Offshore funds and onshore myths

The 'Panama Papers' have created a media frenzy about offshore investment. Not everything you read was necessarily accurate.

Offshore investment made front page headlines last month, with the leak of 11.5 million documents from a law firm in Panama. The fact that there was link to the Prime Minister gave the story legs, but unfortunately that also meant more opportunity for misinformation and outright error.

One trap that too many commentators (and a few politicians) fell into was to conflate offshore investment with tax avoidance (or evasion) by the wealthy. While it is almost certainly probable that some names on the Panamanian list had this in mind, offshore investment has a much wider and often less tax-driven appeal.

For example, one of the biggest areas of fund growth in recent years has been index-tracking exchange traded funds (ETFs). These are used by both institutional and individual investors to gain exposure to a wide range of share and bond markets, as well as some commodities, such as gold. Many of the ETFs purchased by UK investors are based in the offshore centres of Dublin or Luxembourg. These locations were originally chosen because they were established centres for fund management and offered administrative and other advantages for continent-wide sales over, for example, setting up in the UK.

According to one leading investment data provider, Morningstar, over two thirds of the largest actively managed funds marketed in the UK are based offshore, with more registered in either Dublin or Luxembourg than the UK.

If you think you could benefit by learning more about investing offshore, please talk to us.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.