Robert Cowen Investments

Growing families' wealth since 1982

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Newsletter

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You are welcome to pass this newsletter on to friends who may wish to learn more about investment.
To be added to our email, contact eric@rcinv.co.za

"Just as established products and brands need updating to stay alive and vibrant, you periodically need to refresh or reinvent yourself." ~ *Mireille Guiliano*

This month, we are turning over a new leaf. After 15 years of monthly newsletters, we have decided that we need a spring revamp…

Visit our website: www.rcinv.co.za for back copies of the newsletter, background information, etc.

Highlights of this newsletter are:

- Our first ever targeted advert
- National Health Insurance (NHI) – an 'entertaining' take by Paul Theron from Vestact
- The state of SA listed blue chip counters – by Stephan Engelbrecht
- Charts of the month – August 2019
- Mike's CGT Article
- Meet the RCI team - Monthly RCI staff profile – Mike Gresty (CIO)
- 'Currency Corner' – August 2019 – by Nolan Wapenaar
- RCI Unit Trusts
- Including our readers – what content would you like to see more of?

RCI BCI Worldwide Flexible Fund closed August at 128.35c, up 3.32% for the month and up 19.31% for the year to date. It is **ranked 6th out of 71 funds in its category.**

Our first ever targeted advert

With Spring now upon us, we have been hard at work giving clients' finances the 'spring clean' they need. Recently, we have come across a number of clients and potential clients who feel that their financial affairs need a fresh review.

With the global investment environment constantly changing, so too does one's financial needs. Tax laws around the world are changing so rapidly that a strategy/structure put in place for one's finances 5 years ago, could well be outdated today and leave one subject to taxes they were once not even aware of. We are finding more and more clients who need tax restructuring and estate planning, and we are always more than happy to help where we can. We can assist with the following:

- Estate Planning and Wills
- Trusts – Setting up and administration
- Creation of bespoke offshore & local share portfolios
- Retirement products
- Full cash management – we can even pay one's debit orders (a lot of our elderly clients find this very useful)

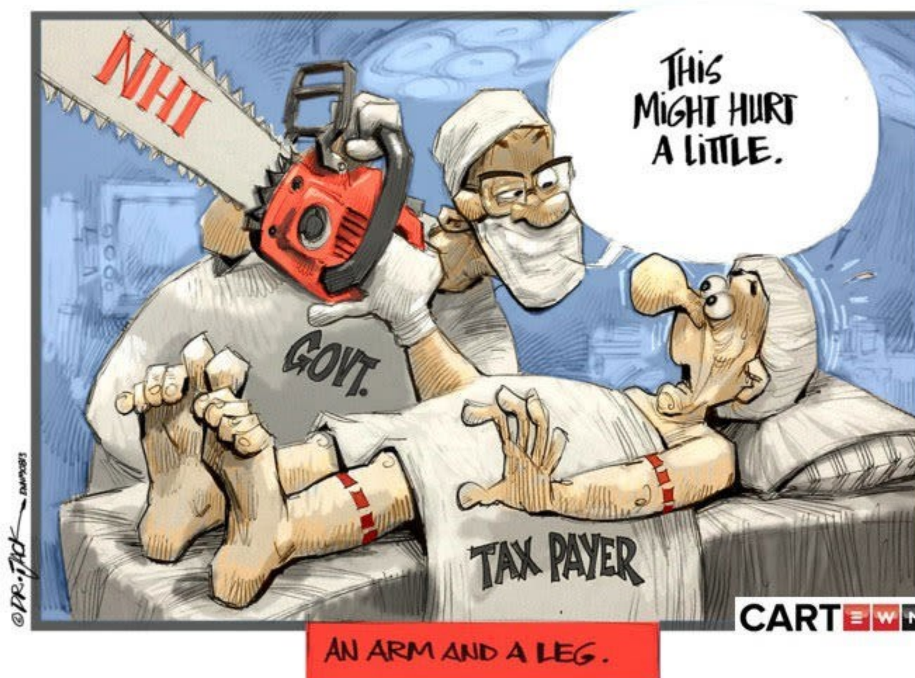
Below is an excerpt of our latest advert placed in the '*Dainfern In Focus*' magazine.

National Health Insurance – The impact on you…

In the beginning of August 2019, the National Health Insurance (NHI) bill was finally introduced and, despite many concerns, it looks as though the government will be pushing ahead to start implementing the new healthcare regime.

