CORONATION FINANCIAL FUND

Fund Information as at 31 May 2018

CORONATION
TRUST IS EARNED™

WHAT IS THE FUND'S OBJECTIVE?

The fund aims to maximise long-term growth from investing in the financial services industry. It seeks to outperform an index of financial companies listed on the Johannesburg Stock Exchange (the JSE Financial Index) over the longer term.

WHAT DOES THE FUND INVEST IN?

The fund will remain fully invested in JSE-listed companies that earn a significant portion of their earnings from financial services. These include banks, insurance companies and related businesses.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

10/10
Aggressive

Maximum growth/
minimum income exposures

Growth Assets: 100%
Income Assets: 0%

The fund's managers actively seek out attractively valued financial companies that could offer strong long-term investment 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 there is a meaningful 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

- want to diversify their investments to include specific exposure to banks, insurers and related businesses;
- believe that the financial sector offers compelling value;
- accept that the fund may underperform the broader market significantly in the short term as a result of its sector focus;
- seek to hold the Financial Fund as one of multiple funds in their investment portfolio.

WHAT COSTS CAN I EXPECT TO PAY?

An annual fee of 1.25% (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?

NEILL YOUNG
BBusSc (Hons Fin), CA (SA), CFA

GODWILL CHAHWAHWA
BCompt, CA (SA) CFA

GENERAL FUND INFORMATION

Launch Date	1 July 1998
Fund Class	A
Benchmark	FTSE/JSE Financial Index
Fund Category	South African – Equity – Financial
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORFING
ISIN Code	ZAE000019766
JSE Code	CNFG

CORONATION FINANCIAL FUND

CLASS A as at 31 May 2018

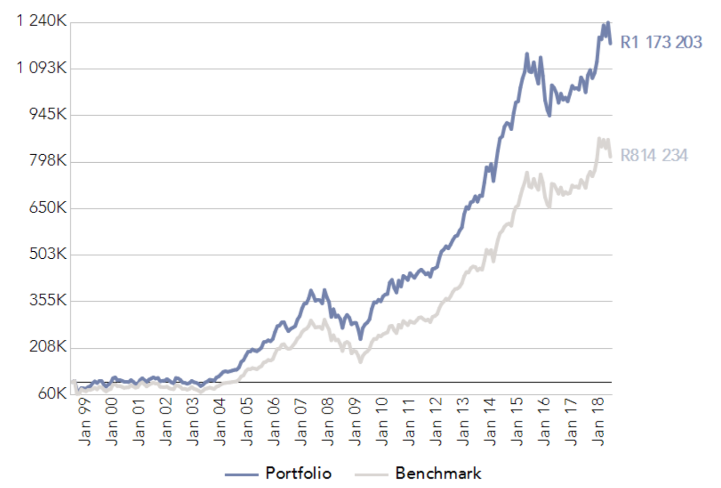
CORONATION
TRUST IS EARNED™

Fund category	South African - Equity - Financial
Launch date	01 July 1998
Fund size	R505.39 million
NAV	6548.84 cents
Benchmark/Performance	FTSE/JSE Financial Index
Fee Hurdle	
Portfolio manager/s	Neill Young and Godwill Chahwahwa

	1 Year	3 Year
Total Expense Ratio	1.48%	1.47%
Fund management fee	1.24%	1.24%
Fund expenses	0.06%	0.05%
VAT	0.17%	0.17%
Transaction costs (inc. VAT)	0.23%	0.17%
Total Investment Charge	1.71%	1.64%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 May 2018
Domestic Assets	**100.0%**
Equities	**83.2%**
Health Care	1.6%
Financials	81.6%
Preference Shares & Other Securities	**4.3%**
Real Estate	**12.2%**
Cash	**0.3%**

PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	1073.2%	714.2%	359.0%
Since Launch (annualised)	13.2%	11.1%	2.1%
Latest 15 years (annualised)	17.9%	16.8%	1.1%
Latest 10 years (annualised)	14.6%	13.9%	0.7%
Latest 5 years (annualised)	11.2%	11.8%	(0.6)%
Latest 3 years (annualised)	2.6%	4.2%	(1.5)%
Latest 1 year	11.4%	11.4%	0.0%
Year to date	(1.7)%	(6.7)%	5.0%

TOP 10 HOLDINGS

As at 31 Mar 2018	% of Fund
Standard Bank of SA Ltd	13.3%
Old Mutual Life Assurance SA	11.6%
Investec	11.0%
RMB Holdings	10.4%
Nedbank Ltd	7.7%
Discovery Holdings Ltd	4.8%
MMI Holdings Ltd	4.1%
Reinet Investment SCA	3.9%
INTU Properties	3.5%
PSG Group	3.0%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	18.8%	20.2%
Sharpe Ratio	0.22	0.10
Maximum Gain	53.6%	80.4%
Maximum Drawdown	(39.7)%	(45.3)%
Positive Months	60.7%	61.1%

	Fund	Date Range
Highest annual return	63.0%	Aug 2004 - Jul 2005
Lowest annual return	(28.6%)	Mar 2008 - Feb 2009

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
29 Mar 2018	03 Apr 2018	28.92	27.21	1.71
29 Sep 2017	02 Oct 2017	73.33	73.33	0.00
31 Mar 2017	03 Apr 2017	73.16	72.16	1.00
30 Sep 2016	03 Oct 2016	98.05	97.66	0.39

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2018	(0.5)%	3.8%	(2.8)%	3.6%	(5.3)%								(1.7)%
Fund 2017	(0.9)%	0.2%	(0.5)%	3.8%	(1.3)%	(3.3)%	5.3%	1.6%	(2.4)%	1.6%	3.2%	6.9%	14.8%
Fund 2016	(3.1)%	(1.8)%	10.2%	(0.8)%	(1.6)%	(3.0)%	3.0%	(2.0)%	0.8%	(1.2)%	2.4%	2.5%	4.6%

Issue date: 2018/06/07

Please refer to page 4 of the Comprehensive Fact Sheet for important additional infomation, including change in cost disclosures.

