

# COGNIZANT

1<sup>ST</sup> QUARTER 2019



CHALLENGES & OPPORTUNITIES **IN THE GLOBAL HEALTHCARE SECTOR** | MEDICAL BIOTECH – **AN EVOLUTION, NOT JUST A THEORY** | JOHNSON & JOHNSON: **STRENGTH THROUGH STABILITY** | ANIMAL HEALTHCARE – **FUELLED BY BOTH CONSUMPTION AND COMPANIONSHIP** | SLOW & LOW: **AN ECONOMIC OUTLOOK FOR 2019** | UK REAL ESTATE – **CHANGES EFFECTIVE FROM APRIL 2019**

# TABLE OF CONTENTS

<b>INTRODUCTION</b> .....	<b>3</b>
CHALLENGES & OPPORTUNITIES <b>IN THE GLOBAL HEALTHCARE SECTOR</b> .....	<b>4</b>
MEDICAL BIOTECH – <b>AN EVOLUTION, NOT JUST A THEORY</b> .....	<b>9</b>
JOHNSON & JOHNSON: <b>STRENGTH THROUGH STABILITY</b> .....	<b>14</b>
ANIMAL HEALTHCARE – <b>FUELLED BY BOTH CONSUMPTION AND COMPANIONSHIP</b> .....	<b>18</b>
SLOW & LOW: <b>AN ECONOMIC OUTLOOK FOR 2019</b> .....	<b>21</b>
UK REAL ESTATE – <b>CHANGES EFFECTIVE FROM APRIL 2019</b> .....	<b>23</b>



# INTRODUCTION

**CHRIS POTGIETER** – HEAD OF PRIVATE CLIENT SECURITIES

Globally, healthcare is probably one of the topics that tends to pique everyone's interest – from investors to policymakers, politicians and the man on the street. With so many varied interests, it is understandable why this is such a topical issue, where few fully agree. Arguments range from rising healthcare inflation, Government's role in providing healthcare services and the high prices that consumers pay in the form of medical aid premiums or co-payments, to broader issues such as healthcare reforms.

From an investment point of view, we regard healthcare as a structurally attractive long-term theme supported by ageing populations in developed markets, high birth rates and a rising middle-class consumer in emerging markets, and increasing disease burdens in most economies. In this way, the healthcare sector presents good opportunities in both developed and emerging markets. We unpack these trends in more detail in our feature piece.

When it comes to technology, an omnipresent and integral part of our lives, healthcare is probably one of the

most positively affected areas. Over the last few years, the industry has experienced an explosion of technological advances. From research and treatments to data collection, innovation has paved the way for incredible changes in the healthcare industry and further advances will create significant new possibilities and opportunities. Our article on medical biotech outlines some of the latest developments and highlights the main companies operating in this space.

We then provide an analysis on a key holding within our Global Equity Model Portfolio, Johnson & Johnson (J&J). From its humble beginnings over 130 years ago, J&J has survived two world wars, countless market cycles and waves of regulation to emerge as the world's largest healthcare company. With a market cap of more than US\$365 billion, J&J has provided consistent performance for years and is a major player in three growing healthcare markets, namely consumer, medical devices, and pharmaceuticals.

In a slightly different but related field, the animal healthcare industry continues to grow strongly and is increasingly offering

attractive investment opportunities. This global market is currently estimated to be worth approximately US\$30 billion and is forecast to grow to around US\$42 billion over the next five years. Our article explores the investment landscape for this industry and highlights the key players. Finally, we conclude with an economic outlook for this year and provide an update on the taxation of UK property for non-UK residents. ■

Regards

Chris



# CHALLENGES & OPPORTUNITIES IN THE GLOBAL HEALTHCARE SECTOR

**VICTOR MUPUNGA** – RESEARCH ANALYST

The global healthcare industry is experiencing significant change driven by global demographic trends and innovation in both the treatment of diseases and the delivery of services. In 2018, the US healthcare sector reached a key milestone by becoming the largest employer in the country, surpassing the number of people employed in previous leading industries of the 20th century such as manufacturing and retail.

The factors resulting in healthcare's increased importance to the global economy have been playing out for many years – ageing populations, emerging market populaces gaining access to basic healthcare and the unrelenting

growth in medical costs. The sector's greater economic importance has come with increased investor attention, scrutiny from regulators and diverse views from the public at large. Healthcare is simply one of those topical issues that piques

most people's interest.

## **WHAT'S NOT TO LIKE?**

From a macro investment perspective, there is very little not to like about healthcare. The premise is simple – as countries get richer, they spend more on their health. This



first law in health economics highlights a tendency for growth in the sector to outstrip GDP growth, increasing healthcare's fraction of a nation's GDP over time. Naturally, developed markets lead the way in terms of healthcare expenditure, spending more than twice the share of GDP that developing countries do. Despite the different spending levels (and what the money is spent on), emerging and developed regions both continue

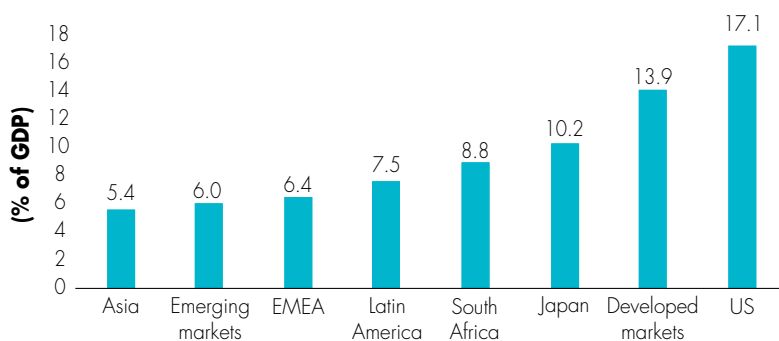
to incrementally allocate funds towards meeting the health needs of their respective populations.

#### **DEMAND OUTSTRIPS SUPPLY**

Most of the increased expenditure, particularly by emerging market governments, is driven by necessity rather than choice. As an example, emerging markets are home to almost half of the world's population but the combined value of their healthcare sectors is less

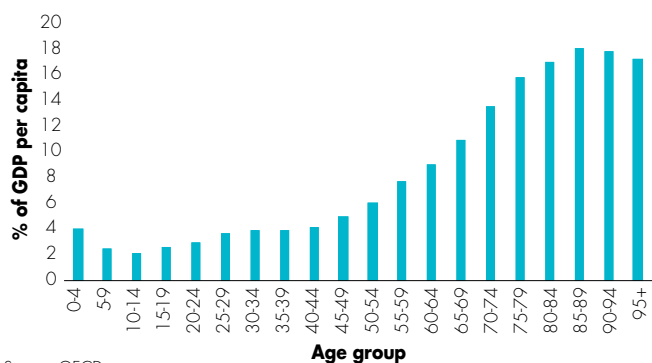
than half that of the US. In addition to population growth, the rapid pace of urbanisation in emerging markets over the last few decades has led to capacity constraints in areas such as hospital beds and the number of medical doctors. This is happening at a time when the disease burden in these countries is evolving from that of infectious diseases like malaria, tuberculosis and cholera to non-communicable diseases like hypertension and diabetes, which are more expensive to treat. This trend is more prominent in Asia where swift urbanisation and lifestyle and dietary changes are resulting in over 63% of deaths in the region being caused by non-communicable diseases. This compares with the global average of 71%. Grim statistics such as these are causing most major emerging market countries to accelerate their healthcare spend, which is forecast to grow by 6.3% annually over the next decade.

**GRAPH 1: HEALTHCARE EXPENDITURE AS A PERCENTAGE OF GDP**



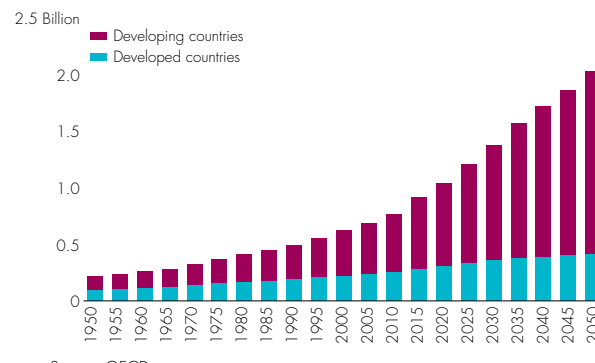
Sources: World Health Organisation, UBS 2017 data

**GRAPH 2: EU PUBLIC HEALTH EXPENDITURE BY AGE GROUPS**



Source: OECD

**GRAPH 3: TOTAL POPULATION OF PEOPLE AGED 60 AND OLDER**



Source: OECD

**DEVELOPED MARKETS NOT IMMUNE**

Healthcare’s increasing strain on resources also shows up in the developed world, albeit in different forms. For instance, in the US in 2018, nursing was the fastest-growing profession with higher than average pay, a trend that extends to other health professionals. The drivers of cost growth in developed regions are not dissimilar to those of emerging markets as increased prevalence of non-communicable diseases and higher life expectancy are common across both regions. However, developed markets are further hampered by an aged population that places increased pressure on health services. The European Union is a case in point as their public healthcare spending on citizens over 65 years old is 15% of GDP per capita – three times more than for the 20 – 65 year old cohort. With about a third of Europe and North America’s population forecast to be over the age of 65 by 2050, cost increases are unlikely to abate unless creative solutions are sought.

