

COROLAB

Your guide to investment ideas

INVESTING OFFSHORE

Featuring the Coronation international flagship fund range

CORONATION 
FUND MANAGERS
TRUST IS EARNED

INVESTING OFFSHORE

In previous offshore-themed issues, we have argued the benefits of increased offshore allocations for most long-term investors. Today, as a consequence of the increased popularity of multi-asset funds, the majority of South African investors' asset allocation has shifted somewhat in favour of offshore assets. However, investors should take note that these funds are typically limited to 25% offshore exposure which, depending on their specific circumstances, may not be enough.

Significant rand weakness since 2011, combined with fuller valuation levels especially in higher-quality developed market shares are supportive of a narrower future return gap between local and offshore equities. However, the heightened levels of economic and political uncertainty in South Africa at present supports the retention (in portfolios) of adequate hedging against potential future currency shocks. We therefore continue to argue for offshore exposure in line with a strategic allocation target specific to each investor's needs. Despite heightened global uncertainty caused by a combination of low growth, an ongoing and unprecedented monetary experiment, and increasing political instability as evidenced by events such as Brexit, we remain convinced that equities is the asset class most likely to protect the purchasing power of investors over time.

In this issue we look at the strategic reasons to invest offshore, revisit our global investment philosophy and approach, as well as discuss the current positioning within our multi-asset international funds.

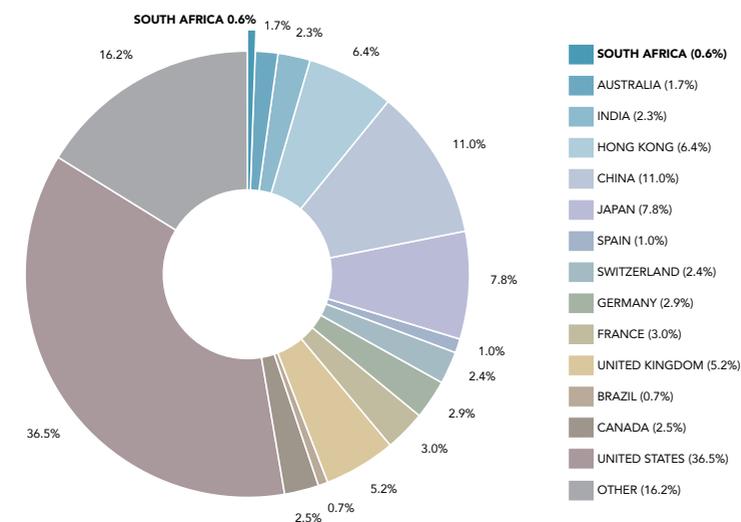
STRATEGIC REASONS TO INVEST OFFSHORE

DIVERSIFICATION

Investors who restrict their universe to domestic assets miss out on 99% of the available opportunities presented by listed assets around the globe (see Figure 1). By diversifying your investment portfolio to include offshore assets, you gain access to growth regions that benefit from mega-drivers such as industrialisation, urbanisation and growing consumerism.

You also gain access to industries that are not present in South Africa (e.g. information technology, electronics, pharmaceuticals), in addition to a much wider opportunity set within industries. Our preferred global equity benchmark, the MSCI All Country World Index, currently comprises approximately 2 500 investable companies compared to roughly 100 that drive the returns of the local market.

