THE STERLING TIMES 2

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STERLING
PRIVATE WEALTH

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Year End Wrap Up
Graydon Morris

Dear valued clients

We are coming to the end of another eventful year.

We have included in this, our second edition of the Sterling Times, an interesting insight into the lives of two of our clients.

Firstly, Theo Rutstein, one of the pioneers of the cellular industry in SA, was recently interviewed on Moneyweb. We have included the interview in this publication, as we thought it may interest you to hear from one of SA's great entrepreneurs. We enjoy sharing many of these stories with so many of our clients whose careers and exploits we truly admire and respect.

Secondly, a long standing client, Tony Welton ex-CFO of Malbak and Financial Director of Kohler Packaging, recently undertook a lengthy sailing expedition. Tony shares some of his experience with us. It was an amazing adventure by the looks of it. Tony has shared a few of the video clips with me, from the crossing deep into the South Atlantic. We admire his courage and tenacity. It is not for the faint-hearted!.

Mishka Gamiet, our Assistant Wealth Manager who has recently completed her CFP examinations, has kindly provided a piece dealing with the importance of considering one's Estate Planning carefully, an oft neglected area. We have, further to this, provided a brief market update, and a further note on the importance of investing for growing cash flow over time. The benefit of investing in strong cash flow generating businesses is well documented. It is, however, one that requires diligence and patience.

2011 really has been a challenging year to date. We have been faced with:

- The suspension of yet another Police Commissioner;
- A further and amplified crisis around in the Eurozone, centred around primarily and initially Greece, and then Italy;
- The rise and rise, and then the fall of Julius Malema;
- The visit of U2, Coldplay and many others to our shores;
- A victory by the All Blacks (well-deserved), at the RWC;
- A massive scandal around a potential French Presidential candidate;
- The controversial enactment of the Protection of State Information Bill by Parliament.

Within this context, every day, our wealth managers are required to:

- negotiate the uncertainties entailed in investing on behalf our clients,
- manage their businesses in a changing environment,
- deal constructively with talented, aspiring employees, and
- keep client relationships solid, even though there'll always be certain unsuccessful investments within a broadly diversified portfolio.

To be able to do all of these things simultaneously, it helps to have a set of guiding principles and a well-thought-out approach. With these we can know how to set your course. You can arrive at decisions that reflect a consistent set of values. Our clients know what our firm stands for and what to expect from us; **nothing paves the way for a mutually successful relationship better than reasonable and deliverable expectations.**

We continue to believe emphatically, that our team has a special skill in the required multi-tasking as highlighted above. I am very proud to be a part this team that has a great passion for our profession, dedication to its clients, and enthusiasm for life.

For many years, a key tenet of ours has been to advise clients to "Filter the Noise". In this light, we thought the quotation below would further advocate this view:
"Nothing tells in the long run like good judgment, and no sound judgment can remain with the man whose mind is disturbed by the mercurial changes of the Stock Exchange. It places him under an influence akin to intoxication. What is not, he sees, and what he sees, is not.

He cannot judge of relative values or get the true perspective of things. The molehill seems to him a mountain and the mountain a molehill, and he jumps at conclusions which he should arrive at by reason. His mind

is upon the stock quotations and not upon the points that require calm thought. Speculation is a parasite feeding upon values, creating none."
Andrew Carnegie (The second richest man of all time, inflation adjusted).

One should never underestimate the importance of the role of an independent decision-making partner. We regard this role as critical, and take our role as trusted advisor, and custodian of our client's investment process, very seriously. Our team has collectively fulfilled this role for over 70 years on behalf of individual investors.

Giving back

We have taken the opportunity of the Festive Season, and the year end, to make a contribution, on behalf of all our clients, to a charitable project, Reel Gardening.

The founders of the project identified that one of the biggest contributions to the failure of self-sustaining food projects was the incorrect placement and treatment of seeds. Reel Gardening is a patented pre fertilised seed strip which encases the seed with organic fertiliser at the correct depth and distance apart. This maximizes the potential of the seed to germinate and grow, and has dramatically improved the success rate and produce yields of the relevant crops. This method also optimizes the use of water, which is a scarce resource in most poor communities. Reel Gardening is proudly handmade in Johannesburg by previously unemployed mothers. Reel Gardening strives to use Organic seed when available and the fertiliser it utilises is a registered organic product. Reel Gardening has been founded on the motto of "Rather teach a man to fish than give a man a fish". More information can be found on the site, **www.reelgardening.co.za.**
Our contribution will be centred on the Berea Community Development Project. They have several planting sites in the inner city, ranging from schools, to outside the library and parks. Gardens planted in the schools are used to feed the children. The gardens planted in the other areas are maintained by the volunteers that plant the gardens. It feeds the ladies who patrol the roads and do the clean-up operations and look after the elderly, as well as street people.

May I take this opportunity on behalf of all Sterling Directors and staff, of wishing all of you, our valued clients, a fantastic festive season and a very prosperous 2012. We trust you travel safely and enjoy the traditional down time with friends and family. Next year marks our 10 year anniversary in business and we look forward to celebrating it with all of you. We have a few exciting developments planned for 2012, and look forward to sharing these in due course.

Graydon Morris
Founding Director

Theo Rutstein interview
Alec Hogg

Alec Hogg interviews Theo Rutstein, executive chairman of the Tejoy Group: FROM PROPERTY MOGUL TO TVS, TO CELLULAR, TO SOLAR

Theo has been a client of Sterling Private Wealth since around 2003, and has known Lesley Hohne since the 1990s. He kindly agreed for us to include this interview in our Sterling Times, allowing us to brag about his glittering career.

