

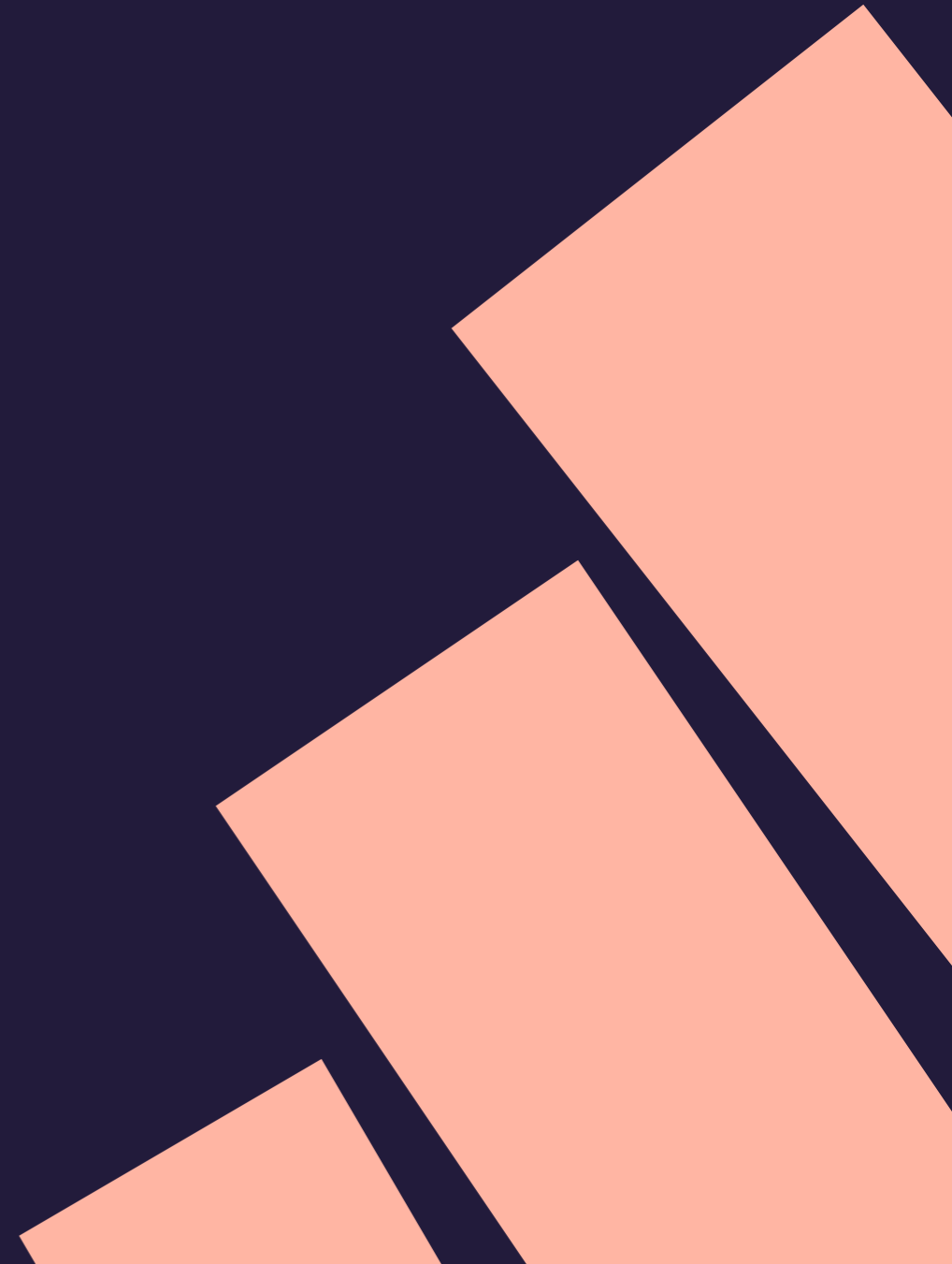


—
Investing for a
world of change

Ninety One Masterclass The offshore puzzle

Advanced advisor solutions
14 May 2024

A practical case study





Solving the “offshore puzzle” for global families

Fees
Family members overseas
Probate
Protect from estate duty
Beneficiary options
Tax efficiency
No CGT on death
Efficiency of succession
Liquidity on death

* Where benefit is passed to spouse *** Where benefit passed to spouse



Meet Peter

Personal circumstances and assets

- Aged 57
- Single – never married and does not have children of his own
- Higher rate tax payer
- Is godfather to his 2 nieces and nephew (children of his brother) who will inherit from him
- One is 23 and lives in the UK, one is 19 and lives in SA and the other is 15 and planning to study overseas
- His father lives in SA and has a living annuity and a £ 1m in a UK bank account
- Has a \$500k global share portfolio which he has held for years. The source of this investment was an inheritance from a non-resident family member
- Had a Ninety One Global Life Portfolio invested in 2022 (subsequently withdrawn)
- Has R 10m new cash available to take overseas after selling a factory



Advisor goals

- Save tax
- Save money and time on death
- Using existing legislation
- Making the most of your FIA
- Global families



Dealing with his PSP inherited
from a non-resident



Offshore share portfolio

Looking at the important info based on Peter's circumstances

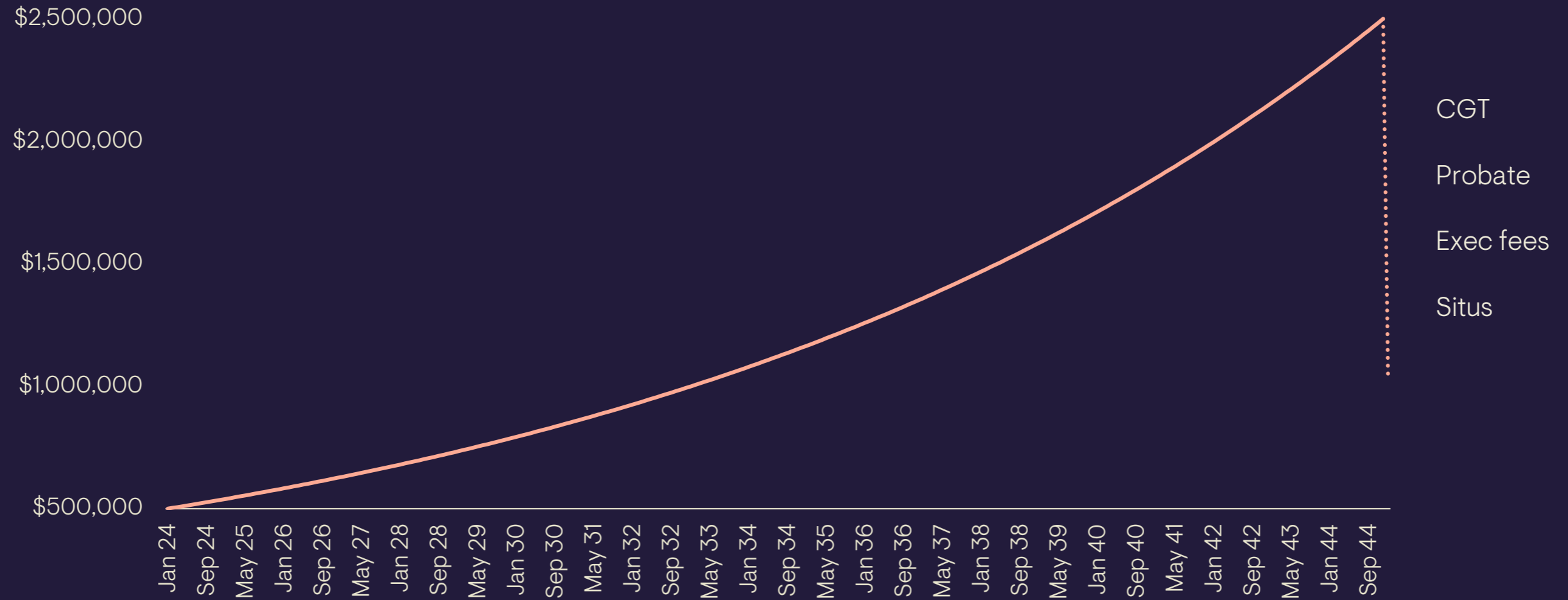
- Inherited from relative overseas (Section 4 (e) of Estate Duty Act means out of his SA estate)

BUT ...

- Subject to situs tax
 - What is situs tax?
 - Why is it important to Peter?

Making the current situation

Low hanging fruit



| **>50%** of value lost to fees and taxes on death



The low hanging fruit

Offshore share portfolio

- Inherited from relative overseas (Section 4 (e) of Estate Duty Act means out of his SA estate)

BUT ...

- Means he should not be paying any estate duty anywhere
- But base cost of \$ 190k means he needs to incur CGT to move
- Allowing him to exit the share portfolio



A reminder of the Ninety One Offshore Product Suite

Designed for changing circumstances

Global Investment Portfolio

SA Nominee Structure

SA Executor can instruct

No Probate or Situs

FICA / SA CDD

Global Life Portfolio

Guernsey Domicile

No Probate (if beneficiaries are nominated)

No Situs

Beneficiary nominations

Platform AML

International Investment Portfolio

Guernsey Nominee Structure

No SA Tax reporting

Estate duty liability driven by investor jurisdiction

Platform AML

Online

Family pricing

Family reporting



What options are available to Peter?

Assessing the merits of the Ninety One Offshore Product suite

Global Investment Portfolio

SA Nominee Structure

SA Executor can instruct

No Probate or Situs

FICA / SA CDD

- Ideal for **SA tax residents**
- No term
- All funds are roll-up funds
- **Local requirements for onboarding and maintenance of CDD**
- Tax certificates as per SA Tax year
- **SA Nominee structure ensures foreign probate is not applicable on death**
- No foreign Estate Duty as no 'situs' assets can be held via the product
- **On death dealt with via SA will, Masters Office and Executor**

But...For Peter

- Future capital gain taxed in his own hands at 18%
- **Most NB... SA Nominee structure = Asset in SA Estate**
- **Meaning he will pay estate duty where he should not have to (Section 4 (e) of Estate Duty Act**
- What about his plans for inheritance?





What options are available to Peter?