**HEALTHCARE FOR ALL**

One of the solutions that is bandied

about as the panacea to the challenges of rising costs and lack of access to health services is universal healthcare, i.e. a government-sponsored system that provides services to all citizens of a particular country. It is arguably the most contentious, probably because of the mixed success it has had across the world. The UK’s National Health Service (NHS), one of the oldest universal healthcare systems, was recently named the best system across the developed world by The Commonwealth Fund, particularly in quality care and access. Yet, despite the high comparative ratings, the NHS’s patient waiting list for routine treatments was recently reported to be the longest in over a decade, with a funding deficit of close to £1 billion for the year.

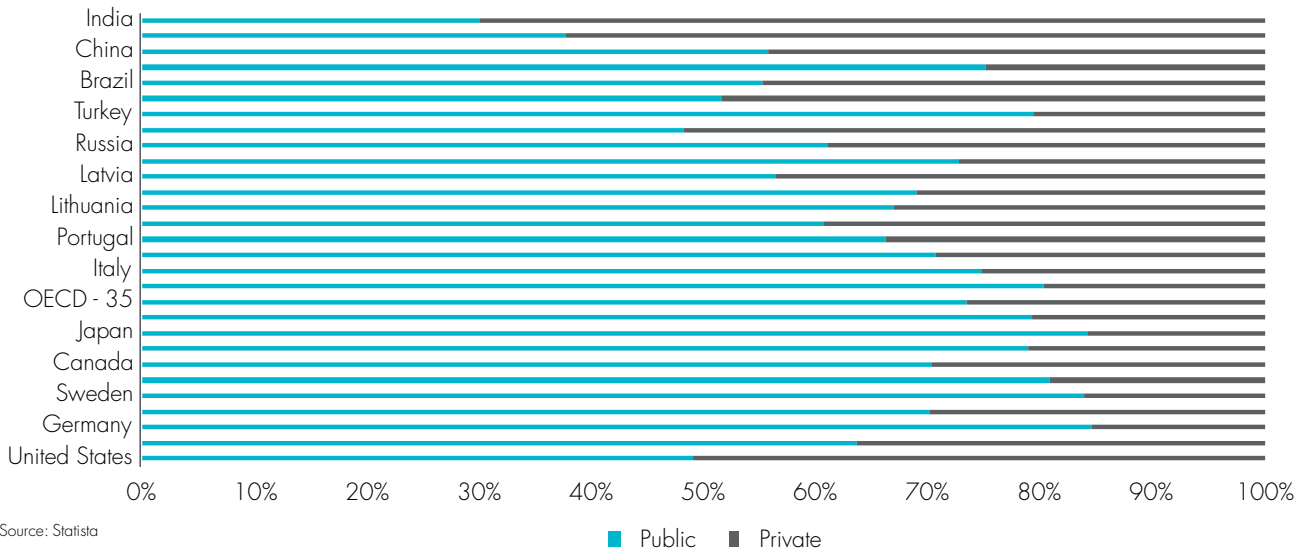
Advocates of universal healthcare point to lower health costs in the UK versus the US, one of the few developed countries without universal healthcare. The US spends about 2.5 times per capita more on health services than the UK, despite having similar life expectancies. The introduction and reasonable success of basic universal health cover in poorer countries like Thailand and Rwanda further

bolsters the argument for universal care within some circles. Of importance to us though, from an investor’s perspective, is that despite the healthcare system adopted and the diverse regulatory regimes across nations, the private sector in those regions continues to have a meaningful role to play in providing health services. On average, 40% of the healthcare spending in emerging markets stems from government (versus 60% in developed markets), with both regions leaving significant room for the private sector to operate. In our view, this reality is sometimes lost during deliberations on universal healthcare like the impending National Health Insurance in South Africa.

**TECHNOLOGY AND INNOVATION DRIVING PREVENTION**

One of the more intriguing solutions to healthcare’s main challenges (affordability, lack of access and quality) has come in the form of technology-enabled care (TEC). This term refers to the improvement of health outcomes through the use of technology in facilitating the access, analysis and sharing of information across systems and stakeholders. This growing

**GRAPH 4: SELECTED COUNTRIES' PUBLIC VERSUS PRIVATE HEALTH EXPENDITURE**



suite of solutions, which includes all forms of digital healthcare, is enabled by the pervasive nature of connected devices across populations and the rapid development of supporting applications that interpret data in a user-friendly manner. For instance, the management of non-communicable diseases, such as the monitoring of blood glucose levels and food intake for diabetes patients, is increasingly being done remotely by personal devices – a watch or smartphone. There is a fast-growing market of apps that are vying to diagnose ailments ranging from allergies and skin cancer to the early onset of cognitive problems.

There are numerous benefits to TEC, foremost being cost savings. Due to the exponential advancement of digital technology, its costs are plummeting. This is evidenced by the declining prices of devices, data and the freemium business model practised by most software applications. Remotely interacting with

a medical professional (after diagnosis via a shared app) further reduces travel costs for patients in remote locations and provides the patient with virtual access to a professional they otherwise might not have had. Another important benefit of TEC is the significant role it can play in preventative healthcare. It is widely believed that spending more on preventative care reduces overall healthcare spending, particularly in the case of non-infectious diseases. As the old adage goes, prevention is better than cure.

However, with all new technologies, there are drawbacks. Chief TEC concerns relate to data and privacy violations. Ironically, for health technology to fully be utilised, medical data records need to be collected, analysed and shared between various stakeholders. Critics are averse to this and cite previous high profile data breaches as examples of what could easily go wrong.

**THE PIONEERS**

Given the need for data collection and analysis within health technology, it is unsurprising that Alphabet, Google’s parent company, is one of the forerunners within the subsector. The group recently launched a company called Cityblock Health, an organisation that builds and utilises digital products to provide health services to poorer communities. By aggregating multiple data feeds from electronic health records, insurance claims, pharmacies and assessments from community residents, Cityblock is able to better equip their health professionals with information to make them more efficient and ultimately provide patients with quality and more affordable care. Discovery Health’s Vitality platform is another example. Through trawling vast swaths of data across the globe, the group is able to lower health costs for target groups and increase their focus towards preventative healthcare. On the African continent, Rwanda has been termed the

pioneer in digital health. The country has a central electronic health records system, doctors use telemedicine to consult and artificial intelligence based mobile apps for diagnoses while blood and medicines are delivered using drones.

**NOT EVERYONE CAN BE A WINNER**

In an industry as all-encompassing as healthcare, there are invariably going to be segments of the value chain that are winners and some laggards. According to Accenture, a global consultancy firm, the total revenue for the US healthcare sector is estimated to grow by 4.8% per annum over the next seven years to US\$7.3 trillion. However, the revenue share and margins within the thirteen healthcare subsectors will be varied. From a margin perspective, biotech, pharmaceuticals and medical device subsectors stand out. When it comes

to increases in profit pools, outpatient facilities, health software and IT are the standouts, while wholesalers and distributors, pharmacy benefit managers (PBMs) and health insurers are forecast to underperform.

Many of the drivers that lead to the various subsector performances are already at play. For example, digital technology is either replacing or squeezing margins of middlemen like PBMs and wholesalers. Health insurers are being disintermediated by large employers, as evidenced by the announcement last year that Amazon, Berkshire Hathaway and JPMorgan Chase were partnering in a new venture to provide cheaper healthcare to their employees. For hospital groups, advances in technology and pressure from funders are shifting the setting for many procedures to outpatient sites like day hospitals. While the broad healthcare

industry will certainly see higher-than-average growth in the coming years, the rising tide will not lift all boats alike.

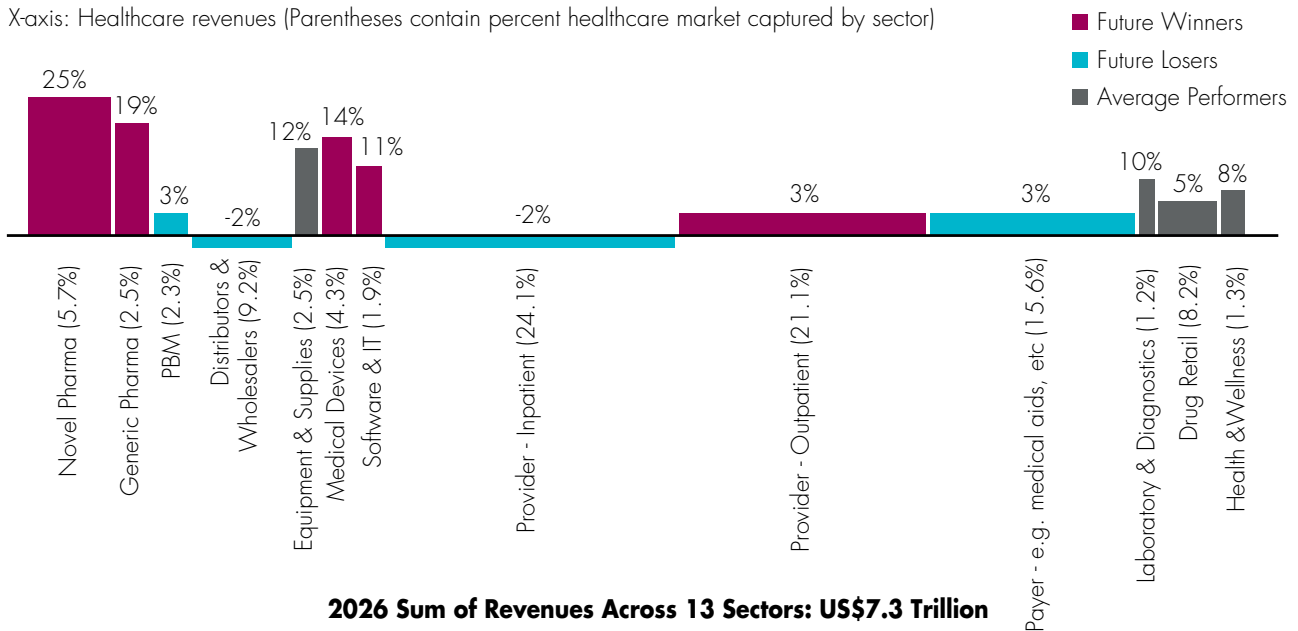
**FINDING THE RIGHT EXPOSURE**

The global healthcare sector is experiencing structural tailwinds that will support above-GDP growth across most markets over the coming years. Additionally, we expect some of these growth drivers, such as increased life expectancy and an ageing population, to accelerate over the coming years, further supporting the sector’s defensive nature. However, this defensive growth is attracting increased disruption, leading to varied success across the sector’s value chain. So while the sector rightfully deserves increased investor attention, it is crucial to identify those subsectors and companies that are adept at defending and growing their turf. ■

**GRAPH 5: 2026 PROFIT POOLS**

Y-axis: Sector operating margin

X-axis: Healthcare revenues (Parentheses contain percent healthcare market captured by sector)



Source: Accenture Consultancy

# MEDICAL BIOTECH – AN EVOLUTION, NOT JUST A THEORY

**TASNEEM SAMODIEN** – JUNIOR RESEARCH ANALYST

After two decades of research and technological advancement, biotech is about to change what constitutes medicine and healthcare. We now have the power to write genetic codes of future generations, eliminate genetic disease and, simultaneously, prolong human life. Ready or not, the future of biology is in our labs.

