



# GUIDE TO OFFSHORE INVESTING

An adviser's guide to winning and managing more global assets, the right way.



# INTRODUCTION

Offshore investing is a key component of holistic wealth planning. That means financial advisers who want to build sustainable revenue and nurture long-term partnerships with high-value clients need to master the fundamentals of offshore investing.

The benefits of doing so are significant. These include building a book of global assets, generating new client opportunities, and positioning yourself as the trusted adviser on the highest profile segment of your clients' wealth.





**Kenny Rabson**  
CEO, Discovery Invest  
and Employee Benefits



## Why go global, and why it's worth doing right

The twin trends of digitisation and globalisation have transformed the world over the past 30 years. These profound changes have revolutionised the asset management industry, making previously inaccessible investments in faraway countries available at the click of a button.

Offshore strategies are no longer reserved for an elite few; they have become accessible to all. Now everyone can benefit from a global investment's ability to generate wealth, reduce risk and achieve client goals more effectively than following a purely domestic strategy.

Discovery Invest has applied its leading-edge technological capabilities to bring you and your clients the best investment opportunities from around the globe. But technology is simply a tool: it cannot replace the expertise and peace of mind that trusted advisers give to their clients.

That's why we created this guide. We believe in shared value, and we want the best outcome for you and your clients when you invest their wealth globally with us.



**David Joshua**  
Independent wealth manager  
and investment author



## Endorsed by one of South Africa's leading global investment experts

Given the many different and often complex considerations of offshore investing, it's important to equip yourself with knowledge so you can guide clients through the "whys and hows" with competence and confidence. That's why we've consulted with a leading independent subject-matter expert to bring you reliable, high-quality insight and instruction.

The content in this guide is endorsed by **David Joshua**, founder of High Potential Investments and Penguin-published author of *The South African's Guide to Global Investing* (2019).

In the course of his career, Joshua has managed wealth for private high-net-worth clients in London, built a successful global intermediary investment proposition for a multinational in Jersey, and run global distribution for Africa's largest financial organisation. He has trained and led a national sales team that served over 500 financial advisers and wealth managers in South Africa, and regularly lectures at Henley Business School. He also heads up Resonance, a strategic communications training company.

Joshua is a Fellow of the Chartered Institute for Securities & Investment and holds Chartered Banker status from the Chartered Banker Institute. He is also recognised as a trustee and estate practitioner by the Society of Trust and Estate Practitioners. This gives him a unique combination of high-level qualifications in the financial services industry.

# HOW TO POSITION THE OPPORTUNITY TO INVEST OFFSHORE TO CLIENTS

A nighttime photograph of a city skyline, featuring the One World Trade Center as the central focus. The building is illuminated with warm lights, and its spire is visible against the dark sky. Other skyscrapers are also lit up, and the city lights reflect on the water in the foreground. The image is partially obscured by a large white diagonal shape on the left side.



## Identify why clients need offshore investments, and match their requirements to investment solutions

If you master the art of asking probing questions and really listening to your clients' answers, you are likely to uncover at least one offshore investment need every time you talk to them. Uncovering your client's needs and fully exploring the logic and emotions behind their goals will make them far more receptive when you eventually propose a solution.



## Offer solutions and services

How you speak and how you act determine how competent and trustworthy clients perceive you to be. These factors help to determine who invests with you, and how much.

For example, do you see yourself as someone who is in sales and uses products to hit targets? Or do you view yourself as a trusted adviser meeting client needs by offering the right solutions and services?

People can tell if they are just being sold to. They would rather build a partnership with an adviser who asks questions, listens to their answers and works through their needs to deliver the best solution for their specific situation. Which approach do you think is perceived as being of higher value and, therefore, justifying higher fees?



## Consult comprehensively, then let the solution sell itself

The key to any sale lies in the initial consultation, particularly when it comes to global investment. The increased complexity, perceived risks and amount of money involved means you need to win a client's trust before making any sale.

- Begin by asking the client to share their needs and priorities. Resist the temptation to pull out a factsheet and sell your favourite global investment solution at the first chance.
- First and foremost, clients want to be heard and understood. This is especially true when it comes to investing offshore, as it may be the biggest financial decision your client has ever made. Give them time to think and talk it through.
- Start by asking open-ended questions such as, "What are your long-term aspirations in life?" Then listen like the deal depends on it (because it does), and write down what the client says. As well as signaling engagement, you'll have notes to refer to when you assess suitability and create your proposal.
- If your client demonstrates a need for investing offshore, ask them to share their views, knowledge and investment experience. This way, you can tailor your explanations to their level.



## 10 reasons your clients need global exposure

Here are 10 reasons your client might want to invest offshore. In most cases, clients will have more than one need. Keep asking questions and see how many needs you can identify before you move on to offer a solution that meets your client's most important requirements.

99%

99% of the world's investments are situated outside South Africa. If your clients want to access the world's opportunities, they need to invest outside our borders.

1%

Our gross domestic product (GDP), currency and investment opportunity account for less than 1% of the global total. An investment strategy that only invests in domestic assets covers only 1% of the opportunity set. This is a gamble called *home bias*, which competent advisers seek to mitigate through diversification.

6.5%

The rand's depreciation against the US dollar has averaged 6.5% since 1994. By diversifying your currency exposure, you may be able to capture long-term trends in rand depreciation.

Keep in mind that your clients are already exposed to the South African economy simply by living here. Their property price, pension value and salary are all linked to the performance of South Africa. Doubling down on South Africa by following a purely domestic strategy exposes your clients to potential country-specific shocks twice over. This makes diversifying client wealth one of your primary duties as an adviser.

### 01 | Diversification

According to economist and Nobel Prize winner Harry Markowitz, diversification is "the only free lunch in investing". It's a powerful principle you need to understand if you're going to guide clients into global investment solutions.

Here are three numbers you can use to describe the benefits of diversification:

## 02 | Investing in the themes of the future

If your clients believe that innovation, technology and digitisation will drive the global economy, they will want to invest according to those themes. Social networking, e-commerce and electronics are accessible only by investing offshore. Which would you prefer: A financial adviser who invested you in just the Johannesburg Stock Exchange (JSE), or one who offered you a global portfolio of leading-edge stocks?

