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WHERE WEALTH AND LIFESTYLE MEET

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A WORD FROM PIETER

Welcome to the first edition of the PWM Connect newsletter for 2024.

It is hard to believe that more than a year has passed since I joined PWM. We are continually striving to improve and enhance our value proposition for clients and we have added a number of services to our offering.

For clients with complex financial planning needs, who are seeking a family office solution or considering emigration, we have entered into agreements and secured the services of KPMG and Mazars audit, tax and advisory firms. Both businesses can assist us with high-net-worth clients who require tailor-made solutions.

In addition, we have enhanced our investment offering by developing an income fund that is conservatively managed to maintain low volatility and low-risk capital stability. The PWM Extra Interest Fund aims to deliver interest income exceeding that of traditional money market funds. Speak to your Financial Planner for more information about this fund.

I am pleased to report that our investment business, PWM Wealth Management, has reached more than R4 billion in assets under management. We are launching our new offshore investment solution in the coming months, and I will provide more information in my next message.

By now, you have probably seen some communication or heard about the implementation of the Two Pot System on the 1st of September this year. Please refer to the article in the newsletter for more information or speak to your Financial Planner.

I trust that the year ahead will be a successful one and that you will achieve all the goals you've set for yourself.

Happy Reading!

Pieter Bester
CEO

FIVE NOTABLE TAKEAWAYS FROM THE 2024 BUDGET SPEECH

By Izak Odendaal | Chief Investment Strategist | Old Mutual Wealth

It is easy to get lost in the sea of numbers, ratios, projections and assumptions in the annual Budget. After all, it is far more than just an hour-long speech, and is made of hundreds of pages of documentation. Here are the notable takeaways from the point of view of investors.

1. MARKET-FRIENDLY BUDGET

A market-friendly Budget is not necessarily the same as a good Budget for taxpayers or citizens. To get government debt levels under control, spending growth must slow and tax revenues need to rise. This is negative in the short term for the delivery of public services and public investment, while it also drags on household consumption. But in the long run, no one will benefit if there is a fiscal crisis. Moreover, as Government's interest burden rises due to its growing debt obligations and high borrowing costs, other spending areas are squeezed out.

Despite it being an election year, there is an ongoing commitment to fiscal consolidation and debt stabilisation. While other developing countries often see populist budget policies leading up to elections, there was no sign of it in South Africa's 2024 Budget Speech. The personal tax burden rises by R18 billion through not adjusting tax brackets for the impact of inflation, while the social relief of distress (SRD) grant stays at R350. The SRD will remain in place after 2025, as was widely expected. It is debatable whether this counts as a basic income grant – something that would be unaffordable at the moment – but it does play a role in blunting the impact of extreme poverty. The total social grant budget will rise in line with inflation over the medium term. Again, this is hardly a sign of populism.

2. OF INTEREST

It is not that Government ideologically favours the bond market – the simple reality is that in the absence of much faster economic growth, only spending discipline can bend the fiscal trajectory back into sustainable territory.

This is because Government's interest burden is ballooning. The combination of high levels of borrowing and high interest rates means that 20 cents of every rand collected by SARS now goes towards interest payments. This number has doubled since 2010.

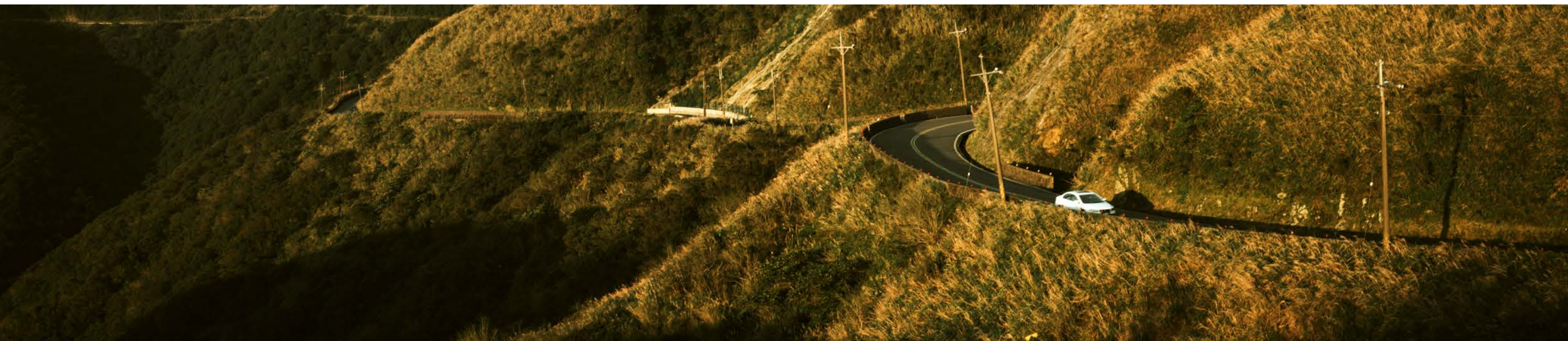
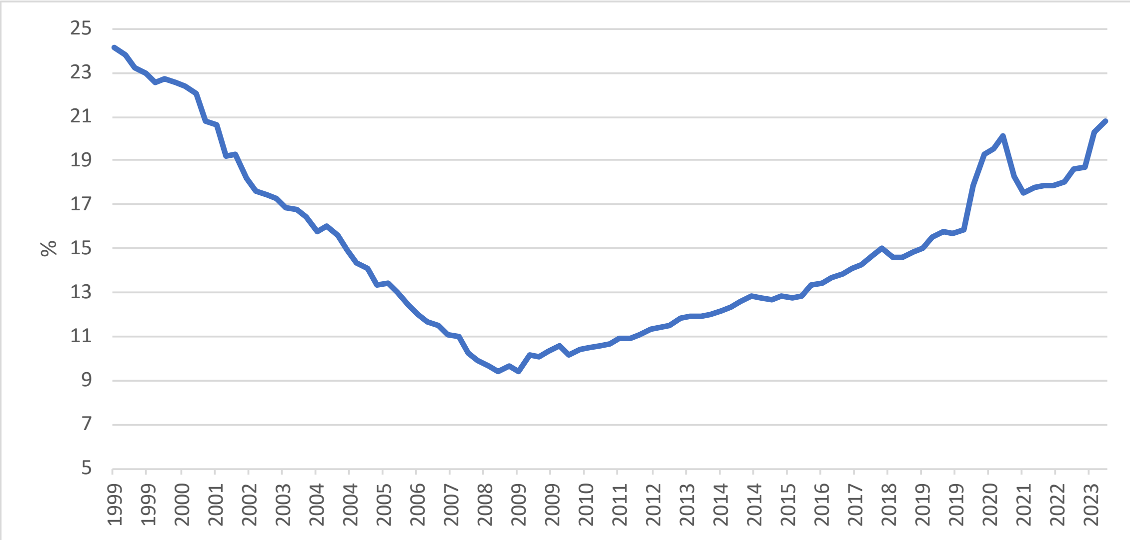


