WARWICK WEALTH

The Investment Specialists

WEALTH MATTERS

JUNE 2023 EDITION

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Welcome to the June Wealth Matters from the Warwick Managing Director, Marc Wiese

Dear Valued Clients,

Welcome to the June 2023 edition of Warwick Wealth Matters. As the financial landscape continues to evolve, we are committed to keeping you informed about the latest market trends and providing you with valuable insights to help you make informed investment decisions.

The South African economy has shown some signs of resilience, with positive growth indicators across various sectors, however, growth has remained subdued and we continue to hold an overweight international investment position for clients. Inflation remains a key concern, prompting cautious monetary policy measures. Given these complex macro-economic factors, it is essential to stay informed and adapt your investment strategy accordingly. In this regard, a well-diversified portfolio remains a key element of successful investing. We will therefore continue to consider allocating your investments across different asset classes, such as stocks, fixed income and real estate, as well as locally and internationally across several different economies. This strategy can help mitigate risk and capture opportunities in various market conditions.

As markets fluctuate, it is also essential to regularly review and assess your risk tolerance. Please therefore liaise closely with your dedicated Warwick Wealth Specialist or Planner or Professional Advisor to ensure your investment portfolio aligns with your risk appetite and financial goals. Additionally, please take the time to review your estate plan, together with your Appleton Will, to ensure that this reflects your current wishes. Regularly update beneficiary designations, Wills, trusts, and powers of attorney to align with any changes in your personal or financial situation. Note too, that South Africa's tax landscape is constantly evolving, so please explore tax optimisation strategies, such as utilising tax-efficient investment vehicles, understanding tax deductions, and engaging with tax professionals to ensure you minimise your tax liabilities and maximise your returns.

As your dedicated Warwick Wealth Specialist Partner, we are here to provide personalised guidance and support, so please take this opportunity to schedule a meeting with your Warwick Wealth Specialist or Planner to review your financial plan and discuss any questions or concerns you may have and to provide wealth solutions tailored to your specific needs.

Kind Regards

Marc Wiese, Warwick Wealth Managing Director

Succession Planning - partnering with Warwick is the solution

The importance of succession planning and the forging of strategic partnerships is at the heart of Warwick Wealth's Mergers and Advisors (M&A) offerings. Within financial services, succession planning is a critical strategic tool for ensuring continuity, talent development, knowledge transfer, and risk mitigation.

This month, Warwick General Manager of Mergers and Advisors, Connor Kilbride, sets out the clear case for Warwick's succession planning and strategic partnerships.

If you are reading this, you are already part of the Warwick Family. Whether you are a valued client, or one of our Professional Network Partners, this is a valuable opportunity for me to explain what the unique Warwick Merger and Advisory (M&A) deals entail and what we envision they will be as we move into the future.

Warwick Wealth's Merger and Advisory Deals are the two pillars of our M&A Division. Our Advisory Partners are those financial advisors throughout the country who have chosen to partner with Warwick as independent practices. Every Advisory Deal, therefore, is a testament to a deep level of trust placed in Warwick's industry-leading investment proposition and the value it offers not only to our clients, but also to the next generation of advisors within each practice who will carry our partnerships forward.

Our Merger Deal offers financial advisors the best succession plan in South Africa for those who wish to retire, exit the industry, or simply put in place a plan that looks after the best interests of their clients and loved ones should something ever happen to them.

Succession planning and partnerships for the future certainly inform our M&A philosophy; that said, everything we do is built around two qualities: relationships and trust. I believe every one of our Professional Network partners would agree that our clients and their well-being, will always be the most important factor in every decision – especially those concerning succession.

Financial advisors build long-term relationships with their clients based on trust and personalised service; a well-executed succession plan ensures that these relationships remain intact when the time comes for clients to be transitioned smoothly to a new advisor. Succession planning is not just about preparing for retirement, it also involves identifying and developing the next generation of advisors. By providing opportunities for training, mentorship, and career advancement, Warwick is actively looking to attract and retain the industry's most talented professionals who will contribute to the long-term satisfaction of our clients.

