

## LONG TERM OBJECTIVE

The Coronation Medical Aid Cash Strategy complies with Regulation 30 of the Medical Schemes Act. The Strategy has a low-risk approach suitable for medical aid schemes seeking returns that are superior to those of overnight cash rates, while taking into consideration capital protection and liquidity requirements. The portfolio duration is limited to 180 days and the maximum term to maturity of an individual instrument does not exceed 3 years.

## INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house. Our aim is to identify mispriced assets trading at discounts to their fair value through extensive proprietary research. The fixed income portfolios are positioned on a long term strategic market view, but this is balanced by taking advantage of shorter-term tactical opportunities when the market lags or runs ahead of that strategic view. As active managers, we consider investment decisions across the full spectrum of potential return enhancers. These include duration and yield curve positions, inflation-linked assets as well as yield enhancement through credit enhanced assets. We aim to maximise returns by actively combining both a top-down and a bottom-up approach to portfolio construction.

## STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	200.3%	162.2%	38.1%
Since Inception p.a.	8.1%	7.1%	1.0%
Latest 10 years p.a.	7.4%	6.2%	1.2%
Latest 5 years p.a.	8.3%	6.8%	1.5%
Latest 3 years p.a.	8.4%	7.0%	1.4%
Latest 1 year	8.3%	6.9%	1.4%
Year to date	8.3%	6.9%	1.4%
Month	0.7%	0.6%	0.1%

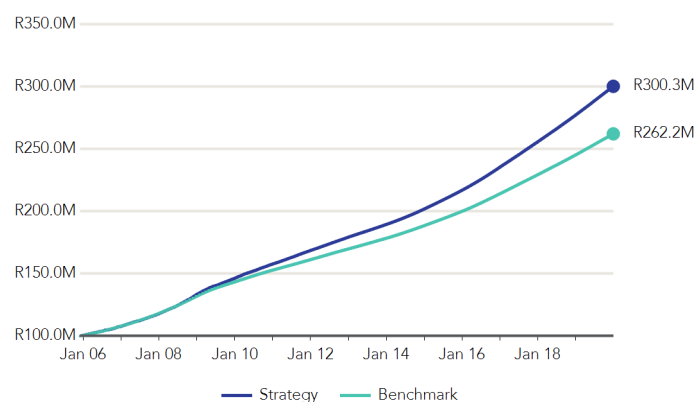
## ASSET ALLOCATION

Asset Type	% Strategy
Floating Rate NCDs	62.7%
Floating Rate Corporate Bonds	25.0%
Fixed Rate NCDs	4.7%
Fixed Rate Corporate Bonds	4.4%
Cash	3.2%

## GENERAL INFORMATION

Inception Date	01 December 2005
Strategy Size	R224.5 million
Strategy Status	Open
Mandate Benchmark	Short Term Fixed Interest 3-month Index (STeFI 3m)
Dealing Frequency	Daily
Base Currency	ZAR
Regulation 30	Yes

## GROWTH OF R100M INVESTMENT



Benchmark: Short Term Fixed Interest 3-month Index (STeFI 3m)

## EFFECTIVE MATURITY PROFILE

Term	% Strategy
Call	3.2%
2 to 4 months	0.5%
4 to 6 months	2.9%
6 to 9 months	7.3%
9 to 12 months	14.5%
1 to 3 years	71.6%

## STRATEGY STATISTICS

Modified Duration	0.2
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**PORTFOLIO MANAGERS****Nishan Maharaj - BSc (Hons), MBA**

Nishan is head of Fixed Interest and responsible for the investment unit's process and performance across all strategies. He also manages the majority of fixed interest assets. Nishan has 16 years' investment experience.

**Mauro Longano - BScEng (Hons), CA (SA)**

Mauro is a portfolio manager within the Fixed Interest investment team and is responsible for co-managing the Strategic Cash Strategy and the Strategic Income and Money Market unit trust funds. In addition to this, Mauro is involved in credit research and pricing. Mauro has 8 years' investment experience.

**Sinovuyo Ndahleni - BBusSc**

Sinovuyo is a portfolio manager within the Coronation Fixed Interest investment unit, where she co-manages the Coronation Strategic Cash and Medical Aid Cash strategies. She also has various analytical responsibilities. Sinovuyo joined Coronation in January 2016.

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## REVIEW FOR THE QUARTER

The strategy generated satisfactory returns for the quarter and remains ahead of the benchmark return over a rolling 12-month period.

