

# Section 12J

Presenter: Ryan Brick

Section 12J Fund Manager

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# Presenter

## Ryan Brick

Ryan is one of the fund managers at Jaltech, specialising within the Section 12J sector.

Majority of Ryan's time is spent representing Jaltech on both the administration and fund management side of the business, with primary focus on the management of the Infinity Anchor Fund being responsible for deployment and ongoing management.

Together with his background and experience, Ryan has built a foundation and experience across various including private equity, hospitality, asset backed leasing and renewable energy.

Prior to joining Jaltech, Ryan completed a Bachelor of Business Science, with an honours in Finance and Tax at UCT.



# Course Outline

# Table of Content

Modules (Major sections)

Module 1: What is Section 12J?

Module 2: Section 12J Rules

Module 3: The Section 12J Market

Module 4: Jaltech Fund Management

# **Module 1**

## **What is Section 12J?**

# Module 1:

## What is Section 12J?

- Section 12J of the Income Tax Act
- Intention
- Tax incentive

## Learning Outcomes:

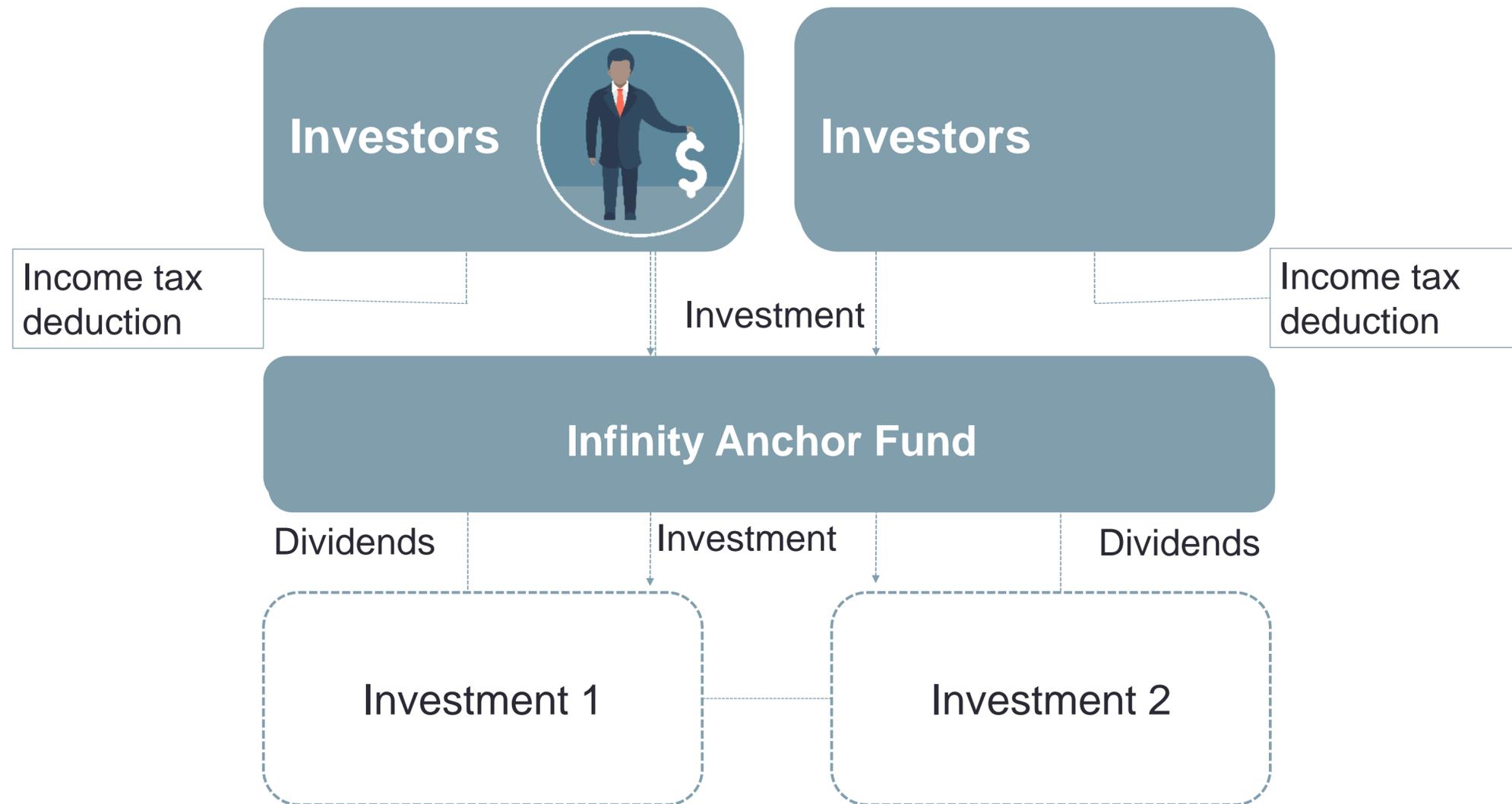
In this module you will learn:

How the tax benefit works and What Section 12J is?

