CORONATION GLOBAL EMERGING MARKETS FLEXIBLE [ZAR] FUND

Fund Information as at 31 May 2018

CORONATION
TRUST IS EARNED™

WHAT IS THE FUND'S OBJECTIVE?

The Global Emerging Markets Flexible [ZAR] Fund aims to give investors access to the best opportunities in emerging equity markets. The fund actively seeks out attractively valued shares to maximise long-term growth. Our intent is to outperform the emerging equity benchmark over all periods of five years and longer.

WHAT DOES THE FUND INVEST IN?

The fund invests in the shares of companies which are either based in emerging countries, or earn a significant part of their revenue from emerging economies. It can also invest in cash and bonds, but will remain biased towards shares at all times. The fund is mandated to use derivative instruments for efficient portfolio management purposes.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

9/10

Aggressive

Maximum growth/ minimum income exposures

Growth Assets: 100%

Income Assets: 0%

The fund will only invest in shares we view as being attractively valued and which may offer superior long-term investment growth.

The fund's share selection is the result of rigorous international research conducted by Coronation's investment team.

While we have a disciplined approach to reducing risk, shares can be volatile investments and there is a meaningful risk of capital loss over the short term. Emerging markets are generally viewed as more risky than developed markets. Global currency movements may intensify investment gains or declines.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The fund is managed to deliver the best possible returns over the long term; an investment horizon of 10 years or more is therefore ideal. It is not suitable as a single investment for investors who need to preserve their capital over five years or less.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Investors who are building wealth, and who

- are comfortable with full exposure to shares in emerging markets;
- accept that the fund may underperform the market significantly in the short term in pursuit of superior long-term gains;
- hold other investments and are looking for exposure to emerging markets;
- do not require an income from their investment.

WHAT COSTS CAN I EXPECT TO PAY?

An annual fee of a minimum of 1.00% and a maximum of 2.40%, depending on the fund's performance, is payable.

If fund performance equals that of the benchmark (after fees and costs), a fee of 1.15% will be charged. We share in 20% of performance above the benchmark, up to a total annual fee of 2.40%. Performance is measured over a rolling 24-month period.

If the fund underperforms the benchmark over any 60-month period, the fee is reduced by 0.15%.

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

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

More detail is available on www.coronation.com.

WHO ARE THE FUND MANAGERS?

GAVIN JOUBERT
BBusSc, CA (SA), CFA

SUHAIL SULEMAN
BBusSc, CFA

GENERAL FUND INFORMATION

Launch Date	28 December 2007
Fund Class	A
Benchmark	MSCI Emerging Markets Index
Fund Category	Global – Multi-asset – Flexible
Regulation 28	Does not comply
Investment Minimum	R5 000 or R500/m debit order
Bloomberg Code	CORGLOB
ISIN Code	ZAE000109211
JSE Code	CGEM

CORONATION GLOBAL EMERGING MARKETS FLEXIBLE [ZAR] FUND

CLASS A as at 31 May 2018

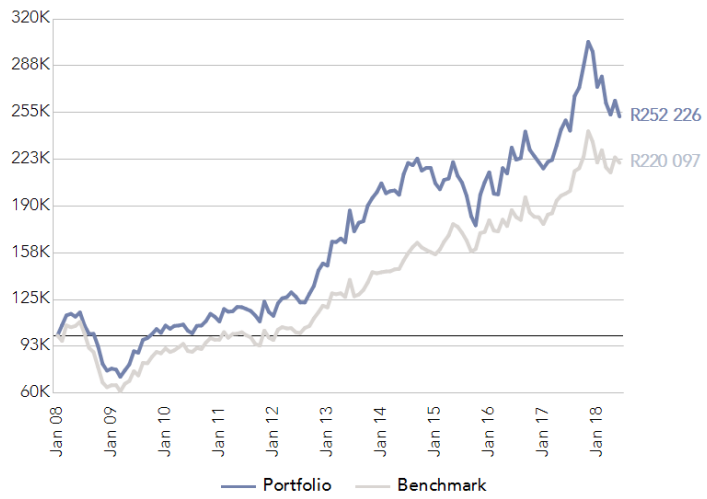
CORONATION
TRUST IS EARNED™

Fund category	Global - Multi Asset - Flexible
Launch date	28 December 2007
Fund size	R 3.78 billion
NAV	246.02 cents
Benchmark/Performance Fee Hurdle	MSCI Emerging Markets Index
Portfolio manager/s	Gavin Joubert and Suhail Suleman

