A new fund helps South Africans expand offshore limits. Safely.

The Sygnia Life Transnational Equity Fund allows increased global exposure through a low-fee, actively managed fund.

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Regulations have long constrained the amount South Africans can take directly offshore and how much we can externalise inside our retirement and living annuities. Those constraints are about to get even tighter because of the JSE's index harmonisation.

Sygnia has moved quickly to provide investors with an alternate offshore option by creating the new Sygnia Life Transnational Equity Fund. The fund is an actively managed equity portfolio that invests in JSE-listed equities with predominantly foreign revenues, providing global revenue exposure of 95%.

From a regulatory perspective, the fund is viewed as South African equities; therefore, there is no global limit for retirement or living annuities. This, in turn, enables South African investors to max out international revenue exposure well beyond the 45% global limit.

We recently launched a sister fund, the Sygnia Transnational Equity Unit Trust. This fund mirrors the Sygnia Life Transnational Equity Fund in terms of holdings and foreign revenue exposure. The only difference is that the fund is wrapped in a unit trust, not a linked life policy.

The JSE's offshore investment squeeze

For any investor scrambling to get money offshore, the JSE's increasing focus on domestic stocks in its indices is not welcome news. The JSE's index harmonisation of the FTSE/JSE Index Series is particularly jarring for investors who have maxed out their 45% retirement or living annuity offshore allocation.

That's because the harmonisation, which is expected to be finalised by March 2024, will effectively reduce the All Share Index's foreign revenue exposure from around 65% to be in line with SWIX's 50%. The process has been happening by stealth for nearly two years. BHP Group was reduced from 12% to 2% in March 2022, then Richemont was reduced from 20% to 3% in June 2023. AngloGold will be on the chopping block in December, followed by Anglo American in March 2024 in the final phase of the harmonisation process.

Since many offshore-maxed investors have traditionally used the All Share as a default option to increase offshore exposure, the harmonisation will effectively decrease this exposure. The harmonisation also means that many funds are redundant. For example, Sygnia is in the process of merging its SWIX 40 and Top 40 exchange-traded funds, as they will be the same fund post-harmonisation.

The new Sygnia Life Transnational Equity Fund has been designed to provide a much-needed alternative to the All Share and SWIX and, with 95% foreign revenue exposure, also gives investors the opportunity to radically increase offshore exposure.

In addition, the new fund is an innovative solution for constrained medical scheme investments, as medical schemes are not allowed to invest in offshore equities.

Controlled short-term risk vs long-term rewards

The Sygnia Life Transnational Equity Fund invests in around 30 holdings across three key sectors – industrials, resources, and financials – and includes among its top 10 heavy-hitters Prosus, Anheuser-Busch InBev SA, British American Tobacco, Richemont, Glencore and BHP Group.

While companies may be based in South Africa, they must have their majority share of revenue outside the country and are, therefore, not directly linked to domestic economic growth.

Although the fund's high offshore revenue diversifies the source of growth impacting the securities, it is by nature a high-risk fund, owing largely to concentration, sector, and currency risks. Sygnia's fund managers minimise these risks by spreading investments across sectors and capping the maximum exposure to any holding.

Even so, investors can expect some short-term market fluctuations. However, this short-term volatility must be assessed against an estimated outperformance of 4.6% over the last five years (vs the Capped SWIX), making this new fund an excellent option for investors looking to maximise long-term offshore growth.

In addition, fees for the Sygnia Life Transnational Equity Fund are at a low rate of 0.425%, allowing investors to benefit from the strategic growth of an actively managed fund at the same fees as a passively managed fund.

Lifelines for offshore-maxed investors

Essentially, the Sygnia Life Transnational Equity Fund has been purpose-built for investors who want to invest more outside South Africa but have reached their cap on traditional offshore investment options.

World Bank Africa recently revised South Africa's GDP growth forecast to only 0.5% for 2023, while Fitch Ratings revised its forecast to zero real GDP growth. And, in September, South Africa slipped even further down BankservAfrica's Economic Transactions Index, which is typically a robust early economic scorecard for South Africa's growth trends.

Whichever way you look at it, it's clear the prospect for domestic growth in the foreseeable future is not good, and investors are right to be anxious. It's also clear that, in times like these, local investors need alternate options to increase offshore diversification. With its 95% offshore revenue exposure, I'm confident the Sygnia Life Transnational Equity Fund and the Sygnia Transnational Equity Unit Trust are the lifelines offshore-maxed investors have long been holding out for.

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