Assessing the merits of the Ninety One Offshore Product suite

International Investment Portfolio

Guernsey Nominee Structure

No SA Tax reporting

Estate duty liability driven by investor jurisdiction

Platform AML

- Designed for **Non-SA tax residents**
- Guernsey Nominee Company
- No term
- No VAT
- Roll-up funds = reportable funds only
- **Customizable tax reporting**
- **No reporting to SARS**
- No 'situs' assets can be held via the product

But...For Peter

- Future capital gain taxed in his own hands at 18%
- But, asset would be outside of his SA estate (Section 4 (e)) and situs no longer applicable
- Suitable for needs of nephew that lives in the UK





The Ninety One Offshore Product Suite

Designed for changing circumstances

Global Life Portfolio

Guernsey Domicile

No Probate (if
beneficiaries are
nominated)

No Situs

Beneficiary nominations

Platform AML

- Ideal for **SA Tax residents**
- 5-year Global Sinking fund – mature after 5 years or on death
- **All funds are roll-up funds (no 30%)**
- CGT deducted at 12% within the policy – No CGT on death
- No Tax certificates
- Guernsey-registered branch of SA life company
- **Flexible beneficiary options – primary and alternative**
- No Situs tax
- No Probate where beneficiary are nominated

And...For Peter

- **Possible to retain shares within structure**
- Change of ownership means CGT liability to move
- But base cost reset and future CGT at 12%
- Most importantly no situs...and...
- **No SA Estate Duty (Section 4 (e))**
- **Beneficiary nominations?**

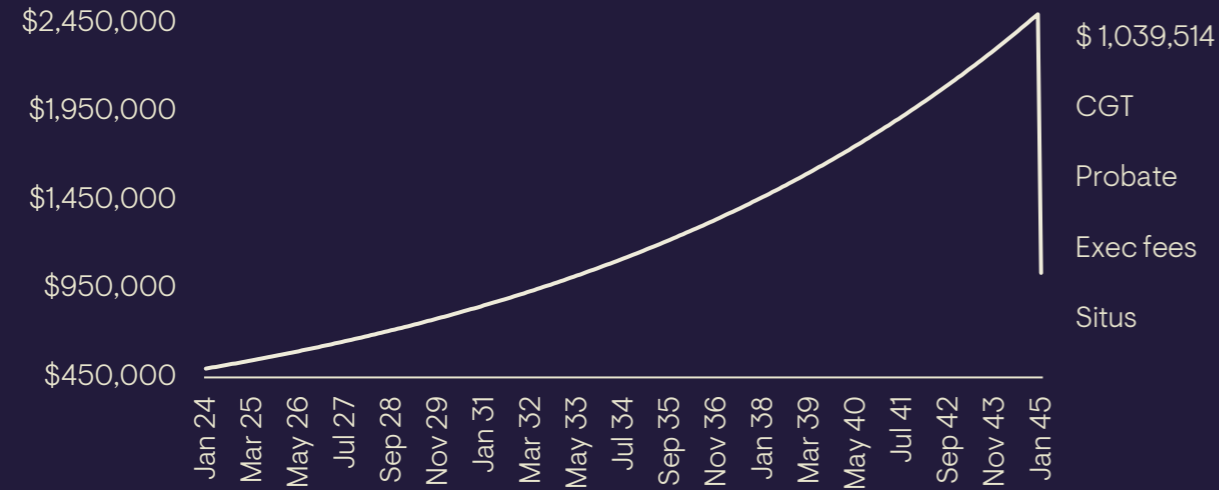




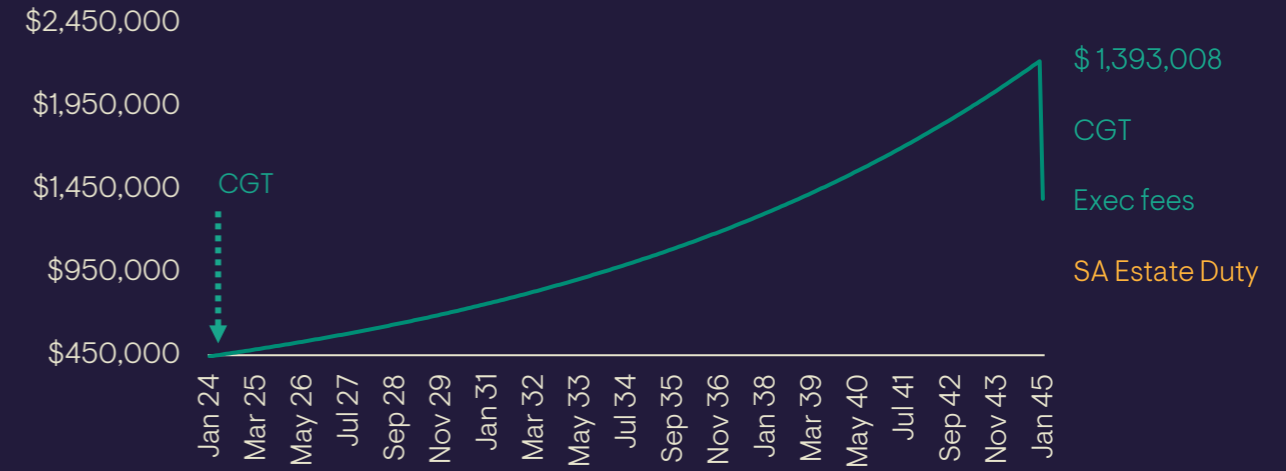
Assessing the financial impact of death

But is it about more than the numbers?

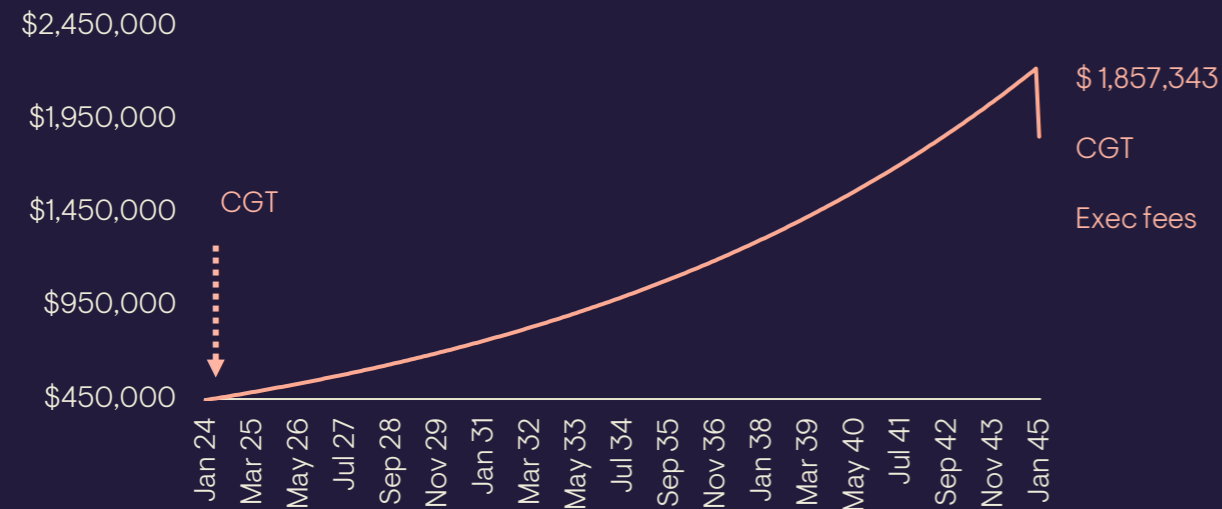
Current PSP



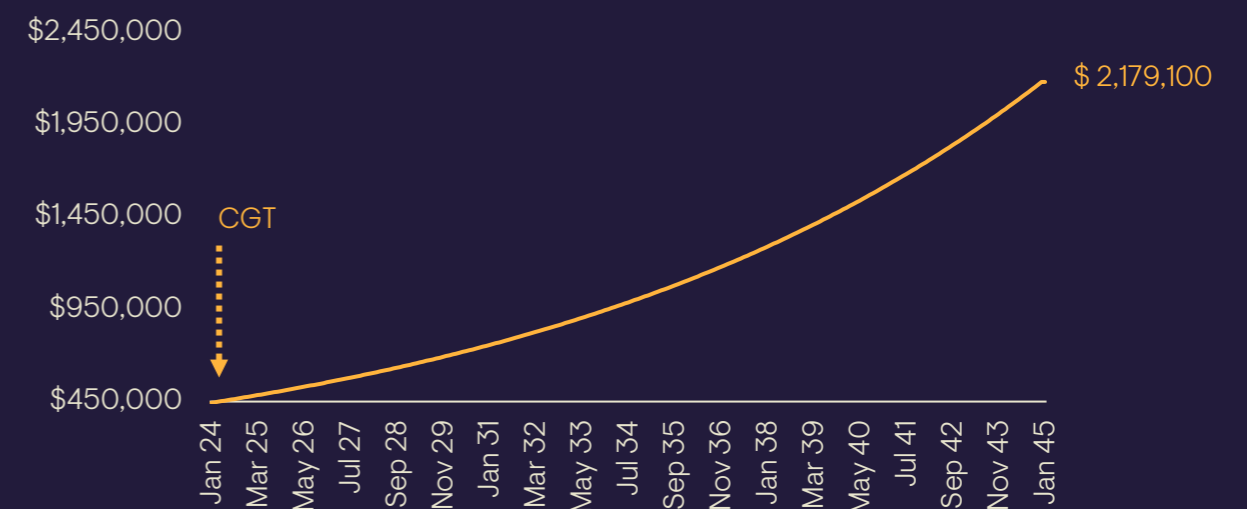
Move to Global Inv Portfolio



Move to International Inv Portfolio



Move to Global Life Portfolio



Dealing with his existing Global Life Portfolio (previously withdrawn)