ALEC HOGG: Upper Echelon is brought to you by Deloitte. Theo Rutstein is the executive chairman of the Teljoy Group, a business that he has been running, most recently since 2001 but in fact a company that he started way back in 1968. You've done so much in your career over the last 40 odd years, but back in 1968 when you started there did you know that this was going to be it, this was going to be the company that you would be working at well into your 70s.

THEO RUTSTEIN: I don't think I gave it a thought, it was what I was doing at the time and over the years in many instances it was a question of survival so I don't think that I thought too far into the future. I knew what I wanted to do then, that is what I wanted to do and things evolved from that point. We are not quite the same company that we were in 1968/9. We have been through many reincarnations. We have re-invented ourselves a few times and I am happy to be where I am anyway.

ALEC HOGG: You've had a fascinating career and in this era of serial entrepreneurs and people who kind of hit one idea and then rush off to the next one, you've had a few big ideas that you have followed through consistently, maybe starting with the whole television rental side, then into cellphones and now solar power seems to be the big thing which we will talk about a bit later. You have also had some ups and downs during that time. Did you ever want to throw in the towel?

THEO RUTSTEIN: No I don't think I ever wanted to throw in the towel. I just wanted to overcome problems and find the way of doing it. So I guess I've learnt more by mistakes than the things I got right and hopefully we don't repeat the mistakes too many times although I have done that too and it's just a question of being positive and moving forward.

ALEC HOGG: You are also a property developer.

THEO RUTSTEIN: I was.

ALEC HOGG: You were - not too many people know that you actually developed the whole of Vodaworld. Was that by accident or design?

THEO RUTSTEIN: No it was by design. It was in the period when I was out of Teljoy for a short time and looking for an opportunity to decide what to do and that seemed like a very good idea at the time and fortunately Alan Knott-Craig who is a really good friend of mine and we've been through many instances together - thought that was a good idea, so we did that but in fact before I became involved in Teljoy in 1968/9 I was a property developer. We had a township development company. That was one of the very few that survived the era of Corlett Drive Estates and Glen Anil and all of those, so property development wasn't new to me. It was that I was at an end at that time trying to decide what to do and this seemed like a good idea.

ALEC HOGG: Interesting that you mention that. I remember having a discussion with Donald Gordon, the founder of Liberty Life who said - had he discovered property before insurance he wouldn't have gone into insurance?

THEO RUTSTEIN: Perhaps I should have stayed in property.

ALEC HOGG: It clearly was a successful development, but did you ever have that feeling or is the rough of tumble of retail business where you have been focussed just more exciting to you.

THEO RUTSTEIN: Yes. Property is exciting I guess but once the development is done it is done and my orientation is far more around people, what people want, where the opportunities might be and inter-relating with people. And of course you do that in property development but it tends to be just the same group of people. It's not retail.

ALEC HOGG: It's almost like property development; it's about the money whereas in other businesses it's about building.

THEO RUTSTEIN: Property development is about money, it's also about gearing and usually you are borrowing a lot of money. That tends to vary according to the rates of interest from time to time. So I guess it is. It's about lots of things, I guess my orientation just felt more comfortable in retail and that's why I moved away from property. We were in the property industry at the time that I started Teljoy and that is where the money initially came from to put into Teljoy and evolve and develop it and in fact I stayed with property for quite a long time. It was only when we decided to list Teljoy that it wasn't feasible to be involved in too many other things and I changed my direction and decided to move out of property at that stage and concentrate on developing the new business which was far more exciting.

ALEC HOGG: That also brought you your biggest challenge. In 1996 when you resigned, Teljoy produced some enormous losses, the company that you started, almost a bit like Steve Jobs, I suppose in a way, to have to leave that must have been pretty difficult.

THEO RUTSTEIN: I am a million miles away from Steve Jobs but yes, the reality was it was and the mistake there was growing too fast. When we became involved in Teljoy the rental company, I looked at the market and said we need to take every opportunity because every deal we miss now is lost for at least five years. That would be the perceived life of a television set. When we moved into cellular I looked at it the same way and we decided to really get into the business and chase it. It didn't seem to me a model that you could leave to other people. We needed to capture the market and we found very interesting ways of doing that, prime amongst which was subsidising the phone. That was my idea, evolved with Alan Knott-Craig and he really supported it and really not supported by many other people because they felt that it wasn't the way to go. It wasn't perceived to be a general use product, the cellphone at that time. I took the example from our rental business though and said, look this is not about getting the product, let's look at it financed over a two-year period which is the start of the two year contract and what we really wanted was airtime use. Initially it was very exciting because where we thought that the total market would be 400 000 units for the entire market over four years of which Teljoy might get 40 000 - we had 60 000 within about six months and we certainly didn't have the technology to support everything that we were doing. We were processing something like 2m minutes a day. I didn't realise that we were growing or knew how fast we were growing - I didn't realise the problems that would come with it. So there came that time where it was necessary to take the foot off the accelerator, put the foot on the brake, that basically wasn't my orientation and I definitely at that stage particularly was not systems driven. I understood that we needed something else. So it came to looking at this thing and saying from a shareholder perspective, prime amongst which is myself - what would be the best for Teljoy - and the best was that I step away from it at that time. So yes, painful but the right choice and of course the opportunity has come back.

ALEC HOGG: Indeed it did. It wasn't long before you were back and taking a management bible - Teljoy got sold to Vodacom - you came back and picked up the old business. Was it always a desire to go back to that business rather than start another one or get involved with a different one?

