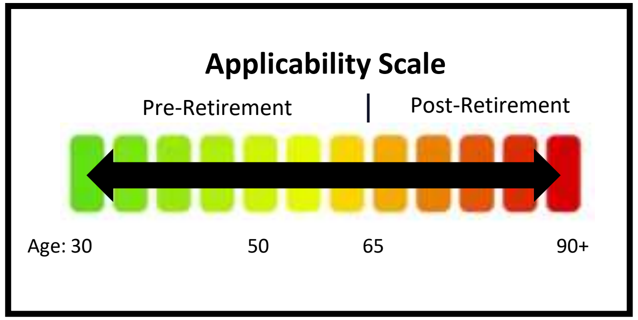

GAP MAYNARD

Personalized Investment Advice

eBook – Offshore Investing Explained

Contents

1. Why Invest Offshore
2. How to Invest Offshore
3. When to Invest Offshore

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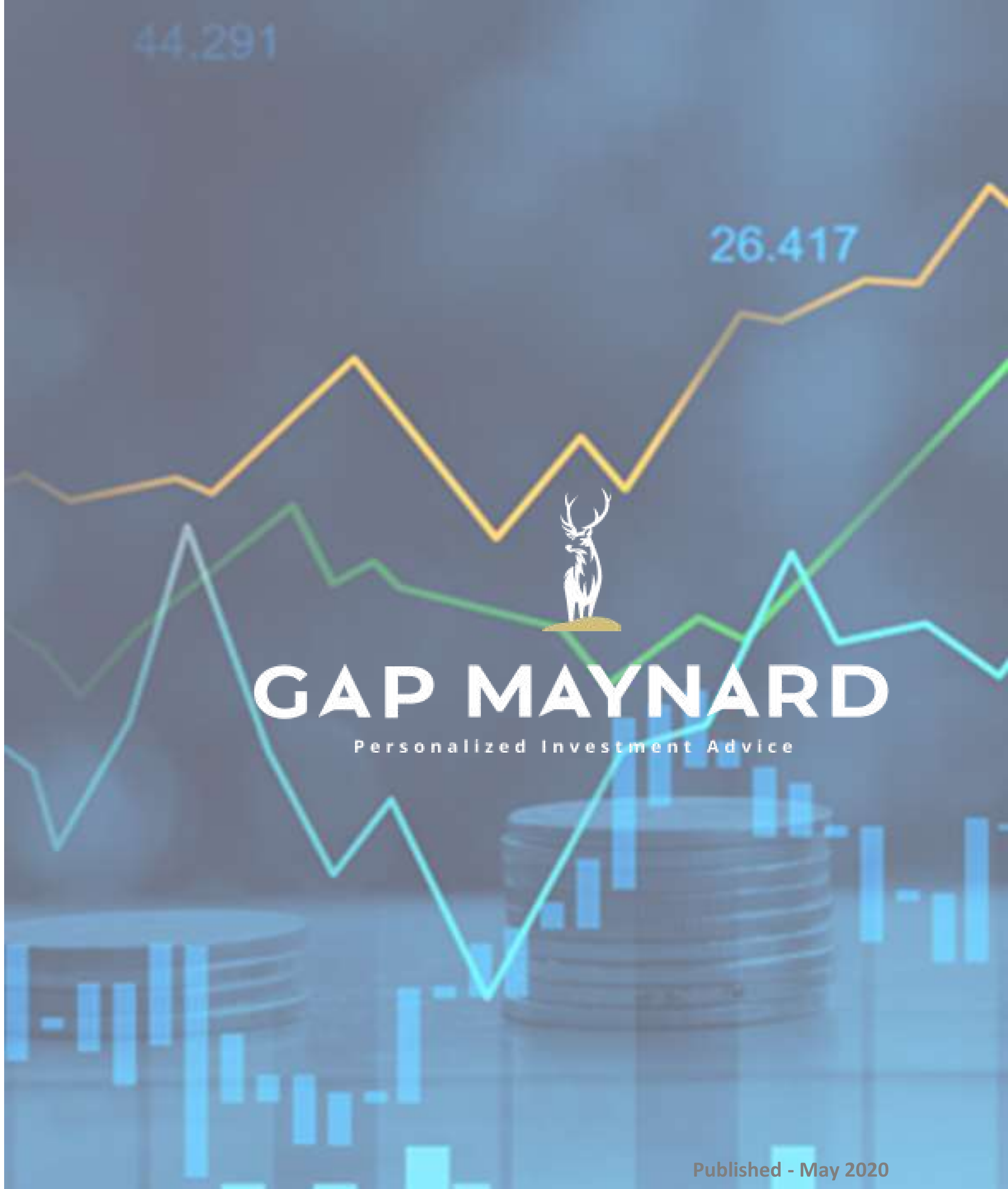
Personalized Investment Advice

