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**Auto & General strikes deal to partner MUA with Telesure**

MUA INSURANCE ACCEPTANCES, the specialist underwriter focused on the High Net Worth (HNW) personal lines market, has entered into an agreement with Telesure Investment Holdings (Pty) Ltd (Telesure) to underwrite on behalf of Auto and General Insurance Company Ltd, one of its licenced insurance companies. This will take effect from 1st January 2014.

Telesure is one of the largest insurance groups in South Africa and says it “has never made an underwriting loss in its history.” The group owns and operates several insurance brands, including Auto & General; 1st for Women Insurance; and long-term insurer, 1Life, among others. Telesure is owned by Budget Holdings Limited (BHL), which operates in the UK, South Africa, Australia, France, Turkey and the Netherlands.

MUA has enjoyed a successful partnership with Compass Insurance since 2009, notes Christelle Fourie, the firm’s MD. “The new partnership with Auto & General will allow MUA to benefit from its highly advanced technological systems, economies of scale and access to innovative underwriting techniques. For its part, Auto & General will gain access to a previously unexplored market segment.”

It is not unusual for high-end brands to leverage from larger volume brands to take advantage of economies of scale. “A great example of this is the Volkswagen Group, which has part or full ownership of a number of luxury passenger car manufacturers including Bentley, Bugatti, Lamborghini and Porsche, among others. The MUA and Auto & General partnership is based on a similar concept to allow the MUA brand to grow and offer a better service to its customers by leveraging from Auto & General.”

The underwriting and claims decision making process will remain with the MUA management team, which will continue to have the same underwriting and claims handling mandate as before. Most importantly, brokers will still deal directly with MUA. “Our brokers are our partners and will remain the focal point for MUA.”

Leon Vermaak, Chief Executive Officer of Auto & General, says the company is extremely excited to enter into an agreement with such a well-respected and sophisticated business. “Traditionally, Auto & General has played in the middle market segment, so the oppor-
tunity to explore the premium market is very exciting. MUA is the perfect partner, with its market leading expertise and experience within the HNW individual personal lines insurance market."

successful 25 year partnership with MUA, we hope to add another 25 years to our long standing relationship.”

Fourie notes that it is important to highlight that brokers and policyholders will benefit from the newly formed partnership. "MUA can now make use of Auto & General’s technological capabilities and procurement benefits. One of the main driving factors in determining insurance premiums is the ability to manage the cost of repairs and procurement. This is done by and large through the bulk buying power of the risk carrier.

Through this partnership, MUA will have access to substantial cost saving initiatives which will translate ultimately into insurance premiums savings for the policyholder."

GOODS-IN-TRANSIT

What a gas…

Justicia halts fuel tanker hijackings worth over R350 million

TRUCKING COMPANIES HAVE lost up to R350 million in stolen fuel to a blue light syndicate operating between Durban and Johannesburg. Conrad van der Merwe, Regional Director Gauteng of Justicia Investigations, has revealed.

“As fuel becomes increasingly expensive, the many petrol tankers that are plying the route between the two cities will become increasingly attractive targets. Already, between January and July this year, our investigators came to know of at least 35 different incidents. However, there have probably been more given that between 40 and 50 fuel tankers are on the highway on any single day,” he says.

At present, Gauteng consumes 65% of the fuel in the country. The bulk of this is either imported or refined by Engen or Sapref. Most is transported by road. Unfortunately, the multi billion rand New Multi Product Pipeline, which is still under construction by Transnet would be the safest means of transporting petrol and diesel, is not yet fully operational.

Although Justicia investigates a wide variety of different crimes and has come across tankers stolen in Durban, emptied and abandoned, he says that the blue light syndicate that investigators exposed operating along the N3 in August was one of the more sophisticated. Most of these tanker hijackings took place within 150 kilometres of Johannesburg. Vehicles were carrying petrol, diesel and paraffin.

According to Van der Merwe, the syndicate used white unmarked vehicles with blue lights. After a truck was pulled over and a suspect wearing a SAPS uniform over powered or took the driver hostage, accomplices wearing plain clothes appeared. They used cable ties to tie up the driver. He was placed in the boot of their vehicle.

In other cases, drivers of fuel tankers were hijacked after they went to the toilet or shops at some of the ultra cities close to Johannesburg. “As the driver climbed into his truck, he would feel a gun in his back and would be forced to climb into the cab and lie on the sleep bunk. He was then tied up and robbed of his cell phone and wallet,” said Van der Merwe.

The tracker signal of the truck was blocked using an advanced jamming device and the vehicle was then driven to the off load point which, in this case, was a farm in the Springs area. Here, the diesel or petrol was pumped into large 30 000 litre containers.

The truck with trailer was then driv-
en back to Johannesburg and dumped while the driver was dropped off in a rural area in the Leandra/ Delmas area, and where he would be left to struggle for an hour or two before making his way to the nearest police station to report the incident.

He added that horses and empty trailers were eventually discovered a few days after an incident at different locations in Johannesburg. He said that owners of the ensembles, of which the horse alone was worth around R1.5 million, were fortunate to recover their vehicles.

“In all cases, the drivers were robbed of their cell phones and wallets. Polygraph tests performed during this thorough investigation confirmed that they were not involved in the planning or execution of these hijacks in any way,” continues Van der Merwe.

Justice, assisted by the tracking company responsible for five trucks owned by a small trucking company, was able to locate the farm that was used to store the stolen petrol and diesel. Seals found on the premises indicated that numerous loads of stolen petrol and diesel were off loaded on this farm. The tenant, who was responsible for selling the stolen fuel to a wholesaler, was arrested.

Further investigation

Further investigations lead to the arrest of the leader of the hijacking team. It was found that he was out on bail on numerous charges of hijacking and even murder. He was positively identified by drivers during identification parades and has been charged with numerous fuel truck hijackings in Gauteng.

In addition, Justice was able to identify the fuel wholesaler who purchased most of the stolen fuel from the suspect on the farm and then sold this fuel to allegedly unsuspecting service stations. Van der Merwe said that the fuel was sold by the farm operator to the wholesaler at a 50% discount. The wholesaler is believed to have added a substantial mark up before disposing of the fuel to a number petrol garages at a 20% to 25% discount.

He said that, as yet, it was not clear how many filling stations were involved. However, investigations were ongoing and he expects further arrests. He also said that cases had been postponed with the next appearance scheduled for the beginning of October in Johannesburg.

“Since these arrests have been made, fuel truck hijackings on the N3 have come to a complete standstill. Justice and its investigators will do their best to ensure that the suspects are found guilty and receive lengthy sentences.”

For more information on Justice Investigations please go to www.justicia.co.za.

RIOT INSURANCE

Massive rise in claims

Sasria perseveres in challenging times

Sasria SOC Ltd (Sasria), South Africa’s short-term insurer for riot, strike, labour disturbance and terrorism, reported a 12.5% increase in gross written premium for its financial year ending 31st March 2013 and a 75.5% decrease in underwriting results.

Sasra experienced an increase in claims frequency, especially in the fourth quarter of 2012. This resulted in the increase in the combined loss ratio from 45.9% to 88.1%. This was mainly due to damages as a result of labour strikes from various sectors such as mining, transport, and farming. Currently 80% of the claims are as a result of labour strikes. In addition, Sasria experienced an increase in the claim frequency by 91% whilst the severity of the claims increased by 135%. This reflects a new trend in the claims environment, and Sasria believes this trend will continue in the current period. And, if predictions by many observers of increased labour strikes prove correct, it expects another tough year.

