

LONG TERM OBJECTIVE

The Coronation Domestic Houseview Strategy is a clean slate fully discretionary portfolio, which represents our best investment view for a domestic balanced portfolio in all major domestic asset classes – equities, property, bonds and cash. The Strategy's objective is to deliver the best risk-adjusted returns available across all the listed asset classes. In achieving this it aims to outperform the benchmark 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. The Portfolio is constructed on a clean-slate basis based on the relative risk-adjusted upside to fair value of each underlying asset. 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 the probability of a permanent loss of capital.

STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	1,818.2%	1,149.4%	668.8%
Since Inception p.a.	14.9%	12.6%	2.3%
Latest 20 years p.a.	15.2%	12.9%	2.3%
Latest 15 years p.a.	15.2%	12.9%	2.3%
Latest 10 years p.a.	13.3%	11.9%	1.4%
Latest 5 years p.a.	5.8%	6.4%	(0.6)%
Latest 1 year	1.7%	0.0%	1.7%
Year to date	7.5%	3.6%	3.9%
Month	1.7%	0.3%	1.4%

PERFORMANCE & RISK STATISTICS (Since inception)

	Strategy	Benchmark
Annualised Standard Deviation	12.6%	12.4%
Maximum Drawdown	(29.9)%	(32.3)%

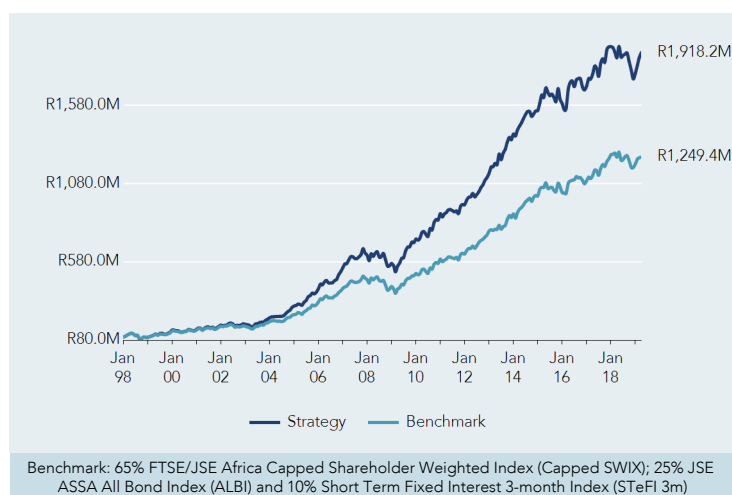
ASSET ALLOCATION

Asset Type	% Strategy
Equities	68.5%
Bonds	15.7%
Property	10.8%
Cash	2.1%
Commodities	2.0%
Hedge Funds	0.9%

GENERAL INFORMATION

Inception Date	01 January 1998
Strategy Size	R12.63 billion
Strategy Status	Open
Mandate Benchmark	65% FTSE/JSE Africa Capped Shareholder Weighted Index (Capped SWIX); 25% JSE ASSA All Bond Index (ALBI) and 10% Short Term Fixed Interest 3-month Index (STeFI 3m)
Dealing Frequency	Daily
Base Currency	ZAR
Regulation 28	Yes

GROWTH OF R100M INVESTMENT



TOP 10 HOLDINGS

Holding	% Strategy
BRITISH AMERICAN TOBACCO PLC	7.0%
NASPERS LIMITED	7.0%
ANGLO AMERICAN PLC	6.3%
MTN GROUP LIMITED	4.1%
NORTHAM PLATINUM LIMITED	3.9%
NEDBANK GROUP LIMITED	2.9%
FORTRESS INCOME FUND LTD	2.8%
FIRSTRAND LIMITED	2.6%
STANDARD BANK GROUP LTD	2.4%
QUILTER PLC	2.3%

EFFECTIVE MATURITY PROFILE*

Term	% Strategy (incl. Cash)	% Strategy (excl. Cash)
0 to 1 year	2.7%	2.0%
1 to 3 years	3.2%	3.3%
3 to 7 years	5.9%	5.9%
7 to 12 years	3.1%	3.1%
Over 12 years	2.9%	3.0%

MODIFIED DURATION*

Portfolio	0.6
Fixed Income Assets	3.4

PORTFOLIO MANAGERS



Karl Leinberger - BBusSc, CA (SA), CFA

Karl is chief investment officer (CIO) and manager of Coronation's Houseview strategies. He joined Coronation in 2000 as an equity analyst, was made head of research in 2005 and became CIO in 2008. Karl has 19 years' investment experience.



