2018 Corporate Report
Welcome, Clayton Hetherington
Market developments and 2019 expectations
Testamentary Trusts
Eggs in one basket?
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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On 11 November at 11.00 a.m., memorial services were held around the world in memory of the signing of the Armistice ending the 1914-1918 First World War. The following is an abridged version of an article written for Armistice Day.

The number of war casualties can never be known – estimates vary between 9 and 12 million – nor can the number of physically or psychologically disabled ever be determined. Over 70 million men were mobilised, thus one in eight of those who served was killed or died on active service. The war saw the end of Cavalry as a weapon of war. The equine mortality rate has been estimated at 1:3 to the human losses – thus, conservatively, over three million horses perished. Michael Morpurgo’s novel, Warhorse, and the subsequent film accurately portray a horse’s life during the war.

Until the Great War, military tactics were centred around the ideology of open warfare. Particularly on the Western Front, trench warfare became widespread, while barbed wire was utilised as an obstructive device in front of the trenches. The development of the machine gun made “going over the top”, to attack opposing trenches, well-nigh suicidal. In late April 1915, at the Second Battle of Ypres, the Germans used gas as an attacking weapon.

We have all read of the Western Front battles: amongst others, the four-month Battle of the Somme during which the British introduced tanks. That, however, was only one theatre of war and one kind of war.

At sea, the new battleships (Dreadnoughts) engaged one another at a distance, as they did at the June 1916 Battle of Jutland. Submarines had been invented and, here, Germany initially had the advantage with its U-boats exacting a tremendous toll on British shipping. When the Second Boer War ended in 1902, the Wright brothers had still to get off the ground. Yet by 1914 Germany had the advantage with its U-boats exacting a tremendous toll on British shipping. When the Second Boer War ended in 1902, the Wright brothers had still to get off the ground. Yet by 1914 Germany had

The rand’s volatility reminded one of the defunct Ratanga Junction ‘rollercoaster’, while the Land Expropriation issue remained as an ever-present spectre.

Mid-month, Moody’s was again in the news – upgrading its outlook on local banks from negative to stable, but placing MTN on review for downgrade. Also in mid-September, the Organisation for Economic Co-operation and Development [OECD] announced that South Africa’s GDP was the lowest among G20 countries.

Cyril Ramaphosa’s Economic Recovery Plan, announced on 22 September, was in the main well-received, the project aiming to stimulate economic recovery and address urgent challenges in the Agricultural, Manufacturing and Tourism sectors and also the Health and Education spheres.

On 4 and 5 October, at the Jobs’ Summit held in Midrand, the President announced plans for a partnership between government, business, communities and labour to stimulate employment. Unfortunately, the day before the summit, the petrol price increased by R1 per litre and the National Energy Regulator of South Africa (Nersa) granted Eskom permission to increase tariffs in April 2019.

The closing of the Jobs’ Summit conference coincided with Finance Minister Nhlanhla Nene’s resignation over undisclosed meetings with the Guptas. Four days later the Treasury was in the hands of former Reserve Bank governor Tito Mboweni – our sixth such appointment in five years. Mboweni had the immediate task of having to prepare the Medium-term Budget Policy Statement.

News kept coming thick and fast: the VBS bank ‘heist’; the Post Office in serious financial difficulty; and, on 16 October, Judge Nugent’s recommendation that the President replace suspended SARS Commissioner, Tom Moyane – immediately.

What was reassuring about Tito Mboweni’s MTBPS was that we were given an honest picture of our economic situation. The bloated public sector and concomitant prodigious wage bill; another R5 billion to be paid into the insatiable maw of SAA; the increasing cost of financing the government’s debt … genuine and forthright admissions by a Finance Minister who, in the space of three weeks, has obtained our trust and confidence. Ed [24/10/18]
With the anti-climax to the Currie Cup season now firmly behind us (well, for us Western Province supporters, anyway) it is sobering to look at the year that is now drawing to a close and reflect on the various developments.

What started as a year filled with high hopes, for a Ramaphosa led “New Dawn” in the Southern tip of Africa, has played out to be yet another year full of emotional twists and turns for the retired investor.

Where has the trust gone?

For me, a theme that has emerged in 2018 is one of Trust Deficit. Local and global organisations/institutions seem to have taken a massive step backward on the trust scoreboard, and this is an important dynamic to understand for people in our line of work.

Here are some of the headline developments we have had to digest:

- State capture and the professional firms implicated, including KPMG, McKinsey, Trillian, etc
- Steinhoff – one of South Africa’s biggest corporate meltdowns
- VBS Mutual bank and the missing R2 billion
- The resilient stable of companies: share manipulation allegations which caused a sell-off that cost almost R120 billion
- SARS Inquiry and the questionable quality of some individuals at the helm
- Trump-led trade war
- Brexit negotiations and possible knock-on effects. The rise of Euroscepticism.

It is clear that in each of these cases, public trust in the business or economic system has diminished significantly. There are lessons to be learnt, especially for a young developing nation like South Africa and indeed the entire SADC region.

The foundations of the modern economy are built on trust. The economic decision to save (delay consumption) is based on the belief that the opportunity to consume more tomorrow will be there. Where that assumption does not hold, there is no incentive to save. The cost of low trust is significant. In institutions of low trust, you find higher beaurocracy. Ultimately, the extra costs lead to inefficiencies. It is thus important that those responsible are held to account where necessary.

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Ten years since the global financial crisis

2018 marks ten years on from the start of the global financial crisis. This was the global crisis where banks failed and government institutions were bailed out, leading to a sustained low-interest rate environment as authorities looked to create a conducive environment for recovery.

