

2024

# 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

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One of the best investment strategies for a South African investor is ensuring that your asset base is appropriately diversified.

By not putting all your “eggs” into a single (and notably small) basket, you spread your investment risk and return opportunities across geographies and, importantly, jurisdictions.

This edition of *Corolab* demonstrates the benefits of strategic diversification into international markets, why it makes sense to consider doing so with a manager who has proven and established global capabilities across both emerging and developed markets, and how best to take action.



# The benefits of an appropriately diversified asset base

Strategic diversification into international markets holds the following benefits for your portfolio:

## 1. Reduced overall risk through uncorrelated returns

When considering which asset classes to include in your overall investment portfolio, it is vital to consider correlation. Correlation measures how closely the price movement of two asset classes is related.

Combining asset classes with a negative or no correlation is most desirable. This is because if one asset class in your portfolio declines during a market downturn, the other asset class/es will either rise or remain unaffected, which results in a better overall outcome and thus reduced overall risk.

For example, in a risk-off event, equities (global and SA) typically sell off, developed market bonds appreciate, emerging market bonds depreciate, cash remains stable, gold appreciates, and the currency (ZAR) depreciates. For an SA-heavy portfolio, the inclusion of developed market assets (especially bonds) and gold adds some much-needed diversification.

**Typical direction of price movements in risk-off scenario**

						
DM equities	EM equities	DM bonds	EM bonds	Cash	Gold	ZAR

*Source: Coronation*

The following table demonstrates the value of introducing global assets to your South African portfolio. South African equities and bonds have a low correlation with their global equivalent asset classes, and there is an even lower correlation when looking at the correlation between asset classes. For example, South African equities have a low correlation of 0.58 compared to global equities. This correlation drops to -0.05 when compared to global bonds. Similarly, SA bonds have a low correlation of 0.35 compared to global bonds and a negative correlation of -0.23 compared to global equities.



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

Correlation of returns in ZAR (2001 to 2024 YTD)

	Global equity	Global bonds
SA equity	0.53	-0.05
SA bonds	-0.23	0.34

Source: Coronation and IRESS

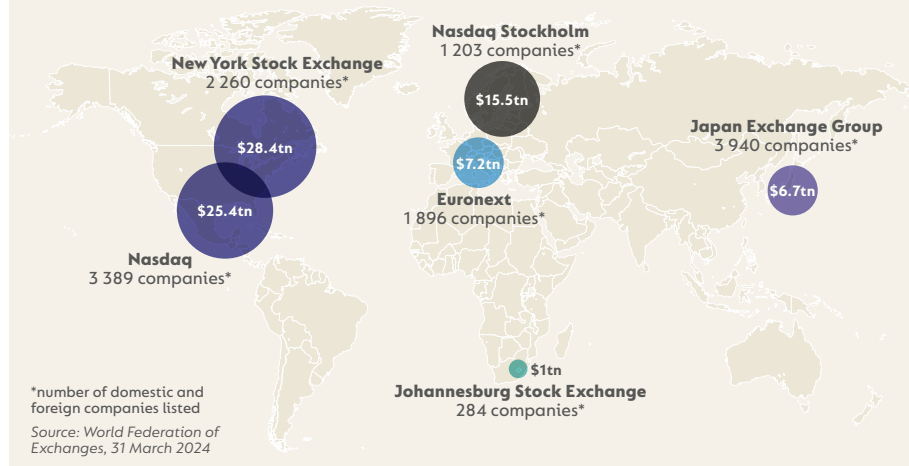
The key take-out of this exercise is that by allocating money internationally, you add another asset class/set of asset classes to your overall investment portfolio, which behaves differently to that of your local asset class mix, especially when factoring in the impact of the local currency.

## 2. Enhanced returns through larger, more diverse and deeper markets

The sheer magnitude of investment opportunities outside our home market is evident in the combined market capitalisation of the world's top five exchanges (see visual below), which exceeded \$80 trillion (and comprising close to 13 000 listed companies) compared to the JSE's ~\$1 trillion (and a universe of 283 listed companies) as at the end-March 2024. When you widen your investment universe, you gain access to engines of innovation and growth and access to industries that are simply not as deep in our home market, with the likely outcome of improving your overall investment outcomes.

