GLOBAL BRIEF

FIRST QUARTER
2016

EDITORIAL COMMENT

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JANUARY 2016 saw what is believed to be one of the worst starts to global markets in recorded history with heightened fears that China is headed for a hard landing and red flags being raised around their credit growth. The result was a capital flight out of emerging markets and into safe haven assets such as the US Dollar and Gold. US Elections, Eurozone Grexit and Brexit, SA Elections, SA Leadership State Capture and the rest. What a crazy, exciting, uncertain and changing world we live in both economically and politically!

The Rand first collapsed to nearly R18 to the dollar, but subsequently found its way back to recovery and SA long bonds revalued to end closer to levels before the dismissal of Minister Nene.

Locally we seem to have reached a remarkable turning point in that there appears to be genuine recognition that a drive to balancing the "Budget Books" through increased and efficient tax collection and controlled spending - including "gravy train" and corruption curtailment - is critical. We hope that Finance Minister Gordhan has the strength to withstand the detractors.

This edition is very focused, with three primary articles on matters that we consider to be of paramount importance to our clients and other readers. Firstly, we take a sanguine view of our beautiful and precious South Africa, of where we have come from over the past decade, of where we are now and what possible scenarios we could see unfolding in the near to medium term future. It is a very comprehensive writing which is well worth the time it will take to digest and appreciate. We then repeat an article which appeared recently in the Independent Newspapers Personal Finance regarding the "Final Final" opportunity for offshore assets to be disclosed in the context of the global unearthing and disclosure of "buried money and non-taxed income". Finally, we include our Asset Management review for the 1st quarter of 2016.

Ponder on this: *"Of this I am quite sure, that if we open a quarrel between the past and the present, we shall find we have lost the future,"* Winston Churchill.

THE SOUTH AFRICAN CONUNDRUM, AND WHY GLASS IS STILL HALF FULL

John Swart, CEO, FIRSTGLOBAL Capital

SINCE THE SHOCK ANNOUNCEMENT of the replacement of the former Minister of Finance in December last year, a wave of negativity has swept across South Africa like never witnessed before and while there has been some reprieve – brought about by a slight recovery in the SA Rand (largely driven by improved Emerging Market sentiment) and a less than favourable Constitutional Court judgment against our President, dark clouds are still hanging over the country.

South Africans, or at least those not emigrating, have developed a kind of resilience to process, accept and march on. But for how long can we carry on like this? How will it end?

Here is a snapshot of challenges facing SA today:

- High unemployment (26%), but perhaps closer to 40% – worst on the list of 51 OECD countries;
- Soaring crime rates – cited one of the most dangerous

countries to live in with less than 30% of murder cases solved (Institute of Security Studies – Sept 2015);

- High levels of corruption;
- Education levels that seems to deteriorate every year;
- Universities in crises;
- Ailing road infrastructure;
- Bankrupt city councils and service delivery at worst levels ever;
- Electricity shortages stifling business and hampering growth;
- Agriculture heading for a crisis – exacerbated by endemic farm attacks and murders (318 attacks and 64 murders in 2015 alone – according to statistics released by AFRIFORUM, a civil-rights organization linked to the Solidarity trade union), an extended period for the lodging of land claims and, currently, also one of the worst droughts in living memory;
- Illegal immigrants that place a burden on limited resources and contribute to increasing crime rates;
- Government debt at a near record 48% of GDP;
- The Rand at or near its lowest level against the US Dollar (losing 50% of its value over the past 5 years);
- The worst credit rating the country has ever had – potentially facing another credit downgrade later this year which will reduce SA bonds to junk status;
- A Government headed by a President, who is incompetent and an embarrassment to most level-headed citizens of this country and many stalwarts of his own party;
- A small tax base threatened by higher taxes to meet growing government expenses towards a largely unproductive workforce;
- Rising interest and inflation rates; and
- Business confidence levels are the lowest in 5 years (RMB/BER).

For most, the so-called *"Finmin debacle"* that played out between 9 and 14 December 2015 and the subsequent tumble of the Rand and equity markets was simply the last straw. I realised then that it was time to take a long hard look at SA politics and economics in order to make some sense of what is happening around us; to take a position (which is imperative in my line of work); and to find ways of navigating through the portentous storm.

To assess the situation we are in, we need a better understanding of where we came from and how we landed here. To this end, I identified three distinct periods, which are best summarised by the captions selected for each such period and under which I will only highlight the most significant issues.

The sins of our fathers: 1978 – 1993

To obtain an even better understanding one actually needs to start the journey much earlier than 1978, but, due to space constraints and for the simplification of data comparison, I will only use the last 16 years of the journey towards a constitutional democracy.

South Africa was struggling to survive. Notwithstanding the gold boom between 1977 and 1980 and the massive windfall that it yielded for the South African economy, the average growth rate achieved was a very disappointing, even a measly 1.4% per annum on average, while population growth was markedly higher, averaging out at 3.6% per annum.

For most of us it is unthinkable today, but the average (prime) rate of interest was 15.95% per annum peaking at 25% in 1984 and again in 1985. The Rand depreciated at 8.51% per annum – ending at R 3.38 against the Dollar by the end of 1993.

The media was controlled by Government. The former Southern Rhodesia (now Zimbabwe) got television some seventeen (17) years before South Africa as the exposure of its citizenry to the international free-market media was considered a huge threat by the country's erstwhile rulers. *[Matisonn, 2015]*

The policy of separate development and the subsequent establishment of ten (10) *"self-governing"* homelands had been conceived in the mid-forties. However, it was only in 1959 that the Promotion of Bantu Self-Government Act No 46 of 1959 was promulgated to provide legislative authority for the creation of these future homelands. The Transkei was the first one to be declared independent in 1963, but due to a variety of problems and obstacles that were encountered along the way, the remainder were only established in the seventies.

