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MoneyMarketing

30 September 2023

First for the professional personal financial adviser

INSIDE YOUR SEPTEMBER ISSUE

GET YOUR CLIENTS' AFFAIRS IN ORDER
National Wills Week is the perfect opportunity to remind clients of the importance of ensuring their will is updated regularly, to facilitate a smoother legal and financial transition during emotionally challenging times.
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DO TRUSTS STILL HAVE A PLACE?
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OFFSHORE SUPPLEMENT
We take a look at the latest trends in offshore investing, including the value of investing in Japan, and offer insight into the effects of new administrative regulations from SARS regarding investing money abroad.
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Credo: In it for the long run

Wealth Management Business Credo has seen consistent returns since its inception in 1998, with its success being recognised earlier this year with a Raging Bull Award for Offshore Manager of the Year. In addition, UK-based Lead Manager of the Dynamic Fund, Rupert Silver, and his Co-manager, Ben Newton, have both been awarded a maximum AAA manager rating by Citywire. The Dynamic Fund (a multi-asset sterling fund) has also been upgraded to a maximum 5 Crown Rating by FE Fundinfo.

Andrew Cormack, Head of Investment Distribution at Credo's South African office, spoke to Money*Marketing* about the success of the business.

The South Africa/Credo relationship

While Credo is based in the UK, it's always had a footprint in South Africa because the founding directors and shareholders were, and still are, South African. When it was established, South Africans were looking to externalise some of their wealth, and found it not just easier, but preferable to work with people they knew. "We've always had a large number of clients, mostly high-net-worth individuals in South Africa who are looking to invest overseas," says Cormack. "Approximately half of our accounts, by number not by value, are South African. We see South Africa as our heritage market."

Offshore proposition

All of Credo's investment propositions are offshore. "We have fixed-income portfolios and equity portfolios that we run," explains Cormack. "We also run multi-asset MPS portfolios. On the fund side, we have a sterling multi-asset fund, and we have our global equity fund, which is available in dollars and in sterling."

In 2020, Credo launched a feeder fund, the only onshore domestic product available in rent. The feeder fund rolls up 100% into the global equity fund, so gives South Africans the ability to access that strategy and have exposure, but within rent.

Clients can choose to send money directly overseas and invest in the underlying fund, or they can invest onshore if that's their preference. Performance will be almost the same, plus or minus exchange rate movements.

"We don't follow a benchmark. We report against the MSCI World Quality Index, but we don't mirror those sorts of geographic or even sector exposures," says Cormack. "Everything we do is a bottom-up fundamental stock picking exercise."

The investment strategy

The company believes in investing in people and client relationships, and that also reflects in how they invest money. "We're in it for the long run," says Cormack. "We're not looking to time the market. We know there will be periods where our investment strategy may underperform, but we stay the course. So Credo has a value bias when we're talking about our equity investing."

Over the last three to four years, he points out, the market has been driven primarily by growth stocks. People have been looking at the first six months of performance of the S&P 500 or the NASDAQ. "It's mostly driven by 10 stocks. In fact, something like 90% is driven by what they call the magnificent seven: Amazon, Tesla, Facebook, etc. The other 10% is driven by the 493 other stocks. Our investment style may not produce the same kind of results as a strong growth-oriented investor, but that's fine because we know there will be cycles. People choose to invest with us long term, and we manage money prudently and take that stewardship seriously."

Continued on next page

Andrew Cormack, Head of Investment Distribution

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Continued from page 1

While Credo is a value investor, it doesn't see itself as a 'deep' value investor. "We don't buy things just because they're cheap. We always look to buy good quality businesses that have robust business models and positive cash generation," says Cormack.

"We're not buying just because we want the P/E multiple to increase. In fact, with some businesses we don't attach a lot of value to the P/E re-rating, but we think they are producing growth in earnings per share and producing dividends build, so it's a good business to own. And if the multiple does increase, that's the cherry on top," he says. Over the last five years, Credo's performance has been driven by that: buying good companies that continue to deliver as they go through the cycle. "Our success is because of consistency of returns, but also the actual level of the returns."

One of the biggest positions in the Credo Global Equity Fund is Microsoft. It's not a classic value stock and was bought at a time when it was trading at a discount to what they deemed to be its intrinsic value. It was seen as a great opportunity on a good business at a cheap price. "Microsoft is the gift that keeps on giving," says Cormack with a smile. "It's an example of a product that is useful. It has value. I think that differentiates it from other companies and products where people buy because it's the flavour of the moment. You might make money off those if you're able to time the market, but that's a very rare skill. In fact, it may even be luck rather than skill."

Credo's Global Equity Fund is global in the sense that they buy listed equities from around the world.

> "One of the challenges is that most South Africans, when they invest offshore, invest in dollars. They don't immediately think of sterling, unless they're immigrating or they have children studying abroad"

There is a preference for large-cap liquid stocks that they can move in and out of freely. "We don't want to be stuck in illiquid untradeable stock. The larger companies have better price discovery, they generally have more information disclosure and tend to be more heavily regulated, so the pricing is tighter," says Cormack. "There's less uncertainty over the financial information, where if you had some mid-market company that's listed in an obscure jurisdiction, you may not be able to put as much faith in the numbers that are being produced for investors in South Africa."

Investing in sterling

One of the challenges is that most South Africans, when they invest offshore, invest in dollars. They don't immediately think of sterling, unless they're immigrating or have children studying abroad. "I did an investigation last year, just based on the AISA data, to see how many section 65 sterling-based multi-asset funds are available for sale in South Africa. It was something like 28 share classes, but from 14 or 16 funds. So there were only 16 funds, and of those 16, only three were beating their benchmarks. The Credo Fund was one of them."

Excellent financial advice

"Often people lose sight of what doing well means," Cormack says. "They think it's about exclusively doing better than other people. A great South African financial advisor, Sean Lacey from Providence Wealth, always said the goal of a financial advisor is to determine the client's needs and objectives, to get them there, and to help them to ignore what everyone else is doing because they have a plan. And as long as they're achieving the plan, does it matter how well or how badly everyone else is doing?" When it comes to investing, he explains, we get so obsessed with how much other people are making on Bitcoin or Tesla. "We hate the idea of being left behind, but if we are still generating wealth in real terms, above inflation and meeting our investment objectives, I think we need to relax a little bit," Cormack says.

"What's special about Credo is that we invest alongside our clients. We're shareholders and it's important that we have integrity. Credo is Latin for 'I believe,' and it was chosen deliberately because not only does it mean 'I believe in what we're doing' it also means 'We want our investors to believe in us," he concludes.

EDITOR'S NOTE

This month, we focus on a theme that has been at the core of legacy planning and wealth preservation for decades: wills. To commemorate the Law Society's annual Wills Week, we've taken a comprehensive dive into the intricacies of will drafting and estate planning in general.

Wills are not just legal documents; they are embodiments of aspirations, efforts and dreams. They resonate with the wishes our clients harbour for their loved ones and the causes they hold dear. This edition delves deep into best practices, common pitfalls and innovations.

Venturing beyond domestic boundaries, we also have a special supplement on offshore trading. Offshore investments have long been recognised for the myriad opportunities they offer, from enhanced privacy and asset protection to tax optimisation. Whether you're a staunch advocate or a sceptic, our balanced coverage provides several perspectives.

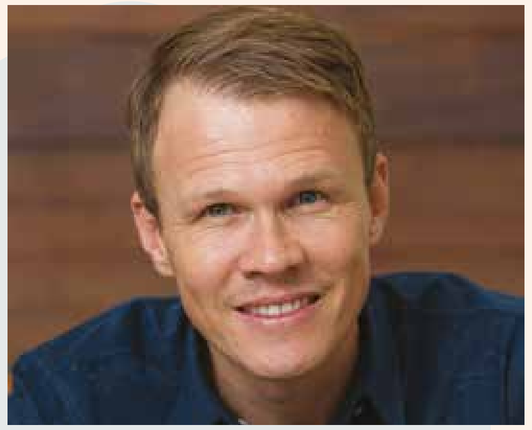
Smart beta products have been gaining significant traction globally due to their distinct placement between conventional and index funds. While they aim to outperform benchmark returns like traditional funds, they achieve this at considerably reduced fees. In this issue, we take a closer look at the pros and cons of these products.

We've also turned the spotlight to trusts. Our experts dissect the mechanics of trusts, evaluate their advantages, and draw attention to the nuances that every savvy investor should be aware of. Offshore trusts are becoming ever more popular – but they come with their own pitfalls that investors need to know, including giving up the control of the trust to independent trustees.

As we've all seen since the beginning of this year, the realm of finance is in perpetual motion, shaped by regulatory changes, economic shifts and technological advancements. It's more important than ever that we all stay ahead of the curve. I hope this issue helps you to do just that.

SANDY WELCH
Acting Editor, Money*Marketing*

PROFILE: DUGGAN MATTHEWS, CHIEF INVESTMENT OFFICER, MARRIOTT INVESTMENT MANAGERS



How did you get involved in financial services and was it something you always wanted to do?
My first job was at Marriott. I didn't specifically select financial services, but I knew I was good with numbers, and economics really interested me. I studied a BBA (Bachelor of Business Administration), and I did honours in both Economics and Strategic Management, so when I was looking for a job after varsity, I filtered down the opportunities and that came together in the Marriott position. The role afforded me the opportunity to combine my strengths and my interests, and this has been a perfect fit for me.

What was your first investment, and do you still have it?
My first investment was my house and, yes, I do still have it. For many people this will be one of their first big investments, and I was determined to pay the loan off as swiftly as I could. The after-tax return equivalent on the interest on a house is particularly high. And it's guaranteed. It's hard to think of any investment that would beat that, so my extra savings were very much focused on paying off my house. After that, I invested in offshore equity, the type we invest in at Marriott, the blue-chip companies that have track records of growing earnings and dividends through the cycle. My plan is to invest in such companies for the rest of my life, so that hopefully one day I will be able to live off the dividend income they produce.

What have been your best – and worst – financial moments?
If I could do things over again, I would have made better use of times of financial stress and panic. Having worked in the industry for close to 20 years, every single time we see a major market slump, it has proved to be an extraordinary buying opportunity.

If you are brave when others are fearful, that's when you can make significant returns. It can be hard to go against your natural instincts, fearing loss, but those times have always represented a great opportunity to accelerate wealth creation. It's an opportunity to invest in brilliant businesses at discounted prices.

My personal successes come from not trying to get too clever when investing. Keeping it simple and buying quality companies that pay growing dividends and holding them for a long period of time has always been my approach. It might sound boring, but it works.

What are some of the biggest lessons you have learnt in and about the finance industry?
The industry is very short-term focused and orientated towards "get rich quick" – I believe those mindsets ultimately lead to poor decision making. Your biggest friend when it comes to investing is time, and the best way to ensure you have time working for you, not against you, is to invest in brilliant businesses with exceptional track records that produce timeless products.

This will help you to enjoy the benefits of compounding, and as Albert Einstein said, "Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it." Harnessing compounding really is what everyone should look to achieve when investing.

What makes a good investment in today's economic environment?
The current concerns are the tough times we are facing, with the potential for recessions around the globe because interest rates have risen to historically high levels. With this increasing anxiety, investors should invest in resilient companies with track records of being able to grow their earnings and their dividends during tough economic times.

What finance or investment trends and macroeconomic realities are on your watchlist?
We are very mindful of how high interest rates have become, as well as the pace at which they have been hiked. If you look at the US, UK, Europe, and South Africa, interest rates are at the highest they have been in 20 years. We are also very aware of the impact this will have on economic growth going forward. The impact of interest rate increases is often only felt maybe a year to two later.

So, the expectation is for economic conditions to get tougher down the line and for recession risks to grow. We want to ensure as much resilience for our clients as possible.

What are some of the best books on finance/investing that you've ever read — and why would you recommend them?
I have three books that I would like to recommend:

- Howard Marks: *The Most Important Thing*
- Nassim Taleb: *Fooled by Randomness*
- Ray Dalio: *Principles*

The first two books helped me recognise how important it is to cut through the clutter. There is so much noise out there, but from a longer-term perspective, so much of what we read and worry about is unimportant from an investment outcome perspective – just a few things really matter. Most stuff is random.

For this reason it's important, if you want to make sensible investment decisions, to be able to recognise data that is distracting and meaningless so you can spend your time considering the variables that are going to make a difference. Howard Marks and Nassim Taleb both speak to this in a very effective way.

Ray Dalio's book *Principles* helps reinforce the need to be able to accurately articulate and systemise how you make investment decisions. The book clearly demonstrates that without a clear and deep understanding of investment conclusions, it will be very difficult to recognise good and bad decisions, act consistently, and take into consideration the perspectives of others. In other words, if you want to learn from experience and work well as a team, make sure your decisions are grounded in a well-considered and defined process that can be refined over time.

> "Having worked in the industry for close to 20 years, every single time we see a major market slump, it has proved to be an extraordinary buying opportunity"

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APPOINTMENTS


Cumesh Moodliar

Cumesh Moodliar will be appointed Chief Executive Officer of Investec Bank Limited on 1 April 2024, when Richard Wainwright steps down. Wainwright will at that time remain an executive of Investec Limited until his retirement in 2025. Fani Titi, Investec Group Chief Executive, says, "Cumesh has been a valued Investec leader since 2012 and has a proven track record of strong leadership and strategic acumen. He possesses expertise in fostering growth, operational efficiency, and enabling out-of-the-ordinary client experiences. Under his leadership, the South African Private Bank has grown to be one of the Investec Group's largest businesses and profit contributors."


Ferdi van Heerden

Ferdi van Heerden has been appointed as CEO of Momentum Investments from 1 September 2023. Van Heerden will succeed Jeanette Marais, who has recently been appointed as Group CEO. As part of this appointment, Van Heerden will also serve on the Momentum Metropolitan Group Exco and various Momentum boards. Van Heerden currently serves as CEO of Momentum Global Investment Management (MGIM) in the UK, and on various Momentum Metropolitan boards internationally. He spent the bulk of his decades-long career at Momentum playing key leadership roles in acquisitions, as well as large-scale business improvement and integration projects in many parts of the Group. "I see this role as a great new challenge for me personally, but also an opportunity to use all the skills I have developed and experience I have gained over the years to lead the Momentum Investments team on its continued growth journey, building on the sound foundations of the past five years."


