FICA – why it is so important · SA’s Debt – SOEs in SOC · Choosing a Unit Trust Fund · The Psychology of Fund Selection · The pitfalls of instant gratification
PERSONAL TRUST – VALUE PROPOSITION

To provide personal, professional investment management, financial planning and ancillary financial services to our clients and their families:

PERSONAL SERVICE AND TRUSTED RELATIONSHIPS

- Build long-term, personal relationships of trust and care with our clients and their families to ensure their and future generations' financial security and well-being.
- Provide excellent, ‘old-fashioned’ personal and caring service to our clients on an ongoing basis.
- Provide care and support to clients in difficult family situations through our social wellness initiative.

HOLISTIC FINANCIAL PLANNING

- Provide holistic management of client affairs under one roof – Investment Management, Financial and Estate planning, Tax, Wills, Trustee services and Administration of deceased estates.
- Deal with one Trust Officer who manages all elements of clients’ affairs with Personal Trust.
- Gain a detailed and thorough understanding of our clients’ financial needs and family set-up, ensuring all-encompassing advice on investments and estate planning.
- Determine clear and understandable financial and investment goals and develop portfolios and a financial plan as a roadmap to achieving these goals.

INVESTMENT PERFORMANCE AND RISK

- To protect and grow clients’ capital over the long term based on their investment mandate and agreed risk profile.
- Target consistent and competitive investment performance through an experienced investment team and a robust investment decision-making process.
- Provide cost effective investment solutions through our in-house asset management offering.

EASE OF ADMINISTRATION

- Provide cash management and other administrative services to clients who are less able to manage these aspects of their own affairs.

INVESTMENT BEHAVIOUR AND DISCIPLINE

- Instil financial discipline and encourage clients to improve their financial behaviour through close relationships and ongoing monitoring and review of their portfolio and financial plan.
- Improve the clients’ investment decisions by understanding the behavioural and emotional biases of investing. Emotional and irrational decisions are the largest destroyer of investor value.

FOR MORE INFORMATION, PLEASE CONTACT BELINDA DANKS ON 021 689 8975
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Though it had been confidently forecast, South Africa’s appointment to a two-year non-permanent membership of the UN Security Council was gratifying, especially as we obtained 183 out of a possible 190 votes.

We must admit that some of the ‘oomph’ has gone from ‘Ramaphoria’; however, the President has been busy, promoting our country and building bridges between cultures and creeds. His chairmanship of the 10th BRICS summit and the invitation to attend the G7 Outreach Summit have been feathers in his cap, while his meeting with leaders of the Afrikanerbond, his iftar dinner with the President of the Muslim Judicial Council and his morning walks in the suburbs have popularised him as a ‘man for all seasons’.

Many Personal Trust clients will have either children or grandchildren at school in the middle grades. These are the students who may have to take History as a compulsory subject for Matric, if Basic Education Minister, Angie Motshekga, has her way. Firstly, apart from Maths and two languages, no student should be forced to take a particular subject – he/she should be allowed to choose subjects and should be guided by an experienced career guidance counsellor. Secondly, the writing of history and the compiling of history books tends to be subjective, not objective, and is written by the victors of war and those in power at a particular time. “Until the lions have their own historians, the history of the hunt will always glorify the hunter.” (Chinua Achebe, famed Nigerian author and poet). Prescriptive, politically-biased history is one person’s or one group’s view of events; comparative history, like comparative theology, is fascinatingly educational. Take the years immediately after the end of the Second World War: post-war elections resulted in the coming to power of the UK Labour Party and the SA National Party; 1947 saw the commencement of the Cold War between Russia and the US while India gained its independence from Britain in the same year; the State of Israel was established in 1948; Eva Peron (Evita) was President of Argentina; large numbers of Brits were emigrating to Australia; and grapes were a tickety a bunch on the Cape Town Foreshore.

Which brings us to the economy. The escalating trade war between the US and China is having an adverse effect on emerging markets. This, together with Donald Trump’s yo-yo brand of politics, uncertainty regarding Brexit and the discord within the May Conservative government, provides the background against which we must evaluate our present economic situation.

Rising international oil costs and a weakening currency are threats to our economy; year to date the petrol price has risen by 12% while the rand has fallen by much the same against the dollar. In mid-July the Reserve Bank’s Monetary Policy Committee lowered its GDP forecast for the year from 1.7% to 1.2%.

The extent of corruption in the Zuma-Gupta years has been revealed and we now realise that Eskom, SAA, Transnet, Denel and other SOEs do, in fact, have no money – it’s been swiped; while the SABS reported a R44.3million loss in 2016-2017. The IMF and the Ratings Agencies have so far been kind to us – the IMF highlighted South Africa’s public sector wage bill as a major problem; in mid-June Fitch opted to keep our credit rating unchanged while stating its concern over the size of Government debt, continuing tensions in the ANC and the land reform dilemma; S&P Global warned that it would lower South Africa’s rating if the implementation of land expropriation without compensation undermined investment; Moody’s stressed the importance of a successful Mining Charter agreement while also emphasising the land reform question. All four organisations will be watching very carefully how the question of the Ingonyama Trust land, King Zwelithini’s private fiefdom, is settled.

