WHY YOU SHOULD CONSIDER INVESTING OFFSHORE

Offshore investing should be part of any long-term financial plan, especially if you are keen to leave the country before or after retirement or want your children to study abroad.

EXPLAINING OFFSHORE INVESTMENTS

Offshore investments are any investments housed in a country other than the investor’s country of residence. This could be in developed or emerging countries such as China, India, Brazil, Russia or Turkey. The key to offshore investing is to not only invest in a different country but also in different economies, markets and currencies, thereby diversifying your investment portfolio.

FACTORS TO CONSIDER BEFORE INVESTING OFFSHORE

The prospect of investing money outside of your country can be daunting, given the sheer size of the investment universe. As a new investor, you might feel uncomfortable with the idea of placing assets and investments in another country with foreign organisations. You also have to consider product and government rules, regulations and restrictions on purchasing offshore assets. With 50 different offshore centres, 126 different legal and tax systems, 27 000 different listed equities and an estimated 36 000 different unit trusts to choose from, where do you invest?

The answer is simple. Stick with people and organisations you know and trust. Seek the advice of a locally-based, competent financial planner who has a sound track record of investing offshore.

Whatever your reason for choosing to invest internationally, it is important to consider the following factors:

- Your objective or motivation for investing offshore
- The time horizon or length of time for which you want to invest
- The risk tolerance of your investment
- If you want the funds to be invested offshore permanently
- All relevant foreign exchange control regulations
- Tax implications and banking charges associated with your offshore investment

LIMITS TO OFFSHORE INVESTING

South Africans in good standing with the Receiver are allowed to invest up to R10 million offshore each year (2015/2016 tax year), subject to tax clearance from the South African Reserve Bank. You are also allowed to invest R1 million annually, without tax clearance, by means of a single discretionary allowance. This allowance still needs to be registered with the Reserve Bank.

HOW TO INVEST OFFSHORE

You can either invest into one of the foreign-denominated currencies, such as the dollar, euro or pound, or by an asset swap in rand-denominated locally available offshore unit trusts.

The advantages of offshore unit trusts are much lower limits and fewer administrative requirements. Liquidation of these funds will also happen in rands as they are not invested offshore permanently.

The simplest and most cost-effective way is to invest in foreign currency offshore unit trusts through an offshore platform which is operated locally by a registered and reputable provider. In addition, exchange-traded funds are also available. You can also invest in offshore share portfolios that are managed and reported on locally or in endowments. These funds will be expatriated permanently using your annual offshore allowance, or can be paid to you anywhere in the world, including South Africa.

You can also consider opening an offshore bank account or investing in gold or certificates of deposit. Other options include using your bank account for online share trading through a brokerage or investing in property and more exotic investments using offshore trusts. The latter are usually more risky, and may consist of financial instruments such as sovereign and corporate debt, high-yield investment schemes and other investments which are outside of your domestic reach.
REGULATION OF OFFSHORE INVESTMENTS

Only funds that are approved by the South African regulator, the Financial Services Board (FSB), can be marketed in this country. Investing in FSB-registered funds reduces your investment risk, as these funds are subject to oversight by the local regulator.

ADVANTAGES OF INVESTING OFFSHORE

The South African financial market comprises only one percent of the global market. If you only invest locally, you deny yourself the opportunity to invest in those companies that have an international footprint and could generate substantial profits for investors across different economies and markets. By allocating a portion of your investments offshore, you could spread the risk and enhance the possibility of generating better returns by diversifying. It also gives you access to sectors that you would not find on the JSE. It is important to keep in mind that you need to have a longer time frame for offshore investing because of the dual volatility of currencies and the markets.

Another reason for investing offshore is to save tax in tax havens or low-tax jurisdictions. Offshore investments could be owned by an offshore trust for estate planning purposes. Your financial planner and fiduciary specialist can advise you on this.

As mentioned earlier, investing offshore can also provide for children’s tertiary education at overseas universities, travelling extensively or wanting to retire overseas. Offshore investing offers a hedge for people who fear political or social unrest and is also a way to protect your investments against the depreciation of the rand.

RISKS OF INVESTING OFFSHORE

- Developed economies often have much lower interest rates and therefore your investment may grow much slower.
- A significant amount of funds are required to invest directly offshore.
- Both currency and market volatility can be expected.
- Global markets had a strong run. Investing now means that you are buying into higher valuations with the expectation of lower returns.

There is definitely a place for offshore investing in any holistic financial plan, especially if you plan to retire overseas and need to match your assets with your future income to maintain your desired lifestyle.