While the global economy faces new challenges, it is worth remembering that the world did not come to an end in 2008. From what seemed like the brink of collapse, a diversified long-term focused global portfolio is now doing significantly better than where it would have been ten years ago – for the investor who did not panic.

Markets move in cycles and history tells us to expect a few more crises in the future. Sound investment principles and a long-term perspective help us to use these crises to our advantage and to look to buy good quality companies when the markets are fearful.

Personal Trust highlights

2018 has been a positive year for Personal Trust:

- We remain client-driven and continually focused on our service levels.
- As a result of this, we have seen another good year from a New Business perspective. Our Funds under Administration are now R17.9 billion.
- Two of our flagship funds, managed by Glenn Moore, have recently completed ten years – providing good returns for our clients along the journey.
- The business has embarked on a Vision 2030 exercise. The primary focus is mapping out what we need to put in place to ensure that our business continues to thrive into 2030 and continues to fulfill the promise of facilitating intergenerational transfer of wealth for our clients and their families.
- We celebrated some significant service milestones this year. The following staff members have shown tremendous loyalty to our business and our clients:
  - Glenn Moore 30 Years
  - Terry Miles (consultant) 30 Years
  - Jeanine Koopman 25 Years
  - Lorraine White 20 Years
  - Gwyn Wepener (nee Howes) 20 Years
  - Constance Crafford 20 Years
  - Mandy Sikawuti 20 Years
  - June Forte 15 Years
  - Khaya Sontsele 15 Years
  - Lucindi van Wyk 10 Years
  - Kristin van den Berg 10 years
  - Lister Schierhout 10 years

Almost time to say goodbye

Unfortunately, 2018 also brings to a close Peter Doyle’s time with us. Peter joined Personal Trust as a Non-Executive Director in 2009 and has, over a ten year period, in his own quiet yet assured way, made a significant contribution to our success as a business. Before he joined our Board, Peter was Chief Executive of Metropolitan and had successfully led that business into becoming one of the leading life insurance-based financial services in Africa.

Peter has decided to slow down and would like to spend more time with his family and travelling, and as such will step down at the end of this year. On behalf of the Board, our staff and clients we thank Peter for his dedication and service.

Thank you

In closing I would like to say thank you, once more, to our valued clients for your continued support. Without you, we do not have a business.

I would also like to thank my fellow Directors for your continued support and guidance over the last four years in my role as Managing Director.

A huge thank you to our staff who put in the hard work and go the extra mile to make sure we deliver on our promise.

Safe travels and happy holidays.
Earlier this year we welcomed Clayton Hetherington to the Personal Trust family.

Clayton has joined the Personal Trust Board as a Non-Executive Director and will also serve on the Personal Trust Audit Committee. Clayton was, until March 2017, a full-time director at Allan Gray where he served in various capacities including being a member of Group Exco, heading up the group financial function, and overseeing a retail financial division as well as Allan Gray’s overall governance operation. After leaving Allan Gray, he co-founded a business that provides fintech solutions. Clayton is a chartered accountant and trained with Deloitte in Cape Town.

The skills and wealth of appropriate experience that Clayton brings to Personal Trust are most welcome as part of the team and will complement the existing Board and Audit Committee contributors, and greatly assist in executing their mandates effectively in the current economic environment.

Clayton is a proven business leader and brings substantial investment industry experience and expertise. When Clayton joined Allan Gray in February 2001, there were less than 100 staff members. He was part of the team that grew the business into the formidable company that it is today. Allan Gray now manages funds in excess of R600 billion and has well over 1,000 staff members.

Born and bred in Cape Town, Clayton is excited about the next phase of his life which he says will give him more flexibility and time to enjoy his family, whilst continuing to help build businesses that are focused on great outcomes for Personal Trust clients. Clayton is married to Sally Lucy Hetherington, and they have two daughters.

At Personal Trust, we are all excited to have Clayton on board. We are confident that his skills and ideas will strengthen Personal Trust as we continue our mission of being the best small Trust Company in the Cape and beyond.

The February Budget Speech made some changes to how South Africans abroad will be taxed. The main exemption is the 183/60-day exemption found in section 10(1)(a)(ii) of the Income Tax Act (ITA).

What is the impact of these new provisions?

Section 10 of the ITA exempts income for services rendered outside South Africa for periods exceeding 183 days in a 12-month period, of which at least 60 must be consecutive. This relates only to employment income and not to other types of income such as rent, interest or investment income. It is also not available to self-employed persons or sub-contractors. The historic position was that any employment income received or accrued during such absence from South Africa would be exempt from taxation in South Africa. The new law proposes that the first R1 million of foreign remuneration will be exempt from tax in South Africa if an individual is outside the Republic for more than 183 days, as well as for a continuous period of longer than 60 days during a 12-month period. The exemption threshold should reduce the impact of the amendment for lower- to middle-class South African tax residents who earn remuneration abroad. The exemption also means it is unlikely that South African tax residents in high-income-tax countries will have to pay any additional top-up payments to the South African Revenue Service. This will come into effect on 1 March 2020.

What about your historical earnings?

If you complied with the existing legislation, you will not have any issues with SARS. You should have filed your annual tax returns and declared your foreign exempt income. If you haven’t, this would need to be rectified.

Determine whether these new provisions will apply to you:

The first port of call would be to determine your residency for South African tax purposes. This will give you certainty in terms of your position and your available options. Whilst you may be outside South Africa for more than 183 days, even for a few years, you may still be regarded as being ordinarily resident in South Africa. If your intention is to remain abroad, you may wish to consider formal emigration as opposed to a mere relocation.
The role of Testamentary Trusts in Estate planning

Renette Hendriks, Associate Director and Legal Advisor, tells us why Trusts are still a viable option.

