

2023

INVESTING OFFSHORE



COROLAB

Your guide to investment ideas

CORONATION

TRUST IS EARNED™



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



Overview

South African investors understand the benefits of having international exposure. Yet, many investors allow their decision-making about the level of exposure to international asset classes to be informed by prevailing economic sentiment or the performance of a particular currency, asset class or investment fund.

However, making isolated decisions (based on sentiment) about a single component of your long-term investment strategy is not a prudent approach. Instead, having international exposure is a strategic component of any long-term investment portfolio, regardless of the point in the cycle and one that needs to make sense in the context of your overall portfolio as well as your individual needs.

This edition unpacks how best to think about your investment portfolio's international allocation, explains what the appropriate allocation size is for different types of investors, and demonstrates how you can achieve your specific offshore needs by investing with Coronation.

Beware of the sentiment trap

Having international exposure as part of your overall long-term investment portfolio can provide many benefits.

But when you allow sentiment to drive your investment decisions, it can increase the risk of making irrational choices that may result in missing out on long-term gains (due to poor timing) or exposing you to certain risks as detailed below.



Timing risk

Buying and selling investments based on short-term market movements

- + By trying to time the market, investors may miss out on long-term gains or incur losses



Currency risk

Not taking into account the potential impact of currency movements on your investment values

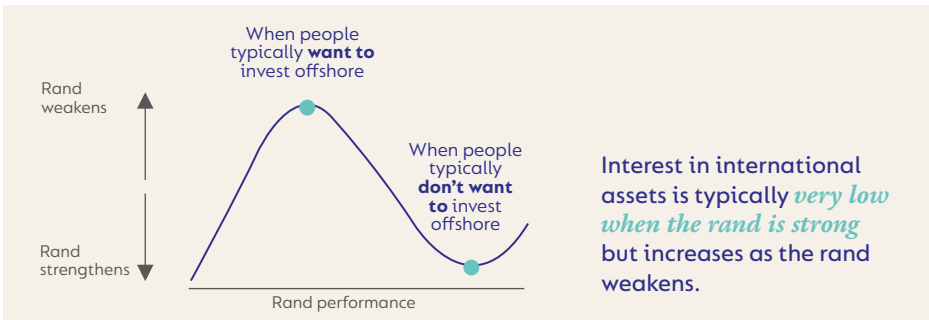


Concentration risk

Concentrating your investments in a small number of assets or regions

- + This can increase the risk to your portfolio, as any adverse events in those markets could have a significant impact on your investment returns

One of the best examples of sentiment-driven investing is how South African investors react to short-term currency moves. The performance of the rand has a long history of significantly impacting how investors perceive international investments.



In summary, it is important for investors to approach their level of offshore exposure rationally, and with strategic, not sentiment-driven, reasons in mind.



Strategic reasons to allocate internationally

In a fundamentally unforecastable world, one of the best ways to structure your overall investment portfolio is to diversify your exposure across multiple economic-, jurisdictional-, currency-, industry-, and company-specific risks.

For South African investors, the ability to diversify into international markets means that you can reduce your overall risk, but also increase the potential for overall return.

Diversification to reduce overall risk

By allocating money internationally, you add another asset class/set of asset classes to your overall investment portfolio that behaves differently to that of your local asset class mix, especially when factoring in the impact of the local currency.

The following table demonstrates the value of introducing global assets to your South African portfolio. By assessing the correlation between two asset classes, we are able to get an idea of how they behave over time. The lower the correlation, the more diversification benefit you can expect by combining the assets.

South African equities and bonds have a low correlation with their global equivalents (global equities or global bonds), and an even lower correlation between asset classes – e.g. South African equities have a low correlation of 0.58 with global equities and -0.05 with global bonds.

