CORONATION

DOMESTIC ABSOLUTE STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 30 SEPTEMBER 2021

CORONATION TRUST IS EARNED™

LONG TERM OBJECTIVE

The Coronation Domestic Absolute Strategy targets positive real returns with an overriding focus on limiting downside returns or portfolio losses. Therefore, capital preservation in real terms is equally important to return optimisation. The Strategy is managed in accordance with the limits of Regulation 28 of the Pension Funds Act.

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 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 cleanslate 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	Benchmark	Active Return
Since Inception (cumulative)	1,026.3%	185.8%	840.5%
Since Inception p.a.	13.2%	5.5%	7.7%
Latest 15 years p.a.	10.0%	5.6%	4.4%
Latest 10 years p.a.	8.2%	5.0%	3.2%
Latest 5 years p.a.	6.2%	4.4%	1.8%
Latest 3 years p.a.	7.4%	4.0%	3.4%
Latest 1 year	19.9%	4.9%	15.0%
Year to date	11.7%	4.5%	7.2%
Month	(1.4)%	0.2%	(1.6)%

ASSET ALLOCATION

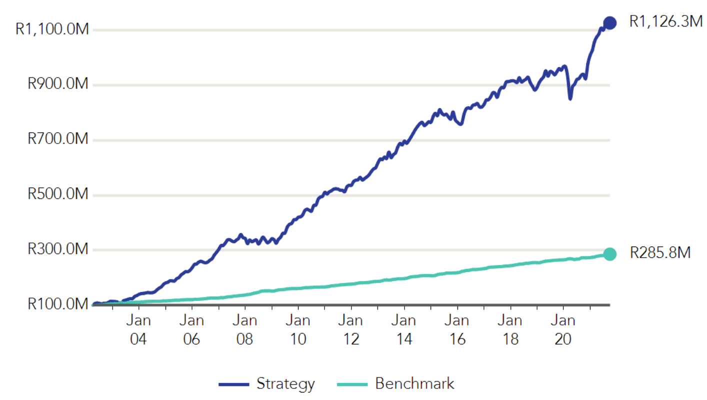
Asset Type	% Strategy
Equities	47.9%
Bonds	41.7%
Cash	3.4%
Property	2.9%
Hedge Funds	2.4%
Commodities	1.7%

GENERAL INFORMATION

Inception Date	01 April 2002
Strategy Size †	R5.81 billion
Strategy Status	Open
Mandate Benchmark	Consumer Price Index (CPI)
Performance Target	CPI + 4% (gross of fees and taxes) over a rolling 3 year period
Dealing Frequency	Daily
Base Currency	ZAR
Regulation 28	Yes

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

GROWTH OF R100M INVESTMENT



Benchmark: Consumer Price Index (CPI)

TOP 10 HOLDINGS

Holding	% Strategy
RSA FIX 6.250% 310336	6.5%
ANGLO AMERICAN PLC	4.6%
PROSUS	3.8%
STANDARD BANK OF SA ILB 5.500% 071223	3.6%
BRITISH AMERICAN TOBACCO PLC	3.5%
FIRSTRAND BANK LTD ILB 5.500% 071223	2.9%
FIRSTRAND LIMITED	2.8%
ABSA BANK LTD ILB 5.500% 071223	2.5%
RSA FIX 8.875% 280235	2.4%
RSA FIX 8.750% 310144	2.0%

MODIFIED DURATION*

Portfolio	2.0
Fixed Income Assets	4.4

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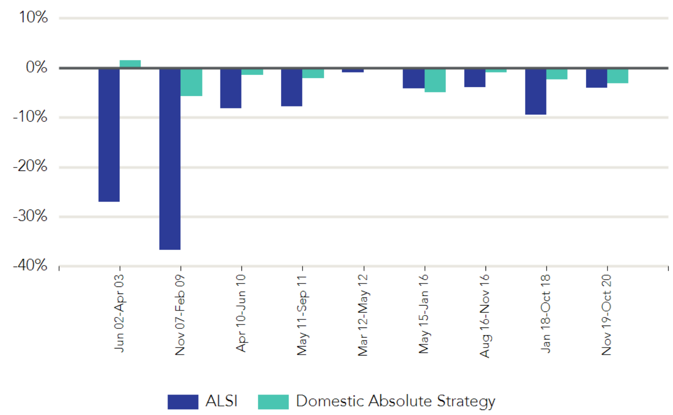
PERFORMANCE & RISK STATISTICS (Since inception)

