

Build a legacy with the Allan Gray Offshore Endowment

Investing offshore has long been a way to diversify and grow one's wealth. This is even more relevant today, as investors seek strategies that will safeguard their wealth in an uncertain world for generations to come. Offshore endowments can be a powerful tool to build this legacy.

An offshore endowment is an investment-linked long-term product that is suitable for investors who want to diversify their portfolio across economies and regions outside South Africa, have a marginal tax rate of higher than 30% and require a product that offers tax efficiency and estate-planning benefits.

In recognition of the growing need for tax-efficient offshore investment products, we are pleased to introduce the [Allan Gray Offshore Endowment](#). Our product is structured with maximum flexibility in mind, aiming to empower investors to access global markets and take advantage of international opportunities, while offering competitive pricing and familiar client service through our local team.

Below we talk through some of the key features of offshore endowments in general and look at some of the benefits of the Allan Gray product.

What are the key features of an offshore endowment?

Tax efficiency

The effective capital gains tax (CGT) rate for an individual investing in an endowment (the "planholder") is fixed at 12% (capital gains inclusion rate of 40%, which is taxed at a fixed rate of 30%) compared to a maximum effective tax rate of 18% for a marginal taxpayer on gains in a basic unit trust investment (capital gains inclusion rate of 40%, which is taxed at 45%). The product therefore becomes tax efficient when an individual investor's marginal tax rate is higher than 30%. Different tax rates apply to companies and trusts. The calculation, deduction and payment of tax are taken care of by the life company that offers the product – which relieves the planholder from any reporting responsibility or liability for taxes on the investment.

Estate-planning benefits

The product also offers estate-planning benefits, allowing for continuity and transfer of wealth on the death of the planholder. No offshore will is needed and, if beneficiaries are appointed (see **Graphic 1** on page 3), there will be no delay while the estate is being wound up as the investment can be paid out or transferred immediately. In addition, when a beneficiary becomes the new owner of the investment, they can make unrestricted withdrawals, provided the 120% rule is not triggered (the 120% rule is discussed in the "Liquidity" section).

Where beneficiaries are appointed, there are no executor fees on the value of the investment, although the investment will still form part of the deceased estate (subject to certain exemptions). Meanwhile, CGT will only be triggered when the investment is paid out, not when an appointed beneficiary takes ownership of the investment, provided that the beneficiary is classified in the same way as the original planholder was for tax purposes.

Creditor protection

If the planholder is a natural person and appoints a life assured, the total value of the investment will be protected against creditors during their lifetime, provided the endowment is issued on the life of the planholder or their spouse and has been in force for at least three years. To qualify for creditor protection on the death of the planholder, the surviving spouse, children, stepchildren or parent must benefit from the endowment on the planholder's death.

Introducing the Allan Gray Offshore Endowment

The Allan Gray Offshore Endowment, made available by Allan Gray Life, Guernsey branch, offers South African resident investors a way to diversify their portfolios and ensure efficient wealth transfer for future generations. Residents of other countries can also invest but should obtain independent advice regarding the legal and tax implications beforehand.

The minimum new investment amount is US\$25 000 (or the equivalent in EUR or GBP) or R400 000.

The Allan Gray Offshore Endowment has been designed to provide more flexibility than traditional endowment products – in addition to providing tax efficiencies and estate-planning benefits. The key features are described below.

Liquidity

The Allan Gray Offshore Endowment is structured as a single plan made up of multiple underlying policies, which allows for more liquidity than investing in a single policy. At inception, each plan will consist of 100 underlying policies. The planholder's initial and subsequent contributions will be allocated equally to all policies underlying the plan, including in the case of subsequent contributions to policies from which a withdrawal has already been made.

Endowments are subject to a five-year restriction period, governed by legislation, during which planholders can only make one withdrawal from each policy underlying the plan, although it is important to note that one withdrawal can use up multiple policies. Once a withdrawal has been made from a policy, no further withdrawals can be made from that policy and any subsequent contributions allocated to that policy can also not be withdrawn until the restriction period ends.

The five-year restriction period can be extended if a planholder invests more over one year than 120% of their investments over either of the previous two years. This is known as the 120% rule. In terms of estate planning, it's important for beneficiaries to note that contributions from the deceased owner are taken into account for purposes of the 120% rule.

