

PCH INSIGHT



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IS YOUR WILL WORTH THE PAPER IT'S WRITTEN ON?

2014 – A YEAR FOR PATIENCE AND TO FOCUS ON THE LONG TERM

UNIT TRUSTS VS WRAP FUNDS

WHO GETS YOUR RETIREMENT BENEFITS WHEN YOU DIE?

Is your Will worth the paper it is written on?

South Africans have always believed that they enjoy total freedom of testation. But do we really?

David Knott of Private Client Trust unpacks a few scenarios that can easily arise and which will take precedence over your wishes – meaning that the last instructions contained in your Will may not be carried out as you intended.

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Marriage contracts

According to Knott if you are married in community of property, you cannot bequeath your house or your car to a person as you only own a half share of this – the other half is owned by your spouse. At best you may bequeath only your half share to the other, but that is likely to cause friction as your spouse is unlikely to be happy sharing the house or car with another.

Likewise, Knott advises that if you are married in terms of the Matrimonial Property Act with accrual, upon your death a calculation must be made by law as to the growth of both estates and the partner whose estate has grown least has a claim against the other's estate. If the claim is against the deceased spouse's estate, this will impact the distribution in terms of the Will.

Maintenance

When it comes to maintenance, one cannot disinherit your spouse if the spouse was dependent upon you for support. The Maintenance of Surviving Spouses Act permits the aggrieved spouse to lodge a claim against the estate for reasonable maintenance needs. Maintenance obligations to former spouses rarely die with you and such obligations can wipe out a considerable portion of the estate. Beware the former spouse, warns Knott.

Dependants

Minor children and children with special needs must also be catered for before the estate can devolve upon more distant persons. (In many instances no special provision is made for minors as it is assumed that the survivor - the sole or principle heir - will provide for the children from the inherited estate.)

Trusts

Lastly, once all the claims have been settled and there is a sum to be distributed, one has the Constitution to consider. You may have wished to set up a trust, however, keep in mind that one cannot discriminate unfairly against a class of persons - no

longer is it permissible to create a trust to educate White males, Jewish females or Zulu speaking pupils.

As has been demonstrated above, there are a myriad of snags that can change the way your estate is distributed – despite your clear last wishes. The preparation of a valid, workable Will requires a skilled wordsmith fully conversant with the pitfalls ready to entrap one. In this way you can make sure your estate devolves upon the intended heirs without undue problems and strife.

For more information contact David Knott or Sarah Love at Private Client Trust on +27 21 671 1220.





THE DIRECTOR'S DESK

2014 – A year for patience and to focus on the long term

There will be volatility and anxiety this year and that is why I am calling for patience. One of the definitions of patience is *"the bearing of provocation, annoyance, misfortune, or pain without complaint, loss*

of temper, or anger". Another definition found shows that it also means *"tolerant and even-tempered perseverance"*.

We can scarcely believe the results achieved in the Private Client Holdings portfolios last year. Performances were excellent across all strategies – from the Multi Asset Balanced Funds to our Core Equity Segregated Portfolios. This is in spite of our consistent calls over the past years that you temper your expectations and that past performance was unlikely to be repeated – but it was. However, we do not expect a repeat performance in 2014. It is now extremely unlikely that returns will materially exceed the target return for the type of investment that you hold and we now need to patiently wait for the next upturn.

Our tactical calls worked in the past and the easy money has been made. Our extremely overweight offshore position was a huge contributor and our overweight equity also worked. Our fear that currency deterioration and consequent inflationary pressure would hurt bonds markets was well founded and we did well to underweight fixed income.

In our Segregated Share Portfolios we outperformed by holding the gorillas – SAB, Naspers, British American Tobacco and Richemont.

This is in spite of our exposure to resources with Anglos and Billiton having had a miserable year. However the call is now paying dividends this year as resources have led the market. Curiously, last year the All Share delivered 21% which was made up as follows:

- The top 10 market cap companies had a massive 19.7% return
- The companies ranked from 11-20 delivered merely 3.5%
- The remaining "smaller companies" (ranked 21 to 180) went backwards by a negative 1.8%.

This shows how the market was driven by momentum whereby expensive shares like Naspers and SAB simply became more expensive. Valuations were ignored by the market and the value style managers wept.

My view is that this will be a year where the momentum style will struggle and stock pickers will thrive. Value managers will be invited back to investor presentations.

I am confident that the year of patience will reward your tolerance and perseverance.

Grant Alexander

HAVE YOU HEARD?

Welcome to our new Wealth Manager



We are delighted to welcome Tyrone Coetzee to the PCH wealth management team. We wish him every success in providing the highest quality investment and financial planning advice to our clients.

Brandon achieved great results and passed all subjects. We wish Brandon the best of luck for 2014. Visit www.reap.org.za for more information about this programme.

New PCH brochure launched

We are pleased and proud to announce that our exciting new look brochure is now available. If you would like a copy please email roxanne@privateclient.co.za, she will send one to you immediately.

UCT cycling team ready to tackle 2014

The PCH sponsored UCT cycling team is kitted out for 2014 in their new PCH branded cycling gear. They achieved great things at the 2014 Cape Argus Pick n Pay Cycle Tour, and we are expecting great things for the Cape Epic, Double Century and Wines to Whales cycling events being held later this year.

