

PWM CONNECT

WHERE WEALTH AND LIFESTYLE MEET

GLOBAL IS NOT ALWAYS GLOBAL

THE CONTENTS OF YOUR WILL
SHOULD BE WELL UNDERSTOOD

ARE WE GOING TO REWIND 30+ YEARS?

GLOBAL & LOCAL EQUITIES



WHAT'S INSIDE

A WORD FROM RUDOLPH	2
ECONOMIC & MARKET OVERVIEW	
GLOBAL IS NOT ALWAYS GLOBAL	3
ESTATE PLANNING WILLS	
THE CONTENTS OF YOUR WILL SHOULD BE WELL UNDERSTOOD	7
OPINION PIECE	
ARE WE GOING TO REWIND 30+ YEARS?	10
COMPANY NEWS	
GLOBAL & LOCAL EQUITIES	11
LIFESTYLE	
WHAT WOULD NEED TO CHANGE TO MAKE YOU HEALTHY?	12
LIFESTYLE EVENTS	13
CONTACT US	13

A WORD FROM RUDOLPH

Welcome to the third edition of the 2020 PWM Connect. From a PWM perspective this has certainly been a challenging year. We're very excited on the one hand with the launch of PWM (Pty) Ltd and concerned on the other hand with the devastation COVID-19 has had on our country and its people. The impact the virus had on local and global economies, movement of people and the operational impacts on businesses will be felt for many years to come. However, we need to stay positive and focussed on making a success of unfinished projects and whatever is within our control to finalise before year end. I am convinced you are feeling exhausted and are looking forward to a well-deserved break during the year-end holiday season.

During difficult times like these, it is especially important to keep a long-term perspective and avoid sudden changes to your investment strategies. Markets are volatile and unpredictable, and we should avoid the phenomenon of trying to time the market. It is advisable to rather talk to your financial planner, if anything has changed over the past few months, which could have an impact on your financial plan. Please feel free to contact your financial planner.

On the business front, we are making very good progress with our Financial Services Provider (FSP) Licence application submitted to the Financial Sector Conduct Authority (FSCA) and believe that we are now in the final stages of the approval process. We have, however, changed our strategy somewhat in that we registered a new company called PWM Wealth Management (Pty) Ltd. This new entity, which will be used to run our Category II business operations and solution set, will be wholly owned by PWM (Pty) Ltd. The approval of our new FSP licences will allow us to function as a Financial Planning and Wealth Management business. This is an exciting step in our journey towards becoming a truly client-centric business. I am also delighted to share that we are in the process of upgrading our current PWM website. We will improve on the current layout and will be adding more information about our offering to you. Watch this space!

In this edition of our newsletter Izak Odendaal, Investment Strategist at Old Mutual Multi-Managers, shares his view on the complexities and factors to consider when investing in global assets. Also included is an article by Lighthouse Trust, which focuses on the terminology that is important to understand when drafting a will. Our Client and Investment Solution Manager gives his opinion on how Government is seeking to assist with growth in our country and Regulation 28 of the Pension Funds Act.

I trust that you will find the contents of our newsletter interesting and useful.

