MARCH 2017

UNLOCKING WEALTH

RMB PRIVATE BANK

Traditional values. Innovative ideas.

INNOVATION AND FLEXIBILITY - THE HALLMARKS OF 2017

As 2016 closed its doors, the publishers of the Digital Banking Report hardly took a breath before unveiling the top trends and predications for the global financial services industry in 2017. They surveyed experts from 760 financial institutions and more than 100 global leaders in the field, from Africa, the Americas, Europe and Australia, and arrived at the conclusion that the client experience, coupled with seamless innovation, was the trend to watch.

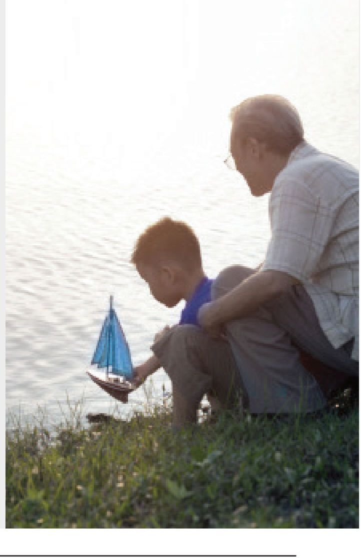
In fact, 54% of institutions aimed to remove friction from the customer journey and the majority were working to improve how they used data and advanced analytics, while 45% were seeking to improve multi-channel delivery.

At RMB Private Bank, innovation, responsiveness and the experience of our clients has been a major driver for decades; 2017 is no different. Testament to this is our latest innovation, nav», which is designed to take the frustration out of the home buying experience.

nav» is more than just a home loan acquisition tool, it is a full solution that will help you navigate the home buying process from start to finish. Use nav» to get an instant value estimate of your existing home, to find properties in the area you desire and for pre-approval of your bond amount. It also assists with finding movers, interior decorators and handy calculators to ensure you are firmly in the driving seat when it comes to your property finances.

In this newsletter, we take you behind the scenes at nav», introducing you to the thinking behind this handy financial GPS. We also update you on the section 7C tax legislation with respect of trusts, remind you to take advantage of the annual donations tax exemption, and offer insights into the need and value of life insurance. Plus we include, as usual, our Market Overview of both local and global markets.

With the World Economic Forum now behind us, we've compiled impressions from our experts reflecting on the key take-aways from the annual gathering as well as commentary on the performance of Team SA at Davos. Finally, with the world spinning from the new policies and approach being taken by the new Trump administration in the US, we don a business hat in our downtime section, transporting you to two capitals very much in the news at the moment: Washington D.C. and Mexico City.



BUYING OR SELLING A HOME?

A recent Wall Street Journal article explored the psychology of home buying. The acclaimed journal made much of the social and emotional issues around home buying, commuting to work and seeing ourselves as part of a community; all important considerations when moving home. They also focused on the financial stressors.

According to Alex Tabarrok, a professor of economics at George Mason University in the United States, home buyers tend to compartmentalise their expenses during the process and fail to add up the total cost of everything needed to fix up and furnish their new home. This, he said, can lead to poor decision making and financial pressures.

RMB Private Bank's latest financial tool aims to take that stress away by putting you in the driver's seat from the start of your home buying experience to the very end. Like the name nav» suggests, this is a navigation tool that gives you control over your buying decisions, your financial outlay and the property selection process by bringing together all the expertise within the FirstRand family and putting them at your fingertips via the RMB Private Bank App.

Jolande Duvenage, Chief Imagineer (CEO) of nav», explains that the process of creating nav» started by putting customers at the centre of RMB Private Bank's thinking. "We are all consumers and many of us have had the experience of buying and selling a property," she says. "If you see the functionality behind nav», it takes a look at the angst points and how we can help you as a customer to navigate those."

nav» provides RMB Private Bank customers with vital tools as they embark on this exciting, but often overwhelming and time consuming journey, says Duvenage. For starters, have you any idea what your current home is worth? Use nav» to get a free instant value estimate of your home; information you can use as a guideline when searching for your ideal new property or when you are looking to sell your property.

