



Future Focus

December 2024

Welcome to the Summer Edition of Future Focus – insights on building wealth for your clients

- **Talking point:** Looking into a crystal ball.
- **Investment centre:** AI – the state of the art.
- **Manager insights:** The year in review – movers and shakers.
- **Practice notes:** Tax year end is looming – remember your savings plan.

STANLIB Multi-Manager Investment Team

Talking point

Looking into a crystal ball



Key points

- **The reform wave inspired by that of the UK is set to further reshape the landscape for South African financial advisers.**
- **By adapting to these changes, advisers can enhance the effectiveness of their practices, ultimately leading to better client outcomes.**
- **A DFM partnership could be a game changer in this evolving regulatory environment.**

If there is one thing the financial world loves, it is the allure of a crystal ball – trying to forecast future market movements, client demands, and regulatory changes. Over the past decade, the UK wealth management industry has undergone a significant regulatory transformation, and while it has kept financial advisers on their toes, it has also had a profound effect on how the industry operates.

In this article, we briefly look ahead to gauge what lies ahead for financial advisers. South Africa has by and large drawn on the international lessons and best practices, while ensuring that the reform programme is suited to the local environment. The market size of the financial advisers in the UK industry is ¹£7.1 billion (roughly R160 billion) in 2024. Studying the experience in the UK may provide valuable insights into the readiness of South African advisers and where they can benefit from making use of Discretionary Fund Managers (DFMs) services.

Regulatory rollercoaster

The decade following the Global Financial Crisis of 2008 can be characterised as the period of financial regulatory reform. New rules touch virtually every financial firm – from banks to insurers to asset managers. Importantly, these rules reshaped the regulatory environment governing a wide range of asset management products and activities. Let us break down some of the most significant regulations that reshaped the UK wealth management industry.

¹ <https://www.ibisworld.com/united-kingdom/market-research-reports/financial-advisers-industry/#KeyStatistics>

² <https://am.vontobel.com/en/insights/decoding-esg>

2013

Retail
Distribution
Review

The Retail Distribution Review (RDR) in 2013 was a game-changer for UK financial advisers – it aimed to increase transparency and fairness by banning commission-based payments and requiring advisers to adopt a fee-based model. Advisers had to meet higher qualification standards, transforming financial advice from a sales-driven business into a profession based on **EXPERTISE AND TRUST**.

2018

Markets in
Financial
Instruments
Directive II

You may not have heard of the MiFID, but it is central to how financial products are provided and marketed across the European Union. This directive pushed things further by requiring financial firms to disclose all costs and charges associated with their services. Its emphasis on **TRANSPARENCY** forced advisers to demonstrate real value to clients, while additional rules around suitability assessments and regular reporting meant advisers needed **BETTER SYSTEMS** and more compliance support.

2019

Senior Managers
and Certification
Regime
(SM&CR)

The SM&CR put accountability at the heart of financial services, making senior managers personally responsible for the actions of their teams. For financial firms, this required building a culture of **INTEGRITY AND COMPLIANCE**, placing significant responsibility on managers to prevent misconduct and ensure ethical practices.

2021

Environmental,
Social and
Governance
Reporting

With ESG investing gaining traction, the UK introduced rules to prevent 'greenwashing' and ensure that companies deliver on promises. Advisers are expected to consider ESG factors in their recommendations and understand how regulatory requirements shape sustainable investment offerings.

A global study by ²Vontobel found that an increasing number of financial advisers (62%) are **INTEGRATING ESG** offering into their practices, compared to 53% in 2021. The result shows that sustainable offerings continue to rise in importance in the advisory space despite the headwinds and political backlash that sustainable investing has experienced over the past two years.

Talking point

Looking into a crystal ball (cont.)

