

AUTUMN 2024

OLD MUTUAL WEALTH

JOURNEY



OLDMUTUAL

WEALTH



➤ Farhad Sader

THE YEAR OF POSSIBILITY AND OPTIMISM

I can't believe we are already settling into 2024. Regardless of what we may have experienced last year, whether they were good times or challenging times, the new year is the beginning of an opportunity to turn the page and start a brand-new chapter that is filled with hope and vigour for what lies ahead.

2023 was a difficult year for the SA economy, which saw a small uptick in the months to the end of December. Structural constraints, together with a high-cost environment, continue to weigh on growth prospects. GDP grew a marginal 0.1% in the fourth quarter, following a 0.2% contraction in the third quarter. The only bit of good news is that this means a technical recession – two consecutive negative quarters – was avoided.

OUR HEDGE FUNDS CONTINUE TO SHINE

Old Mutual Multi-Managers' Long Short Equity Fund of Hedge Funds took the title for best fund of hedge funds over five years at the prestigious HedgeNews Africa Awards, boasting an impressive annualised net return of 13.19% and a Sharpe ratio of 1.16. Winning this award for the sixth year in a row is not just a recognition of our team's capabilities, but also a reflection of the consistent, high-quality service we provide to our clients.

NEW FUND FOCUSING ON DOING GOOD

I am also very proud of the launch of the Old Mutual Gift of the Givers Life Fund, in partnership with the Gift of the Givers Foundation. The fund is designed to advance real change and meaningful impact in South Africa whilst adhering to ethical investing principles. Available to both retail and institutional investors, the Old Mutual Gift of the Givers Life Fund is fully invested in the Old Mutual Albaraka

Income Fund, a Shari'ah-compliant fund launched in 2020. At a fund level, all non-permissible (non-Shari'ah-compliant) income from the Old Mutual Albaraka Income Fund is donated to charity in diverse communities irrespective of race, religion or culture. At an endowment fund level, all permissible (Shari'ah-compliant) income is donated to the Gift of the Givers Foundation by Old Mutual on behalf of investors.

PRIVATE CLIENTS BY OLD MUTUAL WEALTH IS REACHING NEW HEIGHTS

Private Clients by Old Mutual Wealth witnessed remarkable growth, with assets under management reaching R59 billion by 31 December 2023. This was a 30% increase relative to the previous year, effectively entrenching Old Mutual's foothold within the high-net-worth segment. The key to the success of this business, which focuses on bespoke wealth and investment solutions for high-net-worth clients, lies in its ability to work with clients and their existing advisers and guide them on global wealth management issues.

ASSET TV AUDIENCE CHOICE AWARDS

Roland Gräbe, Head of Retail for Old Mutual Multi-Managers (OMMM), received an Asset TV Audience Choice Award for Most Watched episode on the Discretionary Fund Management Masterclass. This award reflects our ability to adapt to rapidly changing times, especially with the exponential growth in digitisation over the past few years.

BUDGET SPEECH 2024

The Minister of Finance, Enoch Godongwana, delivered the 2024 SA Budget Speech. It was welcomed as market positive with a continued focus on fiscal consolidation. You can read more about the Budget and how it impacts your investments in this newsletter.

UPDATE ON TWO-POT RETIREMENT SYSTEM

Also announced in the Budget was the commencement date of the two-pot retirement system, set to take effect on 1 September 2024. We are awaiting the gazetting of the Pension Funds Amendment Bill to provide much-needed clarity on the final version of these regulations and will communicate in this regard as soon as we have clarity.

DISCIPLINE AND FOCUS REMAIN KEY

It is important to remember that returns don't follow a straight line, and that there is a trade-off: short-term volatility for longer-term returns. Successful investing is about discipline and patience and a well-planned strategy that aligns with your financial goals and risk tolerance.

As always, we are here to partner with you on your wealth journey.



KEY TAKE-OUTS FROM THE 2024 BUDGET SPEECH

Finance Minister Enoch Godongwana delivered the highly anticipated 2024 Budget Speech on 21 February 2024, detailing Government's strategies for managing the country's finances in the upcoming fiscal year. Some key points of the speech include:



No adjustments to the personal income tax brackets and medical tax credits.



