



COROLAB

Your guide to investment ideas



THE CORONATION CLIENT CHARTER

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

INVESTING OFFSHORE

The case for investing abroad remains strong. Despite an improvement in local consumer and business confidence following the ANC elective conference in December 2017, South African economic growth remains significantly below the average globally and it will take time for this renewed confidence to translate into real growth. Also, we expect the global economy will prove to be resilient to a return to positive real interest rates, and we continue to believe that a long-term allocation to markets outside of South Africa – regardless of current macro-economic conditions—can help protect investors against potential future currency shocks and other local risks.

We believe global equities will continue to fulfill a crucial role in protecting the purchasing power of investors over time. Still, international markets are expensive (especially compared to the depressed local market), and we believe careful, active investment is required.

THE BENEFITS *of increased offshore allocations*

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
INVESTORS**

Pension fund assets in particular now have increased international exposure. Direct offshore exposure in our multi-asset funds are above neutral (**See Figure 6 on page 11**), and these funds 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 investors in these funds already have a relatively large exposure to foreign markets.

**DISCRETIONARY
INVESTORS**

Investors with discretionary savings, should consider using a foreign-domiciled fund for their global exposure. Given the current exchange 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 discuss the strategic reasons for investing offshore, revisit our international investment philosophy and approach and look at the various options through which to gain offshore exposure with Coronation.

STRATEGIC REASONS

*to invest
offshore*

DIVERSIFICATION

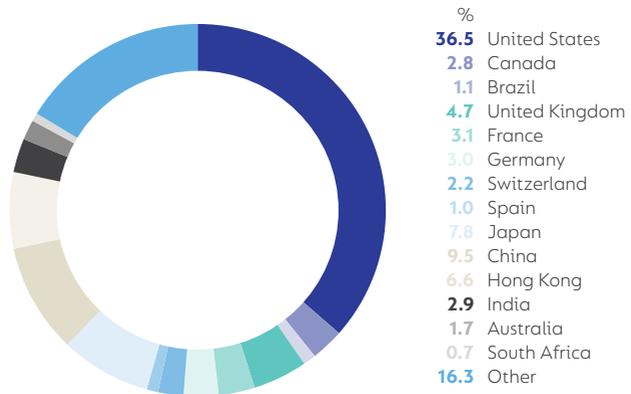
Investors who restrict their universe to domestic assets miss out on more than 99% of the available opportunities presented by listed assets around the globe (**see Figure 1 on page 3**).

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-2017**



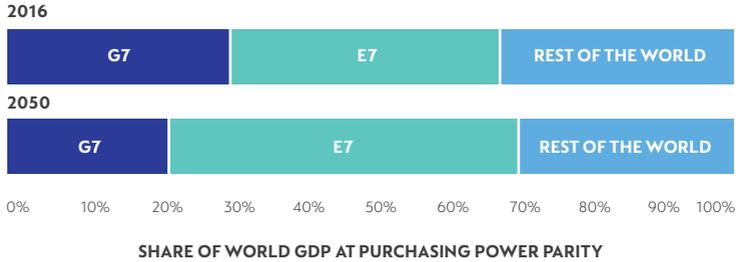
Source: Bloomberg

From **Figures 2 & 3 (next page)**, 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

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

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.

Don't let the performance of the rand guide you

The performance of the rand has a significant impact on how investors perceive offshore investments. Based on historical experience, interest in global assets is low when the rand is strong but increases as the rand weakens. This may be a problem if investors inadvertently replace cheap assets with expensive assets purely based on sentiment.

While most investors expect the rand to be volatile, recent experience was unusual. After the rand lost half of its value between 2012 and 2015, it strengthened by 25% in 2016-2017 despite a very weak local environment. While domestic confidence improved in early 2018, the rand lost ground due to a rampant US dollar creating headwinds for all emerging markets. The sudden switch from local fundamentals to global investor risk sentiment as driver of the exchange rate serves as a reminder that investors should always invest with a strategic asset allocation in mind.

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 25 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 13.1 years in the industry and almost 10 (9.6) years with Coronation.

