CORONATION PROPERTY EQUITY FUND

Fund Information as at 31 October 2019

CORONATION
TRUST IS EARNED™

WHAT IS THE FUND'S OBJECTIVE?

The Property Equity Fund seeks to maximise long-term growth from investing in South African listed property companies. The fund aims to outperform the JSE All Property Index.

WHAT DOES THE FUND INVEST IN?

The fund primarily invests in companies that earn the main part of their revenue from owning, managing or developing properties.

It only invests in companies listed on the Johannesburg Stock Exchange, which may include foreign property companies that are listed locally. The fund is mandated to use derivative instruments for efficient portfolio management purposes.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

8/10
Aggressive

Maximum growth/ minimum income exposures

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

The fund's investment returns come from both growth in the share prices of property companies, and income (primarily earned from rentals) paid out by these companies.

Property shares are carefully selected to offer sustainable income and superior capital growth over the long term.

Shares can be volatile investments and there is a risk of capital loss over the short term. The fund's income distributions may also fluctuate due to a number of factors, including changes in the property market and interest rates.

It should typically be viewed as a component of an overall investment portfolio, and not as an investor's only investment.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The recommended investment term is three years and longer.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Investors who are building wealth, and who

- require exposure to property as part of a diversified investment portfolio;
- are comfortable with being fully invested in property companies listed in SA;
- accept the volatility and possible short-term losses associated with an investment in shares;
- seek a regular income.

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?

ANTON
DE GOEDE
CFA, FRM

GENERAL FUND INFORMATION

Launch Date	20 November 2000
Fund Class	A
Benchmark	FTSE/JSE All Property Index
Fund Category	South African – Real Estate – General
Regulation 28	Does not comply
Income Distribution	Quarterly (March, June, September, December)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORPPEQ
ISIN Code	ZAE000026993
JSE Code	CPEF

CORONATION PROPERTY EQUITY FUND

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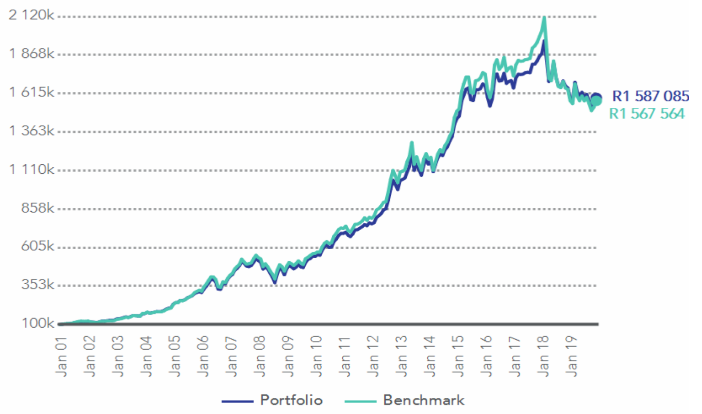
CLASS A as at 31 October 2019

Fund category	South African - Real Estate - General
Launch date	20 November 2000
Fund size	R 1.53 billion
NAV	4946.56 cents
Benchmark/Performance Fee Hurdle	FTSE/JSE All Property Index
Portfolio manager/s	Anton de Goede

	1 Year	3 Year
Total Expense Ratio	1.44%	1.43%
Fund management fee	1.25%	1.24%
Fund expenses	0.01%	0.01%
VAT	0.18%	0.18%
Transaction costs (inc. VAT)	0.08%	0.06%
Total Investment Charge	1.52%	1.49%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	1487.1%	1467.6%	19.5%
Since Launch (annualised)	15.7%	15.7%	0.1%
Latest 15 years (annualised)	14.4%	14.4%	0.0%
Latest 10 years (annualised)	11.2%	10.8%	0.5%
Latest 5 years (annualised)	2.4%	1.5%	0.9%
Latest 3 years (annualised)	(2.3)%	(4.3)%	2.1%
Latest 1 year	(3.9)%	(4.6)%	0.7%
Year to date	1.1%	1.2%	(0.1)%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	13.2%	14.1%
Sharpe Ratio	0.57	0.53
Maximum Gain	54.8%	41.0%
Maximum Drawdown	(29.7)%	(28.9)%
Positive Months	66.5%	66.1%

