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PCH INSIGHT

PRIVATECLIENT HOLDINGS

EATING INTO YOUR YIELD

What are your real returns?

As an investor, your main concern may be about how the current volatile stock market is affecting your investments and the returns you receive. However, share prices aren't all you must take into account - the charges you have to pay with investment funds also have an effect on your returns.

> "The charges you have to pay with investment funds have an effect on your returns"

Have you considered what it is costing you to have your investments managed and how this is eating into your returns? What is your actual real return after inflation and after all costs?

For example, assume an annual return of 10%, inflation (CPI) at 6% and the costs of managing your investment at 2%, then your net real return is 2%. This figure would be further reduced if you were drawing down any capital as in the case of a living annuity.

Investors must calculate their Total Expense Ratio (TER). This is the amount of your assets that have been sacrificed as payment for the services rendered in the management of your investments and is expressed as a percentage of the daily average value of the portfolio and calculated over a set period - usually a financial year.

$$\text{Total Expense Ratio} = \frac{\text{Total Fund Costs}}{\text{Total Fund Assets}}$$

The costs incurred in the management of a fund are deducted from the fund's assets. These costs include management fees (including performance fees), fixed operating costs (like custody and Trustee fees), audit fees, bank charges (other than those charged by an investor's bank), Value Added Taxes and liquidity costs (like net negative interest charges).

Performance fees

Performance fees do not always sound much, but they can result in total charges of more than double the advertised Annual Management Charges. For example, if a fund generates gains of 10% over its benchmark and has a 20% performance fee, the fund managers can claim an extra 2% fee. If it has a 1.5% annual management fee which, with additional running costs, becomes a basic TER of 1.65%, the addition of the performance fee will bring total deductions to 3.65%.

Investor expenses NOT included in a TER

Costs that are incurred directly by the investor and not the fund itself are not included, such as the costs of entry to an investment (e.g. initial fees and ongoing costs for financial advice if applicable), other costs incurred directly by the investor because of the investment (e.g. bank charges, exit costs and costs that are related to specific products, where these products invest in collective investment schemes such as some life and LISP products).

An example of this would be the cost of a Retirement Annuity which invests in collective investment schemes.

Where will TERs be disclosed?

TERs will be available through the newspapers and magazines that carry fund performances and charges; in monthly, quarterly and annual reports; in fund fact sheets; in Internet publications; with annual unit holder communications and on the ASISA website with the fund prices.

The latest TER must be disclosed to an investor prior to making an investment and this TER disclosure must be in addition to the other disclosures required under CISCA and the FAIS Act, e.g. notifications of risk and costs.

Good news, flat fees at PCH

At Private Client Holdings we charge flat advice and asset management fees and do not charge a performance fee on top of this. We are constantly exploring ways in which to reduce TERs. An example would be getting institutional pricing on asset managers in our unit trust portfolios, as opposed to retail prices as experienced on most LISP platforms. The benefits of this for our clients are evident - it is transparent, simply calculated, easily budgeted for and enhances long term performance.

THE DIRECTOR'S DESK

There are suggestions in the media that estate duty will die. Annual tax collections from this source amount to approximately R1.5bn, which is a fraction of the total tax take and the costs of collection detract further from the attractiveness as far as the Fiscus is concerned.

A simple solution is to scrap estate duty and instead replace it with higher Capital Gains Taxes (CGT) on death. The niggle of course, is that it is a conveniently politically correct tax on the wealthy. Frankly, long may Estate Duties last!

Even if the Fiscus is not impressed with the annual collections made through Estate Duties, for those families who fail to plan and end up being contributors to the R1.5bn – Estate Duties are extremely unimpressive. Especially when it is relatively easy to avoid (which is the legal way as opposed to "evade") the main taxes with sound estate planning. These taxes include Estate Duty (20%) and CGT (13.3% max) amounting to a staggering 33.3% if you do not take steps to mitigate against this outcome.

Who doesn't need to panic?

Those that already have an estate plan in place and those who have income levels that do not challenge the maximum marginal tax rate of 40% and/or if the assets owned by a married couple amount to less than R7m.

This is because the CGT savings and dutiable estate (which exceeds the estate duty exemption of R3.5m for each spouse) may not justify the costs of administering a structure.