Cedric Masondo, Sasria’s Managing Director, reports that like most insurers, its increased claims were balanced by outstanding investment results on the back of strength in the domestic equity and bond markets. “Despite the challenging times, Sasria has managed to prove its ability to manage and extend its relevance as a unique business to the insure public and broader society,” he notes.

In order to further prove its relevance, Sasria has increased its Corporate Social Investment contribution from 2% to 4%. This will assist Sasria to contribute to the Government’s National Development Plan by focusing on skills development and enterprise development.

“Our success would not be possible without the support of all our customers, intermediaries, agent companies and other stakeholders,” he adds.

DISABILITY INSURANCE

Equal plans

Common base for tax treatment proposed

On Wednesday 11th September 2013, Treasury presented the draft response document to the Taxation Laws Amendment Bill, 2013 to Parliament’s Standing Committee of Finance. “One significant proposal which drew attention was the tax treatment of individual-based insurance policies”, says Erich Bell, Tax Technical Assistant with the South African Institute of Tax Practitioners (SAIT).

“Under the current state of affairs, there are two types of disability insurance plans that are offered to individuals: capital protection plans and income protection plans. And both of these disability plans are being treated differently for tax purposes,” he explains.

With capital protection plans the individual takes out cover against a loss of income earning capacity. Typically cover is provided in the event that an individual loses a limb or becomes mentally incapacitated, and the ability to perform his employment duties is affected. The premiums paid on these policies do not qualify for a deduction while, as might be expected, the pay-outs are not taxable.

In contrast, with income protection plans the premiums qualify for a deduction and the pay-outs are taxable. Explains Professor Sharon Smulders, SAIT Head of Tax Technical Policy and Research, “The Explanatory Memorandum on the Taxation Laws Amendment Bill, 2013 states that the key difference between the two plans is that income
protection focuses more on the negative impact of the disability rather than the disability itself.”

Considering that both types of plans are aimed at providing a level of financial cover to the insured or their family in the event of death or disability, the Treasury has now proposed to treat both income protection plans and capital protection plans in the same way for tax purposes. Therefore, premiums paid by natural persons in respect of life, disability and severe illness policies will no longer be deductible per se if the policies are aimed at income protection. However, all pay-outs on life, disability and severe illness policies will be tax-free, irrespective of whether the pay-out takes the form of a lump sum or an annuity.

The SAIT, through its technical committees, prepared a detailed written submission and presented it to the Standing Committee of Finance last month. “SAIT supports Treasury’s proposal, since the benefits of these plans are often economically the same which makes the proposal more equitable”, says Smulders. “The proposal will also ensure that there is a greater amount of certainty, because all personal insurance cover will be treated equally for income tax purposes.”

However, it must be noted that the Institute and other stakeholders raised a number of concerns regarding this proposal, warns Bell. “The most significant concern is the fact that employees and employers would need to unwind and renegotiate all their disability policies, since they will otherwise be over-insured. This would create a very challenging administrative burden.”

BUSINESS — 2

Real swell

E-marine completes cable repair in Arabian Sea

E-MARINE, THE PRINCIPAL provider of submarine cable installation and repair solutions in the Middle East region, says it has successfully completed a challenging cable repair in the Arabian Sea, despite battling with severe weather conditions to restore service to the FLAG Europe-Asia (FEA) network on behalf of Reliance Globalcom Limited.

The FLAG-FEA cable network provides a vital telecommunications link to the markets of Western Europe and Japan through the Middle East, India, Southeast Asia and China, but local services became impacted recently after a suspected repeater failure on the branch to Fujairah, in the United Arab Emirates.

Cable owners, Reliance Globalcom Limited, engaged E-marine to replace the repeater which required attending to a malfunctioning branching unit in the Arabian Sea. E-marine immediately deployed its largest cable ship, Niwa, which set sail from Sharjah, UAE, with a highly skilled crew and technical staff on board to fix the fault.

The E-marine crew battled through extremely severe weather during monsoon season, with winds almost always above 35 knots, and sea swells above 20 to 35 feet, which was well above the normal range of 8 to 12 feet. Despite the difficult conditions, the crew completed the operation with less than 20 hours downtime, reducing any impact to local services.

The repair was carried out in water approximately 4 000 metres deep and during the recovery, the damaged cable parted at the joint between the main high tension cable and the branching unit. Further investigation by E-marine and the on board Reliance Globalcom representative revealed previous damage to the joint and was very likely the cause of the original cable fault.

During the entire repair Reliance Globalcom network services on the cable remained operational on alternate routes.

Brad Kneller, Vice President at Reliance Globalcom Limited, said, “The level of determination and desire by E-marine to complete the work was extraordinary. E-marine’s assigned cable ship and on-board crew worked in extreme weather conditions for the duration of the repair. The damaged cable was quickly recovered and new cable, repeater and branching unit spliced in, tested and re-laid successfully thanks to

Please continue on page 8......
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close coordination between the ship’s crew and the Reliance Globalcom onshore support teams. “In total the repair took approximately 40 days to complete. Had E-marine management not been fully supportive of the operation being undertaken during the monsoon season, the repair could easily have taken a further 30-60 days, waiting for suitable weather windows in which to undertake the work. This was a terrific effort in very difficult conditions and a truly outstanding accomplishment,” added Kneller.

Submarine cable damage

Omar Jassim Bin Kalban, Managing Director & Chief Executive Officer of E-marine said, “Damage to submarine cables and their capability can impact not just the areas they are located but the entire world. Whole countries and their economies can be hugely impacted by subsea cable damages, which could lead to a loss of regional network transmission. This is why repairing and maintaining submarine cables both efficiently and economically is so vital for our customers.”

“With strategic bases in the UAE and Oman, and expansion planned for East Africa, we are positioning E-marine to provide a faster and more wide reaching service to cable owners through reduced transit times and closer proximity to cable systems. E-marine would like to take this opportunity to thank all of our partners for their collaboration and support during the outage to get the cable repaired in the fastest time possible,” added Bin Kalban.

With over 25 years of experience, E-marine has become the growth driver for regional telecommunication business. With the regional availability and expertise coupled with skilled resources, E-marine’s vision is to encompass high-end technology and become an essential player in the submarine cable industry.

FEA comes ashore at 20 operational landings in 13 countries and since its operation in 1997 FEA has a proven record of reliable operational service, and has attracted a customer base of over 100 international carriers and ISPs.

The recent growth in cable capacity in the Middle East region heralds a new era of connectivity for the continent and will bring greater bandwidth, faster and more advanced services and more reliable connectivity, but also results in more cables needing repair and maintenance.

The Fund’s CEO, Simphiwe Somdyala, adds, “We plan to build solid partnerships with the government and the private sector to improve access to our target market, assist with technical and business skills and make it easier to get funding to beneficiaries. The focus on building capacity while embracing partnerships will go a long way in advancing the development mandate of the Masisizane Fund.”

About the new board members

Ms Lorato Phalatse graduated from the University of Leeds in the United Kingdom in 1983 with an Honours degree in Political Science. She then went on to complete a Master’s degree in Development Studies at the University of York in the United Kingdom in 1985.

That year she joined Unilever South Africa as a graduate trainee and was promoted in 1986 to Assistant Brand Manager. She then moved to the marketing division of Johnson & Johnson, where she was appointed as Brand Manager. In 1990 she joined the management team of NedPerm Bank in the Retail Banking division and was then seconded by Nedbank to set up the Women’s Development Bank. She returned to Nedbank for a year before joining the Mvula Trust, which is a rural water and sanitation programme.

She joined Nozala Investments in 1998 as its CEO. From 2004 until 2007 she was Deputy Director General: Head of the Private Office of the President and in September 2007 she re-joined Nozala Investments as an executive until 2011.

