



Future Focus

December 2025

Welcome to the Summer Edition of Future Focus – insights on building wealth for your clients

- **Talking point:** Local movers and shakers: 2025 in review.
- **Investment centre:** Risk and return – you cannot have one without the other.
- **Manager insights:** The qualities of a Gold-rated manager from an ODD perspective.
- **Practice notes:** Tax outcomes differ when exiting DIFFERENT offshore investment vehicles.

STANLIB Multi-Manager Investment Team

Talking point

Local movers and shakers: 2025 in review



Key points

- **Corporate activity has accelerated and more consolidation is happening.**
- **There is a new generation of CEO's taking the reins.**
- **Trends — the integration of artificial intelligence (AI) is gaining momentum. By streamlining operations and improving decision-making, AI can assist businesses cut costs and improve profitability.**

Introduction

Another year has come and gone and the South African asset management industry continues to reinvent itself. Consolidation has accelerated, new leadership is stepping forward, technology is reshaping the value chain, and investment vehicles are continuing to evolve.

While all of this is happening against a backdrop of global cost pressure, fee compression and shifting investor demands, asset managers are being forced to adapt to remain relevant and competitive.

In this article, we explore the biggest corporate developments, key people moves in 2025 and market trends.

Corporate activity

Following the Ninety One/Sanlam deal announced in November 2024, corporate activity among asset managers increased. It was a landmark transaction whereby Ninety One became Sanlam's primary active asset-manager for single-managed local and global products, with preferred access to Sanlam's South African distribution network.

Consolidation continues to be driven by rising costs — you need scale to benefit — the right product blend to remain adviser and investor relevant, and transformation (B-BBEE) requirements. Notable transactions in 2025 include:

- **Vunani Fund Managers + Sentio Capital Management**
A merger creating Vunani Sentio Fund Managers, with more than R60 billion under management and ambitions to build a stronger multi-asset and quantitative footprint.
- **Optimum Investment Group took 40% of Obsidian Capital**
This is a partnership that preserves independent investment processes but significantly strengthened distribution reach. The investment management team of each business remains fully autonomous, operating separately despite the ownership stake.
- **Graviton expands into adviser-focused DFMs**
With its investment in Portfolio Analytics, Graviton positioned itself as one of the largest adviser-aligned DFMs in the country. At the same time Analytics Consulting rebranded to Advantage — a signal of renewed strategy and identity.
- **Old Mutual to acquire 85% of 10X Investments**
In a deal worth R2.2 billion, Old Mutual agreed to acquire a majority stake of 85% in 10X Investments from Old Mutual Private Equity and Digame Investments. The transaction will position Old Mutual as a major force in the growing rules-based passive investment market. The transaction is subject to customary conditions and regulatory approvals, with completion expected in the second quarter of 2026.
- **SS&C Technologies signed an agreement to acquire Curo Fund Services**
A major move in the fund administration space, pending regulatory approval, highlighting the growing importance of scalable operations and digital servicing models.

Talking point

Local movers and shakers: 2025 in review (cont.)

- **36ONE** sold a 22% stake to BB-BEE consortium led by MI Capital
MI Capital is the investment arm of the Maharishi Invincibility Institute (MI), a non-profit South African skills-to-work educational institution located in Johannesburg. This partnership is a significant milestone that unites a top-tier financial business with a proven leader in youth education and empowerment. The profits from the new ownership will be used to fund free tertiary education for disadvantaged South African youth.

Across these deals, the guiding motives are clear: cost efficiency, operational leverage and distribution demands. As technology demands rise and regulation grows more complex, asset managers are seeking partners to pool fixed costs, unlock new markets and strengthen product breadth.

People movement

2025 saw influential leadership changes:

- **Ninety One** appointed *Horatius Maluleka* as the CIO of the South African business, succeeding *Duayne Cable*, who returns full-time to portfolio management.
- **M&G Investments** saw *Ann Leepile* step into the CEO role in February.
- **Futuregrowth** named *Shaun Harris* as CIO when *Andrew Canter* stepped down to focus on a phased retirement. In addition, *Vuyolwethu Nogantshi*, a former Absa executive, joined as CEO, adding strong actuarial and governance expertise.

And stalwarts retiring included:

- **Graham Mason**, former CEO and longstanding chair of M&G Investments Southern Africa, stepped down in September after decades of industry-shaping leadership.
- **Andrew Canter**, former CIO at Futuregrowth will retire fully in 2027 after close to thirty years as a pioneer in private debt markets.

