



Prudential Investment Managers

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The balancing act of investing offshore

With the local economy further set back by the recent violence and looting, the thought of taking all your money offshore may seem appealing. But this strategy isn't likely to give you the best result. Many investors took their money offshore at the start of the pandemic with the main goal of simply avoiding South African assets, and ignored relative asset valuations. We believe the correct approach is to find the right balance by diversifying between the two. Investing offshore is rewarding when those assets are cheaper than local ones, which means they have the potential to deliver higher returns going forward.

Don't put all your eggs in one offshore basket

Looking back at March-April last year, when the JSE and the rand were really struggling, investors opted for perceived safer assets overseas; but this strategy came at a cost. [What played out in the markets](#) was that cheaper South African investments outperformed their overseas counterparts. This showed why many investors who deviated from their long-term investment plan in the hopes of reducing losses by going offshore should've rather stayed put.

Moving money offshore shouldn't be off the back of short-term local market changes, but humans are historically known for quick, emotional reactions to bad news, which can lead to poor investment choices. An individual's investment goals should inform the offshore exposure needed. It's definitely worthwhile getting global exposure, particularly over the long-term; it just shouldn't be the sole focus or at the expense of the local market. Diversification is crucial, but excluding the local economy as part of the investment universe isn't true diversification either, particularly if you are living in South Africa.

So, why should investors look to diversify offshore?

Here are three good guidelines to keep in mind:

1. If you're looking to optimise your portfolio

You'll need to lower risk while increasing your return potential, and this is best done through diversifying. Diversification across countries, industries, and companies, as well as asset classes and currencies, is the primary benefit of investing offshore. It reduces the risk of a portfolio for the same expected rate of return, resulting in a more 'optimal' portfolio by spreading risk across many different investments.

2. If you're looking for exposure to more growth opportunities

The global equity universe is vast and the JSE only represents 1% of it, which means that South African equities are 99% shy of missing worldwide opportunities, many of which are very exciting. By including offshore investments in your portfolio, you can gain exposure to diverse industries that are not represented locally, such as biotechnology or alternative energy. The JSE is not to be discounted for the investment potential it presents, as well as benefitting the local economy, but it can't act alone to optimally build wealth.

Another point worth considering is that a substantial portion of the JSE's earnings is generated offshore, which means that by investing locally you already have some level of offshore exposure. When diversifying, the key is knowing just how much exposure you currently have and avoid any duplication. At Prudential, our range of global funds has been designed with exactly this in mind, allowing investors access to regions and sectors currently underrepresented on the JSE.

3. If you require offshore liquidity

For some, moving outside of South Africa is a goal and so higher offshore exposure may be warranted. Investments in hard currencies

like US dollars, euros, sterling, and yen act as protection against a depreciating rand (which is likely to remain the long-term trend given South Africa's higher inflation rate versus developed markets), and other South Africa-specific risks. This effectively ensures you match your longer-term offshore 'liabilities' with equivalent assets.

How to get offshore exposure when valuations are appropriate

We offer a range of four global funds, investing in either single or multiple asset classes, which are available in either US dollars or rand. You can invest directly in our rand-denominated global feeder funds via the Prudential website, while our US dollar funds are available via some of the country's leading investment platforms.

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