## 03 | Risk-adjusted returns

No one can tell your client if global markets will perform better than the JSE over any given timeframe. However, we can be fairly certain that the  of a portfolio that includes global exposure will be better than a purely domestic one over the medium to long term. That's because diversification lowers risk – often while simultaneously increasing returns. What's not to like?

## 04 | Guarding against sociopolitical risk

All countries go through events that damage investment returns. These can range from unexpected political outcomes, such as the United Kingdom voting for Brexit, to the collapse of a country's economy, as witnessed in Zimbabwe.

Keep in mind, human beings are built to fear loss twice as much as they are programmed to enjoy gains. Trusted advisers seek to address and mitigate client fears and remove their perceived risks. Offshore investing does just that: it takes the worst-case scenario out of the equation, giving your clients peace of mind, which most people are happy to pay for.

## 05 | Intergenerational wealth transfer

It's important to consider what happens on death and how intergenerational wealth will be transferred to beneficiaries. Using an endowment wrapper offshore makes passing assets to beneficiaries relatively quick and simple. This access to capital can make a difficult time much easier for spouses and dependants.

## 06 | Tax efficiency

Both the legislation in international finance centres as well as the structure of endowments are designed to protect investors from unduly high taxation. When South Africans invest globally, a vehicle like an offshore endowment wrapper can be used to reduce the tax payable inside a fund.

## 07 | International education

If your clients have children, educating their children abroad might be a dream you can help them fulfil. In this case, early and substantial investment into a global portfolio is crucial. Most parents want the best for their children above all else, so if your client mentions schooling or university abroad, you might just be the person who helps them meet this goal.



## 08 | International experiences

The rand can decline by one-third of its value against the US dollar over the course of a year – this occurred as recently as 2019 to 2020. International travel and events require saving and budgeting. This is done most efficiently in hard currencies, which are less volatile.

## 09 | Prestige and status

Clients enjoy the excitement and prestige attached to having global investments. Don't discount the feeling a portfolio of global assets gives your clients. As any investment adviser knows, clients are driven more by their emotions than they know.

## 10 | Retiring abroad

Do your clients ever discuss leaving the country? Their plans don't have to be set in stone to make offshore investing the right solution. Indeed, vague plans become achievable only if concrete steps are taken to realise them. In this situation, investing internationally is a win-win: your client receives all the benefits of investing offshore, while building the option of retiring abroad.



# CURRENCY CONSIDERATIONS WHEN INVESTING OFFSHORE

There are a number of factors to consider when externalising wealth. Understanding these will help your clients get the most out of their global investment.





## Liability matching when investing offshore

### Pairing investment goals with the right solution

The initial role of an investment adviser is to find out what potential clients want from their wealth. As you've probably already experienced, clients often don't know their precise goals – but they do know their hopes, dreams and aspirations.

When these goals are brought up by clients with the means to make them happen, an effective way of achieving these goals is to incorporate offshore investments into your clients' investment strategies. This generally results in better outcomes over time.

### Why liability matching matters

Funding an international lifestyle and matching international liabilities are best achieved by investing in assets of the same currency. In fact, matching future liabilities with current assets is a key principle of financial planning. For example, a client's future liability might be international school fees, while their current assets are the wealth they have to invest right now, and any expected future cash flows. Matching liabilities with assets when investing globally has two components:

- Your first responsibility is to align the currency of the investment with the client's end goal. Because exchange rates move over time, it's important that you align your client's liability – their goal – with their current assets in terms of currency.
- The second component of liability matching is aligning the amount required to meet the goal with the expected return of an appropriate investment solution. By calculating the approximate return required to meet the objective, we can determine how much risk a client needs to accept to reach their desired outcome. This process determines which solution is best placed to deliver that return.

## Build assets in the right currency

Imagine your client wants to buy a property in Europe in five years' time. The price of the property in euros is equivalent to R1 million today. The client proceeds to build wealth in rand over five years until they have R1 million to buy the property.

However, when they come to exchange their rands for euros on the day of the purchase, the rand's structural depreciation and inherent volatility has caused it to lose significant value against the euro. While the client has met their target in rands, they will fall well short in the currency the liability occurs in – the euro. Ultimately, the client is unable to meet their liability because they built their assets in the wrong currency.

*The key takeaway is this: if possible, remove currency exchange rates as a variable from any financial planning equation.*



## Exchanging the rand

### 01 | Investing in hard currency

When investors sell the rand, they almost always buy “hard currency” with the proceeds. Hard currency is a term used to describe the currency of nations with strong economies, stable governments and low inflation. These three factors largely determine long-term currency strength, making hard currencies perfect for global investment. Hard currencies protect investors against the volatility many smaller currencies experience.