"This tool helps you exercise control and creates comfort when making these important decisions," says Duvenage. "It really helps to guide you, as a customer, to not sell for too little or buy for too much. Just that one feature makes a huge difference."

She explains that you can also use nav» to help you search for properties. "Many of our RMB Private Bank customers are finding their needs changing, which may entail moving cities, and they find it hard to match their needs to a new area." With free area and property reports at their fingertips, RMB Private Bank clients can easily compare prices and neighbourhoods using nav». "Maybe you are a young family and you want to live in an area which is friendly for young children. Those reports help in terms of schools and properties in that area, as well as offering information on selling prices," says Duvenage.

One of the key features of nav» is the instant home loan pre-approval process for qualifying clients. This is free of charge and gives RMB Private Bank customers almost immediate access to information about the maximum home loan they qualify for and the deposit needed. nav» also features handy calculators so you can easily determine your monthly instalments.

Another useful feature is the access to home services in your area, from moving companies, to plumbing services, interior designers to landscapers.

"Today's customer wants to feel they are in control," says Duvenage, noting that with nav» everything is, quite literally, at your fingertips. "Our motivation is to help our clients achieve that. As a bank we are sitting on so much information and now we are sharing that information with our clients; be it a property value estimate, property or area report. When you know what the numbers are then all of a sudden you feel empowered to make more informed decisions."

For more information on nav» check out the RMB Private Bank website and click on 'ways to bank'.

You can access nav>> on the RMB Private Bank App. Look for the nav>> Home button.

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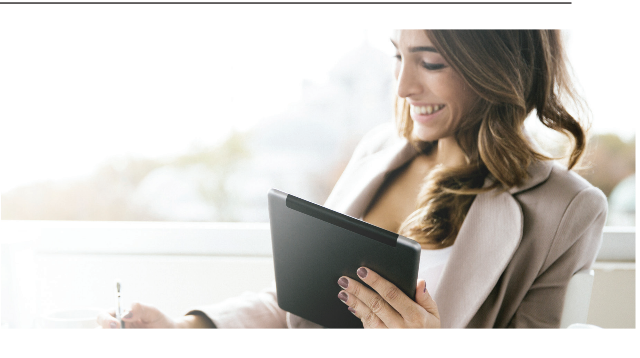

TAXES, TRUSTS AND TOUCHING BASE

Many of our clients have chosen, over the years, to make use of trusts and interest-free loans to trusts as an integral part of their wealth management strategy. However, with National Treasury seeking to tighten up tax provisions around trusts in recent years, RMB Private Bank has kept, and continues to keep, a close eye on legislative updates which may impact our clients' trusts and personal circumstances.

As such, we would like to provide you with an update on the section 7C tax legislation in respect of trusts as well as proposals made in 2016 as part of the Special Voluntary Disclosure Programme (SVDP). The section 7C and SVDP tax proposals were promulgated into law on 11 January 2017. In addition, having just closed off one tax year, we offer a gentle reminder to ensure you always make use of your annual donations tax exemption.

What is Section 7C?

The provisions of section 7C, which form part of the Income Tax Act, concern the mechanisms used to fund a trust. The legislation pertains to loans made to a trust, which are either interest-free or where interest is charged at a rate below the South African Revenue Service's official rate of interest, which is currently 8% per annum.

The legislation came into operation on 1 March 2017 and applies in respect of any amount that is owed by a trust in respect of a loan, advance or credit provided to that trust before, on or after 1 March 2017. It is important to discuss the implications of section 7C, and how you currently fund your family trust, for example, with your Private Banker in order to fully appreciate and plan for any tax implications.

Special Voluntary Disclosure Programme

The cooperation entered into by tax authorities around the world has created a collaborative and cross-border effort to ensure that all relevant individuals pay the required taxes. The global collection of financial account information and distribution between tax authorities - known as the Common Reporting Standard - has commenced and South Africa will exchange information automatically with other jurisdictions on an annual basis from September 2017. Time is, therefore, running out for those taxpayers who have not yet disclosed assets abroad.

