

The benefits of increasing offshore exposure in post-retirement

By Glacier Research

The inclusion of offshore assets in a post-retirement portfolio offers the possibility of higher returns and reduces volatility when drawing an income.

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One of the most significant once-off life events a person will ever experience is retirement. Therefore a large portion of an individual's working life is committed towards preparing for this occurrence, as one does not get a second chance at it. This transition from actively earning an income to passively generating an income while in retirement is so important that an entire profession (financial adviser) and industry (financial services) is dedicated to helping individuals prepare for it successfully. The kind of lifestyle one can hope to live in retirement is firmly dependent on the plan one sets out in order to achieve the desired level of income in retirement from the cumulative savings and investments one makes while working.

Pre-retirement investment portfolios – pension or retirement annuity funds

Regulation 28 of the Pension Funds Act limits the extent to which retirement funds may invest in particular assets or in particular asset classes. The purpose is to protect the members' retirement provisions from the effects of poorly diversified investment portfolios.

Post-retirement investment portfolios – living annuity products

Unlike pre-retirement funds, post-retirement portfolios are not legally required to adhere to the investment guidelines as detailed in Regulation 28 of the Pension Funds Act. However, the Association for Savings and Investment South Africa (ASISA) still recommends that policyholders take these guidelines into consideration when compiling their post-retirement living annuity portfolios.

SA vs foreign equity performance over the last seven years

A notable observation is that South African retirees, together with their advisers, are actively increasing their exposure to equities within their retirement portfolios, at the cost of cash holdings, in order to keep up with the growth required to maintain their income.

From a pure return and risk-adjusted return perspective, market index figures (Glacier Research, Morningstar), show that SA investors would have generated greater performance in rand terms from offshore equity than SA equity over the last seven year period, ending 31 December 2019.

Benefits of increasing offshore asset exposure in a post-retirement portfolio

In addition to the diversification benefits and the potential for higher returns, studies have shown that the inclusion of offshore assets can also reduce volatility in a portfolio – an important consideration for a retiree drawing an income, especially during times of global risk-off events such as what recently happened during the Covid19 global sell-off.

This is an important reason to consider an offshore allocation in a post-retirement portfolio.

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