What is NHI?

Apart from a huge infringement on the rights of people to choose their own medical service treatments, the NHI is a health financing system that pools funds to provide access to quality health services for all South Africans based on their health needs and irrespective of their socio-economic status – or so the former minster of health, Aaron Motsoaledi, says…



So how will NHI affect you?

In a nutshell, there are a few important points to bear in mind:

- The fund will be a massive state-run medical scheme, of which all South Africans will be members – you will not have a choice.
- Most healthcare – including doctors' visits, medicines, operations and hospital stays – will be free, for everyone.
- Instead of paying monthly membership, you will pay a similar amount of extra tax on your income.
- If you earn an income, you will contribute towards the NHI Fund (previously it was speculated that the levy could be between 3.5% to 5% of your income).
- The fund will cover a range of medical services, treatments and procedures (without any co-payments), only if they are considered a 'medical necessity'. Each year, the government will determine what prices will be paid for specific services.
- You will likely have to register with a GP who is contracted with the state – you could, in fact, be limited to how often you can see a GP.

- There will be strict rules about seeing a specialist. You will need to be referred to the specialist first. This will also likely lead to longer waiting times to see paediatricians or gynaecologists, as all South Africans – including 83% of the population who are not currently medical scheme members – will now have access to private-sector specialists.
- Medical schemes may disappear – in addition to their NHI contribution, wealthy people may likely take out medical insurance. This may also lead to new types of 'top-up' medical insurance.
- Foreigners will not be covered.

Despite the above-mentioned impacts on the taxpayers of South Africa, we have bigger concerns around the scheme.

- Another massive SOE risk (twice the size of Eskom)

A centrally-controlled and administered state-owned entity (SOE), responsible for all NHI-related payments, is probably not a good idea. To be very clear, given the government's extremely poor track record in managing state companies (now needing billions in bailouts), adding another SOE to manage will likely open the country up to even greater risks.

- A tax paying base that is already overtaxed

Apart from the scarcity of information on exactly how much tax NHI will be funded with, the bottom line is another payroll tax on the hard-working citizens of South Africa. Another tax on labour …

The Free Market Foundation (FMF) believe that a payroll tax will always, ultimately, be borne by workers, either through reduced earnings or compensation or job losses – precisely the opposite of what the poor in South Africa need.

With an already narrow tax base, it is likely extremely unwise for the government to even consider imposing another tax on already overburdened tax payers (some of which experience effective tax rates well north of 60%, including petrol taxes and VAT, etc).

- Downfall of private healthcare

The FMF say 'the government's centrally controlled NHI scheme will concentrate power in the hands of the state, which then acts as both a player and referee, leaving no room for the private sector to operate'. Under NHI, whether directly or indirectly, the government will control the availability, financing and delivery of healthcare, leaving South Africans with almost no choice. This too could lead to an exodus of even more skilful and talented specialists and practitioners from our shores.

In summary, the FMF have said that 'huge gaps in information about the NHI, along with a slew of other problems, indicate that the government's universal healthcare plans are heading for a disaster'. 'The consequences of this politically motivated scheme are entirely predictable: the quality of South African health-care provision will fall, more health-care professionals will leave the country, the bureaucracy will be incapable of handling the huge volume of claims, and an unnecessary and intolerable burden will be imposed on taxpayers'.

