PRIVATE WEALTH
MANAGEMENT

PWM CONNECT

WHERE WEALTH AND LIFESTYLE MEET

WHAT'S INSIDE

A WORD FROM DIRK

Welcome to the spring edition of our PWM Connect newsletter.

CEO Rudolph van Eck retired at the end of July. He was a key figure in leading PWM to becoming the business it is today, and in his time as CEO he managed to navigate the business successfully through challenging times. We wish him all the best with his retirement.

Rudolph leaves PWM with a strong foundation to become one of the leading advice-led and wealth management businesses in South Africa. In my capacity as Interim CEO, with the support of the leadership team and the PWM board, I remain focused on working towards this vision.

We are in the process of recruiting a successor and will communicate the new appointment soonest.

Happy reading!

Dirk Wolfaardt
Interim CEO

REASSESSING THE R OF SA

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

A bit more than a year ago, South Africa was doing deep introspection following the devastating riots and looting in Kwa-Zulu Natal and parts of Gauteng cost over 300 lives and destroyed billions of rands in stock, buildings and infrastructure.

HALF FULL, HALF EMPTY

Since then, we've been intensively engaging in a particularly South African pastime: staring over the abyss and speculating if the country would fall over. There are probably few places on earth where it is actively debated whether the country is becoming a so-called failed state. The reality is much less binary. It is not one or the other. There are aspects of the country that function well, including key institutions such as the central bank and judiciary, there is a dynamic private sector and robust independent media. There are even pockets of world-class excellence, including in education, tourism, sport and culture. And then there are aspects of the country that are dysfunctional, notably collapsed service delivery at many municipalities. Much else sits in between: neither great nor completely terrible.

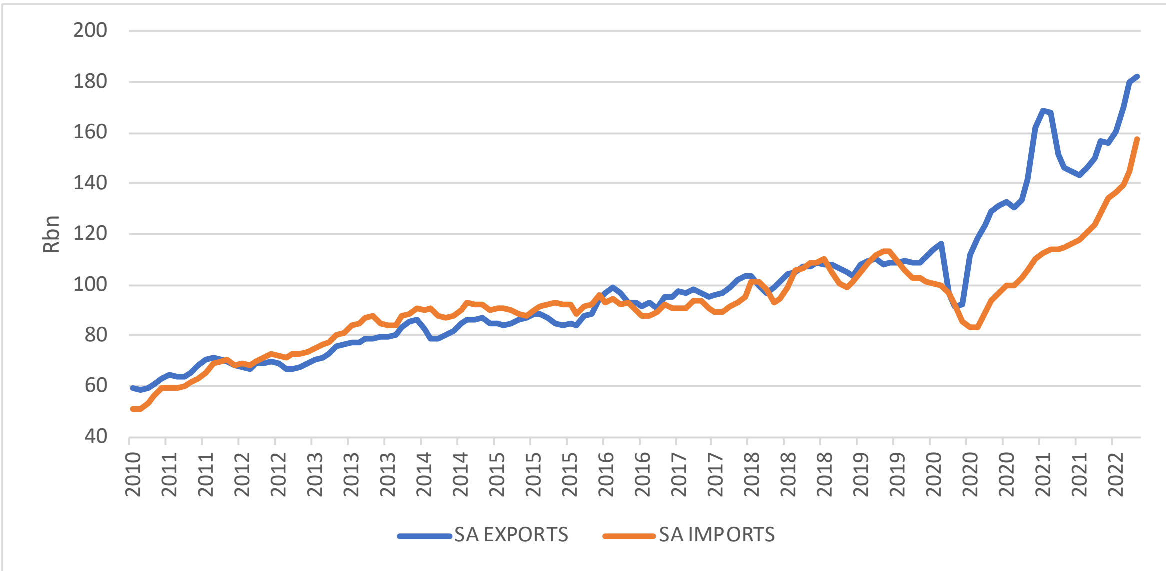
So where do things stand in the second half of 2022? More specifically, given that regulatory changes mean that South African retirement funds can now increase offshore exposure to 45%?

GLOBAL MATTERS

Firstly, the global climate is always important. As a small open economy, South Africa cannot escape international trends. The one trend investors are acutely focused on is rising US interest rates and the associated strong dollar. This has historically wreaked havoc with many emerging markets, and is starting to do so again in some cases as rising American interest rates exert a gravitational pull on global capital towards the US.

Fortunately, the other major global trend that works in our favour is high commodity, particularly energy prices. As a result, South African export values are at record levels, and the country is running a trade surplus, exporting more than it imports.

CHART 1: SOUTH AFRICAN EXPORT AND IMPORT VALUES



SOURCE: SARS

This makes the country less vulnerable in an era of rising US interest rates, since a trade deficit (and a current account deficit more broadly speaking) has to be funded by capital inflows. In contrast, during the previous US hiking cycle, South Africa was ran a deficit and was classified as part of the "Fragile Five" emerging markets, resulting in a falling currency and sharply higher domestic interest rates.