Ms Phalatse serves on the Pick n Pay board and the Pick n Pay Founda-
tion as an independent non-executive director and on the Bidvest board as its independent non-executive chairman. She also sits on the board of the Alexander Education Trust and is a governor of Michaelhouse School.

Mlulami Manjezi obtained a Bachelor of Commerce degree from the University of Fort Hare; a Master of Business Leadership (MBL) and a Management Development Programme (MDP) from Unisa; and completed a Programme for Sustainable Leadership at Cambridge University.

He is a former Divisional Executive of the Rural Development Partnerships Division (RDPD) within the Development Fund, which is a wholly owned subsidiary of the Development Bank of Southern Africa (DBSA). He has a strong background and 20 years’ experience in all aspects of strategic planning and management; financial and institutional turnaround, including structured finance; facilitation and negotiations, innovation; organisational transformation and design; development project preparation and financing across active economic sectors; and results monitoring and evaluation.

Manjezi is a Certified Director through the Institute of Directors of South Africa.

**BUSINESS INSURANCE**

**Upward trend**

*Increase in commercial crime a threat to SA economy*

According to SA Police statistics there was a 0.6% increase in commercial crime for the period April 2012 to March 2013. The previous year (2011/2012) was the only reporting period since 2004/2005 when commercial crime numbers actually went down.

“Year on year statistics show a continued upward trend in the number of commercial crimes reported,” says Helen du Toit, Santam Head of Audit and Forensics. “This increase costs the South Africa billions of rands and threatens our ability to grow an inclusive economy.”

Santam dealt with 101 cases of commercial crime with a total value of R14.7 million for the 2012/2013 period:

- A 5% increase in reported vehicle theft claims;
- A 20% decrease in reported vehicle hijacking claims;
- An 11% increase in reported business robberies (defined as when there is a direct threat or use of violence between a victim and the perpetrator);
- A 9% decrease in reported business burglaries (defined as when there is no contact between a victim and the perpetrator).

“Economic crime in our industry has become very complex and managing the risk pool remains key to maintaining a healthy insurance industry,” says du Toit.

“We work together with the SAPS to help obtain court convictions and our partnership hosts an economic crime forum biannually, where participants from the SAPS, the National Prosecuting Authority (NPA) and the South African Insurance Crime Bureau (SAICB) share in mutually beneficial discussions.”

She adds that commercial crime is commonly classified as being either opportunistic or highly organised syndicate using sophisticated methods. “Whatever the case, it has a direct impact on the costs of an insurer and its policyholders. Corruption, fraud and theft will inevitably have an impact on the cost of claims and acquisition fees.”

It is vital to develop new ways to address commercial crime.

“Our Audit and Forensics team has a mandate to implement various governance structures to detect, prevent and investigate suspicions of economic crimes. It is important that industry stakeholders work together to fight commercial crime, and we encourage businesses to be aware of the daily risks and to put measures in place to best manage these risks.”

**MOTOR INSURANCE**

**Road rules**

*Ten things to note for a successful vehicle accident claim*

The frantic aftermath of a vehicle accident can make it easy to miss those few critical steps that could determine the successful outcome of an insurance claim. If you are involved in a vehicle accident, remember these ten tips from Regent Insurance that will help secure your claim is paid out.

1. Make sure that your policy is up to date at all times.

Checking your insurance policy periodically is a good habit to form. This is the first and most crucial step towards having your claim paid out. If you are in an accident and your policy is out of date, your pay-out will not be possible.

2. Do not allow anyone else to tow your vehicle except your insurer’s accredited supplier. Always have the care-line contact number available.

When getting authorisation for the vehicle to be towed from the scene of an accident, make sure you speak to your insurer yourself. It has happened that tow operators offer to call your insurance company and then hand you the phone. The person at the other end is often not your insurer but just someone working with the tow operator. It’s understandable that we sometimes fall for this in all the stress and confusion of an accident scene.

3. Report the accident to the police within 24 hours and provide your insurer with the case reference number. This is another key component of a successful claim. If there is another party involved in the accident, be sure to get their contact details and, if possible, their insurance information so that you can open a case with the police. Your insurer will need this case reference number to process your claim.

4. Report the accident to your insurer.

When you are involved in an accident, your insurer will highlight in your policy the window in which you can report the incident. Be sure to include the case reference number mentioned in the previous point in your account of the accident.

5. Always tell the truth about the accident and the circumstances involved.

People are often upset by their insurers because of the stringency of the assessments and policy wording. This is understandable, especially if the circumstances surrounding the claim are stressful or traumatic. However, con-
Denial entails ignoring or refusing to believe an unpleasant reality. Typical examples of denial are responses to chronic illness, depression, addiction, financial problems, job difficulties, relationship conflicts and traumatic events. "Rather like optimism, denial plays an important role in retirement savings," says Simon Pearse, CEO of Marriott, the Income Specialists.

Historians are likely to describe the past 30 years as a period of retirement savings insanity. Einstein described insanity as doing the same thing again and again and expecting different results. Considering some of the retirement savings research, it is easy to see how desperate the situation is. According to the HSBC, 57% of retirees globally fear financial hardship, and expect their savings to run out about half way through retirement. Yet they are simply ignoring this unpleasant reality.

The key to this expectation, he says, is how long people expect to live. In the first world, it is about 80 years, and the developing world, about 70 years on average. "It is interesting to note that life expectancy in SA is still below 60, which does bring into question the need of many to save for retirement at all."

HSBC noted that 34% of working people in the UK are saving nothing at all, 63% fear financial hardship and 1 in 3 see their home as a flexible asset. In the US, Wells Fargo has noted that 92% of people with 401k plans or Individual Retirement Accounts don’t meet a reasonable target level of savings for their age and 65% fall short when including all assets. The most concerning is that 45% of Americans have no retirement savings at all.

In South Africa, Sanlam notes that of the people who earn a salary, only 7% of that salary is committed to retirement savings. It points out that at least 14% needs to be saved to have any chance of a suitably-funded retirement. Sanlam also points out that 62% of people draw their retirement savings when changing jobs. This is like voluntarily catching the black mamba down the snakes and ladders board.

HSBC pointed out that 66% of retirees in the UK are inadequately prepared. They expect to live 19 years on average after retirement and expect their savings to last 7 years on average. Wells Fargo point out that US retirees believe they need about US $800 000 for retirement, but on average retiree total assets are no more than $300 000. Sanlam points out that 51% of South African retirees can’t make ends meet. 33% still have debt and 48% support adult dependants.

Pearse says it is interesting to note that most people don’t give their pension statement any attention, in some cases probably because it gives pitifully little useful information, but in most cases it’s likely to be ignoring an unpleasant reality. "Behaviour around denial ranges from benign inattention, to passive acknowledgement, to full-blown, wilful blindness. This is repeatedly evident from the retirement savings research."

Wells Fargo concluded the following: you need a plan and you need periodically to retest your assumptions. The two biggest mistakes retirees make are:

- Over-estimating investment returns; and,
- The amount that can safely be withdrawn each year.

People between the ages 55 to 64 have been unrealistic about their pensions...
and are living in a state of denial about their finances.

So, what went wrong with the retirement savings system? It is now about 30 years since corporates abandoned the defined benefit system – people were living too long, resulting in businesses being responsible for unfunded liabilities in their pension funds. Thus the corporate world has largely absolved itself of responsibility for its retired employees. This is a global story that spawned a do-it-yourself pension system that was destined to fail.

But, why is failure built into the voluntary, self-directed, commercially-run retirement planning system? Consider what would have to happen for the do-it-yourself pension system to work for you. You would need to:
- Know when you will be laid off or be too sick to work;
- Know when you will die;
- Save 14% of your earnings and start wa-ving every year;
- Earn 5% above inflation on your invest-ments every year;
- Never withdraw any funds; and,
- Time your withdrawals to last until the day you die.