Lulama Booi

From 1 October 2023, **Lulama Booi** will join the Momentum Group Executive Committee as the executive responsible for Africa (Botswana, Ghana, Lesotho, Mozambique, Namibia), India, and more locally, Group Facilities. Booi will also serve on the Metropolitan Exco to increase synergies between Metropolitan and Africa. As Head of Balance Sheet Management (BSM), she played a critical role in formulating the BSM strategy and aligning it with the Group strategy. Booi says, "It is an honour for me to have an opportunity to form part of the leadership of this amazing organisation."


Dr Tshepo Mokoka

Dr Tshepo Mokoka has been appointed the Acting Chief Executive Officer of the Petroleum Agency SA (PASA), effective 1 August 2023. For several years, Dr Mokoka has been an integral part of PASA's oversight body, the Central Energy Fund (CEF). Dr Mokoka brings a wealth of experience in strategic entity oversight and stewardship of complex policy and operational processes, gained from his role as a Special Advisor to the Minister of Science and Technology and the Minister of Tourism.


Kristen Hecht

Binance, the global blockchain ecosystem, has appointed its former Global Head of Corporate Compliance, **Kristen Hecht**, as its new Deputy Chief Compliance Officer (CCO) and Global Money Laundering Reporting Officer (GMLRO). Hecht brings 17 years of experience, including nearly a decade supporting the US government's efforts to combat terrorism and illicit financial activity as a Senior Policy Advisor in the Office of Terrorist Financing and Financial Crimes in the US Department of the Treasury. As part of the immediate goals of her new role, Hecht will proactively engage with regulators, intergovernmental organisations, and industry bodies to contribute to the dialogue on how to develop best-in-class compliance programs in the crypto industry.


Johann Lubbe

The Development Bank of Southern Africa (DBSA) has appointed **Johann Lubbe** as the Head of South Africa's first Water Partnership Office (WPO). The WPO is a programme of the Department of Water and Sanitation, a ringfenced national water and sanitation implementing office, established to deliver the National Water Programme (NWP) which seeks to accelerate water and sanitation infrastructure delivery across South Africa, with the DBSA as the mandated implementing partner. Lubbe previously held the position of Disruption Specialist at the DBSA's Project Preparation Unit.


Minette Weideman

The Masthead Financial Advisors Association recently appointed independent financial advisor (IFA) **Minette Weideman** from Bloemfontein as its new chair. Weideman joined the Association in 2017 and has been the elected representative for the central region since May 2020. Weideman's primary objective is to improve communication channels between Association members, their regional representatives and the Association Board. "By gaining better insight into members' expectations and challenges, the Board can provide more effective feedback to Masthead's management," she says. "In turn, this information will help Masthead identify trends, structural problems and opportunities IFAs face in the industry."


Philisiwe Mthethwa

The CEO of the National Empowerment Fund, **Philisiwe Mthethwa**, will be leaving her role at the helm of the development financier when her contract comes to an end in December 2023. Ndidi Mpye, the NEF Trustee and Chairperson of the Board Audit Committee, says, "Ms Mthethwa has been instrumental in driving the institutional maturity of the NEF. It is her diverse knowledge of banking, capital markets and international investment that helped grow the NEF into a high-performing organisation, one whose integrity is exemplified by 20 years of uninterrupted clean external audits."

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Get more, pay more

BY PAUL HUTCHINSON
Sales Manager at Ninety One

With the repo rating having more than doubled in less than two years, the amount you can hold in an interest-yielding bank or money market account before being subject to income tax at your marginal tax rate has reduced materially.

Having just completed my 2022/23 income tax return, it became very clear very quickly just how punitive interest income now is from a tax perspective. The repo rate has more than doubled, from a low of 3.5% as recently as October 2021 to 8.25% following the 50 basis-point rate hike in May 2023, as illustrated in the Graph 1. While placing the economy and the consumer under increasing pressure, the higher interest rates on offer have been welcomed by savers and, no doubt, the South African Revenue Service (SARS).

SARS exempts from income tax any interest income earned from a South African source by any individual under 65 years up to R23 800 per annum, and individuals 65 and older, up to R34 500 per annum. The net effect is that the amount you can hold in an interest-yielding bank or money market account before being subject to income tax at your marginal tax rate has reduced materially. This is illustrated in Table 1.

So, the tax-free amount that you could invest in a bank or money market account before incurring income tax fell by approximately 40% from the 2021/22 tax year to the 2022/23 tax year. This comes at a time when retail household bank deposits have reached all-time highs, as South Africans increasingly hide in cash. The South African Reserve Bank's BA900 economic returns data shows that household bank deposits totalled R1.67tn at the end of May 2023. This is significantly higher than the long-term average – and up more than R46bn over the year to date. At the same time, retail investor assets held in money market unit trust funds amounted to more than R200bn, as at 30 June 2023.

TABLE 1: ESTIMATED SAVINGS ACCOUNT THRESHOLDS BEFORE BEING SUBJECT TO INCOME TAX

Tax year	Average repo rate	< 65 years	> 65 years
2021/22	3.75%	R634 667	R920 000
2022/23	6.25%	R380 800	R552 000
2023/24	8.25%	R288 485	R418 182

Source: Ninety One calculations.

"So, the tax-free amount that you could invest in a bank or money market account before incurring income tax fell by approximately 40% from the 2021/22 tax year to the 2022/23 tax year"

Many of us will only fully understand the implications of this in the coming months when we finalise our 2022/23 income tax returns and receive an unpleasant demand from SARS for payment due on interest income earned above the exemption.

While we cannot do anything now to mitigate this 'unplanned' expense for the 2022/23 tax year, we may need to reconsider our financial affairs going into the 2023/24 tax year.

What to do, what to do?

We will need to look to alternative, more tax-efficient solutions, as hiding in cash and paying away up to 45% of any excess interest income earned is not the most sensible savings or investment strategy.

Unfortunately, options are limited. Everyone should be maximising their annual contribution to their tax-free savings account (TFSA), but at an annual limit of only R36 000 this is not going to make a dent. In addition, a TFSA must be viewed as a long-term investment, and therefore the underlying investments should be growth oriented.

Anyone with excess savings and a marginal tax rate of greater than 30% should consider an endowment or sinking fund policy, such as the one available from Ninety One Investment Platform (IP). This is because interest income earned within a sinking fund policy is taxed at 30%, and not your individual marginal tax rate. Ninety One IP also takes care of all tax administration relevant to the investment, including calculating and paying tax on your behalf.

A common concern is that you must remain invested for a minimum period of five years. Importantly, however, the Ninety One sinking fund policy does allow one surrender and one interest-free loan within that five-year period, so you do retain two liquidity options should you require some, or all, of your funds. And if you had taken a loan, you have the option to repay it at any time and receive the tax benefits of a matured policy after five years, where you can enjoy a regular income stream on which no income tax is payable (only capital gains tax will apply).

Graph 2 illustrates the faster-compounding benefits on total investment returns by comparing a R1m investment held directly in the Ninety One Diversified Income Fund versus firstly, a bank account, and secondly, the same Ninety One Diversified Income Fund investment, but this time held via the Ninety One IP sinking fund policy for the five years ended 30 June 2023.

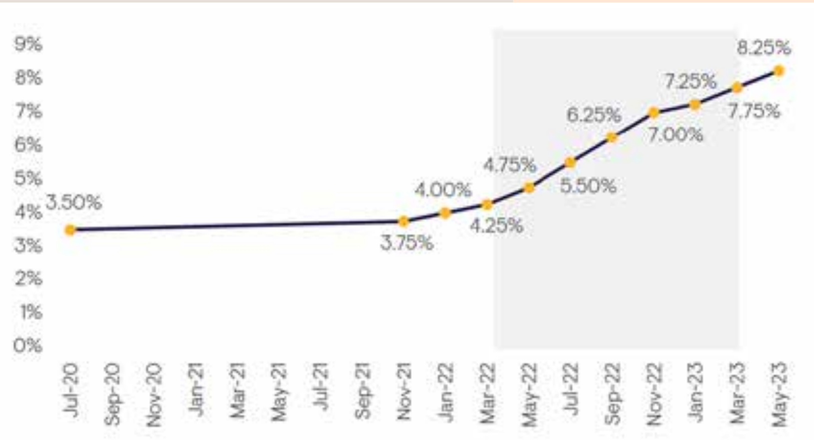
A direct investment in the Ninety One Diversified Income Fund returned R1.196m after fees and taxes, R42 000 more than the R1.154m return of a bank account. However, the real uplift is when investing into the Ninety One Diversified Income Fund via a Ninety One IP sinking fund policy. Here the after-fees-and-taxes return is R1.252m, R56 000 more than the direct Ninety One Diversified Income Fund investment. This equates to an additional net return of 0.92% per annum.

And finally, earlier this year we announced a one-year 11% fee reduction for the platform fee class of the Ninety One Diversified Income Fund. We have reduced the H-class annual management fee from 0.45% (ex VAT) to 0.4% (ex VAT), effective from 1 April 2023 to 31 March 2024. This is to further encourage investors sitting in cash to switch to a fund that is well placed to assist them in achieving more meaningful cash-plus returns over time.

The value of independent advice

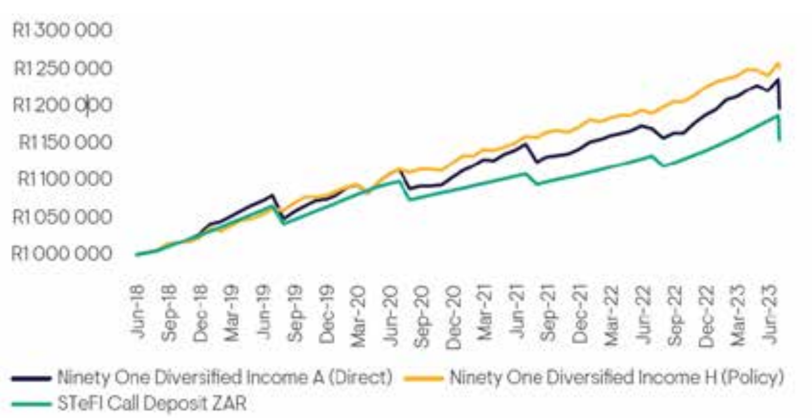
Given the very real financial and tax planning consequences of this decision, we strongly recommend that investors seek professional financial planning, investment, and tax advice, tailored to their individual circumstances.

GRAPH 1: RECENT PATH OF THE SOUTH AFRICAN REPO RATE



Source: South African Reserve Bank.

GRAPH 2: THE BENEFIT OF A NINETY ONE IP SINKING FUND POLICY



Source: Morningstar and Ninety One calculations.

Laurium Capital celebrates 15th anniversary

BY MIKE TITELY
Business Development Fund Manager, Laurium Capital

Einstein's old adage "time flies when you are having fun" is something the Laurium Capital team can certainly attest to. On 1 August 2023, the company celebrated its 15-year anniversary, and yet, if you ask founders Murray Winckler and Gavin Vorwerg, they'll tell you it seems like only yesterday when they set out with R100m from friends, family and their own capital to create a competitive world-class business. It has been hard work, but with the right team and culture, the journey has been an enjoyable and successful one for the clients and the business.

The firm currently manages approximately R50bn with a diversified base of investors across the globe, with offices in Johannesburg, Cape Town and London. The genesis of the firm began with the Laurium Long Short Hedge Fund, which has annualised 10.1% per annum in ZAR over 15 years to 31 July 2023. It's achieved this by taking long and short positions within the South African equity markets, capitalising on market inefficiencies and special opportunities. Over the years, as the team has grown to what is now 37 people, the business has transformed into an asset management house providing both long-only as well as hedge solutions to local and global investors.

More recently, international capabilities have been added to the Laurium product suite. The successful acquisition of Tantalum Capital in 2020 added to the research capabilities, including fixed income and global equities. Important distribution partnerships have been established for three of the unit trusts, with Amplify Investment Partners, Nedgroup Investments and PPS Investments. The firm launched its Global Active USD Equity Fund in 2021 and was appointed Investment Advisor of the Thornbridge Global Opportunities Fund in London at the end of 2022. It currently holds R2.95bn in assets, available to both South African and international investors.

"The firm currently manages approximately R50bn with a diversified base of investors across the globe, with offices in Johannesburg, Cape Town and London"

The broad range of investment products has enabled Laurium's business to remain resilient throughout market cycles, while applying one consistent investment philosophy across all strategies.

The firm has also made recent strides in its South African transformation journey. Today, over 50% of the team is black and over 40% are women – measurable progress to the team composition and the businesses transformation journey. Laurium has also invested in its social impact programme by having the team select charities to work with and teaming up with the YES Programme in South Africa. This transformation plan has seen Laurium achieve a BBBEE Level 1 rating as of August 2022.

Africa remains as a key differentiator relative to peers; with expertise, skills and demonstrable track records to show in African equities and fixed income, Laurium is well positioned for a comeback in Africa as macroeconomics have started to improve and companies continue to grow.

A key component of Laurium's commitment is the team's alignment with its clients. Close to half of the team have equity in the business and the team is invested alongside their clients in Laurium's wide array of funds. The team shares the same purpose – to go above and beyond, investing for their client's future. We could not have reached this milestone of achievement without you, thank you.

Key trends in the risk environment

San-Marié Crause is the newly appointed Managing Executive for Group Risk at Sanlam Corporate. Her appointment aligns with the Sanlam Group's focus on innovation and growth to fuel its purpose of empowering generations to be financially confident, secure and prosperous.

Here she talks about her goals for the role and industry trends she has her eye on.

Congratulations on your new appointment! What is your overarching goal for the new role?

To build a team, where every action we take every day has one simple goal: to deliver the best possible support to the millions of members who have placed their trust in Sanlam Group Risk and to help them, and their loved ones, in times of financial hardships.

San-Marié Crause, Managing Executive for Group Risk, Sanlam Corporate

How will Sanlam Corporate navigate the pricing of Group Risk in the wake of the pandemic now that mortality rates are returning to normal?

In one word, responsibly. Given the scale of our business, we have access to a wealth of data enabling us to see where mortality rates have returned to pre-pandemic levels, and where they haven't. While the big-picture view is certainly that mortality has reduced from the peaks of recent years, we are not out of the woods yet. For example, we are seeing higher than usual cancer claims, as people start going back to their proactive medical tests, and the cancers that went undetected during the pandemic are diagnosed, often at a more advanced stage than was the case before the pandemic.

What are the key trends in your industry that you are following with interest?

I am interested to see how the risk benefits industry adapts to the wide adoption of hybrid work models, which I believe are here to stay after the pandemic. If work has changed fundamentally and permanently in many industries, how do risk benefits need to change to fit seamlessly with the new reality of people's work lives? And of course, like most people, I am fascinated by the acceleration of Artificial Intelligence (AI) capabilities, and how large financial services companies like Sanlam might use this to enhance how our clients interact with us.

