The Mathosa Trust

The Mathosa Trust is a South African trust. The trustees want to change the trust’s investment strategy from a purely local focus to getting more exposure to offshore assets. This may imply that they have to liquidate certain assets or do a fund switch. Their aim is to reach close to 50% offshore exposure as these types of investments may be more fitting to the eventual needs of the trust’s beneficiaries, which is to study and live abroad for a few years.

The Mathosa Trust’s need is a long-term investment with high offshore exposure.

The yearly offshore allowance is not available to trusts.

The choices available

The Mathosa Trust trustees have the following options:

• The Momentum Wealth local platform using the FIO or the FEO (in rand-priced funds)
• The Momentum Wealth local platform using the FEO (in funds priced in foreign currency)*

*The option to invest rand into funds priced in foreign currency are not available to trusts when using the FIO, as a trust cannot convert rand to foreign currency.

They choose to use the FEO with some allocation to a local fund and some to rand-priced offshore funds, and the remainder of the allocation to offshore funds priced in foreign currency. The trustees wanted to invest a portion with a specific international fund manager.

Why did they choose the above?

The decision to use an endowment was mainly due to tax considerations.

The tax payable on endowments are payable by the life company according to the five-funds taxation approach for South African insurers. Since the beneficiaries of the Mathosa Trust are all natural persons, the individual policyholder fund was used for the purposes of five-fund taxation within the endowment. This means that interest is taxed at 30%, capital gains at 12% and dividend tax is withheld at a rate of 20%. This is better than the rates of 45%, 36% and 20% respectively that the trust would have paid when using a FIO.

Did you know:

Many individuals whose needs don’t warrant them to go through the foreign exchange process, but who want to invest all or some of their assets with international fund management brands, can use the FEO (and funds priced in foreign currency) on the Momentum Wealth local platform.

When using the FEO (and most of the other products), they can simultaneously use components (of various natures) priced in rand or foreign currency in one product.