

SENTINEL Case Study 1

Addressing Foreign Needs

For Use by Financial Advisers Only

The following case study is based on a scenario which is typical to South African residents in today's globalised society and gives a detailed insight into how SENTINEL accommodates a varied set of requirements and mitigates a range of risks unique to South Africa.

Scenario Overview

Frank Watson is a successful engineer, he is 36 years old and married with 2 sons aged 4 and 6 years. Frank and his family are South African resident, however as his sons get older he is becoming more and more concerned about the state of the education system in South Africa, particularly university education and the global value that may be placed on a South African degree. Frank and his wife are of the opinion that educating both their children abroad is an inevitability and they need to make provision for it. They have identified that that average cost of boarding at a private school in the UK is running at £30,000 pa and UK university fees starting at £10 000 p.a. excluding living expenses. Furthermore, his wife has suggested that she wants the option of relocating to the UK to be closer to their children while they study and work abroad. Alternatively, having a property in the UK as an 'insurance policy' should South Africa not be able to improve its fortunes and they emigrate for economic reasons.

Frank currently earns R 1.2 Million per annum and holds a couple of local investments including a Retirement Annuity worth R 2.8 Million, a share portfolio R 1.8 Million along with an offshore deposit account, he inherited from his late father, with a balance of £65K.

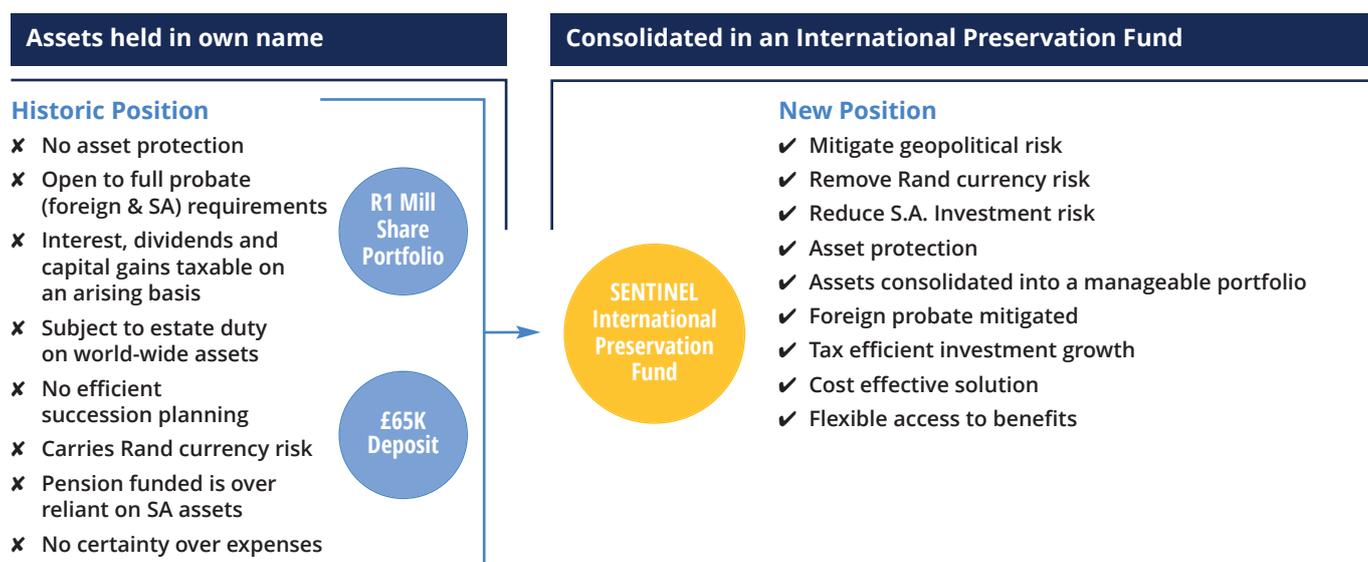
Frank and his wife's main concern is their ability to afford international education for the children. They have no idea what the Rand might be worth in 8 years, when their first son will be looking at high school, let alone when he is expected to go to university.