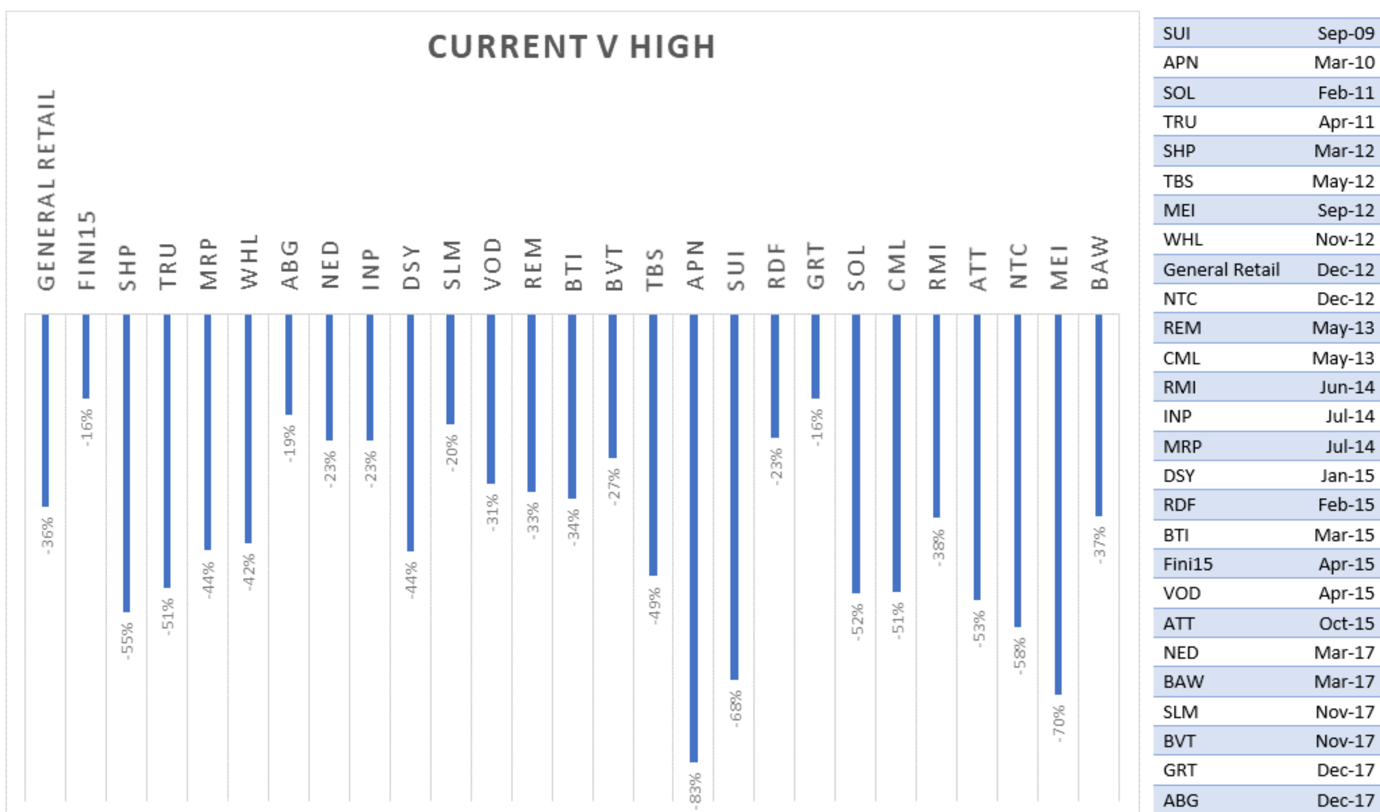
In other commentary, Paul Theron from Vestact summarises some more concerns in the 'no nonsense' clip below:

Blunders Episode 153

The state of JSE listed 'blue chip' counters

Solid calendar year to date returns out of many of our overseas share portfolios had us reminiscing about the 'good old days' of top-quality blue-chip shares on the JSE, running like 'a hobo with a hamburger' prior to 2016. Unfortunately, the reminiscing fast turned to a state of depression...

During the month of August 2019, one of our analysts, Stephan Engelbrecht, did some work on how much some SA blue chips have crashed. The findings were profound…



SUI	Sep-09
APN	Mar-10
SOL	Feb-11
TRU	Apr-11
SHP	Mar-12
TBS	May-12
MEI	Sep-12
WHL	Nov-12
General Retail	Dec-12
NTC	Dec-12
REM	May-13
CML	May-13
RMI	Jun-14
INP	Jul-14
MRP	Jul-14
DSY	Jan-15
RDF	Feb-15
BTI	Mar-15
Fini15	Apr-15
VOD	Apr-15
ATT	Oct-15
NED	Mar-17
BAW	Mar-17
SLM	Nov-17
BVT	Nov-17
GRT	Dec-17
ABG	Dec-17

Although the table above does focus in on a few select counters, the overall view is scary and gives investors some context into the performance of the local market over the last few years.

It is worth noting that the above counters are truly high-quality businesses who have all declined by more than 20%, from their highs, on a total return basis. If this isn't an indication of the state of the SA economy, then the 36% fall in the JSE General Retail sector should be!