In light of this, the SVDP provides non-compliant taxpayers who still have undisclosed assets abroad with a further opportunity to voluntarily disclose their offshore assets and income before the exchange of information begins.

It is crucial to note that the SVDP is a tax and exchange control regularisation opportunity. The window period within which to make use of the SVDP is limited and ends on 31 August 2017. If you have not yet make use of this window, and believe that your situation warrants that you do so, then we urge you to speak to your Private Banker or Fiduciary Specialist at your earliest convenience.

From a FirstRand Group perspective, we have a dedicated team across the country comprising specialists from FirstRand Exchange Control, the Forex Product House, Financial Advisory, Fiduciary and Group Tax. As a further reference point, the application process is set out on the SA Reserve Bank website: www.resbank.co.za.

As an Authorised Dealer, we are able to assist clients on the Exchange Control side, but the tax aspects fall outside of our mandate.

The RMB Fiduciary Team has, therefore, set up a panel of independent Tax Advisors to whom we can refer clients. Clients are advised to consult with their own expert advisors subject to them acknowledging the Legal Professional Privilege relating to the perceived tax contraventions.

Donations Tax exemption

The most recent tax year end for individuals and trusts may just be behind us, but it is always important to plan ahead. In this respect it is important to consider utilising your R100 000 annual donations tax exemption (applicable to a natural person), to reduce the loan owing to you by a trust. Do speak to your Private Banker timeously to ensure that you can take advantage of this exemption, if applicable, for the next financial year end.

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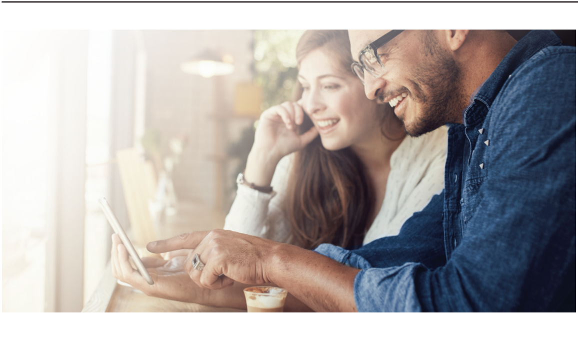

MARKET OVERVIEW: MARCH 2017

February 2017 marked the fourth consecutive month of global equity gains since November 2016. This positive sentiment has been spurred not only by the election of a pro-business President in the US, but by a generally improving global economic outlook.

In the US, the manufacturing Purchasing Managers Index (PMI) rose to its highest reading since 2014, and the labour market remained buoyant with the creation of 227 000 new jobs from a gain of 157 000 the month before. The labour participation rate also improved to 62.9% from 62.7% previously.

In the Eurozone, the manufacturing PMI readings soared to a 69 month high in February as most countries boasted solid gains. While in China, manufacturing PMI readings remained steady in expansionary territory and in Japan the manufacturing output index increased to its sharpest rate of growth in three years.

On the local front

Indicators were once again fairly mixed over the period for South Africa. Mining and manufacturing production declined slightly year-on-year at -1.9% and -2% respectively, although production was marginally positive on a month-on-month basis. On a more positive note, December's trade surplus was higher than anticipated and left the full year trade account deficit at only R2.9 billion, compared with 2015's shortfall of R52 billion. The Barclays PMI for January rose to 50.9 from 46.7 in December with a large improvement in expected business conditions. Private sector credit extension growth numbers reflected a slight acceleration (mainly on the corporate side). Household credit remained subdued, growing by just 0.7% on a year-on-year basis.

The South African Budget, presented by Finance Minister Pravin Gordhan to Parliament on 22 February 2017, reflected significant fiscal consolidation, with higher taxes and reduced spending. It was, therefore, regarded as being more bond than equity friendly and would have appeased the ratings agencies to some degree. There is still a good chance that a downgrade could happen, but we now think this possibility has been pushed out to December and not June as previously anticipated.