Our developed markets equity team of eight 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 quarter of a century. This expertise is evident in the track record of our global multi-asset funds among international peers as shown in **Figure 4 and 5 on pages 8 and 9.**

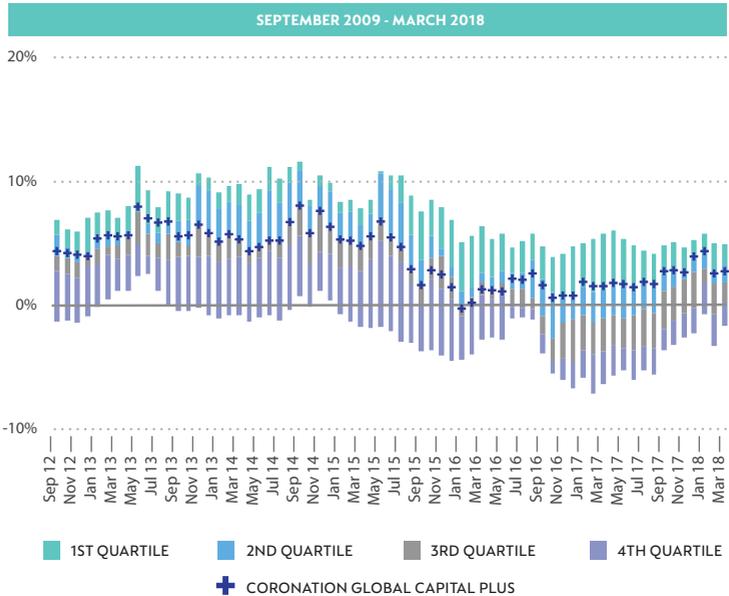
Their efforts are supported by our global multi-manager team, led by another former Coronation CIO Tony Gibson. This team continues to be responsible for the core global equity building block used in our domestic multi-asset funds such as Coronation Balanced Plus. Further depth is provided by the Africa & Frontier Markets team that consists of five analysts.

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 each cover a wide range of investments, across different industries and countries. 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.



Figure 4

**CORONATION
GLOBAL CAPITAL
PLUS (ROLLING
3-YEAR RETURN
VS PEERS)***



* Peer group consists of comparable global funds, with track records of 3 years or longer, available on the major South African-based offshore platforms.

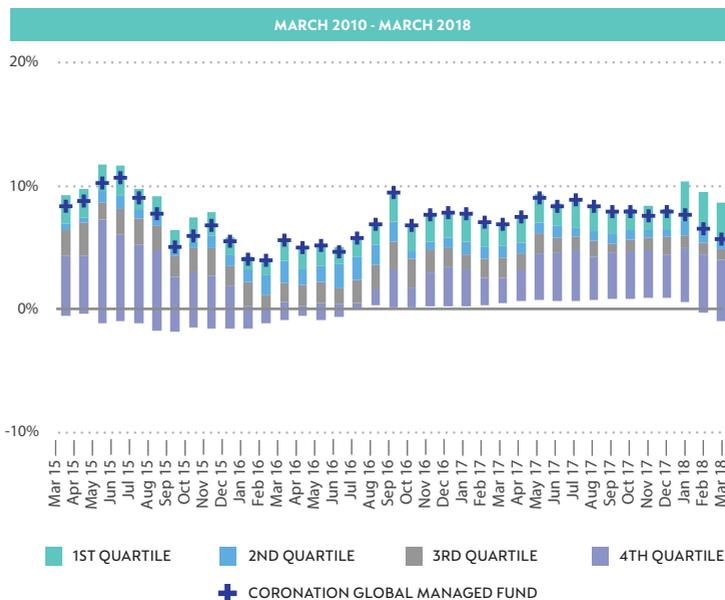
Source: Morningstar

For full performance information refer to Figure 7 on page 14.



Figure 5

**CORONATION
GLOBAL
MANAGED
(ROLLING 5-YEAR
RETURN VS
PEERS)***



* Peer group consists of comparable global funds, with track records of 5 years or longer, available on the major South African-based offshore platforms.

Source: Morningstar

For full performance information refer to Figure 7 on page 14.

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.



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 30% (with an additional 10% 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 on page 11](#)).

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 OF 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.



Figure 6

NEUTRAL VERSUS
CURRENT
OFFSHORE
POSITIONING

FUND NAME	NEUTRAL OFFSHORE POSITIONING OF FUND	CURRENT OFFSHORE POSITIONING OF FUND (AS AT 30 JUNE 2018)
Coronation Balanced Plus	20%	24.2%
Coronation Market Plus	20%	32.7%
Coronation Optimum Growth	50%	94.6%
Coronation International Funds	100%	100%

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.

[\(See Figure 7 on page 14.\)](#)

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.

[\(See Figure 7 on page 14.\)](#)

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, INN8 and Old Mutual International.

CHOOSING BETWEEN A RAND-DENOMINATED AND FOREIGN-DOMICILED FUND

Our rand-denominated and foreign-domiciled international funds are invested in 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 40% (excl. Africa) of the household assets invested in our unit trust funds.

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. [\(See Figure 7 on page 14 for details.\)](#)



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.