BPM=23 HEART=11

In 1859, Charles Darwin published “On the Origin of Species”, his book introducing the theory of evolution. Darwin suggested that all life stems from a single cell and introduced the concept of natural selection, where dominant genes are transferred to the next generation through survival of the fittest, thereby ensuring that every generation is genetically superior to its ancestors.

For centuries, medical scientists explained that this is how the human race evolves. This until the advance in medical biotechnology (biotech) that enables medical scientists to engineer the genetic code of living organisms. We are witnessing the evolution of an industry with the greatest potential to change life as we know it. The last few years took us leaps and bounds in biotech advancement as public and private investment poured into the burgeoning industry, increasing the pace of research and innovation.

**PAVING THE WAY FOR FUTURE INVESTMENT**

In a 2018 analysis of the initial public offering (IPO) market, stock analyst Geoffrey Porges found that from 2013 to 2018, the number of companies to go

public and the amount of money raised in biotech “were almost comparable to those in the entire preceding history of the biopharma industry”.

The US Food and Drug Administration (FDA)'s optimism towards the biotech industry has largely fuelled this boom. In May 2018, the FDA formed a new Biotech Working Group to help advance biotech goals through development of a flexible regulatory framework, paving the way for future investment in the industry. The FDA “walked the talk” as they approved the highest number of biotech drugs in a calendar year in 2018.

As indicated by the US FDA, the most recent and notable scientific advances in biotech, such as genome editing and synthetic biology, hold significant potential to improve human and animal health.

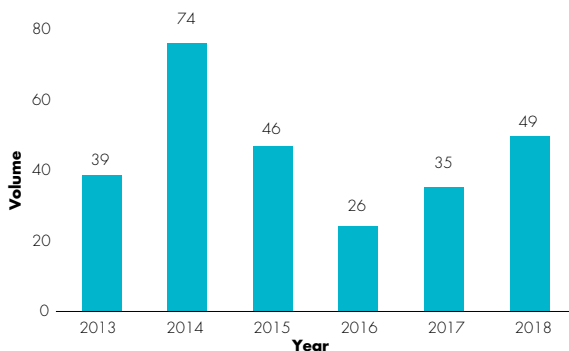
Contrary to popular belief, biotech is not new. When Edward Jenner invented vaccines and when Alexander Fleming discovered antibiotics, they were harnessing the power of biotechnology. Simply put, medical biotechnology is the use of living cells and cell materials to research and produce pharmaceutical and diagnostic products that help treat

and prevent illness and disease. There are currently more than 250 biotech healthcare products and vaccines available and many have been developed to treat previously untreatable diseases.

**DESIGNER GENES**

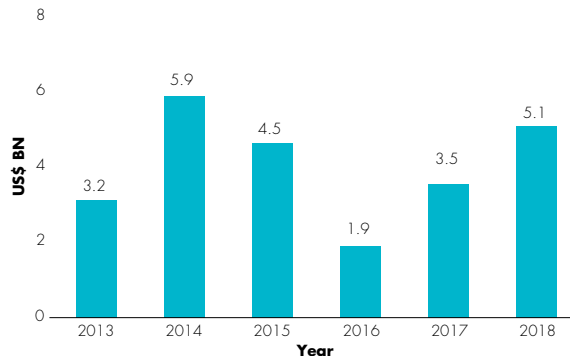
Clustered Regularly Interspaced Short Palindromic Repeats (CRISPR) could revolutionise how we address some of the world’s most critical issues such as the prevalence of cancer, food shortages and organ transplant backlogs. CRISPR technology is a powerful tool for editing genomes. It allows researchers to alter DNA sequences and modify gene function. In her book “A Crack In Creation: Gene Editing and the Unthinkable Power to Control Evolution”, CRISPR pioneer Jennifer Doudna writes: “CRISPR is like a Swiss army knife, with different functions depending on how we want to use it.” A simple way to understand CRISPR is to liken it to a computer’s find and replace function – it finds the genetic data you want to correct and replaces it with new material. Its many potential applications include correcting genetic defects, treating and preventing the spread of diseases and improving crops. By mapping the human genome, medical researchers have identified DNA errors that are at

**GRAPH 1: NUMBER OF BIOPHARMA IPOs**



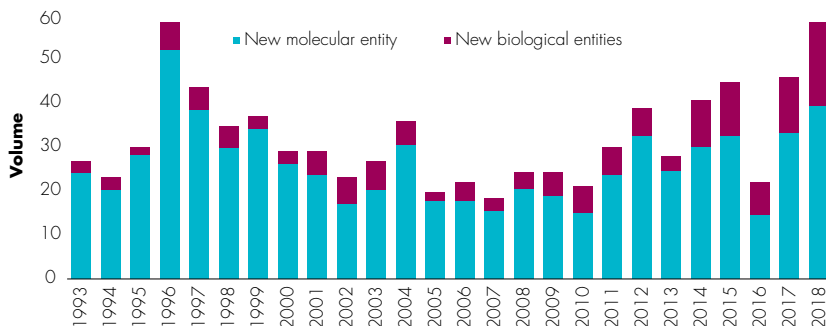
Source: Leerink Partners

**GRAPH 2: CAPITAL RAISED (US\$bn)**



Source: Leerink Partners

**GRAPH 3: US FDA DRUG APPROVALS**



Source: US FDA, Advancing Health through Innovation, 2018 New Drug Therapy Approvals

the root of nearly 7 000 diseases, which CRISPR can help repair.

CRISPR research has advanced significantly and has already gone beyond basic DNA editing. Since 2015, China has been conducting human trials using CRISPR to combat various cancers, HIV and HPV; and in 2018, the company Crispr Therapeutics enrolled people for the first clinical trial that will use the gene editor to treat genetic diseases. However, CRISPR has attracted a fair share of criticism and scrutiny due to its potential to edit human embryos. But regardless of the outcome of ethical debates, the future of medicine will most certainly be written with CRISPR.

**ATTAINING IMMORTALITY**

The search for the fountain of youth goes back centuries and attempts by modern medicine have failed. Twenty years ago, however, scientists isolated the active component for the gene that confers immortality to cells, called telomerase. Since then a substantial amount of capital has been invested into preclinical and clinical research backed by some of the world’s largest companies, including the likes of Google. Biotech company AgeX Therapeutics is developing novel

treatments targeting human ageing and age-related degenerative diseases based on the initial telomerase discovery. In a recent interview, the CEO of AgeX indicated that “research insights have opened the door to intervention [in human ageing] by the transfer of telomerase into the cells of the body, or understanding how regeneration gets turned off, and then turning it back on”.

A more recent breakthrough was published in medical journal, Cell last year, which concluded that by raising the levels of a molecule called NAD, researchers could rapidly reverse many aspects of ageing in mice. Researchers involved in the study found that older mice regained their ability to run like young mice and were even able to outperform their younger counterparts. The result was attributed to improved blood flow, which had decreased with age.

Citibank recently issued a report, Disruptive Innovations VI, that included anti-ageing medicines as the second most important innovation for investors to keep an eye on, and predicted that the first anti-ageing therapies could receive regulatory approval by 2023. In January 2019, the FDA published the number of drugs and therapies in development phase

and there was a material increase in new biological therapies over the past five years. This highlights that gene editing and anti-ageing are just two research areas among thousands with the potential to change the healthcare industry.

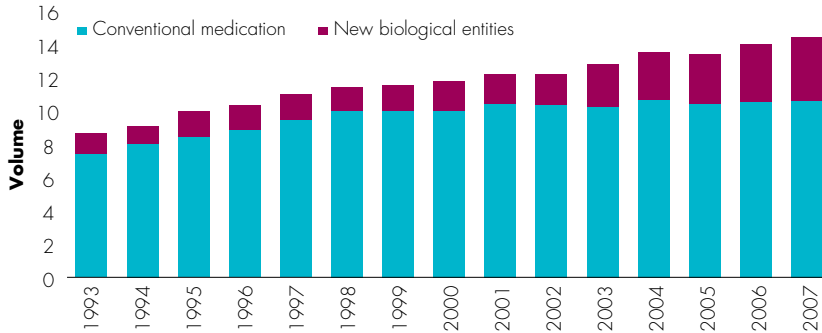
A new age of medicine is clearly upon us where genetic screening enabling personalised medication and therapies will become the new standard of healthcare. With this new era comes an abundance of opportunity but also risks and unintended, and possibly even unthinkable, consequences. A healthier population that lives longer is not sustainable for a world with finite resources. The advance in medical biotech has increased the urgency of sustainability and many believe we do not yet have the wisdom to make the decisions biotech advancement is forcing us to deliberate. While the world debates the ethics of it all, medical research will persist and investors will share in the returns.

