

# **Tax-Free Investment Opportunities – Saving should not be TAXing**

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# Tax-Free Investments

- **What?**
  - Preferred options for tax-free accounts
- **Where?**
  - etfSA Investor Hub digital investment platform
- **How?**
  - Model portfolios vs. own choices
- **Why?**
  - What we know for certain vs. what we hope for
- **Q&A**

# Tax-free investments 101

## *Quick re-cap of tax-free investment accounts*

- **Section 12T of the Income Tax Act**
  - No dividend withholding tax (DWT)
  - No capital gains tax (CGT)
  - No individual shares (only CIS investments)
  - No performance fees
- **Annual contribution limit: R36,000** per tax year, per person
  - Available to every individual (incl. children)
  - Do not need to be registered for tax, earn a salary or pay tax
- **Lifetime contribution limit: R500,000**
  - 14 years if you start now
  - 6.5 more years if you started in 2015 (and maximised contributions)

# Tax-free “savings” accounts?

- Tax-free **savings** vs. **investments**
  - **Savings** – you only earn interest, thus limited tax savings
    - You already qualify for R23,800 interest per year tax-free
  - **Investments** – ability to save on DWT and CGT
- **Watch your annual limit**
  - Contributions in **excess** of R36,000 is **taxed at 40%**
- **Don't withdraw!**
  - Once you've taken it out, you can't put it back
  - **Transfer** to another provider
  - **Change** the underlying investments

# Best Options for Tax-Free Investments

*What should I put in my tax-free investment account?*

- **High yielding ETFs**
  - Interest-bearing
  - High dividends (incl. preference shares?)
  - Property / REITs
- **High capital growth ETFs**
  - Equities (incl. global / international)
  - Unfortunately no (physical) commodities ☹️

# etfSA Investor Hub

- Fully **digital** investment platform
  - All JSE-listed ETPs (exchange-traded products – ETFs & ETNs)
  - “DIY” – client is in full control to “do-it-yourself”
  - No forms. No paperwork.
  - You choose – we execute
- **Benefits**
  - Low minimums: R300 per ETF, once-off or debit order
  - Transparent cost structure:
    - 0.50% p.a. admin fee (excl. VAT)
    - 0.10% transaction fee (excl. VAT) + proportional JSE settlement charges (bulked)
    - No minimum fees

# How to choose ETF investments

- **Select your own ETFs**
  - **Review ETF fact sheets**
    - Understand the underlying index / investment objective / exposure
    - Consider TER (total expense ratio), distribution strategy
    - Beware past performance, other than understanding where it came from
  - Use **information provided** on [www.etfsa.co.za](http://www.etfsa.co.za)
- **Select our model portfolios**
  - Match the **portfolio objective** with your **investment objective**
  - We will **manage the choice of underlying ETFs** based on our **best investment views** to meet the objectives

# Four Model Portfolios

## Different Objectives

- **Income – lowest risk**
  - Focus on different sources on income – interest and dividends
- **Balanced – medium risk**
  - Multi-asset class, local and global
- **Equity – higher risk**
  - Diversified exposure to local and global equities for capital growth
- **International – highest risk**
  - Global (non-SA) only, but across asset classes and regions



# Income Portfolio

- **Core** holding
  - SA government bonds (e.g. ABSA NewFunds GOVI – **NFGOVI**)
  - High fixed interest rate
  - Limited capital risk
- Current **satellites**
  - **Interest-bearing**: NewFunds TRACI 3 months – **NFTRCI**
  - Interest income from **property / REITs**: CoreShares SA Property Income – **CSPROP**
  - **Dividends**: Satrix Dividend – **STXDIV**

# Balanced Portfolio

- **Core holdings**
  - **SA equities:** Satrix Capped All Share – **STXCAP**
  - **Global equities:** CoreShares Total World – **GLOBAL**
  - **SA interest-bearing:** ABSA NewFunds GOVI – **NFGOVI**
- **Current satellite**
  - **SA property:** CoreShares SA Property Income – **CSPROP**
- **Other options**
  - **Global interest-bearing**
  - **Global property**

# Equity Portfolio

- **Core holdings**
  - **SA equities**: Satrix Capped All Share – **STXCAP**
  - **Global equities**: CoreShares Total World – **GLOBAL**
- **Current satellites**
  - **Factor exposure** – value bias
    - CoreShares Dividend Aristocrats – **DIVTRX**; Satrix RAFI – **STXRAF**
  - **Regional exposure** – Asian Emerging Market bias
    - Invest EM Asia – **ETFEMA**

# International Portfolio

- Core holding
  - Equities: CoreShares Total World – GLOBAL
- Current satellites
  - Asset class diversification: Satrix Global Aggregate Bond – STXGBD
  - Regional exposure: Sygnia Itrix S&P 500 – SYG500; Sygnia Itrix New China Sectors – SYGCN

