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Ninety One

Previously Investec Asset Management

The cash conundrum

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The fast view

- It is important to consider whether an investor's offshore assets/investments will be illiquid or liquid at death.
- Ease of tax and estate planning are key factors when investing offshore.
- The offshore investment choices made today should make succession planning easier.
- The Ninety One Global Life Portfolio can avoid additional surprises like potential probate and situs taxes when investing offshore.
- The Ninety One Global Life Portfolio can provide liquidity even though it has a minimum investment term.

Investing offshore can be intimidating, and holding cash in a foreign bank account is often perceived as an easy way to gain offshore exposure. However, it is likely that the investor's money won't grow due to very low interest rates, and on death, it can be complicated and costly to deal with this asset.

Depending on where the bank account is held, offshore probate may apply on the death of the investor. This means that an overseas agent, similar to a South African executor, may have to be appointed to deal with the bank account, which could be a lengthy and expensive process.

Overseas inheritance tax (situs) may also apply, which can be as high as 40%, depending on the country where the account is held. What's more, estate duty may be payable in South Africa as the worldwide assets of a South African resident are subject to this tax. There may be a double taxation agreement between the countries that could provide some relief, but it's still possible that the higher foreign inheritance tax will be applicable.

The foreign bank account will be frozen while the estate is being finalised. This process can be lengthy and the deceased's family and dependents will not be able to access the cash until the estate has been wound up.

Bearing this in mind, a foreign bank account may be useful for those going on an overseas vacation in a few months' time or to meet other short-term offshore funding needs. It is key to obtain financial advice to ensure proper estate planning in respect of all your assets. For those investors who are looking to build up an offshore nest egg over time, there may be other, more efficient investment options to consider.

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Our offshore solution, the Ninety One Global Life Portfolio,[1] provides simplified, flexible access to offshore markets. Investors can choose from a wide range of unit trust funds, which include money market and income funds. Because the funds are held in a policy, they offer a host of benefits:

- Investors don't have to worry about personal tax reporting. Ninety One Assurance Limited takes care of all the tax administration by calculating and paying any tax due on behalf of investors.
- No income tax is applicable, only capital gains tax (CGT) when switching funds or selling units. This is because the underlying investments are in roll-up funds, so interest income and dividends are not distributed – investment income is capitalised. What's more, CGT is taxed at a rate of only 12%, versus a maximum effective rate of 18% for investments not wrapped in a policy. So, there may be attractive tax benefits for investors being taxed at a higher marginal rate when investing in a unit trust fund via our offshore policy.
- Investors can nominate a beneficiary who will receive the benefits on their death, thereby avoiding some of the offshore estate costs associated with foreign bank accounts and offshore unit trust funds that are not held in a policy.
- There is no need to appoint a foreign agent to deal with this asset if there is a nominated beneficiary, and no offshore inheritance tax[2] nor South African executor fees will be payable. However, estate duty may apply in South Africa.
- On the death of the investor, the proceeds of the policy will be exempt from CGT, if the policy is transferred to the nominated beneficiary.
- After transfer, the beneficiary will have immediate access to the investment and no investment term will apply.

Choosing a suitable fund

As mentioned earlier, foreign cash may be prudent for some investors as a short-term parking facility. But it is all too common for investors to have 'lazy' money in a foreign bank account for an unspecified period. Holding foreign cash rather than a diversified basket of assets can be risky, as investors are purely exposed to the exchange rate, which can be volatile.