Interesting to note falls ranging from 20% in the likes of Growthpoint, Redefine, Investec, Nedbank and Barclays/ ABSA, to as much as 70% and 83% in the likes of MediClinic and Aspen respectively. These are massive drops in companies with very large market capitalizations – albeit they used to be …

What, perhaps, is just as depressing is the last time at which these counters traded above their current price for the first time. The table on the right shows that, at best, some of the banks traded at their current price, for the first time, almost two years ago (i.e. excluding dividends) Thus, you have not made any money in Barclays/ABSA, Growthpoint, Bidvest and Sanlam since Dec 2017 (assuming you simply held the share). Not that bad, when you consider the fact that you wouldn't have made any money in Truworths or Sasol since early 2011, or Aspen since March 2010, or Sun International in the past 10 years!

As unsavoury as the above information is (in conjunction with the above article on NHI) – both speak to the challenges the SA economy faces. This, along with a slew of other reasons, is why we keep advising our clients to continue to invest more of their wealth offshore over time.

JSE All Share (in USD) – relative to the S&P500 over 10 years

Over the last 10 years, the **JSE ALL SHARE Index has returned 121% in ZAR terms (excluding dividends)**, or 8.3% per year compounded, yet it has **only returned 10% in USD terms (excluding dividends),** or **0.96% per year compounded.**

The **S&P500 Index has returned 186% in USD terms (excluding dividends),** or **11% per year compounded**. This is **<u>tenfold that of the JSE ALL SHARE</u>** in USD terms.

Charts of the month – August 2019

Given our new 'refresh' and 'revamp' to the newsletter, we thought it invigorating and newsworthy to include a monthly section on any fun, interesting or downright shocking charts for our readers' pleasure. Going forward, we will try to include a few charts or tables on what we think you might enjoy.

Before we go into our first two charts of the series, we thought it worth reminiscing about author Burton Malkiel making fun of chartists by comparing their profession to having sex: "Like a Don Juan or a Casanova, the chartist has an unending series of short affairs with stocks. First there is observation, a watching of the head and shoulders, the neckline, and the shape of the bottom. Flirtation may involve some resistance or some support. As involvement increases, congestion builds. There may be penetration of old tops, or a violation of former lows. These give way to mounting excitement and then climax, followed by the warm afterglow of profit taking."

The 'quadruple confirmed Evil Knievel Formation' – Does this look familiar to you? We hope not!

"Have kids," they said, "It will be fun," they said… 'St Johns' Table of Fees from April 1965

TABLE OF FEES

(as at 22nd April, 1965)

Registration Fee (payable on submission of form of application for entry) … … … … … … R4

Entrance Fee (payable with the first term's fees) … … R10

Termly School Fee (payable in advance):

	Preparatory	*College*
Boarders … … … … …	R172	R192
Day-boys … … … … …	R 81	R101
Day-boys (up to Std. I) … … …	R 65	

The termly fees include:

For all boys: Stationery, Library, School Magazine, Games, Swimming Bath, Musketry.

For boarders: Ordinary Medical Attendance, Laundry, Hair Cutting, Boot Repairs, Dry Cleaning, Weekly Pocket Money (Preparatory School R0.05, College R0.10)

but exclude an annual premium of R4.00 for the insurance of boys against accidents (normally compulsory) and a termly levy of R2.00 for each boy in the College for Laboratory expenses.

The only necessary expenses in addition to the above are the cost of text books (which are supplied from the School book-room and charged on accounts), some items of personal equipment for games, and a single contribution of R5 in the term in which a boy becomes a member of the Cadet Detachment.

Extra Fees (payable in arrear):

Luncheon for Day-boys	(Preparatory) per term	R 8.00
	(College)	R10.00
Music Lessons … … … … … …		R15.00
Manual Training … … … … …		R 4.00
Sanatorium Fee (per week) … … … …		R 3.15
Speech Training (Preparatory School only) … …		R 4.20

To give context, today's day-boys' term fees (for college) amount to roughly R53,896. That is an increase of 12.5% per year, for the last 54 years! Plus, musketry… where was I for that?!

