CORONATION FINANCIAL FUND

Fund Information as at 31 October 2019

CORONATION
TRUST IS EARNED™

WHAT IS THE FUND'S OBJECTIVE?

The fund aims to maximise long-term growth from investing in the financial services industry. It seeks to outperform an index of financial companies listed on the Johannesburg Stock Exchange (the JSE Financial Index) over the longer term.

WHAT DOES THE FUND INVEST IN?

The fund will remain fully invested in JSE-listed companies that earn a significant portion of their earnings from financial services. These include banks, insurance companies and related businesses.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

10/10
Aggressive

Maximum growth/ minimum income exposures

- Growth Assets: 100%
- Income Assets: 0%

The fund's managers actively seek out attractively valued financial companies that could offer strong long-term investment growth.

Shares are selected following rigorous research into the long-term potential of a company, and whether it is currently attractively valued relative to its sector.

Shares can be volatile investments and there is a meaningful risk of capital loss over the short term. However, given its focus on investing only in attractively valued shares that could offer long-term growth, the fund may preserve capital better than its benchmark over the long run.

The fund is concentrated and only invests in one sector of the market, making it riskier than a general equity fund.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The fund is managed to deliver the best possible returns over the long term; an investment horizon of five years or more is therefore ideal.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Investors who are building wealth, and who

- want to diversify their investments to include specific exposure to banks, insurers and related businesses;
- believe that the financial sector offers compelling value;
- accept that the fund may underperform the broader market significantly in the short term as a result of its sector focus;
- seek to hold the Financial Fund as one of multiple funds in their investment portfolio.

WHAT COSTS CAN I EXPECT TO PAY?

An annual fee of 1.25% (excl. VAT) is payable.

Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

We do not charge fees to access or withdraw from the fund.

More detail is available on www.coronation.com.

WHO ARE THE FUND MANAGERS?

NEILL YOUNG
BBusSc (Hons Fin), CA (SA), CFA

GODWILL CHAHWAHWA
BCompt, CA (SA) CFA

GENERAL FUND INFORMATION

Launch Date	1 July 1998
Fund Class	A
Benchmark	FTSE/JSE Financial Index
Fund Category	South African – Equity – Financial
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORFING
ISIN Code	ZAE000019766
JSE Code	CNFG

CORONATION FINANCIAL FUND

CORONATION
TRUST IS EARNED™

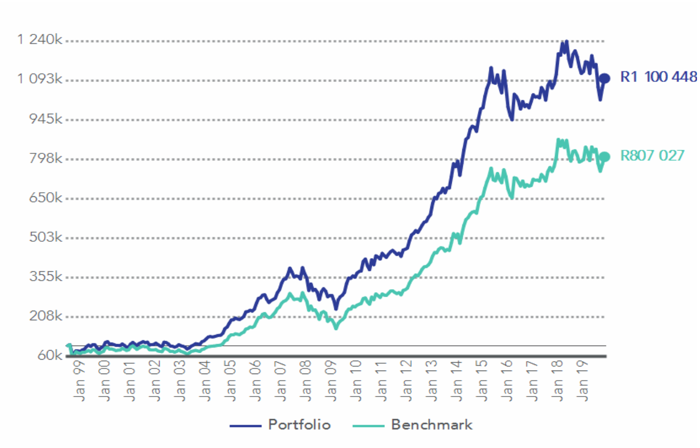
CLASS A as at 31 October 2019

Fund category	South African - Equity - Financial
Launch date	01 July 1998
Fund size	R260.35 million
NAV	5798.69 cents
Benchmark/Performance Fee Hurdle	FTSE/JSE Financial Index
Portfolio manager/s	Neill Young and Godwill Chahwahwa

	1 Year	3 Year
Total Expense Ratio	1.44%	1.46%
Fund management fee	1.24%	1.24%
Fund expenses	0.02%	0.04%
VAT	0.18%	0.18%
Transaction costs (inc. VAT)	0.13%	0.18%
Total Investment Charge	1.57%	1.64%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Oct 2019
Domestic Assets	100.0%
Equities	91.5%
Financials	91.5%
Preference Shares & Other Securities	3.1%
Real Estate	5.0%
Cash	0.4%

PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	1000.5%	707.0%	293.4%
Since Launch (annualised)	11.9%	10.3%	1.6%
Latest 20 years (annualised)	13.2%	12.5%	0.6%
Latest 15 years (annualised)	13.3%	13.5%	(0.2)%
Latest 10 years (annualised)	11.8%	12.5%	(0.7)%
Latest 5 years (annualised)	2.9%	4.9%	(2.0)%
Latest 3 years (annualised)	3.6%	5.0%	(1.4)%
Latest 1 year	(3.8)%	2.5%	(6.3)%
Year to date	(2.3)%	1.4%	(3.7)%

TOP 10 HOLDINGS

As at 30 Sep 2019	% of Fund
RMB Holdings	16.8%
Standard Bank Of SA Ltd	14.1%
Nedbank Ltd	10.2%
Old Mutual Ltd	6.7%
Investec Limited	6.6%
Quilter Plc	6.1%
Discovery Holdings Ltd	5.7%
Momentum Metropolitan Holdin	4.1%
RMI Holdings	3.9%
Sanlam Life Assurance Limited	3.5%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	18.5%	19.8%
Sharpe Ratio	0.16	0.07
Maximum Gain	53.6%	80.4%
Maximum Drawdown	(39.7)%	(45.3)%
Positive Months	59.8%	60.5%

	Fund	Date Range
Highest annual return	63.0%	Aug 2004 - Jul 2005
Lowest annual return	(28.6%)	Mar 2008 - Feb 2009

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2019	01 Oct 2019	163.21	159.76	3.45
29 Mar 2019	01 Apr 2019	36.05	34.58	1.47
28 Sep 2018	01 Oct 2018	151.49	146.80	4.69
29 Mar 2018	03 Apr 2018	28.92	27.21	1.71

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2019	3.3%	(0.2)%	(3.7)%	6.1%	(3.6)%	0.9%	(7.4)%	(4.5)%	4.4%	3.3%			(2.3)%
Fund 2018	(0.5)%	3.8%	(2.8)%	3.6%	(5.3)%	(2.5)%	4.0%	1.1%	(1.9)%	(3.2)%	(2.2)%	0.7%	(5.6)%
Fund 2017	(0.9)%	0.2%	(0.5)%	3.8%	(1.3)%	(3.3)%	5.3%	1.6%	(2.4)%	1.6%	3.2%	6.9%	14.8%

Issue date: 2019/11/12

Please refer to page 4 of the Comprehensive Fact Sheet for important additional infomation, including change in cost disclosures.

Please note that the commentary is for the retail class of the fund.

The fund returned -7.6% for the quarter, while the benchmark returned -6.8%. The retracement in the third quarter of 2019 (Q3-19) has pulled the year-to-date returns into negative territory for both the fund and the Financials Index. Over five and 10 years, the fund has generated compound annual returns of 3.4% and 11.7%, respectively, compared to benchmark returns of 5.5% and 12.7%. Since inception, the fund has delivered a compound annual return of 11.8%, outperforming the benchmark return of 10.1%.

Consistent with the performance of many emerging markets (EMs), the broader South African market suffered a weak quarter, with the All Share Index (ALSI) declining 4.6%. The financial sector underperformed the ALSI, with banks (-7.8%) and life insurers (-7.6%) contributing in equal measure, while property stocks performed slightly less poorly (-4.2%). The fund has limited exposure to South African listed property, and this is reflected in the performance relative to the benchmark.