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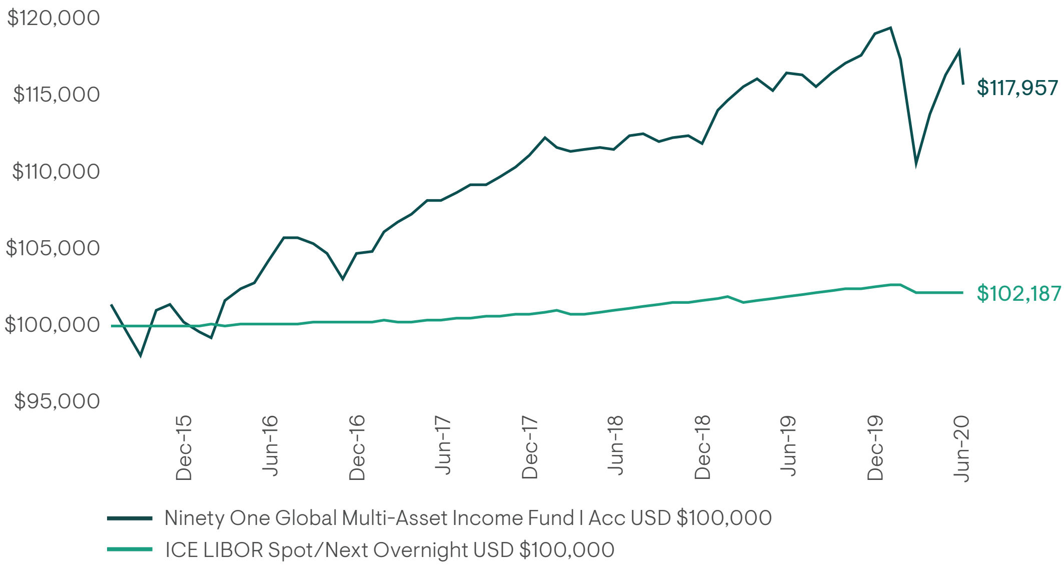
1. The Ninety One Global Life Portfolio is a sinking fund policy, governed by the Long-Term Insurance Act. A five-year term applies, but investors can access their capital plus 5% growth via a loan and/or a surrender, at any time during this period – without being subject to any penalties. Certain restrictions also apply in respect of the maximum contributions investors may make in a year.
2. No foreign inheritance tax will be payable on the death of a South African resident investor. The investor is not the owner of the underlying assets, but owns a policy issued by Ninety One Assurance Limited acting through its Guernsey branch. Currently, no inheritance tax is payable in Guernsey.

Longer-term investors who seek an alternative to foreign cash, could consider accessing a low equity multi-asset fund, such as the Ninety One Global Multi-Asset Income Fund (the Fund), via our offshore policy. The Fund, which aims to produce attractive income with capital growth over the long term, invests in a mix of global fixed income assets and equities. Equity exposure is no more than 40% of the value of the Fund. Investors can invest directly into the Fund's dealing currency (US dollar).[3] Let's look at an example, as illustrated in the chart below.

Figure 1: Ninety One Global Multi-Asset Income Fund - Comparison with offshore cash and the benefit of a roll-up fund via Ninety One Global Life Portfolio



Past performance is not a reliable indicator of future results, losses may be made.

Source: Ninety One, 30.06.20. Performance is net of fees (NAV based, including ongoing charges, excluding initial charges), gross income reinvested, in USD. If the share class currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Inception date of share class 28.11.13. Prior to 31.05.13, the Fund was called Global Defensive Bond and was managed to a different investment objective. Highest and lowest returns achieved during a rolling 12-month period since inception: Aug-14: 8.7% and Mar-20: -4.6%. Higher rate tax payer. 70% of return of GMAI income class assumed to be of an income nature and taxed accordingly. Full disposal assumed at end of term.

The light green line at the bottom of the chart represents offshore cash (US dollars). It shows that $100 000 invested in US dollar cash five years ago, would have left an investor with pretty much the same amount of cash after this period – a case of a return of capital, rather than a return on capital.

3. The dealing/base currency that will be applicable (US dollar, pound or euro) will depend on which Ninety One Fund an investor chooses.

Of course, an investor would have had to assume some risk, to earn the more attractive return that the Ninety One Global Multi-Asset Income Fund achieved over this period. Figure 1 further illustrates the benefits of investing in a unit trust fund via Ninety One Global Life Portfolio. As the unit trust funds available via our offshore policy are roll-up funds, no income tax is applicable, only CGT, which is taxed at an effective rate of 12%. Individuals who do not make use of a policy wrapper, are subject to a maximum effective CGT rate of 18%. So, there are clear tax benefits to invest in a unit trust fund via our Ninety One Global Life Portfolio.