These transitions highlight a generational handover. New leaders who will navigate a far more complex and globally competitive industry.

Key trends

Ongoing fee pressure

Although global assets under management have recovered strongly, margins have not. Fee compression is now structural rather than cyclical, and South Africa is no exception. The free pressure on traditional active strategies continues with rising regulatory and reporting requirements and rapid tech adoptions — AI, data, cybersecurity etc. — requiring investment.

Active ETFs — broader opportunity set

In 2022 the JSE rules changed allowing for the listing of actively managed ETFs competing with collective investment schemes and there are now more than 120 active managed ETFs. Asset managers like Prescient, Coronation and Ninety One have launched several active ETFs, converting existing popular unit trust strategies into the listed format to offer investors broader access and distribution channels. As South Africa's retail market shifts toward direct investment platforms and tax-advantaged savings products, active ETFs are likely to become a competitive product.

Private markets are gaining momentum

Private assets remain a relatively small share of retirement fund portfolios in South Africa — around 7% according to the 227four survey — but momentum is building. Drivers include the search for uncorrelated returns and demand for infrastructure and economic transformation. Globally retail investor access is expanding via platforms and semi-liquid private markets funds.

Technology and AI

AI and automation are reshaping investment processes with quant-supported idea generation and machine-assisted research. Operational productivity is being improved through client servicing chatbots, workflow automation and better data governance. While still early days, the asset managers investing now will be best placed as digital differentiation widens the competitive gap.

¹<https://www.moneyweb.co.za/investing/equities/south-africans-are-rethinking-unit-trusts/>

²Comprehensive Review of the South African Asset Management Industry. <https://27four.com/wp-content/uploads/2025/10/DEInvest-Annual-Survey-2025.pdf>



More local managers from partnerships offshore

To enhance competitiveness and broaden product capability, local managers have been forming strategic partnerships with global asset managers over the past few years. These collaborations provide access to international investment expertise, distribution networks, and scalable operating platforms. Over the past year Old Mutual Symmetry announced a strategic partnership with Russell Investments, and Mentenova partnered with SEI.

Conclusion

2025 has been another eventful year, with never a dull moment. We witnessed new leadership, an array of mergers and acquisitions with several trends gaining traction, such as the launch of more active ETFs and local managers building offshore partnerships.

As we head into 2026, we expect managers to continue focusing on scale, product relevance, and operational efficiency. Therefore, we expect a continued trend toward consolidation as managers seek to strengthen their capabilities in an increasingly competitive landscape.

More importantly, investments into technology, data and AI are rapidly shaping what competitive advantage looks like. Those who adapt quickly will not only remain relevant, they will define the next decade of investing in South Africa.

Jennifer Henry
Deputy Chief Investment Officer

Investment centre

Risk and return – you cannot have one without the other



Key points

- **Risk and return are inseparable. Attempts to pursue return without risk tend to produce either disappointment or hidden fragilities.**
- **The challenge is behavioural as well as analytical. Volatility feels worse than return feels good. This may lead investors to chase gains in good times and avoid risk after losses, often undermining long-term outcomes.**
- **Success requires disciplined engagement with uncertainty. Alignment between risk tolerance, capacity, and required return, enables investors to harness risk rather than fear it.**



“There is no reward without risk; the highest returns are earned by those who bear the uncertainty others fear.”

— Howard Marks¹

Introduction

For much of human history, progress has relied on a single uncomfortable truth: meaningful reward rarely arrives without uncertainty. Exploration, entrepreneurship, innovation, and investment all share the same underlying equation. One must step into the unknown in pursuit of something greater. Capital markets simply represent the most visible modern expression of this trade-off: **risk and return are inseparable.**

Yet this principle, foundational in finance, is often misunderstood. Many investors desire return without volatility, upside without discomfort, and growth without drawdowns. In practice, the search for return without risk either leads to disappointment, stagnation, or — at worst — catastrophic loss when perceived safety proves illusory. To understand why this tension exists, we must examine not only financial theory, but also history, human psychology, and the evolving nature of risk itself.

The foundations — markets pay for bearing uncertainty

Modern portfolio theory formalised the relationship between risk and expected return. In a competitive market with rational participants, assets that carry more uncertainty, illiquidity, or sensitivity to economic shocks must offer higher expected returns. At the simplest level, this is captured in the Capital Asset Pricing Model (CAPM), which links expected return to sensitivity to market movements (beta). More advanced multi-factor frameworks expand this lens to include size, value, profitability, quality, investment intensity, and momentum, amongst others.

