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INVESTMENTS

THE ILLUSION OF LIQUIDITY

By Moosa Hassim, Head of Positioning

In an ever-changing and uncertain world, many investors find comfort in cash. Whether it is in bank accounts, money market funds, or short-term deposits, the appeal of immediate liquidity and apparent capital preservation is strong. However, for those aiming to build long-term wealth, relying solely on cash is not just suboptimal; it is a significant misstep that can erode wealth. For savvy South African investors, the solution lies in strategically managed multi-asset funds designed to navigate complexity and deliver real returns (returns above inflation).

UNPACKING THE HIDDEN COSTS OF CASH

Seeing a consistent balance in a bank account can be comforting, but it is deceptive. In South Africa, where inflation is often high, the interest rates on cash deposits usually fall short. Over time, cash deposits have barely delivered a positive real return – meaning the return after accounting for inflation's impact on purchasing power. Often hovering around 0.9% per year. This means the purchasing power of your money steadily decreases, impacting your future lifestyle and financial security.

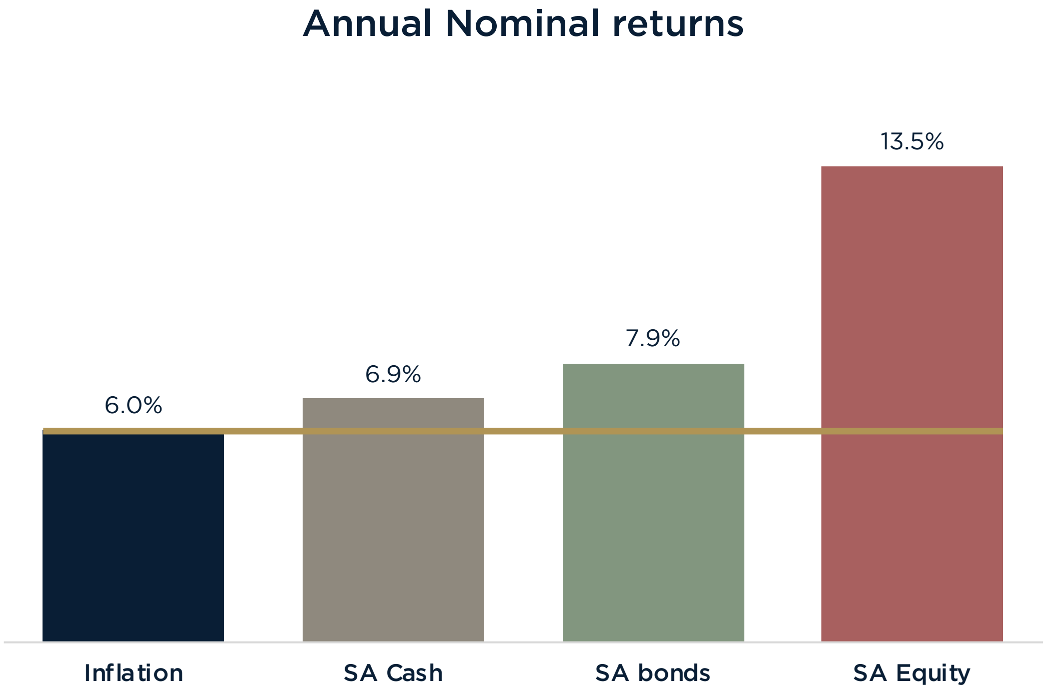
Beyond the drag of inflation, cash investments come with a significant opportunity cost. By prioritising immediate liquidity, investors miss out on the growth of productive assets. Historically, South African equities have delivered an average of 7.5% per year above inflation. Choosing to stay in cash means forfeiting substantial wealth creation potential. The real risk is not short-term market volatility, which can be managed, but the long-term loss of real wealth that a pure cash strategy invites.