Existing Ninety One Global Life Portfolio

Offshore share portfolio

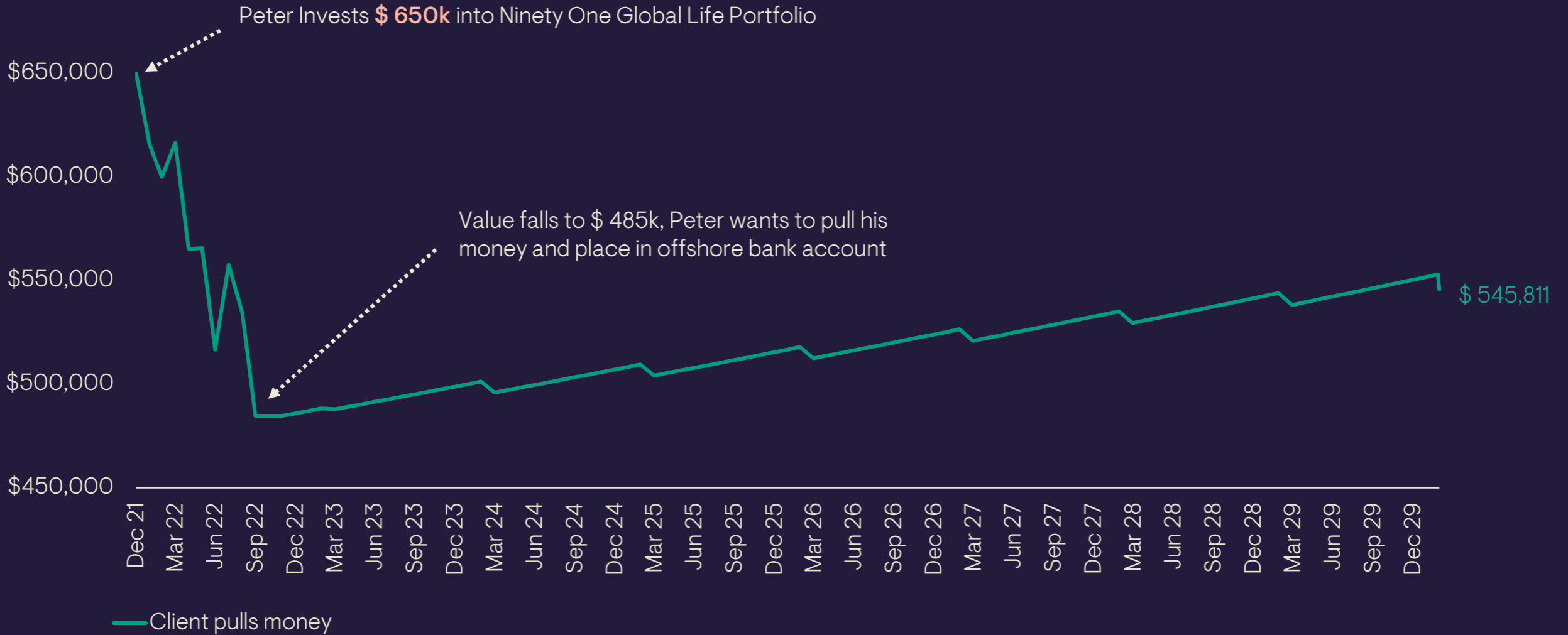
- Invested in January 2022
- Needed money and got scared of markets making a withdrawal in September 2022
- Advisor tried to convince him to stay using graph
- But Peter took the money anyway

BUT

1. He took as a loan providing the opportunity to pay back later,
2. And he recorded the amount received through the funds-in-funds out process

Making use of capital losses

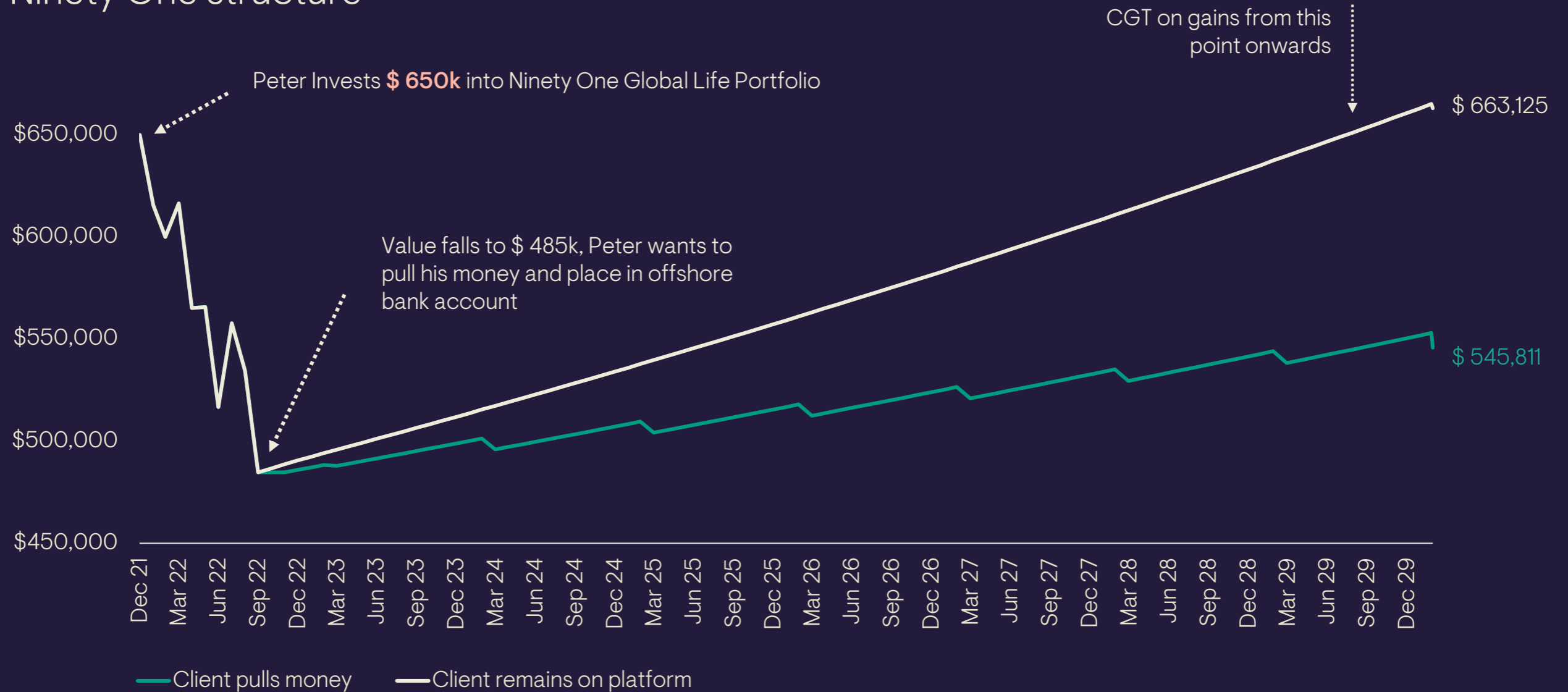
Ninety One structure



Source: Ninety One, for illustrative purposes only. Performance of MSCI World index used from January to end September 2022. Growth of bank account assumed to be 3% p.a. marginal tax of 45% deducted from growth in bank account

Making use of capital losses

Ninety One structure



Source: Ninety One, for illustrative purposes only. Performance of MSCI World index used from January to end September 2022. Growth of bank account assumed to be 3% p.a. marginal tax of 45% deducted from growth in bank account. Growth of USD Money assumed to be 5%, no tax deducted until capital loss had been recovered

■ The unique benefit of the loan facility

Utilizing capital losses

2022

Peter applied for clearance to externalize R 10m

Peter invests **\$ 650k** into Ninety One Global Life Portfolio

Splits into 5 contracts

2022

Value has **fallen to \$ 485k**

Peter takes a loan for full value

Value of **\$ 485k** received in bank account leaving **policy value \$0** and **loan value of \$ 485k**

2024

Peter **has money to invest again** after selling a factory

Can **externalize ZAR equivalent of \$ 485k** without requiring SARB approval + R 10m allowance for calendar year

Loan facility means this can be paid back into **policy**

But... Peter won't be liable for any tax on the first \$ 165k of growth (worth nearly \$ 20k)... the loan is about more than just providing liquidity!!



Funds in funds out

Nice idea but how does it work in practice?

- When the funds are repatriated back to SA, they should be recorded under Balance Of Payment (BOP) code 511/04 or 511/05
 - The client will have to provide proof from the banking institution of this recording
- Only the Rand value of the repatriated funds can be retransferred back offshore
 - The client will have to provide proof of the conversion to show the Rand value at the time the funds were received into SA
 - An account statement needs to be provided to show the funds being credited to the account
- The client will have to provide the original inward swift confirmations (MT103)
- Once the above is received, the documents will be reviewed by the Exchange Control team of the bank that is assisting with the retransfer of the funds and they will be able to provide the approval for the client can proceed



How should Peter structure these investments?

- 120% rule still intact which means
 - \$ 485k (currently approx. R9m) can be repaid via loan and...
 - \$ 780,000 (approx. R 14.6m) can be added by addition
 - But R 10m available for investment
 - Meaning with loan repayment (funds in-funds-out) and R 10m Discretionary) Peter can maximize amount that can be contributed to his existing policy
- But, what is the best way of structuring his policies given his investment and succession planning objectives?



- Pros and cons
 - Take advantage of existing loan facility and 'funds in-funds out' process
 - Peter has R 10m available for investment so could use 120% rule to his advantage, but...
- Peter will compromise his liquidity as he has already taken his loan, only one withdrawal available until policy matures in 2027

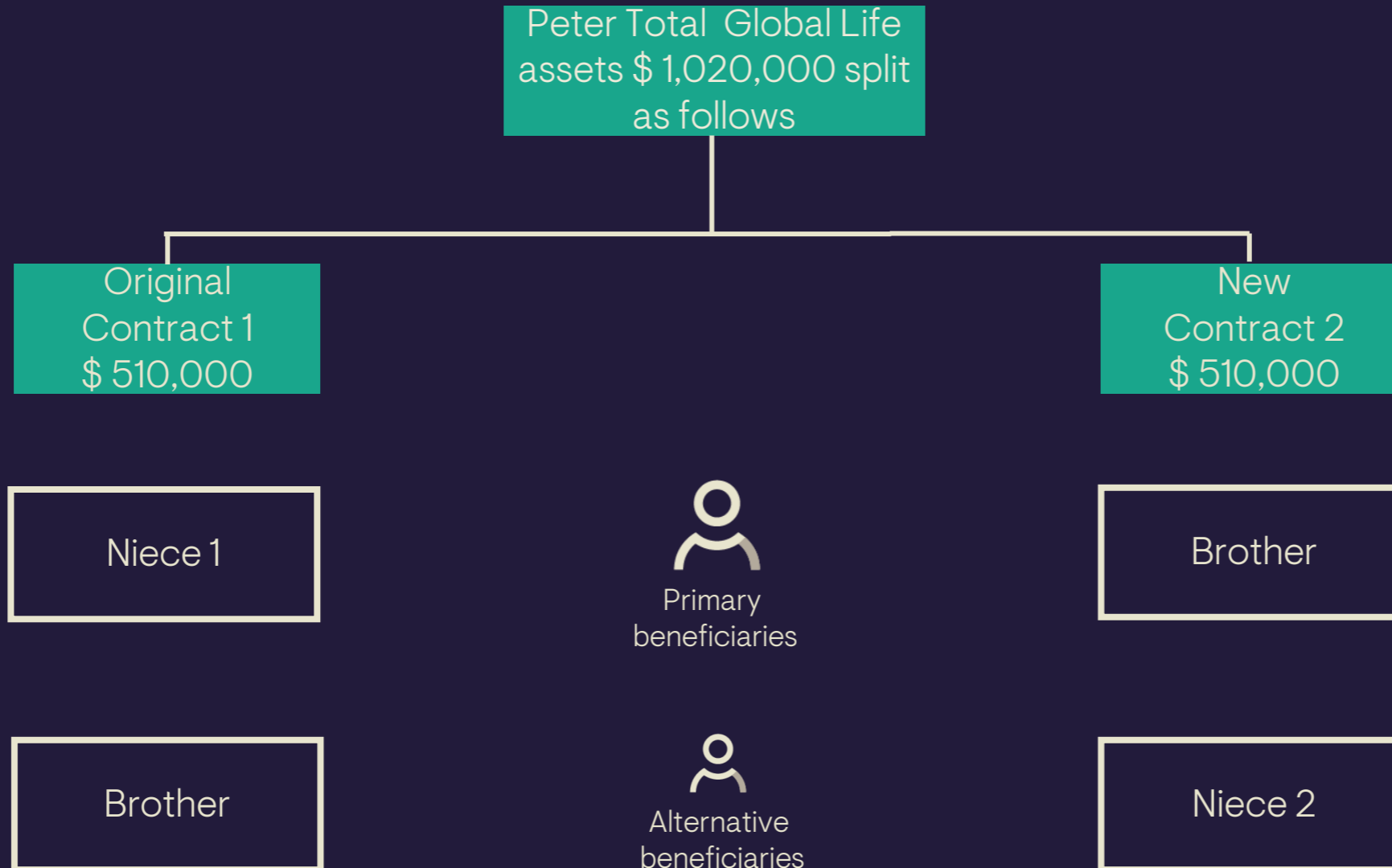
Where does that leave his
offshore investments?





