THE INDEPENDENT

JANUARY 2016

Happy new Year 2016

AN INDEPENDENT WEALTH MANAGERS PUBLICATION

CASH ON CALL	7.215%*	Average Money Market Rate	6.805%
		Difference	**0.41%**

*After all fees

On a cash balance of R 4,000,000, this difference represents additional interest of R 16,400 per annum.

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FINANCIAL INDICATORS REVIEW

As at 31 December 2015

	SPOT	% MOVE 12 MONTH
Gold $/oz	1 061,00	-10,30%
ZAR/USD	15,46	35,00%
ZAR/GBP	22,55	25,60%
ZAR/EUR	16,80	20,00%
All Share (J203)	50 694,00	1,90%
Resources (J210)	25 394,00	-39,40%
Financials (J580)	40 955,00	0,00%
Industrials (J257)	79 304,00	12,50%
Property (J254)	564,00	9,40%
S&P 500	2 044,00	-0,70%
FTSE 100	6 242,00	-4,90%
Nikkei	19 034,00	9,10%
DJ-EURO50	6 265,00	7,10%
Nasdaq	5 623,00	7,00%
Hang Seng	21 914,00	-7,20%
Shanghai Composite	3 539,00	9,40%
France CAC40	4 637,00	8,50%
Germany DAX Composite	979,00	11,30%

FROM THE FINANCIAL ADVICE TEAM

The year 2015 will certainly be remembered as one of change, uncertainty and volatility. As we proceed into the New Year, we would like to take the opportunity to thank all of our clients for the continued support and wish you the very best for 2016. It is in uncertain times like these where the short term noise can influence investment decision making. We appreciate your patience and trust; for it is the time to remember that a long term plan is in place, aligned with your overall objectives and circumstances.

> The predictability and trajectory of the global economy is a thing of the past; events over the last few years have changed so dramatically that economic charts have had to be redrawn, with reduced expectations a common theme.

2015 saw a string of terrorist IS attacks in France, US and on a Russian airliner; Jihadist attacks in Kenya, Tunisia and Charlie Hebdo in Paris; the worst European Refugee crisis since the Balkin wars; a massive sell-off of Chinese stocks with the subsequent devaluation of the yuan; the credibility of VW questioned; elections in Britain, Canada, Nigeria, Australia, Israel, Poland and Greece; massive quantitative easing in the Euro zone; continued low oil prices hurting countries like Russia and the shooting of Cecil the Lion in Zimbabwe. The global economy continues to struggle with variability between countries abnormally extreme. In December, the US Central Bank announced the much anticipated increase in interest rates by 0.25%, the first increase since 2006. In addition, they have pledged a gradual pace of increases moving forward, which will likely encourage Reserve Banks across the World to follow suit.

Locally the year was nothing short of eventful; in an article by Thulani Gqirana from News24 titled “2015: The year things fell in SA”, he summarises the year as follows: “In 2015, many things fell in South Africa: statues, student fees, the police commissioner, finance ministers, and the rand. The Springboks fell short of winning the Rugby World Cup. But, despite calls from various quarters, President Jacob Zuma did not fall.” In addition, in December, ratings agencies downgraded South Africa’s credit rating further, currently hovering just above junk status.

The event with the largest market reaction was certainly the replacement of finance minister Nhlanhla Nene with ANC MP and former Merafong mayor David van Rooyen on 9 December. A public outcry and the Rand/Dollar plummeting to over R16 resulted in the subsequent replacement to former finance minister Pravin Gordhan on December 13, leaving Van Rooyen as the shortest serving SA Finance Minister.

According to Economists at Goldman Sachs, in 2016, a small uptick in global growth is expected, with further improvements in developed labour markets. They predict that Emerging markets will remain a mixed bag, with more deceleration ahead for China. In a summary of the top market themes for 2016, Goldman Sachs have described “Steady-as-she-goes global growth; Divergent monetary policy in developed markets; and Higher-than-expected inflation” as just some of the market themes their economists say will define the year ahead.

> The World continues to be an unpredictable place, re-iterating the need for diversification across asset classes and geographic areas.