THEO RUTSTEIN: Not really, it was opportunistic. What really happened is that the business had been bought then by Vodacom. They had integrated the cellular division into their cellular business which became Vodacom Service Provider, which was the right thing to do. We always knew that that business, the service providers would always be absorbed and would not be self standing forever and then Alan found himself with this business that he wasn't quite sure what to do. So he asked me to come back and help him sort out some serious problems that they were having at that time and fortunately I was able to do that. Then came the opportunity to buy it back and re-establish a cellular entity within that business which we did - and in fact that we sold back to Vodacom again and decided when Venfin pulled out of the cellular business we thought maybe the market was quite mature and we would move into other things. So the core business remains the same. We have extended it. In fact one of the divisions that we do is exactly what we're doing now. We provide video conferencing facilities which are quite good and we are expanding and looking for the new arena that provides opportunities as has often happened to me. I tend to get into things a little early and sometimes when you are a pioneer you take pain - but I guess when you roll with the punches, you do what you have to do, and one comes through them hopefully.

ALEC HOGG: In amongst all of that while you were busy with Vodacom you got involved with Jasco. I remember talking to you on the radio on numerous occasions on Jasco's ups and downs. Was that a happy diversion for you or was it going to be something that you expected to be a long-term focus?

THEO RUTSTEIN: I was involved in Jasco as a shareholder and as a non-executive chairman, so I didn't have day-to-day involvement in the company. It was a very interesting company - it was exciting to be in there. There were technologies that were involved but it became necessary and desirable in fact to have proper empowerment and we were able to put together a deal - together with Dr Anna Mokgokong and Joe Madungandaba and that was my spell as a non-executive chairman.

ALEC HOGG: Are you still invested there?

THEO RUTSTEIN: I am.

Theo Rutstein interview

ALEC HOGG: So you are quite happy that it's the kind of company for the future.

THEO RUTSTEIN: Am I happy with my investment? No I would love to see it doing a lot better than it is.

ALEC HOGG: That's why I said the future.

THEO RUTSTEIN: Yes that future is taking a long time to materialise.

ALEC HOGG: But it happens with that, doesn't it. Often you have gone into industries, like with television, you were years ahead of television coming to South Africa, cellphones not that far ahead and now it's solar energy or heating?

THEO RUTSTEIN: Yes.

ALEC HOGG: What's your timeframe on that one?

THEO RUTSTEIN: Longer than I thought. The market hasn't taken off in the way that we expected and in some measure from my perspective that's rather good because when we went into the business, we selected a product that was based out of Brazil, we chose it and we'd really evolved the market in South Africa. It was really building quite quickly because our model was we will deduct the Eskom rebate up front, we'll take the risk on it and we will fund the balance. So that essentially with no deposit and monthly payments which would generally be less than the savings that you are affecting on the Eskom bill, you would own this product within four years and thereafter you'd have it relatively free and that worked. So when we started to promote it, it started to move and we were the only ones that were in the industry that were really making significant headway. Unfortunately the product that we selected was not the most appropriate for South Africa or particularly Gauteng. It's a good product, it was deemed to be the most efficient, lightweight - aesthetically pleasing which is why we chose it. It went through the SABS testing which established that it was good for -20 degree temperatures and would not freeze and so we happily went ahead and did these installations. Unfortunately everybody says we've had a really cold winter, and I keep telling them that last winter was actually colder, maybe not as long, but colder and during that period of the black frost we had a large number of our panels that burst and we needed to replace them. Initially we weren't too sure what the problem was but as soon as we realised that it was product deficiency despite all the testing, despite the approvals of both the SABS and Eskom, it became our obligation so what we did then was we took them all back, we replaced all of them and as a measure of goodwill we actually gave the customers [money] back. It took us a month to do the replacement so we gave them the R400 odd that they would have saved had the system been working during the period that it needed to be replaced.

ALEC HOGG: That's a different way of doing business, but it's a long -term approach.
THEO RUTSTEIN: That's our philosophy. It's taken a long time to build a reputation for the company and we feel that part of building a reputation is that it costs money. If you have to take the blow on the chin then that's what you have got to do - unpleasant though it may be.

ALEC HOGG: Just to close off with, you come from a very strong business family if I can put it that way. Your uncle is Sol Kerzner, I see you serve with a project called the Lalela Project which the Kerzner girls seemed to be involved in. Do you think it's in the genes, business?

THEO RUTSTEIN: Yes, I think it's part of it and an important part of it. People who are in business, whether they actually are driving a business, or whether they are in a corporate environment, really need to talk at the dinner table about what they do and about what business is. I grew up in a family where around the dinner table, and in those days people used to sit around the dinner table at the same time, there was no technology really but listening to what people were talking about, what my parents were talking about. I was astounded when I came to university to start the B.Com degree that turnover was a new term to some people and understanding gross profit and understanding the ways things were. They were starting out at university level trying to begin to understand this whereas within me this was totally ingrained. I understood it. I think that is so important. One talks about entrepreneurship but it starts off when you are really young, getting out there and the people that I know that have done well are the guys who were trading. They had to they went out there and did what they needed to do to make the extra money that they needed to get what they wanted to do.

ALEC HOGG: Theo Rutstein, one of South Africa's great entrepreneurs and executive chairman of the Teljoy Group.

Clipper round the world adventure
Tony Welton

We thought we would share with you at the end of this busy and volatile year, the experience enjoyed during the year by one of our longest standing clients, Tony Welton. Tony was a client at our previous employer from around 1999, and has supported us since we established the business in 2002. We have come a long way together and it was fascinating to watch him prepare and complete this fairly unique experience. We trust you will find his account of interest, and perhaps ignite the spark and spirit of adventure in us all.

