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THIS ISSUE?**

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THREATENED?**

**A REFLECTION ON
THE PAST 25 YEARS**

**THE EVOLUTION
OF UNIT TRUSTS**

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INVESTMENT
OPPORTUNITIES?**



Is 'affluenza' threatening the survival of your business?

By Andrew Ratcliffe

Family businesses constitute the world's oldest and most dominant form of business organisations. In fact, according to a white paper produced by Credit Suisse, family enterprises represent anywhere from 80% of all businesses in developed economies to 98% of all businesses in emerging economies.

However, it is also a fact that most family businesses have a very short life span - with some 95% of family businesses not surviving the third generation of ownership. This high rate of failure amongst family businesses is attributed to a multitude of reasons, one of which is an attitude of entitlement found in subsequent generations.

“ 95% of family businesses do not survive the third generation of ownership. ”

An entitlement culture often emerges and expands as a family business with second and third generation participation becomes successful. Dubbed "affluenza", this attitude of entitlement can become a significant challenge to multi-generational businesses.

Call it 'success breeds failure', family members in subsequent generations have usually experienced more relative personal income than their parents and are therefore naturally more interested in living the good life and are less motivated than their forebears were to be entrepreneurial, work hard, lead, preserve, protect and grow the family business.

Affluenza within a family business is often the consequence of a lack of preparation of the subsequent generations to handle the demands of a growing business and a much larger family.

Family businesses can improve their odds of survival by setting the right governance structures in place and by starting the educational process of the subsequent generations as soon as possible. And this is where the inclusion of a family governance role becomes vital.

Family governance is a system of joint decision-making, most often by a Board of Directors and a Family Council and top management, which helps the owner family govern its relationship with its wealth, its businesses and its family members. It establishes a system of comprehensive reporting and information sharing and helps a family business to manage the challenges of wealth and of succession, as well as navigating, and ultimately avoiding, the erosion of an entrepreneurial culture and so ensuring family business prosperity.

The desired outcome is rational economic and family welfare decisions that are not overwhelmed by traditional family dynamics.

A family governance service, such as that offered by Private Client Holdings, will:

1. Facilitate regular meetings and information sharing between all family members and key business managers;
2. Establish solid reporting structures (so that everyone is informed as to how much they are contributing to or drawing from the family wealth);
3. Conduct independent audits of the business;
4. Develop standard operating procedures for the family behaviour /contributions;
5. Mentor future generations regarding the business;
6. Provide a third party objective opinion on business decisions;
7. Maximise tax structures;
8. Assist in setting up solid long term structures within which the family and the business may prosper.

Many families fail to govern the family to business relationship and the impact this has on their businesses and wealth can be dire.

Although there is no magical formula to achieve family unity and preservation of wealth, effective family governance is pivotal in the preservation and growth of family wealth and family values.



The Directors Desk

“ 25 years on for Private Client Holdings and in reality the journey only starts now. ”



1990 saw much change in our country with the release of Nelson Mandela heralding the dawn of a new South Africa. Internationally Margaret Thatcher resigned, East and West Germany united, Michael Gorbachev was awarded the Nobel Peace Prize and the Simpsons hit US television screens. This was a time of exhilaration and apprehension and we decided to embrace the opportunities - and the challenges - presented at this time, and started a tax consultancy for listed companies.

These were interesting times where the tax legislation (arguably) accommodated structures like plantations, aircraft schemes, game farms, sports events and bare dominium structures. In tax parlance, these structures were more than 50 shades of grey.

Judge Dennis Davis, who was a non-executive director of the company at that time, now heads The Davis Tax Committee, which is looking into our tax policy framework with a view to closing any remaining loopholes. While we ensure that your tax burden is minimised, this definitely suits us as we prefer tax certainty when it comes to investment planning.

A quarter of a century has seen much evolution for PCH. We have developed from tax consultants to investment managers, then to wealth managers and now to family officers. In the Family Office environment we encompass the cycle of wealth creation, wealth preservation and wealth transfer.