## Diversify your asset base into larger and deeper markets

The world's largest exchanges by market cap vs the JSE

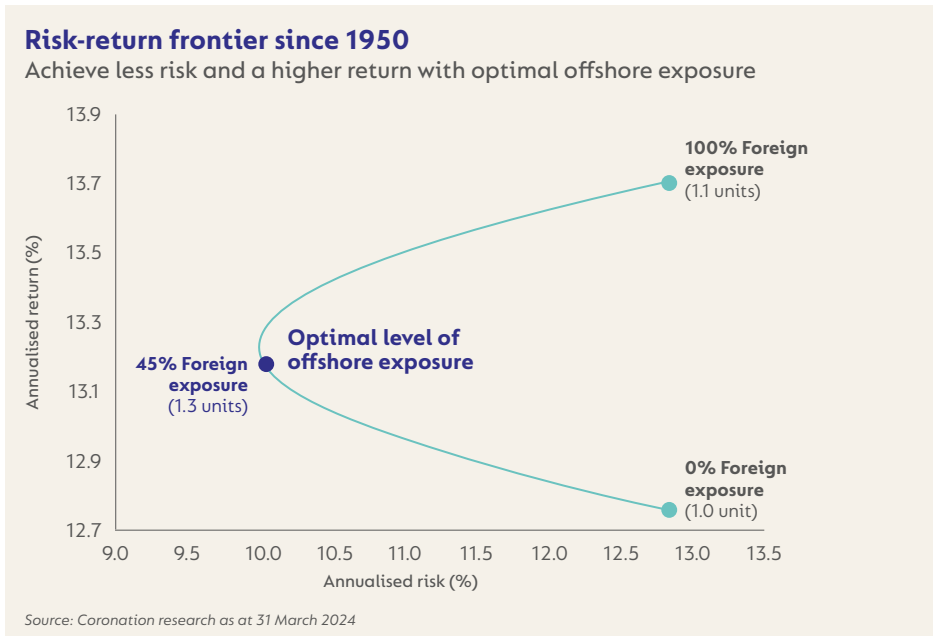


By adding global diversification to your portfolio, you can enhance your investment outcomes through access to companies that are industry leaders, have access to the latest technology and research, and benefit from supportive government policies and institutions that promote innovation. ([🔗 Read more in the WIPO Global Innovation Index 2023.](#))

### What does it look like when mapping these better risk-adjusted returns?

The following graph demonstrates that South African investors who diversify their asset base with meaningful international exposure can expect better risk-adjusted outcomes from their long-term investment portfolios.

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 optimal point – investors’ return increases and their risk decreases, meaning that they can achieve 1.32 units of return for every unit of risk taken.





### 3. A further perk – hedging 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 is a hedge against the long-term change in the 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), business opportunities, investing for the next generation's education, or emigration.

# We invest anywhere in the world using a tried-and-tested approach

We've spent the last 25 years steadily rolling out a considered global fund range to meet South African's every offshore investment need. Today, this range has a demonstrable track record, and we are proud to be one of the few local investment firms with:

- proven and established global capabilities across both emerging and developed markets;
- a single, valuation-driven investment philosophy and approach that has been tested through many market crises; and
- having successfully replicated our skills in building multi-asset class portfolios offshore.

When investing offshore with us, you gain access to a global team of skilled investment professionals (see below) who consistently collaborate to identify the most attractive opportunities (regardless of asset class or geography) for inclusion in each of our global funds.

## A highly experienced, stable and integrated global investment team

54 investment professionals, 43 CFA charterholders and 3 former CIOs



**69%**  
of team has  
>10 years'  
investment  
experience



### A single long-term valuation-driven investment philosophy

We focus beyond five years. This allows us to invest in assets that we believe are trading at substantial discounts to our assessment of their underlying long-term value.



### 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 global investment team constantly interacts and exchanges investment information.





## This approach has created significant value in 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 25-year track record of our longest-running multi-asset class portfolio, **Coronation Global Optimum Growth**. The Fund is an unconstrained global portfolio that allocates to our best ideas across asset classes in developed and emerging markets.

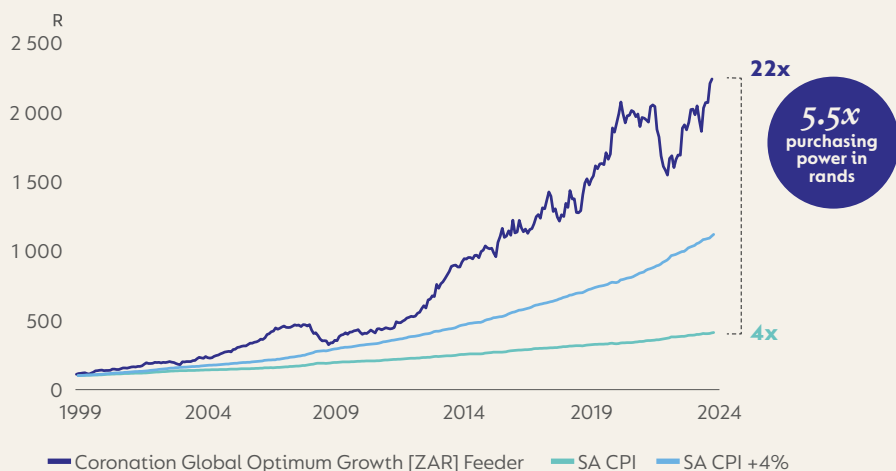
Key highlights for the rand-denominated feeder fund as of end March 2024 include the following:

- + outperformed SA inflation by >7% p.a. since inception in March 1999; and
- + ranked first in its ASISA category since launch.

As demonstrated in the graph below, for every R1 invested at inception in March 1999, you would have R22 today compared to R4 needed to keep up with inflation – resulting in a 5.5 times increase in purchasing power over that period (or a 3.5 times increase in purchasing power in USD terms over that same period).

