

TALKING POINT

The secret weapon advisers need when investing globally
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Key Points:

- More choice offshore creates more complexity.
- Reputable DFMs embrace complexity and mitigate the client's business risk.
- Partnering with the right DFM is key in meeting the offshore needs of clients.

Introduction

If we accept the need for global exposure in investment portfolios – and we should – we need to address tough questions about HOW to best source, quantify and manage such exposure. In this article we briefly discuss why Discretionary Fund Managers (DFMs) are the secret weapon advisers need when investing in global markets.

While South African financial markets offer investors deep liquidity and world-class regulation, they also present constraints that are difficult to ignore. The JSE represents less than 1% of global market capitalisation with roughly 100 companies driving the bulk of local returns – compared to the depth and breadth of the MSCI ACWI IMI Index, which captures roughly 99% of the equity universe with more than 8 200 shares.

Larger opportunity set

The top ten shares on the JSE account for a substantial majority of the JSE All Share Index by market capitalisation. Sectors such as global technology, biotechnology and advanced electronics are barely represented locally. This means that unless we invest globally, local investors miss out many opportunities. It can be likened to shopping at a corner shop rather than a Checkers hypermarket.

Many investors point to recent South African market performance as a reason why they would like to reduce their offshore positions. Not only is this tantamount to chasing last year's winner – always a poor long-term strategy – but it also ignores the fact that 2025 was an outlier of a year. Geopolitics, commodity cycles and Keynes' 'animal spirits' contributed to a surge in interest in precious metals and by extension, the rand.

However, when you price South African wealth in dollars – the currency in which most global goods, services, travel, and education are ultimately denominated – a very different picture emerges. Over the past 20 years, South African wealth has weakened by an average of roughly 4.2% per annum in dollar terms; and by approximately 7% per annum over the past 50 years. The rand has moved from rough parity with the dollar in the 1970s to more than 17:1 today. Thus, quantitative analysis suggests that an optimal foreign allocation for a South African high-equity multi-asset portfolio sits in the 30-40% range, while even conservative portfolios can benefit from 20-30% offshore exposure.



Currency erosion
is silent, but it is
relentless

The paradox of choice



Globally, there are approximately
15 000 registered institutional-grade
investment firms

Regulation 28 now permits retirement funds to allocate up to 45% offshore. The days are gone when pension plans were only allowed to invest 5-10% offshore, meaning that the HOW to and WHO to invest with have now become material. The global opportunity set is more complex, encompassing manager selection, currency timing, tax implications and ongoing portfolio governance. For many advisory practices, maintaining deep research coverage across thousands of global managers/funds and multiple asset classes is simply not operationally feasible.

The role of a DFM as strategic partner

A reputable DFM can assist in all these areas of global investing, acting as a strategic partner for offshore investments rather than just a service provider.

- **Data acquisition and analysis**
Obtaining timely and accurate information has always been expensive – ask anyone with a Bloomberg terminal. Today's AI modules make obtaining global information easier than ever and while they can run analysis, they do not always provide a nuanced or experience-based view of the data. DFMs are integrating these systems into their own process to bolster their research and improve analysis, doing so on a scale which may not be possible for individual advisers. This work is then available for advisers to use.
- **Access to opportunities**
On the global front, this is significant. Advisers might be able to identify a good fund but may not know how to access it. Some of the best global funds are not section-65 approved and are therefore not available for distribution in South Africa. A strong DFM will be able to source these funds outside of South Africa and make them available. One such example would be our multi-managed Global Equity Fund. This is a wrapper for six high-quality global managers that are, for the most part, not otherwise accessible – Arrowstreet, AB (Alliance Bernstein), J.P. Morgan, Sands Capital, Sanders Capital and Veritas.
- **Pricing**
Once you have found an opportunity, is it available on your trading platform – and at what fee class? Strong DFMs can leverage their size to obtain competitive pricing, meaning that advisers cannot replicate the DFM portfolios at the same price point. This is where DFMs provide real, quantifiable value in the global space.
- **Trading and operations**
Dealing with different jurisdictions and currencies require systems and back-office teams. Large DFMs provide scale and can afford systems and people that are seen to be too expensive for the typical adviser to manage.

In addition to solving the risks above, a credible DFM can provide advisers with access to a dedicated team of investment specialists, comprehensive fund manager research, and bespoke portfolio solutions aligned to specific client risk profiles. This frees advisers to focus on what builds sustainable practices: holistic financial planning, client relationships and behavioural coaching.

Lastly, ensuring good compliance and governance outcomes for clients is trickier on the international stage. Every jurisdiction and investment platform has its own regional quirks, from accessibility to withholding tax, inheritance measures, the way trusts are managed and so forth.

A professional DFM ensures adherence within the global space to Treating Customers Fairly (TCF) and relevant conduct standards, maintains rigorous due diligence documentation, and provides branded client communications and reporting. This reduces business risk for the adviser while delivering a consistent, repeatable investment process across the entire client base.

DFM skillset

Critically, a DFM with genuine global capability can construct portfolios that blend local and offshore exposure intelligently. Rather than treating offshore allocation as a blunt instrument, the right partner will be able to navigate currency hedging decisions, identify alternative asset classes, and adjust tactically as market conditions shift – something that is difficult to achieve from a purely advisory or reactive portfolio approach.

The dangers of matching with the 'wrong' DFM partner are sizeable. Imagine your clients' money being managed by a business whose operations are sub-standard or whose investment decisions are difficult to understand. Worse, imagine if performance is persistently bad and there is no support from the DFM to deal with client queries. A poor partnership can end up costing money for advisers and clients alike. Imagine explaining to a retiree that money has been lost on an overseas-listed company because the adviser did not have the time or resources to properly manage the investment – or trade out in time of bad news.

Conclusion

If global diversification is no longer a luxury for South African investors, then advisers need to seriously consider how best to execute in this space. If they cannot be experts themselves, the next best step is partnering with someone that specialises in this area. Partnering with a reputable DFM does not mean outsourcing; it means upgrading the entire investment offering. In an environment where clients are increasingly aware of offshore opportunities and local concentration risks, that partnership may be the single most important decision an adviser makes for the long-term health of their practice – and their clients' wealth.

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