The economic environment facing domestic businesses remains extremely challenging. While GDP growth rebounded somewhat in the second quarter of the year from the negative print in the first quarter, growth remains very weak and lags both developed and EM peers. The result of this is that GDP per capita has been negative in real terms since 2014. Eskom remains the most significant risk to both sustainable growth and government finances. A Special Appropriations Bill tabled in July allocated an R60 billion to the utility over the next two years, in addition to the R23 billion per annum allocated in February, indicating just how severe the situation is. Yet there is no evidence of any progress in restructuring the entity. Consumer and business confidence dropped to multi-decade lows in Q3-19. Unsurprisingly, there is growing impatience to see policy statements by government translating into action, and it is unlikely that we will see a return to consumption and investment until this happens. Treasury has released a pragmatic policy document on restoring growth, yet, disappointingly, this has been opposed by members of the governing alliance, and once again, is just policy until implemented. And where well-intended policy implementation has happened in the form of National Health Insurance (NHI) and the Credit Amendment Act, the affordability and unintended consequences thereof seem not to have been properly considered.

In this context, company results released during Q3-19 demonstrated remarkable resilience, particularly the banks, which are typically considered more cyclical businesses. Advances grew in upper single/lower double-digits, and, despite downward pressure on margins and non-interest revenue, credit losses (although ticking up) remain relatively benign and cost control has been good. All the Big Four banks showed mid-single digit earnings growth, although all were aided by contributions from their non-SA operations.

Contributors to quarterly performance include overweight positions in Quilter, Hammerson and Reinet, and underweight positions in Remgro and Absa. Interestingly, as an indication of the skittishness of the market, three of these positions (Quilter, Hammerson and Absa) were the top detractors from performance in the prior quarter. Detractors from performance in the current quarter include overweight positions in Discovery, Intu and Investec and underweight positions in property stock NEPI Rockcastle and Capitec.

The Discovery share price came under significant pressure during the quarter, most likely for several reasons:

- The share was certainly not optically cheap on near-term metrics – it has traded at a healthy premium to embedded value for some time while most of its peers trade at discounts, and, even after the decline, its 12-month forward multiple is still around 14.5 times. This at a time in which most other financial sector stocks were declining and trading on single digit price-to-earnings ratios.
- The bank rollout is behind schedule, and the costs associated with this are now increasingly being expensed rather than capitalised, impacting earnings.
- Reports from two analysts questioning the quality of the reported numbers, and the assumptions inherent in the valuation of the life businesses.

The biggest single driver of the decline in the share price, however, was probably the introduction of the NHI Bill. This has called into question the future of private medical schemes and, therefore, administrators. Discovery Health is the administrator of the largest open medical scheme in the country as well as several closed medical schemes and is a strong cash-flow generator, providing funding to new initiatives to the group. If this business were to be summarily terminated, it would have significant implications for Discovery. Through our interactions, it is clear, however, that there is still much work to be done in formulating a workable model for NHI that crowds in all necessary stakeholders, and that it is improbable that the role of private medical schemes will be significantly constrained over the medium term.

Discovery invests significant time and effort explaining its accounting and embedded value methodology as well as its approach to funding new business growth to analysts, providing a basis on which to formulate a view on its appropriateness. Considering the life business is relatively immature, we do not consider the methodology excessively aggressive. The fact that the bank rollout is six months behind schedule is immaterial, given the long-term opportunity that it presents for investors. First impressions count and it is far more important to ensure that a disruptive business meets expectations on launch. Discovery does appear expensive relative to peers on near-term metrics, but the vastly superior growth opportunities that a number of its initiatives present - the bank, short-term insurance, the partner markets in the Vitality Group, and its joint venture with Ping-An Health in China – need to be considered. On this basis, we consider the multiple on normal earnings to be attractive. It should also be borne in mind that none of the growth initiatives are included in the group embedded value. We consider Discovery attractively valued and it remains a significant holding in the fund at 5.7%.

During the quarter we switched some of the fund's holding in FirstRand into its holding company RMH as the discount to the underlying asset widened. In addition, we built relatively small positions in PSG and Absa. We sold the fund's holding in PSG Konsult and reduced some exposure to Standard Bank and Investec.

The outlook for domestic earnings growth hinges very much on a return of consumer and business confidence, which, in turn, depends heavily on seeing policy translate into action. Dealing with Eskom is at the top of this list. We are hopeful that some clarity will emerge in the Medium-Term Budget Policy Statement at the end of October, but much more than this is required to convince participants in the economy that we find ourselves in cyclical and not a structural downturn. Despite low valuations, the sector is likely to tread water until we see meaningful progress in this regard.