	1 Year	3 Year
Total Expense Ratio	1.76%	1.72%
Fee for performance in line with benchmark	1.25%	1.27%
Adjusted for out/(under)-performance	0.16%	0.04%
Fund expenses	0.15%	0.22%
VAT	0.20%	0.18%
Transaction costs (inc. VAT)	0.26%	0.21%
Total Investment Charge	2.02%	1.93%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	152.2%	120.1%	32.1%
Since Launch (annualised)	9.3%	7.9%	1.4%
Latest 10 years (annualised)	8.1%	7.2%	0.8%
Latest 5 years (annualised)	6.2%	9.7%	(3.5)%
Latest 3 years (annualised)	6.1%	7.8%	(1.7)%
Latest 1 year	1.0%	10.8%	(9.7)%
Year to date	(7.5)%	(0.1)%	(7.5)%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Return	9.3%	7.9%
Annualised Deviation	17.1%	15.6%
Sharpe Ratio	0.16	0.08
Maximum Gain	25.5%	36.4%
Maximum Drawdown	(38.6)%	(44.2)%
Positive Months	56.0%	56.0%

	Fund	Date Range
Highest annual return	49.7%	Mar 2009 - Feb 2010
Lowest annual return	(37.5%)	Mar 2008 - Feb 2009

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Country	31 May 2018
Equities	**99.37%**
China	20.21%
South Africa	17.33%
India	12.01%
Russian Federation	11.03%
Brazil	9.36%
United States	6.20%
Netherlands	5.96%
Korea, Republic Of	5.52%
France	3.50%
Hong Kong	2.95%
Other	5.29%
Cash	**0.63%**
USD	0.49%
Other	0.14%
ZAR	0.00%

TOP 10 HOLDINGS

As at 31 Mar 2018	% of Fund
British American Tobacco Plc (South Africa)	6.1%
Kroton Educacional SA (Brazil)	4.8%
Heineken Holdings NV (Netherlands)	4.8%
JD.com Inc Adr (China)	4.2%
Porsche Automobil Hldg-Prf ()	4.2%
Airbus Group SE (France)	4.1%
Naspers Ltd (South Africa)	4.1%
Ping An Insurance Group Co (China)	3.9%
Magnit Ojsc-Spon (Russian Federation)	3.7%
Samsung Electronics-Pfd (Korea, Republic Of)	3.5%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2010	01 Oct 2010	0.17	0.17	0.00
30 Sep 2009	01 Oct 2009	0.12	0.11	0.01
30 Sep 2008	01 Oct 2008	0.93	0.91	0.02

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2018	2.7%	(6.6)%	(3.1)%	3.8%	(4.2)%								(7.5)%
Fund 2017	2.1%	0.6%	4.6%	4.7%	2.7%	(2.9)%	10.0%	2.2%	5.6%	5.8%	(2.3)%	(8.3)%	26.2%
Fund 2016	(7.0)%	(0.2)%	9.2%	(1.7)%	8.5%	(3.7)%	0.5%	8.3%	(5.2)%	(1.9)%	(1.8)%	(2.0)%	1.2%

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 -7.1% in ZAR (-2.7% in USD) for the first quarter of 2018 compared with the -3.1% return of the index, in what has been a challenging start to the year. Since inception just over 10 years ago the fund has delivered a return of 9.5% p.a. and has outperformed the index by 1.8% p.a.

The biggest positive contributors for the quarter all came from fund positions that added positively, rather than underweight positions in stocks that performed poorly. The biggest positive contributor was Airbus, up 16% in USD for the quarter and contributing +0.54%. We continue to believe that Airbus is very attractively valued, with 45% upside to fair value, and as such it remains a large position at 4% of fund. The second largest positive contributor was global sportswear group Adidas (c.55% of revenue from emerging markets), which was bought back into the fund earlier in the year after having previously sold it in 2015. Since the date of reintroducing Adidas to the fund up until quarter-end, the share price gained 22% in USD, contributing +0.49% to alpha. As at end-March, it represented a 2.9% position in the fund. Other notable positive contributors were the #1 Chinese online classifieds company, 58.com (+11% return, +0.36% attribution) and the leading bank in Russia, Sberbank (+10% return, +0.23% attribution).

