CORONATION

AFRICA FRONTIERS STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 30 JUNE 2020

CORONATION
TRUST IS EARNED™

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.	82.1%	11.2%	70.9%
Since Inception p.a.	5.2%	0.9%	4.3%
Latest 10 years p.a.	2.5%	0.9%	1.6%
Latest 5 years p.a.	(4.9)%	1.5%	(6.4)%
Latest 1 year	(17.6)%	1.6%	(19.2)%
Year to date	(21.1)%	0.5%	(21.7)%
Month	3.0%	0.0%	2.9%

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

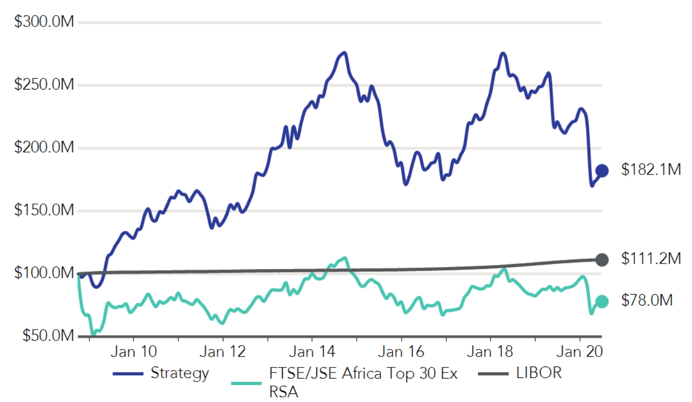
SECTOR EXPOSURE

Sector	% Strategy
Consumer Goods	27.6%
Financials	26.2%
Basic Materials	10.6%
Telecommunications	7.5%
Health Care	6.3%
Consumer Services	4.8%
Oil & Gas	3.5%
Metals	3.4%
Industrials	3.1%
Technology	0.8%
Utilities	0.7%
Interest Bearing	5.5%

GENERAL INFORMATION

Inception Date	01 October 2008
Strategy Size	$338.8 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

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	40.0%
Kenya	13.4%
Nigeria	11.7%
Zimbabwe	11.3%
Tanzania	4.4%
South Africa	2.8%
Botswana	2.3%
Ghana	2.0%
Senegal	2.0%
Uganda	0.7%
Zambia	0.3%
Namibia	0.2%
Other	3.4%
Interest Bearing	5.5%

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.

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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

After the incredibly tough start to the year, the last three months were far better for markets across Africa. During the second quarter of 2020 (Q2-20), the Strategy returned 5.0% in US dollars. Over the same period, the FTSE/JSE All Africa (ex-South Africa) 30 Index was up 12.9%. Since inception more than a decade ago, the Strategy returned 5.2% per annum (p.a.), while the index return over this period was negative: -2.1% p.a. The point we wish to make this quarter is that when it comes to indices, what you see is not what you get.

During the quarter, the Strategy's return was negatively impacted by our decision to mark down the Nigerian in-country assets (reducing returns by -2.9%). At the same time, Nigeria was also one of the big drivers behind the strong performance of the index over the past three months: the country makes up 19% of the index and, during the quarter, the Nigerian market[1] was up 14.7% in USD. However, these index returns do not tell the full story.

At the end of the first quarter of 2020, we wrote that we were extremely concerned about Nigeria and that we reduced the Nigerian exposure to the lowest level in the Strategy's history. Three months later, we are even more concerned. In March, we first started seeing material delays to the repatriation of money out of Nigeria and, during the last quarter, it has been largely impossible for foreign investors to get money out of the country. Liquidity in the 'Investors & Exporters' foreign exchange (forex) market reduced further, from an average of around $350 million per day during the first two months of the year to an average of only around $45 million per day over the last three months. The oil price recovered slightly to around $40/barrel, but, in our view, this was not the main driver behind the performance of the equity market. To a large extent, the performance was driven by investors, unable to repatriate, investing their trapped cash in equities. This is similar to what we are seeing in Zimbabwe, where the equity market is seen as a better store of value compared to the alternative of holding cash.

The unorthodox policies of the Nigerian central bank also continued over Q2-20. In June, the central bank took another NGN460 billion (more than $1 billion) from the banks through yet another cash reserve ratio (CRR) debit. The official CRR in Nigeria of 27.5% is already an outlier as one of the highest globally, but the recent debits mean that the actual CRR for the industry is now approaching a staggering 60% of Naira deposits. We met with multiple Nigerian banks to understand how these amounts were determined, but even to the banks the 'formula' is unclear. These unorthodox measures are all focused on maintaining currency stability, irrespective of the economic consequences, and raises the question of systemic risk in the banking sector.

