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SPECIAL EDITION | OCTOBER 2017

investment ISSUE

High-Water Mark Guarantee: invest for growth with confidence

Agile

gives certainty in uncertain times

Designing client-centric solutions to real-world problems

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CONTENTS

INSIDE

The SA economy:
the good, the bad, the future

Chief Economist at STANLIB Kevin Lings provides an economic overview at home and abroad, and an idea of what to expect going forward.

> Kevin Lings, Chief Economist at STANLIB.

The South African economy has struggled to gain momentum since the financial market crisis. It has decoupled from the relatively positive recent performance of the world economy, sliding back into recession in the first quarter of 2017. Fortunately, the most recent GDP data shows that the economy returned to positive growth in the second quarter, helped by a rebound in the agricultural sector and some pick-up in mining activity. Nevertheless, the growth rate for 2017 as a whole is still expected at only 0.7%, not enough for widespread job creation in the private sector or a meaningful easing of social tension.

Furthermore, without a sustained pick-up in economic growth, the fiscal authorities are going to find it increasingly difficult to meet their projections. Already, South African tax revenue has fallen well behind budget in the 2017/2018 fiscal year, especially the collection of VAT and import duties, with a shortfall now projected at around R40 billion.

This all means that South Africa will continue to risk further credit rating downgrades, with Standard & Poor's as well as Fitch having already reduced its international sovereign rating to below investment grade.

What's holding us back

The main cause of our lacklustre economic performance is the systematic deterioration in consumer and business confidence in recent years. This has contributed substantially to a prolonged recession in private sector fixed-investment spending.

Recent data from the Reserve Bank shows that total gross fixed investment spending, both public and private, declined by a disappointing -2.6% quarter-on-quarter, annualised, in the second quarter of 2017. Over the past year fixed investment spending fell by -1.1%, having declined on an annual basis in each of the past seven quarters. For 2016 as a whole, fixed investment spending fell by -3.9%, and we'll struggle to avoid another negative outcome in 2017.

Although many of South Africa's large corporates have fairly robust balance sheets that are not especially highly leveraged, they lack the confidence to significantly expand capacity and therefore employment. This is despite the relatively low cost of capital and positive global backdrop, and reflects concerns including the government's policy direction (for example the recent Mining Charter), corruption, ongoing social instability and the poor outlook for credit ratings.

Fortunately, the rate of contraction in investment spending remains relatively modest by historical standards, suggesting that although the business sector is not expanding capacity on the whole, most companies are ensuring that existing buildings, plant, equipment and technology are well-maintained and suitable. This "maintenance investment" suggests many businesses are waiting for economic and policy conditions to improve before committing to capacity building.

Internationally, there's a well-established relationship between increased investment spending and sustainably higher GDP growth, with the level of investment ultimately determining the level of employment. This suggests that much more needs to be done to encourage a more "business-friendly" environment for all participants, including small and medium-size business as well as state-owned enterprises (SOEs). Given the relatively positive global economic environment, we would have expected SA GDP to be growing at around 2.5%, with fixed investment activity expanding by around 4% to 6% a year.

> UK Prime Minister Theresa May's Brexit plans are one of the international uncertainties undermining investor confidence in the medium term.

Inflating consumer spending

Fortunately, consumer spending has been a little more encouraging. In 2015 a relatively low inflation rate, which averaged 4.6% for the year, accelerated real income growth. This changed in 2016 as inflation rose noticeably and the Reserve Bank continued to hike rates, and commercial banks became much more circumspect about granting credit. The net result is that at the start of 2017 the consumer has less discretionary income available for retail activity.

Fortunately, inflation has moved back inside the target range during 2017 and is likely to remain relatively low in the months ahead. This, coupled with a further reduction in domestic interest rates, should provide some support to the household sector in the second half of 2017, helping retail sales avoid an outright recession despite the weak labour market.

"A collection of important local and international events over the next few months could materially change the South African economic environment."

ECONOMY

> US President Donald Trump is better-known for his Twitter feed than his governance. As the international situation becomes more uncertain, it's worth remembering that the world economy has been performing relatively well recently.

The rising rand

In the first eight months of 2017, the rand strengthened by 5.3% against the weak US dollar, which fell by 11.2% against a resurgent euro. The rand has weakened by 7.1% against the euro in the first eight months of 2017, but has strengthened by a moderate 0.8% against the pound and depreciated only slightly against the yen (-0.7%).

This suggests the rand has actually been relatively well-supported in 2017, partially due to the ongoing global search for yield that attracted additional foreign portfolio investment in SA's government bond market, as well as dramatic improvement in our trade balance, which moved from a sustained monthly deficit in recent years to a sustained monthly surplus in the past six months.

Nevertheless, the currency remains vulnerable over the medium-term, facing potential credit-rating downgrades, some narrowing of the interest rate differential between SA and the major economies (most especially the US), a spike in global risk aversion and some moderation in global commodity prices.

Approaching 2018

The next few months are going to be especially challenging. A collection of important local and international events over the next few months could materially change the South African economic environment, including the path of our monetary and fiscal policy, the funding of SOEs, which will directly affect the outlook for our credit rating, and the ANC's elective conference in December.

Until there is much more clarity on our likely political and policy path in early 2018, the prognosis will remain uncertain.

A backdrop of global growth

The world economy has gained momentum over the past year, supported, in particular, by improved growth in the United States, Euro-zone and China. In addition, most of the large emerging economies also recorded a pick-up in economic activity, including Brazil and Russia, which both emerged from protracted recessions.

Growth rates in most major economies have generally beaten expectations in the past six to nine months, while the latest high-frequency economic indicators suggest global economic activity is likely to remain fairly upbeat during the remainder of 2017 and into the first half of 2018, including a very welcome acceleration in global trade.

World trade grew by a healthy 4.6% year-on-year in June, recording an annual average growth rate of 4.1% in the first six months of 2017, compared to only 1.4% in 2016, 1.9% in 2015 and 2.7% in 2014. However, this remains well below the growth achieved before the global financial market crisis. In the five years from 2003 to 2007, world exports achieved an average annual growth rate of around 7.5%.

This moderation appears to reflect an increase in global trade protectionism following the crisis, which in turn reflects the rise of nationalism in global politics. Fortunately, the G20 meetings have consistently urged participants to refrain from using trade protection as a policy tool, while the election of President Trump has to some extent dissuaded other electorates from taking a similar course. In that regard, the election of President Macron in France is seen as a pivotal turning point, helping to further unify the Euro-zone.