Portfolio managers
Neill Young and Godwill Chahwahwa
as at 30 September 2019

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION FINANCIAL FUND

The Financial Fund should be considered a long-term investment. The value of units may go down as well as up, and therefore Coronation does not make any guarantees with respect to the protection of capital or returns. Past performance is not necessarily an indication of future performance. Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Sector Conduct Authority in terms of the Collective Investment Schemes Control Act. Portfolio managed by Coronation Asset Management (Pty) (FSP 548) Ltd, an authorised financial services provider. The Management Company reserves the right to close the fund to new investors if we deem it necessary to limit further inflows in order for it to be managed in accordance with its mandate. Unit trusts are allowed to engage in scrip lending and borrowing. Standard Chartered has been appointed as trustees for the fund (www.sc.com/za; 011-2176600). Coronation is a full member of the Association for Savings & Investment SA (ASISA).

HOW ARE UNITS PRICED AND AT WHICH PRICE WILL MY TRANSACTION BE EXECUTED?

Unit trusts are traded at ruling prices set on every trading day. Fund valuations take place at approximately 15h00 each business day, except at month end when the valuation is performed at approximately 17h00 (JSE market close) and forward pricing is used. Instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. The payment of withdrawals may be delayed in extraordinary circumstances, when the manager with the consent of the fund trustees deem this to be in the interest of all fund investors. These circumstances may include periods when significant underlying markets suspend trading which will prevent accurate valuation of the instruments held in the fund. When the suspension of trading relates to only certain assets held by the fund, these assets may be side-pocketed. This process allows normal liquidity on the assets that can be valued, but will delay liquidity on the affected portion of the fund. If the fund is faced with excessive withdrawals, the affected withdrawals may be ring-fenced, which is the separation and delayed sale of the assets reflecting the interest of the liquidity seeking investors. It ensures that the sale of a large number of units will not force Coronation to sell the underlying investments in a manner that may have a negative impact on remaining investors of the fund.

HOW WAS THE PERFORMANCE INFORMATION INCLUDED IN THIS FACT SHEET CALCULATED?

Performance is calculated by Coronation as at the last day of the month for a lump sum investment using Class A NAV prices with income distributions reinvested. All underlying price and distribution data is sourced from Morningstar. Performance figures are quoted after the deduction of all costs (including manager fees and trading costs) incurred within the fund. Note that individual investor performance may differ as a result of the actual investment date, the date of reinvestment of distributions and dividend withholding tax, where applicable. Annualised performance figures represent the geometric average return earned by the fund over the given time period. Unannualised performance represents the total return earned by the fund over the given time period, expressed as a percentage.

WHAT IS THE TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS (TC)?

TER is calculated as a percentage of the average net asset value of the portfolio incurred as charges, levies and fees in the management of the portfolio. The TER charged by any underlying fund held as part of a fund's portfolio is included in the fund expenses portion of the TER, but trading and implementation costs incurred in managing the fund are excluded. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. The 1 year TER is for the 12 months to end of September 2018 (updated annually). The 3 year TER is for a rolling 36-month period to the last quarter end (December, March, June and September).

Transaction costs are a necessary cost in managing a fund and impacts the fund's return. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER.

The Total Investment Charge is the sum of the Total Expense Ratio (TER) and transaction costs.

ADVICE AND PLATFORM COSTS

Coronation does not provide financial advice. If you appoint an adviser, advice fees are contracted directly between you and the adviser. For more information please contact the relevant platform (Linked Investment Service Provider or Life Assurance Provider).

WHERE CAN I FIND ADDITIONAL INFORMATION?

Additional information such as daily fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, www.coronation.com

IMPORTANT INFORMATION REGARDING TERMS OF USE

This document is for information purposes only and does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase any particular investment. Opinions expressed in this document may be changed without notice at any time after publication. We therefore disclaim any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance upon the information.