Despite limitations and academic debate, a unifying principle remains — **risk is not a penalty; it is a price.** Without it, there is no compensation. If certainty existed in capital markets, capital would flow freely to whatever offered a guaranteed pay-off, and returns would rapidly fall to risk-free levels.

Markets do not reward boldness or confidence; they reward the acceptance and intelligent management of uncertainty.

¹ Howard Stanley Marks, born 1946, is an American investor and writer. He is the co-founder and co-chairman of Oaktree Capital Management, the largest investor in distressed securities worldwide.

Investment centre

Risk and return – you cannot have one without the other (cont.)

Behavioural reality — risk feels worse than returns feel good

While theory assumes rationality, real humans rarely behave in perfectly rational ways. Loss aversion, the tendency to feel losses more acutely than gains, means that investors often experience volatility as pain. Behavioural finance research suggests a loss can feel twice as powerful as an equivalent gain. As a result, investors frequently chase return in buoyant markets and panic in downturns, crystallising losses and undermining long-term results.

The core paradox emerges:

- Investors want high returns.
- They dislike the volatility required to earn them.
- Their reaction to volatility often destroys the very return they seek.

The consequence is visible in every market cycle. When conditions are favourable, risk appears benign and investors become complacent. When volatility rises, fear overwhelms logic and risk is shunned precisely when opportunity is the greatest. Risk appetite is cyclical, and markets often reflect the emotional temperature of participants more than any strict economic logic.

History as a teacher — context matters

History reveals not only that risk and return are linked, but also that the nature of risk evolves. The Dutch East India Company offered extraordinary returns for bearing enormous geopolitical and operational uncertainty during the Age of Exploration. Over a century of data from ²Dimson, Marsh, and Staunton shows that equities have beaten bonds, and bonds have beaten cash, but only for those willing to endure extended periods of distress. The 1970s inflation shock, the dot-com bubble, the 2008 global financial crisis, and the Covid pandemic, each illustrate moments where risk repriced abruptly and investors were forced to re-examine deeply-held assumptions.

History demonstrates that the reward for bearing risk is real — but not linear, not constant, and not guaranteed in every time horizon. **Context and patience have always mattered.**

² Dimson, Marsh, and Staunton (DMS) are a trio of academics—Elroy Dimson, Paul Marsh, and Mike Staunton—who are renowned for their long-term investment research, particularly the annual UBS Global Investment Returns Yearbook. Their work provides a comprehensive historical database of asset returns, which has become a key reference for investors and financial professionals globally.

The illusion of safety — risk sometimes hides in comfort

If investors chase return without risk, they often encounter the most dangerous form of risk, false safety. Cash, for example, appears safe but silently erodes under inflation. Complex structured products promising smooth returns have frequently collapsed under market stress. Excessive concentration in an apparently stable asset or income stream can create fragility. The lessons are painfully familiar — promised certainty in markets is a warning sign, not reassurance. Even fixed income instruments, historically the domain of safety-seekers, can deliver negative real returns or suffer credit deterioration.

³*Bernard Madoff's* scheme is the most extreme example. Artificially consistent returns — no volatility and no drawdowns — served as the red flag. **Returns that appear to defy risk are not a gift; they are a trap.**

The anomalies — does low risk sometimes outperform?

A sophisticated discussion of risk and return must acknowledge the evidence that low-volatility and high-quality shares have, at times, delivered superior risk-adjusted returns. This so-called 'low-risk anomaly' does not invalidate the risk-return trade-off; instead it suggests that risk is **often mismeasured, mispriced, or misunderstood**. Behavioural dynamics, such as investors overpaying for high-volatility 'lottery-like' assets, may partly explain the anomaly. Regulatory constraints, institutional practices, and leverage limitations also play roles.

Importantly, anomalies are fragile. They compress as they gain popularity, and they require discipline, patience, and risk controls of their own. They do not offer escape from the reality that pursuing return still requires bearing uncertainty in different forms.

Time horizons — the most powerful amplifier of risk

In the short term, volatility dominates returns. Over longer horizons, fundamentals matter more. Investors with long time horizons are theoretically best placed to capture equity premia, illiquidity premia, and other risk-based returns. Yet many long-term investors behave as if their horizon is far shorter. Money that is theoretically allocated for decades

³ Bernard Madoff orchestrated the largest Ponzi scheme in history, defrauding investors of approximately \$65 billion over several decades.

