

NOVEL APPROACH TO MAX YIELD AFTER INCOME TAX

Cape Town - The spot of a gap in the market has led to the creation of the new Prescient Optimised Income Fund, according to Meyer Coetzee, head of retail at Prescient Investment Management.

"Any good financial plan will advise clients to hold some assets in cash as an emergency fund. Clients might also temporarily hold cash from selling their house, for instance, or they might have a trust with cash allocations. Companies might hold cash on their balance sheets," Coetzee told Fin24.

"These investors look to maximise their yield after income tax on the money. They also look for capital protection as the investment horizon is typically not long." He explained that, if tax was the only consideration, then earning dividends from equities is a good solution, but it brings capital volatility as share values move up and down with the market.

"We saw that shortcoming in the market and designed a product that looks like a money market fund in terms of capital stability, but delivers tax free returns. Its price remains at 100c per unit, so there is capital protection and stability, but the yield is not taxable interest, it is in the form of tax free dividends," said Coetzee. "The dividends are not earned as in an equity fund where they are ad hoc and lumpy. In the Prescient Optimised Income Fund they are accrued daily in a smooth manner. That means clients are investing in a fund where they can expect to earn a yield much higher than after-tax money market yields, but with no income or capital gains tax implications."

He explained that, effectively, when talking about capital preservation, one needs to be clear what that means.

"We cannot promise something and not meet that promise. That is why we established the fund to have capital guaranteed by the big five banks in South Africa," said Coetzee.

"The fund is fully compliant with the Income Tax Act. Through specialised knowledge and understanding of the act and an advanced administration model we are able to capitalise on opportunities in the act and, therefore, minimise or avoid tax completely."

Prescient has a ruling by the SA Revenue Service (SARS) that is valid until at least 2020 assuring in writing that any interest that might be earned in the fund can be written off

against expenses of the fund before declared to investors. That effectively means that investors are paying investment and advice fees with pre-tax money.

The target return of the fund is around 80% to 85% OF that of an average money market unit trust fund. The main difference is that the 80% to 85% is after all costs have been taken into account, including adviser fees, asset management fees and income tax. The current rate of return of the fund is around 6.5% per year. For a money market unit trust fund with a pre-tax rate of 8% the comparative after tax and fees rate is around 4.5%, therefore, 2% lower. On top of that the fund offers daily liquidity.

"Through standard repurchase agreements the fund is able to reap the benefits of earning dividends without the risk of capital volatility. This is due to the guarantee from the big five banks," said Coetzee. He is proud to say that in the four months since the start of the fund, returns have been spot on with expectations and very stable.

"The average investor is looking for stable capital values, maximising income yield after tax and liquidity. That is the target market for this fund," said Coetzee. He emphasised that, before any investments are made, one should discuss it with a qualified financial adviser.

Key aspects regarding taxation

According to Coetzee, in the context of optimising tax efficiency, there are three main areas to consider.

The first is compulsory savings. These are formal retirement savings via an approved retirement vehicle. It is aimed at long term savers. Benefits include the tax deductibility of contributions from taxable income into these savings vehicles, tax free investment returns during the build-up phase and tax benefits on taking a lump sum at retirement, or upon death.

The second is voluntary savings. Like retirement vehicles, Tax Free Savings Accounts (TFSA) offer tremendous tax benefits to those who have either exhausted the available retirement fund contribution deductions or those saving for other needs like their children's education. One of the primary differences to retirement funds is that the accumulated savings are easily accessible at any time, for example in the case on an emergency.

With TFSA, there is no up-front tax deductibility of contributions, however investment returns during the investment period are tax free and all proceeds are paid out tax free. These TFSA are limited to R30 000 a year with a life time cap of R500 000 per individual.

The third area to consider is tax efficiency funds. Where other forms of voluntary savings are concerned, the investor's returns in the form of income and capital gains are fully taxed in the individual's hands. The individual has complete flexibility in so far as fund choice is concerned, while benefitting from the interest and capital gains exemptions permitted by the tax legislation.

The interest exemption is currently R23 800 for individuals under 65, and R34 500 for those over 65. This means that, in the case of individuals under 65, the first R23 800 of interest earned is tax free. Similarly, the capital gains exemption is R30 000 on all realised gains. All returns above these levels are fully taxable.

Ends

For media interviews:

Monique Martheze

PR/ Media

Email: monique.martheze@prescient.co.za

+ 27 (0) 21 700 3663

About Prescient

- Prescient's subsidiaries include: Prescient Investment Management (SA), Prescient Securities, Prescient Management Company, Prescient Life, Prescient Fund Services, Prescient Fund Services (Ireland) Prescient Wealth Management, Prescient Profile, and EMHPrescient Investment Management.
- Prescient Investment Management is a signatory to the United Nations Principles of Responsible Investing (UN PRI) and pledged to the Codes for Responsible Investing in South Africa (CRISA).
- The Prescient Global Income Fund, now known as the Prescient Global Income Provider Fund, was ranked by Morningstar as the 7th top performing fund for 2015.
- **More recently, the Prescient Income Provider Fund won the Raging Bull Award for the Best South African Multi-Asset Income Fund, Best South African Interest-Bearing Fund as well as a certificate for the Best South African Multi-**

Asset Income Fund on a risk – adjusted basis over five years to December 31, 2016.

- Morningstar data also confirmed that The Prescient China Balanced Feeder Fund has been the top performing South African domiciled fund for the second year in a row.
- Prescient Investment Management was the first institution in Africa to be granted a Qualified Foreign Institutional Investor (QFII) licence by the China Securities Regulatory Commission (CSRC).
- Prescient Investment Management was named Overall Investments/Asset Manager of the Year at the Imbasa Yegolide Awards 2011, Absolute Return Manager of the Year in 2013 and Bond Manager of the Year and Responsible Service Provider of the Year in 2015.
- The full details and basis of the award can be obtained from the fund manager.
- For any additional information such as fund prices, brochures and application forms, email info@prescient.co.za or visit www.prescient.co.za
- Prescient Investment Management Ltd, is an authorised financial services provider (FSP 612). Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. Performance has been calculated using net NAV to NAV numbers with income reinvested. There is no guarantee in respect of capital or returns in a portfolio. Prescient Management Company (RF) (Pty) Ltd is registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). For any additional information such as fund prices, fees, brochures, minimum disclosure documents and application forms please go to www.prescient.co.za