

CORONATION SMALLER COMPANIES FUND

Fund Information as at 31 December 2018

WHAT IS THE FUND'S OBJECTIVE?

The fund aims to maximise long-term growth from investing in a select group of small to medium-sized JSE-listed companies.

It seeks to outperform the combined JSE Mid and Small Cap Indices.

WHAT DOES THE FUND INVEST IN?

The fund invests in companies outside the forty largest companies on the JSE, across all primary equity sectors (resources, industrials and financials).

The fund will be fully invested in shares.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS



The fund actively seeks out attractively valued companies that could offer strong long-term growth.

Shares are selected following rigorous research into the long-term potential of a company, and whether it is currently attractively valued relative to its sector.

Shares can be volatile investments, and smaller companies in particular may experience price swings. Smaller companies have fewer shares trading freely in the market, which can restrict trading and amplify price movements. Consequently, there is a heightened risk of capital loss over the short term.

However, given its focus on investing only in attractively valued shares that could offer long-term growth, the fund may preserve capital better than its benchmark over the long run.

The fund is concentrated and only invests in one sector of the market, making it riskier than a general equity fund.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The fund is managed to deliver the best possible returns over the long term; an investment horizon of five years or more is therefore ideal.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Investors who are building wealth, and who

- wish to benefit from the potential growth in medium-size and small companies;
- want to diversify their investments to include specific exposure to companies outside of the top forty largest listings;
- accept the inherent volatility in investing in less liquid shares;
- want to hold the Smaller Companies Fund as one of multiple funds in their investment portfolio.

WHAT COSTS CAN I EXPECT TO PAY?

An annual fee of 1.00% (excl. VAT) is payable.

Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

We do not charge fees to access or withdraw from the fund.

More detail is available on www.coronation.com.

WHO ARE THE FUND MANAGERS?



ALISTAIR LEA
CA (SA), CFA



SIPHAMANDLA SHOJI
BSc (Actuarial)

GENERAL FUND INFORMATION

Launch Date	1 April 1997
Fund Class	R
Benchmark	Composite: JSE Mid & Small Cap Indices
Fund Category	South African – Equity – Mid and Small Cap
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSPEG
ISIN Code	ZAE000019824
JSE Code	COSG

CORONATION SMALLER COMPANIES FUND

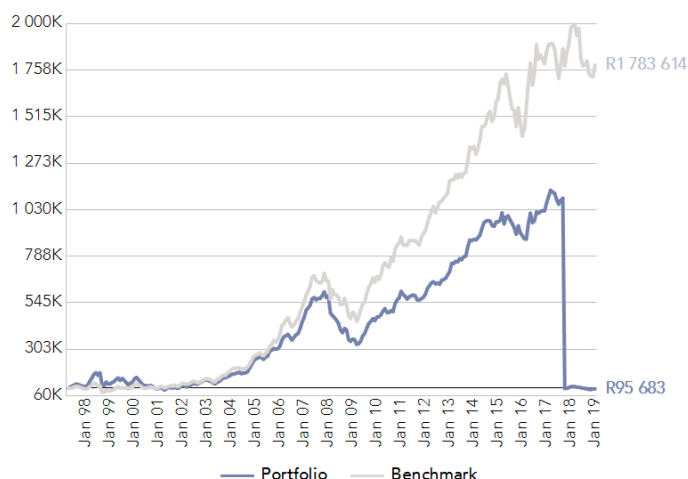
CLASS R as at 31 December 2018

Fund category	South African - Equity - Mid & Small Cap
Launch date	01 April 1997
Fund size	R166.01 million
NAV	6977.19 cents
Benchmark/Performance	Composite: FTSE/JSE Africa Mid & Small
Fee Hurdle	Cap Indices
Portfolio manager/s	Alistair Lea and Siphamandla Shoji

Total Expense Ratio	1 Year	3 Year
Fund management fee	1.21%	1.21%
Fund expenses	0.99%	1.00%
VAT	0.08%	0.07%
Transaction costs (inc. VAT)	0.14%	0.14%
Total Investment Charge	0.27%	0.22%
	1.48%	1.43%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2018
Domestic Assets	100.0%
■ Equities	97.8%
Basic Materials	8.1%
Industrials	9.7%
Consumer Goods	12.7%
Health Care	6.6%
Consumer Services	28.0%
Telecommunications	1.0%
Financials	25.1%
Technology	6.6%
■ Real Estate	1.5%
■ Cash	0.7%

PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	989.9%	1683.6%	(693.8)%
Since Launch (annualised)	11.6%	14.2%	(2.6)%
Latest 20 years (annualised)	11.3%	16.3%	(5.0)%
Latest 15 years (annualised)	12.8%	15.8%	(3.0)%
Latest 10 years (annualised)	11.4%	13.6%	(2.3)%
Latest 5 years (annualised)	3.6%	5.6%	(2.0)%
Latest 3 years (annualised)	5.3%	8.1%	(2.8)%
Latest 1 year	(10.7)%	(9.8)%	(0.9)%
Year to date	(10.7)%	(9.8)%	(0.9)%

TOP 10 HOLDINGS

As at 31 Dec 2018	% of Fund
Spar Group Ltd	7.8%
Distell Group Ltd	5.5%
PSG Group	5.5%
Advtech Ltd	5.3%
Famous Brands Ltd	5.1%
RMI Holdings	4.0%
Metair Investments Ltd	3.8%
Northam Platinum Ltd	3.8%
Cartrack Holdings Ltd	3.6%
Pepkor Holdings Ltd	3.6%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	18.0%	16.9%
Sharpe Ratio	0.12	0.28
Maximum Gain	67.2%	63.6%
Maximum Drawdown	(50.2)%	(38.2)%
Positive Months	61.7%	61.7%

	Fund	Date Range
Highest annual return	68.3%	May 1997 - Apr 1998
Lowest annual return	(41.4)%	Nov 2007 - Oct 2008

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
28 Sep 2018	01 Oct 2018	70.18	67.92	2.25
29 Mar 2018	03 Apr 2018	30.09	28.04	2.04
29 Sep 2017	02 Oct 2017	62.61	60.27	2.34
31 Mar 2017	03 Apr 2017	57.52	52.08	5.44

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2018	0.1%	0.4%	(3.4)%	0.9%	(2.8)%	(2.3)%	(1.9)%	(0.1)%	(4.6)%	0.3%	2.6%	(0.2)%	(10.7)%
Fund 2017	3.2%	2.8%	(0.9)%	(0.5)%	(3.0)%	(2.2)%	1.9%	1.0%	(2.2)%	1.6%	3.1%	4.6%	9.6%
Fund 2016	(1.7)%	(0.2)%	9.5%	5.4%	(4.9)%	1.0%	4.7%	(0.6)%	0.8%	0.5%	(0.1)%	4.2%	19.3%

It has been a tough year, not only for the fund but for the entire market. The fund returned -10.7% over the twelve months, slightly below the benchmark return of -9.9%. In the last five years, the fund has had two major drawdowns (i.e. years in which both the fund and the benchmark delivered negative returns). These years were 2018 and 2015 (in which the fund lost 7.5%). As a result, despite delivering double-digit returns in the remaining years, the impact of these drawdowns has caused our five-year return to be an underwhelming 3.6% p.a.

Given this performance, investors may question whether equities remain an attractive asset class. The answer is decidedly yes. The fund's 10-year returns are still very healthy, at 11.4% p.a. - comfortably beating inflation over that period. It is the proximity of the drawdowns that have made five-year returns look pedestrian. However, one can take comfort by looking at the history of the fund: in the year that followed every major drawdown, the fund has delivered a double-digit return. This performance is driven by low starting valuations that generally follow any major drawdown, especially those of high-quality shares that are sold indiscriminately alongside poor-quality shares.

One such high-quality share we have recently acquired is UK-based financial services business Quilter. It was spun off from Old Mutual when the managed separation took place and the South African business was listed separately. Quilter is an integrated financial services player offering advice, platform, multi-manager and direct fund management services. The UK pension fund market is undergoing massive regulatory restructuring, moving away from defined benefit (DB) to defined contribution (DC) structures. This is set to unlock significant long-term benefit for integrated players such as Quilter who should be able to capture more of these flows to in-house products. The resultant cost opportunity and positive operational leverage has the potential to drive significant earnings growth over the medium term. However, the share price has been weak, mainly driven by Brexit fears. We think the impact of Brexit should be benign, due to its operations being largely UK-based and its funds having an international bias. Operationally, things are going well for Quilter, having last year posted decent maiden results. It currently trades at 10 times on our assessment of normal earnings, which we think is rather attractive.