“As we all know, these abilities are not common to most of us. Planning not to retire is also not a retirement plan,” Pears points out. “Consider age discrimination, finding or keeping a job, physically working into your 70s. There’s nothing wrong with not retiring, but relying on a regular pay-check to fund retirement is simply an exercise in denial, not a realistic plan.”

So it’s not surprising that denial around retirement savings dominates many dinner conversations. The current retirement system simply defies human behaviour. People are voluntarily saving for 40 years is like asking your pet dog to save half his dinner for tomorrow.

Let’s consider some practical realities of saving for retirement.

“The replacement ratio is the percentage of your final salary that you wish to draw in retirement. A reasonable replacement ratio would be 75% of your final salary.” To achieve this you would need to save about 14% of your salary for 40 years. These contributions must be unbroken for 40 years, invested to provide a return of inflation +5% every year and assume an all-in fee of 2% pa. After 20 years, you will have saved about 4 x your current annual salary. After 30 years you will have saved about 7 x your current annual salary and after 40 years, 11 x your final annual salary. Based on this, you will be able to earn a pension that starts at 75% of your final salary, increasing every year by inflation and this will last about 20 years.

“Another practical reality worth considering is yield reduction. This is the difference between the income you earn from your core investments and the actual income you get after all fees. An all-in fee of 2% pa requires saving 14% of your salary every year. An all in fee of 3% would require saving 17% of your salary every year. This will make a substantial difference to your lifestyle.”

For South Africans with living annuities, it is generally accepted that a sensible drawdown level is about 5% pa. This does not include the cost of the funds chosen which, inter alia, usually equals about 2% pa. Therefore actual drawdown is more likely about 7% pa. According to ASISA’s recent report, the average living annuity drawdown is 9.08% pa, and this is before fund fees. The impact of this level of drawdown is that living annuities will, on average, not even last 15 years.

Note Pearse’s “Retirement reform is effectively the state picking up the ball that corporates have dropped, and it is happening globally.” South Africa appears to be following the UK model which proposes creating simple, well-managed retirement accounts that are mandatory, inexpensive, trustee guided and designed to pay out sustainable income for life.

Let’s be realistic, just as a voluntary tax system would be a disaster, a voluntary retirement savings system is a disaster.

“Retirement reform is likely to have a profound impact on the investment industry. Clearly, a key requirement is to reduce fees. To achieve this, choice and administrative layers need to be removed. It’s all about yield reduction.”

Flying in the face of yield reduction is multi manager diversification, fund diversification, fund switching, extensive investor choice, high fees and performance-based fees.

“Industry participants that remain anchored to practices that will, no doubt, prove inadequate in the face of new investment and regulatory realities, will find their offering more and more irrelevant. If we follow the UK model, trail commissions will not continue although existing trails will be grandfathered.

“With change comes opportunity,” says Pearse. “Rather than ignoring or refusing to believe an unpleasant reality, the key is to remain relevant in a changing investment landscape.” To do this, the industry needs to embrace umbrella pension schemes, lower costs, replacement ratios that give employees a more reliable indication of whether they are saving enough today, and preservation of existing savings.

Yet, this is what they should be doing. Steven Nathan, Chief Executive Officer at 10X Investments, says employers who care about their workers’ financial well-being should go beyond the wage negotiating table and do more to encourage retirement savings. “Many employers don’t even offer their employees a pension fund, which is not only cheaper than if employees saved on their own, but also motivates them to start saving towards their retirement.”

Latest data from Statistics South Africa’s Labour Force Survey (Second Quarter 2013) reveal that of 11 699 employed individuals surveyed, only 50% received pension or retirement fund contributions from their employers. They should be doing more.

“Unfortunately, following the virtual abolishment of defined benefit retirement plans, many employers have abandoned sponsoring a retirement fund to the detriment of their employees. But this could be achieved through a pension or provident fund or even though a group Retirement Annuity arrangement.”

Company sponsored retirement planning.

Please continue on page 14....
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For more information go to sanlam.co.za/intermediary
funds save employees from costly fees as they pay wholesale retirement fund fees, compared to retail fees on their own, says Nathan. “Fees are critical to anyone’s long-term investment return because for every 1% saved in fees the final pension value increases by approximately 30% over a working life.”

Nathan says employers should advise staff to use a portion of their salary increase to boost their retirement savings contribution rate. “The average contribution to retirement funding is typically 10% of one’s salary. However, 10X recommends a rate of 15%. Employers should encourage their workers to increase the contribution rate between 1% and 2% on an annual basis, typically at salary review time.”

He says most people put off saving for retirement as it seems too big a step to make now, but would start saving in six months if given the opportunity. “Employers can use this behaviour bias by asking employees to start their retirement savings program in six months. Employees could then use a portion of their increased salary to fund their retirement.

“Offering a company sponsored retirement fund also assists to attract and retain quality employees by improving employee morale and loyalty, as it provides a convenient way for them to invest for their retirement. Employers have a critical role to play in improving the savings culture in South Africa and should start assisting their employees to retire comfortably.”

ALTERNATIVE INVESTMENTS

Diamonds tricky but potentially lucrative

Investing in diamonds has been something of a hot topic among those interested in asset investment over the last few years. While gold and silver still tend to dominate the markets, increasing numbers of investors are looking into purchasing diamonds as a means of countering impending inflation.

Depending on the financial capacity of the would-be investor, investing in diamonds is a relatively safe yet lucrative alternative. While there are many benefits to such an investment strategy, it is one that requires an “eyes-wide-open” approach.

According to Yair Shimansky, CEO of the Yair Shimansky business, clients need to have an investment strategy when purchasing diamonds.

“The type of diamond in which you should invest is very much dependent on whether the investment is for the short, medium or long-term,” he comments. “Not all diamonds can be used for investment purposes – it is a very specialist category. You need to know what you are buying and which market you are buying for,” he adds.

With an international presence, the Yair Shimansky firm not only has experience in retail jewelry but also has great knowledge and insight when it comes to diamonds.

He notes that the interest in investing in diamonds has peaked considerably over the last couple of years, as manifest in the number of both private clients and financial institutions that have approached him for advice on the topic. It is no doubt an appealing prospect, as diamonds are a wise hard asset investment with an considerable return on investment.

What makes the investment process so interesting (and potentially difficult), however, is that every diamond is unique, like a fingerprint, and thus needs to be valued individually. While the “Four Cs” – cut, colour, clarity and carat – are guidelines that help determine the value of a diamond, it can be something of a subjective process.

Potential investors would almost certainly require professional help. As with any highly specialised industry, there is considerable room for fraud. That said, the intricate valuation process and necessary homework that goes into investing in diamonds is precisely what attracts certain investors. It’s all part of the allure of the precious gems that, for centuries, have been a symbol of wealth.

It is clear that, while diamonds are becoming an increasingly attractive investment option, it is crucial that investors approach the prospect with patience, knowledge and a medium to long term investment in mind.

LIABILITY

Risk of product recalls for South African companies

At a seminar hosted by insurer AIG South Africa, Deon Binneman, an independent reputation advisor, warned “Product recall is a business crisis and must be treated as such. It has the potential to affect your brand and reputation with all your stakeholders substantially—and can have a disastrous effect on the share price of listed companies as well.”

Fonterra, one of the world’s biggest exporters of dairy products, is currently in the news for all the wrong reasons: whey products used in making infant formula have been found to be contaminated with bacteria that could cause botulism. China, still sensitive after the contamination of infant formula by melamine, was the first to impose a ban, and other countries have followed suit.

