Opportunities presented by offshore investing

By Neal Sinclair and Waldette Stoffberg, Business Development Managers at Glacier by Sanlam

There are many reasons to diversify your portfolio internationally, especially for investors in a country that makes up less than 1% of global GDP. Two primary reasons include the benefits one gains from a financial planning perspective and also those gained from an investment perspective. Diversifying globally gives investors access to a much broader investable universe of shares (from different sectors and geographies) that aren't available locally.

Although the size of the local collective investment scheme (CIS), or unit trust, industry has increased 53% over the last five years, South Africa remains a small market. Global CIS funds have seen a six-fold increase or a 667% growth in their total assets under management since 2010, compared with the local CIS industry's 231% growth over the same time period. *(Source: ASISA & Glacier Research)*

A typical SA investor and their offshore exposure

A typical South African investor's portfolio may include the following:

1. A small business or shares in local businesses
2. A pension or provident fund and/or a retirement annuity
3. Their primary residence and possibly rental properties too
4. Bank account savings / money market account
5. Discretionary investments including unit trust funds.

What is the best way to incorporate global exposure into a portfolio such as the one above? Let's consider some options.

The Glacier Offshore Investment Plan

With its lower investment minimums, this solution is suitable for the investor who is just starting out and wants to build a true offshore portfolio in a simple, cost-effective manner.

Characteristics of the solution:

Liquidity	Investment minimum
Investors can add to, or withdraw from, their investment at any time. The money can be paid into an offshore or a local bank account.	Lump sum of R100 000 Ad hoc amounts of R15 000 Reporting is done in USD/EUR/GBP

Take-on process	Tax
This solution has the same KYC (Know Your Customer) and Anti-Money Laundering requirements as local businesses. Glacier can refer a forex provider to assist the investor, if required.	Investors are taxed in their personal capacity. Tax certificates are issued in rands.

Investment choice

Investors can select from the following:

- Navigate Optimised Model Portfolios – Cautious Growth, Moderate Growth and Aggressive Growth funds are available.
- International Shopping List – Funds on this list are vetted by Glacier Research.
- FSCA-approved funds – these include liquid, rolled-up fund classes.
- Model portfolios – available for Category 1 and Category 2 intermediaries.

How are the returns taxed?

Investors are taxed in their own hands, at their marginal tax rate and tax is calculated on hard currency gains (USD). Also important for investors to note is that this investment forms part of their South African estate and executor's fees and estate duty will apply.

A comparison between feeder funds and direct offshore investment

Many investors opt to invest internationally through a feeder fund, but it's worth comparing this vehicle against a direct offshore investment to determine which is best suited to your needs.

A quick comparison:

Feeder funds	Direct offshore funds
(A feeder fund is a South African unit trust fund that feeds into a direct offshore fund. The investment is made in ZAR which the investment company then converts into foreign exchange, using their asset swap capacity.)	
A less complex way of investing offshore as no SARS clearance is needed on the part of the individual. The investment minimums required are also generally lower than for a direct offshore investment, making feeder funds more accessible to a broader market.	Direct funds require SARS' clearance for amounts over R1m, and generally a higher investment amount is needed.
Essentially, they provide a way for investors to get offshore exposure in their local portfolios, and they can be used in general savings investments, such as an investment plan as well as in retirement income portfolios.	The direct fund can be more efficient from both tax (assuming a weakening ZAR) and cost points of view.

When comparing investments in both a feeder fund and a direct offshore fund, we see that the returns in the direct fund are likely to be higher, due to the lower fund fee. Compounded over time, this can make a significant difference.

The investor in the direct fund would have converted ZAR to foreign currency when the investment commenced, and will then only pay capital gains tax (CGT) on the foreign currency gains. When investing directly, currency movements over the investment period are not taken into account for tax purposes. In the case of a feeder fund, however, currency gains are included for CGT purposes.

So while a feeder fund has many advantages – diversification, a rand hedge, and a simple way of investing – a direct fund is more favourable when it comes to capital gains tax (assuming a weakening currency over time) as well as cost.

For more information on this topic, see the article published in the *Glacier Weekly* on 1 October last year:

Direct offshore versus feeder funds - a comparison

As always, we encourage investors to obtain specialist advice from a qualified financial adviser to ensure your investment strategy best serves your needs.

Glacier Financial Solutions (Pty) Ltd and Sanlam Life Insurance Ltd are licensed financial services providers.

Glacier International is a division of Sanlam Life Insurance Ltd.

The Glacier Offshore Investment Plan is administered by Glacier Financial Solutions (Pty) Ltd, a licensed administrative financial services provider, FSP 770.

Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group
Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Reg No 1999/025360/07
Licensed Financial Services Provider | Glacier Financial Solutions (Pty) Ltd. is also a Licensed Discretionary Financial Services Provider FSP 770, trading as Glacier Invest | Sanlam Multi-Manager International (Pty) Ltd. | A member of the Sanlam Group

Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com *|*Reg No 2002/030939/07
Licensed Discretionary Financial Services Provider, acting as Juristic Representative under the Glacier Financial Solutions FSP 770
Glacier International is a division of Sanlam Life Insurance Limited
Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440
Reg No 1998/021121/06 | Licensed Financial Services Provider