Volume 4 | Second Quarter 2012

PCH INSIGHT

PRIVATECLIENT HOLDINGS

WHAT'S IN THIS ISSUE

KNOWLEDGE INVESTING

an essential component of effective wealth management

At Private Client Holdings we have always strived to provide a specialist solution to every client's individual financial needs. However, in addition to this, we are also committed to knowledge investing.

Knowledge is key in effective wealth management and wealth growth. We endeavour, through our on-going seminar series, to provide investors with the opportunity to increase their knowledge and insight of the industry and also afford our clients a platform on which to meet with, and question, some of the industry's leading experts.

The PCH seminars serve as an added-value component of our commitment to ensuring that our clients are kept up to speed with economic trends, informed opinions, innovative ideas and expert discussions and we ensure that each seminar is informative and dynamic. We also want to share the benefits of our independent standing. Our relationships with our valued suppliers allow us to present to our clients a variety of opinions - we tap into all these different pools of valuable intellectual property.

The seminar series began in June 2011 with the inaugural event - **Managing a share portfolio in an uncertain environment** - presented by Johan Els, Chief Economist from Old Mutual, who discussed the state of the economy and share markets. Johan presented alongside Cilma Heyns of Glacier, who explained how a share portfolio can be incorporated into retirement planning.

In August of 2011 we held our second seminar - **Is it possible to find value in the local equity market** – which was presented by Neville Chester of Coronation, who gave an inside perspective of how Coronation views the local equity market. Neville manages the Coronation Top 20 Fund, (which forms part of the PCH multi manager unit trust solutions) which has outperformed the equity market by 6% pa since inception.

Rounding off the seminar series for 2011 Private Client Holdings hosted a seminar entitled **A brave new world** in October.

> "An investment in knowledge pays the best interest."
> Benjamin Franklin

If 2010 was the year of discussing austerity, 2011 was the year of living with austerity. As the world threatened to dip back into recession, we asked whether austerity is working, and what would happen if it doesn't. Jeremy Gardiner, director at Investec Asset Management, explored the investment options in a world where opportunities still exist but are much harder to find.

April saw us kicking off with the first of the 2012 seminars entitled **The risk of not taking risk** which was presented by Andries Kotzee, Portfolio Manager at Momentum Global Investment Management, and Kokkie Kooyman, Sanlam Investment Management Global Fund Manager, who explored the topic of **Why offshore now**?

Kokkie Kooyman was recently named the top global financial fund manager for the second year running in the prestigious Investment Week Fund Manager of the Year Awards. Private Client Holdings will continue to deliver these valuable seminars to our clients and select guests.

Each seminar is kept small and personal and will always be presented by top experts from within the industry who can best guide investors towards making informed decisions to manage and grow their wealth.

Please contact Michelle Hawson to be added to our seminar invitation list – michelle@privateclient.co.za.

THE DIRECTOR'S DESK

THE RISK OF NOT TAKING RISK

Private Client Holdings have positioned our portfolios in underweight fixed income and overweight equities within each risk category of portfolios that we manage. We have also held an overweight offshore exposure for some time now and advocated this move during the course of last year when the rand was trading below R7 to the dollar. The rand blew out to around R8.50 and many investors thought that they had lost the opportunity. Fortuitously the rand has retraced to the R7.75 level and we believe that this offers another opportunity to move funds offshore.

Many clients concur with this view, but are reluctant due to the fact that issues around offshore investing have remained a mystery to them. The issues that pose a conundrum include:

Funds vs direct equities • Investment returns - sa vs offshore • Security - institutional risk • Costs and Exchange control

Price Earnings Ratio = Market price per equity share / Earnings per share

Let me provide some clarity:
There has been a massive outperformance of SA equities relative to US equities over the past 12 years. However, it has been said that there are three certainties in life – death, taxes and mean reversion! Another reason for offshore markets to perform well is the entry point i.e. valuations.

If we compare valuations of shares in 2000, with price earnings multiples well in excess of 25 times, against current valuations of the same companies, there is a huge difference. The same companies today are much cheaper than 12 years ago with PE's of around 10 times earnings. The ratio is calculated to make an estimate of appreciation in the value of a share of a company and is widely used by investors to decide whether or not to buy shares in a particular company.

SOURCE: CORONATION

COMPANY NAME	EPS CHANGE	SHARE PRICE	P/ E	
	2000 - 2012 % change	2000 - 2012 % change	2000 - 2012	
Cisco	253%	-48%	79.7	11.8
Johnson & Johnson	205%	24%	32.2	13.1
Microsoft	205%	37%	24.6	11.1
Pfizer	124%	-53%	45.1	9.5
Heineken	105%	-13%	32.5	13.8
Tesco	212%	23%	24.8	9.7
Vodafone	690%	-55%	199.0	11.3

We have developed a range of unit trust solutions for conservative, balanced and more aggressive clients. Our investment process includes consultation with investment experts from external institutions such as Momentum and Investec. Our investment committee considers the tactical allocation to various asset classes to reflect our view of the markets. We include the best of breed offshore fund managers to manage the asset class in which they have the most expertise.