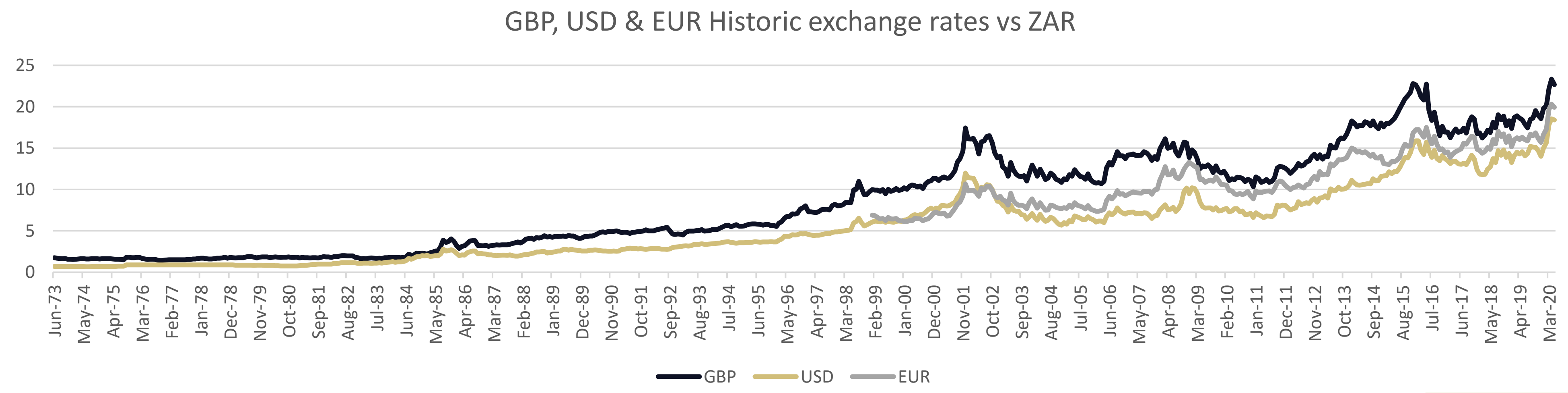
Section 1:
Why Invest offshore ?



Why Invest offshore

Why invest offshore? Reason 1 : Currency Hedge

- One of the main reasons people invest offshore is that it means you invest in a different currency. The most popular investment currencies are GBP, USD or EUR. When you invest in currencies like these, you effectively remove the Rand (ZAR).
- The ZAR is one of the most volatile currencies in the world and this means that the value of your ZAR versus other currencies fluctuates drastically. The result is often a weakening of the ZAR versus other currencies.
- Historically, the ZAR is a depreciating currency and the graph below shows how the Rand has weakened against the USD, GBP and EUR over time. On average the rand has depreciated against the 3 currencies by between 6% to 8% a year.
- In simple terms, you need more ZAR every year to buy the same $100 item.



Why Invest offshore

Why invest offshore? Reason 1 : Currency Hedge contd.

