



OFFSHORE

INTERNATIONAL FUND RANGE

Investing in rands and dollars

CORONATION 
FUND MANAGERS



Over the past ten years domestic equities have delivered an exceptional 17.5% per annum, while global equities have returned close to zero percent. South African investors may therefore ask: Why should I invest offshore at all? Or: Why should I consider increasing my offshore exposure now?

A South African investor typically has exposure to offshore assets of around only 10% of his or her portfolio. Given the relative performance of domestic and international assets over the past decade, this may feel like a justifiably efficient allocation of capital.

Since late 2008 we have consistently advocated the view that most long-term investors will benefit from increased offshore allocations. We have however been surprised by the often horrified reaction we get from clients when we motivate an increase in offshore exposure. It seems South Africans have been so scarred by their past experiences that they are determined to avoid offshore investments, regardless of the merits of the supporting arguments.

The following five points give some perspective as to why you should consider increasing your offshore exposure beyond the average 10%, and why offshore assets should form part of a balanced portfolio.

DON'T EXTRAPOLATE THE PAST FOR THE FUTURE

The recent experience, where domestic equities handsomely outperformed global equities, was preceded by a 20-year period (from 1980 to 1999) where the reverse was true, and global equities significantly outperformed the local market. Long periods of poor performance are typically followed by long periods of well above average performance. There is no guarantee that the future will be the same as the most recent past, making it dangerous to anchor expectations in the outperformance of domestic assets through the 2000s [see Fig 1].

FIGURE 1: Coronation 10-year asset class forecast

	LAST 10 YEARS	CORONATION 10-YEAR FORECAST
LOCAL EQUITIES	17.5%	11.0%
GLOBAL EQUITIES	1.1%	14.0%
LOCAL PROPERTY	25.7%	9.0%
LOCAL BONDS	12.4%	9.0%
LOCAL CASH	10%	8.0%
INFLATION	6.0%	6.0%

Source: I-Net Bridge and Coronation Fund Managers research



GLOBAL EQUITIES OFFER MORE VALUE

While the price of global equities (P in the Price/Earnings [P/E] ratio) has increased only marginally over the past decade, company earnings (the E in P/E) have continued to grow. Valuations are therefore more attractive today as the P/E ratio has come down over time.

Despite the recent recovery in share prices, the initial valuation level of global equities remains relatively attractive, especially compared to the domestic equity market. If one compares the relative performance of South African and US equities over time, you'll see that local share prices recovered dramatically from a very undervalued position in the early 90s to a somewhat overvalued level today. This supports Coronation's 10-year forecast for the respective asset classes in Figure 1, and explains why we currently see much more opportunity in global equities than we do in the local market.

TAKE ADVANTAGE OF THE STRENGTH IN THE CURRENCY

Investors were desperate to go offshore when the rand was weak (prices were high). Today the rand is strong (prices are low) and appetite appears to be non-existent. We think this is a big mistake.

While the rand may remain strong in the short term, we believe that the risks are heavily skewed to the downside. Industrial South Africa is not competitive at these levels. This is unlikely to change with electricity prices set to increase substantially over the next few years and wage settlements to be in the high single digits.