For example, we utilise Kokkie Kooyman a Sanlam Investment Management Global Fund Manager; Mark Mobius from Templeton to manage the exposure to Asian equities and John Stopford of Investec to manage the fixed income. These strategies have proved to be successful and we are comfortably beating our benchmarks. We utilise several institutional platforms for clients to access these funds i.e. Momentum International, Investec, Glacier and Old Mutual International.

Clients can either invest directly or they can invest via an offshore endowment. These "new generation" instruments are totally different from the clumsy dinosaurs of the past – there is no restriction on access to your funds (previously only 2 withdrawals in 5 years) and high fees (fees are now less than 1% pa). The underlying investments can be either or both of our selection of unit trust managers and a bespoke share portfolio which could include the likes of Microsoft, Apple and Tesco

Please contact us to explore the risk of not taking risk.

Grant | **Grant Alexander**

HAVE YOU HEARD?

RURAL EDUCATION ACCESS PROGRAMME

PCH are pleased to be supporting REAP and are sponsoring Brandon Draaier, a first year student who hails from Beaufort West, to study B. Com, Financial Accounting at UCT.

REAP's vision is to see hundreds of young rural South Africans equipped with the skills, qualifications, values and motivation necessary to effectively lead and serve their communities. www.reap.org.za

CAPE ARGUS PICK 'N PAY CYCLE TOUR

Grant Alexander and his wife Debbie formed part of the "I Play Fair" team that took part in the the Cape Argus Pick 'n Pay Cycle Tour to spread a message of fair play and anti-doping in sport. Grant and Debbie joined the Minister of Sports Fikile Mbalula and Democratic Alliance leader Helen Zille. Alan Ferguson as well as Andrew Ratcliffe, on a tandem with his brother Neil, also completed the race – well done guys we are proud of you!

PCH STRATEGY WORKSHOP

On 16 March the PCH team spent the day at the Breakwater Lodge in an informative and collaborative strategy workshop that was designed to not only formulate our plans and goals for the year ahead, but to also lay out how our team envisaged reaching these goals.

The day, which was facilitated by Rowan Belchers, was a great success with exciting results and buy-in from the Private Client Holdings team.

PERSPECTIVES MONTHLY MARKET REVIEW

Private Client Holdings produce a concise monthly market review called PCH Perspectives, which offers information on all relevant and noteworthy happenings in local and international markets – including an informative Market Report, Market Indicators, Company Results, Trading Updates, Corporate Cash Management Rates as well as snippets of interesting advice and news.

This informative monthly review is only sent out to subscribers.

Should you wish to receive the PCH Perspectives then please contact AJ van der Merwe on (021) 671 1220 or email aj@privateclient.co.za

THE ACCRUAL SYSTEM AND WIDOWHOOD

WRITTEN BY: BRENDAN PEACOCK

ARTICLE AS IT APPEARED IN THE SUNDAY TIMES ON 10/03/2012

ANTENUPTIAL CONTRACT HAS ESTATE IMPLICATIONS.

Among the variety of antenuptial contracts designed to apportion a couple's assets at the dissolution of a marriage, the accrual system has become popular for its apparent fairness in its view of how spouses accumulate financial wealth before and after they get married.

But, while the accrual system may work very well in the event of a divorce, without enough foresight it can have drastic consequences for the surviving spouse in the event of the dissolution of the marriage through death.

When a couple marries out of community of property and chooses to use an antenuptial contract with the accrual system, the contract is designed to allow each party to be accountable for their own financial affairs while the marriage is in effect.

At the point of the dissolution of the marriage, the value of each person's estate at the time of marriage will be calculated and then adjusted for inflation over the term of the marriage.

Then the monetary value of the smaller estate of the two will be subtracted from the larger, and the couple will split the difference, with the larger estate paying the smaller half of the difference in monetary value.

Typically, some assets do not form part of an accrual contract - those specifically excluded from the contract, inheritances, legacies and donations (including donations between the spouses) as well as any amounts paid to a spouse as damages from legal action.

So far, so good in the event of a divorce. The problem arises in the event of the death of a spouse, because the accrual contract precedes claims against the spouse's estate by other family members or beneficiaries.

The effect of having to settle the accrual claim before any other can leave the estate requiring the unnecessary liquidation of assets.

Madelein Marais, a fiduciary services specialist at Private Client Holdings, said people seldom consider the unintended consequences of a death in the marriage.