- You may think that you understand exchanges rates, however you're not sure of their benefit from an investment point of view.
- Let's say we take R1,5 million and convert it into USD at an exchange rate of R15.00 = $1. This would mean we have $100,000.00 to invest (R1,500,000 divided by 15 = $100,000.00)
- Let's invest this $100k for 5 years and assume we get a very conservative annual return of 5% on our investment in USD. This would mean that after 5 years we now have around $127,600 ($100k x (1.05) raised to the power of 5 = $127,623.16).
- If we decide to bring that money back to South Africa and the exchange rate is now R18,00 = $1 then we'd have R2, 296,800.00.
- If we compared this R2,296,800.00 with what we originally sent offshore of R1,500,000.00, you'd see that you'd have made R796,800 or 53,12% gross (R796,800k / R1,5m x 100 = 53,12%). This equates then to an annual return of 10.62% (53.12% divided by 5 years = 10.62%).
- So after all that maths, by having your money offshore, you would have received a return, in South African Rand terms, of 10.62% a year and in USD terms 5% a year. Therefore just by having your investment in another currency you would have gained 5.62% more a year in Rand terms.
- Lastly, the risk a person would have to take to get a return in South Africa of around 10.5% would be classed as moderate to high whereas the risk required to get a return of 5% in USD would be considered cautious to moderate.
- If you live and have expenses in a currency that depreciates like the Rand, investing offshore is a smart idea.

Why Invest offshore

Why Invest Offshore? Reason 2: Political & Economic Uncertainty

- Politics has a direct impact on the economy and the exchange rate, which in turn impacts your investments.
- Over the past few years, poor decision making and corruption have severely impacted the South African economy. As a result people's investment portfolios have suffered and companies within the country have struggled to grow.
- Furthermore, if investors from overseas cannot be assured that there are sound government policies in place to secure and protect their investment in the country, then they become hesitant to invest (this is called Foreign Direct Investment or FDI). Without investment from, and trade with, other countries, the economy suffers.
- By investing offshore you can eliminate the impact that local politics and economics have on your investments as these are linked to another country and its currency.
- However, you haven't eliminated **all** political or economic uncertainty. The USD is still subject to the effects of tweets from Donald Trump and the GBP is subject to what parliament and Boris Johnson say in the UK. The difference being that the effects of what these leaders do and say has a lesser effect on their FDI and exchange rate and therefore your investments.

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Why Invest Offshore? Reason 3: Diversification

- Diversification is necessary when constructing an investment portfolio in order to **reduce risk**. Having all your eggs in one basket can wipe out wealth very quickly. Think of a client who invested his life savings in a company like Steinhoff. From being one of the best performing shares listed on the JSE prior to December 2017, the company share price crashed spectacularly in early 2018, leaving its shareholders with close to nothing. Stories like these are few and far between but they illustrate the point.
- On the other hand, too much diversification can also be bad. If you have no conviction and invest in a bunch of different asset classes or funds without understanding why you are investing in them, then you may be well diversified but not in a position to drive any real growth.
- Here are two of my favourite quotes, from some gentlemen who know a thing or two about investing:

> *"Wide diversification is only required when investors do not understand what they are doing."*
> – ***Warren Buffet***
>
> *"Many financial advisors recommend that you diversify for your own protection. What they fail to tell you is that it is also for their protection. Since most financial advisors cannot tell you exactly which stock or mutual fund is a great investment, they tell you to buy a bunch of them."*
> – ***Robert Kiyosaki***

- The main take-away here is that offshore investing provides a great way to diversify from having all your assets sitting in one currency and country. If you have an astute investment adviser they will be able to recommend some good investment strategies that align to your financial goals.