FOREIGN EXPOSURE DIVERSIFIES AND OPTIMISES YOUR PORTFOLIO

■ DIVERSIFICATION

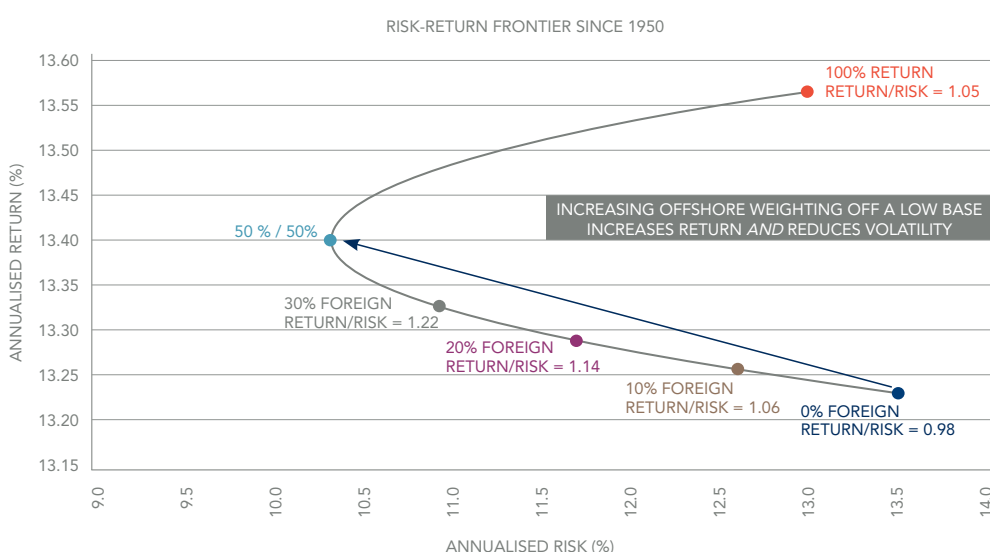
Investors who restrict their universe to domestic assets miss out on 99% of the available investment opportunities presented by listed assets around the globe. By diversifying your investment portfolio to include international assets, you gain access to growth regions which benefit from mega drivers such as industrialisation and urbanisation. You also gain access to industries which are not locally present (e.g. IT, electronics, pharmaceuticals). The world is changing: emerging markets are driving the global economy as they industrialise and urbanise. This will create wealth for investors prepared to take a long-term view and invest in those regions.



■ OPTIMISATION

Studies on optimal portfolios recommend a 20%-30% offshore allocation through the cycle. With the rand strong and attractive valuations offshore, we think investors should be at the high end of the range. Don't wait for the rand to weaken before you move. Figure 2 below plots two rand-denominated portfolios – one that is fully invested in domestic assets (bottom right) and one that is fully invested in international assets (top right). The graph illustrates that by increasing one's foreign exposure off a very low base (up to a certain point) you not only increase your portfolio return but also reduce the overall risk within your portfolio.

FIGURE 2: Adding 20% - 30% international assets makes a portfolio more efficient



Source: Coronation Fund Managers research

MATCH YOUR LIABILITIES

It is worthwhile to remember that many items in a consumer's shopping basket (from fuel to food to health care) are largely priced in foreign currency. Adequate offshore exposure viewed from this perspective is merely a hedge against the long-term change in price of this part of your future shopping basket. Currency weakness will remain a strong driver into the future.



South African investors have two options when it comes to investing offshore:

1 INVEST WITHOUT USING YOUR OFFSHORE ALLOWANCE

You can diversify your portfolio with exposure to other regions of the world and currencies by investing in any rand-denominated international fund. An investment in such a fund, does not require you to utilise your individual offshore allowance of R4 million.

2 INVEST USING YOUR R4 MILLION OFFSHORE ALLOWANCE

Foreign-denominated international funds offer South African investors a hedge against rand depreciation. All funds in the Coronation international range (except the Coronation Optimum Growth Fund) are available as dollar-denominated funds.

ACCESSING OUR FUNDS

Our rand-denominated funds are available directly from us or as investment options on the product platforms of most of the prominent linked product companies in South Africa. Our dollar-denominated funds can also be accessed directly, and we are in the process of ensuring the availability of selected funds through the offshore fund platforms.

INTERNATIONAL FUND RANGE

Coronation offers a range of international funds from which to choose. All funds share the common Coronation DNA of a disciplined long-term focused and valuation-based investment philosophy and our commitment to provide investment excellence.

Whether you choose to invest in rands or in dollars, we can meet your individual needs by providing access to both developed and emerging markets in a pure equity or multi-asset portfolio.

