RORY SPANGENBERG
Director: Global Equities, Northstar Asset Management

RIGHT FOR THE WRONG REASONS

Is offshore investing still a good move for South African investors?

Ask South African investors why offshore investing is so advantageous and you are likely to get two main answers – to shift assets out of the rand and to increase diversification. While these answers have some validity, we would argue that they overlook a far more compelling reason that has a significant positive impact on long-term returns.

As global stock pickers, we at Northstar spend our time looking for high-quality businesses with strong underlying fundamentals capable of sustaining an identifiable strategic competitive advantage. These companies generally display strong free cashflow and superior rates of return on invested capital (ROIC).

While there are a number of companies on the JSE that have proven to be competent allocators of capital over time, South Africa remains an extremely small market in global terms, comprising less than one percent of the MSCI World Index.

The JSE is also overpopulated with the old industry sectors characterised by low ROICs, and underrepresented in the fast-growing sectors with higher ROICs such as software, pharmaceuticals, IT services, technology hardware and healthcare. Limiting your potential investments to only the JSE means missing out on a vastly larger and more varied investment universe of quality businesses. This makes a big difference to long-term returns and is, we believe, the most important reason to take a more global view.

As an example, if you had made the decision to invest in luxury goods, your only option in South Africa would have been Richemont. But with the luxury of real choice, you could have invested your money in LVMH, a holding in Northstar's global funds, earning yourself an extra return over Richemont of 136% over five years, which is an additional 19% a year.

Had you chosen to put your money into tobacco stocks, your only choice on the JSE is British American Tobacco. But if you had looked abroad, you could have put that money into Phillip Morris and you would have made 29% more on your money over five years.

Naspers has certainly served South African investors well over the last five years, but all of those gains have been driven by Tencent, its Chinese internet subsidiary. Naspers is by no means unique in the world and has in fact underperformed similar businesses that are not accessible on the JSE, including Facebook (28% outperformance over five years), Apple (47%), Amazon (269%) and Netflix (343%).

These figures also show that even within a favourable sector, returns can vary widely from company to company, so having the ability to pick the best stocks in a sector is also an important factor in generating superior returns.

The Northstar team has a long track record of managing global assets that demonstrates our ability to reliably identify attractively valued quality companies. Putting this experience to work in the global opportunity set has generated returns for our funds that are consistently among the world's top global funds.