We are often asked if Trusts — and in particular Testamentary Trusts — are still useful for Estate planning purposes, in light of the bad press that Trusts (with specific reference to the taxation thereof and the introduction of section 7C of the Income Tax Act) have been getting in the last two years.

What is Section 7C and is it applicable to Testamentary Trusts?

The new section to the Income Tax Act that came into effect on 1 March 2017 contains measures to prevent Estate Duty and Donations Tax avoidance through the transfer of assets to Trusts by making use of interest-free loan accounts.

Assets can be transferred to Trusts in one of the following three ways, each giving rise to different tax consequences:

1. By way of a donation: This will trigger Donations Tax at 20% of the fair market value of the assets in the hands of the donor. Where the assets so donated are worth more than R30 million, donations tax will be levied at 25% on the amount exceeding R30 million. The attribution rules, contained in sections 7(3) to 7(8) of the Income Tax Act, may further also apply to income earned by the Trust as a consequence of the donation and will effectively be taxed in the hands of the donor;

2. By way of a bequest to either an existing Trust or a Testamentary Trust. This may be subject to Estate Duty in the estate of the deceased; or

3. By way of a sale of assets to a Trust on loan account. The transferor will be taxed on the interest received from the Trust as a result of the loan. Traditionally, such loans have been made interest-free.

The last option results in a reduction of Estate Duty and Donations Tax as a result of the loan. In addition, the transferor can use his annual donations tax exemption of R100,000 to reduce the loan over time. Prior to the introduction of section 7C, the fact that no interest was paid by the Trust on interest-free loans meant that the transferor would also not be exposed to tax on income that would otherwise have arisen in his hands, unless the attribution rules referred to above would apply.

With the new measures in place, interest-free loans, or loans on which the interest rate charged is less than the official rate, will result in the difference being taxable in the hands of the lender. Such amounts deemed as income in the hands of the lender will also not qualify for the section 10(1)(i) interest exemption. It is important to note that these provisions are not applicable to Special Trusts.

Where assets are introduced to a Testamentary Trust by way of a bequest rather than a loan account, Section 7C will thus not apply.

Why would one make use of a Testamentary Trust?

Testamentary trusts are one of the best vehicles used to protect assets against life’s uncertainties such as divorce, second marriages, minor beneficiaries, disability, to name but a few. I will briefly touch on two of these:

1. Maintenance of a surviving spouse

We live in a society where surviving spouses are often left unprotected, as it were, against financial predators, and without the knowledge or tools to manage their own affairs. Second marriages, where the need may arise to cater for the needs of the surviving spouse while ensuring that the capital is preserved for the children of the deceased, is a common Estate planning need that one has to cater for. Leaving assets to a Testamentary Trust will ensure that the assets are protected for future generations and administered to the best benefit of the surviving spouse from a maintenance point of view for his or her lifetime. If the surviving spouse is further granted the right to the income of the assets so held in Trust, effectively creating a usufruct in his or her favour, the value of the right can be calculated and deducted in terms of section 4q for Estate Duty purposes.

2. Minor beneficiaries

If the possibility exists that a person under the age of 18 years may become entitled to a benefit in terms of your Estate, be it directly or as a consequence of representation, a Testamentary Trust should be included in your Will as a standard provision, allowing for the funds to be invested and administered for the benefit of the minor. In lieu of these provisions, the funds will be held and administered in the Guardian’s Fund of the Master of the High Court. The Guardian’s Fund pays interest to the Guardian of the minor on an annual basis only. The asset allocation in the fund is also not geared to cater for the needs of specific individuals. This makes tax and planning from a capital growth and inflationary point of view quite tricky. The amount of capital that can be withdrawn from the fund is further limited to R250,000, until the minor reaches the age of 18 years, regardless of the amount so held in the fund. If the interest is thus not enough to cater for the needs of the minor or in case of an unforeseen emergency, the available capital to cater for this shortfall is limited. It is further important to note that only monetary assets can be held in this fund. If a minor were to inherit a fixed property, the property will be registered in his or her name and can only be disposed of with a High Court order. If the property is held in Trust, the Trustees may dispose of any asset if it is in the best interest of the beneficiary concerned.

The benefits of Trusts still outweigh the initial and ongoing administration costs thereof. As for the argument that Trusts are expensive vehicles from an income tax point of view, it is true that income retained in Trust is taxed at a rate of 45%, but in most instances Trust income can be distributed to the beneficiaries who are in turn taxed at their individual tax rates. Capital Gains Tax (CGT) is higher in a Trust’s hands than in an individual’s. However, again, the terms of CGT are very similar to income tax for Trusts so gains can still be distributed to the beneficiaries, making Trusts at worst tax neutral.
The year end and the morning after.

Mark Huxter, Fund Manager, and Anda Tyali, Junior Equity Analyst, look back at market developments, and analyse what to expect going into 2019.

The pace and quantum of the Fed’s rate-hiking cycle has proved to be the bedrock upon which fund managers have constructed their theses on asset allocation in 2018. In addition to this, US fiscal and foreign policy has provided plenty of volatility, as evidenced by the Volatility Index (VIX), while the global economy has moved away from the previously assumed synchronized growth path.

In the EU, we saw a rolling over of most of the relevant data prints. GDP (2.1% in the second quarter of this year, quarter-on-quarter) has been in decline since the third quarter of 2017 (3Q17), when it hit 2.8%. Growth in the EU over the past decade had been export led; this meant that the trade war posed a significant downside risk to prospects in the region. Additionally, Brexit uncertainty and the accompanying political tumult drove sentiment in the region over the course of the year.