Investment centre

Risk and return – you cannot have one without the other (cont.)

is often mentally marked-to-market daily, creating behavioural and liquidity pressures that undermine strategy.

Time horizon is not merely a parameter, it is a source of advantage, if preserved

Liquidity needs should align with portfolio construction and not be treated as an afterthought. The capacity to endure drawdowns without forced selling transforms risk from threat into opportunity.

Beyond volatility — multi-dimensional risk

Volatility is measurable and convenient, but true investment risk is broader. It includes:



- Permanent loss of capital
- Liquidity and funding risk
- Inflation and currency risk
- Regulatory and geopolitical risk
- Valuation risk
- Behavioural risk — our own decisions under pressure
- Counterparty and operational risks
- Sequence-of-returns risk
- Technological disruption.

The challenge is not merely to accept risk but to identify, price, diversify, and absorb it intelligently. Investors are compensated for bearing risks the market cannot diversify away, not for chasing excitement or complexity.

Constructive risk-taking — a framework for investors

Understanding the necessity of risk is not enough; investors must harness it. A structured approach involves three components:

- **Risk tolerance** – the emotional ability to endure volatility.
- **Risk capacity** – the financial ability to absorb losses without derailing goals.
- **Risk requirement** – the level of risk required to achieve targeted outcomes.

Where these align, investment strategy is coherent. Where they conflict, behaviour becomes unstable and returns deteriorate. Diversification, disciplined rebalancing, valuation awareness, and liquidity management remain essential tools. Likewise, clarity of purpose — knowing why one owns each asset and the role that it plays — reinforces resolve in uncertain times.

Sophisticated investors increasingly seek resilience rather than precision. Portfolios designed not for perfect foresight but for **robustness across regimes** — through diversification of return drivers, time horizons, and liquidity — are better positioned to convert risk into sustainable return.

A philosophical close — rational courage in an uncertain world

The desire for return without risk is understandable. Humans evolved to avoid uncertainty and protect resources. But capital markets reward the opposite instinct — **the willingness to engage with uncertainty in a disciplined and informed manner**. The purpose is not reckless risk-seeking, nor passive avoidance, but rather, rational participation in the opportunity that uncertainty creates.

Optimism alone is insufficient; discipline alone is not enough. Successful investing requires both — the courage to accept volatility and the structure to manage it. In this sense, risk is not the enemy of return but its constant companion. To pursue meaningful outcomes is to embrace the unknown, thoughtfully and persistently.

Risk and return are not choices on a menu; they are a single intertwined reality. One cannot exist without the other. An investor's task is not to escape this relationship, but to harness it — patiently, intelligently, and with humility before the complexity of markets and human behaviour.

Joao Frasco
Chief Investment Officer

Manager insights

The qualities of a Gold-rated manager from an ODD perspective



Key points

- **Operational discipline forms a key part of manager research.**
- **Managers with a Gold ODD-rating reflect a culture of transparency and accountability — one where risks are identified early, mitigated effectively, and governance is not just documented but lived.**
- **Overall, operational excellence is embedded in the culture of Gold-rated managers.**

Introduction

In asset management, performance often dominates the conversation. Investors ask about returns, benchmarks and alpha. Yet, those who have looked under the hood of investment houses know that performance alone does not make a manager sustainable. Operational discipline is also needed.

Operational due diligence (ODD) is the lens through which operational discipline is tested. It is not designed to favour size or scale but whether managers are resilient, transparent, and sustainable. At its best, ODD creates a level playing field where both large and boutique managers can be judged fairly — not by their marketing, but by their substance.

In this article we briefly look at the ODD process and our new risk-tiering framework, together with the operational 'scorecard' you expect from Gold-rated managers.

Why ODD exists

In South Africa, asset managers are subject to obligations under the FAIS Act, the Companies Act, King IV governance principles, and Board Notice 194 of 2017. The Financial Sector Conduct Authority (FSCA) is responsible for ensuring that thousands of licensed financial services providers meet these requirements. With finite resources, however, it is impossible for the regulator to inspect each manager annually. Supervision is selective, and often reactive.

At the same time, the regulatory environment is becoming more complex. Over the next twelve months, managers will need to prepare for Conduct Standard 3 for Collective Investment Schemes (CIS) managers, new expectations on cloud computing and outsourcing arrangements, adjustments to FAIS fit-and-proper requirements, and the transition towards the Conduct of Financial Institutions (COFI) Bill under the FSCA's three-year strategy.

