

COROLAB

Your guide to investment ideas

FIVE REASONS TO INCREASE YOUR OFFSHORE EXPOSURE NOW
Featuring the Coronation international core range of funds

CORONATION 
FUND MANAGERS

TIME TO INCREASE YOUR OFFSHORE EXPOSURE.

GLOBAL EQUITIES OUTLOOK

Over the past ten years domestic equities have delivered an exceptional 17% per annum, while global equities have returned close to zero percent over the same period. 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 recent experiences that they are determined to avoid offshore investments, regardless of the merits of the supporting arguments.

The following five points talk to why investors should increase their offshore exposure now, and why offshore assets should form part of a balanced portfolio through the cycle.

1.1 **Don't extrapolate the past for the future**

The rear-view mirror and the windscreen offer vastly different views.

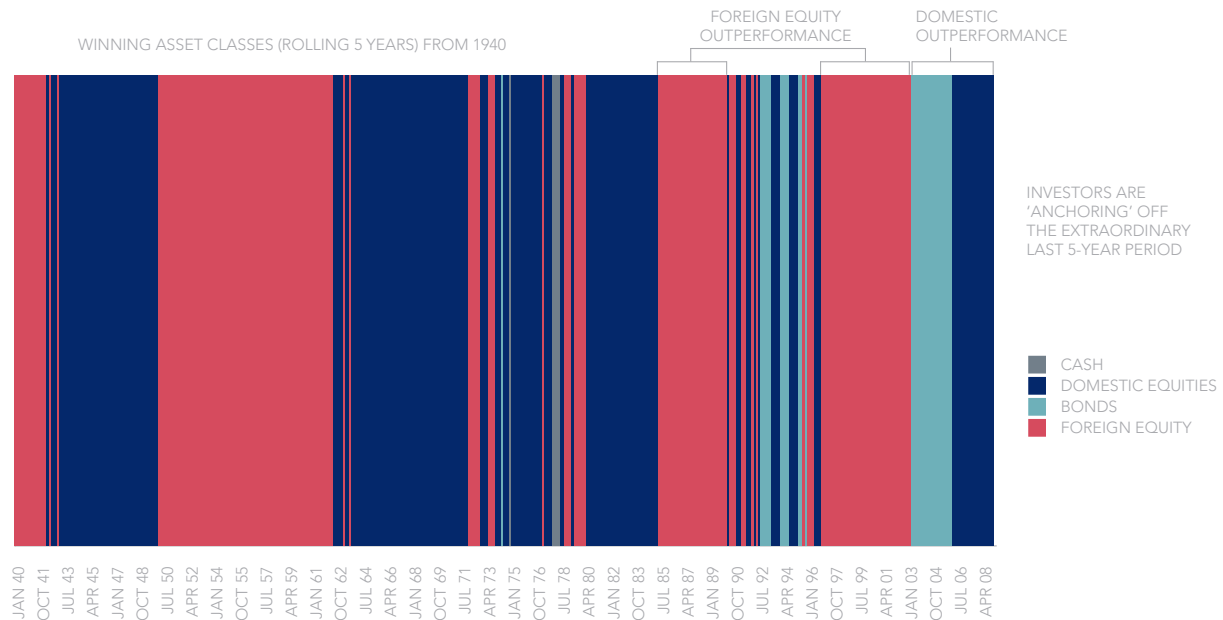
The recent experience, where domestic equities handsomely outperformed global equities, was preceded by a 20-year period (from 1980 to 1999) where the reverse was true, and global equities significantly outperformed the local market. Long periods of poor performance are typically followed by long periods 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].

CORONATION 10-YEAR ASSET CLASS FORECAST

	LAST 10 YEARS	CORONATION 10-YEAR FORECAST
LOCAL EQUITIES	17.0%	11.0%
GLOBAL EQUITIES	2.3%	14.0%
LOCAL PROPERTY	23.2%	9.0%
LOCAL BONDS	13.2%	9.0%
LOCAL CASH	10.3%	8.0%
INFLATION	6.8%	6.0%

Source: I-Net Bridge and Coronation Fund Managers research

FIGURE 1 SOUTH AFRICANS FORGET THAT DOMESTIC EQUITIES DON'T ALWAYS WIN



Source: Coronation Fund Managers research

A great opportunity to enter at attractive levels.

1.2 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. This is illustrated by comparing the relative performance of South African and US equities over time [Fig 2]. This comparison shows 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 on page 2, and explains why we currently see much more opportunity in global equities than we do in the local market.

