

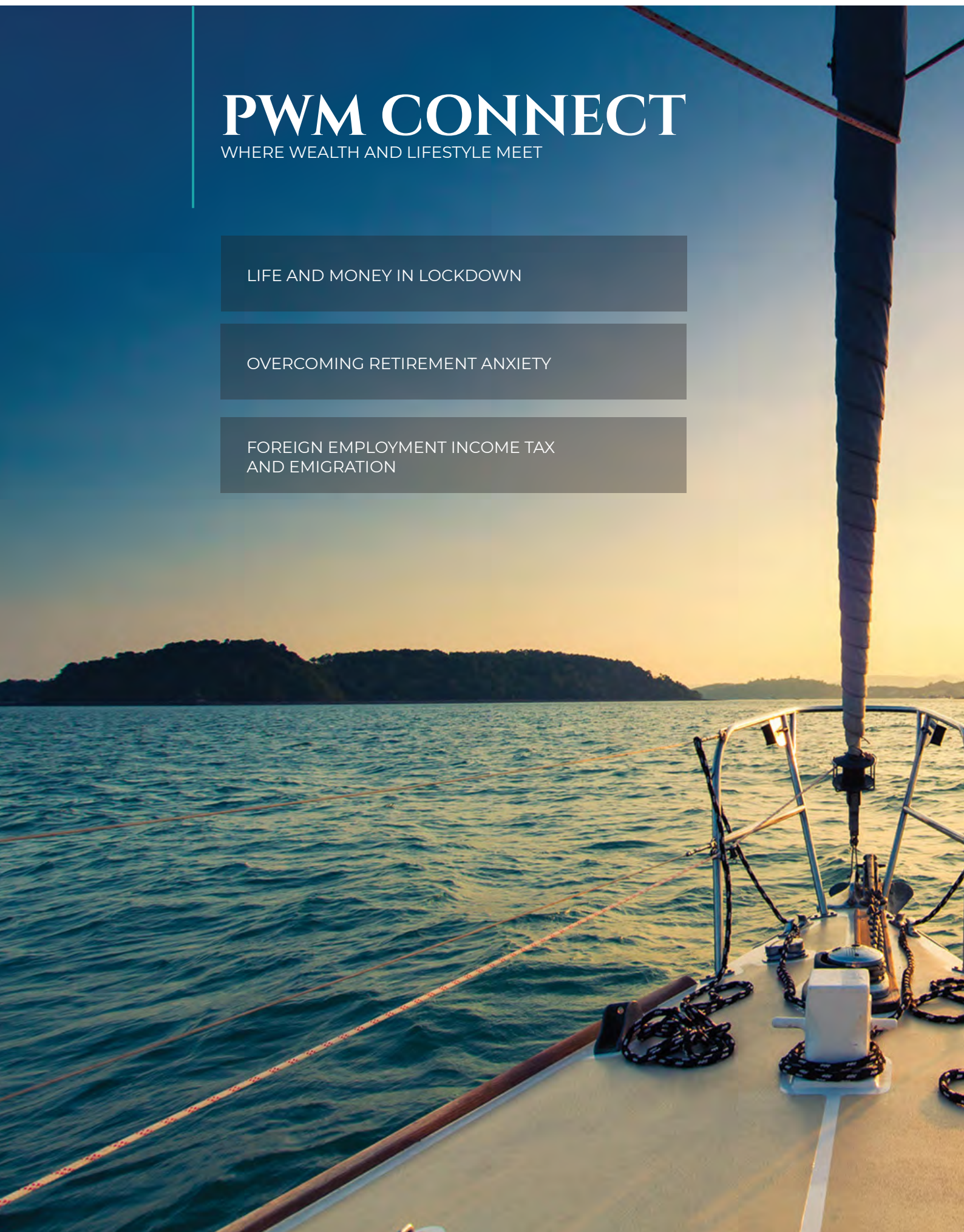
PWM CONNECT

WHERE WEALTH AND LIFESTYLE MEET

LIFE AND MONEY IN LOCKDOWN

OVERCOMING RETIREMENT ANXIETY

FOREIGN EMPLOYMENT INCOME TAX
AND EMIGRATION



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A WORD FROM RUDOLPH

Welcome to the first edition of the PWM Connect newsletter for 2020. I am very pleased to confirm the launch of **Private Wealth Management (PWM) (Pty) Ltd** on 1 March 2020. The intention is that this will be a Registered Financial Advice (RFA) business as envisaged by the regulations proposed by the Financial Sector Conduct Authority (FSCA).