Average Annual Return	13.5%
Annualised Standard Deviation	7.5%
Highest Monthly Return	7.5%
Lowest Monthly Return	(7.9)%
% Positive Months	70.1%
Downside Deviation	3.4%
Maximum Drawdown	(12.1)%
Sortino Ratio	1.5

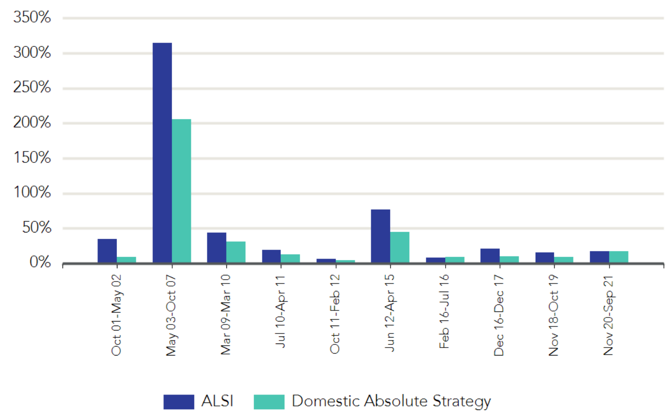
EFFECTIVE MATURITY PROFILE*

Term	% Strategy (incl. Cash)	% Strategy (excl. Cash)
0 to 1 year	5.1%	3.3%
1 to 3 years	10.7%	10.9%
3 to 7 years	10.7%	10.9%
7 to 12 years	6.2%	6.3%
Over 12 years	12.4%	12.6%

BEAR MARKETS



BULL MARKETS



In the bar graphs above, we have divided the period since inception of our Strategy into bull and bear markets. The Strategy's returns are measured against the FTSE/JSE All Share index. The bear market graph clearly demonstrates how the Strategy has protected capital; its losses were much more shallow than the market during downswings. As evident from the second graph, the Strategy also enjoyed healthy upside participation in bull markets.

PORTFOLIO MANAGERS

Charles de Kock - BCom (Hons), MCom

Charles is co-head of the Absolute Return investment unit and a portfolio manager across all strategies within the unit. He also co-manages the Coronation Balanced Defensive and Capital Plus unit trust funds. With more than 30 years' investment experience, he plays a leadership role in the asset allocation process.

Pallavi Ambekar - BBusSc, CA (SA), CFA

Pallavi is co-head of Absolute Return investment unit and a portfolio manager across all strategies in the unit. She co-manages the Coronation Balanced Defensive and Capital Plus unit trust funds. With 18 years' investment experience, she also has research responsibility for certain large capitalisation shares listed on the JSE.

Neill Young - BBusSc, CA (SA), CFA

Neill joined Coronation in 1998 and is co-manager of the Coronation Absolute Return Strategies. He also co-manages the Coronation Financial unit trust fund and has research responsibilities that extend to the banking sector as well as a number of financial stocks. Neill has 23 years' investment experience.

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* For SA Fixed Income investments only. Excludes equities, property and preference shares.

REVIEW FOR THE QUARTER

Covid-19 continues to impact on the global economy. Despite increasing vaccination rates, there was a resurgence in infections in many countries resulting in ongoing lockdowns. In July, South Africa (SA) was particularly hard hit with a third wave and a return to level 4 lockdown. While restrictions were not as draconian as the first wave, several sectors continue to be impacted, particularly those exposed to hospitality and tourism. 32% of the adult population has now received at least one dose of either the J&J or Pfizer vaccine. While there is broad consensus that we will see a fourth wave towards the end of the year, the hope is that sufficient vaccines will be administered to mitigate the need for a return to stringent lockdowns. In addition, it looks likely that SA will once again be open to several key international tourist markets, which will provide a sorely needed boost to the domestic economy.