The combination of limited regulatory capacity and expanding requirements underscores why ODD is indispensable. It provides investors with independent assurance that managers are not only compliant on paper but resilient in practice.

The ODD process in practice

An ODD is a deep engagement with a manager's operational DNA — examining governance structures, testing IT resilience, reviewing compliance frameworks, and assessing oversight arrangements.

Crucially, ODD looks not only at the existence of policies but also at their application. A disaster recovery plan, for example, is meaningless unless it has been tested under stress and shown to restore systems within acceptable timeframes. Similarly, an investment risk policy only holds weight if it is embedded in portfolio management processes and evidenced through reporting.

Complementing full reviews are annual desktop assessments, which track developments in governance, compliance, and risk in between site visits. These updates are essential for capturing shifts in a manager's operating environment — from leadership changes to regulatory developments. Together, the cycle of full and desktop reviews creates a rhythm of accountability. Managers know that identified weaknesses will be revisited, while investors know that oversight is ongoing and not frozen in time.

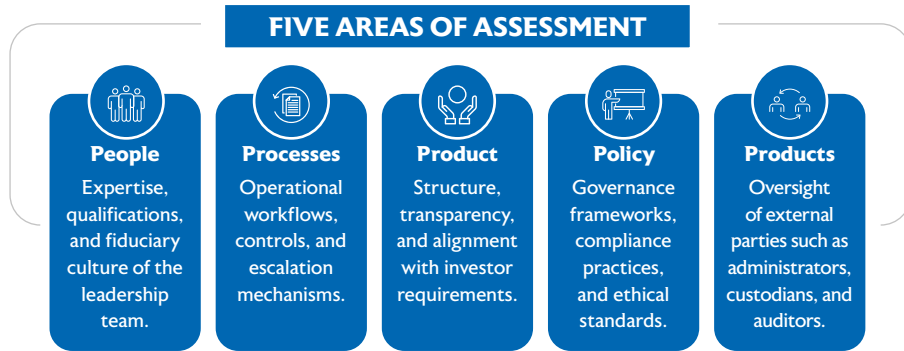
The rationale for ODD is straightforward: regulators cannot be everywhere

Manager insights

The qualities of a Gold-rated manager from an ODD perspective (cont.)

The five 'Ps'

Our reviews are structured around five areas of assessment:



Strength across all five dimensions is what distinguishes resilient managers from vulnerable ones. Weakness in one often indicates fragility in others.

How we allocate ratings

Operational due diligence has always been central to how we oversee managers. Historically, we applied a uniform cycle of full reviews every three years, supported by annual desktop assessments to capture developments in governance, compliance, or risk. While this gave both depth and continuity, it treated all managers equally, regardless of the level of risk they presented.

We have since evolved this approach into a risk-tiering framework. Rather than applying the same cadence to every manager, our review cycle has been aligned with the manager's ODD rating — Bronze, Silver, or Gold — which maps directly to high, medium and low operational risk. This proportional model ensures that attention and resources are allocated where they are most needed, while still maintaining a consistent standard across the board.

- **Bronze** (high risk) managers are reviewed annually.
- **Silver** (medium risk) managers are reviewed every 18–24 months.
- **Gold** (low risk) managers are reviewed on a biennial basis, or sooner if circumstances require.

The classification of a manager can change as their business model evolves, regulatory expectations shift, or incidents occur that affect their control environment. This dynamic process ensures that our oversight reflects the realities of a manager's current operating environment, rather than a snapshot taken years earlier.

Risk tiering is not static

This evolution from a uniform to a risk-based approach marks an important step in our philosophy. It recognises that fairness does not mean sameness. It means focus—ensuring that Gold managers remain accountable while higher-risk managers receive the scrutiny they require.

How to progress a rating from Bronze to Gold

The below provides an overview of our ODD ratings, a structured way of distinguishing between levels of operational maturity. The framework is consistent: size does not determine outcome — discipline does.

Score	Risk level	Rating	Description
0-4	High risk	Bronze	Limited governance and oversight. Weak structures and poor disclosure create material operational vulnerabilities.
5-7	Medium risk	Silver	Adequate governance and oversight. Clear frameworks in place, but areas for strengthening remain.
8-10	Low risk	Gold	Strong governance supported by tested IT resilience, embedded policies, independent oversight, and a culture of compliance.

Manager insights

The qualities of a Gold-rated manager from an ODD perspective (cont.)