Why Invest offshore

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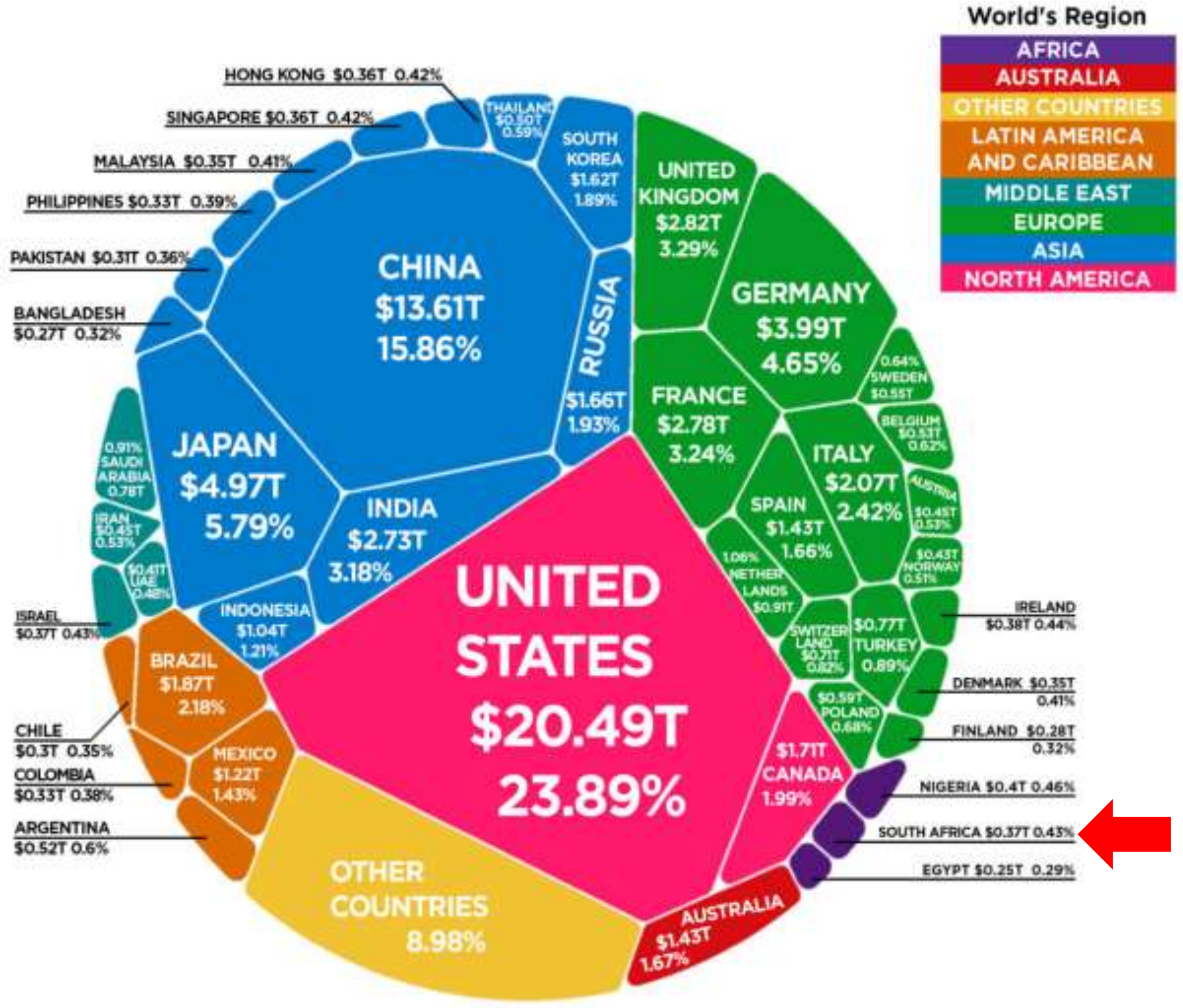
Why Invest Offshore? Reason 4 : Investment Opportunity

- South Africa makes up less than 1% of all the investment opportunities that exist in the world.
- There are not many people who would be happy in limiting themselves to 1% of anything, let alone investment opportunities.
- Certainly you live and have expenses in ZAR, but when it comes to getting the best returns on your hard-earned cash, having it all in South Africa would be foolish.
- People often ask what the optimal ratio of onshore to offshore investments should be. The answer is that it is very personal. I feel somewhere between 30% to 70% of your wealth should be invested abroad, but that is dependent on other factors.
- The infographic to the right basically says that of all the money in the world (measured by Gross Domestic Product or GDP) South Africa has 0.43% (see red arrow)whereas the USA has 23.89% - crazy I know!



Article & Sources:
https://howmuch.net/articles/the-world-economy-2018
https://databank.worldbank.org

Section 2:
How to Invest offshore

How to Invest offshore

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- I suggest that before you go through this information on how to invest offshore, you also have a look at the slide deck on why people invest offshore. People think that investing offshore is very complicated, however I'm sure that by the time you finish going through this information you'll see that it is quite simple.