In the form of our Wealth Specialists and Advisory Partners, we are proud to have South Africa's best financial advisors as part of the Warwick family.
It means that our clients can take comfort in the knowledge that they are not only in the safest and most experienced hands possible, but that we have contingency and succession plans in place for every potential situation to secure their long-term financial security and goals.

By investing in succession planning and strategic partnerships, Warwick safeguards the financial future of our clients, Merger Partners, Advisory Partners, and their loved ones. We prioritise the active development of the next generation of advisors who will be able to adapt to the ever-changing dynamics of the industry, and most importantly, provide our clients with the high-level service and the returns they deserve.

We remain convinced that Warwick Wealth's M&A offerings are the best vehicles in the industry for achieving those goals, both for clients, and Professional Network Partners.

Connor Kilbride, Warwick General Manager of Mergers and Advisors

View on the markets

This month, we have invited **Orion Investment Managers Managing Director and Chief Investment Officer, Adrian Meager,** to provide an overview of the latest international and local market developments.

International Markets

In May, world markets were overshadowed largely by a bearish tone as concerns around a potential US debt default, as well as a possible US recession and persistent high global inflation continued to weigh on investor sentiment.

US markets ended May on a mixed note, as the Nasdaq surged to end the month higher by 5.8%, while the S&P 500 eked out an advance of 0.2% for the month, and the Dow Jones closed the month weaker by 3.5%.

US economics data posted a decline in April headline CPI, which came in at 4.9% YoY from a previous reading of 5.0% for March, with annual core CPI which excludes food and energy, printing at 5.5% vs a 5.6% in March. There was also a slight increase in US retail sales, coming in at 0.4% Mom, following two months of declines, albeit weaker than the consensus forecast of 0.8%. The Federal Reserve's preferred inflation measure, personal consumption expenditure (PCE), rose 0.4% Mom in April, vs the March number of 0.3%, and higher than the consensus number of 0.3%. The YoY PCE number also rose to 4.4% for April, vs the March figure of 4.2%, and higher than the market consensus expectation of 3.9%.

As expected, the May FOMC meeting resulted in a rate hike of 25 basis points (0.25%), which increased the federal fund's rate from 5% - 5.25%, the highest since 2007. Rhetoric from Fed Chairman Powell alluded to no guidance on further rate hikes, but rather that future decisions will continue to remain data dependent. This has not excluded the possibility of further future rate hikes if required.

European markets ended May weaker across the board, as the bearish sentiment from the US was carried across the Atlantic. The UK market closed lower by 5.4%, even with a slowdown in its headline CPI number to 8.3% YoY vs the 10.1% YoY print registered in March. This is still higher than expected, as food and non-alcoholic drink prices rose 19.1% YoY. Core inflation, which excludes food and energy which are notoriously volatile, surprised the market by accelerated sharply to 6.8%YoY.

In a similar vein, both the German (Europe's largest economy), and French markets also retreated, ending the month weaker by 1.6% and 5.2% respectively. Germany entered a technical recession during the first quarter of 2023, realising a drop in GDP from 0% to -0.3%, following on from the fourth quarter 2022 contraction of 0.5%. Germany's annual inflation rate came in at an eight-month low of 7.2% YoY vs the March print of 7.4% YoY. Energy pricing experienced a significant spike for the month of April, up 6.8% YoY vs the notable slowdown in March of 3.5%. Food prices also saw an above average increase of 19.8% in April, but slowing from the 22.3% increase in March. As a result, price caps have been placed on essential goods by several central and eastern European governments, with Greece limiting prices by capping the profit margins of retailers for food and other necessities. In a similar vein, French supermarkets are offering products at lower prices, with a reduction in VAT on food items from Spain and Portugal. The annual inflation print for the Eurozone came in at 7.0%, higher than the previous reading of 6.9% in March.

Asian Markets were mixed, as Chinese markets followed Europe weaker, with the Hang Seng down by 8.33% for the month, and the Shanghai Composite marginally better, ending only 3.6% down for the month, largely on the back of expectations of weaker corporate earnings and the continued selling of Chinese stocks by foreign investors. Factory activity shrank for the second month in a row, with the official PMI numbers coming in at 48.8, vs. the previous April print of 49.2, also lower than the consensus expectation of 5.14. Similarly, the official non-manufacturing PMI, which measures business sentiment in the construction and services sector, also pulled back to 54.5, vs the previous reading of 56.4, which has raised questions about the lack of an economic rebound as slower investment and weak demand continue to weigh on sentiment. However, continued steps to support the economy which include additional fiscal stimulus, an easing monetary policy as well as government backing for first time property buyers by decreasing down payment requirements, bodes well for growth during the remainder of 2023.