MULTI-ASSET FUNDS AS ADAPTIVE SOLUTIONS

No single asset class consistently outperforms, and true capital growth in volatile markets comes from intelligent allocation and active management. Multi-asset funds are a cornerstone of prudent investment. These funds are designed to adapt to the multifaceted challenges of the investment landscape, aiming for superior, risk-adjusted, and inflation-beating returns by spreading investments across various asset classes, both locally and internationally.

Rather than chasing trends, multi-asset fund managers use sophisticated strategies to balance growth potential with capital preservation. They conduct deep research, assess risk, and make proactive adjustments. For example, they might increase equity exposure when valuations are compelling or rotate into fixed income and cash during periods of economic uncertainty. This adaptability is crucial in an emerging market economy like South Africa, influenced by local political developments, global interest rate cycles, and commodity price fluctuations.

CHART 1: PERFORMANCE OVER THE LONG TERM



Source: Morningstar, PPS Investments. December 2024

The Power of Productive Assets. This comparison highlights the substantial wealth creation potential consistently delivered by equities and bonds compared to the negligible real returns from cash.

WHY MULTI-ASSET OUTPERFORMS CASH

Authentic Wealth Preservation

Unlike cash, which loses value to inflation, multi-asset funds are built to outpace it. By investing in assets like equities, listed property, and fixed income, they actively preserve and grow purchasing power.

It is crucial to remember that money market funds are not guaranteed bank accounts and carry counterparty risk. Past events, like the African Bank curatorship, demonstrated this; multi-asset funds inherently diversify away such issuer-specific risks.

Optimised Diversification for Risk-Adjusted Returns

Multi-asset funds use sophisticated diversification models to spread investments across asset classes and geographies, mitigating the impact of specific market downturns. This results in smoother returns and superior long-term results compared to pure cash and undiversified portfolios.

Proactive Management

These funds offer more than just asset allocation. They include deep research, rigorous risk oversight, and proactive adjustments by seasoned fund managers. This active management is essential for capturing opportunities and protecting capital.

Strategic Compliance and Broad Accessibility

Many multi-asset funds adhere to stringent regulatory frameworks, making them suitable for long-term savings vehicles like retirement annuities and preservation funds.

TAX EFFICIENCY: A CORNERSTONE OF REAL RETURN GENERATION

The tax implications, often overlooked in a simplistic cash-versus-investment comparison, are critical for South African investors when optimising their real, after-tax returns.

Interest income from cash deposits is fully taxable as ordinary income at your marginal tax rate, which can be as high as 45% for high-income earners. For trusts, interest income that is retained (not distributed to beneficiaries) faces a flat tax rate of 45%, eliminating any individual tax thresholds or exemptions. While annual interest exemptions exist, for substantial investments, these thresholds are quickly reached. This means a significant portion of the already minimal, nominal return on cash is lost to tax, accelerating the real decline of your wealth.

Multi-asset unit trusts, in contrast, offer a more diversified and often more tax-efficient income profile. While interest income and certain foreign dividends remain taxable, other components, particularly capital gains, benefit from favourable tax treatment. For individuals, only 40% of a net capital gain is included in taxable income. The effective maximum Capital Gains Tax (CGT) rate for individuals is 18%, significantly lower than the top marginal income tax rate. Crucially, CGT is only triggered upon a disposal event, such as selling units or switching between funds. This allows growth to compound on the gross (pre-CGT) amount until such an event. This structure encourages a long-term investment horizon, where compounding capital gains becomes a powerful, tax-advantaged driver of after-tax wealth.

To illustrate this impact, consider a hypothetical scenario for a high-income earner (in the 45% marginal income tax bracket) with a R1,000,000 investment over one year. For simplicity, we assume annual interest exemptions and capital gains exclusions are fully utilised by other income.

