



**Bruce Cameron (left), the editor of Personal Finance, with Linda Eedes, an analyst at RE:CM, and Nic Oldert, the managing director of Profile Data. Eedes received the Raging Bull Award for the RE:CM Global Fund, the best offshore global equity fund on straight performance over three years to December 31 2010. Photo: Personal Finance**

# Making an offshore choice

**Gareth Stokes**

**A**sk any fund manager about the ten year performance of an offshore equity fund and they'll get a bit green around the gills. David Christie, Head of Distribution at Ashburton, says investors would have achieved precious little capital growth offshore over the period – and that's before factoring in the strengthening rand. As we enter 2011 fund managers believe the rand will resume its long-term declining trend against the US dollar, Euro and pound. And that means local investors will begin tiptoeing offshore again.

"It remains our view that offshore markets offer better opportunities than the local market over the next 10 years," says Pieter Koekemoer, Coronation Fund Managers head of personal investments. The asset manager recently enhanced its international fund offering to meet the growing local-investor demand for offshore opportunities.

What's the best way to take funds offshore? If your heart is set on using unit trusts to gain international exposure there are a number of options available to you. But the first decision you'll have to make is whether to invest in one of the rand denominated offshore funds, or physically move your funds offshore. Investors availing of the first option can choose from 115 foreign and 37 worldwide domestic unit trust funds, according to the 30 September 2010 collective investment schemes statistics. Those preferring the second option can choose from the dozens of foreign collective investment schemes registered with the Financial Services Board (FSB) for sale in South Africa.

There's not a major difference between the two options. If you invest your funds offshore your rand investment is first converted into the applicable international currency (depending on the target fund) and then invested in offshore assets according to the fund manager's investment mandate. But in either case your total investment return will be based on the return generated by the basket of offshore assets the particular fund is invested in and the changes in the relevant exchange rate.

A subtle difference often commented on by investment behaviour specialists, relates to how private investors perceive their returns in each case. Investors in domestic rand-denominated funds tend to measure their portfolio returns in their home currency (the rand) whereas those in true offshore funds "think" in their new currency,

whether dollar, Euro or pound.

"Buyer behaviour changes depending on what's happening in the market," observes John Green, director of global business development at Investec Asset Management. "When the rand crisis played out in 2001/2 local investors queued up to deploy their money in a range of offshore vehicles – nowadays they're much more comfortable investing in rand-denominated offshore funds." Fund managers are quite happy to let their clients decide which route to follow – and Koekemoer notes that Coronation's new offshore funds are essentially international (dollar-based) versions of their domestic flagship funds.

How does one select a "best of breed" offshore fund manager? You could fixate on short-term investment performances as published in a variety of local business papers... But the experts scoff at this tactic due to the inability of most fund managers to replicate excellent quarterly or annual performances over periods of five-years, 10-years or longer. A second (and more viable) option would be to consider the top performing offshore asset managers over a longer timeframe, such as those achieving honourable mention at the 2010 Personal Finance/Plexus/Profile Data Raging Bull Awards.

Based on this year's awards a good place to start is with the Investec Asset Management stable. The business ranks as one of the top 100 largest managers of third party assets worldwide, with assets under management up from R200 million at inception (in 1991) to R544 billion today. Investec scooped the coveted Offshore Management Company of the Year award at the 2010 Personal Finance/Plexus/Profile Data Raging Bull Awards – and they're pretty chuffed with the achievement. Notes Green: "The award reinforces that we have built a very credible international investment capability!"

How "solid" is the Raging Bull result? It's simple enough to compare funds within a category using fund performance as the only measure. However, funds often take on different levels of risk, depending on the investment philosophy and strategy of the particular fund manager. "Although at a given point in time a fund may have outperformed its peers, that fund may have taken on substantial risk when compared to other funds in the same category – which means an investor in such a fund would bear substantial risk of capital loss in order to have the potential for similar returns," says Jeanette Marais, Director of Distribution and Client Services, Allan Gray.