Conclusion

Investors need to carefully consider the investment vehicle they choose when investing offshore. While opening a foreign bank account may seem like the simplest way to move money offshore, the investor's estate could face double taxation and will be subject to executor fees in South Africa. The process will likely be drawn out and costly as a foreign agent may need to deal with the offshore bank account.

Besides these constraints, the investor's cash could see little or no growth over time. Investing offshore via the Ninety One Global Life Portfolio, provides investors with a range of funds to match their risk profile and needs. What's more, no income tax is payable, and CGT is at a reduced rate of 12% (versus a maximum effective rate of 18% when individuals invest directly). So, the benefit of using a policy wrapper and choosing a suitable fund, can translate into better outcomes for investors.

> Investors need to carefully consider the investment vehicle they choose when investing offshore.

Estate planning benefits are another key feature of investing via the Ninety One Global Life Portfolio. There is no need to appoint a foreign agent to wind up the foreign assets (if a beneficiary has been appointed), and no foreign inheritance tax nor executor fees apply. Completing the required paper work is relatively simple. Once we have received the relevant documents from the beneficiary and transferred the policy into their name, the investment becomes fully liquid and accessible.

For more information on how the Ninety One Global Life Portfolio works, please visit our website, www.ninetyone.com.
Investors should speak to their financial advisor who can help them make an informed choice.

Important information

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. We are not acting and do not purport to act in any way as an advisor or in a fiduciary capacity. No one should act upon such information or opinion without appropriate professional advice after a thorough examination of a particular situation. This is not a recommendation to buy, sell or hold any particular security.

All information is as at 30.06.20 unless otherwise stated. Where applicable, the distribution yield reflects the amount that may be expected to be distributed over the 12 months, as a percentage of the mid-market unit price of the Fund. The yield is not guaranteed, will vary over time and take no account of any preliminary charge. This communication is not for general public distribution and is for general information only. If you are a private investor and receive it as part of a general circulation, please contact us on +44 (0)20 7597 1800. The value of this investment, and any income generated from it, can go down as well as up and will be affected by changes in interest rates, exchange rates, general market conditions and other political, social and economic developments, as well as by specific matters relating to the assets in which it invests. The Fund's investment objective will not necessarily be achieved and there is no guarantee that these investments will make profits; losses may be made. This Fund may not be appropriate for investors who plan to withdraw their money within the short to medium term. Performance shown is that of the Fund and individual investor's performance may differ as a result of initial fees, actual investment date, date of any subsequent reinvestment and any dividend withholding tax. All the information contained in this communication is believed to be reliable but may be inaccurate or incomplete. Any opinions stated are honestly held but are not guaranteed and should not be relied upon. This is not a buy, sell or hold recommendation for any particular security. It is not an invitation to make an investment nor does it constitute an offer for sale. Before making an investment, please read the Prospectus and Key Investor Information Document, which sets out the fund specific risks and is available from Ninety One SA (Pty) Ltd ("Ninety One SA"). The portfolio may change significantly over a short period of time. The Fund is traded at the ruling price and can engage in borrowing, up to 10% of the portfolio net asset value to bridge insufficient liquidity, and scrip lending and may be closed in order to be managed in accordance with the mandate. The Fund is a sub-fund of the Ninety One Global Strategy Fund, which is a UCITS organised as a Société d'Investissement à Capital Variable under the law of Luxembourg. For further information on the Fund including application forms and a schedule of fees and commissions, please contact Ninety One SA. Fund prices and English language copies of the Prospectus, Report & Accounts and Articles of Incorporation and local language copies of the Key Investor Information Documents may be obtained from our website and free of charge from the following country specific contacts: Luxembourg – Ninety One Global Strategy Fund, 49 avenue J.F. Kennedy, L-1855 Luxembourg. In South Africa, Ninety One SA is an authorised financial services provider. Those sub-funds offered for public sale in South Africa are approved under the South African Collective Investment Schemes Control Act.

Where the fund invests in the units of foreign collective investment schemes, these may levy additional charges which are included in the relevant TER. Additional information on the funds may be obtained, free of charge, at www.ninetyone.com. Ninety One SA (Pty) Ltd ("Ninety One SA") is an authorised financial services provider and a member of the Association for Savings and Investment SA (ASISA). Ninety One Investment Platform is an authorised financial services provider.

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