

# Africa the answer for vital offshore investment

A KEY investment issue for asset managers and trustees of pension funds this year will be to explain why offshore assets should constitute part of a pension fund's investment portfolio, says Kirshni Totaram, head of institutional business at Coronation Fund Managers.

This follows comments among pension funds regarding the merits of investing offshore, prompted by the view that exchange controls had shielded SA from the worst of the global financial crisis and taking into account losses by developed markets last year, she says.

"While South African equities have outperformed the MSCI world index in rand currency terms over the past 10 years, we believe this may not be the case for the next 10 years.

"The future will be more challenging in South Africa and to protect pension-fund assets from risks such as inflation and lower economic growth there is a strong case for allocating capital to growing sectors or industries that are not available in the local market."

Totaram says historically most of SA's investors have used their foreign investment allowances to buy developed market equities, particularly in the US, UK, Europe and Japan, in the belief that offshore capacity should be used to buy less correlated, and potentially less risky, assets, including hedge funds.

"Coronation, however, believes the increased percentage of assets that retirement funds may invest offshore — from 15% to 20% — offers long-term investors the opportunity to consider adding growth regions such as emerging markets to their



**Kirshni Totaram**

portfolios. We also believe there are compelling reasons to utilise at least a portion of the additional exchange control allowance of up to 5% — over and above the 20% offshore allowance — to African securities."

She says that while the rerating of emerging markets has been sharp, up 60% in US dollars from the bottom last year, Coronation remains excited about the long-term prospects for these markets and the

returns that are available.

"We believe that emerging markets, and the companies that operate in them, will grow significantly faster than the First World over the next five to 10 years, and therefore become more important in the global economy.

"This growth will be driven by commodities, as urbanisation increases and disposable incomes continue to rise over both the short and long term.

"Importantly, the low levels of debt at country, corporate and consumer levels in most emerging markets, as compared with the heavily indebted First World, provides a favourable environment for the generation of superior growth from emerging markets.

"We firmly believe that the political and economic landscape is changing and that Africa represents the next frontier of untapped investment opportunity and could prove an attractive diversifier for South African pension fund portfolios.

"While Africa may still experience fluctuations over the short term, the continent offers exposure to significant opportunities for investors with a longer-term investment horizon."

Totaram says that although Africa is starting to whet the appetite of foreign investors, the question that trustees of SA's pension funds will have to answer is how much, if any, of the additional offshore allowance of a maximum of 5% of fund assets should be allocated to a region historically characterised by instability and volatility.

