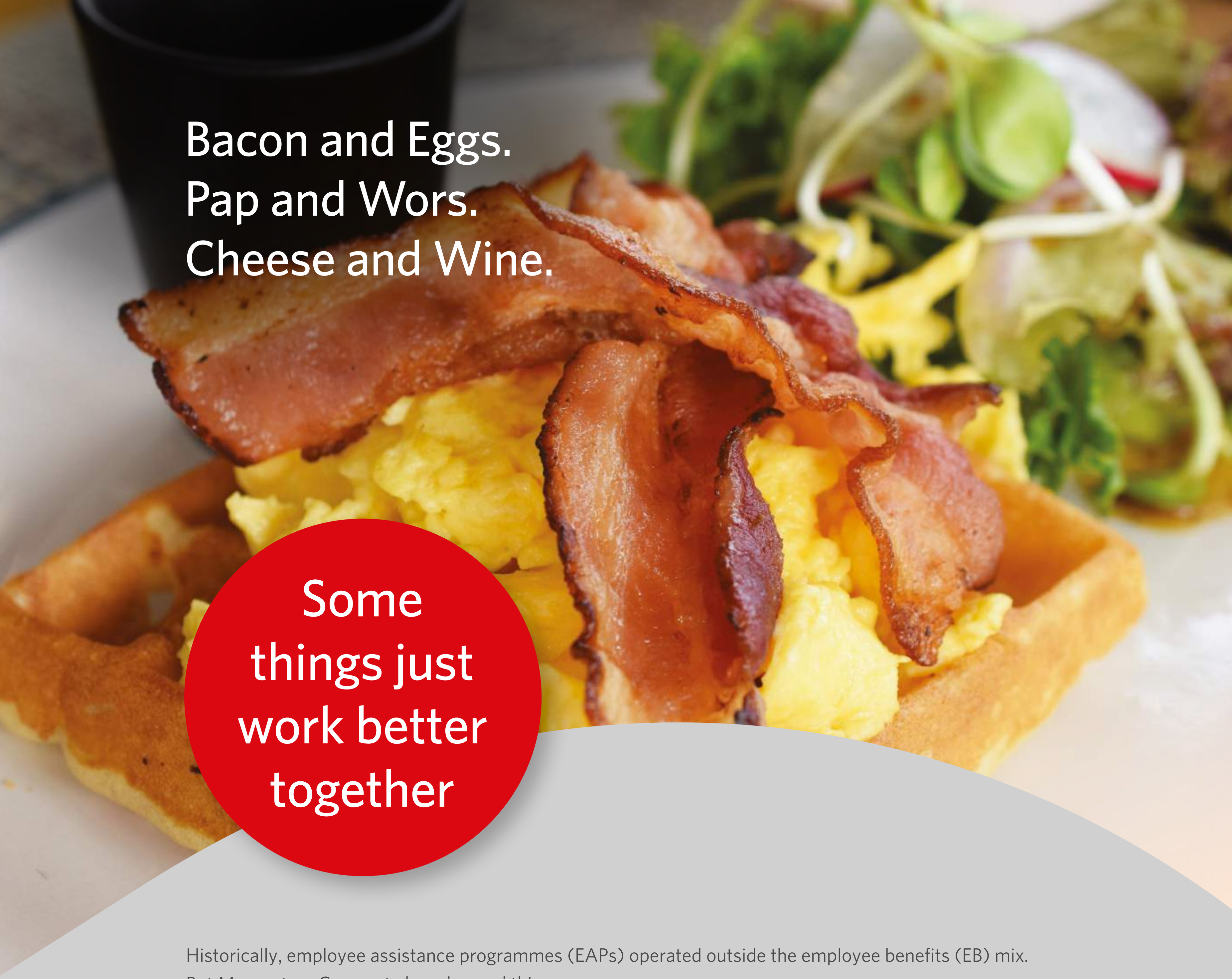
No shortage of options

"Preparing children for the future world of work amid so much disruption and uncertainty is nerve-wracking for any parent, but what is clear is that it is the most significant gift you can give your child," Ramookho says.

You can save and invest for your children's valuable education in various ways. An accredited financial adviser can look at your specific situation and help you find the best financial solutions.

Visit https://www.oldmutual.co.za/personal/solutions/financial-coaching *to get in touch with an accredited financial adviser.*

Karabo Ramookho, Strategic Retail Marketing Manager, Old Mutual



Historically, employee assistance programmes (EAPs) operated outside the employee benefits (EB) mix. But Momentum Corporate has changed this.