Well, I did it, and achieved my goal - sailing across 2 oceans and the equator in a trip that took in total 2.5 months, although the sailing time was less. So this is just a brief note to tell you of my voyage. I partook in the Clipper round the world yacht race. These are not the clipper ships of old but stripped down no luxury 68 foot racing yachts – 10 identical yachts crewed by, on average 15 crew, plus a skipper. I did legs 1 and 2 - leg 1 from Southampton to Madeira to Rio de Janeiro. Leg 2, from Rio to Cape Town. The training took place in Gosport UK, and there were 4 separate training sessions over 5 weeks - each training session building us up a little more for the race. We were each allocated to a yacht, and I was allocated to Geraldton Western Australia CV6, which was skippered by a South African. There were 5 South Africans allocated to this yacht and I had the good fortune to do legs 1 and 2 with Des, a young South African who was returning home after 2 years of working in London. The race does not start until the yachts are fit for voyage and fully victual led, this is the crew's job, even though Clipper have professional maintenance staff, the crew do most of the work. My race started when I left SA on 18th July, I spent 19th July at my brothers house in the U.K (he stored most of my kit during the training which took place during January, March, April and June) and arrived in Gosport on the 20th July. From 20th until 31st July it was non-stop maintenance - removing all stanchions and pulpit and rebedding with sikaflex, cleaning and changing the primary diesel filters on the main engine and generator, fitting the fridge and rice maker, which the crew had bought so that it was braced in place in rough weather, sweating and grinding the youngsters up the mast to do the rig checks, remove the main sail, stick sponsor flags and banners, and then helping refit the main, assist the victuallers by packing the food in day bags (45 wet bags and 45 dry bags) - of course I did not do all of this myself, there were about 10 of us all working individually, or together in teams - maintenance never stopped. On the 28th July we motored to Southampton, where the razmataz started with Clipper media, but the maintenance and deep cleaning continued. Finally, the race started on the 31st July at 16h00, U.K time. As soon as the race started, we switched to UTC (Universal) time, and went into our 5 hour watch system. We used UTC throughout the voyage. The trip to the Madeira stopover took 10.5 days and was 1705 nautical miles (NM). The weather was mild initially, (we had to drop anchor 2 nights in the English Channel as the tide was carrying us backwards), rough off Cape Finisterre (which is off Spain after crossing Biscay) and then Madeira. Off Finisterre, a crew member was injured and we had to divert to Vigo Spain, to drop him off at the hospital. Then, more maintenance and deep clean in Madeira. We set off from Madeira on 12th August, for Rio. Our skipper and navigator made some strange decisions on this leg, and we travelled south for too long, going through Cape Verde. The doldrums never materialised and all 10 boats in the race experienced at least 15 knots of wind throughout the doldrums area, which is about 10 degrees North at this time of the year. We experienced light wind just south of the equator but in all, the weather, (apart from the storm squalls which of course always hit us at night) the dolphins, birds and the sailing were really great. However, about 4 days out of Rio, we were hit by a bad storm, which lasted for 3.5 days. We were physically finished by the time it passed. Finally we reached Rio, 24 days after leaving Madeira, and 4900 NM. In total, Leg 1 from Southampton to Rio was 6605 NM. The stopover in Rio was 5 days - we had 2 days off and the rest was deep clean and maintenance. My prime job during this time was to rebuild both heads pumps - what a shitty job (no pun) and change the steering cables and a steering pulley.

We set off from Rio on the 10th September for Cape Town, and initially the weather was fine, but as we moved further south to about 37 degrees, it became cold, rough, with continual storms, swells of up to 6 metres at times, and not very pleasant. In hind sight, I would say that the leg 1 across the North Atlantic, the equator, to Rio was pleasant, despite the squalls and storms, but the seas across the Southern Atlantic can only be described as ominous, black and foreboding. Storms continued for most of this leg. After 19 days and 3989 NM we arrived in Cape Town at about 08h30, local time. What a relief to be home safely, what an experience. I need to thank my wife for allowing me to do this, knowing the stress she would endure for the 2.5 months.

The importance of Estate Planning
Mishka Gamiet

Estate planning is an essential part of financial planning. Your "estate" includes everything you own, your assets and any assets deemed to be yours, as well as your liabilities. Estate planning involves how you intend to dispose of your assets after all liabilities have been settled when you die. The more complex your finances, the more crucial the need for expert advice.

Appropriate estate planning allows you to pass on assets to beneficiaries in a tax effective manner. As part of the planning, it is important to ensure that your nominated beneficiaries of retirement funds and life insurance policies are current. While trustees of retirement funds are not bound to follow your nominations, they will have regard to them when deciding to whom benefits are to be paid, considering dependents before beneficiaries.

Your Will

One of the key elements of estate planning is your Will. This is the document that sets out to whom you want your assets to be distributed to. This should be reviewed whenever your circumstances change. If you die without a Will, you would have died 'intestate' and the rules of intestate succession will determine who acquires ownership of the assets at the date of your death. It is therefore important to ensure that your Will is up to date and that it reflects your wishes regarding the distribution of your assets. Although it is not a requirement that your Will be dated, it helps when trying to determine which is the most recent Will, if more than one Will exists. You need to ensure that your Will is valid, and signed by two independent witnesses who does not stand to inherit from the Will. The original Will needs to be traceable; either through relatives or banks, lawyers or accountants, as searching for the Will can delay the process of winding up your estate.

When you establish a Will you need to set out who is to be appointed as your executor(s) of your estate. This is the person or persons which you entrust with the job of handling your affairs, the executor will settle all liabilities in your estate and distribute the residue to your nominated beneficiaries. The person can be a member of your family, a friend or, for example, your accountant or lawyer.