Over the past year, one of the main contributors to fund performance was PSG Konsult. This business's operations in South Africa are similar to that of Quilter in the UK (described above). It has a sizeable financial adviser base, backed by a formidable IT platform. They also have in-house asset management and short-term insurance businesses. Due to changes in regulations, it has become increasingly difficult for independent advisors to operate as stand-alone businesses. PSG Konsult offers these advisers a home where they don't have to worry about various regulatory-related issues while enjoying a world-class back office provided to them in exchange for a share of revenue. The consolidation of the adviser network still has many years to run and we expect PSG Konsult to be one of the major beneficiaries of this trend.

The biggest detractor to fund performance over the past year has been our holding in Dawn, a manufacturer, distribution and warehousing group. A few years ago, we participated in the recapitalisation of the company in the belief that this would give it the headroom to successfully restructure its operations. Unfortunately, this coincided with a brutal business environment, which has made the turnaround extremely difficult, despite management's best efforts.

Markets have had a tumultuous start to 2019. We continue to exercise caution, looking to own very high-quality companies with strong moats and balance sheets that are able to withstand a continuation of tough times. As always, valuation remains our beacon in these turbulent times and we have used the volatile price environment to build positions in attractively priced shares.

Portfolio managers

Alistair Lea and Siphamandla Shoji

as at 31 December 2018

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION SMALLER COMPANIES FUND

The Smaller Companies Fund should be considered a long-term investment. The value of units may go down as well as up, and therefore Coronation does not make any guarantees with respect to the protection of capital or returns. Asset allocation and top 10 holdings are reflected on a look-through basis. 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. Portfolio managed by Coronation Asset Management (Pty) (FSP 548) Ltd, an authorised financial services provider. The Management Company reserves the right to close the fund to new investors if we deem it necessary to limit further inflows in order for it to be managed in accordance with its mandate. Unit trusts are allowed to engage in scrip lending and borrowing. Standard Chartered has been appointed as trustees for the fund (www.sc.com/za; 011-2176600). Coronation is a full member of the Association for Savings & Investment SA (ASISA).

HOW ARE UNITS PRICED AND AT WHICH PRICE WILL MY TRANSACTION BE EXECUTED?

Unit trusts are traded at ruling prices set on every trading day. 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) and forward pricing is used. Instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. The payment of withdrawals may be delayed in extraordinary circumstances, when the manager with the consent of the fund trustees deem this to be in the interest of all fund investors. These circumstances may include periods when significant underlying markets suspend trading which will prevent accurate valuation of the instruments held in the fund. When the suspension of trading relates to only certain assets held by the fund, these assets may be side-pocketed. This process allows normal liquidity on the assets that can be valued, but will delay liquidity on the affected portion of the fund. If the fund is faced with excessive withdrawals, the affected withdrawals may be ring-fenced, which is the separation and delayed sale of the assets reflecting the interest of the liquidity seeking investors. It ensures that the sale of a large number of units will not force Coronation to sell the underlying investments in a manner that may have a negative impact on remaining investors of the fund.

HOW WAS THE PERFORMANCE INFORMATION INCLUDED IN THIS FACT SHEET CALCULATED?

Performance is calculated by Coronation as at the last day of the month for a lump sum investment using Class A NAV prices 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. Unannualised performance represents the total return earned by the fund over the given time period, expressed as a percentage.

WHAT IS THE TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS (TC)?

TER is calculated as a percentage of the average net asset value of the portfolio incurred as charges, levies and fees in the management of the portfolio. The TER charged by any underlying fund held as part of a fund's portfolio is included in the fund expenses portion of the TER, but trading and implementation costs incurred in managing the fund are excluded. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. The 1 year TER is for the 12 months to end of September 2017 (updated annually). The 3 year TER is for a rolling 36-month period to the last quarter end (December, March, June and September).

Transaction costs are a necessary cost in managing a fund and impacts the fund's return. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER.

The Total Investment Charge is the sum of the Total Expense Ratio (TER) and transaction costs.

ADVICE AND PLATFORM COSTS

Coronation does not provide financial advice. If you appoint an adviser, advice fees are contracted directly between you and the adviser. For more information please contact the relevant platform (Linked Investment Service Provider or Life Assurance Provider).

WHERE CAN I FIND ADDITIONAL INFORMATION?

Additional information such as daily fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, www.coronation.com

IMPORTANT INFORMATION REGARDING TERMS OF USE

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