

LONG TERM OBJECTIVE

The Coronation Core Equity Strategy is our benchmark cognisant offering within our equity product range. The Strategy is constructed with reference to a benchmark, and seeks 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 with reference to a benchmark based on the relative risk-adjusted upside to fair value of each underlying security.

STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	1,410.9%	1,047.9%	363.0%
Since Inception p.a.	15.5%	13.8%	1.7%
Latest 15 years p.a.	11.0%	9.2%	1.8%
Latest 10 years p.a.	9.3%	8.5%	0.8%
Latest 5 years p.a.	5.5%	4.9%	0.6%
Latest 1 year	4.4%	4.4%	0.0%
Year to date	4.4%	4.4%	0.0%
Month	(2.8)%	(2.8)%	0.0%

TOP 10 HOLDINGS

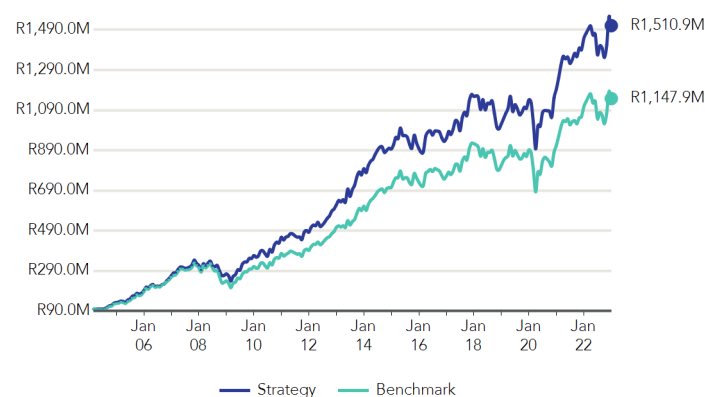
Holding	% Strategy
PROSUS	7.6%
ANGLO AMERICAN PLC	7.1%
NASPERS LIMITED	7.0%
STANDARD BANK GROUP LTD	5.9%
FIRSTRAND LIMITED	5.7%
BRITISH AMERICAN TOBACCO PLC	5.6%
COMPAGNIE FINANCIERE RICHEMONT SA	5.5%
MTN GROUP LIMITED	4.6%
GLENCORE PLC	4.5%
WOOLWORTHS HOLDINGS LIMITED	3.5%

GENERAL INFORMATION

Inception Date	01 March 2004
Strategy Size *	R9.67 billion
Strategy Status	Open
Mandate Benchmark	JSE Capped Shareholder Weighted Index (Capped SWIX*)
Dealing Frequency	Daily
Base Currency	ZAR

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

GROWTH OF R100M INVESTMENT



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

*FTSE/JSE Capped Shareholder Weighted Index from 01 April 2022. Previously FTSE/JSE Africa Shareholder Weighted Index, excluding real estate (inception to 30 November 2006) and FTSE/JSE Africa Shareholder Weighted Index (01 December 2006 to 31 March 2022).

PERFORMANCE & RISK STATISTICS (Since inception)

	Strategy	Benchmark
Average Annual Return	16.7%	15.0%
Tracking Error	2.9%	
Information Ratio	0.6	
Annualised Standard Deviation	14.3%	14.6%
Maximum Drawdown	(30.1)%	(37.0)%

TRACKING ERROR



SECTOR EXPOSURE

Sector	% Strategy	Sector	% Strategy
Basic Materials	28.5%	Telecommunications	4.6%
Financials	21.7%	Health Care	2.2%
Technology	14.6%	Industrials	0.5%
Consumer Services	14.1%	Interest Bearing	0.6%
Consumer Goods	13.2%		

PORTFOLIO MANAGER



Quinton Ivan - BBusSc, Bcom (Hons), CA (SA), CFA

Quinton is head of Coronation's Core Equity Strategy. He also co-manages the Presidio Hedge Fund. Quinton has 17 years of investment experience.

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REVIEW FOR THE QUARTER

The Strategy outperformed its benchmark over the last year as well as over more meaningful longer-term periods.

2022 was a year of broad weakness across asset classes. Markets retreated off their January highs in the face of high inflation, rising interest rates and slowing growth. The MSCI All Country World Index (ACWI) ended the year -18% (after strengthening +10% in Q4-22). Europe has been particularly hard hit by rocketing energy prices. A recession is widely forecast across Europe and for the US in 2023.

