

Investing Offshore

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Investing Offshore

- ▶ Why?
 - ▶ Nerina Visser
- ▶ What?
 - ▶ KP (Khoabane Phoofolo), Blackrock (iShares)
- ▶ How?
 - ▶ Mike Brown

Investing Offshore – Why?

Diversification

- ▶ All South African investments share **common macro-economic return drivers**
 - ▶ *Currency, interest rates, inflation rate, business cycle, investor confidence*
 - ▶ *This applies across all asset classes (equities, bonds, property, etc.)*
- ▶ Benefits of diversification rely on **counter-cyclical & dis-similar return profiles**
 - ▶ *Biggest reduction in risk (mathematically calculated) comes from a combination of high standard deviation (risk) and negative correlation*
 - ▶ *Something that zigs when everything else zags*
- ▶ **Uncertainty** voids the usefulness of predictions and forecasts
 - ▶ *Investment strategies based on forecasts rely on luck, rather than skill*
 - ▶ *Strategic, well-diversified portfolio has much more predictable chance of success*

Investing Offshore – Why?

Opportunity set

- ▶ South Africa contributes **less than 1% to the global GDP**
 - ▶ *Why expose 100% of your capital to less than 1% of the global economy?*
 - ▶ *Poor economic growth, policy uncertainty, etc. restricts ability of companies to grow earnings specifically in South Africa*
- ▶ **Limited range** of asset classes & investment strategies
 - ▶ *Other emerging & frontier markets; Corporate & high yielding bonds*
 - ▶ *Factor investing (e.g. dividends, minimum volatility, quality, etc.)*
- ▶ Investable opportunities in **some industries don't exist / very limited** in SA
 - ▶ *Fintech; Biotechnology; Renewable energy*
 - ▶ *Utilities (water, electricity, transport); Private equity; Infrastructure*

Investing Offshore – Why?

Matching assets to liabilities

- ▶ Earn income in the **country and currency** where you spend it
 - ▶ *What is your time horizon?*
 - ▶ *Do you require regular income, or spending money?*
- ▶ Grow your assets by **above-inflation** rates
 - ▶ *Required return depends on offshore market inflation rate*
 - ▶ *Some investment goals (e.g. education) may have a different / higher inflation*
- ▶ Reduce / avoid **mismatch risk**
 - ▶ *Shortfall risk – bigger than market or political risk*
 - ▶ *Assess performance in the relevant currency, not in ZAR*

Investing Offshore – Why?

Don't do the right thing for wrong reasons

- ▶ **Running away** from SA to *perceived* greener pastures
 - ▶ *Don't take your assets offshore but leave your liabilities in SA*
- ▶ Expecting additional returns from **rand depreciation**
 - ▶ *Offshore investment is a hedge (reduce risk), not an alpha-generator (increase returns)*
- ▶ **Avoidance** of tax or other regulatory measures
 - ▶ *Financial regulations and compliance have also gone global – FATCA, AML, FIC*
 - ▶ *“Panama is not a haven” – President Juan Carlos Varela*

Investing Offshore – Why?

It would be DOM not to do so!

Offshore Investments for Dummies

- ▶ **D** – Diversification
- ▶ **O** – Opportunities
- ▶ **M** – Matching

Investing Offshore

What? How?

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