

LONG TERM OBJECTIVE

The Coronation Medical Absolute Strategy targets positive real returns with an overriding focus on limiting downside returns or portfolio losses. Therefore, capital preservation in real terms is equally important to return optimisation. The Strategy is managed in accordance with the limits of Annexure B of Regulation 30 of the Medical Schemes Act.

INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house. 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 cleanslate 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	Benchmark	Active Return
Since Inception (cumulative)	458.3%	129.8%	328.5%
Since Inception p.a.	12.0%	5.6%	6.4%
Latest 15 years p.a.	12.0%	5.7%	6.3%
Latest 10 years p.a.	9.5%	5.2%	4.3%
Latest 5 years p.a.	5.1%	5.0%	0.1%
Latest 3 years p.a.	5.2%	4.7%	0.5%
Latest 1 year	4.8%	4.4%	0.4%
Year to date	5.3%	2.7%	2.6%
Month	1.1%	0.3%	0.8%

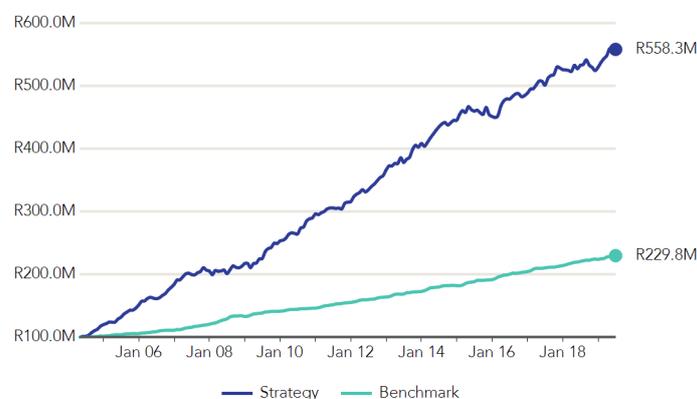
ASSET ALLOCATION

Asset Type	% Strategy
Local Bonds	30.3%
Local Equities	29.5%
Local Cash	23.6%
Local Property	5.4%
Foreign Bonds	5.2%
Foreign Cash	3.6%
Local Commodities	1.8%
Local Preference Shares	0.6%

GENERAL INFORMATION

Inception Date	01 May 2004
Strategy Size	R1.31 billion
Strategy Status	Open
Mandate Benchmark	Consumer Price Index (CPI)
Performance Target	CPI + 3% (gross of fees and taxes) over a rolling 3 year period
Dealing Frequency	Daily
Base Currency	ZAR
Regulation 30	Yes

GROWTH OF R100M INVESTMENT



Benchmark: Consumer Price Index (CPI)

TOP 10 HOLDINGS

Holding	% Strategy
RSA ILB 2.750% 310122	3.7%
STANDARD BANK OF SA ILB 5.500% 071223	3.6%
NASPERS LIMITED	3.1%
FIRSTRAND BANK LTD ILB 5.500% 071223	2.6%
US T-Bill 0.000% 010819	2.4%
ABSA BANK LTD FIX 7.975% 250520	2.3%
ABSA BANK LTD FIX 8.325% 281119	2.3%
ANGLO AMERICAN PLC	2.2%
BRITISH AMERICAN TOBACCO PLC	2.1%
ABSA BANK LTD FIX 8.050% 010819	2.1%

MODIFIED DURATION*

Portfolio	1.1
Fixed Income Assets	2.0

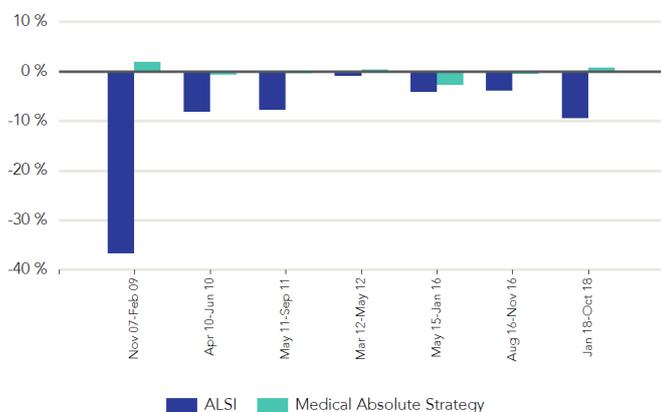
PERFORMANCE & RISK STATISTICS (Since inception)

Average Annual Return	12.1%
Annualised Standard Deviation	5.1%
Highest Monthly Return	4.9%
Lowest Monthly Return	(3.0)%
% Positive Months	73.1%
Downside Deviation	1.8%
Maximum Drawdown	(5.3)%
Sortino Ratio	2.4

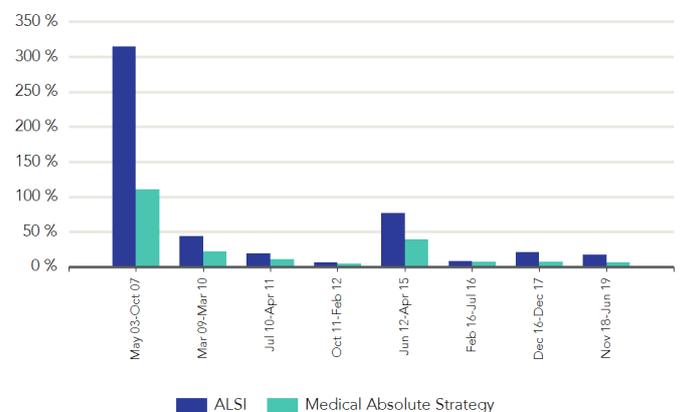
EFFECTIVE MATURITY PROFILE*

Term	% Strategy (incl. Cash)	% Strategy (excl. Cash)
0 to 1 year	17.8%	7.4%
1 to 3 years	15.6%	17.6%
3 to 7 years	13.9%	15.7%
7 to 12 years	4.3%	4.9%
Over 12 years	3.2%	3.6%

BEAR MARKETS



BULL MARKETS



In the bar graphs above, we have divided the period since inception of our Strategy into bull and bear markets. The Strategy's returns are measured against the FTSE/JSE All Share index. The bear market graph clearly demonstrates how the Strategy has protected capital; its losses were much more shallow than the market during downswings. As evident from the second graph, the Strategy also enjoyed healthy upside participation in bull markets.