The homeland policy was not only morally indefensible, but the professed objective of making these homelands self-sustainable was also proving to be hurdle too far. More than 80% of South Africa's population was forced to occupy 15% of the land with little or no infrastructure. The true cost of how much successive South African Governments have spent in the development and maintenance of this policy will never be known, but, for present purposes, it suffices to say that it was many, many billions. The homelands ceased to exist in 1994 when South Africa became a constitutional democracy. At the time, more than 650 000 people were employed on a permanent and full-time basis by Government to administer these areas alone.

Apartheid laws forced black male breadwinners from these homelands, who were employed in mines and factories to live in poorly equipped and dilapidated hostels – far away from their families – resulting in the destruction of the very fabric of society. Poor living conditions and criminal activities in and around these hostels often left children orphaned, many of whom ended up eking out a life of misery on the streets. We are experiencing the effects of this today and will continue to do so for many years still to come.

The former South African Defence Force (SADF), cost many more billions, both in terms of its capital and operational expenditure. Years of productivity was lost through a system of compulsory military service, where educated people, including ones with a tertiary education, were taken out of civil society to provide manpower to the SADF. This disrupted industry and hampered economic growth.

Imagine our country today, if the billions spent on establishing, maintaining and enforcing the homeland policy, had rather been spent on the education of all its citizens and other vital infrastructure development.

The Bantu Education Act No. 47 of 1953 was one of apartheid's most offensively racist laws. The historically derogatory name of this statute, was founded on the Bantu education policy invented by Werner Eiselen, a close ally and associate of Hendrik Verwoerd. Education for black scholars was disgracefully limited. By 1976, only R6 per year was spent per capita on a black child's education, while R100 per year was spent per capita on a white child's. Less than 12% of the annual amount budgeted for social spending, was allocated to blacks while they made out more than 80% of the entire population. Moreover, the standard of black education was lower than those of most other African Countries.

During these 16 years prior to the dawn of the new constitutional dispensation, unemployment rose dramatically from 20% to 36% of the workforce. Also, by the end of 1993, the ratio of Government debt to GDP had reached 54%.

The apartheid model might have worked well for the few (less than 20% of the population), but it was immoral and unsustainable. South Africa became isolated from the world, unrest escalated and a total economic collapse was imminent. Change was urgently required.

The Rainbow Years: 1994 – 2009

Thanks to visionary leaders such as the late Mr Nelson Mandela, the first President of the new South Africa, and Mr FW De Klerk, the last State President of the previous regime, as well as other leaders such as the late Mrs Helen Suzman, the late Dr Frederik van Zyl Slabbert and Mr Thabo Mbeki and many others (coupled no doubt with a fair amount of influence from business and foreign governments), a peaceful transition took place which lead to the first democratic election on 27 April 1994.

Under the reconciliatory leadership of Mr Nelson Mandela, South Africa was welcomed back into the international arena and huge advances were made. Under the astute, albeit possibly less popular, leadership of Mr Thabo Mbeki, these relationships were improved further. A solid financial and economic framework was established under the prudent leadership of Mr Trevor Manuel and, some years later, Mr Pravin Gordhan (both Ministers of Finance) and Mr Tito Mboweni (the former Governor of the South African Reserve Bank (SARB) from 1999 to 2009). The consequences of this framework were sound monetary policy and fiscal discipline which bolstered confidence in the country and saw the Rand doubling in value from its low in 2002 to a steady R 7.37 to the US Dollar by the end of 2009. During these so-called 'rainbow years' the Rand depreciated by an average of 4.9% per annum against the US Dollar, which was in-line with all Resource based economies' currency rates.

During these years we also saw the improvement and redevelopment of airports, new toll roads, the commencement of new power station developments and the development of a rapid rail link – known as the Gautrain – between Johannesburg and Pretoria, as well as between Sandton and the Oliver Reginald Tambo International Airport. Inflation and interest rates calmed to more consistent and acceptable Emerging Market levels, making it easier and more productive to plan and do business in South Africa. The rate of inflation averaged 7.6% during these years, while the prime interest rate averaged 19.3% per annum during the initial years and ultimately reducing to 10.5% at the end of 2009. A Report from The Research on Socio Economic Policy unit at Stellenbosch University (2013) showed the black middle class growing from 11% of the population in 1994 to 41% in 2012 – a remarkable positive achievement under the "Rainbow years" of the new Government's leadership.

By the end of 2009, Government debt was down to 26% of GDP. The average growth rate was up to 3% average over these 16 years, more than double the rate of the previous 16 years prior to 1994. This, despite the controversial arms deal, which cost the Government in excess of R100 billion, and which to this day continues to plague President Zuma with allegations of corruption scandal. *[Feinstein, 2007]*

Life was certainly better for most and during these years a large number of South African millionaires were made.

However, all of the credit for the good fortune cannot be attributed to the Government alone due to a number of factors, including the fact that:

1. SA came off a low base in the early nineties;

2. Emerging markets, fuelled by huge Chinese expansion, were in favour and attracted large investment from the first world. South Africa got its fair share;

3. Commodity prices (on a weighted average basis) doubled between 1994 and 1999 with an average growth of 4.4% per annum boosting South African mines and export revenue;

4. The advent and growth of cellular communication and the internet boom; and

5. Global growth and excess credit worldwide setting the tone for a bull market that ended in 2008.

March 2009 heralded the end of one of the biggest stock market crashes in 80 years. The world sank into a deep recession and investors' confidence levels were at an all-time low. Dubbed as the 'credit meltdown' even one of the oldest US banks, Lehman Brothers, was obliged to file for protection under the Bankruptcy Code of the United States. Billions were lost in equity and property values. South African banks – least affected by the turmoil – mainly due to the National Credit Act No 34 of 2005 and sound management – escaped the demise and paved the way for a quick recovery and the start of one of the longest bull markets of all times, despite commodity prices that started on their downward spiral.

