

Investors looking beyond South Africa's borders to diversify their portfolios globally typically focus on the opportunities provided by global equities. However, high interest rates in the currently uncertain investment environment provide another compelling opportunity to invest in high-yielding, low-risk global income assets.

Given the inherent volatility and political uncertainty of the South African economy, global diversification is crucial. Offshore investments in more stable economies act as a hedge against local economic fluctuations and provide a broader security net against domestic unpredictability, thereby mitigating the risks associated with the South African economy.

Investing in equities has always been the obvious choice when looking to diversify globally because South Africa's stock market represents less than 1% of global stock market capitalisation. The JSE also offers limited exposure to the myriad of innovative and fast-growing industries, such as technology and pharmaceuticals, which are not well-represented on the JSE.

While investing in equities has traditionally been the go-to strategy for global diversification, South African investors need to explore other options. US dollar-denominated income assets, which are currently benefiting from the high-interest-rate environment offer a unique opportunity. These assets provide a conservative way to invest in US dollars, offering low-risk yields of 5% to 6% in dollars, which significantly outperform money market funds or cash.

Regulation 28 of the Pension Funds Act allows investors to allocate up to 45% of their portfolio offshore. This regulatory provision enables investors to diversify their investment exposure globally, and diversification, according to scientific evidence, has historically been the most significant risk-reducing strategy in investment that doesn't compromise expected returns. Global income funds are particularly appealing in the context of current global financial trends. These funds offer asset class diversification, certainty of returns and a reduced risk profile. South African investors can access these through local investment platforms in the form of dollar-denominated funds or local currency feeder funds.

Primary considerations when investing should be that the funds offer highly diversified exposure across the more than 10 000 high-yield instruments available globally. It should be invested based on a risk-aware philosophy that optimises returns through high-quality, high-yield income assets. As a systematic investment company committed to science and evidence-based investing, we understand the importance of empirically grounded investment strategies that take advantage of all available global investment opportunities, of which global income funds are an especially attractive investment option in a high-interest-rate environment. This strategy promises higher returns and ensures a more stable and diversified investment portfolio in the face of local and global economic uncertainties. □

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