

Looking outside of Australia: What are the benefits of investing beyond our shores?

In previous *Investment Updates* we've considered the effect of global economies and markets on Australians' super investments, particularly following the Global Financial Crisis (GFC) and subsequent recovery as world economies start to stabilise. But how does it work the other way? What does it mean to make an investment in those overseas markets?

Overseas investments are generally seen as high risk investments. And whilst it's true that there are risks involved in participating in foreign markets, there are benefits to adding this type of investment to a well-considered portfolio.

Here we look at some of those benefits and how you might consider an overseas investment as part of your overall retirement saving strategy.

Diversification

The first and most obvious benefit offered by an overseas investment is diversification. Whilst there are times when the stock markets of different countries respond to big



events (such as the GFC, September 11 or the Great Depression of the early 20th century), they do tend to move differently at different times, responding to country- or region-specific events and economic forces. For instance, whilst one country may be in the midst of a recession (forcing investment returns down), another might be in a period of high growth, presenting attractive investment opportunities.

Investing in markets that move out of synch with the major world markets can be an important source of diversification. You can take advantage of stability in some markets and growth potential in others. This allows you to balance the risk of more volatile investments by making an investment in a more stable economy to protect yourself against negative movements in another market.

Australians investing in an overseas market can potentially reduce their portfolio risk. This is possible because the Australian economy does not move in perfect time with overseas economies and Australian and overseas markets aren't in perfect synch. These factors, coupled with an Australian dollar that tends to move in the same direction as overseas markets, gives an "offset" effect that may provide some stability over the long term.

The Australian market is very concentrated

The Australian market makes up just 1.5% of the world's total share market value. In addition to being a fairly small market, the Australian market is very concentrated, both in terms of the sectors and the shares available. There are shares in fewer companies available in a smaller range of industries or sectors. What this means in practical terms is that investors have a more limited scope to diversify than if they were investing overseas.

An overseas investment provides the opportunity to invest in a broader range of sectors in larger markets with greater numbers of stocks available. Australians investing overseas gain access to industries and companies that aren't well-represented in the Australian market. Venturing into overseas markets gives exposure to countries that may be experiencing higher levels of growth than Australia; industry sectors that aren't present in Australia and large global companies not represented on the Australian stock exchange.

Currency movements

Fluctuations in the Australian dollar against the overseas market in which you are investing also provide investment advantages. This works a couple of ways.

A commonly-used method of using currency in an investment is to use it as a hedge against other losses. When making an overseas investment, investors (or, more commonly, investment managers) will seek to reduce currency risk by making a simultaneous investment in a foreign currency exchange investment on the basis that it will create some protection against changes in currency value.

Another way this works is by capitalising on fluctuations in the Australian dollar. If an investor (or investment manager) makes an overseas investment and the value of the Australian dollar decreases, the value of the investment increases (in Australian dollars).



Investing overseas is not without risk

Remember, overseas share investments can experience significant short-term volatility which brings with it the potential for negative returns. It's estimated that a typical overseas share fund (that is, a managed fund that invests in a range of overseas shares) has a risk of a negative return occurring one year in every three to four, which is quite high. However, over the long term, this volatility tends to become less significant, with growth becoming more evident. Experts suggest that this sort of investment has a minimum time frame of at least five years, if not more, in order to gain growth.

There are other risks involved in investing overseas that have the potential to have a significant impact on the value of your investment. These include:

- **Currency risk** – where an overseas investment might gain or lose value as a result of changes in the value of the Australian dollar against other currencies.
- **Market risk** – factors such as investor sentiment, economic impacts, regulatory conditions and political events may negatively impact market performance.
- **Liquidity risk** – a security that is not actively traded may not be readily bought or sold without an adverse impact on its price.

Making an overseas investment with NGS Super

As an NGS Super member, you have access to a number of investment options with exposure to overseas shares. Our International Shares investment option has a 100% exposure to this asset class. Our other options have smaller exposures that provide some diversification in a retirement savings portfolio. These include the Diversified option (the Fund's default investment option) as well as the Shares Plus, High Growth, Conservative, Defensive and Green investment options.

Choosing an investment option (or combination of options) is a decision that should be made with the assistance of an investment professional.

NGS Financial Planning

NGS Super members have access to a great financial planning service and your first consultation is free. Simply call **1300 133 177** to make your appointment with an NGS Super Financial Planner today.

How to contact us

Visit our website www.ngssuper.com.au, or contact our Customer Service Team or your local relationship manager at any time. We're here to help you.

NGS Super Administration
Telephone: 1300 133 177

Phone number for callers outside Australia
+61 3 8687 1818

Fax: (03) 8640 0813
Email: administration@ngssuper.com.au
Web: www.ngssuper.com.au

Postal address

**GPO Box 4303
Melbourne VIC 3001**

NGS Super Trustee Office (NSW)

Jorjet Issavi
Relationship Manager
Email: jissavi@ngssuper.com.au

Dee Duke
Relationship Manager
Email: dduke@ngssuper.com.au

**Level 16, 99 Bathurst Street
Sydney NSW 2000**
Telephone: (02) 9273 7900

South Australian Regional Office

Elaine Santos Facchino
Relationship Manager
Email: efacchino@ngssuper.com.au

John Pedersen
Relationship Manager
Email: jpetersen@ngssuper.com.au

**Optus Building, Level 1
431-439 King William Street
Adelaide SA 5000**
Telephone: (08) 8418 2400

Victorian Regional Office

Laurie Buchanan
Relationship Manager
Email: lbuchanan@ngssuper.com.au

**Level 5, 737 Burwood Road
Hawthorn VIC 3122**
Telephone: (03) 9811 0502

Western Australian Regional Office

Kate Bell
Business Development Manager
Email: kbell@ngssuper.com.au

Sharyn Long Chartered Accountants
**Level 6, 216 St Georges Terrace
Perth WA 6000**
Telephone: 0488 188 344

Important information

The information provided in this Update is general information only and does not take into account your objectives, financial situation or needs. Before making a financial decision, please assess the appropriateness of the information to your individual circumstances, read the Product Disclosure Statement for any product you may be thinking of acquiring and consider seeking independent advice from a licensed or appropriately authorised financial adviser.

Past performance is not a reliable indicator of future performance.