Please note that the commentary is for the retail class of the fund.

The fund returned 0.3% for the quarter, outperforming the financial sector benchmark, which declined -3.6%. Over more meaningful periods of five and 10 years, the fund has generated compound annual returns of 12.3% and 14.6% respectively, which compares to benchmark returns of 12.8% and 13.7%. Since inception the fund has delivered a compound annual return of 13.4%. The long-term track record of the fund remains respectable relative to both peers and the benchmark.

Once again banks (+4.2%) outperformed life insurers (+1.2%) during the quarter, driven in large part by continuing expectations of an improved macro outlook for South Africa following changes in the ANC political leadership in December, and the appointment of Cyril Ramaphosa as state president in February. Moody's kept its credit rating of SA sovereign debt at a notch above junk and somewhat surprisingly moved its outlook from negative to stable, reinforcing this positive sentiment. The positive contributions of the banks and insurers to sector performance were offset by negative returns from listed property (-19.6%) and general financials (-2.4%).

Contributors to fund performance for the quarter were overweight positions in Nedbank and Investec, as well as having no exposure to property stocks in the Resilient group of companies or to Capitec. Detractors from performance include overweight positions in Reinet and Intu, as well as underweight positions in Barclays Africa Group, FirstRand/RMH, Growthpoint and Redefine.

January was noteworthy for the release of short-seller Viceroy Research's report on Capitec. The previously unheard-of Viceroy rose to prominence with its report on Steinhoff in December, released on the same day that Steinhoff announced an investigation into accounting irregularities and the resignation of its CEO. Viceroy subsequently let on that it was busy with research on another South African-listed company, giving rise to frenzied speculation as to which stock it would be. Capitec was not one of those anticipated by the market. In our view, the report was irresponsible – it suggested that the bank was technically insolvent and urged the South African Reserve Bank (SARB) to put it into curatorship. Banking is a business that relies on trust; it requires depositors to trust the bank to repay the amounts they have lent to it on demand. If that trust were to evaporate overnight there is a real risk of a run on the bank – depositors demanding immediate repayment en masse, which the bank would be unable to honour unless those funds were sitting in cash and not on-lent to borrowers. Viceroy had gained a certain amount of credibility amongst the financially informed public with its Steinhoff report, and the Capitec report presented a risk of such a run. For this reason, the SARB stepped in rapidly with a statement affirming the soundness of the business.

The Viceroy report raised a number of points, not all of which were well researched or substantiated. One of the benefits of the to-ing and fro-ing between Viceroy and Capitec however was that swift and comprehensive responses to Viceroy's accusations were published by the company. This additional disclosure has provided investors such as ourselves with increased insight into how they manage and provide for their unsecured lending book, and has enabled us to enhance our understanding of its quality. Capitec's most recent financial results demonstrate that it is evolving into a comprehensive retail bank. It has grown its market share of banking clients (by number) to 27%, retail loans (by value) to 5.4% and retail deposits (by value) to 6.5%. Net transaction income (i.e. non-lending income) now makes up 41% of risk-adjusted gross income. Within a year of launch, the business has 290 000 credit cards in issue representing a 2% market share. It has recently launched a low-cost funeral plan insurance product in a JV with Sanlam. With no legacy systems, a large client base and a strong brand, but still a relatively small share of market by value, the opportunity to grow into adjacent product sets is significant. The business is well capitalised, and generates attractive ROEs.

The fund does not own Capitec, and has not done so for quite some time. The reason for this is not uncertainty as to whether the business is a going concern or not – we view this as a sustainable business with good growth opportunities. Our reticence hinges on valuation. At the current share price, it trades on a one year forward multiple of 18x earnings and P/B of 5.3x. Even considering the good growth opportunities available to it, this sort of valuation leaves very little margin of safety.

There is however a way to own Capitec indirectly, and a little more cheaply. This is through PSG. At market prices today, listed companies make up roughly 90% of PSG's NAV. Of these Capitec is the largest at 55%. It also owns another business we like and own directly in the fund – PSG Konsult (13% of NAV). Using market prices, PSG currently trades at a 13% discount to the sum of its parts. Applying our fair values to each of the underlying businesses (including a value below market for Capitec) results in a similar discount. In December, Steinhoff was a distressed seller of a portion of its holding in PSG and we participated in a placement at the time. The opportunity arose once again in the first quarter, and the fund increased its stake in the business to 2.8% of fund.

During the quarter we reduced the fund's holding in FirstRand and Standard Bank and sold out of Coronation, as these share prices rallied strongly. We added to positions in laggards Investec, Peregrine and PSG, and for the first time invested in selected SA property stocks after a heavy sell off.

Some of the euphoria that had been building in share prices for the first two months of the year receded in March, with banks down 3.3% and life insurers retracing 4.5%. With early signs of an improved operating environment, there is probably some upside to earnings growth forecasts in 2019/2020. Despite this, as a general comment, at these levels valuations (particularly those of the big four banks) provide a limited margin of safety. We continue to caution against expecting a repeat of the strong returns generated by the sector over the past 12 months.

Portfolio managers
Neill Young and Godwill Chahwahwa
as at 31 March 2018

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

The Financial 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. Past performance is not necessarily an indication of future performance. 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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