



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

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INTERNATIONAL 'WRAPPER' PRODUCTS CAN BOOST OFFSHORE PORTFOLIOS

By Suzean Haumann, CFP® and Aidan Freswick, Financial Planner

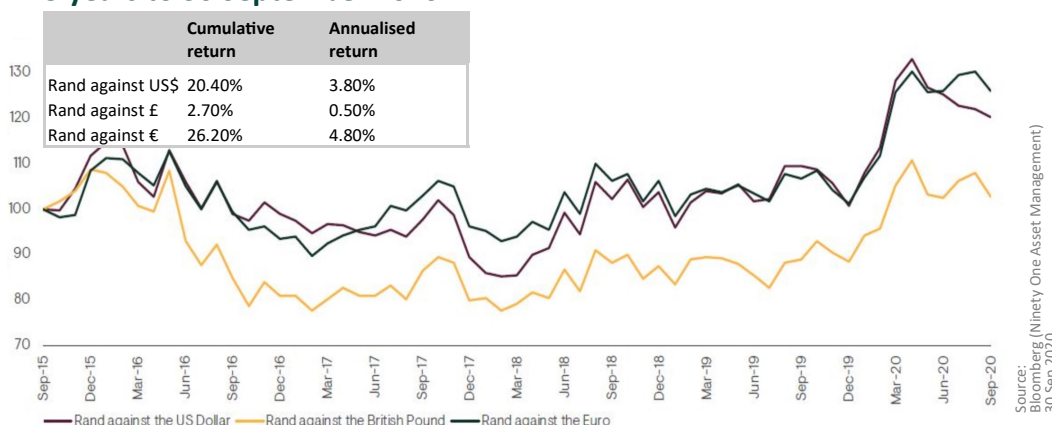
Investors are faced with various options when it comes to [offshore investing](#). These include opportunities to invest directly through an offshore bank account, a unit trust platform, or making use of an 'international wrapper' type product, such as international [endowments](#) and sinking funds. **International wrapper products could benefit investment portfolios.**

OFFSHORE INVESTMENT VEHICLES: THE DIFFERENCE BETWEEN ENDOWMENTS AND SINKING FUNDS.

There are generally three reasons to invest a portion of your assets offshore:

1. As a diversification strategy to grow and protect your wealth.
2. A hedge against the depreciating rand to protect your wealth against geopolitical risk.
3. To find value in first-world markets for long-term growth and superior returns.

RAND DEPRECIATION AGAINST MAJOR CURRENCIES: 5 years to 30 September 2020



INTERNATIONAL WRAPPERS VS. DIRECT OFFSHORE INVESTMENTS

Once you have decided to invest offshore, you would need to consider if your capital should be invested in a wrapper (in this article referred to as an investment vehicle such as an endowment or sinking fund) or not. Traditionally, this translates to the option of either investing in a wrapper type product or via an offshore bank account or unit trust platform (direct).

OFFSHORE ENDOWMENTS:

This is a contractual policy between the policyholder (contract owner), the life insured, the beneficiary and the insurance company. The investment generally has a five-year restriction period for the capital to be invested. This is a great offshore investment vehicle since offshore investing requires a longer-term investment horizon, to 'ride out' any volatility.

There is a tax administration advantage, as you do not need to manage the taxation of the investment because this is taken care of by the investment administrator. There is a reduction in overall tax rate and liability such as capital gains tax reduced to an effective rate of 12% and income tax capped at 30%.

This is particularly beneficial to investors with a marginal tax rate of greater than 30%. Your estate will benefit in the event that you nominate beneficiaries because the proceeds of the policy don't have to be repatriated upon maturity or death of the insured life. When the proceeds are transferred to the beneficiary no executor's fees apply.

The contract (investment) will remain in force until the last life insured passes away. The investments will be liquidated, and the nominated beneficiary will start a new contract with new base costs linked to the investment for capital gains purposes.

