

OFFSHORE ENDOWMENT

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WHAT IS AN OFFSHORE ENDOWMENT?

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.

REASONS TO CONSIDER AN OFFSHORE ENDOWMENT

Tax efficiency

- The effective capital gains tax (CGT) rate for an individual investing in an endowment is fixed at 12% (i.e. a capital gains inclusion rate of 40%, which is taxed at the life company tax rate of 30%). This means that if your income tax rate is higher than 30%, your capital gains will be taxed at a lower rate within an endowment. Different tax rates apply to companies and trusts.
- The calculation, deduction and payment of tax are done by the life company that offers the product.

Estate-planning benefits

If you have appointed beneficiaries:

- On your death, the investment can be paid out or transferred (as applicable) immediately; there is no delay while your estate is wound up.
- When a beneficiary becomes the new owner of the investment, they can make unrestricted withdrawals, provided they don't trigger the 120% rule (see the restriction period section on page 6).
- Although the investment will form part of the deceased estate for the calculation of estate duty (subject to certain exemptions), there will be no executor fees.
- 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 you are for tax purposes.
- An offshore will is not required.

If you have appointed a life assured, the total value of the investment will be protected against creditors if all of the following conditions are met:

- The endowment has been issued on your or your spouse's life
- The endowment has been in force for at least three years
- Your surviving spouse, child, stepchild or parent benefits from the endowment on your death

See page 5 for more information about the role players in an endowment.

INVESTING IN THE ALLAN GRAY OFFSHORE ENDOWMENT (“THE PLAN”)

Who can invest?

- Individuals
- Offshore trusts and companies

This product is designed for South African resident investors. Residents of other countries can also invest, but should obtain independent advice regarding the legal and tax implications before investing.

Who may not invest?

- US residents. If you become a US resident after investing in the plan, you will only be allowed to submit withdrawal instructions and amend beneficiary appointments.
- South African minors, trusts and companies without South African Reserve Bank approval.

What currencies can you invest in?

Deposits are accepted in US dollars, British pounds and euros. If you are a South African resident, you can deposit South African rands and Allan Gray Life Limited Guernsey branch (“Allan Gray Life Guernsey branch”) will facilitate the conversion of your rands to foreign currency (see the exchange control regulations and currency conversion section on page 4).

What are the minimum investment amounts?

Transaction	Minimum US\$ or equivalent in EUR or GBP	Minimum ZAR*
New investment	US\$25 000	R475 000
Additional contribution	US\$5 000	R95 000
Withdrawal**	US\$5 000	R95 000

*These minimums are subject to review and may change periodically in line with ZAR/US\$ exchange rate fluctuations.

**Subject to product restrictions. The remaining value in the plan after a withdrawal must be at least US\$25 000.

There are no minimums per underlying fund.

What underlying funds can you invest in?

Your investment returns come from the underlying foreign currency funds that you choose. See our “Offshore Endowment Fund List” brochure or our website for more information about the funds that are available through Allan Gray Life Guernsey branch.

EXCHANGE CONTROL REGULATIONS AND CURRENCY CONVERSION

When investing in the plan using rands, you will need to use your own offshore allowances, namely the single discretionary allowance (SDA) and/or the foreign investment allowance (FIA).

The SDA is an allowance of R1 million granted by the South African Reserve Bank (SARB) per calendar year (1 January to 31 December), which a South African resident aged 18 years or older may use for any legal purpose offshore (including investing). The SDA is not limited to investments, but includes all foreign spend, such as monetary gifts, loans, foreign travel expenses, maintenance and offshore credit. It is your responsibility to ensure that you do not exceed your SDA limit of R1 million per calendar year across all your foreign spend.

The FIA is an allowance of R10 million per calendar year, which a South African resident aged 18 years or older may use to transfer

money offshore. Tax clearance from the South African Revenue Service is required. This allowance is in addition to the SDA.

If you are a South African resident, you can deposit rands directly with Allan Gray Life Guernsey branch and use your SDA or FIA for investment purposes. Allan Gray Life Guernsey branch will facilitate the conversion of your rands, through the authorised dealer, into the currencies of the funds you want to invest in. The conversion is done automatically at a predetermined time every day, which means you will not be notified of the exchange rate before the investment.