OUR BOARD OF DIRECTORS:

Farhad Sader (Chairperson)

Rudolph van Eck (Chief Executive Officer)

Dirk Wolfaardt (Chief Operating Officer)

Pieter Bester

Chris Potgieter

At this point PWM (Pty) Ltd is wholly owned by Old Mutual Wealth. Our advice philosophy and client-centric approach remain firmly intact, and so does your relationship with your financial planner.



NEW CORPORATE IDENTITY / BRAND

With a new business comes an updated corporate identity. You will notice that we've made significant changes to our overall brand and company logo. I trust that you will find the updated brand refreshing, exciting and inspirational.

BUSINESS STRUCTURE

Our staff employment relationships transferred from Old Mutual to Private Wealth Management at the end of February 2020. PWM (Pty) Ltd will be supported by independent service providers. The following companies will support PWM:

- HR - HR Focus
- IT - Netsurlt
- Financial Management and Accounting - Creative CFO
- Compliance - Masthead

PWM FSP LICENCES

PWM (Pty) Ltd applied for Financial Services Provider (FSP) Category I and Category II licences with the FSCA. These licences should be approved and be operational by mid-year. Until such time as our PWM FSP licences are approved, we will function as a juristic representative of the Old Mutual and the Acsis Licence Group (ALG) licences. Our intention, once our licences are approved and operational, is to transfer all our client relationships from the Old Mutual and ALG licences to the PWM FSP licences.

WHY RFA?

I would like to use this opportunity to remind you of some pertinent information regarding our RFA journey, and the decisions taken. To comply with the proposed regulatory reform by the FSCA, known as Retail Distribution Review (RDR), PWM had two options:

- PWM could either become “tied” to Old Mutual Limited and offer advice with implementation using only Old Mutual products, platforms and solutions;

OR

- Become a Registered Financial Adviser (RFA) firm, free of any actual or perceived product supplier influence, and continue to offer advice with implementation using the products, platforms and solutions of a wide range of product suppliers and platforms.

After extensive research, due diligence and mapping out our business strategy, a decision was taken to become an RFA business. This change will allow us to retain our existing value proposition to our clients and staff. Our clients remain the key focus for us as a business, and we believe that these changes support our ability to service and support our clients appropriately.

I want to assure all our clients that the changes we are about to implement will not have any impact on their relationship with their financial planner or any of our solution providers. It will also not impact or necessitate any changes to your investment contracts or the cost structures of the products or investments you hold with PWM. The changes referred to are structural business changes necessitated by changes to legislation.

NEW STAFF APPOINTMENTS

We've been fortunate to further expand our footprint in the Cape and Northern regions. I would like to welcome the clients, financial planners and staff of the Rondebosch, Rustenburg and Mossel Bay areas. We are happy to have you as clients of PWM and look forward to meeting you at one of our future client engagement sessions.

In this edition Izak Odendaal, Investment Strategist at Old Mutual Multi-Managers, discusses life and money in lockdown, and we also include an article on how to overcome retirement anxiety.

Ninety One provides important information on Foreign Employment Tax that became effective on 1 March 2020.

I trust that you will enjoy reading this edition of our Connect message, in its newly branded format and presented by PWM (Pty) Ltd.

Best regards

Rudolph van Eck
CEO

ECONOMIC & MARKET OVERVIEW

LIFE AND MONEY IN LOCKDOWN

By Izak Odendaal | Investment Strategist | Old Mutual Multi-Managers

By now you will have read a lot about the coronavirus, and the disease it causes (Covid-19). All that is left to say is that the Covid-19 crisis is unprecedented in modern financial and economic history. There have been financial crises, recessions and bear markets before, but the scale and nature of the interruption to daily life and economic activity is on a completely different level. Hundreds of millions are in forced or voluntary isolation, businesses are closed and travel has basically been grinding to a halt. Never before have governments deliberately shut down large parts of their national economies in peacetime. In fact, in wartime production usually increases as all resources are marshalled for the war effort. Now it is being shut down.



The reason for this is simply that countries such as Italy that were tardy in implementing “social distancing” measures now find their hospitals completely overwhelmed. While most cases of Covid-19 (the disease caused by the coronavirus) are relatively mild, around a fifth require intensive hospitalisation. Most countries don’t have enough critical care hospital beds to handle this.