In Emerging Markets (EM), sentiment surrounding the deleveraging and reconfiguring of the Chinese economy was derailed by the trade spat. We saw Chinese GDP growth ease from an annualised 6.9% in 3Q17 to 6.7% 3Q18, driven by a broad-based slowing of output across sectors. China is the driver of incremental growth in commodity demand and, as such, this turnaround in sentiment around their economy led to a softening of data coming out of the broad EM. The US dollar rebounded in 2018, gaining 7% year to date (YTD) as at October 17; in the same period, Brent Oil prices rose 25%. Overlaying these factors with contagion risk spreading from countries such as Turkey and Argentina, we found that broad EM currency weakness was the inevitable result.

This outflow naturally seeped into equity and bond markets, as we saw indices across the world (ex-USA) give up 2017 gains. As at 15 October, the All Share Index (ALSI) and the All Bond Indices (ALBI) were, respectively, down 9.52% and 3.38% YTD. An examination of sector performance reveals that financials (-16%) and listed property (-28%) were the laggards of the ALSI, both experiencing selling pressure on macro weakness, driven by lack of consumer and business confidence. Consumer services (-18%) were down due to Naspers-related selling. Offsetting this negative performance were the mining (+15%) and chemicals (+19%) sectors. Miners were buoyed by perceived industry-wide balance sheet strengthening and lowering of cost curves, in conjunction with improving demand. The chemicals performance was driven by Sasol, which was strongly bid on rising oil prices and a weaker rand.

This risk-off sentiment spread to Europe and Asia, where the Stoxx 600 (a Stock Index of European Stocks) fell 4.83%, and the Hang Seng – a proxy for China’s CSI 300 (a capitalisation-weighted stock market index) – giving up 13.78% on the year. The only positive lights among the world’s major averages were in the US, where the S&P 500 was called 4.45% higher, with the tech-heavy Nasdaq gaining 8.53%.

Market attention was focused on the September Federal Open Market Committee (FOMC) meeting. While a rate hike was priced in, investors focused keenly on forward guidance. The FOMC, for the first time, did not characterise its monetary policy as “accommodative”. Expectations of economists are that the Treasury yield curve could well resume its flattening trend, going forward. US equity markets did not react positively to these developments, with the S&P 500 giving up as much as 7% in the two weeks following the announcement and the 10-year Treasury yield increasing by as much as 6% over the same period, leading to a steepening of the US Treasury Yield Curve. This was followed by mixed sentiment for global stocks at the time of writing; with the trade dispute between the USA and China taking place in an increasingly emotive and unstructured way. Additionally, the World Trade Organisation has, unlike in previous decades, remained silent on the issue, leaving open-ended the potential of the “trade war” as a “Black Swan”.

Two troubling sub-trends have emerged recently: firstly, the ongoing divergence between the major equity barometers (i.e. the USA and the EU/EM) and, secondly, the general lack of breadth (broad-based buying) in equities. This is a macro-thematic trend to watch and which was reinforced by the decision of the Morgan Stanley Capital International (MSCI) to add China A-shares to its emerging market indices. Once China has completed its period of
Therefore, our bias dictates a moderate stance and an underweight strategy and an underweight position in EM equities, credit, and currencies versus their US/Developed peers. In December 2018, we recommended a defensive strategy and an underweight position in EM equities, credit, and currencies versus their US/Developed peers.

We maintain our positive focus on equities; with a preference toward participation in the rebound through continued US strength in Financials, Technology and EM (Asia) rather than Europe. We note that commodities have performed well at this late stage in the cycle; the caveat being that China does not experience a “hard landing”. The US economy looks to remain strong into 2019, with the fiscal stimulus still providing a big boost but, looking beyond headline GDP growth, there are signs that rising interest rates and the resurgent dollar are already beginning to weigh on activity.

History suggests that a flattening of the US Treasury yield curve will reduce investors’ appetite for risk assets both in the US and the rest of the world, including in EM. So, risk premiums on EM local currency bonds would probably increase again. The spread of the JP Morgan Emerging Markets Bond Global Index (EMBI Global) – of sovereign dollar bonds – tends to rise when US equities slide, and we think that it will rise by almost 150 basis points by the end of 2019. A similar rise in the risk premiums of local currency bonds would probably outweigh any downward pressure from rate expectations, in most cases.

In fixed income, after the September Fed meeting, USD government bond yields – especially at the longer end of the curve – came down after experiencing a significant yield increase in 2018. Thus, the longer-term bonds are more at risk of delivering negative returns; particularly in Europe and Switzerland over the next 6-12 months. USD local currency bonds may be more interesting buying levels into 2019. With conditions tightening in EM, we reiterate the preference for sovereigns relative to corporate bonds, especially for longer-term investments.

In the Forex space, in the short term, a positive stance on some high-beta currencies such as the ZAR is warranted; which should also boost the performance of local bonds. In this environment, EM equities should also outperform EU stocks. However, into 2019, continued FED rate hikes will weigh on EM currencies. This in turn has cemented expectations for tighter monetary policy in EMs as some central banks try to offset currency weakness with rate hikes. For EUR/USD a descent into the $1.10 to $1.12 range over the next six months is probable. Therefore, we remain constructive on USD and Yen. We believe that the Brexit saga will end with a soft deal being struck; therefore, our bias dictates a pound-positive view.

In the oil market, we think that the worst fears over oil supply will not be realised and that slower growth in global demand will prompt a significant fall in the oil price in 2019. The case for gradual rate hikes will curtail any market enthusiasm for precious metals, unless the FED moves very aggressively and totally derails the global economy, thus rending gold the most compelling choice for a safe-haven store of value. Real Estate Investment Trusts (REITs) offer some value in specific geographies. We will pay particularly close attention to trends in US/EU warehousing, for its links to the ecommerce boom, and retail in Eastern Europe, which is still experiencing world-leading GDP growth rates and middle-class proliferation.

