

Offshore capacity limits

South African foreign exchange controls limit the amount unit trusts can invest overseas to 35% of retail assets under management, collectively. Available foreign capacity is affected dramatically by offshore assets under- or outperforming local assets in rand terms, the strength of the local currency, and demand. When local assets are not doing that well and the rand weakens the demand for offshore capacity tends to increase, sometimes very rapidly, at exactly the point when less capacity is available. Conversely, when the rand is strong and local assets outperform their offshore equivalents, flows into offshore funds tend to decline at exactly the point that more capacity is opened up.

Because of this limit, good flows and our recent strong offshore performance (see **Graph 1**, which reflects the performance of the Allan Gray-Orbis Global Equity Feeder Fund), the Allan Gray unit trust management company has reached the limit of its foreign capacity, and our rand-priced offshore funds have closed to inflows from investors in discretionary accounts. This means that other than through existing debit orders, investors cannot invest directly into the Allan Gray-Orbis Global Equity Feeder Fund, Global Fund of Funds and Global Optimal Fund of Funds. While the closure of these funds is temporary, we cannot predict when they will reopen – this will depend on overall flows, performance and the exchange rate. It is important to note that the closure is a capacity issue that affects Allan Gray; it does not affect Orbis.

What are your options if you want to invest in Orbis funds?

There are generally three ways to access the Orbis funds:

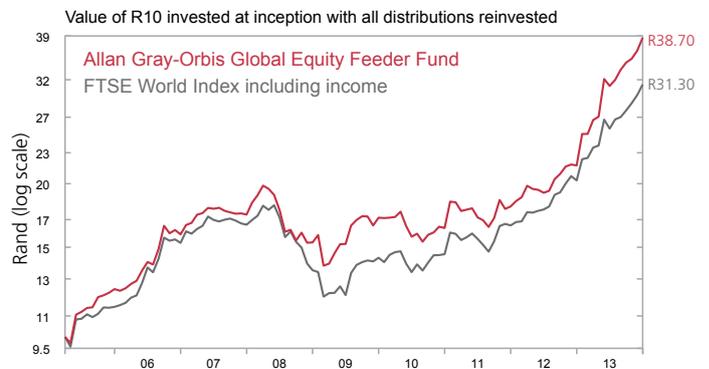
1. Invest directly via the Allan Gray-Orbis rand-denominated funds (currently closed)
2. Invest into the rand-denominated offshore funds via a product such as the Allan Gray Endowment (open)
3. Use your offshore investment allowance (see below) to invest directly into the underlying Orbis funds via our offshore platform (open – unaffected by capacity constraints)

Investing via the Allan Gray Offshore Investment Platform

If you do not want to invest via a product, option 3 may be your best bet. Investing via our locally administered offshore platform gives you easy access to the Orbis funds and other offshore managers. The platform can process instructions for several funds at the same time, sent to a single address, with local telephone and fax lines for instructions and physical offices. You can invest or transfer cash or existing offshore investments to the platform without the need to repatriate them first. Our secure website (the same website through which existing clients manage their other Allan Gray investments) offers easy reporting and online transacting. We are able to give you information on local tax, FICA and foreign exchange processes where required. Most of the administrative requirements associated with switching between foreign investments and accounting to the South African Revenue Services (SARS) for capital gains in foreign currency are decreased by investing via an offshore platform.

The primary aim of our platform is to offer investors convenient service across a simple range of funds and to reduce the high direct and indirect costs of international investing. With a huge selection of funds available globally, we have committed to making a manageable number available through our platform. The funds are selected through a combination of recommendations from independent financial advisers (through an annual fund survey) and, more recently, also through research conducted

Graph 1 | Allan Gray-Orbis Global Equity Feeder Fund performance*



* Net of all fees

Source: Bloomberg and Allan Gray

by international, independent fund ratings company Fundhouse. Fund ratings add an extra layer of comfort for investors and advisers when selecting funds.

The investment process

South African residents who are 18 years and older have access to a foreign investment allowance of up to R4 million per calendar year. Before you invest offshore you will need to obtain a tax clearance certificate from SARS, get approval from the South African Reserve Bank (SARB), and convert rands into foreign currency. An additional R1 million Single Discretionary Allowance (SDA) is also available annually for investment purposes without having to obtain a SARS tax clearance certificate.

To help streamline the process at Allan Gray, we have negotiated preferential rates with an independent foreign exchange provider who can assist you with applying for tax clearance certificates; currency conversions from rands into any of our accepted offshore currencies; and transferring foreign currency into our offshore bank accounts.

Understand your investments

The past year has seen phenomenal returns for global stock markets and, as a result, many local investors are reviewing their offshore positioning. We caution that past performance is not a guarantee of future performance, and you should make changes to your positioning based on your needs and circumstances, rather than in response to market moves. If you are looking to diversify your portfolio and protect yourself from rand weakness, investing offshore may be the right move for you. Allocating a portion of your investment offshore spreads your risk across different economies and geographic regions and provides the potential to earn returns from a wider set of opportunities. However, it is extremely difficult to predict macroeconomic events with any certainty, and even more difficult to predict the impact these will have on stock market returns. If you need help making sense of the options available to you, you may wish to consider speaking to an independent financial adviser.

For more information please refer to Johann Grandia's piece in Quarterly Commentary 3, 2013, 'Access global investment opportunities via our offshore platform'.

Commentary by Richard Carter and Johann Grandia, Allan Gray

Allan Gray Proprietary Limited is an authorised financial services provider. Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. A feeder fund is a unit trust that, apart from assets in liquid form, consists solely of units in a single portfolio of a collective investment scheme. A fund of funds unit trust may only invest in other unit trusts, which levy their own charges, that could result in a higher fee structure for these portfolios. Fluctuations and movements in exchange rates may also cause the value of underlying international investments to go up or down. A schedule of fees and charges and maximum commissions is available on request from Allan Gray. No commissions or incentives are paid. Funds may be closed to new investments at any time in order to be managed in accordance with their mandates. Allan Gray Investment Services Proprietary Limited is an authorised administrative financial services provider.