

COROLAB

Your guide to investment ideas

INVESTING OFFSHORE

Featuring the Coronation international flagship fund range



CORONATION
TRUST IS EARNED™

INVESTING OFFSHORE

The case for investing abroad remains as strong as ever. Amid heightened economic and political uncertainty in South Africa, exposure to other markets can help protect investors against potential future currency shocks and other local risks. Also, as the global economy remains resilient and technology advances, we continue to find long-term investment opportunities which can grow investment returns for many years to come.

We believe global equities remain the asset class most likely to protect the purchasing power of investors over time. Still, international markets have grown more expensive in recent months (especially compared to the depressed local market), and we believe careful, active investment is required.

In previous 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, many South Africans have more appropriate exposure to offshore assets.

Pension fund assets in particular now have increased international exposure. Our multi-asset funds are not only at their maximum allowable direct offshore limit (25%), but are also invested in global companies that are listed in SA (e.g. Anheuser-Busch Inbev, Naspers and British American Tobacco). As a result, many pension fund investors already have a relatively large exposure to foreign markets.

For those investors with discretionary savings, using a foreign-domiciled fund for their global exposure should be considered. Given the current exchange rate controls, it remains relatively easy to invest in these funds. With our foreign-domiciled funds, your investment is converted into a foreign currency and kept in an overseas investment account.

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

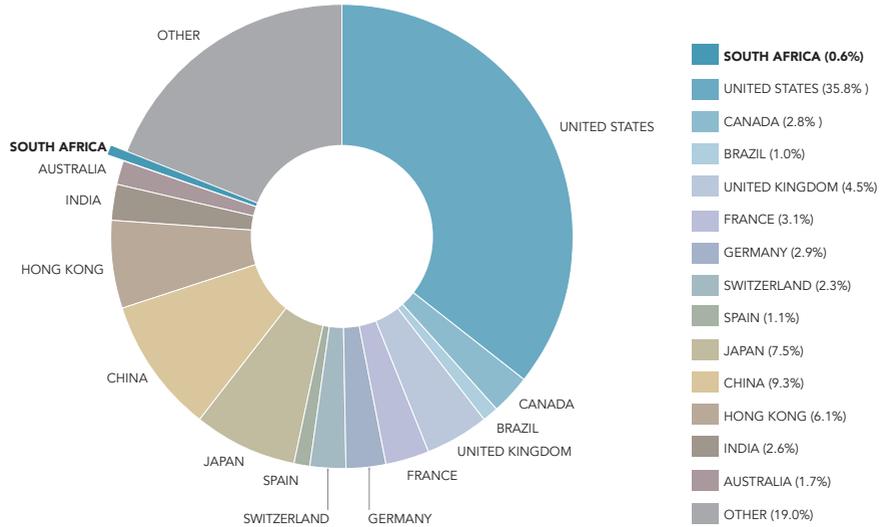
STRATEGIC REASONS TO INVEST OFFSHORE

DIVERSIFICATION

Investors who restrict their universe to domestic assets miss out on more than 99% of the available opportunities presented by listed assets around the globe (see Figure 1).

By investing abroad, you also gain access to industries that are not present in South Africa (e.g. information technology, biotechnology, 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. By diversifying your investment portfolio to include offshore assets, you also gain access to growth regions that benefit from mega-drivers such as industrialisation, urbanisation, digital advances and growing consumerism.

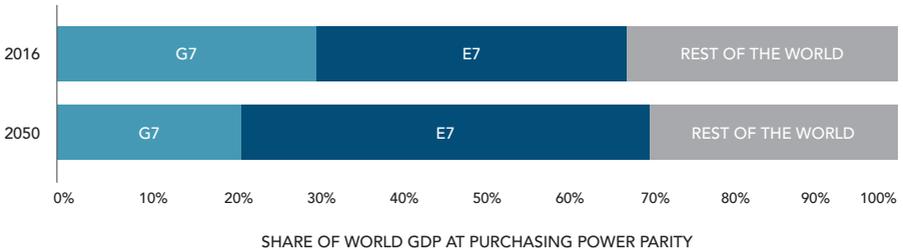
>> FIGURE 1: RELATIVE SIZES OF WORLD STOCK MARKETS, END-2016



Source: Bloomberg

From Figures 2 and 3 (below), it is clear that the distribution of wealth in the world is changing fundamentally, with many emerging economies becoming increasingly formalised. This deepening of the opportunity set has the potential to create significant wealth for the patient investor prepared to invest in these economies.