We highlighted some of the recent positive domestic political developments in our June commentary. This narrative has faded somewhat, and much of the goodwill that was starting to build was undone by the riots and looting that occurred in KZN and parts of Gauteng in the first two weeks of July. Consumer confidence undoubtedly took a knock, but the accumulation in personal savings by those still employed will probably be used sooner or later. More importantly, though, these incidents have further dented already low levels of business confidence and will put the brakes on sorely needed direct investment by both domestic and international corporates. The incident has also increased the longer-term risk of losing skills due to emigration, something this country can ill-afford.

Despite this, the domestic equity market managed to eke out a positive return of 3% (Capped SWIX) for the quarter, lifting the one-year return to 30% (still off a low base.) Much of the quarter's performance was driven by financial stocks, with both banks and life insurers delivering double-digit returns. The resources sector was the laggard, returning -4%, largely driven by the platinum group metals (PGM) stocks. After three years of almost uninterrupted upward travel, the rand PGM basket retreated by 21% during the quarter, something worth noting given the contribution this sector has made to both terms of trade and tax collection in previous quarters. The All Bond Index was up 40 basis points (bps) for the quarter and 12% over the past year, while the rand weakened 5% against the US dollar but is still 10% stronger than it was a year ago. Returns from global equity markets were weaker – the MSCI All Country World Index returned -1% for the quarter, although it is still up 27% over the past year.

Globally inflation is starting to rise, driven by higher energy prices, disruptions to supply chains and labour shortages in certain areas. The debate continues as to whether this is structural or simply a temporary phenomenon as the world gradually returns to normalcy. What is clear is that the extremely accommodative stance of central banks is likely to start winding down – the US Federal Reserve has indicated that it is likely to begin to taper its asset purchase program, for example, and long bond rates have risen as a result. Also noteworthy during the quarter is the regulatory crackdown on the Chinese technology sector. This forms part of Xi Jinping's "common prosperity" drive and has completely eroded the profit pool in the edtech (education technology) industry and curtailed others to varying degrees, including online gaming. In truth, much of the regulation aligns China with what many western governments are trying to do with their own technology industries, and one would ultimately expect the country to champion a sector consisting of world-class businesses. But this is China, and it is extremely difficult to know with certainty what the end game is likely to be and which sectors will receive attention, with property and healthcare the most obvious).

Amidst this uncertainty, the Strategy delivered a return of approximately 2.4% for the quarter and just over 20% for the year which is significantly above its inflation target. Over the past 12 months, the allocation to SA equity has been the biggest contributor to the Strategy's returns given its large exposure to this asset class, followed by its holding in domestic bonds. Within equities, Altron, Anglo American, FirstRand, MTN and Richemont were the biggest contributors to the Strategy's return, while British American Tobacco, gold shares and Naspers were all small detractors.

After a very strong performance since building a meaningful position a year ago, we sold the Strategy's entire holding in Richemont. Our change in view stems from the fact that the company derives approximately 40% of its revenues from the Chinese consumer. The move to common prosperity has uncertain implications for luxury goods purchases in China, but they are unlikely to be positive. Despite owning several highly desirable heritage brands that should command a high multiple, at R180, the company's stock traded on 25x two-year forward earnings, leaving an insufficient margin of safety given the uncertain longer-term outlook, and we exited the position.

SA equities offer attractive value, particularly the global businesses that happen to be listed here. For this reason, our allocation to this asset class is relatively high. Domestic bonds continue to offer very attractive real yields, but one needs to be mindful of longer-term fiscal pressures that could impact returns.

The Strategy has delivered a resilient performance over the last year, comfortably meeting its mandate, despite uncertainty remaining high. This has been achieved by having a considered mix of income and growth assets and a judicious approach to instrument selection. We think the Strategy remains capable of delivering on its mandate over the medium term.