RAND-DENOMINATED	DOLLAR-DENOMINATED	DESCRIPTION
INVESTOR NEED: GROWTH EQUITY		
World Equity [ZAR]	Global Opportunities Equity	A focused portfolio of the best developed market equity managers
Global Emerging Markets Flexible [ZAR]	Global Emerging Markets	Best investment view across emerging markets
INVESTOR NEED: GROWTH MULTI-ASSET		
Global Managed [ZAR]	Global Managed [USD]	Best investment view across global markets
Optimum Growth	N/A	Best rand risk-adjusted returns from a global multi-asset portfolio
INVESTOR NEED: PRESERVATION		
Latitude [ZAR]	Global Capital Plus	Returns in excess of foreign cash while preserving capital in US dollars over any 12 months



HOW TO INVEST IN A CORONATION DOLLAR-DENOMINATED INTERNATIONAL FUND

STEP 1 APPLY FOR TAX CLEARANCE

Tax clearance from the South African Revenue Service (SARS) is required prior to investing in one of Coronation's dollar-denominated international funds. To do this simply download and complete a [Tax Clearance Certificate](#) (i.r.o. Foreign Investment Allowance for Individuals). Approval will depend on your specific SARS office and your tax status. Please consult your local SARS office as to the expected time of approval when applying. This 'Tax Clearance Certificate' will be required by your bank and is typically valid for a period of 12 months.

STEP 2 CHOOSING THE RIGHT FUND

Matching your needs to the right fund is vitally important, so if you are unsure speak to your financial advisor or contact [Client Service](#) on 0800 86 96 42 who will gladly provide you with further details on the various fund options available to you.

STEP 3 VISIT YOUR BANK

Once you've obtained tax clearance, you need to contact your bank to arrange for a transfer of funds. The following documents are required by your bank:

- SARS Tax Clearance Certificate
- A completed Application for overseas transfer/ OTT/ Balance of Payments (BoP) Outward Form available from your banker.
- A completed [exchange control application form](#) available from www.reservebank.gov.za or from your banker.
- A green bar-coded SA ID document (and Power of Attorney, if applicable).
- Details of the bank account that you wish the funds to be transferred to. This is available from [Client Service](#).

Coronation can assist with this process should the transfer be made at any of the following banks:

- ABSA
- First National Bank
- Nedbank
- Standard Bank

Kindly contact [Client Service](#) to assess how we could assist in this process.



STEP 4 COMPLETE THE CORONATION APPLICATION FORM

Once you've arranged for a transfer of funds, download and complete the [Application Form](#) or request one of our [client service](#) consultants to email or post this to you.

STEP 5 WHAT CORONATION NEEDS FROM YOU

- Copy of your ID documentation bearing ID number and photograph
- Proof of residential address less than three months old (e.g. utility bill or telephone account)
- Proof of banking details (e.g. bank statement or cancelled cheque less than three months old)
- Proof of SA income tax number if applicable (e.g. SARS issued document bearing name and tax number)

If supporting documentation has been provided in full to another primary accountable institution (e.g. your Financial Advisor) and Client Service has written confirmation of this, you will only need to attach proof of identity and proof of banking details to your application.

FREQUENTLY ASKED QUESTIONS

Coronation has prepared a set of frequently asked questions and answers (*on page 8*) with the objective of providing you with a general overview of the basic exchange control and tax consequences of investing in one of our dollar-denominated international funds. If you are in any way uncertain, we recommend that you obtain appropriate independent advice prior to making such an investment.

For further assistance, please contact Client Service on **0800 86 96 42**
or OffshoreInvestments@coronation.co.za



THE CORONATION CLIENT CHARTER



Since inception in 1993 we have consistently focused on matching your needs with our ability to produce great performance. While the world around us changes, we hold steadfast to what we believe to be fundamental – a single focus on managing relevant and sustainable funds on behalf of our clients. Our aim is for you to always feel comfortable that with us your money is in good hands.

The Coronation Charter is a public and open commitment to our clients where we:

- strive to always put clients first
- have an unwavering commitment to the long term
- focus on producing top performance over all meaningful periods
- are uncompromising about ethics



If you are a South African permanent resident, you can utilise your individual offshore allowance of R4 million by investing in a foreign currency denominated unit trust fund. To do so, you will need to apply for a [Tax Clearance Certificate](#) (i.r.o. Foreign Investment Allowance for Individuals) from the South African Revenue Service (SARS) website and complete the required [exchange control form](#) with an authorised dealer bank.

