Volume 6 | First Quarter 2013

PCH INSIGHT

WHAT'S IN THIS ISSUE

The relationship between a strong brand and well-performing shares

The recent Interbrand results have been released, publishing the yearly list of the 100 most valuable global brands. These top brands, which make up over 50% of Private Client Holdings' global segregated share portfolios, are important - not just for consumers but for shareholders as well.

Interbrand is a brand strategy agency which draws upon financial results and projections for brand valuation. It reviews a company's financial statements, analyses its market dynamics and the role of a brand in income generation, and separates those valuations attributable to tangible assets (capital, product, packaging, etc.) from the residual that can be ascribed to a brand.

Brand building activities and financial performance are linked

Brand value is based on the concept that the owner of a well-known brand name can generate more money as consumers believe that a product with a well-known name has a higher value than products with less well known names. A trusted brand is a treasured asset, valuable to companies because they are valuable to consumers. Companies are bought and sold for large sums of money – not just based on the value of factories, patents and processes – but on the strength of their brands.

> "A trusted brand is a treasured asset, valuable to companies because they are valuable to consumers."

Brand Value = Company Value

The fact that people will pay more for a branded product than a generic one, and more for a favoured brand than the alternatives, makes it obvious then that a brand which has forged a strong and lasting relationship with consumers will be a dominant market player.

Business efficiency, market growth, and investor confidence all have an important influence on share price as well. But we have observed that companies that own stronger brands tend to perform more strongly in the market as a whole.

Brands have the ability to sustain earnings during the tough times through "brand loyalty" but also enhance growth during the good times with their ability to enter new markets and launch new products. The relatively priced nature of these products allow these top brands to deliver hefty margins and has the ability to deter potential competitors from entering the market – thus enhancing the sustainability of such premium margins – something that investors are always looking out for.

For leading brands the cash flows tend to be resilient, reliable and sustainable and often the sole basis of a business's existence. The companies behind these leading brands usually offer investors' high market share, coupled with higher margins and low volatility.

It is for this reason that Private Client Holdings has built up select investment portfolios for our clients that consist of over 50% of the companies behind these 100 top global brands. We identified that these are quality companies, dependable and well-managed and they meet our investment criteria – held stringently on behalf of our clients.

Some of the companies that are featured in Private Client Holdings' portfolios as well as **Interbrands Top 100 Global Brands are: Samsung, Nestle, Google and Microsoft**.

Private Client Holdings long ago recognised the relationship between the value of a powerful brand and the value of the company behind the brand and these global stalwarts offer our clients the returns needed to grow their wealth.

THE DIRECTOR'S DESK

LOOKING AHEAD – A PERSPECTIVE ON WHAT'S IN STORE IN 2013

Welcome to the start of an exciting new year. When asked to give an overview of 2012 and the year ahead I found that there was so much to comment on that I exceeded the space allotted in our newsletter. Please visit our website at www.privateclient.co.za for the full article – I hope that it helps and informs you and that you enjoy reading it as much as I enjoyed writing it.

The world was an interesting, scary and delightful place in 2012, punctuated with a number of disasters, challenges and successes.

2012 had some good news stories too

The global economy has recovered from the worst recession since the great depression and is in fact now larger than it was at its pre-crisis peak.

America – fiscal cliff aside, it looks like it could be a good year for the US

President Obama and his team managed to postpone, to a large extent, the dreaded onslaught of $600 billion in tax-hikes and spending cuts that threatened to send the US economy into recession. Now that the fiscal cliff melodrama is over, a mending economy, housing turnaround, pent-up consumer demand, low interest and mortgage rates, low energy prices and renewed business investment could very well result in robust growth for the world's largest economy in 2013.

Emerging markets should regain some momentum in 2013, and watch out for Africa

Emerging markets (including China), after a rather shaky 2012, are also well placed to have a much stronger year in 2013. Global money supply is high and still continues to increase, so don't be surprised if a substantial flow of funds find their way to emerging markets this year. On that note, frontier markets such as Africa and some Eastern countries are also getting more and more attention from markets look set to continue gathering momentum and are backed by some really attractive demographics and fundamentals.