Cry the beloved country: 2010 – 2015

One could argue that South Africa, and in particular the ANC Government, lost its way since the appointment of Mr Jacob Zuma as President in May 2009. But, as in every other aspect of life, every story has two sides and, hence, I will begin this part of the discussion by pointing out two external factors that the Government had little or no control over.

In the first instance there was a global recession, which directly affected South Africa's main trading partners from 2010. The aftermath of this recession is still today affecting many parts of the world's economies, and South Africa is no exception. In particular, China's slowdown in growth and shrinking demand for resources led to a 23% fall in commodity prices over the past five (5) years – again on a weighted average basis – which, in turn, led to large scale retrenchments in the SA mining sector and consequential hardship for those employees and the affected communities in which they and their families reside.

On the other hand, there were also other external factors that provided a tailwind for the South African economy, namely a fall of more than 70% in the oil price (even more since the high of 2008), a global equity bull market and a relatively low interest rate environment worldwide. These external factors helped in South Africa achieving an average growth rate of 2.5% per annum during the past 6 years.

The benefits of continued sound monetary management, kept the average rate of inflation down during the past 6 years to an attractive (in the South African environment) 5.7%, while interest rates fell to an all-time low in South Africa of 8.5% in 2012 with an average rate of 11.6% per annum.

But, alas, this is where the good news ends.

Mr Zuma was set on creating a network of cronies – referred by some as "Zumafication" – as is manifested by a series of highly controversial and questionable appointments.

Such appointments include, but were not limited to:

- Menzi Simelani appointed by Mr Zuma as Director of the SA National Prosecuting Authority in December 2009. He was suspended in 2012 after judgment by the Supreme Court of Appeal that found Zuma's decision to appoint him "irrational" and "unconstitutional". He is still the subject of investigation.

- Faith Muthambi – Minister of Communication – the fifth in just as many years.

- Bheki Cele, who awarded himself the rank of General after he was appointed as head of Police: Cele was a strong Zuma supporter. He was suspended in 2012 after a board of inquiry found him "unfit" for the position after "maladministration" only to be appointed as Deputy Minister of agriculture in 2014.

- Riah Phiyega, an individual with no previous police work experience, appointed by Mr Zuma as Commissioner of the SA Police Service in 2012 only to be suspended after the Farlam Commission found her partly responsible for the Marikana massacre. She has just become the third police commissioner to fall from grace.

Other questionable appointments under ANC Government include:

- Lucky Montana – Passenger Rail Agency of SA CEO and lead engineer Daniel Mthimkhulu (also accused of false qualifications): Suspended and now under investigation following a R58 Billion ill-fated tender to acquire new locomotives.

- Dudu Myeni – CEO of South African Airways: Friend of Mr Zuma and allegedly one of the role players in former Minister of Finance Nhlanhla Nene's sudden discharge in December 2015 after he refused to approve the purchase of 10 new A320 Airbus aircraft – a transaction clouded in controversy.

- Robert Mdluli – Head of Police Crime Intelligence appointed in 2009. Arrested in 2011 on charges of murder, intimidation, 3 counts of kidnapping, 2 counts of assault, attempted murders and conspiracy to commit murder. Six months later he is also charged with fraud and corruption (including the appointment of friends and family members as intelligence operatives and misusing police funds to buy luxury cars). Cases still pending.

Maladministration of City Councils has reached epic proportions, brought about by bad management, lack of skills and corruption. In an article of this nature, space simply does not allow one to elaborate on all the failed local governments under ANC rule.

Against this troublesome backdrop, I found it fascinating that South African markets continued to steam ahead (with global markets) despite the beleaguered performance of government that can justifiably be criticised at many levels and on many fronts. The reasons are, of course, that the South African financial system is (still) generally regarded as sound and the fact that more than 50% of listed companies on the Johannesburg Stock Exchange (JSE) earn their revenue offshore, while investors in Emerging Markets allow for *some* level of political instability and irrationality as they expect better returns for the additional risk taken, at least up to some point.

President Zuma's ultimate blunder in December 2015, commonly referred to as *"Nene-gate"*, signaled such point where billions were lost in a plunging currency and falling markets – both stock and bond markets – estimated in excess of R500 billion *(Hogg, March 2016)*. This incident and its aftermath has caused not only huge financial loss, but the reputational damage to South Africa – already restored to some degree by the subsequent appointment of Mr Pravin Gordhan.