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INTELLIGENCE ISN'T ENOUGH: A BLACK PROFESSIONAL'S GUIDE TO THRIVING IN THE WORKPLACE

BY CARICE ANDERSON

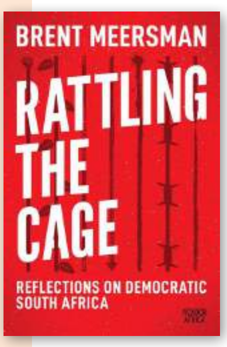
Intelligence Isn't Enough will empower young Black graduates entering the workforce and Black professionals already at work, teaching them not only how to survive but also thrive in the corporate environment.

Carice Anderson, with over 17 years' experience at top companies as a professional development manager and coach, shares her wisdom and knowledge. Her insider status has given her access to revelatory industry trends and insights on the harsh realities of corporates in general. Often, it is Black professionals who struggle the most and become frustrated and demotivated very early on in their professional lives as they lack the necessary skills, most of which aren't taught or developed at tertiary level.

This book will help Black professionals strategically perform in their careers while working for someone else. The author uses her own experience as a mentor, teacher and researcher, as well as the advice and personal anecdotes from 30 successful Black leaders in Africa, North America and Europe, to guide the reader through what she calls the major corporate muscles. These are IQ, Mental Attitude, People Matters, Cultural Intelligence, Personal Branding and Communication – which, in her expert opinion, professionals need to flourish in any corporate setting.

By mastering the balance between working on versus working in your career, you can start making more strategic decisions critical to your success and advancement in the workplace.

Anderson has spent over 17 years focusing on human capital development strategies and working on change and performance management projects. She worked as a Professional Development Manager at McKinsey & Company in Johannesburg, where she developed a programme for young Black professionals. She obtained her MBA from Harvard Business School. She is the founder of Thrive Leadership Advisory, a leadership consulting, coaching and facilitation firm, and has worked for top companies like Google, Bain & Company, Allan Gray, Orbis Foundation and Publicis Media. She has lived in Johannesburg for over 11 years now.



RATTLING THE CAGE

BY BRENT MEERSMAN

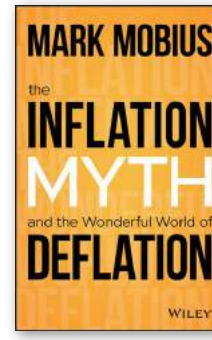
Most South Africans have strong views on our past and present, often based on how we have been personally affected by history, and an understanding of the challenges that face us as a country. But how well-examined and solid are these positions? Have your views been properly thought through? Are you correctly informed? Do you even have the facts straight?

Rattling the Cage takes the reader on an informed tour of South African reality: from the highs and lows, the successes and failures, FW de Klerk's gaffes to Fees Must Fall, the Oscar Pistorius trial, the 2010 FIFA World Cup, triple BEE, global warming, the COVID-19 pandemic, gay rights in Africa, and veganism.

Among the questions Meersman asks are: Do South Africans still believe in their Constitution and democracy? Why do so many young South Africans say Nelson Mandela was a sell-out and the Truth and Reconciliation Commission was a dismal failure? Is outlawing hate speech and criminalising racist behaviour really a good idea? Why do communities still burn down their schools? How did the Marikana massacre happen in the democratic era? Why are African immigrants increasingly unwelcome in South Africa? Can our media be trusted to tell us the truth? And how do we embrace climate change?

THE INFLATION MYTH AND THE WONDERFUL WORLD OF DEFLATION

BY MARK MOBIUS



The Inflation Myth and the Wonderful World of Deflation illustrates our rapidly changing world where constant technological innovation leads to cheaper and better products. These changes are no longer reflected in the ways we measure inflation. Renowned investor and author Mark Mobius persuasively argues that what we believe to know about inflation today does not reflect the reality any longer. It is a myth, a legend, a fable and, yes, a falsehood for a number of reasons.

The Inflation Myth and the Wonderful World of Deflation tackles a number of fascinating topics, including:

- The political nature of inflation measurement where governments manipulate and exploit inflation numbers to fit their economic programs
- The extreme difficulty involved in gathering accurate data to measure inflation and the resulting inaccuracy of those measures
- The error of using currencies to measure inflation when those currencies are continually being debased by the governments who issue them
- Finally, and most importantly, the advances in technology and automation, which are leading to continuously falling costs for goods and services.

Perfect for anyone with even a passing interest in macroeconomic phenomena or government policies, which are significantly impacting people's everyday lives around the world, *The Inflation Myth and the Wonderful World of Deflation* provides a remarkably compelling and provocative view of stunning originality.

SUDOKU

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	9	5	4	1				2

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