VAT remains at 15%.



Contributions to retirement funds will be split, with one-third going into a "savings component" and two-thirds going into a "retirement component".

IMPACT ON WEALTH PLANNING

TIAAN HERSELMAN | HEAD OF PROPOSITION MARKETING AT OLD MUTUAL WEALTH

Against the backdrop of expenditure demands in an election year, spiralling government debt, put under more pressure by South Africa's budget deficit estimated to worsen from 4% to 4.9% of GDP, we saw a rather "interesting" Budget Speech.

Considering the R56.1 billion shortfall in tax collections compared with the 2023 Budget, Government for the first time made a decision to introduce a reform of the gold and foreign exchange contingency reserve account (GFECRA). This allows them to draw R150 billion of the potential R500 billion from the GFECRA, which will see the national deficit reduce from 4.5% (expected in 2024/2025) to 3.3% of GDP by 2026/27. This is not cause for concern and is global best practice. It's a positive move that helps stimulate economic growth and a trend that is seen across the globe.

But how does the Budget Speech impact your personal finances and your financial planning? Firstly, we did not see personal income tax tables or medical tax credits adjusted in line with inflation as they were last year, which helped Government raise R18 billion in additional taxes. On a positive note, there was no increase in the VAT rate.

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All indicators point to the fact that 2024 should be a year where inflation and interest rates trend lower for South Africans, which should hopefully provide some relief when considering the lack of relief provided by no adjustment in income tax brackets.

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SO LET'S CONSIDER THE IMPACT ON OUR POCKETS

- Individuals below age 65 earning R30 000 p.m. can expect to receive a net income of R25 217.
- Individuals below age 65 earning R50 000 p.m. can expect to receive a net income of R38 697.
- Individuals below age 65 earning R100 000 p.m. can expect to receive a net income of R68 810.

WHAT ABOUT TAX EFFICIENCY WHEN INVESTING?

The interest exemption for natural persons remains unchanged at R23 800 for individuals below 65 and R34 500 for individuals who are age 65 and older. This has remained unchanged since 2012.



Dividends received by individuals from South African companies are still taxed at a rate of 20%. This was increased in 2017 from 15% to 20%.

Most foreign dividends received by individuals from foreign companies are still taxed at a maximum effective rate of 20%.

The capital gains tax (CGT) rate for individuals and special trusts remains unchanged at 40% with the first R40 000 being exempt, and 80% for other trusts with no exemption.

SOME WAYS IN WHICH YOU CAN STILL SAVE ON TAX

Retirement annuities or retirement funds are still great savings vehicles to reduce your income tax liability for the year, with a deduction allowed for up to 27.5% of the greater of remuneration or taxable income limited to R350 000. These assets are still also exempt from estate duty, unless you have disallowed contributions.

So, in simple terms, if your income is R50 000 p.m. your income tax liability would usually be in the region of R11 300 based on the latest income tax tables. If you now further contributed R5 000 p.m. to a retirement annuity your income tax would reduce to R9 500, which equates to a saving of approximately R1 800.

The annual contribution limit for tax-free investments remains unchanged at R36 000 per annum and the lifetime limit is still set at R500 000.

WHY IS ALL OF THIS IMPORTANT?

Taking into account the tax benefits associated with retirement funds and tax-free investments, it

is worthwhile considering additional contributions to retirement funds and then saving the tax refund received from SARS into liquid investments such as a tax-free savings account or discretionary investments such as a unit trust.

LASTLY, WHAT IS HAPPENING WITH THE RETIREMENT TWO-POT SYSTEM?

All indications are that the two-pot system is still on track to be implemented by 1 September 2024. The tax on the one-off withdrawal from seed capital is estimated to generate revenue of R5 billion in 2024/2025. From 1 September 2024, your retirement contributions will be divided into two pots:

1) A savings pot to which one-third of your contributions will be allocated and which you will be able to access before retirement if required, and

2) A retirement pot, where the remaining two-thirds will be kept for funding your income in retirement. This pot will be preserved until your retirement date.