Leaders, in all departments of Government, are required to shape the economic future of a country. This is not happening at present. In the modern ANC, the critical issues of sustainable country improvement have been left behind in an indecent race to riches. It has become a vicious circle, because uneducated people have been put in positions of power and they are maintained by the system. Should they lose these positions, they will have no means of support. President Zuma has surrounded himself with novices supporting his cause and collectively they are taking this once blooming economy down. In the words of RW Johnson (2015):*"… in many respects, Zuma has fulfilled the predictive vision of the rightwing whites who resisted majority rule on the grounds that it would bring authoritarianism, corruption and incompetence sufficient to ruin the country. The surprise is how quickly the ANC in power regressed to this sort of rule and, even more, how it rallied behind Zuma, defending him against criticism."*

Black economic empowerment and affirmative action have by and large been a huge failure especially in government. Poignantly, perhaps, even distressingly summarised by RW Johnson (2015): *"In effect the transformation of the civil service has destroyed it. Apart from occasional oases of expertise – usually in the treasury, central bank or tax collection [now also under threat], the civil service has been stripped not only of competent personnel but also of its institutional memory. Instead it has become a free-fire field for 'cadre deployment' and every kind of political and familial nepotism and cronyism. One result has been colossal expenditure on outside consultants who perform many of the tasks that civil servants should but couldn't do. Second, the government has tried to get the private sector to do its work for it. A great deal of legislation – including everything to do with affirmative action and black economic empowerment – has been written in terms that require all manner of performance from the private sector and merely empower the minister to punish non-compliers."* Government has created a glut of jobs within the sphere of Government, which requires more people, more office space, more transportation, more uniforms … and offers less efficiency.

Skilled and experienced people were retrenched prematurely. Some of these people have been contracted as "consultants", at more than triple the cost, while others have emigrated to apply their skills elsewhere and some have lost their retrenchment packages in investing in "franchised business opportunities".

State owned enterprises (SOE's) have become so badly run that they have crippled many other industries dependent on them, for instance: the IT sector which is substantially dependent on Telkom; and mines and factories on Eskom and Port and Railway services. In the interim prices have escalated beyond control, completion of capital infrastructure projects has been delayed and this has inflated the cost of such projects. Case in point the Medupi Power Station project which is running approximately 4 years behind schedule and latest budgets indicating a final cost of more than 10 times the original budget. (SouthAfrican.info August 2015). Many more of these SOE's are still losing money and National Treasury has had to bail them out.

Land redistribution remains high on the ANC's agenda and, yet, most of the farms redistributed by government to African communities have failed and often the land is then either utilised for subsistence farming or turned into squatter camps. With the safety of farmers constantly under threat and little being done by government to assist in protecting them adequately, it is hardly surprising that the number of commercial farmers have shrunk from 60 938 in 1996 to 45 818 in 2002 and only 39 966 in 2007 (Johnson, 2015). It is predicted that there will only be 8 000 commercial farmers left by 2030. After being self-sufficient for most of its existence as an independent country, and a net exporter of food, South Africa has now become a net importer of food and the trend is moving in the wrong direction. Given the current drought food prices are set to rise by 25% and more towards 2017 against the background of a net reduction in food production.

On 25 April 2013 the National Assembly approved the Protection of State Information Bill, commonly known as the *"Secrecy Bill"*. If it were to be signed into law, journalists and their sources may face up to 25 years imprisonment for publishing anything deemed to be state information. The voice of society, crucial in the broader interests of the public, is under real threat and may soon be controlled. The end of free speech may be upon us.

Eerily, I find similarities between the current ANC and the old Nationalist Party – both striving to protect a non-viable cause, where a small number of people are singled out for favoured treatment at the expense of the majority.

With all the doom and gloom, it is easy to overlook the positives:

A handful of people in Government are still committed to strong values and getting the job done. The basic fibre is still there.

South African business leaders are closing ranks. Prominent companies employing millions of people have begun to apply pressure on Government to change for the better.

The SARB is still demonstrating its independence with competence – a shining beacon of light indeed.

A growing number of young black professionals – unaffected by apartheid, are forward looking and eager to make the country work. They are becoming more active in, and providing a much needed impetus to, our economy.

It can be done. For example, Mercedes Benz have announced, after a worldwide assessment, that South African made Mercedes Benz sedans rate number one in quality of all models made anywhere in the world.

So, whereto from here?

The situation is complex. Trying to predict where South African politics and economics are heading is nearly impossible, but I, nevertheless, will proffer two possible scenarios:

<u>The *"best case"* scenario:</u> The short-term solution lies within the ANC.

Accept that the ANC will rule for a long time to come. Change will have to come from within the ANC. President Zuma must be withdrawn sooner rather than later and allow a new leader with integrity and ethical leadership qualities to take over, but with a 70% plus support base within the National Executive, it seems unlikely that this will happen any time soon. The other challenge here is that a clear successor has not yet emerged from the ANC's ranks.

The only good thing that emanated from the Nene fiasco, is that it has demonstrated that there is some sanity within the ANC leadership with adequate powers to control Mr Zuma – although not removing him. Some already see this as a turning point and they no doubt will be fortified by the judgment Constitutional Court in the case between *the Economic Freedom Fighters versus Speaker of the National Assembly and Others; Democratic Alliance v Speaker of the National Assembly and Others*. In this landmark judgment the Constitutional Court unanimously found that both Zuma and the National Assembly had failed to uphold the Constitution by not respecting the binding force of a report by the Public Protector, Advocate Madonsela, on security upgrades to his Nkandla home.

The opposition parties will become stronger. The DA offers a viable long-term solution and should gain more municipalities under their reign in the upcoming Municipal elections. The ANC is bound to drift away further from the desired two-thirds majority rule. This is important for the protection of our constitution.

Unfortunately, there is no quick fix for all the damage done over the past six years. Once leadership changes from the top, operation *"clean up"* will have to commence in getting skilled and competent people with integrity back into the critical roles. Within this scenario there is a possibility that the ANC can transform into an ethical, efficient and respected party with integrity that decisively tackle the fight against corruption, education restoration, crime and job creation.

A new credible and ethical leader will go a long way in raising confidence levels, averting a further credit downgrade and attracting renewed interest in South Africa as an investment destination and it will no doubt assist in strengthening the Rand to realistic levels, which should, theoretically, be some 15 to 25% stronger against the US Dollar than what it is now.

