

CORONATION INDUSTRIAL FUND

Fund Information as at 31 October 2018

WHAT IS THE FUND'S OBJECTIVE?

The fund aims to maximise long-term investment growth from investing in a select group of South African listed industrial and consumer companies.

It seeks to outperform an index of industrial companies listed on the Johannesburg Stock Exchange (the JSE Industrial Index) over the longer term.

WHAT DOES THE FUND INVEST IN?

The fund will remain fully invested in companies listed on the JSE, most excluding those involved in mining and financial services. It can invest in a wide range of industries, including technology, telecommunication, healthcare and consumer goods.

While the fund may not invest in foreign markets, it can have exposure to international companies that are listed in South Africa. The fund is mandated to use derivative instruments for efficient portfolio management purposes.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS



The fund's managers actively seek out attractively valued companies that could offer strong long-term growth.

Shares are selected following rigorous and independent 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

- want to diversify their investments to include exposure to a wide range of industrial companies;
- accept that the fund may underperform the market significantly in the short term in pursuit of superior long-term gains;
- want to hold the Industrial 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?



**SARAH-JANE
ALEXANDER**
BBusSc, CFA



ADRIAN ZETLER
BCom (Hons), CA
(SA), CFA

GENERAL FUND INFORMATION

Launch Date	1 July 1998
Fund Class	P (previously class A)
Benchmark	FTSE/JSE Industrial Index
Fund Category	South African – Equity – Industrial
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORCGRO
ISIN Code	ZA000019741
JSE Code	CNCG

CORONATION INDUSTRIAL FUND

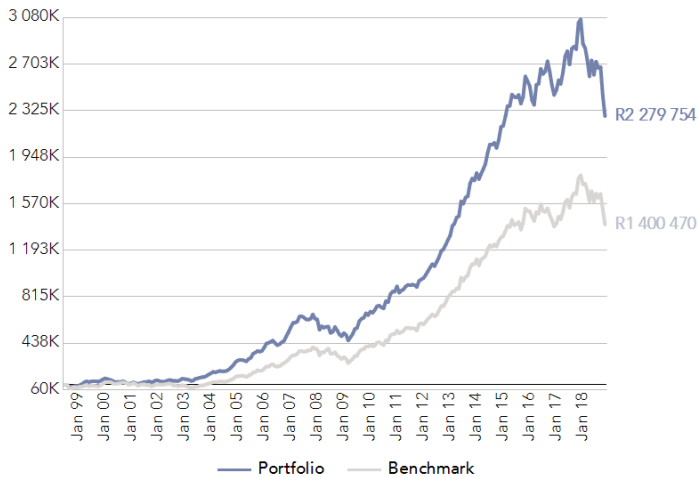
CLASS P as at 31 October 2018

Fund category	South African - Equity - Industrial
Launch date	01 July 1998
Fund size	R931.16 million
NAV	16081.38 cents
Benchmark/Performance	FTSE/JSE Industrial Index
Fee Hurdle	
Portfolio manager/s	Sarah-Jane Alexander and Adrian Zetler

Total Expense Ratio	1 Year	3 Year
Fund management fee	1.16%	1.16%
Fund expenses	1.00%	1.00%
VAT	0.02%	0.02%
Transaction costs (inc. VAT)	0.14%	0.14%
Total Investment Charge	0.21%	0.20%
	1.37%	1.36%

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)	2179.8%	1300.5%	879.3%
Since Launch (annualised)	16.6%	13.9%	2.8%
Latest 20 years (annualised)	17.6%	15.2%	2.4%
Latest 15 years (annualised)	18.7%	18.8%	(0.1)%
Latest 10 years (annualised)	16.2%	15.8%	0.4%
Latest 5 years (annualised)	5.1%	5.3%	(0.2)%
Latest 3 years (annualised)	(4.3)%	(2.9)%	(1.4)%
Latest 1 year	(25.0)%	(21.1)%	(3.9)%
Year to date	(20.5)%	(18.9)%	(1.6)%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	15.5%	17.9%
Sharpe Ratio	0.49	0.27
Maximum Gain	55.8%	61.7%
Maximum Drawdown	(31.6)%	(38.5)%
Positive Months	64.3%	63.9%