### 02 | Why is the rand so volatile?

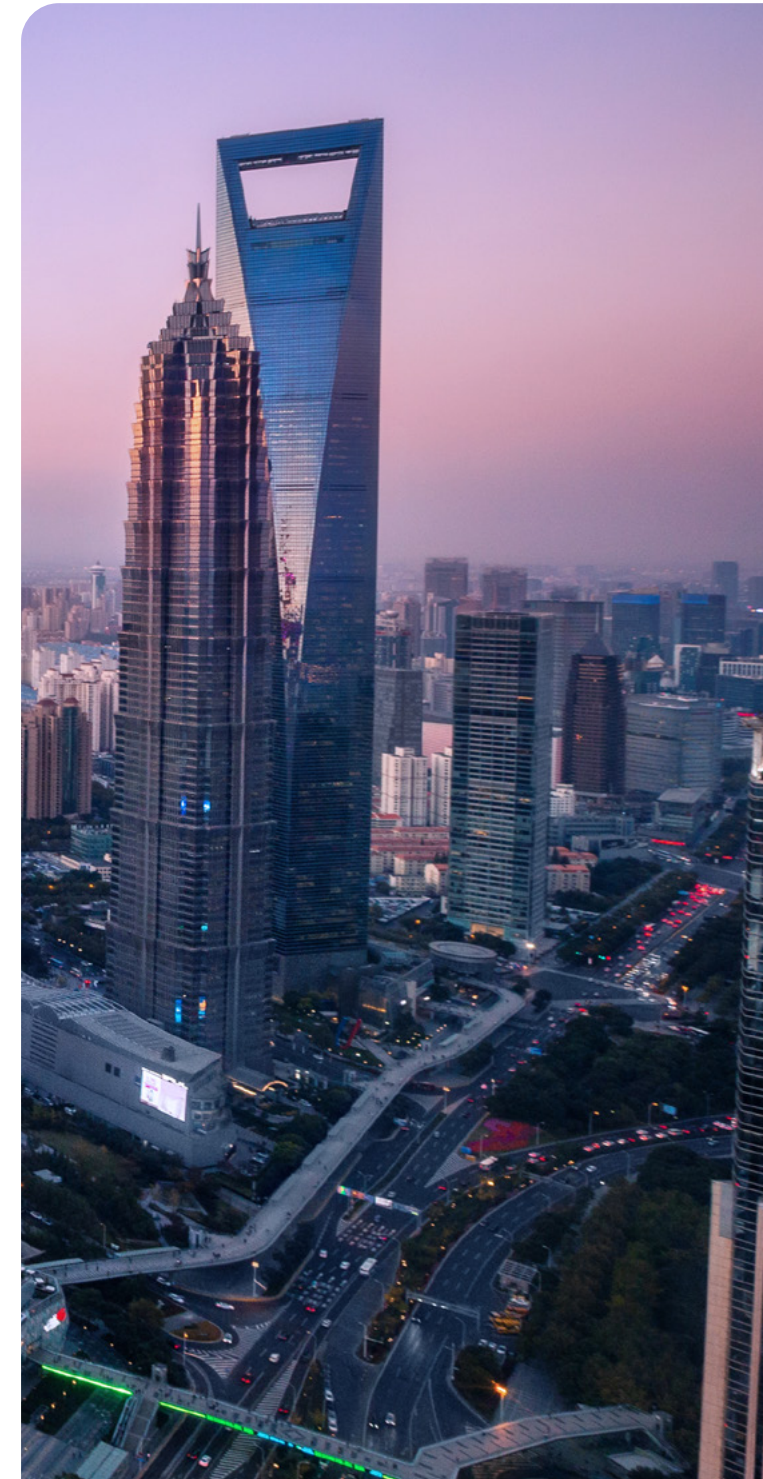
In times of domestic and emerging market volatility, the rand tends to be one of the most volatile currencies in the world. Daily swings in value can reach 3% in either direction against the US dollar. Short-term currency movements are often caused by sentiment. Sentiment is the emotional side of investing. While trends are driven by long-term economic fundamentals, local sentiment is driven largely by news flow in South Africa. When news flow worsens, the currency weakens – and it’s the most unfavourable time to exchange the rand.

### 03 | Why investors need a long-term horizon

Taken together, short-term volatility and the long-term depreciation trend are why an extended time horizon is crucial for investors wanting to diversify their investments globally. Investing for long enough can help clients receive the trend, rather than the volatility that dominates the short-term value of the rand. We don’t know if the rand will be higher or lower than its current exchange rate next year, but we can be close to certain it will have depreciated over a five-year time horizon. Your client’s currency risk decreases in direct proportion to the amount of time they invest for.

### 04 | Negating currency risk

Whenever you hear a client talk about a specific offshore investment goal, you should seek to invest into the currency required to meet that objective. When that isn’t possible, don’t worry. Simply use the US dollar – the most widely used currency in the world. Your client’s wealth will be diversified across the globe, and recalculated into a single currency to provide an easy-to-understand valuation.



## 05 | The trend is your friend

On average, the rand depreciates about 6% a year against the British pound and 6.5% a year against the US dollar. While this doesn't happen every year – in fact, some years the rand appreciates strongly – the long-term trend has been stable since 1994 and is unlikely to reverse anytime soon. The following graph depicts this trend: in 2010 a US dollar bought 6 rands; by 2020 it bought 16.



Over the long term, the rand will almost certainly continue to weaken against hard currencies. This trend is your best friend when you invest your clients' wealth internationally. If you can avoid externalising your clients' wealth at moments of extreme currency weakness, the trend will silently accumulate and compound wealth on your behalf.

### The four most dangerous words in investment

"The rand has always rebounded from its extreme lows, and always will unless these four words are true: "This time, it's different". These are the most dangerous words in investment," says Steven Amey, Head Of Sales And Distribution at Discovery Invest.

#### Why?

Because, as you can see from the graph, it hasn't been different yet. Betting against any well-established trend has a statistically poor outcome. "It is a far better strategy to externalise wealth during stable times than to encourage and facilitate panic selling at highly disadvantageous rates. Your clients will thank you," says Amey.



**Steven Amey**  
Head Of Sales And Distribution at Discovery Invest

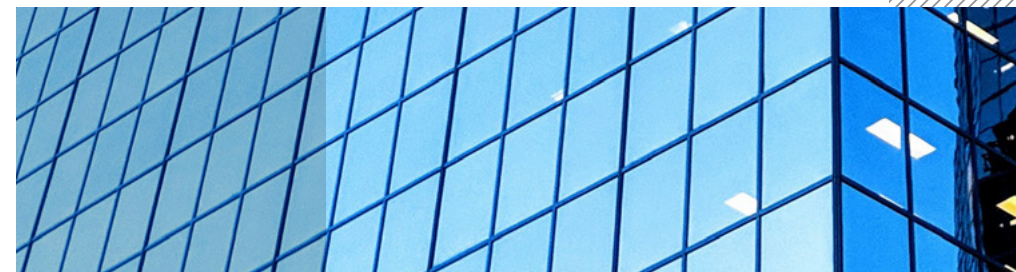


## What drives the structural depreciation of the rand?

The rand's structural depreciation against hard currencies is driven by the difference in inflation and growth. For this trend to break down, one of four things has to happen:

- 01| South Africa's GDP growth rises significantly in relation to that of hard-currency countries.
- 02| Hard-currency countries experience a fall in GDP growth, while South Africa does not.
- 03| South African inflation falls dramatically compared to inflation in hard-currency countries.
- 04| Hard-currency countries experience a considerable rise in inflation, while South Africa does not experience an equivalent increase in inflation.

