

## LONG TERM OBJECTIVE

The Coronation Africa Frontiers Strategy aims to maximise the long-term risk-adjusted returns available from investments on the continent through capital growth of the underlying stocks selected. It is a flexible portfolio primarily invested in listed African equities or stocks listed on developed and emerging market exchanges where a substantial part of their earnings are derived from the African continent. The Strategy may hold cash and interest bearing assets where appropriate.

## INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house, focused on bottom-up stock picking. Our aim is to identify mispriced assets trading at discounts to their long-term business 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 a permanent loss of capital.

## STRATEGY RETURNS GROSS OF FEES

Period	Strategy	LIBOR	Active Return
Since inception cum.	116.2%	11.4%	104.8%
Since Inception p.a.	6.5%	0.9%	5.6%
Latest 10 years p.a.	2.7%	0.9%	1.8%
Latest 5 years p.a.	2.8%	1.5%	1.3%
Latest 1 year	(6.4)%	0.7%	(7.0)%
Year to date	(6.4)%	0.7%	(7.0)%
Month	10.8%	0.0%	10.8%

For a side-by-side comparison of gross and net performance, please refer to <http://www.coronation.com/us/strategy-performance>

## SECTOR EXPOSURE

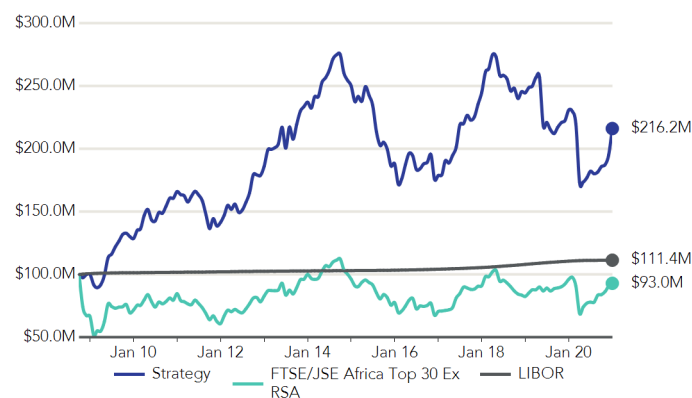
Sector	% Strategy
Consumer Goods	27.5%
Financials	23.7%
Basic Materials	13.9%
Telecommunications	9.2%
Health Care	5.8%
Consumer Services	4.3%
Oil & Gas	3.9%
Industrials	2.6%
Technology	1.3%
Utilities	0.6%
Interest Bearing	7.2%

## GENERAL INFORMATION

Inception Date	01 October 2008
Strategy Size *	\$342.2 million
Strategy Status	Open
Target	Outperform ICE LIBOR USD 3 Month (US0003M Index)
Redemption Terms	An anti-dilution levy will be charged
Base Currency	USD

\*Strategy assets under management as at the most recent quarter end.

## GROWTH OF US\$100M INVESTMENT



Target: Outperform ICE LIBOR USD 3 Month (US0003M Index)

The performance shown is gross of fees.

## GEOGRAPHIC EXPOSURE

Country	% Strategy
Egypt	33.6%
Zimbabwe	16.8%
Nigeria	13.7%
Kenya	13.6%
Tanzania	3.5%
South Africa	3.2%
Botswana	2.2%
Senegal	2.0%
Ghana	2.0%
United Kingdom	1.1%
Uganda	0.6%
Zambia	0.2%
Namibia	0.2%
Other	0.1%
Interest Bearing	7.2%

## PORTFOLIO MANAGER



Peter Leger - BScEng, BCom (Hons), CFA

Peter is head of Global Frontier Markets and manager across all strategies within the investment unit. He joined Coronation in 2005 and has 22 years' experience in African financial markets as both a portfolio manager and research analyst.

## FUND MANAGERS

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The volatility of the Benchmark represented in the growth chart above may be materially different from that of the Strategy. In addition, the holdings in the accounts comprising the Strategy may differ significantly from the securities that comprise the Benchmark. The Benchmark has not been selected to represent an appropriate benchmark to compare the Strategy's performance, but rather is disclosed to allow for comparison of the Strategy's performance to that of a well-known and widely recognized Benchmark. Material facts in relation to the Benchmark are available here: <https://www.theice.com/iba/libor>. In addition, for further information, we have also included the FTSE/JSE Africa Top 30 Ex RSA Index above. Material facts in relation to this benchmark are available here: <https://www.jse.co.za/services/marketdata/indices/ftse-jse-africa-index-series/all-africa>.