**A RAT RACE**

The biotech industry is constantly evolving with companies at different stages of technological advancement and research. Commercialising a drug or therapy application is one of the most rigorous and regulatory intensive processes, requiring comprehensive testing and substantial investment. The research and commercialisation of a new drug could take anywhere between eight to 16 years. As a result, the barriers to entry into this space are high and require new entrants to have large amounts of capital and even larger amounts of patience.

Attempting to identify the long-term winners in this sector is a near impossible task. However, any long-term investment

**GRAPH 4: US FDA – DEVELOPMENT PHASE**



Source: US FDA, Advancing Health through Innovation, 2018 New Drug Therapy Approvals

portfolio cannot ignore the potential returns from investing in the biotech sector. The PCS Global Equity Portfolio therefore holds the iShares Nasdaq Biotechnology Exchange Traded Fund (ETF), which tracks the performance of biotechnology and pharmaceutical equities listed on the NASDAQ exchange, thereby affording investors exposure to quality companies in the sector.

The key companies within the ETF are pioneers in their selected research areas and are developing new medical solutions for previously incurable and untreated medical illness and disease. The top five companies are highlighted below.

**Gilead Sciences Inc & Celgene Inc**

invest in research to discover, develop and commercialise innovative therapeutics in the areas of unmet medical needs that improve patient care.

**Amgen Inc**, a biotechnology pioneer

since 1980, has grown to be one of the world’s leading independent biotechnology companies and focuses on six therapeutic areas, which include cardiovascular disease and neuroscience. Their medication typically addresses diseases for which the number of effective treatment options is limited, or provides a viable option to what is otherwise available.

**Biogen Inc** discovers, develops and delivers worldwide innovative therapies for people living with serious neurological and neurodegenerative diseases. The company has the leading portfolio of medicines to treat multiple sclerosis, has introduced the first and only approved treatment for spinal muscular atrophy, and is focused on advancing neuroscience research programmes in Alzheimer’s disease and dementia, neurocognitive disorders, pain, and ophthalmology.

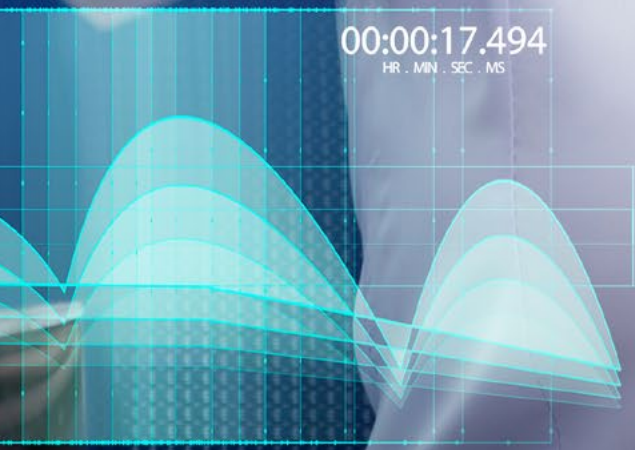
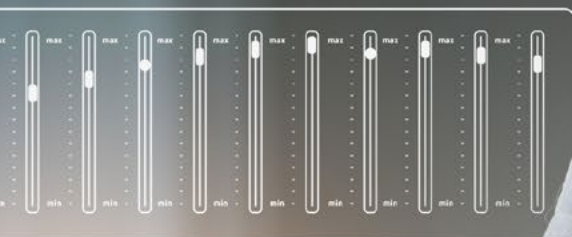
**Illumina Inc** is a leading developer, manufacturer and marketer of life science tools and integrated systems for large-scale analysis of genetic variation and function. Illumina is unlocking the power of the genome through genetic sequencing and array-based solutions used to analyse genetic variation and function, in fields ranging from cancer research to agriculture.

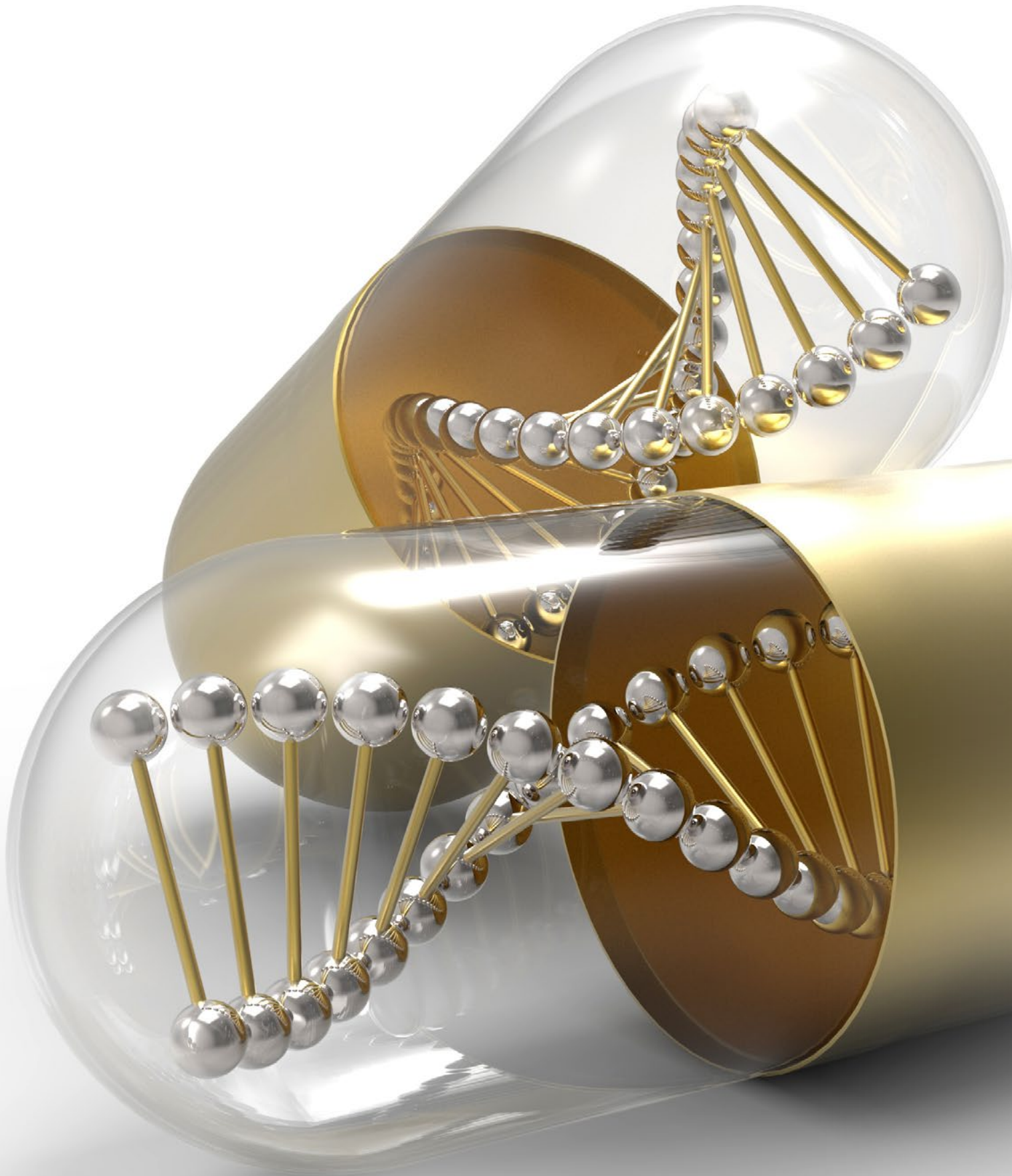
**A NEW AGE**

In the coming decades, scientists will use the tools of biotech to manipulate cells with increasing control, from precision editing of DNA to synthesising entire genomes from their basic chemical building blocks. History has taught us that with every significant innovation comes extreme upside as human life is improved, but this always comes at a cost. Yet, despite the possible downside, the potential of medical biotech to eradicate incurable disease and enhance human life is too great not to pursue. ■

**US FDA AVERAGE DRUG APPROVAL PROCESS TIMELINE**







# JOHNSON & JOHNSON: **STRENGTH THROUGH STABILITY**

**SAMEER SINGH** – RESEARCH ANALYST

From its humble beginnings making first aid kits over 130 years ago, Johnson and Johnson (J&J) has survived two world wars, countless market cycles and waves of regulation to emerge as the world's largest healthcare company. With a market cap of more than US\$365 billion, J&J has provided consistent performance for years by continually developing and marketing products that meet customers' healthcare needs. The company is a major player in three growing healthcare markets (consumer, medical devices, and pharmaceuticals) and many of its products have become trusted household names and essentials.

## **SUCCESSFUL, OPPORTUNE ACQUISITIONS**

Such glowing titles are not earned overnight and in J&J's case, the seminal point came in 1959 when the company made two significant acquisitions in the pharmaceutical space. Critically, one of these acquisitions gave J&J its first opportunity to enter the non-prescription/over-the-counter (OTC) market with Tylenol for children. Over the following decades into the 2000s, the company grew and expanded into adjacent fields including vision care, minimally invasive surgery, cardiovascular health and chronic illnesses, to name a few. It was in 2006, with the acquisition of Pfizer's Consumer Health division for US\$16.6 billion, that J&J's portfolio saw a significant shift towards the fast-growing consumer healthcare sector. This acquisition alone grew J&J's share of revenues from this sector by over 40%. Importantly, it also gave the company access to well-known

brands such as Listerine, Roloids, Rogaine and Nicorettes – all top-selling products with meaningful market shares in their respective categories.