Many analysts are premonishing (lovely word!) a rocky ride ahead. However, there is considerable confidence and optimism amongst the BRICS countries as a result of July’s meetings on issues such as trade, industry, technology, agriculture and environmental affairs. The summit at the end of the month highlighted the close co-operation that exists within the association. Four presidents and a prime minister meeting in South Africa – wow! Vladimir Putin, Xi Jinping, Michel Temer (Brazil), Ramaphosa and Narendra Modi (India) all at the BRICS Summit. Another feather for Cyril!

Towards the end of June, Minister of Health, Dr Aaron Motsoaledi, published The Medical Schemes Amendment Bill containing, amongst other clauses, proposals banning co-payments for Medical Aid members and increasing the number of medical conditions amongst other clauses, proposals banning co-payments for Medical Aid members and increasing the number of medical conditions Medical Aids must cover. These two proposals could lead to Medical Aids not being able to cover full costs, i.e. without the present co-payment system; the only way for Medical Aid schemes to pay for everything with no co-payments would be to increase premiums. This would result in the less well-off members cancelling their membership, private hospital admissions would decrease and private doctors could well leave for pastures new. The Bill comes at a time when only 5 out of 696 state facilities passed the Office of Health Standards Compliance inspection in 2016-2017 (Cape Times 24 June). Frightening!

This quarter’s book suggestion is Churchill and Smuts, currently in the book shops. The friendship between the two men – one a member of the British aristocracy, the other the son of a Riebeek West farmer – lasted for the better part of fifty years. They were two of the most remarkable men of the 20th Century. Churchill’s resolute doggedness and belief in ultimate victory over the Axis forces and Smuts’ rise from his humble beginnings to become a member of Britain’s War Cabinet in both World Wars reads more like fiction than fact. Ed
Thando Gobe, Managing Director, and Balasz Kiss, Head of IT, elaborate on our partnership with DocFox and the benefits thereof.

Over the past 30 years, the world has well and truly become a global village. Not only is travel so much easier, information moves from one part of the globe to another at the speed of light. This has had some positive implications for business but unfortunately it has also made security even more important.

From an investment point of view, we have seen a greater compliance burden on both business and clients. This ultimately results in administration which is never something clients look forward to. In this article, we explain the development of FICA and what it means for you.

**Context**

The Financial Intelligence Centre Act, 38 of 2001 (FICA), came into effect on 1 July 2003. FICA was introduced to fight financial crime such as money laundering, tax evasion, and terrorist financing activities.

As a Financial Services Provider, Personal Trust is required by the Financial Sector Conduct Authority (FSCA), previously known as the Financial Services Board (FSB), to enforce and meet the requirements set out by FICA i.e. to monitor ongoing customer due diligence and to protect our investment clients from fraud and other similar crimes.

**FICA – how it came into play**

The September 11 attacks in 2001, which led to the Patriot Act in the US and similar legislation worldwide, preceded a new emphasis on money laundering laws to combat terrorism financing. The Group of Seven (G7) nations used the Financial Action Task Force on Money Laundering (FATF) to put pressure on governments around the world to increase surveillance and monitoring of financial transactions, and to share this information between countries.

As mentioned above, the Financial Intelligence Centre Act was introduced in 2001 by the South African government and came into effect in 2003. It has been continuously amended over the years. FICA brings South Africa in line with the legislation set out by the FATF and is designed to reveal the movement of monies derived from unlawful activities, thereby curbing money laundering and other criminal acts.

**Why and how should clients re-supply their information?**

**FICA Standards change:** When FICA was first introduced in 2001 there was uncertainty about how to apply it, with different institutions applying the act in different ways. Financial institutions and regulators worked together to make sure that FICA requirements were clear and consistent, including the documents needed, as well as how and when clients needed to provide FICA verification.

Changes in the guidelines and improvements in technology since 2001 mean that documents which may have been acceptable a few years ago may no longer meet the new improved standards, and new information is required.

**Your profile details change:** For example, a change of job or an updated address. Often this information isn’t passed on to us. As a result, to make sure we have the right information, updated details are necessary. Please contact your Trust Officer should you require more information.

**What does FICA mean for Personal Trust?**

By knowing our clients better, we can improve and provide better service to you. Risks to both our shareholders and investment clients are also reduced, and you can feel safe knowing that Personal Trust abides by the legislation, protecting your interests and investments.

**Fraud and Criminal Activity**

In today’s globalised economy, criminals are adapting their methodologies to target Financial Service Providers and their associated clients. Over the past 20 years, we have seen a considerable increase in criminal activity targeting clients’ personal email accounts and computers. Once the clients’ information is compromised, criminals use the information obtained to commit financial fraud.

By following the “Know Your Client” (KYC) business process outlined by the FIC Act, we can ensure that the client, and Personal Trust as a financial service provider, is not used for criminal and terrorist activities.

**Modernising the FICA process with the help of technology**

Compliance and administration are here to stay. Fortunately, we can be smart and use technology to make the process less painful. Personal Trust has embarked on a journey to digitise as many of our processes as possible and we have chosen to partner with DocFox for this.

DocFox also greatly simplifies the FICA approval process by managing the procedure of requesting, verifying and storing documents by integrating our FICA business process with their technology. The result of all of this will ensure that all Personal Trust clients are FICA compliant and we are able to save time for the Trust Officers.

**Conclusion**

By investing into modernising our business processes with the use of technology we can enable our Trust Officers to spend less time on admin and more time looking after you and your investments.
As South Africans, we need to be conscious of the differing interests of the media, politicians and the citizenry. Hence, we need to focus on the problems that are crucial to the long-term future of South Africa, avoiding short-term populism.