The beauty of trends is they are structural; they last a long time. It will take a momentous event to reverse any one of these four factors. Keep in mind that even if the trend does reverse, it's a win-win for your clients. Who doesn't want to see the country we live in become more prosperous?





## Buying hard currency: a win-win

### An average exchange rate is good enough

Remember, you only need to avoid exchanging currency during extreme weakness to get close to average. An average gives your clients a historical long-term return of 6.5% in US dollars each year. Don't try to time foreign exchange markets: the goal is not to become a currency trader, but to take advantage of long-term compounding and the structural depreciation of the rand.

### Hard-currency investments protect clients

Global investment portfolios can serve as an emotional hedge and financial insurance against unexpected outcomes in South Africa. If the country undergoes an economic renaissance, global investments won't outperform, but your clients' domestic portfolios will be worth more, property prices will rise and businesses will boom. Life at home will be better.

On the other hand, if South Africa underperforms, the protection and growth hard currency investments provide will be greatly appreciated. Either way, your yearly reviews will be a lot more enjoyable for both you and your clients.





## The solution to rand volatility: Rand cost averaging

What if there was a way to cut through the complexity of avoiding disadvantageous exchange rates? There is, and it's called "rand cost averaging". It simply means externalising client wealth at regular intervals.

Rand cost averaging is also suitable for clients who have strong cash flow. Agreeing to move a tranche of your client's accumulated wealth each month or quarter ensures the client gets an average exchange rate over a long time period (and remember, average is what provides a 6.5% depreciation rate a year), while providing you with a high-touch relationship for a high-value client.

## Apples and oranges: Nominal and real returns

The problem with comparing these two percentages is they are both 'nominal returns'. Nominal return figures are of little use, as they do not factor in inflation. While 10% might sound good for a South African deposit rate, what would you say if offered 10% in a country with an inflation rate of 40%, like Argentina? In that situation, your nominal return might be 10%, but your real return is negative, at -30%.

This is the problem with quoting nominal returns: they are meaningless without the corresponding inflation rates. In the case of South Africa, we have had an inflation rate of around 5% from 2010 to 2020, while the inflation rate in the US has run at closer to 1.5%. So, the US dollar's return is instantly worth an extra 3.5% a year over the past decade, once we account for the erosive effect inflation has on wealth.

The final factor to consider is the exchange rate. In 2010, a single US dollar was worth R6; in 2020, it was worth R16. While we want to avoid rebasing our US dollar returns into rands once invested (for the reasons we will discuss later), it is important to know that, on average, South Africans can take advantage of rand depreciation simply by holding US dollars.

*So, the next time a client questions the returns available offshore, explain the difference between nominal and real returns. Your ability to do so is key to overcoming one of the most common objections to investing offshore.*

## Investing for global goals: beating inflation with real returns

Imagine a client comes to you with the goal of educating their child in the US in five years' time. The cost of the education is \$200 000 in today's money, which is exactly the amount of money the client has in US dollars.

The solution is easy, right? Simply keep the cash on a rate that keeps pace with inflation, so the client can pay for tuition in five years' time.

Here's the problem: The cost of college tuition in the US has increased at four times the rate of inflation there. So, if inflation is running at 1.5%, we need a 6% return in US dollars a year just to make sure the client's wealth stands still in relation to their goal.

Matching future liabilities with a client's current assets isn't simply a case of getting the currency right. We also need to invest in a solution that meets the future price of their desired asset or goal in real terms – rather than investing as if inflation doesn't exist.

## Bringing global investments back

There is a popular saying among South African advisers: "Once global, always global." It sounds good, but it's flat-out wrong. Global investments and the returns they generate are designed to enhance your clients' quality of life.

If your clients have achieved their investment goals and their global wealth now needs to be drawn down to execute their retirement strategy, then the capital should be used to achieve their goals through the next phase of their life. Indeed, one of the main reasons for getting the investment structure right at the outset – and in particular the tax – is so that capital can be brought back as efficiently as possible.

Your job as an adviser when repatriating capital is the same as when you externalise it: Avoid extreme rand strength and asset price weakness. You can use the same strategies we discussed earlier to do this. The main one is rand cost averaging in reverse.

## Avoid rebasing global wealth into rand, unless it's for a rand liability

Why do we want to avoid rebasing global portfolios into rand when we meet with clients, given that, more often than not, the depreciating rand will make hard currency returns look good?

Here's why. If you tell your client how much they made in rand terms at a yearly review (and you will only ever do this when the rand has weakened), you give permission for every yearly review to be about how the portfolio has done in rand terms.

Given the inherent volatility of the rand, some years the rand will strengthen and your client will be within their rights to make the entire meeting about how the portfolio has performed in rand terms. You won't be able to object, because you set the precedent.

You will then have an hour-long meeting debating the rand, instead of showing your client how a combination of your foresight, the power of compounding and the beauty of diversification have benefitted their global wealth.

## What would a trusted adviser do?

As an adviser, you have two primary duties when exchanging the rand for hard currency. One is selecting the right solution through a careful analysis of your clients' needs. The other is diversifying clients' wealth into an international investment that benefits from the upward momentum of the hard currency trend, while avoiding exchanging currency during periods of extreme weakness.

However, your clients might not see it this way. In fact, many clients move most of their money when the currency is at its weakest – because the news flow is the worst. Why do people consistently exchange their wealth at the worst possible exchange rate? Because human beings are driven by emotions.

Your most important role as an adviser when it comes to externalising and managing global wealth is to keep clients rational, rather than letting their emotions make permanent decisions that they will probably regret. That's worth rereading.

But how do you manage clients against their wishes? Clients are more likely to listen to you if they trust you. To build your status as a trusted adviser, simply ask clients why they are moving their wealth. This will give you the information you need to make them think twice. Is it part of a rational strategy or is it an emotional decision sparked by a doomsday article they read in the newspaper this morning? Then be firm. You're being paid to be an expert, and the tough conversations are where you earn your money. If you are giving advice aligned to the house view, you're doing your job.

*The best advisers offer value, do the right thing, and help clients manage their emotions – especially when short-term news flow makes sticking to the long-term plan difficult.*





## The paradox of risk

What makes the lowest-risk investment you can hold become the riskiest? And how do high-risk assets become the safest investments money can buy?