UK market reshaped

The regulatory changes over the past decade have clearly transformed and reshaped the UK's wealth management industry in significant ways:

- **Firstly**, into a leaner and meaner industry. Stricter qualifications, transparency, and ethical standards edged out some advisers who were not able to maintain pace. However, for those who adapted, the profession is now more trusted, and client focused. The focus on better client outcomes produced a trend towards centralised propositions, which in turn, created breakaway firms. The industry has been subject to intense consolidation activity in recent years, with many larger companies acquiring smaller competitors. The Tilney Group and Smith & Williamson merged in September 2020, creating one of the largest financial adviser companies in the UK, Quilter PLC. Subsequently, concentration has ballooned.
- **Secondly**, shifting revenue models. With commission payments banned, firms have now shifted to a fee-based structure, helping build client trust by reducing conflicts of interest. This model has moved financial advice from sales to partnerships.
- **Thirdly**, client-centric, data-driven operations. Compliance has become data heavy. Advisers now rely on technology to track and report all transactions, fees, and risks to stay compliant and demonstrate value to clients.

What is next for SA?

The implementation of ongoing reforms in South Africa, inspired by global regulatory trends such as those in the UK, can have even more repercussions for local financial advisers. A brief analysis of what the UK experience might still mean for local advisers going forward, follows.

The end of commission

South Africa could follow the UK's RDR-style ban on commission payments. Although some advisers might initially feel the pinch, this change could create stronger trust with clients by eliminating perceived conflicts of interest.

More...more accountability

If South Africa enacts its own version of the SM&CR, it could mean more personal accountability for senior managers. Advisers and managers would need to shift from a compliance-only mindset to a culture of ethical responsibility.

Greater transparency and suitability

If South African regulations move toward even more fee transparency and suitability rules, advisers will need enhanced systems that clearly explain all fees, portfolio performance, and management of risk in a way clients can better understand.

ESG and Sustainable Investment Standards

With ESG a growing concern in South Africa, regulations may require advisers to be more rigorous about sustainable investment standards. Advisers who stay ahead of these requirements will have an edge with socially conscious clients.

Important role for DFMs

This is where the role of DFMs come in to assist financial advisers. Selecting a DFM that understands regulatory shifts and offers robust support will be invaluable. Partnering with a DFM could be a game-changer for advisers in a shifting regulatory landscape, in the following ways:

Suitability

DFMs can assist advisers in creating customised portfolios tailored to client risk profiles and objectives, including preferences such as ethical investing like ESG. DFMs have the experience and systems to assess suitability in line with regulatory standards, helping advisers reduce risk while maintaining compliance.

Operations

With increasing transparency requirements, advisers are tasked with regular, detailed reporting. DFMs can take on the burden of reporting duties, providing detailed performance and cost breakdowns that can be shared with clients. This allows advisers to focus more on client relationships than on administrative tasks.



Revenue models

With DFMs offering flexibility in charging structures, advisers can transition to fee-based models more easily – still offering clients value and expertise, even without relying on commissions.

Technology

As compliance becomes more complex, the right technology can save time and reduce stress. Many DFMs provide advanced platforms that streamline reporting and suitability assessments, making it easier to stay on top of regulations.

Education

Increased qualification standards are likely. By staying ahead, advisers can differentiate themselves and be ready for regulatory changes. Many DFMs also offer training resources to help advisers navigate these shifts.

Final thoughts

While predicting the future of regulatory change may be tricky, the UK's experience shows that adaptability and client-centric strategies pay off. Local advisers should prepare for more change and leaning on the expertise of DFMs can help navigate the regulatory challenges, while continuing to deliver excellent client service.

Embrace the shifts – partner with a DFM, and that crystal ball might just start looking a little clearer.

Leigh Kohler

STANLIB Multi-Manager: Head: DFM

Investment centre

AI – the state of the art



Key points

- **Leading technology companies are advancing AI capabilities to enhance user experiences across various applications.**
- **Innovations such as OpenAI's GPT-4o, Google's Gemini, and Microsoft's Copilot are transforming tasks in content creation, data analysis, and productivity by automating complex processes.**
- **Emphasis on ethical AI usage and privacy-centric processing is evident in developments from Anthropic's Claude 3.5 and Apple's on-device AI models, ensuring responsible and secure AI integration.**

"Artificial intelligence is the science of how to get machines to do the things they do in the movies." – **Astro Teller**

Introduction

Artificial Intelligence (AI) has rapidly evolved, with leading technology companies developing advanced models and services that are transforming various industries. The investments in AI across the value chain have been staggering, resulting in phenomenal returns for companies like Nvidia Corp. This article provides an overview of the latest AI TOOLS and SERVICES from major providers, highlighting their capabilities and applications.