How will the two-pot system impact Group Risk and how can the industry plan for this major change?

During the initial phase following the launch, we anticipate a rise in enquiries and applications related to the two-pot system, and this might put many providers under pressure. Sanlam Corporate is proactively preparing for this by streamlining operations through automation to effectively manage high service demands.

"Every action we take every day has one simple goal: to deliver the best possible support to the millions of members who have placed their trust in Sanlam Group Risk"

And on a lighter note, if you had to have dinner with one person in the global EB space, who would it be and why?

I think I might choose dinner with my husband! The challenges and (let's admit it) the fun of being in a new role at a company like Sanlam, whose impact really matters, has made romantic dinners a bit of a rare commodity for now.

Are there opportunities in SA Inc. stocks?

BY NANCY HOSSACK
Portfolio Manager, Foord Asset Management

Fund managers are always on the lookout for opportunities that can generate good returns. This is true even – or perhaps especially – when sentiment is at its worst. An area of the local market that has received a lot of attention lately for its historical cheapness are 'SA Inc.' stocks. Foord Asset Management Portfolio Manager Nancy Hossack takes a closer look at prospects for this segment.

SA Inc. stocks are companies whose earnings are predominantly linked to the South African economy, such as banks, insurers, retailers, construction companies and SA-focused industrials. This categorisation excludes companies with significant offshore earnings, as well as resources companies. Of course, resources companies may be impacted by SA-specific factors like power outages or wage inflation if they have mining operations in the country. However, their earnings are more influenced by exogenous factors such as the whipsaw of international commodity prices and exchange rates.

SA Inc. stocks are currently trading at very low valuations compared to their history. The FTSE/JSE Mid Cap Index (which is predominantly SA Inc shares) is trading on an eight times price earnings multiple, the lowest in its 20-year history, although we did briefly touch that level in 2008 during the Global Financial Crisis. There are several reasons why these stocks are so cheap. Firstly, there has been fifteen years of economic stagnation, brought on by underinvestment in fixed capital. Secondly, investors are using high discount rates to assess the present value of future earnings of SA Inc. stocks. This is because the country risk rating is understandably very high compared to history. Finally, investors are naturally worried about the outcome of the 2024 national government elections and are not paying a premium for stocks that might be most affected.

> "We believe there is opportunity in companies that can expand market share despite the tough economic environment, and in those that deal in staples as opposed to discretionary goods"

As a result, the market has heavily marked down almost all SA Inc. stocks. This offers fertile ground for long-term stock pickers. We believe there is opportunity in companies that can expand market share despite the tough economic environment, and in those that deal in staples as opposed to discretionary goods. Additionally, industries where competition has dwindled could offer opportunities for the remaining players. Finally, companies with the ability to pass on inflation costs, especially in an inflationary environment, or those capable of keeping costs lower than competitors, are also worth considering.

However, we should guard against 'betting the farm' on the sector just because it is cheap. Concerns for the political and policy-making environment after the 2024 national elections are genuine. And South Africa's fiscal issues are undeniably escalating – which may worsen the prospects of SA Inc. companies. As always, diversification of correlated risks is critical.

At the time of writing, the Foord Equity Fund has about 40% of its portfolio in SA Inc. stocks, with a high cash weighting at 14% of the fund, and a small exposure to gold to protect against local and foreign risks. About 45% of the portfolio is invested in companies that earn a significant portion of total earnings in offshore markets. Potential for a sovereign debt crisis and adverse outcomes in 2024 cannot be ignored, and we will aim to protect capital in that event.

Despite the gathering storm clouds, astute investors should always look for inflection points. Change is the only constant, and South Africans have a long history of looking over the precipice and saying, "Not today." If the JSE can adjust its trajectory, it will create a lot of wealth for investors. So, while we are in protection mode currently, we remain cognisant of the possibility of outsized gains and open-minded in our positioning.

Have the low-hanging fruit rotted in South Africa?

BY SANISHA PACKIRISAMY
Economist at Momentum Investments

Back in 1961, James Meade, a renowned Nobel Prize laureate in economics, made a prediction that painted a bleak future for Mauritius. He highlighted the nation's susceptibility to weather and price fluctuations, as well as its limited employment prospects beyond the sugar industry.

Instead, the country emerged as a shining example, boasting the second-highest per capita income among African countries and earning the top rank in the World Bank's Doing Business survey for all sub-Saharan nations in 2020.

Although there are no guarantees for its future prosperity, effective leadership, consensus-building, prudent macroeconomic management, and strategic policies for the private sector positions Mauritius favourably.

Is it possible for South Africa to achieve the same transformation? I believe the answer is yes. However, this outcome hinges on our authorities, who must swiftly initiate the right strategies to grasp these so-called low-hanging fruits – quick wins that are easy to implement.

It is knowing how best to use available resources and implement interventions that are most feasible, technically, politically and administratively. These are actions that will likely have the greatest positive impact on growth and employment.

South Africa has been overwhelmed with bad news, and the mood of the country has remained sour, with weak business and consumer sentiment. Expressing optimism about South Africa against this bleak background might seem out of place given flat growth in per capita incomes since the global financial crisis in 2008, job insecurity, malfunctioning state-owned enterprises, and widespread corruption.

Very few are doubting that this will be a very difficult year, but what makes me more optimistic about economic activity in the medium term is tangible progress on priority reforms.

Fast-tracking the delivery of economic reforms

To fast-track the delivery of economic reforms that are at the core of the Economic Reconstruction and Recovery plan, a joint initiative between the Presidency and National Treasury was set up. Since the launch of Operation Vulindlela in October 2020, focused priorities have been identified:

1. **Stabilising electricity supply:** Operation Vulindlela has aimed to address the shortfall in electricity, the lack of competition in electricity generation, the inability of government to fund investment in additional generation capacity, and to arrest the deteriorating quality of municipal electricity distribution services.
2. **Enhancing the efficiency and competitiveness of freight transport:** Operation Vulindlela seeks to address the inefficiencies in freight transport.
3. **Improving the supply and quality of water:** Reforms in the water industry aim to increase investment in the maintenance and construction of water infrastructure, as well as to improve water quality via the successful reinstatement of the Blue Drop, Green Drop and No Drop water quality monitoring systems.
4. **Reducing the cost of and improving access to data:** Reforms in the digital communications sector will reduce the cost of data, expand internet access to low-income households in outlying areas, and drive new investment in telecommunications infrastructure.
5. **Attracting skills and encouraging tourism:** The successful implementation of the eVisa system now serves 34 countries and should facilitate growth in the tourism sector. This industry can establish a strong multiplier effect on the economy.

Policy uncertainty hinders investment

These concrete reform efforts are firmly underway, despite an uncertain political future.

Even though the private sector is reluctant to partner with the state given a widening of the trust deficit, there has been an easing of investor anxiety towards South Africa in some areas. Nevertheless, government could spell out its goals more clearly to reignite confidence in South Africa as an investment destination.

If authorities act quickly to promote these low-hanging opportunities by creating an enabling environment for more private sector participation, increasing competitiveness in the country's product and labour markets, restoring the integrity of South Africa's democratic institutions and reducing corruption, we could follow the example of Mauritius and get the economy going again.

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Global investments: Does one worldwide will suffice?

BY ELMIEN POLS AND SARAH LOVE
Fiduciary Practitioners, Private Client Trust

It is common practice for people to diversify their investments outside of South Africa and to own property offshore. While this is seen as a good Rand hedge, it raises questions about what happens if you die with offshore assets. Are foreign assets covered by a local South African will? Do you need a will for each country or will a "worldwide will" suffice?

The short answer is that there is no one-size-fits-all solution, and several factors must be considered. This includes the country where your offshore assets are held, your domicile (the legal address in the country where you pay tax) and permanent residence (where you live part or full time), where you were resident when you got married and which laws your will was intended to comply with," says Elmien Pols, a fiduciary practitioner at Private Client Trust.

According to Pols, the starting point with multi-jurisdictional estate planning is to take stock and establish in which countries you hold which assets, and in what form. You must investigate each jurisdiction where assets and/or investments are held and establish how assets are dealt with in each country when it comes to wills and inheritance laws. Assets held within wrappers and life policies are not governed by your will so do not need to be considered. However, one needs to ensure that beneficiary nomination forms are carefully completed in order to complement the overall generational wealth succession plan.

> "There is no one-size-fits-all solution, and several factors must be considered"

In some countries, forced heirship is applied where the disposal of your assets is determined by a formula depending on who your next of kin are.

In terms of the EU Succession Regulation (Brussels IV) of 2015, if a person owns assets in any of the 25 countries that are signatories to the agreement, they may choose the law of their country of nationality to apply to their estate and this will eliminate the effects of forced heirship.

"If you own immoveable property in a country whose laws differ from those in South Africa, you should consider a separate will to deal specifically with assets held in that country to prevent delays," says Sarah Love, a fiduciary practitioner at Private Client Trust. "When you know how each country approaches heirship and wills, an appropriate will or multiple wills may be drawn up," adds Love.

"An offshore will/s and a South African will should not contradict or revoke each other," says Love. For example, wills should not refer to the same assets and the revocation clause must not accidentally cancel another jurisdiction's will. She further cautions against leaving out any jurisdictions. As an example, the Isle of Man is not in the United Kingdom, so a UK will would not cover assets held there.

If you are an ordinary resident of South Africa, a worldwide estate attracts estate duty. There are limited estate duty double taxation agreements in place, and this must also be factored into your estate planning to ensure that your assets are efficiently held.

"If you have multiple wills, they must be thoroughly reviewed to ensure they are not contradictory, and care needs to be given to ensure they align with the rules and regulations of each jurisdiction. As there is no one-size-fits-all solution, getting professional advice to navigate your specific circumstances is crucial," concludes Pols.

Your trusted guide: Selecting the right executor for an estate

BY ADVOCATE ANNEKE LE ROUX
Senior Fiduciary Specialist, Professional Provident Society (PPS)

With September being Wills Month in South Africa, let's revisit the role of the executor, so you can ensure all your clients are familiar with the importance of having someone who meets all the right criteria.

"My dad drafted a valid will and appointed his friend – residing in the UK – and my uncle as the executors of his estate. In his will, he named his three children as the beneficiaries. After my dad's death, my uncle has taken 'control' of the assets and is unwilling to share information regarding the estate with us. The Master (of the High Court) does not want to appoint my dad's friend as the estate's co-executor as he is not domiciled in South Africa."

In the account above, the initial selection of executors appeared to be straightforward. However, circumstances have taken an unfortunate turn as the uncle has assumed control of the estate, leaving the beneficiaries without access to vital information regarding its management. Consequently, the beneficiaries now face an uncertain and frustrating future.

This situation serves as a poignant reminder of the criticality of the careful selection of an executor who will diligently and transparently fulfil their fiduciary duties. The complexities and potential delays that can arise during estate administration underscore the importance of proactive estate planning and highlight the possible repercussions should an executor fail to discharge their obligations adequately.

Death is not a pleasant conversation, but I am certain we all heard the horror stories of a friend, loved one, or family member that passed away and the complications that can go with no proper planning or, more frighteningly, of an executor that did not perform their fiduciary duties in the administration of the estate.

"The executor must administer and distribute the deceased's estate in terms of the Will or the Intestate Succession Act, where there is no will"

Who cannot act as an executor of an estate?

The executor can be anyone trusted, like a friend, family member, attorney, bank, or trust company. However, certain individuals and entities are ineligible to be appointed as executors.

These exclusions include, but are not limited to, insolvent individuals, minors, companies, the Master of the High Court in its personal capacity, and anyone disqualified according to the provisions of the Act. The Master of the High Court may require the appointment of an agent to administer the estate, should the nominated executor not have the required expertise, knowledge or experience required to administer the estate.

The Master of the High Court may refuse to issue the Letters or Executorship (Section 22(2)(a) of the Estate Administration Act, 66 or 1965) to a nominated executor resident outside the Republic of South Africa until the nominated executor find sufficient security for the administration of the estate and choose *domicilium citandi et executandi* at an address in the Republic of South Africa. This could cause delays in the appointment of an executor, and should the Master of the High Court appoint an executor, the estate will be liable for an additional cost in the security required.

What are the responsibilities and duties of an executor?

The executor must administer and distribute the deceased's estate in terms of the will or the Intestate Succession Act, where there is no will.

The duties of the executor are as follows:

- Reporting the estate to the Master of the High Court.
- Providing an account to beneficiaries.
- Advertise the estate in the local newspaper and Government Gazette to invite all creditors and debtors to lodge claims against or for the estate.
- Verify all personal effects, including contacting all the banks and other institutions at which the deceased would have had accounts and collecting all the assets and liabilities of the deceased's estate.
- Obtain a valuation of the assets and liabilities and account for them in a liquidation and distribution account submitted for the Master of the High Court's approval.
- Advertise the liquidation and distribution account to allow all stakeholders to view their claims against the estate.
- Process the transfer of assets, pay all claims against the estate, and pay the relevant taxes, transfer duties, and fees once the account had been approved and lied free of objections against the estate.
- Wind up and distribute the estate according to the will or the Intestate Succession Act once all claims against the estate have been gathered.

What skills and knowledge should an executor have?

The essential skills and knowledge an executor of an estate should have include:

- A comprehensive understanding of estate planning and administration laws. This includes familiarity with relevant legislation, such as the Administration of Estates Act and the Wills Act, and staying updated on any changes or amendments.
- Direct access to the Master of the High Court and a thorough understanding of effectively navigating and engaging with its office.
- Proficiency in financial matters and accounting principles to effectively manage the deceased's assets, debts and taxes.
- Strong organisational and communication skills to efficiently handle various stakeholders, including beneficiaries, creditors and legal authorities.

The role of an executor in estate administration should not be taken lightly, and must have the necessary knowledge and skills to manage the task. The story about the uncle "taking over" the estate serves as a reminder of the possible complications that can arise if the selection of an executor is not carefully considered.

Disclaimer: Kindly note that this does not constitute financial advice. The information provided is purely informational. In terms of the Financial Advisory and Intermediary Services Act an FSP should not provide advice to investors without an appropriate risk analysis and thorough examination of a client's particular financial situation. The information, opinions and communication from the PPS Group or any of its subsidiaries, whether written, oral or implied, are expressed in good faith and not intended as investment advice, nor do they constitute an offer or solicitation in any manner. PPS Fiduciary Services is a division of PPS, a licensed life insurer, controlling company and FSP.

