CORONATION

CORE EQUITY STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 31 MARCH 2019

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LONG TERM OBJECTIVE

The Coronation Core Equity Strategy is our benchmark cognisant offering within our equity product range. The Strategy is constructed with reference to a benchmark, and seeks to outperform the equity market over meaningful periods (defined as at least 5 years).

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 underlying 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 with reference to a benchmark based on the relative risk-adjusted upside to fair value of each underlying security.

STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	1,000.8%	764.7%	236.1%
Since Inception p.a.	17.2%	15.4%	1.8%
Latest 15 years p.a.	17.3%	15.4%	1.9%
Latest 10 years p.a.	15.4%	14.2%	1.2%
Latest 5 years p.a.	5.7%	6.2%	(0.5)%
Latest 1 year	0.7%	0.4%	0.3%
Year to date	7.7%	6.0%	1.7%
Month	2.5%	1.2%	1.3%

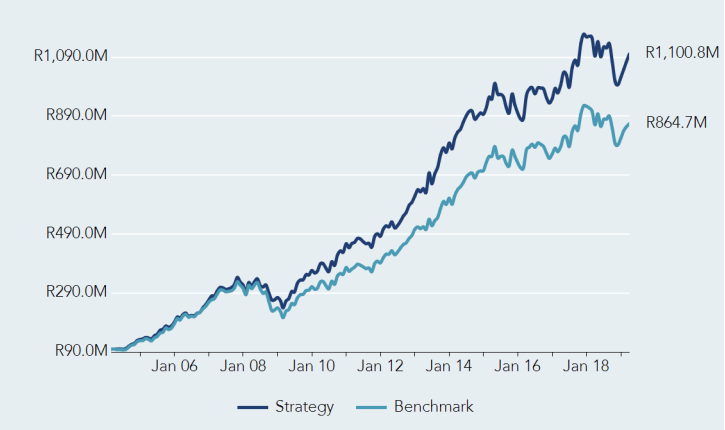
TOP 10 HOLDINGS

Holding	% Strategy
NASPERS LIMITED	16.8%
STANDARD BANK GROUP LTD	6.6%
BRITISH AMERICAN TOBACCO PLC	6.1%
ANGLO AMERICAN PLC	6.0%
SASOL LIMITED	5.5%
MTN GROUP LIMITED	4.7%
NEDBANK GROUP LIMITED	3.7%
FIRSTRAND LIMITED	3.2%
NORTHAM PLATINUM LIMITED	2.8%
SPAR GROUP	2.7%

GENERAL INFORMATION

Inception Date	01 March 2004
Strategy Size	R14.04 billion
Strategy Status	Open
Mandate Benchmark	FTSE/JSE Africa Shareholder Weighted Index (SWIX)
Dealing Frequency	Daily
Base Currency	ZAR

GROWTH OF R100M INVESTMENT



Benchmark: FTSE/JSE Africa Shareholder Weighted Index (SWIX)

PERFORMANCE & RISK STATISTICS (Since inception)

	Strategy	Benchmark
Average Annual Return	18.3%	16.5%
Tracking Error	3.0%	
Information Ratio	0.6	
Annualised Standard Deviation	13.9%	14.0%
Maximum Drawdown	(30.1)%	(37.0)%

TRACKING ERROR

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SECTOR EXPOSURE

Sector	% Strategy
Consumer Services	28.0%
Financials	27.0%
Basic Materials	21.6%
Consumer Goods	9.7%
Telecommunications	4.7%
Health Care	3.3%
Industrials	3.2%

Sector	% Strategy
Derivatives	1.1%
Metals	1.1%
Specialist Securities	0.4%
Technology	0.1%
Interest Bearing	(0.2)%

PORTFOLIO MANAGERS

Quinton Ivan - BBusSc, Bcom (Hons), CA (SA), CFA

Quinton is head of SA Equity research and co-manages Coronation's Core Equity Strategy. He also has research responsibilities for a number of retail, pharmaceutical and construction stocks. Quinton joined Coronation in 2005 and has 14 years' investment experience.

Neill Young - BBusSc, CA (SA), CFA

Neill joined Coronation in 1998 and co-manages Coronation's Core Equity Strategy. His research responsibilities extend to the platinum sector as well as a number of financial stocks. Neill has 20 years' investment experience.

DISCLAIMER

REVIEW FOR THE QUARTER

The strategy had a good quarter delivering returns well ahead of its benchmark.

Overall, the JSE had a much-improved quarter. Resources were up 17.9% - bringing the rolling 12-month total return to an impressive 41.6%. Platinum stocks, in particular, had a very strong quarter on the back of a rising platinum group metals (PGM) basket price.

