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ENDURING QUALITY: THE YARDSTICK WE USE TO MEASURE

ATLAS COPCO: LEADING THROUGH STRATEGIC ACQUISITIONS AND INNOVATION

MR PRICE: MANAGEMENT MAKES THE DIFFERENCE

ENSURING YOUR WEALTH TRANSFER PLAN REMAINS RELEVANT

NAVIGATING THE COMPLEXITIES OF GLOBAL WEALTH MANAGEMENT

Private Clients
by Old Mutual Wealth

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Enduring Quality: The Yardstick We Use to Measure

VICTOR MUPUNGA, HEAD OF RESEARCH AT PRIVATE CLIENTS BY OLD MUTUAL WEALTH

"Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skilful execution; it represents the wise choice of many alternatives." – William Foster

Today's investors have more options than ever. With technological advancements and instant access to information, the investment universe seems limitless. The number of listed global companies, for example, has grown fourfold to approximately 60 000 over the last five decades. In such a vast landscape, a clear and consistent investment philosophy is essential to narrow the options and build a well-constructed portfolio.

At Private Clients, the yardstick we use to measure all companies we invest in is whether they have enduring quality characteristics. Not all investors share the same view, as different styles and time horizons shape their strategies. One well-known style is value investing, which focuses on buying out-of-favour and undervalued companies in the hope that their share prices rebound.

While we are mindful of the cyclical nature of markets, we firmly believe that investing in quality companies over the long term is well suited for clients seeking to grow and preserve their capital while managing risk. As William Foster wisely said, "Quality is the wise choice among many alternatives."

THE EYE OF THE BEHOLDER?

It is said that beauty lies in the eye of the beholder, and so it seems with investing. We are yet to hear an investor admit to buying poor-quality companies. The focus on quality gained traction after the 2008 - 2009 Global Financial Crisis, as quality companies proved more resilient during the downturn, as shown in graph 1. Since then, all investors have claimed to prioritise quality, despite adhering to different investment philosophies.

However, unlike beauty, quality is objective and measurable. We define quality in two distinct categories. The first is quantitative metrics, which are measurable, quantifiable and comparable across companies and sectors. These metrics generally fall into four groups: profitability, leverage, cash generation and earnings.

The second category of quality is qualitative metrics. While less academic literature and attention is dedicated to this aspect of assessing quality, we believe it is as important as quantitative metrics. A common challenge with qualitative metrics is the lack of universal definitions, making them difficult to measure and compare across companies. However, this does not diminish their importance. As Albert Einstein famously remarked, "Not all that matters can be measured."

One of the most critical qualitative factors of any company is its management team. Though intangible, a company's leadership plays a key role in shaping its long-term success. In fact, we believe that the quality of a management team is among the most important factors in determining a company's trajectory.

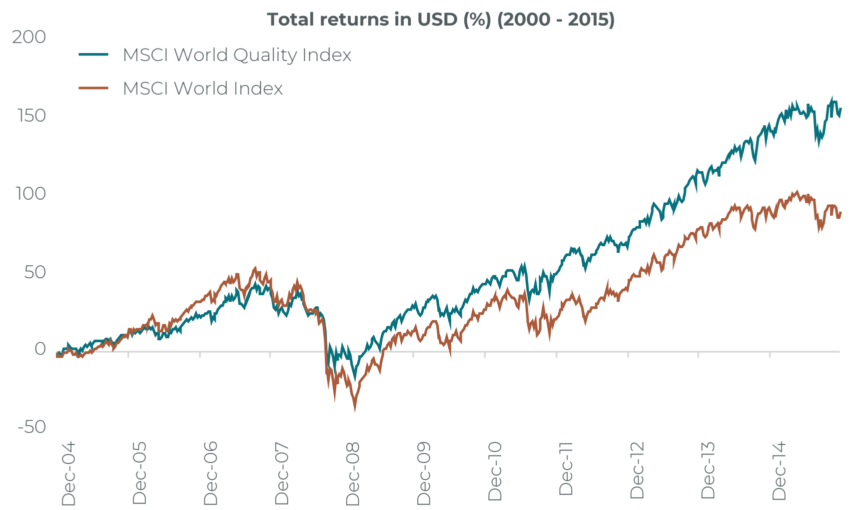
MANAGEMENT: A TALE OF TWO OUTCOMES

The impact of management decisions is often most evident when comparing companies within the same industry. A clear example comes from the ingredients sector, which we identified as an attractive space in 2021. Companies within this sector provide critical flavours, fragrances and ingredients to major food and cosmetics companies like Nestlé, Unilever and L'Oréal, whose products rely on consistent formulations. Due to these dynamics, ingredient makers benefit from less cyclical earnings and high switching costs, as while their inputs are essential, they represent just 0.5% - 6% of the final product's cost.

Within this sector, we compared Swiss-listed Givaudan and Ireland's Kerry Group. Despite their similarities – including large market shares, stable customers and product diversification – their recent performance has diverged.

The high inflationary environment over the last three years saw rising raw material costs hit both companies, with their gross margins declining substantially in 2022. However, Givaudan's margins have recovered strongly over the last year, with this year's gross margins expected to surpass pre-COVID (2019) levels. Meanwhile, Kerry's margin recovery is lagging, with analysts forecasting a return to pre-pandemic levels only in 2026.

Graph 1: Cumulative Index Performance



Sources: LSEG; Private Clients Research

Table 1: Select Quantitative Quality Metrics

Profitability	Leverage	Cash Generation	Earnings
Return on capital employed	Debt-to-equity	Cash ratio	Earnings volatility
Return on equity	Interest cover	Free cash flow	Earnings growth rate
Return on invested capital	Net debt-to-earnings	Operating cash flow-to-capex	Net income-to-cash
Return on assets	Altman's Z score	Dividend payout	Various incremental margin ratios

Sources: LSEG; Private Clients Research

Kerry's slower recovery can be partly attributed to its acquisition strategy, with recent deals aimed at expanding its product portfolio and geographic reach. While these acquisitions deepen Kerry's portfolio, integrating new systems and cultures has slowed efficiency gains, resulting in less predictable earnings. While cost-cutting measures helped manage margins, they seem to have negatively impacted the post-COVID volume recovery.