A prime example is the land debate, which has been used as a tool to garner electoral support and champion divisive agendas. Further, reform in education, labour, healthcare and fiscal discipline requires vision, resourcefulness and a commitment to the long-term structural betterment of the various sectors.

Of all the important debates South Africans need to have, the most crucial is this: how does an economy generate jobs and simultaneously deal with the debt burden we are bequeathing to future generations?

If not addressed objectively the reality of downgrade of the country’s local debt looms, which automatically removes the country from key global bond indices such as the Citigroup World Bond Index (WGBI). Credit ratings agencies S&P Global and Fitch already have South Africa’s foreign and local currency government debt at sub-investment grade or junk status. For South Africa to remain a constituent member of the WGBI, Moody’s must continue to rate our local currency rating as investment grade. If not, then potential foreign capital outflows have been estimated at between R80 – R130 billion. South African bond yields could potentially rise 2.40%.

The first quarter’s GDP figures were worse than anticipated. Household consumption momentum is yet to take hold, while private sector fixed investment remains weak, with uncertainty over policy implementation, mining, independent power, minimum wage, and land expropriation in particular.

The New Dawn faced an acid test over the original 0% wage increase offer to Eskom workers. This illustrates the financial maladministration brewing in most State-Owned Enterprises (SOEs). Although the signing of a three-year multi-term Public Service wage agreement exceeded the 2018 Medium Term Expenditure Framework by only R30 billion, it highlights the government’s inability to stick within the budget framework.

While South Africa believes it is unique on the global stage, the truth is we are a constituent of Emerging Markets (EM). The potential of a trade war between the US and China is perhaps the catalyst that EM most fear. Rather than receiving capital, EM will be faced with a capital outflow. As EM currencies continue to depreciate versus the US dollar, EM sovereign and corporate credit spreads will widen.

Slow growth is making it difficult for the government to meet its revenue targets and to reduce its budget deficit; poorly run SOEs are making increasing demands on the government’s balance sheet; low prices for our commodity exports and steep bills for high-tech imports make it difficult to reduce the trade deficit; and foreign investment inflows to pay for this deficit are dwindling.

The true extent of our liabilities is estimated at 70% debt to GDP, with a major cause being the wasteful and unauthorised expenditure of the SOEs. Have we reached a stage where the only realistic solution to the problem will involve IMF intervention?

What of the PIC? This organisation oversees roughly R2 trillion in state employees’ retirement savings. They are the holders of a substantial amount of SOE debt. The precarious position of these institutions, therefore, could have far reaching implications for the South African working class.

The Good, the Bad and the Ugly of the debt gallery:

**RSA:** The current total gross loan debt of national government, both domestic and foreign is **R2.6 trillion**. Debt as a percentage of GDP is **53.67%**.

**Transnet:** which currently has about **R125bn in debt**, can borrow on the strength of its own balance sheet and has not had to resort to government guarantees since 1998-99. However, sovereign credit ratings downgrades have affected its interest payments.

**Development finance institutions:** Land Bank, DBSA, and the IDC. Their debt for the 2016/17 fiscal year amounted to **R112.8bn** on which R7.1bn of interest was paid.

**Denel:** Denel has **R2.34bn** of bonds maturing in September 2018, a tough ask for the company amid a liquidity crisis. The company required a government guarantee of R850 million in December to raise money to pay salaries and its suppliers. Denel’s debt is held by the PIC.

**PetroSA R20bn debt:** The government owns PetroSA via the Central Energy Fund, which would be obliged to provide cash when PetroSA is forced to make good on its liabilities. Records at CEF show that South Africa will lose about **R3.3bn** due to the illegal sale of the country’s strategic fuel reserves in December 2015 and January 2016; however, the payment is likely to be almost **R6.5bn** to replace the 10 million barrels that were sold.

**TCTA:** Trans Caledon Tunnel Authority currently has debt liabilities of **R29bn** from the past fiscal year.

**SAA R50bn debt:** Can SAA just be closed, default or be sold off? The reality is no. There are no plausible buyers for a terminal airline, it would cost more than the currently estimated bailout of
Debt as a percentage of GDP at 70%?

WGBI rein in fiscal spending, which is at a tipping point with true

Will the SA Government or the IMF, the Rating Agencies or the

African debt/GDP ratio reach 75% by 2021 and 104% by 2030.

out. Bailing Eskom out to fill the revenue gaps would have South

increase would be too little and would result in it needing a bail

to Nersa last year, Eskom sought to demonstrate that an 8% annual

parts of Eskom understand the predicament. In its tariff application

Accounts (Scopa), heard Eskom is owed a total of R21.45bn. Some

Parliament’s spending watchdog, the Standing Committee on Public

declining, as price increases are offset by declining sales volumes.

The cost of servicing debt is set to increase, yet real sales revenue is

Eskom is near R500bn debt overhang

Eskom R500bn debt: Eskom’s near R500bn debt overhang and operational cost structure should see wholesale restructuring as inevitable. Eskom is just not financially sustainable as it enters the classic death spiral faced by all monopolies that price themselves to the degree that makes substitution a cost-effective alternative. The

e of structural reform.

The ANC government faces the unenviable task of appeasing the “competing” interests of the global economy and a nation of citizens who feel underserviced. To achieve this aim, Cyril Ramaphosa will have to be swift and decisive in his implementation of structural reform.