Sarah-Jane Alexander - BBusSc, CFA

Sarah-Jane manages assets within the Coronation Houseview Equity Strategy. She also co-manages Coronation's Houseview balanced strategies as well as the Industrial unit trust fund, and has research responsibilities across a range of food producers and hospital stocks, among others. Sarah-Jane joined Coronation in 2008 as an equity analyst and has 15 years' investment experience.



Adrian Zetler - BAcc, BCom (Hons), CA (SA), CFA

Adrian is co-manager across all Coronation's Houseview strategies as well as the Coronation Industrial unit trust fund. His research responsibilities span a number of industrial stocks, including media and luxury goods companies. Adrian joined Coronation in 2009 and has 9 years' investment experience.

DISCLAIMER

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

REVIEW FOR THE QUARTER

It was a disappointing year, with the markets experiencing broad-based asset declines and in addition, the portfolio underperformed its benchmark for the year.

The MSCI All Country World Index declined by 12.8%, and the US market was down 14% as trade wars and slowing global growth plagued market sentiment. In the UK, Prime Minister Theresa May survived a vote of no confidence, but the chances of a no-deal Brexit rose and the FTSE 100 declined 11.7%. Emerging markets (-14.6%) underperformed the developed world (-8.7%) over the year but did relatively better in Q4. Emerging market risk aversion saw portfolio outflows and notable currency depreciation for the year in South Africa (-14%), Russia (-17%) and Turkey (-28%) relative to a strong US dollar. It has been many years since we have been able to buy high-quality businesses at the undemanding ratings currently available in many emerging markets.

The Barclays Global Aggregate Bond Index was up 1.2% for the quarter, but down 1.2% for the year in US dollars. We remain cautious on global bonds given the very low yields at which they trade, coupled with an environment of normalising interest rates and the risk of rising inflation. In South Africa, the All Bond Index returned 2.7% for the quarter, bringing annual performance to 7.7%, which compares favourably to other domestic asset classes.

Over the year, investor sentiment in South Africa deteriorated as Ramaphoria evaporated and structural concerns reasserted themselves, as the dire state of many state-owned enterprises (SOEs) was further revealed. Most sit with inflated wage bills from overstaffing and years of above-inflation pay increases. The job cuts required to rein in costs are a tough call for a divided governing party facing an election in the next few months. Following the election, we are hopeful that a stronger mandate for the incumbent will enable more decisive reform. Eskom remains a significant problem, with its strained balance sheet and years of poor maintenance resulting in the reoccurrence of load shedding in an economy already struggling to grow. A proposal to transfer R100 billion of the parastatal's debt to the government balance sheet would erode national debt-to-GDP by a further 2%. Positively, there has been progress on governance, with SOE boards being reconstituted and underperforming management teams being replaced. In addition, third-quarter GDP figures indicated a return to growth, although a further hurdle came in the form of the South African Reserve Bank (SARB)'s surprise repo rate increase of 25 basis points (bps) in November. This action was premised on a depreciating rand, persistent electricity price increases and a high oil price. Food inflation also looks set to rise in 2019, with maize prices spiking in response to a poor rainy season in key planting areas.

The JSE Capped SWIX All Share Index ended 2018 down 10.9% (down 3.8% in Q4) as the euphoria of the first quarter subsided, resulting in both weak equity markets and a marked deterioration in the currency. The rand was one of the weakest currencies globally. Worldwide, markets were also weak as fears of trade wars, rising US inflation and the reversal of years of quantitative easing plagued market sentiment. Full-year index returns were dominated by the resource sector (up 16%), which was driven by globally-diversified miners such as Anglo American (+32%) and BHP Billiton (+28). Given weak global markets, domestic sentiment erosion and several stock-specific issues in offshore shares listed domestically, both financials (-9%) and industrials (-18%) declined over the full year. All sectors declined in Q4, with financials, resources and industrials down 2%, 5% and 6%, respectively.

We have the fortunate dilemma of seeing attractive value in both the offshore shares and domestic shares listed on the JSE, given the increased upside to our estimates of fair values after a year of marked declines.

The portfolio's core building blocks remain in place, with significant positions in offshore stocks, including Naspers, British American Tobacco and MTN. All of these companies have faced various challenges over the past year. In addition, we have used price weakness to build positions in other global businesses including Quilter and Anheuser-Busch InBev.

Earlier during the year, MTN was hit by claims from the Central Bank of Nigeria (CBN) and the Nigerian Attorney General for capital repatriation of US\$8 billion and US\$2 billion in back taxes. The share reacted violently to the news flow, with sharp declines and priced in a severe outcome with seemingly no value placed on the Nigerian operations. The actions of the Nigerian bodies attracted international attention as the investment climate was broadly undermined. We added to the position at this time. The issue of repatriation has subsequently been resolved for a notional amount of \$52 million. Despite resolution, shaken investor confidence means MTN continues to trade well below our opinion of fair value as we view investors as placing an excessive discount on African operations.