The question is a paradox and the answer to the dilemma is time.

Imagine you want to save for a future cost, like your child's tertiary education. If you were to save by holding your money in cash, you would experience very little short-term volatility. However, over the long term, cash will almost certainly underperform compared to a seemingly risky, well-diversified global portfolio.

When you consider the riskiness or volatility of an investment, don't base your decision entirely on the short-term ups and downs, but rather on the long-term outperformance.

In some cases, being too conservative by avoiding volatility in the short term can cost your clients greatly over the long term.

"As a client's time horizon expands, it is the assets that are generally considered the riskiest that are most likely to meet financial objectives, while the investments that are considered the safest have the greatest probability of causing a financial plan to fail."



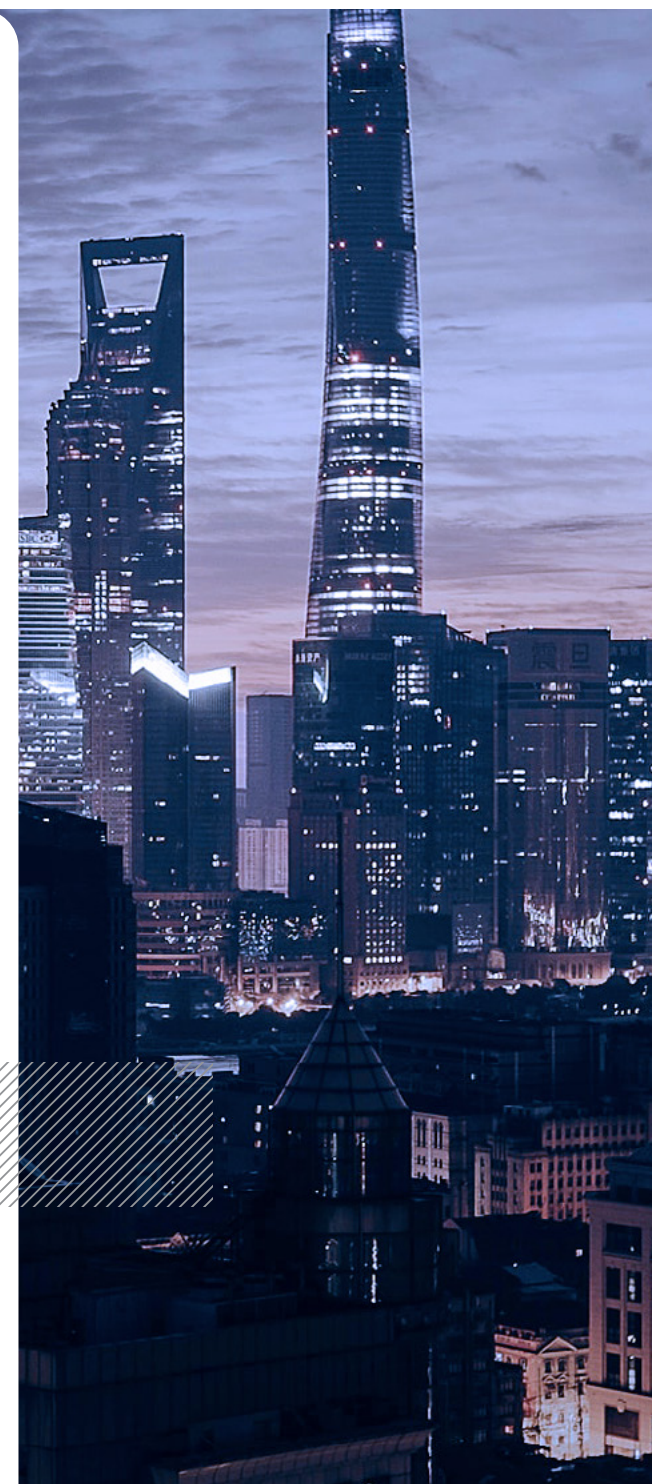
**Craig Sher**  
Head of Research and Development,  
Discovery Invest

## Helping clients understand that time mitigates risk

Many clients have an incorrect perception that investing offshore has more risk than investing locally. This is true in the short term – if you exchange rands for US dollars and wait a week, your return will be close to random.

However, over longer periods, the trend is definitely not random. Because equity markets trend up and the rand trends down, two of the riskiest investments you can make in the short term (because of their volatility) are statistically the safest when invested with a long-term time horizon.

The longer your client's time horizon, the safer a portfolio of global equity in hard currency becomes as an investment strategy. Your role as an adviser is to let clients know that time is the crucial ingredient to mitigating risk when they invest in global assets. Doing so upfront will enable you to remind them of the long-term strategy they agreed on during any short-term volatility.



# STRUCTURING YOUR CLIENTS' INVESTMENTS

It's one thing to understand why clients ought to invest more offshore, it's another to know how to go about it efficiently and optimally. Here, we provide practical guidance on investing offshore – including when to access global markets, how to structure your investments, and the pros and cons of different offshore investment solutions.



## What assets should your client invest in?

Global asset classes are the same as those available in South Africa, and global investment funds are categorised according to the same risk rating categories: conservative, balanced and growth. The Discovery Risk Profiler tool, combined with an understanding of your clients' goals and the return on investment they need to reach them, will guide you here.

Given that global investment strategies are normally long-term solutions, it is normal for global portfolios to be biased towards higher-risk, real-return assets. This is particularly useful in today's economic environment. Bonds in hard-currency countries yield close to zero in real-return terms. If inflation picks up as predicted, due to government spending over the past decade – which has intensified during the COVID-19 pandemic – they will provide negative returns quite quickly.

Keeping these unusual times in mind, look for portfolios that contain real-return risk assets such as equities, but potentially also those that diversify in "alternative" assets, such as hard and soft commodities and infrastructure. These assets perform well in times of high inflation. They also provide the diversification benefits that bonds did before the 2008 financial crisis resulted in lowered interest rates and bonds yields of near-zero levels in advanced economies.



## Tax, inheritance and the rules and regulations of global investing

### Estate planning

When considering intergenerational wealth transfers and succession planning, be certain the solution you select will provide the outcome the client wants. Direct investment plans offer a different set of benefits from solutions such as endowments and retirement products, which can provide life cover, succession planning advantages and tax benefits in addition to investment growth.