CHART 1: GOVERNMENT DEBT SERVICE COST AS % OF REVENUE



SOURCE: LSEG DATASTREAM

Debt service costs are estimated to rise from R360 billion per year in 2023 to R450 billion by 2026. In other words, Government is spending more money on servicing debt than it does on social grants or healthcare. And since this amount is projected to grow on average by 7% over the medium term, it will take up an increasing share of overall spending.

This is where the fiscal crisis is happening, not in financial markets. It is the squeeze on healthcare, policing, education, social services, capex and so on. Non-interest spending is projected to increase by less than inflation in the years ahead.

3. GFECRA IS NOT A SILVER BULLET

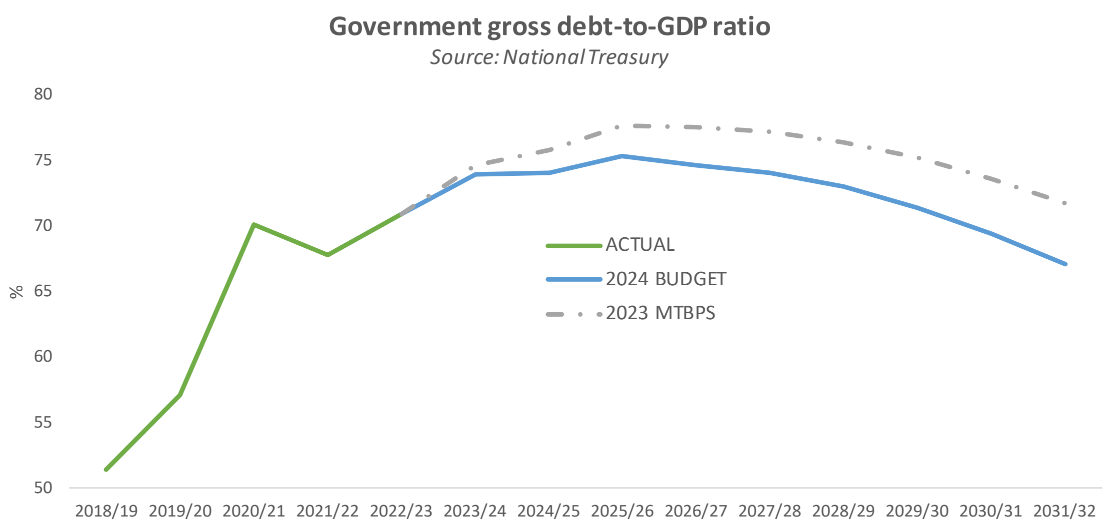
Until now, few people have heard of GFECRA, the gold and foreign exchange contingency reserve account at the Reserve Bank, but now it's the talk of the town. GFECRA is effectively the unrealised gains or losses on South Africa's foreign exchange reserves. Though held by the Reserve Bank, these gains or losses accrue to Government.

The sharp depreciation of the rand (from R6 against the US dollar in 2010 to almost R19/$ today) means the gain is now almost R500 billion. Unlike in the rest of the world, there has not been a regular transfer from the central bank to the government. This will now change, as R150 billion rand will be transferred to Treasury over three years.