Market Outlook

An improving global growth outlook, together with the prospect of fiscal stimulus, continued to prove a positive backdrop for global equities over the period. A very strong rand (up 3.5% against the US dollar) pushed the local market into negative territory (in rand terms). Resource counters in particular bore the brunt of the pain over the period.

While we are becoming somewhat more optimistic with respect to the prospects for growth assets, there remain a number of reasons why an element of caution should be retained as we look forward to the rest of 2017. These include policy uncertainty, rising global interest rates, and a trend towards nationalism and protectionism.

While higher commodity prices are a definitive positive from a local perspective, the prospect of a rising interest rate environment globally could present capital flow challenges.

In the local context, an improvement in forecast earnings growth - flowing from a slightly better performing economy in 2017 - suggests a better local equity market underpin this year compared with 2016. The bond market is regarded as representing fair value with relatively high real yields and money market yields in excess of 8% (one year money) remain attractive.

On the currency front, there are increasing signs that the current account deficit is likely to continue diminishing based on weakening import demand. Risks to forecasts are significant on both sides of the forecast, given the fluid political dynamic and substantial event risk. Offshore investment continues to retain investment merit from a diversification perspective.

Economic indicator assumptions

International

The global economy is expected to record a 3.2% growth rate in 2017 and 3.4% in 2018. The outlook, however, contains considerable uncertainties and risks.

- The US economy is expected to achieve a growth rate of 2.3% in 2017 and 2018 respectively.
- Growth in the UK is expected to be 1.2% and 1.3% in 2017 and 2018.
- European growth is likely to be 1.5% in both 2017 and 2018.
- Japanese growth is expected to be positive although muted in 2017, at rates of 1.0% and 0.9% for 2017 and 2018 respectively.
- Economic growth in China is expected to decelerate to 6.5% for 2017 and 6.2% for 2018.

Local

- Inflation is anticipated to average 6% in 2017 and 5% in 2018.
- GDP growth is likely to be sub-par for some time. GDP growth of 1.1% is expected in 2017 from 0.2% in 2016. Growth expectations for 2018 are still significantly below trend at 1.6%.
- Interest rates are seen to have peaked with no more hikes expected in the cycle.
- While the rand may experience bouts of strength from oversold conditions from time to time, it is likely to remain volatile due to significant reliance on capital flow.

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DECODING DAVOS

Source: Ciaran McCrickard, (2017), World Economic Forum

With the administration transition in the US in full swing, the annual January gathering of world leaders at Davos, Switzerland for the 2017 World Economic Forum (WEF) set a somewhat different tone for the year to come. It fell to Chinese Premier Xi Jinping to deliver what was perhaps the most influential speech of the event, a defence of globalisation and free trade.

In his first speech to the WEF, Xi said that free trade was not solely to blame for the world's problems and there was "no justification to write it off altogether". He confirmed China's commitment to global promises with his words taking on a global leadership positioning, which caused Reuters to observe that Xi's speech "underscored Beijing's desire to play a greater global role as the United States turns inward".

With this year's WEF theme being 'responsive and responsible leadership', Xi set the tone for just that. As Mark Appleton, RMB Private Bank's Head of Multi Asset and Strategy (SA), commented: "Strong leadership has never been more important from a global perspective. An apparent drift towards protectionism, nationalism and popularism reflects the frustration of large swathes of society that are not experiencing economic development and social progress. It is imperative that the benefits of globalisation are experienced by all global society and it is the responsibility of responsible leadership to ensure that this happens."

Inequality, which many have put at the door of globalisation, was a hot topic for discussion and one which Shalin Bhagwan, Head of Fixed Income at Ashburton Investments, said would be the defining take-away from WEF 2017. "I think we will look back in a few years, a few decades to come, [and agree] that Davos 2017 was actually the inflection point; a watershed moment in the history of WEFs that have taken place over the years. [It will be seen as] the one where the penny dropped. IMF head, Christine Lagarde has been saying for some time that unequalness cannot continue. Finally it seems the world is listening."