In July 2017 the IMF forecast world growth at 3.5% in 2017 and 3.6% in 2018, up from 3.2% in 2016, and a long-term average of 3.5%. While this appears fairly optimistic considering how long it's taking the world to recover from the financial market crisis, the IMF did add that while short-term risks to world growth are broadly balanced, medium-term risks are still skewed to the downside.

In particular, despite a decline in election-related risks, especially in the Euro-zone, policy uncertainty continues. Risk factors include a faster-than-expected tightening of monetary policy in the US, the negotiation of Brexit and high debt levels in China's state-owned sector. ***YWM***

> President Jacob Zuma flanked by Atul Gupta (left) and other key figures. In the wake of political turbulence, consumer and business confidence in SA continues to deteriorate.

Liberty: finding solutions that solve our clients' real-world problems

> Herman van Velze,
Head of STANLIB Equities

Liberty has the advantage of knowing – and our product development team uses that knowledge to solve the biggest problems facing clients and advisers. Our experts explain the reasoning behind our products' design and what these innovations have to offer.

Client-centric design

Will a Liberty product do what a client needs it do to? The short answer is "yes".

"When you offer a client a product or proposition it's vital to look at it from their perspective," says Product Development Divisional Director Mark Lapedus. "Over the past five years Liberty has launched a range of new investment offerings, and their success is largely due to their client-centricity, and the fact that the solution is built to address that client's real need."

Investment Development Head Duane explains, "What makes our products unique is that they look at the advice and the solution in terms of what's needed out there, in a client environment, and are then merely hosted by the vehicles like Bold, Evolve and Agile. We're trying to fill the gaps with the right advice and the right solution."

Flexibility

A corollary of this is that products are designed to be as flexible as possible so the adviser can tailor the solution for the client, Duane adds. "The core of each product is very cost-effective, so if the client's priority is low cost you can keep it vanilla. But if they like the features, if the client finds there's significant value in them, you can add them for a separate cost. We want advisers to say, 'This is unique to your circumstances, and this is how I want to prepare you for your retirement days'."

Mark believes that flexibility is a feature which advisers often underestimate. "For example, when we provide a quote for an Agile annuity linked to the Exact Income Fund, we always quote it as a single-life, level, non-guaranteed annuity – and the perception out there was that that's all we offer. The truth is that you can have all of that flexibility: when you get to retirement you can choose exactly what type of income you want, and we'll simply take the ratio of the difference into account."

Duane believes they've only scratched the surface in terms of what customisations can be offered. "We could take a product to a specific brokerage or adviser and say, 'Let's customise this even further for you. How do we then tweak this so that it's beneficial for all parties?'"

> **Mark Lapedus,** Divisional Director for Product Development at Liberty.

> **Duane Nicholls,**
Head: Investment Business Development at Liberty.

Beating the market with lower fees

Faced with a low-return environment, Liberty's new fee platforms reduce the cost to the client: they eliminate initial fees while still ensuring the adviser gets paid upfront. "We said to ourselves, 'We're seeing a very low-cost, low-return environment. How do we adapt for that?'" says Duane. "We're seeing a trend towards lower growth, and that doesn't seem to be something that's going away soon. Eventually we'll see recovery but currently, both globally and locally, the returns are very, very low. So when you have a low-cost product, what's fantastic is that you don't dilute any returns that you receive.

Mark explains that clients are wary about paying for financial advice when it comes out of the investment. "They say to themselves, my adviser's been paid. He doesn't have to work now whether I get my money or not. But I worked, I made my money, and now the first 3% of returns is just to get me back to where I was. And so clients are reluctant to pay the initial fee, the adviser doesn't make the sale, and you just get a poor outcome."

Only pay for performance

To prevent losing the sale and still ensure the adviser gets paid, Liberty covers initial fees upfront. "So, take Evolve, which says, 'We will take your R1 million, we'll enhance it by R40 000, which enables you to pay your adviser and still have your R1 million'," Mark explains. "Some of our competitors charge you the R40 000 over the next five years – but with growth-sharing we will only recover that if we exceed 13% p.a. returns over the next three years. So now the client feels that his interests are aligned with our interests."

Understanding your client, ***click here >>***

EQUITIES FOR HIGH RETURNS

Market volatility scares many investors away – but rather than protecting themselves, they're losing out.

Equities are still the best way to improve returns in the long-term, says Mark. "In the last three years cash has outperformed equity – but we have to keep reminding people that won't always be the case. We've seen it now: in the last couple of months, equity markets have really rebounded strongly and if you were afraid and sitting in cash, you've now missed out."

Herman believes advisers can justify equities to their clients because expert investment management still pays off: "Equities are still one of the best performing asset classes over time. Asset managers must be able to watch the business cycle and determine growth opportunities. The ability to look beyond current noise is fundamental."

He adds, "It's true that in the past two-and-a-half-years the JSE All Share Index (ALSI) has achieved an average annual growth rate of just 2.3%, well below consumer inflation of 5.5%. But there are still opportunities to earn decent returns: over the past five years, the ALSI has risen by an annual average of 10.1%, excluding dividend receipts, or 14% including dividends. This more than beats inflation of 5.7% over this period." W

Portfolio management: get the best for less

For its Agile, Liberty worked with STANLIB to reinvent the way its funds are managed: the flexible "agnostic approach" draws on fund managers' expertise while still minimising costs.

"In Agile we're using a new set up through Strategic Asset Allocation and the 'best-of-breed' approach as well as balancing active vs passive management," says Duane. "We're using passive management in terms of index trackers to lower the cost – in a low-cost environment we're trying to sharpen the pencil wherever we can. But we're also using the asset managers and unique asset classes like alternatives to really seek additional return where we can. We're doing much work behind the scenes to get the most returns for the least amount of risk for the client.

"STANLIB Multi-Manager is assisting us in combining all these different approaches into one offering, Liberty conservative to aggressive portfolios," he adds. "If you look at the normal multi-asset high-equity sector, which is where most of your balanced or managed portfolios play, the average cost is 1.5% or 1.6% and it can go as high as 2%. We're going to come in much lower. Even that small difference, compounded over the long term, is going to give you extra money for your retirement."