GETTING AHEAD OF THE CURVE

Given our shortage of such facilities, and the general vulnerability of our people due to HIV, tuberculosis and malnutrition, South Africa has joined several other countries in implementing a full, nationwide lockdown. The UK made a similar announcement at the same time. However, they did so with more than 6 000 confirmed cases, whereas here there were only 400 confirmed cases at the time of the announcement. Being ahead of the curve gives us a fighting chance to beat the virus. But it will come at a huge, and as yet unquantifiable, cost to the economy.

The steps taken to halt the spread of the virus have had an impact on supply and demand globally. If factories are closed, there is no production. People who are forced to stay at home spend less. This is especially true if they are wage workers whose incomes have fallen substantially. The tourism and travel industry around the world is feeling it hardest. With flights cancelled, hotels and restaurants are empty and workers in these industries are losing wages, tips, and even worse, their jobs. Unlike previous episodes of market turmoil or economic stress, this is also incredibly scary on a personal level.

In this highly uncertain environment, equity markets have slumped and investors have withdrawn from anything perceived as risky. The sell-off in local markets and the weakness of the rand are not unique to South Africa. This phenomenon is global in nature, as it is no longer a question of whether there will be a global recession. The question is: How bad does it get and how long does it last?



CHART 1: GLOBAL EQUITIES IN DOLLARS



SOURCE: REFINITIV DATASTREAM, AS AT 23 MARCH

OIL SHOCK

A completely separate and unpredictable shock also hit the markets in the past few weeks. With demand for oil under pressure, there was a widespread expectation that major oil producers would cut output to prop up the oil price. Instead, completely out of the blue, Saudi Arabia launched a price war to gain market share. The oil price collapsed, causing a violent response in other financial markets. On balance, lower oil prices are good for the world economy, but since oil extraction and refining is extremely capital intensive, debt and equity markets have substantial exposure to oil. Banks have also lent heavily to oil companies, especially in the US.

There is now also a scramble for cash, as businesses and individuals realise they will face weeks, if not months, of earning substantially lower income. This has added to the forced selling of financial assets. Even safe-haven assets like gold sold off. In a crisis, people sell what they can, not what they'd like to.

CHART 2: OIL PRICE, US DOLLARS PER BARREL



SOURCE: REFINITIV DATASTREAM AS AT 23 MARCH

FIGHTING BACK

Policymakers are not sitting still. Central banks around the world have slashed interest rates and expanded interventions in bond markets to ensure their smooth functioning. But interest rate cuts don't help much if people are stuck at home. Governments are therefore exploring various ways of helping bridge the income gap for households and keeping businesses afloat during lockdown. These measures will likely amount to a few trillion dollars, a number that was unthinkable only a few weeks ago.

The SA Reserve Bank's Monetary Policy Committee (MPC) also came to the party, cutting the repo rate by 100 basis points to 5.25%. More rate cuts are on the cards. A lower interest rate means most people will see lower home loan repayments every month.

As the MPC statement rightly pointed out, monetary policy can "ease financial conditions and improve the resilience of households and firms to the short-term economic implications of Covid-19", but it cannot improve the potential growth rate of the economy on its own. For this to happen, Government needs to show the same resolve in implementing growth-enhancing reforms as it has in tackling the virus.

Lower interest rates and lower petrol prices are a silver lining for South Africans in this extremely anxious period. But things remain extremely uncertain and we're not going to pretend to have all the answers. There are just a few things to remember. If you don't need to sell, you still own the same number of shares and bonds in your portfolio as before. They are worth less now, but they can recover. As one American commentator noted, only half tongue-in-cheek: "Wash your hands, don't touch your face, and don't touch your stocks."

A natural response would be to want to get out of the market now. However, when markets snap back, they do so quickly and without warning. By the time the panic subsides and conditions on the ground improve, it might be too late to get back in. All that is achieved then is selling low and buying high.

Also remember that the indiscriminate selling will have pushed some investments well below their intrinsic value, creating opportunities for patient investors to capitalise on mispricing.

Finally, now more than ever, the value of sound financial planning will have come to the fore.



