ecsponent Limited

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ecsponews

A boost in local confidence. Why local is still lekker

In this final newsletter of 2018, we reflect on a year filled to the brim with events and developments.

A year ago the leadership of the country and ruling party was not yet in the hands of President Cyril Ramaphosa. Our sovereign debt had been downgraded by two of the top three international credit rating agencies and the full impact of Steinhoff's fall from grace was not yet clear.

Twelve months on, and it appears that in true South African style, local investors refused to be derailed by world events, economics or politics. Not even the pending legalisation of land expropriation could detract from the growing local investment market.

This sentiment is supported by statistics of collective investments for the third quarter, issued by the Association for Savings and Investments in South Africa (Asisa). South African equity portfolios recorded a robust net inflow of R16 billion for the year ended September 2018 and a net outflow of R20 billion from foreign portfolios.

This could also be an indication of renewed investor confidence in South Africa as seen during the successful South African Investment Conference and the Jobs Summit which followed in October 2018. Add to this the recently published GDP growth numbers which lifted the country out of recession and the silver lining shines even brighter.

Supporting the perception of growing optimism is a recent report by auditing firm PwC, entitled "Why South Africa, and why now? Forward-looking scenarios for the Ramaphosa presidency (2018 - 2022)". It predicts a 75% probability of improved economic growth (exceeding the population growth rate) over the next five years.

The report argues that since President Ramaphosa took over leadership of the party and government, the time is right for investing in South Africa, for both domestic and international investors. It also assigns a high probability that the South African economy will be in a much healthier position by 2022, compared to the start of 2018.

Moreover, the A.T. Kearney FDI Confidence Index 2017 included South Africa on their list of 25 economies most likely to attract foreign investment during 2018–2020. It was the first time since 2014 that an African country appeared in the report, based on C-level executives from companies with annual revenues of $500 million or more.

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As part of his New Deal revealed prior to his election, President Ramaphosa signalled that restoring confidence amongst investors was his immediate priority.

He indicated that this restoration required urgent measures to:

- achieve policy certainty,
- improve institutional stability,
- restore the credibility of the criminal justice system, and
- demonstrate the political will to turn around the economy.

The Investment Conference was also a necessary public relations exercise to reset investor sentiment in respect of South Africa after years of negativity. To a degree this was achieved, not only because of the pledges made, but also the fact that business and government came together to endorse South Africa as a desirable investment destination.

The Jobs Summit was held under the theme "United we create jobs" and brought government, business, labour and communities together to advance job creation. The different social role-players signed a framework agreement, designed to create an additional 275 000 job opportunities per year. This is over and above the jobs which would have been created in the economy without these interventions — on average about 300 000 a year.

These events were partner initiatives to the economic stimulus package and recovery plan recently unveiled by President Ramaphosa to ignite economic activity, restore investor confidence, prevent further job losses and create jobs.

As a South African company, Ecsponent passionately supports these sentiments and we will continue to play our role in achieving growth in our country and the rest of the continent. We shared this with attendees at our most recent national roadshow and we believe there are opportunities everywhere. All we need to do, is to apply some "out of the box" and creative thinking to unlock these opportunities.

Africa, the continent of youth

Africa has the youngest population in the world and according to estimates, one in four working–aged people in the world could be African by 2050.

In some African countries, the youth population is staggering. For example, in Niger, where nearly 50% of the population is younger than 15.

Collectively, over 60% of Africans are younger than 25 today. This demographic dynamic brings enormous challenges and opportunities. If well managed, it could bring about an economic miracle in Africa, which will shape the history of the 21st century.

On the other hand, such unprecedented demographic growth does not come without its own particular challenges. The growing number of children and young people must have their educational and health needs met, and enough jobs have to be created for the large cohorts entering the labour market every year.

During her visit to South Africa earlier this year, British Prime Minister, Theresa May, pointed out that Africa would need to create 20 million jobs by 2035, just to keep up with the accelerating population growth. This means about 50 000 new jobs have to be created daily to keep unemployment at the existing level. If it fails, May suggests, the negative economic and environmental effects will reverberate throughout the world.

Women have a role to play

The future of development is however not only rooted in the youth, but also in women, according to the United States African Development Fund. Both must be empowered and data on poverty dynamics in Bangladesh demonstrate that women's empowerment is a powerful predictor of whether a household escapes poverty and remains out of it, versus remaining in poverty or falling back into it.