	Fund	Date Range
Highest annual return	53.6%	Apr 2005 - Mar 2006
Lowest annual return	(22.6%)	Jul 2007 - Jun 2008

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Oct 2019
Domestic Assets	100.0%
Real Estate	98.8%
Cash	1.2%

TOP 10 HOLDINGS

As at 30 Sep 2019	% of Fund
Nepi Rockcastle Plc	14.8%
Redefine Income Fund	11.0%
Growthpoint Properties Ltd	10.4%
Hyprop Investments Ltd	5.2%
Fortress Income Fund Ltd A	5.0%
Vukile Property Ltd	4.9%
Capital & Counties Properties Plc	4.9%
Atterbury Investment Holdings	4.6%
Hammerson Plc	3.5%
Mas Real Estate Inc	3.4%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Taxable Income
30 Sep 2019	01 Oct 2019	27.94	4.51	23.43
28 Jun 2019	01 Jul 2019	96.35	9.74	86.60
29 Mar 2019	01 Apr 2019	44.99	4.99	40.00
31 Dec 2018	02 Jan 2019	105.72	12.69	93.03

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2019	7.7%	(3.7)%	(2.1)%	1.9%	(2.1)%	1.3%	(2.7)%	(2.9)%	1.4%	2.9%			**1.1%**
Fund 2018	(6.5)%	(7.6)%	1.0%	6.3%	(5.3)%	(3.1)%	(0.8)%	2.5%	(1.9)%	(0.8)%	(3.9)%	(1.1)%	**(20.0)%**
Fund 2017	1.3%	(0.1)%	0.1%	0.6%	0.2%	(0.2)%	3.2%	0.1%	1.2%	1.7%	0.9%	4.5%	**14.1%**

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

The All Property Index (ALPI) delivered a total return of -4.2% in the third quarter of 2019 (Q3-19). Although this resulted in an outperformance of the FTSE/JSE All Share Index (-4.6%), it continues to lag the performance of the All Bond Index (0.7%). As has been increasingly the case in recent months, the correlation between bonds and listed property continues to weaken, with the increased offshore exposure in the sector. The South African 10-year government bond yield moved 20 basis points (bps) out to 8.9% over the quarter, while the forward yield of the ALPI saw an increase to 9.4% from 8.9% as at end-June 2019, despite some support for UK property stocks late in the quarter as rotation into value property stocks occurred globally. The historical yield of the bellwether index (comprising Growthpoint, Redefine, Hyprop, Vukile, SA Corporate and Investec Property Fund) increased to 10.8% at the end of Q3-19, up from 9.9% three months earlier. This saw the historical yield gap relative to bonds move out to 181bps at the end of September from 126bps as at end-June 2019.

The fund's return of -4.2% during Q3-19 was in-line with the benchmark, while performance over periods between three and 10 years compares favourably to peers and the benchmark. The fund's relative positioning in Redefine, Hammerson, Nepi Rockcastle and Capital & Counties added value during Q3-19, while value detraction came from the relative positioning in Resilient, Investec Australia, Hospitality and Accelerate. During the period, the fund increased exposure to MAS Real Estate, Equites Property Fund and Redefine, while reducing exposure to Nepi Rockcastle, Resilient and Fortress A.