By contrast, the Japanese market enjoyed a strong rally, with the Nikkei closing the month up 7.0%, its best performance in more than two years. Annual inflation data accelerated to 3.5% in April, vs. the March print of 3.2% as food prices increased. Core CPI (excluding food, but including energy) rose 3.4% in April vs the March reading of 3.1%. Growth in the first quarter surpassed market expectations, coming in at 0.4%, which marked the fastest pace since the second quarter of 2022, primarily fuelled by a strong recovery in private consumption and business sentiment. In addition, there was an unexpected rise in business investment of 0.9%, a bounce back from the 0.7% decline of the previous quarter. The Bank of Japan has noted that while growth is expected to exceed expectations in the near term, a weakening in the appearance of pent-up demand and the lesser impact of government stimulus could hamper growth in the longer term.

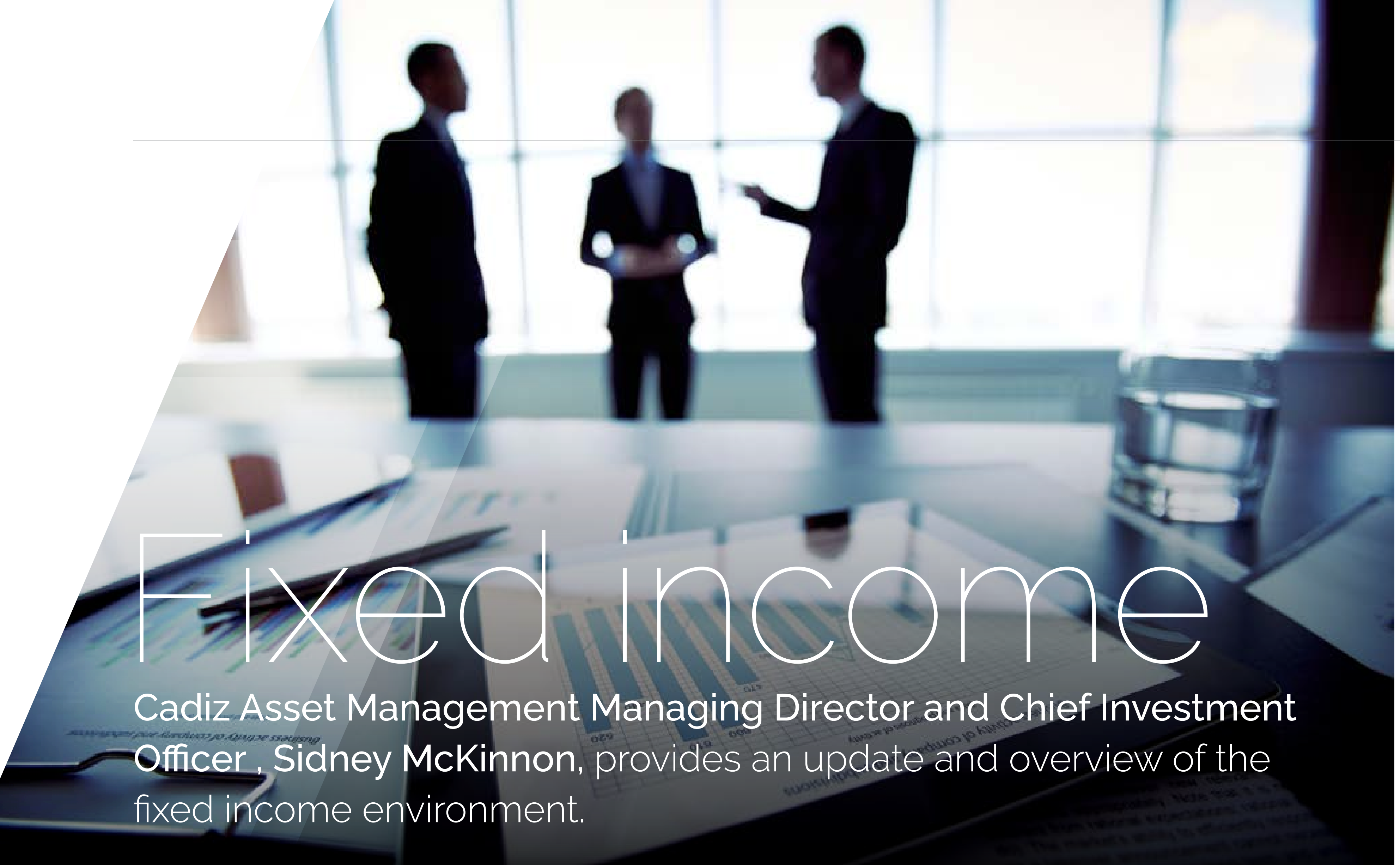
South African Market

The local market mirrored most of the international markets by trending weaker as the continued sell-off in local shares, exacerbated by the increasing financial cost of higher levels of rolling blackouts, together with the continued uncertainty around the government's avowed 'neutral' stance on Russia, weighed heavily on sentiment.

The Financial Sector was hardest hit, ending the month down by 8.2%, followed by the Property Sector, down 6.2%, Industrials down by 3.1%, and Resources down by 2.2%. Share performance was also a mixed bag as BHP rose by 1.1%, Prosus was down by 5.4%, and Naspers declined by 8.7%, and Anheuser Busch weaker by 11.8%. Transaction Capital tanked during the month, initially down 43% on the back of looking for new funding as the taxi business came under pressure, with the counter losing a further 35% after reporting a loss of R1.86bn, vs the profit if R618m ln the previous year, resulting in a total share price loss of around 79% for the year to date.