SA equity and bond returns are uncorrelated with that of their global equivalents

Correlation of returns in ZAR (2001 to 2023 YTD)

| | SA Equity | SA Bonds |
|---------------|-----------|----------|
| Global Equity | 0.58 | -0.23 |
| Global Bonds | -0.05 | -0.35 |

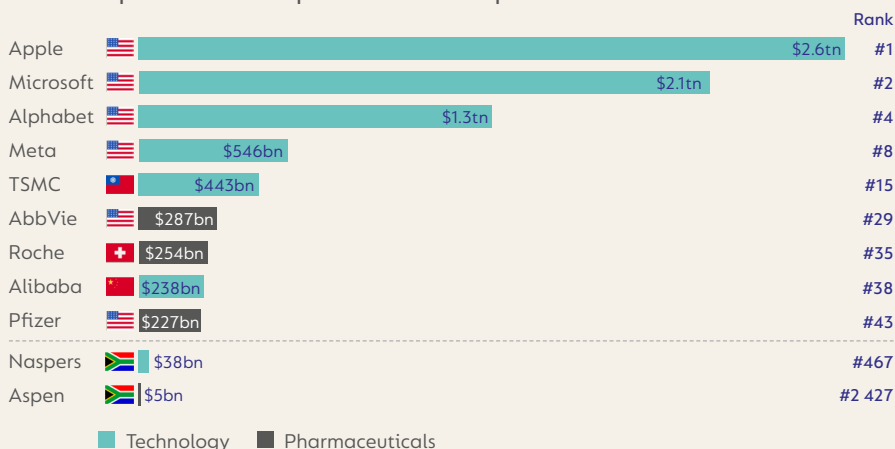
Source: Coronation and IRESS

Diversification to enhance returns

By opening up your investment portfolio's universe, you gain access to opportunities in industries that may not have a strong presence in the local market (e.g. information technology, biotechnology, electronics, or pharmaceuticals) as well as to a much wider opportunity set of quality businesses with attractive earnings prospects within those industries (see below).

A more diverse opportunity set beyond our borders

Market cap and market cap rank as at late April 2023 in USD



Source: <https://companiesmarketcap.com>

Furthermore, by diversifying your investment portfolio to include international assets, you gain access to growth regions that benefit from mega-drivers, such as innovation, industrialisation, urbanisation, digital advances and growing consumerism.

The following table shows some of the most innovative countries in the world. By adding global diversification to your portfolio, you are able to enhance your investment outcomes through access to companies that are industry leaders, have access to the latest technology and research, and benefit from supportive government policies and institutions that promote innovation.



Enhance your investment outcomes by accessing innovation leaders

Overall Global Innovation Index (GII) rankings and by innovation pillar

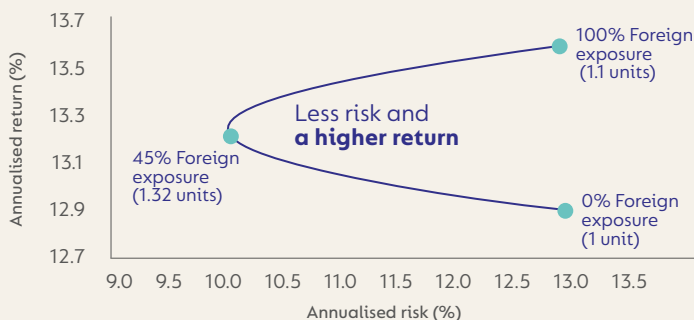
| Country/economy | Overall GI | Human capital and research | Institutions | Infrastructure | Market sophistication | Business sophistication | Knowledge and technology outputs | Creative outputs |
|---------------------|------------|----------------------------|--------------|----------------|-----------------------|-------------------------|----------------------------------|------------------|
| United States | 2 | 13 | 9 | 19 | 1 | 2 | 3 | 12 |
| United Kingdom | 4 | 24 | 6 | 8 | 5 | 22 | 8 | 3 |
| Netherlands | 5 | 4 | 14 | 14 | 18 | 10 | 5 | 10 |
| South Korea | 6 | 31 | 1 | 13 | 21 | 9 | 10 | 4 |
| Germany | 8 | 20 | 2 | 23 | 14 | 19 | 9 | 7 |
| China | 11 | 42 | 20 | 25 | 12 | 12 | 6 | 11 |
| France | 12 | 18 | 15 | 17 | 10 | 17 | 15 | 6 |
| Japan | 13 | 21 | 21 | 12 | 9 | 8 | 11 | 19 |
| South Africa | 61 | 81 | 81 | 77 | 39 | 63 | 56 | 64 |

Source: WIPO Global Innovation Index 2022, 15th edition

As detailed above, the following graph demonstrates that investors who include meaningful international exposure in their overall long-term investment portfolios can expect better risk-adjusted outcomes.

At 0% international exposure, investors get compensated with 1 unit of return for every unit of risk taken. But by having international exposure of 45%, the investor's return increases and their risk decreases, meaning that they can achieve 1.32 units of return for every unit of risk taken.