All calculations will be performed in US dollars.

Competitive pricing

Some offshore endowments have drawn criticism for having opaque fee structures, usually consisting of multiple types of fees. The Allan Gray Offshore Endowment is competitively and transparently priced, with no VAT payable on administration fees. The annual administration fee percentage applicable to the Allan Gray Offshore Endowment is calculated monthly, using the average market value (in US dollars) for the month across all Allan Gray Local Investment Platform, Offshore Investment Platform and Offshore Endowment investments linked to the investor number. The annual administration fee percentages are shown in **Table 1**. You can also find a more detailed explanation, including examples, on our [website](#).

Table 1: Annual administration fees

Third-party funds	
First US\$200 000	0.5%
Next US\$800 000	0.2%
Balance over US\$1 million	0.1%
Allan Gray funds, Orbis funds and temporary cash holdings	
First US\$600 000	0.3%
Next US\$400 000	0.2%
Balance over US\$1 mn	0.1%

Source: Allan Gray

A range of offshore funds to choose from

Investment returns come from the underlying foreign currency funds that the planholder chooses. The Allan Gray Offshore Endowment offers a select list of foreign currency funds managed by offshore investment managers, including those managed by our offshore partner, Orbis. See our [Offshore Endowment Fund List](#) or our [website](#) for more information about the funds that are available through Allan Gray Life, Guernsey branch.

Consistent client experience

Planholders have a local point of contact through the Allan Gray Client Service Centre, and new investments, additional contributions and switch instructions are captured and submitted online. The Allan Gray Offshore Endowment will reflect on Allan Gray Online alongside other local and offshore platform investments, thus presenting consolidated reporting. Although the Allan Gray Offshore Endowment is issued in US dollars, reporting is available in a preferred currency.

Policyholder protection

We have appointed an independent Guernsey-based trustee to safeguard the plan assets by holding them in trust to meet obligations to planholders. The assets are therefore not available to meet any other obligations of the company, for example to general creditors.

Easily transact in foreign currency

Contributions can be made in rands or foreign currency (US\$, EUR or GBP). We can facilitate rand currency conversions via our authorised dealer at a preferential spread if planholders use their single discretionary allowance or have their own tax clearance to use the foreign investment allowance.