This observation is of particular importance for unequal societies like South Africa and many African and emerging market nations; although the focus from Team SA at WEF 2017 was more on sowing the seeds of confidence in the country.

Team SA was out in force at Davos, under the leadership of Deputy President Cyril Ramaphosa and with Finance Minister Pravin Gordhan playing a central part. They did a good job, said Lesiba Ledwaba, Ashburton Investments' Fund Manager. "Finance Minister Pravin Gordhan plays a very important role and is very highly regarded among finance circles. The message they tried to relay to the rest of the world is 'we are open for business'. South Africa is very much pro global trade."

Bhagwan added, however, that there was an apparent disconnect between the South African mood at Davos and some of the rhetoric to come out of South Africa at the same time as the conference: "Clearly the Deputy President appeared to be in high spirits, and came across very well. But there was a disconnect," said Bhagwan.

"Anyone watching Davos 2017 would have looked at Deputy President Ramaphosa talking at length about how great our renewable energy programme is in SA and how we've attracted foreign investment, while at the same time we had press headlines, almost simultaneously, talking about companies that had already invested in that programme potentially having to take Eskom to court because Eskom is looking to renegotiate some of its commitments. That disconnect is not helpful." While stressing that the projects were 'solid' and government guarantees 'watertight', Bhagwan said: "The noise that was created is very unsettling."

What wasn't unsettling was the feeling that Africa was standing on her own feet and recognising that the continent had to work to solve her own problems. "Developed markets have their own huge fault lines to fix, not least of which is their perceived unequalness," said Bhagwan, who noted a "more subdued optimism around Africa; a more subdued narrative around Africa" in general.

However, one of the positives, for Bhagwan, was the session with Development Bank of SA CEO, Patrick Dlamini. "I thought he spoke very eloquently about some of the challenges facing Africa, not just South Africa; about the lack of connectivity, infrastructure, roads to transport things, ICT and broadband technology. I thought he came across very well, not just in terms of having an idea of the bigger issues but also of some very practical things that Africa needs to get done, and the steps we are taking to reduce the risk for investors who want to invest in Africa and want to help us solve some of these problems. So I thought that was very positive."

Both Bhagwan and Ledwaba pointed to the WEF on Africa conference being held in Durban from 3-5 May 2017 as an important opportunity to fine-tune Africa's strategy and narrative. "I think Africa needs to come together and look at our own set of problems and try to solve those. Because, in a global context, a lot of those conversations can be lost," said Ledwaba, pointing to the oft-criticised 'exclusive' nature of the Davos event.

How the global gathering impacts thinking at the Durban event remains to be seen, but Bhagwan threw down the gauntlet for South Africa to take note of the focus on inequality and address the issue. "South Africa knows about these issues, being one of the most unequal societies in the world. If we in South Africa don't focus on solving our own issues around inequality, well, we can see where this leads. Coming back to South Africa from Davos, focuses one's mind as a South African on solving some of the big challenges facing our society from an inequality perspective."

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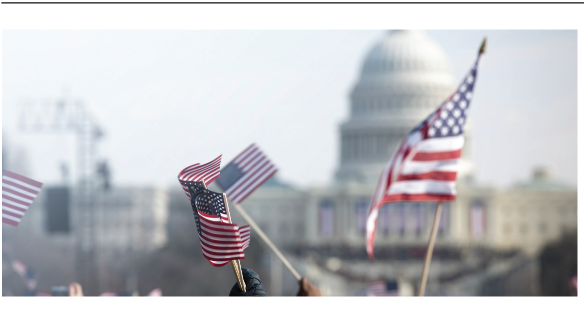

TWO CAPITALS, TWO BUSINESS HATS

Bilateralism appears to be the buzzword for 2017; at least according to early indications. In the face of a shifting political and foreign policy landscape, global consensus is that businesses should focus on building solid ties with specific markets as well as developing regional ties. With all the current hullabaloo over 'the wall', getting your feet under the table in both the US and Mexico would seem to be a pragmatic strategy.