OpenAI: ChatGPT

OpenAI has been at the forefront of AI development, with ChatGPT being one of its most notable products.

**Launched in
November 2022**

In **May 2024**, OpenAI introduced GPT-4o, an advanced model capable of processing text, images, and audio in real-time. GPT-4o offers rapid response times and enhanced performance in non-English languages, integrating multiple modalities for efficiency. This model provides features such as data analysis, file uploads, and web browsing capabilities.

In **September 2024**, OpenAI introduced o1-preview, which is designed for complex reasoning tasks. The o1 series includes o1-preview and o1-mini, with the latter being a faster, cheaper model that is effective at coding.

OpenAI also introduced Canvas, a new interface for collaborative writing and coding projects, and ChatGPT Search, integrating real-time web search capabilities. A Chrome extension also allows users to set ChatGPT Search as their default search engine.

Enhancements to ChatGPT desktop applications for macOS and Windows include the "Work with Apps" feature, enabling AI to interact with content from other applications. This function streamlines coding processes, enhancing efficiency and collaboration.

Lastly, OpenAI has further advanced its AI capabilities with real-time voice features, enabling natural conversational interactions, and offering an API platform for developers to integrate advanced AI functionalities into their applications, supporting tasks like image analysis and customer support.

Anthropic: Claude

ChatGPT excels in integrations and versatility, making it ideal for various applications like coding assistance and content creation. Claude, on the other hand, stands out for its natural interaction and ethical focus, such as the latest Claude 3.5, which excels in writing, editing, and coding tasks, making it suitable for applications requiring careful handling of sensitive information.

**Launched in
November 2022**

A notable feature is "Artifacts." This allows users to create and view interactive content alongside conversations, enhancing creativity and collaboration. Since June 2024, Artifacts have been generally available to all Claude.ai users.

Claude 3.5 also introduced a "computer use" capability, enabling the AI to interact with a user's computer to perform tasks like moving the cursor and browsing the internet.

Investment centre

AI – the state of the art (cont.)

Google: Gemini

Google's AI model, Gemini, assists users with web-based tasks through Chrome, automating research, purchases, and bookings. Its integration enhances user experience across applications.

Burst onto the scene in February 2024

Gemini 1.5 Pro boasts a 2-million-token context window, the largest among large-scale models, processing extensive inputs like entire codebases, lengthy documents, and hours of audio/video. This enables Gemini to handle complex reasoning and comprehensive analysis, making it useful for diverse applications.

Microsoft: Copilot

Microsoft has developed Copilot, an AI-powered assistant integrated into its Office suite. Copilot can essentially do everything ChatGPT can do, but it draws on data from your existing Microsoft ecosystem and workflows.

Launched in November 2023

Copilot assists users in drafting documents, creating presentations, and analysing data by providing suggestions and automating repetitive tasks. This integration enhances productivity by allowing users to focus on more strategic aspects of their work while Copilot handles routine tasks.

This is how Copilot functions within key Microsoft applications:

- **Excel:** generates insights, identifies trends, and creates charts and graphs, streamlining data analysis.
- **Word:** aids in drafting, summarising, and refining documents, enhancing content quality.
- **PowerPoint:** suggests layouts, generates speaker notes, and provides design ideas for presentations.
- **Outlook:** prioritises emails, summarises threads, drafts responses, and schedules meetings.
- **Teams:** offers real-time meeting summaries, highlights key points, and tracks action items.

By embedding Copilot across these applications, Microsoft leverages AI to streamline workflows, reduce manual effort, and enhance overall productivity.

Perplexity AI

Perplexity calls itself a “Swiss Army Knife for information discovery and curiosity,” but it is essentially an AI-powered search engine. Think of it as a mashup of ChatGPT and Google Search — though it is not a direct replacement for either. It works like a chatbot: you ask questions, and it answers them.

Launched in August 2022

It combines language models with search functionality for efficient information retrieval, offering a conversational search experience. Recently, Perplexity introduced new shopping features, “Buy with Pro” and “Snap to Shop,” to streamline online purchases.