How does that leave his offshore investments?

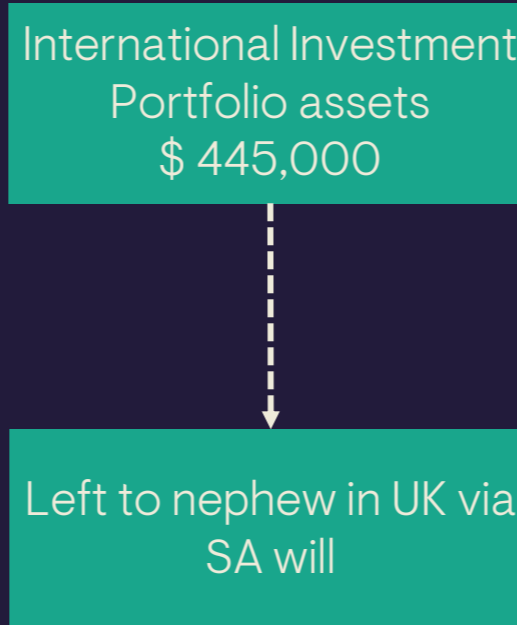
Ninety One Global Life Portfolio





How does that leave his offshore investments?

Ninety One International Investment Portfolio



Dealing with his existing
father's investments

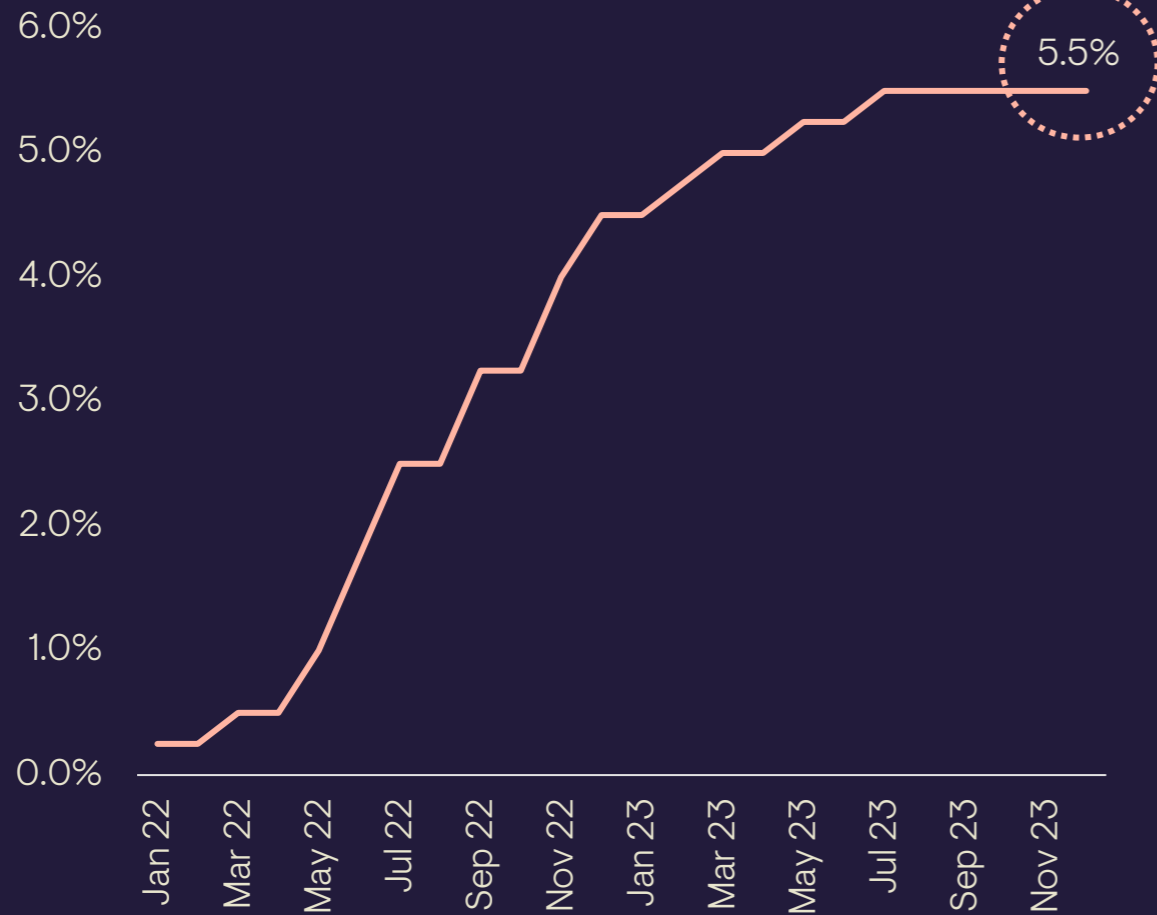




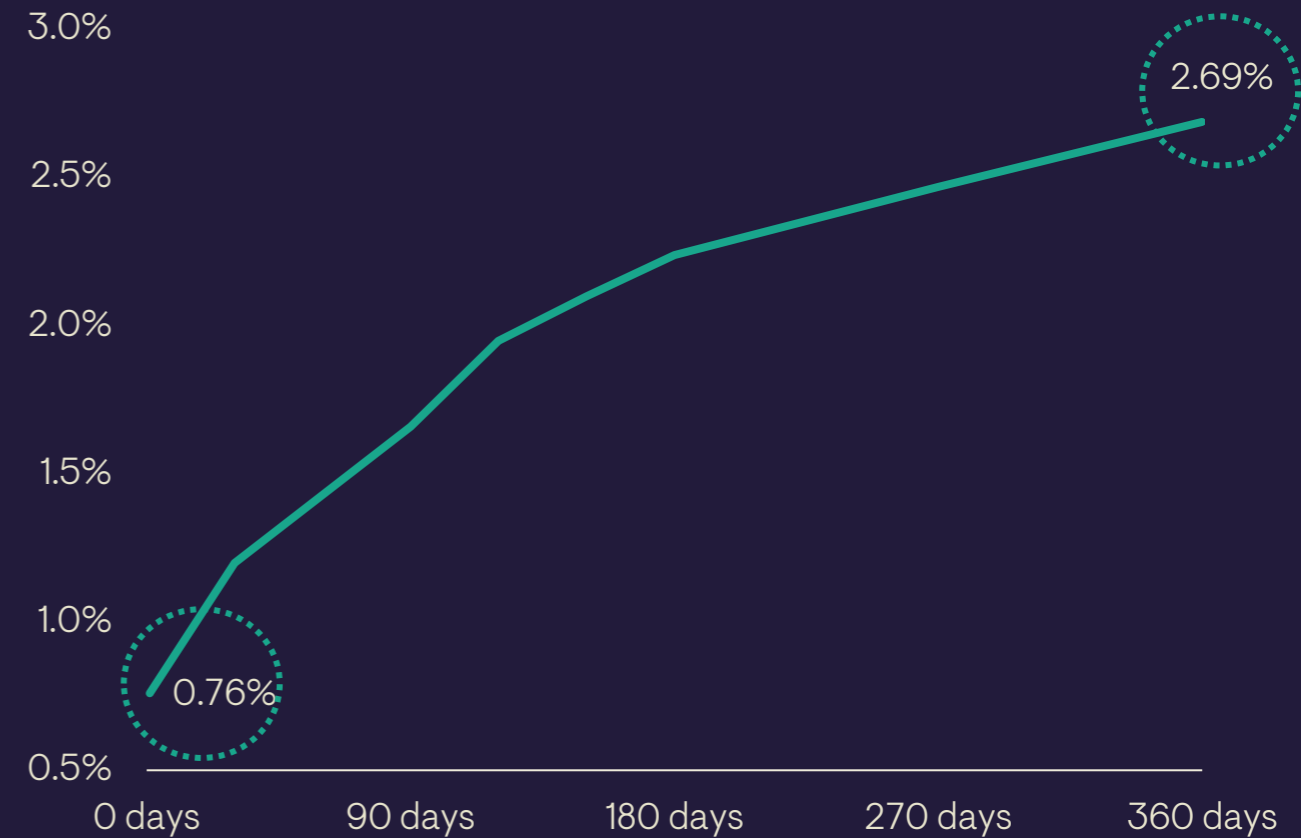
Yield is on the table again, but perception is different to reality...