In practice, many managers sit comfortably at Silver. They are adequate but not resilient. Weaknesses in business continuity planning, IT disaster recovery, or internal audit are common. These are not minor issues. They represent potential points of failure when stress happens.

Improving an ODD-rating requires a targeted effort. For Bronze managers, the focus should be on establishing the fundamentals — formalising governance structures, documenting policies, and committing to greater transparency. Silver managers, on the other hand, must move beyond adequacy. To reach Gold, resilience must be demonstrated, not simply declared. Business continuity plans must be tested in practice. IT systems must show redundancy and recovery under stress. Internal audit must provide credible and independent challenge, rather than operating as a compliance formality.

The progression from Bronze to Silver and from Silver to Gold, is therefore less about scale or resources and more about embedding discipline.

It is the ability to evidence controls, test systems, and demonstrate independent oversight that ultimately differentiates a Gold manager. A Gold rating reflects a culture of transparency and accountability — one where risks are identified early, mitigated effectively, and governance is not just documented but lived.

Why Gold matters

Ultimately, our business is about protecting investors. Capital entrusted to a manager carries with it an obligation that extends beyond performance reports or quarterly numbers. It requires the assurance that governance is sound, risks are being managed, and operations are strong enough to withstand periods of stress. Investor trust is built on this foundation.

Yet trust cannot rely solely on regulatory inspection. In South Africa, as elsewhere, it is simply not possible for the regulator to examine every manager in detail on a regular basis. Limited supervisory capacity means that many weaknesses, if left unchecked, could remain hidden until they crystallise into real losses. This is why ODD is so critical: it provides an independent safeguard that brings transparency where opacity might otherwise prevail.

A Gold rating signals that a manager has internalised this responsibility. It shows that operational excellence is embedded in the culture — not just in policies filed away, but in

everyday practices that guide decision-making when no one is watching. It is rare in any industry for people to consistently do the right thing without oversight, but that is precisely what investors expect from a Gold-rated manager.

Gold managers test their business continuity plans, rather than letting them gather dust. They evidence IT disaster recovery capabilities, rather than assuming they will never be needed. They empower internal audit and compliance functions to challenge management, rather than treating them as box-ticking exercises. In short, they build organisations where accountability is lived, not performed.

For investors, this distinction is invaluable. Performance can be volatile, but the ability to protect capital through strong governance, robust systems, and a culture of accountability is what creates sustainability. A Gold rating assures investors that their capital is being managed by a firm whose house is in order — one that can deliver returns while protecting them over the long term.

Conclusion

The future of asset management will be shaped by growing complexity. Regulation is intensifying, investor expectations are rising, and risks are becoming more interconnected, from technology and cyber threats to ESG and global market shocks.

In this environment, operational excellence will be the differentiator. Managers who embrace ODD as a strategic discipline will continue to build trust and attract capital. Those who treat it as a compliance burden will fall behind.

The qualities of a Gold-rated manager are clear: consistent governance, resilient systems, credible oversight, and a culture anchored in accountability. These are the benchmarks that ensure, even when no one is watching, that investors are protected. That is the true meaning of a Gold rating in asset management.

Sinesipho Maninjwa
Head: Operational Due Diligence

Practice notes

Tax outcomes differ when exiting different offshore investment vehicles



Key points

- **The same investment, with the same growth, can end with different tax outcomes.**
- **Do your homework and minimise any surprises when you dispose of your investment.**
- **It is important to select the right offshore vehicles and/or combination thereof.**

Introduction

Over the past decade, local investors increasingly turned their attention to offshore investments to diversify portfolios and safeguard wealth across the global financial landscape. It is important for investors to know what to look out for when investing offshore, when selecting the type of investment vehicle to use and the tax implications of redeeming investments.

South Africa follows a residence-based tax system. This means that if you are a South African tax resident you must declare and pay tax on worldwide income. It is imperative for investors to understand how these offshore (discretionary) investments are taxed in South Africa since not all offshore investments are the same and the tax implications can vary between them.

In this article, we briefly highlight the three most common types/vehicles of discretionary offshore investments for individuals and explain how each is treated for tax on redemption of the investment.

A 10-year investment – saving for a long-term goal

Envisage that it is 2015. You invested R1 million offshore when the rand was at R14 to the US dollar, giving you an investment of \$71 429. Your investment was a passive one, tracking the MSCI AC World Index. Fast forward ten years to September 2025. The rand has weakened to R17.29, the MSCI ACWI has achieved an annualised return of 12% and your investment has grown to \$221 805, or R3 835 324 in rand terms. You have done well over the ten years thanks to a combination of market growth and currency depreciation.

