Philip Bradford ...
Makes no sense to take on currency risk.

head of investment advisory and strategy at Absa Wealth.

Indeed, with interest rates in the major developed economies at extremely low levels and likely to remain so for the foreseeable future, the real returns potential from global cash and money market funds is dismal. "It makes no sense for an investor to take on this currency risk unless the offshore investment has a high expected return, as with equities."

There is also some nervousness about international bond funds, even though bonds were the best-performing asset class in 2011, with dollar returns of well over 20%. "One needs to be very careful about assuming that performances of the recent past will be repeated," says Katakuzinos. "US long bond rates are now at very low levels and the probability of further declines is perhaps smaller than the chance that long-bond yields would rise. Should these yields rise even modestly from their current average of 3,5%, to a level of say 4,5%, investors could suffer substantial capital losses, of around 20% to 30%."

Once a fairly lone voice in calling for a more aggressive offshore asset exposure, Biccard's view has now become the consensus among local fund managers, wealth managers and advisers, who are recommending lightening South African equities in favour of international stocks. The differences in opinion are in the nuanced views on which regions and sectors might offer the most reward.

Bradford says that, with an investment horizon of five years or longer, both developed and emerging market equities are likely to offer better risk-adjusted returns than other asset classes.

"US equities are particularly attractive. Companies are profitable, their balance sheets are in good shape and valuations are attractive because they largely have priced in the current economic problems."

Though slightly less attractively priced, emerging market equities are set to benefit from what Bradford terms the "long-term structural growth" in these economies.

Steyn is particularly upbeat on equities in Asian emerging markets, where sound monetary and fiscal policies bode well for future growth. "If the investor understands the link between risk and return, can stomach the fluctuations typical of emerging markets and is willing to wait at least seven years for capital growth, this region is hugely appealing."

If selected carefully, listed global multinational companies could offer the investor the best of both these worlds. Many are headquartered in the US and Europe, where valuations have been flattened, while their earnings are sourced from across world markets, including the high-growth regions of Asian, Latin America and Africa.

Alan Noik, MD of the London-based Credo Capital, which has strong ties with South African clients and £1,3bn in private client funds under administration, says his experience is that high net worth clients tend to prefer owning such big-brand stocks directly, through bespoke portfolios. "With the poor past performance of some offshore funds, some see better value in direct equity holdings. Our high-conviction portfolios include 15 to 20 of these blue-chip stocks."

Another strong growth area for his client portfolios is corporate bonds. "The yield to maturity on the paper issued by solid businesses such as **Glencore**, **Marks & Spencer** and **Old Mutual** is in an attractive range of 5%-10%," Noik explains.

NO EXCUSES, THEN

The global investing world has opened up for South Africans in every way, then. Well-priced and exciting opportunities beckon, investment mechanisms, platforms and products proliferate and exchange control and administrative processes are simplified further each year.

"Offshore investing will become the next megatrend for South African investors and will present many opportunities for the investment industry,"

LEXICON OF UNIT TRUST FUNDS

Domestic funds: Portfolios that invest at least 70% of their assets in South African investment markets at all times.
Worldwide funds: Portfolios that invest in both South African and foreign funds. There are no restrictions on the allocations.
Foreign funds: Portfolios that invest at least 85% of their assets outside South Africa at all times.
Foreign collective investment schemes: Unit trust funds that are domiciled outside South Africa and which are denominated in foreign currency.

Source: Asisa

SOURCE VS RESIDENCE-BASED TAX

- In a source-based tax jurisdiction, income generated or sourced in that country is subject to tax in that jurisdiction.
- In a residence-based jurisdiction, the country has the right to tax a person considered resident within its borders on his worldwide income, regardless of the source of that income.
- Some countries adopt a mixture of the source and residence methods of taxation, which results in double taxation. Double taxation agreements are agreements between countries to avoid double taxation, by allocating the right to tax between source and residence states. Typically, the country of residence grants relief in the form of a tax credit for the tax paid in the foreign country.

Source: Norton Rose