

## LONG TERM OBJECTIVE

The Coronation Africa Frontiers Strategy aims to maximise the long-term risk-adjusted returns available from investments on the continent through capital growth of the underlying stocks selected. It is a flexible portfolio primarily invested in listed African equities or stocks listed on developed and emerging market exchanges where a substantial part of their earnings are derived from the African continent. The Strategy may hold cash and interest bearing assets where appropriate.

## INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house, focused on bottom-up stock picking. Our aim is to identify mispriced assets trading at discounts to their long-term business value (fair value) through extensive proprietary research. In calculating fair values, through our fundamental research, we focus on through-the-cycle normalised earnings and/or free cash flows using a long-term time horizon. The Portfolio is constructed on a clean-slate basis based on the relative risk-adjusted upside to fair value of each underlying security. The Portfolio is constructed with no reference to a benchmark. We do not equate risk with tracking error, or divergence from a benchmark, but rather with a permanent loss of capital.

## STRATEGY RETURNS GROSS OF FEES

Period	Strategy	LIBOR	Active Return
Since inception cum.	121.0%	9.5%	111.5%
Since Inception p.a.	7.7%	0.8%	6.9%
Latest 10 years p.a.	6.6%	0.8%	5.8%
Latest 5 years p.a.	(3.4)%	1.2%	(4.6)%
Latest 1 year	(14.5)%	2.6%	(17.1)%
Year to date	(9.6)%	1.3%	(10.9)%
Month	1.1%	0.2%	0.9%

\*For a side-by-side comparison of gross and net performance, please refer to <http://www.coronation.com/us/strategy-performance>

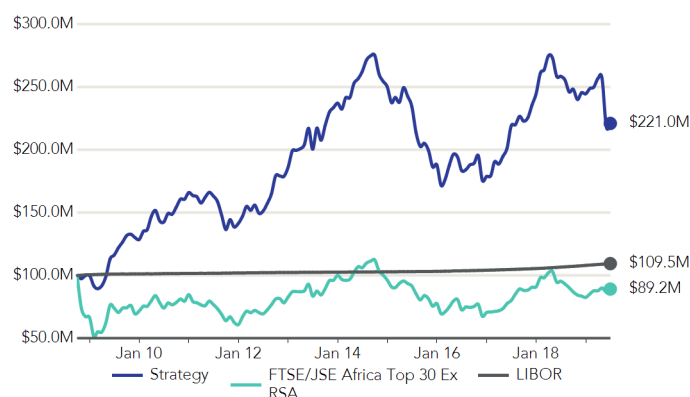
## SECTOR EXPOSURE

Sector	% Strategy
Financials	31.0%
Consumer Goods	29.5%
Telecommunications	14.4%
Basic Materials	9.4%
Health Care	4.9%
Oil & Gas	4.7%
Technology	1.6%
Industrials	1.5%
Consumer Services	1.5%
Utilities	0.7%
Interest Bearing	0.8%

## GENERAL INFORMATION

Inception Date	01 October 2008
Strategy Size	\$482.4 million
Strategy Status	Open
Target	Outperform ICE LIBOR USD 3 Month (US0003M Index)
Redemption Terms	An anti-dilution levy will be charged
Base Currency	USD

## GROWTH OF US\$100M INVESTMENT



Target: Outperform ICE LIBOR USD 3 Month (US0003M Index)

The performance shown is gross of fees.

## GEOGRAPHIC EXPOSURE

Country	% Strategy
Egypt	38.3%
Kenya	18.5%
Nigeria	18.1%
Zimbabwe	10.6%
South Africa	4.3%
Tanzania	2.7%
Botswana	2.2%
Ghana	1.8%
Senegal	1.5%
Uganda	0.7%
Zambia	0.5%
Interest Bearing	0.8%

## PORTFOLIO MANAGER



Peter Leger - BScEng, BCom (Hons), CFA

Peter is head of Global Frontier Markets and manager across all strategies within the investment unit. He joined Coronation in 2005 and has 21 years' experience in African financial markets as both a portfolio manager and research analyst.

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The volatility of the ICE LIBOR USD 3 Month Index ("Benchmark") represented above may be materially different from that of the Strategy. In addition, the holdings in the accounts comprising the Strategy may differ significantly from the securities that comprise Benchmark. The Benchmark has not been selected to represent an appropriate benchmark to compare the Strategy's performance, but rather is disclosed to allow for comparison of the Strategy's performance to that of a well-known and widely recognized benchmark. Material facts in relation to the Benchmark are available here: <https://www.theice.com/iba/libor>. In addition, for further information, we have also included the FTSE/JSE Africa Top 30 Ex RSA Index above. Material facts in relation to this benchmark are available here: <https://www.jse.co.za/services/market-data/indices/ftse-jse-africa-index-series/all-africa>.

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## REVIEW FOR THE QUARTER

After a very strong start to the year, the performance of markets across Africa was mixed over the last three months to end-June 2019 (Q2-19). The FTSE/JSE All Africa (ex-South Africa) 30 Index (JA30) ended the quarter with a return of +1.5%, largely driven by a 4.4% gain in Morocco. Kenya (-6.6%), Nigeria (-3.2%) and Egypt (-0.7%) all declined during Q2-19.

While the moves in these markets were significant, it was nothing compared to the volatility we saw in Zimbabwe following the formal introduction of a local currency in February 2019. This was followed by an announcement that ended the multi-currency regime last month, and the Zimbabwean dollar is now the only form of legal tender in the country. During the quarter, the stock market rose 66% in Zimbabwean dollars, but this was not nearly enough to offset the currency move. The official exchange rate moved from ZW\$3/US\$1 to a rate of almost ZW\$7/US\$1 at the end of June. There is limited information on liquidity at the official rate, and as foreign investors this is still not a window through which we can freely access US dollars.