OVERCOMING RETIREMENT ANXIETY

By Chris Grobler | Financial Planner | PWM Bryanston

I presented a number of Retirement Seminars over the last four years, aimed at preparing delegates for their retirement. Although every session was different and every delegate was unique, their anxieties can be pooled into two main themes:

What am I going to do after retirement?
How am I going to survive?

The beauty of these seminars is that the delegates answer these questions themselves and usually feel much better about retiring after the two days of sharing. The following is based on the wisdom shared by the delegates.

WHAT AM I GOING TO DO AFTER RETIREMENT?

Work is extremely important in most people's lives. It provides income, a sense of belonging, purpose, friendships, growth opportunities, and the list goes on. You can probably add to what it means to you.

The big question you have to ask yourself is: Can you still have all of the above after retirement? It differs a bit from person to person, but according to the majority of delegates, the answer is a resounding yes!

You can still earn an income through your investments, hobbies, contract work, rentals and even a new career, if you wish. You can join a variety of clubs and societies where you can get involved on various levels and build new friendships. You can become a tutor, coach or mentor. You can serve your family and community. You can enrol in various courses. You can travel the world and start ticking off your bucket list. All of these at your own pace, your own time and your own choice. What a pleasure! But...

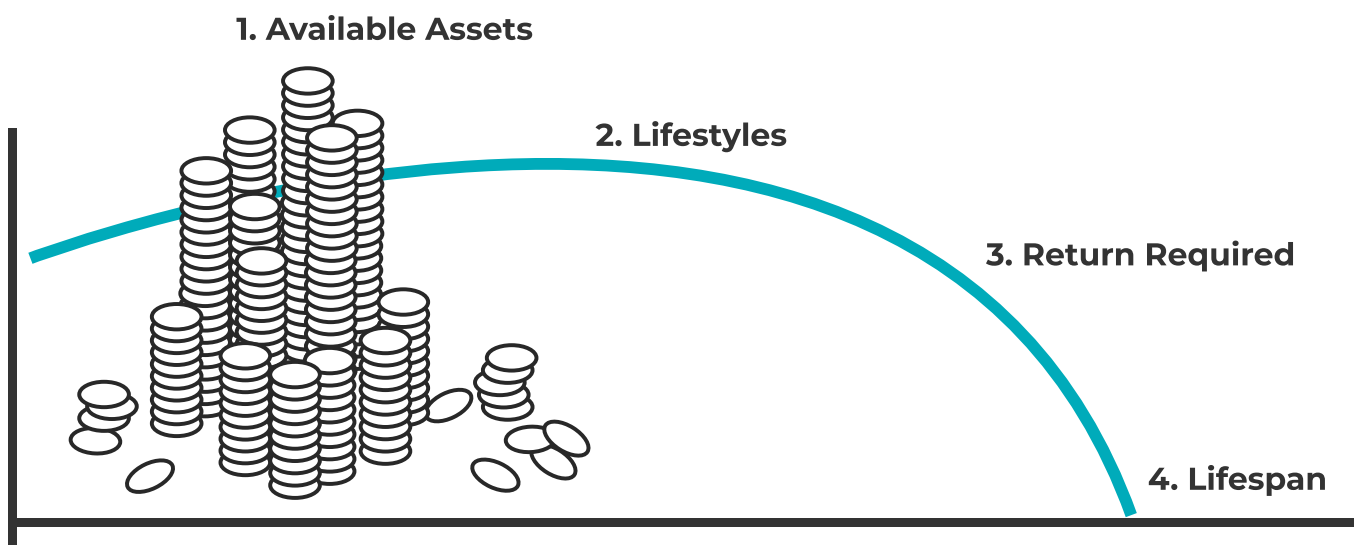


HOW AM I GOING TO “SURVIVE”?



At retirement there are a couple of realities you have to make peace with. Your assets are what they are and usually you can't add to them. The investment growth and interest you get is determined by the economy, markets and government policies. The one aspect you can control to ensure your assets last as long as you do, is your lifestyle and the related expenses.

The car you drive, the house you live in, the clothes you wear, what you buy and where you buy, etc. are your own, very personal, choices. It isn't easy to compromise on your lifestyle, but it is the one thing you can control. It helps if you are used to living a bit more of a prudent life. Do you remember when you just started out in life and managed to survive on that minimum first salary? Then came the kids and you didn't know how you are going to survive, but you did.



In summary, if you plan well, you can have a very exciting, challenging second life, called retirement.

