

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)	4,599.0%	2,877.6%	1,721.4%
Since Inception p.a.	16.0%	13.9%	2.1%
Latest 20 years p.a.	16.1%	14.2%	1.9%
Latest 15 years p.a.	15.7%	14.1%	1.6%
Latest 10 years p.a.	11.9%	11.0%	0.9%
Latest 5 years p.a.	3.2%	3.6%	(0.4)%
Latest 1 year	0.3%	(2.4)%	2.7%
Year to date	6.5%	1.4%	5.1%
Month	2.8%	0.7%	2.1%

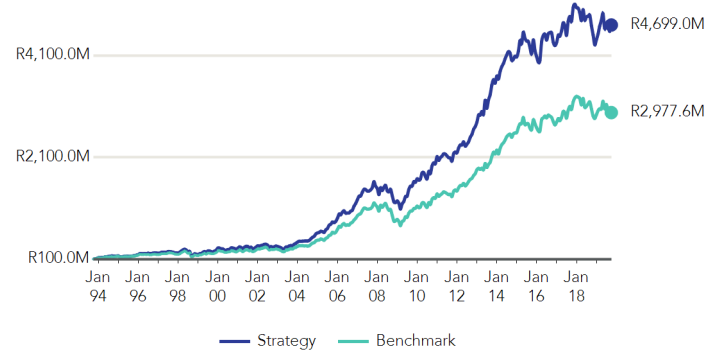
TOP 10 HOLDINGS

Holding	% Strategy
BRITISH AMERICAN TOBACCO PLC	9.9%
NASPERS LIMITED	8.0%
ANGLO AMERICAN PLC	6.1%
NORTHAM PLATINUM LIMITED	5.3%
PROSUS	4.4%
MTN GROUP LIMITED	4.0%
FIRSTRAND LIMITED	4.0%
NEDBANK GROUP LIMITED	3.9%
QUILTER PLC	3.7%
BID CORPORATION LIMITED	3.0%

GENERAL INFORMATION

Inception Date	01 October 1993
Strategy Size	R40.02 billion
Strategy Status	Open
Mandate Benchmark	JSE Capped Shareholder Weighted Index (Capped SWIX*)
Dealing Frequency	Daily
Base Currency	ZAR

GROWTH OF R100M INVESTMENT



Benchmark: JSE Capped Shareholder Weighted Index (Capped SWIX*)

*FTSE/JSE Capped Shareholder Weighted Index from 01 May 2017. Previously 50 Low Resources (inception to 31 January 2002) and FTSE/JSE Shareholder Weighted Index (01 February 2002 to 30 April 2017).

PERFORMANCE & RISK STATISTICS (Since inception)

	Strategy	Benchmark
Average Annual Return	17.7%	15.6%
Tracking Error	4.3%	
Information Ratio	0.5	
Annualised Standard Deviation	17.3%	17.0%
Maximum Drawdown	(40.8)%	(41.0)%

TRACKING ERROR



SECTOR EXPOSURE

Sector	% Strategy
Consumer Services	22.8%
Basic Materials	21.8%
Financials	20.0%
Consumer Goods	17.6%
Technology	5.6%
Health Care	4.6%

Sector	% Strategy
Telecommunications	4.0%
Industrials	1.7%
Derivatives	1.6%
Metals	0.1%
Interest Bearing	0.2%

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 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, paper and luxury goods companies. Adrian joined Coronation in 2009 and has 10 years' investment experience.

DISCLAIMER

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REVIEW FOR THE QUARTER

Recent economic data reinforced how dire the underlying economic situation really is. This has flowed through to corporate earnings and we have been bombarded with company profit warnings over the past quarter. Investor and consumer sentiment continue to remain very weak and government urgently needs to deliver on much-needed structural reform in order to restore consumer and corporate confidence and kickstart the economy. During September, the South African Reserve Bank (SARB) held the policy rate unchanged at 6.5%, but the SARB's statement was more dovish than in July when it did cut rates. Although the SARB's view is that monetary policy is not the solution to SA's poor growth outlook, we believe that, given the weak domestic economy, contained inflation and favourable global rate expectations, the SARB has room to further cut rates. Against this challenging economic backdrop, the rand weakened by almost 7% against the US dollar. The portfolio was well positioned for this move.