Many Emerging Markets are vulnerable as global trade is negatively impacted because of the US/China trade war. We are doubly impacted as an export-dependent economy.

On the investment front, we continue to recommend a defensive strategy and an underweight position in EM equities, credit, and currencies versus their US/Developed Market peers.

Objective criteria – what is needed:

1) Budgetary framework – effective and disciplined

2) Consumption based taxation

3) Constitutional security and compliance

4) Education – effective and relevant = 4th industrial revolution

5) Growth facilitation

6) Institutional integrity

7) Structural reform of markets – deregulation

8) Removal of the ideology of demographic “representivity”, which will curtail corruption and declining accountability

9) Restraining the hand of the state.

To see increased and positive economic growth in South Africa, we need firstly a vision and action to free resources and introduce structural reforms. The new “Freedom Charter” needs to evolve into a forward-looking, living document that embraces the disruptive realities of the ‘New Tech’ economy.

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SNIPPETS

Malibuye Tom, Trust Officer, reminds us of the tax deadlines and explains what formal emigration means.

UPCOMING 2018 TAX DEADLINES:

21/09/18 Manual submissions (provisional and non-provisional taxpayers)

30/09/18 Voluntary top-up, 2018 Tax Year (Provisional)

31/10/18 E-Filing Submissions (non-provisional tax payers)

31/01/19 E-Filing Submissions (provisional taxpayers)

28/02/19 Second period provisional tax, 2019 tax year

TAX SUGGESTION:

Submit your tax returns even if you fall under the threshold. All arrear tax returns need to be brought up to date when a person passes away and complications could arise if the information is not readily available.

VERIFY YOUR CRYPTOCURRENCY* DEALING PLATFORMS BEFORE INVESTING:

The Cryptocurrency platform BTC Global is being investigated by the Hawks for running an alleged Ponzi scheme. The founder is alleged to have disappeared with more than R1 billion in investor funds. Members of the public are believed to have been targeted as part of the scam and encouraged by BTC Global agents to invest with promises of 2% interest per day, 14% per week and ultimately 50% per month.

* Personal Trust is not mandated to invest in nor to advise on cryptocurrencies.

FORMAL EMIGRATION* IN A NUTSHELL:

Formal emigration is not required if your asset base is less than R1 million. This can be taken out as part of your annual discretionary allowance. Amounts up to R10 million can be taken out as part of your offshore investment allowance. However, formal emigration is required if you want to transfer your retirement annuity (RA) when emigrating BUT this option is only available for those over the age of 55.

* Formal emigration is also known as financial emigration and is the process of changing formally your exchange control or banking status from resident to non-resident. It does not affect your South African citizenship or the use of your South African passport.
Elmari Vosloo, Junior Trust Officer at our Knysna office, explains the risks relating to the different types of asset classes.

In the previous issue of Personal Opinions, we explored how unit trust funds are constructed and explained some of the investment jargon attached to this type of investment. Since the first unit trust fund was established in South Africa in June 1965, the industry has grown to over 1 500 unit trust funds currently on offer. With so many choices available, how on earth do you choose which fund is the right fund for you?

As a starting point, we need to talk a little about risk since each asset class inside a unit trust fund has a particular risk attached to it. When thinking about risk, there are three components to it, namely:

1. The event that could occur – this is the actual risk e.g. it might rain today.
2. The probability that the event may occur – this is the likelihood that the event will occur e.g. it is very likely to rain today if it is overcast.
3. The impact of the event should it happen – this is the price I will have to pay if the event occurs e.g. I will be soaking wet if it rains.

The higher the risk that an event might occur, the greater the probability that you will have to pay the price if the event indeed happens. The same principle holds true in the investment industry – the higher the risk of a particular investment, the greater return the investment manager will have to pay an investor in order to convince the investor to part with his funds.

To assist investors in understanding the risk attached to each unit trust fund and to enable investors to compare funds sensibly, the Association for Savings and Investment South Africa (ASISA) devised a classification system depending on different criteria, namely:

The classification system is divided into three tiers based on...
where the fund invests, what the fund invests in and what the main investment focus is.

**Tier 1: Geographical area:**

**South Africa** – these unit trust funds are required to invest at least 70% of their assets in South Africa at all times. A maximum of 25% of their assets is allowed to be invested in foreign markets, of which a maximum of 5% may be invested in Africa (excluding South Africa).

**Worldwide Funds** – these unit trust funds do not have any restrictions on where they can invest and can allocate funds in South Africa as part of the investment basket.

**Global Funds** – these unit trust funds are required to invest a minimum of 80% of their assets outside South Africa.

**Regional Funds** – these unit trust funds are required to invest at least 80% of their assets in a specific geographic area such as Asia or Europe or in a specific country such as the United States. Regional funds may only invest a maximum of 20% of their assets in South Africa.

**Tier 2:** here you will recognise the different asset classes and combinations thereof as discussed in the previous article in Personal Opinions.

**Tier 3:** in this tier, funds are grouped together according to their main investment focus.

If you have identified the geographical area, the asset class and the category you want to invest in, the next question to answer is how you determine the quality of a specific fund within the same risk category.

The Morningstar rating system is a well-known international system which can assist you to answer the final question. It is used to measure a fund’s risk-adjusted return relative to similar funds in the same category. Few investors, however, know that we have our very own South African rating system with the same objective, namely the PlexCrown rating system. The system awards crowns from a low of one crown to a high of five crowns according to each unit trust fund assessment in terms of its risk versus performance.