As a South African investor, there is currently a choice of more than 1250 locally-registered unit trusts, and once you go outside of our borders, there are in excess of 74,000 funds. This is why we place so much emphasis on the independent research and process underpinning our selection of funds.

As we move forward into the unknown of 2016, we urge you to continue to focus on your long term objectives.

We trust you find the content that follows both interesting and informative.

PUTTING YOUR CASH TO WORK

WRITTEN BY **NEDGROUP INVESTMENTS**

South African companies are famous for “lazy” balance sheets. **Is yours one of them?**

As tough economic conditions look set to remain the order of the day for the foreseeable future, it is critical that companies ensure that they are optimising the returns on the cash piles they are sitting on and foster a culture of making every cent work. This culture should be evident at all levels from the operational areas all the way into the finance departments. Just as it is an indictment on management to have an idle machine that could be producing stock to sell, it is similarly wasteful to not invest surplus cash optimally or the opportunity costs add up.

> Experience shows that corporates that have a culture of taking care of the pennies, are the winners.

The irony is that during tough economic climates, many corporates tend to restrain themselves in terms of investment and expenditure, and also build up cash war chests to tide them through potentially tough cycles. In doing so, above average cash reserves build up on their balance sheets. While most corporates go to great lengths to ensure that they have an overdraft facility in place for those times when their cash flow cycle is negative, they are not as conscientious when it comes to having a facility in place to optimally park surplus cash until it is needed.

However, while protecting ones balance sheet is prudent, companies who default to holding idle cash in call or even current accounts are incurring a potentially significant opportunity cost in terms of interest forfeited. By putting the cash reserves on a company’s balance sheet to work by better allocating the cash, a very welcome contribution to a company’s bottom line can be made without compromising on access to funds or credit quality.

While the primary focus of every business and its employees should be on fulfilling operational responsibilities, corporates need to put more of a focus on putting their balance sheet to work, including their cash. In this market environment an extra percent – or even half a percent of earnings - can make a very positive impact on profits.

In an environment where every bit helps, this additional yield could provide valued relief not only to corporates, but also to organisations such as schools, churches and trusts.

So how can one go about achieving this benefit?

Using money market funds ensures surplus cash can immediately and easily be put to work, earning higher rates without locking it up in fixed deposits. Investing idle cash into money market funds is one of the safest ways to achieve attractive yields without taking on undue risk. Apart from professional management of the money, the cash investment is also spread across the banks and other credible issuers – thereby significantly reducing the risk.

There is a substantial opportunity for companies who are smart with their cash. Over the last year, the Money Market fund industry in South Africa is estimated to have added in excess of R2.5 billion in extra interest (over and above the best call rate) while still providing all the benefits of a call account.

However, corporate investors should note that while achieving optimal returns on cash is crucial, one should avoid chasing the highest yield in the market. It is important to look beyond the rate and not to be taken in by marketing promising high returns which come with fixed terms and poorer credit. Investing excess cash in a call account has a similar effect to an outsourced treasury, however one with better rates. Furthermore, the structure is such that clients retain the convenience of full liquidity.

Independent Wealth Managers has a range of cash equivalent funds in which to invest depending on your circumstances. Contact us for further information should you be interested in putting your cash to work.

NEDGROUP INVESTMENTS

INDEPENDENT WEALTH MANAGERS UPDATE

FPI APPROVED PROFESSIONAL PRACTICE™

The Financial Planning Institute of Southern Africa (FPI) has introduced the FPI Approved Professional Practice™ brand, an initiative aimed at making it easier for consumers to identify financial planning practices that adhere to the highest standards of professionalism.

During the course of 2015, we applied to the FPI to have our practice accredited. After a rigorous audit and due diligence process by the FPI, we received our accreditation in November.

> We are one of only 10 practices in the country to have achieved this accreditation. We are proud to have been collectively recognised as a team, as teamwork forms the cornerstone of our business.

Our vision is to be the most respected and trusted financial planning and wealth management practice. We strive to be the leader in independent and objective advice and believe that this accreditation is a vital step towards achieving our vision.

