EXECUTIVE SUMMARY
CONVERSATIONS WITH CORONATION

MARCH 2013

REFLECTING ON OUR VIEWS SHARED AT THE START OF 2012

During our global investing round of Conversations at the start of last year, we presented our case for increasing clients' exposure to offshore growth assets, in particular selected global equities. The reason for this is that we believed then, as we continue to believe now, that this was the asset class that offered the most value. For the 2012 calendar year, growth assets performed very strongly, producing 16.5% in the case of developed market equities and an even better 18.6% in the case of emerging market equities (both in US dollar terms). Global bonds, the asset class to which most investors flocked, delivered a paltry 1.7%. While we have no ability to forecast the future, we believe these returns are a strong reminder that one cannot time markets. If you try and time markets, you may well end up doing exactly the wrong thing at the wrong time (in this case, staying on the sidelines and avoiding offshore growth assets), permanently limiting the returns that can be achieved over an investor's time horizon.

The following table illustrates the return of the MSCI World Index (the top half is in US dollars and the bottom in rands) compared to the return generated by the FTSE/JSE All Share Index over various time periods. While the local equity market was the clear outperformer over the past five years, there is very little difference between the three year rates of return, while global assets have been the clear winner over the recent past. Many South Africans still anchor off the better longer-term domestic returns, while the results are starting to tell a different story. Our long-held view that offshore equities offer more value than domestic equities is now bearing fruit.

MSCI World Index returns versus FTSE/JSE All Share Index returns (in USD and rands)

	YTD	1 YEAR	CALENDAR 2012	CALENDAR 2011	2 YEARS (P.A.)	3 YEARS (P.A.)	5 YEARS (P.A.)
MSCI World Index	6.9%	15.4%	16.5%	(5.0%)	6.2%	15.0%	3.4%
FTSE/JSE All Share Index	(4.4%)	3.9%	21.8%	(15.9%)	0.4%	13.5%	5.9%

*Note: All returns in **USD** to 8 March 2013*

	YTD	1 YEAR	CALENDAR 2012	CALENDAR 2011	2 YEARS (P.A.)	3 YEARS (P.A.)	5 YEARS (P.A.)
MSCI World Index	16.3%	38.9%	21.3%	15.8%	22.4%	27.8%	6.3%
FTSE/JSE All Share Index	4.1%	25.0%	26.7%	2.6%	15.8%	26.1%	8.9%

*Note: All returns in **rands** to 8 March 2013*
Source: Coronation Fund Managers

The other point to note is that a significant portion of the outperformance over the last two years occurred in the first few months of 2013, partly due to currency weakness, which resulted in the +/- 12% outperformance of the MSCI World Index compared to the JSE All Share Index so far this year. Again, this serves as a reminder that it is impossible to try and time markets or predict currency moves. We have been saying for some time that the rand is overvalued, and all of this was realised over the course of two months. It should be noted that whilst we are referencing the short-term happenings of the market to illustrate our point, we would encourage investors to rather focus on the long-term. Ensuring that you get your strategic asset allocation right is a significantly more reliable way to optimise outcomes than attempting to time markets. As we describe in more detail below, we still believe that global growth assets are more attractive than their local counterparts.

OUR CURRENT GLOBAL VIEWS

- the eurozone crisis risk has reduced somewhat, but several years of anaemic growth lies ahead;
- growth in China will slow and commodity consumption will moderate over the medium term;
- global equities remain our preferred asset class (valuations are far more attractive than South African equities), but we have reduced our global funds' equity holdings slightly following the strong returns delivered in 2012 and the first months of 2013;
- selected listed property shares remain attractive (trading below tangible NAV, with yields of 5% plus);
- the outcomes for cyclical assets (banks, commodities and industrial companies) are too volatile and uncertain, and we therefore have very little exposure;
- bond yields are too low, and as a result we remain very negative on government bonds (both globally and in South Africa) and even more so after the recent budget speech; and
- the easy money in corporate credit has been made, although we continue to indentify some opportunities.

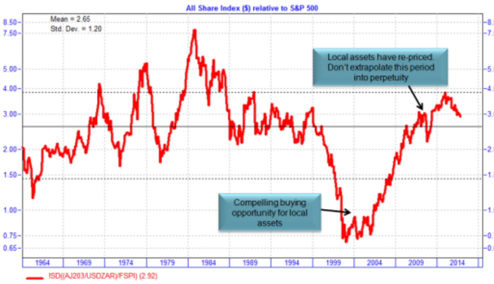
WHY ARE WE EMPHASISING GLOBAL DIVERSIFICATION (AGAIN)?