- **Buy with Pro:** available to Perplexity Pro subscribers in the US, this feature allows direct product purchases through the platform, offering curated product cards with images, prices, and AI summaries. Users can save billing and shipping details securely, and enjoy free shipping on all “Buy with Pro” orders.
- **Snap to Shop:** similar to Google Lens, this tool lets users upload images for visual searches. The AI identifies or suggests similar products for purchase. Although this was initially created for Pro users, broader access is planned.
- **Merchant Program:** perplexity invites retailers to share product data, enhancing recommendation accuracy and visibility. Participating merchants receive insights into search and shopping trends.

These additions make Perplexity AI a comprehensive platform for product research and purchasing, integrating AI search with e-commerce features for an enhanced user experience.

Apple: AI integration in devices

Apple has integrated advanced AI capabilities into its devices, enhancing user experience through applications like Siri and other functionalities. The AI-driven features in iOS 18.1 and macOS Sequoia 15.1 improve communication and streamline user interactions.

Rolled out October 2024

Investment centre

AI – the state of the art (cont.)

- **AI-enhanced mail features**
 - Writing tools: offers grammar, tone, and content suggestions.
 - Priority messages: highlights urgent emails for quick attention.
 - Smart reply: provides contextually appropriate response suggestions.
- **AI-driven notification summaries:** condenses multiple notifications into concise overviews to reduce overload.
 - Privacy-centric AI processing
 - On-Device AI: processes tasks on the device, ensuring data security.
 - Private Cloud Compute: handles complex tasks in the cloud with strict privacy standards.
- **Integration with OpenAI:** allows advanced processing with user consent.

These advancements enhance user experience while maintaining strong privacy and security commitments.

xAI: Grok

Elon Musk's AI venture, xAI, has quickly made significant strides in AI development.

Released in
August 2024

- **Grok-2 - Advanced AI Model:** Grok-2 is a multimodal AI assistant integrating text and vision understanding with real-time information from the X platform. xAI also offers Grok-2 mini for efficient AI assistance.
- **Colossus - The World's Largest AI Training Cluster:** xAI's Colossus, located in Memphis, Tennessee, comprises 100,000 NVIDIA GPUs, enabling rapid AI model training.
- **Recent funding and valuation:** xAI secured \$5 billion in funding, raising its valuation to \$50 billion. Investors include Valor Equity Partners, Sequoia Capital, Andreessen Horowitz, and the Qatar Investment Authority.

Through these developments, xAI has established itself as a significant player in the AI sector, leveraging advanced technology and substantial financial backing.

Meta: MetaAI

Meta, formerly Facebook, has positioned itself as a leader in AI innovation. Meta AI, its research division, focuses on open-source AI models and tools, promoting collaboration and advancing natural language processing, computer vision, and machine learning.

Released in
July 2024

- **Meta AI - Open-Source Advancements:** Meta's open-source approach has fostered significant contributions to AI. The Llama series of large language models is central to this effort.
- **Llama 3.1 - Pioneering Open-Source AI:** Llama 3.1 is the largest open-source AI model with 405 billion parameters, matching the performance of leading proprietary models. Its open-source nature allows developers to customise AI solutions cost-effectively. Meta collaborates with Amazon, Databricks, and NVIDIA to support AI development and deployment.
- **Spirit LM - Multimodal AI Integration:** Meta introduced Spirit LM, an open-source model integrating text and speech inputs and outputs, enhancing applications in automatic speech recognition and text-to-speech systems. This model promotes innovation and accessibility.
- **PyTorch - Empowering AI Development:** Meta's PyTorch library supports building and training neural networks, widely adopted for its flexibility and ease of use in various AI applications.

Through these initiatives, Meta continues to advance AI research and development, fostering an open-source ethos that accelerates industry innovation.



Other killer applications

The rapid advancement of AI has led to transformative applications across creative domains, including image generation, text-to-video creation, and music composition with lyrics.

- **AI image generation:** AI tools like DALL-E, Midjourney, and Stable Diffusion create realistic or artistic visuals from text descriptions, aiding advertising, design, and entertainment with rapid prototyping and creative exploration.
- **Text-to-video generation:** platforms like Runway's Gen-2 and Meta's Make-A-Video generate videos from textual inputs, revolutionising content creation for storytelling, marketing, and education.
- **AI music generation with lyrics:** tools like OpenAI's Jukebox and Google's MusicLM compose music and lyrics based on text prompts, benefitting musicians and content creators.