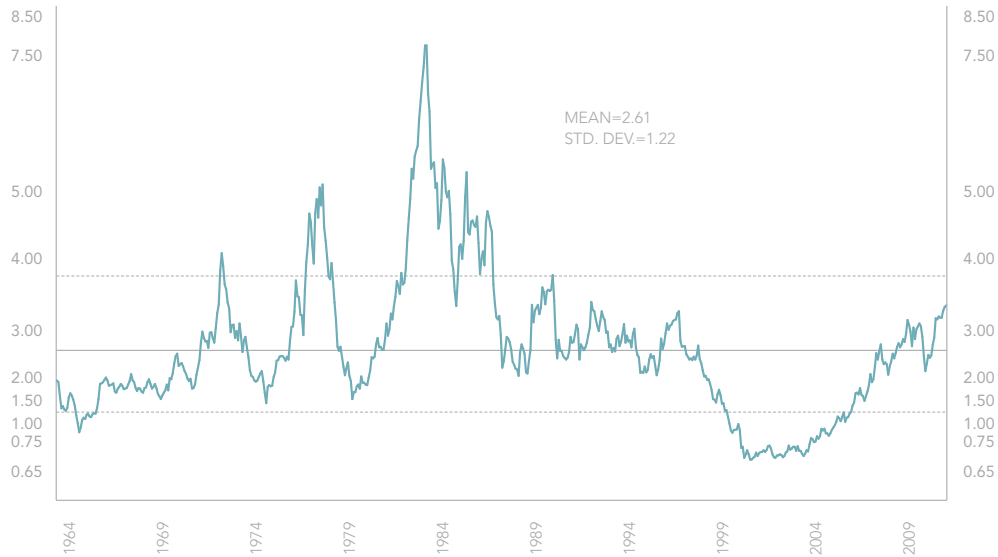
Foreign assets are historically low when the rand is strong.

1.3 The rand is currently strong

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.

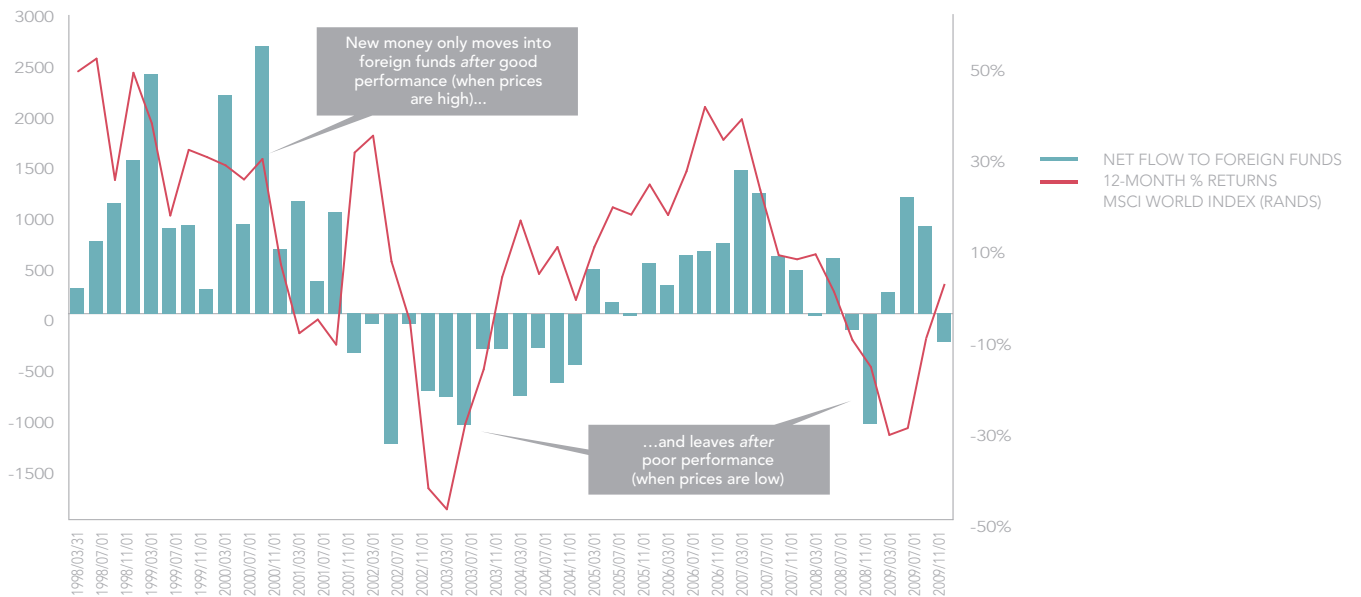
While the rand may remain strong in the short term, we believe that the risks are heavily skewed to the downside. Industrial South Africa is not competitive at these levels. This is unlikely to change with electricity prices set to increase substantially over the next few years and wage settlements to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