In South Africa, the latest Purchasing Managers’ Index (PMI) figure reinforces our view that our country’s economy will remain weak over the remainder of the year. This is further supported by the fall in the new export orders component of the global PMI to its lowest level since May 2016, underlining world trade weakness, and supporting the view that global growth peaked in the second quarter. We think growth will slow further over the next two years as the US and China lose momentum. Further, the impact of less corporate profits, tariffs and increasing populist policies that are on the increase, declining commodity prices, and widening credit spreads raise concerns about our economy and the political state of play.

President Ramaphosa outlined a stimulus package in September that aims to kick-start the economy by reprioritising the current expenditure mix to target growth- and employment-generating projects. The key aim of the package is to improve implementation. It is positive that the drive for successful implementation is coming directly from the President, who needs to face off against the faction coalescing around the remnant authority of Zuma.

However, South Africa’s materially weaker medium-term growth outlook, alongside a fall in commodity prices, implies a weaker fair value of the rand. To safeguard the value of the currency and assist the rand to strengthen, some economists expect the Monetary Policy Committee (MPC) to hike the interest rate by 25 basis points before year end. If current positions persist, there is a chance that the SARB could act again in 2019. We continue to recommend a defensive strategy and an underweight position in EM equities, credit, and currencies versus their US/Developed Market peers.
"My eggs are not in one basket ..."

Are you sure?

We often hear clients say that they do not want to have all their eggs in one basket, and I am quite certain that we all know the various types of eggs we have and how many of each. Where I do believe most people get it wrong though is when it comes to the basket. So, if eggs refer to financial assets, the question we need to ask is what exactly is meant by “the basket”. The whole concept of the “eggs in one basket” metaphor alludes to the financial concept of diversification.

The main purpose of diversification in an investment portfolio is to generate on average a higher return at a much lower risk, as opposed to holding any one type of investment at a time. This objective is achieved by mixing a wide variety of investments and asset classes in a portfolio, with the goal that the positive performers will neutralise the effect of negative performers. To understand how this process works, we need to understand the concept of correlation. Correlation determines how different assets react to market stimuli and can be positive, negative or neutral e.g.

- **Positive correlation**: If one factor increases, the other factor will also increase e.g. if the oil price increases, the fuel price will also increase.
- **Negative correlation**: If one factor increases, the other factor will decrease e.g. if the oil price increases, airline stock will tend to trade at lower levels.
- **Neutral correlation**: A factor has no influence on the other factor: e.g. the oil price has no bearing on how many t-shirts a person purchases.

Portfolio managers use various assets with their respective correlation profiles to achieve the required diversification target for a specific portfolio. If an individual investor decides to add assets or investments to diversify his portfolio, the addition thereof ideally should lower the risk of the portfolio but still add to the total return. To add assets or investments at random, without understanding the correlation between them, can lead to increased risk inside the portfolio with neutral returns or even substantial losses.

This concept of diversification has been translated by many people to include spreading their funds between different investment managers. Although there is some merit to this view, in particular where there is doubt as to the financial soundness of a company, this is one area where people get the “basket” wrong. As an illustration let’s assume a person allocates R500,000 each to three different investment managers. Manager A invests the R500,000 in an Exchange-Traded Fund (ETF); Manager B invests the R500,000 in a General Equity Fund; and Manager C invests the R500,000 in his own In-House Equity Fund.

Tabulated below are examples of the top 10 holdings of each of these funds:

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<td>Old Mutual</td>
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<tr>
<td>Mondi</td>
<td>MTN Group</td>
<td>British American Tobacco</td>
</tr>
<tr>
<td>BTI Group</td>
<td>British American Tobacco</td>
<td>BHP Billiton</td>
</tr>
<tr>
<td>ATN Group</td>
<td>Mondi</td>
<td>Shoprite Holdings</td>
</tr>
</tbody>
</table>

The top 10 holdings in each of the funds are very similar. Is the person’s portfolio diversified? NO. Are all the eggs in one basket although it is spread between three different investment managers? YES.

The same scenario occurs where investors deposit funds in:

- a) a Money Market Fund with Bank A
- b) a Call account with Company B and
- c) a three-month Fixed Deposit with Bank C.

Even though there are three separate managers the funds are still in one basket, namely cash deposits.

It would be sensible to utilise various investment managers in instances where the investment manager is chosen for a specific expertise or service not offered by others, for example Offshore Trust management, Forex Trading, venture capital investment, derivative trading and so on. However, the reason to do so must be for a clear and specific purpose to achieve a financial objective.

Furthermore, people are often reluctant to divulge to an investment manager or financial advisor what they hold with other investment managers/advisors. There could be unintended consequences to the withholding of such information, namely:

1. **Incorrect risk allocation:**

   Investors have preferred risk profiles determined by various factors such as age, income requirements, investment horizons,
available capital etc. A financial advisor will plan a portfolio in accordance with the preferred risk profile of the investor. If the advisor is unaware of other investments he could unwittingly over-expose the investor’s portfolio to high risk investments or under-expose the portfolio to growth assets, negating the objectives of the planned financial strategy.

2. **Adverse tax implications:**

   Financial advisors will endeavour to optimise the tax benefits available to each investor such as interest rebates, capital gains rebates etc. If an advisor allocates, for example, the full interest benefit, without knowing about other interest-bearing investments, it may lead to unforeseen and often substantial tax due to SARS.