### 25 years of significant value creation in real terms

Accumulated value of R1 since inception (March 1999) as at 31 March 2024



Rand returns	Fund	CPI	Benchmark <sup>†</sup>
Since inception (ann.)	13.2%	5.9%	11.3%
10-years (ann.)	9.8%	5.0%	10.2%

<sup>†</sup> 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](http://www.coronation.com)

Source: Coronation and IRESS as at end March 2024

Over and above Coronation Global Optimum Growth, we also offer three other international multi-asset portfolios aimed at meeting specific investor needs, each with an investment track record of more than 10 years, as detailed in the table below.

### A multi-asset fund for every offshore need

Fund	Suitable for investors who prioritise:	Since inception annualised performance vs benchmark (in USD)	Track record
<b>Coronation Global Strategic USD Income</b>	Capital preservation, but ideally, still want to do better than a US-dollar bank account	<p>Fund 2.3%</p> <p>Benchmark* 1.5%</p> <p>*110% of SOFR (USD cash)</p>	>10 years
<b>Coronation Global Capital Plus</b>	Achieve both capital preservation and real returns in US dollars	<p>Fund 3.9%</p> <p>Benchmark* 2.0%</p> <p>* SOFR + 1.5%</p>	>15 years
<b>Coronation Global Managed</b>	Long-term real returns and those who are comfortable with moderate risk exposure	<p>Fund 5.3%</p> <p>Benchmark* 6.5%</p> <p>* Composite: 60% MSCI All Country World Index &amp; 40% Barclays Global Bond Aggregate</p>	>14 years
<b>Coronation Global Optimum Growth</b>	Long-term real returns from an aggressive allocation portfolio	<p>Fund 8.1%</p> <p>Benchmark* 6.5%</p> <p>*Composite: 35% MSCI World, 35% MSCI EM, 30% BGBA</p>	>3 years for USD fund >25 years for ZAR fund

Refer to the more detailed table on [page 11](#).

Source: Coronation and Morningstar as at end-March 2024



# 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 via compulsory/traditional retirement vehicles such as an RA or employer-sponsored retirement fund, 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 that are aimed at the different stages of investors' retirement journeys – **Coronation Balanced Plus** and **Coronation Capital Plus** (*or read more in our respective pre-retirement and post-retirement investing editions of Corolab*). These funds are managed with an integrated view of portfolio construction across all asset classes to ensure that:

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

## 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 How to invest your rands offshore with Coronation.](#)

# Investing offshore with Coronation

Investors who require more international exposure than what is achievable by way of their retirement savings (as discussed on page 9) can consider using 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. All you need is \$500/£500/€500 to get started.

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 on behalf of clients).

## Choosing the right international fund

Do you have discretionary savings that you want to invest offshore?  
In which currency do you plan to spend your future savings?



**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



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

- + 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



## 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.

	<b>Coronation Global Strategic USD Income</b>	<b>Coronation Global Capital Plus</b>	<b>Coronation Global Managed</b>	<b>Coronation Global Optimum Growth</b>
<b>Description</b>	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
<b>Recommended investment term</b>	1 year +	3 years +	5 years +	10 years +
<b>Currency</b>	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
<b>Average income vs growth assets</b>				

[Read more about the funds mentioned in this table.](#)

# Conclusion

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As we have argued throughout this edition of *Corolab*, it makes sense to diversify your asset base as a South African investor. By living, working and owning a house in our local market, you already have significant country-specific risk, arguing for additional international exposure.

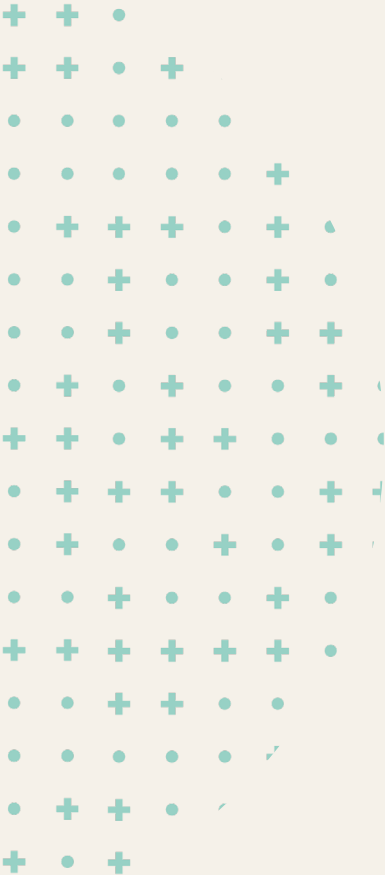
At Coronation we have spent a quarter of a decade building a considered global fund range that meets the needs of South African investors. All of our global funds are available in rands and in US dollars, and managed by a global team of skilled investment professionals, collaborating and applying our single, valuation-driven investment philosophy to identify the most attractive opportunities, regardless of asset class or geography.



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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 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](http://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. 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**Date of issue: May 2024**



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