

**Offshore Investments – what should I consider?**

30 July 2018

**Background**

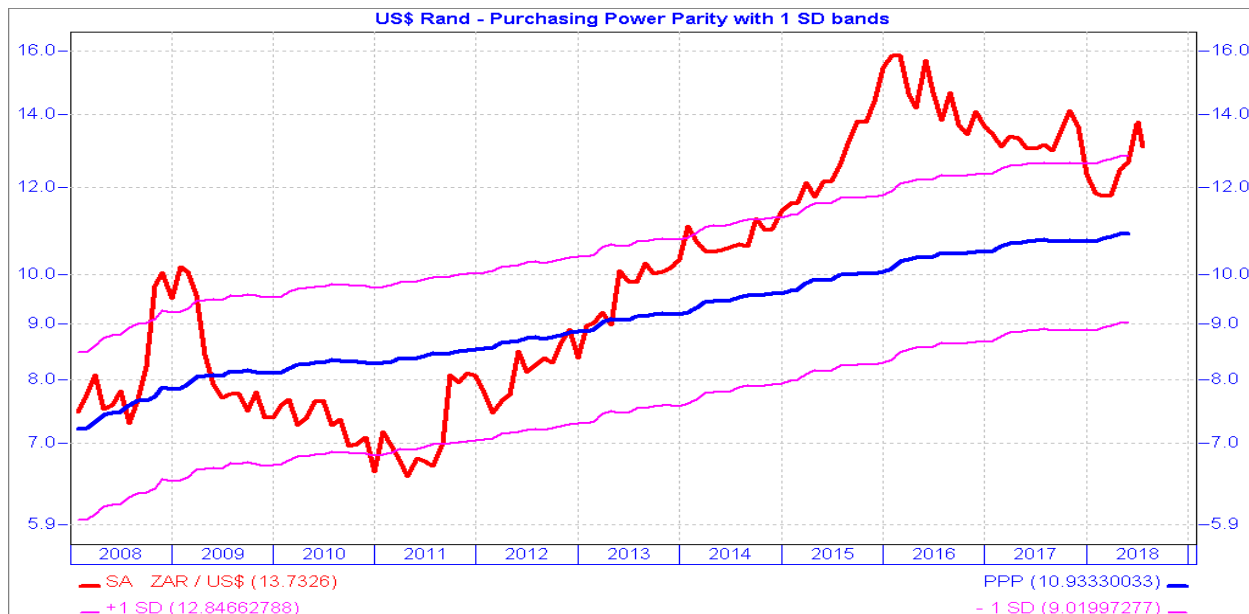
South Africa accounts for just more than 0,5% of the world economy. The market value of Apple, Microsoft and Amazon together is 2½ times more than the total value of all our JSE listed companies (the total value of the JSE is about USD1,100 billion, and together Apple, Microsoft and Amazon are worth about USD2,600 billion). The market capitalisation of the American market is just more than USD24 000 billion, which means that the value of the American listed companies is about 22 times more than the total value of all the South African companies together!

**1. The three main reasons to make offshore investments**

- a. **Diversifying risk** – by moving some of your investments to another geographic area, you lower the risk of your portfolio and you hedge your investments against things that might go wrong in South Africa.
- b. **Diversifying return** – your investments will be supported by various sources of income and growth, which will soften the possible impact of weaker growth in South Africa.
- c. **Exposure to world class businesses** – your portfolio will include world class companies and will be exposed to international giants not listed locally.

**2. How to decide when to invest overseas**

The biggest mistake made by investors is to base this decision on emotional factors. I usually find that people rush to the door to invest overseas as soon as the Rand weakens, but this is usually the wrong time.



When I look at the long-term movement of the exchange rate (red line) and compare this to the difference in inflation in South Africa and inflation in America (blue line), the standard deviation channel (between the pink lines) creates the range in which I feel it is advisable to invest money offshore. Please note that this graph is by no means a



prediction of the way the Rand is going, but that it rather illustrates how the value of the Rand is affected by emotional factors rather than by rational factors.

We are of the conviction that when the rand is trading between R13,50 and R13,00 we are in fact inside these ranges and I would recommend that the discussion of international diversification should be continued.