My partner in the business and fellow director of PCH Andrew Ratcliffe heads up Wealth Management, Jeremy Burman heads Financial Services, David Knott heads Fiduciary Services and I am head of Investments. We are supported by a complement of 50 brilliant staff members and collectively we apply a Family Office approach to servicing our clients.

We are sincerely grateful that you have entrusted us with the management of your financial wellbeing during this journey. Looking forward to nurturing wealth for the next 25 years!

Grant Alexander



A unit trust, more correctly known as a collective investment scheme, is an investment pool of funds contributed to by investors. Each investor holds units in that scheme.

Unit trusts represent one of the easiest and most effective ways for investors to build a portfolio and the rapid evolution of the South African unit trust industry is a clear signal that collective investment schemes are the favoured investment vehicle for the astute investor. Many advisers recommend only unit trusts to their clients because of their transparency and flexibility.

The unit trust industry in South Africa has shown phenomenal growth over the last 40 years - beginning with a single equity fund in June 1965 (The Sage Fund, with an asset value of R600 000).

From a single equity fund, the unit trust industry has grown into using the platforms provided by large investment houses like Investec and Momentum so that smaller companies can provide Wrap Unit Trusts that include money market funds, gilt funds, many specialist equity funds, international funds, fund of funds, wrap funds and index funds.

PCH new CIS (Collective Investment Scheme) offers a myriad of benefits

The good news for Private Client Holdings' clients is that PCH, in partnership with Boutique Collective Investments (the largest CIS administrative provider in SA), has now set up our own range of Unit Trust's or CIS's which is an efficient and effective vehicle to increase returns for our clients.

Benefits of investing in PCH's range of CIS's include:

- They are a very convenient and low-cost way of investing in markets which you otherwise would have found difficult to access.
- They are managed by highly qualified managers whose full time job it is to make investment decisions.
- They are specifically designed to give you good value for money.
- The CIS industry in South Africa is strictly regulated by the Registrar of Collective Investment Schemes, ASISA and each CIS company's trustees.
- They provide diversification in a manageable way because each unit represents a pro rata share of an entire portfolio.

In this relationship PCH manage the unit trust fund and use PCH client specific investment strategies. There is also an administrative benefit in the new CIS structure as PCH can de-risk a portfolio instantly (within 24 hrs), whereas on platforms this tactical move could take up to a week - all profile clients will benefit from that tactical change in investment strategy.

In general, CIS administration is a lot more efficient and PCH now have access to more investment options. For example we can include a passive investment or even a hedge strategy if we wish (making this a more complex option). Importantly - from a tax point of view - any changes inside a CIS structure do not trigger a tax event. This means that our managers can focus on the investment decisions and not worry about the tax implications, plus there are Capital Gains Tax Benefits.

The PCH CIS offering provides the best of both worlds - our clients can have a multi-manager experience and a bespoke portfolio that can be tweaked for their specific needs - and a reduced fee to boot!

For more information on the PCH CIS offering please contact Grant Alexander on: +27 21 671 1220.

HAVE YOU HEARD?

PCH CSI initiatives bearing fruit

PCH has long supported the amazing work that the team at Greenpop do (visit www.greenpop.org.za for more info). In 2013 the entire PCH staff went tree planting at the St Monica's home for the elderly in Bo Kaap and we are delighted to report that the 30 trees planted at St Monica's are thriving - with a 96% survival rate. Not only that, but the apple and pomegranate trees that were planted have begun to bear fruit!



Thursday social cycling event open to all

Every Thursday during term time the PCH sponsored UCT cycling club has a social ride which departs from Tugwell at UCT and makes its way to various time trial venues. Anyone in PCH cycling kit is welcome to join in this fun and social cycling event for a bit of weekly exercise and camaraderie. Check the UCT cycling club's Facebook page for departure times.



Tour De Boland

The elite cycling team sponsored by PCH recently competed in the 2015 Tour De Boland - a gruelling race which takes place over five days and five stages - totalling 465 kilometres and a total vertical ascent of 4428 metres.

