

What do foreign-exchange limits mean for your investment strategy?

By [David Crosoer](#)

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National Treasury increased the allowance for the offshore investment of retirement funds from 30% to 45%, and simultaneously collapsed the 10% African allowance.



Source: [unSplash](#)

This is a big change for the asset-management industry which - excluding Africa in the first 25 years of democracy - had moved its offshore allowance from 15% to just 30%.

What, if anything does the change in foreign-exchange regulations mean for investment strategies? Surprisingly, in the short-term, perhaps not much. We engaged 14 asset-management companies post the regulatory change, in the multi-asset mandates we make use of, and none intended to increase their foreign exposure in the short term, given their view that valuations still favoured South African assets.

In the medium-term, though, we suspect the changes are likely to be profound, and will result in asset-management companies making quite significant changes. Quite how they will scale their businesses, and fully take advantage of the wider opportunity set, remains to be seen.

Certain managers will undoubtedly play to their strengths and stick to a pronounced SA bias through the cycle, while others may favour global fixed interest over global equities, especially at lower-risk profiles. Where managers favour global equities, they will need to convince investors they have an edge, while tactical asset-allocation skills may become even harder to implement successfully.

As a multi-manager, we have always employed both South African and global asset managers, and in addition, we make use of specialist asset managers. Here the further relaxation of exchange controls will allow us to implement meaningful changes to our own strategic asset-allocation framework which will impact on how we access our specialist asset managers and have significant implications for our clients.

Importantly, compared to before, we will now equal-weight global equities relative to South African equities across all our strategic asset allocations that have inflation targets. This is a significant change for us and implies our neutral allocation to equities will be split equally between South African and global asset managers across all our specialist mandates.



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The equal weight between South Africa and global equities will not remove the home-bias to SA equities, but it will reduce it. We view the SA equity market as highly concentrated, and reducing its weighting in our portfolios relative to foreign equities, will help mitigate both stock-specific risk and climate-transition risk over time. Of course, tactically we can still overweight SA equities relative to global equities, but our portfolios will generally be better diversified through time.

In contrast, our strategic asset allocation to global fixed interest remains low, despite the relaxation of exchange controls, even at lower risk portfolios, where we will continue to significantly favour SA fixed interest over global.

There is no single right answer as to how best to incorporate the new regulations in client portfolios. Like many SA managers, we currently favour SA equities, but our preference will be tempered by our new strategic asset allocation, and the opportunities our global asset managers are finding. Asset managers themselves are also likely to change their own strategic asset allocations, and each may solve this in different ways, depending on their own internal capabilities and how they wish to enhance return or reduce risk.

As a multi-manager that aims to combine managers to achieve more consistent returns, we are excited both about the greater opportunity-set we can now access, especially through our specialist capabilities, but also about how our SA multi-asset managers will differentiate themselves in playing in this new universe, and how we can successfully combine them across our portfolios to improve client outcomes.

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