1) South Africa is not cheap on a global basis

The graph below illustrates the FTSE/JSE All Share Index relative to the S&P 500 Index in US dollar terms. From a level of 0.75 times it has moved to almost 4 times and more recently back to 3. What this means is that South African assets have outperformed S&P 500 assets by 4 times over the previous decade (2000 – 2010). Clients invested in South African assets have therefore had a fantastic period. But we believe that this should not be the reason why you are not allocating a portion of your clients' portfolios offshore. If anything, we believe this is a very compelling reason to consider moving more of your clients' assets offshore.

Why? We believe that the bulk of the rerating of South African assets has already taken place. We are not saying that there is no upside left - we simply believe that investors should not expect the same level of outperformance going forward.

FTSE/JSE All Share Index relative to the S&P 500 Index (in USD)



Source: I-Net Bridge

2) Global large caps are still offering value

The table below illustrates the share price movement between 2000 and 2012 for a number of global large cap shares held in Coronation's global funds. It also shows what earnings per share have done over the period and the respective PE ratios in 2000 compared to 2012. What is clear is that headline earnings per share is significantly higher today than it was 12 years ago (+218% on average), while the share prices of the respective companies only rose by 33% on average. This illustrates that while companies have continued to perform very well over this 12-year period, share price appreciation did not follow. This we believe can be attributed to the abnormally high ratings that were placed on these companies at the height of the dotcom bubble (in 2000). Any successful investment ultimately depends on the initial price that you pay, and we believe the entry prices for these global stocks are currently looking very attractive.

The majority of the companies listed in the table below also have a significant amount of cash on their balance sheets on which no earnings are currently being generated. If you strip the cash from the current PE multiples, the average comes down further to about 14 times, making the entry prices for these high quality global large cap businesses more attractive than reflected in the headline numbers.

Global large caps are offering value

COMPANY NAME	SHARE PRICE			EARNINGS PER SHARE			P/E	
	2000	2012	% Change	2000	2012	% Change	2000	2012
Microsoft	58.37	27.28	(53%)	0.86	2.79	224%	67.9	9.8
Walt Disney	28.45	54.36	91%	0.72	3.25	351%	39.5	16.7
Tesco	1.88	3.52	87%	0.10	0.32	220%	18.8	11.0
Walmart	58.2	71.1	22%	1.40	4.91	251%	41.6	14.5
Heineken	30.98	52.75	70%	1.23	2.87	133%	25.2	18.4
Coca-Cola	30.4	38.91	28%	0.72	2.02	181%	42.2	19.3
Unilever	18.28	29.23	60%	0.36	1.59	342%	50.8	18.4
PPR (Gucci)	262	156.25	(40%)	6.46	9.15	42%	40.6	17.1
Average			**33%**	**1.48**	**3.36**	**218%**	**40.8**	**15.6**

Source: Coronation Fund Manager & Reuters as at 5 February 2013

3) The case for global diversification

By externalising a portion of your clients' assets offshore, you allow your fund manager to utilise more tools with which to enhance the outcome of their investments. For example: by not restricting your manager to invest in the South African universe alone, he/she will have the ability to choose the most attractive global brewer or luxury goods company (not only locally listed SABMiller or Richemont) from a much bigger universe. You also gain access to industries (e.g. technology companies and auto manufacturers) that are not listed locally.

OUR APPROACH TO GLOBAL INVESTING

For the past 10 years, we have worked hard at building and developing our international active fund management capacity. Our approach to investing in the developed economies, emerging markets, or pan African universe is no different to how we've been managing our funds locally since 1993. We have replicated the same investment philosophy and process, with which we have achieved much success in the local market over the past two decades, and applied it to our international fund range. The two key traits of our investment philosophy and approach are:

1) our long-term horizon in valuing companies;

   We think about a business and what it is likely to earn over the next 4 - 6 years; not over the next six months or one year as is the tendency of most other market participants.

2) our strict valuation-driven process

   We spend our time working out what a company is worth. If for example we believe a company is worth $100 per share, we will try to buy the company well below that number and aim to sell it as it approaches that mark.

Because the global listed asset universe is large, we emphasise avoiding errors of co-mission rather than worrying too much about making errors of omission. In simple terms, we focus on what we own, not on what we don't own. This means that we take great care in ensuring that the 50 - 60 companies in our global portfolios are the correct ones by ensuring that 1) we don't lose capital by overpaying for them and 2) that they have a reasonable probability of generating decent returns. With the luxury of a very big universe, we can be more discerning about what to own and therefore spend most of our time looking for above average businesses to invest in.

In terms of performance, we are pleased with the very healthy returns generated by our international funds to date. The first table below shows the quartile ranking of our rand-denominated funds since inception, while the second table illustrates the alpha generated by our five US dollar-denominated funds, annualised since inception to end February 2013.

