CORONATION

MEDICAL AID CASH STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 30 JUNE 2019

CORONATION
TRUST IS EARNED™

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)	188.6%	153.5%	35.1%
Since Inception p.a.	8.1%	7.1%	1.0%
Latest 10 years p.a.	7.5%	6.2%	1.3%
Latest 5 years p.a.	8.1%	6.7%	1.4%
Latest 3 years p.a.	8.6%	7.0%	1.6%
Latest 1 year	8.4%	6.9%	1.5%
Year to date	4.1%	3.4%	0.7%
Month	0.7%	0.5%	0.2%

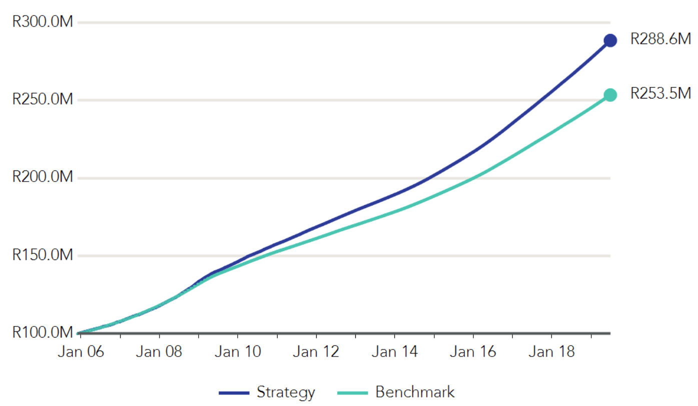
ASSET ALLOCATION

Asset Type	% Strategy
Floating Rate NCDs	74.9%
Floating Rate Corporate Bonds	15.9%
Fixed Rate NCDs	3.7%
Fixed Rate Corporate Bonds	3.5%
Cash	2.0%

GENERAL INFORMATION

Inception Date	01 December 2005
Strategy Size	R308.9 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	2.0%
0 to 2 months	1.4%
2 to 4 months	0.3%
4 to 6 months	12.8%
6 to 9 months	2.4%
9 to 12 months	7.8%
1 to 3 years	73.3%

STRATEGY STATISTICS

Modified Duration	0.2

MEDICAL AID CASH STRATEGY

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 joined Coronation's Fixed Interest investment unit in 2014 and is responsible for co-managing the Strategic Cash and Medical Aid Cash strategies. In addition to this, he is involved in credit research and pricing. Mauro has 8 years' investment experience.

Sinovuyo Ndaleni - 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.

DISCLAIMER

REVIEW FOR THE QUARTER

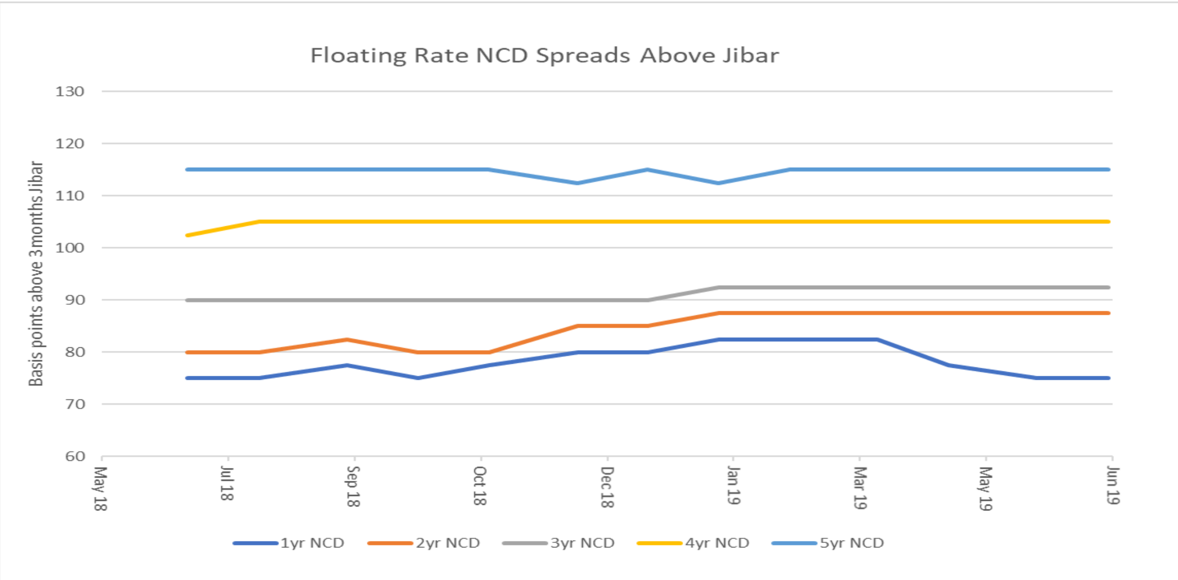
The strategy generated satisfactory returns for the quarter to end-June 2019 and remains ahead of the benchmark over a rolling 12-month period.

The period was marked by a disappointing contraction in GDP of 3.2% quarter-on-quarter, seasonally adjusted and annualised. This was considerably worse than expected, with the extent of the weakness relatively broad-based. While power outages during the first quarter of 2019 would have contributed to this outcome, the data is testament to very constrained domestic demand. According to our internal forecasts, the economy is now likely to grow by only 0.7% in 2019.

Headline inflation in May printed at 4.5% year-on-year, which was at the midpoint of the South African Reserve Bank's (SARB's) target range. This continues to be affected by muted inflation in food, discretionary services and goods. Our current expectation is for CPI to average 4.4% in 2019 and 5% in 2020. Longer term, the risk of higher food prices and administered price increases should be moderated by the weaker demand environment. The outlook for fuel prices also looks to be more benign, given the impact of weaker global growth on the oil price, together with recent rand strength.

The SARB's Monetary Policy Committee (MPC) left the repo rate unchanged at 6.75% at their last meeting in May. The vote was split 3:2, with two members voting for a 25 basis points (bps) cut and three members voting to hold rates steady. This split does highlight the narrative that there is room for monetary policy to provide some support to the weak economy, particularly given the muted inflation outlook. However, the MPC reiterated that the challenges facing the economy are primarily structural in nature, and cannot be resolved by monetary policy alone. The interest rate market is currently pricing two 25bps interest rate cuts over the next year, which is in line with our own internal interest rate 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.

Spreads on negotiable certificates of deposit (NCDs), as reflected above the three-month Jibar reference rate, have remained stable. The exception has been one-year instruments, which saw spreads decreasing from 85bps to 75bps. The contraction in NCD spreads will continue to be positive for the strategy, although the benefit is only received when an NCD is sold back to the issuing bank. As such, while there is no immediate yield uplift, the benefit should materialise over time as the strategy routinely creates liquidity by trading in these instruments. Going forward, we continue to see the risks to NCD spreads as being broadly balanced, with the strategy well positioned to handle adverse market moves.



Source: Bloomberg

The period saw robust issuance from banks, state-owned enterprises and corporates. Support for primary market auctions remained strong despite the tight spreads on offer. Based on our internal fair value models, credit spreads on new issues generally reflect as being expensive, and hence we remain cautious. We continue to only invest in instruments that are attractively priced relative to their underlying risk profile, with capital preservation and liquidity remaining key focus areas for the strategy.