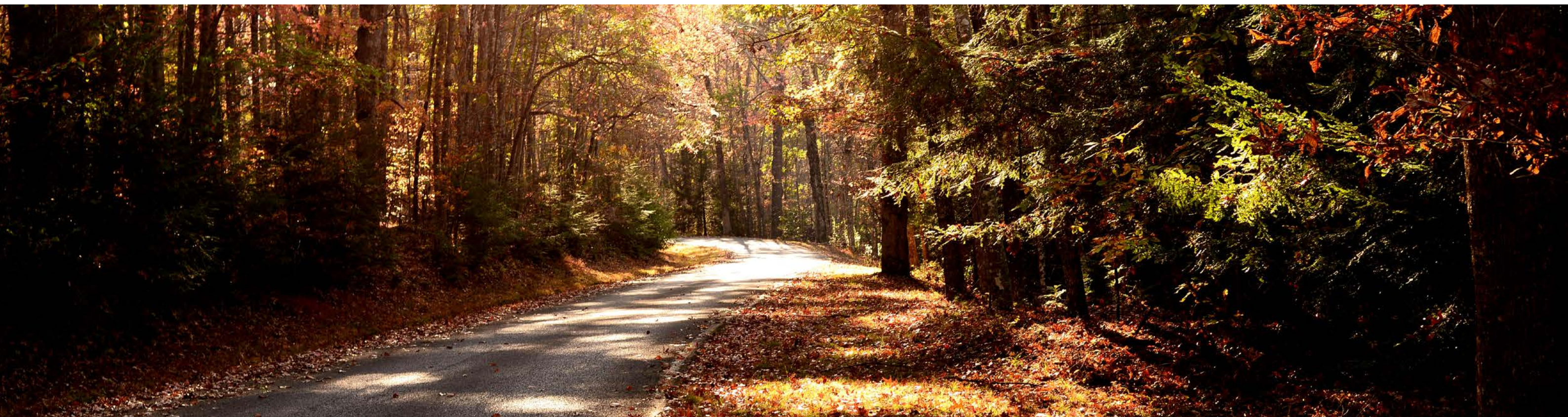
The framework for these transfers will be formalised through legislation, which is important, since the credibility of the Reserve Bank is at stake. In future, GFECRA will be used in three "buckets". The first bucket will retain sufficient funds to absorb exchange rate swings. The second bucket will be allocated to the Reserve Bank contingency reserve to ensure its solvency and pay sterilisation costs (to prevent an increase in the money supply, which could be inflationary, the Reserve Bank will drain some liquidity from fixed income markets). Only once the first two buckets are filled, remaining funds will be transferred to Treasury. This seems to be a prudent approach. However, it does mean that future transfers are unlikely to be anywhere near as large as R150 billion. This should be seen as a one-off windfall, and not an ongoing source of funding.

The GFECRA transfer will be used to pay down debt and reduce Government's annual gross borrowing requirement from R553 billion in 2023/24 to R428 billion in 2026/27. It also means the debt-to-GDP ratio is projected to stabilise at 75.3% in 2025/26, a lower and earlier peak than projected in last year's Medium-term Budget Policy Statement (MTBPS).

CHART 2: GOVERNMENT GROSS DEBT-TO-GDP RATIO



SOURCE: NATIONAL TREASURY



4. MUST GROW

There is a limit to how far tax rates can be increased before the proverbial golden goose is killed. There is also a limit to how far government departments can cut their budgets before service delivery collapses. The recent furore over unemployed young doctors is a prime example of what happens when government spending levels are reduced too much. Ultimately, it is only faster economic growth that will stabilise government finances.

We also know that the main reason for the economy's underperformance is that key sectors are monopolised by dysfunctional state-owned enterprises – particularly Eskom and Transnet. This is not the only constraint, but it is the most salient. Steps to restructure these SOEs and open these sectors for private investment are therefore important.

Given that money is scarce, there is no room for the Budget to stimulate economic growth by pumping more money into the economy. In fact, it will do the opposite in coming years, as Government runs a primary surplus, meaning that non-interest spending will be less than tax revenues. In other words, Government will be taking more out of the economy in terms of taxes than it puts back through direct spending to reduce its debt burden.

This means that the private sector will have to become more involved in infrastructure investment. Treasury will be introducing legislative amendments to encourage greater use of public-private partnerships (PPP) in delivering infrastructure and is looking to introduce new infrastructure funding mechanisms.

5. DEFAULT RISK REMAINS LOW

The worst-case scenario for investors is if, one day, Government is unwilling or unable to pay interest or repay capital on its bonds. This is known as a default, and will be devasting not only for bond holders, but for the entire financial system and confidence in the economy. It is the equivalent of a nuclear bomb being dropped into the market.

Fortunately, despite the fiscal challenges described above, the risk of Government defaulting is very low.

This is because, firstly, Treasury understands that it would be counterproductive, to say the least, and end up costing Government more than it would save. That is because the day after a default, it would most likely still need to borrow from the market. But now the market will not dream of lending to it except at absolutely exorbitant interest rates.

Secondly, most government debt (90%) is denominated in rands. This is not an accident but a deliberate debt management strategy on the part of Treasury. Throughout history, most government debt defaults have been on foreign currency-denominated debt.

If you borrow in a foreign currency, you need to earn that currency abroad to service the debt on an ongoing basis. Defaults happen when the flow of foreign currency dries up, or when a sharp local currency depreciation suddenly increases the debt burden. A government borrowing in its own currency can marshal the resources to service that debt, and is not exposed to exchange rate fluctuations. Moreover, the central bank can make sure there is liquidity in the local bond market so that Government can roll over maturing loans. It cannot do that in offshore bond markets.

Recent government defaults occurred when interest payments consumed 40% to 50% of tax revenues, whereas it is currently 20% in South Africa, as noted above.

Investors can also take comfort that there won't be a stealth default in the form of surprisingly high inflation. The Reserve Bank is an independent inflation fighter, and this is a key anchor of domestic bond valuations.

Nonetheless, markets are nervous and South African government bonds trade at a big discount. It will take several years before we can say with certainty that Government's finances are on a sound footing. But with the actual risk of a default still very low, this means government bonds remain an attractive asset class.