Promising track record developing

INVESTOR NEED	FUND	SINCE INCEPTION RANKING	INCEPTION DATE
Long-term growth (equity only)	GEM Flexible	1st Quartile	December 2007
	World Equity	1st Quartile	August 1997
Long-term growth (multi-asset)	Global Managed	1st Quartile	October 2009
Preservation	Global Capital Plus	1st Quartile	November 2008

Source: Morningstar as at 28 February 2013
Based on performance of rand funds in ZAR in respective ASISA categories

FUND	BENCHMARK	ALPHA
Coronation Global Emerging Markets Fund	MSCI Emerging Markets Index	6.2%
Coronation Global Opportunities Equity Fund	MSCI World Index	2.4%
Coronation Global Managed Fund	Composite: 60% MSCI World Index and 40% Citigroup World Government Bond Index	0.8%
Coronation Global Capital Plus Fund	Composite: 50% 3-month LIBOR and 50% 3-month EURIBOR	6.9%
Coronation Global Strategic USD Income Fund	110% of USD 3-month LIBOR	6.5%

Source: Coronation Fund Managers as at 28 February 2013

EXAMPLES OF ABOVE AVERAGE BUSINESSES CURRENTLY INCLUDED IN OUR GLOBAL FUNDS

SUNDRUG, SUGI AND TSUHURA: While we are not convinced about the bull case for the entire Japanese equity market, we've managed to identify a few interesting pockets of value, one of which is the drug store industry. We like Japanese drug stores for a number of reasons:

- the market is still very fragmented (the biggest players currently only have 5% of the market and have the potential to gain greater market share as the years go by);

- the Japanese population is aging (Japan has one of the largest aging populations in the world, which creates positive trading conditions for companies that sell drugs); and

- unlike the average Japanese company, these businesses have been growing their earnings very strongly.

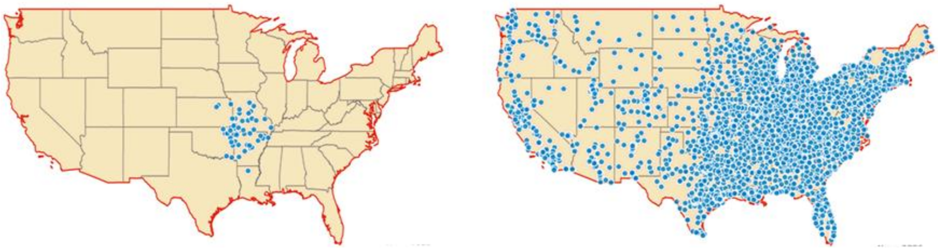
The three drugstore companies that we own in our global funds are Sundrug, Sugi and Tsuhura. We like them for different reasons, but all have in common a strong family shareholding of more than 40%, and excellent long-term financial performance. Over the past five years, their respective revenues have grown between 9% and 14%, earnings per share have grown between 11% and 20%, and they've converted all of their earnings to free cash flow. Operationally, these companies have done much better than Wallgreens, the biggest drug store chain in the US and from a valuation perspective, they are trading on 10 - 12 times this year's earnings (if you exclude their big net cash positions), whereas Wallgreens trades on 12.9 times this year's earnings. We therefore find them to be very attractive investments at present.

BLACKSTONE is the world's largest alternative asset manager with more than $200 billion in assets under management. We know and understand the investment business very well, and the economics of a strong franchise are highly attractive. Over the last 5 years (a very challenging period for capital markets), Blackstone has managed to raise a significant amount of assets and money continues to flow into the alternative investment market. Globally, large pension funds and endowment funds are looking to increase their private equity exposure, which they primarily do by supporting the established players in the market, like Blackstone. We bought into the business when it traded on 8 times earnings, a 6% dividend yield and 70% upside to our estimate of fair value.

The business has three earnings drivers: management fees, performance fees (which in their case are both very lucrative) as well as net cash and co-investments (the stakes they own in other businesses). Given the current share price, we believe you are only paying for the management fees and co-investments, while you get any potential performance fees for free. To offer some perspective, last year performance fees made up 40% of total earnings. While the share is up significantly (50% since the time of our purchase), we continue to believe it has another 25% upside to fair value. Today, Blackstone trades on 9 times earnings and offers a 5% dividend yield.

WALMART: The following chart shows how Walmart's store base in the US has grown since 1972: from 52 stores 30 years ago to 4 500 by end 2012.

Walmart store growth – from 1972 to 2012



Source: Walmart

If you then look at the table below, you will note that Walmart's sales and net income grew by a compound annual rate of 36% and 27% respectively in the ten years to 1970. In the following decade up to 1980, these figures totalled 45% and 43% respectively, and 35% and 39% respectively in the decade thereafter. More recently (in the ten years to 2010), their compound annual growth rates (CAGR) of sales and net income have slowed down to 9% and 10% respectively and the rating of Walmart has come down as a result. In contrast, we believe that 9% - 10% earnings growth in a low inflation/low yielding world is attractive and that these levels of growth are sustainable for a number of years.