Depending on your need, Coronation offers a [focused range of dollar-denominated international funds](#), providing access to both developed and emerging markets in a pure equity or multi-asset portfolio. Immigrants and non-residents are also able to invest in Coronation's range of dollar-denominated international funds, but are not subject to the individual offshore allowance regulations.

The following questions and answers have been prepared to assist you in understanding the requirements and process involved and also to provide you with a general overview of the basic exchange control and tax consequences of such an investment.

Please note that this summary is not intended to constitute a comprehensive guide to the exchange control considerations and tax treatment of your foreign investment. If you are in any way uncertain, we recommend that you obtain appropriate independent advice prior to making an investment.

WHO QUALIFIES FOR THE R4 MILLION FOREIGN INVESTMENT ALLOWANCE?

A foreign investment allowance is currently available for natural persons who are:

- taxpayers in good standing; and
- over the age of eighteen years

Each individual may invest an amount of up to R4 million offshore.

Natural persons are regarded as South African residents if they are domiciled or registered in South Africa (for example if they were born in South Africa and lived in the country all their life) or if they have taken up permanent residency in South Africa (in the case of foreign nationals).

South African residents are subject to exchange control restrictions and can therefore only invest in offshore assets such as foreign unit trusts within certain restrictions set by the South African Reserve Bank (SARB).

WHO DOES NOT QUALIFY FOR THE FOREIGN INVESTMENT ALLOWANCE?

- Legal entities
- Trusts
- Partnerships
- Foundations
- Clubs
- Natural persons under the age of eighteen years
- Natural persons who are NOT taxpayers in good standing



DO I NEED A SARS TAX CLEARANCE CERTIFICATE?

YES. You are required to apply for tax clearance by downloading the latest [Tax Clearance Certificate](#) (i.r.o. Foreign Investment Allowance for Individuals) application form and submitting the duly completed form to SARS. A 'Tax Clearance Certificate' is valid for a period of 12 months. Should the certificate expire unutilised or partially utilised, you will need to apply for a new certificate.

HOW LONG WILL IT TAKE TO GET A SARS 'TAX CLEARANCE CERTIFICATE'?

This depends on your specific SARS office and your tax status. In some instances you will be able to obtain a certificate in less than a week, but it may take longer. Please ask your local SARS office as to the expected time frame when applying.

WHAT IS THE MAXIMUM AMOUNT I CAN TRANSFER OFFSHORE?

You can transfer a maximum of R4 million from South Africa.

You may, however, be able to invest more than the R4 million if you have other 'legal' funds offshore, for example:

- growth/income on previously transferred funds where such income was retained abroad;
- income earned abroad after 1 July 1997 and either retained abroad or remitted to South Africa;
- foreign inheritances;
- own foreign capital introduced into South Africa on or after 1 July 1997; or
- funds for which amnesty was granted in terms of the Exchange Control Amnesty and Amendment of Taxation Laws Act, 2003 (Act No. 12 of 2003), unless amnesty was granted on the basis that the funds had to be repatriated to South Africa.

CAN I USE OTHER OFFSHORE ASSETS TO INVEST IN THE CORONATION FUNDS?

YES, if these assets are, or originate from, previous foreign capital allowance transfers, or from the sources referred to above.

NO, if the assets represent funds held offshore in contravention of the exchange control policies, e.g. an unutilised portion of a travel allowance.

DO I HAVE TO TRANSFER THE FULL AMOUNT AT ONCE?

NO, you can transfer in tranches, provided your 'Tax Clearance Certificate' has not expired. Please ensure that you retain your original certificate if the full R4 million is not utilised in one transaction. If you intend using the same bank for future transfers, you may request the bank to keep a copy of your 'Tax Clearance Certificate' on your behalf.