The currency pressure is clearly visible. While the official exchange rate weakened slightly to around NGN 387 against the US dollar, the parallel market rates have moved to NGN 460, while dual-listed shares suggested an effective exchange rate of well above NGN 500 at the end of June. This statement suggests that there is an orderly unified exchange rate system. There remains a bewildering array of exchange rates and windows – a continued frustration. With the official currency market frozen for foreign portfolio investors, the only way to repatriate money is through dual-listed, fungible shares – with independent Nigerian oil and gas company Seplat the only realistic option. As a result, we decided to change the valuation approach for the Nigerian in-country assets during the quarter. The exchange rate used to value Nigerian in-country assets in the Strategy is now based on the Seplat implied rate and we use the 1-month average to reduce volatility. This negatively affected the Strategy's performance for the quarter by -2.9% and it is not surprising that Nigerian companies were some of the large detractors to performance. Stanbic IBTC was one of the largest detractors during the quarter, detracting -1.0%.

The Strategy's exposure to Nigeria is now much smaller than that of the FTSE/JSE All Africa (ex-South Africa) 30 Index and the majority of the Nigerian shares we do own are listed in London rather than Lagos. A benchmark like this is rules-based and simply includes the underlying shares at the official exchange rates irrespective of whether investors can transact at those rates. Over the past decade, we have seen a few instances where currency markets froze for a period of time. During these times, dual-listed shares and parallel market rates usually pointed to the true exchange rate being vastly different from the official exchange rate. Asset managers have often been proactive by reducing the values at which assets are carried in their funds to reflect the true value for an investor looking to exit that market, while benchmarks are usually last to change - often only reflecting the adjustment once the official exchange rate is finally forced to adjust. We estimate that, if the index made the same adjustment as we did during the quarter, the index return would have been approximately -7% lower during the quarter. As we opened with, what you see is not what you get.

In Zimbabwe, we have seen the country moving one step forward and two steps back. In June, a new foreign exchange auction was introduced. While liquidity is still relatively low, this is a very positive step towards a market-determined exchange rate. Unfortunately, the announcements to suspend trading on the stock market and to ban many types of mobile money transactions at the end of June left many people speechless. We have not changed the valuation approach for Zimbabwe because of the new forex auctions given that it is still very early days and liquidity is still very low. We continue to value the in-country assets in Zimbabwe using a realisable value approach. However, we are very encouraged by this development and if we valued these assets at the official exchange rate of ZWL 63.7 (the rate for the last action of the quarter), the value of the Strategy as a whole would have been approximately 10% higher.

[1] Nigerian Stock Exchange Main Board index

Zimplats (a Zimbabwean platinum mine, listed in Australia) continues to perform well despite the macroeconomic issues facing the country and was the largest contributor to performance, adding 2.2%. Centamin (an Egyptian gold mine) was the second-largest contributor, adding 1.1% to performance.

The past quarter's performance in Kenya (+3.0%) was relatively weak when compared to other African markets, but this must be seen in the context of a relatively strong performance in the previous quarter. Share prices in Kenya, and for Safaricom in particular, held up well during the global sell-off we saw in the first three months of the year. We used this as an opportunity to reduce the Kenyan exposure from 20% at the start of the quarter to 13.5% at the end of June. From a bottom-up perspective, valuations were no longer as attractive as many of the companies in other markets. In addition, many economists have been expecting some pressure on the currency for some time now, given how stable the shilling has been for years while running current account and fiscal deficits funded by external borrowings, which continue to grow. We do not try to call exactly what the currency will do, but we do think that Covid-19 likely increased the risks.

We continue to follow a bottom-up, valuation-driven approach when making investment decisions. Safaricom remains a very high-quality business, but at current valuations the margin of safety is extremely small and no longer justifies a large position in the Strategy. At the same time, there are a number of other companies in Kenya where valuations are incredibly attractive, and we continue to hold meaningful positions in these businesses on behalf of our clients. In Egypt, we also continue to see many high-quality businesses trading on very attractive valuations. We believe that owning these companies will provide superior risk-adjusted returns to our investors.