# What is a Section 12J VCC?

- Proprietary Limited or Limited
- Approved by SARS and registered with the FSCA (requires a FSCA license) as a licensed Financial Services Provider (FSP)
- Pooled VCC vs Ring-fenced VCC

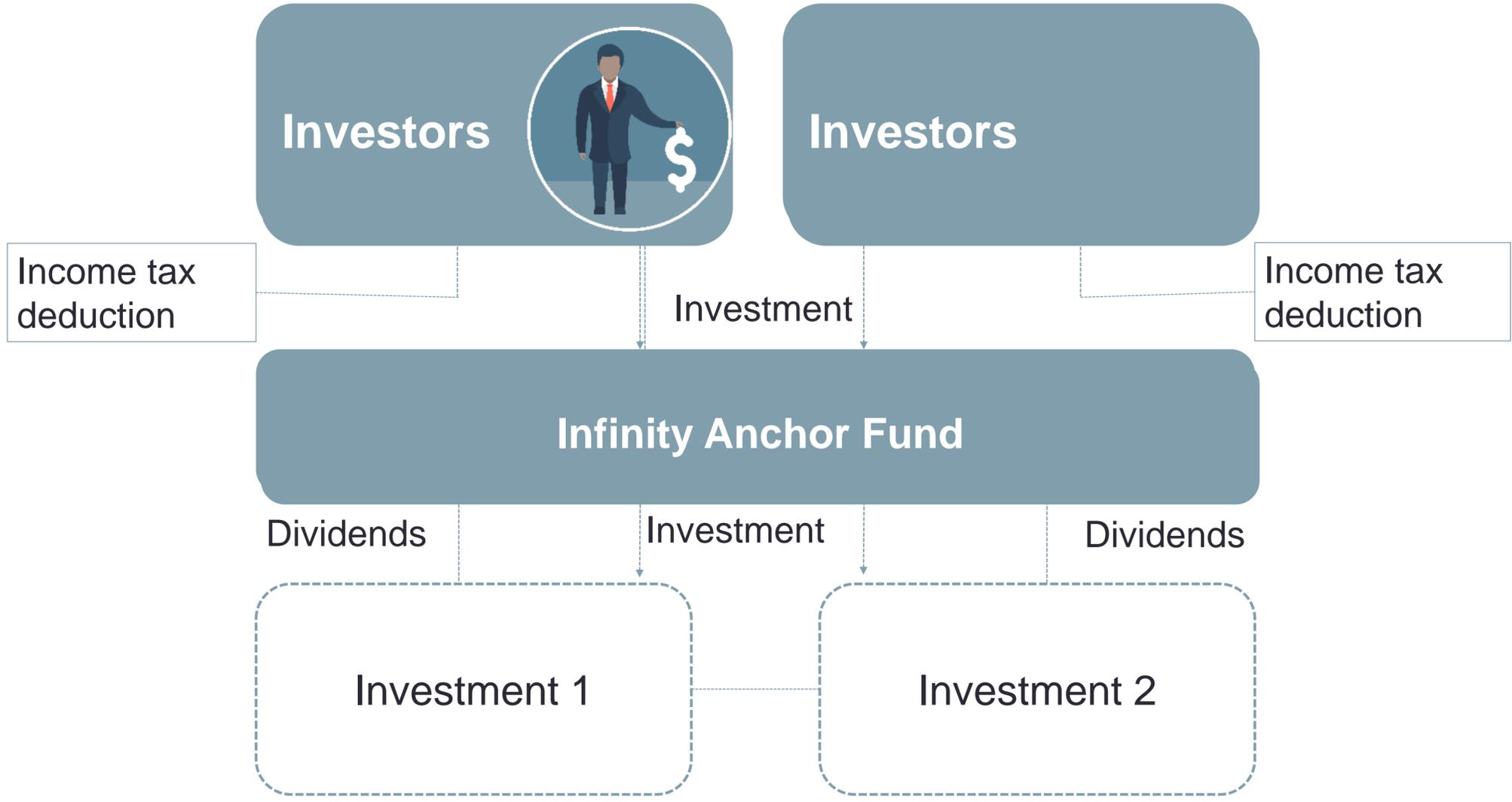
# Example of a basic structure



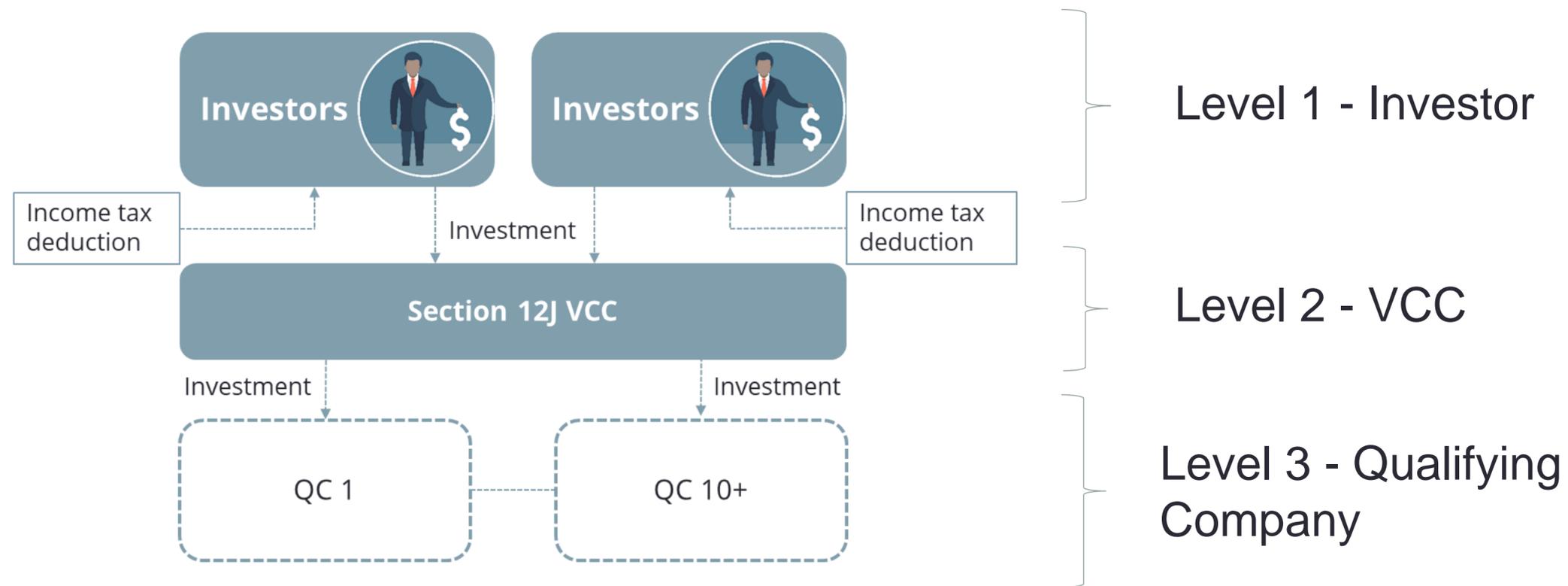
# **Module 2**

## **Section 12J Rules**

# Section 12J Rules



# Section 12J Rules



# Section 12J Rules: LEVEL ONE – THE INVESTOR

On the investor layer, there are four main requirements, namely:

1. “Connected Person”
2. 20% equity in a specific share class
3. 5 years investment term
4. Annual cap

# Section 12J Rules: Level Two – The VCC

The Section 12J VCC has the following requirements:

1. Sole purpose
2. 3 years to invest at least 80% of funds under management
3. No single investment can be more than 20% of funds under management

# Section 12J Rules: Level Three– Investee/QC

1. Trade outside of South Africa <50%;
2. “Impermissible Trades”:
  - immovable property
  - financial services;
  - professional services;
  - gambling, liquor, tobacco, arms or ammunition;
3. The investee investment income <20%, after 36 months;