In contrast, Givaudan has implemented contract renegotiations with its large consumer staples customers and concluded bolt-on acquisitions in faster-growing subsectors like active beauty and plant-based ingredients. This has led analysts to upgrade Givaudan's earnings forecasts, while Kerry's forecasts are being downgraded.

The divergent performance of these two companies highlights the critical role of management decisions. From renegotiating contracts to executing acquisitions, these actions shape long-term outcomes. In evaluating Givaudan's management, we consider factors such as tenure, acquisition track record, innovation and market share trends. Based on these metrics, we score Givaudan 72% and maintain a high level of conviction in the company within our Global Equity Portfolio.

FISHING IN THE RIGHT POND

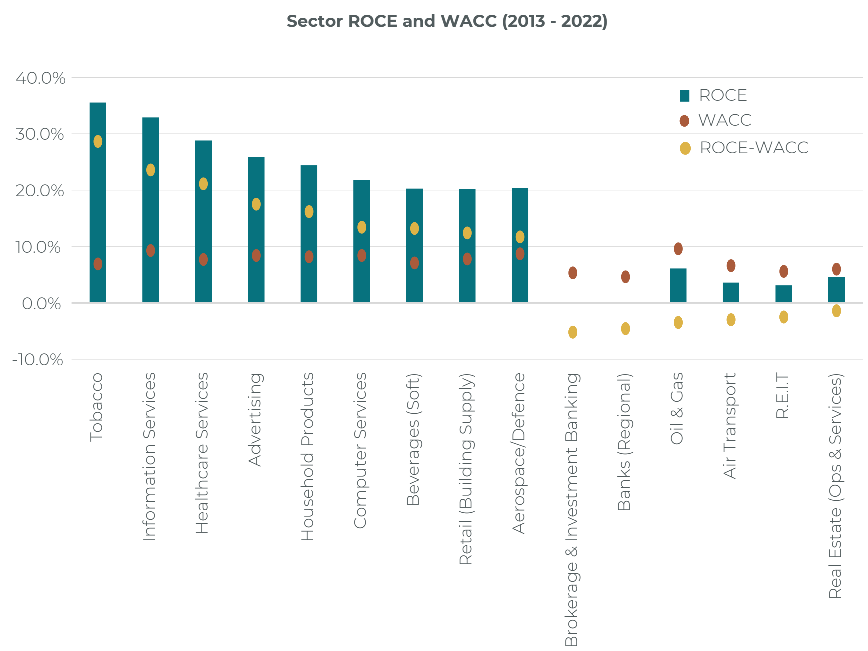
While we place strong emphasis on management quality, we recognise its limitations. As Warren Buffett wisely noted, "When a management team with a reputation for brilliance tackles a business with a reputation for poor fundamental economics, it is the business' reputation that remains intact." This highlights the critical role industry dynamics play in shaping a company's success. Some industries are structurally advantaged, offering stronger fundamental economics than others. Factors such as competition, reinvestment needs and the pace of technological change can significantly affect a sector's outlook.

A comparison between the Information Technology Services (IT) and Oil and Gas production (O&G) sectors illustrates these differences. O&G is capital intensive, operates in remote locations, and faces numerous external factors outside management's control, such as commodity prices. In contrast, IT businesses require less capital, have high switching costs and are not constrained by location. Inherently, this makes it easier to find higher quality businesses, by our definition, within the IT sector compared to the O&G industry.

One unique feature of equity investing is that retained earnings (i.e. profits reinvested back into the business) contribute to shareholder returns over time. The ability of a company to allocate these earnings effectively is critical. One way to assess this is through profitability metrics like Return On Capital Employed (ROCE), which measures how well a company or sector generates profits from its capital.

Graph 2 shows the ROCE across several industries and compares it to the Weighted Average Cost of Capital (WACC) – which is the average after-tax cost of capital from all sources – for each industry. As quality investors, we prefer to focus on industries where companies consistently generate returns above their cost of capital (as shown in the left side of the graph). These structurally advantaged sectors increase the likelihood of finding companies with superior long-term return potential.

Graph 2: Sector Profitability and Cost of Capital



Source: Stern School of Business at New York University, January 2023 data

A SUM GREATER THAN ITS PARTS

While we evaluate each company's quality metrics individually, a key aspect of portfolio construction is ensuring that the entire portfolio performs better than the sum of its parts. We achieve this by diversifying across 20 to 25 carefully selected companies, strategically balancing the weights and assessing the valuations of each holding. The result, as shown in table 2, aggregates all our Global Equity Portfolio's underlying holdings and shows the quality metrics of the portfolio as if it were a single company. We then benchmark the quality metrics of our portfolio against the S&P 500 and FTSE 100, while also tracking how these metrics have evolved over time. In 2023, our portfolio achieved higher margins, cash generation, profitability and lower leverage than the overall market.

Over short periods, the market often behaves like a voting machine, driven by investor sentiment. However, over the long term, both markets and companies are driven by their earnings power and the quality of their assets. Remaining invested in companies with superior quality metrics gives these businesses the time they need to convert profits into cash, reinvest at higher ROCE and expand their competitive advantage over peers. When guided by capable management through effective capital allocation, this process ensures that investors benefit from the long-term benefits of compounding.

