



STONEHAGE FLEMING LAUNCHES NEW OFFSHORE INVESTMENT TRUST

SEPTEMBER 2018

The role of trusts as an integral part of estate planning in general, and more specifically the use of offshore trusts for South African residents has provided for an interesting and diverse discussion following the recent changes in the tax treatment of trust funding by South African residents.

For centuries, trusts have formed the cornerstone of asset protection and inter-generational wealth transfer for families; and for South Africans this should remain the position notwithstanding the changes mentioned. Planning should now consider if the trust should be SA tax resident or a non-resident trust.

The need to preserve and protect family wealth remains a constant focus. A significant part of the process of establishing and managing a fiduciary plan involves consideration of South African currency, interest rates and the tax treatment of loans to SA resident trusts. Once these have been properly analysed, it quickly becomes clear that the use of offshore trusts has become a viable – and indeed favourable option.

Premised upon the recent changes in the South African tax treatment of SA resident trust funding by way of a loan, and the position regarding funding of offshore trusts, EMERALD is positioned to provide a cost effective offshore alternative for investment, preservation and inter-generational transfer of wealth.

Foreign investment allowances, offshore investments and structures were historically in the realm of “nice to haves” or “Plan Bs”. However, investment diversification should be integral to any long term plan, and given the size of the SA stock market (less than 0.5% of world capitalisation), management of more widely diversified exposure is crucial. Furthermore, taking into account the current political and economic climate in SA means that EMERALD has now been elevated to “Plan A”.

ABOUT STONEHAGE FLEMING

Stonehage Fleming, one of the world’s leading independently owned family offices with strong ties to South Africa, recently launched the EMERALD Trust service. EMERALD is an offshore trust and investment offering that enables clients to access the expertise and knowledge of the wider Stonehage Fleming Group in these areas through a cost effective fee structure. Stonehage Fleming has extensive experience assisting international families manage their wealth and protecting their legacies for generations to come and is proud of its reputation for succession planning and governance as well as investment management.

STONEHAGE FLEMING – EMERALD

EMERALD is a restricted trust and investment solution in which Stonehage Fleming acts as both trustee and investment manager. It is aimed at holding asset values up to GBP5 million, with a fee structure that allows values as low as GBP200,000 to be accommodated cost effectively. The full Stonehage Fleming Group services are also available to clients, in tandem with or in addition to the EMERALD trust.

The EMERALD trust and investment offshore solution has been created with the singular purpose of providing an efficient trust structure with tax and cost effective asset protection, and access to Stonehage Fleming Investment Management services in Jersey.

The trust will be domiciled and managed in Jersey, one of the leading international financial centres. Jersey has been carefully chosen as the domicile for EMERALD, which seeks to provide a trustee service of the highest standard. Jersey has had a Trust Law since 1984, its local regulator, the Jersey Financial Services Commission regulates trust and company business, and it is the leading jurisdiction in the world for trust jurisprudence. With a financial services industry staffed by some of the world's leading professionals in Trust, Law and Accounting, Jersey makes a compelling case to be the jurisdiction of choice.

The benefits of EMERALD include the following:

- Subject to all regulatory requirements, a trust and investment service providing a simple and effective solution to investors who want to export investment funds to create an offshore portfolio or to transfer authorised offshore funds to an effective investment structure;
- Investment in USD or Sterling portfolios with either a cautious, balanced or growth risk profile;
- Mitigation of South African currency and jurisdictional risk by diversifying trust and investment business outside the country;
- A trust domiciled in Jersey with Jersey corporate trustees;
- A cost effective fee scale based on the restricted reserved powers trust;
- Asset protection and access to fiduciary planning including intergenerational wealth transfer;
- Legal and tax structuring opportunities regarding loan funding, with several options as to how the loan and interest are configured;
- Distributions to named beneficiaries anywhere in the world, subject to standard requirements;
- An “entry-level” trust option that provides an emigration platform or an ability to upgrade to a more sophisticated arrangement complex that can hold a wider selection of assets or investments.

The improved fee structure of Emerald streamlines the benefits that are available to clients who choose more complex (and more expensive) trust services. For example, trustee oversight of investment portfolio risk is limited to a review of absolute performance of the portfolio, as opposed to a peer review of performance with industry investment managers. Investment choices are suggested by the client and more responsibility for consideration of suitability of the portfolio and of risk choices rests with the client. Other risks are set out in Emerald factsheets, available from our representatives.