RETIREMENT REFORM

SUMMARY OF CHANGES COMING INTO EFFECT 1 MARCH 2016

In the Taxation Laws Amendment Act, 2015, some of the Government's retirement reform proposals were passed into law. The new rules aim to bring into line the tax treatment and annuitisation requirements for all types of retirement funds (ie pension, provident and retirement annuity funds).

In summary, from 1 March 2016

- The deduction cap for retirement fund contributions increases to 27.5%, across all retirement funds, of the greater of remuneration or taxable income
- The annual deduction cap is R350 000 (including the cost of risk benefits)
- Only the employee may claim contributions (both in respect of the employer and the employee contributions)
- Provident fund members, like Pension fund and Retirement Annuity members, must use two-thirds of their fund benefit to purchase an annuity. The new rules will only apply to contributions made after 1 March 2016 and on the subsequent return earned on those contributions
- The provident fund balance on 29 February 2016 and subsequent returns thereon remain under the old rules, and may be claimed as a lump sum at retirement
- Provident fund members who are 55 or older on 1 March 2016 are exempt from these provisions, as are retirement balances below R247 500 (previously R75 000)
- Should the benefit be less than R 247,500 (previously R 75,000), members may take their full retirement benefit as a cash lump sum and do not have to purchase an annuity

ESTATE PLANNING: THE ACCRUAL CLAIM

For Estate Planning purposes and in the process of drafting a Last Will and Testament, it is essential to understand the legal implications of the marital property regime on one's assets.

In South Africa, the most common forms of marriage are:

- in community of property,
- out of community of property (without accrual), and
- out of community of property (with accrual).

Since 1 November 1984, the accrual system automatically applies to all marriages out of community of property, unless expressly excluded in the antenuptial contract. This regime addresses the question of the growth of each spouse's estate after the date of marriage.

For purposes of illustrating the implications of the accrual claim, we will make use of a basic example (refer to the table on the right): *H* and *W* are married out of community of property, subject to the accrual regime. They entered into the marriage with a R0 begin value:

VALUES	H	W
Current Net Asset Value	35 000 000	5 000 000
Less: Begin Value	-	-
Accrual	**35 000 000**	**5 000 000**

ACCRUAL CLAIM	
H's accrual	35 000 000
W's accrual	5 000 000
Net Accrual (difference)	30 000 000
Accrual by W (50%)	**15 000 000**

In the event that *H* and W leave their entire estate to each other, the Accrual will simply be set off against the inheritance. However, if the Last Will and Testament stipulates beneficiaries other than the spouse, for example the children or a trust, the following issues may be of concern.

Scenario 1: H is the first deceased

H's estate will have to pay the accrual claim of R 15,000,000 to *W*. However, his estate may not have the liquidity to pay the claim and may have to realise assets in order to meet this obligation. It is important to remember that the spouse will get the accrual claim plus any inheritance in terms of a specific bequest in the Will, which when combined, may be a lot higher than the deceased intended.

In the event that W renounces the right to the accrual claim, it is likely that Donations Tax will be liable at 20% (R 3,000,000). A donation is defined as "any gratuitous disposal of property including any gratuitous waver or renunciation of a right."

Scenario 2: W is the first deceased

Her estate will have a claim of R 15,000,000 against *H*. In the event that W leaves her estate to anyone other than *H*, the executor will call on the claim. *H*'s assets may have to be sold to realise the necessary cash, which may result in additional taxes such as Capital Gains Tax. In addition, the R 15,000,000 will be reflected as an asset in *W*'s estate, increasing the estate duty liability.

In the event that *W* renounces the right to the accrual claim, one needs to take into account the timing of the renunciation. It is possible that *W* can add a clause to her Will instructing the executor not to enforce the accrual claim or bequeathing assets in value equal to the claim in favour of *H*. However, if there is no evidence that *W* renounced the right during her lifetime, the executor will have to enforce the claim so as to fulfil his fiduciary duty to the residual heirs.

Estate planning for persons married under the accrual regime can be complicated, however there are many ways in which the estates can be planned to ensure minimal disruption during the winding up process.

At Independent Wealth Managers, the objective of Estate Planning is to provide our clients with a degree of comfort that their objectives for the accumulation, protection and distribution of assets will be met.