Comparing the Fed Funds rate with what interest deposit holders can actually receive

FED Funds rate



Bank rates available for investors





Money funds have proven to be a better home for USD cash in 2023

And have helped tackle the additional challenges associated with bank deposits

May 2023



Cash Conundrum 2.0 - what a difference a year makes

Investing for a world of change



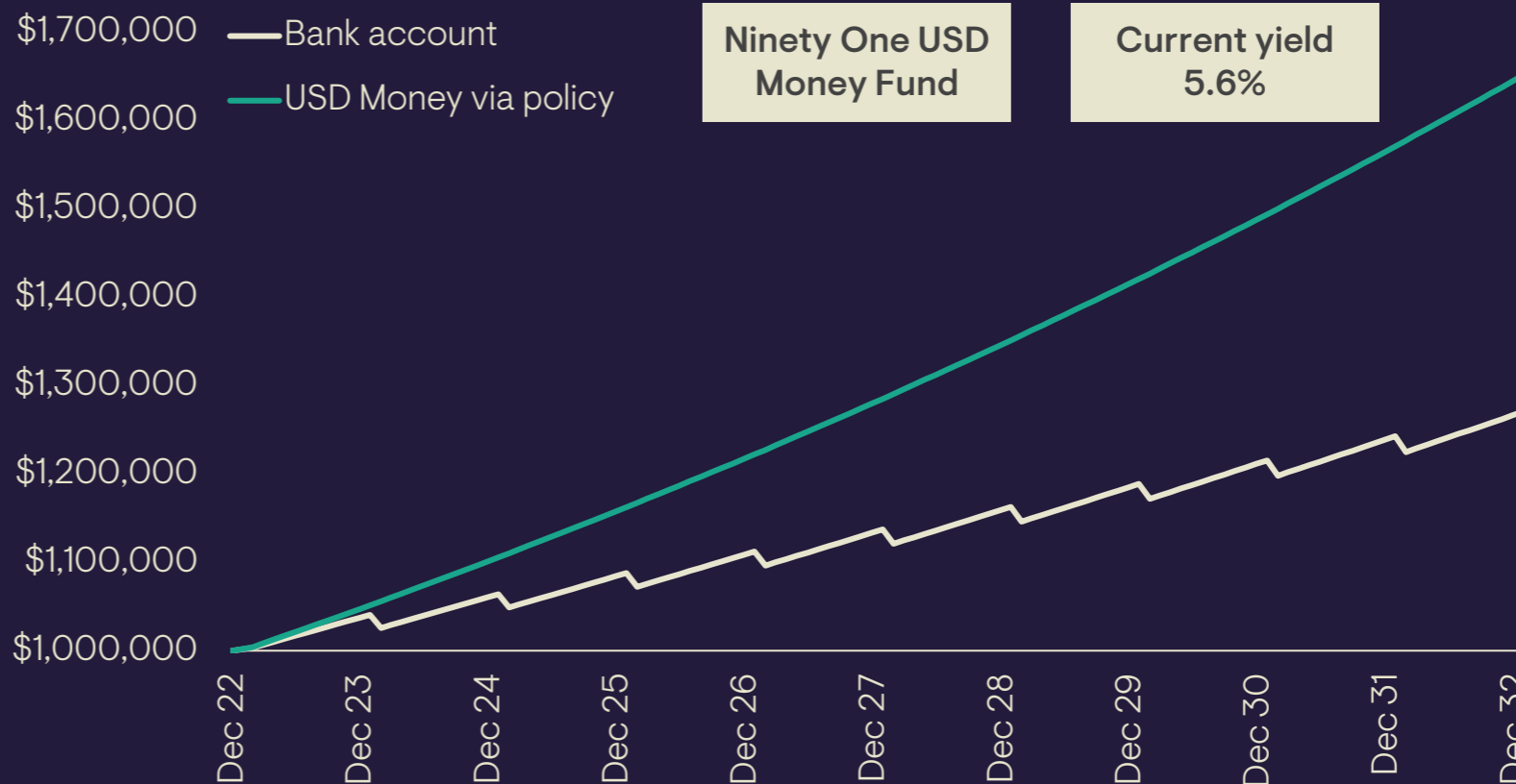
Marc Lindley
Product Specialist

Aggressive rate hikes may have made offshore cash returns appear more appealing, but there are various factors, which can lead to sub-optimal outcomes when holding cash in offshore bank accounts. We explore the complexities and associated expenses involved in offshore cash holdings.

The topic of clients holding cash in a foreign bank account is one that we have discussed extensively over the past few years. One of the main challenges we sought to address was the poor returns on offer due to persistently low-interest rates post the 2008 global financial crisis. However, the recent unprecedented levels of inflation experienced globally have caused aggressive hikes in interest rates worldwide over the past 12 months, making the returns available from the asset class more attractive, on a nominal basis, at the very least.

Our previous articles on the topic have motivated clients with cash in foreign bank accounts to consider taking action to increase their investment risk to improve their outcomes. The volatility experienced across a broad range of offshore asset classes in 2022 has made many clients reluctant to do so. As a result, they have maintained their default position of keeping this 'lazy cash' in their foreign bank account. However, many factors cause sub-optimal outcomes for investors who default to this position.

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\$ 5.9tn in US money market funds

Increased by approx. **\$ 370bn** in **last 20 weeks**

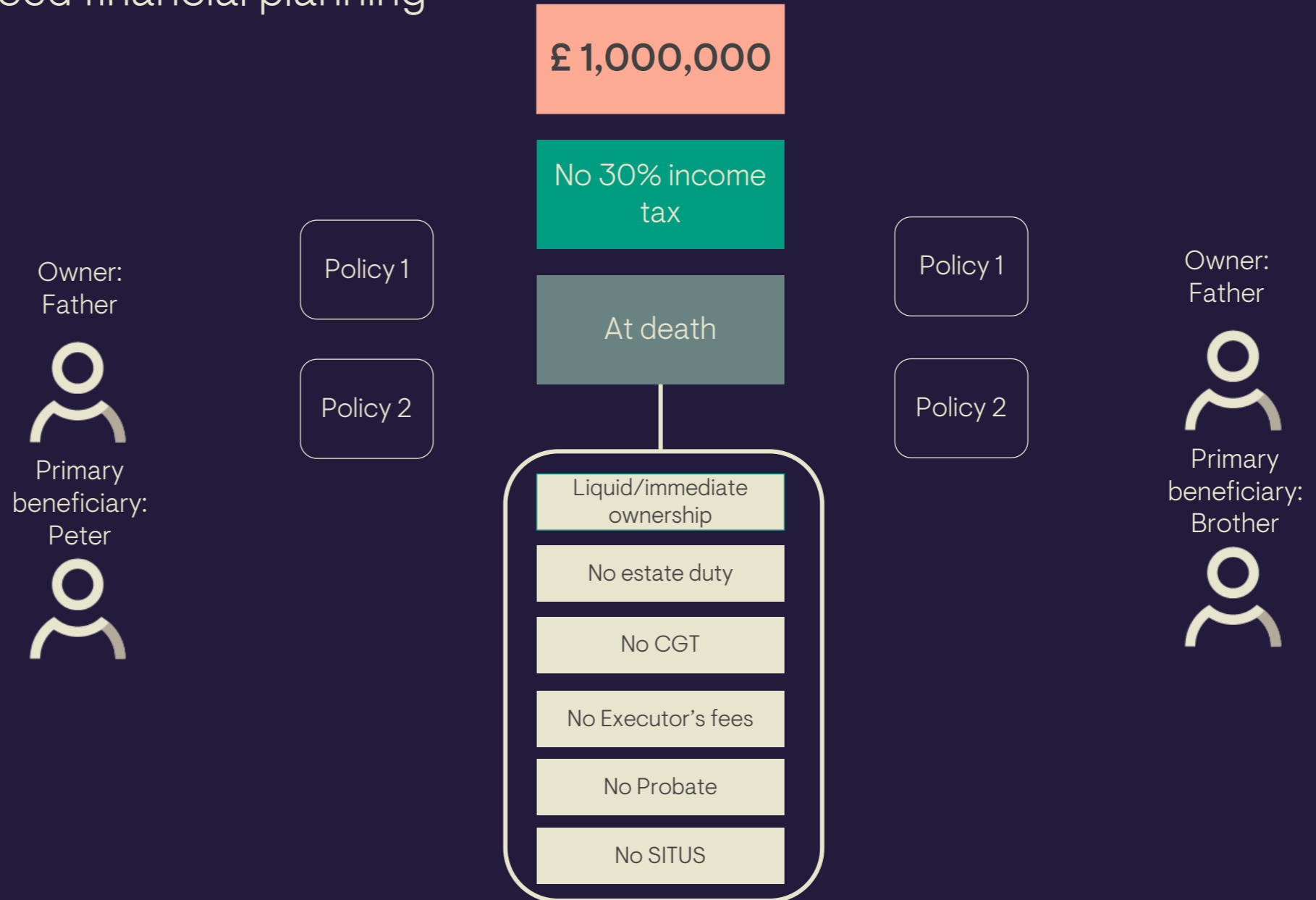
Approx. **\$ 220bn** of which from **retail investors**

Source Ninety One, for illustrative purposes only. Yield on offer will fluctuate over time. Assumed growth of 4% assumed for bank account and 5.6% for USD Money. Platform fee and 0.25% advice fee deducted from policy wrapper example. 45% income tax deducted annually from bank account example, CGT of 12% deducted at end of illustration from policy example



The packaging is incredibly important

Allowing for advanced financial planning



Such as outright cessions

Enabling tax-efficient inter-generational transfer of wealth

	Keep in own hands (Bank account)	Own hands (Policy) after donation/cession	Value in Children's hands (Policy)	Combined family value (Policy)
Starting Value	£1,000,000	£1,000,000	£0	£1,000,000
Value 5 years (before cession)	£1,117,174	£1,248,682	£0	£1,248,682
Value 5 years (1 month after cession)	£1,120,898	£626,656	£501,325	£1,127,981
Value after 15 years (on death)	£1,394,321	£973,476	£778,781	£1,752,257
Executor fees	£57,199	N/A	N/A	N/A
CGT on death	N/A	N/A	N/A	N/A
Estate Duty (SA and situs)	£494,930	£243,369	N/A	£243,369
End value	£843,199	£730,107	£778,781	£1,508,888

Source: Ninety One, growth assumed to be 4% p.a. for bank account and 5% for policy wrapper. Platform fees deducted from policy wrapper and advice fees of 0.25%. Tax of 45% deducted annually from bank account. Executors fees applied at 4.03%, Donations tax applied at 20% on cession to children. Estate duty applied to dutiable estate value at 25%



But what are the prospects going forwards?