FOCUSING ON WHAT MATTERS

In a world filled with news and endless investment options, it is easy to get distracted and lose sight of what truly matters. Over the long term, earnings drive returns and quality companies are better positioned to generate cash that can be reinvested at higher rates, enabling long-term compounding.

At Private Clients, we focus on identifying these high-quality companies by analysing both quantitative and qualitative factors. Once they are included in our clients' portfolios, the next step is simple, but just as important: be patient and allow them to compound.

Table 2: Private Clients' Global Equity Portfolio Quality Metrics

	ROCE	GROSS MARGIN	OPERATING MARGIN	CASH CONVERSION	LEVERAGE	INTEREST COVER
2015	55%	49%	23%	109%	61%	25x
2016	40%	50%	22%	103%	90%	18x
2017	34%	50%	20%	129%	70%	19x
2018	38%	50%	20%	120%	76%	18x
2019	39%	53%	19%	100%	44%	19x
2020	25%	52%	18%	89%	79%	15x
2021	34%	57%	18%	102%	75%	23x
2022	23%	54%	22%	122%	87%	20x
2023	24%	53%	22%	110%	76%	16x
S&P 500 (2023)	18%*	34%	14%	90%	118%	NA
FTSE 100 (2023)	16%*	36%	15%	80%	136%	NA

Sources: Bloomberg, Private Clients Research

Atlas Copco: Leading Through Strategic Acquisitions and Innovation

NADINE CHETTY-KHAN, RESEARCH ANALYST AT PRIVATE CLIENTS BY OLD MUTUAL WEALTH

Since its founding in 1873 in Stockholm, Sweden, Atlas Copco has become a global leader in industrial solutions. Operating in more than 180 countries, the company stands out for its diverse product portfolio and robust strategy centred on strategic acquisitions. Specialising in compressors, vacuum solutions, power tools and assembly systems, Atlas Copco delivers products that drive efficiency across a wide range of industries while remaining a small component of its customers' overall cost bases. What also sets the company apart is its ability to grow through smart acquisitions, positioning it as a prime investment in the fiercely competitive industrial sector.

Atlas Copco's revenue is well balanced across four core segments: Compressor Technique (approximately 45% of revenue), Vacuum Technique (23%), Industrial Technique (17%) and Power Technique (15%). Each segment plays a critical role in the overall strategy, serving diverse industries and ensuring a steady revenue stream. Operating in a highly cyclical industry, the company faces shifts in demand influenced by external factors such as changes in industrial production, construction activity and global capital investment. Yet, Atlas Copco's resilience, agility and focus on innovation have enabled it to thrive through both favourable and challenging market conditions.

A LEGACY OF GROWTH AND EXPANSION

Atlas Copco began by producing railway equipment but soon diversified into other industrial sectors, setting the stage for its global growth. Today, its four core divisions form the backbone of its market leadership and operational strategy.

The largest division, Compressor Technique, supplies essential equipment (such as industrial, gas and air compressors) to energy-intensive industries such as manufacturing and oil and gas, where efficiency and reliability are crucial. The Vacuum Technique division specialises in vacuum pumps and systems for the fast-growing semiconductor industry, holding nearly half of the market share in the semi-vacuum market. As demand for semiconductors steadily rises, Atlas Copco's solutions have become increasingly vital. Industrial Technique serves precision-driven markets such as automotive and aerospace, while Power Technique supports construction and mining infrastructure projects with portable compressors, generators and light towers.

Atlas Copco's adaptive strategy is evident in its geographic revenue split, with Asia/Oceania contributing 39%, Europe 27% and North America 25%. While manufacturing and chemical processing industries drive much of its business, some customers are more sensitive to economic cycles than others. This diversification across industries and regions helps Atlas Copco to weather economic fluctuations and maintain steady performance.

MASTERING THE ART OF ACQUISITIONS

A key driver of Atlas Copco's success is its strategic approach to acquisitions, which expand its capabilities and boost market share. The company has proven itself adept at identifying non-core or underperforming units for divestment, allowing it to pivot towards high-growth markets. Its skilful execution and seamless integration of bolt-on acquisitions minimise risks while maximising synergies across business lines. By acquiring businesses in adjacent markets, Atlas Copco has effectively strengthened its footprint while remaining focused on core competencies.

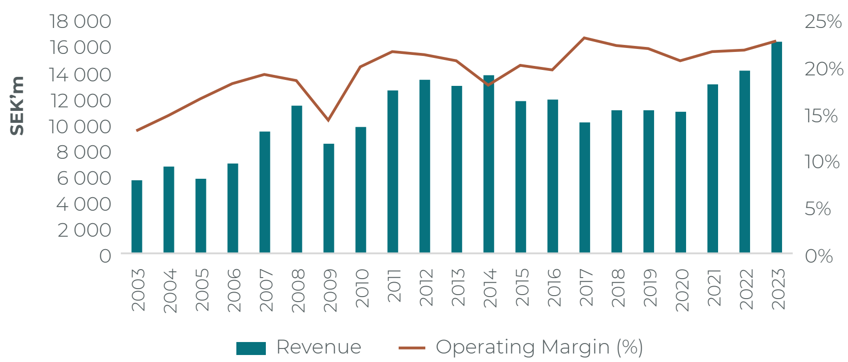
One noteworthy acquisition occurred in 2014 with the purchase of UK-based Edwards Group Limited, a leader in vacuum solutions since 1919. This move significantly bolstered Atlas Copco's position in the semiconductor industry, where Edwards has revolutionised manufacturing process efficiency with the introduction of the dry pump. The 2016 acquisition of Germany-based Leybold, founded in 1850, further solidified Atlas Copco's capabilities. Leybold was a pioneer in modern vacuum technology, introducing innovations like the molecular air pump and the turbomolecular pump, ultimately positioning Atlas Copco as a leader in vacuum technology solutions for semiconductor manufacturing and scientific research.