The PlexCrown rating system uses quantitative measures (making it an unbiased measure) to determine whether a portfolio manager adds value to your investment, taking into account his investment mandate and the amount of risk he is taking. To qualify for a rating a fund needs to have a track record of at least five years. This is as important as the rating since it eliminates short-term high return funds driven by external factors (e.g. strong bull market / technology boom etc) instead of investment skill.

At a glance you can now determine how your fund has fared over time on a risk-adjusted return basis compared with funds in the same ASISA category.

... and there you go ... choice is made:

- Determine geographic area
- Determine the asset class (risk category)
- Determine the category you want to invest in
- Choose the quality fund in that category

There are other factors to consider before choosing a portfolio of funds e.g. your age, the purpose of the investment, investment horizon, your personal risk tolerance, to name a few, and that is why you have the advisors at Personal Trust to assist you. However, you now have the tools to narrow down the choices in order to collaborate with your financial advisor when deciding on your portfolio structure.

Happy investing!
The Psychology of Fund Selection

Paul Roux, Trust Officer, explains how we aim to minimise the behavioural biases to which we all are susceptible.

Hackney carriages emerged in London in the early 17th century as a means of transport for the wealthy, who would often hire them out; Hacquenée being a French word used to describe a general-purpose horse. Arguably, this service carried out by the aristocrats of the 1800s sparked the evolution of the taxi industry we all know today. Since then, a lot has changed and mankind has become more sophisticated in refining the different vehicles used to get us where we wish to go. Effective fund selection is no different.

Investment funds have different forms and functions. Their nature or purpose has a lot to do with how they are structured. Graphite and diamonds are both made of exactly the same chemical element, namely carbon. How these carbon atoms are pieced together ultimately determines their physical nature. Layering carbon atoms creates graphite, but if you piece them together tetrahedrally, or like a triangular pyramid, you end up with a diamond. The same principle applies when checking under the hood of your unit trust fund.

The Personal Trust Investment Council follow a rules-based approach when choosing a fund on the approved fund list. They take a close look at a particular fund manager and his or her respective team, the underlying assets within the fund and its investment philosophy. If the respective fund’s philosophy is consistent through all economic cycles, incorporating a sound objective investment process backed by experienced fund managers who have reliable long-term track records in successfully structuring the fund’s underlying instruments, the likelihood of stronger fund performance will increase. Therefore, a rational objective rules-based approach to fund selection that is both qualitative and quantifiable is essential. However, rationality is not the only player on the field. Our decision making is also influenced by our own human psychology.

Well over 200 years ago, in 1759, before Adam Smith wrote the ‘Wealth of Nations’, he published ‘The Theory of Moral Sentiments’. Its contents covered the history of ethics as it was understood in the 18th century, and were used as course material for young students at the time. It is here that Smith showcased the incessant struggle between the ‘impartial spectator’ and our own natural human desires or ‘passions’ as he called them. The continual battle rages on today between rationality and emotion. Our own emotional state may go unnoticed by others, but mostly by ourselves. This seemingly covert behaviour will inevitably have an effect on our decision making.

The effect behavioural biases have on our decision making is probably more significant than we may realise. Biases colour our view of the world. Our own beliefs and accrued understanding of what is true and untrue about a fund, a company or even an investment philosophy can shape our decision making. Not only are our beliefs shaping our decisions, we are influenced by numerous others including media bias and ‘Recency’ bias.

The impact of the media on consumerism as a whole is extraordinarily powerful. Companies, their respective brands and investment products are all competing for our attention. Media campaigns that invoke a strong-rooted emotional connection are more effective than those that don’t. In 2003, a well-known major South African asset manager hired an advertising agency to improve their brand awareness. Between 2003 and 2007, this particular asset manager’s market share grew from 3.9% to 16% and by 2011 their assets under management grew from R4.8bn to R151bn.

A fund or even an asset class’s recent strong performance over a given time period may also swing the attention towards or away from potential investors. Although the rational part of our brain wants to sit us down and briefly re-explain that past performance is not an indicator of future performance, the temptation to believe the contrary is very seductive.

To be fair, track records are necessary and are a reflection of what the asset managers are bringing to the table. However, a fund’s track record is never to be viewed in isolation or as the sole motive for choosing an investment fund. The contentious issue regarding past performance is that it will undoubtedly create an expectation in our minds of what the future could look like. And for Recency bias to exist, all that is required is an expectation!

Fund Selection should always be about what is best for our clients. Short-term outperformance is great and will always be well received, but it’s not the actual point of fund selection. Fund performance is a by-product of good fund selection and not a justification for it. Just because someone invests all of his or her capital in a pure equity fund, and experiences strong performance over a given timeframe during a given economic climate, doesn’t justify that the particular fund is best suited for his or her needs, especially if you find out the capital is limited and there is a requirement for regular monthly income that needs to be sustainable over a lifetime.

At Personal Trust, our Investment Council aim to minimise the behavioural biases to which we all are susceptible by adopting a quantifiable and qualitative objective selection approach. Our approved local and offshore fund list is reviewed regularly in order to remain objective, so as to add the most value to our clients.
“Wealth, in fact, is what you don’t see. It’s the cars not purchased. The diamonds not bought, the renovations postponed, the clothes forgone and the first-class upgrade declined. It’s the assets in the bank that haven’t been converted into the stuff you see.” – Morgan Housel.