Conclusion

The rapid advancements in AI by major service providers are significantly enhancing user experiences across various applications. OpenAI's multimodal GPT-4o, Google's Gemini, and Microsoft's Copilot exemplify the integration of AI into daily tasks, automating complex processes and providing personalised, efficient services. Anthropic's Claude 3.5 and Apple's on-device AI models emphasise ethical AI usage and privacy-centric processing, ensuring responsible and secure AI integration.

As AI technology continues to evolve, we can anticipate further innovations that will transform our interactions with technology, making them more intuitive and intelligent.

Joao Frasco

STANLIB Multi-Manager: CIO

This article was written with the assistance of AI.

Manager insights

The year in review – movers and shakers



Key points

- **Regulatory changes are reshaping the landscape, pushing firms to consolidate and pool resources to stay competitive.**
- **Court case: a collective sigh of relief after Coronation wins protracted tax battle against SARS.**
- **New senior appointments – a change of guard at several large industry players.**

As the curtain falls on 2024, we look back at some of the main corporate activity, the high-profile appointments and the job moves in the local asset management industry over the year.

More consolidation

Ninety One buys SIM

In a big surprise to the local market, Sanlam and Ninety One jointly announced the transaction. Ninety One will take over £17 billion (R400 billion) of assets managed by Sanlam in the UK and South Africa under a tie-up agreement between the South African investment giants.

Ninety One has done well to grow its assets internationally, leveraging a combination of its scale and investing in its offshore investment teams. From our discussions with Ninety One and Sanlam, the move is a natural progression given the long-term relationship between the two firms. Following the change to Regulation 28 whereby pension plans can invest 45% offshore, this could be the right direction for Sanlam, given the strength of Ninety One's offshore capabilities.

With more assets moving offshore, the merger could be the start of more to follow. The merger can also be viewed as strategically smart, with Ninety One gaining access to Sanlam's extensive distribution network and established umbrella fund. Investors will watch the merger of the SIM Investment teams into Ninety One closely as integration challenges may arise, with differences in corporate culture potentially being a hurdle.

Under the agreement, Ninety One will take over all the issued share capital of Sanlam Investment Management Proprietary Limited (SIM). It will also become the permanent investment manager to Sanlam Investments UK. In return, Sanlam will receive a 12.3% equity stake in Ninety One. The Sanlam UK investment teams included in the agreement will move over to Ninety One when the deal is completed.

There is a concern this merger between two of the largest asset managers could lead to market concentration.

“One risk to the transaction is the dilution of competition in the South African asset management industry.”
- Andrew Bahlmann, Chief Executive at Deal Leaders International¹

The Competition Commission must still approve the merger and could delay or halt the deal if it believes the merger would result in anti-competitive outcomes. This is clearly not a 'done deal' after the Competition Tribunal recently, to everyone's surprise, blocked Vodacom Group's deal to buy a stake in Remgro's fibre businesses. The government is now seeking to overturn the decision and allow the merger to proceed, according to the appeal document seen by Bloomberg News. The industry is largely supportive of the Vodacom deal, as there is an agreement that consolidation is needed for future growth prospects.

Hendrik Toit, the CEO of Ninety One says that the Commission should view the proposed deal as a substantial vote of confidence in SA and as good for the ecosystem. The transaction will support local investment businesses and allow them to compete with larger offshore investment firms, which attract investments from SA investors, often without substantial local operations, and not contributing as much to the local economy.

“The proposed merger is a bold move that accelerates consolidation, reflects the profound effect of regulatory changes and promises a stronger, more competitive future for the industry.” **- T. Motsoeneng, Deputy Editor: Business Day**

¹<https://www.iol.co.za/business-report/economy/andrew-bahlmann-unpacks-the-implications-of-ninety-one-and-sanlam-deal-for-sas-asset-management-market-39022876-6082-4f3c-baec-1c9f4ebc4dc6>

Manager insights

The year in review – movers and shakers (cont.)

Anchor Capital and UK-based Credo merged

In November 2023 Anchor Capital announced they would be merging with UK-based wealth manager, Credo Wealth. The combined assets under management of the two firms will be more than R230 billion. In April 2024, the Competition Commission approved the merger of the Anchor Group and Credo Wealth.