Another important benefit is the protection of the policy against any claims from creditors. This applies when the policy has been in force for at 3 of the 5 year term and the life insured was the policy holder or his/her spouse.

The same is applicable on death of the policy holder in the following instances:

- **The policy must be on the life of the policyholder or their spouse**
- **The policy must be in force for at least 3 years,**
- **The policyholder is survived by a spouse, children, stepchildren or parents, and**
- **The policy benefits devolve upon them.**

Where the requirements are met, in life and upon death, the protection of the policy benefits provided under this policy (or assets purchased exclusively with the policy benefits provided) will apply for 5 years from the date that the benefits were provided.

The protection will NOT apply if:

- **The policy was ceded as collateral security in respect of a specific debt, or**
- **It can be shown that the policy was acquired to intentionally defraud creditors.**

SINKING FUNDS:

Sinking funds are similar to an endowment policy and are also a wrapper type investment. What separates the two, is that sinking funds do not have a life insured attached to it and therefore only a beneficiary for ownership needs to be appointed. Both primary and secondary beneficiaries can be nominated. This investment also benefits investors with higher marginal tax rates.

The sinking fund policy only comes to an end when the owner withdraws their entire investment or when no beneficiary is nominated, and the existing contract owner passes away. Roll-over on capital gains tax applies irrespective of the beneficiary.

Because there is no life insured connected to a sinking fund policy the investment will never terminate but a successor owner nomination must be made in order for the contract to continue upon death of existing contract owners. Should no successor be nominated, the contract will be terminated.

A sinking fund policy is not protected against creditors because there is not any life insured link to this.

WHY WE THINK OFFSHORE DIVERSIFICATION IS IMPORTANT:

In the investment world, the year 2020 has been a year for the history books and many pieces can be written around investment performance, investor confidence, and investor psychology. Markets have been volatile and real returns in the South African stock market have been inferior relative to first-world markets.

Evidently, the diversification benefits of including global assets in a portfolio have been well noticed and are conclusive that one should have some allocation to non-South African domiciled assets. This has been a focus of Brenthurst for many years.



We believe that one should take a global view of how to allocate your capital.

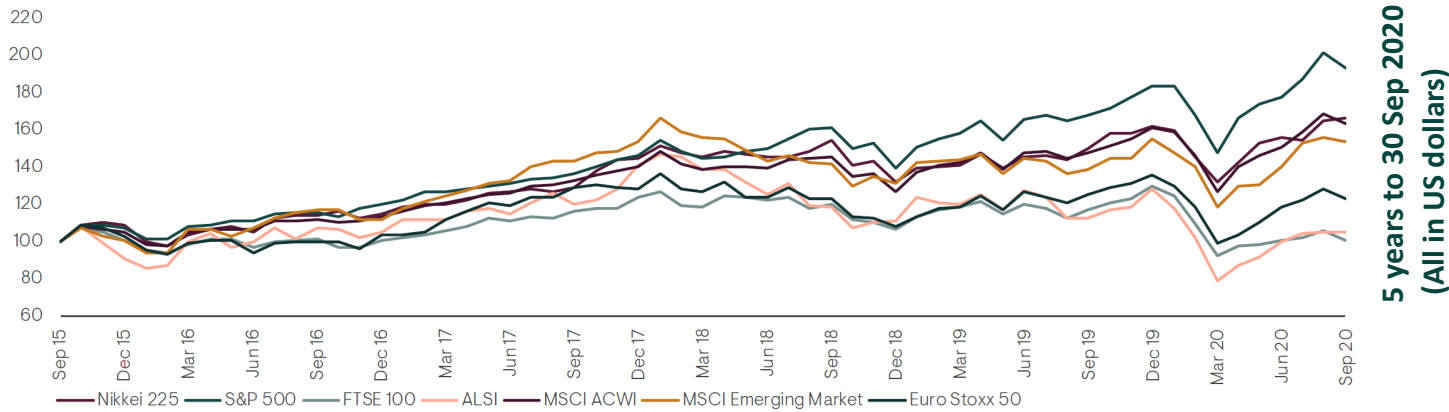
A portfolio that combines local and offshore assets offers better risk vs. return characteristics over time than a domestic-only portfolio.