Housel, in his book “The Psychology of Money”, talks about when he used to work parking cars at a hotel. His assumption was that the person driving the Ferrari was very rich, and while many were, many were not that successful in his experience; they were just people who had spent most of their money on a car.

Social media has become the most powerful advertising tool in recent years. There are more taxes levied on citizens than ever before. Consumption leads to tax revenue for governments, which in theory should equate to more services being provided. Economics will tell you that governments should be happy with a population that spends. Right?

Social media has made it cheaper for businesses, especially those too small to afford mainstream media platforms, to market themselves. It has become a platform where corporates can advertise their brands through ‘Tweeps’, ‘Face Bookers’ and ‘Instagrammers’ without spending a cent. It has also made it possible for laymen to ‘follow’ their favourite celebrities. With that came an opportunity for people to market themselves, their lives (mostly just the good parts) and their belongings. Anyone from Kim Kardashian to John Doe can post a picture of themselves and feel gratified. All you need to see what the ‘Jones’s’ are up to is a mobile device and data.

This has led to a surge in the behavioural bias known as Herd Mentality, i.e. not wanting to be left out, or what is now known as FOMO (Fear of Missing Out); consumption to get kudos from ‘friends’ and ‘followers’. Consumerism was invented by the Baby Boomers, so this is not a new thing. So, what has changed?

Generation X, Y (millennials) and Z which followed the Baby Boomers are notorious for herd mentality. So much so that they job hop to keep up. This is usually in pursuit of higher salaries. However, in many cases this is coupled with the need/want to access one’s pension interest to either pay off debt or fund ‘trendy’ items that make them ‘look rich’ – the ‘stuff’ that will impress others. People no longer save for the ‘big’ items. We now live in an instant world.

Malibuye Tom, Trust Officer, writes about the pitfalls of instant gratification and wanting to keep up with the Jones’s.

<table>
<thead>
<tr>
<th>THE DIS-INVESTOR</th>
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<tr>
<td><strong>Year</strong></td>
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<td>Less: Invested</td>
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<tr>
<td>Net gain</td>
<td>R2,115</td>
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An employee who contributes R1,000 per annum at an annual rate of 12% will have R7,115 after five years. If that employee changes employers every five years and cashes in his pension fund each time, he will have a pension worth R7,115 at the end of ten years, as he starts on zero every five years. If, on the other hand, the same employee stayed at the same employer for ten years or transferred his pension each time he changed employers, his pension fund will be worth R19,655 at the end of the ten-year period. After 20 years, the dis-investor will still have R7,115, while the investor will have R80,699. Let that sink in.

With South Africa’s sovereign debt to gross domestic product (GDP) at 53.10% (close to 80% if one includes state-owned enterprise debt), and a shortfall in tax collection (despite increased consumption), the government must find ways to curb expenditure. This is thus debt that will be serviced by the generations that follow X, Y and Z. Let us take Greece as an example: when their government was faced with an ailing financial situation, and no more ideas to cut expenditure, the next casualties were the elderly; especially those dependent on a state-funded pension. To be crude, governments feel they have no incentive to support the elderly, as they are viewed as liabilities. We can therefore expect that at some point in the future, in a world where the population continues to grow, with a youth yearning for more opportunities, governments may begin to consider abolishing the state pension as we know it.

The Baby-Boomers consumed with the psyche that ‘things can only get better’. Gen X, Y and Z live on the dangerous psyche of ‘instant possessions and let tomorrow take care of itself’, and thus save very little if anything. This is where the Baby-Boomers, who consumed more than they saved, stack up today.
60% of the value of their investments was lost during the economic crisis
42% are delaying their retirement because they cannot afford to retire at present
25% say they can never retire because they have no other means of income post-retirement, other than becoming dependent on the state.

All things being equal, it is an accepted theory that for one to retire comfortably and maintain one’s lifestyle (assuming one is debt free), 75% of one’s last salary should be sufficient for one to live on. If one retires with no pension, the government has an obligation to support that citizen. The current monthly pension is R1,600 per month. Assuming inflation of 6% per annum, and that both salaries and the state pension will grow at that rate for the next 30 years; a 35 year-old who earns R25,000 per month today will draw a salary of R152,000 per month as a last salary at retirement. He can thus maintain his lifestyle on R114,000 (75% of R152,000) per month. Given the same growth rate with the state pension being R1,600 per month today, this will be worth R9,700 in 30 years’ time; i.e. 6% of his last pay cheque.

This is not to say that everyone who wants to be wealthy should dress as a homeless person, because it is nice to take care of yourself and practise some self-love. From a financial perspective, wealth is having enough not to worry about your present needs or your needs for tomorrow. That requires perhaps simplifying what you do need and some good, old-fashioned saving. It is your habits that will either see you retire comfortably or living on 6% of your last salary. Perhaps not even that.

Housel expanded by saying, “We tend to judge wealth by what we see. We can’t see people’s bank accounts, so we rely on what we can see to measure financial success. None of which actually says much about wealth.”

The much more logical way to invest is to keep the money invested in the financial markets for as long a time as possible, rather than trying to invest money at very specific times.