RETIREMENT IS WHEN YOU STOP LIVING AT WORK AND START WORKING AT LIVING!

LEGAL UPDATE



—
Previously Investec
Asset Management



Taryn Grant
Legal Counsel



Janine Langenhoven
Legal Counsel

Foreign employment income tax and emigration

1. Introduction

An amendment to section 10(1)(o)(ii) of the Income Tax Act of 1962 (the Act) introducing foreign employment income tax came into effect on 1 March 2020.

Previously, South African residents working abroad were not taxed in South Africa on their foreign employment income if they were outside of South Africa for more than 183 days in aggregate, including any continuous period of 60 days, during any period of 12 months.

With effect from 1 March 2020, only the first R1.25 million of foreign employment income received by a South African tax resident is exempt from normal tax if the resident is working outside of South Africa for more than a total of 183 days (including a continuous period exceeding 60 days) during any 12-month period.

This isn't a new tax – it is simply a change to the amount of the tax exemption afforded to South Africans working abroad.

2. Who is not affected by this change?

If you fall into any of the categories below, the foreign employment income tax exemption does not apply to you and accordingly, the change to this exemption will not affect you.

- Non-SA tax residents
- A public office holder
- Government employees
- Independent contractors/self-employed individuals
- SA tax residents – where a double taxation agreement gives the country of source the sole right to tax employment income

3. Who will be impacted by the changes to the foreign employment income tax exemption?

The change will affect people who meet all of the following criteria:

- A South African tax resident;
- Working abroad as an employee;
- Earning remuneration in excess of R1.25 million per annum;
- Physically outside of South Africa for 183 days (including a continuous period exceeding 60 days) during a 12-month period; and
- Where there is no double taxation agreement between South Africa and the other country, stipulating that the other country has the sole right to tax employment income.

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A person is a South Africa tax resident if they are ordinarily resident or become a resident by way of physical presence. A person will be seen as 'ordinarily resident' in South Africa, if South Africa is the country to which that person will return after their travels. If a South African moves abroad on a temporary basis on a fixed term contract, or to investigate the possibility of emigration, the person may remain ordinarily resident in South Africa.

If a person is not ordinarily resident in South Africa, they may still meet the requirements of the physical presence test and will be deemed to be tax resident. To meet the requirements, that person must be physically present in South Africa for a period or periods exceeding:

- 91 days in total during the tax year under consideration;
- 91 days in total during each of the five tax years prior to this one; and
- 915 days in total during those five previous tax years.

A person who is no longer a tax resident in SA, must notify the South African Revenue Service (SARS) of this to ensure that tax is not levied on their foreign income. A deemed disposal for capital gains tax takes place at the time when a person ceases to be tax resident. The person will be deemed to have disposed of their worldwide assets, excluding immovable property situated in South Africa.

4. What is included in foreign employment income?

Foreign employment income includes the following:

- Salary
- Taxable benefits
- Leave pay
- Wage
- Overtime pay
- Bonus
- Gratuity
- Commission
- Fee
- Emolument
- Allowances such as travel allowances
- Amounts derived from broad-based employee share plans
- Amounts received in respect of a share vesting

5. What happens if the person is also taxed in the foreign country where they work?

The provisions of any applicable tax treaty will apply to the portion of the remuneration exceeding R1.25 million and will determine which country has the right to levy tax (it may even be both countries). Where no double taxation agreement is in place, tax may be levied in the foreign country as well as in South Africa. However, if a person has paid tax in the country of 'source', and tax is payable in both countries, South Africa will generally provide relief in the form of a foreign tax credit, subject to certain limitations.

6. What happens if the person works in a tax haven?

Any amount earned in excess of R1.25 million will be subject to normal tax in South Africa, without any foreign tax credit being applicable as the foreign country did not tax the employment income.

7. How is the foreign employment income converted to rands?

The average exchange rate from payroll date to payroll date is used to determine the rand amount earned.

8. Will the foreign employment income affect a taxpayer's marginal tax rate?

For those taxpayers who earn income both locally and abroad, this amendment may mean that they will pay more tax on South African sourced income such as rental income. If a person's taxable income increases due to this change, this may result in a higher rate of tax applying to income from other sources. This will be the case, even if a foreign tax credit is available in respect of the foreign employment income. The credit reduces the taxes payable, but not the income subject to tax.

