



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

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INVESTING WITH SA'S LEADING BOUTIQUE WEALTH MANAGER 2021

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WHY BRENTHURST WALKED AWAY FROM SECTION 12J INVESTMENTS

By Brian Butchart, CFP® and Managing Director of Brenthurst Wealth

The curtain falling on Section 12J funds at the end of June signals the end of a rather contentious era in the country's investment industry. Although the tax incentive scheme was well-intentioned, flawed execution meant that the investment case has been severely diluted.

People familiar with the Brenthurst Wealth investment philosophy will know that we've been discouraging clients from investing in these funds.

Purely from a risk point of view, we objected because these funds are unregulated and offer limited information or access to financials. We consider some to be downright risky and expect that tears will follow for investors in some of these ventures.

As regulated and licenced advisors we have to be 100% comfortable with the investment solutions we advise clients to invest in and we certainly can't advise on products or investments on which we haven't been able to conduct a thorough due diligence.

The question is, who is going to be left holding the can at the end of the day? Investors definitely, and quite possibly the advisors that encouraged clients to invest in these funds.

QUESTIONABLE INVESTMENT CASE

Governance issues aside, the majority of the 12J funds had much deeper flaws that disqualified them from inclusion in our clients' portfolios.

- ⇒ Firstly, many funds' minimum investment requirements of R100 000 - which was more often R500 000 - excluded the bulk of South African investors. Only someone earning taxable income of R1.5 million or more a year who had exhausted all other tax-efficient vehicles would likely turn to a 12J fund for the tax benefits. This means it's either beyond their means or not the right vehicle for your average investor.
- ⇒ And if it does happen to be the right vehicle, the investment universe is rather limited - by regulations as much as the limitations of the structures of the local economy.
- ⇒ This limited range of choice in itself should cause investors pause to consider the entire investment universe and whether a niche, unregulated fund is the best decision given the risk. Take, for instance, the concentration risk in property sector-focused 12J funds. Regulations prohibited investment into the asset class, unless it was in one that has been decimated by the COVID pandemic - the hospitality sector.
- ⇒ More broadly, [South Africa's property sector has been left in tatters](#) over the past 10 - 15 years, resulting in untold value destruction.
- ⇒ The final reason we have not supported investments into 12J funds is because investors could end up with an illiquid asset - especially in property - after the five-year mandatory investment period lapses.
- ⇒ Ultimately, the Section 12J funds have been sold on the tax benefit, and that cannot be denied. But tax deductions do not make for an investment case alone.

LOCAL TAX VS GLOBAL GROWTH

A [recent article in Business Day](#) tried unsuccessfully to equate 12J fund returns with those that offshore funds have delivered.

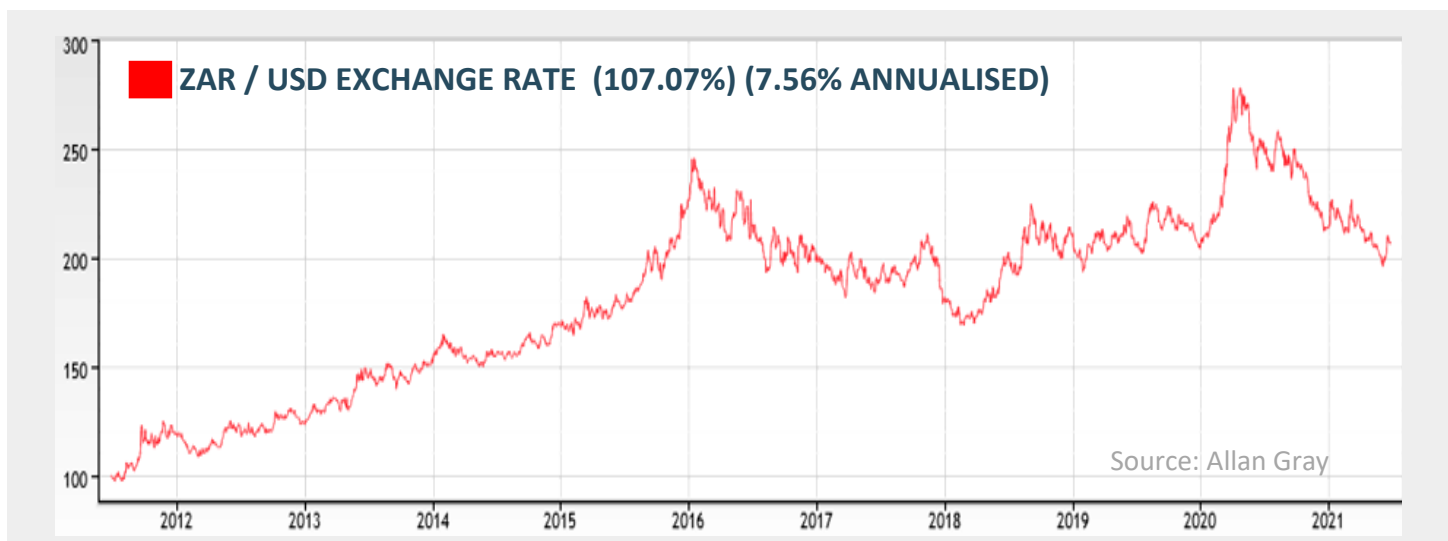
It may be true that some funds have produced reasonable returns for investors, but that's not true across the 12J fund universe. We have grave concerns about the majority of the funds because of the doubtful governance, returns and liquidity as already explained.

