



## Q&A: OFFSHORE INVESTING FOR SOUTH AFRICANS

*"I took a beating after moving assets offshore in 2001 when the Rand was collapsing. The combination of the currency later strengthening and the funds themselves doing nothing has killed any growth since then. I think it's time to bring it back and there's no way I'd take more out now" – Tony M, Cape Town*

The comment above was made at a recent meeting and expresses the offshore investment views of many prospective clients we talk to.

To help our clients better understand whether or not offshore investing is a worthwhile prospect now, we asked and answered the **10 questions** below. Please note that all questions are considered assuming that the reader is a South African resident.

### 1. How much can I now take offshore?

In decades past, transferring assets offshore was a murky affair but over time the situation has ‘normalised’. Government now appreciates that, in the era of world-wide tax agreements, onerous exchange control restrictions tend to hinder rather than help the collection of tax revenue.

Individuals are currently permitted to transfer up to R5 million per calendar year offshore. A Tax Clearance Certificate, ID document and Exchange Control form are required. An important recent development is that the Tax Clearance Certificate will not be required on the first million transferred each year.

### 2. How are my offshore assets taxed?

South African residents are required to declare all assets and income worldwide to SARS. Tax paid in foreign jurisdictions can be offset against tax due locally.

### 3. What happens to my offshore assets when I die?

Although the assets themselves do not necessarily have to be sold and repatriated on death, their value is ultimately included in the estate on death, which means that they may be taxed. Generally, taxes on death such as estate duty – if applied at all – are applied in the jurisdiction in which the assets are domiciled on the date of death. Again, these taxes or duties can be offset against tax due locally.



#### **4. Do I need a Will in every country in which I own assets?**

An offshore Will is not an absolute necessity as your SA Will is legally binding globally. An offshore Will may however be helpful if the size or nature of the assets make it potentially difficult to wind the estate up. Certain jurisdictions also have particular complications which an offshore executor may be better placed to deal with. Offshore solicitors are expensive so it's best to consult with a good local Wills expert first. If only the local Will is available to guide then the SA executor will have to appoint an agent overseas.

#### **5. Can I own offshore assets via a trust?**

Local trusts cannot own offshore assets but there is nothing – apart from the costs, effort and careful planning involved – preventing the ownership of those assets by a trust founded and domiciled offshore.

#### **6. What's the difference between investing in local funds with offshore exposure and investing offshore directly?**

Purchasing local funds which have access to offshore investments gives exposure to those markets but the investments remain domiciled in SA. In plain language; the money is still here not there. Direct offshore investment entails the physical movement of money. The underlying assets may be the same but the location of ownership differs.

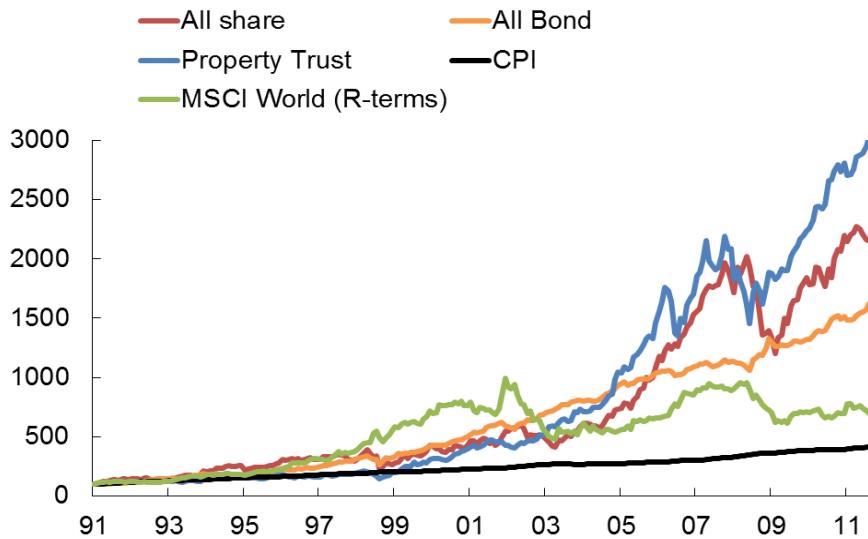
#### **7. How do changes in the value of the Rand affect my offshore assets?**

Local funds which hold offshore assets reflect both the underlying performance of those assets and exchange rates as they are automatically valued in Rand. If the offshore currency strengthens, one immediately has more Rands and vice versa.