British American Tobacco (BTI), a major holding in the portfolio, ended the quarter at -27.4% and the year at -43.4%. The company significantly increased its exposure to the US market with its 2017 acquisition of Reynolds, and since then, US tobacco companies have been plagued by a barrage of negative regulatory developments. The Food and Drug Administration seeks to clampdown on tobacco levels in conventional cigarettes and reduce flavoured tobacco, particularly menthol, where BTI is the market leader. In addition, the market is facing structural change as reduced-harm offerings, such as vaping, could result in an accelerated volume decline in combustible cigarettes. New entrants (particularly Juul in the US market) have managed to establish good distribution channels and

gain market share through a well-designed product with youth appeal. The share has been punished in response to these factors and the high levels of gearing from the Reynolds acquisition. Trading on 7.6 times its forward earnings and with a dividend yield of 9%, we believe the share offers exceptional value. BTI's healthy free cash flow conversion, and the likelihood that any regulatory change will take a few years to implement, will support balance sheet de-gearing. Given the ongoing negative news flow (regulatory developments, rise of e-cigarettes), there seems to be little price support, despite the valuation underpin. Ultimately, we believe fundamentals will assert themselves.

Naspers remains a large holding in the portfolio, given the compelling opportunity set latent in this business. We remain cognisant of the inherent risk in Tencent, particularly given its size and dominance within a single, centrally-controlled market such as China. During the past year, delays in Chinese gaming licences have proved a headwind. Despite this, we expect strong growth to continue. Tencent is building a payments business in a financial services market segment many times larger than the gaming market, as well as growing rapidly in areas such as cloud services and advertising. Within Naspers, streamlining of the portfolio continues, with more focused investment in core pillars, such as the rapidly-growing food delivery businesses. A planned unbundling of the MultiChoice business in 2019, as well as a potential offshore listing of some of the internet assets further underpin management's commitment to reduce the discount to fair value.

While our equity and balanced portfolios remain significantly exposed to offshore stocks, we have increased the domestic holdings, resulting in a more balanced portfolio.

Domestically, we believe earnings bases are low, as cost bases have been trimmed and companies have faced several years of a tough economy with little volume. The food retailers owned in the portfolio are a good example. Rising food inflation and a (hopefully) stronger economy should provide food retailers and producers with the ability to raise prices and recover cost increases. A little bit of volume should deliver positive operating leverage given the lean cost bases.

The resource sector performed well over the full year, while Q4 declines can be attributed to the rising uncertainty over Chinese economic growth. Resource companies have benefitted from tight markets due to disciplined capital expenditure and Chinese environmental reform. China's commitment to environmental reform remains, but slowing growth means a finer balance may be needed between economic growth and environmental reform. While uncertainty exists, we believe a reasonable position can be justified. Miners are trading on high free cash flow yields and returning a fair amount of this to shareholders. The portfolio's core holding in Anglo American contributed to performance for the year, buoyed by Amplats. Other key portfolio holdings include Northam and Mondi. Northam has underperformed the other platinum miners, but its cost quartile position should improve as it ramps up production in the next few years.

Within the financial sector, performances were divergent. Banks and insurers outperformed the property sector, which was hit by a weak economy, undermining the position of landlords. The financial holdings in the portfolio are more skewed towards the banks, with a large holding in Nedbank, which trades at a significant discount (PE 9.2x) to the banking sector average. We also see value in a few of the high-quality property companies, notwithstanding the risk of an Edcon bankruptcy later this year.

Shares with exposure to the UK remained under pressure due to high Brexit uncertainty, as was reflected in the very poor share price performances of Intu and Hammerson. Both shares trade at massive discounts (>50%) to their underlying NAV. The premium nature of the shopping centre assets in both counters should be far better placed to navigate the shifting retail environment. We feel this thesis was affirmed in 2018 when Intu received its second expression of interest at a significant premium to the share price. Unfortunately, after requesting an initial extension, the consortium walked away during Q4 due to macroeconomic concerns related to Brexit, which remain an overhang.

Earlier this year, we added to the position in domestic bonds as yields rose and valuations became more reasonable. Domestic bonds have generated a positive return for the year, but we believe the position remains justified given reasonable valuation.

It has been a challenging year. Shares prices plummeted on disappointing news flow and there have been few marginal buyers for assets with uncertainty. Given the extent of share price declines, we see compelling value in many names which now trade at significant discounts to our assessment of fair value. The team continues to do as we have done before; cut out the noise, work hard to interrogate investment theses and invest for the long term, where we believe the inherent value in many of our holdings will reassert itself.