Mr Pravin Gordhan is already making headway in stabilising the currency and, given a fair and reasonable opportunity, he could play a pivotal role in the road to recovery. Growth can return to 2 and 3% per annum within the next three years. This is still way below the required 5% plus, as projected by the National Development Plan (NDP), but it is certainly better than where we have been and definitely better than another recession.

<u>The *"worst case"* scenario:</u> Change does not happen.

Zuma remains in power for his full term and manages to influence the appointment of his own successor – one that will continue in Zuma's errant unconstitutional ways and maintain / protect all the people appointed by Zuma over the past 6 years.

The EFF keeps on growing. Although it seems unlikely that it will ever come into power, its strategy of mass action and disruption, which serves to create false expectations is likely to continue and it is not farfetched to predict or suggest that this will only foster more tension and violence and make investors wary of South Africa as an investment destination.

In this scenario South Africa is destined to get further credit downgrades. Even as matters now stand, the country is on the verge of being downgraded to *"junk status"* which will make it more difficult for SA to borrow money and may even see a large scale selling of SA bonds lowering the value of South Africans bond investments (Bonds form an integral part of pension and provident fund portfolios). The value of our currency declines further and faster. The looting of the *fiscus* continues by rogue elements. More educated and skilled people leave the country.

Navigating the storms

On a personal note, my family and I have been the victims of a number of crimes, including a hijacking in which a bullet missed my wife by, literally, a few centimeters, while my daughter (then 14) was pulled out of the vehicle and made to lie on the ground next to the roadway. A few years later we were again attacked. This time it was in the safety of our home – I was held at gunpoint, while a hunting knife was held against my son's throat (then 13) and we were robbed. We have lost friends and acquaintances through murder. To the very best of my knowledge none of these cases has been solved. Thousands of South Africans have similar and, some worse experiences to share.

Despite this, we have decided to stay, all because we kept hoping and believing.

In fact, we still do.

If you live in South Africa by *choice*, like me, you may consider the following helpful hints:

1. **Accept that South Africa, as part of the African continent, is and has always been an African country.**

South Africa is an African country – has always been, will always be. The "old South Africa" that the National Party tried to create was an artificial European bubble which merely postponed the inevitable. Embrace it.

2. **Enjoy what South Africa has to offer.** Unsurpassed wildlife and beautiful landscapes, beaches, cities (Cape Town is still listed as the fourth most beautiful city in the world by Conde Nast and part of the top 10 list of the most beautiful cities of the world by Forbes), great weather, good food and affordable luxuries. In my experience, most South Africans travelling abroad, generally get to visit first world cities (typically London, New York and cities in Europe and other first world countries) and/or the occasional Mediterranean or Asian island during holidays. These are unrealistic comparisons to draw, because South Africa must be seen in the context of other emerging economies.

3. **Adapt to our own peculiar set of circumstances and also be sure to invest in your and your family's safety.** Take the necessary precautions to provide your own power and water if possible. Go green (and do something good for the environment too). Crime is a reality and it may get worse before it gets better. Do not overly rely on Government to improve this situation soon. Be vigilant and use technology and private security services to your advantage.

4. **Ensure internationally recognized matric certificates for your children / grandchildren.** Broaden their options to be accepted at overseas universities or colleges. South Africa has a choice of excellent private schools offering top education at a fraction of the cost of private schools in the United States of America, or those in the United Kingdom and other European schools.

5. **Pay attention to your health and maintain proper medical aid cover to afford proper private medical care.** South Africa has some of the best hospitals and medical practitioners in the world.

6. **Invest offshore.** The Rand will depreciate further over time – Period. The percentage of assets to be invested offshore will differ from investor to investor and depend on the monetary value required in providing local income and the value invested in local lifestyle assets. Get professional advice. Beware of investing in unknown offshore investments, which far too often simply prove to be or are "too good to be true". I have come across many investors who would have been better off leaving their money in a South Africa savings account (instead of losing most or all of their investments offshore). Also, if you are an entrepreneur, never underestimate the opportunities that exist in South Africa.

7. **Stay invested in quality South African property (residential and commercial).** There will always be a demand for quality property in prime locations. Based on future demand from a growing population, rising inflation and foreigners (diplomats and business) property valuations should always be supported. As a case in point, I invite readers to look further north into Africa (cities such as Kinshasa, Harare and Lagos) where a two bedroom house can easily be rented for between 2000 and 3000 US Dollars per month.

8. **Keep a positive attitude and play your part in uplifting and building inter cultural relations.** Be generous to those that are less privileged (regardless of race). A few of your Rands go a long way in disadvantaged and poor communities. Avoid racism at all costs, as well as cynicism. Be respectful and tolerant.

In the final analysis…

We need to see things in perspective. It is not only about Government – at least not only the one we have now.

Global (external) factors are cyclical and those will come and go. Internal factors are however brought about by Government and damage caused due to bad governance is systemic which, as history has taught us, can take generations to repair.

Change is possible. Never underestimate the power of collective positive action.

This ship can turn and if it does, there is no place on earth I would rather be.

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YOU CAN'T HIDE YOUR OFFSHORE ASSETS

Laura du Preez, Editor, Independent Newspapers Personal Finance

THE PANAMA PAPERS should sound the alarm for any South African resident who still thinks it's possible to hide offshore investments from the authorities here.

South Africans are free to invest offshore within the exchange-control limits (see "What you should know about investing offshore", below), but the days of using trusts or companies to hide these investments from the tax and exchange-control authorities are over.