Step 1: Tax Clearance

- The first step you need to take when sending funds abroad is to ensure you have the correct clearance certificates from SARS.
- Any person over the age of 18 can take up to R1 million offshore a year without needing any clearance from SARS. This is known as your travel allowance.
- A further R10 million can be taken abroad, however this requires clearance from SARS. This is called your Annual Foreign Capital Allowance and can be applied for through SARS by the individual or through a professional.
- Therefore as an individual you can move R11 million offshore in any one calendar year and as a couple this value is doubled, so R22 million.
- For sums above R22 million, there are a number of different ways of moving funds abroad, however this needs to be assessed on a case by case basis.

Step 2: Convert into desired Currency

- Once you have your clearance (if moving more than R1 million clearance usually takes 5 to 21 days) you need to convert your Rands into you're your investment currency of choice (usually GBP or USD).
- You can utilize your bank to convert the Rands you wish to invest into USD or GBP, however banks normally charge individuals quite high rates of exchange. It is more advisable to use a foreign exchange broker as their rates are more competitive.

Step 3: Send funds abroad

- Once you have a tax clearance and have converted your Rands into foreign currency you can then send them abroad.
- Funds can be sent to an offshore bank account in your name, an offshore trust, an offshore retirement structure, an offshore company, purchase of property or directly to an offshore investment platform.
- The trick to offshore investing is ensuring that the you use the correct vehicle to hold / own the assets you wish to invest in.

How to Invest offshore

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Step 4 – Choose a suitable structure to hold your assets

- Choosing the correct investment vehicle or structure for your investment needs is important if you are wanting to protect your assets as well as being tax-efficient. Whilst I suggest you seek professional advice when choosing a structure, some of the more common types of offshore structures can be summarized as follows:

Offshore Investment Platforms

- This is the simplest way to invest abroad. You open an account with your chosen provider and send your USD or GBP to your account.
- When the funds arrive you send dealing instructions, asking the dealing desk linked to your account to invest in specific investment instruments you choose.
- This is great for stocks, shares, funds, Unit Trusts, structured. products and ETF's but cannot hold property or other asset classes.
- These platforms offer no tax efficiency or asset protection.

Offshore Trusts

- Offshore trusts are used predominantly to protect assets and preserve intergenerational wealth.
- They can also be used to hold shares in private companies, so as to improve tax efficiencies.
- There are many different types of trusts, however the most common is a discretionary trust.
- Setting up and maintaining offshore trusts is not something I'd recommend for everyone. There needs to be a specific reason for having one and it also needs to make financial sense.