Countries that are really in deep trouble at the moment – Sri Lanka being a prime example – face a crisis because they don't have enough hard currency to pay for crucial imports like food, fuel and fertilizer, and make interest payments on its dollar-denominated debt.

This is one risk that South Africa will sidestep like Lukhanyo Am with ball in hand. The country earns more than enough hard currency to cover imports, while most borrowing, including by the government, is done in the local market in rands. Exchange rate movements can be a nuisance for travellers or people running a cross-border business but does not fundamentally threaten the local economy, the financial system or the government's solvency. This is not something other emerging markets can take for granted.

In fact, a weaker rand tends to be good for the country on balance, since South Africa global assets exceed global liabilities.

The rand has been its volatile self over the past year, but it is worth noting that this is mostly due to dollar strength, and that the movements against the pound and euro are much less pronounced.

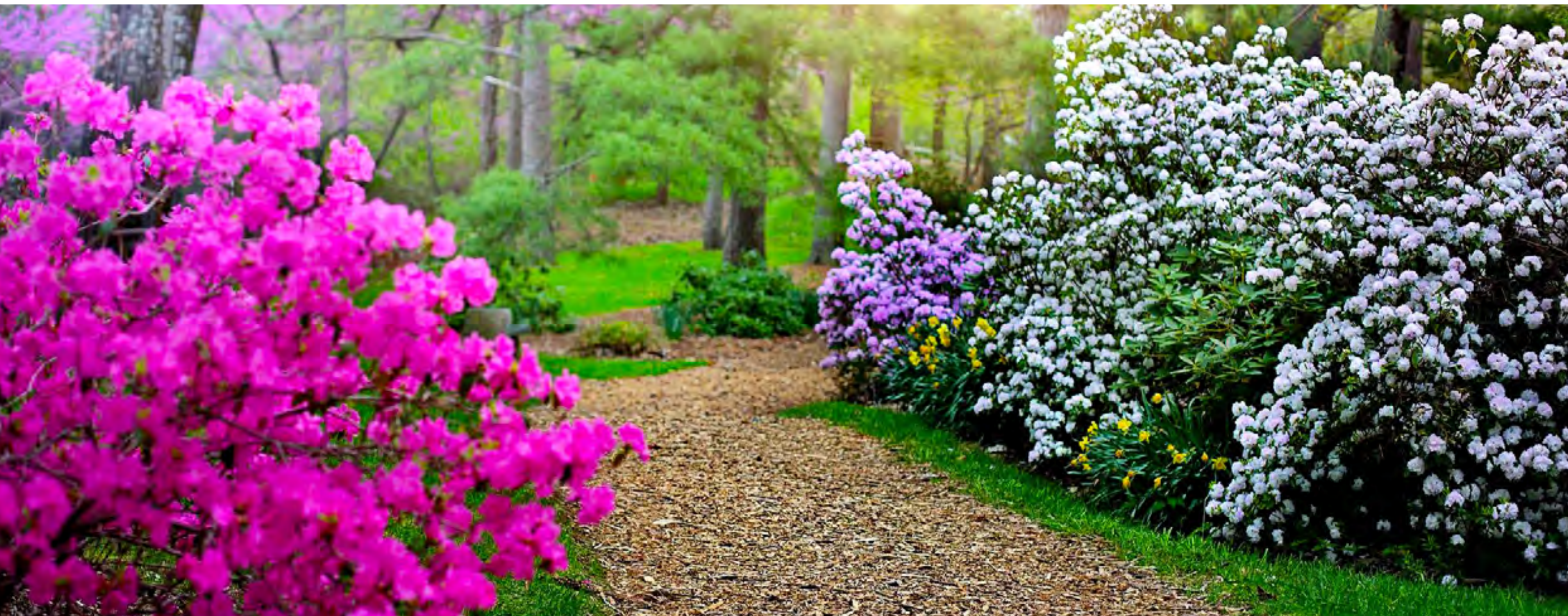
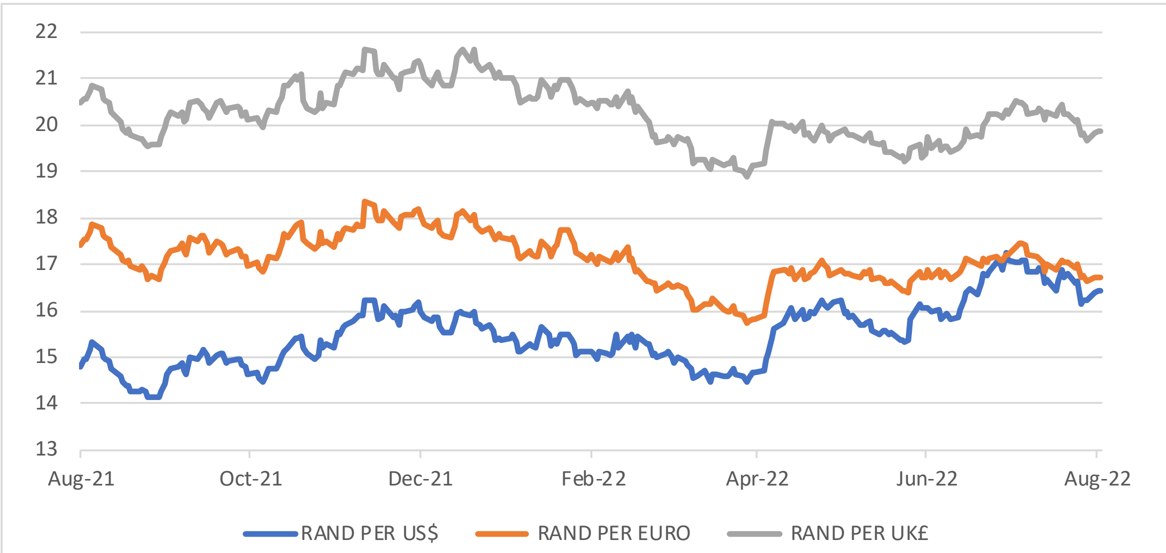