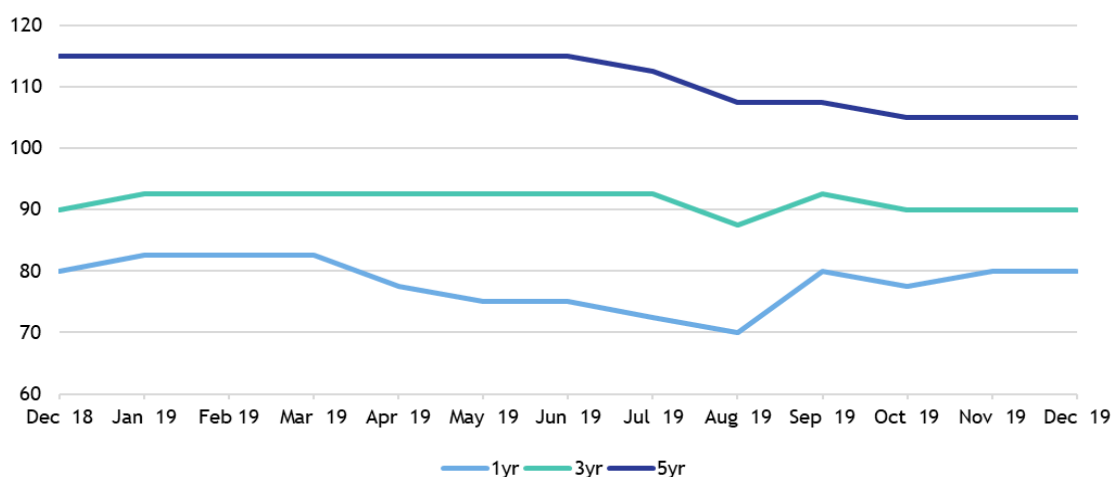
GDP data continues to reflect constrained domestic growth momentum. Third quarter GDP contracted 0.6% quarter-on-quarter seasonally adjusted and annualised and reflected just 0.3% growth in annual terms. Growth was positive but weak across most of the GDP expenditure categories with negative inventory movements proving to be the large detractor. This continues to be symptomatic of production weakness in the manufacturing, mining and agriculture sectors. Our expectations are for growth to have improved slightly in the fourth quarter of 2019 although severe load shedding may land up tempering our expectations. Currently, we expect GDP growth to register a mere 0.4% in 2019.

CPI slowed to 3.6% year-on-year in November 2019 from 3.7% in the prior month, which was in line with our expectations. The fall in monthly fuel prices proved to be the biggest contributor. Overall, inflation remains benign with little demand-side pressure coming from a constrained consumer. We expect inflation to normalise higher to 4.6% in 2020, partly driven by a normalisation in food prices.

The South African Reserve Bank (SARB) Monetary Policy Committee (MPC) kept the repo rate unchanged at 6.5% in November 2019. Their statement was, however, notably more dovish with some acknowledgement of the broad-based growth and inflation weakness in the economy. We expect that the latest CPI and GDP prints will force the SARB to revise both its growth and inflation forecasts lower, which should provide more support for interest rate cuts in 2020. The SARB does, however, continue to express concerns around fiscal risk and the impact which this may have on the currency, and we believe that this remains the last impediment to an interest rate cut in the eyes of the committee members. Any progress which is made towards limiting expenditure ahead of the 2020 budget could see the MPC cut in its January 2020 meeting. We currently expect two 25 basis points interest rate cuts in 2020, which is slightly more dovish than current market expectations. Should this outcome materialise, one can expect the absolute yield on the strategy to decrease, given that the majority of the investments are held in floating rate instruments.

Over the last quarter, the 3-month Johannesburg Interbank Average Rate (Jibar) index ticked up slightly from 6.78% to 6.80% which is a largely neutral outcome for the strategy. Negotiable Certificates of Deposit (NCD) spreads remained relatively constant. The strategy should, however, continue to benefit from the contraction in spreads seen over the last 12 months as this only materialises when an NCD is sold back to the issuing bank, something which the strategy does routinely to create liquidity. Going forward, we continue to see the risks to NCD spreads as being broadly balanced, with the strategy being well placed to handle adverse market moves.

## FLOATING RATE NCD SPREADS ABOVE JIBAR (BPS)



Source: Bloomberg

Net corporate issuance for 2019 has been robust, however, support for primary market auctions remains strong despite the tight spreads on offer. Issuance spreads remain tight relative to our fair value expectations and, as such, our participation in primary market issuance remains muted. We have seen some improved issuance from State-owned enterprises, however, this has been longer-dated in nature and therefore beyond the investment limitations of the strategy. In light of the continued supply/demand mismatch in the credit market, we continue to believe that the demand for credit will continue into 2020. We remain cautious and continue to invest only in instruments which are attractively priced relative to their underlying risk profile. Capital preservation and liquidity remain our key focus areas for the strategy