

A large offshore oil rig is shown in the background, with its complex metal structure and drilling tower extending into the sky. The rig is situated in the middle of a blue ocean with white-capped waves. The sky is a pale, clear blue. The rig's structure is primarily black with some red accents on the lattice work. A crane arm is visible on the left side of the rig. The overall scene conveys a sense of industrial scale and maritime operations.

OFFSHORE INVESTMENTS

"Effective and holistic diversification is essential for South African investors and offshore markets can offer just that."

- Eugene Botha, Deputy CIO at Momentum Investments

A portrait of Eugene Botha, a man with short dark hair, smiling. He is wearing a dark grey suit, a white shirt, and a red tie with a subtle pattern. The background is a blurred cityscape at night with lights from buildings.

SWITCHING ON THE “GLOBE”

Some would argue that now, more than ever before, it is essential to have some, if not most of your money invested in global markets. Effective and holistic diversification is essential for South African investors and offshore markets can offer just that. With South Africa being a mere 1% of the total global economy, offshore markets offer a myriad of different possible investments to choose from and therefore represents the perfect way to diversify your portfolio of assets and grow your wealth.

EUGENE
BOTHA

Deputy CIO at Momentum Investments

There are a couple of obvious benefits of investing offshore, of which diversification and protection from a weakening currency are probably the two most important benefits. Not only does offshore markets give your clients the opportunity to gain exposure to different geographies, industries, economies, companies, and exchange rates, but gives them the opportunity to invest into longer-term themes and growth opportunities that might not be available in the South Africa market. Elon Musk's company SpaceX, as an example of space exploration, the Metaverse, blockchain and other technological innovations, as well as evolutionary demographics are just some of the global themes that offer long-term growth opportunities and that are often only accessible through certain offshore investments.

Including offshore strategies in your clients' investment plans also protects them against local market and exchange rate volatility. Emerging market currencies like the rand is often vulnerable to local politics and geopolitical tensions, creating increased volatility in the returns of local companies. Hard currencies like the US dollar, British pound and the Euro are typically more stable. Having exposure to these currencies gives investors the opportunity to increase their return in rand, should the rand weaken due to extreme conditions but also through a scenario of longer-term structural rand weakening.



It is, however, important to note that investing offshore does not guarantee higher yields or returns relative to the local or other emerging markets. In fact, emerging markets often offer higher returns than developed markets, but at higher risk. Therefore, it is important to have a fair idea of the market you are entering with all its complexity to understand the risk dynamic aligned to your clients' wealth and assets.

The world is your proverbial oyster when it comes to offshore investing and the investments are typically easily accessible. However, there are a couple of key considerations that should be considered when deciding to invest outside of South Africa. There are two investment options to consider when gaining offshore exposure. The first option is to invest directly offshore, which effectively means going through exchange control and physically transferring hard currency offshore.

This will allow you to move your client's cash and savings to an international bank account or directly into an investment in your currency of choice. This is subject to attaining a tax clearance certificate and there are certain limitations on the maximum allowable funds to take offshore. Once the money is offshore, you can buy into instruments directly or through other investment vehicles like unit trusts or exchange traded funds (ETFs).

The indirect option allows an investor to invest into foreign rand denominated funds. In this case your client's money never really leaves South Africa, but they gain exposure to diversified offshore markets in foreign currencies which then gets converted to rands. No tax clearance is required for going the indirect route. Deciding to invest outside of the country could be daunting due to the sheer volume of international investments available and navigating this landscape may be challenging – but the benefits truly warrant that investors take the leap.

Investing is personal and how and where to invest depends on a client's own personal circumstances and financial goals. With so many options of products, platforms, and channels, never mind the technical and legal challenges, the need for professional advice is essential.

For more information on investing offshore, visit our [Global Matters portal](https://www.momentum.co.za/global-matters) at [momentum.co.za](https://www.momentum.co.za) or scan the QR code to join the Global Matters WhatsApp community easy and convenient access to regular offshore investing content such as articles, videos and other insights.