The company has issued a recall of possibly contaminated product but faces criticism for delays in disclosing the contamination.

As Fonterra’s experience shows, what a company does right at the beginning of a product recall crisis is vital. “Once, you may have had days to formulate your reaction but in today’s connected world, it’s nanoseconds. You absolutely have to have a plan for a product recall in place right from when you begin manufacturing it,” he says. “That plan has to be thoroughly tested, and the necessary authorisation to act already obtained—there is no time to

Tip of the iceberg

ALTERNATIVE INVESTMENTS

Cast in stone

Diamonds tricky but potentially lucrative

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call a board meeting when there’s an emergency.”

Binneman argues that 63% of a company’s market value is tied up in intangibles such as brand name and reputation. A high-profile product recall can have a significant effect on these intangibles and thus on a company’s value. It’s vital that a business has thought through how to regain control of what is invariably an intense situation.

Eelco van Keimpema, Profit Centre Manager: Liabilities for AIG South Africa, says that in contrast to overseas, product recalls are not a hot topic in South Africa — yet. “However, the Consumer Protection Act gives the legal framework for product recalls and they could become significant,” he warns. “And many South African companies are already exporting to countries where product recall is a very real risk. That’s why we are introducing a comprehensive solution to help companies mitigate the substantial risks associated with a product recall.”

Van Keimpema adds that expensive though the costs of a product recall might be, they are only the tip of the iceberg. Senior managers must be assigned to the process with grave consequences for their normal work, and often production lines have to be halted until the product is given a clean bill of health by authorities.

AIG’s cover is aimed at food, drink, cosmetics, pharmaceutical and tobacco companies, whose products are particularly susceptible to contamination. It includes crisis management and consulting from NSF, a leading player in the food safety arena.

EDUCATION

Class action

The challenge is to save in advance

ONE OF THE most important goals we can save towards is our children’s education. With a realistic estimate of South African university fees currently sitting at between R35 000 and R50 000 a year (excluding living expenses), most of us will need to save in advance to finance these considerable amounts.

Nico Coetzee, Executive: Business Development at PPS Investments, says, “While it may not always be possible to set aside a large enough lump sum upfront, remember that a manageable monthly debit order could build a substantial investment over time.”

Not only will your monthly contributions be boosted by potential investment growth, he adds, but you’ll also stand to benefit from compounding. Compounding occurs when investment returns are added to your original investment and these then start earning as well. Effectively, this allows you to generate returns on additional amounts that haven’t come out of your pocket. If you start saving early, your cumulative contributions could therefore amount to less than the cost of tuition by the time your child’s studies commence.

A standing debit order also humps your investment to the top of your priority list. It takes care of the temptation to spend what you should be saving on something else, or to tweak your savings goal if your budget starts tightening before payday. “Despite this discipline, you retain the flexibility to adjust your debit order premium or, in many cases, to cease your premiums altogether if your personal circumstances change unexpectedly,” says Coetzee.

PPS Investments has set up an online calculator to assist in determining the debit order investment necessary to finance future university tuition costs. While it is always encouraged that you consult a financial intermediary if you require detailed or specialised advice, the calculator will show you how potential investment returns, the power of compounding and a long-term view can assist you in reaching your investment goals.

Got to: go to: http://www.ppsinvestments.co.za/Assets/random/final-calculator-ppsi-12-09-2013r.pdf

ESTATES AND WILLS

Common conflict

Check the trust deed is valid

IS YOUR TRUST deed valid? The alarming answer is “most probably not, because legal audits have shown that more than 90% of trust deeds (and/or amendments to trust deeds) in South Africa may not stand the test of validity if exposed in a court of law.”

Notes Professor Willie van der Westhuizen of Millers Attorneys, “The fact that a trust deed has been filed at the office of the Master of the High Court, is no guarantee of its validity, in that it is not the Master’s duty to check for validity.”

There are various reasons that could render a trust deed invalid. One of these is the different legal systems that apply in the South African Trust Law. However, the main culprit may be that the trustees have been allowed too wide a discretion when it comes to the choice of beneficiaries. This allows them a so-called general power of appointment or right to choose, which then also causes the object of the trust to become vague.

“Another source of invalidity pertaining to trust deeds,” he says, “is that they are often merely created without any proper agreement between the founder and the trustees.”

There are also other problems that may not necessarily render the trust invalid, but can cause serious family feuds, unnecessary legal costs and court applications for trustees and beneficiaries of these ill-fated trust deeds. These include the incorrect structuring of the beneficiaries, such as by stating that the beneficiaries shall include “blood and other relations”, as well as de facto control given to one or more trustees, which may cause the trust deed to become his alter ego.

There are also testamentary reservations, a lack of power to create roll-over trusts and the unbundling of trust assets.

“The moral of the story: prevention is better than cure — and in this case much cheaper, too. Have your trust deed properly checked, analysed and rectified before any of these disputes may occur.”
More than one-third of the food produced today is not eaten, which is about 1.3 billion tonnes per year. This shocking revelation comes from a report by the U.N. Food and Agriculture Organisation (FAO), entitled “The Food Wastage Footprint”.

It says that this global economic wastage is costing about US$750 billion a year — based on 2009 producer prices, and is approximately equivalent to the 2011 GDP of Turkey or Switzerland.

In 2007, almost 1.4 billion hectares of land were used to produce food not consumed. This represents a surface larger than Canada and India together.

Even worse the so-called "carbon footprint" of wasted food was equivalent to 3.3 billion tonnes of carbon dioxide per year.

Food lost after harvest and food wasted along the distribution and consumption chain, or food wastage, has a dual negative environmental impact: undue pressure on natural resources and ecosystem services and pollution through food discards.

It says lost and wasted food represents a missed opportunity to feed the growing world population. It also comes at a steep environmental price, as land quality, water quantity, and biodiversity are adversely affected. Wasted food also has a strong impact on global climate change.

Today, there are 900 million hungry people worldwide and one billion people overfed. Under the current production and consumption trends, global food production will need to increase by 60% by 2050. The lost grain in sub-Saharan Africa only could meet the minimum annual food requirement of 48 million people.

The UN notes that intensive farming, without allowing fields to lie fallow and replenish, diminishes soil fertility. Not using roughly one-third of the food produced globally means that soil is unnecessarily pressured. Decreased soil quality leads to further use of synthetic inputs that cause pollution and eventually, loss of arable land.

Major contributors to land occupation of food wastage are meat and milk, with 78% of the total surface, whereas their contribution to total food wastage is 11%.

In 2007, the global blue water footprint for the agricultural production of food wastage was about 250 km³. This is 3.6 times the blue water footprint of total USA consumption. In terms of volume, it represents almost three times the volume of Lake Geneva, or the annual water discharge of the Volga River. Cereals, fruits and meat are major contributors to the blue water footprint of food wastage.

Food and agriculture systems heavily depend on fossil-fuel energy. Petroleum is used in almost every aspect of food production, from creating fertilisers, to mechanised planting and harvesting, irrigation, cooling and transportation. Furthermore, when food is discarded in a landfill and decomposes anaerobically, it yields methane emissions, a gas more than 25 times as potent as carbon dioxide at trapping heat.

In 2007, the global carbon footprint, excluding land use change, of food waste has been estimated at 3.3 Gtonnes of CO₂ equivalent. (A Gtonne is 10¹⁴ tonnes). This amount is more than twice the total Greenhouse Gas emissions of all USA road transportation in 2010. If integrated into a country ranking of top emitters, food wastage would appear third, after USA and China, according to the latest data available. In the US, landfill gas is responsible for 17% of the country's methane emissions.