We have seen a similar move in the rate implied by the Old Mutual dual pricing mechanism, where the “exchange rate” moved from about ZW\$5/US\$1 in March to a rate of over ZW\$9/US\$1 at the end of June. It has been clear for a while now that a dollar in Zimbabwe is not equal to a US dollar. For this reason, we changed our valuation approach for Zimbabwean assets in 2017 and decided to value these assets at our internal fair values. These fair values were well below the quoted share prices and were also below the values implied by the Old Mutual discount.

However, the volatility during Q2-19 meant that the share prices, adjusted for the Old Mutual rate, moved below our internal fair values. Given all the developments over the past few months, we had to re-evaluate the valuations for in-country Zimbabwean assets. We decided to value each security at the price implied by the Old Mutual “exchange rate”, and on top this we apply a discount to reflect the market movement cost to liquidate the position. To reduce the volatility, we use one-month averages rather than spot prices. This valuation approach reflects an appropriate realisable value for the full Zimbabwe exposure. In our view, this approach is symmetrical for investors purchasing and redeeming and does not disadvantage a long-term investor in the strategy.

This change resulted in a large write-down of our assets in Zimbabwe. This write-down alone reduced the value of the strategy by approximately 13% and was the main reason why the strategy declined by 13.9% over Q2-19. Despite this significant write-down, we are satisfied with the strategy’s long-term performance. Over a three-year period, it delivered a return of 6.4% p.a., compared to the index return of 7.0% p.a. Since inception more than a decade ago, the strategy returned 7.7% p.a., compared to the index which returned -1.1% p.a. over the same period.

While the liquidity situation continues to deteriorate, we have seen some positive news out of Zimbabwe. In June, the IMF agreed to a Staff Monitored Programme with commitments from the Zimbabwean Government to address the wage bill, subsidies and the printing of money. If successful, this could lead to financial assistance and re-engagement with the international community. In addition, the Government’s willingness to allow the official exchange rate to move closer to the parallel market rate over the last few weeks, is also something we view as encouraging.

We did an exercise in the middle of June, where we compared the three-year total return (in US dollars) of Safaricom in Kenya to that of Econet in Zimbabwe. The results are quite surprising and are shown below:

**3-year total return in USD**

<b>Safaricom</b>			
Absolute return over 3 years	73%		
<b>Annualised return</b>	<b>20%</b>		
<b>Econet</b>			
Exchange rate used	Official interbank rate	Old Mutual implied rate	Rate we use to value Econet in the fund
Absolute return over 3 years	200%	88%	-25%
<b>Annualised return</b>	<b>44%</b>	<b>23%</b>	<b>-9%</b>

Safaricom is a highly-rated business. It performed very well, both operationally and in terms of share price performance. On the other hand, Econet has been operating in a very tough environment and the currency devalued meaningfully (the currency was at parity to the US dollar three years ago). However, the table shows that Econet performed better than Safaricom over this period, when using the official exchange rate as well as when using the Old Mutual implied rate to convert the share price into US dollars. For investors who followed their rights in the 2017 rights issue, the return would have been even higher.

We believe that the Zimbabwean assets in the strategy offer significant value. Companies such as Delta Corporation and Econet Wireless are well-run businesses, with market-leading positions. They have operated during tough times before and emerged as stronger businesses. Despite the macro environment, these businesses continue to perform well. For example, Econet's mobile money business has close to 100% market share in a country where virtually all payments now happen electronically, and it has seen a dramatic increase in profitability.

Another example is Zimplats, a low-cost platinum mine in Zimbabwe. Zimplats generates real US dollar revenues, which puts this business in a very strong position in a country with a shortage of hard currency. In fact, Zimplats has been the largest contributor to performance so far during 2019, benefiting from the rise in platinum group metal prices over the past year.

During the quarter we increased our exposure to Nigerian Breweries, a subsidiary of Heineken and the largest brewer in Nigeria. Over the past few years Nigerian Breweries was hit by numerous challenges: downtrading due to the economic environment, a period of limited access to foreign exchange, an excise hike in 2018 and, on top of this, there was aggressive competition in the market that intensified when AB InBev opened a new brewery last year.

The economic environment, coupled with the competition in the market, meant that brewers have not been able to increase prices. In real terms, the price of beer in Nigeria has declined drastically over the past five years and is now much lower than in many other countries in Africa. As a result, the profitability of Nigerian Breweries declined considerably while AB InBev is lossmaking in Nigeria. We do not know exactly when the operating environment will improve, but we do know that the current environment is simply not sustainable. The tough macroeconomic environment will not last forever and at some point, the competitive pressures will ease. Long term, we believe that both Heineken and AB InBev are rational operators, who want to generate an appropriate return on their investments. For this to happen, beer prices will have to increase.

We believe that the current headwinds present a fantastic opportunity for investors who are willing to look through the near-term challenges. Over the past five years, the market capitalisation of Nigerian Breweries reduced from over US\$8 billion to only US\$1.3 billion currently. While near-term earnings will likely remain under pressure, the Nigerian beer market remains incredibly attractive long term, with a large, fast growing population and beer consumption still low relative to other markets. We believe this is an attractive valuation for a business of this quality and market position, as well as with such an attractive long-term growth profile.

The strategy's performance over Q2-19 has been disappointing, but we believe the write-down of the Zimbabwean exposure was prudent and protects our investors. We have a long-term valuation-driven investment philosophy and we do not base our investment decisions on a company's size in an index. As a result, we know there will be periods of underperformance while we wait for the investment thesis to play out in each of the companies we own. If we look at the current valuations of the companies we own, we are extremely excited about the strategy's return prospects over the long term.