BUDGET SPEECH – KEY POINTS TO CONSIDER

By Andrew Whitewood | Managing Director | PWM Wealth Management

The recent Budget Speech was fairly uneventful, which we believe to be a good thing. However, I am going to unpack a couple of key points that we at Private Wealth Management believe are prudent to you as clients and investors.

The first big point is that there was no inflationary change to the income tax tables. This impacts all of us, be it the working-class individual or the pensioner, etc. In simple terms, it is a double whammy, as the cost of living has increased and we as taxpayers are not receiving any relief from a pay-as-you-earn point of view as we usually did.

Secondly, the two-pot system is going to be implemented on 1 September this year. The Finance Minister noted that this will raise approximately R5 billion in additional tax revenue in six months, which will result in an outflow of approximately R25 billion from retirement funds in South Africa over a six-month period (we worked on the assumption of a tax rate equal to 20%).

I believe the importance of a tax-free savings investment is becoming more and more apparent. So, let us rehash the benefits of a tax-free savings investment:

- All growth is 100% tax free.
- You can contribute R36 000 in a tax year.
- You have a lifetime limit of R500 000 for contributions.
- Certain products allow you to nominate a beneficiary, which results in a more efficient transfer of assets on death.

For accumulators, as in those seeking to save for retirement and build up wealth, a tax-free investment vehicle is really a no-brainer. As interest exemptions and tax brackets stagnate, any growth taxable will be taxed at higher tax rates in the future.

For a person who is in retirement, a tax-free savings investment is a vital cog from a tax point of view and longevity point of view. R36 000 a year equates to R360 000 over 10 years or R500 000 over 14 years without growth. Per couple, this equates to a R1 000 000 investment + growth which is tax free and if invested with a beneficiary nomination will eliminate Executors Fees, assumed saving approximately R40 000. The numbers are not insignificant.

The point is, we need to review our plans regularly and make enhancements as the financial services industry evolves.

YOU MIGHT NOT TAKE AN INTEREST IN THE BUDGET, BUT THE BUDGET IS TAKING AN INTEREST IN YOU

By Rudolph Bosch | Financial Planner | PWM Pretoria

You might not take an interest in the Budget, but the Budget is taking an interest in you. The South African Budget Speech is a significant event on the annual calendar that might have a huge impact on your personal financial planning. When Finance Minister Enoch Godongwana presents the South African Budget Speech, he essentially outlines the financial plan for the country. The Budget Speech sets out the blueprint for government spending, borrowing, taxes, a plan to ensure fiscal stability, etc.

This might seem familiar to many households, as the person managing the finances in the family might gather the family around the dinner table once a year with an Excel spreadsheet reflecting on the previous year's spending and saving habits. A few unhealthy spending habits might be addressed at some point and some plans might be discussed around the table regarding the reduction of restaurant visits and saving more for the children's education. The Budget Speech and your financial planning are in essence the same in both instances, as it is about setting financial priorities, strategies for allocating resources effectively, and making informed decisions.

The main issue that the Finance Minister usually addresses is the fiscal deficit. This simply means that Government is spending more than it receives. The big question is always, what strategy will be followed to narrow the fiscal deficit? There are mainly three options that can be implemented: raising taxes, borrowing more, or spending less. Each of these levers can be seen as a double-edged sword, as they have pros and cons for the economy.

Similarly, the budget deficit can be explained through an analogy. Think of that expensive vehicle or top-of-the-range smartphone you want to purchase but which is way out of your budget. Your partner tells you that it is not a good idea and that there are more essential areas to allocate the money to. You decide to ignore your partner and continue with your impulsive purchase. After the excitement of your new purchase has faded away you realise that you are not sure how you will repay the loan. You try to justify your purchase by telling your partner you will try to earn more by working overtime on weekends for extra income. Your partner is not very impressed, as you are now taking away some of the precious time you could have spent with the family. You then suggest cutting costs, but your partner is furious because he/she does not want to be limited in his/her spending due to your impulsive spending. Lastly, you think of increasing your credit facility at the bank, but they notify you of the exorbitant interest rate that you will be charged.

Exercising these three options might get you to pay off the impulsive purchase. However, there is always a cost to exercising one of the above options. Similarly, there is a cost to the economy when Government exercises fiscal policy. Let's take a look at the consequences of exercising the three options:

INCREASING TAXES (INCREASING INCOME)

Increasing taxes will allow Government to pay off more debt and invest more in infrastructure, and can also help to reduce inflation. The cost, however, would be less disposable income for households. In turn, less disposable income leads to lower household expenditure, which will put economic growth under pressure.

Government sometimes makes use of a technique called "bracket creep", also known as fiscal drag, to generate more tax revenue. This is a situation where income growth causes people to pay higher average tax rates per year without increasing the actual personal income tax rates. Government essentially doesn't adjust the marginal income tax brackets with inflation and hence, due to the increase in salaries each year, households might find themselves paying more tax.

For individuals, keeping a close eye on the different tax changes and how these affect their investments and disposable income is essential, as it may have a huge impact on reaching their financial goals.

INCREASING BORROWING

Secondly, Government can borrow more, which will allow it to pay off existing debt. If utilised correctly, this could also act as a stimulus to the economy or as a safety net in case of an emergency. However, the cost would be more interest payments, inflationary pressures, and reduced long-term economic growth.

An important indicator for Government to determine how the country's debt is affecting its ability to grow, is the debt-to-GDP ratio. South Africa currently has a debt-to-GDP ratio of approximately 75%. When Government increases borrowing this figure is adversely affected.