An effective way of consolidating and managing your estate is by means of a testamentary trust. Testamentary trusts are trusts that are set up under a Will, and if stipulated in your Will, the trustees of the trust should be named. On death, the trust becomes the holder of all assets that are passed to it through the Will. The trustees can distribute income and capital to the nominated beneficiaries at their discretion. The primary benefit of a testamentary trust is that income distributions may have tax benefits, and protects assets from bankruptcy. The costs associated with setting up this kind of trust should be taken into account, when considering whether it is an appropriate estate planning tool for your particular circumstances.

Estate Duty and the Section 4A Abatement

Estate duty is an amount payable to the state if the net value of a deceased estate exceeds R3.5 million. Estate duty of 20% is charged on assets that exceed this amount, with the exception of any assets left to your spouse.

The recent change in legislation [Section 4A of the Estate Duty Act 45 of 1955], now permits the estate of the second-dying spouse to use any portion of the R3.5 million exemption (4A abatement), that was not used by the estate of the first-dying spouse. For example, if the first-dying spouse left most of his/her assets to their spouse, and therefore did not make use of his/her 4A abatement, the exemption will rollover to the surviving spouse, and upon his/her death, their estate will have an exemption of R7 million.

Rolling over the abatement has its disadvantages too. In order for the surviving spouse's estate to benefit from the rollover, the executor of the surviving spouse's estate must locate the liquidation and distribution account of the first-dying spouse and prove to the South African Revenue Services that the exemption was not used in the first-dying spouse's estate, if the liquidation and distribution account cannot be traced, it will be difficult to prove that the exemption was not used. Using the exempt amount to set up a trust for the benefit of the spouse is an option to circumvent this problem. The assets will grow in the trust and not in the hands of the spouse, which will save you estate duty. The example below illustrates this saving:

The first dying spouse leaves all his assets to his wife, which is worth R7 million and therefore his estate is not liable for any estate duty. If the surviving spouse dies 10 years later and her estate has grown to R9 million, her estate will be liable for 20% estate duty on R2 million (i.e. 9 million less her R3.5 million abatement and his estate's unused R3.5 million), her estate will be liable for R400 000.

However, if the first-dying spouse leaves R3.5 million to a trust for the benefit of his wife, and the remaining R3.5 million to his wife, when she dies her estate will only be worth R4.5 million (half of R9 million) and will therefore only be liable for 20% estate duty on R1 million (R4.5 million less the abatement of R3.5 million), her estate will be liable for R200 000.

Trusts as an estate planning tool

Trusts can be a very effective estate planning tool when established and managed correctly. There are many benefits to establishing a trust but it should not be set up solely for estate duty savings.

The main purpose of a trust should be to place the assets under the control of the trustees who acts for the benefit of the beneficiaries. In the event of your death, the trustees will continue to control the assets for the benefit of the beneficiaries. This is an important consideration when the beneficiaries are minors, incapacitated or major beneficiaries who are spendthrift. A benefit of setting up a trust is that the assets are protected from creditors. The management and distribution of assets that are held in the trust is run according to the discretion of the trustees. Trustees have a great responsibility and must at always act with due care in the best interests of the beneficiaries and in accordance with the trust deed.

However, it must be noted that administration and compliance of trusts is both time consuming and costly. Trusts are taxed at 40 percent; therefore any income earned in a trust must be distributed to the beneficiaries so that the income is taxed in the hands of the beneficiaries, who are entitled to use their annual interest exemption of R22 800 (for tax payers under the age of 65).

An effective estate plan ensures that proper preparations are made for the protection, conservation and distribution of one's assets for the benefit of loved ones, as well as limiting estate duty liability and other unnecessary expenses and tax payments. The estate plan should be continually monitored and reviewed, this is vital in ensuring that estate planning goals are achieved as planned.

High Yield Growth Fund
Sandy le Roux

Sandy Le Roux, fund manager of the Personal Trust High Yield Growth Fund, offers insight into the performance and objectives of the fund. He explains the importance making high yielding equities part of a balanced portfolio, which offers some protection during sharp market setbacks.

This fund forms part of many of our clients' portfolios providing them with a discretionary equity solution, which offers above average dividend income, with a well below average level of risk.

Investors around the world are facing an environment of low growth coupled with low interest rates that could conceivably be with us for many years to come. While South African investors at least get some return on cash deposits, once adjusted for inflation the yield is far from juicy.

We have for some time suggested that high yielding equity should form part of a balanced portfolio in any environment, but even more so today. It provides a solid level of tax-free income, protection against inflation and in a lower return environment the dividend payments are likely to become a more important part of the total equity return. While this all seems logical, the difficulty is that equity investments have become even more volatile in recent years. This has made it more difficult for potential investors to reconcile the long-term merits with the short-term headlines and price movements.
Because we only manage private client funds, we are very aware of this dilemma and have factored it into our investment philosophy and process. For more on this, click on the following link to see the fund overview document on our website:
http://www.ptrust.co.za/documents/Fund%20Overviews/Microsoft_Word_-_hyg_overview_811.pdf