There will be a one-off automatic allocation of 10% of your existing retirement savings (capped at R30 000) transferred to the "savings pot", which is referred to as "seed capital".

The new rules will only apply to new contributions after 1 September 2024. Retirement savings up to that date will be ringfenced as the "vested pot", and the existing rules will continue to apply to this component (pot).

As always, it is recommended that you speak to your financial planner to understand how all these elements impact your financial plan.



Watch Tiaan explain the impact of tax adjustments and the new two-pot system.



HEDGING STRATEGIES – PROTECTING YOUR INVESTMENTS

BUSI NGQONDOYI | HEAD OF HEDGE FUNDS AND PROPERTY AT OLD MUTUAL MULTI-MANAGERS

WHAT IS HEDGING?

Hedging is a risk management strategy or a form of portfolio insurance that limits the losses that an investor might face during periods of falling markets. So, just like we take out car insurance to hedge our risk of getting into an accident and incurring financial losses, it is equally important to “insure” or hedge our wealth and investments against adverse market and economic events.

WHY SHOULD INVESTORS THINK ABOUT HEDGING?

As we know, markets don't go up in a straight line but fluctuate due to a number of factors. So hedging acts as a shock absorber to hedge or limit the losses an investor might incur when markets fall. Investors can use hedge funds as one way to hedge their investment portfolios. This is because, unlike traditional unit trust funds that can only profit from share price increases, hedge funds enjoy the unique advantage of being able to profit from both share price increases and share price declines. As such, they can make money in both rising and falling markets, and thus provide a different risk/reward profile compared with traditional unit trusts.

For example, in the context of the current SA economic landscape and the recent Budget Speech, companies are finding it challenging to grow and generate value for investors. However, hedge fund managers' ability to generate returns does not necessarily rely on strong economic growth. They can generate returns and preserve investor capital by buying the “winners” and selling the “losers” irrespective of prevailing market conditions, as shown in the example above, so their performance is not tied to particular market conditions.

HOW CAN INDIVIDUALS INVEST IN HEDGE FUNDS?

The introduction of South Africa's hedge fund regulation in 2015 means that hedge funds are now available to the general public and enjoy the same level of oversight as traditional unit trusts. Retail



investors can access hedge funds by investing in hedge funds either directly, through a financial planner or through a fund of hedge funds like the **Old Mutual Multi-Managers Long Short Equity Fund of Hedge Funds**. (This fund took the title for best fund of hedge funds over five years at the prestigious HedgeNews Africa Awards in March.) Investing in a fund of hedge funds offers the advantage of immediate diversification across various managers and investment strategies, thereby reducing the risk associated with relying solely on a single manager who may go through a rough patch at any given time.

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As financial markets continue to face headwinds, bringing hedge fund exposure into the investment portfolio mix can provide a measure of protection against uncertainty.

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Watch Busi as she discusses the importance of protecting your investments through hedging. She also delves into how individual investors can invest in hedge funds to protect their wealth.



IMPACT ON INVESTMENT PORTFOLIOS

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



Watch an insightful explanation of the impact of the Budget Speech on investment portfolios across sectors, geographies and markets. Victor also talks to Private Clients' investment portfolio strategy and how it is best positioned to take advantage of market movements.



A MARKET-POSITIVE BUDGET

IZAK ODENDAAL | CHIEF INVESTMENT STRATEGIST AT OLD MUTUAL WEALTH

A market-friendly budget is not necessarily the same as a good budget for taxpayers or citizens. To get government borrowing levels under control, it has to cut spending or tax revenues need to rise. The former negatively impacts the delivery of public services and public investment, while the latter is a drag on household consumption. However, in the long run, no one will benefit if there is a fiscal crisis. Moreover, as Government's interest burden rises due to its growing debt obligations and high borrowing costs, other spending areas are already being squeezed out. Indeed, debt service costs already exceed total spending on social grants, and continue to rise. Around 21 cents of every rand SARS collects is paid over to Government's creditors.

Because the bond market knows this is not a sustainable trend, it charges Government a very high rate of interest, i.e. government bond yields are very high. But these high bond yields in turn raise the debt burden. It is a vicious cycle that must be broken. There must be some short-term pain for long-term gain.