Post completion of Q3-19 reporting, the underlying local operational performance continues to be reflective of the broader challenging economic backdrop. Reported year-on-year (y/y) dividend growth came in at 0.8% compared to 0.9% in the first half of 2019 (H1-19). Excluding the black economic empowerment deal rebasing of Resilient and Fortress, y/y dividend growth was 2.7% compared to 2.3% in H1-19. Including offshore counters, dividend growth averaged 3.6% y/y compared to 4.3% in H1-19, supported by Nepi Rockcastle and MAS. Operationally, pressure on net property income (NPI) growth remains, as reversions weigh on top line growth while cost pressures increase. Operating cost increases are driven by higher municipal rates and tenant incentives, although this is partially offset by improved general service cost management and the benefit of more greening initiatives, especially solar. Landlords continue to manage for occupancies rather than rental growth, although this is becoming more difficult due to the poaching of tenants, especially within the office sector, putting even more pressure on reversions. Balance sheet strain is starting to visibly show with a high probability that this will continue in the short to medium term. Property values should come under pressure, while degearing through sales is difficult in a buyer's market, with few buyers actually able to raise funding.

Within the retail sector, trading density growth continues to be under pressure at low single-digit growth. Retailer cost of occupancy is increasing due to escalations and higher municipal rates and taxes outpacing trading performance. Reversions are trending down to low single-digits and even negative growth rates, while escalation rates of national retailers are moving closer to 5%-6.5%. With this as a backdrop, vacancies actually remain fairly well managed. Despite attention-grabbing headlines, we have seen limited space rationalisation of banks in shopping centres thus far, although this could pick up in future. In turn, there seems to be sufficient appetite to accommodate Edcon space rationalisation. National fashion retailers are, however, using the Edcon deal as bargaining tool for lease negotiations despite landlords stating no actual rental reduction (as per the lease agreement) has taken place. Each landlord is treating the equity investment differently, with most either writing value partially down or to zero. Massmart is starting to become a concern, and although it pays a lower rental relative to percentage gross leasable area occupied, box format and size will make it difficult to release, especially post the Edcon space absorption.

Offices remain under pressure, especially in certain nodes in Johannesburg. The national office vacancy of 11.3% is masking underlying challenges in the sector, as no new tenant demand exists to absorb vacant space coming about from space consolidation and backfill space. Landlords are not only experiencing pressure on reversions, but also higher leasing commissions and incentives – there is evidence of up to 12 months' rent-free on three-year leases for challenging properties, although market practise remains one month for every one year of lease length. One promising fact is that development activity has slowed to a 13-year low to 2% of existing stock. Activity is still concentrated in Sandton, with a quarter of all development activity in the country – the development is led by proximity to the Gautrain station rather than the historic Sandton core. Flexible office space has gained in popularity, with WeWork coming to South Africa (three leases) and landlords' own initiatives, but the mode does challenge traditional office space lease structures.

Despite positive market dynamics for industrial properties, limited market rental growth continues as space consolidation and development activity are keeping a cap on rentals. There is a continued trend of large negative reversions on long-term 10-year leases coming up for renewal, which will likely take another three to five years to work out of the system. Big box tenants are pushing hard for contractual escalations closer to consumer price inflation – we are seeing this especially for logistics space users, who are also demanding shorter lease lengths.

The state of the economy remains the biggest challenge for the sector. The interest rate cut this past quarter will likely be insufficient to kickstart the economy. The lacklustre economy remains the biggest challenge for the sector, together with an increasing cost base, which is becoming more difficult to recover from tenants, resulting in property operating margin erosion. The most recent reporting season mostly cemented the trends landlords have experienced the last 12-18 months. An issue coming more to the fore is how real estate investment trusts (REITs) will treat dividend pay-out ratios going forward. REITs may choose not to pay out 100% of profits to shareholders to mainly preserve balance sheets in the current cycle. With these uncertainties still being the backdrop, the current lacklustre sector performance may continue in the short to medium term.

Portfolio manager
Anton de Goede
as at 30 September 2019

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

The Property Equity Fund should be considered a medium- to 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. Asset allocation and top 10 holdings are reflected on a look-through basis. 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. Taxable income includes interest income and income earned from REITs. 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.