## **DIVERSIFIED PORTFOLIO**

The company's portfolio of products spans three segments: Consumer, Pharmaceutical and Medical Devices. At the end of the 2018 financial year, J&J had generated US\$81.5 billion in annual sales, with Pharmaceuticals being the largest contributor to group revenue (50%) followed by Medical Devices (33%) and Consumer (17%).

Pharmaceuticals is by far the most profitable segment, maintaining margins that are almost double those of the other segments. However, the pharmaceuticals market is highly competitive and prone to flux. While there is strong evidence supporting long-term demand for pharma products, shorter time periods are prone to more uncertainty, and for good reason. New technologies emerge, patents

expire and new ailments arise, with all of these events causing disruption in the market place. This is where a diversified product portfolio comes into play. Although J&J's Consumer segment is relatively small in terms of revenue while carrying limited margin growth potential, it brings predictability and stability to the company's entire portfolio. Furthermore, owing to the "staples" nature of its consumer portfolio, J&J is exposed to growing markets; most importantly emerging markets, where incomes are rising, families are expanding and there is demand for higher quality, branded consumer products.

**STRONG PRICING POWER DRIVES STABLE MARGINS**

J&J is the world's largest healthcare company, both in terms of sales and size. In fact, the amount of sales generated by each of J&J's underlying segments could individually challenge most peers' entire market capitalisations. But of course, size alone does not guarantee success. J&J maintains leading positions across a number of segments, including several drug applications, OTC medicines and medical devices. Furthermore, the company is not overly dependent on a single segment to dominate sales. While the portfolio does carry some lower-margin products, strong pricing power has allowed J&J to consistently generate gross margins in excess of 65% over the last 20 years. It has also provided the business with stability in cash flow generation. Strong free cash flow generation has allowed J&J to not only increase dividends almost every year for the past 50 years, but also gives them firepower to invest for future growth.

**GEARED FOR GROWTH**

After years of impressive growth, large companies typically struggle to sustain

their pace if their investment spend is not strategic. In 2018, J&J spent US\$10.8 billion on research and development (R&D) and US\$0.9 billion on acquisitions. Even more was spent the year before (US\$34bn) with the purchase of Abbott Medical Optics and Actelion Pharmaceuticals. In fact, the company made its biggest bet to date with the US\$29.6 billion Actelion acquisition. Perhaps even more impressive than the absolute size was that J&J paid for the acquisition entirely in cash, limiting balance sheet strain and future liquidity demands on the company. These key growth-oriented portfolio inclusions have further entrenched J&J's position in the cataract surgery, laser refractive surgery and consumer eye product markets (Abbott) and given it market-leading presence in the growing pulmonary hypertension space (Actelion).

Aside from acquisitions, growth also comes through innovation. In J&J's case, legacy products are just as important as new ones. In fact, by 2005, one of the company's main OTC brands, Tylenol, had seen more than 75 product extensions (e.g. Tylenol sinus; headache and muscle pain; children and infants; cold and flu; arthritis; sleep and pain ranges) over its life cycle. More recently Listerine, arguably the world's most popular mouth wash, received a refresh. Having identified

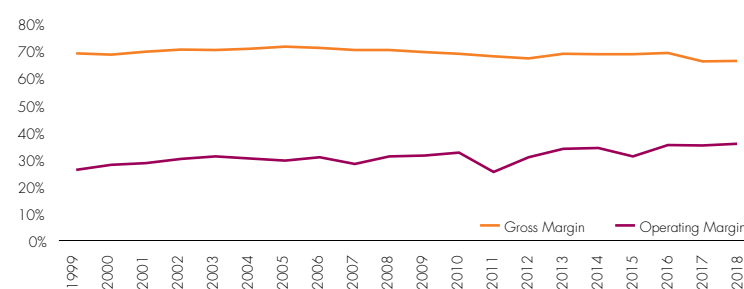
key usage barriers constraining growth, J&J's innovation team formulated Listerine READY Tabs, which are solid tablets that transform into a liquid seconds after chewing. This speaks to the ability to innovate and build upon iconic brands.

Innovation also contributes through the introduction of new products, which are a significant driver of revenue growth. Testament to the success of J&J's R&D and investment programmes is that new products launched over the past five years have accounted for 25% of annual sales. For a company that generates over US\$80 billion in annual sales, this is no mean feat. However, critically for any company operating in the pharmaceuticals space, patent expiry resulting in the rise of generics needs to be guarded against. This is why J&J manages an extensive pipeline of future drugs tied to existing and developing unmet medical needs. Phase three trials currently underway cover all of the company's treatment areas, with the greatest growth being expected from oncology and pulmonary hypertension. The oncology pharmaceuticals market is expected to grow at an average of 7.6% per year, from US\$97.4 billion in 2017 to US\$176.5 billion in 2025. Oncology represents around 10% of J&J's annual sales.

**RISKS ON THE HORIZON**

The most prominent risk relates to the

**GRAPH 1: STABLE MARGINS**

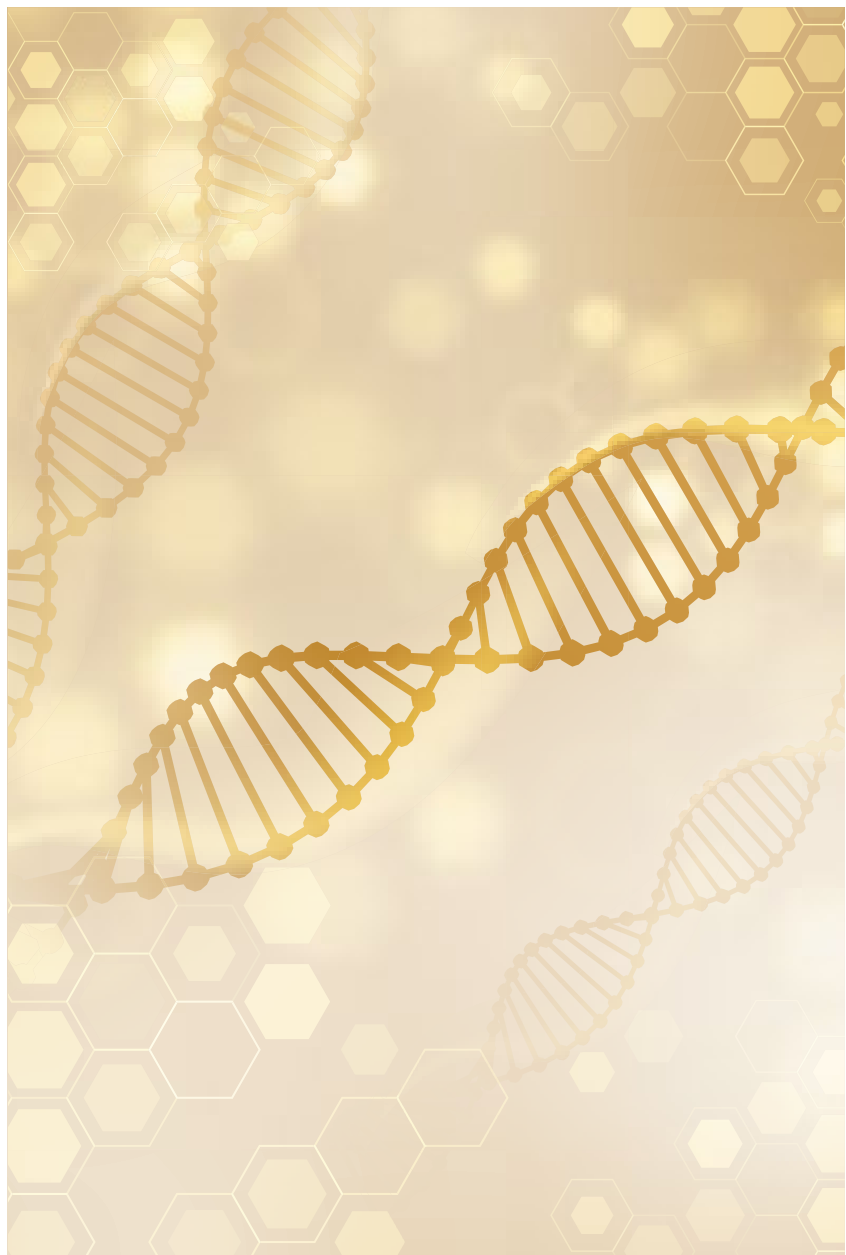


Sources: PCS Research/Refinitiv

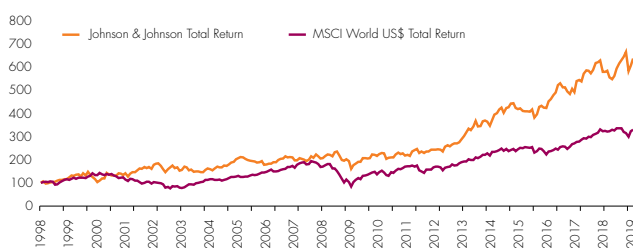
various lawsuits the company is currently facing regarding claims that its talc products contain asbestos. While J&J obviously denies these claims, there is still a great deal of uncertainty and the ongoing litigation is likely to result in continued volatility in the company's share price. We continue to monitor these developments closely. However, in essence, we believe the remainder of the business maintains strong demand drivers in growing end markets. In fact, when reviewing our investment case and the company's fundamentals, J&J stands out as a strong defensive investment given its track record and ability to generate stable sales and earnings through various economic cycles.