# Section 12J Rules: Level Three– Investee/QC

4. 69.9% equity limit
5. issued equity shares
6. gross asset value < R50 million (R500 million for mining)
7. participation rights <50% for VCC investor and/or investor connected party
8. < 50% trade with a VCC investor and/or connected party, after 36 months

# Section 12J Rules: Exit

- 5-year term
- Base cost = zero

# CGT on Exit

Description	Ordinary investment
Investment	R100
Value after 5 years	R150
Base cost	R100
Capital gain	R50
CGT on exit at 18%	R9
Net benefit after CGT	R141
12J benefit	N/A
<b>Net benefit after tax</b>	<b>R141</b>
<b>IRR</b>	<b>7%</b>

# CGT on Exit

Description	Ordinary investment	12J investment
Investment	R100	R100
Value after 5 years	R150	R150
Base cost	R100	R0
Capital gain	R50	R150
CGT on exit at 18%	R9	R27
Net benefit after CGT	R141	R123
12J benefit	NA	R45
<b>Net benefit after tax</b>	<b>R141</b>	<b>R168 + TVM</b>
<b>IRR</b>	<b>7%</b>	<b>17%</b>

# Section 12J Rules: Penalties

SARS will impose a penalty where:

- an investor is a “Connected Person”
- the Section 12J VCC fails to be compliant with the rules (i.e. 80% rule, qualifying investment etc.)

Effectively the investors may be penalised between 125% to 225% on their tax deductions.