3. **Little or no diversification of a portfolio:**

   Advisors will carefully select the appropriate funds/investments to contribute to the diversification inside a portfolio. Without knowledge of all investments it may occur that an investor may hold only one asset class such as shares or property.

4. **Estate Planning:**

   It is not possible to devise a proper estate plan without knowledge of all the assets owned by a client, with the subsequent estate duty implications.

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**SNIPPETS**

Malibuye Tom, Trust Officer, provides information on tax deadlines, the Consumer Protection Act and the SA National Road Traffic Act, amongst others.

**Correction from the Formal Emigration snippet (September 2018):**

South Africans who have formally emigrated and are younger than the age of 55 years are able to transfer (cash-out) their retirement annuities.

**UPCOMING 2018 TAX DEADLINES:**


**RSA RETAIL SAVINGS BONDS BENEFICIARY NOMINATIONS:**

With effect from 1 October, investors in RSA Retail Savings Bonds will no longer have the option to nominate beneficiaries to receive the proceeds on the investor’s death. Proceeds will now be paid directly into the deceased’s estate. Prior to this amendment, the investment was not tied up with the administration of one’s estate upon death if a beneficiary was nominated, as RSA Retail Savings Bonds constituted a deemed asset in terms of the Estate Duty Act and therefore were only added to the calculation of estate duty. The amendment will now include the investment in the administration of one’s estate.

**ACCORDING TO FNB’S AUGUST HOME PRICE INDEX:**

- 96% of sellers have had to drop their selling price
- The average time of homes in the market is 114 days
- The selling of residential property due to emigration has doubled since 2013
- Secondary home ownership has been flat for the last five years.

**ACCORDING TO REGULATION 308A OF THE SA NATIONAL ROAD TRAFFIC ACT:**

Your insurer may not cover any claims in lieu of loss, damage or injury caused to others or suffered by you if you are found to have been operating a mobile phone or any other communication device (this includes tablets, laptops etc) with one or both your hands while driving.

**THE CONSUMER PROTECTION ACT (CPA), PROPERTY TRANSACTIONS AND THE VOETSTOOTS CLAUSE:**

The Act will only apply if the seller is a supplier in terms of the Act, and he/she would only be a supplier if selling in the ordinary course of business. The average home owner is not in the business of selling property and therefore doesn’t fall under the Act, and as such the seller cannot be held liable if there are any voetstoots clauses contained in the contract. Developers and property investors, however, are in the business of selling and have to comply with the Act — this means that any voetstoots clauses contained in their contracts do not apply.

**Portfolio Composition**

<table>
<thead>
<tr>
<th>Portfolio Composition</th>
<th>% of Equity Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prudential Balanced Fund</td>
<td>25%</td>
</tr>
<tr>
<td>Coronation Balanced Plus Fund</td>
<td>19%</td>
</tr>
<tr>
<td>Aylett Balanced Prescient Fund</td>
<td>18%</td>
</tr>
<tr>
<td>Allan Gray Balanced Fund</td>
<td>17%</td>
</tr>
<tr>
<td>Investec Opportunities Fund</td>
<td>16%</td>
</tr>
<tr>
<td>Cash</td>
<td>5%</td>
</tr>
</tbody>
</table>

So, identifying the “basket” is not as easy or transparent as it may seem. Although the accumulation and utilisation of our eggs are a very personal business, we strongly advise you to seek guidance from an independent financial advisor to assist you with identifying the appropriate collection of baskets unique to your circumstances and financial objectives.
I keep hearing mention of the Fourth Industrial Revolution. What exactly is all this talk about?

So here we are … the Fourth Industrial Revolution (also known as Industry 4.0), is unfolding before our very eyes. It is the current and developing environment in which disruptive technologies and trends such as the Internet of Things (IoT), genetic engineering, robotics, virtual reality (VR), artificial intelligence (AI), 3D printing & quantum computers, to mention a few, are changing the way we will live and work.

At its core, the Fourth Industrial Revolution is driven by the convergence of digital, physical and biological systems. By collecting and analysing data from machines and robots, we will be able to gain insights into the health and performance of industrial installations, allowing us to optimise their operation to increase uptime, speed and yield, enhancing efficiency for instance.

This Revolution builds on the previous revolutions, which began back in the 18th century, with the First Industrial Revolution, the invention of the steam engine – this made mechanisation happen at a faster pace.

The Second Industrial Revolution used electricity to create mass production, and the Third (Digital) Revolution used electronics and information technology (IT) to automate production and use computing power to solve problems.

The main difference between previous revolutions and the Fourth is the pace at which the change is happening. The current breakthroughs are happening at a rate unprecedented in history with an unparalleled scale of disruption; today, every industry is being transformed at an accelerating speed. As we implement ‘smart’ technologies in our factories and workplaces, connected machines will interact, visualise the entire production chain and make decisions autonomously. Specific areas of interest that will offer exciting potential for breakthroughs include health care, the ability to empower more people worldwide to become entrepreneurs or access education, and the chance to drive innovation across many sectors. These are some of the welcome prospects.

In the years ahead, essential infrastructure – such as the energy grid and the water supply, as well as industry and our transport networks – will increasingly be controlled and operated by autonomous systems.

Think of previously unimaginable ideas such as human organ manufacturing, which is the production of human organs and tissue, including kidneys, livers and lungs, fabricated from the recipients' own cells. It’s called bio-fabrication. Think of a future where meat can be produced on a massive scale without the need to slaughter any animals (known as lab-grown meat); creating the meat product from an animal’s cells. For instance, there is already a company that has started making chicken nuggets, simply by using cells from chicken feathers. These are just some of the amazing concepts that could soon start to reshape and impact the way we live and run our daily lives.