On the economic front, April Headline inflation (CPI) slowed to 6.8% YoY, from 7.1% in March, with MoM CPI advancing by 0.4% in April vs the March print of 1.0%, mainly due to a decline in fuel inflation (5.0% in April from 8.1% in March) and a softening in food and non-alcoholic beverages (13.9% vs 14.0% YoY). Retails sales pulled back for the fourth month in a row, with the March reading of -1.6% YoY vs the February's upward revised drop of 0.7%

As expected, the South African Reserve Bank (SARB) Monetary Policy Committee hiked the repo rate for the tenth time in 18 months by 50 basis points (0.50%), lifting the repo rate to 8.25% (the highest in 14 years and the prime rate rising to 11.25%).



Fixed income

Cadiz Asset Management Managing Director and Chief Investment Officer , Sidney McKinnon, provides an update and overview of the fixed income environment.

South African capital markets once again came under pressure during May as the nation's political ties with Russia are scrutinised and investors weigh up sanction risks. The SARB raised the reference interest rate by 50 basis points (bps) at the monetary policy committee meeting held in May. The hike was in line with expectations, but did little to appease the currency market as the Rand experienced a historic bout of weakness, reaching the weakest ever level against the US dollar.

Global investors once again had to contend with major central bank tightening monetary conditions in efforts to contain the still elevated inflationary environment. Among these was the US Federal Reserve who delivered its 10th consecutive rate increase, lifting rates by a further 25bps. Additionally, market participants had to contend with risks relating to the US approaching its debt ceiling, meaning the US treasury would not be able to borrow more money in order to fund the government's financial commitments. This threat was thwarted, however, by Congress passing a debt ceiling deal just in the nick of time.

Given the SARB's rate increase, we saw the South African money market curve steepen over the course of the month with the three-month Jibar rate increasing by 53 bps, while the 12-month Jibar rate increased by 70bps. These rates have risen by 360bps and 320bps respectively over the past 12 months compared to the 350bps increase in the Repo rate. The 12-month average T-bill rate also increased by 48bps in May.