9. What impact will formal emigration have on tax in respect of foreign employment income?

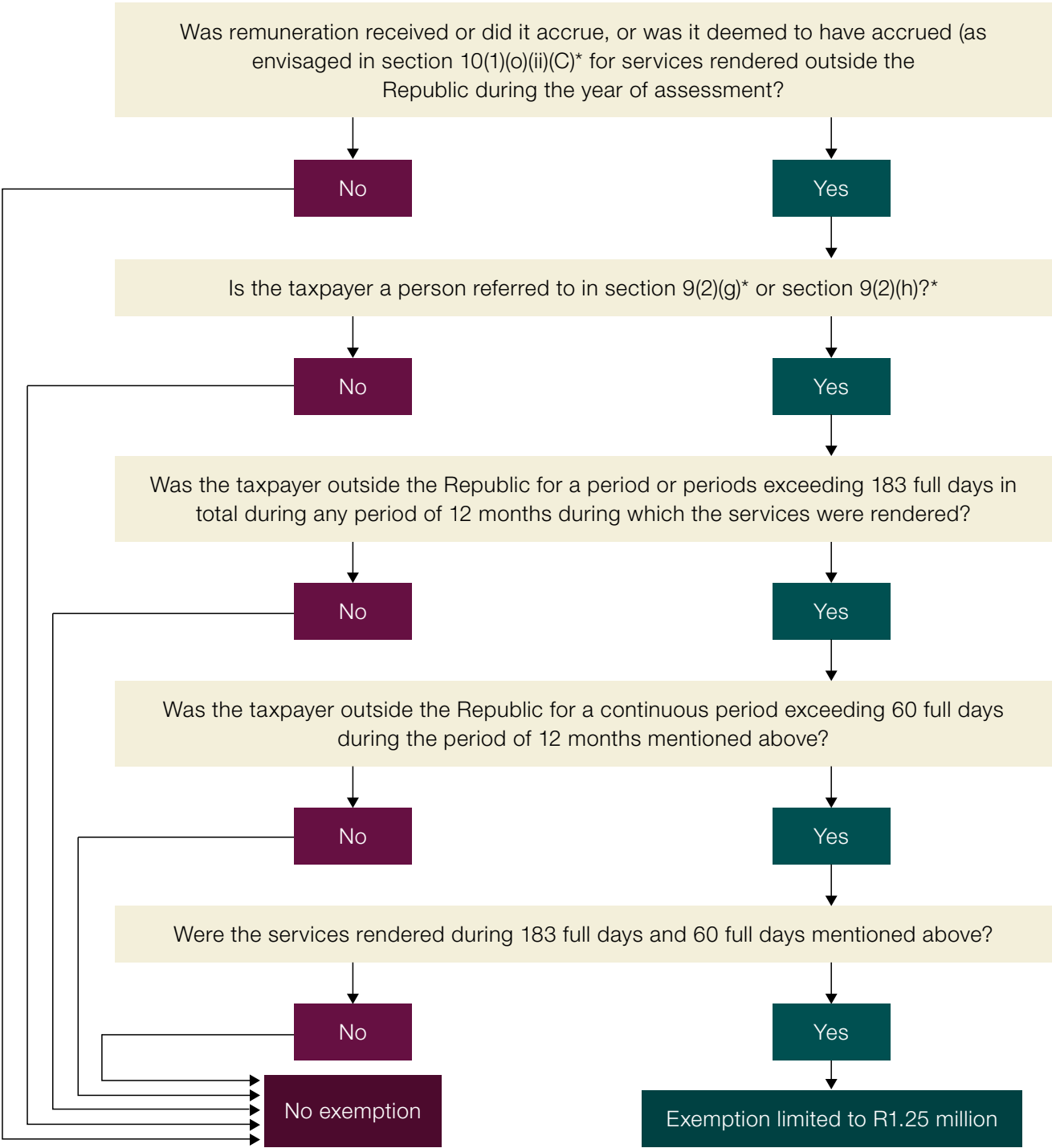
Formal emigration (also known as financial emigration) is the process to become classified as a non-resident in South Africa for exchange control purposes. The process is set in motion via the person's South African bank which then liaises with the South African Reserve Bank (SARB). The application process usually takes about 6-8 weeks and will require the applicant to complete forms and supply documentary evidence in relation to their assets and move offshore.

