Offshore investing. Questions answered.

As leaders in the offshore space, Glacier International understands the needs of investors seeking offshore exposure and offers a range of different investment options catering to the needs of the sophisticated, as well as the novice, offshore investor.

Offshore investing offers a unique opportunity to grow your wealth, but at what cost to your local economy? If you're grappling with whether or not to put your money offshore, here's what you need to know…

The advantages of offshore investing

As any seasoned investor will tell you, the secret to smart investment is diversification. "Building a diversified portfolio delivers better risk-adjusted returns," says Francis Marais, Head of Research at Glacier by Sanlam. And offshore investing is arguably one of the better ways to diversify, particularly for those in emerging markets. "In South Africa, offshore investing was traditionally a means of hedging against political and economic instability and a way to benefit from the seemingly one-way direction of the weakening rand in order to provide South Africans with some sort of ability to stay abreast of global purchasing power," says Andrew Brotchie, MD of Glacier International. "Now, however, offshore investing is sought after by individuals who want access to investment opportunities that aren't available locally – remember that 99% of the world's listed investment opportunities are outside of South Africa."

Don't put all your eggs in one basket

While it makes good sense to look to the global market for investment opportunity, don't overlook investments closer to home. "Offshore investments play an important role for diversification, but there are good reasons to ensure that you have local exposure as well," says Andrew. "For one thing, local liabilities should be matched against local investments to remove the potentially harmful effects of exchange rate fluctuations," he says, recommending that shorter-term investments should also be focused on local opportunities, such as money markets.

A question of ethics

While offshore investing can be a controversial topic, don't be swayed by the perceived ethics. "It should be less about what you have in your country versus outside of your country and more about how you are taking advantage of the global opportunity set according to your circumstances and investment requirements," says Andrew. "Individuals have a responsibility to structure their investments in *their* best interests first, and it would obviously be great if that supports the national good," he says. But be mindful that buying shares on the local exchange doesn't necessarily support local economy. "The buying and selling of shares on an exchange doesn't necessarily put real money into the companies that you are investing in. And, even if it was the case, investing in South African companies, for instance, doesn't mean that your money is put to work in South Africa as many companies have significant offshore portfolios themselves." Don't forget that support of the local economy is already provided for via the taxes that are paid to government as well as the consumer spending that one does, which can be far more targeted.

The cost of investing offshore

Ethics aside, you may be wondering if you can afford to invest offshore. One of the biggest misperceptions about offshore investing is that it's only available to high-net worth individuals. In fact, offshore investing is accessible to everyone. "While it is true that due to the rand exchange rate, it can be expensive to build up meaningful investment exposure in hard currency terms, there are plenty of opportunities for everyone to invest offshore," insists Andrew. "There are local feeder funds with global exposure, but for those who wish to externalise their money properly, investment minimums are reducing for direct offshore access."

Striking the right balance

So how do you split your investments? "We have seen a strategic re-alignment in recent years of what clients think is a reasonable amount of offshore exposure. In previous years this was in line with the Regulation 28 requirements of a maximum 25% offshore, but this has now increased to about 50%, with some clients going much higher. Remember, there is an increased awareness that apart from investment assets, people have a lot of their wealth already in South Africa – think property and pension funds. For this reason, diversifying say 50% of your discretionary money offshore in reality still means that you have a very overweight exposure to SA in total," says Andrew.

This article first appeared in the August-October 2020 issue of *Sanlam Connect*