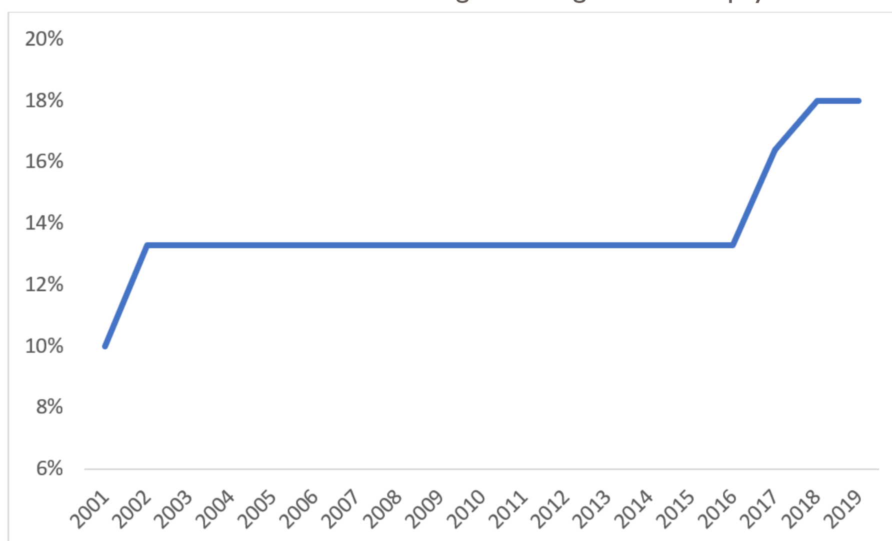
'The rising tide of capital gains tax' – August 2019

By Mike Gresty of RCI

The recent corporate action by Naspers to list a new company (Prosus) on the Euronext Exchange, and distribute shares in Prosus to its shareholders, has made capital gains tax (CGT) particularly topical again. The Naspers transaction has presented retail investors with a particularly difficult choice to make: (1) take up the Prosus shares, which triggers a capital gain because of the way the South African Revenue Service is treating it; or (2) opt to take up additional Naspers shares, which defers having to pay CGT until the shares are sold but risks missing out on the potential for Prosus to trade at a narrower discount to the value of the its underlying assets than Naspers does and, hence, hopefully outperform Naspers.

For those that opt to take additional Naspers shares and defer the CGT, a risk they will face is that the rate of CGT may change in the future. We thought it would be worthwhile to take a look at how CGT has changed in South Africa over the years and compare it to the rates paid elsewhere in the world.

How did we get where we are today? CGT was introduced in South Africa in October 2001 at a level of 10%. As can be seen from the chart below, the rate has increased over the years to reach 18% in 2018 – where it is currently. Effective CGT rate is 40% multiplied by your marginal tax rate. So, at the 45% marginal tax bracket, your maximum effective CGT payable is 18% (40% x 45%).



How does South Africa's current rate of CGT compare with other countries?

Looking at the tax treatment of capital gains across the world is complicated. Some countries tax gains on different assets at different rates (UK taxes gains on property at 28% and gains on equities at 20%, for example). Some do not have a single flat CGT rate.

In the table alongside, we have shown the maximum CGT rates applicable for gains on equity sales and ranked the countries on that basis. We show Emerging Markets in red and Developed Markets in black.

	Top rate of CGT payable on gains from equity sales
Uganda	Taxed as part of normal income (top marginal tax rate: 40%)
Ireland	33%
Finland	30% (34% if gain is more than EUR30000)
France	30%
Sweden	30%
Austria	27.5%
Denmark	27% (42% on capital gains above DKK54000)
Germany	26.4%
Italy	26%
Israel	25%
Spain	23%
Australia	50% of capital gain added to taxable income (top marginal rate: 45%)
Brazil	Progressive tax rates with max of 22.5%
Norway	22%
US	20%
UK	20%
Japan	20%
Portugal	20%
China	20%
Zimbabwe	20%
Poland	19%
South Africa	**18%**
Canada	50% of capital gain added to taxable income (top marginal rate: 33%)
Hungary	15%
Ghana	15%
South Korea	11%
Egypt	10%
India	10%
Mexico	10%
Kenya	5%
Nigeria	0% on equities but 10% on other assets
Hong Kong	0%
Netherlands	0%
New Zealand	0%
Russia	0%
Switzerland	0%
Turkey	0%
UAE	0%
Zambia	0%

Whether one concludes that South Africa's current rate of CGT is high or low depends on if one is comparing it to Emerging Markets or Developed Markets. Compared to other Emerging Markets which, strictly speaking, is probably the most relevant group to which it should be compared, South Africa's CGT rate is already relatively high. Relative to most Developed Markets, however, one would likely conclude there is room for it to rise further in future years.