Biodiversity

The food not eaten is one of several factors that contributes to biodiversity loss through habitat change, overexploitation, pollution and climate change. Prompted in part by global food production inefficiency, 9.7 million hectares are deforested annually to grow food; this represent 74% of total annual deforestation.

Food wastage contributes to agricultural expansion into wild areas and increased fishing efforts that unduly overexploit forest and marine habitats.

Please continue on page 18......
Do you know how to grow my clients' money, before growing yours.

Our EVOLVE INVESTMENT RANGE doesn’t charge your clients set-up costs or initial advice fees until we first earn them more than 13% per annum after tax.

With the Liberty Evolve Investment Range, a unique investment approach in SA, we won’t make money until we first grow your clients’ money. That’s because there are no set-up costs or initial advice fees until we’ve earned them more than 13% per annum after tax. And if we don’t deliver on this target, they don’t pay those fees at all.

To give your clients the Liberty advantage, contact our call centre on 0860 327 327 or visit www.liberty.co.za.

The Advantage of Knowing
Natural always best

UK report: commercial baby foods don’t meet infants’ weaning needs

UK commercial baby foods do not meet infants’ dietary weaning needs, because they are predominantly sweet foods that provide little extra nutritional goodness over breast milk, indicates research published online in Archives of Disease in Childhood.

Furthermore, they are promoted for infants from the age of four months — an age when they should still be on an exclusive breast milk diet, say the researchers, who wanted to find out what sort of products are available in the UK for weaning infants from a predominantly milk based diet to a family food based diet, and to assess their nutritional value.

The weaning process aims to introduce infants to a wider range of tastes, textures, and flavours, to encourage them to accept different foods, and to boost their energy and nutrient intake.

UK government recommendations on weaning foods stipulate that these should be introduced gradually, starting with cereals, vegetables and fruits, followed by protein-rich foods and should not be started before six months, in line with recommendations for exclusive breastfeeding until that time.

The authors therefore analysed the nutritional content of all infant foods intended for weaning and produced by four major UK manufacturers and two specialist suppliers between October 2010 and February 2011.

The products included ready-made soft, wet foods, powdered meals to be reconstituted with milk or water, breakfast cereals, and finger foods, such as rusk.

The authors collected their information on the calorie density, added salt and sugar, and the protein, iron, calcium, and carbohydrate content, from the manufacturers’ websites, labels on products in store, and via direct email inquiry.

Most (79%) of the 462 stand-alone products assessed were ready made spoonable foods, almost half of which (44%; 201) were aimed at infants from the age of four months onwards.

Analysis of the 410 spoonable foods revealed that their energy content (282 kilojoules per 100 grams) was almost identical to that of breast milk (283kJ/100g). And their protein content was only 40% higher than formula milk.

Products containing meat had the highest iron content, but this was again no higher than formula milk, and not much higher than products that did not contain meat. Dry finger foods had a much higher energy and nutrient density overall, but they were also particularly high in sugar.

Around two thirds (65%) of the stand-alone products were sweet foods. Babies have an innate preference for sweet foods, which might explain why sweet ingredients feature so prominently in commercial products, say the authors.

“However, repeated exposure to foods during infancy promotes acceptance and preferences,” they write, and the inclusion of fruit sugars rather than refined sugars won’t make any difference in terms of the risk of tooth decay, they say.

The nutritional content of the shop-bought products was compared with that of typical family home-made foods commonly given to infants and toddlers.

The savoury ready-made spoonable foods generally had much lower nutrient density than typical home-made foods, with the exception of iron content.

But it still means that 50g of a spoonable family food would probably supply the same amount of energy and protein as 100g of a similar commercial product, say the authors.

They emphasise that the main point of weaning foods is to increase the energy content of the diet and provide richer sources of nutrients, such as iron.

“Yet the most commonly used commercial foods considered in this study supply no more energy than breast or formula milk” and yet they are promoted at an age when they will replace the breast (or formula milk), which is all that babies under six months really need, they explain.

“While it is understandable that parents may choose to use [these products] early in the weaning process, health professionals should be aware that such food will not add to the nutrient density of a milk diet,” they conclude.
Researchers from the UK, US and Singapore therefore looked to examine the association of individual fruit consumption in relation to type 2 diabetes risk. Data were used from three prospective cohort studies among US adults: the Nurses’ Health Study (NHS 1984 – 2008), the Nurses’ Health Study II (NHS II 1991-2009) and the Health Professionals Follow-up Study (HPFS 1986 – 2008).

There were 187 382 participants totalling 3 464 641 years of follow-up. The study included both men and women (151 209 women and 36 173 men). Participants who reported a diagnosis of diabetes, cardiovascular disease or cancer at baseline were excluded.

To individual fruits were used in the study: grapes or raisins; peaches, plums or apricots; prunes; bananas; cantaloupe; apples or pears; oranges; grapefruit; strawberries; and, blueberries. Fruit juice included apple; orange; and grapefruit.

Food frequency questionnaires were used every four years to assess participants’ habitual diet, asking how often, on average, they consumed each food in a standard portion size. Participants could choose from nine possible responses, ranging from “never, or less than once per month” to “six or more times per day”.

Information was gathered on participants’ body height and weight, cigarette smoking, physical activity, multivitamin use and family history of diabetes. Information for women was collected on menopausal status, postmenopausal hormone use and oral contraceptive use.

Results showed that 12 198 out of 187 382 (6.5%) participants developed diabetes. Total whole fruit consumption correlated positively with age, physical activity, multivitamin use, total energy intake and fruit juice consumption. Three servings per week of blueberries, grapes and raisins, apples and pears significantly reduced the risk of type 2 diabetes.

In contrast, greater consumption of fruit juice was associated with increased type 2 diabetes risk. Substitution of whole fruits for fruit juice was associated with a lower risk, except strawberries and cantaloupe melon.

Results showed that 12 198 out of 187 382 participants developed diabetes so the overall risk in the populations studied over many years was 6.5%. Among those who had three servings per week of individual whole fruits, rather than fruit juice, the overall risk was itself reduced by 7%.

The researchers conclude that there is a “small but significant difference in the associations between individual fruits and the risk of type 2 diabetes and that greater consumption of specific whole fruits ‘particularly blueberries, grapes and apples was significantly associated with lower type 2 diabetes risk whereas greater fruit juice consumption was associated with a higher risk’. They say the results support recommendations to increase the consumption of a variety of whole fruits as a measure for diabetes prevention.

**Healthcare** — 3

**Remember to plan**

Alzheimer’s patients need expensive care

Alzheimer’s is the most common form of dementia and can affect anyone, as it’s not associated with any particular race, gender or culture. Being prepared for its possible onset should form part of everybody’s financial lifestyle planning.

According to Alzheimer’s in Action, 36 million people worldwide have this age-related disease, and South Africa has approximately 750 000 people living with it. What’s more, these numbers are expected to double by 2030 and triple by 2050.

“Presently there is no cure for the disease,” says Dr Peter Bond, Chief Medical Officer at Old Mutual. “There are a few pharmaceutical agents that may prolong life expectancy for 6-18 months, but the main focus of treatment remains care and reducing stigmatisation. This means that people who are living longer with the disease, and their families, find themselves forking out a lot more money for the escalating medical costs as well as either day or full-time care.”

To paint a realistic picture, medication can cost anything from R350 to R1 200 per month. Disposables such as nappies and linen savers can cost R500 to R600 per month. Daycare could cost around R300 per day. As the disease progresses, families often battle to continue the care at home and are forced to put their loved ones in a full-time medical facility where 24/7 specialised care is available – and this can run into thousands of rands in monthly expenses.