Kind regards and stay safe

Rudolph van Eck

CEO



ECONOMIC & MARKET OVERVIEW

GLOBAL IS NOT ALWAYS GLOBAL

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

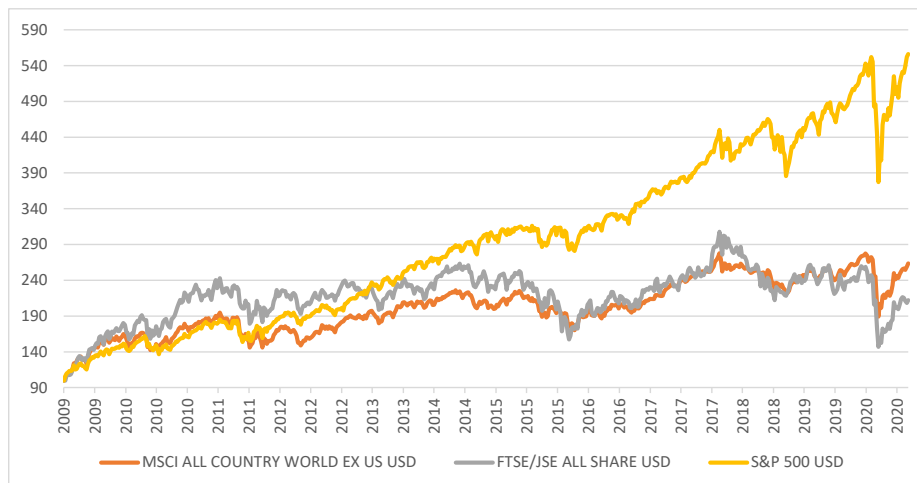
South Africans tend to look at investing as a binary choice of local versus offshore, and recently the attitude seems to have been to get money out of the country as fast as possible, with little consideration for where it is going. This is perhaps understandable, given that all the local negatives and uncertainties we are very familiar with are a big push factor. The pull factor has been the fact that offshore investments have beaten local assets over the past decade or so, partly due to a weaker rand.

Much has been written about the push factors. All I will add here is to remind readers that a lot of bad news is priced into local asset classes – bonds, equities, property and the currency. In dumping local assets and rushing headlong into global markets, one therefore runs the risk of selling low and buying high.

In terms of the pull factor, it also seems that there is little realisation of how much performance diverged between the US and non-US equity markets over the past decade. (It is hardly worth talking about the long-term return prospects of US government bonds, or those of any other developed country for that matter, given the current record-low yields.)



CHART 1: US, NON-US AND SOUTH AFRICAN EQUITIES SINCE 2009



SOURCE: REFINITIV DATASTREAM

MSCI produces an index of non-US global equities. Chart 1 above shows the trend since the end of the Global Financial Crisis in 2009. The US dollar performance of South African equities is also included as a comparison. Our market has mostly performed in line with non-US equities over this period. The US, not SA, has been the outlier since 2009.

To understand why is important, and can then help answer the proverbial million-dollar question: Over the next decade, is it the US or the rest that wins?

THE BIGGEST BY FAR

The US is the biggest national economy in the world, responsible for around a fifth of global economic output (though China is quickly catching up). However, US-listed companies represent more than half of global equity market capitalisation, while the US bond market (government and corporate) also accounts for around half of global outstanding traded debt. To that one can add the US dollar's reserve currency status, and its disproportionate share of global foreign exchange markets (around 80%) and use in global trade invoicing and funding, and of course the fact that most commodities are priced in US dollars.

The United States plays an outsized role on global financial markets, which is why we all pay such close attention to developments there, especially monetary policy (which sets US dollar interest rates). More on this below.

This does not, of course, mean that American financial assets always outperform the rest of the world. Markets are cyclical in the US and elsewhere. For instance, since becoming a free-floating currency when President Nixon broke the gold peg in 1971, the US dollar has experienced three big multi-year bull markets. The third such bull market started in 2011, and therefore we are probably closer to its end than the beginning.

Since returns from many different countries are translated into a single currency, a strong US dollar will make US performance look better, and vice versa. There is also a deeper reason at work. Periods of dollar strength are associated with tightening global liquidity conditions. Dollars grease the wheels of global commerce, and when they are expensive, it has a range of knock-on effects.

One of these is to make it more costly to service US dollar-denominated debt. While the dollar is at no risk of losing its reserve currency status (there is simply no other currency that can currently fulfil that role) that does not mean it cannot have periods of cyclical weakness. If a period of dollar weakness lies ahead, as many expect with US interest rates no longer significantly higher than anywhere else, this should support non-US equity returns, particularly emerging markets.