In conclusion then, as the tax authorities grapple with the thorny problem of trying to raise more tax revenue to fund the country's widening budget deficit (thanks Eskom!), might they be tempted to tweak CGT rates up further? Although it is not a particularly significant source of tax revenue, the international comparison above certainly suggests there is a risk, particularly if our tax authorities believe our tax regime should have more in common with Developed Markets than Emerging Markets!

Monthly RCI Staff Profile – Mike Gresty (CIO)

Chartered Accountant (SA)

Chartered Financial Analyst (CFA)

Joined Robert Cowen Investments in 2018

20 Years' investment experience

Previous employment: Telcos and Naspers analyst at Citibank

Prior to that: Top rated banking analyst in SA, at Deutsche Bank

Apart from torturing numbers, Mike, aka 'The Fish', Gresty, is the Chief Investment Officer at RCI and an integral part of the investment process at Anchor Capital. Mike, with the help of the other investment analysts oversees finding the many gems you see in your bespoke share portfolio.

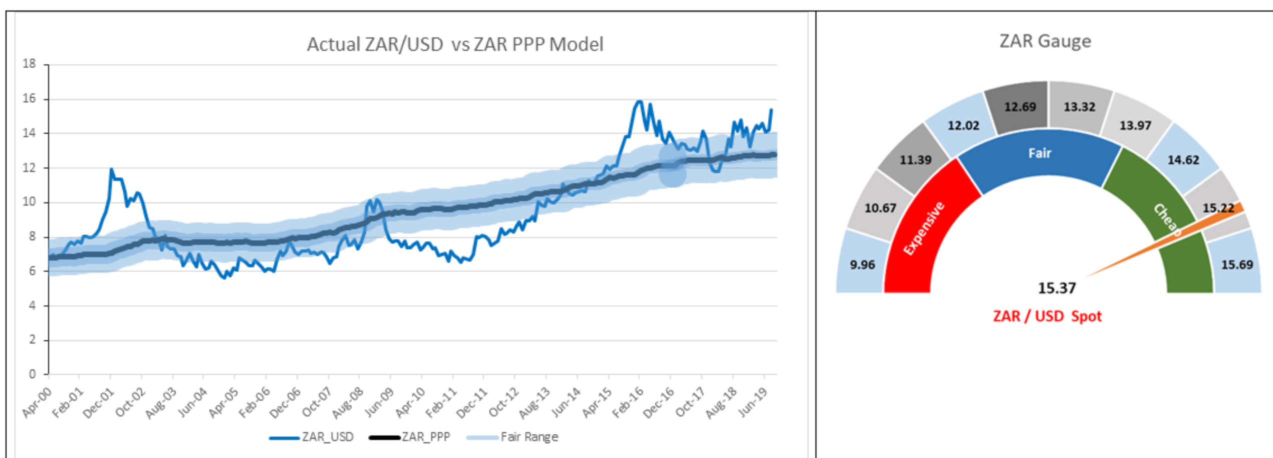
Mike, has a lovely wife (Heidi) and two beautiful children (Bailey & Cole), but in his spare time, he complains, to no end, about his '3rd child', the 'hairy donkey', about how it costs more to run than a small family.

Mike's hobbies include, analysing shares with a glass of red in hand, as well as being an avid 'fisherman' - He doesn't know we snuck this pic in.

Ed: If you ask me, this isn't a very big fish – I've eaten bigger at Ocean Basket… 😉

'Currency Corner' – August 2019

By Nolan Wapenaar



The month of August saw a 5.6% depreciation of our currency against the dollar, to end at R15.17.

Offshore (in developed markets) has been the only pay in town at the moment. The world is concerned about Argentina and the risk of another emerging market crisis. As a result, emerging market assets came under pressure during August. Argentina bore the brunt of it, with their currency losing approximately 23% against the dollar for the month, after earlier having plunged by 30% to a record low. Turkey and India also came under pressure, whilst the rand participated in the sell off. The market remains skittish at the moment and big moves in either direction are plausible. The Chinese crackdown on dissenters in Hong Kong is certainly not helping matters.

Locally, President Ramaphosa won the latest battle against the Public Protector, though this was broadly expected. We note that there seems to be some progress on the Eskom situation, though the road to restitution will be long and fraught with dangers. High frequency economic data has been disappointing of late, meaning that the domestic economic outlook is potentially worse than we had been anticipating and that the recovery might prove slower than anticipated.

