Prudential Investment Managers
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When investing offshore makes sense

Many South Africans have a habit of watching the exchange rate. Every time the rand takes a dip – tickling R15 to the US dollar, wobbling at R18 to the euro or getting anywhere near R20 to the UK pound – there's a natural temptation to want to take your money and your investments overseas.

However, moving money offshore shouldn't be the result of a reaction to short-term changes in the local environment, such as a sudden depreciation of the rand. Pieter Hugo, MD of Prudential Unit Trusts, points out that: "offshore exposure should be driven by your own investment goals and how best to achieve them within a longer-term financial plan". He adds that having some international exposure in a portfolio has been proven to be beneficial for almost all long-term investors, since offshore investments add valuable diversification benefits, and enhance your opportunities for better returns.

This makes sense given that South Africa makes up not even 0.5% of the total market value of all globally listed shares – suggesting that there is significantly more opportunity internationally. But what exactly are your options? Do you have to invest in foreign currency or can you invest in rands? And where does your money actually go?

In terms of gaining offshore exposure through unit trusts, you have two basic options: investing directly in foreign currency or indirectly through rand-denominated funds.

Investing directly in foreign currency requires you to physically take your money offshore. You'll need to open an overseas bank account, go through exchange controls, get a tax-clearance certificate from SARS, and send your rands overseas into the foreign currency funds of your choice. These types of funds usually have higher investment minimums than rand-denominated funds and tend to prefer lump-sum payments, rather than regular debit orders. Also, you will need to remember to comply with the legislated exchange control limits: South Africans are allowed to take R1 million out of the country every calendar year without a tax-clearance certificate or R10 million a year with tax clearance.

The second option lets you invest in such a way that your money never physically leaves South Africa, but your investment and currency exposure is still offshore. This can be tricky for new investors to get their heads around: basically, you invest in rands and get paid out in rands (into your local bank account), but your unit trust management company invests that money offshore (usually into another fund or a combination of different offshore funds). There's no need for you to worry about buying foreign currency or getting a tax-clearance certificate. Another benefit is that you're usually able to set up regular debit orders.

Prudential offers a range of offshore investments, Prudential Global Funds: we have four US dollar-denominated funds which are managed by our London-based parent company, M&G Investments, and four rand-denominated funds which invest directly into these offshore funds. With each of these options, you'll get exposure to a whole new world of investment opportunities – allowing you to diversify your portfolio and expand your investment horizons.

If you're interested in investing offshore, speak to your financial adviser, contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.