Although formal emigration is certainly a factor to consider in determining tax residency, it is not necessarily the case that a person ceases to be tax resident on formal emigration. The ordinarily resident and physical presence tests still apply to such a determination.

Please note that the Minister of Finance announced during the 2020 Budget Speech that the concept of emigration as recognised by the SARB, will effectively be phased out by 1 March 2021. The SARB is expected to issue circulars to provide further details in relation to these changes in the near future.

To determine if your client earning foreign employment income will qualify for the R1.25 million exemption, please see the diagram overleaf from SARS's Draft Interpretation Note 16.

Basic steps to be followed in determining the exemption



* Income Tax Act of 1962 (the Act)

Important information

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. We are not acting and do not purport to act in any way as an adviser or in a fiduciary capacity. No one should act upon such information or opinion without appropriate professional advice after a thorough examination of a particular situation. We endeavour to provide accurate and timely information, but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. We do not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only.

Ninety One Investment Platform (Pty) Ltd is an authorised financial services provider.

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MICROSOFT'S RESULTS EXCEED EXPECTATIONS

By Paul Steven | Portfolio Manager | Old Mutual Wealth Private Client Securities

Microsoft posted stellar second quarter results that far exceeded expectations. Second quarter revenue (+15%), operating income (+39%) and net income (+39%) grew strongly, continuing the trend set in the first quarter. Growth was driven by a combination of accelerating take-up of Microsoft's Intelligent Cloud business, and sustained demand for their suite of Productivity and Business Process software solutions.

Microsoft's Intelligent Cloud business continues to grow and evolve into a one-stop shop for companies looking to not only migrate to the cloud but also leverage the latest in business and data analytics. In its pursuit to help companies streamline workflows, upgrade technology capabilities, and eliminate costly manual labour, Microsoft now has the largest cloud footprint, split across 56 sites. Recent client acquisitions include the United States Department of Defence, and an exclusive partnership with SAP.

The latter is tapping into the vast, industry-spanning client base of the enterprise software leader. One of the certain trends within the IT sector over the medium to long term is the migration from on-premises to cloud services. In our view, Microsoft is the global leader within this sector with its offerings – Microsoft Azure and Office 365. Additionally, Microsoft is finding innovative ways for artificial intelligence (AI) to enhance existing software suites, critically embedding AI into Office 365 applications to drive efficiencies. Integration is the key for Microsoft's long-term success, as it adds extended shelf life to existing software through increasing compatibility and enhancing functionality.



BOOST YOUR MEMORY

Forty-four million people worldwide have Alzheimer's, a progressive brain disorder that affects the brain's ability to perform many of its tasks and often causes a slow decline in memory, thinking and reasoning ability, according to Alzheimer's in Action.

During the advanced stages of the disease, a person with Alzheimer's may not remember familiar places, things, and people, including loved ones.

Around the world, research is being conducted to try and find a cure for this debilitating disease, but until such time, we can all make every effort to minimise the risk.