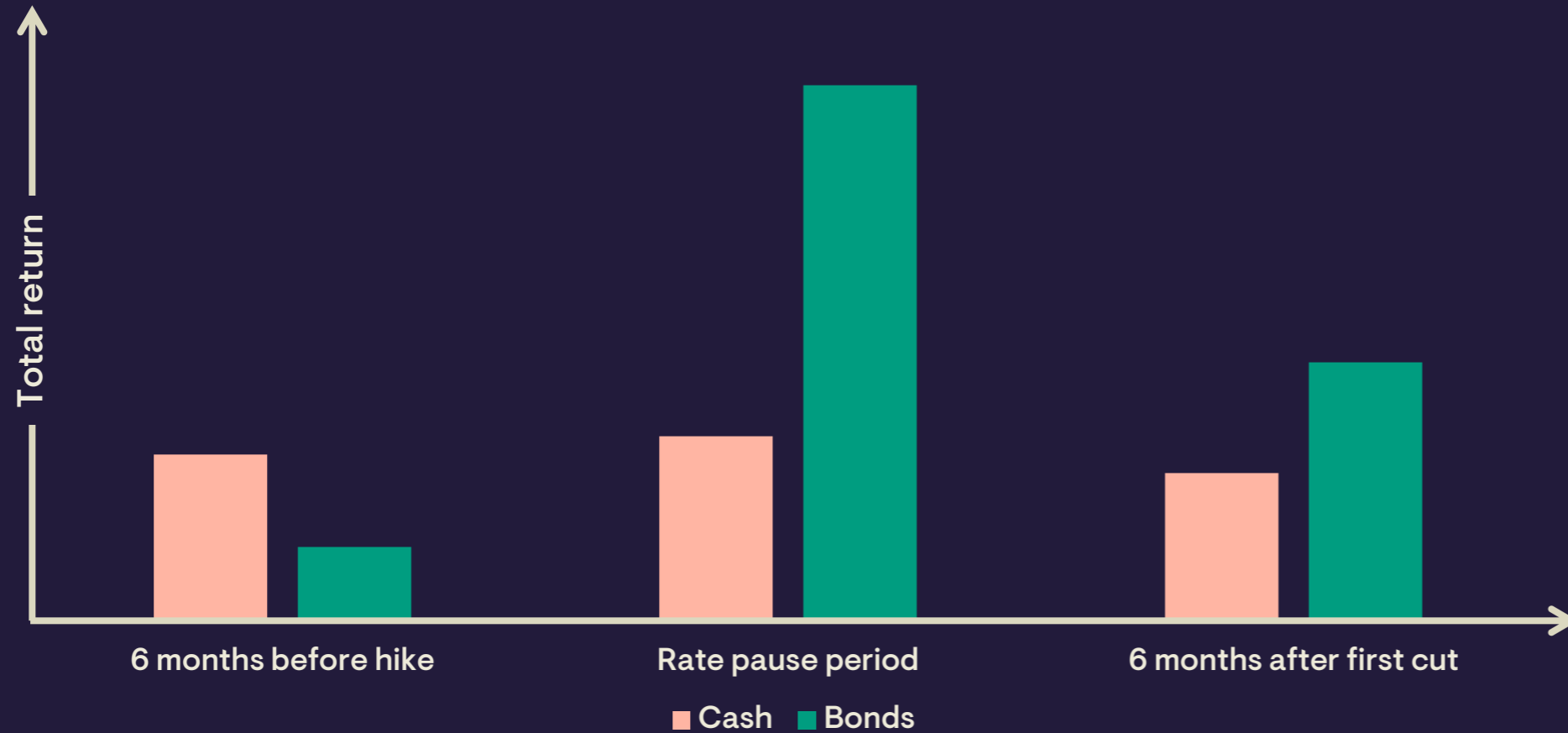
Relative to other asset classes?

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
DM Bonds	11.5	EM Equity 78.6	EM Equity 18.9	DM Bonds 5.5	EM Equity 18.3	DM Equity 26.7	DM Equity 5	US Cash 0.2	EM Equity 11.2	EM Equity 37.3	US Cash 1.9	DM Equity 27.7	EM Equity 18.4	DM Equity 21.9	US Cash 1.7	DM Equity 23.8
US Cash	2.4	DM Equity 30	EM Bonds 14.1	EM Bonds 2.8	EM Bonds 17.3	US Cash 0.2	EM Bonds 0.8	DM Equity -0.9	EM Bonds 10.2	DM Equity 22.5	DM Bonds -0.3	EM Equity 18.5	DM Equity 16	US Cash 0.1	EM Bonds -14.8	EM Bonds 12
EM Bonds	-8.7	EM Bonds 26	DM Equity 11.8	US Cash 0.2	DM Equity 15.9	EM Equity -2.7	US Cash 0.1	DM Bonds -3.1	DM Equity 7.6	EM Bonds 12.8	EM Bonds -5.2	EM Bonds 14.4	DM Bonds 9.7	EM Equity -2.6	DM Bonds -17.2	EM Equity 9.9
DM Equity	-40.8	DM Bonds 2.1	DM Bonds 6.5	DM Equity -5.6	DM Bonds 0.5	DM Bonds -4.8	DM Bonds -1.7	EM Bonds -7.2	DM Bonds 1.5	DM Bonds 7	DM Equity -8.8	DM Bonds 4.8	EM Bonds 4.1	EM Bonds -5.4	DM Equity -18.2	DM Bonds 5.3
EM Equity	-53.4	US Cash 0.3	US Cash 0.3	EM Equity -18.5	US Cash 0.2	EM Bonds -7.2	EM Equity -2.2	EM Equity -15	US Cash 0.5	US Cash 1.1	EM Equity -14.6	US Cash 2.3	US Cash 0.4	DM Bonds -6.9	EM Equity -20.1	US Cash 5.3



Could now be the time to look at bonds?

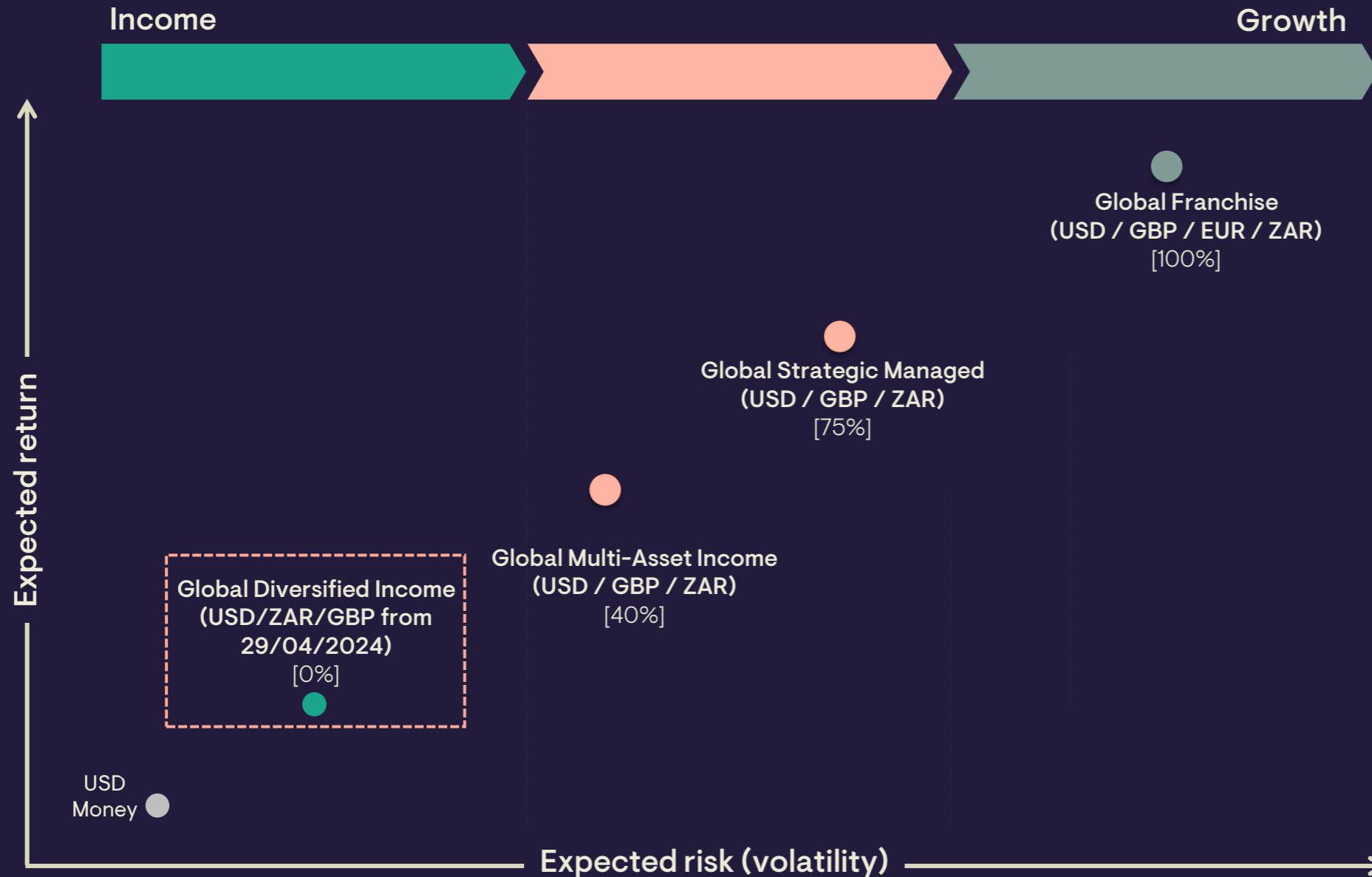
What does history tell us?



Source: iShares and reproduced by Ninety One. For illustrative purposes only. Historical analysis calculates average performance of the S&P 500 index (equities), the Bloomberg U.S. Aggregate Bond Index (bonds), and the Bloomberg U.S. Treasury Bills: 1-3 Months TR Index (cash) in the 6 months leading up to the last Fed rate hike, between the last rate hike and first cut, and the 6 months after the first cut. The dates used for the last rate hike of a cycle are: 2/1/1995, 3/25/1997, 5/16/2000, 6/29/2006, 12/19/2018. Dates used for the first-rate cut are: 7/6/1995, 9/29/1998, 1/3/2001, 9/18/2007, 8/1/2019