Various options available for continuity of the plan

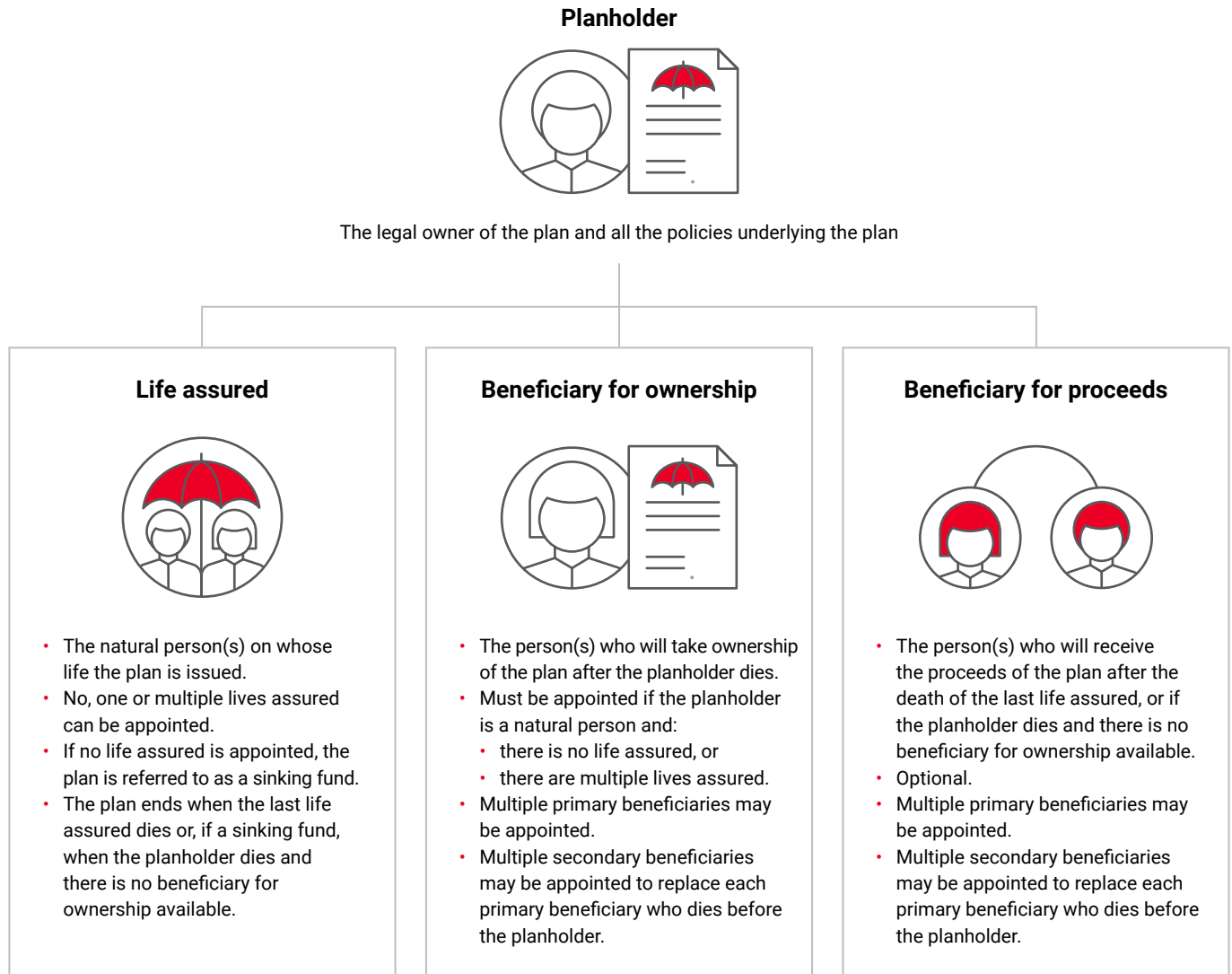
The planholder can choose whether to appoint no, one or multiple lives assured. If no life assured is appointed, the plan is referred to as a "sinking fund". A sinking fund does not qualify for creditor protection because no life assured is appointed. Multiple primary beneficiaries for ownership and beneficiaries for proceeds, as well as multiple secondary beneficiaries to replace each primary who dies before the planholder, can be appointed.

Need more details?

Our [Allan Gray Offshore Endowment infographic](#) offers a summary of the product, with full product information available via our [website](#) and the [product brochure](#). Please refer to [Understanding the various role players in an offshore endowment plan](#) and [Offshore Endowment role player scenarios](#) for further details.

To help you understand the complexities of the product and to find out if an offshore endowment is suitable for your needs, we recommend you consult with a good, independent financial adviser.

Graphic 1: Understanding the role players



Source: Allan Gray

Commentary contributed by Julie Campbell, senior manager in Product Development, and Guané Coetzer, offshore specialist, Allan Gray

Copyright notice

© 2024 Allan Gray Proprietary Limited

All rights reserved. The content and information may not be reproduced or distributed without the prior written consent of Allan Gray Proprietary Limited ("Allan Gray").

Information and content

The information in and content of this publication are provided by Allan Gray as general information about the company and its products and services. Allan Gray does not guarantee the suitability or potential value of any information or particular investment source. The information provided is not intended to, nor does it constitute financial, tax, legal, investment or other advice. Before making any decision or taking any action regarding your finances, you should consult a qualified financial adviser. Nothing contained in this publication constitutes a solicitation, recommendation, endorsement or offer by Allan Gray; it is merely an invitation to do business.

Allan Gray has taken and will continue to take care that all information provided, in so far as this is under its control, is true and correct. However, Allan Gray shall not be responsible for and therefore disclaims any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance on any information provided.

The Allan Gray Offshore Endowment is issued by the Guernsey branch of Allan Gray Life Limited. Allan Gray Life Limited is an insurer licensed in South Africa under the Insurance Act 18 of 2017 to conduct investment-linked life insurance business, and in Guernsey under the Insurance Business (Bailiwick of Guernsey) Law, 2002 to conduct long-term insurance business.