Well-structured offshore investments such as endowments can make succession much smoother and faster by simply letting your client nominate beneficiaries in advance. This gives your client's loved ones less to worry about in a difficult time.

### Offshore investment allowances

At the end of 2020, the following rules applied to South African investors:

- South African residents have a yearly single discretionary allowance of R1 million. This means South African clients can invest up to R1 million internationally without getting government approval ahead of time every year.
- In addition to the R1 million single discretionary allowance, it is legal to move up to R10 million outside of South Africa in hard currency, as long as you get a tax clearance certificate from the South African Revenue Service (SARS) ahead of time.

## Tax efficiency

The way you choose to invest your clients' wealth offshore dictates how much tax they will have to pay. Make sure you understand which solution fits which client profile and, most importantly, don't let the tax tail wag the investment dog. Reducing tax is preferable, but first you must select the right solution to create the wealth that generates the tax.

## Using wrappers to mitigate tax

Given that direct investment into assets can generate a negative outcome, how can a client invest offshore into assets like equity, property or bonds? The simple answer is by using a wrapper. A wrapper is a generic term for a structure placed around any investment for the purpose of investing.

### Unit trusts

Unit trusts are currently the default vehicles of investing globally. These flexible, long-term investments are well-suited to global investing due to their simplicity of structure and relative cost-effectiveness.

### Global endowments

Another form of wrapper is a life policy, such as a global endowment. These are designed to leverage the benefits of the insurance industry with tax advantages in mind.

If your clients invest in a global endowment with Discovery, their tax calculations and settlements are done for them, reducing a complicated process to one that is stress-free. Their capital gains tax is also generally settled in foreign currency, so they can avoid paying capital gains tax on rand depreciation.

Global endowments externalise wealth outside South Africa, using international finance centres to ensure capital is safely domiciled in a tax-neutral jurisdiction.

## Optimising tax when investing offshore: The bottom line

The key to optimising your clients' tax exposure is to understand whether your clients have any needs, now or in the future, that might require special attention when it comes to tax. If not, you can rest assured that all of Discovery's solutions have been structured to be as tax-efficient as possible.

*Contact your Discovery investment specialist for more details about asset protection, tax efficiency and estate planning.*



## Considerations when externalising wealth

### Externalise wealth or use a feeder fund?

Feeder funds and asset swaps are vehicles that enable South Africans to access global assets without externalising their wealth.

A fund could be more appropriate than investing in physical assets when:

- A client does not want to apply to SARS for clearance to externalise their wealth
- A client wants the capital to remain in South Africa rather than being invested in an international finance centre
- The client is a business or a local trust. These types of investors are prohibited from externalising wealth. Therefore, they must use feeder funds or asset swaps to gain global exposure.

In other situations, you can consider a global endowment. The reasons are twofold:

- Clients who physically externalise their wealth benefit from the strong governance and asset protection international finance centres provide.
- Feeder funds and asset swaps remain invested in rand, so they only have exposure to global assets and currencies. This means that if the rand depreciates – which it does over the long term – your client will be charged capital gains tax on the gains.

## What percentage of investable assets should your client externalise?

As we've discussed, your clients already have a significant exposure to the South African economy, and diversification is the key to mitigating investment risk.

However, there is no magic number that suits all clients when deciding what percentage of wealth to externalise. The following questions will help you and your client decide what is right for them:

- What is your client's total asset exposure to South Africa?
- Will they sleep better at night with a higher percentage invested internationally or invested domestically?
- What makes sense from a risk-adjusted-return perspective? Where are your client's primary liabilities? If these liabilities are domestic, they should be considered first.
- Does your client have specific global investment goals that require significant global investment, such as retiring abroad or paying international school fees?



It's worth mentioning that a panel of investment experts in the US recommended that citizens have between 30 and 40% of their wealth invested outside America.

Given this, 40% seems like a reasonable benchmark for how much wealth South Africans should invest globally. In terms of a maximum amount, South African investors only reach "too much" when they don't have enough rands on hand to comfortably settle their living expenses for an extended period of time.

Between these two extremes, you have to use your client's preferences and goals, and your skill as a financial adviser to find the right balance.

<sup>1</sup> *The Experts: How Much Should You Invest Abroad?* The Wall Street Journal, 10 June 2013. <https://www.wsj.com/articles/SB10001424127887323495604578537251459279948>

## Comparing client options: Direct investment versus a global endowment

Offshore investing	Direct investments	Global endowment
 <p><b>Estate planning</b></p>	<ul style="list-style-type: none"> <li>▪ Your client must have an international will in place and employ an executor in another country to handle the succession of their investment in the event of death. Both these processes can be costly.</li> <li>▪ Next, your client has to get international probates on this will (to validate its authenticity). This can be a long and administratively tedious process, and is also very costly.</li> <li>▪ On death, the executor's fees must be paid on the proceeds of your client's investment.</li> <li>▪ If your client doesn't have an international will with the proper probates in place, they can end up having to pay high fees to get their South African will approved. They may also need to appoint a foreign executor in the jurisdiction of their offshore investment, which would incur even more costs.</li> <li>▪ Your client's investment may be subject to inheritance tax.</li> <li>▪ Your client's assets may need to be sold or relocated on death.</li> </ul>	<ul style="list-style-type: none"> <li>▪ With an endowment, all these issues are avoided by your client simply choosing beneficiaries on their investment. Drafting an international will or employing an executor isn't necessary, which saves time and money.</li> <li>▪ There's also no need to worry about probates, extra fees or foreign estate duty. On the death of the last insured person, the value or ownership of the investment will simply pass to the chosen beneficiaries. This gives your client's beneficiaries 100% access, ensures smooth succession on death and potentially relieves stress at a difficult time.</li> <li>▪ Your client may be exempted from some inheritance tax. Only South African estate duty of up to 20% applies, or 25%, if the estate is more than R30 million.</li> </ul>
 <p><b>Tax</b></p>	<ul style="list-style-type: none"> <li>▪ Tax is based on each individual's circumstances. Calculating tax can be complex, burdensome and potentially costly, as clients need to declare any gains and losses in rand, often without help from the global investment provider (if the provider has no operations based in South Africa).</li> <li>▪ If your client has substantial global investments and switches funds or decides to sell an investment and buy something else, they may be surprised with a nasty local tax bill to settle. They may then need to repatriate funds or find money locally to pay this.</li> <li>▪ In terms of tax rates, clients will pay on their personal income tax bill. Interest income is taxed at up to 45% and capital gains up to 18%. Because this calculation is done on their local tax bill, clients will have to pay for US dollar gains in rand, meaning they will also pay capital gains tax on any rand depreciation.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Your client's endowment is taxed at a flat rate of 30% on interest income and 12% on capital gains, meaning clients can potentially save up to 33% on taxes on investment growth.</li> <li>▪ The calculation and settlement of any relevant taxes are done completely on your client's behalf, which saves time and effort, and prevents unwelcome surprises. If your client's endowment is outside South Africa, capital gains tax is often calculated and settled in foreign currency, usually US dollars. This means you can avoid paying this tax on rand depreciation.</li> <li>▪ Endowments trigger no capital gains tax on death.</li> </ul>