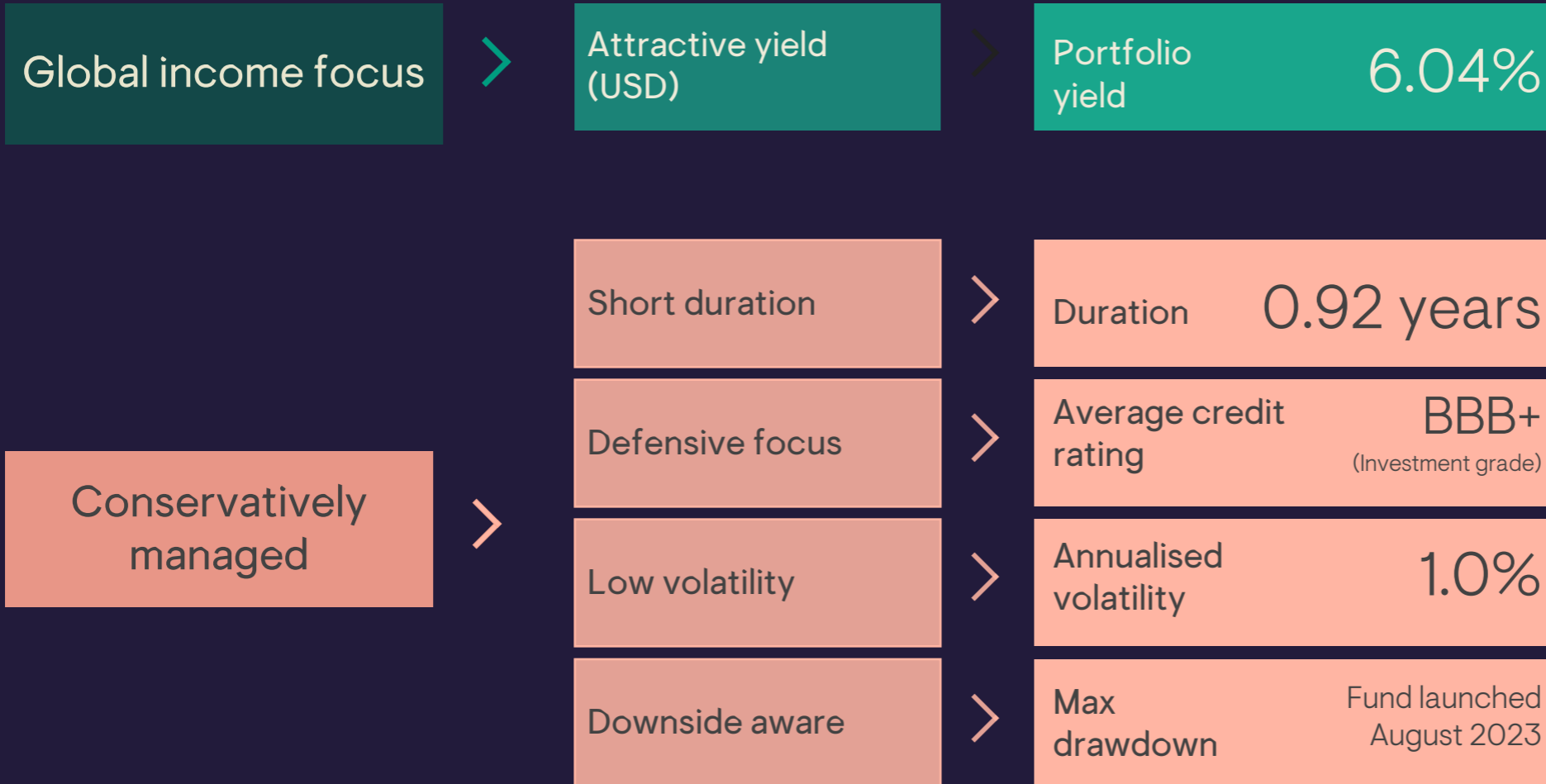
Ninety One core offshore fund solutions



Note: [] indicates maximum in equities. The expected risk and volatility may not be achieved and the value of your investment may go down as well as up.

Global Diversified Income Fund

Portfolio characteristics



Conservative global income fund with enhanced income at its core



Global Diversified Income Fund

A fully integrated approach to asset allocation and security selection

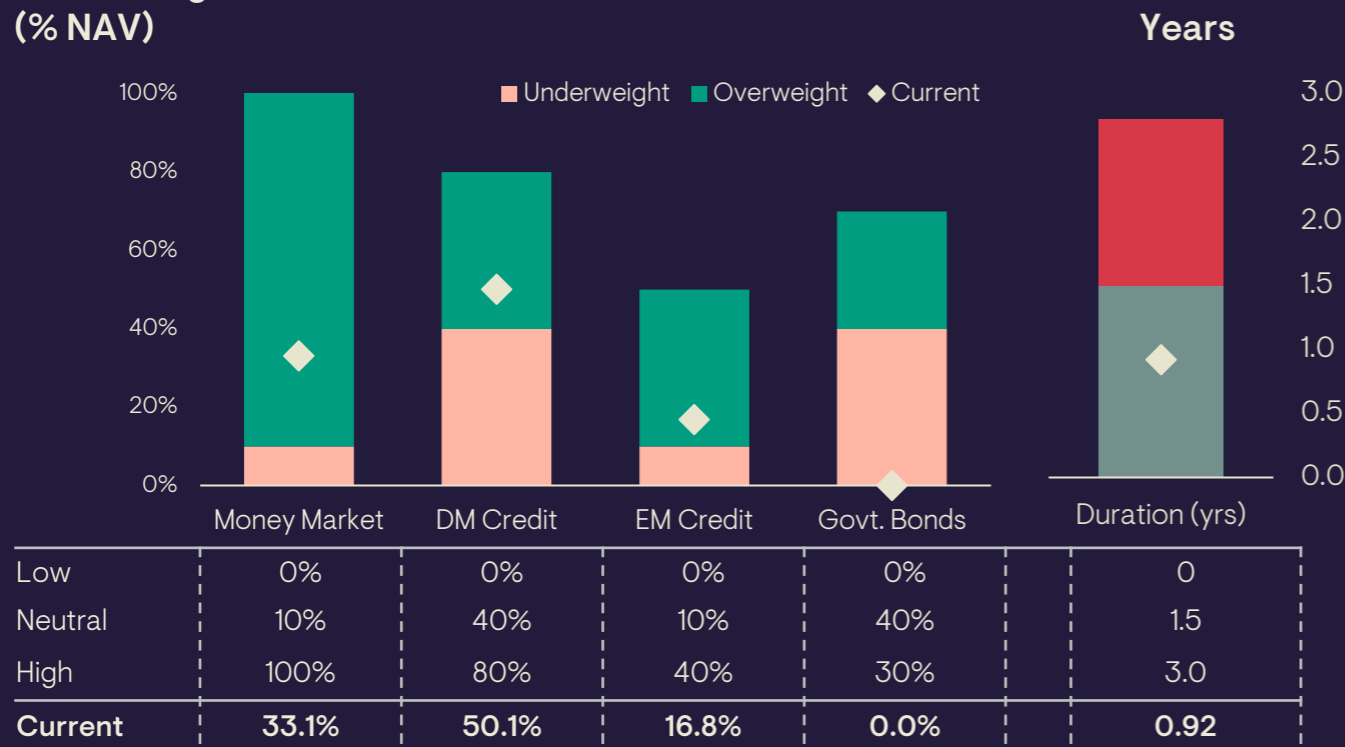


- Leverages the expertise of **70+** fixed income investment professionals based in London, Cape Town, Hong Kong and New York
- A high-conviction thematic approach focusing on our best ideas from across the fixed income investment universe
- Actively managed ensuring diverse sources of income and a smoother return profile

Global Diversified Income Fund

Portfolio positioning

Positioning relative to Neutral Construct (% NAV)



- Growth is **resilient**, but lower inflation leaves room to cut
- IG Credit offers **low risk income**
- **Divergent policy** creates opportunities
- Positioned for **yield and stability**

Portfolio yield	6.04%	Duration risk (yrs)	0.92	Credit spread	0.96%	Average credit rating	BBB+	FX exposure	106.8% US\$
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Conservative global income fund with enhanced income at its core



An exclusive offer for Ninety One IP partners

Ninety One Global Diversified Income Fund

From 1 March 2024

Discount on fund fee
45bps-30bps

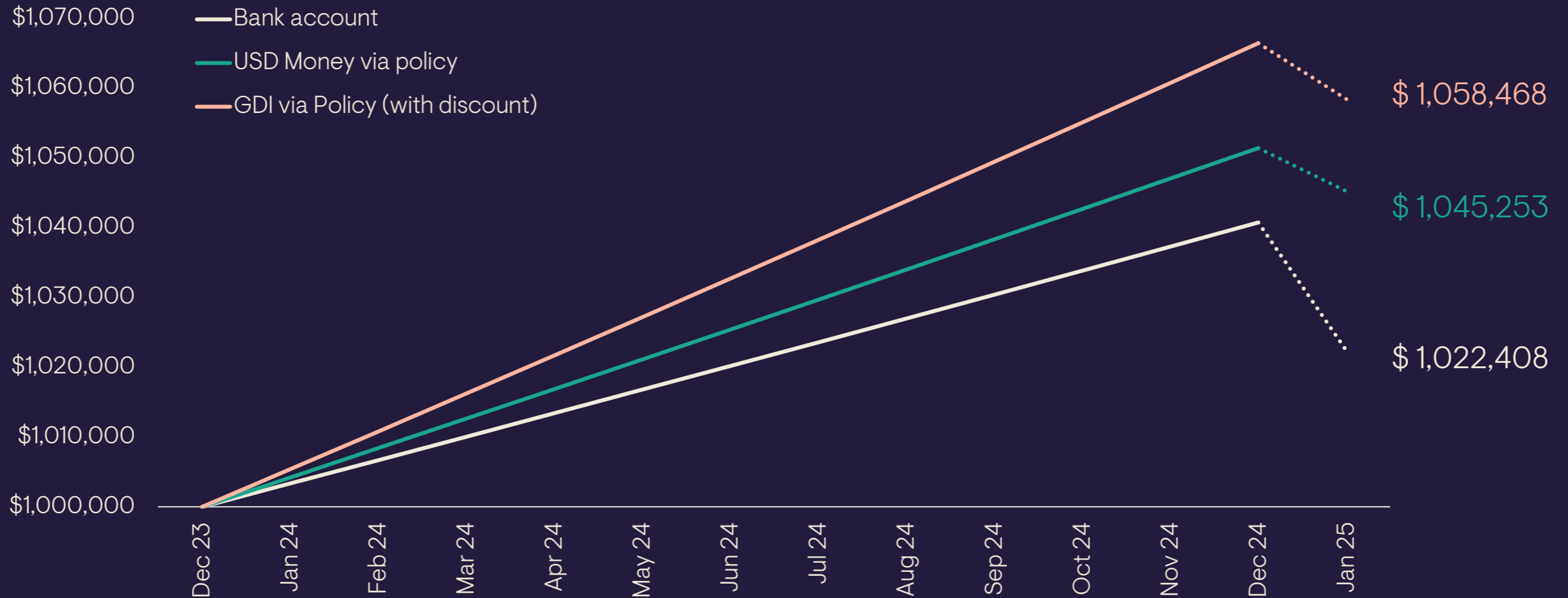
12 month platform fee holiday

Representing a saving of up to 65bps for 12 months (15bps thereafter)