INVESTOR NEED	Cash Deposit Alternative	Capital Preservation
FUND NAME ¹ <i>+launch date</i>	GLOBAL STRATEGIC USD INCOME <i>30 December 2011</i>	GLOBAL CAPITAL PLUS [ZAR] FEEDER <i>3 November 2008</i>
	GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER <i>30 August 2013</i>	GLOBAL CAPITAL PLUS [FOREIGN CURRENCY] ⁴
BENCHMARK	US dollar cash (110% of 3-Month Libor)*	US dollar cash (100% of 3-Month Libor)*
FUND DESCRIPTION	<ul style="list-style-type: none"> ▶ An alternative to dollar-denominated bank deposits over periods of 12 months or longer. 	<ul style="list-style-type: none"> ▶ 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	96% income/ 4% growth	61% income/ 39% growth
ANNUAL RETURN (SINCE LAUNCH) ³	2.4% 0.7%*	5.2% 1.7%*
QUARTILE RANK (SINCE LAUNCH)	1	1
ANNUAL RETURN (LAST 10 YEARS) ³	N/A	N/A

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

2. Income versus growth assets as at 30 June 2018 (for US dollar funds). Growth assets defined as equities, listed property and commodities (excluding gold).

3. Returns quoted in US dollar for the oldest fund.

Highest annual return

Global Strategic USD Income: 7.1% (Jan 2012 – Dec 2012); Global Capital Plus [ZAR] Feeder: 31.4% (Mar 2009 – Feb 2010); Global Managed [ZAR] Feeder: 23.1% (Jul 2010 – Jun 2011); Global Emerging Markets Flexible [ZAR]: 96.0% (Mar 2009 – Feb 2010); Global Opportunities Equity [ZAR] Feeder: 56.9% (Apr 1999 – Mar 2000)

Long-term Capital Growth (Multi-asset)	Long-term Capital Growth (Equity Only)	
GLOBAL MANAGED [ZAR] FEEDER <i>29 October 2009</i> GLOBAL MANAGED [USD] <i>1 March 2010</i>	GLOBAL OPPORTUNITIES EQUITY [ZAR] FEEDER <i>1 August 1997</i> GLOBAL OPPORTUNITIES [USD] EQUITY <i>12 May 2008</i>	GLOBAL EMERGING MARKETS FLEXIBLE [ZAR] <i>28 December 2007</i> GLOBAL EMERGING MARKETS [USD] <i>14 July 2008</i>
Composite (Equities and Bonds)*	MSCI All Country World Index*	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. 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 (typically 6 to 10) who share our investment philosophy. An ideal fund for investors who prefer to own just one global equity fund. Investors who want to blend their international equity exposure may consider Coronation Global Equity Select, which has more concentrated exposure to our best global investment views.</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>
31% income/ 69% growth	100% growth	1% income/ 99% growth
6.6% 6.8%*	7.0% 6.0%*	2.7% 1.2%*
1	1	1
N/A	6.4% 6.7%*	3.5% 2.5%*

Lowest annual return

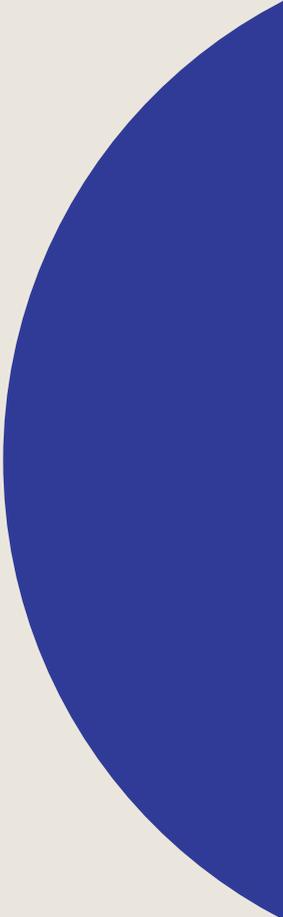
Global Strategic USD Income: -1.0% (Mar 2015 – Feb 2016); Global Capital Plus [ZAR] Feeder: -7.0% (Mar 2015 – Feb 2016); Global Managed [ZAR] Feeder: -14.9% (Mar 2015 – Feb 2016); Global Emerging Markets Flexible [ZAR]: -51.9% (Mar 2009 – Feb 2010); Global Opportunities Equity [ZAR] Feeder: -41.3% (Mar 2008 – Feb 2009)

4. Available in US dollar Hedged (launched 1 December 2011), GBP Hedged (launched 1 December 2011), EUR Hedged (launched 1 December 2011) or Houseview currency class (launched 1 September 2009).

Figures are quoted from Morningstar as at 30 June 2018 for a lump sum investment and are calculated on a NAV-NAV basis

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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. Annualised performance figures represent the geometric average return earned by the fund over the given time period. 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 Sector Conduct Authority 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 and Tax Free Investments, 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 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.



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