You may be wondering why my position in relation to Estate Duty is "long may it last"? The reason is that it is relatively easy to structure your affairs to side step this tax. In fact, some of the deeming provisions in the armoury of SARS can be used to your advantage. If the CGT rate in a trust is 26.7%, who is going to complain if you are deemed in terms of anti avoidance legislation to have received the gain in your personal tax return if your maximum rate of CGT is 13.3%? The anti avoidance legislation actually improves the estate plan. Furthermore, you will reduce your personal assets by having to pay the tax, and thereby further reducing your dutiable estate, whilst the actual monetary gain that gave rise to the tax remains within the trust.

Estate planning is like a nasty disease - identify the problem early and the prognosis is always better. If you would like a cost/benefit analysis of your particular circumstances please contact your Private Client Holdings wealth manager who will arrange a consultation with our fiduciary experts.

Grant

Grant Alexander

HAVE YOU HEARD?

Wealth-care for healthcare

PCH's Financial Services Department is focusing on providing holistic wealth management for healthcare professionals and have produced a fun mailshot that is being distributed to specialists and Doctors in Cape Town – PCH Financial Services can care for your financial well-being as effectively as a doctor cares for your physical well-being.

PCH Team Awards

PCH regularly rewards our team for excellence and the winners of the recent PCH Quarterly Awards were:-

Wealth Management Department Team: Alan Ferguson & Michelle Hawson

Financial Services Department Administrator: Zoë Sylvester

Wealth Management Portfolio Administration: Susan Vermaak

In addition to this, the winners of the PCH Brand Ambassador of the Month Awards for the past two months, based on the nominations of their peers, were Lovelle Rightford and Pat Witbooi.

Lovelle was chosen for going beyond the call of duty, setting an example, living the company values and all round stand-out performance and contribution. She has been summed up by her colleagues as being dedicated, hardworking, always willing to help; friendly; having wonderful relationships with clients; a professional image and strong values, a positive attitude and always willing to go the extra mile – well done Lovelle.

Pat Witbooi was chosen for her proficiency, dedication and pro-activeness as well as being an absolute pleasure to deal with. Pat's colleagues have agreed that she is always bubbly and happy and no matter how busy she is, she makes time to provide information timeously, unconditionally and without effort. Thank you Pat.

PCH referrals drive competition

PCH is in its 22nd year of business and positive feedback coupled with the number of happy clients means that from a business point of view, we have invested in our team, grown and expanded our personalised service and are now in a position to approach other investors.

We have initiated a referrals drive and our wealth managers have been hard at work asking clients for referrals to develop our business. The wealth manager and their assistant who win the referrals competition will receive a wonderful night with their partners at the beautiful 5 star 12 Apostles Hotel in Oudekraal. We wish them all the best of luck.

PCH **UCT Cycling**

The PCH sponsored UCT cycling team recently competed in the University Sports South Africa event that took place in Wellington.

The team did exceptionally well in this multi-discipline event that featured cross-country, road, hill-climb and time-trial competitions. A special congratulations must go to Emily Clarke on coming 3rd overall in the girls road division and winning the King of the Mountain jersey, the first time a UCT cyclist has ever achieved this distinction.

WHY IT'S IMPORTANT TO HAVE A WILL | THE IMPORTANCE OF SUCCESSION PLANNING IN WEALTH MANAGEMENT

WHY IT'S IMPORTANT TO HAVE A WILL?

Your Will is one of the most important documents that you will ever sign. It is the legacy you leave and a way to ensure that your family will be looked after once you are not there anymore to take care of them.

Why is a Will important?

- You have a say in what happens – which means that you do not run the risk of intestate succession which may result in delays in the winding up of your estate and your estate not being dealt with according to your wishes as family members dispute how matters are handled.
- A Will also allows you to address any potential issues that may arise through the structure of modern families such as life partners, second marriages, customary marriages and single parents.
- If you leave a valid Will you can choose an independent executor to assist your loved one in winding up you estate – giving you peace of mind that your affairs will be looked after. You can make provision for payment of an inheritance to a testimony trust or the guardian of a minor who inherits through your Will as opposed to the inheritance being paid to the Guardians Fund.
- In your Will you can reduce your Estate Duty liability, by making use of the R 3,5 Million abatement; by bequeathing assets to a surviving spouse and by bequeathing assets to registered charities.

However - remember to always keep your Will up to date and it is important to review your Will every 3 years or after every life changing event (marriage, a death in the family, birth of a child, a change in your financial circumstances etc.) **If you need assistance drafting or updating your Will please contact Sarah Love in our Fiduciary department on Tel: 021 671 1220**

THE IMPORTANCE OF SUCCESSION PLANNING IN WEALTH MANAGEMENT

Succession planning is vital to ensure stability and sustainability – it provides a sense of certainty and peace of mind around an unpredictable future.