FIGURE 2 JSE ALL SHARE INDEX (IN US DOLLARS) RELATIVE TO THE S&P 500 INDEX



Source: I-Net Bridge

FIGURE 3 NET FLOWS INTO FOREIGN FUNDS VERSUS THE 12-MONTH PERCENTAGE RETURN FROM THE MSCI WORLD INDEX (IN RANDS)



Source: Coronation Fund Managers and Asisa

1.4 Foreign exposure diversifies and optimises your portfolio

An optimal portfolio holds 20%-30% in offshore assets through the cycle.

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 [see Fig 4]. 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.

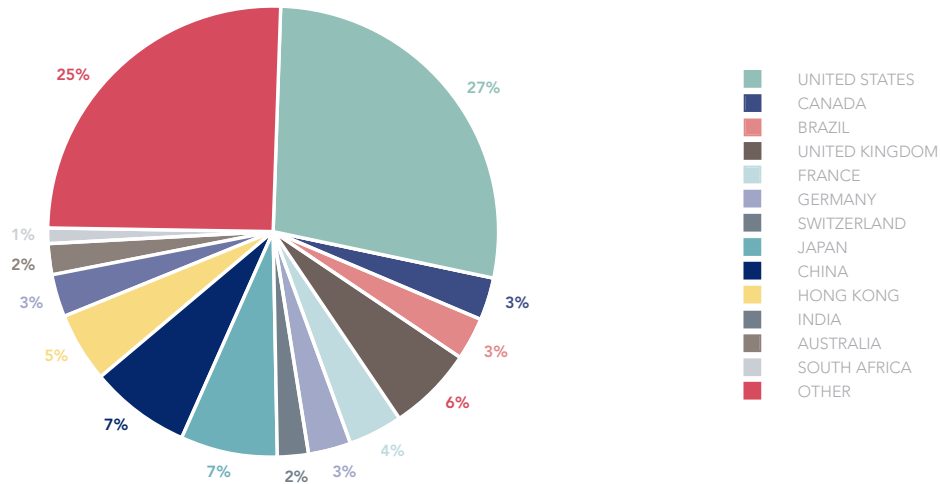
Figure 5 plots two rand-denominated portfolios – one that is fully invested in domestic assets (bottom right) and one that is fully invested in international assets (top right). The graph illustrates that by increasing one's foreign exposure off a very low base (up to a certain point) you not only increase your portfolio return but also reduce the overall risk within your portfolio.

1.5 Match your liabilities

Hedge against the long-term change in the price of your future shopping basket.

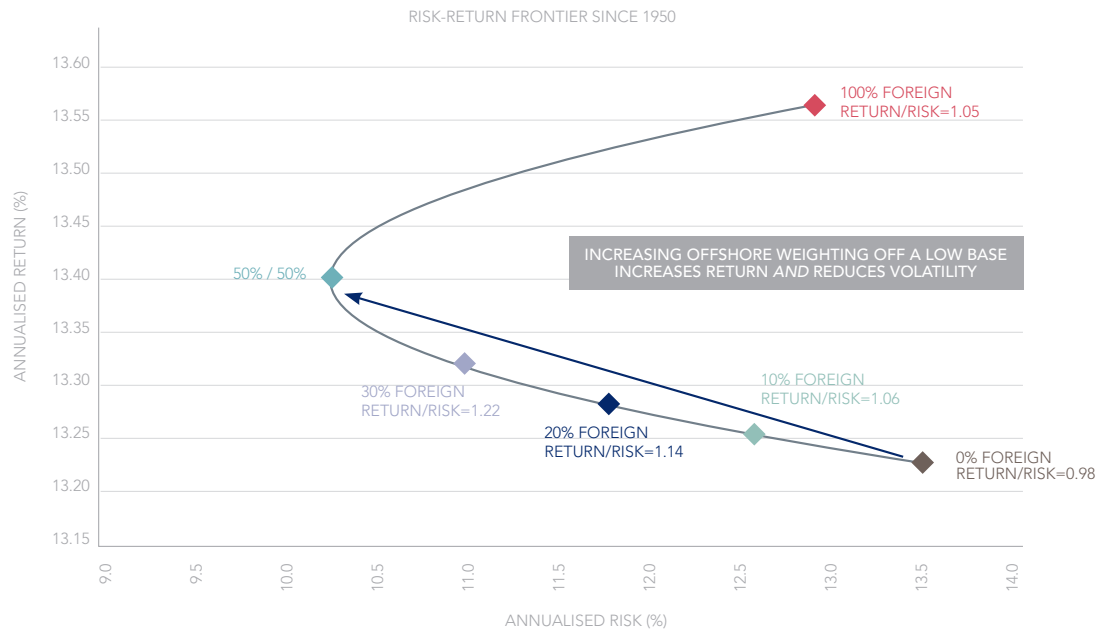
It is worthwhile to remember that many items in a consumer's shopping basket (from fuel to food to health care) are largely priced in foreign currency. Adequate offshore exposure viewed from this perspective is merely a hedge against the long-term change in price of this part of your future shopping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