## Offshore investing

## Direct investments

## Global endowment



## Management

- You will need to manage the administration of each asset in your client's investment individually.
- Making changes to your client's investments can become complex (making them less flexible) when they're investing individually into multiple assets.
- How liquid (easily convertible to cash) the assets are depends on the investment. A property is less liquid, but global unit trusts are easily accessible.

- An endowment consolidates admin, making your client's assets quick and easy to track and manage.
- Your client can invest it in multiple investments and manage them actively, greatly simplifying things.
- Withdrawals from an endowment depend on its structure. Generally, legislation limits withdrawals from endowments in the first five years to one withdrawal of up to the initial investment plus 5% compounded yearly growth. With Discovery's Global Endowment, however, each investment consists of 100 contracts, so your client can technically withdraw up to 100 times in the first five years – making it very accessible. After five years, access is unlimited.



## Fees

- There are fees involved in acquiring assets. In the case of unit trusts, investment funds will charge asset management fees in addition to any costs for trading and administering the investment fund.
- There may also be other fees paid to advisers, consultants and investment providers for assisting in the setting up and ongoing administration of the investment.
- Your client can also incur costs relating to setting up the estate planning on their investments.
- Learn more about what kinds of costs to expect when investing offshore [here](#).

- Endowments generally charge tiered fees for administration.
- Other charges will include asset management fees and costs in the investment funds clients choose, and any financial adviser fees. There are no further costs in relation to tax consultants or estate planning.
- Some endowments, like the Discovery Global Endowment, come with added features that can significantly enhance the product offering, to the benefit of the client.
- Often, the benefits of a global endowment can outweigh the fees. In general, avoid making decisions based solely on fee differences. Research the pros and cons for each solution and weigh up the value to your client.



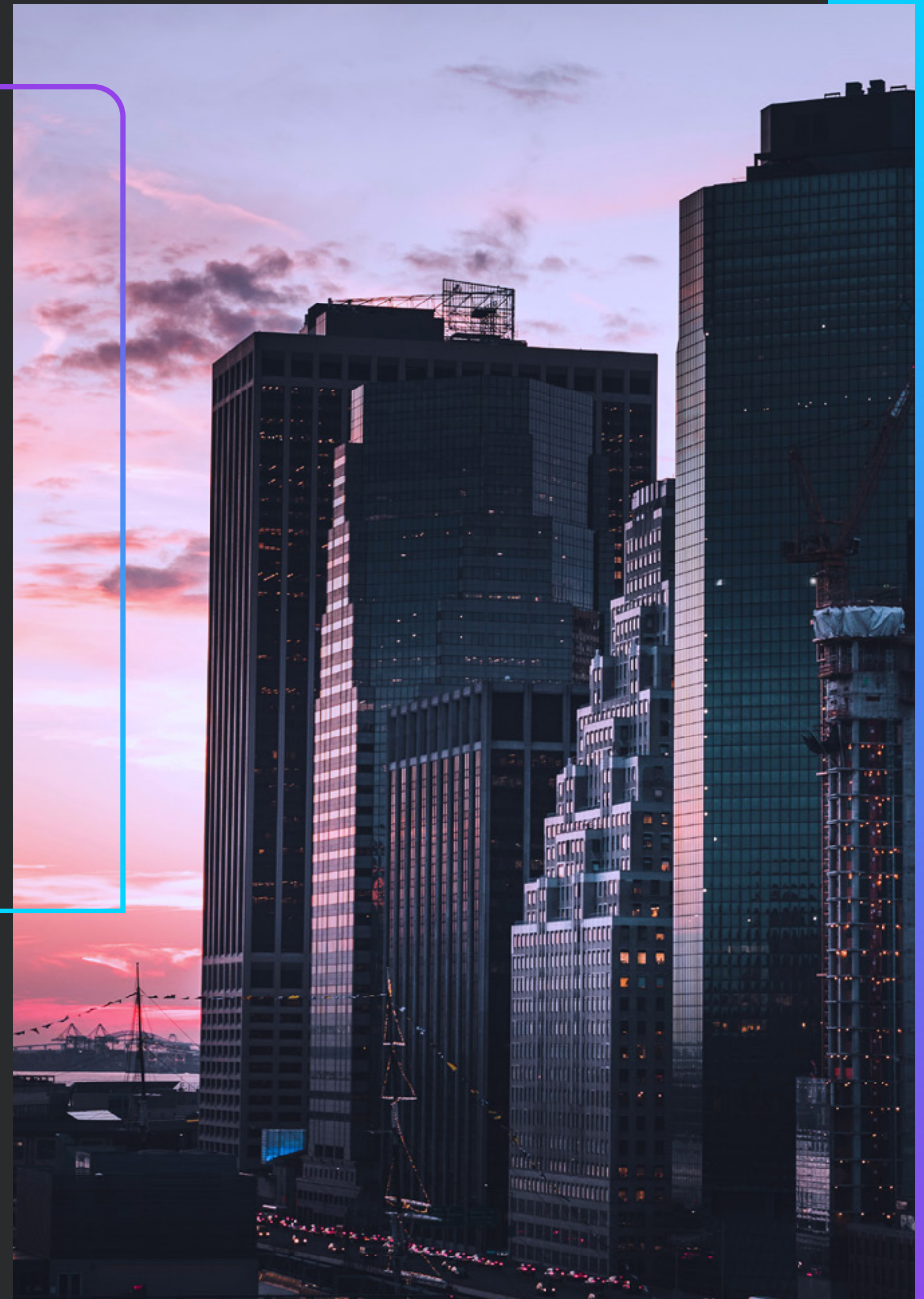
# Compelling reasons to invest in Discovery's Global Endowment

Discovery's Global Endowment provides a simple solution to hold international assets. It offers built-in tax and estate structuring, generous investment liquidity and cost-effective international trust options. Plus, if your client invests in qualifying investment choices, they could qualify to invest below the prevailing exchange rate with the currency enhancer.