If you have undeclared offshore investments or trusts, you should make use of the coming tax amnesty – formally known as the special voluntary disclosure programme (VDP) – announced in the Budget, Rhodes Business School Tax Professor Matthew Lester told financial planners at a Financial Planning Institute tax seminar this week. The special VDP is due to start on October 1 and will run for six months.

Lester, who is also a member of the Davis Tax Committee, said the special VDP is likely to be your last opportunity to regularise your offshore assets.

If you do not avail yourself of the amnesty, you should emigrate and join your money offshore, or be close to death, because the consequences of being caught are dire and include going to jail, he warned.

National Treasury this week released for comment an amended version of draft legislation outlining how the special VDP will work.

Lester also spoke at an Old Mutual Investment Group conference this week. He said although 43 000 people applied for the 2004 "grey money" amnesty, it did not convince South Africans to regularise all their affairs.

Many people applied for the amnesty in relation to personal assets held in their accounts, but, on the advice of the administrators of offshore trusts, they did not apply for amnesty for assets held in foreign trusts, he told the conference.

The administrators assured people that the identity of the true owner of the assets (the person who controls them) would remain secret, because the letter of wishes was protected by client privilege. (The settlor or founder of a trust draws up a letter of wishes that is not binding on the trustees, but sets out how the settlor wants the assets in the trust to be used.)

The 2004 amnesty was offered to residents who took money out of the country illegally or had offshore investments without declaring them for tax purposes before the introduction of residence-based taxation.

The rationale for the special VDP is that the Organisation for Economic Co-operation and Development has developed a common reporting standard for the exchange of financial information between tax jurisdictions.

According to law firm ENSafrica, almost 100 countries have agreed to adopt the standard, and South Africa will become a participant from September next year.

By March 2, only Bahrain, Nauru, Panama and Vanuatu had not indicated whether they would participate, ENSafrica says.

Hanneke Farrand, the head of the private clients department and a tax director at ENSafrica, says the global drive towards transparency will make it virtually impossible to hide offshore assets. If you invest in a jurisdiction that might enable you to avoid disclosing your assets, this could be viewed by the South African Revenue Service (SARS) as a reason to investigate you for tax avoidance. Failure to disclose your assets would put you at risk of being prosecuted for a criminal offence.

The implication for South African residents is that financial information held in any participating jurisdiction will eventually be brought to the attention of SARS, ENSafrica says.

If circumstances warrant it, SARS will issue requests for further information and audit your affairs in order to bring the undisclosed funds into the South African tax net, ENSafrica says.

The leaking of information about offshore accounts has become common. Last year, a network of journalists exposed 100 000 people and entities that had US$102 billion stashed in accounts at Swiss banking group HSBC. The records included the details of 585 South Africans with assets of $2.09 billion.

After the Panama Papers were leaked this month, Finance Minister Pravin Gordhan issued a statement saying that SARS, the Financial Intelligence Centre and the South African Reserve Bank (SARB) will investigate South Africans who, according to the papers, have not complied with the law.

It is not illegal to hold funds in an offshore bank, as long as you obtain approval to take the money offshore and disclose the income and capital gains to the authorities.

Lester told Personal Finance it was significant that Gordhan said that South Africans fingered in the Panama Papers will be pursued; he did not advise them to use the VDP. This showed that the authorities have little sympathy for those who are caught transgressing the law. In fact, he said it was surprising that the government had been so generous in offering another amnesty.

The consortium of journalists who shared the Panama Papers has threatened to release in May the names of people connected to offshore entities set up in Panama. Lester says if you know you are named in the papers, you should apply for the "permanent" VDP provided for in the Tax Administration Act, and not wait for applications to open for the special VDP.

You do not qualify for the VDP once SARS or the SARB have started to investigate your affairs.

He says the following developments have taken place since residence-based taxation was introduced in 2001:

- The Tax Administration Act provides that you can be held liable for unpaid tax for however long you have failed to declare it; you can be penalised up to 200 percent of any tax you have failed to declare; and you can face criminal charges for failing to pay tax.
- Many South Africans who took money offshore because they expected to emigrate have not left the country. They are now too old or do not have the skills to get into other countries, or they no longer want to leave because their children have decided to stay here.
- Many offshore trusts are administered by offshore companies, but, because they are effectively controlled by trustees resident in South Africa, their offshore status is questionable.
- Many offshore trusts were set up as discretionary trusts, but the beneficiaries often have a clear right to the assets in the trusts, which makes their discretionary nature questionable. This might have tax implications for the beneficiaries.
- The outcry over global equality means there is little sympathy for people who have built up wealth offshore without paying tax.
- The threat of international terrorism has made it noble to hack into computer systems to expose people with secret bank accounts.

WHAT ARE THE PANAMA PAPERS?

The Panama Papers are a leaked set of 11.5 million confidential documents that provide details of more than 214 000 offshore companies listed by Panamanian corporate service provider Mossack Fonseca. The documents show how some wealthy individuals, including public officials, hid their assets from public scrutiny.

The papers identified five heads of state or government leaders from Argentina, Iceland, Saudi Arabia, Ukraine and the United Arab Emirates, as well as government officials, close relatives and close associates of various heads of government of more than 40 other countries. One of the individuals named in the papers is Khulubuse Zuma, the nephew of President Jacob Zuma.

Although the use of offshore business entities is not illegal in the jurisdictions in which they are registered, during their investigation reporters found that some of the shell companies might have been used for illegal purposes, including fraud, drug-trafficking, and tax evasion.

An anonymous source made the documents available in batches to German newspaper Süddeutsche Zeitung beginning in early 2015. The newspaper shared them with the International Consortium of Investigative Journalists, which shared them with 107 media organisations in 78 countries. – *Source: Wikipedia*

WHAT YOU SHOULD KNOW ABOUT INVESTING OFFSHORE

South Africa has a residence-based tax system, which means you must pay tax in this country on your assets regardless of where in the world they are.