The last time non-US equities handsomely beat their US counterparts was in the period prior to the 2008 crash when the dollar was weak, global growth was strong and commodity prices were high.

In contrast, the post-2008 period has been characterised by soggy economic growth, even in the US itself, a strong dollar, weak commodity prices and very low interest rates.

It has also been characterised by outstanding gains for the world-beating US technology sector. In particular, the famous five – Facebook, Apple, Amazon, Microsoft and Alphabet (Google) – are simply in a different league. Since the COVID-19 pandemic, they appear to have been on a different planet. They have pulled the US market higher even while other companies and sectors that rely on the movement and physical interaction of people languish.



Why these so-called growth stocks can do so well in a world of low growth is puzzling to many. It is not just that these companies make more money as more people shop, work and play at home. They are certainly profitable now (which is the big difference from the 2000 tech bubble) but in a world of near-zero interest rates, the present value of the profits they are set to make far into the future become so much more valuable. In contrast, European and emerging markets are largely dominated by “value” shares that are cheaper but need a strong economy for the discount to be unlocked (a notable exception being Chinese technology companies like Tencent).

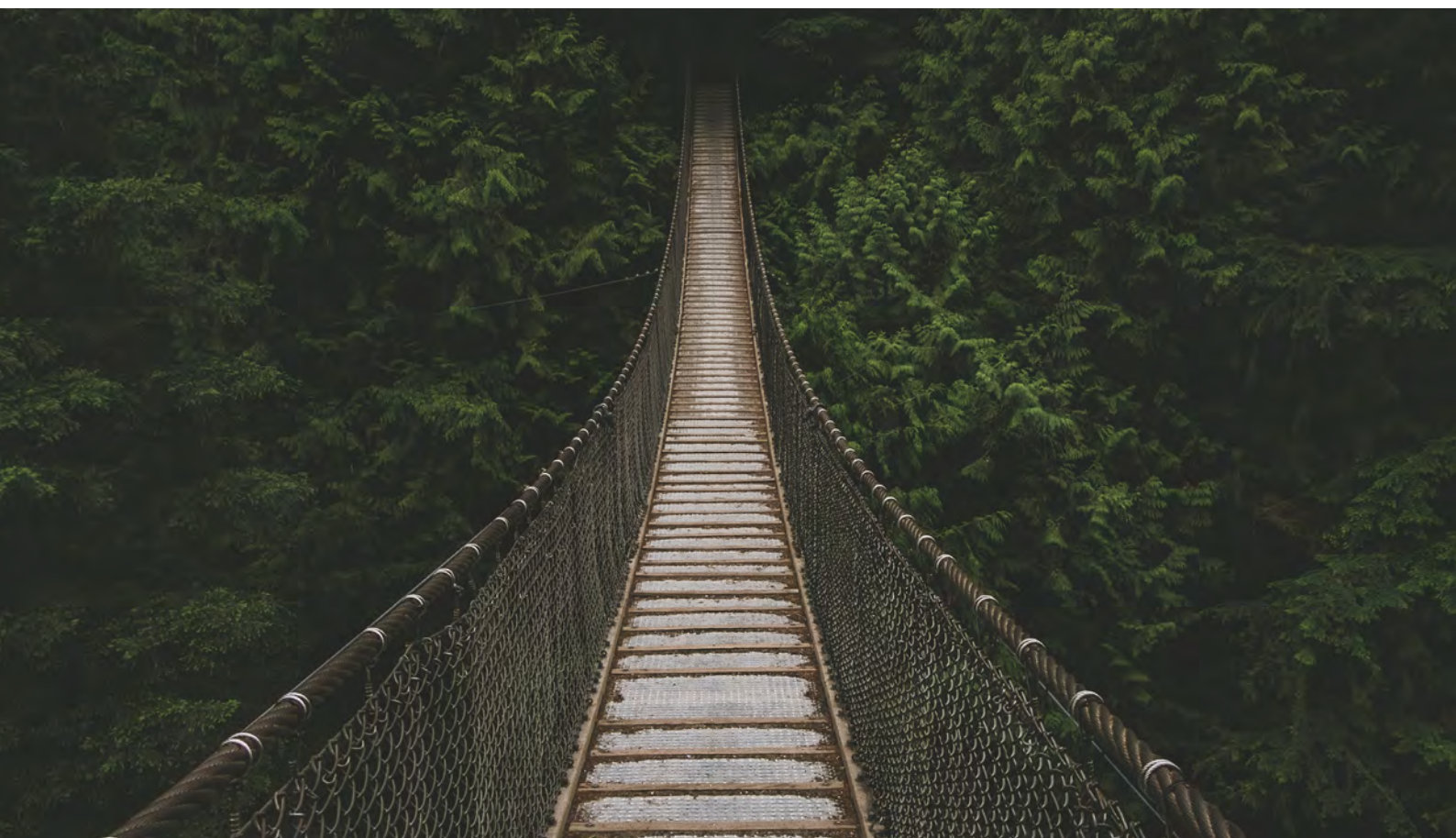
In other words, it would take stronger economic growth and rising interest rate expectations for the decade-long outperformance of growth stocks (and by implication, the US market) to end.