New opportunities will be created, which will allow humans and machines to collaborate all over the world, giving a much greater possibility of making real improvements to the standard of living to all, across the Globe!

For the businesses in Africa, the Fourth Industrial Revolution will create a tremendous opportunity to raise our competitiveness globally, and also to give us the chance to play a more pivotal role in shaping the future of this continent. For governments, it will offer innovative solutions to pressing infrastructure challenges and new possibilities for tackling societal issues and imbalances related to education and employment.

All the previous industrial revolutions created many more jobs than were ever lost, so the net effect on job numbers was actually positive, mainly through the creation of new industries and business models, and the need for employees that could adapt to the changing times.

One would imagine that the Fourth wouldn’t be any different, especially considering that the countries which have most readily adopted automation and robotics, such as China, Germany, Japan and South Korea, all stand out for the competitiveness of their industries and their low levels of unemployment.
Anne Macdonald, Client Wellness Advisor, explores the cost of living in a retirement village versus staying at home.

To move or not to move?

The question is: what is the best way to afford and achieve the lifestyle you want in your retirement years?

As we get older, many of us feel certain we want to stay in our own homes for as long as possible. But there’s a strong argument to consider moving to a retirement facility where there are more services, greater companionship, fewer stress factors and where monthly costs can end up significantly lower.

It is one of those BIG decisions! Which type of accommodation offers us the most value in the long run?

Let’s look at some general pros and cons, and then some financial ones:

### Staying in your home

<table>
<thead>
<tr>
<th>Positives</th>
<th>Negatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiar surrounds</td>
<td>Property may be too large</td>
</tr>
<tr>
<td>Known costs</td>
<td>Upkeep of garden / pool</td>
</tr>
<tr>
<td>Pets not an issue</td>
<td>Security</td>
</tr>
<tr>
<td>Neighbourhood/local amenities</td>
<td>Transport may be needed</td>
</tr>
<tr>
<td>Feeling of independence</td>
<td>May have to move house when frail if don’t move now</td>
</tr>
<tr>
<td>You probably like the style of your house!</td>
<td>Limited choice over house style and layout</td>
</tr>
<tr>
<td>Flexible meal times</td>
<td>If care is needed, this may mean cares in your home 24 hours</td>
</tr>
</tbody>
</table>

### Living in a retirement facility

<table>
<thead>
<tr>
<th>Positives</th>
<th>Negatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>New beginning</td>
<td>Unknown environment</td>
</tr>
<tr>
<td>Save money on some living expenses due to economies of scale</td>
<td>Increased costs of healthcare as required</td>
</tr>
<tr>
<td>Companionship</td>
<td>Healthcare services may be limited</td>
</tr>
<tr>
<td>Healthcare supervision/frail care</td>
<td>Levies with yearly increments</td>
</tr>
<tr>
<td>Design of units usually disabled/friendly</td>
<td>Less independence</td>
</tr>
<tr>
<td>Catering often offered</td>
<td>Everyone is of a certain age</td>
</tr>
<tr>
<td>Added security</td>
<td></td>
</tr>
</tbody>
</table>

Some stats and facts:

- A former nursing services manager for the CPOA (Cape Peninsula Organisation for the Aged) says that most CPOA-associated homes and villages offer frail care. Many now also offer in-house care or part-time care, which can delay the need for frail care. Property24.com/articles/home-based-care-vs-retirement-village-what-to-know-November-2016.

- The facilities offered by retirement villages vary greatly – the table on the right compares home living expenses with those of a retirement village in Somerset West.

| Bridgewater Manor: Comparison of monthly Household Expenses vs Levies 2017/2018 |
|---|---|---|
| **Approximate Monthly Major Expenses** | **Bridgewater Manor: Monthly Levies** |
| For an average single person living in their own home | For one person in a cottage |
| **Food** | R 3,500 | R 4,400 |
| **Household Expenses** | R 7,755 | |
| Water, rates, electricity and gas | R 1,500 | |
| Insurance (Building) | R 400 | |
| Security Alarm | R 350 | |
| Maintenance, Services and repairs | R 400 | |
| Painting and Plumber | R 600 | |
| Garden Services | R 600 | |
| Gardener (if a week wages, pension, UIF) | R 400 | |
| House Cleaning and Laundry Services | R 400 | |
| Cleaner (if a week wages, pension, UIF) | R 400 | |
| Swimming Pool Chemicals | R 200 | |
| Transport (shopping weekly) | R 400 | |
| Dining out and Entertainment (free & cafe) | R 400 | |
| Entertainment, Gifts, Daily Newspaper | R 300 | |
| Telephone | R 100 | |
| **Total** | R 10,355 | R 7,675 |

| Available on site: |
| Personal laundry | |
| Meals | |
| Occupational Therapist | |
| Daily medical/mental Clinic | |
| Home Help | |
| Maintenance/Pedicure/Pedicure/Massages | |
| Physiotherapy | |

© Courtesy of The Bridgewater Manor, Somerset West, Faircape Group.
Healthcare:
Healthcare issues loom large in later years. None of us really want to think about this, but we all have to accept that ill health may result in losing some control over our daily living.

It’s extremely important to research the exact type of healthcare available in a particular retirement facility, be it a home or village. Also look at additional costs you may incur, and what you can claim from your medical scheme. It’s also important to know the difference between medical care and frail care.

If you’re very keen on a retirement facility that has limited healthcare, bear in mind that some retirement villages may have a reciprocal arrangement with the frail care of another retirement facility should you need it.