CHART 2: RAND VERSUS MAJOR CURRENCIES OVER THE PAST YEAR



SOURCE: REFINITIV DATASTREAM

TOUGH TIMES

In terms of the domestic economy, it is safe to say that things are tough. While the recovery from the Covid crash has been faster than expected – partly due to the commodity price lift – SA consumers now face the twin headwinds of high inflation rising and interest rates, meanwhile on the supply side, businesses have had to contend with intense loadshedding during June and July.

Inflation will probably peak in the next month or two as the oil price overshoot fades. Excluding the volatile items, underlying inflationary pressure is not as strong as in many other countries. Still, the Reserve Bank is likely to continue hiking rates as its policy rate is now one of the lowest in the peer group, having been one of the highest 18 months ago. The gravitational pull of US interest rates works on emerging market central banks too.

As for loadshedding, the good news is that there is light at the end of the metaphorical tunnel. In true South African fashion, it required a major crisis to effect change, but we are now finally at the early stages of an energy revolution. Private companies and households will be allowed to produce as much electricity as they want for own use, while selling surplus electricity to the grid. The government-run independent renewable energy power producers programme is also being scaled up substantially. Eskom's monopoly is being dismantled, and not a moment too soon as it will struggle by itself to keep the lights on, given the advanced age of its coal-fired power plants and all its other well-documented internal problems. Similar reforms are afoot, albeit slowly, in rail transport and ports where Transnet's monopoly has also held the country back. These changes should raise South Africa's growth potential but will not do so overnight.

POLICY, NOT POLITICS

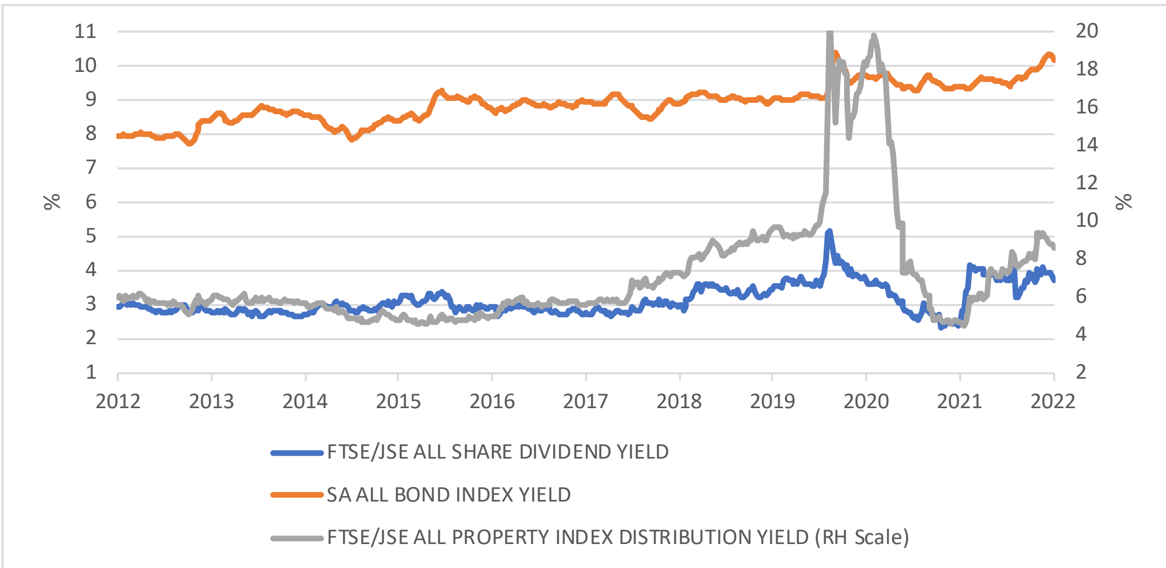
Now, as we approach the ANC's elective conference later this year, and thereafter start preparing for a general election in 2024, politics is bound to get noisier than usual. This might raise anxiety levels. But we should not get distracted by political rhetoric, or pay too much attention to which individuals are in or out, and rather focus on policy. The positive policy changes that have been announced took very long to arrive, but that is because there was a process of consensus-building behind them. Similarly, some of the more controversial proposals that have floated around in recent years, such as prescribed assets, have been discarded. It means that whoever ends up running the country over the next few years, there is likely to be broad policy continuity, and that is important.