ELECTION SEASON

First, there is an election to get through. It can influence the market in two broad ways. Firstly, unless there is a clear and an early winner in November, an ugly period of uncertainty could ensue. One of the quirks of the American system is that the inauguration is only in January. If Donald Trump were to lose, he will remain in office – presumably tweeting angrily – for a further three months.

The more fundamental impact will come from government policy. The 2017 corporate tax cuts delivered a one-off boost to the profitability of US companies relative to other countries and a 20% surge in equity prices. A Democrat sweep in the November elections will almost certainly lead to a reversal of those tax changes and usher in more of the policies that force companies to look beyond simple profitability. This may include higher minimum wages, stricter environmental regulations, paid parental leave and so on. Stricter competition policy may also be on the cards. Even before the pandemic, the likes of Amazon, Facebook and Google were viewed in some quarters as unhealthy monopolies, with increasing pressure on the US government to regulate them, or even break them apart, as was done with Rockefeller’s Standard Oil in 1911.

If Joe Biden wins the White House but the Republicans keep control of the Senate, a period of policy gridlock may loom with lots of talk but no action. It’s anyone’s guess what a second Trump term would look like, but an escalating trade war with China would be likely, and that would not be good news for the global economy.

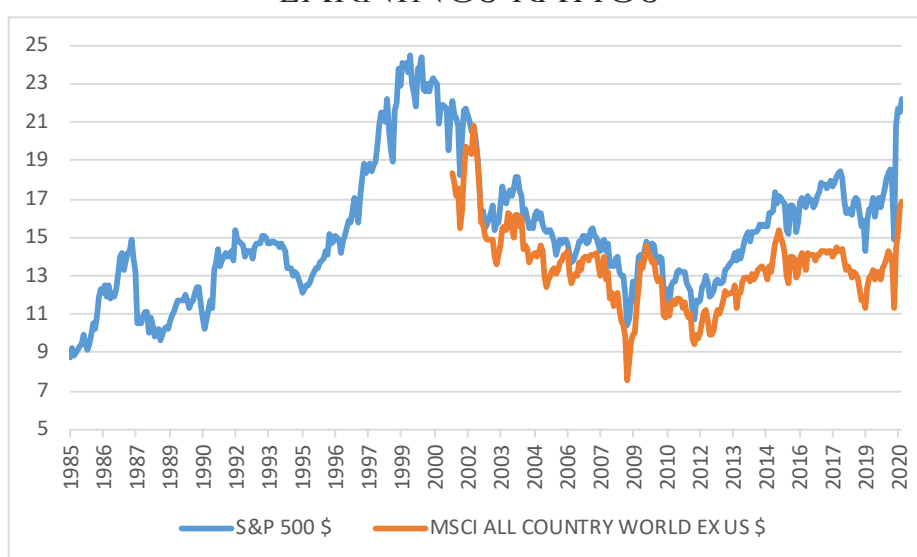


EXPENSIVE

This gets us to valuations. Relative to its own history, the last time the US market was this expensive was in the throes of the dotcom bubble, though valuations moved even higher then. Interest rates were also much higher though. Valuations are not market timing tools, and US equities can continue rallying for some time. However, the current valuations do tell us not to get too excited about the long-term return prospects from US equities.