The Rand is now at R15.26 against the Dollar (as at the 3rd of September 2019). This is oversold, in the short term, and we do think that some recovery is to be expected over the next few weeks. We caution that markets remain very skittish and events could move our currency either way. We still advocate using short term rebounds in the currency as an opportunity to externalise funds and build a long-term offshore portfolio. Remember, you can always bring the funds back.

This day in history – 31 August

- Princess Diana died in a car crash in Paris in 1997
- The Dow drops 512 points (or 6.4%) in 1998
- Germany installs tax meters for prostitutes in 2011 – charging a rate of 6 euros a night
- Richard Gere is born in 1949 – what a great actor!

RCI Unit Trusts

Please contact Maggie on 011 591 0578 for any help on your unit trusts.

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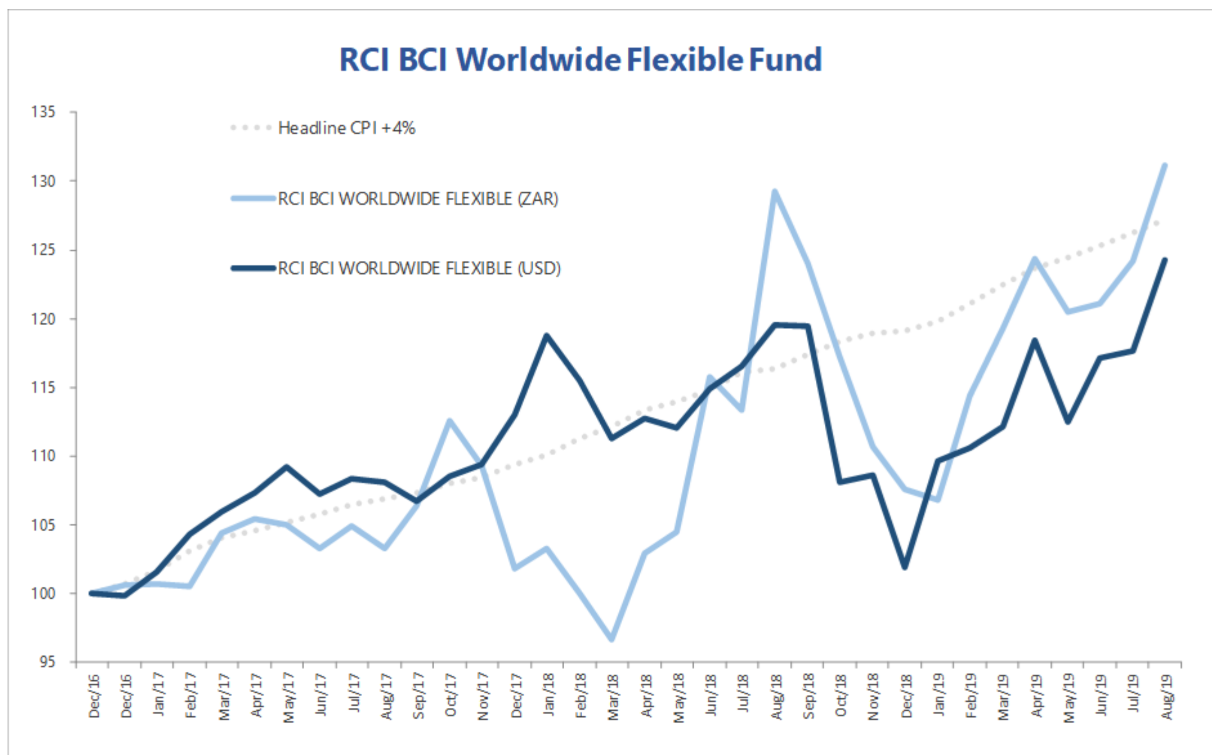
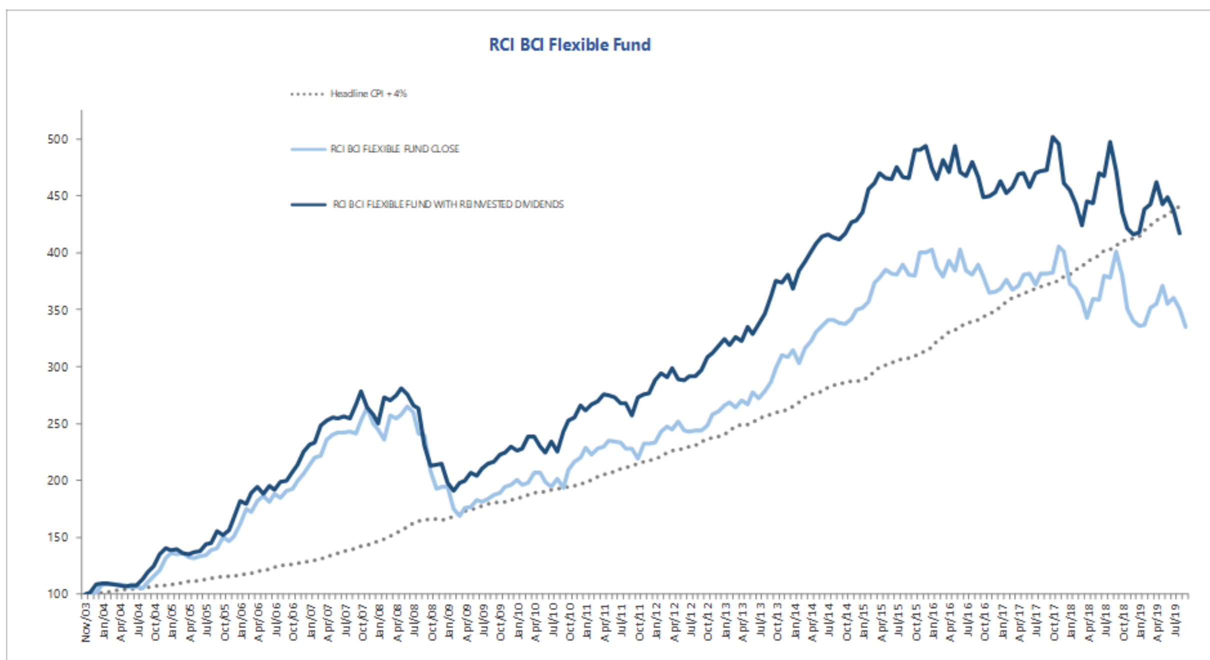