WHAT YOU DO TODAY CAN DETERMINE WHAT YOU REMEMBER TOMORROW

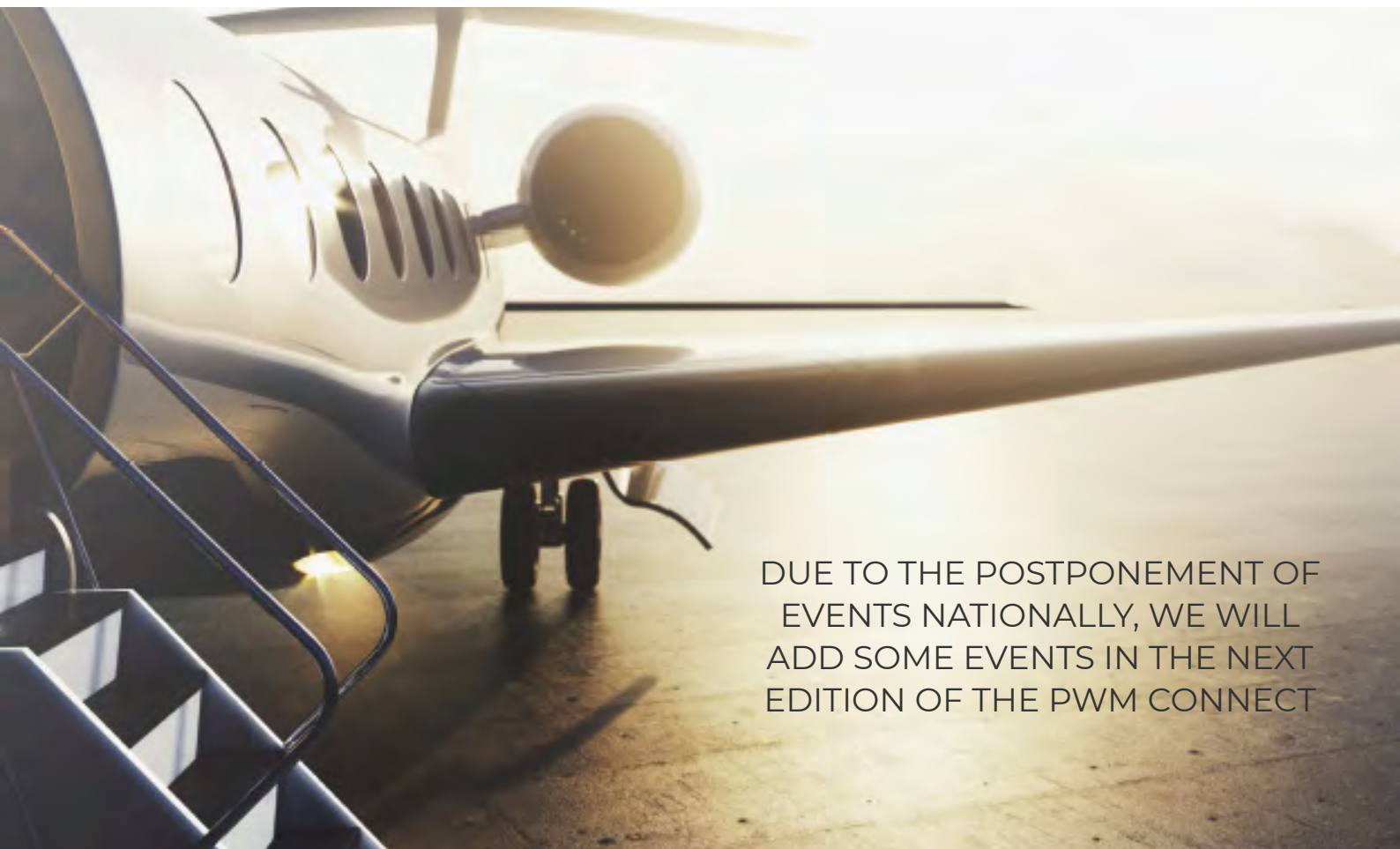
There's no way to guarantee that you will not develop Alzheimer's, however certain habits and lifestyle changes can help boost your memory and minimise the risk. According to Healthline evidence-based citations, these include:

- Exercise – regular physical activity has been shown to support the development of neurons that support memory and cognitive performance across all age groups. Try and get about 30 minutes of moderately vigorous exercise three or four times per week.
- Sleep enough – improving the quality of your sleep has been linked to preventing the risks of Alzheimer's. Sleep experts recommend adults get between seven and nine hours of sleep each night for optimal health.
- Eat less sugar - studies have shown that a sugar-laden diet, including refined carbohydrates like cakes, white bread, cereals and white rice, can lead to poor memory and reduced brain volume, particularly in the area of the brain that stores short-term memory.
- Eat more fish or take supplements – Fish and fish oil supplements are rich in the omega-3 fatty acids EPA and DHA. Studies have shown that consuming them may help improve short-term, working and episodic memory, especially in older people.
- Make time for meditation – practicing meditation and mindfulness are effective techniques for lowering stress and improving concentration and memory.
- Limit alcohol consumption – Alcohol has neurotoxic effects on the brain, including reducing memory performance. Occasional moderate drinking isn't an issue, but binge drinking can damage your hippocampus, a key area of your brain associated with memory.
- Train your brain – playing brain games can be a fun and effective way to boost your memory. Crosswords, word-recall games, scrabble and even mobile apps.

A gentle reminder

Although there is no sure-fire way to ensure that Alzheimer's can be prevented, it does seem that a healthier lifestyle, particularly paying attention to diet and exercise, can have a major impact on memory too.

LIFESTYLE EVENTS



DUE TO THE POSTPONEMENT OF
EVENTS NATIONALLY, WE WILL
ADD SOME EVENTS IN THE NEXT
EDITION OF THE PWM CONNECT

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