As mentioned, the largest new buy in the quarter was Adidas. We had previously owned only Nike, Adidas's perennial industry rival. At the time of purchasing Nike in late 2016, the share was unloved by investors due to concerns over its perceived dependence on the US market and the basketball category in general. At the same time, Adidas could do no wrong as product innovations and other general operational improvements led to market share gains in the US and a substantial improvement in brand equity in most operating regions. Other sportswear groups also seemed to be making headway at Nike's expense in the US, most notably Under Armour Inc, which at one point reached an earnings multiple in excess of 40x. Despite our attraction to the industry, we believed that Nike was substantially undervalued and Adidas looked expensive. Fast forward just over a year and Nike's share price has increased by close to 35%, while Adidas lagged significantly, having declined by 5% since March 2017 until time of purchase in January 2018.

The lag in Adidas created a buying opportunity, and the stock has performed very well in this short space of time. The purchase was partially funded by a reduction in the Nike position size, which has gone from over 2% of fund in recent months to just under 1% by end-March. Although both Adidas and Nike may appear optically expensive based on near-term multiples (c.24-25x forward earnings), we believe they have well above average earnings growth prospects in the years ahead, driven by changing consumer habits toward greater fitness and 'athleisure', whilst the companies themselves have identified several routes to raising margins. These include improvements in manufacturing (to lower wasted materials) and increased direct to consumer sales (where the retail markup is captured in addition to the usual wholesale margin). In addition to this, Adidas's EBIT margins at c.9-10% are still well below that of Nike at c.13-14%. In some developed markets, and eventually in most large markets worldwide, it is expected to become fairly straightforward for consumers to order a customised shoe or piece of apparel, and have it swiftly manufactured in their country or region via a robotic process, and delivered speedily to their door. The pricing potential, improvement in cost control and lower working capital requirements are all material contributors to our belief in the earnings potential of Nike and Adidas, which are not fully reflected in their respective share prices today.

Besides Adidas, the only other new buy was a 1% position in KB Financial, the largest financial services group (banking, insurance, securities, asset management and investment banking) in South Korea. Whilst banking is a relatively poor industry in South Korea in our view (mature, heavily regulated in favour of the consumer and low ROEs) in the case of KB Financial, we were attracted to the steps that new management had taken, and continue to take, in order to improve returns, including acquisitions in areas that have more attractive prospects (e.g.: securities), acceleration of digital investment on the banking side, and headcount reductions. Since the appointment of a new CEO (and full new management team) in late 2014, ROEs have increased from c.5% to c.10%. Today KB Financial trades on 7x earnings, 0.7 Price/Book with a 3.5% dividend yield for a company that in our view can grow earnings by c.10% p.a. over the next 5 years.

Over the quarter we continued to reduce the fund's Chinese internet exposure as share prices rose and as such moved closer to fair values. We reduced the position in 58.com to 3% of fund – the share was up 11% in the quarter and would have been approaching a 4% position in the absence of any action. We also reduced other Chinese internet names – Baidu was lowered by 0.5% to 2.1% and JD.com by 1.5% to 4.1%. We also sold out of Alibaba as it reached our estimate of fair value, as well as Altaba – the former Yahoo whose main asset now is its stake in Alibaba. The combined Alibaba/Altaba position was close to 2.5% at the start of the year. Most notably for the quarter, we reduced our Naspers position by close to 3.5% to just under 4% of fund. This was driven predominantly by concerns over the valuation of Tencent, which is Naspers's single biggest investment. We also sold out of Aspen (given more attractive risk-adjusted opportunities elsewhere) and YUM China (due to valuation).

In terms of adding to positions, we increased the Ping An (largest private (non-State controlled) Chinese insurer) position size during the quarter by 1.5% to 3.9% and global tobacco group British American Tobacco from 3.7% to 6.0%, both as a result of share price weakness.