Should you require any assistance with Estate Planning and/or drafting of your Last Will and Testament, please do not hesitate to **contact us**.

INDEPENDENT
WEALTH MANAGERS

TALES OF RICE AND REWARDS

COMMENTARY BY **JEANETTE MARAIS**, DIRECTOR OF DISTRIBUTION AND CLIENT SERVICE, **ALLAN GRAY**
GRAY ISSUE NO. 171

We often talk about the value of time in investing, but it is difficult to really get to grips with the rewards that can be reaped through compound growth: earning interest today on interest earned yesterday and so forth.

The power of exponential growth is neatly demonstrated by the rice and chessboard story, the earliest record of which is in an epic poem written in Persia about 1 000 years ago.

The story goes that a king in India was so impressed by the new game of chess that he offered the wise sage who invented it any gift of his choosing. The sage modestly asked to be paid in grains of rice: the king was to put a single grain of rice on the first chess square and double it on every subsequent square.

The king readily agreed and ordered a bag of rice to be brought to the chessboard. He then started placing rice grains according to the arrangement: one grain on the first square, two on the second, four on the third, eight on the fourth, and so on. Following the exponential growth of the rice payment, the king soon realised that he would be unable to fulfil his promise. On the 20th square he would have had to put 2^{20} or just over 1 000 000 grains of rice. With 2^{64} grains and 48 grains per gram of rice, the king would have had to put more than 380 billion tons on the last square. That is 500 times this year's global rice production forecast.

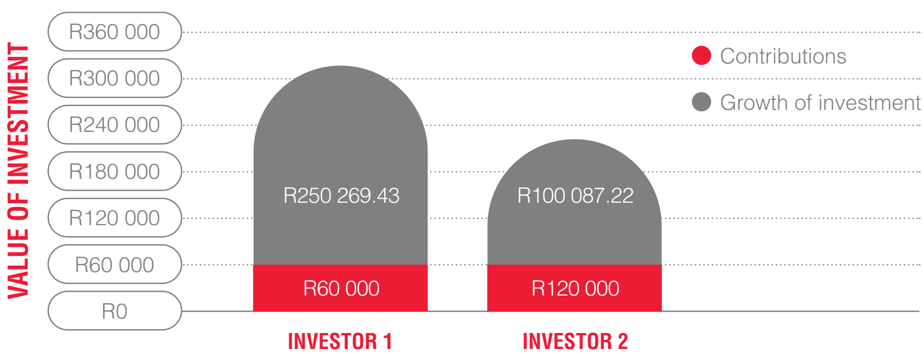
How is a fable about exponential mathematical series relevant to investing?

Graph 1 illustrates two investment strategies. Investor 1 began investing R1 000 a month in the year 2000 into a balanced fund. He contributed monthly until the end of 2004, a total of 60 contributions or R60 000, at which stage he stopped contributing, but left his money invested until the end of 2014.

Investor 2 began contributing R1 000 per month from the beginning of 2005 into the same balanced fund, and continued to contribute until the end of 2014. A total of 120 contributions, double the capital contribution of investor 1.

Graph 1 shows that although investor 1 contributed 50% less than investor 2, his investment is worth a significant 40% more. On top of this, less than a quarter of the final amount has come from his pocket. The rest is from investment returns and compound interest.

GRAPH 1 • THE POWER OF COMPOUND INTEREST



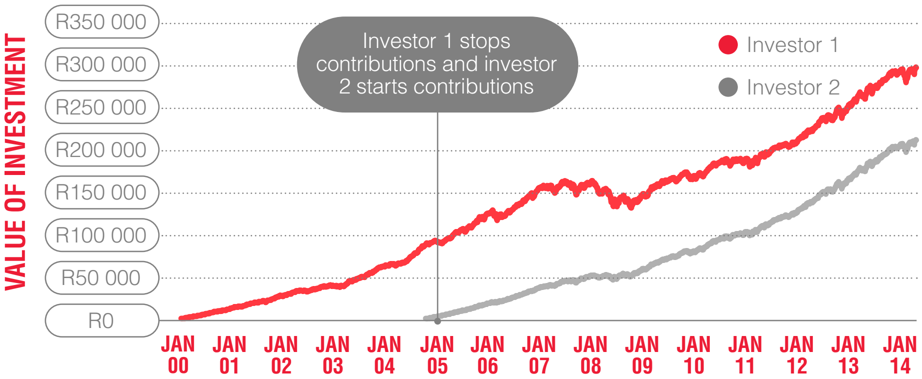
Data is based on the average return of unit trusts in the South African – Multi Asset – High Equity category. Nominal returns are shown, i.e., they do not take inflation into account. Contributions are held constant, i.e. they do not increase with inflation.