IS THIS AN ANNUAL LIMIT?

NO, R4 million is the total amount that may be transferred from South Africa since the introduction of the allowance in 1996.



CAN I BORROW FUNDS OFFSHORE?

YES, provided there is no recourse to South Africa (e.g. guarantees or surety to an overseas lender from South African sources).

CAN I BORROW FUNDS FROM ANOTHER SOUTH AFRICAN RESIDENT?

YES, provided this is not viewed as a scheme of arrangement to bypass exchange control restrictions. It is generally permissible to borrow funds from another family member (such as a parent or spouse) or even a family trust. If you have any doubts about a particular loan, please obtain an opinion from your banker or financial advisor.

HOW PROBLEMATIC IS AN ACCIDENTAL BREACH OF THE R4 MILLION LIMIT?

The SARB maintains a database of all transfers made by all individuals via all banks since the implementation of this allowance in 1996. You, the applicant (not Coronation, SARS, your bankers, advisors or the SARB) are however ultimately responsible for not exceeding the limit. You may be fined between 20% and 40% of the excess transfer amount if you exceed the limit. If you are uncertain regarding a proposed transfer resulting in a breach of your R4 million limit, carefully check your records. A last resort is to apply to the SARB to check your records.

DOES CAPITAL GAINS TAX (CGT) RATHER THAN INCOME TAX APPLY TO THE GAIN REALISED ON THE SALE OF A FOREIGN COLLECTIVE INVESTMENT SCHEME (CIS)?

The short answer is that as long as you are a long-term investor, the answer to this question will virtually always be **YES**.

The disposal of units could attract either income tax (at a maximum marginal rate of 40%) or CGT (at a maximum effective rate of 10%). If the units were held as capital assets, the gain (i.e. the difference between your proceeds and the base cost of the units disposed of) should be subject to CGT. If the units were held for speculative purposes, the proceeds on disposal will be subject to income tax.

To determine whether the units were held as capital assets or trading stock, the intention of the seller is taken into account, as well as the period of ownership. Section 9C of the Income Tax Act No 58 of 1962 contains a 'safe harbour' provision in terms whereof the gains from the sale of qualifying shares will be treated as capital in nature, if the owner held such shares for a period of at least three years. However, the units in a foreign CIS do not qualify for such protection and it will therefore be necessary to apply the 'normal rules' relating to the intention of the seller as well as the period of ownership, to determine whether the proceeds will be subject to income tax or CGT.

A disposal of units is defined for tax purposes to include both a redemption instruction given to Coronation and a sale to a third party.

A disposal can also take place in a number of other instances, for example:

- a deemed disposal in the event of the death of the unit holder; or
- a transfer between spouses, including a transfer in the event of the death of the unit holder or in terms of a divorce order.



WHAT ARE THE TAX CONSEQUENCES OF A DISPOSAL, ASSUMING THAT THE UNITS ARE HELD AS CAPITAL ASSETS?

- In the case of the disposal (or deemed disposal) of units, the difference between the proceeds (or deemed proceeds) on disposal and the seller's base cost* in the units, will be subject to CGT.
- Where the units are transferred between spouses, there will be no capital gain on the transfer, but the transferee spouse will effectively step into the shoes of the transferor spouse; with the result that the gain will be subject to CGT only at the time when the transferee spouse disposes of the units. Such roll-over relief will not apply where the transferee spouse is non-resident for tax purposes;
- On the death of the unit holder, the deceased will be deemed to have disposed of the units at market value, i.e. CGT will be triggered in such case. This rule does not apply where the units are bequeathed to the deceased's spouse, in which case the roll-over relief referred to above applies.

WHAT ARE THE TAX IMPLICATIONS OF INCOME DISTRIBUTIONS ON A FOREIGN COLLECTIVE INVESTMENT SCHEME (CIS)?

Note that the Coronation Funds are currently structured as roll-up funds. This means that any investment income earned in the portfolio is reinvested in the fund for future capital growth. As a result, there is no investment income earned or distributed by Coronation's foreign CIS.

