

## LONG TERM OBJECTIVE

The Coronation Houseview Equity Strategy represents our best investment view for an equity mandate. The portfolio is constructed on a clean-slate basis with no reference to a benchmark. It seeks to identify the best risk adjusted returns in the market and aims 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 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 the probability of a permanent loss of capital.

## STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	4,688.0%	2,949.5%	1,738.5%
Since Inception p.a.	16.4%	14.3%	2.1%
Latest 20 years p.a.	16.3%	14.5%	1.8%
Latest 15 years p.a.	17.0%	15.2%	1.8%
Latest 10 years p.a.	15.0%	13.8%	1.2%
Latest 5 years p.a.	4.3%	5.4%	(1.1)%
Latest 1 year	0.0%	(2.6)%	2.6%
Year to date	8.5%	3.9%	4.6%
Month	2.4%	(0.2)%	2.6%

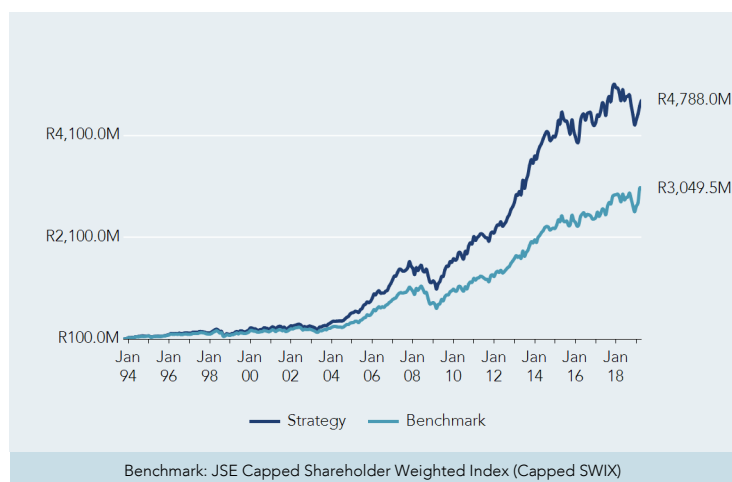
## TOP 10 HOLDINGS

Holding	% Strategy
BRITISH AMERICAN TOBACCO PLC	9.7%
NASPERS LIMITED	9.5%
ANGLO AMERICAN PLC	8.6%
MTN GROUP LIMITED	5.7%
NORTHAM PLATINUM LIMITED	5.3%
NEDBANK GROUP LIMITED	3.9%
FIRSTRAND LIMITED	3.5%
STANDARD BANK GROUP LTD	3.3%
QUILTER PLC	3.2%
PICK N PAY STORES LIMITED	2.8%

## GENERAL INFORMATION

Inception Date	01 October 1993
Strategy Size	R41.94 billion
Strategy Status	Open
Mandate Benchmark	JSE Capped Shareholder Weighted Index (Capped SWIX)
Dealing Frequency	Daily
Base Currency	ZAR

## GROWTH OF R100M INVESTMENT



## PERFORMANCE & RISK STATISTICS (Since inception)

	Strategy	Benchmark
Average Annual Return	18.1%	15.8%
Tracking Error	4.9%	
Information Ratio	0.5	
Annualised Standard Deviation	17.4%	17.5%
Maximum Drawdown	(40.8)%	(41.0)%

## TRACKING ERROR



**SECTOR EXPOSURE**

Sector	% Strategy
Basic Materials	24.3%
Consumer Services	21.7%
Financials	21.6%
Consumer Goods	16.7%
Telecommunications	5.7%
Health Care	4.8%

Sector	% Strategy
Derivatives	2.8%
Industrials	1.2%
Metals	0.9%
Technology	0.8%
Interest Bearing	(0.5)%

**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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**REVIEW FOR THE QUARTER**

The strategy had a good quarter outperforming the various equity benchmarks. Overall, the JSE had a good quarter, with the JSE Capped Shareholder Weighted All Share Index appreciating 3.9%. Resources had another very strong quarter and were up 17.9% - bringing the rolling 12-month total return to a whopping 41.6%. Platinum stocks, in particular, had a very strong quarter on the back of a rising platinum group metals (PGM) basket price.

During the quarter, 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%), Anglo American Platinum (+38%) and Impala Platinum (+66%), as well as our position in the Palladium ETF (+12% in US dollars) all 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 platinum 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 had no exposure to any of these stocks. 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 strategy 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.