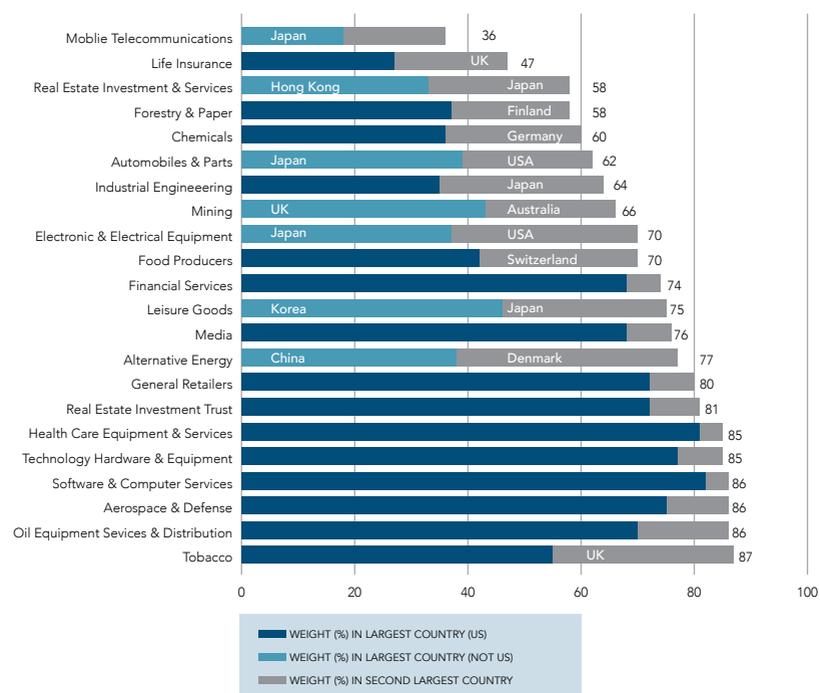
>> FIGURE 1 RELATIVE SIZES OF WORLD STOCK MARKETS, END-2015



Source: Bloomberg

It is important to have a global mindset when allocating capital as stock markets in most countries tend to be dominated by a small number of industries. The *Credit Suisse Global Investment Returns Yearbook 2015* stresses this need for global diversification across countries to effectively diversify across industries. Figure 2 illustrates the concentration of industries by country. Given the historic dominance of the US economy, it should not be surprising that many industries are dominated by the US. However, a US-only portfolio will miss out on industries such as real estate and leisure goods (dominated by Asian markets); alternative energy (Denmark and China); or mining (Australia and the UK). The implications are clear - investors in most countries will end up not optimising the available diversification benefits by restricting their investments to their own country. A final point for consideration is that the distribution of wealth in the world is changing fundamentally, with many emerging economies becoming increasingly sophisticated. This deepening of the opportunity set has the potential to create significant wealth for the patient investor prepared to invest in these economies through the inevitable setbacks incurred as they catch up with the developed world.

>> FIGURE 2 CONCENTRATION OF INDUSTRIES BY COUNTRY, START-2015



Source: FTSE International world index series, Credit Suisse Global Investment Returns Yearbook 2015

OPTIMISATION

An offshore allocation provides the attractive feature of reducing the level of risk required to achieve a specific rate of expected return. Studies on optimal portfolios recommend a minimum offshore allocation of 20%–30% through the cycle for long-term investors requiring a return of inflation plus 4% to 5% in rand terms. This is the classic recommendation for retirement savers aiming to optimise outcomes for their future pension with which they would need to buy a basket of local goods and services. Investors with more diverse spending requirements, including a larger share of foreign currency denominated spending, or bequest motives (where multiple generations may live on different continents), can typically justify a larger offshore allocation. Whatever you decide your strategic allocation range to be, we believe that investors should still have an offshore allocation in line with their appropriate strategic weighting, given the elevated level of economic and political risks facing South Africa at present.

MATCH YOUR LIABILITIES

It is worthwhile to remember that many items in a consumer's shopping basket (from fuel to food to healthcare) are largely priced in foreign currencies as the inputs are either commodities (with prices struck in global markets), or heavily reliant on imported content. Viewed from this perspective, having adequate offshore exposure is merely a hedge against the long-term change in price of this part of your future shopping basket. Episodes of currency weakness will more than likely remain a strong driver of price increases into the future.

DECIDING ON YOUR STRATEGIC ALLOCATION LEVEL

This is a question best answered through a comprehensive financial planning process with the assistance of a competent adviser. We can offer the following as generalised guidance:

- All investors can benefit from the portfolio optimisation benefits described above, making 20% the minimum suggested strategic offshore allocation for all long-term investors.
- Pensioners and other investors that need to fund a long-term rand income from their investment portfolio should guard against having too much offshore exposure as rand movements can be volatile. Income-funding portfolios should typically not have more than 35% in offshore equities.
- Wealthy investors, without immediate income requirements, have more latitude: up to 100% of their investment portfolios can be invested in offshore assets, depending on their objectives and tolerance for risk.