>> **FIGURE 2: PROJECTED CHANGE IN WORLD GDP**



G7: FRANCE, GERMANY, ITALY, JAPAN, THE UK, THE US AND CANADA
E7: CHINA, INDIA, BRAZIL, MEXICO, RUSSIA, INDONESIA AND TURKEY

Source: PricewaterhouseCoopers

>> **FIGURE 3: EMERGING MARKETS TO DOMINATE THE WORLD**

Size of economies
 Gross Domestic Product at Purchasing Power Parity

	2016		2050*	
CHINA	1	1	1	CHINA
US	2	2	2	INDIA
INDIA	3	3	3	US
JAPAN	4	4	4	INDONESIA
GERMANY	5	5	5	BRAZIL
RUSSIA	6	6	6	RUSSIA
BRAZIL	7	7	7	MEXICO
INDONESIA	8	8	8	JAPAN
UK	9	9	9	GERMANY
FRANCE	10	10	10	UK

■ EMERGING COUNTRIES ■ DEVELOPED COUNTRIES

* Forecast

Source: PricewaterhouseCoopers

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% to 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 at the high end of 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 who 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 24 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 12.8 years in the industry and almost nine (8.6) years with Coronation.

Our developed markets equity team of seven analysts is headed by former Coronation CIO Louis Stassen, and is closely integrated with our global emerging markets team of nine, led since inception, by senior portfolio manager Gavin Joubert. Our proven multi-asset capabilities have resulted in strong outcomes for investors over the past 24 years. This expertise is evident in the track record of our global multi-asset funds among international peers as shown in Figure 4 on the following page.

Their efforts are supported by 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.

>> **FIGURE 4: GLOBAL PEER GROUP COMPARISON***

Average return per year over a five-year rolling period (up to end-May 2017)



* Peer group consists of comparable global funds, with track records of five years or longer, available on the major South African-based offshore platforms.

CURRENT MARKET CONDITIONS

While there has been a marked improvement in the global economy, we are cautious investors as the world remains as uncertain as ever.

Global growth is expected to accelerate from 3.1% in 2016 to 3.5% in 2017, and remain buoyant at 3.6% in 2018, according to IMF projections. Underpinning this improvement is an acceleration in infrastructure and real estate investment in China, rising commodity prices, an improvement in manufacturing, moderate inflation, strong financial market performance and ongoing monetary support.

As a result, global trade volumes have also improved. This is key for growth in emerging markets, and in line with the uptick in trade activity, prospects have improved for a number of key emerging markets, including Mexico, Russia and, to a lesser degree, Brazil.

Europe has surprised on the upside and projected growth has also been revised higher for the US, despite a weak start to 2017. The outlook for the UK is less positive amid uncertainty about its domestic political environment and the Brexit negotiations.

The improvement in global growth momentum at the start of the year, and concomitant rally in commodity prices, saw an acceleration in related inflation off a weak base. Outside of Japan, headline inflation accelerated in Europe, the UK and the US, but core inflation remains subdued, despite growth accelerating and increasingly tight labour markets. A great conundrum for developed economy monetary policy makers is the slow responsiveness of wage rates to tight labour markets and generally more buoyant growth conditions. In some instances – the US, Germany, France, Japan and the UK – unemployment has reached rates consistent with considerably higher wage inflation, but wage inflation has remained weak, despite ongoing employment growth.

This creates a difficult economic environment for central banks to navigate. Only the US Federal Reserve has embarked on a slow, steady normalisation path. The European Central Bank has a tolerance for higher inflation (for longer) than would have been the case before. Nonetheless, it has also signalled a less accommodative stance, and some intention to taper its active quantitative easing programme.

The outlook for emerging markets is generally linked to China. Its recent revival has contributed to higher commodity prices, providing a fillip for commodity exporters. Of late, the Chinese government has been tightening liquidity conditions, which should see growth momentum slow. This implies somewhat weaker industrial commodity prices, and is less favourable for emerging markets. That said, growth momentum in many key emerging markets comes off a notably weak base, and should improve this year.

While the global outlook has improved, significant structural impediments remain, particularly in developed economies. These include the impact of policy normalisation on the economic upturn, as well as low productivity, weak wage growth, political risks and persistent inequality.

CURRENT FUND POSITIONING

From an asset allocation point of view, we continue to favour equities within our international multi-asset class funds.