"An accrual claim in favour of the surviving spouse is a claim against the estate of the deceased spouse, and ranks as a liability that has to be paid before the estate passes onto the heirs or beneficiaries in terms of the will.

"On the other hand, if the accrual claim is against the surviving spouse, it is a claim in favour of the estate and regarded as property in the estate, which means the accrual claim needs to be paid to the estate by the surviving spouse.

"A situation can arise where the surviving spouse has to deal with the loss of their partner and then still be obliged to pay an accrual claim to their spouse's deceased estate."

Marais said it was important to ensure there was liquidity in the estate to prevent a surviving spouse in this situation having to liquidate assets to settle the claim.

She provided this example to illustrate:

Both spouses bring no assets into the marriage. The surviving spouse accumulated an estate of R5-million while the deceased husband accumulated a large estate consisting of mostly fixed property and business interests.

His estate at the date of his death is worth R35-million. He bequeaths his estate to his children of a previous marriage, but under the accrual system the surviving wife will be entitled to an accrual claim of R15-million (R35-million less R5-million = R30-million/2 = R15-million).

This claim must be settled prior to heirs receiving their share.

> "According to Marais, an accrual claim can be settled in cash or assets or a combination of the two."

"Clearly there will be a liquidity shortfall in the estate that was not the intention of the deceased," said Marais.

"It is imperative that your estate planner takes the accrual claim into account in the liquidity analysis. If each spouse leaves their entire estate to the survivor, then the accrual will not cause a liquidity shortfall.

"The difficulty comes in when the deceased leaves some or all of his estate to a third party," Marais said.

According to Marais, an accrual claim can be settled in cash or assets or a combination of the two.

In a situation like the example above, problems arise where there are only illiquid assets like immovable property and business interests that are bequeathed to third parties and not the surviving spouse.

For more information on accrual contact Madelein Marais at Private Client Holdings on madelein@privateclient.co.za

PCH - committed to our CSI focus

Within South Africa, corporate social investment from business has a crucial role to play in bringing about transformation within the communities that these businesses operate in.

At Private Client Holdings we are all too aware of this and not by design but rather by passion and personal interest, we support a variety of projects under three main focus areas – these being Education, Environment, and Exercise. One of our key focuses is the support and overall development of improved education within South Africa.

Led by wealth manager Alan Ferguson, we began our relationship with an organisation called Empowerment through Education (ETE), which is a trust that sponsors selected children from two pre-primary schools and funds their full primary and secondary education.

These children are selected from either the Masakhane Educare Centre, situated in Masiphumemele or the Green Curtains Educare Centre in Ocean View – both set up by the Rotary Club of The Cape of Good Hope.

Originally these educare centres were developed in response to a desperate need for them in these areas. However, it soon became evident that the graduates from these schools had done exceptionally well and needed further assistance to achieve an ongoing quality education.

The ETE Trust was then created to fund this further education - with the trustees being Herbie Eichel, from the Galley Restaurant in Fish Hoek, Hans Zwets from Rotary, Alan Ferguson from Private Client Holdings, and Sandy Dowling ex Valley Development.

Private Client Holdings initially came onboard as sponsors and we set up the Trust and applied for the non-profit status. On an ongoing basis we manage the Trust and do the annual accounts and administration – all on a pro bono basis.

Every year ETE hold numerous fund raising events. This year they have launched an exciting new fundraising initiative in the form of gift voucher tokens for the Galley and Beachcomber Restaurants.

To learn more visit the ETE website at www.E-T-E.org.

THE NEW DIVIDENDS TAX – WHO WILL BE EFFECTED

The new Dividends Tax, developed over several years, has been finalised and, as of 01 April 2012 replaced the Secondary Tax on Companies (STC). DT is a tax imposed on shareholders at a rate of 15% on receipt of dividends, whereas STC is a tax imposed on companies (at a rate of 10%) on the declaration of dividends.

Who is effected by Dividends Tax?

- Foreign Investors, non SA residents, foreign nationals living in SA and emigrants are only partially taxed and must complete and submit the “Reduced tax rate declaration form”.
- SA companies or CC’s, retirement funds, living annuity policyholders, endowment investment accounts in the company/untaxed policyholder fund, Beneficiary / Benefit funds, and trusts where the beneficiary is a company are all exempt from Dividends Tax and must complete and submit the “Exempt declaration form”.
- SA individuals and trusts with SA individuals as beneficiaries are fully taxed and no action is required by these people, the Unit Trust Manager/Life company withholds 15% of the dividends and pays it to SARS within 60 days.

For further information and assistance with Dividends Tax queries, please contact the Financial Services Department. Jeremy Burman and his team are happy to answer any of your questions.

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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