Risk-return frontier since 1950



Source: Coronation research as at 31 March 2023

A hedge for your future shopping basket

Many items in the South African 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. Having adequate international exposure within your overall investment portfolio acts as a hedge against the long-term change in price of this part of your future shopping basket.

Your future shopping basket

Everyday expenses are influenced by currency fluctuations



Medical costs

Price of pharmaceuticals and treatments are subject to currency changes



Education

Especially for those who want the option of studying overseas



Technology

Mostly imported



Transport

Through commodity prices that are set in hard currencies

Episodes of currency weakness will more than likely remain a strong driver of price increases into the future. Having more than the minimum offshore exposure recommended for retirement savers may also be warranted for those planning for future liabilities in hard currency. This would include expenses such as overseas travel (for leisure purposes or visiting family members living abroad) or business opportunities, investing for a next generation's education, or emigration.

How much international exposure is appropriate?

The amount of international exposure that you should have as part of your long-term investment portfolio depends on how much you have to invest. If you only have the budget to save for retirement, the following guidelines apply:

Pre-retirement

For retirement savers, who want to fund a retirement income in South Africa, quantitative research shows that the optimal level of offshore exposure is around 35% - 45% through the cycle.

45%

Post-retirement

For investors already in retirement, who need to carefully match their annual income to their rand expenses, studies recommend average offshore exposure that ranges between 25% - 35%.

30%

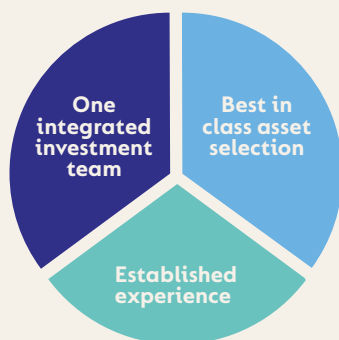


Typically, these investors would consider investing in a Regulation 28-compliant (Reg 28) multi-asset fund in which the international allocation decision is made on your behalf. At Coronation, we offer two Reg 28-compliant multi-asset funds – Coronation Balanced Plus and Coronation Capital Plus – that are aimed at the different stages of investors' retirement journeys. These funds are managed with an integrated view on portfolio construction across all asset classes to ensure that:

- the offshore allocation makes sense within context of the overall portfolio; and
- any associated unintended consequences are addressed through holistic risk management.

An integrated view on portfolio construction

- + Consistent valuation methodology and process
- + Cross asset class and sector collaboration



- + Clean-slate approach to asset selection
- + Own the most attractive assets on a risk-adjusted return basis
- + Integrated risk analysis

- + Worldwide Flexible – 23-year history
- + Global Emerging Markets – 14-year history
- + Developed Markets – 14-year history

What if I want more than 45% offshore?

Investors who can justify a larger international allocation include those who:

- spend regularly in foreign currency;
- are considered high net worth in a global context;
- need to consider offshore bequests because multiple generations live on different continents; and/or
- do not need to draw a significant domestic income from their savings.

At Coronation, we offer solutions to investors with larger international budgets. Read more on page 11.

How we invest in global markets vs how we invest locally is no different

For close to 30 years, we have been applying the same long-term focused and valuation-driven methodology and process, regardless of the geography of the markets in which we invest.

We operate as a single integrated investment team, with roughly the same number of SA-focused and global analysts who continuously collaborate across asset classes and sectors. We believe this team-based approach to investing, rather than relying on specialist silos, drives better outcomes for our investors.



A single long-term, valuation-driven investment philosophy

Our ability to focus on a time horizon beyond five years allows us to invest in assets that we believe are trading at substantial discounts to our assessment of their underlying long-term value.



Highly experienced, stable and integrated team

- 54 investment professionals
- 15.9 years average industry experience
- 46 CFA charterholders
- 3 former CIOs



Deep proprietary research

An extraordinary amount of deep research informs every position owned on our investors' behalf across all of our portfolios.



Constant interaction and information sharing

Our entire investment team – covering South African and global markets – constantly interacts and exchanges investment information.