As in most things in life, if you measure something, the reference point matters greatly. If you compare South Africa's economy to the Covid shock in early 2020, we are already in much better shape. Similarly, if you compare the country in terms of politics and policy to where we were during the Zuma years, there has been important progress. If you compare South Africa to its unrealised potential, you are bound to feel gloomy, but some of that potential might still be unleashed. Finally, if you compare South Africa to Australia, Canada or New Zealand, it will look like a basket case, but that is not a fair comparison. Against other emerging markets – Mexico, Argentina, Turkey, Thailand, India, Romania etc. – South Africa fares very well across a range of metrics.

WHAT IS PRICED IN?

Finally, as investors, we need to ask not whether the news is good or bad, but how much good or bad news is priced in?

CHART 3: LOCAL BOND, PROPERTY AND EQUITY YIELDS, %



SOURCE: REFINITIV DATASTREAM

Looking at South African bonds, equities and property, the answer seems to be: a quite a bit of bad news. All three trade at attractive yields relative to their own long-term histories and to what is available globally. That is why few South African pension funds and asset managers have yet increased global exposure to 45% in their balanced funds, remaining around the 30% mark. It doesn't make much sense to sell cheap assets and buy relatively more expensive assets with the proceeds, especially when the currency is also on the weak side. However, this can change as valuations and market conditions adjust. Asset allocation is best approached pragmatically, not dogmatically.

Also, remember that things will always look different at the level of the individual. You and your PWM financial planner should decide on the appropriate level of offshore diversification based on a holistic view of your assets and liabilities. Once that has been determined, you can work out a strategy to get there. It doesn't need to happen overnight, but it might also be counterproductive to wait until the exchange rate is "just right." But don't lose sleep over the assets that remain invested in South Africa. The potential for solid real returns remains.

THE SECOND HALF OF 2022 & STICKING TO YOUR STRATEGY

By Andrew Whitewood | Managing Director | PWM Wealth Management

From an investment point of view, the first half of 2022 felt a bit like a Comrades runner exiting Pinetown and experiencing Fields Hill. Uncomfortable, tough, challenging, but we made it!

The second half of 2022 has got off to a much better start. If we look globally, and specifically at the US equity markets, they have recovered almost 20% from their lows in June 2022. Inflation has started to roll over in the US specifically, which could result in the central bank needing to be less aggressive from an interest rate increase point of view. The price of oil is currently well below US$100, which also helps with inflation, interest rate increases, etc.

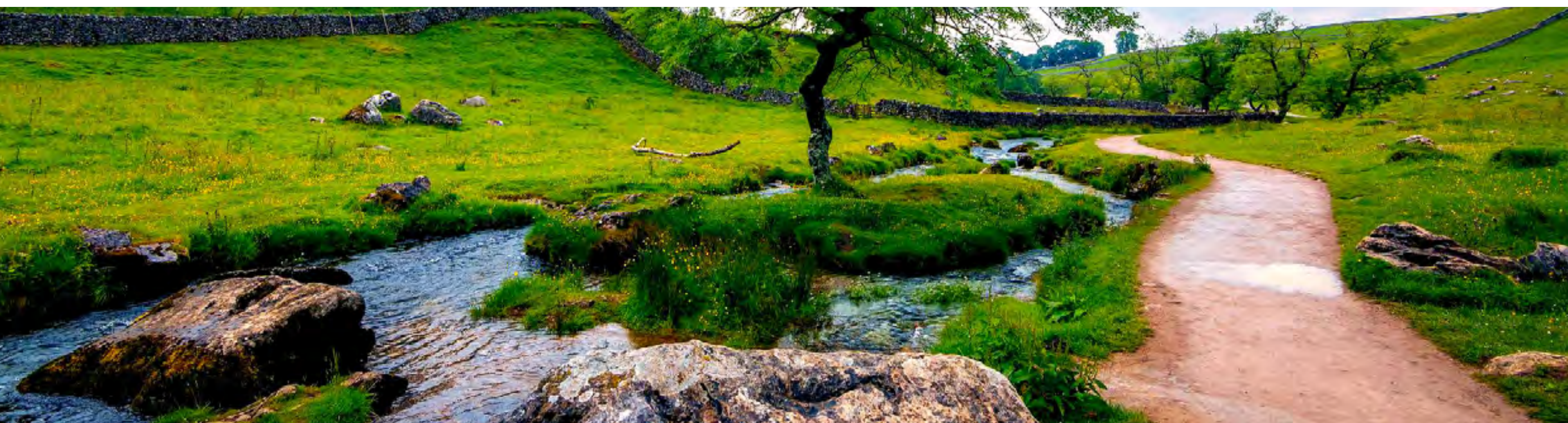
Looking at global economies, the outlook is not as positive. Europe is struggling, the UK is really struggling and China, the growth behemoth, is also slowing. At the moment, the US is holding up – there are cracks here and there but unemployment is at record lows, company earnings being reported are satisfactory, and consumer spending is solid. However, the storm has not passed.