# Sunset Clause

- 30 June 2021
- Extension

# **Module 3**

## **The Section 12J Market**



# Challenges Faced By The Market

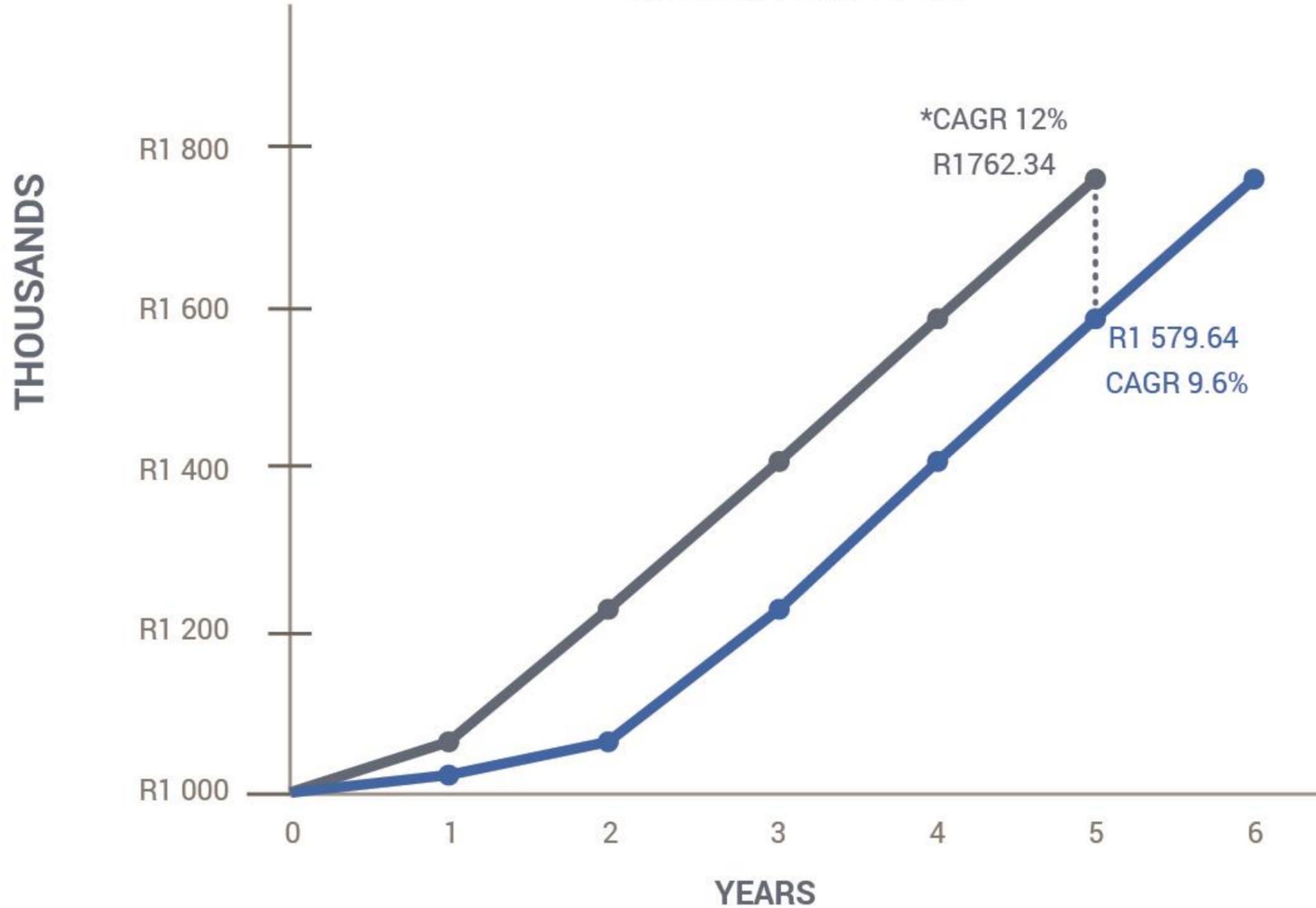
**CAPITAL RAISING**

**FEES**

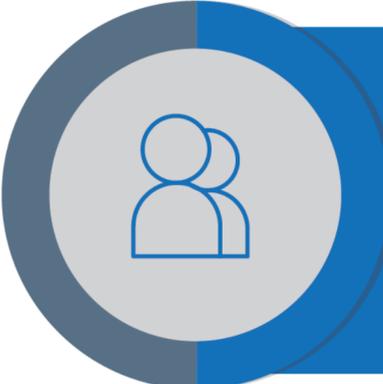