FIGURE 4 SA MARKET CAP AS A PERCENTAGE OF GLOBAL MARKET CAP



Source: Bloomberg

FIGURE 5 ADDING 20%-30% INTERNATIONAL ASSETS MAKES RAND-PORTFOLIOS MORE EFFICIENT



Source: Coronation Fund Managers research

CORONATION'S INTERNATIONAL FUNDS

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.

Depending on your individual need, we provide access to both developed and emerging markets in a pure equity or multi-asset portfolio.

INTERNATIONAL FUND RANGE

FUND	LAUNCH DATE	FUND DESCRIPTION	FUND HIGHLIGHTS
INVESTOR NEED: CAPITAL GROWTH			
Global Emerging Markets Flexible	28-Dec-07	Best investment view across emerging markets	Outperformed the MSCI EM Index (measured in US\$) by 7.7% p.a. since launch. The only dedicated emerging markets fund in SA.
World Equity [ZAR] Fund of Funds	1-Aug-97	A focused portfolio of the best global equity managers	Outperformed the MSCI World Index (measured in US\$) by 3.3% p.a. since launch in 1997.
Global Managed	31-Oct-09	Best global investment view for US dollar investors	Positioned to benefit from our belief that foreign assets will provide the best returns over the long term.
Optimum Growth	15-Mar-99	Best rand risk-adjusted returns from a global multi-asset portfolio	4th best performer out of 70 funds in the foreign and worldwide equity and flexible categories in 2009.
INVESTOR NEED: CAPITAL PRESERVATION			
Latitude [ZAR]	1-Nov-08	Returns in excess of foreign cash while preserving capital in US dollars over any 12 months	Produced a return more than 3x that of its US dollar and euro cash benchmark since inception in 2008.

HOW TO INVEST OFFSHORE

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

- **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. When investing in these funds, investors do not utilise any of their allocated offshore allowance of R4 million. Coronation's entire core range of international funds is available as rand-denominated funds.

- **Invest using your offshore allowance (recently increased to R4 million)**

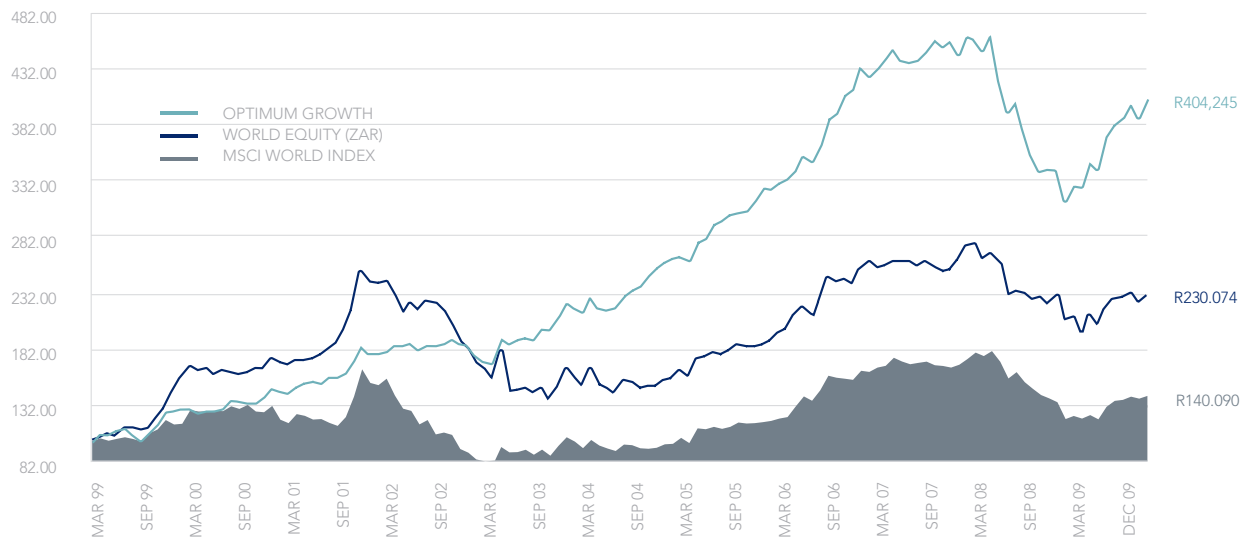
Foreign-denominated international funds offer South African investors a hedge against rand depreciation. All funds in the Coronation international core range (except the Coronation Optimum Growth Fund) are available as dollar-denominated funds.