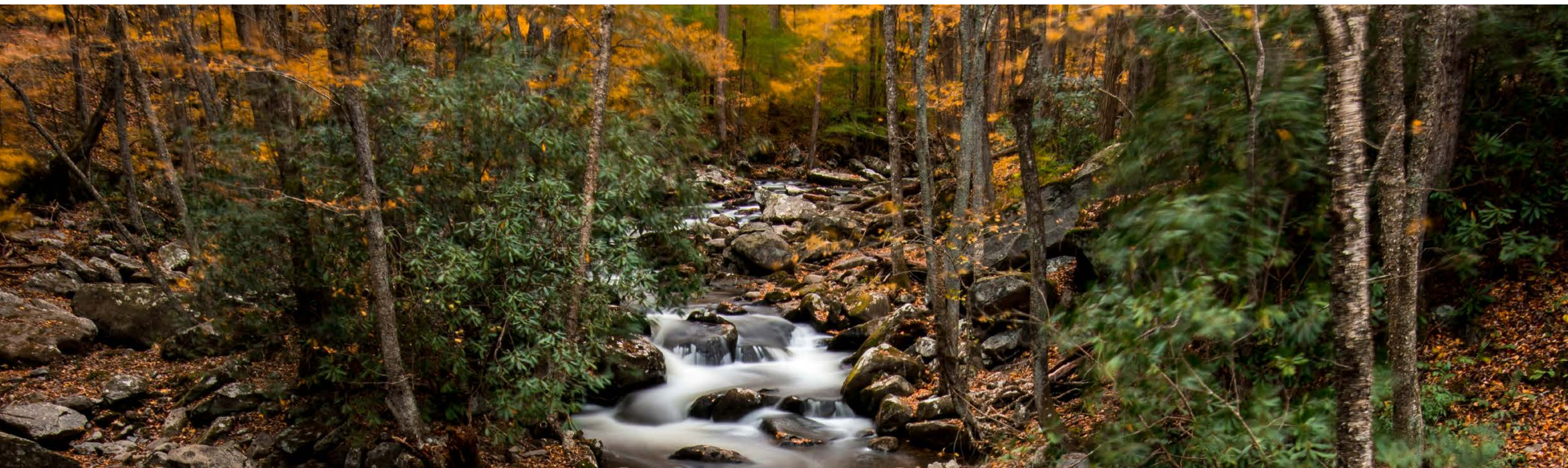
For households, it is important to keep a close eye on their debt-to-income ratio and to keep it as low as possible, as paying off debt is a guaranteed interest saving that is not taxable.

REDUCING EXPENDITURE

Finally, Government can choose to reduce government expenditure. The downside, however, is that it will put a damper on economic growth and employment. Therefore, it is essential that Government expend resources effectively in areas where it will yield productivity and growth, and cut expenditure where it yields no fruit.

For households, expenditure should be the starting point when embarking on the journey of long-term financial sustainability, since this is completely within your control. It is all about allocating your financial resources to income-generating assets instead of liabilities, and ensuring that you live below your means.

The finance minister of a country and the finance manager of a household have a complicated balancing act to perform, as the levers that control the economy and the household are interconnected. They must strike a fine balance between pulling the three levers above to maintain fiscal stability. Understanding the mechanics of household financial planning will help you better understand the mechanics of Government's Budget Speech.



THE TWO POT SYSTEM

By Carl Muller | PWM Legal Executive

INTRODUCTION

The Two Pot System in relation to retirement funds is now set to come into operation on 1 September 2024. In this communication I will unpack this concept to give you, our valued client, an insight to the proposed changes.

THE CONCEPT OF THE "TWO POT SYSTEM"

The reference to the "Two Pot System" is to a certain extent a bit of a misnomer. The reason for saying this is that persons who are existing members of pension, provident or retirement annuity funds on 1 September 2024, will essentially have three "pots" (components) going forward from this date:

The Vested Pot
Your fund value in a pension, provident or retirement annuity fund on 31 August 2024, minus once-off seed capital allocated to your "Savings Pot", plus investment growth thereon.

The Savings Pot
One third of your contributions made to a pension, provident or retirement annuity fund from 1 September 2024 plus once-off seed capital allocated from your "Vested Pot", plus investment growth thereon.

The Retirement Pot
Two thirds of your contributions made to a pension, provident or retirement annuity fund from 1 September 2024 plus investment growth thereon.

It is thus only in the instance where you start contributing to a new pension or provident fund or a new retirement annuity policy/contract on or after 1 September 2024, where you will only have two "pots": a "Savings Pot" and a "Retirement Pot".

If you are a member of a preservation fund on 31 August 2024, the full interest in such preservation fund will essentially only contain a "Vested Pot" as contributions to preservation funds are not allowed. The interest in a preservation fund only consists of transfers from a pension, provident or other preservation fund. An amount of "seeding capital" will however be allocated to the "Savings Pot" in your preservation fund, as discussed below. If you transfer to a preservation fund from a pension or provident fund after implementation of the "Two Pot" system on 1 September 2024, such transfer will contain the various "pots", as indicated below.

Let's have a look at the dynamics surrounding the various "pots":

THE "VESTED POT"

What will the "Vested Pot" consist of?

- The "Vested Pot" will consist of your fund value in a pension, provident, retirement annuity or preservation fund on 31 August 2024, plus subsequent investment growth thereon.
- An amount of "seeding capital" will however be allocated from your "Vested Pot" to your "Savings Pot" – see the discussion of the "Savings Pot" below.

