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Taking more offshore? Check your current exposure

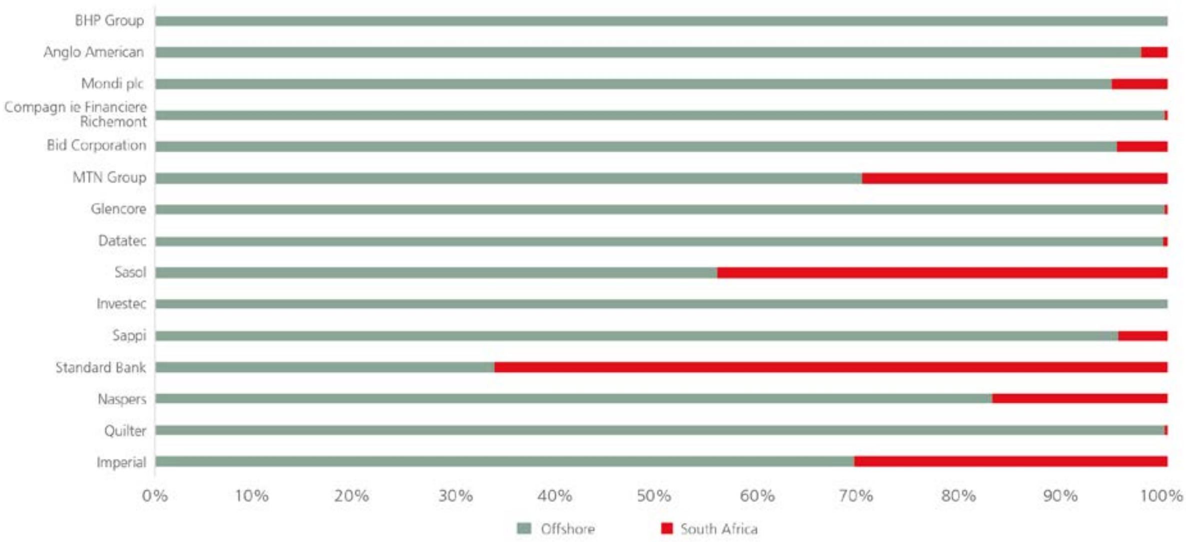
Are you considering taking more of your savings out of South Africa due to concerns over the country's future growth prospects or the weak rand? If so, it would likely be a wise move to first check what your current offshore exposure actually is – it could be higher than you think, just by already being invested in a typical South African balanced fund.

South Africa keeps globalising

It's important to remember that the FTSE/JSE All Share Index (ALSI) has globalised in the past two decades, and this trend continues. Only a year ago some 55% of the earnings from companies listed on the ALSI were sourced from outside of South Africa, and this figure now stands at 59% as the rand depreciates versus developed market currencies and companies expand further abroad for profits. The listed property sector is also surprisingly globalised, with 31% of the All Property Index's earnings originating offshore. That can give your ALSI-listed portfolio some solid offshore diversification, depending on the companies you're exposed to. Equally, it means you are not as likely to be as negatively impacted by South Africa’s current growth slump as you might fear.

Graph 1 shows a selection of ALSI-listed companies with large portions of their earnings sourced from offshore. While Naspers is well known, others that may be less in the spotlight include UK-based financial services group Quilter and IT specialist Datatec. And although the resources companies have long been strong rand-hedge plays (like BHP, Anglo American, Glencore, Mondi and Sappi), South Africa’s industrial businesses such as Bid Corporation and Imperial have also been increasingly successful globally. Chances are, you’re already likely to be exposed to several of these companies in your existing SA portfolio given how large they are in the ALSI and their attractive diversification benefits.

GRAPH 1: Large offshore earners listed on the ALSI



Source: Factset GEOREV

Average SA Balanced Fund holding over 50% offshore exposure

And what about a typical SA “Balanced” unit trust, the most popular type of unit trust used by South Africans? We can use Morningstar data to see the asset allocation of the average unit trust in the

ASISA Multi-Asset High-Equity category, and in turn get an estimate of its offshore exposure.

This is shown in Graph 2, where we find that the average SA Balanced unit trust is holding 38.2% in domestic equity (the largest asset class weighting), followed by domestic fixed income at 26.7% and offshore equity at 21.3%. In turn, because we know that 59% of the domestic equity category represents offshore earnings, we can deduce that the average Balanced unit trust has roughly 22.6% in offshore exposure (59% of 38.2%) in its domestic equity holdings. At the same time, it is holding around 0.7% offshore exposure in its domestic property investments, but 0% offshore exposure in its domestic fixed income holdings. **Adding up the various asset classes which contain some offshore exposure, we see that the average SA Balanced unit trust has roughly 53.1% offshore exposure – over half.** This is likely to be far more than you had expected, particularly given the lower direct offshore limits placed on retirement fund investments under Regulation 28 (currently a maximum of 30% offshore plus an additional 10% in Africa ex South Africa).

GRAPH 2: Offshore exposure of the average ASISA SA Balanced fund

Asset Class	Asset Allocation
Domestic Fixed Income	26.7%
Domestic Property	2.4%
Domestic Equity	38.2%
Domestic Other	2.9%
Offshore Equity	21.3%
Offshore Property	0.8%
Offshore Fixed Interest	5.2%
Offshore Other	2.5%
	100.0%

% Offshore Exposure	Offshore Exposure
0.0%	0.0%
0.0%	0.0%
0.0%	0.0%
0.0%	0.0%
100.0%	21.3%
100.0%	0.8%
100.0%	5.2%
100.0%	2.5%
	29.8%

Source: Morningstar

Meanwhile, using the above measure, the Prudential Balanced Fund currently has approximately 52.2% offshore exposure, just slightly less than the category average. This is due to our preference for the local equity market, which is much cheaper than its developed market counterparts. SA equities have a weighting of

45.8% in the fund (as of 31 August 2020), with some of the largest holdings including global giants like Naspers, Prosus, British American Tobacco and Anglo American. Even with its current overweight positioning in domestic equities, the fund still has over 50% of its exposure in offshore assets.

How much offshore is enough?

Each individual investor has their own goals, investment timeframe and risks to consider when determining how much offshore exposure would be appropriate to include in their portfolio. The diversification benefits of offshore investments are certainly well established. What is most important is not to react emotionally in difficult local market conditions and decide to take extreme measures like taking your entire portfolio offshore. Doing so now would mean that you are buying expensive assets with a cheap rand. Rather, work with an experienced financial adviser to understand what your current exposure actually is, and what it should be based on your future requirements.

For more information on the Prudential Balanced Fund and other solutions for longer-term investors, visit the Our Funds section of our website. Alternatively, please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.