The E factor:
What cannot be ignored is the emotional cost of moving; after all, generally we feel home is where the heart is! Moving at any time of life is stressful but, as we age, the transition is particularly difficult as it often feels that this could be our last move! Starting the whole process is very onerous for some, so people often leave it until they’re too old or frail to make the transition an easy one.

Time and time again, clients have told me that however stressful and traumatic the move was, and however overwhelmed they felt during the process, eventually the negative feelings give way to feelings of relief and positivity.

If you decide to stay in your own home and employ carers from a reputable care agency or employ carers privately, these are some costs as of October 2018:
• Agency live-in care: ± R20,000 p.m.
• Privately employed, shared by two carers: ± R14,000 p.m. However, you are also responsible for paying UIF, sick leave and leave pay.
• 24-hour care from agency staff, which involves two carers per week, covering day and night: ± R30,000 - R38,000 p.m.
• Privately you would need four carers per month at R5,000 each. Again, you are responsible for the extra costs of UIF, sick leave and leave pay.

There are some agencies that have Government funding and therefore may work out slightly cheaper.

This is just food for thought and a trigger for your own investigations. I strongly advise you to research local retirement facilities and compare costs yourself.

For many, moving can create a new lease of life that frees you from many responsibilities and worries about unknown costs. But even if you investigate all the options and decide to stay at home, it’s always good to know why you’re doing so, and thus to appreciate more fully the lifestyle you’ve chosen. Enjoy the journey!

Information courtesy of Cape Care Agency, Claremont, Cape Town

WPCC Personal Trust 10th Anniversary Classic

Mark Gibbs, WPCC Club Chairman and Personal Trust Director, thanks the contributors and participants.

This was Personal Trust’s 10th year of sponsoring this prestigious tournament. This year, there was R45,000 in cash prizes and R30,000 in other prizes.

This was also the 10th year that WPCC members, Kevin and Carol Nash, have put in a huge amount of effort in planning and organising this very popular and important three day tournament. Their hard work and commitment, in conjunction with their committee, was greatly appreciated. They were ably assisted by a dedicated committee comprised of Guy McGlew, Audrey Marais, Butch Aldum, Jenny and Alan Phillips, Alan and Di Bennett, Craig Wiley, Russell Phillips and Peter Pullen.

Danny Loubser, with assistance from Pat Young and the Servest team, ensured that we enjoyed excellent greens that are amongst the best in the country. A lot of hard work went into the catering, scoring, green and rink set ups and other tasks that were competently and enthusiastically handled by the club members and staff.

Nine past and present Protea players took part in the competition, namely Colleen Piketh, Gerry Baker, Billy Radloff, Kevin Campbell, Johan du Plessis, Donny Piketh, Sylvia Burns, Trish Young and Daniel Loubser. There was also a junior team with players from Namibia taking on the challenge – and big thanks go to Roger Hagerty and his team for travelling all the way from Morningside, Johannesburg to play. Everyone seemed to enjoy the facilities, the competitive bowls and old friendships were renewed and new ones created.

Congratulations to the winners: Schalk Kotze, Raysford Cruywagen and Kobus Hougaard, pictured here with Mark Gibbs (on left) and Greg Nasson (on right) of Personal Trust. The quality of the teams was exceptionally high and it was a brilliant tournament to win. Well done boys! We hope to see you all again next year.
How long have you been with Personal Trust and what made you apply to join the company?

I will have been with Personal Trust for just over one year – I joined them on 9 October 2017. Prior to this I was with a smaller company for 12 years as an independent financial advisor. I was referred to Personal Trust by one of our mutual service providers, who suggested I have a chat with Nicole McIntyre (HR Director) and Andy Calmeyer (Founding Director). I was fortunate in that we had a meeting of minds and decided to take a leap of faith with each other.

What was your first impression of the company?

Friendly, helpful, kind, compassionate! It’s very much a people’s business, both for staff and for our clients.

What department do you work in and what is your role in Personal Trust?

I work within the A-Team (Andy Calmeyer’s department) as a Trust Officer, looking after a group of long-standing, valued clients.

Tell us about yourself

I have been a Capetonian for most of my life, with a short stint in Namibia for 18 months. I believe that this is the best city in the world to live in and hope to stay here for the foreseeable future.

I’ve been married to my wife Louise for 11 years and we live in Durbanville. Our families are nearby in Somerset West and Durbanville surroundings. We are fortunate that most of our siblings are still in South Africa.

I studied Finance and Accounts in Cape Town, thinking I would be an accountant, which thought thankfully ended after being an auditor for six months! I started working for a larger insurer and discovered the world of financial services. I spent about eight years in different roles within the business and completed the post graduate diploma in Financial Planning. I then moved on to an independent brokerage to give advice and support in all aspects of financial planning.

What are your interests – music, art, books, films, garden, sport?

A bit of everything actually, really up to most new adventures, except bungie jumping – heights and jumping off a perfectly good bridge don’t seem that appealing!

I enjoy mountain biking, motorbiking, hiking, golf, wine (discovering new wine estates), reading and travel. We’ve been fortunate enough to do a small amount of overseas travel and the bug has bitten! We would love to travel a great deal more!

In one sentence how would you describe yourself?

Fun loving, egalitarian with big ideas, but happy to achieve some of the smaller goals.
THE NEWSLETTER OF PERSONAL TRUST (PTY) LTD

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Readers of our newsletter are reminded that any comments, opinions and recommendations relating to investment products are made in good faith and with full attention to accuracy. However, market conditions are subject to constant fluctuations locally and globally. We advise, at all times, that investments be made only after consultation with us, and after individual circumstances have been thoroughly considered.

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15 PERSONAL OPINIONS DECEMBER 2018