Overall, the JSE experienced a disappointing quarter, with the JSE Capped SWIX All Share Index declining 5.1% (and with it dragging down rolling 12-month period returns to -2.4%). The weakness was broad-based, but the financial and resource sectors fared the worst – both down over 6% for Q3-19. The industrial sector was down only 2.5%, with the large rand hedge stocks such as Naspers (flat), British American Tobacco (+14%), ABI (+16%) and Bidcorp (+6%) holding up well. Notwithstanding the challenging market returns, our equity holdings performed well on a relative basis. We believe that our equity holdings are currently offering compelling value and we have used the weakness during Q3-19 to add to our position. It should, however, be noted that our equity holdings continue to be skewed towards the global stocks that just happen to be listed on the JSE. Although many domestic-facing businesses are starting to screen as extremely cheap, given the deteriorating macro environment, there is a high probability many of them turn out to be value traps.

On the resources front, our large exposure to the Platinum Group Metals (PGM) sector contributed meaningfully to portfolio performance during Q3-19. Northam Platinum and Impala Platinum (Implats) were up 40% and 37% respectively. Deficits in PGMs have seen the 3E basket price continue to rise. Despite their strong run, we still view the PGM stocks as very attractive. Northam Platinum and Implats currently trade on between six times and eight times our assessment of normal earnings and still offer material upside to our fair values.

The Sasol share price has collapsed over the past 12 months (down 54%), as further cost overruns relating to the Lake Charles Chemicals Project (LCCP) emerged and management also had to announce a delay in the reporting of their full-year results in order to further investigate a breach of internal controls. Our underweight position in Sasol over this time has added to performance. We believe that the results delay is as a result of control weaknesses identified around the LCCP budgeting process and not centred around the financial statements themselves. Although further cost overruns are unlikely, our biggest remaining concern is that the budgeted profitability for LCCP disappoints on the back of ramp-up issues or pressure on commodity prices. Nevertheless, we expect the company to now shift to a phase of debt reduction and improved free cash flow generation. Sasol trades on four times 2021 earnings, which is calculated using what we feel are relatively conservative currency and oil price assumptions. This is very attractive for a business of its quality. We have used the share price weakness to increase our exposure but remain cognisant of the risks surrounding recent announcements and are managing the position size carefully.

The quarter was also characterised by corporate actions in several stocks that the portfolio was invested in. Some of those worth mentioning include:

- Prosus, the newly-established corporate entity that will house Naspers' global internet portfolio, including its stake in Tencent and its interests in online classifieds, food delivery and online payments. During Q3-19 Naspers listed and part unbundled 26% of Prosus to its underlying shareholders. This listing is another positive step by management in their efforts to try and narrow the discount at which Naspers trades relative to its underlying intrinsic value. A foreign listing of Prosus will assist Naspers in pursuing its ambitions to become a leading global consumer internet business by giving it access to a wider pool of investors and capital. Furthermore, going forward, the two-tier corporate structure provides Naspers with more financial flexibility and the ability to more efficiently manage the discount to its underlying intrinsic value by using capital allocation tools such as share buybacks. In this corporate action, we elected to take the full allotment of Prosus shares given the value unlock opportunity that we expected.
- In July, global food and beverage conglomerate PepsiCo announced a takeover bid for Pioneer Foods, at a more than 50% premium to the Pioneer share price at the time. The subsequent repricing of our holdings in both Pioneer and Zeder (whose largest asset is its stake in Pioneer) contributed meaningfully to performance during Q3-19. We used the rerating in Pioneer to sell out of our position and redeploy the proceeds into other more attractive investment opportunities.

- Tencor recently announced that it will be unbundling its Textainer stake to its shareholders in the coming months. Coronation has been actively pushing for this unbundling over the last few years and we are extremely pleased that it is finally proceeding. The share price reacted positively - up 37% for the quarter – and this also contributed meaningfully to quarterly performance.

Our underweight position in listed property has contributed to performance. The property stocks have been battered by the weak economy which is playing itself out through increasing vacancy levels, large rental reversions and reduced rental escalations. Much of the sector will struggle to show any distribution growth over the medium term.

In this volatile and uncertain world, our objective remains to build diversified portfolios that can absorb unanticipated shocks. 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.