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Therefore, despite it being an election year, the 2024 Budget displays an ongoing commitment to fiscal consolidation and debt stabilisation.

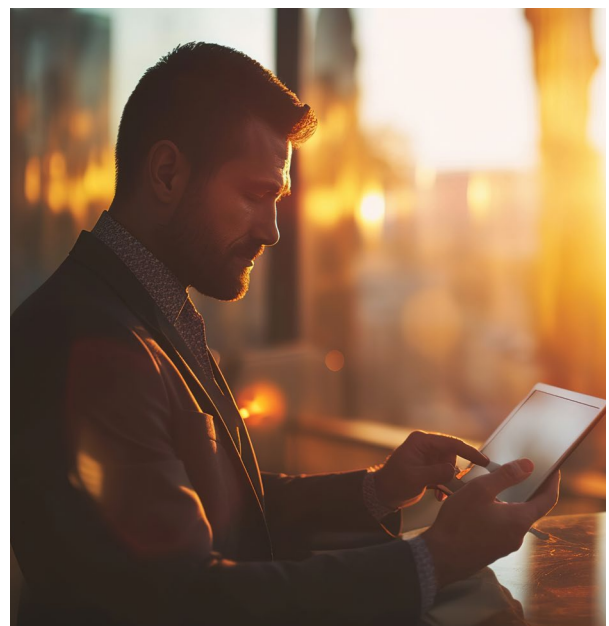
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While other developing countries often see populist budget policies leading up to elections, there was no sign of it here. The personal tax burden rises by R18 billion through not adjusting tax brackets for the impact of inflation, while the social relief of distress (SRD) grant stays at R350. The SRD will remain in place after 2025, as was widely expected. The total social grant budget will rise in line with inflation over the medium term. Again, this is hardly a sign of populism.

Fortunately, the pain of adjustment is helped somewhat by an unwieldy acronym. Until now, few people have heard of GFECRA, the gold and foreign exchange contingency reserve account at the Reserve Bank, but now it is the talk of the town.

GFECRA is effectively the unrealised valuation gains or losses on South Africa's foreign exchange reserves. Though held by the SA Reserve Bank, these gains or losses accrue to Government. Unlike in other countries, there hasn't been a regular transfer from the central bank to the government. The sharp depreciation of the rand (from R6/US\$ in 2010 to almost R19/US\$ today) means GFECRA has ballooned to R500 billion. National Treasury has been discussing the matter with the Reserve Bank, and the Finance Minister announced that R150 billion would be transferred to Treasury to pay down debt and reduce Government's annual gross borrowing requirement from R553.1 billion in 2023/24 to R428.5 billion in 2026/27. This also means the debt-to-GDP ratio is projected to stabilise at 75.3% in 2025/26, a lower and earlier peak than projected in last year's Medium-term Budget Policy Statement (MTBPS).

There is a limit to how far tax rates can be increased before the proverbial golden goose is killed. There is also a limit to how far government departments can cut their budgets. The recent furore over unemployed young doctors is a prime example of what happens when government spending levels are reduced too much. The bottom line is that South Africa needs faster economic growth to ensure long-term fiscal sustainability. Several reforms have been implemented to address the big constraints on economic growth (electricity, logistics etc.) but these will take time to bear fruit. In the meantime, the 2024 Budget is a step towards sounder government finances.



OLD MUTUAL WEALTH PARTNERS WITH GIFT OF THE GIVERS FOR SUSTAINABLE DISASTER RELIEF FUNDING



A dynamic partnership between Old Mutual Wealth and the Gift of the Givers Foundation has ushered in an innovative era of impact investing with the introduction of the Old Mutual Gift of the Givers Life Fund. The fund is designed to advance real change and meaningful impact in South Africa whilst adhering to ethical investment principles.

A DYNAMIC PARTNERSHIP

The Gift of the Givers Foundation, a non-profit organisation, receives a lot of support from their generous partners who are primarily from the corporate sector, which enables them to effectively respond to crises and disasters. However, for them the demand often exceeds their available resources, and committing to sustainable projects becomes challenging when future funding remains uncertain, particularly in the current economic climate. The partnership with Old Mutual Wealth is envisaged to offer an effective remedy to this dilemma.