There is no question that the US market is more expensive than non-US markets. It currently trades at 22 times the expected earnings over the next 12 months, compared to 16 times for the MSCI All Country World ex US Index. That does not necessarily tell us much, since the US usually trades at a premium, but the gap has grown wider and wider.

CHART 2: US AND NON-US AND SA 12-MONTH FORWARD PRICE:
EARNINGS RATIOS



SOURCE: REFINITIV DATASTREAM

Clearly, global investing in general, and in global equities in particular, has its own complexities that investors need to consider. The outperformance of US equities has gotten rather extreme, and extremes tend not to last in markets. While it almost never pays to bet against America (another famous Buffett quote), it looks like it will pay to have substantial non-US equity exposure in a diversified portfolio in future.



THE CONTENTS OF YOUR WILL SHOULD BE WELL UNDERSTOOD

Chamonie Buys | Director | Fiduciary | Lighthouse Trust and Corporate

In the event of your demise, it is essential to ensure that your estate is sufficiently liquid to cover all outstanding costs, such as administration costs, executor's fees, estate duty, bequests and other liabilities. The liquidity position of your estate will continually change over time, as your circumstances change. This is an excellent reason to have a will drafted and reviewed at least once a year. You need to make an inventory of your assets and liabilities when you have a will drafted or revised, and you will then have the opportunity to determine the liquidity position of your estate and rectify any shortfalls in time.

We've asked Lighthouse Trust, our solution partner, to elaborate on the importance of understanding the contents of and be clear on the meaning of certain terminology used in a will.

It is essential that the contents of a will be understood by the reader, and (most importantly) not misunderstood. Ambiguity must be avoided by the person who drafts the will and all possible interpretations should be considered to ensure clarity about what the testator's wishes are. Similarly, all possible contingencies and circumstances in which the will may operate must be considered.

Words like "money", "effects" and "movables" are vague and context dependent for their meaning. As these words may have more than one meaning they should be avoided or defined accurately. The will should be structured properly and follow a logical order. Beneficiaries should be clearly identifiable, preferably by their full names and identity or passport numbers. If a beneficiary's full names and identity number are not available to the testator (sometimes also referred to as the testatrix when the testator is female), the beneficiary should be identified by another distinguishing factor, such as their relationship to the testator or their residential address. Where a bequest is left to an institution, the exact name and description of the institution must be provided.



WHAT IS A LEGATEE AND A LEGACY?

A legatee is someone to whom a specific item is bequeathed by the testator. The bequest to a legatee is called a legacy. Clients should be mindful of the fact that where a large amount of cash is bequeathed to a legatee, this may result in a cash shortfall in the estate, which will force the executor to liquidate assets the testator may have intended to be available to residuary heirs.

WHAT IS A RESIDUARY HEIR AND THE RESIDUE OF AN ESTATE?

A residuary heir is the person(s) who will receive what is left after the payment or distribution of legacies and the payment of estate duty, creditors, taxes and administration expenses in such proportions as stipulated by the testator. This is called the residue of the estate.

SUBSTITUTION OF BENEFICIARIES

A testator must make provision for the substitution of a beneficiary if such beneficiary dies before the deceased or dies simultaneously with the deceased, repudiates their benefit or is otherwise disqualified from receiving the inheritance.