More South Africans are using digital platforms to draft their wills

BY ANEESA RAZACK
CEO of FNB Fiduciary

In today's complex financial world, planning for the future is essential. One often overlooked aspect of financial planning is creating a will, which ensures that your loved ones are protected, and your assets are distributed according to your wishes after you pass away.

Recognising the importance of wills as a crucial component of financial planning, and the challenges many people encounter in drawing up their will, FNB introduced its innovative Wills on App solution early this year. Wills on App was designed to simplify the process of creating a will by allowing anyone to do so digitally, on the FNB app.

Aneesa Razack, CEO of FNB Fiduciary, says, "On completion, the Wills on App process leaves customers with a signed and valid will that will be updated or changed over time to align with their last wishes. While the digital process of drafting a will is simple, convenient and easy to use, an advisor is available to assist during the process for any of your estate planning and will set-up questions. It's important for perceptions of wills to change as it forms an important part of one's broader legacy planning," concludes Razack.

Wills on App is much more than just electronic will-creation software, it also allows users of the service to gain valuable financial insights into their estate planning, and even access guidance on how to optimise their planning to ensure their loved ones are properly taken care of when they pass away.

Carin Meyer, Product Head of Wills at FNB Fiduciary Services, emphasises the user-friendly nature of FNB Wills on App, and adds that this has played a significant part in the stellar growth in usage of the platform since it was launched earlier this year. "Wills on App is specifically designed to make the process of creating a will quick, easy and hassle-free," she says, and this convenience has resulted in a steady increase in the number of people making use of the solution to draft their will over the past few months, with more than 40% of the wills created through FNB now produced digitally.

She highlights that, in addition to the ease, convenience and cost-effectiveness of Wills on App, user feedback also points to an appreciation of the integrated view they can get of their financial position as it relates to their estate, and the unbiased guidance they can access on the platform.

She says that FNB Wills on App goes far beyond mere document creation, and a key feature of the solution is the comprehensive liquidity assessment option, which estimates the costs involved in administering the estate based on the newly drafted will. "It's an unfortunate reality, but dying actually costs money, and to make matters worse, your debt doesn't die with you," Meyer explains, "so if you haven't made adequate provision to cover these costs and the debts you leave behind, your loved ones could find themselves in a difficult financial situation."

To help people get an accurate view of whether their estate is in a good financial position to cover these costs and debts, Wills on App provides the option to receive a detailed liquidity assessment once you have created your will, which provides an estimate of the financial obligations associated with administering your estate. Meyer says it's an increasingly popular feature, with 46% of users who draft their wills on FNB Wills on App clicking through to complete this valuable financial assessment.

Concerningly though, these assessments reveal that approximately 87% of customers who check their cash position against the anticipated estate costs face a financial shortfall, potentially burdening their loved ones with the responsibility of funding the estate's finalisation. However, Meyer emphasises that it is far better for people to be made aware of such a shortfall rather than have their loved ones discover it after they are gone. And the Wills on App service offers guidelines on how they might address any financial shortfalls while there is still time to do so. Possible solutions include taking out life insurance, selling assets to unlock cash, or increasing cash savings. And users also have the opportunity to make contact with an FNB financial planning expert who can help them achieve the estate liquidity they need.

"These features make Wills on App a great checkpoint on people's financial journey," Meyer says, "and by making them aware of any potential financial challenges in their estate planning, and enabling them to proactively address these financial risks, Wills on App allows individuals to ensure they and their family members are well-prepared to cover the costs associated with estate administration, asset transfer fees, and other liabilities.

"Given the importance of a will, it's crucial to have the time and freedom to carefully consider your wishes and how you want to set up this vital document," Meyer says, " and FNB Wills on App puts you in total control, allowing you to draft your will at your own pace, without feeling rushed or pressured by a consultant or adviser; and then guiding you on a pathway to greater financial certainty for you, and a strong financial legacy for your loved ones."

"Wills on App is much more than just electronic will-creation software, it also allows users of the service to gain valuable financial insights into their estate planning, and even access guidance on how to optimise their planning"

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The ever-evolving landscape of trusts

BY KEMP MUNNIK
Head of Structured Solutions: Bravura

The use of trusts has been around for decades. Trusts have, however, received increased scrutiny from the South African Revenue Service (SARS) and the Financial Intelligence Centre (FIC). The increased scrutiny has left South Africans wondering whether a trust is still an effective tool in the toolkit when structuring their affairs. "It can seem daunting to understand the landscape, but having a professional in your corner will allow you to unpack the good, the bad and the ugly then it comes to making use of trusts from a South African perspective," says Kemp Munnik, head of Structured Solutions: Bravura.

The good

The benefits of a trust (including an offshore trust) are still plentiful, and include:

- Protection of assets against potential creditors, lawsuits, and other legal claims
- Safeguarding individual taxpayers from estate duty and estate-related costs (for example executor fees)
- Ensuring the continuity of underlying businesses
- Portfolio diversification and mitigation of exposure to socio-economic, political and currency risks (where offshore trusts are considered)
- Building a family legacy
- by preserving wealth for the next generation.

After numerous queries, SARS has also confirmed that they will consider approving the release of funds from a South African trust to an offshore trust, provided that the necessary approvals are obtained. Similarly, a South African trust may also make distributions to non-resident individuals with the necessary approvals. The approval process may involve a manual application to SARS, or via e-Filing (where a Tax Compliance Status (TCS) pin will be required).

"The changes made by SARS are in line with the relaxed exchange control regulations that now allow for South African individuals and companies to create a loop structure whereby they are permitted to hold investments in South Africa via an offshore Trust," explains Munnik.

Where offshore trusts (with South African beneficiaries) hold (or wish to hold) investments in South Africa (through use of authorised offshore funds), an application to the South African Reserve Bank (SARB) is required to regularise the loop structure or place it on record. The relaxation of the exchange control rules, to facilitate and encourage inward investment into South Africa, has seen such applications getting approved where the rationale holds water and where the requirements are met (which include investment based on market value, the inward flow of foreign currency, and additional investment into South Africa).

The bad

SARS increases scrutiny on trusts year-on-year, with this year's tax filing season seeing additional questions being asked about whether a taxpayer is a beneficiary of a trust and whether distributions were received, as well as additional reporting requirements when requesting a TCS pin or when applying for a so-called "international approved transfer" to facilitate utilisation of the annual foreign investment allowances or apply for a change in South African tax residency status (whereby worldwide assets and liabilities need to be disclosed to SARS).

Trust returns are also more onerous from July 2023, with questions around who the beneficial owner(s) of the trust are, their location, details on vesting from another SA or offshore trust, a compulsory requirement to prepare and submit annual financial statements and the resolutions of the Trust. "This will likely see the costs related to setting up and managing trusts increasing," Munnik notes.

Furthermore, because of South Africa's greylisting, the Financial Action Task Force (FATF; a global money laundering and terrorist financing watchdog) provided a list of 38 recommendations – almost all of them impacting trusts directly or indirectly. This is all to prevent the misuse of trusts and to curb money laundering and terror financing.

Trustees are now expected to be able to identify money laundering, terrorist financing and tax evasion. An increased burden of record keeping has also been imposed on trustees whereby detailed records of beneficial owners of a trust and accountable instructions are to be submitted. These records need to be kept on file as well as lodged electronically with the Master of the High Court by the end of September 2023.

The trustees will also have to make disclosures to SARS on all distributions that has been made to beneficiaries annually at the end of September 2023.

The ugly

If trustees do not adhere to the obligations of disclosure to the Master of the High Court and SARS, the non-compliant trustees and beneficiaries of the trust will not be issued with a TCS pin to use their annual foreign investment allowances.

Trustees may also receive a fine of up to R10m or imprisonment for a period of up to five years (or both) for non-compliance and can be prohibited from acting as a trustee again.

Where to from here?

From the above it is clear that there are still numerous benefits available, and you should still consider including a trust (whether local or offshore) when planning and structuring your affairs. It is, however, critical to ensure the proper set-up and ongoing management of such trust(s).

The trust space (especially in relation to offshore trusts) is both opening up (with the exchange control regulations facilitating offshore investment and also re-investment in South Africa), and simultaneously clamping down (with the increased SARS scrutiny as well as obligations, fines and sanctions placed on Trustees).

"While there is no reward without some risk, it's really important to manage that risk and ensure overall compliance to properly enjoy the benefits that trusts can offer," Munnik concludes.

"The trust space is both opening up (with the exchange control regulations facilitating offshore investment and also re-investment in South Africa), and simultaneously clamping down"

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Offshore vs onshore trusts: Here's what you need to know

BY COREEN VAN DER MERWE
Director at Sovereign Trust

Offshore trusts are becoming increasingly popular with South Africans looking for broader investment options and ways to protect their assets from political and economic volatility. However, it's important to know the key differences of offshore trusts to unlock their full benefits.

The major benefits of offshore trusts include tax neutrality (zero income and capital gains tax), greater flexibility (no exchange control rules to comply with), and improved succession planning (efficient and confidential distribution of wealth to beneficiaries often across borders) and investment protection.

However, it's critical to choose your jurisdiction carefully and be aware of the potential challenges and pitfalls when it comes to structuring an offshore trust, says Coreen van der Merwe, a director at Sovereign Trust.

"Investing abroad is hugely attractive to South Africans, for various reasons: a weak rand, an unstable political landscape, and the ability to access investment options that are simply not available locally, because South African trusts are restricted by exchange control rules to invest offshore. Knowing the different structures and terms used in offshore trusts is the first step towards realising these benefits," says Van der Merwe.

The first major challenge that many trust founders or donors (or, as they are known overseas, settlors) must overcome is the fact that they must relinquish control of their trust to independent trustees. In South Africa, it's possible to be a donor, a beneficiary and a trustee all at the same time, and you can appoint practically anyone as a trustee. Offshore, trustees must be regulated and licensed, and are bound by a professional code of conduct.

"Giving up control of your trust to someone you don't know can feel scary to many trust founders, but it's actually a good thing. In fact, the only way you can save tax and properly establish a trust is to create independent control. We're happy to give our money to banks because we trust them, and they have licenses and professional indemnity. The same applies when you appoint your offshore trustees," says Van der Merwe.

Another key difference to understand is the concept of a protector, which is an individual or company that has a right to veto the actions of the trustees.

> "The first major challenge that many trust founders or donors (or, as they are known overseas, settlors) must overcome is the fact that they must relinquish control of their trust to independent trustees"

For example, if you're getting divorced and want to remove your spouse as a beneficiary, the trustees can only officially remove her once the protector agrees.

It's not compulsory to appoint a protector, but they can play a critical role in cases where minors are the beneficiaries. They also play the role of a neutral moderator if there is a difficult relationship between siblings who are beneficiaries.

Unlike the trustees, who must be independent, a protector can be a family friend, lawyer or accountant. The only proviso is that they should not be the settlor or beneficiary themselves.

Choosing the right jurisdiction is another key decision in establishing an offshore trust. Many trust founders tend to default to the popular choices like Guernsey or Isle of Man, but there are numerous other interesting jurisdictions that South Africans should consider.

"Malta and Cyprus are generally not viewed as typical trust jurisdictions, but as EU jurisdictions they offer a range of reputational benefits for trusts. The same goes for Singapore and, of course, Mauritius is extremely popular with South Africans because of its proximity and the fact that it's the most cost-effective option," she says.

Before establishing a trust, you need a deep understanding of the legal and regulatory framework governing the trust structure in the country of establishment, as well as South Africa. It's also vital to choose the right type of trust structure – discretionary trusts, savings trusts (usually structured as discretionary trusts) or pension trusts – to serve the purpose you intend.

Savings trusts usually allow for limited activity levels, but trustee fees are lower. Pension trusts are intended to create a pension pot for retirement, and the trustee fees are generally lower than discretionary trusts. Discretionary trusts are often established for the benefit of all family members, without considering retirement ages of the beneficiaries. They offer more flexibility compared to the other two options, but this comes at a premium.

Offshore trusts can provide South Africans with enhanced asset protection, tax savings and efficient estate planning opportunities. However, it is imperative to approach offshore trust structures with careful consideration and engage with competent professionals based in South Africa and offshore to navigate the complexities of international tax laws.

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Offshore

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WHAT'S INSIDE ...

The importance of dividends in recessions

With the continued global inflation and rate increases, it remains to be seen if a recession is likely. Scott Cooper, Investment Professional at Marriott, takes a closer look.

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Amplify Investment Partners diversifies

The new global equity funds from Amplify are aimed at offering clients extended and diversified investment options.

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Are SA investors allocating enough offshore?

Sandile Malinga, Co-head of Multi-assets at M&G Insurers, answers some important questions about investing offshore.

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Dividends, more valuable than ever during recessions

BY SCOTT COOPER
Investment Professional at Marriott

The first seven months of the year have seen the continuation of the most aggressive and synchronised central bank hiking cycle in half a century. The US Federal Reserve rate was recently increased to 5.50% – its highest rate in over two decades – and many other central banks, including the European Central Bank and the Bank of England, have also moved interest rates firmly into restrictive territory. When viewed in conjunction with elevated services inflation, which has proved stickier than many initially envisaged, a challenging economic environment appears certain to continue as we move towards the end of 2023.

There remains significant debate as to whether we will simply see a period of muted global growth, or whether the global economy will tip into an official recession. The inversion of the US Treasury yield curve, which reached its deepest inversion since 1981 during July, suggests that the latter is more likely. An inverted yield curve is typically a precursor to a recession and occurs when yields on shorter-dated bonds rise above those for longer-term ones, reflecting an expectation that the central bank will need to cut rates to boost an economy hurt by higher borrowing costs.

During recessionary periods, Dividend Aristocrats have historically been the standout performers for equity investors, aided by their ability to reliably grow their earnings and dividends irrespective of the prevailing macroeconomic conditions, as evidenced by the track record of Procter & Gamble above.

This ability has been particularly evident over the past three and a half years since the onset of the global pandemic. During this time, the company showcased:

1. Ample liquidity and strong cashflows (brought about by resilient demand) to navigate the initial lockdown period
2. Robust and reliable supply chains to navigate the disruptions in global trade and shipping
3. Market leadership, brand loyalty, and the resulting pricing power to overcome the inflationary pressures and maintain excellent operating margins
4. Geographic diversification to minimise the impact of revenue disruption in any one country
5. A strong and well-managed balance sheet to mitigate the impact of the current interest rate hiking cycle.