SUSTAINABLE FUNDING THROUGH INVESTMENT

This fund transcends traditional investment by channelling dividends into life-changing initiatives supporting disaster relief, water provision, hunger alleviation and community development. Through this novel approach, investors' desires to leave a legacy beyond wealth accumulation can be achieved.

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Old Mutual Wealth is driven by a deep-seated ambition to help their clients achieve their wealth creation goals, all while acknowledging the integral connection between business success and the well-being of their communities.

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This fund represents what should be the new normal in investment, the blending of impact-led and sustainable initiatives with wealth creation.

THE UNDERLYING FUND

The Old Mutual Gift of the Givers Life Fund is structured as an endowment portfolio, fully invested in the Old Mutual Albaraka Income Fund.

The Old Mutual Albaraka Income Fund adheres to Shari'ah laws and does not invest in companies involved in alcohol, gambling, non-halal foodstuffs or interest-bearing instruments. Old Mutual ensures compliance across its Shari'ah range through a Shari'ah Supervisory Board, responsible for ensuring that the funds adhere to the standards of the Accounting and Auditing Organisation for Islamic Financial Institutions.

ALL INCOME DONATED

All **non-permissible dividend income** (income from non-Shari'ah assets) is donated to charity through the South African Muslim Charitable Trust.

All **permissible dividend income** (income from 100% Shari'ah assets) from the Old Mutual Gift of the Givers Fund is directed specifically to the Gift of the Givers Foundation. These funds will be dedicated

to supporting disaster relief efforts in South Africa. Therefore, investors can take pride in knowing that their investments support the Gift of the Givers' life-changing efforts across the country.

CAPITAL APPRECIATION STILL A TARGET

Over and above donating all income, the Old Mutual Gift of the Givers Life Fund still targets capital appreciation for investors. This is achieved, firstly, through share price movements. In addition, because the fund income is donated, Old Mutual claims the tax rebate on behalf of investors and this amount is reinvested into the fund.

ADDRESSING CHALLENGES TOGETHER

In South Africa, the triple threat of poverty, unemployment and inequality is a barrier that must be breached so that all South Africans may enjoy a better life. However, these threats also present opportunities, such as partnerships that bring diverse expertise – in this case, the Gift of the Givers Foundation, a global disaster relief non-profit organisation and a top wealth investment company in Old Mutual Wealth – as legacies are not built alone.

This is why our partnership with the Gift of the Givers Foundation is so inspired.

WATCH THIS VIDEO EXPLAINING THE FUND HERE.



PRIVATE CLIENTS BY OLD MUTUAL WEALTH REACHING NEW HEIGHTS

In 2023, Old Mutual Wealth consolidated its high-net-worth business behind a unified proposition: Private Clients by Old Mutual Wealth.