PORTFOLIO MANAGERS



Charles de Kock - BCom (Hons), MCom

Charles heads up the Absolute Return investment unit and is a portfolio manager across all strategies within the unit. He also co-manages the Coronation Balanced Defensive and Capital Plus unit trust funds. Charles has more than 30 years' investment experience, plays a leadership role in the asset allocation process and is involved in all investment discussions.



Pallavi Ambekar - BBusSc, CA (SA), CFA

Pallavi joined Coronation in 2003 and manages assets within Coronation's Absolute Return strategies. In addition, her research responsibilities include shares in the telecommunications, consumer goods, retail and hotel and leisure sectors. Pallavi has 16 years' investment experience.

DISCLAIMER

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* For SA Fixed Income investments only. Excludes international investments, equities, property and preference shares.

REVIEW FOR THE QUARTER

Over the quarter ended June 2019 (Q2-19), the global economy showed more signs of slowing and the market consensus has clearly shifted to pricing in a future material relaxation of monetary policy. It is this prospect of lower interest rates that propelled equity and bond markets to deliver very strong returns for the quarter and year to date.

Despite the conclusion of the much-awaited South African election, domestic sentiment deteriorated during Q2-19. The election result was broadly in line with expectations, with the ANC maintaining its majority rule with a slight decline in support. The appointment of a new and smaller cabinet was a positive development, reinforcing the message of fiscal discipline. However, the ruling party remains plagued by factional tensions, frustrating the ability of the president to deliver on much-needed reform. Policy uncertainty lingers as reflected in divisive debate on land issues and South African Reserve Bank reform. Eskom's balance sheet problems remain an overhang. Government has signalled its commitment to support Eskom financially, though the underlying state of Eskom's generation and transmission assets remain unclear. These factors combined to weigh on consumer and corporate confidence levels and were reflected in a very weak Q1-19 GDP print of -3.2%, dragged down by manufacturing and mining. Results released during Q2-19 and the accompanying subdued rhetoric of management reinforce how challenging the underlying economic situation is. The weak domestic economy, contained inflation and favourable global rate expectations have increased the likelihood of future interest rate cuts. Bonds and equities responded favourably to this outlook.

Over the quarter, the JSE Capped Shareholder Weighted All Share Index appreciated by 2.9%, the All-Bond Index 3.7% and listed property 4.5%. Although listed property had a good quarter, the returns over the past year is barely positive and remains negative over the past three years. The rand, which strengthened by 3% over the quarter, had the effect of lowering the impact of the strong US dollar returns of global markets.

The strategy delivered a return of almost 2% for the quarter, taking the return for the first half of the year to over 5%. The strategy has succeeded in beating inflation over all meaningful periods but has fallen short of the inflation plus target over the past few years. However, the strategy has succeeded in protecting capital over all rolling 12-month periods since its inception despite challenging markets over the past few years.

The stocks that contributed the most to performance over the past year are Anglo American, Altron, platinum stocks Northam and Anglo American Platinum as well as our bank holdings of FirstRand and Standard Bank. Detractors from performance include British American Tobacco, Aspen, Sasol and Shoprite.

British American Tobacco is a stock that we have held in the portfolio for many years. We acknowledge that tobacco companies face structural volume declines. This would be a material headwind for most businesses, but tobacco companies have strong pricing power to offset these declines. In addition, the shift to new generation products and the demonstrated ability to cut costs will enable this company to protect and grow its earnings over time. The stock is, however, out of favour with investors and trades on a dividend yield of over 7%. At this valuation we find it very attractive.

The Sasol share price declined meaningfully when the company announced that its Lake Charles Chemicals Project (LCCP) would a) cost more to deliver and b) produce a lower normalised level of profitability. Disappointments in the delivery of the LCCP have meant a further reduction in the already muted returns offered by the initial projections, which carried significant risk (a fact Coronation highlighted to the board in a letter sent in 2013). As the project nears completion, execution risk should reduce, and the group earnings base is anticipated to increase by 20% to 30%. However, given the heightened risks (operational and financial), we have limited Sasol's overall position size to approximately 0.5% of the strategy.

The past quarter was one of limited trades. We sold more Hammerson property and, in addition, bought a currency future to hedge against a potential weaker UK pound in the event of either a no-deal Brexit or a new election and the prospect of Jeremy Corbyn as prime minister. Either event could result in a far weaker pound with a negative impact on the prices of some of the London-listed stocks we own such as Hammerson, Capital & Counties and Intu. The strategy's total exposure to the London-listed property has been trimmed to less than 1% of portfolio and that is now fully hedged. We also added to our existing platinum exchange-traded fund as we feel the gap between platinum and palladium has become too large. International exposure remains at approximately 9% of the strategy.

The portfolio continues to hold a substantial weighting in South African bonds, both fixed and inflation linkers. The high real yield is very attractive and provides a solid risk-adjusted building block towards achieving the inflation plus target while being equally cognisant of protecting capital over rolling 12-month periods.