These attributes enabled P&G to continue to grow its dividends despite the global turmoil. They have also produced sufficient operating profits to repurchase a staggering $21bn of shares in the past two years. These qualities enabled P&G to survive, and indeed thrive, during the unique challenges brought about by COVID-19; and will also ideally equip them to continue to produce reliable outcomes for investors going forward.

Marriott's international equity portfolios are comprised of many such companies. These best-in-class market-leading businesses possess the brand loyalty, pricing power and balance sheet strength to continue to reliably grow earnings and dividends over time – positioning our portfolios to deliver more predictable investment outcomes for investors, irrespective of the extent of the economic challenges that lie ahead.

These portfolios can be accessed via:

- 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 trusts (Rand-denominated).

Amplify Investment Partners goes global

Amplify Investment Partners has launched its first global equity funds to extend and diversify investment options for its clients.

"This is a natural progression for our fund offering," says Amplify head Marthinus van der Nest. "We currently have funds that cover mostly the multi-asset categories, but we are thrilled that we have expanded this offering to cater to those investors looking to diversify their local exposure."

Amplify has added a dollar-denominated fund to its existing range of unit trusts and hedge funds, and will imminently launch a rand feeder fund. Demand for offshore funds remains strong and changes to Regulation 28, increasing the offshore exposure limit to 45%, have created further opportunities for a good global manager, Van der Nest says.

Amplify's dollar-denominated fund will be managed by Sarofim & Co, an independent, employee-owned global investment manager dedicated to high conviction, sustainable-growth investing with a 60-year successful long-term track record of outperformance while taking lower risk.

The fund is a large cap equity fund with broad sector exposure, investing in dominant companies in structurally attractive industries that will grow earnings at sustainable above-average rates. Its mandate is to beat the MSCI World Index in US dollar terms through market cycles, with less risk.

Sarofim & Co, with $25bn assets under management, has a long track record of delivering on clients' expectations, with the fund complementing Amplify's existing range of high-performing funds.

"It has been quite a challenge to find an investment manager internationally that we have high conviction in and that has not had exposure to the South African market. Sarofim & Co, based in Houston, Texas, fits exactly into what it is that we strive to find – a high-quality manager focused on delivering performance for clients while partnering up with us for distribution."

Sarofim & Co invests in shares with superior profitability and leverage characteristics, cashflow and dividend growth, lower volatility, downside protection, and a history of outperforming in volatile markets.

"We hit the floor running with significant experience and expertise behind us, both as an investment manager ourselves with high standards and proven ability to pick high-performance active managers, and through a global fund manager that meets our exacting criteria," Van der Nest says.

"Over time, we will look at opportunities to add further capabilities to our global range to generate meaningful returns in more industries, on more continents, for longer."

**Sanlam Collective Investments*

Disclaimer: Collective investment schemes are generally medium- to long-term investments. Past performance is not necessarily a guide to future performance, and the value of investments /units /unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available from the Manager, Sanlam Collective Investments (RF) (Pty) Ltd. Collective investments are calculated on a net asset value basis, which is the total market value of all assets in the portfolio, including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees. Actual investment performance of the portfolio and the investor will differ depending on the initial fees applicable, the actual investment date, and the date of reinvestment of income as well as dividend withholding tax. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The performance of the portfolio depends on the underlying assets and variable market factors. Performance is based on NAV to NAV calculations with income reinvestments done on the ex-divident date. Lump sum investment performances are quoted. The portfolio may invest in other unit trust portfolios which levy their own fees and may result in a higher fee structure for our portfolio. The fund may from time to time invest in foreign countries and therefore it may have risks regarding liquidity, the repatriation of funds, political and macroeconomic situations, foreign exchange, tax, settlement, and the availability of information. The Manager has the right to close any portfolios to new investors to manage them more efficiently in accordance with their mandates. The portfolio management of all the portfolios is outsourced to financial services providers authorised in terms of the FAIS Act, 2002. Amplify Investment Partners (Pty) Ltd an Authorised Financial Services Provider, (FSP No. 712). The Investment Manager of the fund is Truffle Asset Management (Pty) Ltd. The Manager retains full legal responsibility for the co-brand portfolio.
**SCI – Sanlam Collective Investments*

Japan – a value investor's paradise

BY BRETT MOSHAL
Co-lead of the Japan team, Orbis Investments

Japan is the world's second-largest developed stock market and home to over 600 companies with market values above US$1bn. But despite its size, Japan is often left hanging on the periphery of investor attention.

We can see why. Since its epic bubble burst in 1990, the Japanese benchmark has returned less than 1% per year in US dollars, compared to 9% per year for other developed markets.

But while Japan has been a depressing market for passive investors, it has been a tremendous hunting ground for active stockpickers. In Japan, stocks classified as 'value' have beaten 'growth' stocks by 4% per year since 1975, far beyond the 1% per year value stocks have delivered in other global stock markets. The market's cyclicality feeds big swings in greed and fear, providing a great setup for contrarians to exploit.

Contrarian stockpicking has worked even better than a simple 'value' approach, delivering globally competitive returns in part because doing our homework helps us avoid stocks that can look undervalued but remain cheap forever. There are plenty of such value traps in Japan. Unlike the rest of the world, the proportion of companies in Japan that trade below their book value is enormous, and many of them have traded at those low valuations persistently.

In recent years, Japanese institutions have made efforts to unlock some of that value, but progress had been slow. This year, the Tokyo Stock Exchange singled out companies whose shares trade at a price-to-book ratio (PBR) of less than 1.0, obliging them to tell investors of their plans to achieve a higher valuation. This has lit a fire under management teams and opened the door to greater shareholder activism. Some of our holdings had already started to improve. Megabanks like Sumitomo Mitsui Financial Group and Mitsubishi UFJ Financial Group continue to reduce inefficient crossholdings of other companies' shares, have adopted progressive dividend policies, and have increased share buybacks.

Yet other companies could benefit greatly from self-help measures. Inpex, for example, is a cash-generating oil and gas producer whose valuation has languished at 0.6 times book value. Were Inpex to increase payouts in line with international peers, it could be rewarded with a far higher valuation. But the biggest reason we find Japanese shares attractive is the simplest one – their valuations. Despite its improving fundamentals, the Japanese market remains inexpensive versus other world stock markets, particularly the US. As is the case elsewhere, the gap in valuations between the cheapest and the most expensive stocks in Japan remains wide. When we look from the bottom up, we can find shares that are far cheaper than the Japanese market while still picking up a higher dividend yield.

With improving fundamentals and attractive valuations, Japan now represents 14% of the Orbis Global Equity Fund.

> "The biggest reason we find Japanese shares attractive is the simplest one – their valuations"

A R400m record raise from South African investors

BY DINO ZUCCOLLO
Head of Product Development and Distribution, Westbrooke Alternative Asset Management

South African alternative asset manager Westbrooke Alternative Asset Management has announced the successful closing of the most recent capital raise for its UK-secured private debt fund, Westbrooke Yield Plus, which raised GBP15m (approximately R400m) during the last quarter.

The fund continues to attract substantial interest from South African high-net-worth individuals and wealth managers who are increasingly seeking to generate an enhanced cash yield – currently more than 9% in GBP – in a challenging and volatile macroeconomic environment. Institutional demand is also growing on the back of these attractive returns.

The raise is an important milestone for Westbrooke Yield Plus, which has now reached assets under management in excess of GBP100m. This is notable as the large portion of the fund's investor base comprises South African connected capital. The fund also celebrated its five-year anniversary this year, with a track record of consistent performance.

Westbrooke Yield Plus provides loans to lower and middle-market UK companies and real estate sponsors, which is a significantly underserved UK market segment. The fund is focused on the UK and Western Europe and does not invest in property developments. The appeal is multi-faceted, says Dino Zuccollo, head of product development and distribution at Westbrooke Alternative Asset Management.

"Driving this strong investor demand is the fund's ability to generate a cash yield of more than that offered by the traditional fixed income, bond and cash investments. There is less volatility, as private debt funds aren't subject to the same pricing adjustments as listed markets, as well as improved portfolio diversification and reduced correlation to the public markets. In the case of Westbrooke Yield Plus, investors benefit from stable, hard currency returns that are linked to interest rates, thereby providing an inflation hedge, as well as tax efficiency on account of investment structuring," he explains.

Globally, private debt has gained significant traction and today is one of the world's fastest growing alternative asset classes. The asset class is useful in an era defined by:

- **Falling equities** driven by a rising interest rate cycle for the first time in decades
- **Volatile bond yields** that are also subject to market losses when holding fixed-rate loans
- Although the environment is riskier, **holding cash is complicated** as high inflation leads to negative real returns.

Key to Westbrooke's consistent performance is a skilled UK investment team operating in the UK market for more than seven years. This period has been challenging, with the combined impacts of Brexit, the pandemic, and the rising interest rate environment.

Zuccollo adds, "Although the market is tough, it provides opportunities if one is prepared to be nimble and deal with the added complexity. We currently see the traditional providers of capital, such as the large banks, retreating from the market in favour of existing portfolio management. This provides a larger transaction pipeline and allows us to be selective on deals.

"Our investment risk philosophy is centred on capital preservation, so we actively seek transactions with a level of asymmetry between the risk we take and the returns we generate."

Westbrooke has just opened its next private debt capital raise ending 30 September 2023, and it is offered to South African investors in terms of a CIPC registered prospectus. Due to the current demand, this raise will be strictly limited to GBP15 - 20m.

Could South Africa's new, tighter exchange control rules end up backfiring?

BY HARRY SCHERZER
CEO, Future Forex

In April this year, the South African Revenue Service (SARS) announced strict new administrative regulations for South Africans wishing to take their money offshore. The changes came almost overnight, taking the financial sector by surprise and leading some to call it regulation by stealth.

Under the new regulations, the administrative requirements for emigrating for tax purposes and investing money offshore have been replaced by a new dynamic application called 'Approval International Transfer (AIT)'. According to Sars, the AIT is meant to strengthen legislative alignment with the SA Reserve Bank (SARB), particularly when it comes to emigration.

While the regulations may be well-intentioned and designed to help prevent South Africa from falling further afoul of traditional regulators, there's also a good chance they could backfire. Some have even gone so far as to argue that they could ultimately result in Sars collecting less tax revenue.

Understanding the change

Before looking at how the AIT regulations might backfire, it's worth taking a deeper look into what they're replacing.

Previously, someone wanting to move money offshore for emigration purposes had to obtain an emigration-specific Tax Compliance Status (TCS) Pin from Sars. Those moving money across for investment purposes, meanwhile, needed to obtain a Foreign Investment Allowance (FIA) TCS Pin.

With this pin, individuals were able to take up to R10m a year out of the country without restrictions (in addition to the R1m that can be taken out without any prior approvals). With an AIT, they can take the same amount out, but the approval requirements have become a great deal more stringent.

> "The information and documentation required to get an AIT are far more involved and complex than they ought to be"

On its own, that's not necessarily a bad thing. As South Africa's greylisting by the Financial Action Task Force (FATF) earlier this year shows, the country clearly needs better oversight on funds entering and leaving the country. And if better alignment between Sars and the Reserve Bank makes it easier to provide that oversight, then so much the better. Implemented properly, it could also have simplified the application process for anyone wanting to take money offshore.

Piling on complexity

Unfortunately, that isn't what's happened. Instead, the information and documentation required to get an AIT are far more involved and complex than they ought to be. For example, the requirements for taxpayers to list local and foreign assets and liabilities – and allocate a value to each of them – could result in lengthy delays in the AIT being granted (especially when you factor in further verifications from Sars).

In the investment space, especially, time wasted is money lost. So, even if an investor wants to legitimately take their money offshore, they'll struggle to do so. But that money, put to work, is a net positive for South Africa. Grown in more stable international markets, it can then be put to work in the economy. Having grown a healthy offshore nest egg, for example, someone might use it to build their retirement property or supplement their pension.

Many may simply choose not to do so, robbing South Africa not just of money that would otherwise go into the broader economy but of tax revenue too. Some, as renowned investment strategist Magnus Heystek warns, may even be more inclined to find other (legal and illegal) ways of accumulating capital offshore.

None of those scenarios are good for the South African economy or the state's ability to provide basic services to the country's people.

The right forex provider can help

While there's little that ordinary people can do when it comes to pressuring Sars to change its regulations, they can avoid a lot of the pain associated with them. Partnering with the right forex provider, for example, can remove at least some of the administrative heavy lifting.

At Future Forex, for instance, we use a combination of automation and streamlined forms to gather client information, which can then fill in the much more complex regulatory forms. We also offer complementary tax clearance applications, further simplifying the process.

It's not a cure-all and doesn't account for any inefficiencies on Sars's part, but it does mean that the overall experience is less painful. The assistance offered by a good forex provider should also make the process quicker.

Looking after the customer first

Ultimately, tweaks to financial regulatory regimes aren't uncommon. In fact, when tied to effective enforcement, they can be incredibly important ways to ensure that financial outflows and inflows are legitimate. But those tweaks should be made with ordinary people in mind.

In time, Sars's AIT requirements may become more user-friendly. In the meantime, those impacted by AIT are much better off working with financial services providers that can minimise the effort needed for compliance rather than trying to find ways around it.

IMAGES: Shutterstock.com

Offshoring entrepreneurial ventures: Get your IP strategy right

BY RALPH WICHTMANN
Managing Director, Sovereign Trust South Africa

With Intellectual Property (IP) globally being considered one of the most valuable assets that a company can own, it's no wonder that many countries have implemented extensive legislative and regulatory provisions to protect IP created domestically. In many instances, these provisions also have cumbersome requirements to externalise IP that is created within their borders.

South Africa is no exception, and many an entrepreneur who has wished to sell their IP to an offshore investor or obtain inward investment into their company has undergone the somewhat painful process of obtaining the required approvals from the SA Reserve Bank and sign-off from SARS.

It's important to bear in mind that transferring and licensing South African IP to a non-resident is subject to the SA Reserve Bank approval, which can be a time-consuming and costly process, says Sovereign Trust South Africa, Managing Director Ralph Wichtmann.

There are strict exchange control regulations in place governing the sale or assignment of IP to non-residents. If IP has already been created, it is important to determine where the IP was created and what exactly it consists of, as the process of transferring the IP to a non-resident can be simplified if the IP was originally created outside South Africa. In that case, the IP laws of the relevant jurisdictions will govern the transfer of the IP to non-residents.

That's why the choice of jurisdiction to establish your company pertaining to your entrepreneurial venture is crucial. The right jurisdiction can hold many benefits, such as extensive legislative and infrastructural protection for IP, a competitive fiscal regime, reduced or no exchange control when selling IP or obtaining investment, as well as access to favourable trading terms should the jurisdiction of the company be based, for example, in the European Union.