During this period, all mining companies reported their annual or interim results for the period to end-December 2018. These results were characterised by a strong performance from the bulk metals (iron ore, coking coal, thermal coal and manganese). The theme of strong cash flow, deleveraging and capital returns to shareholders continues. Shares reacted positively to results and a strong commodity price environment, driven by tight supply/demand balances and an abatement of China/US trade war fears. Our large exposure to Anglo American (+22%) contributed to performance.

After a long and frustrating wait, PGM shares have finally begun to rally strongly, with our holdings in Northam (+47%) and Impala Platinum (+66%) contributing meaningfully to returns for the quarter. We feel that this is a vindication of our disciplined, long-term approach to investing, where we aim to assess information objectively and dispassionately and avoid being swayed by the news and sentiment of the day. Subsequent to 'Dieselgate', negative headlines called for the death of the internal combustion engine and PGM demand along with it. PGM prices dropped below marginal costs of production. At the same time, electric vehicle commodities such as lithium and cobalt were rallying strongly (up 3 times). Tesla's share price rose seven-fold in the last seven years, and its market capitalisation is comparable to traditional automakers such as General Motors (GM) and Ford, despite the fact that the company has struggled to turn a profit and produces only 3% of the vehicles that GM produces. While we are long-term believers in battery electric vehicles, we expect the process to be evolutionary rather than revolutionary. In the medium term, we also expect PGM demand to surprise positively as a consequence of tightening emissions standards globally. In addition, material underinvestment in mine supply over the last decade means it will take many years before a sufficient supply can respond to current market deficits. We therefore expect structural PGM market deficits to persist for at least the next decade.

After a challenging 2018, it was also particularly encouraging to see that a number of the strategy's other high-conviction ideas contributed meaningfully to returns during the quarter. These included Naspers, British American Tobacco and Quilter.

Naspers (+19%) benefitted from a strong recovery in the Tencent share price as sentiment towards China shifted positively on the back of a reduction in trade war fears and a resumption in the licensing approval process of online games by the Chinese authorities. It also surprised the market in March by announcing the offshore listing and part unbundling of its offshore internet portfolio (i.e. Tencent, Mail.ru, OLX, Food Delivery, et al.) in an effort to reduce the discount at which it trades relative to its underlying intrinsic value. While this is certainly no 'silver bullet' that will immediately remove the entire discount, we nevertheless view it as a marginally positive step in the evolution of the group into a global consumer internet powerhouse and will allow it access a wider investor base.

The British American Tobacco share price (+27%) recovered strongly during the quarter on the back of reporting good results. This allayed market fears around US volume declines, its debt levels, and the outlook for its next-generation products. It also appears that investor anxiety towards the regulatory headwinds faced by the US business are abating and sentiment is finally starting to turn positive on the stock. Even after this short-term price rally, British American Tobacco is still trading on only 9.5 times one-year forward earnings and a 7% dividend yield. We still believe this to be very attractive for a stock of this quality and it remains the second biggest position in the strategy.

Quilter (+28%) performed very well over the period. Its maiden full-year results materially exceeded market expectations. Quilter provided medium term guidance on their profit-before-tax-margin aspirations. At 34%, this too exceeded expectations. The long-term outlook for integrated wealth managers with advice forces at scale remains very attractive. This positive outlook is driven by a decline in advisers, following the UK's adoption of the Retail Distribution Review; 'pension freedom' boosting demand for advice and opening up the post-retirement market to wealth managers; and a shift away from defined benefit funds to defined contribution funds.

Stocks exposed to the domestic economy came under significant pressure during the quarter as the realities of operating in a "no-growth" economic environment filtered through into corporate earnings. The quarter kicked off with a string of profit warnings from the domestic retailers, and the likes of Mr Price (-23%), Massmart (-22%), Truworths (-18.5%) and Dischem (-16%) all ended the period materially lower. Fortunately, the strategy only had small overweight exposure to Truworths and had no exposure to the other three. Eskom remained in the headlines as it hit Stage 4 load shedding in the middle of March. Years of mismanagement, corruption and underinvestment are finally coming home to roost. Although, for now we appear to have received a temporary reprieve from the worst of load shedding, it has become clear that we are only starting to understand the true extent of the power utility's problems and that its numerous issues could indeed take years to rectify. Unfortunately, if persistent load shedding becomes the norm over the next few years, the impact on consumer sentiment, business confidence and GDP growth will be devastating. We therefore continue to remain cautious on stocks that are heavily exposed to the domestic economy and our preferred exposures are through high-quality domestic defensive businesses that should weather the challenging environment better than their weaker, economically sensitive peers.

Notwithstanding the uncertainties that abound, our objective remains to build diversified portfolios that can absorb unanticipated shocks. We are happy with the current portfolio positioning and are excited about future return prospects. We will remain focused on valuation and will seek to take advantage of attractive opportunities that the market may present to us and in so doing generate inflation-beating returns for our investors over the long term.