Shown below are the investment objectives of the High Yield Growth Fund

Investment objectives

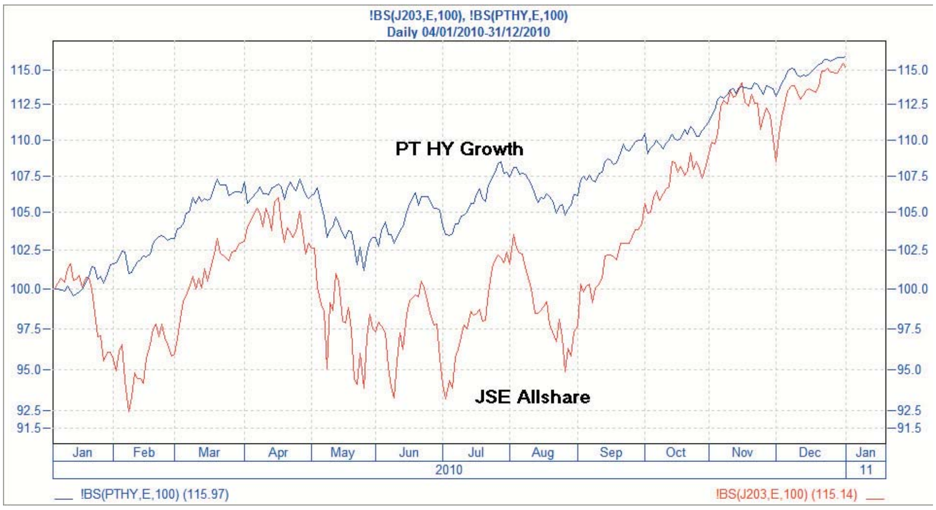
1. Above average dividend yield (JSE Allshare Index plus 1%)
2. Dividend growth
3. Consistent returns at lower than market risk

While we might have a view on the implications of what is happening in Europe, we think our time is better spent on things we understand that will help achieve the right balance of these objectives. Being guided by an investment process and not the headlines is particularly important during times like these and we are pleased that our process is working in what is a testing market environment. Our dividend growth in 2011 may not be as strong as we would like, partly as a result of reduced payments from preference shares, but the level of consistency and protection during market sell-offs has been very good.
The recent past provides an interesting snapshot of the fund and how it behaves in different market environments, as well as a guide for future expectations. This sort of return profile appeals to many who are seeking cautious exposure to equities and an income stream, but we are under no illusions that it appeals to all. Investors seeking full upside participation in very bullish phases are likely to be disappointed.

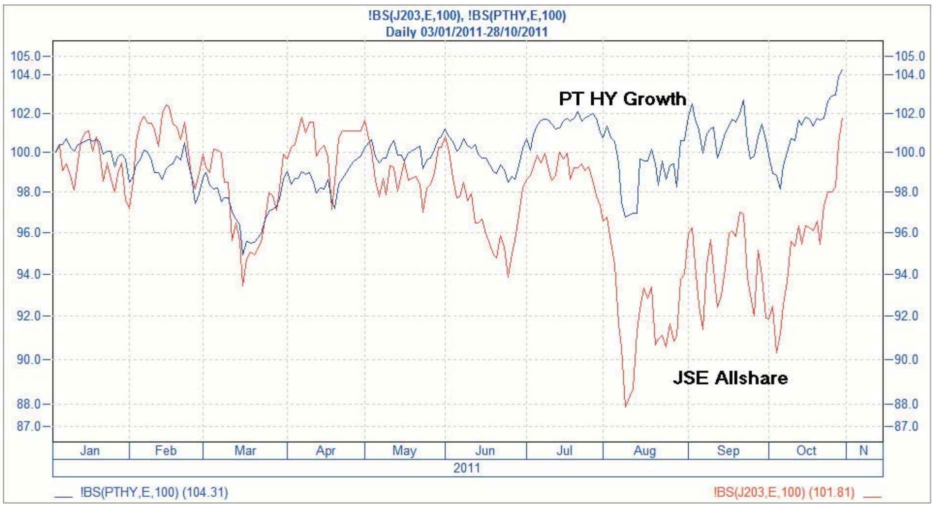
High Yield Growth Fund

In 2009 the market had a very strong year off a low base and capital returns far outweighed dividend returns. The High Yield Growth Fund produced far superior dividend income (skewed by one very large special dividend), but a lower total return.

In 2010 the base was higher and the returns more moderate. Our dividend returns were significantly higher than the market again, and our total return was slightly ahead. Importantly the return was achieved at a significantly lower level of risk as per the second chart below.



2011 has been a much tougher year for equity markets and the dividend component is a much more important part of the total return. With one quarter's dividend payment still to come, the High Yield Growth Fund has delivered on its objectives and provided investors with solid dividend income and a comparable total return, but at a significantly lower level of risk.



High Yield Growth Fund

Positioning and outlook

We are finding it difficult to find outstanding value opportunities in the domestic market, either because of lofty ratings or because earnings are high, or both in some instances. As a result our cash and preference share weighting is relatively high again as we patiently wait for select value opportunities. We have a strong preference for companies with defensive earnings streams, but most of these have become stretched from a valuation perspective. As a result, our top investment ideas currently have less defensive earnings streams but have earnings levels and valuations that are more reasonable. In many cases future earnings, cash flow and dividend growth will be supported by declining capital expenditure programs. Examples are MTN, Tongaat, Old Mutual, Nampak and the JSE.

Summary

The fund will continue to provide a stable equity solution for those seeking above average dividend income and a below average level of risk. In periods of strong market momentum investors should expect our approach to lag the market (e.g. 2009). We are not forecasters, but based on our view of valuations and earnings levels we would expect market returns to be moderate over the next few years. In this sort of environment the dividend component is likely to be a key part of the total return local equity investors receive, making high yielding equity a key part of a balanced portfolio.

Market Commentary
Perhaps more questions than answers?

As usual, whole volumes have been written about the crisis Global Financial Crisis (currently epi-centred in Europe), the upshot of which is, while there is a broad consensus about what needs to be done to resolve the situation, no-one has the faintest clue whether this action will in fact be taken and if so, how long this might reasonably take. Conjecture, speculation and supposition are very much the order of the day. In the interests of full disclosure, we must be frank – we have no stunning insights to offer as far as the euro crisis is concerned. We do, however, seem to be reasonably keen to admit that the situation is so fluid, dynamic and changeable that forecasting the likely course of future developments is a fruitless pursuit best left to those with a misplaced over-inflated view of their own abilities.