Equity markets go up and they go down, but over time, they go up more than they go down. Diversification within your portfolio is key. You need to understand what you are seeking to achieve from a return point of view, and understand the recipe needed in order to achieve that return over time. Not one single individual on planet Earth can time markets perfectly.

The middle of this year once again highlighted the need to stay committed to one's investment strategy. There was so much noise, concern, angst in May/June of this year but markets, specifically the US, have rebounded significantly. Had you decided to switch out of the markets when you were feeling uncomfortable, uncertain and fearful in May, you would have locked in the losses and destructed wealth.

I agree, investing can be tough! Especially in the world we live in. Negative news now results in clicks and not the sale of newspapers. These days, we are bombarded with negative news, which plays on our emotions as human beings. When you feel like you are running up Fields Hill, reach out to your financial planner, who will guide you across the finish line.

Note:
Please note that the information provided in this article was in line with the market performance information and statistical data available on the date of producing the article.



ESTATE PLANNING – WILLS

THE IMPORTANCE OF AN UPDATED WILL

By Carl Muller | PWM Legal Executive

The importance of having a will is often underestimated. In this article, I will focus on the need and benefits of putting a valid will in place, and the significance of reviewing your will on a regular basis.

WHY IS A WILL IMPORTANT?

The obvious answer to this question is to bequeath assets in your estate according to your wishes. However, there are other crucial aspects that are often overlooked.

The appointment of an executor is an important provision in a will. You have the right to appoint an executor of your choice, which provides an opportunity to negotiate a reduction in the executor's fee. This could be done in two ways:

- You can either negotiate and agree upon a reduced fee with a professional executor; or
- You can appoint a family member or friend, with power of assumption to negotiate a lower fee with a professional executor after your death.

You may also appoint a guardian for minor children in your will, if there is no guardian to take care of your children on your death. Likewise, consider creating a testamentary trust to cater for the management of inherited assets if you have minor children or dependants who are unable to manage their own affairs.

A properly drafted will would further ensure that your estate is executable and complies with relevant legislation. Take, for example, the Subdivision of Agricultural Land Act that prohibits a farm being owned by more than one person. A provision in a will where a farm is bequeathed to more than one person will thus not be viable, in all probability leading to a delay in winding up the estate, as an alternative solution would have to be implemented. Care must also be taken to ensure that your will complies with the formalities prescribed in the Wills Act.

Furthermore, you have the opportunity to structure your will in such a fashion as to make use of legislated estate duty and tax concessions – such as the allowable estate duty deduction and the rollover of capital gains tax where assets are bequeathed to a surviving spouse.

WHAT HAPPENS IF YOU DIE WITHOUT A VALID WILL?

A common misconception is that your assets are forfeited to the state in the event of dying without a will. This is not correct, as the Intestate Succession Act will be applicable in such a scenario. The effect of this Act on the division of your estate on death can be summarised as follows:

- If you are married, but have no children or other descendants, your spouse will inherit your estate.
- If you are married and have children, your estate will be divided equally between your wife and children, on condition that your spouse receives assets to a minimum value of R250 000. If a child died before you, such child's portion will be divided between his/her descendants.

- If you are not married, your estate will be divided equally between your children. If a child died before you, such child's portion will be divided between his/her descendants.
- If you are not married and have no descendants, your estate will be divided equally between your parents. If a parent predeceased you, the children of such parent (your siblings) will inherit such parent's portion of your estate in equal portions. If a sibling also predeceased you, such sibling's portion is divided between his/her descendants.
- If neither of the above scenarios are applicable, your estate devolves upon your closest relatives.
- If you have no spouse, children, parents or other relatives, you estate will be forfeited to the state after 30 years.

