



OFFSHORE INVESTING

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SOUTH AFRICAN investors have been living with foreign exchange controls on their assets and money for more than 50 years now. It was first introduced after the Sharpeville-riots in 1960, in order to prevent massive amounts of money flowing out of the country.

As can be expected, moving assets abroad illegally almost became a national sport with enterprising individuals using any which way possible to externalize their assets. These attempts ranged from the rather dangerous gold coins in bra's or handbags-method, to the more sophisticated but equally successful avenues of round-tripping, over-invoicing/under-supplying methods to build offshore assets.

The illegal expatriation of rand-based assets into foreign tax havens rose substantially after each bout of political unrest, such as the Soweto riots of 1976 and the countrywide unrest of 1985.

In the run-up to the first democratic election the movement of assets reached a crescendo with even global giants such as De Beers being accused of moving substantial amounts of diamonds out of the country.

The listing of former SA-based companies such as SA Breweries, Old Mutual and Investec in London are still seen today as very sophisticated schemes to move the ownership of these companies to international jurisdictions.

And for the most part the movement of rand-based assets into US dollars, UK pound sterling or Swiss francs was hugely profitable. The rand for most of this period of time was on a sharp downhill slide.

On January 1980, for instance, the rand was one of the strongest currencies in the world, and was trading at \$1,35 US to one rand. This is not a miss-print. One rand bought you \$1,35!

From 1980 to 2001 the rand was on a one-way slide, depreciating at an average rate of about 15% per annum. In 2001, at the bottom of the currency's collapse, you paid R14 for \$1!

At the same time the US and world markets were in a multi-decade bull market which started in 1981, after the first Iraq War, and only really ended in 2000. Any investor who managed to squirrel money offshore during this time was handsomely rewarded.



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**Global
Markets**
AND SA ECONOMY

OFFSHORE INVESTING

The first partial relaxation of exchange control started in 1997 when it was announced that SA investors with clean tax records would be allowed to move R200 000 legally out of the country. This was later increased to R400 000, R750 000, R2 million and more recently to R4 million per taxpayer over time. These were one-off exemptions.

At the same time (2003) the government announced an amnesty, allowing SA taxpayers who had illegally acquired foreign assets or taken money abroad, by hook or crook, to apply for an amnesty on these crimes, pay a fine and receive permission to either repatriate the money back to SA or leave it abroad.

More than 43 000 taxpayers applied for and received the amnesty, thereby legalizing an estimated R65 billion in foreign assets. At the time it was estimated that this amount represented only about one-third of the foreign assets held abroad by South Africans.

A new amnesty has been announced, this time extended to companies and trusts, which will run to the end of October next year.

At the same time government has further increased the foreign exchange allowance to R4 million per year per taxpayer and R1 million per year per taxpayer for foreign travel, donations and maintenance.

Effectively, exchange controls have now been scrapped, not with a bang but with a whimper.

The reaction from the media and the investing public has been so low-key and generated so little interest that one gets the idea that this was the strategy by government all along.

For the first time in many generations South Africans can now create truly global investment portfolios, gaining access and exposures to countries, funds and asset classes that are not generally available in South Africa.

In the meantime government has also signed double-taxation agreements and information-sharing treaties with more than 77 countries and tax havens in recent months. This means that it will be harder than ever before to conceal foreign assets and income.

By not applying and declaring foreign assets effectively means that investors will be sterilizing these assets.

We strongly recommend that investors make use of the current amnesty in order to regularize their offshore assets.

WHY OFFSHORE?

Investing offshore is a rational decision based on one of the most important fundamentals of investing, namely diversification.

It is not (in our view) about the rand collapsing, or a Zimbabwe-style land-grab or our electricity supply (and other infra-structural issues) paralyzing the economy. It simply is about finding better investment opportunities elsewhere and reducing risk.

It is foolish to have all your assets in one country when you are legally permitted to have some of your wealth elsewhere. The recent developments in Greece and Ireland underscore this once again.

Three years ago Ireland, the Celtic Tiger, was universally praised for its robust economic growth, low company tax rates and rapid growing economy. Now this dream lies in tatters and the country has been forced to apply for foreign aid to rescue its broke banking system.

Ireland is currently going through a period of bankruptcy, austerity and plunging asset values, particularly property prices, unprecedented in modern times.

HOW MUCH OFFSHORE?

The answer to this question depends on many factors, but in general it is recommended that long-term investors should have about 30 to 40% of their investable assets in offshore markets.

While the local market and the rand has been remarkably strong in recent years, can this situation not last indefinitely. Fund managers, including the highly-rated John Biccard from Investec and Karl Leinberger from Coronation have openly stated that they see better long-term value for equities in particular elsewhere.

The SA market is considered to be expensive while offshore equity markets are cheap.

The local market, together with the rand has been boosted by the massive inflows of money from abroad. This makes the local market and currency very vulnerable to a sudden outflow of global capital, considered by many to be "hot" money which can move out at short notice.

➤ **BRENTHURST WEALTH GLOBAL PORTFOLIOS:**

We are proud to announce the official launch of the BRENTHURST WEALTH GLOBAL BALANCED PORTFOLIO, registered in Guernsey, as a globally managed portfolio, with the fund management contracted to RMB International, a leading global asset manager.

RMB International is a subsidiary of locally listed RMB Holdings.