That aside, what do we categorically, undeniably know about the current situation? What are the known knowns? Very little unfortunately and therein lies the problem. We know that something must be done, as without further action a disintegration of the euro is inevitable; the only question outstanding would be how long this process would take and in this the likelihood rests that it would be a long, slow, painful and lingering collapse. The ultimate solution must be a monetization of euro-zone debt; basically, the ECB must print a whole lot of money in a decisive enough manner that it removes, once and for all, any question that European policymakers are committed to resolving the crisis. Will this happen? There lies the unknown element. With the ECB's pedigree so rooted in Bundesbank ideology which emphasis price stability above all else, it currently appears unlikely that financial markets will receive the commitment which is so desperately required.

We also know that Italy cannot afford to bear borrowing costs that currently stand significantly in excess of 6% - and which have exceeded 7% recently – particularly given the proportion of Italy's debt which needs to be re-financed in 2012. Not only does action need to be taken, it needs to be taken quickly as the present penalizing level of interest stands to bankrupt Italy within months. In this way, what is first and foremost a liquidity crisis at present – whereby the Italian government is simply unable to borrow at "fair" rates of interest – eventually becomes a no-holds barred solvency crisis which brings the Italian economy to its knees. We know that if Italian yields bore a closer resemblance to fair rates of interest – which would be nearer 4% than the current 6%, then Italy would not have problems financing itself. It should be remembered that Italy has run a primary budget surplus consistently for many years and while government debt as a percentage of GDP is an uncomfortable 120%, it has also been relatively stable at this level for over 20 years.

Sadly, further known knowns are in short supply. We know that Europe has contributed little to global economic growth since the introduction of the common currency. However, while a European recession in and of itself might be expected to have little headline impact, what is not known is the impact which a continued deleveraging of Europe's banks and governments might have n broader global activity. The European Banking Authority require ¤106bn of capital injections by Europe's systemically important banks by June 2012, but in practice these institutions have the option of shrinking their asset base rather than raising capital. Given the current state of financial markets, it is highly likely that a meaningful part of the adjustment will therefore occur via a disposal of assets. In turn, some of this shoring up of capital ratios will come via a reduction in the loans placed with non-European institutions, who in turn would have to take action if their own solvency is not to deteriorate. Thus it is easy to envisage a scenario in which European bank deleveraging has a real and tangible impact on the wider global economy, irrespective of Europe's negligible growth contribution in recent years.

Whilst it may be too bold to describe it as a "known known", the other conclusion which might reasonably be drawn is that, without the euro-zone crisis, it is highly likely that equity markets would be significantly higher than they are at present, while government bonds would be far lower. Many of the fund managers with whom we invest continue to highlight the value inherent in certain sectors of the market and thus a longer term investment strategy which is constructed in the belief that a solution to the crisis will eventually be forthcoming, would argue that stock-markets offer the greatest potential to deliver attractive levels of investment return. This does, however, require something of a leap of faith that future market riot point will indeed be contained and that a happy ending is likely. At present, this seems far from certain.

Sometimes, the hardest part of any investment discussion is to admit there are no clear answers. In this environment, a base of cautiousness, supplemented with a willingness to move quickly to respond to changing circumstances is a pre-requisite and in this we are minded of John Maynard Keynes' observation that "when the facts change, I change my mind." With the current state of affairs, one can only invest with what is known and forecasts are plagued with greater than usual uncertainty. Now is not the time to be brave, dogmatic or have too high a conviction, no matter how unsatisfying this may feel.

The key market indicators to end November 2011 are provided below.

Market performance

investment market performance

period to 30 November 2011	Index	1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
South African equity	JSE All Share Index	11.7%	18.8%	9.5%	18.0%	16.70%
South African equity	SWIX	12.5%	19.6%	10.1%	18.0%	n/a
South African fixed interest	SA All Bond Index	9.9%	9.6%	8.8%	8.8%	10.10%
South African property	SA Listed Property Index	9.1%	18.3%	14.4%	21.4%	n/a
South African cash	STefI (3 month NCD's)*	5.5%	7.1%	8.4%	8.1%	8.80%

*Short Term Fixed Interest Index**

investment market performance

period to 30 November 2011	Index	1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
international equity	MSCI World (unhedged) Index (USD)	1.5%	12.3%	-2.0%	2.8%	3.7%
international fixed interest	Barcalays Capital Global Aggregate (unhedged) Index (USD)	6.3%	7.9%	6.0%	5.0%	6.9%
US dollar	LIBID 7 Day (USD)	0.2%	0.3%	1.8%	2.4%	2.1%
euro	LIBID 7 Day (EUR)	0.9%	0.7%	2.1%	2.2%	2.3%
pound sterling	LIBID 7 Day (GBP)	0.6%	0.7%	2.5%	3.2%	3.4%

breakdown of local share market performance by sector

period to 30 November 2011	% of ALSI	1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
Top 40	84.0%	12.7%	17.9%	9.0%	17.7%	15.8%
Mid Cap	14.0%	6.6%	25.6%	12.9%	20.1%	22.6%
Small Cap	2.0%	1.9%	16.6%	8.7%	18.0%	22.8%
oil and gas	5.0%	27.9%	14.4%	12.9%	n/a	n/a
basic materials	35.0%	4.2%	14.7%	5.8%	13.6%	15.7%
industrials	6.0%	2.2%	15.3%	6.5%	14.1%	17.2%
consumer goods	16.0%	23.6%	28.5%	19.0%	26.1%	17.8%
health care	2.0%	9.2%	33.7%	13.7%	20.3%	20.0%
consumer services	10.0%	15.3%	34.8%	18.3%	21.9%	26.0%
telecommunications	7.0%	25.2%	15.9%	15.5%	20.3%	25.3%
financials	19.0%	10.3%	15.8%	4.8%	12.6%	14.1%
technology	0.0%	25.5%	41.4%	16.1%	21.1%	8.2%