When will you be allowed to make a cash withdrawal from the "Vested Pot" before retirement, and how will such a withdrawal be taxed?

The current rules applicable to the withdrawal of investments in pension, provident, retirement annuity and preservation funds remain unchanged as far as the "Vested Pot" is concerned. If you have any questions in this regard, please contact your financial planner.

TAXATION ON WITHDRAWAL

If you make an allowable cash withdrawal from the "Vested Pot" in a pension, provident, retirement annuity or preservation fund prior to retirement, the taxation of the lump sum remains unchanged:

Taxable Lump Sum	Rate of Tax
R0 – R27 500	0% of taxable lump sum
R27 501- R726 000	18% of taxable lump sum above R27 500
R726 001 – R1 089 000	R125 730 plus 27% of taxable lump sum Above R726 000
R1 089 001 and above	R223 740 plus 36% of taxable lump sum above R1 089 000

Please note that the application of the above tax table is cumulative over your lifetime and certain lump sums received previously from one or more pension, provident, retirement annuity or preservation fund as well as severance benefits paid by an employer may influence your tax liability.

How will the "Vested Pot" be treated on retirement, and how will your retirement benefits in the "Vested Pot" be taxed?

You will only be entitled to a maximum lump sum equal to one third of the value of the Vested Pot, and the balance must be used to purchase an annuity (income). There are however exceptions to this rule which can be discussed during financial planning engagements.

» If the cumulative value of two thirds of your "Vested Pot" plus the full value of your "Retirement Pot" does not exceed R165 000, the full value of your "Vested Pot" and "Retirement Pot" may be taken as a lump sum; or

» If you were a member of a provident or a provident preservation fund on 1 March 2021, there will be vested rights in relation to the regime applicable to provident funds before 1 March 2021, that may be taken as a lump sum in addition to one third of the value of the "Vested Pot".

TAXATION ON RETIREMENT

If you receive a lump sum from the "Vested Pot" in a pension, provident, retirement annuity or preservation fund on retirement, it will be taxed as follows:

Taxable Lump Sum	Rate of Tax
R0 – R550 000	0% of taxable lump sum
R550 001- R770 000	18% of taxable lump sum above R550 000
R770 001 – R1 155 000	R39 600 plus 27% of taxable lump sum Above R770 000
R1 155 001 and above	R143 550 plus 36% of taxable lump sum above R1 155 000

Please note that the application of the above tax table is cumulative over your lifetime and certain lump sums received previously from one or more pension, provident, retirement annuity or preservation fund as well as severance benefits paid by an employer may influence your tax liability.

Amounts received as an annuity will be taxed as normal income according to your marginal tax rates.

THE "SAVINGS POT"

What will the "Savings Pot" consist of?

» One third of your contributions paid to a pension, provident or retirement annuity fund will be paid into the "Savings Pot" from 1 September 2024.

» In addition to this, once off "seed capital" from your "Vested Pot will be allocated to your "Savings Pot" in a pension, provident, retirement annuity or preservation fund as follows: 10% of the value of your "Vested Pot" on 31 August 2024, but limited to a maximum amount of R30 000.

Example 1:
If the value of your "Vested Pot" is R50 000 on 31 August 2024, R5 000 thereof will be allocated to your "Savings Pot".

Example 2:
If the value of your "Vested Pot" is R1 000 000 on 31 August 2024, R30 000 thereof will be allocated to your "Savings Pot".

When will you be allowed to withdraw from the "Savings Pot" before retirement and how will such withdrawal be taxed?

» You will be allowed to make one withdrawal per tax year (between 1 March of one year and 28/29 February of the next year) from your "Savings Pot" from 1 September 2024.

» The minimum allowable annual withdrawal amount will be R2 000 and there will be no maximum amount limit (other than the total value of your "Savings Pot").

» The ability to make the above withdrawals from the "Savings Pot" will be applied per fund (if you are a member of more than one fund, an annual withdrawal will be allowed from each fund) and per contract (if you have more than one contract or policy in a retirement annuity fund or a preservation fund, an annual withdrawal will be allowed from each contract or policy).

» If you resign from employment and you have already made use of your annual withdrawal, you will be allowed an additional withdrawal if the value in your "Savings Pot" of the fund that your are resigning from is less than R2 000.

TAXATION ON WITHDRAWAL

An amount withdrawn from your "Savings Pot" prior to retirement will be added to your gross income and taxed as normal income according to your marginal tax rate.

How will the "Savings Pot" be treated on retirement, and how will your retirement benefits in the "Savings Pot" be taxed?

» On your retirement you will be allowed to take the full remaining value in your "Savings Pot" as a lump sum.

» If you do not wish to take the remaining value in your "Savings Pot" as a lump sum, you will be allowed to transfer it tax-free to the "Retirement Pot" and receive it in the form of an annuity.

TAXATION ON RETIREMENT

» If you opt to take a lump sum, it will be taxed in the same manner as a lump sum received from the "Vested Pot" on retirement (see the discussion above).

» If you opt for a transfer from the "Savings Pot" to the "Retirement Pot" and receive an annuity, the annuity will be added to your gross income and taxed as normal income according to your marginal tax rate.

THE “RETIREMENT POT”

What will the “Retirement Pot” consist of?
The retirement pot will consist of two third of your contributions made to a pension, provident or retirement annuity fund from 1 September 2024, plus subsequent investment growth thereon.