**DEPLOYMENT**

**EXIT**

# CAPITAL GROWTH



## The negative effect of delay in deployment



**INVESTMENT AMOUNT**  
R1,000,000

\*Compound Annual Growth Rate

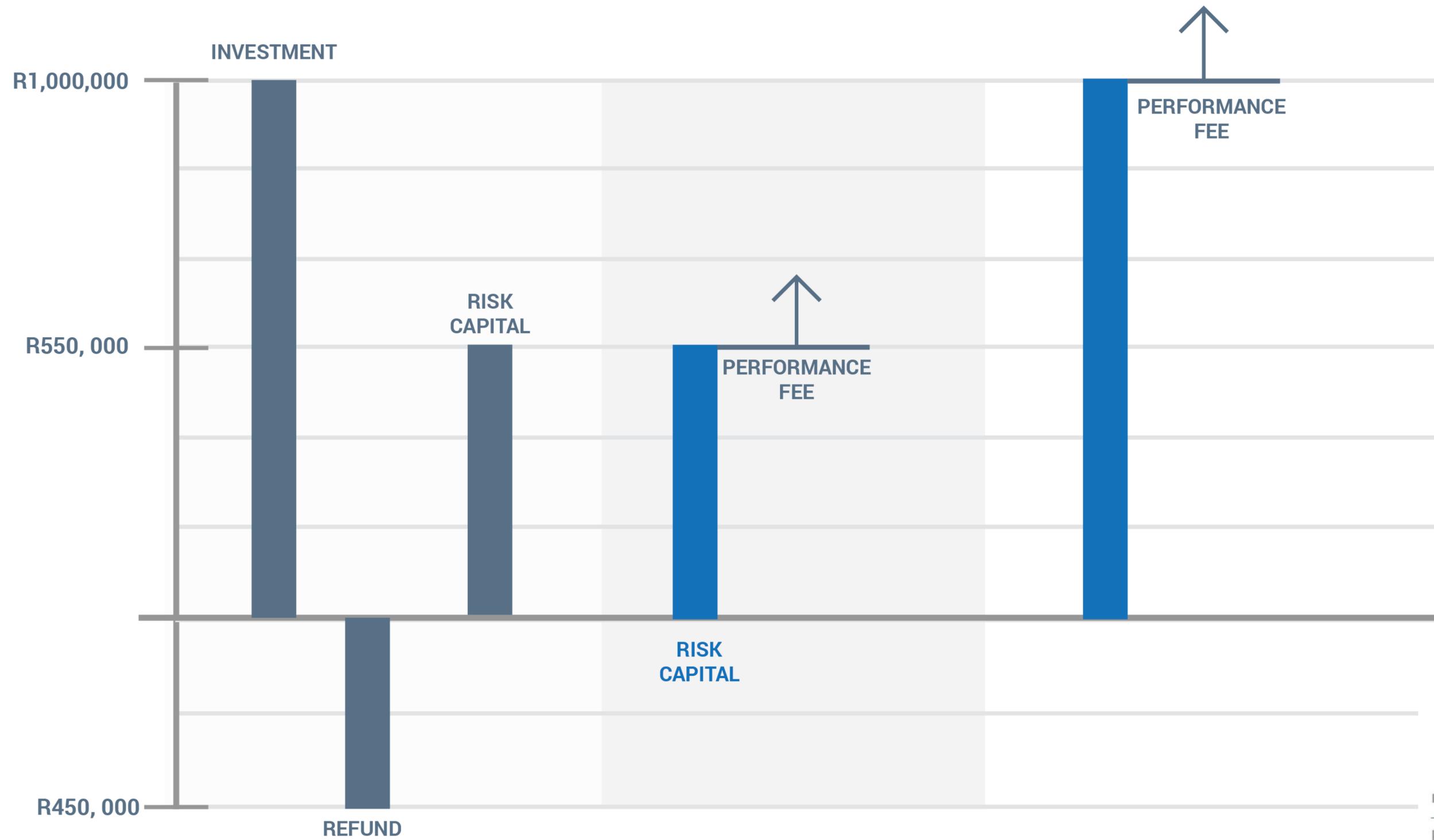
● IMMEDIATE ● DELAY (3 YEARS)