In 2018, Atlas Copco strategically spun off its mining and infrastructure division, Epiroc, to focus on industrial customers. This separation allowed both companies to concentrate on their core markets more effectively – Atlas Copco on industrial customers and Epiroc on mining, infrastructure, and natural resources – enhancing operational efficiency and long-term growth potential.

A STREAMLINED BUSINESS MODEL AND FINANCIAL STRENGTH

Atlas Copco's financial strength lies in its focus on service-based and aftermarket revenues, which account for over 60% of profits and drive high-margin revenue growth. These recurring revenues (generated from services such as replacement parts and consumables linked to product sales) provide financial stability, even during periods of reduced capital investment by customers. The Compressor Technique segment exemplifies this

Graph 1: Revenue and Operating Margin



Source: DataStream

strategy, with aftermarket sales almost double the average equipment/services ratio within the European capital goods space, reflecting Atlas Copco's strong market position. Both organic expansion and strategic acquisitions have fuelled this growth, showcasing the effectiveness of the company's business strategy.

Atlas Copco consistently ranks in the top quartile for organic growth and profit margins compared to European mechanical companies. Its average EBIT margin exceeds 20% (industry average 14%) due to its asset-light structure and outsourcing of non-core activities. With a compound annual growth rate of 7%, the company outpaces the European industry average of approximately 5%.

A standout metric is Atlas Copco's return on invested capital (ROIC), which has averaged 27% over the past two decades, highlighting the company's ability to generate substantial returns on investments in a capital-intensive industry. Returns to equity holders averaged 30% during the same period. Since 1995, the company has maintained a conservative debt-to-asset ratio of 25%, indicative of a solid balance sheet that supports future growth while limiting financial risk. This prudent debt management strategy provides stability and resilience, particularly during economic downturns.

TRENDS DRIVING GROWTH

Atlas Copco is well positioned to capitalise on major industrial trends, particularly the global shift towards energy-efficient solutions. The International Energy Agency reports a 45% rise in energy efficiency investments since 2020, driven by industries like electric vehicles (EVs) and renewable energy. Atlas Copco's compressors and vacuum solutions play a key role in producing EV batteries, solar panels and semiconductors.

High energy prices are driving demand for more efficient compressed air systems, positively impacting equipment pricing. As one of the most innovative Original Equipment Manufacturers (OEMs) in this space, Atlas Copco leads the market and is nearly three times the size of its closest competitor in compressors.

The rise of digitalisation in manufacturing offers additional growth opportunities. By integrating digital technologies into its solutions, Atlas Copco improves productivity, optimises supply chains and enhances customer experiences.

DRIVING INNOVATION AND SUSTAINABILITY

Sustainability is at the core of Atlas Copco's business. The company strives not only to reduce its own environmental footprint but also helps customers achieve greater sustainability. With a focus on innovative energy-efficient solutions, Atlas Copco enables industries to lower their energy consumption and emissions, aligning with the growing demand for environmentally friendly practices. This commitment strengthens its reputation as a responsible and forward-thinking company.

Atlas Copco's innovative culture is supported by its decentralised governance structure, which fosters flexibility, faster decision-making and greater accountability. This approach allows teams to adapt to local market needs and encourages a culture of innovation across the organisation.

POSITIONED FOR GROWTH AND SUSTAINED LEADERSHIP

With over 150 years of innovation, strategic acquisitions and financial strength, Atlas Copco has solidified its status as a global leader in industrial solutions. As it continues to grow, the company is well positioned to benefit from trends like semiconductor manufacturing, electric vehicle production and the demand for energy-efficient solutions. Its acquisition strategy, customer-focused innovation and operational efficiency ensure it remains a top choice for investors seeking long-term growth in a competitive market.

Atlas Copco's market capitalisation of US$88.79 billion commands a premium valuation in the industry, driven by a strong history of organic growth underpinned by a decentralised governance structure motivating innovations, organic acquisitions and sector-leading margins. This underscores investor confidence in its consistent ability to generate strong financial returns. As global markets continue to evolve, Atlas Copco's commitment to quality and innovation will keep it at the forefront of the industrial sector, making it a strong investment for the future.

Mr Price: Management Makes the Difference

TASNEEM SAMODIEN, RESEARCH ANALYST AT PRIVATE CLIENTS BY OLD MUTUAL WEALTH

During the first half of 2024, over 300 US companies – mostly in the consumer discretionary sector – declared bankruptcy. This is unsurprising as retail is an unforgiving and a highly competitive space, requiring constant investment to remain relevant. A company's success hinges on more than consumers' financial health; it depends on its agility, resilience and its ability to adapt to changing consumer sentiment and preferences. Retailers that thrive in this landscape prove their overall quality and offer strong investment potential.

ONLY THE STRONG SURVIVED

SA, widely regarded as the gateway to Africa, has long attracted offshore investors seeking a foothold on the world's second-largest continent. This led to the entry of multiple international retail apparel brands such as Cotton-On (2011) and H&M (2015). However, these expansions coincided with SA's own macroeconomic and political challenges, marked by loadshedding and state capture. As competition intensified, it became harder to find growth opportunities. Struggling retailers – such as local brands Stuttafords and Edgars, along with international names including Forever21, Mango and River Island – were forced to close or scale down. What ultimately set the survivors apart was their management team's ability to make sound decisions, particularly in capital allocation and balance sheet management.

In response to the challenging landscape, some local retailers expanded offshore. Woolworths acquired Australia's David Jones for R21.4 billion, while TFG and Truworths entered the UK market through acquisitions of Phase 8 and The Office, respectively. However, these ventures proved costly: by 2020, Truworths had impaired The Office by R5 billion, and Woolworths sold David Jones in 2022 after racking up R7.2 billion in capital expenditure and R15 billion in cumulative interest expenses. TFG refinanced its £60 million debt facility in 2024 and secured an additional £30 million to further fund offshore expansion.

