INVESTEC ASSET MANAGEMENT on 31 March 2018

The impact of exchange rates on foreign investment

As Regulation 28 now allows for 30% of your portfolio to be invested offshore, it is important to understand **how the exchange rate impacts your investment return**. While the case for investing offshore is compelling, it is important to consider **where the return** from an international investment could come from:

- the **exchange rate** and/or
- the **underlying foreign investment**

The 2 graphs below show the **Investec Global Franchise**, the **offshore equity allocation of the Investec Opportunity Fund**, in ZAR and USD, during a **rand-weakening period** (left) and **rand-strengthening period** (right). During the 2-year period to December 2015 the rand added to returns, whereas in the 2-year period to December 2017, the rand detracted.

Despite the underlying foreign investments performing well during both periods, the currency's negative impact can be clearly seen during a rand-strengthening period. Over the last **12 months**, to end March 2018, **the rand has strengthened nearly 12%** to the US dollar.

Studies have shown that when considering the historical returns of foreign investments, the impact of the exchange rate is uncertain and volatile. When measured over shorter time horizons, the exchange rate can have a significant impact on the investment return in rands. Research indicates that **it is only over longer time horizons** that the **underlying investment contributes more** to the return **than the exchange rate**.

Rieshdah Gabier
Sales Associate
Investec Asset Management
rieshdah.gabier@investecmail.com

T +27 21 416 1731
M +27 83 757 8363
F +27 21 416 2731

36 Hans Strijdom Avenue Foreshore, Cape Town, 8001
www.investecassetmanagement.com