"It's true that in the past two-and-a-half-years the JSE All Share Index (ALSI) has achieved an average annual growth rate of just 2.3%, well below consumer inflation of 5.5%. But there are still opportunities to earn decent returns: over the past five years, the ALSI has risen by an annual average of 10.1%, excluding dividends, or 14% including dividends. This more than beats inflation."

STANLIB knows companies

Meanwhile, investors still get to benefit from STANLIB's expertise, Herman points out: "The STANLIB Equity team focuses on identifying companies that can offer superior earnings over many years, through a careful look at the long-term fundamentals.

"Identifying differentiators requires a willingness to not only focus on a company's financial statements, but to also develop a deep understanding of its production process, management style, marketing budget, product development pipeline, and strategic initiatives. It's time-consuming and resource-intensive, but it helps us identify opportunities we believe offer superior earnings growth.

"We may identify growth companies by their competitive advantage, operational leverage and strong management teams. Others might impress us with their ability to take advantage of socio-economic trends that drive their growth, or with their production capabilities and innovation."

continued

PROUD OF OUR PRODUCTS

We asked Duane and Mark what makes them proudest about the products they've created.

Agile >>

With the combination of the Exact Income Fund and the High-Water Mark Guarantee, Mark believes Agile can provide clients with certainty about their future.

"We are in an uncertain world, but we have to still invest for growth. So, what we say is, with the High-Water Mark Guarantee, rather than going into a moderate portfolio, go into an aggressive portfolio which might deliver returns of 2% or 3% p.a. more.

"The Exact Income Fund guarantees what your retirement income will be, with certainty, and what we're doing now, as part of this new rollout of Agile, is re-explaining what Exact Income Fund is, how it works, who will benefit the most, what flexibility it offers, because I think when we first launched it, people didn't get it."

Evolve >>

Evolve is optimised for the low-return markets we're currently expecting, says Mark.

"If the client is paying 3% charges and you're earning 15%, it's okay. But if the level of returns comes down to 9%, it becomes a very difficult conversation. And that's where Evolve offers a low-cost platform that aligns the way in which you pay fees with the returns that you get."

Duane adds, "What I love about Evolve right now is this element of growth-sharing. It allows us to offer the low platform fees, the enhanced allocations upfront, the pay-on-delivery system, and a lot of flexibility."

Bold >>

Mark knows many advisers are sceptical about High-Water Mark Guarantees: "Our competitors do have High-Water Mark Guarantees, but the average cost is 2% to 4% p.a., so the benefit for the client isn't actually worth the cost. In addition, the High-Water Mark Guarantee does not prescribe which portfolio you must choose." Liberty's low-cost products solve that problem.

Duane points out that the upfront fee for Bold's High-Water Mark Guarantee helps reserve returns for the client.

"An advantage of the upfront High-Water Mark Guarantee cost is that fee is taken as a once-off when you select the High-Water Mark Guarantee. Thus it doesn't cost you more as your investment returns grow, like traditional guarantees would do, and therefore it doesn't dilute your returns. The growth sharing only kicks in annually when markets are running high." ***YWM***

Liberty Evolve: *adapted to today's markets*

More than R20 billion has gone into Liberty's Evolve product range over the last five years. Duane Nicholls, Head: Investment Business Development, and Mark Lapedus, Divisional Director for Product Development, analyse an investment success story.

Duane Nicholls, Liberty's Head: Investment Business Development, and Mark Lapedus, Divisional Director for Product Development, are proud of the ground-breaking products they've devised for Liberty in the last five years. It's gratifying for them that Evolve products have attracted R20 billion in investments – but they believe it's in the market conditions predicted for the future that Evolve will really shine.

"We launched Evolve in quite a high market and did a lot of homework in terms of positioning this product through different inflation rates, interest rates, market conditions, etc," says Duane. "And where we currently are in terms of inflation and interest rates still allows the product to be profitable."

Compensating for low returns

Currently, investors are facing a market in which returns are predicted to be low – but Evolve is designed to compensate for that. "As interest rates come down, so too does your return expectation," says Mark.

"Any economist or fund manager will say the returns we can expect from equity markets going forward will not be as high as we've seen in the past. It doesn't mean we won't get a year of 15% returns, but the expected long-term returns will not be as high as in the past."

Low fees maximise returns

Evolve's solution? Cutting platforms fees to the bone to maximise the client's share of the returns.

"It becomes a very difficult conversation if you have to say, 'Well, most of what you're earning or a large portion of what you're earning is going in fees.' The client is thinking, this is actually not working for me. That's where Evolve offers a low-cost platform that aligns the way in which you pay fees with the returns that you get. So only if you get very good returns do you pay for those initial advice fees which are paid into your investment.

"We can't go and change what the returns will be, but we can make sure that the investments that we offer, from a costing point of view are as efficient as they can be. This will then give benefit to the client. And that's really what we're trying to do."

Magic-bullet: growth-sharing

Duane feels that Evolve's growth-sharing structure is a magic bullet in a low-growth environment. Rather than pay fees upfront, Liberty takes a portion of a clients' returns – but only once the client has received a good return. The client then knows that Liberty is working for them, because if they don't profit, neither do we.

"The reason we have this application is to allow for the low platform fees, enhanced upfront allocations, the pay-on-delivery system, as well as the fact that there's a lot of flexibility and ability to customise the product," explains Duane.

"But in this market, we are not seeing high returns like in the past, so the likelihood of growth sharing isn't what it would have been, say, in the bull market after the financial crisis – so you're getting a lot of products, with incredibly high value, with the low likelihood that you're going to have growth-sharing.

"That's also only on the portion invested in the Capped Tracker portfolio and the growth-sharing falls away after three years.

"So, let's say after four years the markets somehow correct themselves and we see some nice bull runs again – by that time you've got into equities at a good price, they're fairly undervalued, and there's no dilution of your returns, and you've had the benefit of the pay-on-delivery system, so it's ticking off all the boxes to the right kind of solution."

Long-term investment is key

Mark summarises: "What we say in the material for Evolve is, 'If you expect returns to be very high going forward, this isn't the product for you. Rather pay your adviser upfront and get 100% of the growth.'

"But if you don't expect it, we're saying to clients, growth isn't going to be as high as it was in the past, and this is a good product.

