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FUNDSMITH NO LONGER WANTS TO DEAL WITH SA INVESTORS

By Ruan Breed, Financial Advisor, Brenthurst Wealth George & Stellenbosch

You guessed it, the buzzword of the year in the South African financial arena for 2023 – **greylisting.** Perhaps still for years to come?

I remember it like it was yesterday, when numerous market commentators shouted from the rooftops that the current greylisting of South Africa would:

1. Initially not happen at all; or
2. If it did happen, the impact thereof would not be to the detriment of South African investors looking to transact outside of SA borders.

I beg to differ – this time not based on my own opinion, but rather by looking at the facts on the table.

One of the drums that commentators were initially beating was around the possible impact that greylisting might have on the rand.

It was said, far and wide, that the impact would basically be 'next-to-nothing'. Let's have a look:

SOUTH AFRICA WAS GREYLISTED ON THE 24TH OF FEBRUARY 2023. But the news of the possible greylisting had been circulating for almost a year prior to the official announcement, meaning that markets started to price in the imminent greylisting, which was very clear to see by looking at our exchange rates. (I know that the exchange rate is not only driven by this matter.)

By using the extreme skill of reading the chart below, one could clearly see that the greylisting did, in fact, have a significant impact on the exchange rate and, unfortunately, that is not where it ended.

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Moving large amounts of capital offshore has become specialised work in its own right.

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For roughly two years after COVID 19, the ZAR traded at around R14 – R16 to the US Dollar. Round about mid-2022, it became more imminent that South Africa would not escape the whole greylisting debacle. The rand started reeling at a rate of knots and traded at around R16.50 (and higher), and eventually turned just shy of R20/$. In other words, point one and point two above – CHECK! The greylisting is as bad as it seems, and it does not only affect local financial institutions, but also individual investors!

A couple of weeks back we started receiving emails from the public (individual investors) raising their concerns, as some of the large and well-renowned offshore asset managers had requested those investors to liquidate their direct investments in certain funds held directly by the individual investor, and to invest the capital via a local platform company.

One such fund is Fundsmith, one of the UK's largest fund management companies which has a large following in SA. They recently told their direct SA clients that there is too much fraud happening in SA and they want those clients to move their money to a global investment platform which has the compliance experience which SA does not have. There was no beating around the bush by the asset managers, they were not trying to soft-soap their message – it was direct, honest and brutal. They, and many other global stakeholders and institutions, regard SA as a high-risk 'entity'.

For all the curious readers (and I know there are many), the message from some of these fund managers really was brutal and direct. Amongst others, it was that "we have seen elevated levels of serious fraud perpetrated on South African investors, through mail fraud and other theft using sophisticated techniques". This was but one of the messages!

Furthermore, it was also stated in one of the letters received from a very well-known offshore fund manager, with billions of assets under management, that the European Commission and the UK Government had also added SA to the list of high-risk countries.

This has a direct impact on the levels of checks and balances, verifications, etc., that will be required. In other words…paperwork, paperwork and more paperwork. And if you still think they are not serious – a certain asset manager went as far as to offer an additional payout of £500 if the investor reacted to their request during 2023. The greylisting and other issues – like fraud and attempted fraud – have become a major issue for global financial institutions dealing with South Africa and money from this part of the world.

Most global companies have tightened their checks on the flow of funds from South Africa, creating all kinds of difficulties for investors and, potentially, their beneficiaries. In my view, the solution suggested by these asset managers, even though radical, still won't eliminate their exposure to SA. Moving the control and management of an investor's funds to a global intermediary platform – the major ones we deal with – does not remove their link to South African-based investors.

Our suggestion is to take this separation from South Africa a step further. In addition to moving the money to an international platform, move the money into a global, discretionary trust in Mauritius. The trust and Mauritian trustees then become the "client" and the investments and management thereof are done via an intermediary, such as Brent Wealth, based in Mauritius.

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As we speak, we are moving capital abroad for some of our clients, but it comes at a cost. The process is extremely onerous with loads of paperwork, source of funds to be declared, source of wealth to be declared, and the list just goes on.

The financial industry, in itself, is doing everything that it possibly can to tick all the boxes on a compliance front, but as for our government; it simply doesn't appear as if there is any urgency in attempting to get SA off the greylist. In my view, these processes will only become more onerous going forward, and South African investors will find it increasingly difficult to move capital abroad.

Whether the greylisting negatively impacted financial markets and institutions locally is probably still debatable. However, it most definitely spells bad news when offshore asset managers start sending emails directly to SA investors who are invested in their funds. The red lights are certainly flashing!

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Ruan joined the Brenthurst Wealth Team in 2021 as an advisor/paraplanner and currently works under the direct supervision of Sonia du Plessis and André Basson in our Stellenbosch office. He obtained his BCom (Financial Sciences) degree at the University of Pretoria in 2018. Consequently, he also enrolled with CIMA (Chartered Institute for Management Accountants) as a prospective CGMA candidate and will complete all the relevant CIMA exams.

He is also currently studying towards his Diploma in Investment Management at the University of the Free State. Ruan's previous experience includes "tax and advisory" at Crowe Tax and Advisory Services in Stellenbosch.

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