

LONG TERM OBJECTIVE

The Coronation Domestic Houseview Strategy is a clean slate fully discretionary portfolio, which represents our best investment view for a domestic balanced portfolio in all major domestic asset classes – equities, property, bonds and cash. The Strategy's objective is to deliver the best risk-adjusted returns available across all the listed asset classes. In achieving this it aims to outperform the benchmark 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. The Portfolio is constructed on a clean-slate basis based on the relative risk-adjusted upside to fair value of each underlying asset. 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 the probability of a permanent loss of capital.

STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	2,796.0%	1,597.5%	1,198.5%
Since Inception p.a.	14.4%	12.0%	2.4%
Latest 20 years p.a.	14.9%	12.3%	2.6%
Latest 15 years p.a.	10.8%	9.0%	1.8%
Latest 10 years p.a.	9.7%	8.1%	1.6%
Latest 5 years p.a.	8.2%	6.1%	2.1%
Latest 1 year	4.8%	4.9%	(0.1)%
Year to date	4.8%	4.9%	(0.1)%
Month	(1.6)%	(1.6)%	0.0%

PERFORMANCE & RISK STATISTICS (Since inception)

	Strategy	Benchmark
Annualised Standard Deviation	12.8%	12.5%
Maximum Drawdown	(29.9)%	(32.3)%

ASSET ALLOCATION

Asset Type	% Strategy
Equities	74.2%
Bonds	20.6%
Property	2.9%
Cash	1.3%
Hedge Funds	1.0%

GENERAL INFORMATION

Inception Date	01 January 1998
Strategy Size †	R16.90 billion
Strategy Status	Open
Mandate Benchmark	65% FTSE/JSE Africa Capped Shareholder Weighted Index (Capped SWIX); 25% JSE ASSA All Bond Index (ALBI) and 10% Short Term Fixed Interest 3-month Index (STeFI 3m)
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: 65% FTSE/JSE Africa Capped Shareholder Weighted Index (Capped SWIX); 25% JSE ASSA All Bond Index (ALBI) and 10% Short Term Fixed Interest 3-month Index (STeFI 3m)

TOP 10 HOLDINGS

Holding	% Strategy
RSA FIX 9.000% 310140	10.0%
PROSUS	7.1%
STANDARD BANK GROUP LTD	6.1%
ANGLO AMERICAN PLC	5.6%
ANHEUSER-BUSCH INBEV SA/NV	3.8%
COMPAGNIE FINANCIERE RICHEMONT SA	3.3%
NASPERS LIMITED	3.2%
FIRSTRAND LIMITED	2.8%
SASOL LIMITED	2.7%
GLENCORE PLC	2.6%

EFFECTIVE MATURITY PROFILE*

Term	% Strategy (incl. Cash)	% Strategy (excl. Cash)
0 to 1 year	1.3%	2.2%
1 to 3 years	0.0%	0.0%
3 to 7 years	1.4%	1.4%
7 to 12 years	3.4%	3.4%
Over 12 years	15.7%	15.6%

MODIFIED DURATION*

Portfolio	1.4
Fixed Income Assets	6.5

PORTFOLIO MANAGERS



Karl Leinberger - BBusSc, CA (SA), CFA

Karl is Chief Investment Officer (CIO) and manager of Coronation's Houseview strategies. He joined Coronation in 2000 as an equity analyst, was made Head of Research in 2005 and became CIO in 2008. Karl has 22 years' investment experience.



Sarah-Jane Alexander - BBusSc, CFA

Sarah-Jane manages assets within the Coronation Houseview Equity Strategy. She also co-manages Coronation's Houseview balanced strategies and has research responsibilities across a range of financial services and hospital stocks, among others. Sarah-Jane joined Coronation in 2008 as an equity analyst and has 18 years' investment experience.

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

REVIEW FOR THE QUARTER

The Strategy returned 10.1% for the quarter, resulting in a return of 4.8% over the last year. The Strategy has performed well against its peer group over all meaningful time 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 the fourth quarter [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 continues to be 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. However, notwithstanding the Q4-22 rebound (MSCI China +14% in USD), assets remain cheap (FY decline -22%). Many good businesses with strong growth prospects and healthy balance sheets trade on low multiples. Strategy holdings include names like Naspers/Prosus.

Having rebounded off its Covid lows, the SA economy continues to struggle with low growth. Ageing, 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 -6.4% versus the USD. President Cyril Ramaphosa's re-election, alongside several of his allies should enable ongoing, albeit slow, reform. We believe the attractive real yields at which SA bonds trade (relative to emerging market peers and cash alternatives) offer a sufficient margin of safety to merit their inclusion in the portfolio. The JSE All Bond Index delivered a return of +4% for the year (+6% for the quarter).

In US dollar terms, the FTSE/JSE Capped Shareholder Weighted Index (SWIX) outperformed the global benchmark to end the year -4% versus -18% for the MSCI ACWI. When measured in local currency terms, the Capped SWIX returns were up +4% for the year and +12% for the quarter. We believe SA equities are cheap and continue to deserve a place in our portfolios alongside global equities. They 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 2022 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. We have diversified our energy holdings across a broader basket of local (Sasol and Exxaro) and global names to reduce company-specific risk. All are expected to benefit from elevated cash flows that will support high levels of dividends and buybacks. 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 started the year with a sizeable holding in gold equities which was sold down in Q1-22 as gold stocks outperformed. The Strategy is underweight both gold and PGMs today, preferring diversified miners and the energy plays.

The Financials Index returned +7% for 2022 and +13% for Q4-22. 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 rates) enabled the banks to deliver healthy profit growth. The portfolio has reasonable exposure to the banks via FirstRand, Standard Bank, and more recently Absa. Absa has shown strong growth off its pre-Covid earnings base, driven by market share gains and good operating leverage. While the share price has risen, multiples remain low in absolute terms and versus the other banks. With board and management succession issues resolved, and the Barclays separation complete, we expect Absa to continue delivering against its long-term targets. Life insurers underperformed their bank counterparts (-13% for 2022, +4% for Q4-22) as they faced Covid-inflated mortality claims, weak equity markets, low growth, and competitive pricing in risk insurance. The Strategy does not own the life insurers, preferring positions in the banks and other financials.

OUTsurance (+9%), Transaction Capital (+9%) and PSG Konsult (+14%) are sizeable holdings in the portfolio. All are expected 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 the easing of Covid restrictions. 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 buyout 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. Examples include ADvTECH, Dis-Chem and Motus.

The portfolio continues to hold several global businesses listed in SA, all of which are attractive versus global peers. Examples include Richemont, British American Tobacco, Bidcorp, and an increased holding in Anheuser-Busch InBev (ANH) built up in Q4-22. 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.

Having entered 2022 with limited exposure to global assets, we used the sell-off to increase our global holdings. A diversified portfolio of global equity, supplemented with some global credit should provide attractive risk-return benefits. While headwinds exist in both global and domestic markets, we believe growth assets are well priced for the risks and offer attractive returns off these low starting prices.