Despite sharing a long border, the established global super power and the rising Latin American star are, in many respects, worlds apart. While Washington D.C. is the central heart of a country which has styled itself as the 'land of opportunity', in many respects Mexico is beating the US at its own game. Having shaken off the perception of being a land of corruption and violence, Mexico has, according to TMF Group research, transformed itself into a land of opportunity. Sound familiar?

Mexico has streamlined the process of opening a business and has a well-developed financial sector, but its investor protection is still challenging, paying taxes is weighed down by bureaucracy and the cost of cross border trade is higher than the South American and Caribbean average, says TMF.

According to Forbes' Best Countries for Business report, released in December 2016, the US also faces challenges from red tape and bureaucracy to falling scores on monetary freedom and trade. Forbes' annual list, which ranked Sweden in the top position, dropped the US by a further spot to 23rd place in 2016, down from No 1 just 10 years ago.

Clearly, both countries have something to prove in 2017, and there is no better way to get a taste of what doing business is like in these diverse markets than to take a whirlwind tour of two very different capital cities; which, very soon, maybe be divided by a man-made wall in addition to existing culture and language gulfs.

Mexico City

The founding of Mexico City, based on an Aztec prophecy which required the indigenous inhabitants of the land to spot an eagle perched on a cactus eating a snake, tells you a lot about this ancient, sprawling and dynamic city. The country's Spanish conquerors retained the Aztec capital as their own and made their own impressive mark; so modern-day Mexico City is a mixture of ancient history, the indelible stamp of the Spanish and the mark of global influence.

Boasting 150 official museums, history may be around – literally – every corner, but the city and its inhabitants are firmly in the here and now. With new buildings going up all around the city, feeding ever more people onto its frenetic roads and extensive public transport system, the city is abuzz with human activity and enterprise. Small business abound, snuggled elbow to elbow with international brands like Starbucks, Hilton and Coca-Cola, as well as home-grown success stories like Mexico's leading retailer, El Puerto de Liverpool, and Telmex, the telecoms company of billionaire Carlos Slim, ranked as the richest man in the world by Forbes in 2013.

While palaces, water canals, museums, parks and ancient Aztec archaeological sites are a must-see during any trip to Mexico City, for the business person perhaps the most intriguing aspect will to observe small business in action. Open almost 24 hours a day, business in Mexico City is about catering full time to a heaving population of 8.9 million people (2010 estimates). A taco joint, situated on 5 de Mayo Avenue tells it all: Where two storeys were built this establishment added a cramped mezzanine level to cater for demand. You'll be served in five minutes, and out in 15. That is business turnover in action. That is Mexico City.

Washington D.C.

Compared to Mexico City, Washington D.C.'s population of 658 893 (2014 estimates) seems sedate. But volume isn't the hallmark of the US capital; political power is. The site of the capital was selected back in 1790 and was carefully designed by Pierre Charles L'Enfant to be a modern city with the unmistakable Capital building dominating the landscape. Some 227 years later, and Washington has grown into a diverse and multicultural destination, which continues to celebrate both recent and distant history.

The White House, Library of Congress, 19 magnificent museums under the auspices of the Smithsonian, the city's wide boulevards and ceremonial spaces, the Lincoln Memorial, Martin Luther King Jr Memorial, Thomas Jefferson Memorial, Washington Monument, Arlington Cemetery, the Pentagon and historic Old Town Alexandria all hold a place in the global imagination and perception of this dominant and influential city.

But Washington D.C. is far more than the sum of its historical parts; it's the power and influence of those who run the largest economy in the world that pervades the air like sticky perfume. It is almost impossible not to gulp in the feeling of authority. The National Mall, which sweeps down the middle of the city from the Capitol building to the Potomac River, is deeply impressive. Of course, it was designed to be just that; to put visiting dignitaries and big time foreign business leaders firmly into their place. Awe is indeed a leveler. On the upside, you don't have to conquer Washington D.C's political manoeuvrings to make it in the US. But it sure tells you a lot about subtle psychological warfare.

