

INSIGHTS: OFFSHORE INVESTMENT

Foreign assets can help to diversify risk

● Covid-19 pandemic has exposed companies – and countries – with vulnerable business models

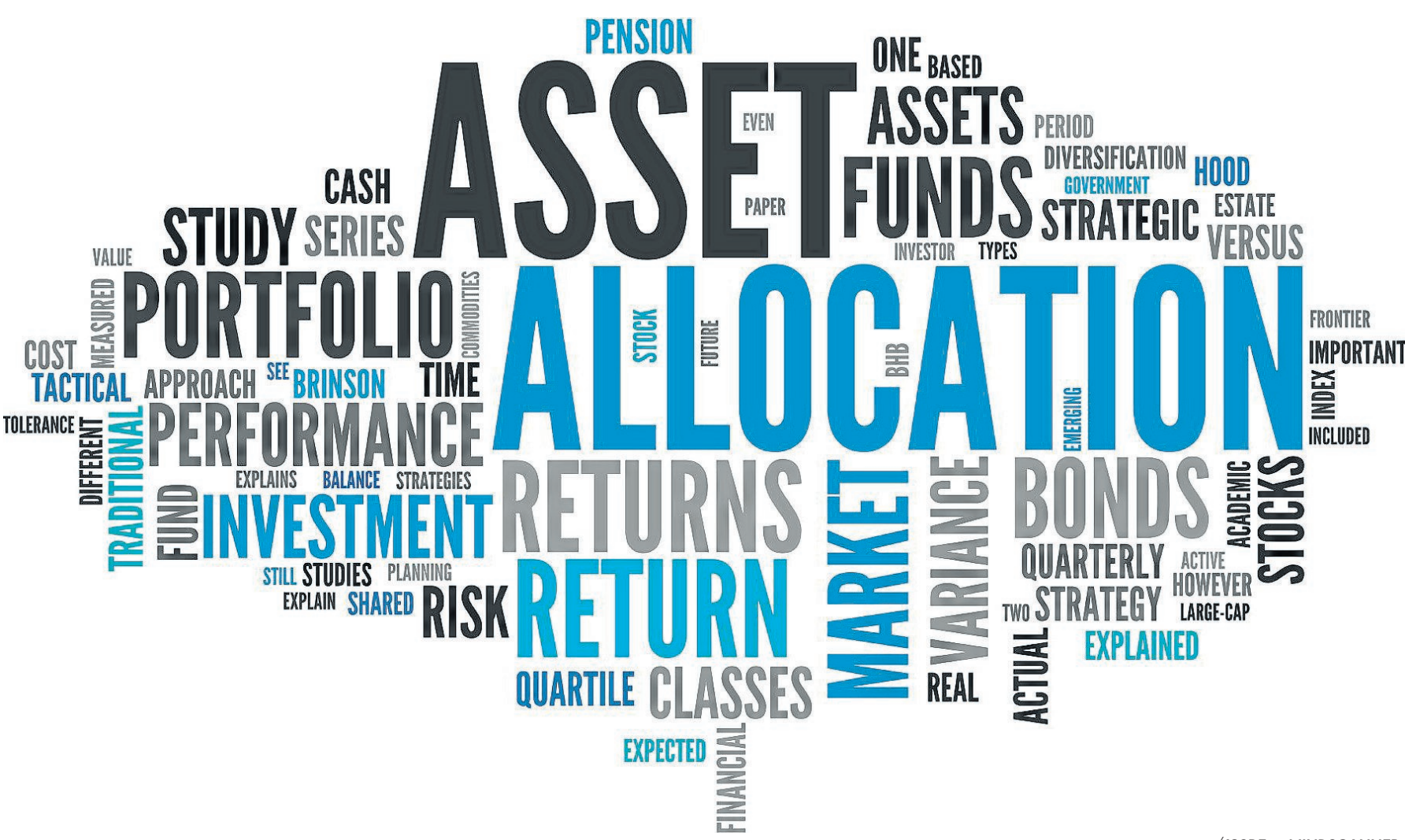
South African specific risk has highlighted the importance of diversification. At the same time, Covid-19 has created opportunities for businesses, many of which might not be accessed by companies domiciled in SA. So, how does one navigate the offshore environment, and ensure a portfolio makes sense from a diversification perspective? When looking at foreign markets from the South African investor's perspective, the biggest risk investors should be trying to diversify is the local economy will continue to underperform, and global growth may disappoint, says David Crosoer, chief investment officer at PPS Investments. "Our thinking is not that SA is doomed to fail – there are signs we may be turning a corner – but in an environment that remains challenging for SA it's important foreign assets can help diversify the risk of local



David Crosoer ... advantage.

assets performing poorly," says Crosoer, adding that while one might also hope foreign assets do well should South African assets also perform, this is not necessarily the most important criterion investors should be concerned about when they put money offshore. "Investors should be willing to tolerate some foreign

underperformance in their portfolios in a scenario that SA does particularly well, because one doesn't necessarily want to be doubling up on the same bet when one invests offshore." One of the big themes the Covid-19 pandemic has accentuated is how it has exposed companies – and countries – with vulnerable business models. "In our view, SA remains exposed, and although we hope to be positively surprised, an investment strategy focusing on companies best poised to benefit from the current environment, rather than companies that look inexpensive, makes sense," he says. "However, we're aware that 'bombed out' value strategies are likely to perform exceptionally well should the world turn out better than expected." The PPS Global Equity Fund and PPS Global Equity Feeder Fund are both aimed at making



