



Prudential Investment Managers

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Investing offshore: It's about diversifying, not duplicating!

Investing offshore is a great way to diversify your investment - not only as a hedge against currency depreciation and other emerging market risks, but (and more importantly) because South Africa represents less than 1% of the total market value of all globally listed shares. This means that the scope for diversification and growth are far greater offshore when compared to investing locally.

Quality vs. quantity

If you're invested in a local unit trust you are very likely to already have some level of offshore exposure. The average balanced fund, for example, has roughly 24% of its assets held directly offshore across various asset classes. In addition to this, many unit trusts also hold shares in domestic companies that earn income from

offshore operations. When taking all of this into account, the total effective offshore exposure within the average balanced fund increases from 24% to 48%.

While nearly 50% may seem sufficient, the downside is that the indirect offshore holdings offered by this level of exposure aren't very well diversified. For example, roughly 52% of the JSE's total offshore earnings comes from resources companies in the basic materials sector, while there are very few South African-listed global technology or global consumer companies. So relying solely on locally-listed companies to supplement your offshore exposure doesn't offer much variance in terms of sector exposure or the number of companies that you can buy within that sector. If you don't look globally you're missing out on giants like Apple, Facebook, Alibaba, P&G, Nestle and Walt Disney, just to name a few.

The trick is to minimise duplication and look for sectors underrepresented on the JSE

When diversifying offshore it's important to know the level of exposure that your local investment has to various global markets. This will allow you to identify investments that compliment your effective offshore exposure, as opposed to duplicating it inadvertently. Trawling through the geographical, sector and company exposure of different offshore funds can be time-consuming and difficult. Fortunately, Prudential, together with M&G Investments, our London-based parent company, have launched a range of [US dollar-denominated global funds](#) specifically designed with South African investors in mind. The Prudential Global Funds look to compliment local investments by minimising duplication and offering exposure to investments currently underrepresented on the JSE. The result is a well-diversified portfolio, specifically when blended with one of Prudential's local unit trusts.

How to invest offshore with Prudential Global Funds?

There are two broad ways of investing in these funds. The first option is to invest directly offshore in US dollars [via a South African-based offshore investment platform](#) (such as Investec, Sanlam, Momentum, Old Mutual or Stanlib). This requires you to convert rands into US dollars and deposit the money into the platform's offshore bank account. The South African Reserve Bank allows

individuals to invest a maximum of R10 million offshore per calendar year, provided a Tax Clearance Certificate is obtained from SARS. In addition, individuals are also allowed an annual discretionary offshore allowance of R1 million per calendar year, which can be invested abroad without the need for a Tax Clearance Certificate.

The second option is to invest in the rand-denominated [Prudential global feeder funds](#). This can be done either directly with Prudential or via a local investment platform. These funds are priced in rands and do not require your money to be transferred into an offshore bank account, which means that you aren't restricted by the offshore limits and do not require a Tax Clearance Certificate. As the name implies, the rand-denominated feeder funds invest (or feed) directly into the Prudential Global Funds funds, which means you get the same level of offshore exposure as if you had invested directly in US dollars, but you receive your returns in rands.

In conclusion, investing offshore has many advantages, specifically the exposure that is offered by sectors currently under-represented on the JSE. The trick, however, is to avoid duplication and to invest in a range of portfolios that offers broader exposure. Prudential Global Funds does exactly that and may be a worthwhile consideration to supplement your existing local investment. The range caters for a variety of investor risk appetites, as well as (local) tax-free options.

To find out more, speak to your financial adviser or contact our Client Services Team on **0860 105 775** or at query@prudential.co.za.

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