The FTSE Group and the Dow Jones Indices have created a new definitive industy classification standard.
The Industry Classification Benchmark indices were implemented by the JSEon 1 January 2006

Market performance

breakdown of international market performance by country

period to 30 November 2011	1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
United States: S&P 500	5.6%	11.6%	-2.3%	0.9%	0.9%
Germany: DAX	-9.0%	9.3%	-0.7%	5.7%	2.0%
United Kingdom: FTSE 100	-0.4%	8.7%	-1.9%	2.3%	0.6%
France: CAC	-12.6%	-1.1%	-10.0%	-2.5%	-3.4%
Japan: Nikkei	-15.1%	-0.3%	-12.3%	-3.6%	-2.3%
Hong Kong: Hang Seng	-21.8%	9.0%	-1.0%	3.6%	4.8%

all returns are calculated in the respective local currencies and are based on index levels

currency exchange rates

period to 30 November 2011		1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
ZAR/USD	8.1177	-12.6%	7.4%	-2.5%	-4.7%	2.4%
ZAR/EUR	10.9181	-15.5%	5.4%	-2.8%	-4.9%	-1.7%
ZAR/GBP	12.7486	-13.4%	6.6%	2.0%	-2.0%	1.4%
ZAR/JPY	0.1048	-18.9%	0.4%	-10.0%	-8.5%	-2.3%
USD/EUR	1.3444	-3.3%	-1.9%	-0.3%	-0.2%	-4.0%
USD/GBP	1.5706	-0.9%	-0.7%	4.6%	2.8%	-1.0%
USD/JPY	0.0129	-7.3%	-6.7%	-7.7%	-4.0%	-4.5%

economic indicators

economic growth	%	inflation	%
SA real GDP growth (3rd quarter '11, annualised q-oq)	1.4%	SA CPI (y-o-y change for October)	6.0%
US real GDP growth (3rd quarter '11, annualised q-oq)	2.0%	US CPI (y-o-y change for October)	3.6%
Euro area real GDP growth (3rd quarter '11, annualised q-oq)	0.6%	Euro area CPI (y-o-y change for November)	3.0%
Japan real GDP growth (3rd quarter '11, annualised q-oq)	6.0%	Japan CPI (y-o-y change for October)	-0.2%
global developed markets real GDP growth (3rd quarter '11, annualised q-oq)	2.3%	G7 CPI (y-o-y change for October)	2.9%

Market performance

interest rates	%	commodities	%
SA repo rate	5.50	gold (London PM fix in USD as at 30 November)	1746.00
SA prime overdraft rate	9.00	y-o-y % change	26.2%
US Fed Funds rate	0.25	platinum (London PM fix in USD as at 30 November)	1558.00
ECB refinancing rate	1.25	as at 30 November)	-6.0%
BoJ overnight call rate	0.10	brent crude oil (USD)	111.77
BoE repo rate	0.50	y-o-y % change	29.6%

investment market performance

period to 30 June 2011	Index	1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
International Equity	MSCI World (unhedged) Index (USD)	30.5%	0.5%	2.3%	5.4%	4.0%
International Fixed	Barclays Capital Global	10.5%	6.0%	7.1%	6.2%	7.4%
Interest	Aggregate (unhedged) Index (USD)					
International Property	UBS Global Investors Index (USD, unhedged, net divs)	39.0%	2.6%	0.7%	7.7%	10.9%
US Dollar	LIBID 7 Day (USD)	0.2%	0.6%	2.2%	2.5%	2.3%
Euro	LIBID 7 Day (EUR)	0.7%	1.2%	2.2%	2.2%	2.5%
Pound Sterling	LIBID 7 Day (GBP)	0.6%	1.2%	2.9%	3.4%	3.6%

breakdown of international market performance by country

period to 30 June 2011		1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
United States: S&P 500		28.1%	1.0%	0.8%	2.1%	0.8%
Germany: DAX		23.6%	4.7%	5.4%	8.9%	2.0%
United Kingdom: FTSE 100		20.9%	1.9%	0.4%	4.2%	0.5%
France: CAC		15.7%	-3.5%	-4.3%	0.9%	-2.7%
Japan: Nikkei		4.6%	-10.0%	-8.7%	-2.7%	-2.7%
Hong Kong: Hang Seng		11.3%	0.4%	6.6%	9.0%	5.6%

Market performance

Investment	Initial Capital	Final Capital	Annualised Capital Growth	Initial Monthly Income	Latest Monthly Income	Annualised income growth
Cash	R4.00m	R4.00m	0%	R 23,000	R 11,000	-7.70%
Bonds (R186)	R4.00m	R5.42m	3.40%	R 24,332	R 24,332	0%
Listed Property	R4.00m	R15.42m	15.60%	R 32,020	R 57,465	6.60%
All Share Index	R4.00m	R11.83m	12.60%	R 8,535	R 24,440	12.20%
Anglo American	R4.00m	R7.25m	6.70%	R 9,448	R 8,354	-1.30%
Mr Price	R4.00m	R56.90m	33.60%	R 9,630	R 186,667	38.20%
Inflation	R4.00m	R6.70m				5.80%

Table 1. Capital and income returns for the period 31 March 2002 to 30 April 2011

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