The global cost of dementia is estimated to be US$600 billion or 1% of global GDP. Most people who develop Alzheimer’s are in retirement. It is a financially vulnerable stage of their lives as many don’t plan properly for the future. About 40% of the respondents in the recent Old Mutual Savings and Investment Monitor said they do not have a pension/provident fund or retirement annuity in place, and many retired South Africans battle to make ends meet for day to day living, let alone afford specialised care.

“The first signs of Alzheimer’s can be diagnosed from as early as 60 years old,” adds Dr Bond. “So it is important to start planning from today.”

Many insurance companies offer severe illness cover, which is designed to pay out a benefit if you are diagnosed with a serious illness. The pay out will assist with any lifestyle adjustments required as a result of the diagnosis and its associated symptoms.

Strokes, cancer or heart attacks are generally paid out on diagnosis, but with degenerative diseases such as Alzheimer’s payment will only be made when a certain level of disability or impairment is reached: for example, when someone no longer remembers how to drive.

“It’s important to ensure that you and your loved ones will have the best care available and are able to live comfortably as you age,” concludes Bond. “Consult a financial adviser to make sure that you are financially prepared for all life’s stages.”
Contrarian view

Have emerging markets been oversold?

At Templeton, we’ve repeatedly championed our value-driven philosophy by frequently buying at times others are most pessimistic. This is not easy to do, even for seasoned market veterans. During the past few months, emerging markets have been subject to such pessimism. These periods of short-term volatility are certainly not new to us, and don’t change our long-term conviction of the potential emerging markets hold. We feel recent declines were overdone and based largely on irrational investor panic, and have viewed the recent pullback as an opportune time to search for bargains for our portfolios. We find valuations in many emerging and frontier stocks particularly attractive right now.

No doubt, emerging markets have been beaten up a bit this year. In the second quarter, the MSCI Emerging Markets Index lost 8.0% in US Dollar terms, and emerging markets recorded outflows of US$33 billion during the quarter; June alone accounted for US$22 billion of the flows. This offset the US$32 billion in net inflows from the first quarter of 2013, resulting in a net outflow of about US$1 billion for the first half of the year.

What happened? Indications in mid-May from US Federal Reserve Chairman Ben Bernanke about a moderation in the central bank’s asset purchase program caused fixed income investors who had invested in offshore bonds, particularly in emerging markets bonds, to view the high yields they were receiving in those bonds as less attractive if US interest rates were to rise. In addition, signals from the People’s Bank of China that it would not intervene in the market after a sharp spike in a key interbank lending rate in June raised concerns about the stability of the banking sector there, and further heightened investor concerns that global liquidity could dry up. A sharp, across-the-board sell-off hit emerging market debt, currencies and equities during the second quarter. Those particular emerging market countries with high current account deficits, large foreign holdings of local bonds and exposure to China were among the worst affected. Turkey, Egypt and Brazil were particularly hard hit; their respective equity markets ended the quarter with declines. In addition, periods of social unrest in these countries also heightened investor anxiety.

However, as you can see in the two charts, despite the short-term outperformance of world markets, over the longer term emerging markets have outperformed, and we expect this trend to continue for reasons outlined further here.

Appealing Valuations

Like all markets, emerging markets can at times be volatile and dominated by excessive flows and sudden sentiment shifts. Many are now dubbing the BRIC countries (a handy acronym for the grouping of Brazil, Russia, India and China) down and out, but we think there has been too much negativity there. I believe that the strong prospects for growth in many emerging markets are not currently recognised in equity valuations, which generally lag those of developed world markets. We are finding attractive valuations not only in the BRICs but particularly so in the frontier markets (a subset of emerging markets), which in some cases have single-digit price-earnings (P/E) ratios and even lower price-to-book ratios. (See charts below for emerging markets overall, and specifically, China.) But no matter what major market indexes may show, as bottom-up stock pickers, we hone in on individual opportunities, and currently see many good companies that were unjustifiably swept along in the tide of negative sentiment.
Periods of Pessimism = Best Times to Buy?

It is always necessary to take hits from time to time as we maintain our long-term focus. A case-in-point is Thailand, a country with its fair share of turbulent periods. In the mid-90s, while the country was in the midst of a massive financial crisis, I eagerly hopped on a plane to Bangkok in search of opportunities while many investors gave up on the country.

Why did I feel so positive? I certainly knew that in the short-term, Thailand was in trouble. But we did our homework, and felt that in three, four, or five years’ time, the Thai people would bounce back. And they did. Of course, it wasn’t all smooth sailing. After recovering from that crisis period, further setbacks came in 2004, when a tsunami struck the country, and in 2011, when severe flooding hit. But Thailand has been adept at battling back from adversity time and time again, and in 2012, its equity market posted one of the best performances in Asia (and even the world), with the benchmark Stock Exchange of Thailand (SET) Index returning more than 35%.

You can see the merit of buying during these downturns and holding on for the potential recovery. Today, we believe there is great potential for Thailand, which we feel could be on the cusp of a growth spurt, with, of course, corrections along the way.

I would not classify this recent bout of emerging market volatility a crisis of confidence as some would, but it marks a good time to again reiterate the value of a long-term perspective and emphasize that we base our analysis and projections not on this year or even next year, but generally five years out in time.

Being contrarian or value-driven doesn’t mean we will necessarily buy anything we can get our hands on during a market downturn. During times of extreme stress, liquidity is important. If I have a choice between a small, illiquid stock and a large liquid one, naturally I would pick the latter. When buying stocks during a bust period, it’s important that you don’t buy corpses which have fallen in price but have unhealthy fundamentals (otherwise known as “value traps”), but rather, find patients with good recovery prospects that appear undervalued.

There are a few characteristics we’ve seen in companies that often prove fatal and that we seek to avoid, including excessively high levels of debt and management who can’t cope with a difficult environment. In the case of Thailand’s big financial crisis, it was extremely important to be a good stock-picker and do your homework. By the end of 1997, out of the 480 companies trading on Thailand’s stock exchange, about 40 companies had gone belly up, and a near equal number saw trading suspended.

The Case for Emerging Markets

I believe emerging markets in general have three attractive characteristics, which haven’t changed from what I see. First, their growth rates have generally remained well in excess of those for developed markets. Overall, emerging markets are forecast to grow about five times faster than developed markets in 2013, with the IMF forecasting average GDP growth of 5.0% for emerging markets, compared to just 1.2% for developed markets. Second, emerging markets generally have large and growing foreign exchange reserves, which are far greater than that of developed markets. Moreover, unlike developed markets, many emerging and frontier markets still appear to have ample room for fiscal and monetary stimulus. Although weak growth in developed markets could be transmitted to emerging markets by higher investment spending and increased domestic demand. Third, the debt level of many emerging markets in relation to their GDP is generally much lower than that of many developed markets.

Additionally, all this fear and concern about the US central bank starting to “taper” its asset buying programme does not necessarily mean it is going to start tightening rates anytime soon or that the money supply will suddenly dry up. We must remember that the various QE programs have been cumulative so that the liquidity pumped into the system has piled up and will not disappear overnight. It is only recently that banks have begun to grow their loans; previously they were using the liquidity supplied by the Fed to strengthen their balance sheets and were holding US Treasuries. In addition, even if the Fed starts to pull back as the US economy improves, other central banks are still generating liquidity, which we feel could support investor flows into emerging markets. Japan has been embarking on a massive easing program, which is
Manage emotions

Five mistakes even savvy investors make

THE MOST IMPORTANT quality for an investor is temperament, not intellect... You need a temperament that neither derives great pleasure from being with the crowd or against the crowd.” – Warren Buffet

People tend to think investing is a numbers game, but successful investing has a lot more to do with personality traits than most of us realise. Nic Andrew, Head of Nedgroup Investments adds that there is a large and deeply researched branch of finance that focuses on the behavioural aspects of investing and has highlighted a wide range of human biases that obstruct rational decision making. Some of the most common topics explored in this field include the following:

1) Overconfidence. Many investors are overconfident in their own abilities, which leads to investment decisions that are insufficiently researched and not as carefully thought-through as they should be. Related to this is self-serving bias, which is when investors attribute positive outcomes to their own knowledge and skill, while blaming negative outcomes on external factors such as ‘market irrationality’ or unpredictable events.