### **3. How much of your assets should be invested offshore?**

This is not a simple question and the answer to the question will be different for different clients. However, I shall try to create a framework within which this decision should be made:

- a. If you have just enough capital to cover your expenses and depend on a monthly income from the capital, you will have to be very careful not to invest too much capital overseas. Short-term movements in exchange rates may work against you, and your investments or pension fund probably have enough offshore exposure. In this case, I usually feel that exposure to overseas investments should be limited to about 25% to 30%, which you already have in any balanced portfolio.
- b. If you are going to leave capital to your descendants, you may increase this exposure to offshore investments to about 50% of your portfolio. In this case, it begins to make sense to invest capital directly in foreign countries. If we assume that a balanced portfolio or pension fund already has between 25% and 30% offshore, you may want to supplement this with direct investments overseas.
- c. If your assets are of such a nature that capital will be left to the next generation, the offshore assets should easily be more than 75%. Please remember that, in this case, the family should regard themselves as international citizens who will not necessarily all live, work or study in South Africa.

I wish to add the following to these basic points of departure: if you are worried about the sustainability of South Africa, and if you or your children are planning to move overseas permanently, it will be advisable to increase your overseas exposure accordingly.

As far as the amount is concerned, it starts to make sense from an amount of \$50 000, in other words about R700 000, otherwise it will be easier to simply get exposure in local funds.

### **4. What process is used to move funds offshore?**

Funds can be moved offshore in two ways:

- a. Every South African may take R1 million per year out of the country as part of his/her annual travel allowance. It is relatively easy to move this R1 million and it does not require a lot of paperwork. However, it is important to include any overseas travel in this amount.
- b. Furthermore, every South African is allowed to take another R10 million per year out of the country. In this case, SARS clearance is required and even though this process will take a little longer, it is easier than most people think.

### **5. How do I invest my money now that it is overseas?**

I recommend the use of a Swiss bank account as investment platform. There are very good reasons why the Swiss bankers have been the world's treasurers for centuries when it comes to investments and the protection of capital. The additional benefits of managing your assets in the bank account include:

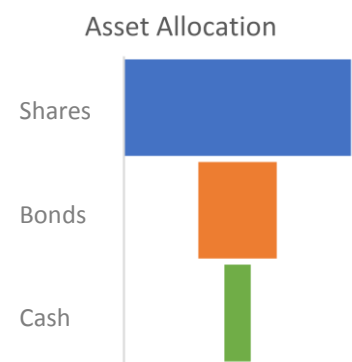
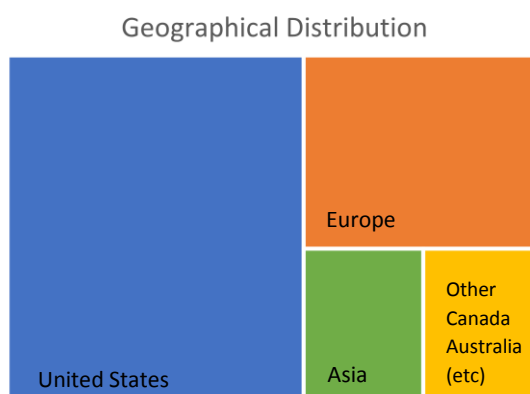
- a. It is a bank account that offers you all the advantages and protection of an international bank account, the peace of mind offered by the Swiss bank regulator and the convenience and transparency of a transactional bank account.
- b. Besides the fact that a joint account may be opened (e.g. in the names of you and your spouse), which will facilitate estate administration, the Swiss acknowledge a South African will and they respect the decisions made by a South African executor.



As far as the composition of the investment portfolio is concerned, I suggest a diversified portfolio that will give the investor exposure to the best companies in the world and that is spread over different geographic areas, sectors and currencies. In terms of our own solution, such a portfolio will include exposure to the following companies:

**Top 10 underlying exposures in the current Galileo Asset Management Portfolio on the Swiss bank platform:**

<b>Microsoft Inc</b>
<b>Apple Inc</b>
<b>Gold Bullion Ltd</b>
<b>Coca Cola Co</b>
<b>Nestle SA</b>
<b>British American Tobacco</b>
<b>Philip Morris</b>
<b>Unilever PLC</b>
<b>Altria Group</b>
<b>US TIPS 8%</b>



**6. Costs regarding the management of such an international portfolio**

The total cost of such a foreign managed investment portfolio amounts to about 1,95% of the value of the assets that are managed per year. It includes the following:

- Specialist and relevant advice;
- Fee for managing the underlying portfolio;
- Opening and managing the Swiss bank account;
- Platform costs;
- Transaction costs;
- Administration fees.

**Conclusion**

This should provide a good guideline regarding the total cost of a well diversified internationally managed investment portfolio with the benefits of a Swiss bank account that will serve as an investment platform as well as a banking platform.

I trust that this newsletter will give you more perspective on the question.

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