# RISK CAPITAL

PERFORMANCE FEE

# GROSS CAPITAL

PERFORMANCE FEE

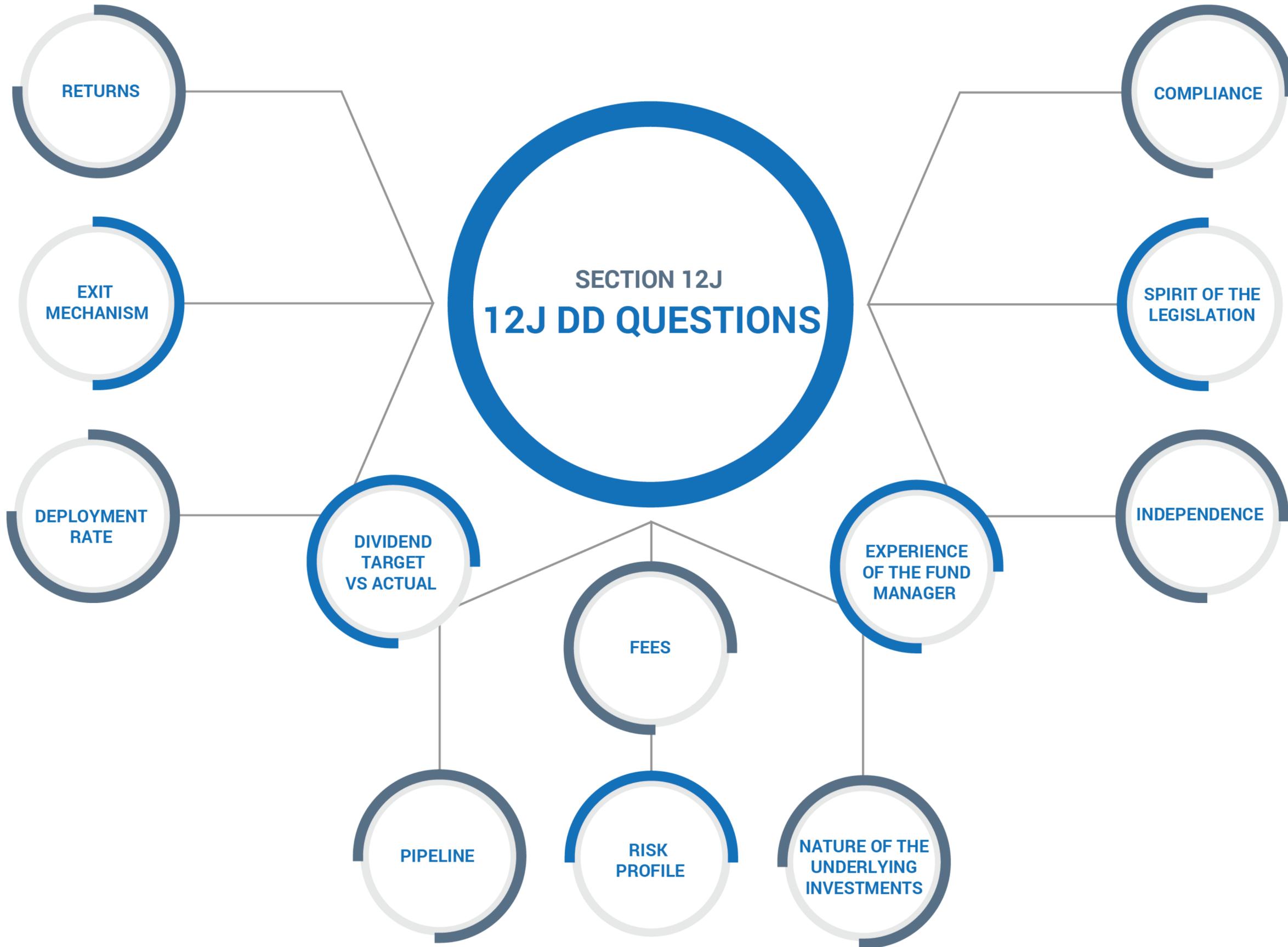


## DIFFICULTIES

# Risk capital vs Gross capital fee comparison

	Gross capital PF	Risk capital PF	Risk capital PF +H
Gross investment	R100 000	R100 000	R100 000
Risk capital	N/A	R55 000	R55 000
Value post 5 years	R120 000	R120 000	R120 000
Performance fee	R4 000	R13 000 (R65 000 x 20%)	R8 600* (R43 000 x 20%)
Performance fee as a % of profits	20%	65%	43%

\*Assuming a hurdle of 7% pa



# **Module 4**

# **Jaltech Fund Manager**



**Jaltech | Infinity Anchor Fund**

# TWO INVESTMENT OPTIONS

## 1 INFINITY PERFORMANCE

Top-performing fund in 2019/2020

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Tracking a return of 15%+ per annum

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Tracking 100% deployment

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6-monthly dividend payment track record

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Low performance fee

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## 2 INFINITY STABLE

Income underpinned by a guarantee

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Return of capital underpinned by a guarantee

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Predictable exit

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Predictable returns

---

No performance fee

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Low minimum investment

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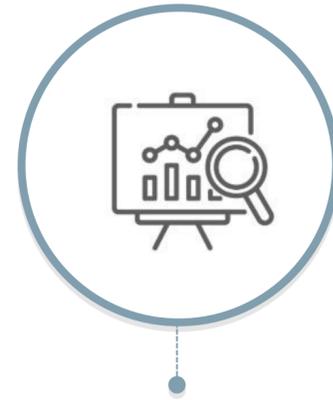
# INFINITY ANCHOR FUND - PERFORMANCE



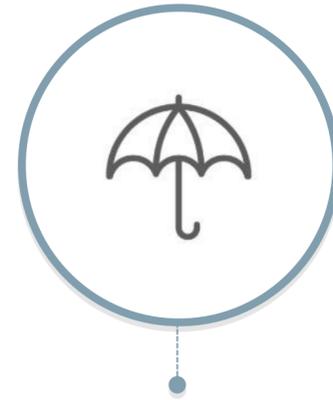
Asset rental  
investments



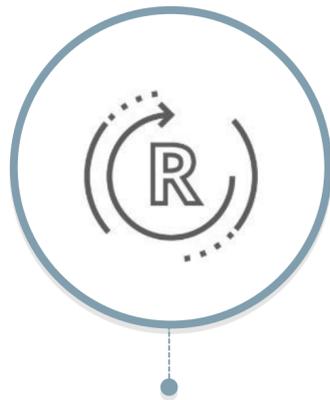
Contractual  
revenue



Asset backed



Clear exit  
strategy



100% of funds  
investment target



Gross capital  
performance  
fee



# RISK MITIGATION

Co-investment by entrepreneur/management: 15% to 50%

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First loss protection

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Step-in-right

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Preferential dividends

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Liquidation right after 4 years