If you do not reside in South Africa, it is your responsibility to ensure that you comply with the relevant legislation and regulations of your country of residence for all transactions.

WHO ARE THE ROLE PLAYERS?

Planholder		
<ul style="list-style-type: none">■ The legal owner of the plan and all the policies underlying the plan.<ul style="list-style-type: none">■ The planholder can be a natural person or a legal entity.		
Life assured	Beneficiary for ownership	Beneficiary for proceeds
<ul style="list-style-type: none">■ The natural person(s) on whose life the plan is issued.■ No, one or multiple lives assured can be appointed. If no life assured is appointed, the plan is referred to as a "sinking fund".■ If a life assured is appointed and the planholder is a natural person, the planholder will automatically be added as a life assured.■ If no life assured is appointed at the inception of the plan, one cannot be added at a later stage.■ If a life assured was appointed, new lives assured can be added, but existing lives assured cannot be removed.■ The plan will end when the last life assured dies or the plan is fully withdrawn.	<ul style="list-style-type: none">■ The person(s) who will take ownership of the plan after the planholder dies.■ One or more primary beneficiaries for ownership must be appointed if the planholder is a natural person and has not appointed a life assured, or if there are multiple lives assured.■ One or more secondary beneficiaries for ownership may be appointed to replace each primary beneficiary for ownership who dies before the planholder.■ If the planholder has not appointed a life assured, the plan will end if the planholder dies and there is no beneficiary for ownership available to take ownership of the plan.■ If the planholder has appointed a life assured, ownership of the plan will pass to the beneficiary for ownership if the planholder dies before the last life assured.	<ul style="list-style-type: none">■ The person(s) who will receive the proceeds of the plan after the death of the last life assured, or if the planholder dies and there is no beneficiary for ownership available to take ownership of the plan.■ One or more primary beneficiaries for proceeds may be appointed.■ One or more secondary beneficiaries for proceeds may be appointed to replace each primary beneficiary for proceeds who dies before the planholder.■ If an appointed primary beneficiary for proceeds dies before the planholder or last life assured and no secondary beneficiary for proceeds was appointed for that primary beneficiary, the deceased beneficiary's share will accrue to any surviving primary beneficiaries for proceeds proportionately. If no other beneficiary for proceeds was appointed, the proceeds will be paid into the estate of the planholder. <p>If payment is made to an estate, the investment can be dealt with by an executor appointed in terms of a South African letter of executorship – i.e. a foreign grant of probate will not be required.</p>

STRUCTURE OF THE PLAN

At inception, each plan will consist of 100 policies. Your initial and subsequent contributions will be allocated equally to all policies underlying the plan, including policies from which you may have already withdrawn. To the extent that your contributions are allocated to policies from which you have already withdrawn, no further withdrawals will be allowed from those policies during the restriction period.

WHAT ARE THE RESTRICTIONS?

Restriction period

Each policy underlying the plan is subject to a restriction period, which is imposed by legislation. During this period, there are restrictions on the withdrawals you may make from the plan. This applies to:

- The first five years of the plan
- Five years from the first business day of any month during which the 120% rule takes effect (see below)

You can make unlimited contributions during the first year of the investment. The 120% rule takes effect:

- In the second year if your contributions are greater than 120% of the first year's total contributions to the policies underlying the plan.
- In any year when your contributions are greater than 120% of the higher of either of the previous two years' total contributions.

If a contribution triggers the 120% rule within a restriction period, you can extend the restriction period on your existing plan or start a new plan. If the 120% rule is triggered outside a restriction period, you can enter a new five-year restriction period on the entire plan or start a new plan.

Withdrawals

During the restriction period, you are allowed only one withdrawal from each policy underlying the plan. This withdrawal is limited to the lesser of:

- your contributions during the restriction period, including any market value the day before the restriction period started, plus 5% compound interest, or
- the market value of the policy less applicable fees, CGT and charges.