Europe – still walking the tightrope

After more than 4 years of dealing with the crisis, Europe will once again be the thorn in the side of financial markets in 2013. Europe's economic malaise is deepening as governments across the region impose budget cuts to narrow their fiscal deficits.

South Africa struggling to live up to our potential

It looks like we can expect more of the same for our local economy in 2013. Since the 2009 recession we've stumbled over 13 quarters of unexciting and rather pedestrian growth, which equated to a total GDP recovery of 10.3%. That's about 3% per annum, and while better than the anaemic growth numbers from the likes of the US, UK, Europe and Japan, it's never quite allowed us to cut free from the threat of falling back into recession. This has kept consumer, investor (local and foreign), policy maker and business confidence hesitant for the most part, with events such as Marikana and De Doorns only exacerbating matters.

The good news

Our local public and private finances are still relatively healthy, we have world-class companies sitting with cash-flush balance sheets, there's still some room to ease monetary policy if the global economy takes a turn for the worse, our local banking system is in good shape and well-placed to increase lending and we're in the prime position from a business and investment perspective to be the portal into what is soon to become the world's largest source of economic growth, namely Africa.

Grant Alexander

Grant

HAVE YOU HEARD?

Dragon boat racing

The Annual Rotary Dragon Boat Charity Regatta, hosted by the Rotary Club of Good Hope at the Zandvlei Yacht Club, was held on 27 October 2012 and the PCH team took an overall position of 16th out of 32 teams. Great fun was had by all with loads of laughter and enthusiasm and we are looking forward to next year's event.

Double Century cycle race

The PCH sponsored UCT cycling team took part in the Double Century cycle race and achieved an overall position of 36th with a time of six hours and 25 minutes.

Team PCH started with an excellent seeding due to the brilliant result from last year's event and performed exceptionally well in the face of unfavourable conditions on the day – well done to all the cyclists that took part!

UCT Surgical Golf Day

Once again, PCH sponsored a hole at this annual golf day which took place at the Royal Cape Golf Club on 7 December 2012. Bryan Leach and Jeremy Burman battled in a field of 92 players in what was a highly successful event.

We also sponsored the chipping practise green in conjunction with Tigger 2 who joined us and provided vouchers for the winning chippers for champagne sunset cruises on their magnificent yacht, Tigger 2, moored at the V&A Waterfront.

Twilight walk for charity

On 4 December 2012 some of the PCH staff and their partners and family took part in the 30th Annual Community Chest Twilight Team Run. This fundraising event is an opportunity for Cape Town locals to dress up (in our case in PCH T-shirts) and run, walk and dance through the city streets. Great fun was had by all!

PCH sponsored student graduates first year at UCT

Through our ongoing relationship with The Rural Education Access Programme (REAP) which assists students from poor rural areas to access and succeed in tertiary education, PCH are sponsoring Brandon Draaier, a student who hails from Beaufort West, to study B. Com, Financial Accounting at UCT.

Brandon achieved great results in his first year at UCT in 2012 and passed all five subjects with an average of 74% and achieved two distinctions. We wish Brandon the best of luck for 2013.

SEGREGATED PORTFOLIOS VS. UNIT TRUSTS - SHOULD SA INVESTORS FOLLOW THE TREND?

Global trends in the wealth management industry show that investors are increasingly moving away from unit trusts and into segregated share portfolios.

This is according to a recent newsletter from the Institute of Practise Management which states that this is particularly evident in Australia, where a demand for transparency from clients has resulted in a move away from unit trusts as investments into that of segregated portfolios.

The deciding factors between unit trusts and segregated portfolios

"Unit trusts are undoubtedly the premier investment vehicle in South Africa because of their ease of access."