"We need to keep encouraging people that over the long term you have to be in equities and that's why a product like Evolve makes perfect sense. But if you are nervous, then Agile and Bold have a High-Water Mark Guarantee that provides you protection – but don't sit in cash, Invest for growth and consider higher risk portfolios." ***YWM***

EVOLVE

> “We need to keep encouraging people that over the long term you have to be in equities and that’s why a product like Evolve makes perfect sense.”

SPREAD YOUR RISK: **INVEST GLOBALLY**

It's been a tumultuous year for SA, and offshore investing is looking more attractive than ever. Liberty Divisional Director Vimal Chagan and Standard Bank International Personal Banking Head Greg Barclay explain how to go about it.

As SA slips into a technical recession, local investors are concerned about subdued investment returns. South Africa's foreign debt has been downgraded to sub-investment by Fitch and S&P. Its local debt has been downgraded by Fitch, while a downgrade by S&P and Moody's at local level will push it to the lowest investment grade level. A downgrade by Moody's on local debt will push borrowing costs in SA higher, making it increasingly difficult to escape from this low-growth/recessionary trap.

Faced with local economic uncertainty, more investors are seeking the protection of a diversified global portfolio. Vimal Chagan, Divisional Director: Asset Management, Individual Arrangements at Liberty Group, says, "South Africans undoubtedly need to take advantage of global investment opportunities, sharing in the growth of the world's most profitable companies and industries, and benefiting from holding investments in diversified currencies."

Vimal explains that investing in only one jurisdiction – in this case, South African financial markets – could limit or even erode value, as most sectors of the economy are operating in the same business cycle, facing similar pressures such as inflation, interest rates, currency volatility and political uncertainty.

He takes the approach of pursuing a strategy of global investment across a number of uncorrelated regions as this could help create value.

Dispelling myths

Greg Barclay, Head of International Personal Banking from Standard Bank, emphasises that offshore investing requires careful planning and professional advice. There are a lot of myths and uncertainties about offshore investing – but success isn't as unattainable as many imagine.

In fact, offshore banking has become much more accessible for South Africans as our exchange control regulations have been relaxed over the years. Greg says, "There are a number of new and exciting ways to maximise the outcomes from a savings perspective, including tax-free savings accounts and an array of offshore diversification opportunities." Standard Bank, the largest bank by assets in Africa, has been working hard to debunk the myth that offshore banking is "only for the super-rich".

"Our entry level offshore banking account requires an opening balance of GBP 3 000, (roughly R52 000)," says Greg. "Opening an account has also become a lot easier with our paperless application and the ability to transact 24/7 through the SBG mobile banking app."

Making tax easy

While the tax consequences of moving portfolios offshore may seem daunting, they don't have to be. "SA residents are liable to pay tax on earnings and capital gains regardless of the jurisdiction they are earned in and it is the responsibility of the client to declare this income and gain in their annual tax returns," says Greg. "All earnings in Isle of Man, for example, are gross of tax, meaning no tax is charged at the source of the earnings."

Historically, exchange controls were a major limiting factor for South Africans, but not anymore.

"Exchange controls have relaxed substantially over the last couple of years," explains Greg. "Today individuals can utilise a discretionary allowance of R1 million and an investment allowance of R10 million per year. The investment allowance has to be pre-approved by SARS prior to the funds being externalised."

Liberty's Offshore endowment enables clients to invest into an endowment once they have taken funds offshore. There are a number of different investment portfolios which are available within the endowment and which can be selected by the client and their adviser.

Broadening your horizons

South Africans may already have some form of offshore investment through their accumulations in their company pension fund, "but they may want to also invest their own savings into offshore opportunities, instead of limiting them to just South African equity, bond and money markets," says Vimal.

Greg says, "Investors should adopt a long-term goals-based approach that aligns to future objectives and outcomes. This strategy needs to be carefully crafted by a financial planner after taking into account all the risks, rewards and the future goals of the investor."

The key is to ensure a long-term, disciplined savings strategy is adhered to so that wealth can not only be protected, but is given the ability to grow. And "long-term" is the operative word: clients need to take a balanced inter-generational approach to preserving and growing their wealth.

"Many South Africans are struggling to retire with enough money to maintain their lifestyles – never mind leaving legacies for future generations. However, it is never too late to start with a plan that is ideally suited to your circumstances and future goals," says Greg.

AVOID THE "TAX HAVEN" TRAP

Tax havens continue to make the headlines for all the wrong reasons – the release of the Panama papers being a case in point. "However, with regulations such as the Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS), recently being implemented, the ability to evade paying tax will be reduced substantially," warns Greg.

He adds that offshore investment should never be about seeking out "tax havens" or "beating the rand". "It is about having a balanced portfolio of investments and spreading your risk across economies, currencies and jurisdictions ."

"The Isle of Man and Jersey are certainly not tax havens. They might be referred to as a 'safe haven' though as they are well-regulated and politically stable," he says. ***YWM***

" It is never too late to start with a plan that is ideally suited to your circumstances and future goals. "

Taking calculated risks

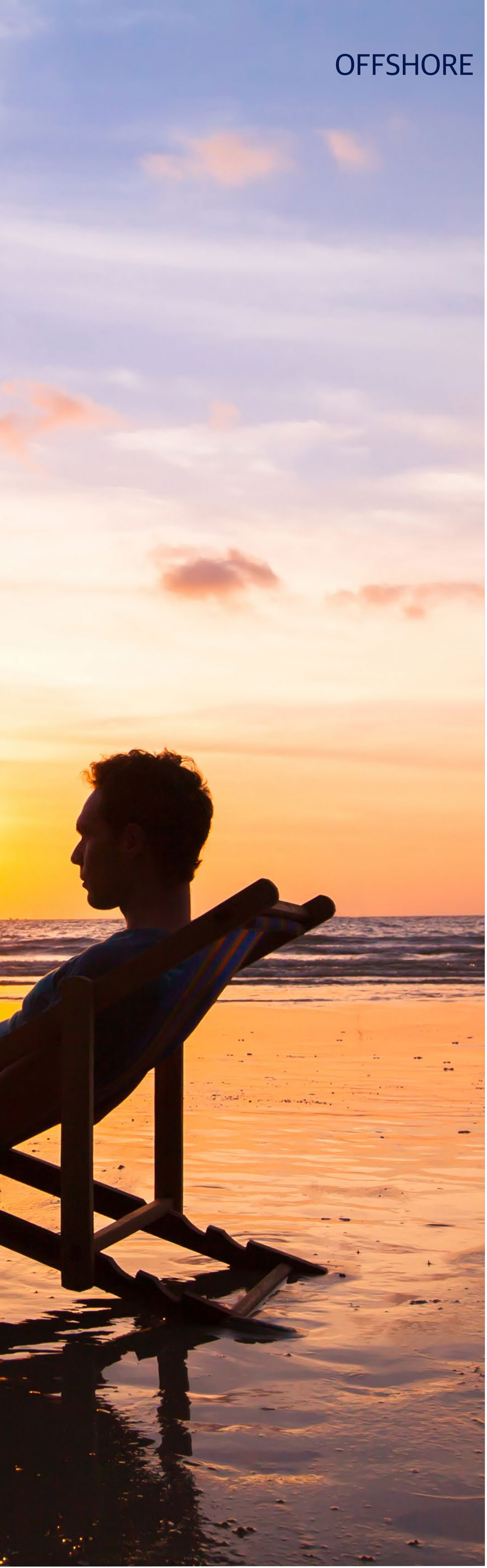
But before rushing offshore, investors must understand that valuations are currently stretched. The risk of capital loss from rushed decisions is quite high. South African investors should also consider political risks, as well as tax and estate planning.