"IP is the most valuable asset of the information age. It's critical that entrepreneurs and start-ups take the time to develop a proper IP strategy up front, as this will play a major role in the way they raise money or sell their business in the future," says Wichtmann.

Should the entrepreneurial venture be correctly structured, this will greatly assist in international business expansion, access to fiscal advantages and estate planning, as well as prevent exchange control regulations that could hinder the transfer when a potential buyer comes knocking. That is why it's important to get suitable offshore structuring advice before creating the IP and, if possible, determine upfront the target market or buyer of the IP.

"A jurisdiction that has well-developed IP laws and a business-friendly environment, like Singapore, for example, can assist in making venture capital or similar investing all the more attractive, especially if your IP is in a competitive market segment," says Wichtmann.

When choosing an offshore jurisdiction, one should also consider whether the company will be licensing the IP to other users, who will have to pay royalties. The country from which the royalty fee is paid might impose a withholding tax on such payments, so it is important to confirm that the jurisdiction where your company is incorporated has signed double taxation avoidance agreements with those countries. This can significantly reduce the withholding taxes imposed.

Once the IP is owned by an offshore company, it should then be registered to prevent any copying, abuse by potential competitors or disgruntled employees.

Even if your IP is intended solely for the local SA market, proper business structuring is still required to hold the IP, and to ensure it does not form part of your estate's assets. This will be especially important when the IP grows in value, says Wichtmann.

"When choosing an offshore jurisdiction, one should also consider whether the company will be licensing the IP to other users, who will have to pay royalties"

IMAGES: Shutterstock.com

Should SA investors allocate more offshore?

BY SANDILE MALINGA
Co-Head of Multi-Asset, M&G Investments

Sandile Malinga, Co-head of Multi-assets at M&G Insurers, shared his expertise in the field on answering those questions your clients will probably be asking you about investing offshore.

Q: With everything going on in South Africa, I'm concerned about my retirement savings, which is heavily invested in local assets. Should I be diversifying more offshore?

A: This is a complex question, with the answer depending on a variety of factors. There is no single optimal offshore allocation that can be applied universally. An optimal allocation should be specific to an investor's individual circumstances, and there are some key considerations that will influence this decision. Investor sentiment towards South Africa has grown more cautious over the past year due to intensified loadshedding, lacklustre growth prospects, and the FATF greylisting, to name a few developments.

In the current conditions, diversification in portfolios is especially valuable, and attractive opportunities are presenting in the widely diverging real yields and valuations we are seeing between countries, sectors, companies, issuers and instruments – there are many opportunities, but investors need to be selective in their choices.

Review your overall offshore allocation before adding more

Before deciding to increase your offshore allocation, review your portfolio holistically to get a sense of the total offshore exposure. Underlying funds in your portfolio are likely to be already invested in offshore assets so that, collectively, your exposure may already be aligned to your objectives, time horizon and risk profile. Keep in mind that some 75% of the corporate earnings on the JSE are sourced from outside South Africa, so an existing local investment could hold substantial offshore exposure. Locally listed global companies can be a valuable source of diversification.

Take advantage of diversification benefits

Offshore assets are critical in balancing the risks specifically embedded in South African assets, especially within growth assets like equities and, to a lesser extent, property and bonds. They help lower risk by reducing portfolio concentration and the macro and geopolitical risks that emerging economies, like South Africa, are exposed to. As an example, a relatively weaker performance from SA assets and the rand so far in 2023 has resulted in offshore investments offering South African investors excellent diversification benefits.

Align your offshore allocation to risk-return objectives

As with any asset allocation decision, it's important to consider the optimal allocation most likely to help you achieve your investment objective within the time horizon.

"Before deciding to increase your offshore allocation, review your portfolio holistically to get a sense of the total offshore exposure"

When looking at the various local and global asset classes, you should consider the correlation between them, as shown in Graph 1. The lower the correlation, the higher the benefit of diversification. As an example, global cash and bonds are negatively correlated to SA nominal bonds and would be good diversifiers for each other as they will most likely move in opposite directions in the market cycle.

From Graph 2, it's evident how divergent the various single local and offshore asset classes are with respect to the efficient frontier (or optimal risk/return combination, where the highest return is possible for the given risk, and represented by the diagonal line). The best approach is to blend asset classes to deliver optimal risk-return for a portfolio, as evidenced by the relative closeness of the M&G Balanced and Inflation Plus Funds to the efficient frontier.

Our research examining different offshore asset allocations in a portfolio has shown that for our balanced funds and other mandates aiming for returns of between CPI+4%-7%, the optimal 'neutral' long-term allocation is between 25% and 30%. For more conservative multi-asset portfolios targeting returns of CPI+3%, we found that the optimal neutral long-term asset allocation is somewhat less, between 20% and 25%. With weights considerably above or below this range, a fund's risk-return profile becomes less optimal.

This is shown in Graph 3, where each dot illustrates the different combinations of risk/return outcomes that can be achieved over a range of portfolios with different offshore weights. Here, the closer the portfolio weight is to the 45% limit dictated by Regulation 28 for retirement portfolios, the further it moves away from the efficient frontier. Key here is that additional foreign currency risk is introduced to a portfolio by increasing its offshore exposure, to a point where eventually the additional return potential added is offset by the risk.

Invest with current valuations in mind

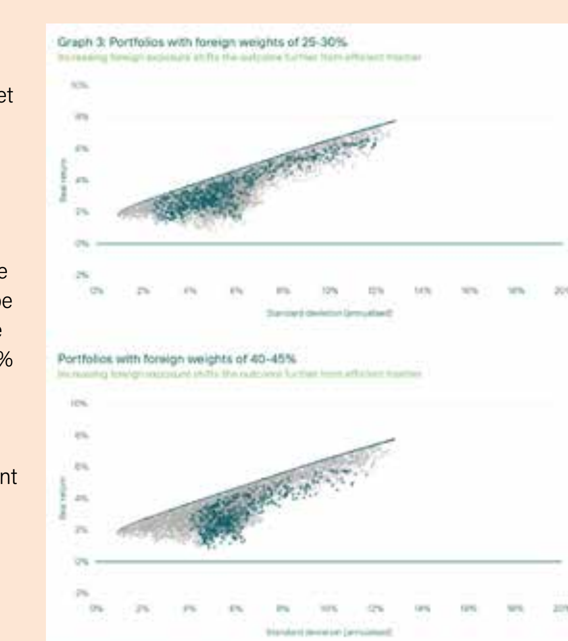
From a portfolio construction perspective, it's important to start with the long-term neutral optimal offshore allocation, which for the M&G Balanced Fund would be between 25% and 30%, for example. This allocation then needs to be analysed and adjusted to take into account current absolute and relative asset class valuations, to arrive at an appropriate shorter-term offshore weight for the portfolio. This weight will shift over time as we respond tactically to changes in asset class valuations as markets move, taking advantage of short-term market mispricing opportunities that may arise.

Currently in our portfolio positioning, our offshore allocation remains well below the full allowance of 45%, and is a function of the attractive valuations of South African assets. In our current view, South African equities and bonds are significantly cheaper than their foreign counterparts, and we're therefore tactically overweight South African equity and bonds relative to offshore equity and bonds. The current offshore weighting in many of our client funds is just over 30%.

Within global portfolios, we are relatively defensive in our asset allocation positioning and selective in our stock-picking. We are positioned neutrally in our asset allocation to equities in multi-asset portfolios, while across global bonds duration-neutral relative to the Bloomberg Global Aggregate Index, but are underweight in asset allocation terms. This also leaves us overweight global cash, providing a tactical opportunity to take advantage of cheap valuations when they present themselves.

We're currently balancing somewhat divergent considerations on the global front: on the one hand, there are concerns that the era of low and stable inflation, which allowed for low and stable short interest rates, may be coming to end, and if 2022 is anything to go by, may be quite traumatic for both bonds and equities. On the other hand, given the rout in asset prices through 2022, a lot of value has been restored in both bonds and equities, creating attractive tactical opportunities.

Finally, but also worthy of consideration, is the exchange rate of the rand. Our local currency has depreciated sharply so far in 2023, and many consider it to be undervalued. This supports a tactical preference for South African assets over global assets, and avoiding buying relatively expensive assets at an expensive exchange rate.



The top 3 mistakes made by online traders and how to avoid them

BY KAMOGELO MOSIME
Partnership Manager, Tickmill

Online trading platforms have made it possible for even the most novice traders to transact in financial instruments such as bonds, cryptocurrency, stock indices and forex. But, while opportunities to realise lucrative returns flourish, there are several pitfalls that traders need to avoid, Kamogelo Mosime, Partnership Manager at Tickmill, explains.

"Even with access to real-time financial data, market research and statistical information, traders can make costly mistakes – most of which come down to basic human error or misjudgement. Fortunately, with the maturity of many of the current markets and the growing volume of traders with various levels of experience, we have a golden opportunity to identify these routine snags and learn valuable lessons on how to guard against them."

1. Focus on facts, not feelings

Be careful of emotional trading. Inexperienced traders often fall prey to their own emotions – particularly fear and greed. One of the most valuable skills in online trading is emotional discipline and resisting the urge to make impulsive decisions.

"Psychological and cognitive errors can influence your decision-making – often for the worse. The first step in avoiding these kinds of mistakes is to be aware that our own biases, feelings and opinions can get in the way of clear, rational thinking.

The best way of counteracting this is to formulate a trading plan and stick to it, regardless of the behaviour of the market. Over time, making data-based decisions informed by facts rather than feelings will allow traders to grow in confidence and see the tangible fruits of trusting their plan and keeping their eyes firmly fixed on the desired outcomes.

2. Research first, act second

When traders make decisions based on what they believe to be 'inside information' or predictions based solely on their instincts, they run the risk of suffering substantial losses when factors beyond their control come into play.

Before initiating a trade, it is crucial to understand the market dynamics, analyse trends, and evaluate the potential risks involved. Several analytical tools can prove indispensable in this regard. These include timelines of each instrument's financial performance over a few years, graphical representations of how the market has fluctuated, and expert analyses.

One of the greatest assets that any trader can have at their disposal is the willingness to embrace ongoing learning and immerse themselves in the technicalities of the markets. If your online platform offers resources that can enable learning, you should use this to your advantage and familiarise yourself with how different datasets are interpreted.

With the view that traders need to be equipped with the most reliable data to inform their strategies, Tickmill offers an Advanced Trading Toolkit. Via the toolkit, traders can do a deep dive into various options, looking at aspects such as sentiment, which tracks how the market feels about a certain listed entity or instrument.

3. Keep an eye on the risks while striving for the rewards

By being impulsive, traders can become overly focused on the 'reward' dimension of investing and not as focused on the 'risk' factors involved. For example, many traders overlook setting stop-loss orders or fail to define an acceptable risk-reward ratio for their trades. Without proper risk management, losses can quickly escalate, leading to significant financial setbacks. Traders should establish clear risk parameters, determine appropriate position sizes, and consistently adhere to their risk management strategies.

At its most fundamental level, successful online trading relies on the ability to constantly weigh up these aspects and make calculated decisions. Doing so skilfully involves striking a delicate balance. But with strategies like using a trading plan, setting goals realistically and keeping a trade journal, traders can maximise their potential earnings and walk away satisfied that they have made the best decisions within the parameters they have set for themselves.

How to get superior returns and lower fees

BY LOFTIE BOTHA
Portfolio manager at Momentum Investments

Smart Beta products have been enjoying large inflows worldwide for some time now, thanks to their unique positioning between traditional and index funds. While their objective is to deliver benchmark-beating returns, like traditional funds, Smart Beta funds do so at much lower fees. This is possible as they follow a rules-based approach to investing, and therefore do not require expensive in-depth fundamental research.

The name Smart Beta became popular when referring to strategies that systematically exploit the behaviour of investment styles such as 'momentum', 'value' and 'quality'.

Momentum, value and quality

The roots of momentum or 'trend' investing are found in the well-known truisms "the trend is your friend". Investors as a group get anchored to historic perceptions and they tend to react slowly to new information, and share prices initially underreact. As time goes by and things become clearer, they react more and more in line with new information. This causes a trend. And due to herd behaviour, leading market participants start, and followers extend these trends that investors can exploit.

Share prices sometimes overreact and move into value territory after bad news or when themes or sectors temporarily fall out of favour. Opportunities to "buy low and sell high" arise when a share's price is out of sync with the value that one gets as measured by factors such as dividend yields, price-to-book ratios, cashflow yields and price-to-sales ratios. However, when sanity eventually prevails, patient investors get rewarded when prices move towards fair value.

"Investors as a group get anchored to historic perceptions and they tend to react slowly to new information, and share prices initially underreact"

If quality is ingrained in a company's DNA, it should show up in key profitability and stability indicators. Profitability measures indicate how efficient a company is in producing earnings. But earnings also need to be credible, stable and repeatable. This would require sound financial reporting, a strong balance sheet, and relatively steady share price behaviour. If a company scores well on these measures, it should be able to consistently generate superior earnings growth that would, in return, result in attractive stock market returns.

Diversification over different styles creates risk reduction

Individual investment styles are cyclical by nature, and while an individual style is expected to outperform its benchmark over a cycle, it is normal that it would sometimes lag its benchmark within a cycle. However, as different styles usually peak and trough at different times, investors can benefit from being diversified over multiple styles or risk premia. This would provide more risk reduction than an approach of diversifying over a group of traditional funds that all broadly follow similar processes. That said, many investors embrace the cyclicality of Smart Beta products as they know there is more upside when they enter close to a cyclical bottom than when they enter close to a cyclical top.

Momentum's smart beta offering

With us, investing is personal, and for investors who want to invest in smart beta funds, our Momentum Core Equity Fund offers exposure to multiple styles within one product. Clients who prefer to make their own style choices can consider the single-style Momentum Trending, Momentum Value and Momentum Quality Equity funds. Apart from the Momentum Quality Equity Fund (launched in August 2021), all our funds were launched in April 2017 and offer solid track records since inception. For more information, visit our website at momentum.co.za.