OUR INVESTMENT PHILOSOPHY AND APPROACH

Coronation has a proven track record of alpha generation in global markets. All our international funds are managed according to the same long-term, valuation-driven investment philosophy that we have applied locally for the past 23 years. While most managers face enormous pressure to perform well over 12-month periods, typically resulting in poor long-term decisions, our ability to focus on a time horizon of five years and longer allows us to invest in assets that we believe are trading at substantial discounts to our assessment of their underlying long-term value.

Based in Cape Town, our integrated global investment team is one of the only investment teams in the world with three former CIOs still actively managing money. Led by chief investment officer Karl Leinberger, the team comprises 66 professionals, with an average of 12.5 years in the industry and almost 9 years with Coronation.

Our developed markets equity team of five analysts is headed by former Coronation CIO Louis Stassen and is closely integrated with our global emerging markets team of seven, led since inception by senior portfolio manager Gavin Joubert. Their efforts are supported by that of our global multi-manager team, led by another former Coronation CIO Tony Gibson. This team continues to be responsible for the core global equity building block used in our domestic multi-asset funds such as [Coronation Balanced Plus](#).

We believe in a team-based approach to investing rather than relying on specialist silos where investment decisions are made in a vacuum. Our entire investment team – covering the South African and global markets – sit together in one open-plan office. They are constantly interacting and exchanging investment information. Also, our analysts and fund managers are each allocated a wide range of investments, across different industries and countries, to cover. Our investment professionals can ‘price profit and risk’ across asset classes, sectors and geographies. We believe this broader perspective builds better investors, drives better debate and results in better investment decisions. Our team-based and generalist approach has contributed to the stability of our investment process.

With analysts covering a wide range of companies in different sectors, there are no gaps in research coverage in the event of occasional departures from the team. We believe this commitment to sustainability will contribute to the delivery of continuing superior investment results in the decades to come.

CURRENT MARKET CONDITIONS AND POSITIONING

CURRENT MARKET CONDITIONS

The global economy remains anaemic, with central banks in most of the world’s developed nations facing a liquidity trap. Unprecedented low levels of interest rates have resulted in multi-century low yields across most major bond markets (with some now trading at previously unimaginable negative rates). But record-low interest rates have failed to spark any meaningful economic recovery. Outside of the US, the one economy that we are optimistic about, stagnation and deflation remain very real threats.

The global economic outlook in the aftermath of Brexit has deteriorated further as investors and consumers delay spending decisions amid the uncertainty. Reduced spending is always bad for economic growth, and the very pedestrian growth we were expecting will now be even lower in our view. Furthermore, increased levels of frustration among the working class around the globe about the lack of economic growth and rising unemployment levels will continue to add pressure on politicians to use whatever tools they have at their disposal to improve the growth outlook and avoid being voted out of power.

Our base case remains that the pace of interest rate normalisation will be gradual and that interest rates will remain at historically low levels for even longer. The large-scale monetary stimulus and record-low (in some cases even negative) interest rates are continuing to inflate financial assets worldwide as investors search for yield. While we must be close to reaching the limits of further monetary stimulus, most governments are still able to deploy fiscal stimulus (i.e. an increase in public spending or reducing tax to encourage economic growth).

The prospect of continuing monetary stimulus and the potential for fiscal stimulus will provide some tailwind for risk assets in this increasingly uncertain and volatile environment.

CURRENT FUND POSITIONING

From an asset allocation point of view, we continue to favour equities within our international multi-asset class funds. While equities are no longer as cheap as they were in the aftermath of the global financial crisis, relative to the other major asset classes they remain attractive and offer the best hedge against the threat that financial repression poses to the savings industry. Off the current base, we expect global equities to deliver mid-to-high single-digit long-term returns (in US dollars), which is much higher than we expect from the other major asset classes.