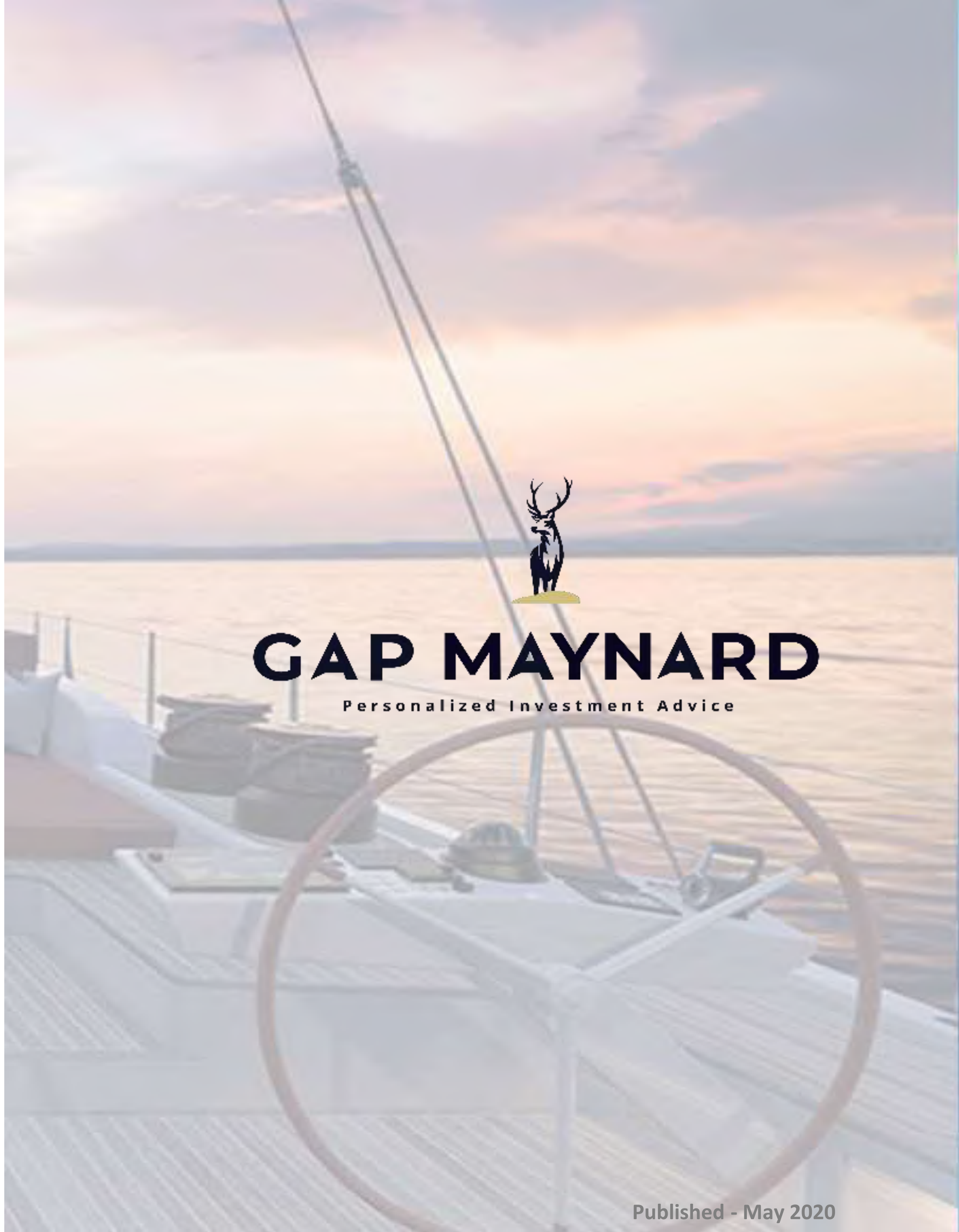
Offshore Companies

- These structures are used by businessmen and individuals, usually to conduct business outside of RSA.
- They can be used to acquire property in foreign jurisdictions.
- Offshore companies are usually established to take advantage of more favourable tax laws.
- You need to be careful when appointing directors and shareholders to offshore companies as SARS is very strict about what constitutes an offshore company.
- Consult a professional before setting up an offshore company to avoid any nasty surprises

Offshore Endowments & Retirement Vehicles

- Endowments are tax efficient and admin friendly. However there is a period of around 5 years where you have limited access to the investments.
- Retirement structures often work well for individuals in that they are very tax efficient and can offer good liquidity. They can also hold a wide range of different types of assets types.
- It is important to take advice on whether these types of structures would be suitable for you, as some of these retirement structures can tie up your investments for a period of time.

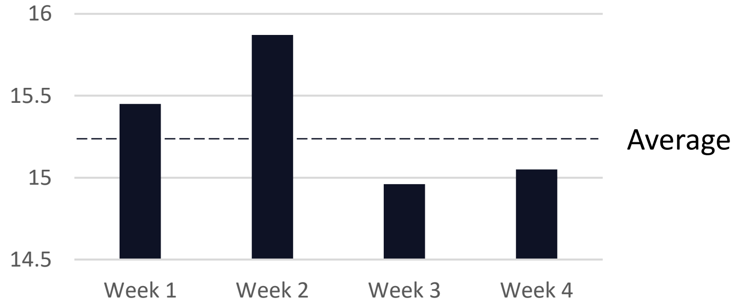
Section 3:
When to Invest offshore



When to Invest offshore

- Deciding when to invest offshore can be very difficult. Ideally what you want is for your local currency to be as strong as possible against the currency you wish to invest in and for the value of markets to be low.
- Trying to predict what currencies will do is highly speculative and when it comes to currencies like the Rand very difficult to predict.
- Rather than selecting a specific rate of exchange to convert all your investment money, convert your cash into your investment currency of choice over a period of time. This is called "cost averaging."
- As an example lets view the graphic below