If you have not disclosed assets to the South African Revenue Service for tax purposes, it is likely that you are in contravention of the tax legislation.

You are entitled to invest offshore, as long as you do not contravene the exchange control and tax legislation. You are entitled to take up to R10 million offshore as a foreign investment allowance and R1 million annually for any purpose, including travel and investment.

The South African Reserve Bank monitors cross-border flows, and certain transactions must be approved by authorised dealers.

Tax havens are countries with low tax rates that make it possible for investors to hide their accounts from the authorities in the countries where they live. Fewer and fewer tax havens are agreeing to keep accounts secret, and the few that do are likely to charge a high price.

Even in these countries, there is a risk that your personal details will be leaked, particularly if the tax haven's investment and trust industry is not very professional.

Financial institutions and certain people, such as accountants and estate agents, are obliged, in terms of the Financial Intelligence Centre Act, to report "suspicious" financial activities, including possible tax-evasion and money-laundering.

More stringent requirements on institutions to know their clients and beneficial owners (the people who control a juristic entity, such as a company) have been proposed in the Financial Intelligence Centre Amendment Bill to underpin the reporting requirements of the Organisation for Economic Co-operation and Development.

The message is clear. If anyone has any doubt about whether or not they are "squeaky clean" with SARS and SARB (in the context of the above article), and for that matter their tax affairs in any foreign jurisdiction, DO NOT leave it to chance again - get advice NOW.

FIRSTGLOBAL ASSET MANAGEMENT: INVESTMENT UPDATE

Klaas Venter, Chief Investment Officer, and Jacy Harrington, Investment Analyst

Jupiter

THE FG IP JUPITER INCOME FUND OF FUNDS returned 2.62% in the first quarter of 2016 and 6.56% over the past 12 months, outperforming the benchmark Alexander Forbes Short Term Fixed Interest Index and the peer group average return over the quarter (2.22% and 1.68%) while slightly underperforming the 12-month return (6.61% and 6.72%).

Despite the South African Reserve Bank raising the repo rate twice over the quarter by a total of 75 basis points, South African local bonds enjoyed positive performance, with the ALBI ending the quarter 6.55% higher. Majority of this performance can be attributed to the reversal of the significant yield sell-off in reaction the replacement of the Finance Minister at the end of last year.

We continued to increase exposure to both Nedgroup Flexible Income Fund and Prescient Income Provider Fund during the quarter.

Venus

THE FG IP VENUS CAUTIOUS FUND OF FUNDS returned 1.58% in the first quarter of 2016 and 5.22% over the past 12 months, underperforming the benchmark peer group average return of 1.66% and 5.75% respectively over both periods.

Majority of Venus' underperformance was contributed over January as South African risk assets sold off in line with global financial markets, as increased risk aversion was driven by global growth concerns. During March, the fund managed to recover almost all of the underperformance experienced in the first two months of the year as market confidence recovered. Further dovish actions and statements by global central banks drove both local property and equity markets higher.

Over the quarter we lowered our exposure to local equities by selling out of Coronation Top 20 fund, reallocating to global equites and local income funds.

Saturn

THE FG IP SATURN FLEXIBLE FUND OF FUNDS returned 1.55% in the first quarter of 2016 and 7.25% over the past 12 months, underperforming the benchmark peer group average return of 1.73% over the quarter while outperforming the peer group average return of 4.83% over the 12-month period.

Saturn's underperformance over the quarter was primarily driven by the sell-off of risky assets in January as both local and global markets sentiment deteriorated over global growth concerns. As sentiment improved towards the end of the quarter and markets rebounded, we were able to recover some of January's weakness.

Over the quarter we continued to reallocate the exposure from the Coronation fund to the more defensive SIM Inflation Plus fund and the Nedgroup Opportunity fund. Both these funds have demonstrated the successful use of derivative securities for explicit downside protection and will add to the diversification benefits of the Saturn fund.

Neptune

THE FG IP NEPTUNE GROWTH FUND OF FUNDS returned 1.11% in the first quarter of 2016 and 6.25% over the past 12 months, underperforming the benchmark peer group average return of 1.50% over the quarter while outperforming the 12-month return of 3.92%.

The first quarter of the year was particularly volatile, with increased concerns over global growth leading to a January market sell-off. Global central banks loosened monetary policy again which calmed immediate fears and provided support for markets.

Neptune found protection over January in its tactical allocation to cash and fixed income, however specific local and offshore equity fund underperformance detracted from performance into quarter end. There were no significant changes made to the fund over the quarter.

Mercury

THE FG IP MERCURY EQUITY FUND OF FUNDS returned 2.04% in the first quarter of 2016 and 0.45% during the past 12 months, underperforming the benchmark FTSE/JSE All Share Index return of 3.87% and 3.17% respectively over both periods. The local South African market also experienced a volatile quarter in line with global markets as we saw the negative performance of first half of the quarter to be reversed again over latter half.

Performance over the quarter was driven by several notable developments in the local market. Arguably the most notable, was the meaningful rebound in commodity prices, which consequently led to the substantial outperformance of the resource sector relative to the rest of the local market.

Over the quarter we also had the rand strengthen by almost 5% which added pressure on both companies with significant foreign assets and funds with foreign exposure. In order to increase diversification on Mercury, we reallocated exposure from our existing managers and introduced five new funds: Anchor BCI Equity, Fairtree Equity, Truffle General Equity, Investec Equity Funds and Old Mutual Global Equity.