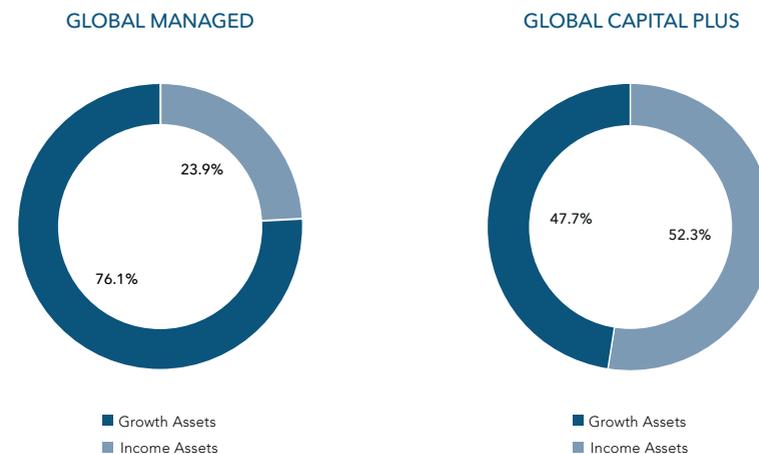
Although some indices have recently reached record highs, we continue to find pockets of value:

- in the US, where there has been meaningful return dispersion;
- in high-quality UK-focused assets which saw dramatic price declines in response to the Brexit vote; and
- notwithstanding the challenges that many emerging markets face today, we remain optimistic about the long-term prospects of many of these countries. We also believe that the current negative sentiment has resulted in many high-quality companies with fantastic management teams and good long-term prospects trading at bargain prices (much as developed market equities did following the global financial crisis).

As a whole, listed property is fully valued with many real estate investment trusts extending their rally in the second quarter of 2016 as bond yields plumbed new lows. This has pushed a number of stocks above our estimates of fair value; however, the clear outlier is the UK. Despite an uncertain backdrop, we feel that certain good quality, well-located UK assets can now be acquired at attractive prices.

Our negative view on government bonds remains unchanged. Negative yields are becoming more and more prevalent, with many of the biggest bond markets in the world now trading at negative yields. These yields would have to rise materially before we would be interested in the asset class. Within the income portion of our international multi-asset class funds, we maintain exposure to selected corporate credit and cash.

>> FIGURE 3 FUND POSITIONING OF OUR FLAGSHIP INTERNATIONAL MULTI-ASSET FUNDS AS AT 30 JUNE 2016



Asset allocation	100%
Equity	61.8%
Corporate Credit	10.8%
Property	8.4%
Merger Arbitrage	4.5%
Gold	0.8%
Cash	13.7%

Asset allocation	100%
Equity	33.5%
Corporate Credit	20.9%
Property	9.0%
Merger Arbitrage	3.9%
Gold	3.9%
Commodities	0.9%
Cash	27.9%

INVESTING OFFSHORE WITH CORONATION

There are different ways to gain offshore exposure with Coronation. Most of our flagship domestic multi-asset funds already have a considerable offshore allocation. We also offer a range of funds (rand-denominated or foreign-domiciled) that are invested in global markets. Below we discuss these options in more detail.

INVEST IN A REGULATION 28-COMPLIANT MULTI-ASSET FUND

Pension funds are currently allowed a maximum offshore allocation of 25%. This level of exposure to offshore assets may be sufficient for investors who:

- only have the budget to save for their retirement and do not plan to make any other discretionary investments; or
- have both income and growth needs and/or a short investment horizon.

Our domestic multi-asset funds (**Balanced Plus**, **Capital Plus** and **Balanced Defensive**) are mandated to hold a maximum offshore allocation of 25% on behalf of investors. Given that we continue to hold the view that global equity is the asset class with the highest return potential over the next several years, our current offshore positioning remains overweight (see Figure 4).

INVEST IN A WORLDWIDE FLEXIBLE MULTI-ASSET FUND

We offer two multi-asset funds optimised for discretionary investors not subject to retirement fund investment restrictions. **Market Plus** can invest up to 35% offshore, while **Optimum Growth** will typically invest between 50% and 90% of its portfolio in international assets. These funds are ideal for those investors who are comfortable with a larger exposure to offshore assets, but still require their fund manager to decide on the allocation between domestic and global assets.