CASE STUDY

A South African resident Family with investable assets want to diversify their portfolio in terms of country and currency risk. An integral part will be exposure to international investment opportunities in an efficient tax and estate planning structure. The Family will have the ability to export ZAR10m per annum per adult member through their Foreign Investment Allowance and Stonehage Fleming will assist with the export process.

The ZAR funds will have to be exchanged into foreign currency before sending it to Stonehage Fleming Treasury once a Trust has been established. The process to establish the trust will require the completion of the administrative documentation, provision of client due diligence documents and information. Once approved, the trust will be established in Jersey.

The transfer of the funds to the trust from the individuals will typically be done by way of a loan by the client/interested party to the trust. The terms of the loan will include the loan currency, interest rate, term and whether the loan is interest bearing or interest free. Stonehage Fleming will work with the Family adviser to ensure the optimal terms are agreed for each Family. The ability to use foreign currency as loan currency allow for lower interest rates and will contribute to limiting the amount to be taxed in terms of estate duty. The ability to bequeath the loan to the trust by the lender will also allow for the ongoing tax and estate duty to fall away for the second generation.

The use of the cost efficient trust and investment EMERALD structure can contribute to the value of the portfolio over the lifetime of the Settlor and significantly more for the next generation where ongoing tax on the funding and estate duty would otherwise erode the investment portfolio. Distributions may also be made from the trust by accessing assets in the most efficient manner based on individual requirements.

FOR MORE INFORMATION



Paul Roper
Partner – Family Office
paul.roper@stonehagefleming.com
+44 1534 823083

Paul joined the Group in 2002 after working at Group companies in South Africa since 1999. He is an Advocate of the High Court of South Africa and member of the Society of Trust and Estate Practitioners, with specialist qualifications in international tax and financial planning. Paul holds a Bachelor of Arts, a Bachelor and a Master of Laws, an advanced diploma in International Tax, Masters in International Tax, Certified Financial Planner and a Society of Trust and Estate Practitioners Diploma.



Rudi Bodenstein
Director – Family Office
rudi.bodenstein@stonehagefleming.com
+44 1534 823090

Rudi is a Director in the Family Office Division based in Jersey with a specific focus on Business Development.

Prior to joining the Group in 2018, Rudi was a Director at FNB International Trustees Ltd and preceding that a partner in a law firm in South Africa. He has more than 20 years' experience as an Attorney and more than 8 years' experience providing guidance on Fiduciary structures. Rudi holds BLC LLB degrees from the University of Pretoria, is a member of the Law Society in South Africa and a member of the Fiduciary Institute of South Africa.

This article constitutes a financial service advertisement and is issued by Stonehage Fleming Trust Holdings (Jersey) Limited (SFTHJL). SFTHJL and its affiliate, TAS Trust (Jersey) Limited, which is also the trustee of the trust offered by Emerald and is providing the trustee service, are regulated by the Jersey Financial Services Commission for the conduct of trust and company business. Stonehage Fleming Dealing and Treasury Services (Jersey) Limited, which is providing investment management of the investment portfolio within Emerald, is also regulated by the Jersey Financial Services Commission for the conduct of Investment Business.

This financial service advertisement is not directed at persons in any jurisdiction where, by reason of that person's nationality, residence or otherwise, this advertisement is prohibited, or has a tax treatment other than as stated in this advertisement.

Introductions from third parties may be paid a fee which will be disclosed to the client before engagement.

Whilst all reasonable efforts have been taken to ensure that the tax treatment of the trust comprising Emerald is accurate as at the date of publication, this can change without notice and the issuer and providers of the services, and their employees, agents and contractors cannot be held responsible should this change. You should seek tax and financial advice from, respectively, independent suitably qualified tax and financial advisers before investing in Emerald.

**source SFTHJL.*

The value of investments may go up as well as down and you may not receive back the full value of your initial investment. Past performance is no guarantee of future performance. Income and returns from investment may fluctuate with market conditions. Investments in a financial product that is denominated in a currency other than that of an investor may expose the investor to currency risk due to fluctuations or movements in exchange rates. Portfolio performance is restricted to Stonehage Fleming Investment Management discretionary management solutions, which may prove less, or more beneficial than if you had a non – linked portfolio, but which you accept when entering into Emerald. Due to the volatility of equity markets, the nature of Emerald, and associated costs of operation, you should consider that any investment into Emerald should be held for a minimum of five years before contemplating distributions.

This document is approved for distribution in South Africa by Stonehage Fleming Financial Services (Pty) Ltd, an authorised Financial Services Provider (FSP no. 9587).

Ref: 2018-012 HGHR

September 2018

