

Welcome 2017!

Is it time to invest offshore?

SJ du Preez - Managing Director, South Africa - 03 February 2017



Are you aware of the massive opportunity set available when you invest offshore? Here are a few facts and figures showing the opportunity set available for South African investors who want to invest offshore.

1. The South African stock market (the FTSE/JSE All Share Index) only makes up 0.7% of the MSCI World All Countries Index. To put that into further perspective: this is less than half the size of Apple (the biggest constituent of the index).
2. The FTSE/JSE All Share Index has 163 constituents; the MSCI World Index (Developed Markets) has 1,654.
3. The Top 10 constituents (stocks) in the FTSE/JSE All Share Index make up 50.5% of the total index (i.e. it is very concentrated), whilst the Top 10 Stocks of the MSCI World Index make up only 10.3% of the total index (i.e. it is much less concentrated / more diversified).
4. On 31 December 2016, the biggest stock in the FTSE/JSE All Share was Naspers (13.6% of the index) with a market capitalisation of some US\$63 billion. The biggest stock in the MSCI World Index was nearly ten times that, i.e. Apple (with a market capitalisation of US\$624 billion – making up only 1.9% of that index).
5. The Price-Earnings (PE) Ratio* of the MSCI World Index is 22.4 relative to the 30.3 PE Ratio of the FTSE/JSE All Share Index at the end of 2016. ▶▶

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The above facts and figures clearly illustrate that one has a much larger opportunity set and, therefore, better diversification potential when investing offshore. As a South African investor you can invest in companies like Microsoft, GlaxoSmithKline, Johnson & Johnson, PepsiCo and many more, while protecting yourself from potential rand weakness. We know, however, that the rand is not a one way bet. It can strengthen or weaken relative to other currencies as illustrated in the graphs below. One has to acknowledge though that the rand has strengthened in the recent past against both the US dollar and pound sterling and is probably giving you a good opportunity at the moment to invest money offshore.

A South African tax paying individual may currently apply for the annual offshore investment allowance of R10 million per person per year. Application is made via the SARS online e-Filing website. Once you receive confirmation of the allowance being granted you do not have to transfer the money offshore immediately, the allowance is valid for one year. Assuming you have R10 million to invest offshore, you can consider doing it in more than one tranche, i.e. average your rands out at different exchange rates and average yourself into offshore investment markets. Perhaps sending around R2.5 million offshore in four tranches can be considered. Always keep transaction costs in mind when

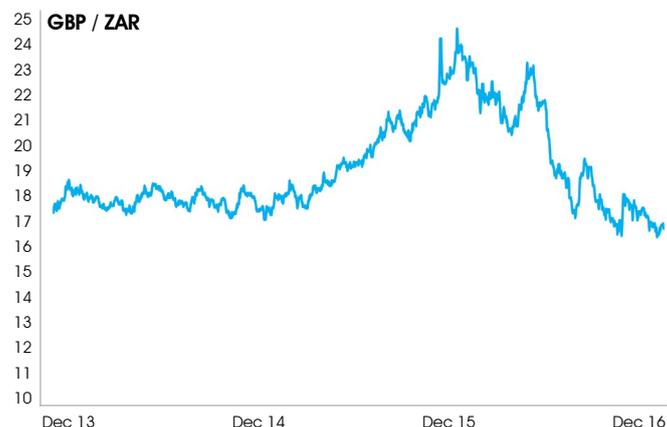
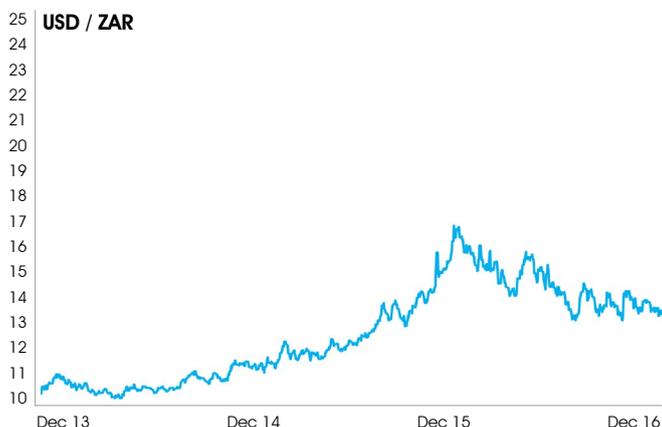
implementing this type of strategy, the tranches shouldn't be too small.

Credo Wealth offers various offshore investment products and services for South African investors. Please visit our website for more details or consider one of our flagship products:

- Credo Best Ideas Portfolio (direct / segregated equity portfolio)
- Credo Dividend Growth Portfolio (direct / segregated equity portfolio)
- Credo Global Equity Fund (unit trust)

In addition we also offer:

- Multi-Asset Class Portfolios
- Interest Bearing Portfolios (direct / segregated bond portfolio) ■



(* Price-Earnings (PE) Ratio: this ratio takes the current share price of a stock (or index) and divides it by the Earnings Per Share (EPS) of the stock (or index). The EPS is the net profit (earnings) that belongs to shareholders. The assumption, therefore, is that a higher PE ratio usually indicates that an investment is more expensive than similar investments with a lower PE ratio.

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