

Press Release

WHY USING AN AMC IS A TAX EFFICIENT INVESTMENT VEHICLE FOR OFFSHORE INVESTING IN COVID-19 BEAR MARKET

Many South African investors have done well to externalise funds, and many more are realising the need to invest offshore to mitigate the higher risks associated with local investment variants. The reasons for diversification offshore have been well documented. But what are the most tax efficient vehicles for offshore investing?

According to Mark MacSymon, a wealth manager at Private Client Holdings, ZAR feeder funds and asset swaps do provide opportunities to gain offshore exposure, however recently, the use of ACTIVELY MANAGED CERTIFICATES (AMC's) have become attractive for a number of reasons. "The benefits have several notable points of appeal as they give the investor the ability to access offshore companies and growth strategies without the need to expatriate funds for foreign investment purposes."

"This removes the 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," says MacSymon.

"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 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."

This kind of investment is suitable for investors who:

- Own Trusts and Companies.
- Seek 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.

- Are comfortable with some of the volatility associated with equity and have a moderate to high tolerance toward risk

MacSymon advises that high net worth individuals may still consider using endowments or sinking funds to limit their tax exposure and facilitate the process of intergenerational wealth transfer. “The key with these structures/investment vehicles is to ensure that the tax savings and the wealth transfer benefits are in excess of the ongoing costs of the wrapper.”

Investors also need to be cautious about the jurisdiction they select for their funds to be administered as it may give rise to situs taxes (for example, funds domiciled in USA will cause situs issues for SA residents).

Grant Alexander, CEO of Private Client Holdings cautions that one needs to guard against unwittingly falling into the inheritance tax nets of the US and UK authorities. “US and UK situs assets, which exceed the exempt levels, are subjected to punitive taxes on death, in addition to the Estate Duty levied in SA. These assets include shares like Apple, Microsoft and Diageo, as well as funds and ETF’s registered in these jurisdictions.”

“These taxes can be avoided by using various tax efficient vehicles like trusts, bespoke funds, life wrappers and certain Guernsey based retirement plans,” says Alexander. “All of these options neatly side-step the situs issues and death taxes and offer income tax and capital gains tax benefits. Each investor would have their own preferences and the vehicle can be customised for their particular needs – such as a tax rate that is fixed and applied on an annual basis but significantly lower than the maximum marginal tax rate, or perhaps the preference is to pay absolutely no tax on an annual basis with returns rolled up and capitalised in the vehicle and then pay tax at a future date when amounts are withdrawn.

All investors are taxed on Rand gains off the AMC (which is how companies and trusts are taxed). However, where individuals have externalised capital (perhaps by using an offshore trading account such as Saxobank) they are taxed on gains in USD, which are then converted into Rands. This is a subtle difference but, in most cases, results in a better outcome for individuals. With AMC’s individuals are taxed like trusts and companies. Nevertheless, they still get the situs inheritance tax benefits, so this is still tax effective from that point of view. Each individual’s situation needs to be assessed to ensure that they enjoy the trip in the most appropriate investment vehicle.”

The AMC has proved to be a sound strategy in the current Covid-19 bear market as the fall off in global assets is mitigated by the Rand depreciation which means that the strategy is still in positive territory since launch.

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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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