2) Recency bias. Most investors have a tendency to think that recent trends will continue indefinitely into the future. As a result, they place too much emphasis on recent trends when making investment decisions, even when they are investing for the long-term.

3) Regret theory. Many investors anticipate that they may regret having made the wrong choice and take this into consideration when making investment decisions. This can make them more risk averse to avoid possible losses, or it can lead them to take greater risks to avoid missing out on good returns.

4) Loss aversion bias. It is well documented that investors are asymmetrically biased against losses. This means that most people perceive a loss of R1000 with far more emotion than a gain of R1 000, even though their actual difference in wealth is the same.

5) Confirmation bias. Most people struggle to make decisions objectively. They tend to start out with a conclusion or a leaning towards a particular conclusion in mind and then find evidence to confirm what they wanted to believe in the first place. This often involves ignoring or dismissing evidence to the contrary.

Says Andrew, “At Nedgroup Investments, we have always believed that to be successful, investors should strive to manage their emotions when making investment decisions. This is easier said than done, but being aware of the behavioural factors that influence your thinking can help you make better financial decisions in future. The most important thing is to have a sensible framework and to have the discipline to stick to your plan.”

INVESTMENT STRATEGY — 2

Absa advice

Take your time investing in current conditions

THIRD QUARTER MARKET movements have highlighted the challenges of investing right now in just about every asset class while demonstrating that Washington, not Pretoria, currently governs our markets.

The assessment comes from Craig Pheiffer, head of Private Client Asset Management at Absa Investments. “Signals are mixed, movements can be deceptive and local dynamics have relatively little impact. For every positive there’s a caveat.”

“Investing for the long term is always better than sitting on the side-lines for an extended period. But if you’ve just come into a large lump sum it’s probably better at the start of the fourth quarter to phase your money into the market, perhaps over six months or more.

“Things are volatile and astute stock selection is essential.”

Pheiffer’s appraisal is influenced by the dramatic effects of the US Federal Reserve decision to delay the implementation of “tapering” – the process of reducing the amount of money the American authorities pump into the economy.

The prospect of less easy money and firmer interest rates turned global sentiment against emerging markets, including South Africa. But when tapering went on hold late in the third quarter, money flooded back into emerging economies.

“We saw significant risk-on and risk-off effects in September,” says Pheiffer. “Second guessing Washington doesn’t make for a stable environment. The impact on our bond market can be dramatic. On the face of it, equities are the place to be. But the late boost to the JSE was so pronounced many will consider the overall market to be expensive with an elevated risk of a correction.”

Stocks gain ground

In the quarter, the JSE All-Share Index rose 12.5% for a total year-to-date return of 15.1%, with the Alsi Top 40 up 13.9% in the quarter for a nine-month total return to 21.6%.

“Continued quantitative easing by the US helped local bond prices edge higher, but cash remained a better performer than bonds, though cash still struggles to keep pace with inflation,” says Pheiffer.
The All Bond Index rose 1.9% for the quarter or 0.5% for the year to date. Cash rose 1.3%, lifting the nine-month gain to 3.8%.

Pheiffer says the prospect of firmer rates was “strongly negative for listed property, but the tapering reprieve softened the blow”. The asset class still fell by 1.3% for the quarter, but the year-to-date gain of 7.3% still outstripped inflation.

Resources saw a 19.7% quarterly rebound, not quite enough to put the sector back into positive territory. For nine months it is still down 0.8%. Platinum rose 36.7% in the quarter, but is still down 10% so far this year. Gold retreated by 0.4% and is down 45.6% over nine months.

Pheiffer cautions: “There’s no quick fix for local volatility. There may be some local value opportunities, but judicious stock-picking is indicated. “At the same time, a case can be made for going offshore. Local challenges won’t go away any time soon.”

Top Down

As the name suggests you start at the top. The manager starts by formulating a macro view of the economy and tries to forecast which sector will generate the best returns. After selecting a couple industries, the fund manager will find companies in these industries to populate the fund.

An example of top down is:
• The manager believes that interest rates will decrease;
• A decrease in interest rates will increase the populations’ disposable income and the consumer goods and services industry will benefit the most;
• Those companies that are most exposed to increases in disposable income will be included in the fund.

Bottom Up

Kruger says that ‘Bottom up’ funds are populated by looking at the companies first. No macro view is taken. The fund manager focuses merely on selecting stocks based on their individual qualities.

An example of bottom up is:
• Screen investment universe for shares with high Dividend Yields and low Price to Earnings and Price to Book ratios;
• Follow up with research to ensure that these companies are managed properly;
• Select those shares that have the best metrics.

Bottom Up with Macro Overlay

“As with everything in life, there is always a middle ground,” says Kruger. This manager starts by searching for companies on a bottom up basis. Before deciding if the company should be included in the fund, the manager then takes into account his macro view. Will the company grow in the forecasted economic climate?

An example of where this blended approach would work is with the ever cyclical resource companies. On a fundamental basis the companies are the cheapest they have ever been for a long time but, depending on your macro view, this can be a buying opportunity or a company to avoid at all cost.

“All of the above-mentioned processes have their own pros and cons. If a wrong macro view is forecast, the manager might invest into an industry that returns less than the market, he will then underperform his peers. The same can happen if a manager invests into a company with good quantitative metrics, but faces severe economic head winds.”

Online guide

Sanlam Investment Management (SIM) has recently launched an online fund comparison tool to help financial advisors and retail investors select the best unit trust fund for an individual’s needs.

Candice Paine, head of retail at SIM, says the tool was developed to help clients find the right unit trust amongst the wide range on offer. “Some investors need a fund that generates an income, others need one that offers capital growth and others need diversification across all asset classes. This tool enables financial advisers and investors to narrow down their search to those SIM funds best suited to a specific risk profile.”

She said the tool allows users to compare fund details, information and fees easily as well as performance, both annualised and cumulative. “They can also compare three-year risk statistics for up to three unit trusts. Once this data has been collated and reviewed, an informed decision can be made as to the best long-term investment choice.”

For more information, please visit http://www.sanlam.co.za/wps/wcm/connect/sanlam_en/Sanlam/Online/Comparison+Tool

Footnote about SIM

Sanlam Investment Management has more than R390 billion under management and offers a diverse range of investment products, including collective investment schemes, life-pooled products and segregated portfolios for third-party institutional and retail clients as well as the Sanlam Group. SIM is a multi-specialist asset manager, and consists of eight multi-specialist teams in: equities, fixed interest, absolute returns, liability-driven, smart core, hedge funds, socially responsible investing and balanced funds.

For more information, please visit www.sim.sanlam.com and for more insights into the investment world, visit our blog www.simintelligence.co.za. You can also follow us on twitter @simintelligence.
You know what is needed to take your business forward. That is why Auto & General’s Broker Consultant team is so dedicated to growing rewarding relationships with our Broker Partners. With a team so highly skilled and well trained to assist you, you can rest assured that you will always have the obvious advantage.

Call your **Broker** or **0800 1000 11** for a quote today!
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