EFFICIENT SELECT FIXED INCOME

DAYLIGHT ROBBERY

Report by Nolan Wapenaar

Back in 1696 the then Bank of England was facing financial strain. To rectify the situation, King William III instituted a Window Tax. Under the new tax, each house would pay tax based on the number of windows that it had. In theory this tax was well conceived. It was easy to assess (counting the number of windows is straight forward enough) and the rich would have bigger houses and therefore pay more. In practice, the tax was extremely unpopular as it was considered to be a tax on "light and air". Taxation of access to facilities that have always been (and should be) free is most likely to upset the populace. The term "Daylight Robbery" is considered to have arisen in part as a reference to this tax. As with many unpopular taxes an avoidance scheme for the daylight robbery tax flourished and the scars can still be seen in modern day England.

It is amazing how we are doomed to repeat history. In 2012 the South African Government decided to institute a tax on access to facilities that have always been (and should be) free. Would you believe that e-tolling is upsetting the populace just as much as daylight robbery did in 1696.

The issue in South Africa (as in England a few centuries ago) is that the government's fiscal position is weakening. Moody's had the audacity to say this before the annual budget speech, and, in his speech, our Finance Minister proudly introduced a number of stealth taxes and announced that this year's budget would prevent a rating downgrade.

The nub of this is that there were three big components to the budget speech;

- Introducing stealth taxes such as Capital Gains Tax and Dividends that will be most felt when you retire;
- Making the users pay for infrastructure that should be funded by ordinary taxes; and
- Limiting the public sector wage growth to 5% for the year.

The first of these goes towards incentivising you not to save, and reduces the long-term prospects of the country. The second is currently meeting strong opposition in the form of the South African National Roads Agency Limited, better known as SANRAL, embarrassment. We wait to see COSATU's appetite for annual raises of no more than 5%.

This path of appeasing the rating agencies is clearly unpopular and does little to address the fundamental issue that public spending is too high at the expense of a focus on growth. The South African Employment Report found that South Africa has more civil servants than the total number of people employed in mining and manufacturing combined. The jobs report found that in 2011, the average government salary was 34% higher than the private sector.

EFFICIENT SELECT FIXED INCOME

DAYLIGHT ROBBERY

Continued

Our burgeoning informal sector is illustrative of the untapped ingenuity and savvy of our population. Instead of borrowing R2 billion a week from the bond market to provide hand outs, we would all stand to benefit from the government spending the money to bring the marginalised people into the economy and provide the infrastructure for which our taxes are intended.

We agree with the ANC Youth League in their call for greater access to education and would rather see greater investment in agencies to assist with the creation of industry and new business in South Africa. The ANC has been in power for 17 years. If there is a child under the age of 17 who is excluded from the economy because of a lack of skills or education, then the ANC should address this.

We therefore are proud to tell our investors that that the Efficient Fixed Income Fund has never owned a SANRAL bond. Furthermore, the continued pressure on the yield curve from weekly debt issuances and likely inflation pressure in the latter half of the year lead us to reduce the duration of the portfolio.

On a lighter note

www.efselect.co.za

Follow us on...

t: (021) 410 6000 f: (021) 410 6092 e: info@efselect.co.za

15th Floor Triangle House, 22 Riebeek Street, Cape Town, 8000