

6 Good reasons to invest offshore

1. Access a far greater opportunity set, in terms of geographies, currencies, industries and companies. SA still makes up less than 1% of the global economy, so diversifying offshore is essential. In addition, a struggling local economy and shrinking SA GDP, has in turn influenced the local opportunity set – with the number of locally listed businesses decreasing by approximately 40%, over the last 20 years.
2. Obtain portfolio construction benefits – a greater opportunity set brings more opportunity to introduce assets that are uncorrelated (produce returns under different circumstances and at different times). The higher the long-term return you require, the more offshore exposure you need in your portfolio.
3. Get exposure to different currencies – Our local currency is not only vulnerable to inflation risk, and significant volatility - but as an emerging market economy can be substantially influenced by the commodity cycle. Exposure to currencies which are less volatile and have less dependence on commodities can assist with risk management.
4. Grow your investment to match your liabilities – When externalising funds, you can - to some extent – match your liabilities in your local currency. For example, our petrol price is matched to the oil price in US dollar terms and much of our food is imported. A weakening ZAR will have an impact on these costs, which is unavoidable. By externalizing your assets, you also hedge against local inflation, as your currency depreciates based on the inflation differential.
5. Avoid sovereign risk -- (the risk of a government defaulting on its risk payments) by externalising a portion of your portfolio.
6. Obtain tax efficiencies – Realising gains (within a capital gains tax context) is more efficient in time of ZAR weakness, when invested in a direct offshore investment. Although, there are also many efficient ZAR-based vehicles, or “wrappers” that offer tax and estate planning advantages when investing offshore.

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