But then comes the question that catches many investors unawares, “what about tax when you dispose of your investment?”

Same investment, different tax outcomes

Feeder fund (rand-based investment)

Feeder funds offer South African investors a convenient way to access offshore markets without having to move money abroad themselves. You invest in rands, and the asset manager takes care of converting your investment into foreign currency and allocating it to a larger offshore fund, typically through an asset swap process. This means you gain exposure to offshore assets, while staying within the South African financial system.

Feeder Funds	
Base cost	R1 million (your original rand investment)
Current value	R3 835 324 (30 September 2025)
Capital gain	R2 835 324 (R3 835 324 - R1 000 000)
Tax calculation	
- Inclusion rate	40%
- Tax rate	45% (let us assume you are in the 45% tax bracket)
- Effective tax rate	18% (40% x 45%)
Tax payable	R510 358 (R2 835 324 x 18%)

Because your base cost is in rands, the weakening of the rand works against you – inflating both your capital gain and your tax bill.

Practice notes

Tax outcomes differ when exiting different offshore investment vehicles (cont.)



- **All rand-denominated funds are priced in rands**, and all reporting, performance and valuations are done in local currency. Further, when realising units, your funds are converted back into rands and paid directly into your South African bank account.
- Contrary to popular belief, investing indirectly offshore is not complicated nor is it expensive. It can be done through any local reputable fund manager platform. **The minimum investment amounts are generally lower when it comes to indirect offshore investing**, and regular investment contributions can be made via a debit order.
- Investors can also **invest offshore on behalf of their minor children via a feeder fund**. Only South African resident taxpayers over the age of 18 qualify for the direct offshore option.

Direct offshore investment (dollar-based)

Direct offshore investing means putting your money straight into a foreign currency, such as the US dollar. Unlike feeder funds, investors bypass the rand-based structure and asset swap process. This approach provides full exposure to offshore markets and allows the base cost of your investment to eliminate any currency movements.

Direct Offshore Investment	
Base cost	R1 235 007 (\$71 429 × R17.29)
Current value	R3 835 324
Capital gain	R2 600 317 (R3 835 324 - R1 235 007)
Tax calculation	
- Inclusion rate	40%
- Tax rate	45% (lagain, assuming you are in the 45% tax bracket)
- Effective tax rate	18% (40% × 45%)
Tax payable	R468 057 (R2 600 317 × 18%)

Because your base cost is converted at the current exchange rate, the rand's depreciation assists you — reducing your capital gain and saving more than R40 000 in tax when compared to the feeder fund.



- South Africans are allowed to transfer up to R1 million offshore per calendar year without having to obtain tax clearance. For investment above R1 million, **you are entitled to make use of the R10 million foreign investment allowance**.
- **Hard currency exposure**. Investors can keep the investment offshore in hard currency — there is no need to convert into rands when redeeming the investment.

Practice notes

Tax outcomes differ when exiting different offshore investment vehicles (cont.)

Offshore endowment

With an offshore endowment, you again invest directly offshore in hard currency, but through an offshore tax wrapper. This is a specialised investment structure issued by a South African insurer that allows you to invest in a hard currency like the US dollar. You can also use your first R1 million without tax clearance. The main difference is that your tax rate is lower.

Offshore Endowment	
Base cost	R1 235 007 (\$71 429 × R17.29)
Current value	R3 835 324
Capital gain	R2 600 317 (R3 835 324 - R1 235 007)
Tax calculation	
- Inclusion rate	40%
- Tax rate	30% (reduced tax rate)
- Effective tax rate	12% (40% × 30%)
Tax payable	R312 038 (R2 600 317 × 12%)

For individual investors, the income from the investment will be taxed at a rate of 30%. With a capital gains tax inclusion rate of 40%, the effective rate of capital gains tax will only be 12% for high income earners that are in the 45% tax bracket.



- This is advantageous for investors who have a **marginal income tax rate of more than 30%**.
- While tax efficiency is important, there are **many other benefits that fall outside the scope of this article**. For instance, the way they protect families and ensure swift inheritance payouts through smart estate planning. If the investor nominates beneficiaries on the policy, the insurer will transfer the policy or pay the benefit directly to the beneficiary and it will not need to be administered by the executor of the deceased estate, meaning they are not subject to executor fees in your estate, saving up to 4.03% (including VAT).
- **Hard currency inheritance**. Beneficiaries can keep the investment offshore in hard currency and continue with the investment in their name. Or they can opt to cash out and receive the proceeds.