One company, however, bucked the trend: Mr Price (MRP). While others looked abroad, MRP focused on strengthening its value proposition within the SA market. Amid worsening loadshedding and poor sentiment due to political uncertainty, MRP's board adopted a defensive stance, prioritising a healthy, debt-free balance sheet. Operationally, they focused on cash sales over credit-driven revenue growth. This generated strong cash flows that funded new, modern stores and enhanced the customer experience, effectively building brand loyalty.

Fuelled by strong brand momentum[1], MRP launched new product lines and services such as Mr Price Mobile and Mr Price Cellular, MRP Baby and MRP Kids. As a result of these strategic moves, MRP stood out among its peers for its ability to create value organically, and was the only local apparel retailer to grow its operating margin and maintain a net cash position during what became known as SA's "lost decade" (2010-2019).

OPPORTUNITY IN A CRISIS

The COVID-19 pandemic forced MRP to close its stores. When doors finally reopened, escalating loadshedding caught them off guard. Adding fuel to the fire, global supply chain disruptions and raw material shortages triggered a spike in inflation, leading to sharp interest rate hikes not seen in recent history. MRP faced rising input costs from global shipping and increased diesel costs to manage loadshedding, while slow revenue growth reflected the financial strain on consumers. In 2021, MRP's management team emphasised the importance of preparing for tough times during good times and managing the business responsibly.

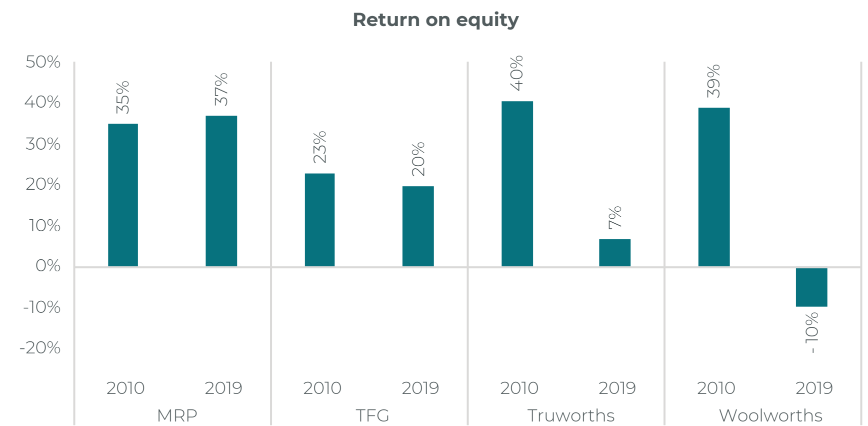
However, they also recognised the need to seize opportunities during downturns. The pandemic created an opportunity to consolidate the market by acquiring smaller, potentially distressed retailers with complementary offerings at attractive valuations. MRP's acquisition spree started with Yuppie Chef – its first acquisition since acquiring Sheet Street in 1996 – and was followed by branded apparel retailer Studio88 and value-focused Power Fashion.

While acquisitions can dilute shareholder returns initially (as the cost is added to the balance sheet before contributing to revenue or earnings), we are confident in MRP's ability to strike the right balance. The management team have demonstrated sound judgement in knowing when to invest organically and when to grow the business through acquisitions.

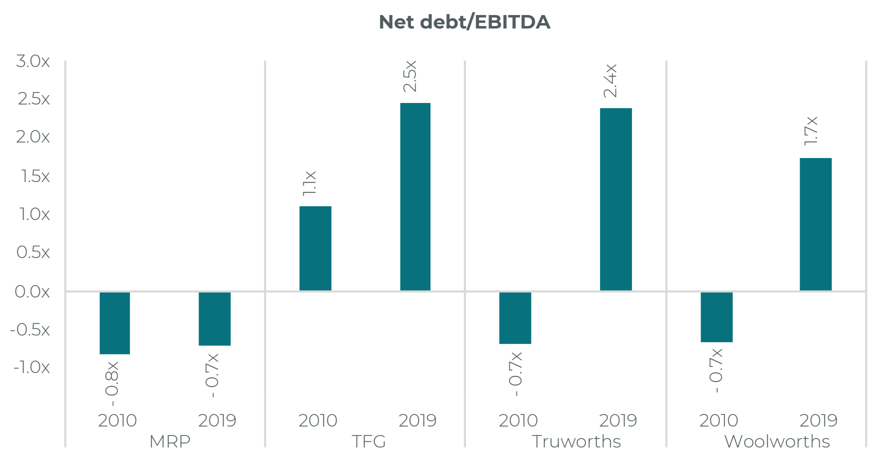
As shown in graphs 3 and 4, MRP's profitability metrics have declined from 2019 to 2024, largely due to the pace and scale of recent acquisitions. In contrast, local apparel retailers began recovering from a low base, rebounding from impairments and offshore investments.

Despite these pressures, MRP's balance sheet remains strong and is supported by robust cash generation – over 80% of its sales are cash-based. This highlights that financial metrics at a single point in time cannot be used to fully assess a company's quality. Equally important is management's ability to foster a productive corporate culture, communicate and execute a long-term strategy and successfully navigate both macroeconomic challenges and competitive dynamics.