Section 2C(2) of the Wills Act stipulates that if descendants of the testator would have been entitled to a benefit in terms of the provisions of a will, if they had been alive at the time of death of the testator or had not been disqualified from inheriting, the descendants of that beneficiary shall per stirpes (by representation) be entitled to the benefit, unless the context of the will otherwise indicates.

It is therefore important that the testator consider nominating replacement beneficiaries of his/her choice if he/she does not intend for that beneficiary's own descendants to inherit from the testator.

BEQUESTS

The actual item bequeathed should be accurately described so as to avoid ambiguity. For example, a motor vehicle should be described by its make or kind, colour and licence number, while immovable property should be described by its address, and land should be described by its title deed number or title deed description.

Where a testator bequeaths agricultural land to more than one person, the testator must be made aware of the provisions of section 3 of the Subdivision of Agricultural Land Act, which prohibits the subdivision of agricultural land and the registration of the undivided agricultural land in more than one person's name.

Where a bequest is left to two or more persons and the testator does not stipulate in which proportions or percentages, the bequest must be divided equally between the beneficiaries. The use of the words "in equal shares" is legally interpreted to mean that if one or more of the named beneficiaries dies/die before the testator, in the case of a legacy, such benefit shall fall into the residue of the estate, and in the case of an inheritance, devolve upon the predeceased beneficiary's/beneficiaries' intestate heirs unless the testator directs otherwise.



ADOPTED CHILDREN AND CHILDREN BORN OUT OF WEDLOCK

Section 2D of the Wills Act provides that, unless the contrary is indicated in the will, an adopted child shall be regarded as being born of their adoptive parent(s) and the fact that a person was born out of wedlock shall be ignored in determining their relationship to the testator.

PER STIRPES

Per stirpes means distribution by representation. Where the testator leaves a bequest to their children, X and Y, per stirpes, and the children are predeceased, one-half of the bequest must be divided among the children of X and one-half among the children of Y.

COLLATION

Collation refers to the process whereby gifts or donations made by the testator during their lifetime to a beneficiary must be "collated" (or, in simple terms, "reported") to the executor and deducted from the beneficiary's inheritance in calculating the value of the benefit to the beneficiary.

A testator may direct in their will which gifts or donations should be collated by their beneficiaries or that no collation by any beneficiary shall be required.

MINORS

Where a testator has minor children, guardians must be nominated in the event of the death of the natural guardian(s). Where parents of minor children are divorced, the divorced parents must agree on who to nominate, in their wills, as their minor children's guardians in the event of the passing of both parents. If divorced parents nominate different guardians in their separate wills for their minor child(ren), the nominated guardians are left with no alternative but to approach the High Court (as the upper custodian of all minor children in South Africa) for a determination as to who must be appointed as guardians in the best interests of the minor child(ren).

BOTTOM LINE

It is of utmost importance that the contents and terminology used in a will should be clearly understood, to ensure that the legacy you leave behind is dealt with in line with your last will and wishes.



ARE WE GOING TO REWIND 30+ YEARS?

By Andrew Whitewood | Client and Investment Solution Manager | Private Wealth Management

We are all aware of the current challenges we are facing, be it locally or abroad, so I'm not going to focus on this topic today. I am going to unpack a more emotionally charged matter – how Government is seeking to assist with growth in our beautiful country.

The concept of prescribed assets has been touted by Government and the last time it was used and implemented was before the transition to democracy in South Africa. However, they seem to have changed their tone and have now indicated that any amendments to Regulation 28 of the Pension Funds Act will not result in prescription. Government also seems to be very focused on investment in infrastructure assets, which in turn will assist with growth in South Africa.

I think it is pertinent to understand the ambit of Regulation 28 of the Pension Funds Act. Regulation 28 provides a framework for how retirement money in South Africa can be invested. The framework defines the type of assets that can be invested in and the maximum allocation per asset class. Regulation 28 is therefore only applicable to investments such as pension and provident funds, retirement annuities, and pension and provident preservation funds.