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## REVIEW FOR THE QUARTER

The Strategy had a very strong end to a truly unprecedented year. Over the past three months (Q4-20), the Strategy returned 16.3%, while the FTSE/JSE All Africa (ex-South Africa) 30 Index (JA30) was up 10.7%. Most of the African markets showed positive returns during the quarter. Nigeria was the standout performer, returning 43.2% over the past three months, although we would caution that these returns do not tell the full story. Morocco was up 17.1% and Kenya up 8.6%, while Egypt (-1.2%) was one of the few markets with a negative return in US dollars.

The volatility in global markets during 2020 was truly remarkable. Oil prices briefly went into negative territory and recovered to above \$50/barrel by the end of the year. Global equity markets lost about 30% of value within a few weeks, only to recover to new highs by the end of 2020. African markets did not escape this volatility. After declining -28% in the first quarter of 2020, the FTSE/JSE All Africa (ex-South Africa) 30 Index (JA30) performed well during the rest of the year and ended 2020 down only -3.3%. The performance of individual markets varied significantly in 2020. Egypt (-20.8%) and Kenya (-15.1%) were down meaningfully, while Morocco (-0.6%) and BRVM (-0.4%) were largely flat. Nigeria was incredibly strong, returning 36.7% during the year. Against this backdrop, the Strategy declined -6.4% over the past year. Since inception more than a decade ago, the Strategy has returned 6.5% per annum (p.a.), while the index return over this period was negative: -0.6% p.a.

Nigeria now accounts for approximately 25% of the index. The strong performance in Nigeria was one of the key drivers behind the relatively strong performance of the index. As we highlighted before, these index returns do not tell the full story. The official currency market remains frozen for foreign portfolio investors. Dual-listed, fungible shares remain the only way to repatriate money out of the country and, in our view, the exchange rate implied by these shares remains the most appropriate way to value the Nigerian in-country assets in the Strategy. We currently use the Newgold implied rate, which resulted in a rate of NGN 489/US\$ being used at the end of December. This is broadly in line with the parallel market rate, which was NGN 470/US\$ at the end of the year, but is a significant haircut compared to the official exchange rate which ended the year at NGN 398/US\$. An index is rules based and uses the official exchange rate, irrespective of whether investors can transact at that rate. We estimate that if the index valued the Nigerian assets the same way as we did, the index return would have been approximately -5% lower. On a like-for-like basis, the Strategy therefore outperformed the index during the year.

The largest contributor to performance, both for the quarter and for the full year, was Zimplats (a Zimbabwean platinum mine listed in Australia). Zimplats added 5.0% to performance in Q4-20 and added 3.7% to performance during 2020. The share price was up strongly on the back of higher precious metal prices, but, despite the share price move, the valuation remains extremely compelling. At current metal prices, Zimplats trades on a forward PE of just 2x. An investment in Zimplats is not without risk - for a government desperate for hard currency it could be tempting to try to access a larger portion of the US dollars generated by the company - but at these valuations there is a large margin of safety.

The foreign exchange situation in Zimbabwe has in fact improved significantly during the year. Zimbabwe introduced foreign exchange auctions in June 2020 and, over the past six months, the value traded in the auctions continued to improve. Since the auctions started almost \$600 million has traded in this market and the exchange rate has stabilised and basically remained flat during the last quarter. Liquidity is the best we have seen in years, but, given that liquidity is still low, we continue to value the Zimbabwean in-country assets by applying a liquidity discount to the official exchange rate.

Equities in Zimbabwe increased sharply in 2020 and the second- and third-largest contributors to performance for the year were also Zimbabwean companies (Econet Wireless and Delta Corporation). The valuations used in the Strategy for these companies remain well below what it would have been using the official exchange rate and if we valued the Zimbabwean assets using the official exchange rate at the end of December, the value of the Strategy as a whole would have been a further 3.9% higher.

The two largest detractors during the year were both bank banks. CFC Stanbic detracted -2.4% and QNB Al Ahli detracted -2.2% during 2020. The earnings of banks were impacted by the economic slowdown in 2020, which caused a slowdown in loan growth and a jump in provisions. However, for investors willing to take a longer-term view and look through the near-term challenges, both these banks offer incredible value. CFC Stanbic trades on 4x our assessment of earnings three years out, while QNB Al Ahli trades on just 3x the earnings we expect from this bank three years out.

Covid-19 continues to impact economies around the world, and while the vaccine rollout brings hope that the pandemic will soon be something of the past, the outlook for the new year remains uncertain. We believe our long-term valuation driven approach is as relevant as it has ever been. The valuations of high-quality companies we own in the Strategy are extremely attractive and by owning these businesses we believe investors will be rewarded. We wish you a prosperous 2021.