Graph 1: Return on Equity



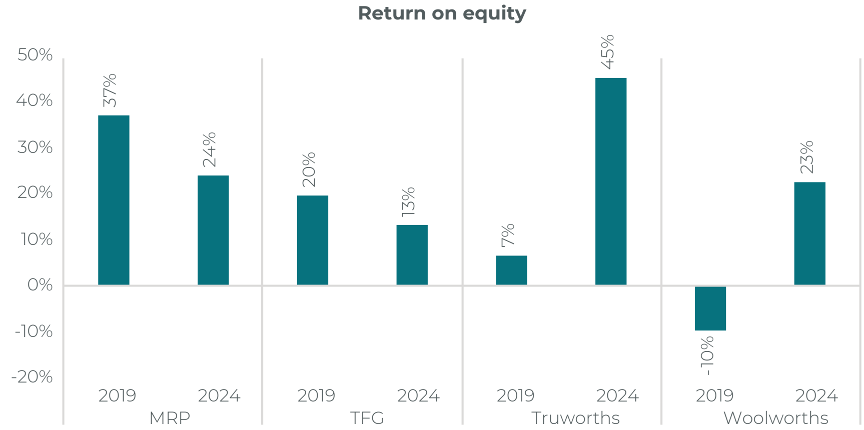
Graph 2: Net Debt/EBITDA



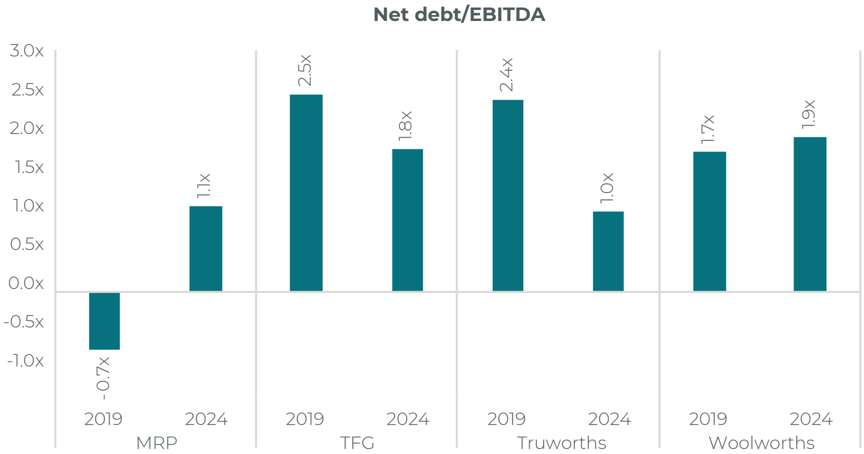
Source: Bloomberg

[1] MRP remains the most valuable fashion apparel retailer in SA

Graph 3: Return on Equity



Graph 4: Net Debt/EBITDA



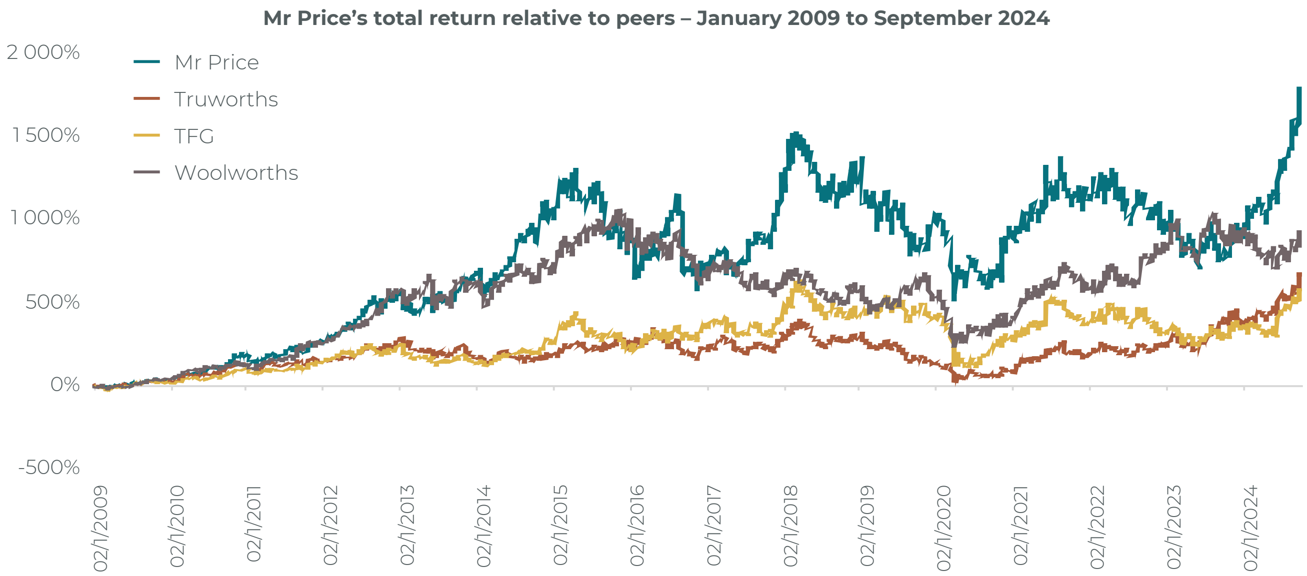
Source: Bloomberg

GEARED TO CAPITALISE ON SA'S RECOVERY

With inflation easing, interest rates expected to decline, reduced load shedding and an improved political outlook, optimism is returning after a decade of economic stagnation. This brighter outlook should support future earnings growth. Investors anticipating the recovery have already driven share price gains in the apparel retail sector, with MRP emerging as a key beneficiary due to its refined portfolio and competitive strength. It remains our top pick in the sector.

True quality lies in knowing when to save and when to invest, when to be ambitious and bold or defensive and cautious. MRP has demonstrated this skill, rewarding long-term investors with an impressive return of 20% per annum from 2009 to September 2024.

Graph 5: MRP's Total Return (January 2009 – 30 September 2024)



Source: Refinitiv

Ensuring Your Wealth Transfer Plan Remains Relevant

GODWIN MAGOSHA, FIDUCIARY SPECIALIST AT PRIVATE CLIENTS BY OLD MUTUAL WEALTH

A strategy is essentially a plan designed to achieve a long-term goal, developed on certain assumptions. For example, if you are saving for an overseas trip, your plan might assume that the rand/US dollar exchange rate will remain at R20. A shift to R18 could mean a cheaper trip, while a deterioration to R30 per dollar might force you to rethink your travel plans altogether.