Source: Morningstar, Allan Gray

How does this work?

Similar to the rice story, as your investment begins to earn returns, the base from which it will earn future returns grows exponentially. Although investor 1 contributed less money, he had already accumulated a fair amount by the time investor 2 started to invest. This is illustrated in *Graph 2,* which uses the same data as *Graph 1*, but shows the market growth of the investments.

GRAPH 2 • TIME IN THE MARKET



Is now the right time to invest?

The rand is currently weaker than it has been for some time, and there are crises unfolding in different corners of the globe. At the same time, local equities are, on the whole, looking expensive. Investors are understandably confused about where to put their money, and are asking 'when is the right time to invest?'

In the absence of a crystal ball, it is impossible to accurately predict what will happen next on the markets; we simply do not know. We do know that if we look back over time, clients who have started early and left their investments to grow, have performed better than those who kept putting off investing, hoping that market conditions would improve.

If you are concerned about equity valuations, or feel you need to diversify asset classes but don't know how to do it, you may wish to consider a solution unit trust, such as a balanced fund. In a balanced fund you hand over the asset allocation and timing decisions to an experienced fund manager, who makes the decisions for you.

For most of us, procrastination is the enemy. Market ups and downs tend to smooth out over time, rewarding long-term investors. Time in the market is critical if you truly want to benefit from the wonders of compounding.

If the Persian poet who penned that story had invested the price of a scraggly goat (say US$10 in today's money) at a real return of 3%, leaving the proceeds to the Persian (now Iranian) people, and found a way to stay invested through the 1 000 years since then, his legacy would be equal to about 250 times Iran's current GDP.

ALLANGRAY

OFFSHORE HIDING PLACES NO LONGER AN OPTION FOR SA TAX EVADERS

COMMENTARY BY **GRAEME SAGGERS**, CA(SA), DIRECTOR

1 January 2016 is the "go-live" date for the implementation of the Common Reporting Standard which means that offshore structures will be disclosable from this date. The Common Reporting Standard is an element of the Standard for Automatic Exchange of Information in Tax Matters published by the Organisation for Economic Co-operation and Development (OECD) in July 2014. This standard provides a framework for automatic exchange of information between adopting countries.

Automatic exchange of information involves the systematic and annual transmission of "bulk" taxpayer information by the source jurisdiction to the residence jurisdiction of the taxpayer. This transmission is done by a variety of financial institutions including banks, trust management companies and asset managers. The information to be transmitted is detailed, for example, offshore trusts will be required to disclose details of the settlor, trustees and recipient beneficiaries of the trust and companies will be required to disclose who are the beneficial owner of their shares.

Currently, 96 jurisdictions have committed to implement the Common Reporting Standard. Early adopters have undertaken to make their first exchange during 2017. There are 56 early adopting countries and they include South Africa, British Virgin Islands, Gibraltar, Guernsey, Isle of Man, Malta, Mauritius and United Kingdom. Other committed countries such as Australia, Switzerland, Canada and Hong Kong will follow a year later.

It is thus imperative that South African resident taxpayers assess their offshore structures in order to establish whether they may have any undisclosed assets and income. If undisclosed income is identified, South Africans can approach SARS through the Voluntary Disclosure Programme (VDP) which allows for a reduction in penalties in situations where taxpayers come clean on undisclosed income prior to it being identified by SARS.

With the advances in technology and the global attitude towards transparency across tax jurisdictions and hence automatic exchange of information, it will become impossible for tax evaders to hide assets from tax authorities worldwide.

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Should you require any further information, please do not hesitate to contact us.

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