Demonstrating our ability to invest across global markets

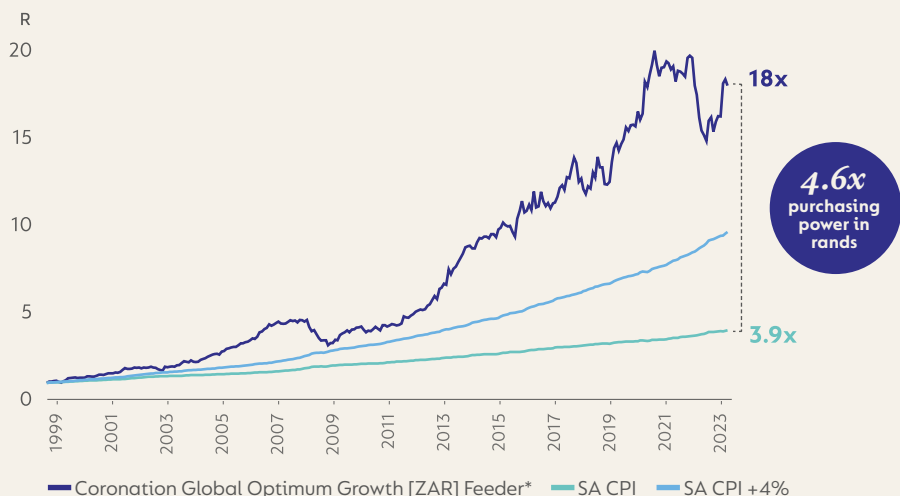
Our proven capabilities to allocate across markets and asset classes have generated significant value for investors over the long term, as demonstrated by the track record of the **Coronation Global Optimum Growth Fund**. The Fund is an unconstrained global portfolio that allocates to our best ideas across asset classes in developed and emerging markets. Key highlights for the rand-denominated feeder fund* as at end March 2023 include:

- + outperformed inflation by 7% p.a. over the past 20 years; and
- + ranked second in the first quartile of its ASISA category over 20 years.

As demonstrated in the graph below, for every R1 invested at inception in March 1999, you would have R18 today compared to R3.90 needed to keep up with inflation – resulting in a 4.5 times increase in purchasing power over that period (or a 3.5 times increase in purchasing power in USD terms over that same period).

Significant value creation in real terms

Accumulated value of R1 since inception (March 1999) as at 31 March 2023



| Rand returns | Fund | CPI | Benchmark [†] |
|------------------------|-------|------|------------------------|
| Since inception (ann.) | 12.8% | 5.9% | 11.1% |
| 10-years (ann.) | 10.4% | 5.1% | 10.7% |

[†] Composite: 35% MSCI World, 35% MSCI EM, 30% BGBA
 Highest annual return 51.1% (Jan 2013 - Dec 2013); Lowest annual return -31.5% (Mar 2008 - Feb 2009)
 For full fund details, download the comprehensive fact sheet from www.coronation.com.

Source: Coronation and IRESS as at end March 2023

* Please note that our full range of rand-denominated international funds is temporarily closed to new investments via the South African Unit Trust product. Read more [here](#).

How to invest your rands offshore with us

By living, working and owning a home in South Africa, you already have significant country-specific risk, arguing for additional international exposure.

Investors who require more international exposure than what is achievable by way of their retirement savings can therefore use their discretionary (or non-retirement savings) to invest in a fund incorporated in another country (i.e. externalising your rands), most often in the EU. In this case, the laws of the country of incorporation govern your investment. Coronation offers a range of funds incorporated in Ireland with the same underlying market exposure as our rand-denominated international funds, but with the added benefit of jurisdictional diversification. We recently reduced the minimum investment amount required to open an offshore investment account with Coronation from \$15 000/£15 000/€15 000 to \$500/£500/€500.

We also offer rand-denominated feeder funds* that allocate all or most assets to international investments, while remaining easy to use and access, as the funds are established in South Africa. While these funds provide full economic diversification, they still operate under the laws of South Africa and therefore do not diversify jurisdictional risk (e.g. exchange controls, which limit the amount an asset manager can invest outside of SA obo clients).

Choosing the right international fund for your needs

You have discretionary savings that you want to invest offshore

This means you:

- do not have access to the optimal level of offshore exposure by means of your retirement savings and want to further diversify your risk; and/or
- have an investment horizon spanning multiple decades and/or sizeable discretionary (non-retirement) savings.

In which currency do you plan to spend your savings in future?