If your client already has money or investments abroad, they can invest with us; and if they have a qualifying local lump-sum Discovery Endowment Plan, they can convert it to a Global Endowment, invested offshore.



Watch the Discovery Invest International positioning video





# DISCOVERY'S GLOBAL INVESTMENT SOLUTION

Discovery offers a range of solutions to fit client needs. When it comes to deciding which Discovery solution is best suited to a specific client, start by asking these three questions:

- 01 | Are you looking to invest in hard currency offshore, or do you want a rand-denominated solution?
- 02 | Do you have a lump sum to invest, or do you prefer to make regular monthly installments in USD?
- 03 | Do you have (or want to take out) a Discovery Dollar Life Plan?

Your client's responses will help you determine the best fit.

# Decision pathways to help your client find the right global investment plan

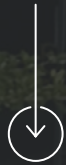
START  
HERE



Are you looking to invest in hard currency offshore, or do you want a rand-denominated solution?

Hard-currency investment

Rand-denominated global exposure



Do you have a lump sum to invest, or do you prefer to make regular monthly payments in US dollars?

I have a lump sum

I'd like to make smaller,  
regular payments



Do you have (or want to take out) a Discovery Dollar Life Plan?

Yes

No

Looking for a different global  
investment solution?



## DISCOVERY'S GLOBAL INVESTMENT SOLUTIONS

## Understanding how Discovery's solutions work will also help you determine which solutions fit each of your client's needs. Here's a table with more details to guide you:

Discovery solution	How does it work?	Who is this suitable for?	What are the benefits?
<p><b>Global Endowment</b></p> <p>A life policy designed to provide maximum investment and withdrawal flexibility, with all the benefits of an international trust.</p>	<p>The Global Endowment provides investors with a simple solution to hold international assets. It enables them to invest below the prevailing exchange rate and offers them maximum efficiency through tax and estate structuring, investment liquidity and cost-effective international trust options.</p>	<p>Investors with a minimum of USD25 000 who want the flexibility to invest in a wide selection of world-class portfolios, including allocations managed by leading asset managers BlackRock and Goldman Sachs.</p>	<ul style="list-style-type: none"> <li>■ The Discovery currency enhancer lets investors invest at below the prevailing exchange rate.</li> <li>■ The endowment forms part of an investor's South African estate, avoiding complications that could arise from having part of an estate located in another country.</li> <li>■ A wide range of investment choices, including Discovery's risk-rated Global Portfolios (advised by BlackRock) and Global Share Portfolios (advised by Goldman Sachs), a wide range of third-party investment fund choices, and the Global Alpha range of high-conviction and satellite portfolios.</li> <li>■ Up to 50% back on yearly international trust fees.</li> <li>■ The ability to have multiple owners and beneficiaries, providing succession-planning benefits</li> <li>■ Investors can make multiple withdrawals in the first five years and unlimited withdrawals afterwards, providing more liquidity than standard endowments.</li> <li>■ Investor wealth is invested offshore in a secure, tax-efficient jurisdiction.</li> <li>■ The Recurring Global Endowment is the only endowment that allows investors to invest globally in an endowment each month.</li> <li>■ It provides an investment plan that helps investors save over the medium to long term, while giving them estate-planning benefits and a tax-efficient structure.</li> <li>■ Investor wealth is invested offshore in a secure, tax-efficient jurisdiction.</li> </ul>
<p><b>Global Recurring Endowment</b></p> <p>An investment plan that helps investors save in the medium to long term, while giving them estate-planning benefits and tax-efficient structures</p>	<p>The Global Recurring Endowment provides investors with a simple solution to hold international assets. It allows them to invest from as little as USD200 a month, and offers maximum efficiency through tax and estate structuring, in a simple, effective monthly debit order.</p>	<p>Investors with USD200 a month to invest, who want the benefits of an endowment, but don't have a lump sum to invest.</p>	<ul style="list-style-type: none"> <li>■ <i>If clients also have a Dollar Life Plan, they can qualify for a boost of up to 40% of the value of your plan at retirement of (depending on the time invested). They can also get a discount of up to 80% on yearly admin fees through the Retirement Investment Integrator.</i></li> </ul>
<p><b>Global Flexible Investment</b></p> <p>An investment plan that offers access to global markets with full investment and withdrawal flexibility</p>	<p>This is a simple lump-sum investment plan that offers a wide range of investment choice and investor flexibility.</p>	<p>Investors with a minimum investment of USD10 000, who value the ability to choose from a wide range of world-class investment solutions with no limits or penalties when accessing their capital.</p>	<ul style="list-style-type: none"> <li>■ A wide range of investment choices</li> <li>■ Flexibility and accessibility to investment funds</li> <li>■ Investor wealth is invested internationally</li> </ul>

In conclusion, most clients have too much exposure to the South African economy.

**Your role as an investment adviser is to:**

- Manage and diversify your clients' investments
- Improve their risk-adjusted returns
- Help them meet their specific investment goals.

Because offshore investment reduces risk while providing the potential for increased returns, it often forms the cornerstone of a long-term investment plan – even if there is no explicit investment goal and the client's mandate is to simply maximise long-term returns while minimising risk.

As a financial adviser, you have been entrusted with the important task of helping clients make critical financial decisions that have lifelong implications. The ultimate goal is to be discerning and to guide and empower clients so that all stakeholders are rewarded for making smart decisions. Join us in growing and sharing value by helping your clients invest offshore, the right way!



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