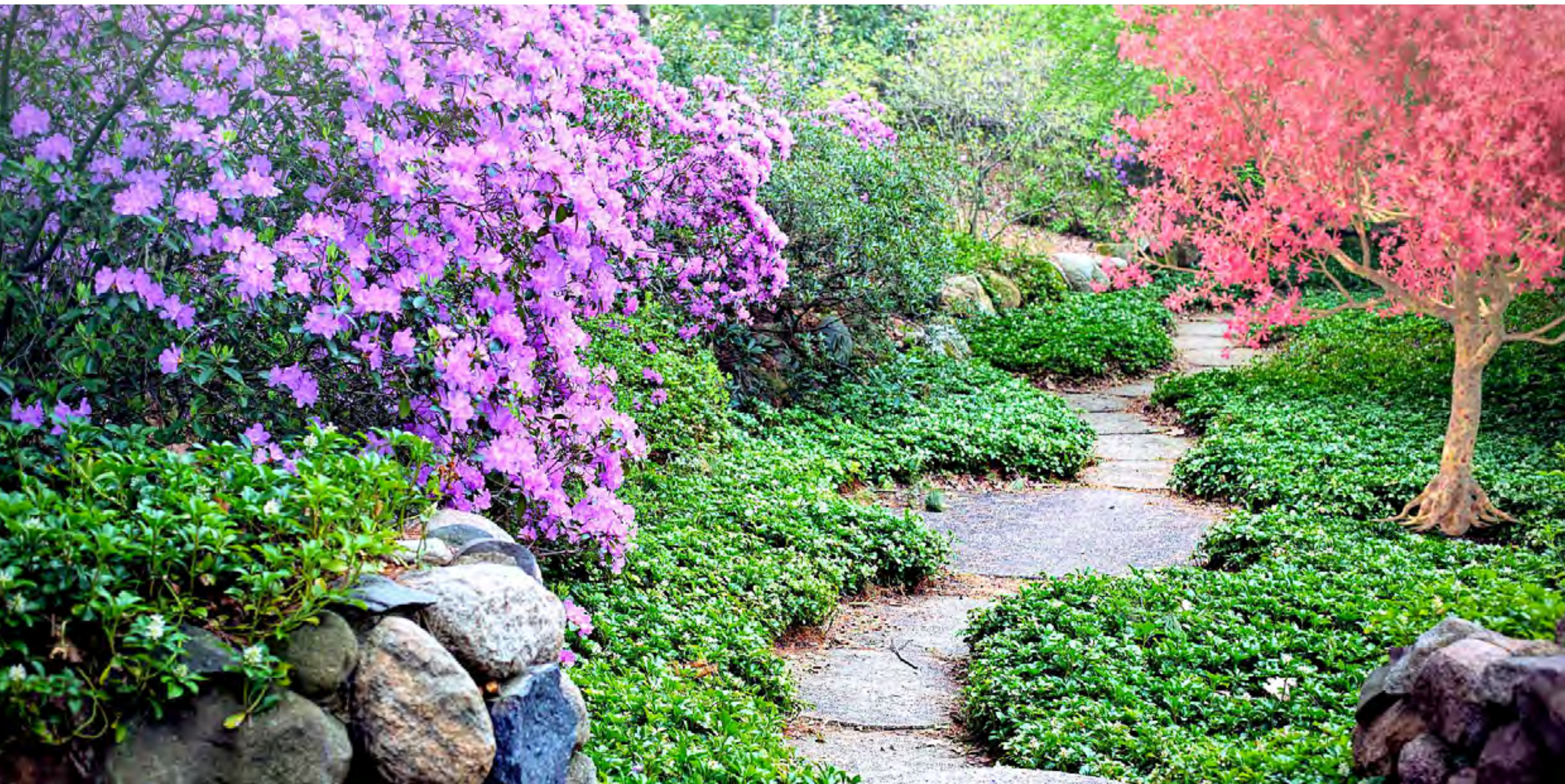
As the assets will devolve upon the intestate heirs in terms of the above provisions, the opportunity to make use of estate duty and tax concessions could be lost.

The intestate provisions could also be problematic from a practical perspective. For example, fixed property in an estate may have to be divided in terms of the intestate rules if the surviving spouse needs to keep on living in the property but the children don't agree to it. This may result in a forced sale of the property, with the proceeds being divided between the spouse and children, thus leaving the spouse without a place to live. Another example is the prohibition on the division of farm property as discussed earlier in this article. As the law prohibits farm property to be owned by more than one person, the farm would either have to be sold or an alternative arrangement would need to be made where there is more than one intestate heir. This may cause a delay in winding up the estate.

Dying without a will also means that an executor would have to be appointed by the Master of the High Court, which will inevitably lead to a delay in finalising the estate. Another consequence of this is that there will be no prior agreement for a reduced executor fee, and the maximum legislated fee could be charged.

Where a deceased person was the sole guardian of minor children, an application would have to be made to appoint a guardian, assuming an eligible person is available and willing to act as such.

The lack of a will would also mean that no provision was made for a testamentary trust. The remaining guardian, or the Guardian's Fund would then be in control of assets inherited by minor children. If a major heir is not capable of handling his/her own affairs, the Guardian's Fund or a curator bonis appointed by the High Court would manage the inherited assets. The appointment of a curator bonis is usually a very costly exercise.



WHY SHOULD YOUR WILL BE REVIEWED REGULARLY?

If you wish to bequeath your assets differently than provided for in your current will, it should be reviewed and amended accordingly. Your personal circumstances may have changed since you drafted your last will. For instance:

- If you have acquired additional assets, you may wish to bequeath these assets to specified heirs.
- If you got married, you may want to include your spouse as an heir.
- If a child was born, you may want to include the child, nominate a guardian and set up a testamentary trust.
- If you got divorced, you may want to amend your will to remove your ex-spouse as an heir. The Wills Act provides that, in the event of a divorce, the ex-spouse of the deceased person will be treated as if he/she had died prior to the divorce, if the deceased nominated such ex-spouse as an heir in his/her will and dies within three months after divorce (unless it is clear from the will of the deceased that he/she wanted his/her ex-spouse to benefit from the estate despite the divorce). If the deceased dies after the three-month period subsequent to the divorce without amending his/her will, it is deemed that the deceased still wanted the ex-spouse to inherit from the estate.