RCI BCI Flexible Fund closed August at 335c, down 4.67% for the month and up 0.28% for the year to date.



Unit trust has flexibility – happy to take small amounts

The unit trust has the flexibility to buy and sell shares and to change weightings more frequently than in an individual portfolio. We are happy to take small amounts into the unit trust (from R1 000 per month or lump sums of R25 000). As you will not pay commission to any agents there is no cost to get in and out of our fund. On selling, the amount you receive back will depend on our performance.

Collective Investment Schemes in Securities (Unit Trusts) are generally medium to long term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trusts 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 company/scheme. Commission and incentives may be paid and if so, would be included in the overall costs. The portfolio is registered under the license of Boutique Collective Investments, a member of the Association for Savings & Investment SA. Forward pricing is used. More details are contained in a fact sheet that is available on request.

To conclude

The year is more than half gone. What better way to continue the second half with a 'spring' in one's step? We continue to see great potential overseas, relative to South Africa. 'Own goals' such as the NHI continue to keep us cautious about South Africa's growth trajectory, in particular the ease of listed businesses to continue operating successfully.

The increasing complexity of the world in which we invest, continues to keep us very busy. We are hard at work assisting clients in restructuring their financial affairs, including estate and tax planning. Investing for solid long-term returns, in excess of inflation, goes hand in hand with this. Our RCI Worldwide Flexible Fund (invested similarly to our bespoke offshore share portfolios) continues to produce great returns in USD and ZAR terms – **now ranked 6th out of 71 funds in its category (up 19.31% so far this calendar year**, compared the 4.35% JSE All Share return).

With education costs rising well ahead of local inflation, increasing likelihood of higher effective CGT rates going forward, and the rand starting to strengthen again in September, we continue to look for more opportunities to externalise additional funds for our clients. If, by some small chance, South Africa does get its act together, one can always bring the funds back. In the meantime, we continue to see better potential overseas.

In addition to the above, we are looking forward to a new, 'refreshed' newsletter next month where we will showcase another lucky RCI staff member, so stay tuned! We might even sneak in a book review or two…

Lastly, thank you again for being our clients. May you have a great start to your Spring 😉

We hope to be the best family office in the country!

Best regards

Di and Mike