Since women play a pivotal role in a family's resilience and poverty alleviation, they need to have decision-making power. Impactful and transformational development cannot occur if youth and women are not fully integrated and empowered as change agents in the development process.

According to Ann Bernstein of the Centre for Development and Enterprise, market economies have raised millions of people out of poverty over the last three decades. China followed the right recipe by giving companies more freedom and supporting them to grow and make profits. As a consequence, many jobs were created that lifted about 500 million people out of poverty. India is following the same recipe and has achieved substantial results. Companies are the crucial role players in this picture. They can make the profit and pay taxes so that the state can help the poor, develop infrastructure and grow the country.

Working with governments, the private sector can develop long-term plans which include:

- Improving the quality of education and vocational training to equip young people with the skills employers need;
- Providing technology to connect employers and job seekers to facilitate growth; and
- Enabling entrepreneurs and small businesses to expand through access to financial services.

In this way we all learn, share knowledge and find innovative ways to mobilise the vast talent the youth of Africa has to offer.

Easy alternative to an income-generating investment

Early in December we announced Ecsponent's publication of a prospectus in respect of a R10 billion Domestic Medium Term Note Programme (DMTN Programme). This new option for investors comes with unique benefits for them, whilst also creating opportunities for growth within Ecsponent.

What are listed medium term notes?

JSE-listed medium term notes offer an alternative to investors who seek a regular income and superior interest rates. These instruments are easy to understand, simple and inexpensive to invest in and offer a range of investment alternatives.

Who can invest in medium term notes?

- Any legal entity, including trusts
- Any person aged 18 years or older

What are the features of these notes?

Notes offer:

- Stable, predictable income through monthly interest payments.
- Fixed three-year term, with the option to buy and sell on the JSE.
- An easy and inexpensive investment alternative.
- Income can be offset against exempt interest allowances.
- An alternative asset class for investors looking to diversify their portfolios.

How to invest

The retail notes can be purchased in R100 denominations with a minimum investment requirement of R10 000. Once listed, they can be traded through the JSE.

For more information, contact your Ecsponent adviser.

What rates are offered?

Type	Rate*	Minimum investment
Zero-Coupon**	10.66%	R10 000
Floating Rate	Prime interest rate + 1.5%	R10 000
Fixed Rate	9%	R10 000
Fixed Rate	10%	R100 000
Fixed Rate	12%	R1 000 000

* Nominal annual compounded monthly (NACM).
** Capital and interest paid at the end of the investment term.

Maximise your tax benefits before the end of the tax year

As the end of the year approaches, South Africans generally start shifting their thoughts away from business or finance to thoughts of coastal holidays and family events. The temptation to spend and indulge is never stronger than during this time and without proper thought, investors miss out on the simple opportunity to get some cash back from SARS a few months later.

One way to receive something from this unexpected source, is to allocate a portion of your bonus or savings to topping up your retirement annuity (RA). Or by investing in a new RA if you have not done so yet. Not only will you reduce your tax liability, but also boost your retirement savings and earn compounding tax-free returns.

Faced with the question of whether to pay taxes or save, everyone will agree that the latter is the better option. Thus, before the tax year ends, spare a thought about the incentives the government has put in place to encourage us to save.

SARS allows individuals to invest up to 27.5% of their annual income in retirement funds, such as an RA. The total contribution is capped at R350 000 per year.

If you earn R500 000 per year, for example, you will receive a tax deduction for contributions to your RA of up to R34 000. To simplify this, instead of paying tax on R500 000, your income will reduce by R34 000.

You will only pay tax on R466 000, which amounts to a tax saving of around R12 000. One could then say that R12 000 of your contribution was government funded.

As an added incentive, the growth in a retirement fund or RA does not attract income tax, dividend tax or capital gains tax. This tax incentive contributes to further savings.

You have until 28 February 2019 to benefit from these tax savings

If you have not yet contributed 27.5% of your taxable income to your retirement fund in this tax year, you have until 28 February 2019, which is the end of the tax year, to top up your investment. You also still have time to invest in a new RA if you don't already have one, but want to make use of the tax benefit available to you.

Always make these decisions with the help and guidance of a financial advisor to insure that you get the best returns on your smart investment choices.

Ecsponent offers a range of retirement solutions. Contact our accredited advisers to get your savings contribution from SARS.

Investment returns. How much do you REALLY earn?

The devil is in the detail

One of the principal reasons investors lose money is because they chase after unrealistic returns on their investments, whether it be in equities, bonds, unit trusts, real estate or another asset class.