In terms of detractors, 2 stocks made up the bulk of the fund's underperformance: Magnit declined by 32% in USD during the quarter (-1.4% attribution) and Kroton by 26% in USD (-1.5% attribution). We have written extensively about both businesses in recent years and will thus just concentrate on incremental news as well as why the shares have been so negatively affected recently. Magnit had already been performing poorly relative to its previous high standards in recent quarters, with sales growth declining from mid-20s to single digits in recent quarters – and this was mostly driven by space rather than same store sales growth. The company's recent struggles seem to have eventually led the founder and CEO Mr Sergei Galitsky to give up and leave the business. He had been slowly reducing his position over time to fund his philanthropic work, but eventually came to the view that from a personal perspective staying around for a recovery in the business and share price was not worth it. The sale of most of his c.30% stake to VTB Capital (who will look to increase its value substantially for a resale) has led to meaningful changes in management and strategy that we believe will be beneficial in the long term. An example is the company's historical overemphasis on maintaining margins at the expense of reinvesting in the existing store base. This worked fine when the competition was weak and fragmented but as X5 improved their operations in recent years, the product offering at X5's stores far exceeded Magnit's more basic stores and led to negative traffic at Magnit. We believe that greater reinvestment in the business would have delivered better returns as fewer customers would have been lost to competitors and the additional sales revenue would have delivered greater absolute profits to Magnit even if margins were slightly lower. It has also become clear with the exit of the founder that the business has been lacking in professional management with many senior managers being responsible for multiple portfolios. Professionalising the management structure and having distinct control of functions assigned to specialist managers will help improve processes and make the company less dependent on a single individual in future. We were buyers of Magnit over the quarter and at end-March it was a 3.6% position.

The other big detractor has been Kroton, which has fully given up the gains it made after the blocking of its merger with Estácio by competition authorities in the middle of last year. Investor perception toward the private education industry in Brazil has cooled in recent quarters due to a variety of factors. Firstly, intakes have stagnated or declined as affordability has become more of an issue for students. Although the Brazilian economy has exited its deep recession of 2015 and 2016, the recovery has been very shallow, without a substantial improvement in job prospects for the workforce. Ordinarily the government student financing scheme would have helped maintain enrolment momentum, but since 2015 this scheme has been halved and made more expensive for those that qualify. The tough market has also put pressure on pricing, with many industry players offering discounts to entice students, leading to lower average fees.

While we acknowledge the merit in some of these issues, we believe there are strong counterarguments that make Kroton a very compelling investment, which is why we have been increasing the position in response to the decline in Kroton's share price. It is important to identify that the longer-term drivers of the industry remain intact – Brazil has a dire skills shortage and the return on investment for students who study certain courses is very high. The industry is very fragmented and profitability of the smaller players is minimal – many survive simply because they own the building out of which they operate and therefore don't have to pay rent. Kroton's high market share should therefore not serve as a barrier over long periods of time to continued student growth as the market will consolidate over time. Their scale and strong brands make their degrees more attractive, which raises long-term pricing power. With their solid balance sheet and high profitability, they are uniquely positioned within the industry to offer pioneering financing schemes that allow students to spread out their payments beyond the duration of their degree, which will make them more affordable to marginal students. This will help offset some of the negative impact of lower government student loans.

During the quarter we met with the CEO, CFO, CTO and various divisional heads of Kroton in Brazil. The strength and depth of management at the company places them amongst the best in emerging markets, in our view. Besides the favourable long-term prospects for their traditional business (tertiary education), Kroton are also making a concerted push into the private school market as this industry also has great economics (a student stays with you for 12 years instead of 4) and remains very fragmented despite many strong local brands. At 10x earnings we believe you are buying the current earnings stream at a substantial discount and getting all of the above optionality for free. Kroton was a 5% position at end March and is the 2nd largest position in the fund.

Members of the team continue to travel extensively to enhance our understanding of the businesses we own in the fund, their competitors and the countries in which they operate. In the quarter there were trips undertaken to Brazil, India and China. In the coming weeks the team will visit Russia, South Korea, Taiwan, Indonesia and Singapore. The weighted average upside to fair value of the fund at the end of March was c.45%.

Portfolio managers
Gavin Joubert and Suhail Suleman

as at 31 March 2018

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION GLOBAL EMERGING MARKETS FLEXIBLE [ZAR] FUND

The Global Emerging Markets Flexible [ZAR] 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. The fund is mandated to invest up to 100% of its portfolio into foreign securities and may as a result 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. Asset allocation is 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