

CAN SOUTH AFRICANS REBUILD THEIR WEALTH AFTER LOCKDOWN?

The South African economy was almost on life support before Covid-19 and lockdown struck. Coronavirus has left mass economic devastation in its wake and South African investors have been hard hit.

Many investors had already externalised funds to mitigate the erosive impact of SA's ailing economy. But what about those who are only now looking at investing offshore? Covid has had far reaching effects so where do the clever opportunities lie for South Africans to rebuild their wealth post lockdown?

According to Andrew Ratcliffe, a director at Private Client Holdings, a smart option for investors to build a diversified offshore portfolio is through the use of ACTIVELY MANAGED CERTIFICATES (AMC's) – which have become increasingly popular for a number of reasons.

“In the past, South Africans invested offshore through options such as feeder funds and asset swaps, as well as by utilising their offshore allowances, but there are now new generation offshore investment opportunities available – such as AMC's – which offer a smart way to invest offshore and are a great building block for those looking for diversification in their portfolio's,” says Ratcliffe. “AMC's, otherwise known as “Inward Listed Notes”, have been around for some time but have only recently become popular, given South Africans appetite to explore alternatives in the current environment.”

Ratcliffe advises that local investors can access and benefit from the performance of the global investment portfolio through the use of an AMC (like the PrivateClient Global Growth Portfolio) rather than a vanilla index tracking Exchange Traded Fund (ETF). “These portfolios aim to optimize risk-adjusted returns by diversifying across a number of asset classes, including Equity, Alternatives, Listed Property and Fixed Income. PCH's managed AMC is focused on generating Alpha whilst outperforming the indices and delivering a decent risk adjusted return for our clients whilst not following conventional products.”

“AMC's give the investor the ability to access offshore companies and growth strategies without the need to expatriate funds for foreign investment purposes. This removes any reliance on JSE Listed Exchange Traded Funds (ETFs) to gain offshore exposure through a

local segregated investment account. In addition, an investors offshore allowance is not utilised as the AMC is a South African Rand denominated inward listed security which makes it a tax efficient vehicle where portfolio rebalances/reallocations do not create a taxable event.”

According to Ratcliffe, unlike traditional passive financial instruments, AMCs are characterised by a discretionary, and therefore active, management of the underlying assets. The composition of the underlying assets changes over time on the basis of decisions made over the life of the certificate by a third party (the portfolio manager). This does not trigger a Capital Gains tax event. “AMC’s can also be constructed to be entirely bespoke, taking the strategy and preferences of the investor into account – perhaps they wish to focus on Biotech or renewable energies for example – whilst also being aware of the risks of high concentration of shares in any one sector.”

“AMC’s combine the flexibility of structured products (favourable tax structure, low entry level, speed of issuance, efficient cost structure) with those of classic investment funds (portfolio diversification and adaptability to different market conditions).”

This kind of investment is suitable for investors who:

- Own Companies, Trusts, and Living Annuities (as well as individuals).
- Are looking for exposure to a global growth portfolio but have either utilised their annual offshore allowance or have SARB approval issues.
- Would like to replace the use of locally listed offshore passive ETF strategies with an actively managed equity instrument.
- Are able to withstand some market and currency volatility in pursuit of enhanced dollar returns over the medium to long-term.

“All investors are taxed on Rand gains, but only when they sell the AMC in its entirety. There are no situs inheritance tax issues, so this is still tax effective from that point of view. AMC’s are a great, well-priced investment vehicle for people who are close to retirement as they form a solid building block in ones Living Annuity. They offer an easy bespoke way to diversify retirement funds,” says Ratcliffe.

“The AMC has proved to be a sound strategy in the current Covid-19 bear market. Many South Africans are looking at alternative options out of fear for the current climate in South Africa – political turmoil, economic crisis, fraud and corruption, new restrictive regulations and concerns around prescribed assets have South Africans running scared. Over the past

100 years SA has had one of the strongest performing stock markets in the world, however one needs a crystal ball to tell if it will be different this time and whether SA can survive the next 100 years.”

“Added to this, more South Africans are becoming part of the global village as they travel abroad more regularly or consider relocating overseas – AMC’s offer a good alternative to get one’s investments offshore without following the conventional avenues.”

“Whatever your reasons, it is very short-sighted to not look at diversifying offshore and AMC’s offer an easy, bespoke, affordable and tax-efficient solution for the overseas diversification of investment funds,” concludes Ratcliffe. “The PrivateClient Global Growth Portfolio AMC has yielded great results for our clients and for those looking to diversify it makes absolute sense to consider this AMC.”

For further advice or information contact Andrew Ratcliffe on Andrew@privateclient.co.za or Private Client Holdings on (021) 671 1220 or visit www.privateclient.co.za

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About Private Client Holdings

Private Client Holdings was founded as a corporate tax consultancy in Cape Town, South Africa in 1990. Since then the company has developed into a full spectrum Asset and Wealth Management Company and multi-Family Office with six specialist divisions; Wealth Management, Portfolio Management, Financial Services, Fiduciary Services, Cash Management and Risk Management.

Private Client Holdings (PCH) are taking the lead in Southern Africa when it comes to providing high net worth families with an all-inclusive wealth management solution and recently secured 2nd position overall in the TOP WEALTH MANAGER: BOUTIQUES in the INTELLIDEX TOP PRIVATE BANKS & WEALTH MANAGERS AWARDS 2019. They also placed 3rd in the Passive Lump-sum Investor award and 2nd in the Successful Entrepreneur award. The award they are most proud of is placing 2nd in the People’s Choice Award - an award based purely on feedback from a confidential client survey.

Private Client Portfolios, the Portfolio Management arm of Private Client Holdings has been awarded the title of “Best Investment Advisory Team – South Africa 2019” in the Capital Finance International Award – this London based CFI.co awards programme identifies individuals and organisations worldwide that truly add value through best practice within their industry.



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