When will you be allowed to withdraw from the “Retirement Pot” before retirement and how will such withdrawal be taxed?
Generally speaking, you will not have access to the “Retirement Pot” before you retire. The only exceptions to this rule are the following:

- If you cease to be a South African tax resident for a continuous period of three years; or
- If you have formally emigrated from South Africa and applied for formal emigration via the South African Reserve Bank by 28 February 2021, where such application was approved by 28 February 2022; or
- If you depart from South Africa upon the expiry of a work or visitor’s visa.

TAXATION ON WITHDRAWAL

- If you qualify to withdraw from your “Retirement Pot” before retirement, the lump sum will be taxed in the same way as a withdrawal from the “Vested Pot” prior to retirement is taxed.

How will the “Retirement Pot” be treated on your retirement, and how will your retirement benefits in the “Retirement Pot” be taxed?

- The full value in your “Retirement Pot” must be used to purchase an annuity (income) on retirement and no lump sum payment may be paid from this “Pot”.
- There is however one exception to the above rule: If the cumulative value of two thirds of your “Vested Pot” plus the full value of your “Retirement Pot” does not exceed R165 000, the full value of your “Vested Pot” and “Retirement Pot” may be taken as a lump sum. Remember: if you have more than one contract
- or policy in a retirement annuity or a preservation fund, the cumulative value of all the contracts or policies will be added together to establish it the limit of R165 000 has been exceeded or not.

TAXATION ON RETIREMENT

- The annuity received after retirement will be added to your gross income and taxed as normal income according to your marginal tax rates.
- If you qualify and elect to take a lump sum on retirement, it will be taxed in the same manner as a lump sum received from the “Vested Pot” on retirement (see the discussion above).

Will you be allowed to transfer funds between the various "Pots" in your pension, provident, retirement annuity or preservation fund?

You will only be allowed to transfer between the following "pots" in your pension, provident, retirement annuity or preservation fund:

- From your "Savings Pot" to your "Retirement Pot" in the same fund; and
- From your "Vested Pot" to your "Retirement Pot" in the same fund.

These allowable transfers will occur tax-free.

Are there any instances where the "Two Pot" system will not apply from 1 September 2024?

PROVIDENT FUND MEMBERS WHO WERE 55 YEARS OF AGE OR OLDER ON 1 MARCH 2021 AND REMAINED MEMBERS OF THE SAME PROVIDENT FUND.

Provident fund members who were 55 years of age on 1 March 2021 and remain members of the same provident fund until retirement, are not subjected to the annuitisation regime that became applicable to provident funds on 1 March 2021. In a nutshell, this means that such persons would still have the option to take the full retirement interest in a provident fund as a lump sum on retirement, and no portion therefore needs to be applied to purchase an annuity.

Such provident fund members will be allowed to elect if they want to be subjected to the "Two Pot" system or not when it is implemented on 1 September 2024:

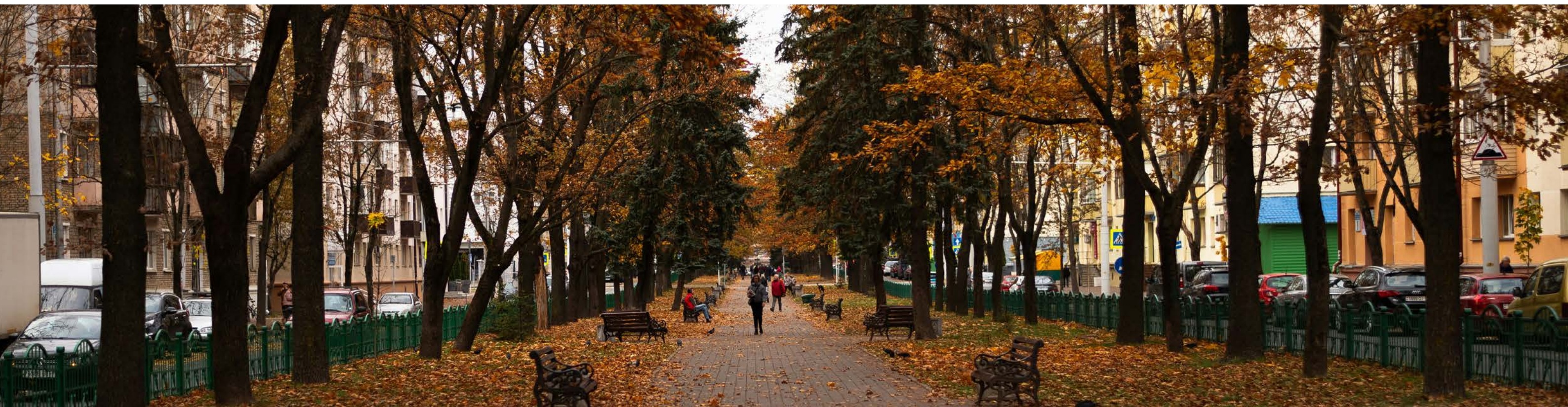
- If they do not elect to be subjected to the "Two Pot" system, the status quo would remain as is, and they would be able to access the full retirement interest as a lump sum on retirement. This would however mean that they would not contribute to a "Savings Component" and would thus not have access to their provident fund savings before retirement, unless they resign, or are dismissed or retrenched from employment.
- If they elect to be subjected to the "Two Pot" system, the value of their retirement interest in the provident fund as on 31 August 2024, plus subsequent investment growth thereon, would be "ringfenced" and this amount would be available as a lump sum on retirement. Contributions to the provident fund from 1 September 2024 and subsequent investment growth thereon would be allocated to the "Savings Pot" and "Retirement Pot" and subject to the provisions of the "Two Pot" system as discussed above.