Credo provides wealth management services to predominantly high-net-worth clients and operates a global investment platform. The business has about £4.6 billion in assets under custody. This, together with Anchor's R120 billion in assets will almost double the size of the business.

“The regulatory pressures and costs in asset management businesses are going up quite dramatically, so scale becomes important. Having critical mass is quite crucial, as you need investment depth across the globe to invest effectively.”

- Peter Armitage: CEO Anchor Capital²

Coronation wins court case

The Constitutional Court found in favour of Coronation in its protracted battle against the South African Revenue Service (SARS). Coronation had almost R800 million worth of tax debt hanging over its head. The matter, which has been dragging on since 2012, relates to South Africa's controlled foreign company rules and the foreign business establishment tax exemption.

Tax commentators have called the Constitutional Court judgment “clear, smart and well-reasoned”. It brings an end to the protracted battle between Coronation and SARS.

Biggest industry moves

M&G: Anne Leepile joins from Alexforbes

M&G Investments Southern Africa has appointed Ann Leepile as its new Chief Executive. Anne was previously the Chief Executive at Alexander Forbes Investments. She left the employment of Alexforbes on 1 November and will assume the new role early in 2025.

Anne comes with a strong track record in portfolio management and global manager research. She will be based in Cape Town and report to Joseph Pinto, CEO of M&G Asset Management and the M&G Investments Southern Africa board.

Her appointment follows the resignation of Chris Sickle, who left the business at the end of May. He was with M&G for five years and was their CEO since November 2021. Marius Botha, the Group Chief Risk Officer, took on the role of interim Chief Executive Officer.

With Anne's appointment, Marius will return to London, where he will resume his role as Chief Risk Officer.

PSG: New CIO and Anet Ahern to step down

John Gilchrist assumed the role of Chief Investment Officer at PSG Asset Management from March. He succeeded Greg Hopkins who held the position for more than a decade from 2012. Greg has transitioned to the role of Deputy CIO, a position previously held by John. To ensure a smooth handover, Greg and John served as joint CIOs from November 2022. During this period, they continued to manage their respective funds, with Greg focusing more on offshore funds.

The business also announced that industry stalwart, Anet Ahern is to step down as CEO. This will take place in May 2025, when she will subsequently transition to the role of Chair. Over the next few months, Anet will hand over the reins while preparing for her new role, where she will oversee several boards. She has led the business since 2013 and has steered the company through significant growth and market changes.

² <https://www.moonstone.co.za/go-ahead-for-merger-between-anchor-and-credo/>

Manager insights

The year in review – movers and shakers (cont.)

Lyle Sankar, the current Head of Fixed Income, will succeed Anet, marking a pivotal change in leadership for the business. He has 11 years of experience at PSG and is expected to build on Anet's legacy, while introducing innovative strategies. His previous roles include managing various income funds in the business and business development at Coronation Fund Managers.

Ninety One: Duane Cable promoted to local CIO

Duane Cable has been appointed as the new CIO for Ninety One, South Africa. In his new role, he will oversee the SA investment platform and collaborate with the global CIO office, while continuing his portfolio management duties, which include managing the absolute returns portfolios

Ninety One also appointed Sangeeth Sewnath as Managing Director of the American division. He is now based in New York, overseeing institutional and adviser-client engagement and driving regional strategy. Sangeeth previously headed up the team in South Africa.

OMIG: MD resigned

During the year, Khaya Gobodo resigned as Managing Director of Old Mutual Investments. Chief Risk Officer, Zulfa Abdurahman, was appointed as interim Managing Director.

Futuregrowth: Hires new CEO

In November Futuregrowth announced that Shaun Harris will officially take up the role of CEO from 1 January 2025. Shaun was the Head of the Institutional Client Group for RMB's global markets division. He has been working closely with Paul Rackstraw who will retire as Managing Director on 31 December 2024, but will remain with Futuregrowth in an advisory capacity.

In conclusion: consolidation...more is expected

During 2023 Aluwani acquired 100% of Afena Capital and more recently, the heads of First Avenue Investment Management and Northstar Asset Management expect the firms to formally merge by mid-2026.