Research shows that it is extremely unlikely (virtually impossible) for any investor to correctly time the market on multiple occasions. The much more logical way to invest is to keep the money invested in the markets for as long as possible, to allow for the wonder of compounding returns. Compounding is an exponential rather than linear function; the longer investors have to invest, the greater the possibility of dramatically multiplying their purchasing power. When investing to fund a retirement, investors’ investment horizons are measured in decades rather than years.

The other advantage of holding for the long term is the decrease in the risk of holding growth assets as time horizon increases. The research shows it is only growth assets (such as equities) that will provide the long-term growth that investors need.

One of the biggest costs of market timing is being out of the market when it unexpectedly surges upward, potentially missing some of the best-performing moments. For example, an investor, believing the market would go down, sells off equities and places the money in more conservative investments. While the money is out of shares, the market instead enjoys a high-performing period. The investor has, therefore, incorrectly timed the market and missed those top months.

A Wealth Management Systems study proves the point using the S&P 500 over a three-decade period from 1985 to 2014. $1,000 left invested over that period would be worth over $25,000. Miss the 10 top-performing months and your returns slump to under $10,000; miss the 20 top-performing months and you’d have less than half of that.

This phenomenon is not just confined to US or global markets. Research on South African markets shows that a R100 investment on the JSE (using the All Share Index as the proxy) would have grown to R1,760 over the two decades between 1995 and 2014. If you’d missed the 10 best days, your investment would be worth almost half that (R965). Miss the 60 best days and your investment would be worth a tiny R143.

The research helps to illustrate the point that it really is in the best interest of an investor to rather just stay fully invested in the market for as long a time as possible, especially during volatile periods. It shows the dramatic negative effect on an investor’s return, if one were to miss a miniscule period of strong market performance, stretched over such a lengthy amount of time.

Trying to time the market introduces unnecessary emotion into investing. A market’s best days tend to occur immediately after a market crash. Trying to time share purchases in a period of such enormous uncertainty is unworkable – precisely because of emotion.

Investors should look to follow a disciplined investment strategy, focused on asset allocation, diversification, investment selection and ongoing monitoring. The last of these means that even though you have a long-term horizon, you don’t simply buy and hold and ignore circumstances altogether. Any fundamental changes should trigger a review of your portfolio, with necessary adjustments.

There is one way to help offset market movements when buying; cost-averaging is a very important tool for an investor. This is when you invest an equal rand amount in an investment at regular intervals (debit orders work well), ensuring that the price you pay for the investment averages out over a period of time. When the price is high, you buy less; when the price is low, you buy more.

This may mean you miss out on some of the gains, but it certainly helps reduce the sting of downturns.

Questions & Answers

Greig Phillips, Junior Trust Officer, answers a question from one of our Trust Officers.

Q I often get questions regarding timing the market. Is it possible to determine when the right time to invest is? What is the right time to invest?

A They say that the best time to start investing is yesterday; failing that, there’s no better time to start right now!

This helps support the idea that for investors, “Time in the market is more important than timing the market”. This refers to the concept that it is better to have money invested in the financial markets for as long a time as possible, rather than trying to invest money at very specific times.

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How long have you been with Personal Trust?
I am in my 12th year as I started on 1 November 2006, and I’m privileged to say I have made some truly special friendships over the years.

What department do you work in and what is your role at Personal Trust?
I work in the Tax Department alongside Ronald Smith, who has guided and supported me through the tax minefields over the last 12 years. My primary focus is individual tax compliance for the departments overseen by John Le Roux and Keith Andrews ... but it doesn’t end there as I am also Ronald’s administrative support.

Tell us about yourself
I am originally a Jo’burg girl but have also spent an equal amount of time in Cape Town and was therefore schooled in both cities. I have lived and worked in Umtata in the Transkei, and absolutely loved it there before settling in Cape Town.
I have a beautiful adopted son Casey who is now 7 years old – he is the light of my life and keeps me very much on my toes!
I have two sisters and a brother, who all come along with very delightful nieces and nephews!

What are your interests?
I am an avid gym goer and very much enjoy running and have completed two half marathons, one being the Two Oceans. I have recently started hiking, which provides the ultimate food for the soul ... nothing beats being out on the mountain. My goal is to further my love for nature and pursue trail running.
I enjoy reading non-fiction books and have a vast collection of one of the bestselling authors, Joyce Meyer.
I am also very much an animal lover, especially the feline species!
I enjoy travelling and have been to Mombasa in Kenya, Mozambique, Sri Lanka (which I thoroughly enjoyed) and Thailand to celebrate my 40th birthday! As much as I enjoy travelling, family holidays in Scottburgh on the South Coast of Durban are an absolute must. I love swimming in the ocean and taking long walks on the beach.

In one sentence how would you describe yourself?
I am a very fun loving, caring, kind, honest, loyal and positive Sagittarian who wears her heart on her sleeve.
Renette Hendriks, Associate Director, summarises Ann’s life to date.

Mother, grandmother, great grandmother, Board member and former President of the International Reach to Recovery organisation, recipient of the Terese Lasser Award and the first South African to be elected Board member of the Union for International Cancer Control.

This is but a summary of the many achievements of this remarkable, yet humble lady whom I had the honour of interviewing for this edition of Personal Opinions.

Ann, who was born in Pretoria, spent her early childhood in Mozambique. She was sent to boarding school in Salisbury, in the then Rhodesia, at the tender age of five and matriculated from St Cyprian’s in Cape Town. She laughs when she recalls the fun they had on the school train which took a full five days to reach Cape Town from Beira!