Many individuals in South Africa have their hard-earned retirement assets invested in living annuity, unit trust, endowment investments and tax-free savings accounts. These do not fall under the ambit of Regulation 28 of the Pension Funds Act.

In South Africa, living annuity investments are governed by the Long-Term Insurance Act and the Income Tax Act. Neither of these Acts currently provides for any regulation like Regulation 28 that governs how the underlying assets should be invested. Regulation 28 is far easier to amend than introducing a new regulation under an Act, as this will need to go through Parliament and be approved. If this should happen, I am sure legal proceedings will also be instituted.

Moving back to the topic of Government encouraging investment in infrastructure projects. This is most definitely not a bad idea but, based on the ruling party's track record of successfully managing the deployment of funds, I believe these projects will need to be privatised. We also have a blueprint in South Africa where such infrastructure projects were privatised with massive success. I believe implementing this approach will see a substantial uptake from retirement funds as this will add further diversification to investment assets.



COMPANY NEWS

GLOBAL & LOCAL EQUITIES

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



DANAHER'S RESULTS IMPRESSIVE

The diversified industrial group, Danaher Corporation, reported an impressive set of results for the second quarter of 2020. The inclusion of Cytiva, a recent acquisition, and the surge in COVID-19-related research and development (R&D) were the key performance drivers. Revenue for the period was up 19% to US\$5.3bn compared to the corresponding quarter in 2019. Adjusted earnings per share were up 32% to US\$1.44, far exceeding consensus expectations of US\$1.09. Management indicated continued strong performance for the rest of the year, particularly within subsidiaries providing instruments and consumables to COVID19-related R&D that have grown their order books by over 30%.

Specific to the pandemic, Cepheid and Beckman Coulter, two of Danaher's subsidiaries, are involved in producing diagnostic and antibody testing instruments. Both businesses have managed to ramp up production to meet growing demand, with Cepheid selling four times the number of instruments they usually retail in a quarter. Furthermore, Danaher's Life Science segment provides solutions related to the majority of the more than 200 vaccine and therapeutic projects underway across the globe. This, we believe, positions the group well for the coming quarters.

LOCAL EQUITIES

NINETY ONE SA WILL CONTINUE TO PAY DIVIDENDS



During the month, we added independent global asset management company Ninety One Ltd to our Core Equity model portfolio. This founder-led business was established in South Africa in 1991 as Investec Asset Management and started offering domestic investments in an emerging market. In March 2020, almost three decades of organic growth later, the firm demerged from Investec Group and listed on the Johannesburg and London Stock Exchanges as Ninety One. Today the firm offers distinctive active strategies across equities, fixed income, multi-asset and alternative asset classes. With 21 offices in 13 countries, it serves its client base via five regional teams: Africa, the United Kingdom, Asia Pacific, the Americas and Europe. Clients are serviced across two distribution channels, namely Institutional and Advisor. Institutional clients include some of the world's largest private and public sector pension funds, sovereign wealth funds, insurers, corporates, foundations and central banks. Advisor clients include large retail groups, wealth managers, private banks and intermediaries serving individual investors.

Ninety One has consistently grown assets under management (currently at £118 billion), even in challenging geographies such as SA where the institutional market is shrinking. The business's geographic and asset class exposure is particularly attractive, with meaningful emerging market exposure and a good spread between equities and fixed income. The fact that Ninety One is not overly reliant on SA (local clients represent 30% of AUM) means that size is not a constraint, which is the case for other SA-focused asset managers. The business is appropriately diversified and runs multiple investment strategies and philosophies. This effectively reduces the likelihood of sustained periods of underperformance during various market cycles. In the current environment where many listed companies are opting to suspend or cut dividends, we expect Ninety One to continue paying dividends due to its solid balance sheet.

WHAT WOULD NEED TO CHANGE TO MAKE YOU HEALTHY?