The larger consolidations – Anchor/Credo and Ninety One/Sanlam – point to changing dynamics in the industry. In addition to the change in Regulation 28, the investment industry faces numerous challenges including:

- Low savings rates
- Thousands of employers not paying pensions – more than R5 billion worth of pension fund contributions have not been met
- The two-pot system introduced in September, and
- Potential negative impacts from the proposed new tax regulation of Collective Investment Schemes.

These shifting factors mean that asset managers need to rethink traditional strategies to remain competitive. Consolidation appears to be a natural response to mounting regulatory pressures and the need for greater economies of scale. However, it also raises questions about market concentration and the potential loss of diversity in investment approaches. Therefore, there will be much to stay on top of in 2025.

Jennifer Henry
STANLIB Multi-Manager
Deputy CIO

Practice notes

Tax year end is looming – remember your savings plan



Key points

- **Pension plans – topping up your retirement savings remains a no brainer.**
- **TFSA – take full advantage of your lifetime limit.**
- **CGT – use your annual exemption to reset your base cost higher..**

With the tax year end approaching, it is an opportune time to ensure you have taken advantage of the tax breaks available and are not leaving any 'free money' on the table. With various avenues available for tax-efficient investment, understanding these strategies can help investors make informed decisions, while adhering to tax regulations.

In this article we briefly discuss three ways to maximise your tax benefits.

TOP-UP your pension plan

Individuals contributing towards a retirement plan have until the end of February 2025 to maximise their tax-deductible contributions, with the limit currently being up to 27.5% of taxable income with an annual cap of R350 000. If you are already contributing to an occupational retirement fund, the tax deduction applies to the cumulative total of all pension plan contributions, including retirement annuities (RAs).

Unlike pension and provident funds, RAs are not tied to an employer, which gives individuals greater control over their investments. They are designed to supplement retirement income and are particularly suitable for:

1. **Self-employed individuals**
2. Those whose employers **do not offer a retirement scheme**, and
3. Individuals looking for more **flexibility**. Retirement annuities housed on a LISP platform offer complete contribution flexibility, making them particularly attractive for those wanting to make ad hoc contributions, especially those with irregular incomes or sporadic commission-based earnings. RAs offer full flexibility in contribution structuring, allowing monthly, quarterly, bi-annual, or annual debit orders, as well as one-off lump sum investments.

If you invest in an RA, the earliest withdrawal can be made at 55 years of age, but there is no upper age limit at which you need to retire from the fund. By understanding the unique features of RAs, aligning them with your financial goals, and maintaining a disciplined savings strategy, you can secure a more financially stable retirement. Balancing RAs with other investment options will further enhance your overall portfolio, providing peace of mind as you approach your retirement years.

As such, it makes sense to use the weeks leading up to the year-end tax to calculate the contributions made towards your retirement funds during the year and to leverage the tax deductibility of your retirement contributions by topping up the investment accordingly. From a tax-efficiency perspective, contributing towards a retirement savings vehicle provide significant advantages in that investment premiums are tax deductible, dividends and interest are tax-exempt, and no capital gains tax (CGT) applies to investment growth.

Example 1

- Mrs Selinda earns an annual salary of R200 000.
- Since her employer does not offer a retirement scheme, she contributed 10% of her annual salary (i.e. R20 000) towards an RA during the year and made an annual top-up of R10 000.
- She also earned a bonus of R25 000.
- Lastly, she earned rental income of R15 000

Cont.

Practice notes

Tax year end is looming – remember your savings plan (cont.)

The maximum deduction that Mrs Selinda can make is the lesser of:

A: **R350 000**

B: The greater of:

$27.5\% \times R225\ 000$ (remuneration) = R61 875

Or $27.5\% \times R270\ 000$ (taxable income) = **R74 250**

C: $R270\ 000$ (taxable income) - R0 (no taxable capital gain) = **R270 000**

The deduction will be limited to the lesser of the three amounts in bold, which is **R74 250**. She only contributed R30 000 and can therefore deduct the full amount of R30 000 for tax purposes.