Those who have been affected by such losses, often opt for an ultra-cautious alternative, like a fixed rate bank deposit. Not only are their returns fixed but they can also make use of SARS' interest rate exemption.

However, when quoted in isolation, the percentages offered often are often not without conditions. As they say, the devil is in the detail and if you do not read the fine print carefully, a product offering 13% can earn you less than one offering 11%.

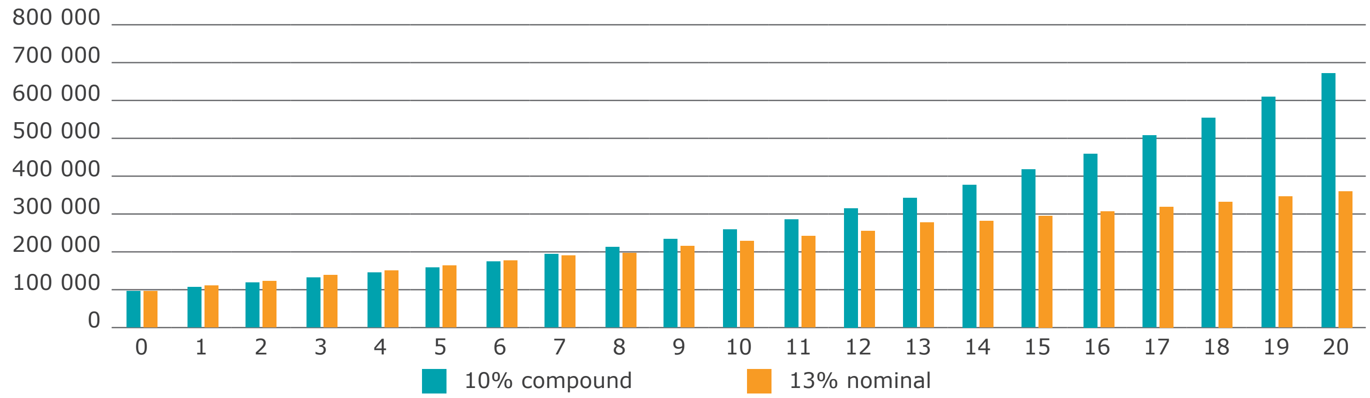
The extraordinary power of compound returns

Albert Einstein called compound interest the eight wonder of the world, saying "He who understands it, earns it... he who doesn't... pays it. Compound interest is the most powerful force in the universe... the greatest mathematical discovery of all time."

The basic concept of compounding is simple. In the first year of investing, you may generate returns on your initial investment. In the second year, you invest the capital (your initial investment) plus the returns, and you generate further returns on the total. If you repeat that year after year, your returns will generate returns.

Consider the chart below. Two investments of R100 000 are made on the same day. The one at 13% nominal interest and the other at 10% compound interest. While the 13% nominal option initially provides greater returns, the effect of compounding very soon outpaces the higher rate. After twenty years, the investment values will be R360 000 and R672 750 respectively.

The power of compound interest over time



Terms and conditions always apply

Why this discrepancy? Look at the asterisk next to the 13%, which takes you to the fine print stipulating that the offered rate is subject to terms and conditions.

While all the numbers are quoted correctly, it is calculated at a nominal rate. When compounded, the rate of return is only 10.53%. And if you want to have the interest paid to your bank account monthly, the rate drops to 10%. And then there are still bank charges to be paid.

In addition to this detail, the Ts & Cs warn that there are penalties to be paid for redemption before the end of the five-year period.

Take a holistic view

Another complication is the effect of taxation. In an ironic twist, it often happens that a higher interest rate can move an investor to a higher tax bracket than might be anticipated.

This supports the necessity of a holistic view before committing to an investment product.

SARS applies an annual interest rate exemption of R23 800 for people under 65 and R34 500 for those over 65 years. In other words, any interest which exceeds the exemption amount, will be added to your taxable income and taxed accordingly each year.

Dividend Withholding Tax

A further alternative is to invest in products offering a dividend return. Like the nominal interest paying investments, these investments pay a nominal, not compound return. On the upside, dividend withholding tax only amounts to 20% of the dividend income earned.

Look at the fine print

Few investors are able to determine the full tax exposure in respect of their investment choices. A qualified and accredited investment adviser will help you take a holistic view of tax and investments, which will play a significant role in your wealth generation activities.