Each jurisdiction comes with benefits and risks. Vimal explains, "While the Asia-Pacific region appears to offer the best growth prospects, they are vulnerable to global capital flows. That's why I would recommend a well-diversified portfolio managed by an experienced fund manager."

POWER OF INVESTMENT

ONLINE, OFFSHORE

“Uncertainty is exactly why you’re investing offshore: if the value of the rand weakens, you’ve hedged your local investment risk with some offshore exposure.”



OFFSHORE

How do you get started in offshore investing? The shares are unfamiliar, the fee structures are a mystery and how on earth do the taxes work? Luckily Standard Bank's Webtrader makes it easy, combining all the convenience of online investing with the full backing of an expert support team.

Like Standard Bank's Online Share Trading (OST) platform, Webtrader is an online, retail-investment, web-based trading platform. But while OST is only for trading on the JSE and uses rand-based accounts, Webtrader covers 27 market exchanges across 17 countries. Webtrader lets you buy offshore shares and Exchange Traded Funds (ETFs) and also supports Contract for Difference (CFD) and spot forex trading.

Expert team

Though Webtrader does provide for the DIY approach to investing, a capable support team is on hand to assist you. Once you've opened a Webtrader account online, someone from the sales support team will call you to guide you through the process and help you with FICA requirements. The aim is to make the experience as frictionless as possible.

"A big advantage is the fact that you get local on-the-ground service from our Rosebank sales team," says Stuart Schady, Manager in Standard Bank's Global Markets division. "From opening an account to purchasing shares, we support the client both telephonically and via our online education offering."

After funding your account, there is no charge for keeping the account open. Charges will only come into play when you buy and sell shares, and will be determined by whichever exchange you are trading on. Different exchanges have different fee structures: for example, in the US, trading operates on a cent-per-share basis, while the UK calculates fees against a percentage of the transaction.

Choosing your shares

As you start out investing on an offshore exchange, you're unlikely to know the ins and outs of the shares available and their performance. However, on the platform is an extensive range of US and global ETFs – essentially, ready-made packages of shares that track a specific sector or index.

ETFs are passively managed investment funds which are traded publicly on stock exchanges in the same manner as traditional shares. An increasingly popular product, ETFs combine the benefits and ease of investing in shares with the advantages of mutual-fund investing and ready-made diversification of index tracking.

By far the most popular ETF traded on the Webtrader platform is the Vanguard S&P500 (VOO). Over 50% of the companies on this index derive their earnings globally, meaning you'll be getting global exposure by purchasing this instrument. Plus, it's endorsed by none other than Warren Buffett. It also carries a very low Total Expense Ratio (TER).

Minimise risk, maximise reward

While diversifying into offshore trading is a good move, it's important to remember that offshore investing is subject to its own risks. "If you put your money into another country, it becomes vulnerable to developments there," warns Stuart. "Each country has its own unique risks."

Tax is another area investors need to do their homework on. Not only do you have to keep on the right side of SARS, but exchanges in different countries are subject to different tax structures, which can make things complicated. It is recommended that investors get independent advice specific to their circumstances.

"To trade in the US you need to register for Globe Tax, which is $35 for three calendar years. This is specific to the US," says Stuart. "Paying this will ensure you benefit from the double tax agreement between the US and SA, getting a dividend tax rate of 15%." In contrast, the dividend tax rate in SA rose to 20% in February this year.

Exchange rate fluctuations also need to be taken into account "If you move your money into a foreign currency, but the rand strengthens once you've done this, if you had to convert your money back to rands you will have lost value," warns Stuart. "But then, that uncertainty is exactly why you're investing offshore: if the value of the rand weakens, you've hedged your local investment risk with some offshore exposure." And isn't that what offshore trading is all about? ***YWM***

POWER OF INVESTMENT

CERTAINTY IN AN UNCERTAIN WORLD

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AGILE

Few retirement products offer both stability and choice, freedom and peace of mind. With Agile's High-Water Mark and income guarantees clients can take more risks, while getting the benefit of expert and flexible fund management for low fees.

How does Agile secure your client's retirement money?
Against a background of political and economic turbulence, Liberty launched its Agile offering clients much-needed certainty in an uncertain world, while still allowing room for growth.

Previously, investors had to choose between risking their money for a shot at higher returns, or securing their capital but settling for low growth. The first incarnation of Agile let clients split their money between buying guaranteed retirement income and aggressive investments in multiple portfolios.

Now, Agile initially secures 80% of clients' investment under Liberty's High-Water Mark Guarantee. The guaranteed level increases as the investment grows. Agile therefore protects both clients' capital and their retirement income, allowing them to invest more aggressively without jeopardising their livelihood and legacy.

"This solution is competitively priced and flexible enough to address clients' specific retirement investment goals," says Mark Lapedus, Divisional Director of Product Development at Liberty.

It also addresses the uncertainty people are feeling about the current economic climate. "Under the current investment environment investors tend to be nervous. They worry about the risk of losing their retirement money, and rightfully so," says Mark. With Agile, addressed by protecting the best investment returns, allowing the investor to invest for growth.