Entry levels are a factor and for smaller amounts unit trusts are definitely the solution. For larger amounts an excellent alternative to unit trusts is a segregated portfolio, in which the investor holds shares and other assets in their own name that are then managed by a portfolio manager.

Segregated portfolios are not pooled with those of other investors and so the performance and expenses of your account are not affected by the activities of other investors in the pooled portfolio.

Entry levels into a segregated portfolio are much higher than that of unit trusts which may be a deterrent to many investors, however when it comes to costs, a segregated portfolio is generally a better value option, which is significant when compounded over the long term.

For example the average general equity unit trust manager could charge 1.5% (on a platform the Total Expense Ratio (TER) could be as high as 3%) whereas an acceptable large segregated portfolio fee would typically be close to 1%. This percentage figure may vary and reduce further depending on the size of investments.

The most important advantage of a segregated portfolio is the fact that it is structured around the personal objectives and considerations of the investor - whereas a unit trust is a more generic solution.

Advantages of segregated portfolios:

- A Customised Approach
- Portfolio Flexibility
- Direct Ownership
- Reduction of Fees
- Transparency
- Customised reporting

Disadvantages to segregated portfolios may include the high entry levels as well as the effects of Capital Gains Tax, as when one sells shares in a segregated portfolio CGT may apply. However it is Private Client Holding's strategy to buy at the right price and hold for the long term so avoiding any unnecessary trading.

Advantages of unit trusts:

- Convenient and low cost way of investing
- Favourable average returns
- Transparency
- Strictly regulated
- Unit trusts provide diversification for smaller investors who may not otherwise have access to a broad spread of investments.

The disadvantage of unit trusts is that they offer more of a generic solution that cannot take into consideration the age, investment objectives and risk profile of the investor - unless you have a basket of unit trusts, each focusing on different sectors e.g. equities, property etc. In addition to this, with a lump sum the fund manager buys into unit trusts immediately, regardless of the price whereas with segregated portfolios, one can also time your entry into the market by buying selected equities to get the best value.

When taking the above-mentioned points into consideration, it is no surprise to see that the demand for segregated portfolios has grown dramatically over the last couple of years.

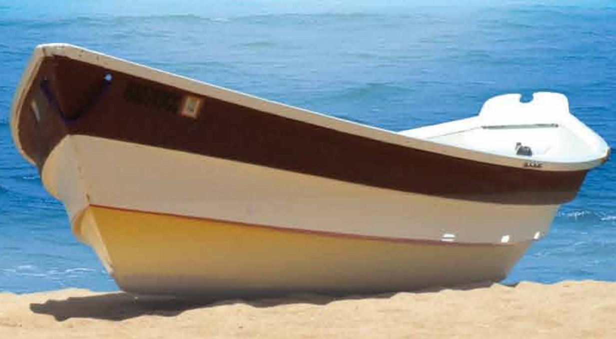
> "Unit trusts are undoubtedly the premier investment vehicle in South Africa because of their ease of access." AND "The most important advantage of a segregated portfolio is the fact that it is structured around the personal objectives and considerations of the investor - whereas a unit trust is a more generic solution."

JOINING THE TREEVOLUTION WITH GREENPOP!

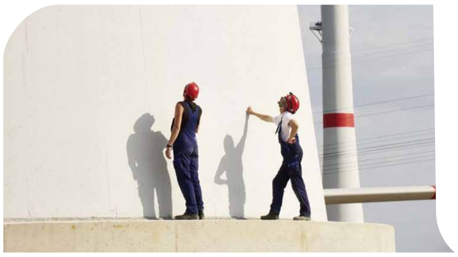
PCH constantly strives to reduce our carbon footprint by limiting the amount of paper we use.

In November and December we reduced our paper consumption by more than 7 000 pages. We continually encourage our clients to receive the informative PCH Perspective monthly market review electronically, or to read it online at www.privateclient.co.za (there is a button on our home page that links directly to the latest edition).