# Practical Considerations of Model Portfolios

- What you **get**
  - etfSA **best investment views** within each investment objective
  - **Automatic updates**: change in underlying ETFs when we decide to change
  - **Bulked settlement charges** – significant transaction cost savings
  - Minimum investment: R1,000 per portfolio
- You **can't**
  - **change** the underlying ETFs in your model portfolio investment
- You **can**
  - **combine** model portfolios with own choices of other ETFs

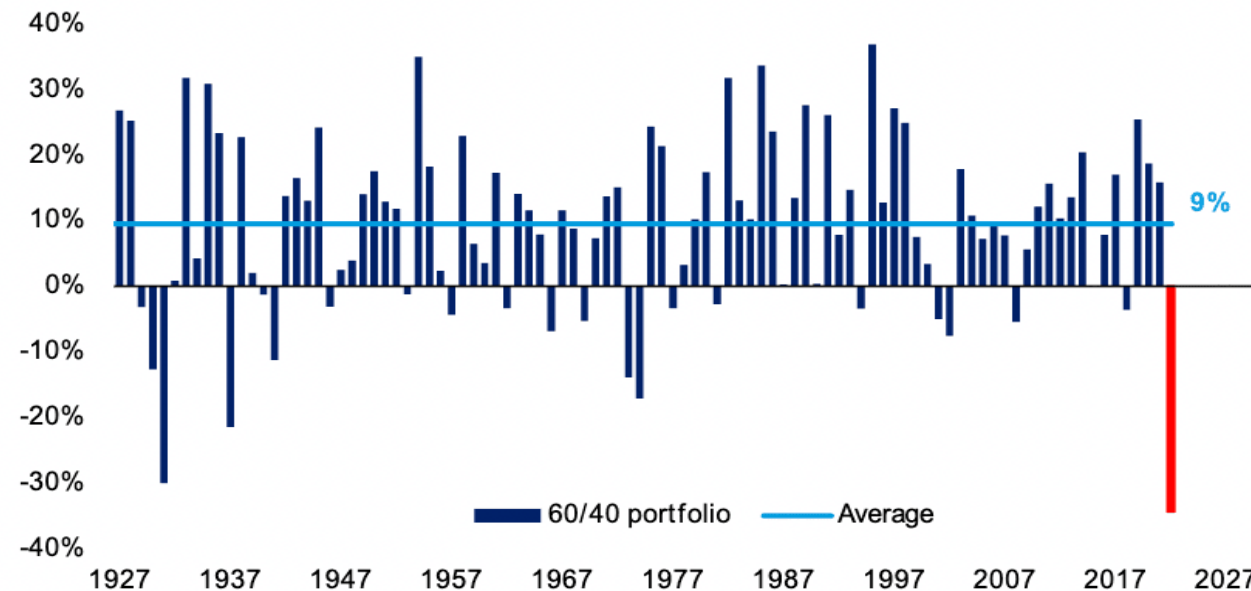
# Review & Refresh your Current Holdings

- What is “too many” ETFs?
  - Duplication / Overlap – “diworsified”
  - Inefficiency
    - Individual holdings are **too small** to be meaningful (% of portfolio, not value)
    - Reinvestment of distributions leaves **excessive cash** holdings
- Tax-Free **SAVINGS** account
  - Switch to ETFs for **more comprehensive tax savings**
- Existing Investor Hub clients can request “**clean-up**”
- Remember: there are **NO tax implications** to switching