Smart Beta investing enhanced by hybrid intelligence

BY RAYHAAN JOOSUB
Co-founder and Portfolio Manager, Sentio Capital

YASHIN GOPI
Head of Quantitative Analysis, Sentio Capital

Smart Beta or factor investing is a popular approach that systematically captures factor premiums, which are believed to be a reward for some form of systematic risk or behavioural biases of investors. However, one of the major issues with factor investing over time has been that these strategies have worked well in-sample but below expectation out-of-sample. Most factor premiums can certainly be positive in the long term; however, in the short term, the performance of these factors can be quite cyclical. There are several reasons that can lead to underperformance, such as:

- The economic exposure of a factor being out of sync with the current economic cycle
- The valuation of a factor itself being expensive
- Market sentiment shifting away from a factor
- Structural constraints impeding the ability of investors to capitalise on a factor premium.

"Most factor premiums can certainly be positive in the long term; however, in the short term, the performance of these factors can be quite cyclical"

The table depicts the annual performance of six popular investment factors. Blue highlights the good performance (ranked in the top 2) and red highlights the poor performance (ranked in the bottom 2) among the styles.

One can see that many investment factors can experience consecutive periods of poor performance, such as Value from 2011 to 2015 or Small Caps from 2009 to 2013. Managers who tether their investment philosophy to any of these factors may face pressure from clients to adapt their approach to match the currently favoured factor. Since 2016, there has been consistent cycling in the performance of these factors, with no one factor dominating for a sustained period.

At Sentio, we believe that using alternative data sources, enhancing existing factors, and applying more computationally demanding machine learning techniques can lead to superior returns from a smart beta strategy. Machine learning techniques can also help to quantify the risk of a shift in the economic or market cycle and identify which investment factor should outperform in that phase. We call this 'Hybrid Intelligence'. The future of investing is still human, only smarter and faster!

	------ Smart Beta Factors: Annual Performance (2005 - 2022) ------					
Year	Value	Growth	Quality	Low Risk	Small Cap	Momentum
2005	-3.1	6.4	-1.6	-10.5	8.1	5.2
2006	13.3	8.6	-4.1	-9.3	1.7	14.8
2007	-4.3	30.0	11.2	4.8	-7.2	51.2
2008	13.6	-29.9	11.1	7.3	20.7	-4.2
2009	-4.4	-12.7	-2.5	-5.3	-7.9	-6.3
2010	8.1	5.3	14.9	20.4	7.9	11.2
2011	6.9	10.7	13.2	9.0	4.7	29.1
2012	-14.8	13.1	33.3	13.8	1.3	45.9
2013	-8.8	22.1	5.3	1.8	-9.1	33.6
2014	-11.1	27.9	19.8	8.9	10.5	33.0
2015	-26.1	50.1	39.6	29.6	-1.3	82.7
2016	46.0	-49.1	-24.1	-5.1	-0.3	-45.9
2017	-3.6	1.1	28.1	18.5	-4.9	21.7
2018	18.2	12.9	0.3	13.1	-5.4	-9.3
2019	-14.5	56.2	6.5	25.5	25.3	53.8
2020	16.0	39.3	-1.9	-3.7	-8.1	18.8
2021	20.4	-18.3	-26.9	-32.2	-10.3	11.6
2022	24.3	-7.4	-4.4	-7.4	3.6	-6.4

Source: Anchor Securities, Sentio.
Note: The styles shown here are constructed to be long-short equally weighted portfolios.

Factoring in styles in smart portfolios: Demystifying quantitative portfolios

BY NICO KATZKE
Head of Portfolio Solutions at Satrix*

Factor investing... style investing... smart beta... quantitative index portfolios. Different names, but with the same simple idea.

This involves extending simple index-tracking funds, that weigh companies based only on their size (such as the S&P 500 or the Top 40 Index), by considering other attractive company features. These include measurements of value, balance sheet quality, profitability, cashflow management, price, sales momentum, and many more. The premise remains that these measurements are simple to understand and result in transparent portfolios that adhere to predefined rules and have a low-cost structure. These are the same benefits that millions of investors enjoy through using simple vanilla ETF trackers. But factor funds come with an 'active' twist in how the rules are determined.

The factors used to design systematic (rules-based) portfolios represent company features proven to make them more likely to outperform peers over time. These company attributes are generally well known and accepted by active managers and analysts to inform their processes too. Factor portfolios can therefore be regarded as non-vanilla index portfolios, offering the best of both active and passive funds.

Does this mean more risk?

Some may view these as more exotic or high-risk strategies, when in truth we apply multi-factor logic in our daily lives. When buying a house, you'd consider multiple factors in contextualising the price. A R5m house may be a bargain (if situated in Constantia, with four bedrooms and a mountain view) or it may be a 'lemon' (if situated next to a highway, with a leaking roof and noisy neighbours – the four-bedroom status may mask its downsides). Simply put, we'd be better off considering more than size or simply using our intuition to determine the case for buying a house (or a portfolio of houses).

Factor strategies allow investors to harvest the long-term factor premiums that research has shown is on offer. Active portfolios with a style bias (e.g. a value manager or a high-quality manager) can deviate from their stated objectives through different market cycles. If cheaper companies underperform for an extended period, it may become intolerable for a value manager not to follow the herd. This may seem perfectly reasonable, until value companies rebound strongly and the opportunity for recovery is lost.

Harvesting the upside

Empirical analysis, globally, has shown that factor indices offer long-term premiums and more consistent upside – provided they are consistently sought. Trying to time factor exposures seldom works. Style diversification is also key to ensuring a smooth return profile with less downside

(e.g. considering quality and momentum styles together to best contextualise value). This means factor premiums are not mere short-term arbitrage opportunities, but rather offer long-term upside to those able to harvest it consistently.

The proof is in the pudding, too. Below we show historical performance numbers for global factor indices compared to the MSCI World Index. We also show local Satrix factor indices compared to the Capped SWIX Top 40 Index (methodologically consistent back tests are included prior to inception, where relevant). In both cases, factor strategies show great consistency in outperformance when the holding period is increased (especially for multi-factor indices, such as the MSCI Multi-Factor Indices and Satrix SmartCore™ Index).

In conclusion, factor index strategies offer an efficient, transparent, and low-cost means of refining core equity exposures by considering more than simply the size of a company. These strategies are also not exposed to the lack of style consistency often displayed by style-oriented managers. Factor investing constitutes an attractive blend of being active in the set of rules targeted, but passive in the application of these rules. The result is a best-of-both strategy that is becoming harder to ignore.

Exhibit 3: Historical performance of MSCI World Factor Indexes relative to MSCI World

Historical Frequency of Outperformance of MSCI World Factor Indexes - Data from 1975 to March 2023

Rolling Window	Minimum Volatility	High Dividend Yield	Quality	Momentum	Enhanced Value	Equal Weighted	Growth Target	Multi-Factor
1 Y	48%	56%	56%	65%	67%	55%	50%	71%
3 Y	51%	56%	65%	79%	68%	60%	51%	81%
5 Y	57%	66%	69%	93%	74%	65%	51%	87%
10 Y	68%	73%	79%	100%	81%	70%	64%	92%
15 Y	75%	82%	89%	100%	89%	78%	68%	100%
20 Y	82%	92%	97%	100%	100%	90%	73%	100%

Gross returns in USD from November 1975 to March 2023. History for the MSCI Growth Target Index based on official index levels from May 1999; MSCI Growth Style Index from December 1975 to May 1999.
Source: MSCI. 1975 - March 2023.

Historical Rolling Outperformance of Local Factor Strategies vs FTSE/JSE Capped SWIX Index

January 2010 - June 2023

	SATRIX DIVIDEND YIELD INDEX	SATRIX MOMENTUM INDEX	SATRIX QUALITY INDEX	SATRIX VALUE INDEX	SATRIX SMARTCORE™ INDEX
12 mnths	54.94%	64.20%	53.09%	58.64%	70.99%
24 mnths	61.73%	74.69%	61.73%	58.64%	76.54%
36 mnths	65.43%	76.54%	68.52%	63.58%	85.80%
60 mnths	64.81%	90.74%	68.52%	67.90%	98.15%

Source: Satrix. Data: Morningstar, FTSE/JSE. January 2018 – June 2023. Capped SWIX: Deducted 25 bps annually. Factor fund backtests (where used prior to inception) deducted a conservative 50 bps annually.

CIS Disclosure
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"Some may view these as more exotic or high-risk strategies, when in truth we apply multi-factor logic in our daily lives"

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South Africa's other big five

BY DR MARION MORKEL
Sanlam Chief Medical Officer

PETRIE MARX
Sanlam Product Actuary

Cardiovascular disease is back as the leading cause of death and funeral claims among South Africans, based on Sanlam's 2022 claims statistics, after Covid-19 temporarily unseated it. Noting the return of heart disease as first among the 'Big Five' causes of Sanlam claims for the year, Sanlam Chief Medical Officer, Dr Marion Morkel, says renewed awareness of health and lifestyle realities, with a commitment to prioritise regular check-ups and screenings, may well save lives.

Sanlam product actuary, Petrie Marx, says non-communicable diseases certainly didn't disappear during the pandemic, but their return affirms the rationale to focus on the realities of high blood pressure, diabetes, smoking, obesity, unhealthy diet and sedentary lifestyle as leading contributors to serious health challenges.

The main causes of Sanlam's death and funeral claims

Cardiovascular disease was the leading cause of death and funeral claims (21%) for both men and women in 2022. Dr Morkel says the increase in claims for cardiovascular disease is something they will watch closely in the coming years.

"The challenging economic conditions have also resulted in increased levels of financial stress, which can impact not only people's mental health but also their physical wellbeing. Left unchecked, chronic stress can impact your heart health," says Dr Morkel.

Diseases of the respiratory system – including Covid-19 – were the second biggest cause of death claims (17%) in 2022. Covid-19-linked claims decreased dramatically in 2022, with Sanlam paying out R108.84m in confirmed death and funeral claims linked to the virus, versus R2.64bn in 2021. Of the total R6.38bn in benefits paid, just R139.9m comprised confirmed Covid-19 claims. However, Covid-19 still accounted for the most sickness income claims (41% / R31.07m) in 2022.

The main cause of Sanlam's severe illness claims

The overwhelming majority (52%) of Sanlam's severe illness claims were for cancer and tumours, followed by heart attacks (8%), angioplasty (8%) and strokes (5%).

When considering severe illness claims for women, 63% were for cancer, of which almost half (48%) of all cancer claims paid were for breast cancer, usually affecting women aged 45 and up. Cancer was less prevalent in men, accounting for 42% of total severe illness claims. 36% of these claims were for prostate cancer – an 11% increase from 2021. Dr Morkel says, "Prostate cancer is the most frequently diagnosed cancer for males in 112 countries and the continued increasing incidence has been reflected in clinical research globally. Our significant increase in prostate cancer claims highlights the ongoing need for regular screening for all men."

Similarly, she encourages all women to perform regular self-checks of their breasts, follow the recommended guidelines for mammogram screening and to consult a health practitioner if there are any concerns.

The main cause of Sanlam's disability claims

Cardiovascular disease was also the primary cause (23%) of disability claims for both sexes, accounting for 25% of women's and 21% of men's claims.

After claims for cardiovascular disease, disorders of the bones, back, joints and connective tissue accounted for the second highest amount (19%) of all disability claims. This includes back and neck problems, spinal surgery and various fractures. It's also an important reminder to consider work-space ergonomics – whether working from home or at the office – and to get up and stretch frequently.

A cause to watch closely in coming years

While mental illness did not take first place in any of the claim categories, it accounted for 11% of disability claims (the third biggest cause), 9% of disability income claims, and 5% of sickness claims.

"Cardiovascular disease was the leading cause of death and funeral claims (21%) for both men and women in 2022"

Mental illnesses are frequently stigmatised and taboo to talk about, which means people may suffer unseen, in silence. A recent Wits/Medical Research Council DPHRU's paper reported that over a quarter of South Africans suffer from probable depression. The 2022 World Mental Health Report ranked our nation low on mental health, estimating that an overwhelming 75% of people needing critical care do not receive it.

Dr Morkel adds, "The pandemic increased the global prevalence of depression and anxiety by as much as 25%. It's critical to provide early, accessible interventions to ensure all South Africans can get care and support. There also needs to be much more conversation around mental health, so people feel safer sharing more about their emotional wellbeing."

Marx concludes that Sanlam is committed to paying on its promise and helping to protect people from the financial impact of these and other curveballs. "This is our north star. We have promised to protect our clients and their families. That is always our priority. Our claim statistics give deep insights into what is jeopardising the health of our nation. During Covid-19, many people missed their routine check-ups. We urge individuals to resume these. Having your heart health checked, along with annual cancer screenings, may well save your life."

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Finding the sweet spot for medical scheme clients

BY JOSUA JOUBERT
Chief executive and principal officer of CompCare Medical Scheme

With the final quarter of 2023 almost upon us, medical scheme clients will once more be searching for the sweet spot in healthcare cover. Yet most would likely be in disbelief that such a thing can even exist when it comes to a grudge purchase like medical cover.

Looking at the status quo, it's not hard to see why. On the horizon is the prospect of NHI, and while at this point it looks more like a mirage than a robust solution, the possibility of such a shake-up is casting fear in the minds of many.

On the other hand, what we have in the here and now is a gaping divide between an insufficient range of low-cost options permitted in the market, and on the opposite side of the spectrum, costly medical scheme membership. There is little to nothing in the middle ground.

Yes, the Council for Medical Schemes has been ordered to produce source documents on low-cost benefit option restrictions, but it remains to be seen when real results will materialise from this, and just how much change it will bring about.

Medical schemes, on the other hand, are contending with numerous challenges, not least of which is the rise in healthcare costs, which year on year continues to be above inflation. Having said that, while experiencing no growth in the last decade, medical schemes have also not seen a drop in member numbers to speak of, from which we can only conclude that consumers with this level of buying power are not willing to part with their medical scheme membership just yet.

This, however, does not mean they aren't feeling the financial squeeze that is affecting the market at large. Healthcare advisors know that most clients can comfortably afford no more than half of their current contributions, and making that stretch means cutting costs in places where they would rather be spending, or better yet, saving. A grudge purchase by its very definition.

So, how can you get your clients closer to that sweet spot where they spend less but still feel the full benefit of comprehensive healthcare cover? Efficiency discount options are a highly effective mechanism for achieving this and can save your clients up to 25% of their contributions. Having introduced the concept to the market more than a decade ago, we can certainly attest to the fact that schemes offering this cost saving are only seeing a rise in the demand for such products.

More than that, efficiency discount options are fully transparent about the limitations they impose – such as which hospital or pharmacy group you can use – limitations which are not unusual among many other options in the market that don't offer the same financial benefit. This further provides your client with a greater sense of ownership over their healthcare rand and just how far it can go.