Ann went on to study at the Central School of Speech and Drama in London and completed a teaching diploma at the University of London. She taught for a few years and became the proud mother of three children – Philip, Bridget and Nicola. Ann married her second husband Judge Jan Steyn during the time she was lecturing at the University of Cape Town in 1981. He sadly passed away in 2013.

It was after being diagnosed with breast cancer in August 1990, that Ann decided to become actively involved with Reach for Recovery, a NGO that provides emotional care and practical support to breast cancer patients and their families.

“With love and supportive care I began the journey to recovery and in the process learnt so much about myself. I also decided that I would find out everything that I possibly could about the disease of breast cancer and how it was treated. Whilst I was in hospital a volunteer, herself a breast cancer patient, had come to visit me. She was a Reach for Recovery volunteer and her presence showed me that here was life after breast cancer. I decided that I too would train as a RFR volunteer and help other women on their journey of recovery. And so began my journey with an organisation that in time became the centre of my working life.”

She served the national organisation as National Coordinator from 2002 to 2006, developing training programmes for new volunteers and establishing Reach for Recovery groups in 14 African countries. Ann received The Terese Lasser Award at the Reach to Recovery International Conference in 2005. This prestigious award is conferred on a RRI volunteer who has introduced, initiated, or contributed to the development of new Reach to Recovery programmes in an exceptional manner. She was invited to join the international Board of Management of the organisation. Her work, both locally and internationally was only halted for a short period when she was diagnosed with breast cancer for a second time in 2005.

“In the intervening years since my first encounter with breast cancer, so much has changed for the better in the treatment of the disease and in the way surgeons and oncologists discuss treatments with their patients. Patients have the opportunity to be part of the decision-making in their treatment.”

In 2007, whilst still undergoing treatment, Ann was elected President of the International Reach to Recovery, a position she held for six years. During this time, she was also invited to serve on the Breast Health Global Initiative’s panel for supportive care, whose guidelines for international breast health and cancer control implementation in low and middle resourced countries are an invaluable resource for countries planning breast health policies.

Ann became the first South African to be elected as Board member of the Union for International Cancer Control in 2016, a position she currently holds.

“I have no idea what lies ahead of me. I only know that my breast cancer has enabled me to help other women, and to do things and go to places that I would never have done had it not been for that dreadful diagnosis. I don’t wish this disease upon anybody but, if it does come, use it as an opportunity to get your priorities in order and live your life to the full.”

This October will once again be a pink affair at Personal Trust with our fourth fundraising campaign in aid of Reach for Recovery, as part of Breast Cancer Awareness Month. Kindly contact us for more information in this regard.

Kindly visit http://www.reach4recovery.org.za for more information about this extraordinary organisation.
On 24 June, which was a cool Sunday morning after some of the heavy rain Cape Town has so desperately needed, Keith and Sandy Andrews and Phil and Sue Kilroe lined up at Meerendal Wine Estate for the first day’s challenge in the annual CA2CX MTB Tour – a 625km mountain bike tour from Cape Town to Knysna.

The Tour would comprise six legs on gravel over six days from Meerendal via Worcester, Montagu, over the Ouberg Pass in the Klein Karoo to Ladismith, over the Rooiberg Pass near Calitzdorp to Oudtshoorn, down the Montagu Pass to George, before travelling over the seven passes on the old road from George to the finish in Knysna.

Although Sandy had completed the tour in 2017, the rest of us had never attempted a challenge like this before. The 60 participants were grouped into three groups in order of ability with the three novices Keith, Phil and Sue lining up in Group Three and Sandy in Group Two.

A normal day for our calibre of cyclist varies between seven to ten hours on the road averaging a speed of between 14-18km/h. Anybody who has spent that much time in the saddle will tell you that it is taxing on your body, particularly the nether regions!

Every stage of the tour was challenging in different ways – whether it was the early morning Karoo cold, the dust, the mud, the mechanical issues, or the seemingly never-ending mountain passes. Having said that, there can be no better way to take in the beauty of the wonderful landscapes we passed through, than when “taking the road less travelled” on a very slow-moving bicycle! We appreciate we are very privileged to have been able to take part in such an event.

The tour had a charitable purpose too in that it raised funds for Die Herberg Orphanage which is situated in Robertson. Die Herberg was founded in 1918 to look after children orphaned by the Spanish flu of that year, and 100 years later it continues to provide an invaluable service to the community. We were fortunate to stop at the orphanage on the second day to see the wonderful work that they do. On behalf of the four of us we are very grateful to Personal Trust, The Nussbaum Foundation and the family and friends who sponsored us per kilometre and enabled us to raise funds for this very important cause.

Philip Kilroe, Trust Officer, shares some of the highlights and challenges experienced whilst cycling to raise funds for Die Herberg Orphanage.
Wednesday 18 July marked the centenary of the birth of Nelson Mandela and, as has become customary at Personal Trust, the staff took the opportunity to reflect on his life and his contribution to the people of South Africa by spending time giving back to society. This year, the Animal Welfare Society (AWS) in Philippi was the beneficiary. In the run up to Mandela Day, staff collected blankets, dog/cat food and other treats for the animals which were handed over on the day. In addition, Personal Trust contributed towards the upgrade of the outside reception area and facilitated the transport of our staff to the Society to spend 67 minutes interacting with the dogs and cats that are so well cared for by the AWS.