The following applies under the tax table:

Gross income	R270 000
Salary	R200 000
Bonus	R25 000
RA contribution	R30 000
Rental income	R15 000
Deductions	R30 000
Retirement fund contributions	R30 000
Taxable income	R 240 000
Tax payable	(R 43 432)
Income / 'take-home pay' after tax (assume no rebates)	R196 568

In this example, for every R1 invested in retirement fund contributions, SARS will provide tax relief and 'refund' Mrs Selinda with 26 cents. Her R30 000 annual contribution effectively resulted in a tax saving of R7 800.

You can deduct contributions from your taxable income, reducing your overall tax liability.

MAXIMISE your TFSA

Another beneficial vehicle is the Tax-Free Savings Account (TFSA). With a TFSA, any investment growth, interest, or withdrawals are free from tax, making it an attractive choice for those looking to maximize their savings. Everyone has an annual contribution limit, which is currently R36 000 and a lifetime limit of R500 000. Thus, maximising contributions to this account before the end of the tax year can help ensure that investors are using their full tax-free allowance, which will benefit them in the long term.

It is important to note, however, that contributions to a TFSA are made with after-tax funds, which means that there is no possibility of claiming tax back on investment premiums. Unlike RAs, TFSA investment strategies are not subject to Regulation 28 of the Pension Funds Act, allowing for greater flexibility and optimising tax benefits by investing in growth portfolios such as equities and property – see section below that discusses what is not suitable for short term goals. While there is no limit on the number of TFSAs one can have, keeping track of annual contributions is essential to avoid exceeding the R36 000 limit to avoid tax penalties of 40% irrespective of personal tax rates.

Not suitable for short term goals

At present, individuals under the age of 65 benefit from an annual interest exemption of R23 800 per year. At current money market rates, investors can invest up to approximately R300 000 in a traditional money market account/fund before paying any tax on the interest. Investors should therefore be wise and not use their TFSA for short-term goals \geq R300 000. In short, do not waste your TFSA lifetime limit of R500 000 to meet short-term goals – you already benefit from the annual tax-free interest exemption.

Contributions are made from after-tax income, but the interest, dividends, and capital gains earned are tax-free.

For a recap of benefits, refer to the Summer Edition of Future Focus, 2023.

Practice notes

Tax year end is looming – remember your savings plan (cont.)

USE your CGT exemption

Individual investors can use their annual CGT exemption, being the first R40 000 of gains made on their discretionary investment portfolio, to reset the base cost ('buy and sell'). If needed, this also allows the investor to simultaneously rebalance his/her investment portfolios to keep it aligned with their goals and objectives.

If you are invested for the long term, a comprehensive annual review of your overall investment portfolio will reveal whether there is a need to rebalance and/or adjust your investment strategy. However, if you feel that your circumstances have changed, your goals have been recalibrated, or your investment strategy is too risky for your appetite, you may want to consider rebalancing your savings portfolios before the end of the tax year.

Example 2

On 1 March 2024 John's discretionary savings portfolio – an equity Collective Investment Scheme – had a market value of R500 000. In the current tax year, the portfolio grew 8% from R500 000 to R540 000. John decided to use the full CGT exemption at the end of the tax year.

At the end of February he sold the full investment to the value of R540 000 and immediately bought back the units at the same price.

The following applies under the tax table:

Proceeds	R540 000	
Base cost	R500 000	
Capital gain	R40 000	
Annual exclusion	(R40 00)	<i>Individuals are granted an annual exclusion of R40 000 on capital gains</i>
CGT payable	R0	

John reset the base cost at a higher level (from R500 000 to R540 000) which, in turn, has the effect of reducing the gain when he sells units in the future – on the assumption his portfolio continues to increase in value.

Investors have an annual CGT exclusion that can be used to reset their base cost.

Conclusion

As the end of the tax year approaches, it is vital for investors to take proactive steps in managing their investment savings. By TOPPING UP retirement portfolios, MAXIMISING your tax-free savings account and UTILISING your CGT exemption, investors can ensure that they effectively leverage the investment opportunities available to them while minimising the tax impact.

At year-end, your RA service provider will send you an IT3(f) tax certificate, which forms the basis for calculating your tax refund. Reinvesting the tax refund into your RA or FTSA in the following tax year, once again tax-free, is a sound financial planning strategy

Albert Louw CFP®

STANLIB Multi-Manager: Practice Manager

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