The fund has been approved by the Guernsey Financial Services and will be used as the central building block for the creation of truly global portfolios for Brenthurst clients. The fund is a cost-effective vehicle to give investors exposure to a global mix of equities, bonds, cash and alternative investments.

Following on the core-and-satellite approach we will be using several other of the world's top investment houses in further construction of our global portfolios. The final make-up of the portfolios will be determined by the investment objectives of our clients, their tolerance to risk, fund performance as well as the outlook for global markets.

OTHER FUNDS USED IN THE CONSTRUCTION OF OUR GLOBAL INVESTMENT PORTFOLIOS INCLUDE:

➤ **INVESTEC GLOBAL GOLD FUND:**

Gold and gold shares have been a fantastic investment over the last ten years. However, this bull market has largely passed local investors by as a result of the strong rand and ever-declining local gold mining industry. This fund has returned in excess of 16% per annum in US dollar terms over the last ten years.

We recommend an exposure of between 5 and 10% of foreign portfolios to this fund, depending on the investment objectives and time horizon of the investor.

➤ **TEMPLETON GLOBAL BALANCED FUND:**

Franklin Templeton is one of the largest fund management companies in the world and has been present in the South African market for more than 13 years. The fund was founded and managed for many years by the legendary Sir John Templeton. He is universally reckoned to be one of the fathers of global investing but has recently passed away at the age of 85 on the island of Bermuda.

This fund is a global balanced fund and offers an alternative to the Brenthurst Global Balanced Fund.

➤ **AURUM ISIS:**

Looking for a fund manager that has outperformed the legendary fund manager Warren Buffett over the last 12 years? Then look no further. This fund is one in the family of funds run and managed by the Aurum Group, owned by an ex-South African Clifford Gundle (ex-Gundle Plastics). The fund is a fund of hedge funds and recently received the honours of being the top hedge fund in Europe over 10 years.

➤ **INVESTEC ASIAN EQUITY FUND:**

Asia has emerged as one of the most exciting and dynamic regions for global investors in recent years. This fund invests in rapidly growing Asian regions and companies and has delivered excellent returns to investors over the last ten years. The fund has a four-star rating from Morningstar and has more than \$1 billion in assets.

➤ **INVESTEC GLOBAL ENERGY FUND:**

Apart from Sasol South-Africa does not have an energy industry. Investing in oil and energy-related industries, especially in a time when the world is heading towards "peak oil", offers diversification into a global asset class that is not correlated to equity markets. We recommend an exposure of between 5 and 10% to this fund, depending on risk profile and developments in the energy markets.

➤ **ASHBURTON CHINDIA FUND:**

China and India are considered to be the next economic super-powers. China's economy will overtake that of the US over the next 10 years (and not 20 years as was generally believed until recently) while India will move into number 4 in terms of global economic powers in the next two decades.

Jointly these two countries account for more than 40% of the world's population and most commentators are recommending an increasing exposure to this region. This fund limits its investment choices to these two countries.

➤ **TEMPLETON BRIC FUND:**

Jim McNeil, fund manager at Goldman Sachs, in 2001 coined the acronym BRIC—standing for Brazil, Russia, India and China. Hence the name of this particular fund.

He was of the view that these four countries would show above average growth and in its own right become a world economic powerhouse. His views have since then been vindicated and many investment companies have set up funds that specialize in these four countries. This fund, run by world-famous fund manager Mark Mobius, has since then proven to be an excellent investment and diversifier of risk. The countries in this group has many things in common including rapidly growing middle-classes, massive urbanization and industrialization and exciting growth prospects going forward.

PORTFOLIO CONSTRUCTION:

While the final recommendation in terms of an offshore portfolio will depend on many factors as alluded to above, a medium-risk portfolio will be constructed as follows:

5%	ASHBURTON CHINDIA EQUITY FUND
5%	AURUM ISIS FUND
40%	BRENTHURST WEALTH GLOBAL BALANCED FUND
40%	TEMPLETON GLOBAL BALANCED FUND
5%	INVESTEC GLOBAL GOLD FUND.
5%	INVESTEC ASIAN EQUITY FUND

All these funds are offered on the RMB International investment platform housed in Guernsey. This investment platform allows a great variety of other funds to choose from if considered necessary and cost-effective switching between funds. Investors can also request internet passwords in order to track their investment portfolios online.

BALANCING AND REBALANCING:

The most critical function over time is the rebalancing of this portfolio in order to bring it back to the original asset-allocation formula as determined by the client's risk profile.

Many international studies have show that this function is most probably the most important function we as investment advisors can deliver to our clients. Funds will be rebalanced once a year in order to rebalance the portfolio back to its original construction.

TAX CLEARANCE:

Taxpayers still require SARS clearance to remit money offshore. The offshore allowance is only granted to taxpayers who are up to date with their tax affairs and can prove where any investable amount emanates from. Brenthurst Wealth's tax department, will apply and arrange for this clearance for all clients wanting to make use of this allowance.

SUMMARY:

WITH FOREIGN EXCHANGE CONTROLS NOW A THING OF THE PAST WE CAN CONCENTRATE ON STRUCTURING AND MANAGING OFFSHORE PORTFOLIOS FOR OUR CLIENTS. PLEASE FEEL FREE TO DISCUSS YOUR OFFSHORE INVESTMENTS WITH ANY OF OUR HIGHLY QUALIFIED FINANCIAL PLANNERS.

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