Geopolitical tensions remained high throughout 2022. Almost a year after Russia's surprising invasion of Ukraine, the outcome remains uncertain. Escalation by a desperate Russia remains a risk. NATO and the European Union have emerged more united in the face of an increasingly polarised world order. China stuck doggedly to its zero-Covid policy for most of 2022, constraining mobility and economic growth. A sudden easing of Covid restrictions in the final weeks of 2022 should support economic growth in the year ahead, albeit raging infections in a population with limited immunity are a threat. The risks of investing in China remain heightened. President Xi Jinping tightened his control further in 2022: centralising power and decision making, enhancing state overview of everyday life, and increasing interference in the economy.

Having rebounded off its Covid lows, the South African (SA) economy continues to struggle with low growth. Aging underinvested infrastructure and poorly run state entities hamstringing the economy. High levels of power outages render Eskom unable to increase planned maintenance sufficiently to bring down the high levels of loadshedding experienced during the second half of 2022. The resignations of Eskom's CEO and COO during Q4-22 add further uncertainty. The Phala Phala fiasco was a reminder of just how fragile the political situation is. The rand weakened on the back of this but then recovered on the more positive outcomes of December's ANC elective conference to end the year -6% versus the USD. President Cyril Ramaphosa's re-election, alongside several of his allies, should enable ongoing, albeit slow, reform.

In US dollar terms, the FTSE/JSE Capped SWIX Index outperformed the global benchmark to end the year -4% versus -18% for MSCI ACWI. When measured in local currency terms, the Capped SWIX returns were up +4% for the year and +12% for Q4-22. We believe SA equities are cheap and offer broad value across resources, global stocks listed on the JSE, and domestics.

The resource sector rose +9% for the year, helped by a strong Q4-22 (+16%). Energy prices spiked earlier in the year in the face of Russia's invasion of Ukraine, with a broader surge in commodities in Q4-22 as markets anticipated strong demand into 2023 on the back of China's reopening. We expect energy markets to be tight over the medium term as demand remains robust during the transition to lower carbon energy sources and due to the lack of investment in new capacity over the last few years constraining supply. The Strategy owns Sasol and Exxaro, both of which are expected to benefit from elevated cash flows which will support high levels of dividends.

Despite slowing global growth into 2023, we expect broader commodity prices to remain resilient as constrained capital expenditure from major diversified miners since 2015 keeps markets tight. We hold positions in diversified miners such as Glencore and Anglo American. Both offer attractive free cash flow streams, even at more normal commodity prices. The Strategy is under-weight PGMs, preferring diversified miners and the energy plays.

The Financials Index returned +7% for the year and +13% for the quarter. The banks (+18% for the year, 15% for the quarter) continued their strong earnings recovery and are all expected to have surpassed their pre-Covid earnings during 2022. While costs and credit losses are normalising off low bases, good revenue growth (advances and rising interest rates) enabled the banks to deliver healthy profit growth. Given reasonable balance sheets strength, corporate and retail clients are expected to withstand interest rate hikes. The Portfolio has reasonable exposure to the banks via FirstRand, Standard Bank, and Nedbank.

Life insurers underperformed their bank counterparts (-13% for the year, +4% Q4-22) as they faced Covid-inflated mortality claims, weak equity markets, low growth, and competitive pricing in risk insurance. OUTsurance (+9%) and Transaction Capital (TCP) (+9%) are sizeable holdings which we expect to continue growing robustly.

The Industrials Index returned -4% for the year but was up strongly in Q4-22 (+16%) as major constituents Naspers and Prosus delivered a whopping +25% and +24% respectively in the final quarter of 2022.

China stocks have experienced a volatile year – declining as political risk was perceived to be increasing and then rebounding as the economic outlook improved due to Covid restrictions easing. The large Tencent holding in Naspers/Prosus was similarly impacted. In addition, Naspers/Prosus have created value at the holding company level through an accretive buyback programme. The discount narrowed by a third in recognition of both the value this transaction creates and the positive message it sends about management's commitment to narrow the discount through optimal capital allocation.

Domestic stocks continue to offer attractive stock picking opportunities. Many trade on high dividend yields too. The JSE has seen several buyouts by international bidders in the last few years, underpinning the value on offer. 2022 was no exception, with Mediclinic and Massmart receiving buy-out offers. Our emphasis within the Portfolio has been on finding businesses that can prosper even in a low-growth economy. Managers in these businesses are investing behind their expanding franchises, taking market share, and strengthening their moats.

The Portfolio continues to hold several global businesses listed in SA that we believe offer considerable value. Examples include Richemont, British American Tobacco, Bidcorp, and Anheuser-Busch InBev (ANH). Near-term inflationary pressures have weighed on ANH's share price, but its long-term prospects remain solid. ANH has leading market positions, strong brands, scale benefits, healthy margins, and strong free cash flow conversion.

While headwinds exist in both global and domestic markets, we believe SA equities are well priced for the risks and offer attractive opportunities to stock pickers.