Here is how three different portfolios might fare after tax:

Portfolio Type	Illustrative Pre-Tax Nominal Return (p.a.)	Annual Gross Return (R)	Tax Paid (R)	After-Tax Return (R)	After-Tax Return (%)	After-Tax Real Return (%)
A: 100% Cash	6.9%	R69,000	R31,050	R37,950	3.8%	-2.2%
B: Multi-Asset (60% Equity / 40% Bonds)	11.3%	R112,600	R25,560	R87,040	8.7%	2.7%
C: Conservative Multi-Asset (40% Equity/ 40% Bonds/ 20% Cash)	9.9%	R99,400	R27,990	R74,410	7.1%	1.1%

Please note: These figures are illustrative and based on simplified assumptions for demonstration purposes. Actual returns and tax liabilities will vary based on market conditions, fund performance, and individual tax circumstances.
Asset class return assumptions are as per Chart 1.
Source: PPS Investments, June 2025

This scenario demonstrates how the structure of returns and their corresponding tax treatment significantly impact the investor's net gain and potential spending power. Even with a conservative multi-asset approach (Portfolio C), the after-tax return is higher than pure cash (Portfolio A).

Crucially, the power of a Tax-Free Savings Account (TFSA) cannot be overstated here. If any of these multi-asset portfolios (Portfolio B or C) were held within a TFSA, all interest, dividends, and capital gains generated would be entirely exempt from tax in South Africa. This allows for unfettered compounding, transforming even moderate returns into substantial wealth over decades, provided annual (currently R36,000) and lifetime (currently R500,000) contribution limits are respected. This makes TFSAs, anchored by robust multi-asset funds, an indispensable tool in an investor's arsenal, creating a genuine competitive advantage over taxable cash holdings.

REALISING THE POTENTIAL

For discerning investors, PPS Investments offers a range of multi-asset funds designed to meet varying risk appetites and objectives.

- The PPS Stable Growth Fund is a prime example of a fund designed for robust real returns over a medium to long-term horizon (typically five years plus), aligning with the ASISA SA Multi Asset Medium Equity category. With an equity exposure typically capped at around 60%, its investment philosophy centres on an absolute-return based approach, seeking real capital growth by assessing individual securities across various asset classes. The fund manager constructs a well-diversified portfolio by employing strategies to benefit from varying market conditions, underpinned by in-depth fundamental company analysis and a thematic overlay from macroeconomic factors. This dynamic approach aims to deliver consistent inflation-beating returns.

- For those seeking greater capital stability and lower volatility, the PPS Defensive Fund aligns with the ASISA SA Multi Asset Low Equity category, ideal for shorter to medium timeframes (three years or more). With a more conservative equity exposure typically limited to 40%, this fund adopts a conservative approach with an explicit focus on capital preservation. It is managed around a conservative strategic asset allocation, prioritising high-quality, low-volatility securities within both equities and fixed income. The fund manager applies a consistent cautious mindset, integrating macro factors like interest rate and inflation cycles, to achieve capital protection and positive real returns.

Both the PPS Stable Growth Fund and the PPS Defensive Fund are managed to provide superior financial outcomes. They move beyond the eroding nature of cash by actively seeking out performance and managing risk, reflecting PPS's commitment to the long-term financial well-being of its members. For investors with a higher risk appetite and a longer time horizon seeking even greater growth potential, PPS Investments also offers more aggressive multi-asset solutions that typically allow for higher equity exposure, such as the PPS Managed Fund.

CONCLUSION

The idea that cash is the safest investment is outdated. In today's economic climate, characterised by persistent inflation and the need for real wealth growth, a cash-only strategy guarantees the erosion of purchasing power. Prudent investors recognise that genuine financial safety comes from intelligent, diversified, and professionally managed growth. By offering inflation protection, sophisticated risk management, expert active management, and potential tax efficiencies, PPS Investment's multi-asset funds provide a robust alternative to the illusory comfort of cash. For investors serious about their financial future, the mandate is clear: move beyond the deceptive simplicity of cash and embrace the real growth potential that only a well-executed multi-asset strategy can deliver.