They feel uneasy that all their current wealth, with the exception of the offshore deposit, are tied up in Rand based assets and fully exposed to the South African economy. They are left asking the questions a) will we be able to afford both secondary and university education for our boys, b) will we have enough capital to buy a home in the UK and c) if it ever came to it could we realistically afford to emigrate and still live a good life?

Recommendation and Outcomes

Their financial adviser explains that in order to have any form of certainty in meeting their stated goals it is important to start to make financial provision now and in the same currency as the expected cost.

It is decided that to meet their financial objectives, Frank is going to use his annual discretionary allowance by redeeming R1 Million from his share portfolio and £65k from his offshore deposit to establish a Sterling denominated SENTINEL Preservation Fund. It is further decided that he will continue to contribute around R200k each year from his savings and make annual additional contributions to the fund in order to build his foreign wealth. Each additional contribution bringing them one step closer to international financial independence.



Advantages for Frank and his Family

The family's adviser explains how the SENTINEL Preservation Fund provides good investment flexibility, addresses the many pit falls of foreign asset ownership and cross boarder complications. SENTINEL provides significant protection to the monies that they have set aside. Their adviser highlights the following specific points.

Investment Diversification – SENTINEL gives them access to a vast range of international investments in multiple currencies, asset classes and economies from some of the world's leading investment firms. Investing internationally reduces Frank's exposure to South Africa and the associated risks.

Rand Hedge – By investing in Sterling, Frank's investments are in the same currency as his family's future expenses, be it education, property or to support emigration. This reduces the uncertainty and risks that comes with holding one currency to pay expenses in another. Importantly, once his funds are abroad he removes the current risk of changes to exchange control regulations which could stop him from sending further funds out of the country and possibly undermine all their plans.

Asset Protection – SENTINEL's structure protects the plan's assets. This provides significant peace of mind that should an unforeseen event happen, be it political changes in South Africa or other event that this 'nest egg' is in a secure environment.

Accessibility – SENTINEL provides total accessibility so should a need arise funds are accessible. This is important as each financial objective has its own timeline and will require differing amounts of capital at different times.

Tax Efficient – Whilst not designed with tax in mind, all income and gains take place in SENTINEL so no tax is payable by the member until a distribution is made out of the gains or income of the plan. This gives it similar characteristics to the growth in Frank's domestic Retirement Annuity which means more of his funds go towards investment. Please note this treatment is specific for distributions made to members of the SENTINEL who are South African tax resident.

Estate and Succession Planning – Whilst SENTINEL forms part of Frank's estate on death for tax purposes, the assets in SENTINEL can go directly to his nominated beneficiary such as his wife. This process happens in an expedient manner and is not subject to probate in South Africa, abroad or any foreign death duties. Neither is there any requirement for the fund to be returned to South Africa. Whilst Frank's death would be traumatic his family would benefit greatly from having SENTINEL in place at this difficult time.

Peace of Mind – Frank no longer has to worry about his family's financial future given that he has a safe haven for his international wealth, which meets his family's requirements. In addition, Frank gains a host of benefits he had not even considered in terms of protection from geopolitical risks, claims against his estate, access to a world of investment choice, efficient growth and certainty that his assets will be dealt with in an expedient manner on his death.

Conclusion – Frank's financial adviser has considered all the available solutions on offer, however it is recommended that SENTINEL is used as it meets all Frank's needs in a simple and cost-effective manner.

Financial Outcomes

Frank contributes R 1 Million and £65K from his offshore deposit into SENTINEL which provides him with circa £125,000 resulting in:

- Tax efficient environment for the roll up of gains and income in the fund
- Return of contribution has no tax liability
- Open architecture investment providing greater investment opportunities and the ability to reduce cost
- Savings on executor's fees of circa R 79,800.00 should Frank pass away today
- His beneficiaries are paid without delay upon his death, which saves significant time over a normal estate being wound up and gives peace of mind which you cannot put a price on



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