	Fund	Date Range
Highest annual return	68.0%	Jan 1999 - Dec 1999
Lowest annual return	(26.2)%	Jan 2000 - Dec 2000

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2018	(1.2)%	(3.2)%	(5.0)%	5.0%	(4.3)%	4.1%	(1.9)%	0.3%	(8.7)%	(6.8)%			(20.5)%
Fund 2017	3.2%	(1.2)%	3.6%	5.0%	1.6%	(3.9)%	4.8%	0.6%	(0.8)%	7.6%	0.9%	(6.5)%	15.0%
Fund 2016	(4.5)%	(1.6)%	6.9%	0.3%	4.8%	(1.6)%	0.8%	3.1%	(3.1)%	(4.2)%	(3.1)%	1.6%	(1.2)%

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Oct 2018
Domestic Assets	100.0%
Equities	97.0%
Industrials	4.3%
Consumer Goods	25.0%
Health Care	10.4%
Consumer Services	45.5%
Telecommunications	5.5%
Financials	4.2%
Technology	2.2%
Preference Shares & Other Securities	1.1%
Real Estate	1.2%
Cash	0.7%

TOP 10 HOLDINGS

As at 30 Sep 2018	% of Fund
Naspers Ltd	36.0%
British American Tobacco Plc	10.5%
Compagnie Financiere Richemont SA	8.5%
MTN Group Ltd	5.1%
Netcare Limited	3.3%
Pick 'N Pay Stores	2.9%
Mediclinic Internat PLC	2.9%
Distell Group Ltd	2.4%
Remgro Ltd	2.2%
Aspen Pharmacare Holdings Ltd	2.2%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
28 Sep 2018	01 Oct 2018	110.24	109.34	0.91
29 Mar 2018	03 Apr 2018	86.67	81.55	5.12
29 Sep 2017	02 Oct 2017	72.22	69.82	2.40
31 Mar 2017	03 Apr 2017	108.99	107.77	1.22

It was a challenging quarter for markets, and the fund returned -10.1% for the quarter. Since inception, it has averaged an annualised return of 17.1% relative to its benchmark return of 14.4%. Over 10 years, the fund has averaged a return of 16.3%, slightly outperforming its benchmark. The fund has performed well relative to its peers over all meaningful time periods.

The South African economy dipped into recession with second quarter GDP of -0.7%, well below the consensus expectations of growth of +0.6%. Against the backdrop of a very weak economy, the South African Reserve Bank was still able to leave the repo rate unchanged at 6.5%, as the inflation outlook continues to look relatively benign. In September, President Cyril Ramaphosa announced a new economic stimulus package which included a number of supply and demand side reforms aimed at both raising productivity and public sector-driven investment projects. These include: R50 billion expenditure reprioritisation focused on infrastructure spend; easing of work and travel visa requirements; employment tax incentives; initiation of a spectrum auction process; and prioritising mining and mineral investments as a key focus area (facilitated through the revised Mining Charter). While there are no quick fixes to the many structural problems plaguing the South African economy, the stimulus package is a step in the right direction and should start contributing to economic growth in 2019.

The rand continued to weaken during the quarter, depreciating 3% against the US dollar and just over 2% against the euro. Global monetary policy tightening, the risk of escalating trade wars, broader emerging market risk aversion and weak South African economic fundamentals continue to leave the currency vulnerable.