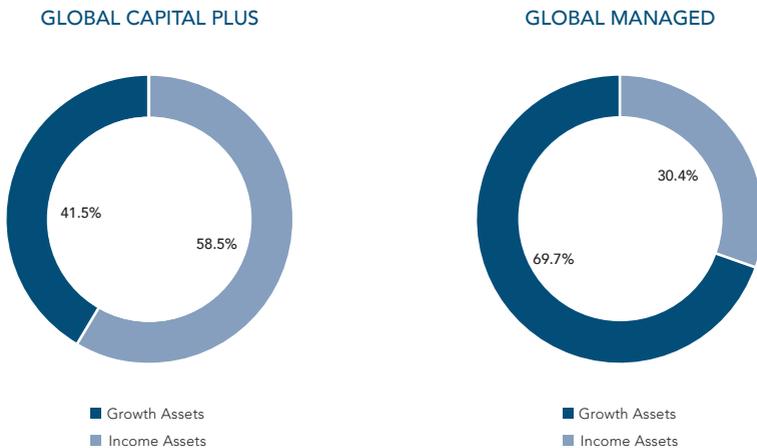
Global equity valuations are not cheap, but when assessing all the major asset classes, we remain of the view that global equities will deliver the best long-term risk-adjusted returns to investors. Given the recent acceleration in price declines of retail property portfolios, especially in the US, we have started adding to this asset class and are excited about the long-term potential returns off these very depressed bases. Listed property has continued to diverge from the physical property market and we are exploring opportunities to take advantage of this anomaly.

While we continue to find very well-managed businesses at reasonable valuations in the US, European equities have started reacting to good economic news, and have outperformed the rest of the developed markets over the last six months. We continue to prefer investing in US management teams, even at slightly higher valuation multiples, as we find them to be more shareholder-focused.

Despite the challenges faced by emerging markets, we continue to find exceptional businesses with good long-term prospects trading at undemanding ratings, in these countries. Emerging markets still trade close to 30% below their absolute peak and offer a large margin of safety in our view.

Our negative view on government bonds remains unchanged. Within the income portion of our international multi-asset class funds, we maintain exposure to selected corporate credit and cash. Given the very low level of yield spreads, we have not replaced credit instruments that have matured over the last twelve months, resulting in overall portfolio exposure to credit reducing somewhat.

>> FIGURE 5: FUND POSITIONING AS AT 30 JUNE 2017



Asset allocation	100%
Equities	26.0%
Merger Arbitrage	1.8%
Property	9.9%
Commodities	3.8%
Bonds	5.7%
Cash	52.8%

Asset allocation	100%
Equities	55.5%
Merger Arbitrage	2.4%
Property	9.9%
Commodities	1.9%
Bonds	8.5%
Cash	21.9%

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% (with an additional 5% in other African markets). 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 the maximum allowable offshore allocation 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 6).

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 investment horizons spanning multiple decades 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 7 on page 13.

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 7 on page 13.

>> FIGURE 6: NEUTRAL VERSUS CURRENT OFFSHORE POSITIONING

FUND NAME	NEUTRAL OFFSHORE POSITIONING OF FUND	CURRENT OFFSHORE POSITIONING OF FUND
CORONATION BALANCED PLUS	20%	24.8%
CORONATION MARKET PLUS	20%	25.5%
CORONATION OPTIMUM GROWTH	50%	90.8%
CORONATION INTERNATIONAL FUNDS	100%	100%

As at 30 June 2017

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 SA. Our foreign-domiciled funds can also be accessed directly, or through the offshore fund platforms offered by Alexander Forbes, Allan Gray, Cidel, Discovery, Absa Investment Management Services, 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 (e.g. children on different continents) and the purpose of their investment (e.g. 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 7 on page 13 for details.

>> FIGURE 7: 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 providing investment excellence.

	CASH DEPOSIT ALTERNATIVE	CAPITAL PRESERVATION
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% [†]
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 houseview 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.
INCOME ASSETS VS GROWTH ASSETS ²	97.0% 3.0%	58.7% 41.3%
ANNUAL RETURN ³ (SINCE LAUNCH)	2.7% †0.5%	5.7% †1.6%
QUARTILE RANK (SINCE LAUNCH)	1st	1st

■ INCOME ■ GROWTH

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

2. Growth versus income assets as at 30 June 2017. 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.

INVESTOR NEED		
LONG-TERM CAPITAL GROWTH (MULTI-ASSET)	LONG-TERM CAPITAL GROWTH (EQUITY ONLY)	
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 [†]
<p>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.</p>	<p>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.</p>	<p>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.</p>
30.6% 69.4%	0.4% 99.6%	0.6% 99.4%
7.4% †6.8%	6.7 †5.8%	2.5% †0.5%
1st	1st	1st

Figures are quoted from Morningstar as at 30 June 2017 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

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 at 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



CORONATION
TRUST IS EARNED™

DATE OF ISSUE: JULY 2017