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## NOTEWORTHY INVESTMENTS



**Capital invested: R20 000 000**

**Initial date of investment: December 2020**

**First loss: 25%**

**Guaranteed yield: 9.18%**

## NOTEWORTHY INVESTMENTS



**Capital invested: R20 000 000**

**Initial date of investment: December 2020**

**First loss: 20%**

# NOTEWORTHY INVESTMENTS



**SECUTECH**  
FUNDING SOLUTIONS

**Capital invested: R16 600 000**

**Initial date of investment: March 2019**

**First loss: 15%**

**Achieving IRR: 9.73% (excluding the tax benefit)**

## NOTEWORTHY INVESTMENTS



**Capital invested: R21 250 000**

**Initial date of investment: June 2020**

**First loss: 15%**

**Achieving IRR: 9.45% (excluding the tax benefit)**

# 2019 PERFORMANCE RESULTS



5.10%  
Average div yield

9.27%  
Net div yield

5.22%  
Return on gross  
capital

15.35%  
Projected IRR on net  
capital

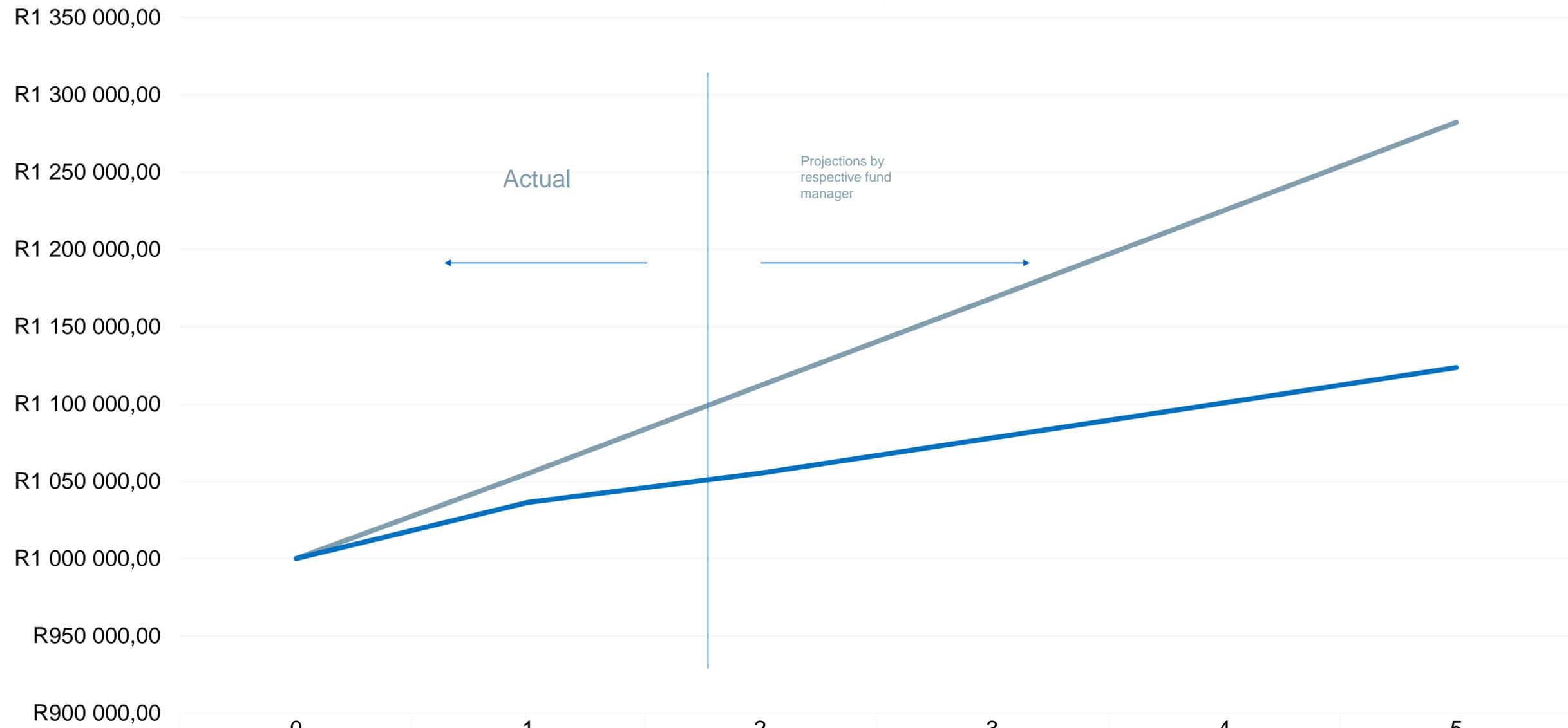
Tracking 100% of  
capital invested

# INVESTMENT PIPELINE

Sector	Amount	Return (excl. tax deduction)	Exclusive
Electricity and Water Metering	R25 000 000	10% to 15%	Yes
Dental Equipment	R30 000 000	10% to 15%	Yes
Solar	R50 000 000	15% to 25%	Yes
Drilling Equipment	R50 000 000	15% to 25%	No
<b>Total: 28 Companies</b>	R350m to R500m	10% to 25%	90%+

# 2020 PERFORMANCE RESULTS

## Infinity Anchor Fund – Performance vs Largest Competitor



	0	1	2	3	4	5
—Infinity Anchor Fund Performance	R1 000 000,00	R1 055 010,25	R1 111 895,79	R1 168 413,67	R1 225 202,61	R1 282 267,00
—Largest Competitor	R1 000 000,00	R1 036 399,68	R1 055 199,52	R1 077 999,52	R1 100 799,68	R1 123 600,00

# TWO INVESTMENT OPTIONS

# 2

INFINITY  
**STABLE**

Income underpinned by a guarantee

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Return of capital underpinned by a guarantee

---

Predictable exit

---

Predictable returns

---

No performance fee

---

Low minimum investment

---

# INFINITY ANCHOR FUND - STABLE



Investments underpinned by guarantees



Predictable exit



Predictable annual yield



# 2020 FUNDRAISE – INFINITY ANCHOR FUND STABLE – STRUCTURED PRODUCT



**Net div  
yield**  
2%

IRR  
**10.95%**  
p.a.

