CORONATION FINANCIAL FUND

Fund Information as at 31 May 2020

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™

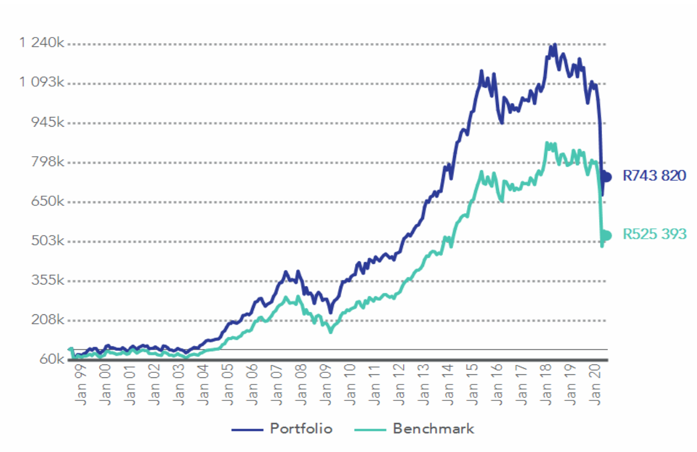
CLASS A as at 31 May 2020

Fund category	South African - Equity - Financial
Launch date	01 July 1998
Fund size	R171.30 million
NAV	3919.48 cents
Benchmark/Performance	FTSE/JSE Financial Index
Fee Hurdle	
Portfolio manager/s	Neill Young and Godwill Chahwahwa

	1 Year	3 Year
Total Expense Ratio	1.47%	1.47%
Fund management fee	1.25%	1.25%
Fund expenses	0.04%	0.04%
VAT	0.19%	0.18%
Transaction costs (inc. VAT)	0.17%	0.14%
Total Investment Charge	1.64%	1.61%

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)	643.8%	425.4%	218.4%
Since Launch (annualised)	9.6%	7.9%	1.7%
Latest 20 years (annualised)	10.5%	9.7%	0.7%
Latest 15 years (annualised)	9.0%	8.9%	0.2%
Latest 10 years (annualised)	6.4%	7.1%	(0.7)%
Latest 5 years (annualised)	(7.3)%	(6.1)%	(1.2)%
Latest 3 years (annualised)	(10.9)%	(10.4)%	(0.5)%
Latest 1 year	(34.9)%	(36.3)%	1.4%
Year to date	(31.6)%	(34.4)%	2.8%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	19.6%	20.9%
Sharpe Ratio	0.04	(0.05)
Maximum Gain	53.6%	80.4%
Maximum Drawdown	(45.4)%	(45.3)%
Positive Months	58.9%	59.7%

	Fund	Date Range
Highest annual return	63.0%	Aug 2004 - Jul 2005
Lowest annual return	(39.5%)	Apr 2019 - Mar 2020

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 May 2020
Domestic Assets	100.0%
Equities	93.7%
Financials	93.7%
Preference Shares & Other Securities	4.1%
Real Estate	1.6%
Cash	0.5%

TOP 10 HOLDINGS

As at 31 Mar 2020	% of Fund
RMB Holdings	17.4%
Standard Bank Of SA Ltd	12.0%
Quilter Plc	9.9%
Nedbank Ltd	6.4%
Discovery Holdings Ltd	5.9%
Sanlam Life Assurance Limited	5.0%
Reinet Investment Sca	4.9%
RMI Holdings	4.9%
Investec Limited	4.8%
Absa Bank Ltd	4.6%

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 2020	(5.0)%	(8.6)%	(28.4)%	13.2%	(2.8)%								(31.6)%
Fund 2019	3.3%	(0.2)%	(3.7)%	6.1%	(3.6)%	0.9%	(7.4)%	(4.5)%	4.4%	3.3%	(2.4)%	1.2%	(3.4)%
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)%

Issue date: 2020/06/09

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 first quarter of 2020 (Q1-20) marked the worst quarter for the JSE since 1998, and March the worst month since September 2008. This provides some context for the -37.8% returned by the fund for the quarter. While it is doubtless of little comfort to investors, this represented outperformance of the benchmark return of -39.5%. The performance of the last quarter has dragged the five-year return into negative territory, at -9% per annum (p.a.) and the ten-year annualised return to 5%. Benchmark returns over the same periods were -8% and 5.8%. Since inception, the fund has now delivered a compound annual return of 9.2%, ahead of the benchmark return of 7.5%.

The Covid-19 pandemic is, most importantly, a human tragedy that will touch us all in some way. Its impact on global economic activity has been heavily discounted across equity, fixed income, property and commodity markets around the world, and South Africa (SA) has been no exception. Our Chief Investment Officer Karl Leinberger has written at length on our thinking on its impact, as well as our approach to managing client funds in a crisis such as this. We don't intend to repeat those comments here, but instead refer you to the letter entitled 'Managing your capital through a time of crisis', available on our website. It does bear repeating, as we noted in our previous commentary, that in contrast to much of the developed world, SA has entered this crisis with an economy that is already in a parlous state, and a government that has limited tools at its disposal to mitigate its impact. The economic consequences of an as yet uncertain period of lockdown will therefore probably be felt that much more keenly and are likely to be longer lasting.