Why is succession planning important to you as an investor?

Succession planning by financial advisors ensures that, in the event of either a planned or unplanned departure from the industry by your advisor, the management of your wealth continues uninterrupted whilst the knowledge of your investment portfolio is effectively and smoothly transferred to the next generation of wealth management.

Advisors need to ensure they put an effective succession plan in place with the right partner. Private Client Holdings are experienced in growth and succession planning –contact us to discuss a growth or succession strategy that works for you.

Peace of Mind

> "At Private Client Holdings, although you deal primarily with a key contact wealth manager who offers personalised and intensive hands-on servicing of your account, there is also a team of experts that support each wealth manager and who fully understand your investments"

This means that no matter what, your investments remain well managed, safe, secure and the continuity of growth is ensured.

At Private Client Holdings your financial well-being is soundly managed under one roof and we have succession planning well in hand, offering our clients peace of mind. We urge anyone that may hold an investment elsewhere to ask the advisor or institute the question of who will take over from them in the event of a planned or unplanned departure?

FOUR MONTHS CYCLING THROUGH AFRICA
– PCH client does Tour d'Afrique (TDA)

There are not many who would consider cycling through Africa for four months but Steve Smith is one that did – and successfully completed the Tour d'Afrique (TDA). Smith, who in the past has completed a dozen Argus Cycle Tours did not consider himself to be an endurance athlete but says he felt the need to push himself and embrace this exciting challenge.

The team of 42 cyclists from all around the world departed from Cairo on the 14th of January, and ended up in Cape Town on the 12th of May, after cycling a total of 12 000 km's through 10 different countries (Egypt, Sudan, Ethiopia, Kenya, Tanzania, Malawi, Zambia, Botswana, Namibia & South Africa).

"Out of the 120 days of the journey, 94 are cycling days, 2 are travel days and 24 are rest days," explains Steve.

"This equates to about 125km's per day of cycling." Cyclists contended with cold climates, stifling heat, headwinds, badly corrugated roads, numb fingers, dehydration, persistent gastro, stone throwing children, mechanical issues and snorers in the camp at night but Steve also exalted in the beauty of Africa, its colourful people, the sense of camaraderie between the cyclist and the overall sense of accomplishment.

He relates a tale about the end of a particularly bad day when his most common thought had been "Remind me again why I'm doing this?"

"Collapsing in the dirt in a shriveled heap under the lone tree in the village, a woman emerged from her African hut bringing firstly a jug of water; then a large woven mat for us to lie on; and finally some chairs! Later on that day, after we'd set up camp nearby, the locals organized what became known as a "donkey shower" – a drum filled with water on a cart pulled by a donkey. Each of us took turns to wallow in a clothes-washing bowl, splashing our bodies with water and washing away the salt, dried sweat and grime - absolute heaven!"

Steve managed several stage wins along the way and says that the entire experience was extremely exciting in a way that cannot be explained. Private Client Holdings congratulates Steve on an outstanding achievement!

USING A TRUST AS AN INVESTMENT VEHICLE

Professor Walter Geach, a Chartered Accountant CA (SA), an admitted Advocate of the High Court of South Africa, a Professor in the Department of Accounting at UWC and a Fellow of the UKZN and of the Chartered Institute of Secretaries, was our guest speaker at the last Private Client Holdings seminar held at OM House in Bishopscourt.

Prof. Geach, who specializes in commercial law, financial accounting, financial planning and taxation, shared his insights on the opportunities and pitfalls of using a trust as an investment vehicle (both locally and offshore). Prof. Geach pointed out that most of us are swept away by the opportunities trusts present, such as having very few rules and regulations, so costs of compliance can be very low; having no specific drafting requirements of the trust deed; no audit required; no liquidity and solvency requirements; no annual return; no annual general meetings required and no dividend tax or STC.

Tax scenarios on capital growth when using an Endowment trust are appealing:-

	Individual	Trust attribute	Trust retained	Endowment trust
Capital Gains Tax	13.3%	13.3%	26.7%	10%
Estate duty	20%	Nil	Nil	Nil
Total	**33.3%**	**13.3%**	**26.7%**	**10%**

However he cautioned that although we often think that trusts are not regulated at all, this is not true. Challenges also exist with regards to the way trusts are formed, the way trusts are administered and the way trusts are amended. The importance of ensuring a trust is valid as an entity is paramount and the usefulness of electing an external protector expounded.

Contact your Private Client Holdings wealth manager to understand how the effective use of an Endowment trust can affect your tax scenario on capital growth.

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 should you wish to discuss your bigger picture.

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