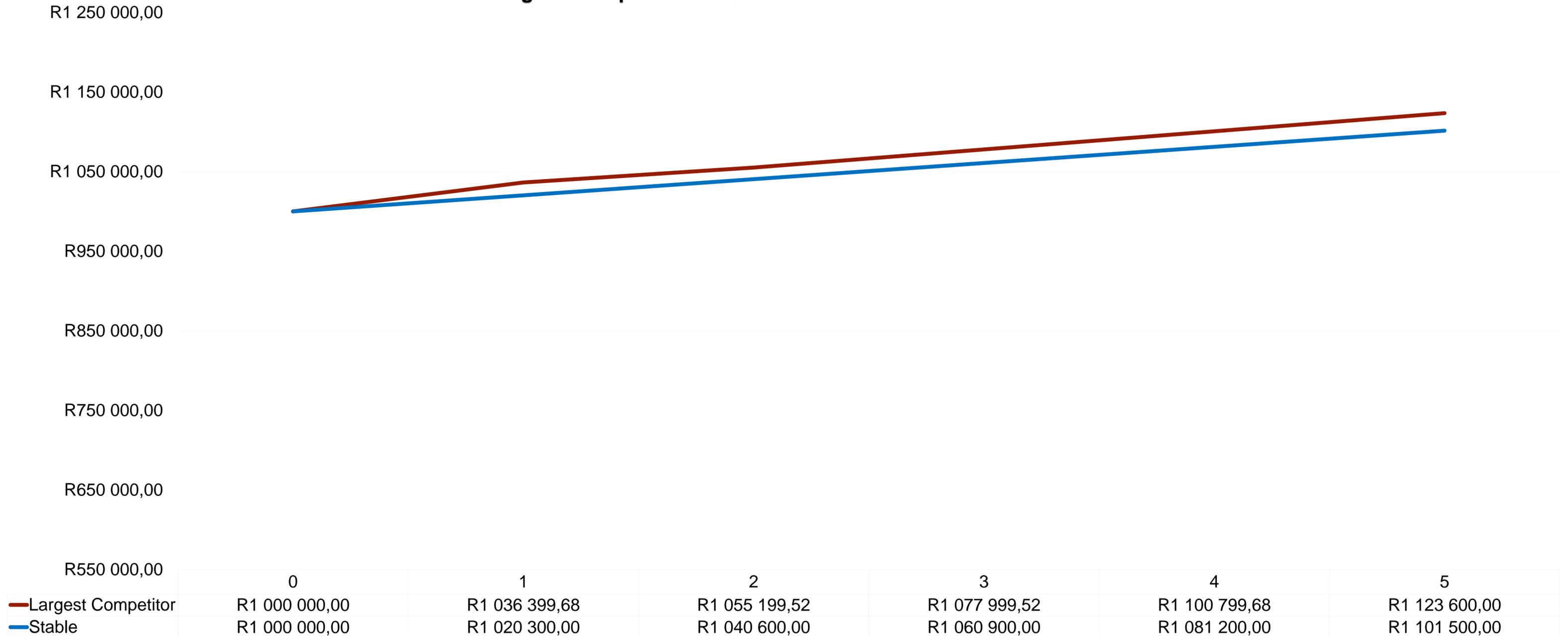
**Guarantee**  
in underlying investment

**Guaranteed**  
in underlying  
investment

**100%**  
of capital invested by  
31 August

# 2020 PERFORMANCE RESULTS

## Largest competitor vs Stable





**FINANCING OPTION**

INVEST 5% AND  
**JALTECH CAN  
FACILITATE  
FUNDING OF  
95% OF YOUR  
NEXT SECTION 12J  
INVESTMENT**



# HIGHLIGHTS

- 1** First repayment on 1 October 2022
- 2** Interest: 4% p.a until 1 October 2022
- 3** Funding approved within 24 hours
- 4** Loan repayable within 5 years
- 5** 100% tax deductible
- 6** Only 5% deposit required
- 7** Security: Shares issued & dividend payments

## FUNDING TERMS

**FUNDING**

Up to 95% of the investment amount

**INTEREST RATE**

4% p.a until 1 October 2022, increasing to 9% until February 2023 and thereafter, prime plus 2% p.a

**SECURITY**

Shares issued & dividend payments

**FIRST  
REPAYMENT**

1 October 2022

# INFINITY - PERFORMANCE & STABLE

**Initial Investment**

**S12J refund from SARS**

**Projected net dividend**

**Capital contribution after tax refund and dividends**

**Total Rands returned after taxes & fees**

**Profit (after all fees and taxes)**

R50 000

(R450 000)

R152 800

R582 000

R954 000

R372 000

**IRR including the tax benefit, after fees and taxes**

26% p.a

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THANK YOU



# Q&A

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# Contact details:

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