Invest in a dollar-denominated international multi-asset fund that only holds international assets

- + Minimum investment reduced to \$500
- + You achieve up to 100% economic and jurisdictional offshore exposure
- + Can invest up to R1m annually without any prior approvals
- + Can invest a further R10m/year subject to tax clearance
- + When you divest, your money gets paid back in USD into your foreign-domiciled bank account



Invest in a rand-denominated international multi-asset fund* that only holds international assets

- + You achieve up to 100% economic (but not jurisdictional) offshore exposure
- + Can invest any amount that you like
- + Doesn't require tax clearance
- + When you divest, your money gets paid back in rands

* Please note that our full range of rand-denominated international funds is temporarily closed to new investments via the South African Unit Trust product. Read more [here](#).



An established international fund range

To give you access to the best global opportunities, we offer a range of multi-asset class solutions (as per the table below) that are designed to meet specific investor needs. We also offer three equity-only portfolios in the form of the developed market-focused global equity fund (**Coronation Global Equity Select**), a global equity fund of funds (**Coronation Global Opportunities Equity**) or our global emerging markets funds.

| | Coronation Global Strategic USD Income | Coronation Global Capital Plus | Coronation Global Managed | Coronation Global Optimum Growth |
|----------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Description | An intelligent alternative to dollar-denominated bank deposits | A low-risk global balanced fund that can invest up to half of your money in growth assets | A moderate fund seeking to balance long-term real returns with the risk of loss, by investing in a range of listed asset classes around the world | An aggressive long-term portfolio with the ability to allocate across developed and emerging markets (including South Africa) on a totally flexible basis |
| Recommended investment term | 1 year + | 3 years + | 5 years + | 10 years + |
| Currency | Available in rands* or US dollars | Available in rands*, US dollars, hedged dollars, hedged euros or hedged pounds | Available in rands* or US dollars | Available in rands* or US dollars |
| Average income vs growth assets | | | | |

* Temporarily closed to new investments via the South African Unit Trust product. Read more [here](#).

FAQs



How to access our international funds

Our rand-denominated international funds* are available directly from Coronation, or as investment options on the product platforms of most of the prominent linked investment product companies in South Africa. Our foreign-domiciled funds can also be accessed directly, or through the offshore fund platforms offered by both domestic and foreign institutions including Allan Gray, Capital International, Canaccord, Cidel, Discovery, Glacier by Sanlam, Ninety One, INN8, Momentum, and Old Mutual International.



How to choose between a rand-denominated and foreign currency-denominated 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 investors elect to invest in our foreign-domiciled international funds, they use their individual allowance of up to R11 million a year. Investors in our rand-denominated international funds utilise Coronation's foreign investment allowance, which is currently set at 45% of the management company's assets.



Deciding on the right currency choice

Deciding 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 that we will use in managing the risk of short-term capital loss. (See table on page 11 for details.)

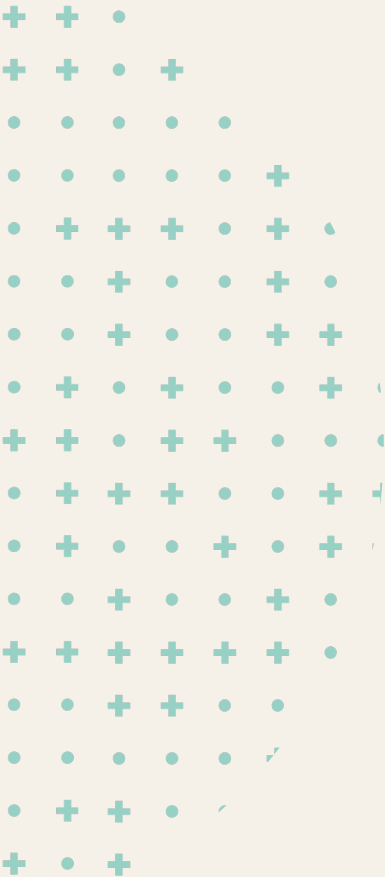
* Please note that our full range of rand-denominated international funds is temporarily closed to new investments via the South African Unit Trust product. Read more [here](#).



Disclaimer:

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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. 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 Offshore 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 Offshore 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), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers. Coronation Life Assurance Company Limited is a licenced insurer under the Insurance Act, No.18 of 2017. For enquiries you can call us on 0800 22 11 77 or email us at clientservice@coronation.com. For new applications or transactions you can email your forms directly to transact@coronation.com or fax us on +27 21 680 2100. For more information or to invest online, visit us on www.coronation.com

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For **more information or to invest online**, visit us on **www.coronation.com**.