Similarly, a wealth transfer plan is designed to ensure that your wealth is passed on to your heirs in the future. This plan is typically documented in a Will and may include a living or testamentary trust. And just like any other plan, a wealth transfer plan is built on certain assumptions. For example, it might assume that SA estate duty and income tax laws will remain unchanged for the foreseeable future. Major changes in these laws could then undermine your plan and potentially divert a large portion of your wealth to taxes and duties. Furthermore, the plan assumes that your heirs will remain SA tax residents, making it highly sensitive to changes in local law.

When significant changes occur in SA tax law, it is crucial to reassess your wealth transfer plan's effectiveness. This involves calculating all duties and taxes payable upon death, assuming the Will remains unchanged. If the changes result in higher taxes, it may be necessary to amend your Will to minimise the tax burden and maximise the wealth transferred to your heirs.

It is important to note that a wealth transfer plan is more than just a Will. It requires careful thought and the expertise of a seasoned financial planner who will consider both your goals and the tax implications of your Will's provisions. The planner will calculate the potential taxes due if you were to die today, allowing you to reflect on whether the net wealth that will be transferred aligns with your goals.

THE ROLE OF TRUSTS IN WEALTH PRESERVATION

A trust is commonly used in wealth preservation, where wealth is left for the benefit of identifiable beneficiaries. Historically, clients who formed trusts in their Wills did not consider their beneficiaries' future residency plans, as tax laws treated resident and non-resident beneficiaries equally. However, recent changes in income tax law mean that capital gains and income distributed to non-resident beneficiaries are now taxed at a 45% marginal tax rate. This is a significant shift, making it undesirable to maintain a trust if 45 cents of every R1 profit is lost to taxes.

Given these implications, it is essential to consider the possibility that your heirs may relocate abroad. This does not mean that a trust is no longer viable, but various options should be explored based on your circumstances. Below are some key considerations:

- **Regular reviews:** Regularly review your Will against changes in the law, personal circumstances and the future of your heirs or beneficiaries, with the help of a professional financial planner. Your planner will be able to advise if your Will is still appropriate or if amendments are necessary due to legislative changes.
- **Living trusts:** If you have set up a living trust to receive a bequest from your estate at death, review the trust deed with an expert to ensure that it allows for accelerated or partial termination of the trust, or a capital payment to an emigrating beneficiary.
- **Testamentary trusts:** For testamentary trusts created in your Will, consider amending the Will to allow direct estate payments to emigrated heirs or capital payments by the trustees to emigrated beneficiaries.
- **Flexibility:** Ensure that your trust instrument or testament is flexible enough to adapt to legislative changes. Trustees should be able to manoeuvre and protect beneficiaries from unfavourable tax positions.
- **Sinking funds:** If it is not possible to amend a trust deed or if the deed does not account for beneficiaries moving abroad, the trustees might consider investing through sinking funds, so that the distributions do not attract tax for the beneficiaries.

KEEPING IT RELEVANT

Regularly updating your Will with the help of your financial planner is crucial to ensure that it remains aligned with current legislation and your wishes. In the past, a South African's Will might have been optimised for local tax and estate duties. However, with increasing emigration, it's essential to consider your heirs' potential relocation plans and address this in your Will to ensure an effective wealth transfer strategy.

Navigating the Complexities of Global Wealth Management

In today's interconnected world, managing wealth has become increasingly complex, especially for ultra-high-net-worth (UHNW) families. It's not just about preserving wealth but also ensuring that future generations are equipped to manage it responsibly and purposefully. Jean Minnaar, Managing Director of Private Clients by Old Mutual Wealth, explains how the global wealth management landscape has evolved, presenting unique challenges in preserving family legacies across generations.

THE SHIFT TO GLOBAL WEALTH MANAGEMENT

With the rise of global citizenship, managing wealth within national borders is no longer enough. As families diversify investments and move money offshore, they seek ways to mitigate risk and build sustainable portfolios. "It's not just about returns, it's about protecting against risk and ensuring that assets are spread across multiple currencies and jurisdictions," Minnaar explains.

Managing a well-structured portfolio across multiple geographies adds significant complexity, with diverse tax laws, currencies and regulations to navigate. "Many South African families now manage their wealth globally from the outset, as where you choose to live no longer dictates where you earn or accumulate assets," Minnaar notes. "With family members often living, working or studying abroad, the traditional approach to wealth management has shifted, and expert advice is crucial to avoid costly errors when making key decisions like offshore investments, acquiring alternative citizenship, or establishing international trusts."

THINKING GLOBALLY FOR FUTURE GENERATIONS

As more South African businesses expand globally, building a balance sheet outside the country has become critical for long-term sustainability. "Managing offshore investments, trusts and taxes requires specialised knowledge, and at Private Clients by Old Mutual Wealth, we have the expertise to navigate these challenges," Minnaar adds.

THE IMPORTANCE OF INTEGRATED PLANNING

For UHNW families, managing global wealth involves more than investments. It's about creating tax-efficient structures, handling estate duties across borders and planning for the seamless transfer of wealth to future generations. "One of the biggest risks is assuming that tax, property and estate laws are the same everywhere," Minnaar explains. "This can lead to substantial losses or prevent family members from accessing assets after a loved one passes."

PREPARING THE NEXT GENERATION

One of the most critical aspects of wealth management for UHNW families is ensuring a smooth transition of wealth to future generations. "Transferring wealth is a huge responsibility," says Minnaar. "If your parents or grandparents built their wealth through years of hard work, it's vital for you and your siblings to become responsible custodians of that legacy."

