Prudential Investment Managers

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Beginner’s guide to offshore investing

Global markets have rebounded remarkably since March-April 2020, when pandemic panic sparked the fastest sell-off in history. As global share prices rise, and big international companies become ever more dominant in our remote-working lives, many South African investors are wondering how to get in on the offshore investing action. This is an important question to consider, and at Prudential, we believe offshore exposure is a critical component of a well-diversified portfolio, no matter what the conditions. This article aims to guide you through the process.

How much exposure do you already have?

Most equity investors around the world are very overweight their own home equity market. Those in many emerging markets (eg. Turkey, Mexico, India) have nearly 100% of their equity portfolios invested at home, while US and Japanese investors have about 75% in domestic equity. In South Africa, surveys show the typical investor has approximately 80% of their total equity exposure in locally listed companies. However, it’s important to note that local equity in SA isn’t as local as it used to be. Over 50% of revenue from JSE-listed companies is now sourced from outside of South Africa. So the first question to ask, when you’re thinking about moving money offshore, is: how much exposure do I already have? It could be higher than you think if you’re invested in JSE-listed stocks or in a typical “balanced” unit trust fund.

How much offshore exposure do you need?

Diversification across countries, industries and companies, as well as asset classes and currencies, is the primary benefit of investing offshore. An appropriate level of diversification can reduce the risk in your portfolio without lowering the expected rate of return, resulting in a more “optimal” portfolio.

How much offshore exposure you need depends on your long-term investment goals. Generally, the offshore portion of your portfolio will be larger the higher your targeted investment return (and therefore the higher the risk required).

As a broad guideline, if you have a more aggressive return target of inflation + 7%, you would need between 35%-40% offshore. A return target of inflation + 6% needs around 30% offshore, and a more conservative target of inflation + 3% generally needs 10%-20% offshore. These are simply guidelines, however; the exact portion should be appropriate for your own long-term requirements.

Also keep in mind that Regulation 28 of the Pension Funds Act only allows a maximum offshore exposure of 30% (excluding Africa), plus an extra 10% in Africa (outside South Africa) for funds that are approved for retirement purposes. Adding extra exposure can be accomplished through your “non-retirement” portfolios.

What are your goals?

If you spend significant time outside the country, or if you want to retire abroad or send your children to schools outside of South Africa, you’re probably going to need higher-than-average offshore exposure.

For those who are concerned about political or social instability in South Africa, having a portion of your portfolio offshore helps mitigate the associated investment risks and may ease some of your concerns. You may be more likely to stay invested for the longer term, despite negative narratives that drive other investors to panic and sell at the wrong time.

Investments in hard currencies like US dollars, euros, sterling and yen also act as protection against a depreciating rand (which is likely to remain the long-term trend), and other South Africa-specific risks. An active investment manager like Prudential will help your portfolio maintain the most appropriate positioning as financial markets change, switching between South African and foreign assets as necessary.

The easiest way to invest offshore

There are two basic options to get the offshore exposure you need: 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, the Prudential Global Funds, which are managed by our London-based parent company, M&G Investments. With each of these options, in either rand or foreign currency, you’ll get exposure to a whole new world of investment opportunities – allowing you to diversify your portfolio and expand your investment horizons.

For more information, please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.