Unsurprisingly, the banks (-42.7%) and property stocks (-48.1%) performed most poorly, while the life insurers, although deeply negative, fared slightly better (-36.1%). To the extent that they don't receive support from governments, banks are the final stop when an economy stalls. When businesses are forced to cease operations, only those with strong balance sheets will be in a position to carry their cost bases for much more than a month or two in the absence of revenue generation. At some point, they will be forced into actions such as the cessation of rental payments, laying off staff, and rescheduling or defaulting on borrowings. This, in turn, has a ripple effect on those landlords and individuals who will similarly no longer be able to service their debts. Bank credit losses will rise and, given the heavily geared nature of bank balance sheets, this has the potential to impact significantly on earnings. This comes on top of an environment in which asset growth was already expected to be muted, interest margins under pressure, and non-interest revenue negatively impacted by weak levels of economic activity.

The South African Reserve Bank (SARB) has, thankfully, responded with a number of actions to alleviate some of the pressure on the banking system. It has acted to inject additional liquidity through various measures, including an element of quantitative easing. It has also provided guidance on how banks should provide for bad debts during a period of forbearance to customers, potentially alleviating some of the pressure on credit losses. In addition, it has relaxed liquidity and capital regulations, allowing the banks to operate at lower levels of both for a period of time, if necessary. These actions in combination should provide something of a cushion to the banks during this period of stress, but there is no doubt that a challenging time of uncertain duration lies ahead. The lack of certainty around the earnings outlook is reflected in severe declines in bank share prices (Nedbank, for example, lost 61% of its value in the quarter). However, it seems to us that the market is pricing in a scenario of capital raises by the sector. Given the highly uncertain environment in which we find ourselves, one cannot rule this out definitively. However, SA banks are well capitalised, and our work suggests that the probability of an event such as this is extremely low. This presents opportunities. Using Nedbank once again as an example illustrates the extent of pessimism: the share currently trades on 4 times 2019 reported earnings, a 13.7% historic dividend yield and 4.5 times our assessment of normal earnings in a post-Covid-19 world.

Contributors to fund performance relative to benchmark for the quarter were overweight positions in Quilter, Ninety One, Reinet, and Momentum Metropolitan Holdings, as well as not holding property stock Redefine. Detractors from performance were overweight positions in Nedbank, property stock Hammerson plc and EPE Capital Partners, an underweight in Sanlam, as well as the timing of purchases of Absa.

In March, Investec unbundled 55% of its 80% shareholding in the asset management business, now rebranded Ninety One. Management and staff own the remaining 20%. This is a business that we know and understand well, with an owner-manager culture similar to ours. Ninety One has evolved from a SA-based domestic manager into a genuinely global business, with close to 70% of assets sourced internationally. It has built a global distribution platform, consistently generated positive client cashflows, and has a strong performance track record. The business has a bias towards emerging market mandates, which should position it well for future flows, given the extent to which global asset pools are typically underweight emerging market cap weightings and benchmarks. While controlled by Investec, its attractive cashflows were typically trapped in the group, often to support the bank. But as a standalone business, the high dividend payout ratio will now pass directly to investors. While near-term earnings will be negatively impacted by the severe market declines experienced recently, the share trades on just less than 10.5 times our assessment of normal earnings, which we consider an attractive multiple for a high-quality business such as this. In addition to shares received in the unbundling, the fund subsequently acquired additional shares to take it up to a 4% holding.

During the quarter, we took advantage of some of the indiscriminate price action to increase holdings in what we consider to be high-quality businesses trading at attractive valuations, including Sanlam and Ninety One. We have continued to add to our holdings in Absa, as we now consider the risks in completing a successful separation from Barclays to be minimal and its efforts to rebuild its retail business are showing genuine signs of traction. To fund these purchases, we reduced the fund's holdings in Standard Bank, Old Mutual, FirstRand, Momentum Metropolitan Holdings, Hammerson and Discovery.

A very uncertain time lies ahead of us. The duration of the lockdown, and the likely drawn out return to normalcy, will determine just how severe the shock to our already fragile economy will be. The Moody's downgrade to junk at the end of the quarter, although widely anticipated, doesn't help. This is something that is exceptionally difficult to forecast with any conviction at this point in time. However, we need to remind ourselves that this will not last forever, and that normalcy (possibly a new normal) will return. Asset markets often present opportunities at times like these, and we continue to look for opportunities to invest in high-quality businesses at attractive prices, weighing risk against return, and with a strong focus on the long term.

Portfolio managers
Neill Young and Godwill Chahwahwa
as at 31 March 2020

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 2019 (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

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