When it comes to getting your client to sign on the dotted line, there is a lot to be said for giving them the comfort – and the control – of knowing they don't have to sacrifice the quality of their care or the attention to their wellness to put real savings within reach.

"Healthcare advisors know that most clients can comfortably afford no more than half of their current contributions, and making that stretch means cutting costs in places where they would rather be spending"

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King Price grows UMA book

BY ROCHELLE DE LUCIA
CEO of King Price's commercial and broker division

Insurer King Price says its focus on the underwriting management agency (UMA) sector as part of a broader push to develop key partnerships is paying off. The insurer has recently onboarded several new UMAs and has seen strong revenue growth from the sector.

UMAs – which are also known as managing general agents (MGAs) elsewhere in the world – are independent insurance agents who deal in specialised lines of coverage, like agri. They are mandated by insurers to take risks on their behalf, and underwrite risks, collect premiums, and even settle claims on behalf of the insurers.

Rochelle De Lucia, the CEO of King Price's commercial and broker division, says UMAs remain an important channel for insurers to reach niche markets, and are key to the company's ambitions to growing its commercial book.

"King Price started life with a direct-to-market model back in 2012, but we have grown our broker and UMA relationships exponentially in recent years as part of a strategy to harness the power of partnerships to reach new markets," says De Lucia. "UMAs provide deep expertise in their select niches. They're agile and have good relationships with brokers, and can help insurers reach a wider market very quickly."

"UMAs remain an important channel for insurers to reach niche markets, and are key to the company's ambitions to growing its commercial book"

UMAs are also often at the forefront of product innovation in rapidly evolving areas like cyber and insurtech, where they help create growth opportunities for the entire sector.

De Lucia says strong partnerships and open lines of communication are the bedrock of successful alliances between UMAs and insurers.

"The key to good UMA relationships lies in mutually rewarding remuneration structures, and providing the wide mandates they need to operate independently. As insurers, we're trying to bring our expertise and knowledge to bear, to help them manage their risks, streamline their administration and processes, and help them grow through better technology, branding and products," she says.

"We've improved our service level agreements and processes dramatically in the past couple of years, and we're seeing increased activity through our UMAs and an improvement in our loss ratios as a result," De Lucia concludes.

How a financial plan may be affected by divorce

BY EMILE VAN DER SPUY
Gravitas Tax

If you think divorce, retirement and tax aren't interlinked – think again. Here's all the information you will need to make the best possible decisions.

Divorce is sadly very common today, and financial planners are likely to be faced with the issue on a regular basis. Financial advisers must research the topic thoroughly, so they can advise their clients on the impact divorce may have on their pension payouts – along with its tax implications.

The clean-break principle

The clean-break principle came into effect on 13 September 2007. This principle – in which the parties seeking divorce are facilitated with becoming financially independent of each other as soon as possible – has found resonance in the South African courts for many years.

While modern couples tend to have separate retirement savings, the tendency would be for the higher-earning partner to either pay rehabilitative maintenance to the lower-earning spouse for a period of time after the divorce; or to permit the spouse without retirement savings to access the higher-earning spouse's retirement annuity, pension or provident fund.

The impact on retirement

While freeing up these funds should allow the lower-earning spouse to maintain their standard of living for a period of time while seeking employment (in the case, for example, where that individual was not working at all), it would obviously have a significant impact on the retirement plans of both parties.

If the husband was the higher earner, for example, he would lose a portion of his retirement savings to the non-member spouse. Using the example of a R3m retirement investment, where the marriage had been lodged in community of property, the non-member spouse would immediately be entitled to the sum of R1.5m. Crucially, the divorce order would only state the sum to which the non-member spouse would be entitled. It would obviously not specify the withdrawal options available to that individual.

The impact on tax

This is where consulting a financial planner is paramount – not just to discuss the possible options available, but also to find out what their tax implications may amount to.

- **Option 1:** The non-member spouse opts to transfer the portion of their former spouse's retirement investment, to which they are entitled, into a preservation fund. Their financial planner will advise them on the tax-neutral nature of this transaction, i.e. that no tax would be applicable on the transfer. The individual would then be permitted one pre-retirement withdrawal before the age of 55, subject to withdrawal tax and according to the relevant tax tables.
- **Option 2:** The non-member spouse elects to withdraw the funds, immediately, in cash. When taking this option, the financial planner should explain that withdrawal tax would be applicable, according to the non-member spouse's tax tables.

Why you need a simulation

A financial planner will be acting from a blind spot if they attempt to advise on the tax liable – related to a R1.5m withdrawal on divorce, for example – without carrying out a tax simulation.

Gravitas Tax offers clients the facility of a digital tool directly integrated with SARS. This tool carries out a tax simulation on that client's behalf, which will determine – as accurately as possible – what they are liable for related to a previous divorce order, retrenchment, and any other withdrawals over their career and lifespan, which they may not accurately recall.

This tax simulation facility allows a financial planner to help a non-member spouse to make an informed decision when they are deciding whether they require these court-allocated retirement funds right now, or whether it would be preferable to place them in a preservation fund.

In the latter case, should they be gainfully employed and not in need of the cash immediately, they would be able to withdraw these funds when future need arises.

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7 things you need to know about draft tax law amendments

BY JASHWIN BAIJOO
Head of Strategic Engagement and Compliance at Tax Consulting SA

On 31 July 2023, National Treasury released their annual draft tax law amendments for public comment. Although still at the draft stage, there are some pertinent proposed changes for which the supporting systems have already been implemented, i.e. the Beneficial Ownership Registers.

With these changes imminent, here are seven key considerations to be aware of.

7 key changes

At a high level, the proposed changes are largely focused on the strengthening of tax treatment in South Africa, as well as making any non-compliance both "hard and costly".

1. The requirement for South African employers to register for and withhold Pay-As-You-Earn from employee remuneration will apply equally to foreign employers
2. Low-interest foreign currency loans made by connected persons to trusts, and subject to donations tax, now have a methodology to calculate the rand value of the donation
3. Income distributions from South African trusts to non-resident beneficiaries must be subject to income tax in trust's hands, compared with local beneficiaries who could receive the distribution and pay tax at their marginal rate
4. The "foreign business establishment" exclusion, which applies to South Africans with shares in a controlled foreign company, has been clarified as it related to Group companies, following the recent Coronation judgment
5. Discretion is given to the Commissioner to allow an extension of the 40-day period for taxpayers to request a revised tax return, where an auto-assessment was issued by SARS
6. The definition of "beneficial owner" is to be included in the Tax Administration Act, encompassing the meanings of the term, regarding a company, trust and partnership
7. Most importantly – the inter-organisational sharing of information has extended to now include organisations such as the Companies and Intellectual Property Commission (CIPC), the Directorate of Non-Profit Organisations, and the Master of the High Court.

Practical ramifications

What this means is a more stringent verification process, with new measures being put in place to cast the net as wide as possible for the detection of non-compliance.

National Treasury has highlighted how crucial the proposed regulations are, to ensure transparency and accountability in all financial transactions, with a keen focus on the cross-border flow of funds. This will allow an inter-organisational determination of tax liability, while preventing tax evasion and profit shifting, as the benefitting parties will be more strictly monitored.

International cooperation will be facilitated through the proposed changes on Beneficial Ownership reporting, regularisation of interest rates on foreign currency loans, and substance requirements for the application of the "foreign business establishment" exclusion in relation to controlled foreign companies.

Keep your first mover advantage

Considering the automatic exchanges of information, any singular infringement, regardless of the ramifications, will become common knowledge among the various regulatory organisations. Simply having your advisor's assurance that all stacks up is no longer sufficient, and the "trust but verify" approach should ideally be followed as a best practice.

Where uncertain of your or your company's obligations under the proposed legislative amendments, it is prudent to approach an astute corporate and tax attorney, to ensure the fulfilment of all legal obligations. Where already venturing into the realm of non-compliance, do not let these new changes be your undoing.

Engaging a diligent tax attorney not only ensures legal professional privilege on disclosures, but also being specialists guarantees that the correct remedial measures are executed post-haste, while upholding the first mover advantage you gain from being proactive.

Beyond profit: The relationship between ESG compliance and M&A success

BY ANDREW BAHLMANN
Chief Executive: Corporate and Advisory, Deal Leaders International

In the field of mergers and acquisitions (M&A), the focus has typically been on financial performance, synergies, and market share. However, a transformative shift is taking place as environmental, social and governance (ESG) factors grow in prominence.

ESG compliance has emerged as a catalyst for M&A deals, redefining the parameters by which companies are evaluated. Practitioners are beginning to delve deeper into the relationship between ESG compliance and M&A outcomes to align values and vison. This involves challenging conventional financial metrics and highlighting the true value of sustainability and responsibility.

Some companies are ahead on this curve. By incorporating ESG into their M&A process, they have set themselves up with an advantage in pursuing value creation opportunities and a head start in meeting their ESG imperatives. For example, Royal Dutch Shell and ConocoPhillips both saw their stock prices rise following the announcement of the former's sale of its E&P (exploration and production) business to the latter in a decarbonisation move.

With climate change, income disparity, and ethical considerations coming to the fore, the lens through which companies are being evaluated is broadening. ESG compliance encompasses sustainability, risk management, corporate ethics, and social impact. Companies that embrace ESG principles not only mitigate risks but also position themselves for long-term success, making them attractive targets for M&A transactions.

A merger that integrates companies with strong ESG frameworks can unlock synergies, foster innovation, and create a stronger collective entity. By proactively addressing the above risks, companies can minimise potential liabilities and reputational damage, in the process protecting their value and enhancing long-term growth prospects. This provides a competitive advantage in navigating uncertainties and strengthens a company's brand value, with a loyal customer base reassured that the business can be trusted.

As global consciousness shifts towards sustainability, ESG compliance opens new doors to untapped market opportunities. Companies with embedded ESG principles are diversifying their portfolios through lucrative emerging opportunities, such as clean energy and socially responsible products. Furthermore, investors too are increasingly integrating ESG factors into their portfolio decisions, identifying competitive advantage in those companies that comply with ESG principles. Enhanced investor confidence translates into higher market valuation, making an ESG-compliant company an appealing M&A target for buyers seeking to expand their sustainable investment portfolios.

It can also play a pivotal role in talent attraction, retention and innovation. Employees, particularly the younger generation, seek values-driven organisations with purposes of value sustainability and social impact. Talent acquisition is frequently a key motivation for an M&A as acquirers recognise the importance of a skilled and motivated workforce, making ESG-compliant targets more desirable in terms of human capital potential.

> "Royal Dutch Shell and ConocoPhillips both saw their stock prices rise following announcement of the former's sale of its E&P (exploration and production) business in a decarbonisation move"

A target company's emphasis on ESG principles often fosters a culture of innovation and creativity. By integrating the target company's workforce and practices, the acquiring company can tap into a pool of talented employees driven by purpose and sustainability. This infusion of new ideas can drive product innovation, enhance market competitiveness, and generate long-term value.

ESG compliance often leads to operational efficiencies through measures such as energy-efficiency improvements, waste reduction, and supply chain optimisation. These initiatives not only reduce overheads but also minimise environmental impacts, enhancing the company's overall value proposition. Acquirers recognise the potential for synergies and cost savings within an ESG-compliant company.

An acquiring company that values ESG principles, particularly environmental sustainability, may for example seek to acquire a target company that specialises in renewable energy. The target company's ESG compliance, demonstrated through its use of clean energy sources, reduced carbon emissions, and commitment to environmental stewardship, aligns perfectly with the acquiring company's objectives.

By acquiring the ESG-compliant renewable energy company, the acquiring company can bolster its own ESG credentials by expanding its portfolio with a sustainable energy provider. This alignment enhances the acquiring company's reputation as an environmentally responsible organisation, attracting like-minded investors and customers.

The renewable energy target company may furthermore have an established customer base and market presence in the clean energy sector. The acquisition enables the acquiring company to tap into these new market opportunities, broaden its revenue streams, and diversify its business operations. The integration of sustainable practices and technologies, such as solar or wind power, can reduce the acquiring company's reliance on fossil fuels, lower energy costs, and improve overall operational efficiency.

In a further example, suppose an acquiring company, committed to social responsibility, is looking to expand its portfolio in the consumer goods sector. It identifies a target company known for its ESG compliance, ethical sourcing, fair labour practices, and community engagement. By acquiring the socially responsible consumer goods company, the acquiring company can potentially strengthen its ethical supply chain in the event the target company is committed to ethical sourcing and fair labour practices. The acquisition allows the acquiring company to strengthen its supply chain by integrating the two companies' responsible sourcing practices, ensuring transparency.

Acquiring a target company that is already ESG compliant can provide numerous benefits to an acquiring company that also values ESG principles. Examples include strengthening ESG credentials, accessing new market opportunities, enhancing operational efficiency, mitigating risks, strengthening ethical supply chains, improving brand reputation, fostering innovation, and deepening stakeholder engagement.

EDITORIAL
ACTING EDITOR: Sandy Welch
sandy.welch@newmedia.co.za
ART DIRECTOR: Julia van Schalkwyk
SUB EDITOR: Anita van der Merwe
DIGITAL CONTENT CO-ORDINATOR:
Mpolokeng Lechoba

ADVERTISING
KEY ACCOUNT MANAGER:
Mildred Manthey
Cell: +27 (0)72 832 5104
mildred.manthey@newmedia.co.za

DISTRIBUTION & SUBSCRIPTION
Felicity Garbers
felicity.garbers@newmedia.co.za

PUBLISHING TEAM
GENERAL MANAGER: Dev Naidoo
GROUP ACCOUNT DIRECTOR B2B: Johann Gerber
Johann.gerber@newmedia.co.za
PRODUCTION MANAGER: Angela Silver
angela.silver@newmedia.co.za
GROUP ART DIRECTOR: David Kyslinger
DIGITAL MANAGER: Varushka Padayachi

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STRATEGY DIRECTOR: Andrew Nunneley
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CEO MEDIA24: Ishmet Davidson
Money*Marketing* is printed and bound by Novus Holdings
Published by New Media, a division of Media24 (Pty) Ltd.

Johannesburg Office: New Media, a division of Media24 (Pty) Ltd, Ground Floor, 272 Pretoria Avenue, Randburg, 2194 **Postal Address:** PO Box 784698, Sandton, Johannesburg, 2146
Cape Town Head Office: New Media, a division of Media24 (Pty) Ltd, 8th Floor, Media24 Centre, 40 Heerengracht, Cape Town, 8001 | **Postal Address:** PO Box 440, Green Point, Cape Town, 8051
Tel: +27 (0)21 406 2002 | **newmedia@newmedia.co.za**