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# Offshore investing: three benefits and three ways to get started

Offshore investing is an important strategy for investors looking to diversify their portfolios and tap into the growth potential of international markets. Investing in foreign markets has many benefits, but it can be daunting for those new to it. Here, we explore three benefits of offshore investing and three ways to go about it.

## Three benefits of offshore investing

Investing offshore can enhance your investment portfolio and improve your long-term investment outcomes:

1

### **Protection against currency fluctuations**

The rand is one of the world's most volatile currencies. Investing in assets denominated in different currencies reduces the impact of currency depreciation or political and market events on your wealth. This can help protect against rand depreciation over time and reduce the volatility of your investment returns.

2

### **Portfolio diversification**

Diversification is a key investment principle for reducing risk. The South African equity market represents less than 1% of the world's listed capital markets, and South Africa's GDP is less than 0.5% of global GDP. By diversifying your investments internationally, you can access an extensive range of investment opportunities across countries, industries, companies, and currencies. This provides more significant potential for growth and can help spread your risk across different markets. Including international assets in your investment portfolio is crucial for achieving a well-balanced and diversified portfolio.

3

### **Meeting future international goals**

Investing offshore can help you fund future international liabilities such as travelling, paying for your children's education abroad, or even retiring in another country. Investing in international assets ensures that your investment portfolio aligns with your global goals and provides opportunities to grow your wealth.

## Three ways to go about offshore investing

### 1 Invest in a South African unit trust fund that includes offshore assets

The relaxation of foreign exchange controls last year means domestic funds can now invest up to 45% in offshore markets. Therefore, investors who invest in a domestic unit trust may already have meaningful exposure to global assets.

### 2 Investing in an FSCA-approved rand-denominated international unit trust fund.

By doing so, investors do not use their offshore allowance. Instead, they invest in rands, and when they disinvest, the proceeds are paid in rands. While investors benefit from investing in funds that only hold offshore assets, they remain exposed to South African political risk.

### 3 Invest in a foreign-domiciled international unit trust fund registered in South Africa.

By doing so, investors invest directly into an FSCA-approved offshore fund in its dealing currency, e.g., dollars, pounds, or euros. Having completed the fund's application form, investors effectively instruct their bank (local or international) to make payments to the fund's bank account. When disinvesting, investors will receive the proceeds in the fund's dealing currency. Many South Africans have favoured rand-denominated international funds because of the perceived complexity of applying for tax and Reserve Bank clearance to invest offshore directly. However, as investors can invest up to R1 million annually in an international fund without prior approvals, they can access foreign-domiciled international funds with relative ease, thereby diversifying away South African political risk. In addition to the annual discretionary allowance of up to R1 million, investors also have a foreign capital allowance of up to R10 million per calendar year (a total sum of R11 million). Investors need to obtain foreign tax clearance from the South African Revenue Service to utilise their annual foreign allowance of R10 million. Reserve Bank approval is required when investors wish to transfer funds offshore more than the maximum total sum of R11 million per calendar year.



## The decision to invest offshore

Creating a long-term financial plan that considers your individual needs and circumstances is crucial when investing offshore. Investing offshore based on short-term events is never a good idea, as this can lead to emotional reactions that could harm your investment returns.

There is no one-size-fits-all approach for offshore investing. How much you invest offshore, and your chosen solutions will depend on your existing investment portfolio and long-term goals. A financial advisor can help you determine the optimum amount of offshore exposure for your portfolio, considering your domestic assets and long-term goals.

| [Click here to discover more about investing offshore.](#)

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