Growing returns

Part of the service Liberty offers is giving clients' investments the best chance of paying off.

That's why Agile is also taking an innovative new approach to portfolio management.

Nishaan Desai, Divisional Director for Portfolio Management, explains that the product's investment portfolios have two defining traits: a different portfolio construction methodology, and attempts to actively control risk.

The aim of the Agile offering is to deliver a set of risk-profiled solutions that have credible and predictable performance that is:

- Consistent.
- Competitive.
- In line with the benchmarks promised for it.

Nishaan explains, "There are many different approaches to investing. We want to take a holistic approach, where we can cherry-pick benefits from several different approaches and remain adaptive. We can use active and passive investments where they make the most sense."

continued

AGILE

The best of both worlds

In investing in general, the two main approaches are active and passive investing: active managers seek out and select stocks which they believe will outperform, while passive managers purchase shares in line with the existing market index.

Whilst active management has the potential to produce better results for investors, challenges exist with identifying who the skilful managers are in advance. Furthermore, even good managers will go through periods of bad performance. Also, because active managers charge more on average, active returns generally struggle to beat passive ones. Passive management, on the other hand, provides certainty with respect to performance relative to the market, and at low cost.

Agile will combine the best of both these approaches. It will have a passive core, and an active component that is administered not by one manager, but by a team of external equity managers. It therefore will not be bound to one manager's prejudices or foibles. This will allow portfolio management to be more cost-effective and efficient, with better risk control.

Agile offers five risk profiles: conservative, moderately conservative, moderate, moderately aggressive and aggressive. The product has four multi-asset portfolios and a fifth dedicated to local and foreign equity.

What makes STANLIB great?

Agile leverages our strengths by focusing on STANLIB's areas of excellence:

- **Fixed interest**
- **Alternatives** (niche investment areas which are highly technical or specialised, or difficult to get into or out of. They're usually expensive but expert management can provide good returns – you're buying a particular set of skills).
- **Passives**, using market-weighted indices.

These create the backbone of the solution. A small amount of alternatives create additional sources of return and provide diversification – which stabilises the return and provides a more predictable income. Agile has a blended alternative asset portfolio, giving access to non-traditional assets such as private equity, infrastructure and hedge funds.

STANLIB Multi-Manager has helped us bring in some STANLIB equity components and also some external equity managers.

We're using STANLIB where STANLIB is strong, using passive management where that makes sense, using external managers to help us perform, and using Multi-Manager helps blend them all together.

Delivering returns

In time we expect these solutions to be much closer to their benchmark than previous ones have been, and to be more consistent. Nishaan explains: "We want to be reasonably sure of consistently meeting our targets, where with our previous approach you could significantly exceed the target or underperform. It tended to be a little bit more erratic."

Our portfolios are not constructed to be managed relative to peers, but back-testing over the last 11 years shows a reasonably good performance compared to other products.

Portfolios are structured to deliver more consistent performance relative to benchmarks. The focus is on minimising performance surprises (deviations) relative to the benchmark.

This will be achieved with a significant allocation to passives, and a long-term focus: equity will deliver in the long-term but may lead to short-term fluctuations.

The core of the equity exposure is through passive equity funds locally and offshore. These lead to more consistent or predictable returns, provide diversified exposure to the broad market and are cost-effective.

All of these strategies add up, making the Agile product an assurance of maximum investment security, and maximum investment growth. ***YWM***

The value of an adviser: more retirement savings

The benefits of financial advice may only become evident when things go wrong. But Liberty research shows that FAs make an undeniable impact on their clients' product holdings, financial position and net worth.

In particular, advised consumers are much more likely to have RAs, with the benefits that come with them. Consumers who work with intermediaries also have a significantly higher net worth, including significantly more real estate/property as well as retirement fund assets. With the exception of employer pension/provident funds, most other products are held in the consumers' personal capacity.

Of the consumers surveyed, all of whom earn over R20 000/month, 73% used financial intermediaries, mostly advisers and brokers.

Most hold basic financial products, including RAs and pension or provident funds. Most consumers surveyed use a single intermediary and Liberty was listed among the top five companies for most products.

Of those surveyed, 73% strongly agreed that working with an intermediary has given them greater financial confidence; 67% that their intermediary has raised the value of their investments; and almost as many are committed to achieving their financial goals thanks to their intermediary.

Existing clients can transfer

Liberty is allowing existing RA clients to transfer to Agile. Mark says, "Agile is not only available to new clients.

To reward their continued loyalty existing Liberty Retirement Annuity investors will be able to transfer across to Agile, without incurring any early termination charges on their existing investment.

Liberty will carry the early termination cost over into the new investment and will only levy it if the clients moves out of the new investment.

> "STANLIB Multi-Manager has helped us bring in some STANLIB equity components and some external equity managers."

> "ADDLIB is a fantastic way to offer clients more value by rewarding them for choosing Liberty for both their insurance and investment needs. It also serves as an incentive not to cancel policies, even in tough economic circumstances."

ADD FREEDOM, ADD VALUE, ADDLIB

Risk products are all about what-ifs and somedays. ADDLIB gives clients something they can hold today: hard cash.

The Liberty ADDLIB cash-back benefit is a powerful tool for building client relationships. It's the perfect way to give clients more value for money while at the same time helping them to secure their financial future.

ADDLIB is a cash-back benefit that pays qualifying clients up to 40% of their Lifestyle Protector premiums every five years. The most important qualifying criteria is that policyholders must be natural persons with minimum levels of insurance cover on Lifestyle Protector, and a minimum level of investments with Liberty. The full set of qualifying criteria is available from Liberty.

How ADDLIB works

Each year Liberty adds up the total amount of cover a client has for qualifying Lifestyle Protector benefits and Liberty investments. These values, along with other criteria, are used to determine the percentage of their Lifestyle Protector premiums the client qualifies to earn back that year.

Liberty adds up these annual bonuses and every five years the accumulated ADDLIB bonus is paid out to the client. The ADDLIB bonus is reset to zero at the beginning of each new five-year period. Full details of the ADDLIB bonus calculation can be found in the Lifestyle Protector policy documents.

"ADDLIB is a fantastic way to offer clients more value by rewarding them for choosing Liberty for both their insurance and investment needs. It also serves as an incentive not to cancel policies, even in tough economic circumstances," says Ryan Switala, an Actuarial Consultant within Liberty's Individual Arrangements Product Value Management division.