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COVER YOURSELF AT 20, 40 AND 150

Famed musician and former Beatle, John Lennon, borrowed a wonderful phrase from American journalist Allen Saunders in his 1980s hit 'Beautiful Boy (Darling Boy)', it goes: "Life is what happens to you while you're busy making other plans." As deep and meaningful as that sounds, it doesn't always have to be the case. Sometimes you can make your plans fit your life.

Today's busy executive or rising professional may navigate complexity on a day-to-day basis, but they prize simplicity. At RMB Private Bank we know that life insurance can be complex. It is often hard to understand, incomprehensible and expensive, and it takes time to digest the available options, submit to all the fine print and simply get it done. Is this, one wonders, why so many South Africans have opted over the years for the easier-to-understand funeral plan insurance policies so freely available in the market, rather than traditional life insurance cover?

There is, of course, some sense in covering yourself for the costs of your funeral; after all none of us want to be a burden in death. But what if death is preceded by a long illness or disability? What if you have responsibilities to your family, or your business, and need coverage and financial certainty for them in the event of your death? Funeral cover doesn't cut it; here you need cover which makes sense for your particular life circumstances, your needs and your lifestyle. You need flexible options and simple processes which cut away the jargon.

At RMB Private Bank we believe this approach caters for our clients, rather than working against them. Many years ago life cover came more or less as a 'one size fits all' package; making it difficult for 20-somethings to justify parting with money, or unsettling 40-somethings who required more insurance to cover their responsibilities. Thankfully insurance has changed, and today there are variations on what is loosely referred to as risk or long-term insurance that really do make sense; no matter how young or old you are.

Today, life insurance can ensure that your beneficiaries receive a lump sum payout in the event of your death, or you can protect against the loss of income from a retrenchment, protect yourself against what insurers call critical illness, or safeguard against the hefty costs of treating a dread disease. Your RMB Private Banker can talk you through each option, in plain and simple language. But, for the sake of example, let's deal with what is often referred to as 'pure' life insurance.

As with all financial investments, (and insurance should be seen as an investment, rather than an expense) the type of cover you consider will always depend on your own personal circumstances.

If you're young, single and without children, you might think it's an undue expense. What you may not have thought about is that almost two out of every three people will retire without enough money to continue maintaining their preferred standard of living – your parents or older siblings may well fall into that category, which might make them financially dependent on you one day. If you have no cover that pays out if you die, then their 'safety net' would also fall away.

Fast forward a few years, and you might have settled down with a partner, and maybe you've started a family. It's going to be a long time before they're able to stand on their own financially, and you'll need to factor in education all the way through to tertiary studies. Who knows, you may have a future doctor in the house? Life cover can help your family bear the unthinkable blow of a breadwinner dying prematurely, and it can also be used to settle other burdensome debts such as an outstanding home loan, or estate duties on an inheritance.

And what if you are older, your children are about to graduate and you are eagerly looking forward to joining the 'empty nest' club? You still need cover and a financial safety net. With aging comes the greater need for financial support and additional funds for medical assistance. Plus given the leaps being made in medical science on an almost daily basis, none of us know how many years we have left to enjoy.

Exactly how far and how fast life expectancy will increase is a subject of some debate, but the trend is clear: as a species we are living longer. Cambridge researcher Aubry de Grey believes the first person who will live to 150 has already been born. It could be you and, if it is, wouldn't you find it easier to get on with the job of living knowing that you have a plan tucked into your back pocket?

RMB Private Bank can help advise on the best solution for you and your life stage, so do speak to your Private Banker who will, along with our team of experts, guide you according to your specific needs.

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For more information or any queries, please contact your Private Banker or contact the RMB Private Bank Service Suite on 087 575 9411 or servicesuite@rmbprivatebank.com