International

THE FG IP INTERNATIONAL FLEXIBLE FUND OF FUNDS returned -5.40% in the first quarter of 2016 and 14.11% over the past 12 months, underperforming the benchmark return of -4.45 % and 15.65% respectively over both periods.

The first quarter was particularly volatile as the negative investor sentiment, brought about by global growth concerns, dominated global markets until mid-February. Additional easing introduced by several global central banks helped to reverse markets again over the latter part of the quarter.

Global equities continued to lag other asset classes as it returned -0.28% in USD terms, relative to global bonds (+3.79%) and global properties (+4.59%). The strengthening of the rand was a key driver of the negative performance over the quarter as it strengthened by almost 5%. There were no significant changes made to the fund over the quarter.

Quarterly Performance of General Indices

Index	Asset Class	2Q 2015	3Q 2015	4Q 2015	1Q 2016	Year to date 2016
STEFI Composite Index	Local Cash	1,56%	1,60%	1,62%	1,68%	1,68%
Beassa ALBI Total Return	Local Bonds	-1,40%	1,11%	-6,43%	6,55%	6,55%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-6,23%	6,24%	-4,66%	10,10%	10,10%
FTSE/JSE Africa All Share (Total Return)	Local shares	-0,20%	-2,13%	1,68%	3,87%	3,87%
JP Morgan World Govt Bond index (USD)	Global Bonds	-1,68%	2,03%	-1,15%	6,74%	6,74%
EPRA/NAREIT Global Index (USD)	Global Property	-7,62%	-2,25%	3,48%	4,59%	4,59%
MSCI AC World (USD)	Global Shares	-0,29%	-9,88%	4,64%	-0,28%	-0,28%
US Dollar/South African Rand (+ weaker, - stronger)	Exchange Rate	0,17%	13,92%	11,93%	-4,97%	-4,97%

*Return untill 31 March 2016

Performance and Quartile Rankings in Sector
for Periods until 31 March 2016

Index	Year to Date	6 Months	1 Year	3 Years*	5 Years*
FG IP Jupiter Income FoF	**2,62%**	**3,40%**	**6,56%**	**6,47%**	**7,48%**
SA Multi Asset Income Category Average	2,22%	3,30%	6,72%	6,28%	6,95%
STEFI Composite Index	1,68%	3,33%	6,61%	5,99%	5,81%
FG IP Venus Cautious FoF	**1,58%**	**5,21%**	**5,22%**	**9,91%**	**10,42%**
SA Multi Asset Low Equity Category Average	1,66%	4,53%	5,75%	8,61%	9,85%
FG IP Saturn Flexible FoF	**1,55%**	**5,95%**	**7,25%**	**11,38%**	**12,45%**
SA Multi Asset Medium Equity Category Average	1,73%	4,85%	4,83%	9,90%	10,75%
FG IP Neptune Growth FoF	**1,11%**	**5,96%**	**6,25%**	not started	not started
SA Multi Asset High Equity Category Average	1,50%	4,88%	3,92%	-	-
FG IP Mercury Equity FoF	**2,04%**	**4,01%**	**0,45%**	**10,16%**	**12,87%**
SA Equity General Category Average	4,51%	5,46%	0,86%	11,04%	11,94%
FTSE/JSE Africa All Share (Total Return)	3,87%	5,62%	3,17%	12,78%	13,57%
FG IP International Flexbile FoF	**-5,40%**	**11,48%**	**14,11%**	**18,25%**	**18,77%**
Foreign - Multi Asset - Flexible Average	-4,47%	10,35%	15,12%	18,59%	18,95%
Composite Benchmark	-4,50%	10,84%	15,65%	18,48%	19,30%
*Data longer than 12 months are annualised	1ST QUARTILE	2ND QUARTILE	3RD QUARTILE	4TH QUARTILE	

Asset Allocation as at 29 February 2016

Fund	Local Equity	Local Property	Local Bonds	Local Cash	Foreign
FG IP Jupiter Income FoF	0%	3%	31%	56%	10%
FG IP Venus Cautious FoF	14%	9%	19%	37%	22%
FG IP Saturn Flexible FoF	35%	7%	14%	21%	23%
FG IP Neptune Growth FoF	32%	7%	5%	37%	19%
FG IP Mercury Equity FoF	80%	2%	0%	5%	12%
FG IP International Flexbile FoF	0%	0%	0%	5%	95%

Collective Investment Schemes are generally medium to long term investments. The value of participatory interests or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the manager. The Manager does not provided any guarantee either with respect to the capital or the return of a portfolio. Fund of funds and feeder funds invest in portfolios of other Collective Investment Schemes that levy their own charges, which could result in a higher fee structure for the fund of funds. The Manager retains full legal responsibility for the Fund, regardless of Co-Naming arrangements. Transaction cutoff time is 14:30 daily. Each portfolio may be closed for new investments. Valuation time is 15:00 (17h00 at quarter end) and 20:00 for fund of funds and certain funds with significant investments in CIS. Prices are published daily and available newspapers countrywide, as well as on request from the Manager. IP Management Company (RF) Pty Ltd is the authorised Manager of the Scheme – contact 021 6711650 or clientservices@ipmc.co.za. Standard Bank is the trustee / custodian – contact compliance-IP@standardbank.co.za. Additional information including application forms, the annual report of the Manager and detailed holdings of the portfolio as at the last quarter end are available, free of charge, from clientservices@ipmc.co.za. IP Management Company is a member of ASISA. Financial Advisor fees as agreed between the Investor and the Advisor may apply and payment to the Advisor will be facilitated on behalf of the Investor. A statement of changes in the composition of the portfolio during the reporting period is available on request.

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