

How to invest offshore?

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Given the compelling reasons for investing offshore, which include diversification benefits, reduced emerging market and currency risk, and maintenance of 'hard' currency spending power, how best should investors go about investing offshore?

It depends on investors' personal circumstances, risk profile and longer-term financial planning objectives. Financial advisors can help identify investment solutions that address the specific requirements of an investor. We therefore suggest that investors consult a professional financial advisor. There are, however, a number of ways to gain offshore exposure. These include:

- Investing in an FSB-approved collective investment scheme (unit trust fund) that includes offshore assets (e.g. the Investec Diversified Income, Cautious Managed, Opportunity and Value funds). For example, a Regulation 28-compliant multi-asset or balanced fund is allowed to invest up to 25% in international assets. By making use of this type of fund, investors are effectively appointing a professional money manager who has the time, experience and access to information to decide when and how much to invest offshore on their behalf, and into which assets. Given relative valuations, most South African multi-asset funds are at the 25% offshore limit, and therefore the key decision is to select a manager who has a proven long-term track record and capability of investing offshore.
- Investing in an FSB-approved rand-denominated international unit trust fund (e.g. the Investec Global Strategic Managed Feeder Fund and the Investec Global Opportunity Equity Fund of Funds). By doing so, investors do not make use of their individual offshore allowance. Rather, they invest in rands and when they disinvest, the proceeds are paid in rands. While investors benefit from being invested in funds that only hold offshore assets, they remain exposed to South Africa-specific risk.

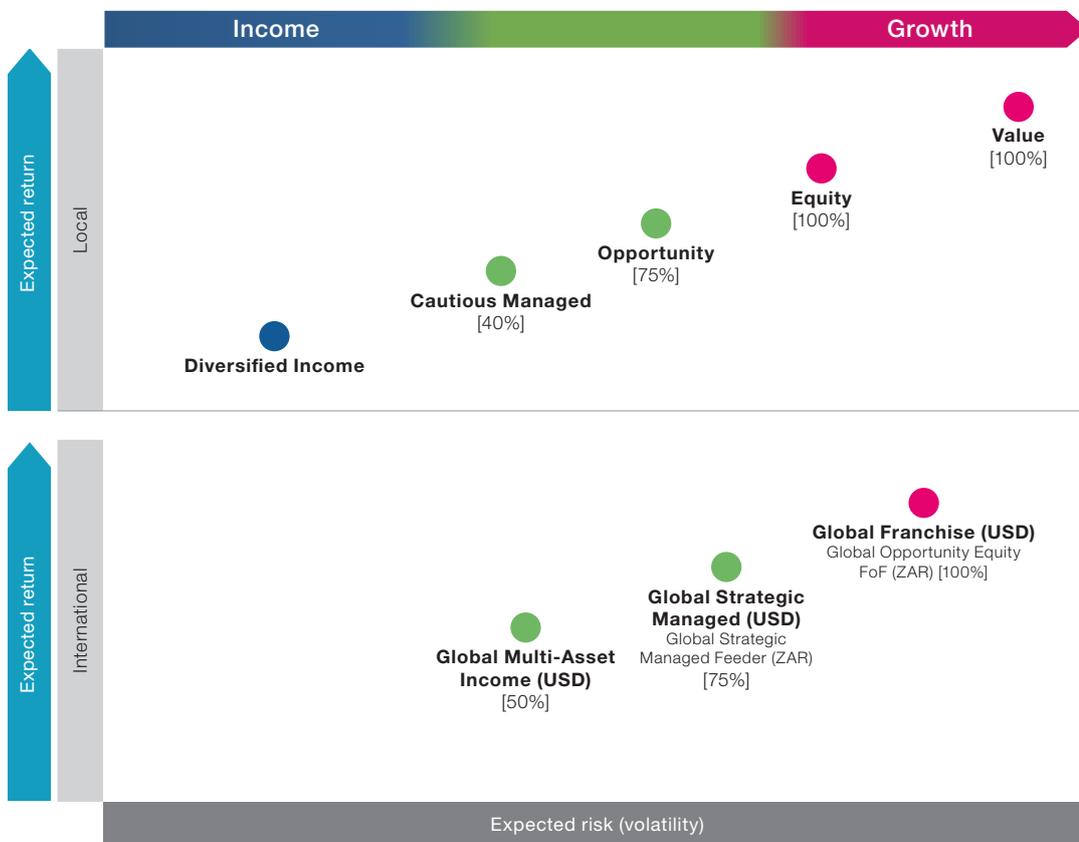
The managers of rand-denominated international funds make use of their funds' offshore capacity/allowance to invest in international assets. Such funds often have exactly the same assets as similarly-mandated foreign-domiciled international funds managed by the same investment manager. Many managers have also established a rand-denominated international feeder fund that simply invests into a foreign-domiciled international fund. This is the case for the Investec Global Strategic Managed Feeder Fund (priced in rands), which invests into/holds units in the Investec Global Strategic Managed Fund (priced in dollars or pounds).

- Investing in a foreign-domiciled international unit trust fund that is registered in South Africa (e.g. the Investec Global Multi Asset Income, Strategic Managed and Global Franchise funds). By doing so, investors invest directly into an FSB-approved offshore fund in its dealing currency e.g. dollars, pounds or euros. Having completed the fund’s application form, investors effectively instruct their bank (local or international) to make payment to the fund’s bank account. When disinvesting, investors will then also receive the proceeds in the fund’s dealing currency.

Many South Africans have favoured rand-denominated international funds because of the perceived complexity of applying for tax and Reserve Bank clearance to invest offshore directly. However, now that investors can invest up to R1 million annually in an international fund without the need for any prior approvals, they can access foreign-domiciled international funds with relative ease and thereby diversify away South Africa-specific risk. In addition to the annual discretionary allowance of up to R1 million, investors also have a foreign capital allowance of up to R10 million per calendar year (a total sum of R11 million). Investors need to obtain foreign tax clearance from the South African Revenue Service when they wish to utilise their annual foreign allowance of R10 million. Reserve Bank approval is only required when investors wish to transfer funds offshore in excess of the maximum total sum of R11 million per calendar year.

Investec Asset Management’s rand-denominated international funds can be accessed directly from Investec and via Investec Investment Management Services (IMS), or through most of the linked investment service provider (LISP) companies in South Africa. Similarly, our foreign-domiciled funds can be accessed directly, via the IMS GlobalSelect platform or through other LISP companies’ offshore fund platforms in South Africa. Again, the decision of whether to invest directly or via a product platform will be driven by investors’ personal circumstances and requirements.

Investec core fund solutions



Note: [] indicates maximum in equities

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