Period	USD Exchange Rate	ZAR Exchanged	USD Cash
Week 1	15.45	R 2,500,000.00	$ 161,812.30
Week 2	15.87	R 2,500,000.00	$ 157,529.93
Week 3	14.96	R 2,500,000.00	$ 167,112.30
Week 4	15.05	R 2,500,000.00	$ 166,112.96
Total		**R10,000,000.00**	**$652,567.48**
Average Rate	**15.3325**		



- In the example this client has R10 million to move offshore and decided, rather than converting all of his investable cash into USD in week one, to spread the conversions over a 4 week period, converting 25% of the funds (R2,5 million) at a time.
- The exchange rates fluctuated over the month but ultimately led to the client having an average exchange rate of R15,33 to the USD, which luckily for the client worked in his favour.
- This "cost averaging" technique can be done over days, weeks or even months, the principle though is to convert portions of your investment funds at different exchange rates in order to get a decent average.

When to Invest offshore

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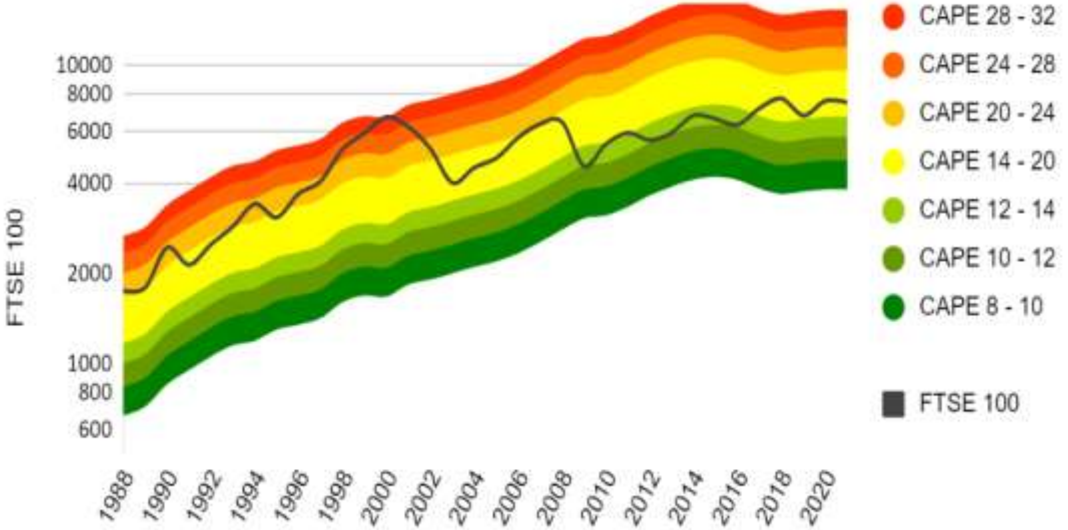
- Understanding whether or not certain markets or stocks are under or over valued is a skill many people in the financial industry spends huge amounts of time on. Needless to say it isn't easy nor is it an exact science.
- One of the quick and dirty ways you can utilise to gauge whether or not an investment or market is under or over valued is by looking at the Price to Earnings ratio (P/E).
- The price-earnings ratio (P/E ratio) relates a company's share price to its earnings per share. Without going into too much finance jargon it indicates whether or not a company or market is under or over valued.
- If we compare P/E values over a period of time, say 10 years, we can get an indication of an average.
- On the right we see a graph depicting how the FTSE 100's (a share index of the top 100 companies listed on the London Stock) P/E value has fluctuated since 1988.
- The different colors indicate whether or not the index is over or under valued. Yellow means average, green means under valued and orange or red means over valued.
- Around 2000 it was over-valued, however more recently it has been slightly undervalued and recently fallen into line with normal averages although on the low side. As a result you might say you'd be happy to buy into this offshore market at you'd be getting good value.
- Obviously its not quite as simple as this, but hopefully it illustrates the point



Note: CAPE stands for Cyclically Adjusted price-to-earnings ratio.
Source: John Kingham, February 2020, https://www.ukvalueinvestor.com/2020/02/ftse-100-cape-valuation-forecast.html/

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