DIVERSIFY OFFSHORE

FOR BETTER RETURNS & LONG-TERM WEALTH CREATION



WHY WE THINK OFFSHORE DIVERSIFICATION IS IMPORTANT:



All in US Dollars	Cumulative return	Annualised return
Nikkei 225	66.9%	10.8%
S&P 500	93.8%	14.1%
FTSE 100	0.8%	0.2%
ALSI	4.8%	0.9%
MSCI ACWI	63.3%	10.3%
MSCI Emerging Market	53.6%	9.0%
Euro Stoxx 50	22.9%	4.2%

WHY MAKE USE OF INTERNATIONAL ENDOWMENTS / SINKING FUNDS

SUMMARY:

PROBATE	There is no probate applicable to the wrapper when beneficiaries are nominated. This means that the local estate is not delayed by the offshore investment.
TAXATION	Where applicable income tax is applied at 30% vs the maximum of 45% for natural persons, saving 15%. Additionally, Capital Gains Tax is applied at an effective rate of 12% vs. 18% within a normal investment, a saving of 6%.
SITUS TAX	Capital and/or direct share portfolios that is held within a wrapper type investment is not subject to SITUS (death tax) in the USA or UK.
CONTINUITY	Beneficiaries can be nominated, which creates continuity. The asset will pass from beneficiary to beneficiary.
CREDITOR PROTECTION	<u>Endowment</u> : Yes (subject to certain requirements) <u>Sinking Fund</u> : No
LIQUIDITY AT DEATH	<u>Endowment</u> : The beneficiary must continue with the 5-year term in the event they receive the benefit within the restricted period. <u>Sinking Fund</u> : The proceeds of the investment become fully liquid upon death of the contract owner, i.e. the 5-year investment term “falls away”
EXECUTOR’S FEES	If beneficiaries are nominated the investment does not attract any executor’s fees because it is handled outside the estate.

The decision to invest directly or via a wrapper is consequentially important and deserves careful consideration. As with investments, it is advisable to consult an experienced, qualified advisor.

ADVISOR PROFILE: SUZEAN HAUMANN, CERTIFIED FINANCIAL PLANNER®



SUZEAN is head of the Tygervalley office. She is a CERTIFIED FINANCIAL PLANNER® and a registered member of the Financial Planning Institute of South Africa.

She has experience in various aspects of financial planning, focusing on investment and retirement planning. Suzean is also a qualified Foreign Exchange Consultant for the company with a wealth of knowledge in offshore investments.

Suzean joined Brenthurst Wealth in 2010 and is fully qualified to give advice on all investment matters.

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ADVISOR PROFILE: AIDAN FRESWICK, FINANCIAL PLANNER



Aidan joined Brenthurst Wealth in August 2020 as a Paraplanner to Suzean Haumann and Renee Eagar and is under the direct supervision of Suzean Haumann. Aidan was a consultant at Encompass Forex for 3 years, where he served the forex needs of his clients.

Wealth Management has always been Aidan's career passion. He has completed a National Certificate in Wealth Management with Moonstone Business School, and he is currently in process of completing his BCom in Financial Planning at Milpark.

Aidan will continue to pursue his part time studies until he is able to achieve the CFP designation over time.

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BRENTHURST OFFERS FULL FOREX SERVICE

- ✓ Residency and work permits.
- ✓ Company and trust structures and setup.
- ✓ Appointment of trustees and directors and registered offices.
- ✓ Administration of companies, payroll and statutory returns
- ✓ Commercial and residential Investment property
- ✓ Foreign exchange transfers and SARS tax clearance
- ✓ Opening of Mauritius bank accounts without having to be present in Mauritius, with a choice of currency

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