- **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 foreign 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 offered by Allan Gray, Old Mutual International, Glacier by Sanlam, RMB International and Alexander Forbes.

For more information about investing, speak to your financial advisor, call us on 0800 22 11 77 or drop us a mail at clientservice@coronation.co.za

FIGURE 6 GROWTH OF R100 000 INVESTED IN TWO OF OUR INTERNATIONAL FUNDS ON 15 MARCH 1999



Note: Value of R100 000 invested in Coronation's international core funds since inception of the Coronation Optimum Growth Fund on 15 March 1999 as at 30 September 2009. All income reinvested for funds; MSCI World Index is on a total return basis. Latitude [ZAR], Global Emerging Markets Flexible and Global Managed are excluded as they do not have meaningful track records

Source: Morningstar and I-Net Bridge

OUR PEOPLE

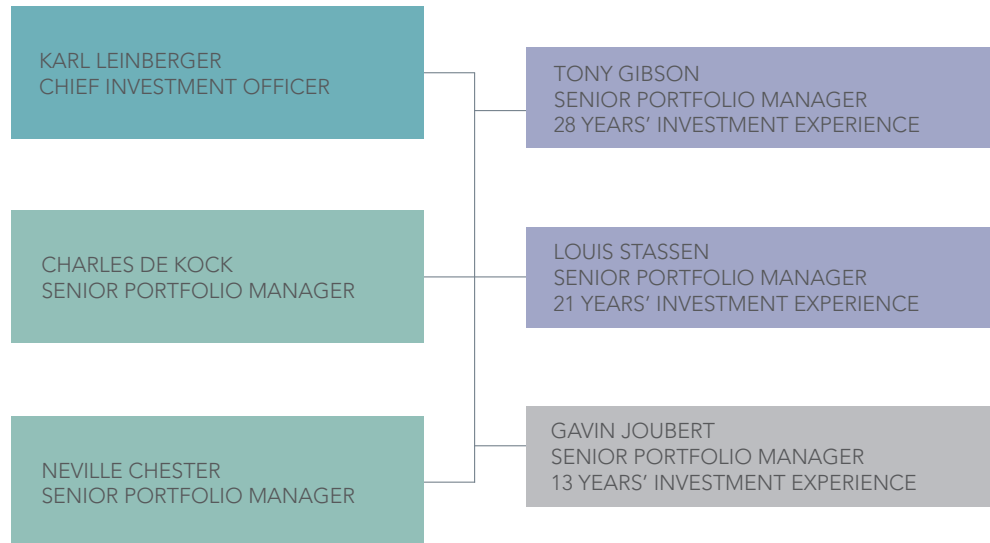
We have one of the most experienced and talented investment teams in the country operating in a culture of excellence. Led by Chief Investment Officer, Karl Leinberger, the team is made up of 55 investment professionals.

Key focus areas include equity research, with dedicated teams based in Cape Town covering South African, Pan African and Emerging markets. Developed markets are covered by both the London-based fund of funds team and the South African team. Gavin Joubert spearheads the Emerging Markets unit of six analysts, Tony Gibson is responsible for the fund of funds business based in London, and Mark le Roux heads up the Fixed Interest unit.

Investment team facts:

- We have three former chief investment officers
- 26 members with 10 years or more in the industry (9 team members have more than 15 years' experience)
- Dedicated quantitative research, dealing and implementation

GLOBAL INVESTMENT TEAM



CORONATION CLIENT CHARTER

To provide a framework for evaluating our overall performance as your investment provider we have created the Coronation Client Charter – a public and open commitment from Coronation and its employees to you, our client. While it does not represent a legally binding contract, it provides a clear indication of what you can expect from us and we hope will inspire you to provide us with feedback aimed at improving our adherence to the ideals it incorporates.

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

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