PCH Insight, our quarterly newsletter, is published in hard copy in very limited numbers and again we encourage you to read it online. At the end of 2012 we committed to planting trees with Greenpop (www.greenpop.co.za) in lieu of sending out Christmas cards to our clients and suppliers and in March 2013 the PCH team will actively be involved in planting 30 indigenous trees in underprivileged school in the Mitchells plain area.



OFFSHORE INVESTMENTS – buffering risk and attractive returns



With economic turmoil in Europe, ongoing instability in the Middle east, fiscal cliffs looming in the USA and Far East tensions between Japan and China, many investors are shying away from offshore investments. The question is: should we be looking at local investments and writing off global investing?

The answer is no - it is a mistake to not invest offshore at this time. Some reasons to look at offshore investing include diversification into global brands, tactical asset allocation, relaxed exchange controls and concerns about political circumstances.

The value of offshore investment options, relative to SA, is most appealing

Whilst many countries are hindered by debt and uncertainty, companies listed on stock exchanges in some of these same countries are usually in great shape. Valuations offshore look appealing, especially in what is likely to be an ongoing low interest rate situation.

The All Share Index has gone up by an impressive 22.8% in the last 12 months.

The US markets (S&P500) are up by 13.9%; Japan's Nikkei is also up at 26.1%; France's CAC 40 is up by 15.5%; whilst the German DAX is up by 25.8%. These are ahead of the Dow Jones (8.2%) and FTSE (9.9%).

South African investors are generally underexposed to offshore investments. However - offshore investments offer significantly better value and future prospects than local investments as our local markets are now at an all-time high, which takes investors into relatively expensive territory.

The reason for our markets being so buoyant is largely down to foreign investors; the buying up of local equities; the search for yield and a foreign appetite for riskier assets. More recently weaker rates make South African markets even more attractive to foreign investments. What's more – the ongoing appetite for resources coming from China will see markets being driven up even further.

So the question is: should you take profit and go offshore? The answer appears to be yes. But if you are going offshore how much should you invest and where?

Anyone building up a robust portfolio must ensure that they have an overweight exposure to foreign investments. Private Client Holdings offers offshore segregated portfolios for clients using various online platforms such as Saxo Bank - which makes it easy and appealing to access the investment universe outside South Africa.

Investors looking to go offshore would do well to look to Saxo Bank – it offers a cost effective entry point that is transparent, flexible and easily managed and monitored.

PCH Seminars review

Private Client Holdings continues to strive to share expert opinions with our clients and select invited guests through our seminar series. 2012 saw the hosting of the following successful seminars:

Kokkie Kooyman, SIM Global Fund Manager who was named the top global financial fund manager for the second year running in the prestigious Investment Week Fund Manager of the Year Awards, and Andries Kotzee, Portfolio Manager at Momentum Global Investment Management explored in April the topic of "Why offshore now - the risk of not taking risk?" July saw Prof. Walter Geach presenting on the use of a local or offshore trust as an investment vehicle and the opportunities and pitfalls of doing so.

Kevin Lings, chief economist at Stanlib, presented in October, reporting back from his attendance at the World IMF congress in Tokyo. The seminar was entitled "The Future – South Africa – Good News or Worrying Times?" and focused on what the future holds for our economy, the world economic outlook and the shape of SA's leadership.

The first seminar for 2013 will take place on Thursday 14 March 2013. Our esteemed guest speaker will be Prof Matthew Lester, professor at the Rhodes graduate school of business and renowned for his tax column in the Sunday Times. Prof Lester will provide his insights and commentary on the National budget speech 2013 being released at the end of February.

Please contact Michelle van Wyk on michellevw@privateclient.co.za or (021) 671 1220 if you would like to attend our next seminar.

WHO TO TALK TO

Our Private Client Holdings experts are available to field your questions. Don't hesitate to contact us on 021 671 1220 for expert wealth management advice.

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