Notwithstanding the fund being well positioned for the weaker rand, some of the fund's large positions in offshore stocks had a very disappointing quarter:

- Naspers declined 12% during the quarter on the back of a pullback in the Tencent share price. Tencent's recent quarterly earnings were disappointing and short-term earnings expectations have been revised downwards due to the restructuring of certain Chinese government departments and the subsequent delays in the licensing of new online games. Chinese authorities have also proposed new regulations around protecting minors from the adverse effects of online games, which has created uncertainty in the Chinese gaming sector. We believe that the licensing delays will be a temporary disruption to the business and will resume in due course. Furthermore, our interpretation of the new proposed gaming regulations for minors is that they will favour strong, responsible incumbents like Tencent. As such, we remain optimistic on the longer-term prospects for Tencent's online gaming business and are still very encouraged by the opportunities it has in growing its advertising, financial services and cloud businesses. In addition, Tencent has an outstanding investment portfolio, the value of which we believe is still very underappreciated by the market. In the case of Naspers itself, we are very encouraged by Naspers' management's actions around portfolio optimisation and the steps taken to reduce the discount to its underlying intrinsic value. In this regard, Naspers management announced that it would proceed with the unbundling of Multichoice – most likely to be completed in the first quarter of 2019.
- The MTN share price declined 18% during the quarter after the surprise announcements from the Central Bank of Nigeria (CBN) and the Nigerian auditor general that MTN was in violation of certain foreign exchange control regulations and that it should repatriate \$8 billion back to the country and pay an additional \$2 billion in back-taxes. These actions have created widespread uncertainty and are undermining the investment case for foreign investment in Nigeria. As market pressure increased, the tone of more recent public announcements has been less aggressive and more constructive. While these events were extremely disappointing, we believe a worst-case scenario is more than reflected in the current MTN share price (even with Nigeria at a zero value we still see upside from current share price levels). Furthermore, we remain hopeful that rationality prevails, and an amicable resolution can be found;
- Aspen fell 34% on worse-than-expected full-year results and the lower-than-expected proceeds from the sale of its infant-milk business. With the collapse in the share price, its historical growth algorithm of doing value-accretive mergers and acquisitions has now been significantly curtailed. Nevertheless, the stock is trading on around a 10x one-year forward price earnings multiple and about 9x our assessment of normal earnings – which we believe is too cheap for a global pharmaceutical business with best in class management;
- The Mediclinic share price was down 17% for the quarter. Despite geographical diversification, the group has faced regulatory headwinds across its international businesses. We believe it is pursuing the correct strategy; delivering high clinical quality, investing across the continuum of care, and driving efficiencies. While pressure on tariffs will remain as systems struggle under rising healthcare costs, players that can demonstrate high quality and better efficiency should be more robust and still earn acceptable returns on capital. Mediclinic is now trading on 13x one-year forward earnings and 9x our assessment of normal earnings, which we think is very attractive for a business of this quality.

Apart from our holdings in rand-hedge stocks, some of our consumer-facing domestic holdings also faced a very challenging quarter, with stocks like Distell (-22%), Pioneer (-18%), Tiger Brands (-20%), Rhodes (-12%) and Netcare (-11%) also experiencing double-digit share price declines. At this point, we are asking ourselves is the weakness a cyclical or structural phenomenon? Has the earnings quality of food producers and retailers structurally changed? We don't believe so. A low volume growth environment is extremely challenging for management to navigate in an economy with high structural inflation. Only a small recovery in economic growth will significantly ease this burden. This issue has been exacerbated by the current low food inflation environment and, for producers, by additional imports on shelf because of a strong rand at the beginning of the year. As such, we believe some of these pressures will abate and continue to add to the consumer stocks.

Performance attributions over the past three years have been boosted by our holdings in Naspers, Mondi, Spar and Pick n Pay, while our underweight position in MTN also contributed meaningfully to performance. During the quarter, our overweight positions in British American Tobacco, Curro and Spar, and our underweight position in Naspers all contributed to performance.

Portfolio activity during the quarter was limited to recycling capital into existing holdings which have underperformed recently, and we believed were more attractive on a relative basis, including Naspers and some of the domestic consumer-facing names.

This has undoubtedly been a very challenging environment for the fund in terms of both absolute and relative performance. However, in such turbulent times we remain committed more than ever to our disciplined valuation-driven approach to stock-picking and portfolio construction. Given current valuations of the stocks we own, we are more excited than ever about prospective returns for the fund going forward.

Portfolio managers
Sarah-Jane Alexander and Adrian Zetler
 as at 30 September 2018

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

The Industrial 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. 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 P 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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