Assets domiciled offshore have no immediate connection to our local currency, apart from the understandable tendency to immediately do a mental exchange rate conversion. In measuring performance we believe it's important to remember that the Rand is a relatively volatile and highly traded currency and that its fluctuations can distort the true value of offshore assets. A better method of analysis would be to measure over time the buying power of assets where they are domiciled. In other words, always imagine spending it there, not here.

### 8. Is this a good time to invest offshore and how much should I move?

Analysis of asset class and currency performance over the last couple of decades indicates a notable negative correlation; through the '90s, SA investors with offshore exposure were richly rewarded but then experienced flat or negative returns due to Rand strength and poor equity returns in developed markets in particular. On the other hand, local equity and property excelled during that period, after a decade of relative weakness.



*Inet Bridge, January 2012*

We cannot say with certainty that now is the time to anticipate another period of superior offshore returns but it is perhaps worth noting that the majority of SAs top fund managers have increased their available offshore allocations. Also of interest is that Price/Earnings ('P/E') ratios of many blue chip offshore companies are far lower than they were a decade ago. P/E gives an indication of where market prices are trading in relation to company performance. The lower the ratio, the greater the perceived value.

Company name	EPS change 2000 - 2012	Share price 2000 - 2012	P/ E			
			% change	% change	2000	2012
Cisco	253%	-48%	253%	-48%	79.7	11.8
Johnson & Johnson	205%	24%	205%	24%	32.2	13.1
Microsoft	205%	37%	205%	37%	24.6	11.1
Pfizer	124%	-53%	124%	-53%	45.1	9.5
Heineken	105%	-13%	105%	-13%	32.5	13.8
Tesco	212%	23%	212%	23%	24.8	9.7
Vodafone	690%	-55%	690%	-55%	199.0	11.3

*Coronation Fund Managers, January 2012*

**Address:** 23 Lady Anne Ave, Newlands, Cape Town, 7700 **Phone:** 021 674 2222 **Cell:** 082 833 1875 **Fax:** 086 653 4999

**Email:** [info@consequence.co.za](mailto:info@consequence.co.za) **Web:** [www.consequence.co.za](http://www.consequence.co.za)

**Consequence Private Wealth (Pty) Ltd**(Registration Number 2009/005302/07)

**Registered Financial Services Provider:** 39659

**Directors:** Michael Furter, Jeff Middelmann



SA is a relatively small investment universe and only one of many attractive emerging market options. Balancing asset classes is never a perfect science but the inclusion of an offshore element can serve to properly diversify an investment portfolio.

Finally, as to what percentage is best, Treasury places no allocation limits on discretionary investments but have capped offshore exposure within Pension Funds at 25%. So to increase one's overall offshore exposure, discretionary funds must be used.

#### **9. What is the best way to invest offshore?**

The same rules apply globally – invest with reputable managers on low cost platforms. A range of excellent offshore platform and fund options are now available. Many are offered by well-known local firms. Investments can be via flexible unit trust platforms or endowment structures which may be advantageous within your estate and tax planning context.

#### **10. Given that my offshore assets are taxed as if they were here, and that I can get offshore exposure locally, is there any real point in doing this?**

All portfolios require an appropriate level of diversification – including diversity of asset types, managers and currencies. A geographic diversification adds further to this. As proud South Africans we are all keen to invest locally and see the nation grow, but we also believe it is prudent to explore investment opportunities around the world now given Treasury's more open approach on the matter.

THIS DOCUMENT SHOULD NOT BE CONSTRUED AS FINANCIAL ADVICE , PLEASE CONTACT US AT [WWW.CONSEQUENCE.CO.ZA](http://WWW.CONSEQUENCE.CO.ZA) OR YOUR FINANCIAL ADVISOR FOR FURTHER INFORMATION BEFORE MAKING INVESTMENT DECISIONS.