The recent lockdown, and the fact that we were “housebound” for an extended period, may have had a negative impact on our health and lifestyle habits. Having said this, we thought it would be a good idea to share this article providing a few tips on how you could improve your health by changing certain habits and by making healthy lifestyle changes.

The 7th of April marked World Health Day. Whilst the focus is on promoting access to healthcare without the prospect of financial hardship, it is also a day where everyone is encouraged to review their lifestyle in order to make improvements for better health.

You might have an idea of what you need to do (more of or less of) to become healthier. For example, watching what you eat, exercising more, quitting smoking, drinking alcohol etc. These lifestyle changes require effort and long term commitment, but the truth is that it's the little day to day changes that can help you succeed.

Here are seven small tweaks to consider that can make a big difference to your health:

1. Drink a glass of water before each meal. Staying hydrated is necessary for all of your body's systems to function properly and will keep you from overeating at mealtimes.
2. For every hour you spend sitting, get up and walk for five minutes. Considering that we should all be aiming to get 150 minutes of physical activity per week, if you follow this rule on the hour, whilst you're at home or at work, you'll have no problem reaching this goal, even if you don't manage to get to the gym.
3. Make sleep a priority. The drawbacks of not getting enough sleep are no joke. According to the Mayo Clinic, “sleep deprivation can perpetuate serious health conditions, as well as negatively affect your mood, motivation and energy levels.”
4. Create a calming bedtime routine so that you can get at least seven to nine hours of shut eye per night.
5. Be a picky eater. Pick whole foods that nourish you, such as fruits, nuts and vegetables and whole grains, over processed foods, sweets and unhealthy snacks.
6. Put away food after dishing up. Anyone will eat more if they have food staring at them when their plate is empty.
7. Do something meaningful each day. Whether it's cooking a healthy meal or helping a friend or family member, putting effort into the things and people you care about will help you to utilise energy in ways that help to bring out the best in you.
8. Give yourself a break. Don't be too hard on yourself if you have a bad day. Everyone should be allowed to have a piece of cake now and then, or a training day off if you're feeling wiped out. Remember pushing yourself when you're feeling burnt out can be destructive to your health.

Being healthy may not always be easy. Fortunately, there are lots of tiny tweaks you can make to your daily habits in order to help you live longer, with more energy and happiness.

LIFESTYLE EVENTS

COVID-19 IMPACT – LARGE GATHERINGS AND EVENTS ARE POSTPONED UNTIL FURTHER NOTICE.

CONTACT PRIVATE WEALTH MANAGEMENT

National Office
Tel: 021 555 9369

BEDFORDVIEW
Tel: 011 455 8600

BRYANSTON
Tel: 011 685 7400

CAPE TOWN
Tel: 021 555 9300

DURBAN
Tel: 031 267 5800

GEORGE
Tel: 044 803 1200

MOSSEL BAY
Tel: 044 601 9000

PORT ELIZABETH
Tel: 041 394 1700

PRETORIA
Tel: 012 366 1100

RONDEBOSCH
Tel: 021 658 2600

RUSTENBURG
Tel: 014 533 1883

STELLENBOSCH
Tel: 021 555 9300

Disclaimer:

Private Wealth Management (Pty) Ltd | Reg no: 2019/470597/07| A juristic representative of Acsis Licence Group (Pty) Ltd (FSP 33002) and of Old Mutual Life Assurance Company (South Africa) Limited (FSP 703). Both companies are authorised Financial Services Providers.

Disclaimer:

These articles are for information purposes only and do not constitute financial advice in any way or form. It is important to consult a financial planner to receive financial advice before acting on any information contained herein. PWM and its directors, officers and employees shall not be responsible and disclaim all liability for any loss, damage (whether direct, indirect, special or consequential) and/or expense of any nature whatsoever, which may be suffered as a result of, or which may be attributable, directly or indirectly, to the use of, or reliance upon any information contained in these articles.