A key part of successful intergenerational wealth management is understanding both the family's history and the aspirations of the younger generation. "We work with our clients to understand where their wealth came from and where they want it to go. This allows us to manage and grow wealth across generations while giving the younger family members the freedom to put their own stamp on it," Minnaar explains. Whether it's taking over the family business, diversifying investments or establishing a charitable foundation, Private Clients by Old Mutual Wealth supports the goals of the entire family.

A practical tool for managing intergenerational wealth is the family constitution. While family values and informal agreements often live in people's minds, putting these principles in writing brings clarity and structure to discussions that can otherwise be vague or subjective. "As more family members benefit from the wealth, the dynamics can become complex," says Minnaar. "A family constitution outlines the principles of wealth preservation, the roles of different family members, and the long-term goals for the family business or assets. When these principles are committed to paper, it reduces miscommunication, aligns future generations around common goals, and sets the tone for decision-making, conflict resolution and continuity of the legacy. It's a living document that evolves as circumstances change."

THE ROLE OF A FAMILY OFFICE

For many UHNW families, a family office provides a holistic solution to the complexities of managing global wealth. "Managing assets, trusts or investments across multiple jurisdictions requires a co-ordinated strategy," Minnaar explains. "A family office integrates all these moving parts, reducing the risk of fragmented advice that often arises when various professionals work in silos."

A family office oversees all aspects of wealth management for the entire family – not just the primary wealth generators. This includes managing businesses, trusts and other entities while supporting younger family members as they navigate their financial responsibilities. "Having a single point of contact ensures a cohesive strategy," Minnaar says. "Whether it's dealing with complex tax structures or simply paying an insurance premium, a family office not only streamlines affairs, but also ensures long-term alignment." Minnaar also highlights a key concern: "The biggest risk we see is that structures which may have been effective initially, can erode over time without proper, ongoing oversight."

Private Clients by Old Mutual Wealth's family office, established in 1925, has managed wealth for four generations of families. "Our strong relationships with global experts and local professionals allow us to work seamlessly with families' financial planners and other advisers to ensure that every aspect of our clients' affairs is managed with precision and meticulous care," Minnaar adds.

A LEGACY FOR FUTURE GENERATIONS

At the core of wealth management is the preservation of a family's legacy. "Managing intergenerational wealth requires specialist planning and a deep understanding of the family's goals, history and aspirations," says Minnaar. "Our team of expert advisers work together to provide a holistic solution, ensuring the family's financial legacy is preserved and strengthened for future generations."

With expert advice, global insight and a deep understanding of family dynamics, Private Clients by Old Mutual Wealth is uniquely positioned as a trusted partner for UHNW families navigating the complexities of global wealth management.

The Authors

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Victor joined Private Clients in 2016 and is responsible for conducting research relating to all aspects of our investment portfolios, including top-down, bottom-up, idea generation, macro and asset allocation research. He also serves as Portfolio Manager of the Private Clients Equity Income Model Portfolio. Victor was previously employed as an Investment Analyst at Maestro Investment Management, where in addition to equity research, he was responsible for managing a number of private client equity portfolios. Prior to that, he was a Fund Accountant at Investment Data Services where he prepared and reviewed valuations and accounting records of hedge funds. Victor graduated with an MBA from Stellenbosch Business School as well as a Business Science Finance (Hons) degree from the University of Cape Town. He is also a CFA Charterholder.

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Nadine joined Private Clients in March 2024 and was previously employed as an Equity Analyst at Investment Managers Laurium Capital, Mazi Global and Old Mutual Titan. Prior to that, she was an Old Mutual Chartered Accountant Trainee and worked with various departments within the business, including Private Clients' Finance team. Nadine qualified as a Chartered Accountant at the end of 2017 and has also completed CFA Level 2. She also completed a Marketing and Entrepreneurship course with StartUp School.

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After graduating with a Postgraduate Diploma in Accounting in 2015, Tasneem joined the Old Mutual Chartered Accountant Training Programme in 2016. During the subsequent three years, she worked within various businesses in the Old Mutual Group, gaining valuable experience in functional areas such as internal audit, risk management, finance, group planning and investment analysis. In 2018, she was placed within Private Clients, first in the Finance team to assist with the annual financial statements and then in the Research & Investment team to assist with investment portfolio reviews. Tasneem successfully completed her articles at the end of 2018 and is a qualified Chartered Accountant (SA).

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Godwin joined Private Clients in 2024 as a Fiduciary Specialist. He started his career with Old Mutual in 2006 with Personal Financial Advice (PFA) as a Financial Analyst. He worked for Succession Financial Planning as a broker and joined Liberty South Africa as a Legal Adviser, before returning to Old Mutual in 2021. Godwin is an admitted attorney of the High Court of South Africa. He holds LLB (Unisa), BCom (Hons) (UCT) and MPhil Tax Law (UCT) degrees and Postgraduate Diplomas in Financial Planning (UFS) and Estate Planning (UFS). He has over 15 years' experience in the financial services industry.

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Jean has had an expansive career within Old Mutual where he held various senior positions focused on creating and successfully delivering new capabilities across the group. He joined Old Mutual Wealth as Managing Director of Old Mutual Wealth Trust Company in 2021 from Customer Solutions, where he was General Manager of Retail Investments and New Ventures for Old Mutual Limited. Old Mutual Rewards, Tax Free Savings, the Max portfolio of investment solutions and the secured lending offering are some of the projects he spearheaded. In 2019, Jean completed the Harvard Business School's General Management Programme and he is a Fellow of the Institute of Actuaries. He has a keen interest in finance, fintech and investment management and has held directorships at Old Mutual Unit Trusts, Old Mutual Investment Services and 22seven Digital.

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