REAP student graduates second year at UCT



Brandon Draaier, the student that PCH is sponsoring through our ongoing relationship with the Rural Education Access Programme (REAP), which assists students from poor rural areas to access and succeed in tertiary education, has successfully completed his second year at UCT where he is studying a B. Com, Financial Accounting.



Retirement Annuities may provide tax relief under amendments to the Taxation Laws



Most people understand Retirement Annuities (RA's) to be tax-efficient vehicles for the purposes of pre-retirement savings, but amendments to section 10C of the Taxation Laws Amendment Bill 2012, that are due to come into effect from March 2014, may provide astute estate planning opportunities for high networth individuals.

PCH wealth manager Mark MacSymon explains that any unclaimed contributions by a person to an RA (or a pension or provident fund) that did not qualify for a deduction previously, can now be used to reduce tax on retirement, and in respect of income accrued from compulsory annuities.

The Second Schedule effectively provides a window of opportunity for individuals to transfer assets between generations more tax efficiently through the use of an RA. Estate duty is levied at 20% in South Africa and RA's and Living Annuities (LA's) are excluded from an individual's estate for the purposes of calculating estate duty. Importantly, should a beneficiary of an RA elect to receive a lump sum, the benefit will be taxed in the hands of the deceased member as if the deceased received the benefit the day before his death. However, any disallowed contributions that did not rank for a deduction under section 11(k) or (n) of the Income Tax Act may be taken into account and offset against the retirement tax tables.

In addition, section 10C reads that any disallowed contributions are carried over to LA's and beneficiaries that opt for a lump sum (rather than an income) will pay no

lump sum tax on the deceased's disallowed contributions. LA's are not governed by the Pension Funds Act and hence are not subject to the risk limitations imposed by Regulation 28.

“ At Private Client Holdings, the use of segregated share portfolios as the underlying investment (or part thereof) within a LA offer investors a bespoke investment alternative. ”

MacSymon advises that it must be stressed that the use of an RA as an effective estate planning tool needs to be carefully considered against every persons unique wealth management structure. The wealth management team at PCH will be happy to determine whether this structure is appropriate for you.

For more information contact Mark MacSymon at Mark.MacSymon@privateclient.co.za.

Unit Trusts versus Wrap Funds?

The PCH current wrap fund environment may be changing, with a potential move towards creating unit trust efficiencies that will increase investment opportunities and bring about tax benefits to our clients. Susan Vermaak of Private Client Portfolios succinctly unpacks the benefits of this Unit Trust vehicle for PCH clients:

- Improved active asset management as short term changes are instantly implemented across any investment platform and across any product solution.
- Access to previously excluded investment opportunities such as index trackers, exchange traded funds (ETF's) and segregated mandates.
- A unit trust structure reduces the delays and human error that can arise from the intense administrative and time consuming processes that are associated with wrap funds.
- Capital Gains Tax savings as transactions within the Unit Trust would not be seen as a Capital Gains Tax event.
- Within the Fund of Funds, our clients would have access to our selected best blend managers at lower institutional fee classes.
- Increased governance and added value.

For more information on PCH's possible move from Wrap Funds to Unit Trusts please contact the PCH portfolio management team or your PCH wealth manager on +27 21 671 1220.



Who gets your retirement benefits when you die?

If you have nominated someone other than a dependant as the beneficiary of your retirement funds, your wishes might not be honoured when you die, even if you have made that person the sole beneficiary of your entire estate.

David Knott explains that this is because pension fund legislation favours dependants above all other claimants and your fund's trustees are obliged to override your Will if dependants exist. This is where retirement funds, whether Retirement Annuities, Pension, Provident or Preservation Funds, differ from other investments.

When you die the trustees are legally obliged to identify any dependants and while all information is treated as confidential, this process may reveal information you might not want your family to know.

Having identified any dependants, the trustees first need to establish their financial circumstances and then allocate your retirement benefits to them as they see fit.

If no dependants are found within a year after your death, the trustees have to pay the benefits to your beneficiary, but only if your estate is solvent.

If it isn't, then your Retirement Fund capital must be used to fund the shortfall of your estate before any benefits can be paid to your beneficiary.

Unfortunately this process can take quite a while, as much as a year after your death. This can lead to frustration on the part of your beneficiary and financial hardship if they were banking on receiving your benefits sooner.

By partnering with a company such as Private Client Trust you are given peace of mind that the executor of your estate will ensure that your retirement benefits are structured in such a way that the beneficiary you choose to receive your retirement funds will ultimately receive these benefits – and within a decent amount of time.

WHO TO TALK TO

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

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2014/2015 Tax Guides

If you would like an insightful pocket guide to the Tax implications unpacked in the 2014/2015 budget speech, presented by Pravin Gordhan at the end of February, you will find our PCH pocket tax guide invaluable.

Should you be interested in receiving one of these guides please contact Sue Blake on +27 21 671 1220 or email sue@privateclient.co.za.

TEST YOUR SUDUKO SKILL!								
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