### STEADY-AS-SHE-GOES

In the current fast-paced environment with investors chasing the latest market trends and so-called hot stocks, it would be easy to overlook J&J. However, we believe that the company maintains many of the prerequisites of a quality investment. In addition to a solid track record, J&J is well placed to benefit from the key trends driving healthcare demand for years to come. This, combined with the company's proven resilience during market downturns, should see J&J continuing to deliver decent growth and solid dividends for investors well into the future. ■

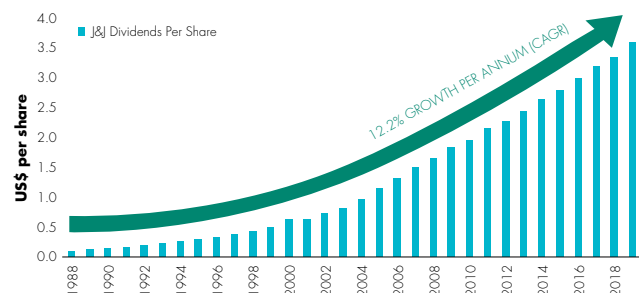


**GRAPH 2: J&J COMPARATIVE TOTAL RETURN**



Sources: PCS Research/Refinitiv

**GRAPH 3: DIVIDEND GROWTH**



Sources: PCS Research/Refinitiv



# ANIMAL HEALTHCARE – FUELLED BY BOTH CONSUMPTION AND COMPANIONSHIP

CHRIS POTGIETER – CEO

**The animal healthcare (AH) industry continues to grow strongly and is increasingly offering attractive investment opportunities. The global AH market is currently estimated to be worth approximately US\$30 billion and this is forecast to grow to around US\$42 billion over the next five years, representing a compound annual growth rate of 7%.**

AH comprises two broad components relating to the roles of animals – firstly as a human consumption protein source, and secondly personal companionship. Both are benefiting from a growing and an increasingly affluent global population.

## LIVESTOCK

As both the world's population and living standards increase, the demand for cost-effective animal protein similarly rises. It is therefore vitally important to maintain sustainably healthy livestock that can fulfil consumption demand, produce good yields for farmers, and keep protein prices stable. Outbreaks of livestock diseases, such as foot and mouth, have the potential to disrupt the food chain. Another imperative is to limit the spread of food-borne zoonotic (animal to human) diseases. Examples of these are outbreaks of so-called "Mad Cow Disease" and listeria pandemics.

## DOMESTIC PETS

As global demographics change, with couples waiting longer to have children, and human longevity increasing markedly, the demand for companion animals is rising. Additionally, science demonstrates that pets impart significant positive factors to human owners, such as lowered blood pressure, greater psychological stability and reduced anxiety.

There is also the phenomenon of "anthropomorphism" (applying human characteristics to pets), and within that context, pet owners have increased the incidence of annual checkups, regular dental treatments, vaccinations and neutering. Additionally, and in no small part due to better medical attention, companion animals are living longer,

and like humans, require greater medical attention during their twilight years.

These companion animal macro trends are now enticing the traditional livestock healthcare and feed providers to move into this space. US-based General Mills presents a prime example with their US\$8 billion acquisition of pet food producer Blue Buffalo Pet Products, in 2018.

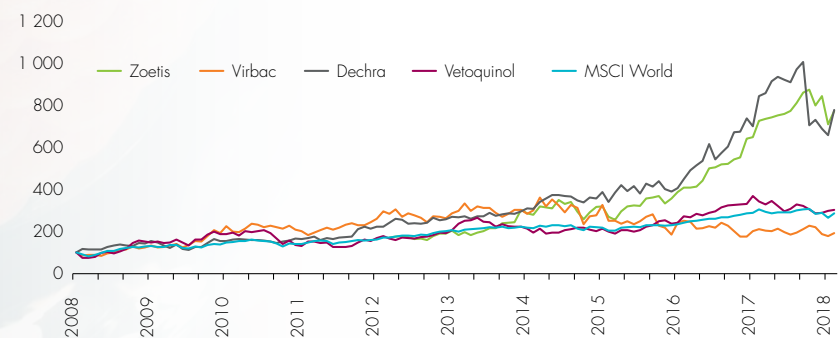
The trend is even attracting non-AH players. For example, a few years ago, listed US food company JM Smucker, a leader in jams, toppings and home retail coffee, bought its way into the pet food market. It now offers a wide range of dog and cat food products, with two-thirds of this in the premium or super-premium segment. Pet food is now one of the fastest-growing components of the group and Smucker has recently acquired Ainsworth Pet Nutrition (the

maker of Rachael Ray Nutrish and DAD's brands), enhancing its position in the pet category alongside an already strong portfolio that includes Meow Mix, Milk-Bone, Natural Balance, Nature's Recipe, and Kibbles 'n Bits.

## INVESTMENT LANDSCAPE

The top ten animal health pharmaceutical companies (being pure AH operations, or larger companies with AH divisions) by revenue in 2017 were Zoetis (US\$5.3bn); Germany's Boehringer Ingelheim (US\$4.4bn); Merck (US\$3.9bn); Elanco, which was spun out of Eli Lilly in 2018 (US\$2.9bn); Germany's Bayer (US\$1.8bn); Ceva Sante Animale of France (US\$1.2bn); Virbac of France (US\$1.0bn); Phibro (US\$500m); Dechra of the UK (US\$500m); and Vetoquinol of France (US\$400m). Graph 1 shows how some of these companies have performed relative to the MSCI World Index over a 10-year period.

**GRAPH 1: 10-YEAR PERFORMANCE VS MSCI WORLD INDEX**



Source: PCS

### SOME OF THE KEY PLAYERS

Of the large, publicly listed AH companies, Zoetis and Elanco (listed in 2018) offer investors the opportunity to meaningfully buy directly into this rapidly growing sector.

Zoetis is widely regarded as the leader in the global AH sector, due to its broad product portfolio and diversified geographic base. Formerly a subsidiary of Pfizer, it is represented in over 100 countries and derives around half of its revenue from outside the US. Revenue is split 57:43 in favour of farm:companion animal products. Zoetis currently supports eight species, being cattle (beef and dairy), pigs, poultry, sheep, fish, dogs, cats and horses.

For the full year to December 2018, Zoetis's revenue was US\$5.8 billion, an increase of 10% compared with the previous year. Revenue is expected to increase to between US\$6.2 billion and US\$6.3 billion in 2019.

Elanco has been in the AH sector since 1954 and is now a standalone AH company since it was recently spun out of Eli Lilly. Represented in over 90 countries, it has a brand portfolio of over 125 offerings.

Merck Animal Health is the AH subsidiary of human healthcare parent Merck & Co. Like Zoetis, it is highly diversified, enjoying a 12% share of the global AH market, and the split between feed animals and companion animal health is similar at 60:40. AH only constitutes around 10% of Merck's total revenue and profits, so it is not an especially efficient way of entering the AH market.

### CHALLENGES

AH companies face sector-specific risks, which include –

- increasing regulatory restrictions and limitations on the use of antibiotics in feed animals;
- changes in consumer dietary preferences away from meat proteins;
- generic substitutions in the longer term as patent protection of pharmaceuticals falls away, with many AH players only in the infancy of refining their generic portfolios;
- companion animal ownership is highly discretionary and any downturn in economic activity will dampen demand;
- possible trade agreement and tariff changes or disputes;
- currency volatility that comes with expansion into emerging markets;
- and increased competition, which

can put pressure on pricing power and margins.

Despite these challenges, we believe that the AH industry offers attractive opportunities for long-term investors.

### CORPORATE ACTIVITY

The recent Bayer announcement of its intention to divest out of AH, and the Zoetis acquisition of Abaxis (a leader in the development, manufacture and marketing of diagnostic instruments for veterinary point-of-care services), are just a few of the current corporate actions evident in the industry. Further mergers, acquisitions and organic expansion should reasonably be expected as the sector evolves and industry players attempt to bulk up; diversify exposures so they are not overly dependent on certain regions, product lines, or animal species; acquire tangential product lines; and diversify their global footprints, especially into developing markets where entry costs are low and livestock management is becoming increasingly sophisticated. ■



# SLOW & LOW: AN ECONOMIC OUTLOOK FOR 2019

**IZAK ODENDAAL** – INVESTMENT STRATEGIST AT OLD MUTUAL MULTIMANAGERS

After 2018 ended with an epic sell-off, 2019 started with a bang for global markets. The outlook for the remainder of this year depends on a number of factors, all interrelated.

## **THE FED PAUSES**

Firstly, the US Federal Reserve (Fed) has paused its hiking cycle. Even though the US economy remains quite strong and unemployment is close to record lows, there is little inflationary pressure. Meanwhile, the cumulative 2.25% rate increase since December 2015 is starting to have an impact on rate-sensitive sectors

such as car sales and housing. First year economics students are taught that changes in interest rates take one or two years to impact the economy. Last year the market worried that the Fed would forget this lesson and plough ahead with further rate increases without stopping at some to assess the impact. They are now pausing, and can afford to.

The other criticism often levelled at the Fed is that they are too inwardly focused, treating the US as an economy closed off from the rest of the world. But the Fed under Jerome Powell's leadership is now explicitly adding slowing global growth to the agenda. The US economy is driven by consumption spending and while US consumers are in poor financial health,

US multinationals earn almost half their incomes outside the country's borders.