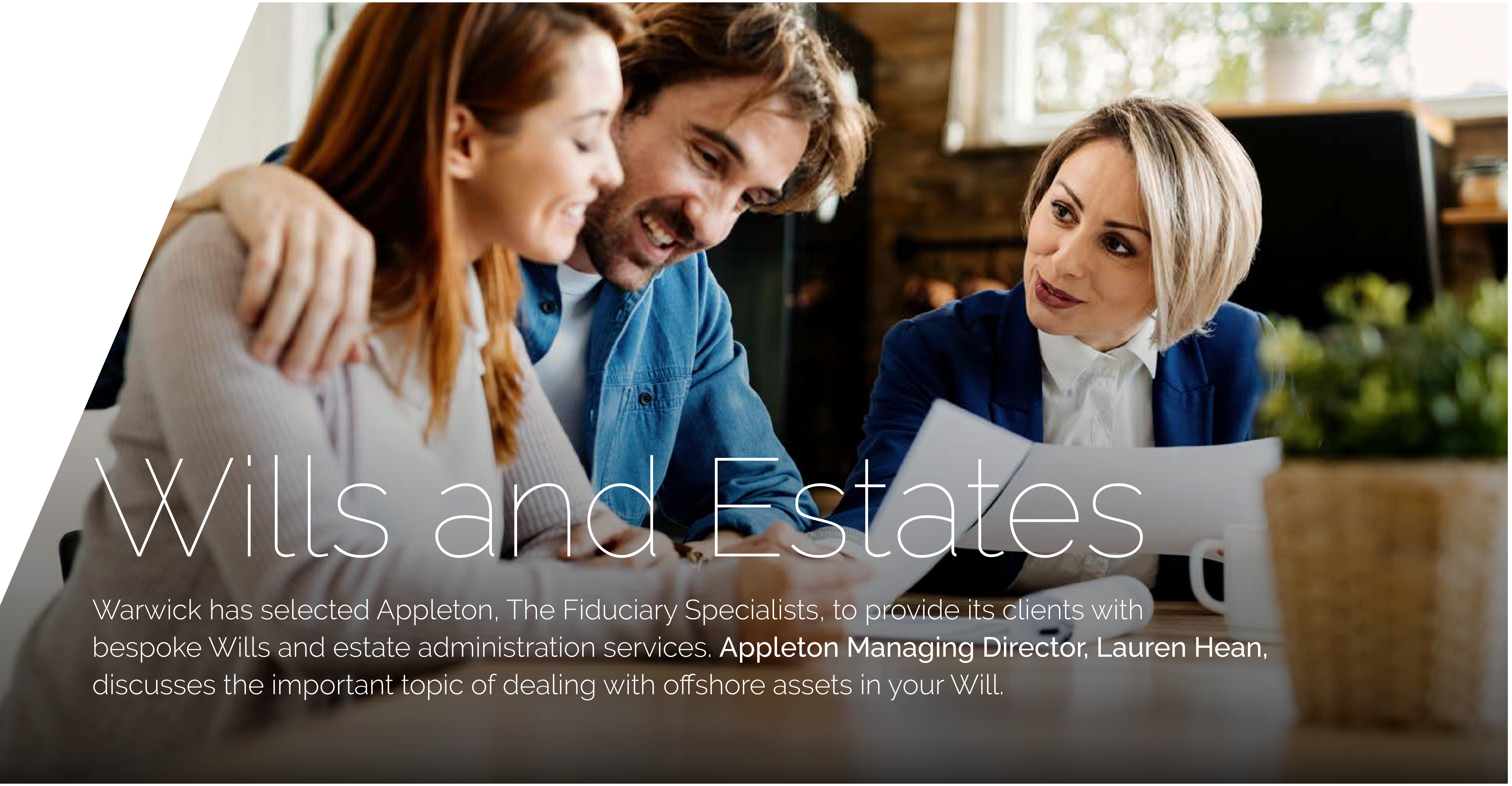
International investors sold significant quantities of South African government bonds during the month, leading to a net outflow of R68.4 billion from this asset class. The cumulative outflow since the start of the year amounts to R216 billion.