An accusation in the article laid at the feet of advisors encouraging clients to look offshore was that these clients have lost 30% in the past year due to rand strengthening. This superficial assumption is based on the misperception funds were shipped offshore at R19 to the dollar or more, which is simply not true.

For more than a decade, Brenthurst has been advising clients to increase their offshore allocation using the benefit of rand cost averaging phased out over time to gain attractive entry points especially during bouts of rand strength.

This argument doesn't hold water as a one-year currency fluctuation doesn't account for the long-term investment strategy or longer-term trend of the rand. An offshore investment is a long-term strategy and the success should be measured over seven years or longer, and in our experience no investors who take money offshore redeem these investments for decades.

Also, the rand has depreciated by 7.56% annually over the past 10 years, and 107.07% cumulatively over this period.



It's difficult to argue against this reality, and in addition South African investors are exposed to a far broader and diverse investment universe across international markets, which delivered far superior returns to the local market or Sect 12 J investments especially across robust thematic megatrend investment opportunities.

AN UNCERTAIN FUTURE?

It's almost certainly too late to dissuade other investors from responding to the Section 12J funds' last-gasp calls to take advantage of this tax-beneficial opportunity. And only time will tell how successful these funds have been in delivering investment returns.



The risk for investors is that they often place their faith in the 12J venture capital companies with little insight to where and how their investment is being used, with some remaining in cash for several months until an appropriate investment opportunity arises.

That exerts even greater pressure on a high-risk investment scenario, and one that we as trusted advisors strongly encourage clients to either ensure they understand the underlying investment and risks thoroughly or avoid them all together.

ADVISORS PROFILE: BRIAN BUTCHART, CERTIFIED FINANCIAL PLANNER®



BRIAN is Managing Director and key individual for Brenthurst Wealth.

He was recognised as one of the country's top three Wealth Managers in SA's Intellidex Top Private Banks and Wealth Manager's Awards twice, consecutively in 2020 and 2021.

Brian is also responsible for compliance and operations nationally across all seven offices. He has been in the financial services industry since 1998, for more than 21 years, and previously gained experience at Citadel and Magnus Heystek International.

Brian is also a key individual and representative for Brenthurst Capital (Pty) Ltd and a senior member of the investment committee dealing with all investment and asset allocation decisions.

Brian is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of South Africa and is fully qualified to give advice on all investment matters.

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BRENTHURST WEALTH STILL ON TOP

INVESTING WITH SA'S

LEADING BOUTIQUE WEALTH MANAGER*

**TOP 3 2021, WINNER 2020 & 2017,
RUNNER UP 2018 & TOP 4 2019**



CONSISTENCY SETS US APART

After being a winner in 2017 and 2020 runner up in 2018 & top 4 in 2019 Brenthurst Wealth places in the TOP 3 BOUTIQUE WEALTH MANAGERS of 2021.

"This is a powerful endorsement from our clients and exceptionally proud of the consistent value and service delivery from the team!"

Brian Butchart

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