Conclusion

The decision as to which investment vehicle/fund to consider when investing offshore is not a simple one. A significant issue to consider when selecting a fund/vehicle is the impact of CGT. The same investment, with the same growth, can result in different tax outcomes depending on how it has been structured. It is therefore important for investors to familiarise themselves with CGT calculations when investing offshore.

Apart from the CGT differences, remember that each of these vehicles has distinct benefits that include the CGT treatment. Hence, investors need to ensure they add CGT implications to the list when making a full comparison across the respective vehicles.

Albert Louw
Practice Manager

Practice notes

Understanding performance evaluation (cont.)

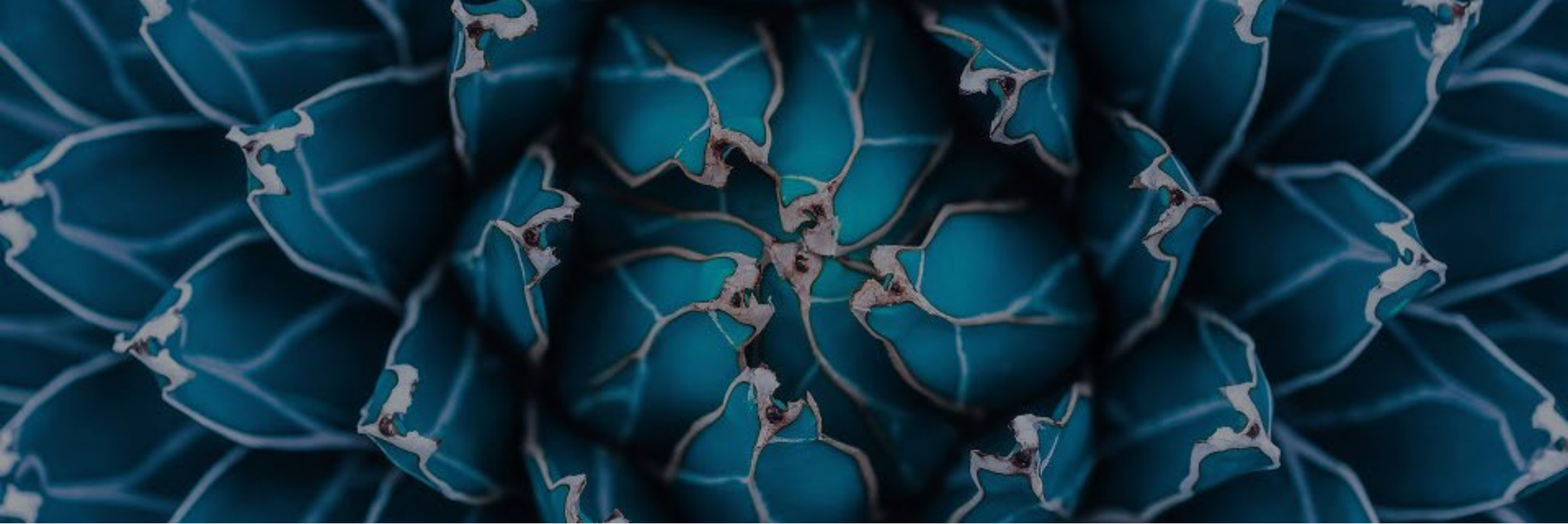
Table 3: Probability of outperforming benchmark by 2% (when the manager has no skill)

Alpha	Tracking error						
	1%	2%	3%	4%	5%	6%	7%
2%	Probability of single manager outperforming benchmark						
Period							
1 month	28%	39%	42%	44%	45%	46%	47%
3 months	16%	31%	37%	40%	42%	43%	44%
6 months	8%	24%	32%	36%	39%	41%	42%
1 year	2%	16%	25%	31%	34%	37%	39%
3 years	0%	4%	12%	19%	24%	28%	31%
5 years	0%	1%	7%	13%	19%	23%	26%
10 years	0%	0%	2%	6%	10%	15%	18%
20 years	0%	0%	0%	1%	4%	7%	10%

Source: STANLIB Multi-Manager



There are many important considerations when doing performance evaluation, required to ensure that the analysis is meaningful and the conclusions are robust.





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