This year's event took place from 2 - 6 March and saw PCH team rider Jaco Davel securing 8th position overall from a quality field of 150 top riders from South Africa and abroad.



Velokhaya Cycling Kit Collection

PCH is supporting the UCT cycling club in collecting second hand cycling kit for the Velokhaya Life Cycling Academy club members in Khayelitsha. Any cycling kit donations are most welcome - please drop them in the box at PCH reception and help underprivileged children take part in the sport that they love.



FPI Financial Planner of the Year Competition

PCH Wealth Manager, Mark MacSymon, is a contender for the coveted 2015 title of Financial Planner of the Year.

The FPI Financial Planner of the Year Award is the highest accolade a professional financial planner can obtain. Independent judges range from academics, industry experts and FPI board members who participate in evaluating a portfolio of evidence and conduct site visits and panel interviews with the candidates.

Mark completed his Masters of Commerce (majoring in Economics) at the University of Stellenbosch and is a Certified Financial Planner®. He has also completed the Advanced Post-Graduate Diploma in Financial Planning and is committed to on-going studies within the financial planning profession.



The CFP® designation is internationally recognised as the benchmark for professional advice. Holders of this designation have met stringent qualification and competency requirements as well as abide by unequivocal ethical standards.

We are very pleased and proud to have Mark in the running for this prestigious title within the industry, and look forward to hearing the results which will be announced at the FPI Professionals Convention to be held on 24-25 June 2015 at the Sandton Convention Centre.

Are you missing investment opportunities in favour of caution?

By Grant Alexander



Whilst many believe that sound, cautious investment decisions will lead to good investment outcomes – this is not always the case.

Many wealthy families are being encouraged to elevate process over outcome and so they have developed extremely thoughtful, careful and inclusive investment procedures - only to find that their returns are far below par.

A possible explanation is that these families have overlooked the importance of ‘opportunity costs’.

‘Opportunity costs’ refers to market price movements that occur between the time when somebody comes up with an investment idea and when they get around to executing it. Often what happens is that a family is given some good investment advice, but, in the time taken to gather all parties to discuss the idea, and whilst all members ponder whether or not to pursue the opportunity, the situation changes and the viability of the idea degrades.

“ Every day spent being prudent is a day that returns go down because investment ideas are going stale whilst waiting to be implemented. ”

Family members often believe that they are not doing their job unless they review and discuss every action ad nauseum before allowing their advisors to implement it. This ignores the realities of the market place and the relative skills and experience of families and investment professionals.

Day-to-day, week-to-week and month-to-month investment decisions should be left in the hands of a capable adviser. At Private Client Holdings we prefer to manage the affairs of a family in terms of our discretionary mandate, ensuring that investment decisions are made on time, but always remain mindful of our fiduciary responsibility as trustees where we take due care, skill and caution.

WHO TO TALK TO

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

Portfolio Management
Grant Alexander
grant@privateclient.co.za

Wealth Management
Andrew Ratcliffe
andrew@privateclient.co.za

Financial Services
Jeremy Burman
jeremy@privateclient.co.za

Cash Management
Sian Murray
sian@privateclient.co.za

Risk Services
Trevor Meehan
trevor@phoenixrisk.co.za

Fiduciary Services
Sarah Love
sarah@privateclient.co.za

Seminar enquiries
Michelle van Wyk
michellevw@privateclient.co.za

46 Main Road, Claremont, 7708
PO Box 24033, Claremont, 7735
Tel: +27 21 671 1220
Fax: +27 21 671 1149

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PCH will be sponsoring the Investment Savvy feature which appears regularly in the **ESTATE LIVING MAGAZINE** – a publication which is distributed within the exclusive residential, golf, wine, polo and equestrian Estates of South Africa and targets investors, homeowners, residents and estate management. We are excited to be part of this beautiful publication which serves as a resource tool, offering insights and valuable advice for the residents within this expanding community.

TEST YOUR SUDOKU SKILL!

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