Long-term financial delivery has been excellent (per decade growth)

	1960	1970	1980	1990	2000	2010
Sales ($m)	1.4	30.9	1 248	25 811	165 013	408 085
Net income ($m)	0.1	1.2	41	1 076	5 377	14 370
NI Margin		3.8%	3.3%	4.2%	3.3%	3.5%
Sales CAGR		36%	45%	35%	20%	9%
Net income CAGR		27%	43%	39%	17%	10%

Source: Coronation Fund Managers

As the following graph - depicting Walmart's PE ratio dating back to the early 1980s in yellow – illustrates, the market disliked the last decade's slowdown in earnings growth. From a peak rating of 65 times earnings in the 1999-2000 period, Walmart derated to around 14 times historical earnings where the share have languished in recent years. This is despite their earnings (the line in red) continuing to increase substantially. The business, in our opinion, carries below average levels of risk and we believe can generate a total return of between 11% and 12% per annum in US dollars for the next five years, which we think is very attractive. And at a current PE of 13.5 times next year's earnings, we believe there is some potential for a rerating in the share price. This is a great example of how attractive valuations are today, compared to the height of the dotcom bubble.

Walmart earnings (EPS) and P/E since 1980

Source: Bloomberg

MAGNIT: We generally like (dominant) food retailers as we believe they are among the best businesses in the world. South African food retailers are a great example, though we currently find them to be very unattractive from a valuation point of view. What we like about dominant food retailers is the very high barriers to entry; it takes a lot of effort to replicate the footprint of, for example, a Shoprite or a Pick n Pay. These businesses furthermore rely on non-discretionary spend, which means that earnings are stable and predictable, allowing us to have a clear idea of what their earnings would be a number of years from today. Food retailers also generate amongst the highest ROEs (returns on equity) in the business world, and have very good free cash flow generation - they typically convert over 100% of their earnings to free cash flow.

We particularly like the Russian food retailers as they have a couple of attributes that are unique to their market. First, the penetration of modern grocery chains in the country is very low at only 20% of the total market. In South Africa, modern grocery is close to 70% of the formal market. Second, the market is very fragmented, with the top 5 retailers achieving a market share of 15%, as opposed to 35% - 45% market share for the dominant players in most other countries. Third and very importantly, there is no international retailer presence in Russia, which means it is much easier for the local players to compete.

One of the Russian food retailers we like is Magnit. Its entrepreneurial CEO and founder, Sergey Galitskiy, still owns 40% of the business. The company managed to roll out stores at a compound annual growth rate of 34% between 2002 and 2011. They currently have a total store base in Russia of 6 884. In 2012 alone, they opened more stores than the entire store base of Pick n Pay in South Africa (1 500 new Magnit stores versus 900 Pick n Pay stores in total). How do they do this? Magnit has an exceptional execution capacity and has a unique business model that focuses on the smaller towns with a population of less than 500 000 people. They have a dominant position in various regions, which gets stronger over time as they increase in scale. Magnit generates a return on equity of 25%, and while its PE multiple on shorter-term metrics looks quite high at 23 times earnings, we believe the business has many years of growth ahead. In 2012, Magnit grew earnings by 100%, and we think they can maintain an annualised earnings growth rate of 25% – 30% for the next several years.

BRILLIANCE CHINA is BMW's only joint venture partner (JV) in the Chinese market (foreign brands are allowed two JV partners in the country). The agreement with BMW, which has a strong brand and high desirability in China, allows Brilliance China to earn profits on all BMW models that they manufacture locally. From BMW's perspective, it also makes sense to manufacture more models in China over time due to high import duties and affordable labour costs. They are therefore planning to increase local production of an increased range of BMW models for the Chinese market from 100 000 today to 400 000 by 2015.

In 2012, car sales grew by 50%, yet passenger vehicle penetration in China is still only around 5% of the population. In other emerging markets, such as Brazil and Russia, penetration is around 12%. The penetration of luxury vehicles is also much lower than elsewhere in the world. This combination of low penetration of both passenger vehicles in general and luxury vehicles specifically are likely to be very powerful drivers of growth for Brilliance China, which will be supported by their planned increase in manufacturing of BMW models. Today you can buy Briliance China on 12.5 times next year's earnings, which we believe is very attractive.

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For more details on our international fund range, please contact your account manager or one of our client service consultants on 0800 22 11 77 or clientservice@coronation.co.za. You can also read more about our reasons to maintain a full offshore exposure and the various options to investing offshore with Coronation in our latest issue of *Corolab*.