"The more assets and risk protection a client has with us, the higher their ADDLIB bonus will be," he adds. "ADDLIB is a feature that provides great value for clients. "By thinking about how you can help clients qualify for the benefit, and make this value tangible to them, it can help you to generate sales, defend your business from attack and develop a deeper relationship with your clients."

DID YOU KNOW?

In 2016 Liberty paid back R59 million in ADDLIB bonuses to clients, with the largest payout being over R291 000. ***YWM***

ADDLIB

1. **Risk:** adding value to existing investment business

By looking at your existing client base in more detail you may identify clients who already have investments with Liberty, but who either don't have risk cover or have risk cover with a competitor. These clients could benefit from improved value on a new Lifestyle Protector product by factoring in the percentage of their premiums that they might qualify for through ADDLIB. Tip: There is an excel-based calculator available for download on the Liberty Blueprint Financial Adviser Zone that you can use to help predict an ADDLIB bonus for a client under different scenarios (search "Calculator", click "Main", and look under "Risk Product Calculators"). This is a great tool to use in the New Business sales process.

2. **Investment:** adding value to existing risk business

Similarly, you can use ADDLIB to drive investment business sales. Identify clients with an existing Liberty Lifestyle Protector risk product but no investment products with Liberty: ADDLIB is a way to offer them a potentially unbeatable investment proposition. The ADDLIB bonus can effectively represent an enhanced return (or lower charges) on the client's investment.

Improving returns

Consider a client with R3 million in life cover, R3 million stand-alone disability and R2 million stand-alone critical illness benefits on a personally owned Lifestyle Protector, paying premiums of say R3 000 per month. The client currently has no investments with Liberty. By making a single premium investment of say R150 000 in an investment product, this client would start earning ADDLIB bonuses at a rate of 5% of their risk premiums (i.e. R1 800 for the year). Assume the investment product earned returns of 9.3% per annum, bringing its value to R233 987 after five years, and that the five-year ADDLIB bonus paid out was R9 000. This takes the combined value to R242 987. All else being equal, a competitor product would need to have delivered an annualised return of 10.13%, or the equivalent in lower annual charges, to match this outcome.

3. Upsell existing risk or investment business

You may have existing clients with risk and investment business at Liberty who do not currently qualify for the ADDLIB bonus based on the size of their cover or investments; or who do qualify but could benefit from higher ADDLIB percentages. This is a great opportunity to get them to purchase additional cover or make additional investments to address any unmet financial needs. Tip: You may be able to use other product offers in combination here – for example Offer of Additional Cover and Future Protector options may allow for an easier risk upsell process.

Creating upsell

Consider a client with R800 000 in life cover on a personally owned policy, and R70 000 in qualifying investments with Liberty. When the policy was purchased, the client's financial needs analysis highlighted that they actually need R800 000 in stand-alone disability cover too, but they chose not to take this up due to affordability at that stage. ADDLIB provides you with an opportunity to contact this client and encourage them to take out this additional disability cover, because in doing so they will start to accrue ADDLIB bonuses. Once the ADDLIB bonus is factored in, the increase in premiums due to the additional cover seems much more affordable.

4. Using ADDLIB to defend your business

Every adviser has been in the situation where a client is under attack from a competing financial intermediary who is claiming to offer a better deal at a competitor company. In this situation it is extremely important to make sure that the client is taking all factors into account before they make a decision. Clients often forget, or are unaware, that they have an ADDLIB bonus being accrued on a Lifestyle Protector policy. Ensure your clients are aware that (1) the competitor company might not be offering a similar feature to ADDLIB; (2) the client would forfeit any ADDLIB bonus already accrued by letting their Lifestyle Protector policy lapse before the next payout date; and (3) cancelling an investment policy may negatively affect the ADDLIB bonus amounts being earned each year towards their next payout. After taking these factors into account, clients often realise it isn't in their best interests to cancel their Liberty insurance or investment policies. Tip: You can use the "ADDLIB Benefit Enquiry" menu option under the "Enquiries" menu on Blueprint Online Servicing to get a summarised or detailed breakdown of the existing ADDLIB bonus on any policy.

5. Connecting with your clients

Who doesn't like getting some money back, no matter how big or small the amount? An ADDLIB bonus payment is a great way to connect with your client with some good news. Whatever the bonus is used for, it will create a positive connection with you and with Liberty that helps to build trust and loyalty. Identifying which of your clients have a bonus coming up, or received a bonus recently, gives you the opportunity to connect more deeply with them and may even be a prompt for meeting up and reviewing their financial needs. Tip: You can use the "Own Your ADDLIB" menu option under the "Own your Business" menu on Blueprint Servicing Online, to see which of your clients have an ADDLIB bonus payment coming up in the next few months.

> "ADDLIB is a feature that provides great value for clients. By thinking about how you can help clients qualify for the benefit, and make this value tangible to them, it can help you to generate sales, defend your business from attack and develop a deeper relationship with your clients."

After a successful launch earlier this year, Liberty's app-based tax-free savings account – Stash – now empowers advisers and intermediaries as we head into Challenge 2017.

"Think about it: the smartphone came out more than 10 years ago and it has fundamentally changed the way people connect and transact. The next-gen client just doesn't see the point of old-school paper-based methods of opening an investment. If you ask them to fill something in or use the dreaded F-word (fax), then you've lost them already."

This is what Juan Labuschagne, Head of Development at Stash, credits as the main driver behind the design of app. Stash rounds up spare change from card swipes and invests it in a Top 40 tracker fund.

"Stash goes from zero to invested in 49 seconds. All you need is your first name and your phone number. Just by signing up you get R50 in your Stash. So, even before you've added your own money, you're already investing."Now, the team behind this market-leading investment tool has brought a new feature to the table, specifically aimed at advisers and brokers. "Anyone with an active Liberty consultant code will receive R50 added to their Stash if someone uses their referral code to sign up. That's five times more than the usual amount we give to the average Joe," Juan explains.

More than just a fee for free

An increased referral fee might not seem like much at first, but there is a very real benefit that lies at the heart of this offering. "In our industry, we need to measure ourselves and the services we offer with the standard of interactions clients are getting used to," says Juan. "They use apps for almost everything, plain and simple. By encouraging advisers and brokers to become a part of the Stash community, we can empower them to remain relevant and introduce clients to this new way of investing."