INVEST OUTSIDE SOUTH AFRICA (IN A FUND THAT ONLY HOLDS GLOBAL ASSETS)

Investors who do not currently have access to the optimal level of offshore exposure by means of their pension funds, have multiple decade investment horizons and/or large discretionary investments may consider further increasing their offshore exposure by investing in a rand-denominated or foreign-domiciled international fund:

INVEST IN A RAND-DENOMINATED INTERNATIONAL FUND

Investors can diversify their portfolios with exposure to other regions and currencies of the world by investing in any of our rand-denominated international funds. When investing in these funds, investors do not utilise any of their individual offshore allowances, but remain exposed to domestic sovereign risk. See Figure 5 on page 11.

INVEST IN A FOREIGN-DOMICILED INTERNATIONAL FUND

Investors can invest up to R1 million annually in an international fund without obtaining any prior approvals, and a further R10 million per annum after receiving tax clearance. By externalising your assets you diversify sovereign risk. See Figure 5 on page 11.

>> FIGURE 4 NEUTRAL VERSUS CURRENT OFFSHORE POSITIONING

FUND NAME	NEUTRAL OFFSHORE POSITIONING OF FUND	CURRENT OFFSHORE POSITIONING OF FUND
CORONATION BALANCED PLUS	20%	25%
CORONATION MARKET PLUS	20%	26.1%
CORONATION OPTIMUM GROWTH	50%	96.6%
CORONATION INTERNATIONAL FUNDS	100%	100%

>> FIGURE 5 INTERNATIONAL FLAGSHIP FUND RANGE

Coronation offers a range of international funds that cater for the majority of investor needs. These funds share the common Coronation DNA: a disciplined, long-term focused and valuation-driven investment philosophy and commitment to provide investment excellence.

	INVESTOR NEED				
	CASH DEPOSIT ALTERNATIVE	CAPITAL PRESERVATION	LONG-TERM CAPITAL GROWTH (MULTI-ASSET)	LONG-TERM CAPITAL GROWTH (EQUITY ONLY)	
FUND NAME AND BENCHMARK ¹	GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER GLOBAL STRATEGIC USD INCOME 110% OF 3-MONTH LIBOR [†]	GLOBAL CAPITAL PLUS [ZAR] FEEDER GLOBAL CAPITAL PLUS [FOREIGN CURRENCY] ⁴ 100% USD 3-MONTH LIBOR +1.5% [†]	GLOBAL MANAGED [ZAR] FEEDER GLOBAL MANAGED [USD] COMPOSITE (EQUITIES AND BONDS) [†]	GLOBAL OPPORTUNITIES EQUITY [ZAR] FEEDER GLOBAL OPPORTUNITIES [USD] EQUITY MSCI ALL COUNTRY WORLD INDEX [†]	GLOBAL EMERGING MARKETS FLEXIBLE [ZAR] GLOBAL EMERGING MARKETS [USD] MSCI EMERGING MARKETS INDEX [†]
FUND DESCRIPTION	An intelligent alternative to dollar-denominated bank deposits over periods of 12 months or longer.	A low-risk global balanced fund reflecting our best long-term global investment view moderated for investors with smaller risk budgets. We offer both hedged and house-view currency classes of this fund. In the case of the former, the fund aims to preserve capital in the class currency over any 12-month period.	A global balanced fund reflecting our best long-term global investment view for investors seeking to evaluate outcomes in hard currency terms. The fund will invest in different asset classes and geographies, with a bias towards growth assets in general and equities in particular.	A diversified portfolio of the best global equity managers. We will typically invest with 6-10 managers who share our valuation-based and long-term oriented investment philosophy. The fund can invest in all equity markets around the world, and is actively managed across geographies and currencies. The fund is ideal for investors who want to invest in one offshore equity fund. A more suitable option for investors who want to blend different global equity managers is Coronation Global Equity Select, a more concentrated portfolio of our top stock picks in global equity markets.	Our top stock picks from companies providing exposure to emerging markets. The US dollar fund remains fully invested in equities at all times, while the rand fund will reduce equity exposure when we struggle to find value.
INCOME ASSETS VS GROWTH ASSETS ²	97.9% 2.1%	48.4% 51.6%	23.9% 76.1%	1.3% 98.7%	1.0% 99.0%
ANNUAL RETURN ³ (SINCE LAUNCH)	1.4% †0.4%	5.4% †(0.1%)	5.8% †6.3%	6.1% †5.1%	0.5% †(2.0%)
QUARTILE RANK (SINCE LAUNCH)	4th	1st	1st	1st	2nd