"LEGACY" RETIREMENT ANNUITY FUND POLICIES

Older "legacy" retirement annuity fund policies entered into before 1 September 2024 will be excluded from the "Two Pot" system, but only if it contains certain features. The reason for this is that the inclusion of such policies would require a re-design of the product structure thereof.

IN CLOSING

Please take note that the final legislation surrounding the "Two Pot" system has not been promulgated yet, and it is possible that some of the aspects discussed in this communication may be amended in future.



LOCAL EQUITIES

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

Financial services company, OUTsurance Holdings, reported a muted set of interim results as the company was hit by natural disaster claims in Australia following storms within the region. Compared with the benign weather experienced in the prior period, the losses from the increased claims resulted in group earnings increasing by just 0.5% to R1.4bn. Excluding the Australian natural disaster claims, the group's claims ratio (a key driver of profitability) improved, with the Australian operation performing at a similar level to the SA businesses. Despite the muted earnings, OUTsurance's gross written premiums were strong. In aggregate, the SA and Australian property and casualty businesses reported a 22.5% increase in gross written premiums with annualised new business premiums increasing by 38.8% to R4.8bn. Growth was aided by disciplined pricing, good organic growth and a 4.6% weakening in the rand versus the Australian dollar.

The group declared a dividend of 61.2c per share, 7.7% higher than the prior year and ahead of the increase in normalised earnings. This increase in the dividend was enabled by the higher payout ratio from the Australian operations as well as the resumption in dividends from OUTsurance Life. Management expects the uncertainty within the reinsurance market to abate over the next few months, giving them confidence in the group's future capital needs. Regarding OUTsurance's foray into Ireland, the group's Irish operations reported a larger loss of R59m. This was expected, as the business gears up for a market launch in the next quarter. We view OUTsurance's entry into the Irish market as an opportunity for the group to further diversify its operations from the slower growing SA market into attractive insurance markets that have the potential to be as successful and significant as Australia has been for the group.

Global industrial manufacturer Atlas Copco reported a strong full-year 2023 result with profit up 19% to SEK28 billion . The strong performance was driven by increased demand for the group's industrial compressors, rental equipment and solutions applied to the production of solar panels, batteries, automotive vehicles and aircraft. Despite the strong performance, orders – an indication of future revenue growth – decelerated throughout 2023 as industrial customers became increasingly concerned about the macroeconomic outlook. Orders for the year grew by 8%, driven by acquisitions, with minimal organic growth. Looking ahead, management indicated that customer activity is expected to remain at current levels. This guidance underperformed consensus expectations, which forecast the group's Vacuum Technique to have benefited from a recovery in semiconductor activity along with sustained growth momentum in commercial industrial activity.

Atlas Copco has a strong balance sheet with minimal net debt, placing the group in a good position to navigate a potential market downturn. Supported by healthy cash generation, the board proposed an ordinary dividend of SEK2.80 (+21.7%), to be paid in two equal instalments in April and October 2024.

MENTAL HEALTH

WHAT IS HAPPINESS, ACCORDING TO SCIENCE?

Despite the “overflowing sea of resources” about happiness, finding advice that can easily be applied to daily life is not as easy as you’d think. So says researcher Alina Ivan in a review of a BBC podcast called The Happiness Half Hour in The Psychologist, (the official monthly publication of The British Psychological Society).

Flow – but don’t drift

One route to happiness can be found in flow [not the same as going with the flow], according to psychologist Mihaly Csikszentmihalyi. “The best moments in our lives are not the passive, receptive, relaxing times”, “The best moments usually occur if a person’s body or mind is stretched to its limits in a voluntary effort to accomplish something difficult and worthwhile” (Csikszentmihalyi, quoted in Positive Psychology).

Doing this can put us ‘in the zone’, says Positive Psychology. You feel time slow down, you feel the task become effortless, and the chatter in your brain quietens down.

To encourage flow, Positive Psychology suggests you choose a challenging but not out of reach task that you love (it’s not about the money).

Reach out to others

“The majority of studies agree that there is a significant association between caring for other’s well-being and increased positive affect”, says Pursuit of Happiness, a leading positive psychology information website.

For example, an article in the International Journal of Behavioral Medicine summarised the existing research. The authors found that “with some caveats” there is a strong correlation between “the well-being, happiness, health, and longevity of people who are emotionally and behaviorally compassionate, so long as they are not overwhelmed by helping tasks.”

Pursuit of Happiness adds several more things that science has found can make a difference:

- **Relationships:** “the ability to express genuine interest in what people say, and respond in encouraging ways” can “powerfully enrich relationships”.
- **Exercising and eating well** have ”a large clinical impact” on depression.
- **Finding meaning in life through religious or spiritual practise:** “through the meaningful life we discover a deeper kind of happiness”.
- **Finding your character strengths and using them for a purpose beyond your own goals** is “an essential component of human flourishing”.
- **A mindset of optimism and gratitude** leads to “greater positive emotion”.

The review says happiness not just the pursuit of pleasure. Elation (great happiness and exhilaration) fades. Many of us come to believe we have “no choice in life but to suffer.” Happiness, it seems, is investing in tasks that challenge you, as well as in nurturing those around you.

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