Changes to the will may also be required due to legislative amendments.

It is advisable to review a will at least once a year, and particularly when personal circumstances change.

IN CLOSING

The existence and review of a valid will are essential elements of a holistic financial plan. Proper estate planning goes hand in hand with the drafting of a will. In the next edition of PWM Connect, I will discuss the fundamentals and value of an estate plan. Join me as I share more about wills and estate planning during our virtual event at the end of October. Speak to your financial planner to be invited.

IT'S TIME TO HAVE THE CONVERSATION

By Shannon Loots | Business Coach | Old Mutual Wealth

I am always amazed at how resilient we are as a human race, as people who have endured a lot over the last couple of years and continue to face daily unknown challenges. This changing landscape has evoked new thinking and intentional realignment with regard to family, lifestyle, finances and what is most important to us. We all have our own money stories. **A money story** is a personal narrative about money. It makes up your beliefs, thoughts, and feelings about money – and affects your financial behaviour. Money stories are often generational and culturally based. Your money story started forming in early childhood.

So, this got me thinking... As people who take their financial planning seriously, who have worked hard to accumulate and preserve wealth, at times had to sacrificed (a lot) to provide for your families and maintain your desired lifestyle – do your family members understand the overall purpose (your wishes/values) of your generational wealth? **Generational wealth** is an aspect of financial planning that is geared towards passing down stable, significant financial resources to future generations.

History has shown us that 70% of family money disappears in the hands of the second generation and 90% is gone by the end of the third generation.

There are a variety of reasons why this happens:

- Generations are taught not to talk about money; it's considered taboo or improper.
- The prior generations worry that the next generation will become lazy and entitled.
- Many have no clue about the value of money or how to handle it.
- Generations and siblings of families are now also more likely to find themselves spread across different countries, with different regulation in different jurisdictions adding to the complexity.
- The structure of families is changing: second marriages mean blended groups of children.
- Poor returns on investments or lack of interest by heirs in managing the family fortune.
- Among the causes of this phenomenon are taxes, inflation, bad investment decisions and the natural dilution of assets as they are shared among generations of heirs.

The psychology behind the lack of generational wealth planning shows how money transferred to heirs without a meaningful purpose can foster a condition termed "affluenza" – where the inheritor may lack purpose to cultivate, self-esteem, motivation, confidence and personal identity. These traits can spark an unhealthy relationship with money and a lack of purpose or sense of achievement, often promoting a sense of entitlement.

Psychologists specialising in **"sudden wealth syndrome"** acknowledge that heirs, like lottery winners, tend to blow their windfall in no time. Millionaires are now more often seeking assistance to deal with the impact of receiving life-changing amounts of money, as they are overwhelmed and struggle to deal with the aftermath of such events.

Interestingly, research has shown that only 9% of families have had a conversation with their heirs and beneficiaries about generational wealth, and 40% of clients do care about what their family will do with their inheritance. So clearly, the sentiment is one of preventing one's inheritance from being squandered or lost too soon. So, what should we do or start considering?

The answer is simple. However, I do acknowledge that this level of conversation can be extremely emotional because it makes us, as people, question our own mortality and realise that we will not be around for ever. And how do our loved ones continue living successfully without us being around tomorrow?

If a generational wealth plan is not openly and honestly discussed with your financial planner and family members, and a plan is not put in place for this money, there is no guarantee that sudden wealth syndrome will not affect your family. Remember, R50 million to one family is R5 million to another – without the values, purpose and structure in place, the end result will be the same.

We all have a responsibility to start having these key conversations around transfer of generational wealth with family members, to prepare and equip them for the money and responsibility that they will inherit. It's all about getting the family on the same page about the vision and goals for the family. This is often referred to as a **Family Charter or Roadmap**, creating the opportunity to:

1. Share your vision and the importance of the family legacy (family values and traditions)
2. Open communication with family members about their money stories (their attitudes to saving and spending money)
3. Discuss goals and aspirations of the family wealth
4. Share your intentions for personal or sentimental items (pets, family heirlooms, donations to your favourite charities)
5. Discuss your burial wishes and preferences
6. Talk about your goals and preferences for later-life goals (high-care options and family support)
7. Advise the location of key documents (wills, power of attorney, financial plan and provisions)
8. Provide a contact list of whom to call in the event of your passing (financial planner)

I cannot stress how important it is to engage and educate individual family members, from as early as possible. By ensuring that family members are motivated, informed and involved at the right age, and armed when and where needed with the right knowledge and wisdom, families will have a far better chance of successful wealth management in the current generation, and a successful transfer of their wealth, intact and well prepared, across many future generations.