The nominal bond yield curve flattened at the end of May, with the relatively short-dated R2030 yield increasing by a whopping 112bps, while the longer-dated R2048 yield only increased by 88bps. The FTSE/JSE All Bond Index (ALBI) returned -4.73% in May, mostly driven down by longer-dated bonds, with the 12 year+ portion of the index losing 5.71% and the shorter-end, represented by bonds with 1-to-3-years to maturity, only declining 1.70%

Like the nominal bond curve, the South African Inflation linked bond curve flattened during May, with the I2025 real yield rising by 39bps and the I2050 real yield increasing by 37bps. The South African inflation linked bond index (CILI) lost 2.3% during May with most of the negative performance attributed to the longer-end, where bonds with more than 12 years to maturity returned -4.20% and bonds with less than three years to maturity returning 0.28%.

cadiz ASSET MANAGEMENT

Sidney McKinnon, Cadiz Asset Management Managing Director and Chief Investment Officer



Wills and Estates

Warwick has selected Appleton, The Fiduciary Specialists, to provide its clients with bespoke Wills and estate administration services. **Appleton Managing Director, Lauren Hean,** discusses the important topic of dealing with offshore assets in your Will.

The implications of offshore assets for your will

As part of its integrated client service, Appleton selects specialists to provide expert professional services in a host of areas. One key area is that of taxation, so this month we feature some guidelines published by the South Institute of Taxation regarding the treatment of offshore assets.

Points to ponder

When drawing up a Will, or wills, for assets held in multiple jurisdictions, it is a good starting point to be able to check off the following five considerations:

The types of assets should be considered

Where the offshore assets only consist of movable assets, the general rule is that a single (worldwide) Will can be drafted. For this purpose, the Will should be drafted in the jurisdiction where the testator is domiciled. However, depending on the above-mentioned factors, a separate Will may also be required in the jurisdiction where the assets are located.

Gathering all relevant information on the offshore asset types and values

These aspects may determine whether or not a separate Will is required within the jurisdiction where assets are located, even if they are movable. An example would be where the only asset is a bank account to a value under a specified amount, for example £10 000. The foreign bank, and subsequent foreign rules, might allow the release of the funds on presentation of the South African formal documents. This should be confirmed with an expert within the specific jurisdiction.

Confirmation of ownership of an asset

Consider how your marital regime, as an example, impacts your ownership of an asset. This impact should be weighed upon any transfers made to any other heirs in terms of your will. Also take into account whether there are any limitations on the ownership you enjoy on the property, which might negate any of the wishes in your Will.

Are there any forced heirship laws in the countries where you hold assets?

It is important to understand whether freedom of testation applies in the specific jurisdiction. If not, can you include a clause in your offshore Will where you can perhaps rely on private international law or international regulations to apply South African law when executing your offshore Will?

Are there any other potential challenges to the execution of your Will(s)?

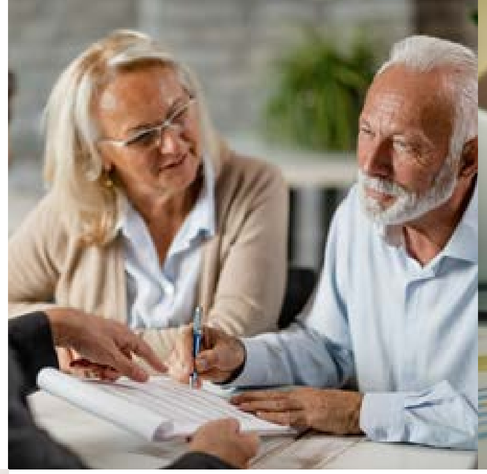
The impact of language barriers and the potential for instructions to be 'lost in translation' is something that should be considered. If you rely on one worldwide Will to address your worldwide estate and if you hold assets in, for example, Germany, this will result in the worldwide will having to be translated to German. This will result in extra costs, delays and possibly other barriers: a poor translation might cause unintended consequences after your death.

Concluding thoughts

Ultimately, it is important to understand the full implications of assets in other jurisdictions and to ensure that the laws of those jurisdictions are complied with when setting up one or more Wills. Failure to do so could result in significant challenges, delays and possible unintended consequences for those whom you want to take ownership of your assets in those countries after you have passed away.

Fortunately for Warwick clients, if you have a Will with Appleton, we take full care of all these considerations when preparing your Will, to provide total peace of mind when you need it most.


Lauren Hean, Appleton Managing Director



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