

INVESTMENT DIVERSIFICATION & ASSET PROTECTION FOR FUTURE GENERATIONS

The Emerald Trust is a streamlined Jersey trust offering linked to a discretionary managed portfolio via the Stonehage Fleming investment platform. The investment strategy is designed around the wishes of the trust's 'settlor' and the nominated beneficiaries.

WHO IS IT SUITABLE FOR?

The offering is attractive to **South African** clients looking for a flexible succession planning solution. The innovative structure provides for a Protector function with certain powers, which may be reassuring for those accustomed to being solely responsible as both settlor and trustee on other types of trust.

THE EMERALD OFFERING – WHY NOW?

COVID-19 has contributed to a series of simultaneously challenging impacts on the country and currency with a resultant negative impact on the South African economy:

1. COVID-19 forced the country into a lockdown situation. This has had a negative impact on the economy. Small businesses in particular will struggle to survive and the South African Government is unlikely to have the means to support all of these businesses during these times.
2. On Friday, 27 March, Ratings agency Moody's downgraded South Africa's sovereign credit rating to "junk" status, moving the rating down to 'Ba1' from 'Baa3' and maintaining a negative outlook.
3. On 3 April 2020, Fitch downgraded South Africa's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BB' from 'BB+'. The Outlook is Negative. The South African Rand (ZAR) has weakened significantly against the major currencies, in some cases over 15% at the time of writing.

WHY STONEHAGE FLEMING'S EMERALD OFFERING?

The primary reasons for setting up an Emerald Trust are for inter-generational planning, investment diversification and risk mitigation. Despite the current environment these have not changed, however, it may be argued that the timing for converting ZAR to foreign currency is not optimal at the current rates.

KEY BENEFITS:

1. **SUCCESSION PLANNING** - Trusts are inter-generational tools. An Emerald Trust is a long term planning mechanism. It does not matter when you set it up as its intention is to span many generations.
2. **THE ZAR** - Perceptually, the ZAR has suffered a major blow. However:
 - One could set up the trust and drip feed funds into it and mitigate the weak currency against the current market conditions in investment opportunities (if that is practical based on the particular circumstances).



THE EMERALD OFFERING

A SUMMARY GUIDE

- Looking back the ZAR has weakened consistently over the last 30 years against the major investment currencies such as the USD, Sterling, Euro and Swiss Franc. The trend is expected to remain downward and therefore we believe the sooner one invests internationally in hard currencies, the better.

NB. According to RMB Private Bank (April 2020 newsletter) ZAR58bn flowed out of South Africa in 2018 under the Foreign Investment Allowance and a similar figure in 2019. These funds were exported by individual taxpayers to access diversification away from the South African market and the ZAR. The message in this is clearly that diversification away from local markets remains an important consideration for South African investors.

3. **BUYING OPPORTUNITY** - Stock markets have suffered as a result of COVID-19 in addition to the trade and oil wars. This may offer a buying opportunity whilst the market is depressed. Short- to-medium-term volatility should be expected.
4. **OFFSHORE ESTATE PLANNING** - Many South Africans have already used their Foreign Investment Allowances (FIAs). These funds may remain un-invested, held in hard currency or invested in their own name. There are significant advantages to setting up an Emerald Trust and now may be an opportune time to consider proper estate planning regarding their offshore assets.
5. **SIMPLE & COST EFFECTIVE** - Many clients may have complex, unnecessary or expensive structures with third party fiduciary providers. The Emerald Offering is well positioned to take over these structures. It is an effective solution as it provides economies of scale: digital, tax-advised, Jersey-based trustee and investment solution, fixed, cost-effective and transparent fee arrangements.
6. **AUTOMATED** - The Emerald Offering is largely automated. The electronic formation of new trusts is particularly advantageous during the current restrictions on freedom of movement.

INVESTMENT DETAILS

The Emerald Offering is aimed at clients holding investment assets in a trust with a value of up to ZAR100m/GBP5m and the investment strategy should be to hold the investment portfolio for at least 5 years before contemplating any significant distributions.

CLIENT CASE STUDY

The following case study is for illustrative purposes only and is based on a hypothetical scenario which may prove to be incorrect.

The Ruby Family are South African tax and Excon residents and have exported ZAR40m by accessing the FIA allowance (part of the ZAR58bn per year referenced above). The funds are partly invested and are partly held in cash in a Jersey bank account.



THE EMERALD OFFERING

A SUMMARY GUIDE

THE CHALLENGES:

- The cash delivers no income, as the bank account pays no interest.
- The investment portfolio had done reasonably well until the current crisis. This creates capital gains tax exposure if it were sold or transferred to a trust at the pre-crisis value.
- The Family did not consider an offshore trust at time of exporting the funds and the subsequent capital gains tax exposure inhibited a transfer to a trust. The long-term gain on the portfolio will also create a significant Estate Duty exposure for the Family and poses a risk in terms of longer-term wealth preservation.
- The current correction in value of the portfolio due to the Coronavirus has significantly reduced the value of the portfolio and wiped out most of the gains. Although this is a big concern for the Family they are remaining true to their longer-term investment strategy and will remain invested, adding most of the cash to the portfolio.

THE SOLUTION:

- The current conditions created a timely opportunity to transfer the portfolio and the cash to an Emerald trust. Capital gains on the transfer will be minimal and the transfer will peg their Estate Duty to current values.
- The new Emerald trust should allow the Ruby Family to achieve a positive Estate Planning result from the current crisis.

FOR MORE INFORMATION



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More information regarding the Stonehage Fleming Emerald Offering can be found at
<https://www.stonehagefleming.com/services/emerald-trust-offering>



THE EMERALD OFFERING

A SUMMARY GUIDE

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