



**CMEFS WEEKLY INVESTMENT NEWS**

**FRIDAY 22 MAY 2020**

Hello and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-12.14%	-8.66%
CMEFS Flexible Fund	-2.22%	-1.05%

As talked about in last week's newsletter, please be reminded that I am continuing to give serious consideration to moving the 50% Coronation Balanced Defensive Fund portion of the CMEFS Flexible Fund into a "near-cash" fund.

This because, as I am concerned that we are going to see markets soften, and then remain soft for an extended time in the months to come, as the full extent of the damage done to the world economy by government actions internationally to combat the virus start to sink in.

However, I do not just want to "jump-in" without doing extensive research on all of the details that need to be looked at before taking such an action, and this is an exercise I am still busy with as it does take a whole lot of "doing".

I hope to have completed my research into the matter next week.

As I have spoken of the Coronavirus extensively in the newsletter, I will not talk further on it here and will talk rather on a recent landmark development in our industry.

Before doing so however, I confirm that my view remains unchanged from all the prior weekly investment newsletters in so far as the medium to long-term economic outlook is concerned, not just for SA, but for the world.

And now to the landmark development.

Although it may never be of concern to any/many of you and maybe it is not even something that you were even aware of, but up until now, when a couple divorced from one another, Living Annuities (and for that matter fixed life annuities as well) were specifically EXCLUDED when it came to dividing up assets in their respective or joint estates.

This has now changed in terms of a recent ruling by the Supreme Court of Appeal, in that they now WILL be brought to account in so far as dividing up assets in their respective or joint estates is concerned.

For example, say a couple was married either in or out of community of property and there were only two “assets” in the estate at the date of divorce.

1. A home that was registered equally in their joint names valued at say, R1 000 000
2. A Living Annuity owned by either the husband or the wife valued at say R20 000 000

Up until now, had it been ruled that the assets in the estate were to be divided equally between them, the only asset that would have been divided between them would have been the home, of which the half share would have been worth R500 000.

Whoever owned the Living Annuity walked away with the entire Living Annuity valued at R20 000 000.

What has changed with this ruling, is that the value of the Living Annuity must now **be brought to account** when dividing up the assets in a divorced estate.

I have emphasised **be brought to account** because the Living Annuity itself will not be split, but its value will be brought to account when determining the claim each spouse has against the other.

Following on from this ruling, should it now be ruled that the assets in the estate be divided equally between them, the value of the claim that the spouse will have against the other will now be valued at R10 500 000 (Half the value of the Living Annuity + half the value of the Home)

As it would not be possible to split the Living Annuity itself, the spouse would no doubt have a claim against half of the income earned from the Living Annuity.

Of course, this brings all sorts of other complications that will now need to be sorted out, some that spring to mind immediately are

1. Who pays the tax on the income?
2. What if the owner of the Living Annuity decides to drop the income drawn to the bare minimum 2.5% to minimise the income payable to the ex, hoping that s/he will die before him/her.
3. Does the estate of the deceased ex have a claim against the surviving annuitant?
4. What if the owner invests the capital of the Living Annuity most unwisely, losing most of it along the way?
5. What if the owner appoints his/her new spouse as beneficiary for proceeds on death, what is the new spouse's position on the passing of the annuitant?
6. And so on.

Much better, I say, to split the Living Annuity itself, and maybe that is what will happen in the end?

But splitting the annuity itself will not be without its own very long list of complications!

Never a dull moment in this industry!

I hope you enjoyed the read.

Until next time then, do take good care of yourselves.

Kind regards, Nine, Charles, and all at CMEFS.