

Investing in currency assets

Moving some of your investment capital offshore is an important step in the portfolio diversification process

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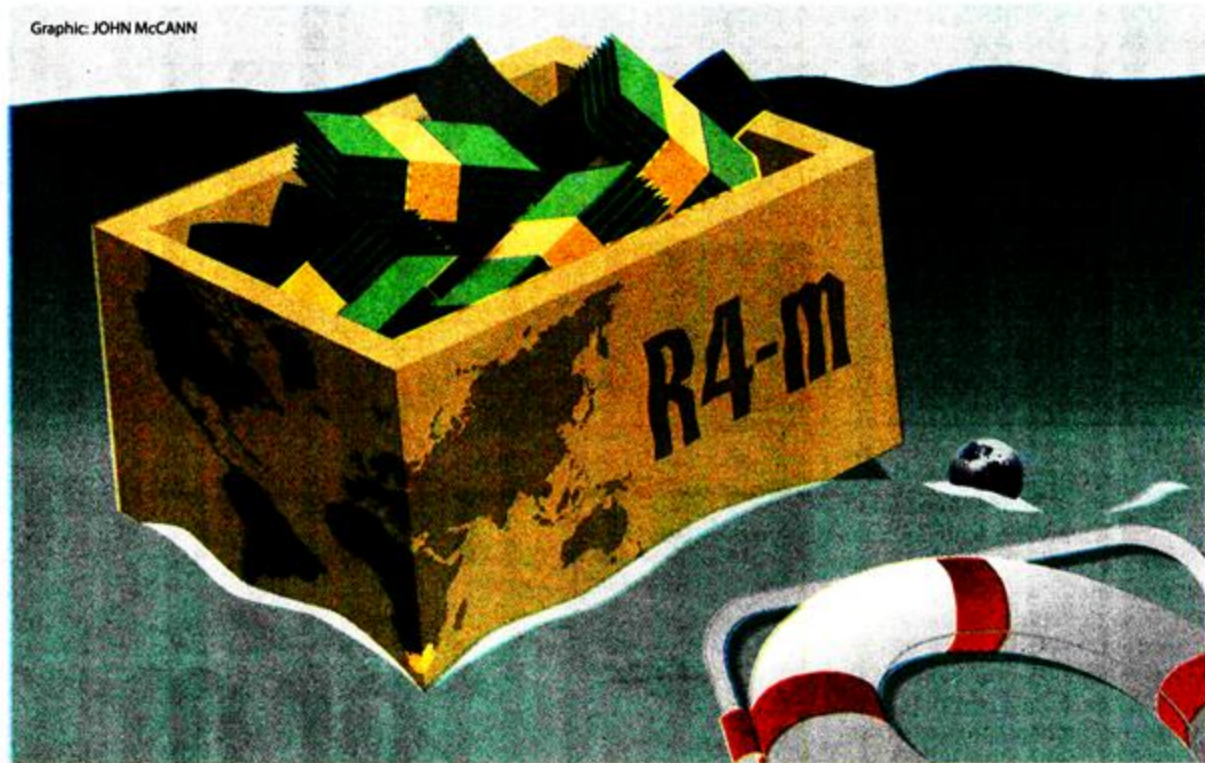
The big debate among local investment advisers is whether investors should satisfy their offshore requirements through local rand-denominated funds, or by seeking direct offshore exposure. Broadly speaking, you have to decide whether to externalise your offshore portfolio, by changing your investment domicile, or whether to achieve the required exposure by using local rand-denominated funds. There are benefits and drawbacks to each solution.

"The ultimate move offshore is for the investor to ship his / her entire R4 million allowance into an appropriate bank account overseas," says Leon Campher, chief executive of the Association of Savings and Investments South Africa (ASISA). This option is a step favoured by high net-worth individuals. "Investors with significant discretionary assets - outside of their retirement funding vehicles - tend to exhibit an appetite for direct offshore exposure," says Pieter Koekemoer, head of Private Invest-

ments, Coronation Fund Managers. And many international investment products demand lump sum investments of R1 million or more!

A direct offshore investment tends to be more expensive from an administrative point of view. On the plus side, this expense ensures that you mitigate sovereign and political risks. Koekemoer says this is a polite way of saying that your assets will not be exposed to the decisions made by a single government. An offshore investment would have "saved" an Argentinean investor during the country's currency crisis, or a Zimbabwean through periods of hyperinflation. Cobus Kruger, head of products and investments at Glacier International, a part of Glacier by Sanlam, says diversification remains the main reason for investing offshore. "Sovereign risk would be a consideration, but in the long list of investment decision criteria, the weight we'd put to it is very low."

South African investors remain sceptical about moving funds abroad. "We've found that smaller clients and the financial advice community remain nervous about taking on



direct offshore exposure, preferring to use local fund managers with the ability to invest internationally," says Koekemoer. The latest Collective Investment Schemes statistics, to 31 December 2010, show that South African retail investors have committed R50 billion to 336 foreign funds (or direct offshore investments) versus R40.9 billion in rand denominated offshore unit trusts. "Local rand denominated funds offer good exposure. The fund managers run them pretty well, and there is regulatory oversight from the Financial Services Board (FSB)," says Campher.

Kruger says the best way to decide the direct offshore versus rand-denominated debate is to ask investors whether they have a lump sum to invest overseas or prefer a regular monthly savings plan. He says: "Glacier International's advice to regular savers is to use rand-denominated products. The recurring premium option becomes administratively cumbersome when you implement it

directly overseas." The group decided not to develop any recurring premium products when it launched its international fund range.

Local investors have to carefully weigh up the myriad companies operating offshore investment products. There is some protection locally from the FSB, which regulates institutions in the direct offshore space. "The law says if you want to sell offshore products here then you must register with the regulator and at the very least have a presence here, or you must work in conjunction with someone locally," says Campher. "It is a minefield out there and you can get things horribly wrong, so stick to the big brands that can provide some level of comfort - and balance this decision against the possibility of achieving a mediocre performance," says Kruger.

Chris Gilmour, an analyst at Absa Investments, voiced his concern over the lack of information and specialist advice in the offshore investment

game: "Absa has an advantage here because we can simply put the high net-worth clients in touch with the investment advisers at Barclays in Geneva - the guys who have less money to invest find the going more difficult." He suggests that investors with limited resources first build up an offshore currency stockpile, and then find a suitable investment adviser in their preferred target market, before finally channelling cash into more profitable and productive investments. The average South African investor does not have the skills required to make asset allocation decisions. This shortcoming exhibits in all facets of the local collective investment schemes space - where cash tends to find its way to asset allocation or balanced funds.

Another challenge with moving funds offshore is to decide which market or product to invest in. "The most important decision the investor can make is to choose an offshore product where the manager has a wide enough mandate to invest in opportunities across the globe," says Koekemoer. He cautioned against heavily favouring only emerging markets or developed markets. Fortunately there are ways to "cherry pick" developed world companies without missing out on the consumer growth story playing out in Africa, Asia and South America. "An effective technique to secure exposure to both 'worlds' is to favour developed market companies with significant operations in emerging market economies," he says.

How much should you invest offshore? Most fund managers suggest between 20% and 30% of your portfolio - although the exact figure could vary significantly from one person to the next.

Investors have long memories and one of the major stumbling blocks in the offshore advice space is the history of poor offshore performances. The global stock market collapse of 2008 is fresh in investors' minds. "If you link this to the experience South Africans have had with international investments over the past decade you can understand their reluctance to follow local asset managers' calls to go overseas," says Kruger.