### **TRADE WARS LEAD TO SLOWDOWNS**

Which brings us to the issue of why the global economy – in particular China and Europe – is slowing. China and Europe are more dependent on trade than the US, with Europe being the most dependent of the three. Even though the impact of tariff hikes has been limited to date, US President Donald Trump's trade wars have caused large-scale uncertainty. Businesses, unsure of what lies ahead, are taking a wait-and-see attitude.

China is slowing not just because of the trade tensions, but also because the economy is maturing, and its labour force ageing. Throughout 2017, authorities in Beijing reined in reckless lending and industrial overcapacity. This contributed to the slowdown, with a lag again, but policy is now shifting to be more supportive. Interest rate cuts, VAT reductions and infrastructure spending should prevent a hard landing.

The big risk remains the rapid build-up of corporate debt, mostly by state-owned companies. But this is a known risk and the measures taken have already seen debt levels stabilise. Ultimately, the government would be able to absorb most of this debt, so a Chinese financial crisis would not play out like an American one.

While the slowdown in China was entirely expected, the slowdown in Europe was a surprise. However, this followed unexpectedly strong growth in 2017. Being trade dependent, Europe felt the delayed impact of a stronger euro in 2017 during 2018. The current weaker level of the euro should help in time. But the trade war uncertainty has weighed on European business. Other sources of

uncertainty are political unrest in France (the "Yellow Vest" protests), populism in Italy and, of course, Brexit.

Brexit adds to uncertainty in Europe. Clearly, the UK has more to lose than the rest of the EU. However, Europe exports more to the UK than to China, so the trade relationship is vital to both sides of the Brexit stand-off. It is just one more reason for businesses to be cautious in spending and investment plans, which weighs on growth. On the other hand, Europe's consumers are still in decent shape, with unemployment across the region falling, wage growth picking up (there are differences within countries of course) and inflation remaining low.

### **OIL**

The weaker oil price should help support consumers during the course of 2019. As was the case in 2014 when the oil price more than halved, the decline is more linked to supply growth than a lack of a demand growth, though there is clearly an element of weaker-than-expected demand. The US is now the world's leading oil producer thanks to the shale revolution, offsetting the loss of output from Iran and Venezuela due to sanctions.

The previous collapse in oil prices caused great stress on equity and credit markets, partly because most other commodities were also falling. Since they are capital intensive, oil companies tend to have bigger weightings in global market indices than their economic footprint would indicate. It meant that the benefit of lower oil prices – effectively, a tax cut for the world's consumers and oil importers – was partially offset. This time round, the fall in the oil price has not been nearly as severe, and we have not seen a similar market response. In fact, the oil price has bounced back

somewhat. However, it remains below the US\$72/barrel average price of 2018.

### **QUO VADIS THE DOLLAR**

The US dollar was surprisingly weak in 2017 but strengthened during 2018. The key question for 2019 is where to next? With the Fed pausing, there is a case to be made that the dollar should soften, even if interest rate differentials are only one driver out of many for currencies. Last year US interest rates rose faster than in Europe and elsewhere, and a gap opened. This year, the gap is unlikely to widen further. This should take some upward pressure off the dollar and provide breathing room for the rest of the world, especially emerging markets.

### **SLOW AND LOW**

All of this highlights an interesting point, namely that after the brief excitement over strong synchronised global growth late 2017 and early 2018, the world seems to be back where it was before: slow growth, muted inflation and low interest rates.

It is important to remember that while growth is tepid and inflation low, there is no indication that we are heading for a repeat of 2008. This is mainly because the next crisis is always different from the last, but also precisely because of lacklustre global growth. The 2008 Global Financial Crisis was preceded by a boom that resulted in reckless behaviour, while the period after has seen much less of such behaviour. Put somewhat differently, the seeds of the bust are sown during the boom. However, the post-2008 period has not been fertile terrain for such sowing. A low and slow global environment can still yield reasonable returns for investors, as strong and innovative companies can thrive, while the lack of yield means many investors are forced to put their capital to work in the equity markets. ■

# UK REAL ESTATE – **CHANGES** **EFFECTIVE FROM APRIL 2019**

**MARCUS PREVEL** – DIRECTOR AT NEDGROUP TRUST LIMITED



Non-UK residents are currently only subject to UK capital gains tax (CGT) on disposals of UK residential property. Therefore at present, gains realised on disposals of other types of UK real estate (such as UK land and/or UK commercial property) fall outside of the scope of CGT for non-UK residents. The existing legislation which governs the taxation of UK residential property gains comprises two different heads of charge, Annual Tax on Enveloped Dwellings related CGT (ATED-related CGT) and Non-resident Capital Gains Tax (NRCGT), which were introduced from April 2013 and April 2015 respectively.

However, in the November 2017 UK Budget, it was announced that the current regime would be extended and that non-residents would become subject to UK tax on gains realised on disposals of all interests in UK immovable property with effect from 6 April 2019. Draft legislation relating to these changes was published in November 2018 in Finance (No.3) Bill 2018 and should receive Royal Assent later this year. The proposed changes will extend the current CGT regime for non-residents, by bringing into charge gains realised on the direct disposal of UK commercial property and/or UK land as well as certain indirect disposals of all interests in UK immovable property (i.e. disposals of shares in companies holding UK immovable property).

These changes will affect non-UK resident companies, trusts, individuals and personal representatives who hold interests in UK immovable property and

are being introduced to further align the UK with other countries and remove the remaining advantage that non-residents currently have over UK residents. The changes are also intended to simplify and streamline the existing legislation. The specifics of these changes are discussed below.

### **DIRECT DISPOSALS OF UK IMMOVABLE PROPERTY BY NON-UK RESIDENTS FROM 6 APRIL 2019**

#### **Direct disposal of UK immovable property made by a non-resident individual or a non-resident trustee**

From 6 April 2019, a non-resident individual or a non-resident trustee will be directly subject to UK tax on any gains realised on disposals of all types of UK immovable property (i.e. residential property, commercial property and land). This will be enacted by an extension to the existing NRCGT provisions.

In relation to any post 5 April 2019 disposals of UK commercial property and/or UK land, the relevant gain subject to NRCGT in the hands of the non-resident will be limited to any appreciation in the property's value that has accrued from 6 April 2019 to the date of sale. Thus, UK commercial property and UK land sales will benefit from a form of rebasing. This will require individuals and trustees to obtain a valuation of their relevant property interests as at 5 April 2019. However, any post 5 April 2019 disposals of UK residential property (where that property

was held prior to April 2019), will be rebased according to the April 2015 value (or the value on acquisition, if later) in accordance with the current legislation. Furthermore, the applicable rate of NRCGT in relation to UK residential property gains will remain unchanged at 28% for trustees and individuals (18% for basic rate individual taxpayers). However, gains realised on all other types of UK immovable property (i.e. commercial property and land) will be subject to CGT at the rate of 20% (10% for basic rate individual taxpayers only).

#### **Direct disposal of UK immovable property made by a non-resident company**

From 6 April 2019, a non-resident company will be subject to UK corporation tax on any gains realised on disposals of all types of UK immovable property. The introduction of the new legislation will remove non-UK resident companies from the charge to CGT and bring them into the UK corporation tax regime in respect of any gains realised on disposals of UK immovable property. Thus, non-resident companies will no longer be subject to the NRCGT or ATED-related CGT provisions. The ATED-related CGT provisions have been abolished entirely with effect from 6 April 2019.

In relation to a future disposal of UK commercial property and/or UK land, the relevant gain subject to corporation tax in the hands of a company will be limited to any appreciation in the property's value that has accrued from 6 April 2019 to the date of sale. Thus, UK

commercial property and UK land sales will benefit from a rebasing which will require companies to obtain a valuation of their relevant properties' values as at 5 April 2019.

However, in relation to any future disposals of UK residential property made by a non-resident company after 5 April 2019 (and, where that property was held prior to 6 April 2019), rebasing of such assets will rely on their April 2015 values (or date of acquisition, if later) as is the case under the existing legislation. The applicable rate of corporation tax that will apply for non-resident companies on gains realised on disposals of UK immovable property on or after 6 April 2019, will be the prevailing corporation tax rate at the time of sale (currently 19%, reducing to 17% with effect from 1 April 2020).

### **INDIRECT DISPOSALS OF UK IMMOVABLE PROPERTY BY NON-UK RESIDENTS FROM 6 APRIL 2019**

Indirect disposals of UK immovable property (i.e. disposals of shares in a company holding UK immovable property interests) will be brought into the scope of charge for non-UK residents (i.e. non-resident trustees, individuals or holding companies) from 6 April 2019. The proposed new rules bring into charge gains arising on disposals of a right or an interest in a company that holds UK immovable property providing that the company is "property rich" and that the person making the disposal had a "substantial interest" in the company at

any time in the two-year period up to the date of disposal.

A company will be treated as "property rich" if, at the time of disposal, 75% or more of the value of its assets is derived (directly or indirectly) from interests in UK immovable property. The 75% test will be based on the gross market value of the company's assets at the time of disposal, thus excluding liabilities such as loan finance. However, if all or most of the company's interests in UK immovable property are used for trading purposes, the company will not be regarded as "property rich".

The person making the disposal will be treated as having a "substantial interest" if their investment in the company is 25% or more at any time in the two-year period up to the date of disposal. The 25% ownership test is designed to exclude minority investors from the charge. The ownership test applies to voting power or entitlement to proceeds, income and assets on winding up.

Indirect disposals of UK immovable property in the hands of the non-resident will be limited to any appreciation in the company's value that has accrued from 6 April 2019 to the date of sale. Thus, trustees, individuals and holding companies (containing UK immovable property) will benefit from a rebasing which will require non-residents to obtain a valuation of the company as at 5 April 2019.