■ INCOME ■ GROWTH

1. Rand and dollar-denominated fund names are included for reference.

2. Growth versus income assets as at 30 June 2016. Growth assets defined as equities, listed property and commodities.

3. Returns quoted in USD for the oldest fund.

4. Available in USD Hedged, GBP Hedged, EUR Hedged or Houseview currency classes.

Figures are quoted from Morningstar as at 30 June 2016 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

FREQUENTLY ASKED QUESTIONS

HOW TO ACCESS OUR INTERNATIONAL FUNDS

Our rand-denominated international 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-domiciled funds can also be accessed directly, or through the offshore fund platforms offered by Alexander Forbes, Allan Gray, Cidel, Glacier by Sanlam, Investec, Momentum and Old Mutual International.

CHOOSING BETWEEN A RAND-DENOMINATED AND FOREIGN-DOMICILED FUND

Our rand-denominated and foreign-domiciled international funds are invested in exactly the same assets. The suitability of fund structure is best determined by an investor's financial and tax planning considerations. Factors such as the investor's status (natural person or trust); family needs (for example children on different continents) and the purpose of their investment (for example, whether they want to draw an income) should influence this decision.

Offshore investment is still subject to exchange controls set by government and administered by the South African Reserve Bank. When you elect to invest in our foreign-domiciled funds, you use your individual allowance of up to R11 million per annum. Investors in our rand-denominated funds utilise Coronation's foreign investment allowance, which is currently set at 35% of the household assets invested in our unit trust funds. Note that we may have to temporarily close our rand-denominated funds to new investments in periods where we exceed the 35% limit.

DECIDING ON THE RIGHT CURRENCY CHOICE

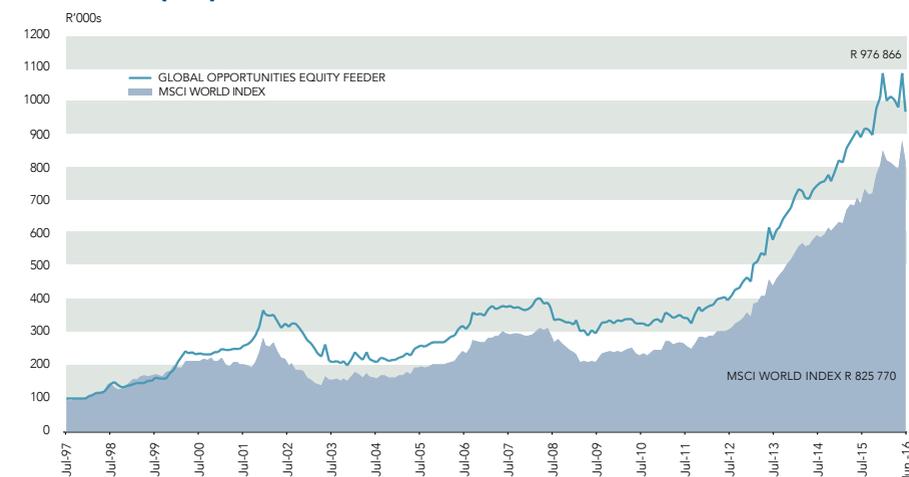
Coronation believes the decision on the optimal currency allocation within a portfolio is integral to establishing the fair value of assets and optimising returns over time. Our long-term growth oriented foreign-domiciled funds therefore invest in a basket of currencies, despite the fact that returns are reported in US dollars.