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On the lookout for growth opportunities



Estimations are that between 65% and 80% of local investors' total wealth is directly exposed to the South African economy. According to the Afrasia 2019 SA Wealth Report, high net worth individuals in SA hold less than 20% of their wealth offshore. What this means, says Chris Potgieter, MD of Old Mutual Wealth Private Client Securities, is the majority of investors have too many eggs in one basket and have not diversified sufficiently. Offshore developed markets, he argues, offer more depth and breadth relative to the local market, which allows them to better diversify risk and access more investment opportunities for growth. "Along with risk mitigation, growth is the key reason for investing offshore," he says. "Global investment markets – particularly those in developed markets – offer more opportunities to invest in long-term growth sectors such as technology and healthcare. Any one of the top five listed companies in the world is greater than the combined value of all the companies listed on the JSE." It's essential to consider an investor's total wealth when devising a global investment strategy. Total wealth, explains Potgieter, includes career, business and property interests, as well as investments such as pensions. Once an investor has adequate provision in SA for

**A WELL-CONSTRUCTED PORTFOLIO SHOULD PROVIDE A GOOD BALANCE BETWEEN ESTABLISHED BUSINESSES AND GROWTH BUSINESSES**

local income requirements and liabilities, more liquid assets could be invested offshore for capital growth and protection. These direct offshore allocations are likely to be important to supplement the limited offshore exposure achievable through pension funds.

While offshore investments



Chris Potgieter ... total wealth.

are typically considered to be a subset of total wealth, he believes it should be the other way around and that the local investment should be a subset of an investor's total global wealth. "An offshore investment portfolio should be created around an investor's specific needs but, speaking broadly, a typical equity portfolio would be heavily invested in US multinational companies together with selected UK and European multinationals, providing exposure to both developed and developing markets," he says, adding that a well-constructed portfolio should provide a good balance between established businesses and growth businesses. Although considered to be inherently more risky, emerging markets could form part of a portfolio by investing in multinational companies that operate in these markets such as Diageo, Starbucks, Walt Disney and Nike, among others. "While the emotional response is that emerging markets are likely to deliver the same lacklustre returns they have over the past few years, the rational response, however, is to ensure global diversification across markets and geographies, and this includes emerging markets. Our experience of the past decade should teach us the rational response is the more prudent one," says Potgieter.

it easier for investors to access offshore opportunities, he says. "The PPS Global Equity Fund gives investors exposure to the new perspective strategy of the partnership manager, Capital Group, which is one of the most successful global investment firms. The PPS Global Equity Fund (in USS) and PPS Global Equity Feeder Fund (in rands) gives South African investors exposure to one of their flagship investment strategies."

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**2 funds making it easier to access offshore opportunities: PPS Global Equity Fund and PPS Global Equity Feeder Fund**

Founded in the 1930s, the Capital Group has unrivalled institutional memory including how to manage money through the Great Depression, World War II, the 1970s stagflation and, more recently, the technology bubble of the late 1990s, the global financial crisis of 2008 and the Covid-19 pandemic of 2020. Through this, points out Crosoer, the Capital Group has built an enduring capability in

identifying, nurturing and deploying portfolio managers to build on their success. "As a multimanager that assesses managers all the time, we can see what a competitive advantage the Capital Group has, and how difficult it is for other firms to come close to replicating their success." He says the Capital Group's strategy combines the insights of several portfolio managers who are given a clean slate to

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**1930s The decade when global investment firm Capital Group was founded**

construct their best ideas. "This means the PPS Global Equity Fund will never be beholden to one single idea or style, but rather it can adapt as portfolio managers are challenged in their thinking, and new ideas come into their funds. This ability to successfully take advantage of different opportunities over a long period accounts for the incredible consistency the strategy has delivered over time."



### IT'S NEVER TOO LATE TO SENSIBLY DIVERSIFY YOUR INVESTMENTS.

Offshore investing is a means to diversifying your investment portfolio. Diversification across different asset classes, asset managers, geographical locations or investments strategies means your portfolio is better able to withstand fluctuating market conditions and reach your long-term investment goals.

Invest in the PPS Global Equity Fund (USD denominated) and PPS Global Equity Feeder Fund (ZAR denominated) to gain access to a top international investment manager with a proven track record through various market cycles - because it's never too late to invest in yourself.



**INVESTMENTS**

Contact your PPS Investments accredited financial adviser or us on 0860 468 777 (0860 INV PPS) or at [clientservices@ppsinvestments.co.za](mailto:clientservices@ppsinvestments.co.za).

Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. A schedule of fees, charges and maximum commissions is available on request from the Manager. There is no guarantee in respect of capital or returns in a portfolio. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Forward pricing is used. These funds are exposed to foreign securities and as such may be subject to additional risks. Performance has been calculated using net NAV to NAV numbers with income reinvested. A feeder fund is a portfolio that invests in a single portfolio of a collective investment scheme, which levies its own charges and which could result in a higher fee structure for the feeder fund.

The PPS Global Equity Fund is registered and approved for marketing in South Africa under section 65 of the Collective Investment Schemes Control Act 45 of 2002. For any additional information such as fund prices, brochures and application forms please go to [www.president.ie](http://www.president.ie).

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