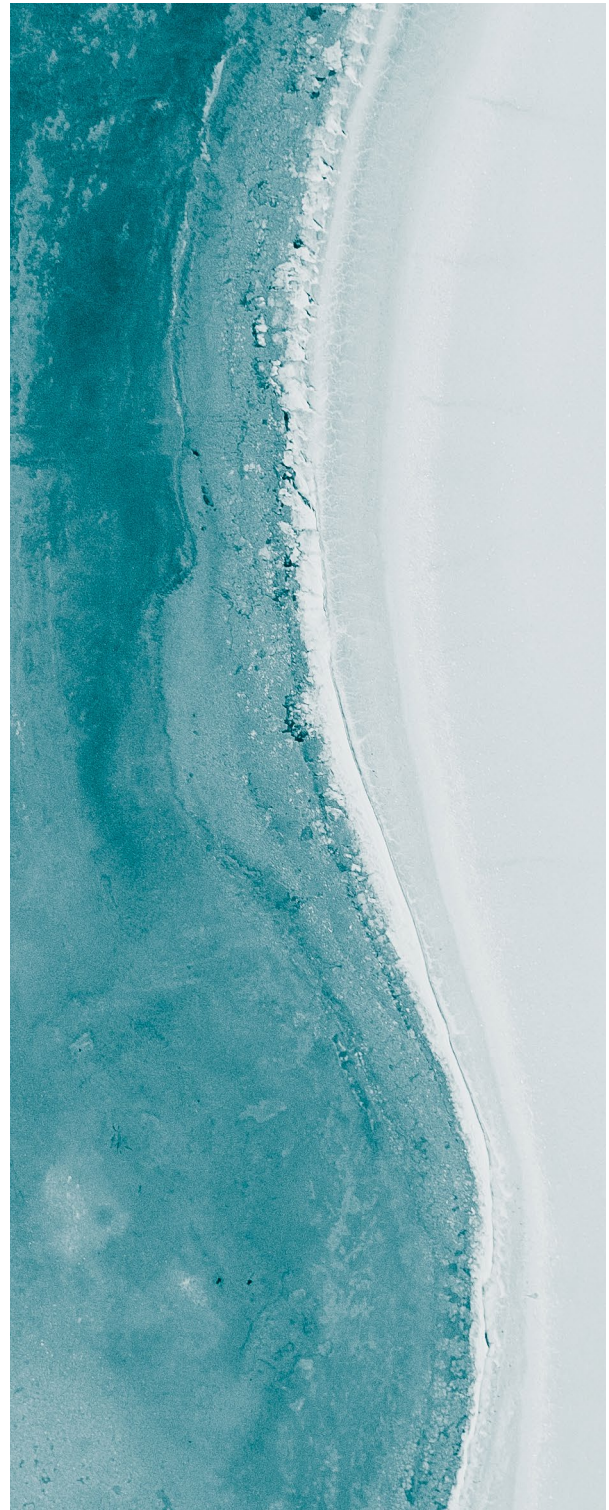
Specialising in bespoke wealth and investment solutions for high-net-worth clients, Private Clients by Old Mutual Wealth witnessed remarkable growth, with assets under management reaching R59 billion by 31 December 2023. This was a 30% increase relative to the previous year, effectively entrenching Old Mutual's foothold within the high-net-worth segment.

This success is notable within the context of challenging market conditions, a continued weak currency, and muted business activity in South Africa. The key to the success of this business lies in the ability to work with clients and existing advisers to guide them on global wealth management issues that extend far beyond traditional asset allocation and portfolio management.

With international assets representing a significant portion of every high-net-worth South African's portfolio, working with a trusted partner is becoming increasingly important. This is where Private Clients by Old Mutual Wealth comes into play, offering diverse specialist expertise geared towards helping high-net-worth clients navigate the intricacies of global citizenship.

The concept of global citizenship has gained prominence, particularly among South Africans seeking to expand their assets internationally. This shift presents distinct challenges in terms of wealth management and succession planning. Global citizenship transcends geographies, and as individuals and families become more globally dispersed, effectively managing assets across various jurisdictions demands a comprehensive understanding of the respective financial, legal and structural considerations.

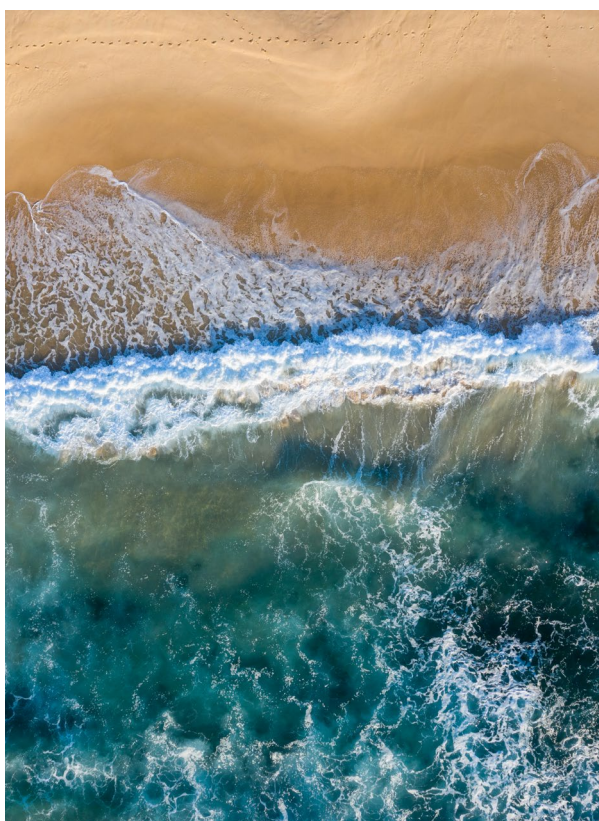
Throughout the last decade, the South African investment management industry has been engaged in a continuous debate around local versus offshore investment exposure. However, the debate focuses