STASH

An untapped market

According to Stats SA, the number of young people in South Africa aged between 18 and 34 has already reached 14.5 million. "About 60% of our current Stash users fall in this bracket. Even more interesting is that 20% of these are between the ages of just 18 and 24, a clear sign that younger clients are interested in investing. They just need the right method – and people – to help them achieve this."

Studies have shown that over one-third of millennials say they would trust a payment app more than a traditional investment firm with their money.

"This can be for many reasons. People trust tech over ties, either they feel they can't relate to the idea of investing or they see it as an exclusive – and expensive – product that is not aimed at them."

Juan elaborates: "If you go to a client and say, 'Hey, I am a salesperson and I am here to sell a product to you' then you won't get very far. But if you can say, 'Hey, here is a new, effort-free way of investing your money that doesn't require you to do anything differently' then it really is a non-intrusive foot in the door with these guys: you are not selling at them or talking at them – you are simply showing them a revolutionary new way to invest."

But it's not just about the millennials

Although it is clear there is a need to approach a younger client segment in the financial services industry, using Stash as a conversational tool is not just reserved for the millennials.

"It is important that our advisers and brokers can attract the new generation of clients. Even if you are not dealing with a younger client base right now, Stash is a great way of talking to existing clients and getting the next generation on board."

According to Stash statistics, a student who starts saving R10 a day in their first year of study can have around R22 500 invested in some of South Africa's biggest companies by the time they finish their Master's degree.

"Imagine finishing your studies and having some extra cash to spend on a much-needed deposit or to help with some study debt. Now imagine you are the adviser or broker who made that possible – chances are that you have created a new client in this Stash user."

Using good information, for good

In this age of super data protection needs and requirements, Liberty is quite clear about how it benefits from people downloading the app and submitting their data.

"Stash knows what you are spending your cash on and we hope to make use of that data to improve future offerings," adds Juan. That said, no information is used to populate leads databases or to contact any clients directly.

As an adviser or broker, you can also access the history section of your Stash app to see which current or potential clients signed up using your code. "Again, privacy is key here and although you won't be able to see exactly how much each client is stashing, it can be a great way of connecting with clients who are clearly interested in saving and investing."

Juan says that even if you don't see a Stash download resulting in a sale today, the likelihood of a Stash user considering you as their adviser or broker in future, before anyone else, is quite high.

The investment mindset

"The little things add up over time. With every transaction and with every quick check-in to see their money grow, you will be the face and reason behind their Stash.

"Trust is the new currency in our industry – and Stash provides you with a relevant and engaging way to build that trust," Juan concludes. ***YWM***

Download Stash Now!

Available on the App Store

Get it on Google play

Quick facts: the underlying tax-free investment

Invested in: JSE Top 40 Total Return Index

Annual management fee: 0.00%

Tracking error: None

Minimum investment: R0.01

Allocation enhancement: R50

Annual contribution limit for all tax-free accounts: R33 000

Lifetime contribution limit: R500 000

Withdrawal restrictions: None, but does lower your annual R33 000 contribution limit.

POWER OF INVESTMENT

IN ROUGH WATERS WE KEEP YOU AFLOAT

High-Water Mark Guarantee: it's an innovation that offers our clients not only security for their retirement, but a chance to increase their retirement funds. That's how we're helping our clients achieve financial freedom.

The general strategy for investors nearing retirement is to protect their income, minimise risk and save as much as possible. However, it's common knowledge that more risk can deliver better returns. Liberty understands that most investors are afraid of the market uncertainty, says Mark Lapedus, Divisional Director of Product Development at Liberty.

"To help investors gear their portfolios for greater gains by adding a little extra risk, we introduced the High-Water Mark Guarantee," he says.

It secures your investment at 80% of its initial value. "The value increases quarterly, based on the aggregate return on your investment, and is calculated over three months."

Never lose more than 20%

Now investors can rest assured that their investment portfolios will never lose more than 20% of their value, regardless of how the markets change. When the markets face a downturn, the High-Water Mark Guarantee kicks in. After five years, if the investment is below the guaranteed level, Liberty will pay in the difference.

If the investment does very well, the guaranteed level will increase. If it outperforms the target return, at the end of every year, Liberty will share in the portfolio's growth (Growth Sharing).

"Liberty first introduced the High-Water Mark Guarantee to the market when it launched the Bold Living Annuity," explains Mark. "Clients can select higher-risk funds with higher expected returns, while still having the peace of mind that their downside risk is protected. The High-Water Mark Guarantee ensures that clients get every opportunity to maximise their returns."

Based on its success and the demand for it, Liberty added the High-Water Mark Guarantee to their Agile retirement annuity.

The end result is the ultimate retirement solution that includes unique guaranteed options on all your investment portfolios.

Bolder investment at lower risk

The High-Water Mark Guarantee gives clients the freedom to make bolder investment choices by selecting higher-risk funds with higher expected returns, while providing peace of mind that their investment is protected from downside risk. It ensures that clients get every opportunity to maximise their returns.

> **"Now investors can rest assured that their investment portfolios will never lose more than 20% of their value, regardless of how the markets change. When the markets face a downturn, the High-Water Mark Guarantee kicks in. After five years, if the investment is below the guaranteed level, Liberty will pay in the difference."**

The guarantee term is five years from the date the guarantee is selected. After five years, the guarantee can automatically roll over at the guarantee terms offered at that time. The High-Water Mark Guarantee can be cancelled at any time by the client.

The guarantee pays at the end of the five-year period. There are only three circumstances under which it won't:

- if the client cancels the guarantee before the end of the period,
- if they transfer the investment before the end of the guarantee period,
- if they retire during the guarantee period.

When the guarantee period ends any money invested during the initial guarantee period will be added to the guaranteed portion for the new guarantee period. A new guarantee period will start and the Target Return, as well as the Growth Sharing proportion, will not change during the period. When the guarantee rolls over into a new guarantee, the Growth Sharing proportion and Target Return will be what is on offer then.

"To further address client needs, the guarantee will not be affected by any portfolio changes. Clients can add new money to the portfolio, but this will only roll over into the guarantee at the end of the initial guarantee period," says Mark.

At this time, none of our competitors can offer anything like Liberty's High-Water Mark Guarantee. W


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