Indirect gains realised on the disposal of shares containing UK immovable

property will be subject to the CGT rate of 20% if the vendor is a non-resident trustee or individual (10% for basic rate individual taxpayers only) or the prevailing corporation tax rate if the vendor is a corporate entity (i.e. disposing of shares held in a subsidiary containing UK immovable property).

### **UK INCOME TAX (IT)/ CORPORATION TAX ON CORPORATE RENTAL BUSINESSES – CHANGES EFFECTIVE FROM 6 APRIL 2020**

UK rental income received by a non-UK resident company is currently subject to IT at the basic rate (currently 20%). However, with effect from 6 April 2020, non-resident property holding companies will fall into the corporation tax regime, rather than the existing IT regime. This means that UK rental profits will be taxed at 17% (the current corporation tax rate of 19% is set to be reduced with effect from 1 April 2020), which is lower than the current IT rate of 20%. Such companies will therefore be subject to corporation tax rules and will be required to file corporation tax returns. ■

Source: LTS Tax Limited, Guernsey.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No liability is accepted for any direct or consequential loss arising from the use of this document. LTS Tax Limited (registration number 54292) is registered with the Chartered Institute of Taxation as a firm of Chartered Tax Advisers. LTS Tax Limited is licensed by the Guernsey Financial Services Commission. Please see [www.lts-tax.com](http://www.lts-tax.com) for details.

# CONTACT US



**CHRIS POTGIETER**  
Head of PCS  
Tel: 021 524 4582  
Cell: 082 827 9777  
chris.potgieter@omwealth.co.za



**ANDREW DITTBERNER**  
Chief Investment Officer  
Tel: 021 524 4867 (CPT)  
011 217 1945 (JHB)  
Cell: 083 296 6928  
andrew.dittberner@omwealth.co.za



**VICTOR MUPUNGA**  
Research Analyst  
Tel: 021 524 4466  
Cell: 072 838 2919  
victor.mupunga@omwealth.co.za



**MOOSA HASSIM**  
Investment Analyst  
Tel: 021 524 4609  
Cell: 072 448 6369  
moosa.hassim@omwealth.co.za



**SAMEER SINGH**  
Research Analyst  
Tel: 021 524 4529  
Cell: 072 383 4490  
sameer.singh@omwealth.co.za



**TASNEEM SAMODIEN**  
Junior Research Analyst  
Tel: 011 245 3619  
Cell: 076 798 6817  
tasneem.samodien@omwealth.co.za

## PRIVATE CLIENT PORTFOLIO MANAGERS

### CAPE TOWN



**DEREK ALTON**  
Tel: 021 524 4566  
Cell: 072 290 4220  
derek.alton@omwealth.co.za



**SHANE LAWRENCE**  
Tel: 021 524 4656  
Cell: 079 526 6369  
shane.lawrence@omwealth.co.za



**PAUL STEVEN**  
Tel: 021 524 4572  
Cell: 076 719 3958  
paul.steven@omwealth.co.za



**JOHANN VAN ZYL**  
Tel: 021 524 4574  
Cell: 083 261 0140  
johann.vanzyl@omwealth.co.za



**MICHELLE MATTHEWS**  
Tel: 021 524 4421  
Cell: 083 979 6391  
michelle.matthews@omwealth.co.za

### JOHANNESBURG



**DEAN GINSBERG**  
Tel: 011 245 3818  
Cell: 083 650 8223  
dean.ginsberg@omwealth.co.za



**VISHAL HURRICHUND**  
Tel: 011 245 3812  
Cell: 082 411 7798  
vishal.hurrichund@omwealth.co.za



**TREVOR O'CALLAGHAN**  
Tel: 011 245 3801  
Cell: 083 660 8321  
trevor.ocallaghan@omwealth.co.za



**MIKE SITHOLE**  
Tel: 011 245 3741  
Cell: 083 352 9070  
mike.sithole@omwealth.co.za



**GARY SMITH**  
Tel: 011 245 3802  
Cell: 082 464 3691  
gary.smith@omwealth.co.za

### PRETORIA



**LOUIS FOURIE**  
Tel: 012 369 7232  
Cell: 083 391 8610  
louis.fourie@omwealth.co.za



**GREGORY POTGIETER**  
Tel: 012 369 7234  
Cell: 082 823 2731  
gregory.potgieter@omwealth.co.za



**JACQUES THERON**  
Tel: 012 369 7235  
Cell: 082 495 6465  
jacques.theron@omwealth.co.za

### DURBAN



**HELMAR BREYTENBACH**  
Tel: 031 581 0773  
Cell: 082 564 0223  
helmar.breytenbach@omwealth.co.za



**JAMES BUZZARD**  
Tel: 031 581 0763  
Cell: 083 509 7640  
james.buzzard@omwealth.co.za



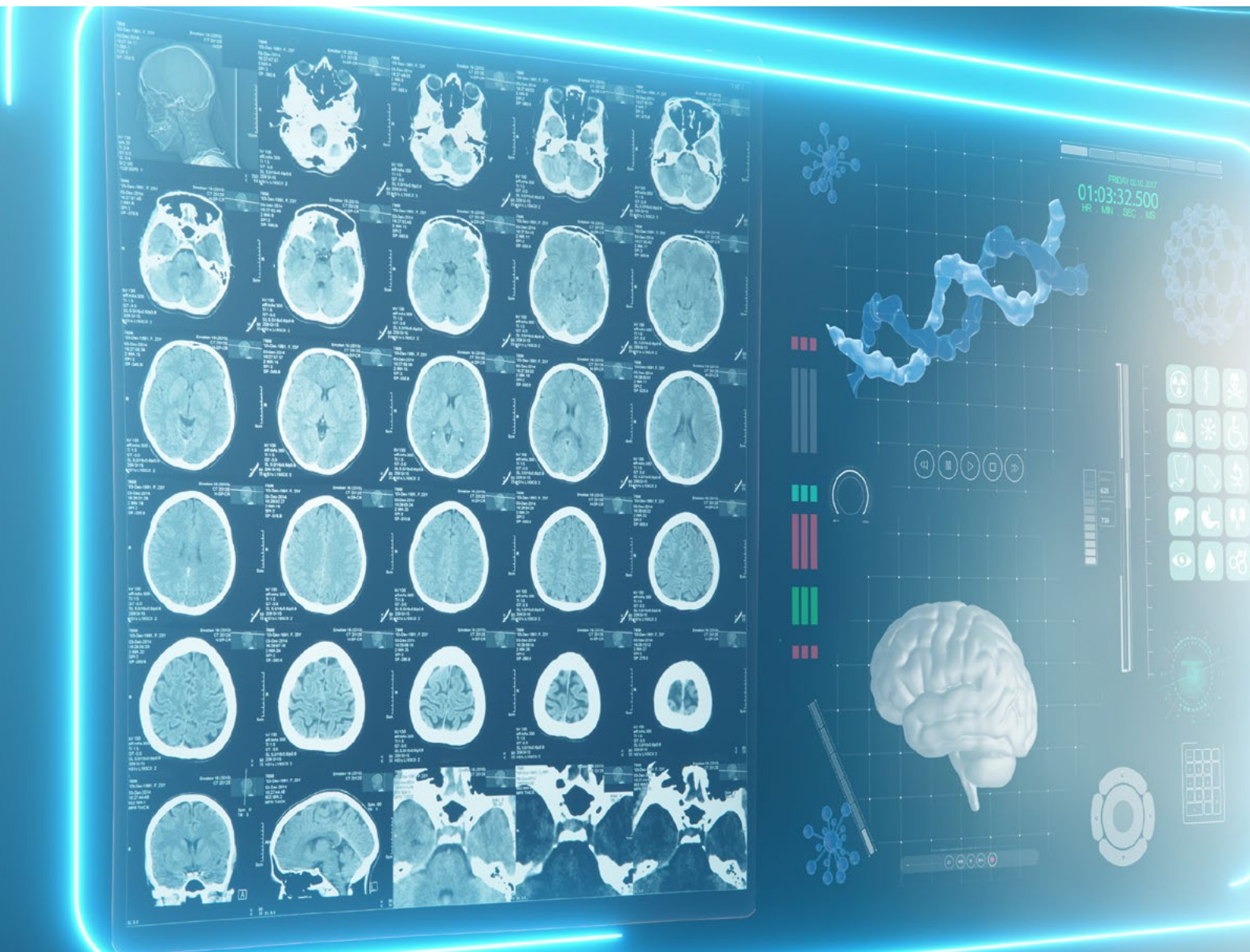
**SCOTT LOGAN**  
Tel: 031 581 0768  
Cell: 082 908 7679  
scott.logan@omwealth.co.za

### BLOEMFONTEIN



**BRIAN VERMEULEN**  
Cell: 083 408 0528  
brian.vermeulen@omwealth.co.za





This document is for information purposes only and does not constitute financial advice in any way or form. It is important to consult a financial planner to receive financial advice before acting on any information contained herein. Old Mutual Wealth and its directors, officers and employees shall not be responsible and disclaim all liability for any loss, damage (whether direct, indirect, special or consequential) and/or expense of any nature whatsoever, which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of, or reliance upon any information contained in this document.

Old Mutual Wealth Private Client Securities (PCS) is a division of Old Mutual Wealth Trust Company (Pty) Ltd (OMWTC), an authorised Financial Services Provider, Reg No: 1925/002721/07. PCS is authorised to provide financial services on the OMWTC licence.

The Estuaries, 2 Oxbow Crescent, Century City 7441. Tel: +27 (0)21 524 4400, Fax: +27 (0)21 441 1060, Email: pcs@omwealth.co.za, Website: www.omwealth.co.za.