too narrowly on asset management and short-term perspectives. This is not aligned with the needs of true high-net-worth clients. Rather, it advocates for a paradigm shift towards holistic wealth management focused on multi-generational wealth planning.

From a pure investment perspective, the reality is that high-net-worth clients do not benefit from allocating a significant portion of their investment capital to South Africa, given its relatively small share of the global investment universe. Nonetheless, their economic stakes in South Africa, even after diversifying globally, remain noteworthy in absolute terms, and their typical business interests contribute meaningfully to local economic growth.

Therefore, the broader wealth management industry's fixation on determining a specific percentage of offshore assets is misplaced within the high-net-worth segment, where clients are increasingly preparing for a future where some of their obligations will be in different jurisdictions or currencies. Practical scenarios include maintaining a lifestyle split between two continents (also referred to as a swallow lifestyle), funding tertiary education abroad for children or grandchildren, or emigrating to be closer to family in another country, necessitating income-generating assets.



Within an environment where competing narratives vie for attention, securing reliable and trusted solutions can be challenging, and the persistent uncertainty can be daunting for individuals and families who have diligently built up their wealth over several years.

Old Mutual Wealth's advantage lies in combining the broader Old Mutual Group's inter-generational, multi-national heritage with top talent in the industry. By leveraging over 100 portfolio managers and product investment specialists, Old Mutual Wealth enables high-net-worth South Africans from all corners of the country to live and invest as global citizens, prioritising inter-generational wealth accumulation. The private client business further enhances this by guiding clients through the often overwhelming and complex process of effectively structuring, safeguarding, preserving and transferring their families' wealth and legacies over the long term.

The Private Clients by Old Mutual Wealth proposition is distinct. The business forges professional partnerships with financial advisers and clients, focusing on delivering on the key priorities for high-net-worth families or individuals. These include ensuring a reliable investment outcome; maintaining a well-structured balance sheet; offering personal and unrestricted access to relevant subject matter experts; actively managing risk; crafting bespoke investment portfolios and fee structures; and providing secure custodianship of long-term wealth. Essentially functioning as a specialised family office, Private Clients by Old Mutual Wealth leverages an ethical and a responsible corporate legacy that has stood the test of 180 years.

Solutions encompass an accessible international investment platform, trust structures, estate planning across multiple jurisdictions, fiduciary guidance, multi-currency exposure, guidance around the most suitable geographic locations, as well as access to a leading global investment management team. Partnering with wealth managers, financial planners and advisers, Private Clients by Old Mutual Wealth guides clients through these intricate complexities, crafting tailored, integrated wealth and investment management solutions.

Looking ahead, Private Clients by Old Mutual Wealth remains committed to serving as a trusted wealth and investment manager to high-net-worth clients and their financial advisers, offering a platform to structure, preserve, grow and leverage wealth across multiple geographies and generations.





BRICS NATIONS TO SEE HIGHEST SURGE IN MILLIONAIRE COUNT OVER THE NEXT DECADE

In January 2024, Brazil, Russia, India, China and South Africa welcomed Egypt, Ethiopia, Iran, Saudi Arabia and the UAE into the BRICS bloc.

According to Henley and Partners' inaugural BRICS Wealth Report, the expanded group is increasing its share of global wealth, challenging the world order, and establishing itself as a powerful rival to the G7 and other international institutions.



[CLICK HERE TO WATCH A VERY INSIGHTFUL SUMMARY VIDEO](#)



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