# Beware (only) looking back Timing

2022 was an *annus horribilis*

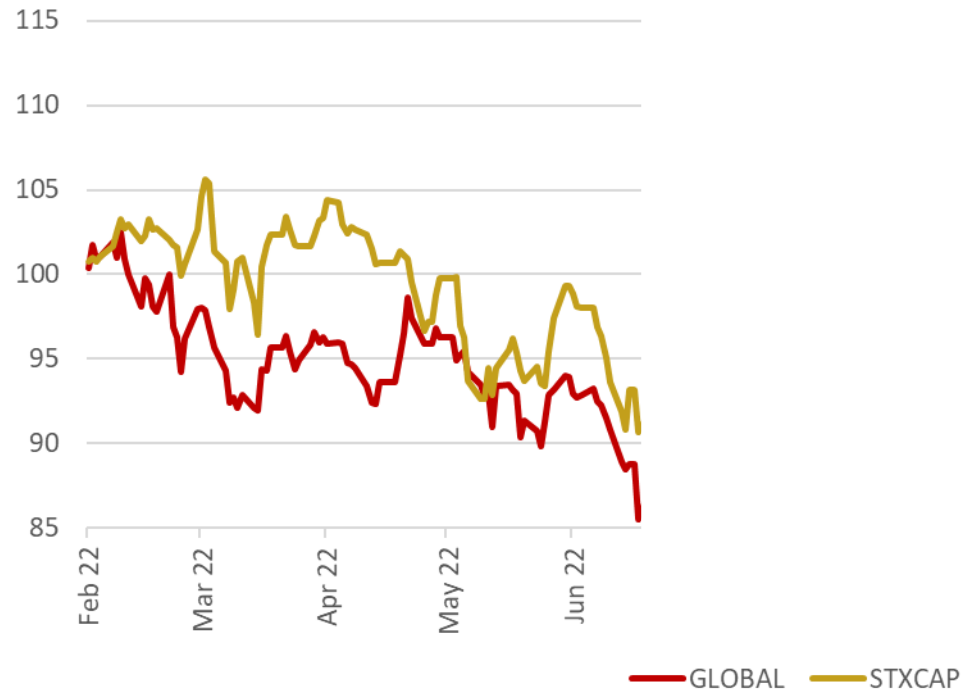
Annual 60/40 portfolio performance



Source: BofA Global Investment Strategy, Global Financial Data, 2022 is YTD annualized as at 14-Oct-2022

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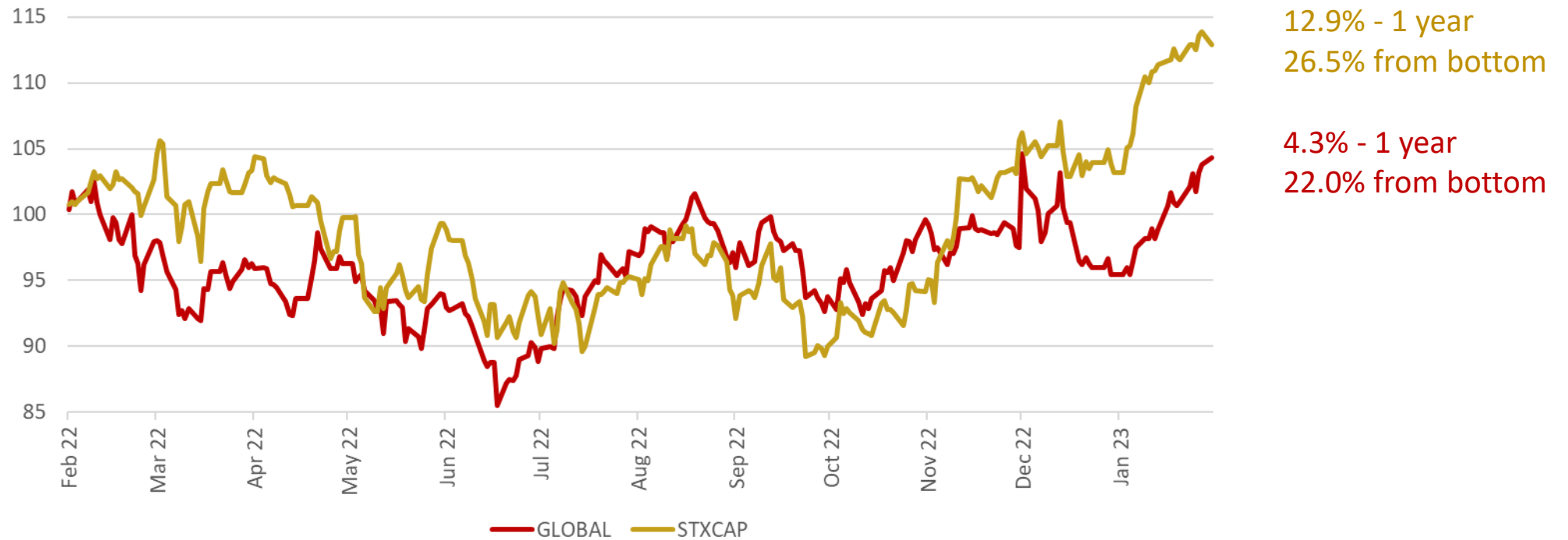


Note: Total return indexed to 100 on 31-Jan-2022



# Beware (only) looking back Timing

2022 was an *annus horribilis* – or was it?



Note: Total return indexed to 100 on 31-Jan-2022

# Performance is more than price change especially for high yield investments

<b>SA interest-bearing</b>	<b>SA property</b>	<b>SA high dividends</b>
ABSA NewFunds GOVI <b>NFGOVI</b>	CoreShares SA Property Income <b>CSPROP</b>	Satrix Dividend <b>STXDIV</b>
Price change (cpu) 7974 to 7661 = <b>-3.9%</b> Income received (cpu) 697.18 Total return <b>4.8%</b>	Price change (cpu) 1113 to 1066 = <b>-4.2%</b> Income received (cpu) 72.49 Total return <b>2.3%</b>	Price change (cpu) 321 to 321 = <b>0.0%</b> Income received (cpu) 24.74 Total return <b>7.7%</b>

Note: Price change and income between 31-Jan-2022 and 30-Jan-2023

# Question time



**Over to Mike** to talk about  
**Retirement Savings**  
then **Questions**