However, where funds have short-term capital preservation targets, which can only be expressed in a certain currency, the currency decision is often more appropriately made by the client. For this reason, we have introduced hedged currency classes for the **Coronation Global Capital Plus Fund**. This enables investors to choose the reference currency which we will use in managing the risk of short-term capital loss. See Figure 5 on page 11 for details.

A LONG-TERM TRACK RECORD OF INVESTING OFFSHORE

Coronation Global Opportunities Equity [ZAR] Feeder is Coronation's longest-running international unit trust fund. It has outperformed the global equity market at less than market risk since its inception on 1 August 1997.

>> FIGURE 6 GROWTH OF R100 000 INVESTED IN GLOBAL OPPORTUNITIES EQUITY [ZAR] FEEDER ON 1 AUGUST 1997



Source: Morningstar as at 30 June 2016

RAGING BULL AWARDS



Earlier this year, the **Coronation Global Managed [ZAR] Feeder** fund was recognised for its strong performance track record at the Raging Bull awards ceremony as Best SA-domiciled global multi-asset high-equity fund on a risk-adjusted (3 and 5yrs) basis to 31 December 2015.

>> NOTES

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. It is therefore recommended that the reader 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 reader prior to acting upon information. Neither Coronation Fund Managers Limited, Coronation Management Company (RF) (Pty) Ltd nor any other subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. 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. 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. Any representation or opinion is provided for information purposes only. Unit trusts should be considered a medium- to long-term investment. The value of units may go down as well as up, and is therefore not guaranteed. Past performance is not necessarily an indication of future performance. Unit trusts are allowed to engage in scrip lending and borrowing. Performance is calculated by Coronation for a lump sum investment with income distributions reinvested. All underlying price and distribution data is sourced from Morningstar. Performance figures are quoted after the deduction of all costs (including manager fees and trading costs) incurred within the fund. Note that individual investor performance may differ as a result of the actual investment date, the date of reinvestment of distributions and dividend withholding tax, where applicable. Where foreign securities are included in a fund it may be exposed to macroeconomic, settlement, political, tax, reporting or illiquidity risk factors that may be different to similar investments in the South African markets. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. The Coronation Money Market fund is not a bank deposit account. The fund has a constant price, and the total return is made up of interest received and any gain or loss made on any particular instrument, in most cases the return will merely have the effect of increasing or decreasing the daily yield, but in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. Excessive withdrawals could place the fund under liquidity pressures, in such circumstances a process of ring-fencing of redemption instructions and managed pay-outs over time may be followed. A fund of funds invests in collective investment schemes that levy their own fees and charges, which could result in a higher fee structure for this fund. A feeder fund invests in a single fund of a collective investment scheme, which levies its own charges and could result in a higher fee structure for the feeder fund. Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Services Board in terms of the Collective Investment Schemes Control Act. Unit trusts are traded at ruling prices set on every day trading. Forward pricing is used. For Domestic Unit Trust Funds, including rand-denominated International Unit Trust Funds, fund valuations take place at approximately 15h00 each business day, except at month end when the valuation is performed at approximately 17h00 (JSE market close). For these Funds, instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. For International Unit Trust Funds that are denominated in a foreign currency, fund valuations take place at approximately 17h00 each business day (Irish Time) and instructions must reach the Management Company before 12h00 (SA Time) to ensure the value of the next business day. For Tax-Free Investment and Retirement Products, fund valuations take place at approximately 15h00 each business day, except at month end when valuation is performed at approximately 17h00 (JSE market close). For these Products, instructions must reach the Management Company before 14h00 to ensure the value of the next business day. Additional information such as fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, www.coronation.com. Coronation Fund Managers Limited is a Full member of the Association for Savings & Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548) and Coronation Investment Management International (Pty) Ltd (FSP 45646) are authorised financial services providers.

For [enquires](#) you can call us on 0800 22 11 77 or email us at clientservice@coronation.co.za.

For [new applications or transactions](#) you can email your forms directly to transact@coronation.co.za or fax us on +27 21 680 2100.

For [more information or to invest online](#), visit us on www.coronation.com.

THE CORONATION CLIENT CHARTER

- > We strive to always put our 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