If the difference between the maximum allowable withdrawal amount (during a restriction period) and the balance in the policy is less than an amount equivalent to R10 000, you may fully withdraw the amount under each policy, less applicable fees, CGT and charges. All calculations will be done in US dollars.

If the policies are not in a restriction period, part or all of the market value of the policies (less applicable fees, CGT and charges) may be withdrawn.

Withdrawals can be paid in fund currency or a currency of your choice (i.e. US dollar, British pound, euro or South African rand).

How is capital gains tax treated?

All CGT calculations will be done in US dollars. If an underlying fund is denominated in a different currency, all amounts will be converted to US dollars for the purposes of the calculations.

On withdrawal, all accrued CGT up to the point of the withdrawal will be recouped as part of the withdrawal. In the absence of a withdrawal, CGT triggered by switches and fees will be recouped annually.

WHAT FEES ARE APPLICABLE?

There are five types of fees that may apply to your investment:

- Investment management fees
- Administration fees
- Advice fees
- Discretionary investment manager (DIM) fees
- Fund access fees

These fees are calculated and deducted from your investment differently. Administration, advice and DIM fees are determined in US dollars and will be withdrawn proportionately from all funds, unless you select to have them paid from a single preferred fee fund.

Investment management fees

These are annual fees charged by each fund's investment manager for investment management. The fees are deducted within the fund and are therefore accounted for in the fund's published performance figures. The fee structures vary between funds; fees may be fixed or based on the performance of the fund. See the relevant fund minimum disclosure documents and our "Offshore Endowment Fund List" on our website for more details.

Administration fees

There is no initial administration fee.

The annual administration fee percentage applicable to your plan is calculated monthly, using the average market value (in US dollars) for the month across all local platform, offshore platform and offshore endowment investments (i.e. your "average total investment value") linked to your investor number.

The annual administration fee percentage (excl. VAT) is calculated by applying the following fee tiers to your average total investment value:

- 0.5% on the first US\$200 000
- 0.2% on the next US\$800 000 (i.e. to US\$1m)
- 0.1% on the balance (i.e. above US\$1m)

For investments in certain Allan Gray and Orbis funds, as well as any temporary cash holdings, the annual administration fee percentage (excl. VAT) is calculated by applying the following fee tiers to your average total investment value:

- 0.3% on the first US\$600 000
- 0.2% on the next US\$400 000 (i.e. to US\$1m)
- 0.1% on the balance (i.e. above US\$1m)

The administration fee to be deducted from your plan each month is calculated by applying the annual administration fee percentage calculated for that month to the market value of your plan for each day of that month, and then adding up the daily fees for the month.

Annual administration fees will be deducted by selling units from the funds underlying the plan and paying the amounts to Allan Gray Life Guernsey branch monthly.

Advice fees

You and your appointed financial adviser may agree on initial and/or annual financial adviser fees. An amount equal to the initial financial adviser fee will be deducted from each contribution before it is invested and paid to your financial adviser. Annual financial adviser fees will be deducted by selling units from the funds underlying the plan and paying the amounts to the adviser monthly.

Discretionary investment manager (DIM) fees

If your financial adviser uses a DIM, you and your appointed DIM may agree on annual DIM fees. These fees will be deducted by selling units from the funds underlying the plan and paying the amounts to the DIM monthly. If the DIM has used the services of a retail investment consultant (RIC), the RIC's annual fees will be deducted and paid in the same manner.

Fund access fees

These fees comprise an annual service charge of 0.03% based on the market value of each fund you hold where the investment manager does not have a global distribution agreement with the service provider that makes the funds available to Allan Gray Life Guernsey branch. These fees will be deducted by selling units from the relevant funds underlying the plan and paying the amounts to the service provider.

CONTACT DETAILS

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Guernsey

IMPORTANT INFORMATION FOR INVESTORS

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. The underlying investment options are unitised investment funds made available by Allan Gray Life Limited (Guernsey branch). An independent Guernsey-based trustee has been appointed to safeguard the Allan Gray Offshore Endowment assets by holding them in trust.

Past performance is not an indication of future performance.

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