The accommodating tax dispensation for roll-up funds is currently under review and may change in the foreseeable future. This may mean that the tax dispensation that applies to foreign dividends, as described below, may eventually be applied to income earned in the portfolio.

A foreign CIS is treated as a foreign company under the Income Tax Act. Dividends (or distributions) paid by foreign companies are subject to income tax in the hands of South African resident unit holders, although the first R3 700 is exempted in the hands of individual investors in the 2011 year of assessment. The exemption must first be applied to foreign dividends and then to foreign interest.

Distributions by a foreign CIS may also be exempt if the unit holder qualifies for the so-called participation exemption. This exemption is however seldom available to individual unit holders as it requires, inter alia, that the individual holds a minimum of 20% of the total equity share capital and voting rights of the company (or foreign CIS) that distributed the dividend.

CAN GAINS ON MY INVESTMENT BE DEEMED TO BE FOREIGN DIVIDENDS FOR TAX PURPOSES?

As a general rule, any amount received by a shareholder that exceeds the amount of the capital invested is treated as a dividend. As noted above, all foreign dividends are taxable. If this general rule is applied, a dividend received by an investor in a foreign CIS will therefore generally be subject to income tax. However, the definition of 'dividend' in the Income Tax Act specifically excludes any amount distributed by way of the redemption of a participatory interest in a foreign CIS. Therefore, the gain on redemption will not be regarded as a taxable (foreign) dividend.

* Three asset identification methods for determining the base cost of identical assets such as unit trusts exist, namely weighted average cost, specific identification and first in first out. Coronation has adopted the weighted average cost methodology which, in essence, involves keeping running totals of the number of units bought and sold in a particular fund.

Coronation will disclose the following information to you to allow you to calculate your tax liability: number of units disposed, cost of those units disposed, proceeds on disposal of those units; and gain derived from, or loss incurred in respect of the disposal of those units.

Unit holders who do not wish to use the weighted average cost method to determine capital gains on the disposal of their units are not bound by the return provided by Coronation. However, they will have to keep the necessary records to support the alternative they select.



WHAT ARE THE ESTATE DUTY IMPLICATIONS?

Foreign investments are included as property in your estate and are therefore subject to estate duty.

SHOULD I HAVE A FOREIGN WILL AND APPOINT A FOREIGN EXECUTOR?

Not necessarily. In most instances a foreign will would not be required and a resident's South African will could apply to his/her worldwide assets. However, should you own significant and complex foreign assets it is recommended that you consult an attorney in the relevant foreign jurisdiction for legal advice and assistance.

HOW DO I REDEEM OR REPATRIATE MY OFFSHORE INVESTMENT?

The policies allowing individual SA residents to transfer funds offshore and to retain certain assets offshore also allows for the holding of foreign bank accounts and currency denominated accounts with your local SA banker. If you wish to redeem an offshore investment, Coronation can transfer the redemption proceeds to another offshore destination via a third party (offshore anti-money laundering legislation permitting); transfer the proceeds to an offshore bank account in the name of the investor, or transfer the proceeds to a currency account in South Africa (FICA & other legislation permitting).

DISCLAIMER

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result thereof, there may be limitations as to the appropriateness of any information given. The information set out above is a basic summary of the relevant principles and it is imperative that any proposed investor obtains detailed advice, in the context of his/her specific circumstances, prior to making an investment. It is therefore recommended that the client first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the client prior to acting upon information. Coronation is not acting and does not purport to act in any way as an advisor or in a fiduciary capacity. Coronation endeavours to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. The information set out herein is based on enacted legislation at the time of publication, but it should be noted that the legislation and practices referred to are subject to change from time to time. Coronation does not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Investors are therefore urged to ensure that they obtain independent, updated advice on an ongoing basis. Any representation or opinion is provided for information purposes only. Coronation Fund Managers Limited & its subsidiaries will not be held liable or responsible for any direct or consequential loss or damage suffered by any party as a result of that party acting on or failing to act on the basis of the information provided in this document.