Cash conundrum 3.0

Potential benefit of yield pick up plus fee discount over next 12 months

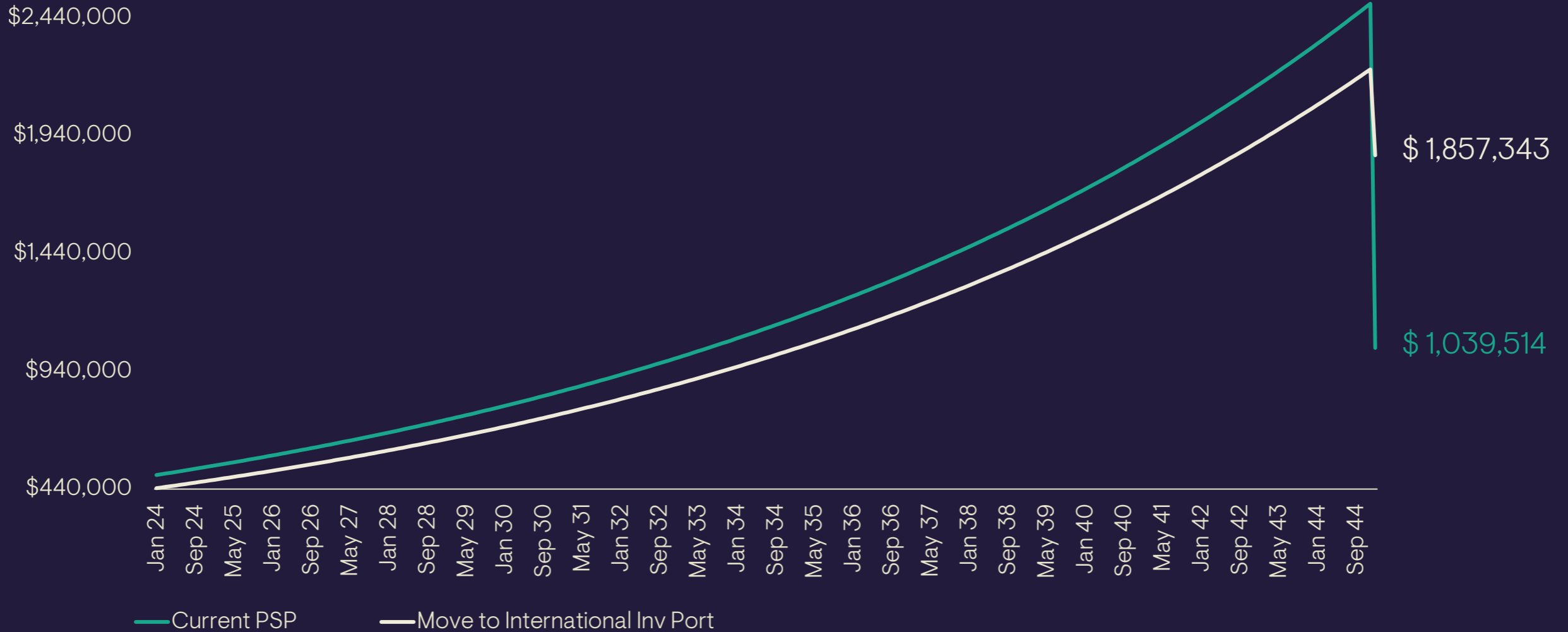


Source Ninety One, for illustrative purposes only. Yield on offer will fluctuate over time. Assumed growth of 4% for bank account, 5.6% for USD Money and 6.7% for GDI. Platform fee and 0.25% advice fee deducted from policy wrapper for USD money example. Advice fee only deducted from GDI example. 45% income tax deducted annually from bank account example, CGT of 12% deducted at end of illustration from policy example for USD Money fund and GDI



For Peter – Money earmarked for Nephew in UK

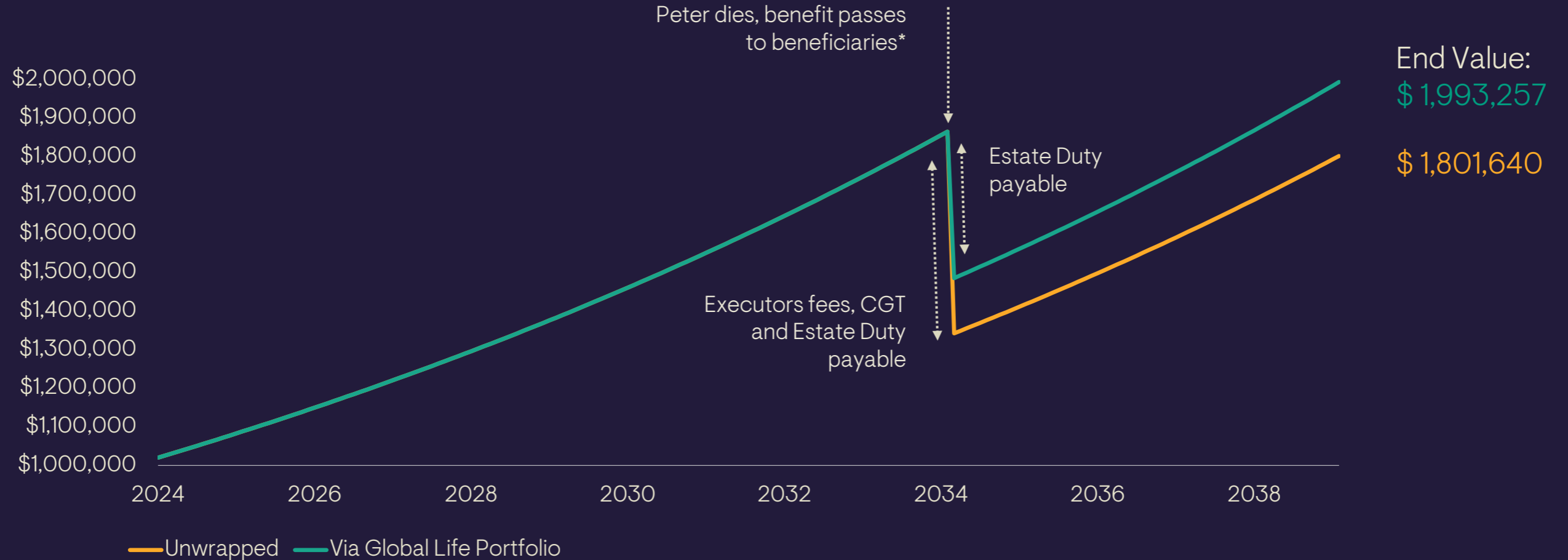
Benefit of moving shares to International Investment Portfolio





For Peter – Money earmarked for Nieces in SA

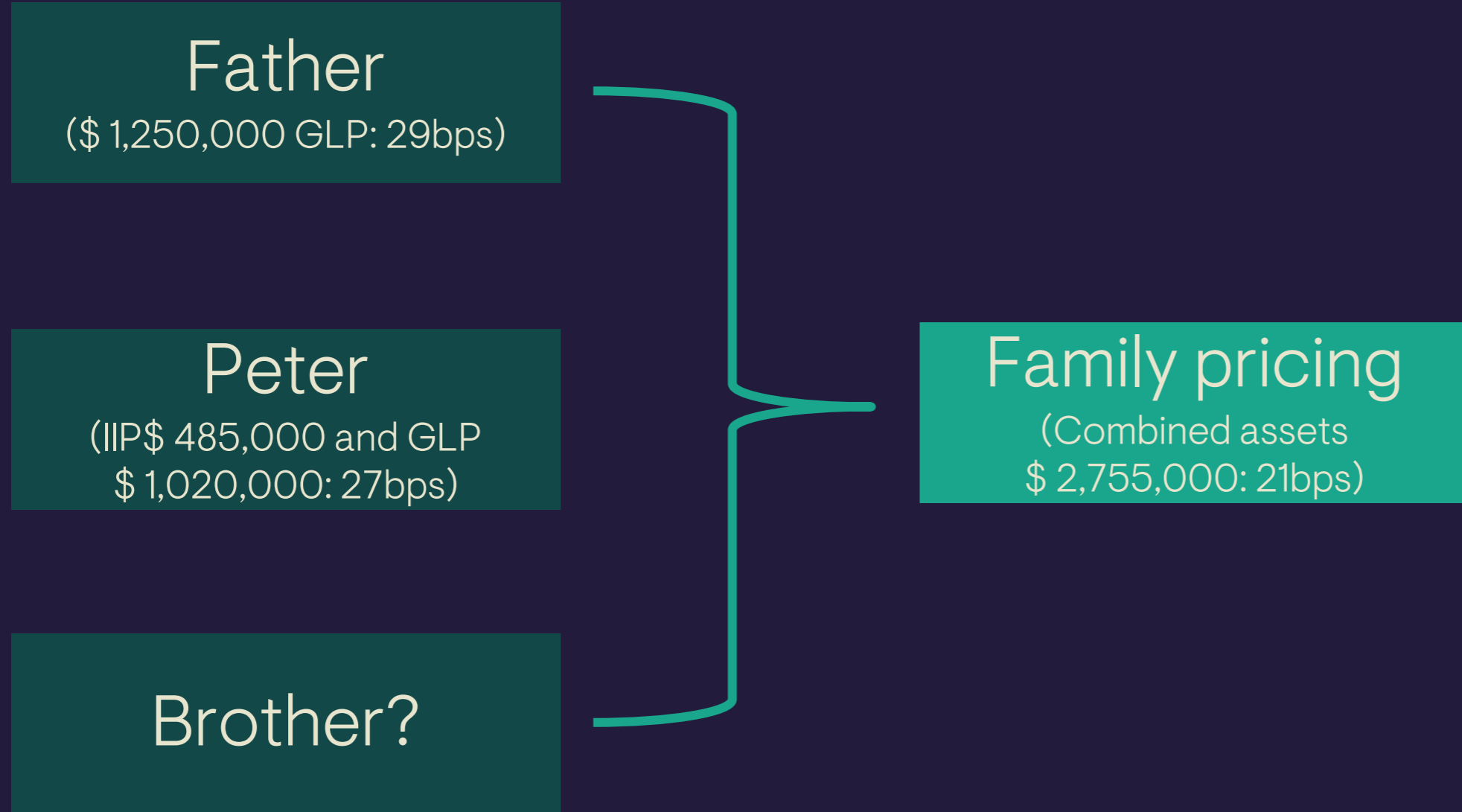
Benefit of investments in Global Life Portfolio





Bringing it all together – The icing on the cake

Ninety One Family Office – Allowing for cost and tax efficiency



Bringing it all together





Solving the “offshore puzzle” for global families

	How did we do?
Fees	✓
Family members overseas	✓
Probate	✓
Protect from estate duty	✓
Beneficiary options	✓
Tax efficiency	✓
No CGT on death	✓
Efficiency of succession	✓
Liquidity on death	✓



Thank you

—
Investing for a
world of change



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