Sources:
The Generation Game, Sanlam Report, 2018
Roy Williams, independent US wealth transfer consultant

GLOBAL & LOCAL EQUITIES

By Michelle Matthews | Portfolio Manager | Old Mutual Wealth Private Client Securities

Given the backdrop of hard lockdowns in large parts of China during the last few months, Nike reported a mixed set of results for the full-year 2022 reporting period. Revenue for the year was up 6% to US$46.7 billion compared to the prior year, although it was clear that the most recent quarter showed slower growth. It is worth noting that performance in the most recent quarter was impacted by a myriad of events, such as supply chain disruptions, the Chinese lockdowns and a higher volume of obsolete inventory as a result of the shutdowns.

Despite the disruptions in the most recent quarter, revenue for the year was still higher than 2019 levels prior to the pandemic, highlighting how quickly Nike has recovered from the pandemic disruptions. Geographically, the rest of Asia Pacific and Europe were the standouts, with China being the laggard. Revenues from Greater China were down 13%. However, the group's net income rose 6% to US$6 billion as a result of higher margins (lower markdowns) and improved product mix over the period.

Digital sales, a metric investors are watching closely post the pandemic, rose 18% during the last quarter, led higher by growth in North America, Asia Pacific and Europe. Considering that Nike's physical stores in these regions were open during the period, this is an impressive feat and further highlights how the group's Consumer Direct Acceleration strategy, which seeks to engage customers more digitally, is paying off. Dividends declared for the period were up 12% from the prior year, a continuation of the group's history of growing dividends for each of the last 20 years. Furthermore, the group bought back US$4 billion worth of shares during the period and announced a new four-year US$18 billion repurchase programme.

South Africa's largest and most recognisable self-storage property REIT, Stor-Age, reported strong full-year 2022 results. Performance was strong across both of the group's operating regions, i.e. South Africa and the UK. Rental income and net property operating income were up 15% and 16.7% respectively. The two key rental income drivers, occupancy and rental rate, were up across both geographies, which management attributed to an increasing demand for self-storage following Covid disruptions. Dividends per share were up 5.5%, lower than income as a result of a higher tax charge in the UK, currency moves and an increase in the number of shares following the capital raise carried out earlier in the year.

Over the period, Stor-Age continued to make progress with its development pipeline. A growing part of its pipeline has been via joint ventures in both the UK and South Africa. In the local market, the group announced a joint venture with Nedbank where Stor-Age will soon begin the development of two high-profile properties in Johannesburg worth approximately R200m. Stor-Age will earn fees from developing and managing the properties. This arrangement is similar to the UK one with Moorfield, where Stor-Age has a 24.9% interest. Management views joint ventures as a way to grow and increase scale, while at the same time mitigating the risk of delays in reaching good occupancies at new properties. Management further estimate that the local new development pipeline will cost around R900m to develop and that the majority of new developments will be completed by way of joint ventures. This will add approximately 16% to the group's current gross lettable area.

RELATIONSHIPS

REAL BENEFITS OF FRIENDSHIPS

As social creatures, friendships form an essential part of living a fulfilled life.

Friendship explained

The Oxford Learner's Dictionary defines a friend as "a person you know well and like, and who is not usually a member of your family." In addition, research in the Journal of Happiness Studies reveals that it's not the "number" of friends one has, but the "quality" of these friendships that make us "happier".

As clinical psychologist Dr Marney A. White, explains it in Healthline, healthy friendship "involves mutual support… and offering a listening ear".

Benefits of friendships

Healthline notes that friendships can "reduce stress and loneliness", and "provide emotional support and a sense of belonging". The Mayo Clinic says that "adults with strong social connections have a reduced risk of many significant health problems, including depression, high blood pressure and an unhealthy body mass index (BMI)."

As noted by Healthline, strong friendships can offer support in challenging times and may make "managing distress associated with problems" easier. A Cambridge University Press study shows that "friendship support… is an important positive predictor of both immediate and later resilient psychosocial functioning in adolescence and early adulthood".

Medical News Today defines emotional support as treating others with respect, showing compassion, support and understanding and being non-judgemental.

Healthline further suggests that friendships "reduce loneliness and social isolation". Loneliness is a state of mind where one feels alone or socially isolated due to a lack of connections with others, explains psychologist Kendra Cherry in VeryWell Mind. She warns that loneliness can have "wide range of negative effects on physical and mental health, such as:

- Alzheimer's disease progression
- Antisocial behavior
- Decreased memory and learning
- Increased stress levels
- Poor decision-making".

Quality time with "close friends" helps "ward off loneliness and reduce its negative health consequences", says Cherry, noting research that suggests "actual face-to-face contact with friends may help boost a sense of well-being".

The Association for Psychological Science notes research published in the Psychological Science journal, which revealed that healthy friendships with "strong-willed friends" can help influence us to make better lifestyle choices while avoiding negative ones.

Overall, friendships are not only for social connection, but also good for a healthy body and mind.

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