

LONG TERM OBJECTIVE

The Coronation Medical 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 Annexure B of Regulation 30 of the Medical Schemes 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)	637.7%	172.1%	465.6%
Since Inception p.a.	11.3%	5.5%	5.8%
Latest 15 years p.a.	8.9%	5.6%	3.3%
Latest 10 years p.a.	7.2%	5.2%	2.0%
Latest 5 years p.a.	7.0%	4.9%	2.1%
Latest 3 years p.a.	9.0%	5.3%	3.7%
Latest 1 year	5.1%	7.1%	(2.0)%
Year to date	5.1%	7.1%	(2.0)%
Month	(0.2)%	0.3%	(0.5)%

ASSET ALLOCATION

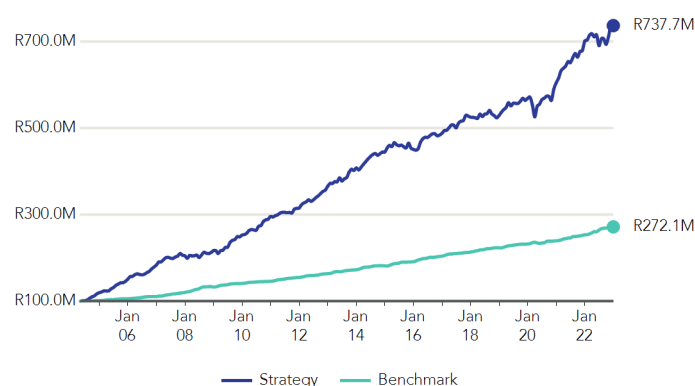
Asset Type	% Strategy
Local Equities	37.6%
Local Bonds	37.3%
Cash	17.5%
Foreign Bonds	4.1%
Local Commodities	1.8%
Local Property	1.7%

GENERAL INFORMATION

Inception Date	01 May 2004
Strategy Size †	R1.48 billion
Strategy Status	Open
Mandate Benchmark	Consumer Price Index (CPI)
Performance Target	CPI + 3% (gross of fees and taxes) over a rolling 3 year period
Dealing Frequency	Daily
Base Currency	ZAR
Regulation 30	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
ABSA BANK LTD FIX 8.175% 131123	4.7%
STANDARD BANK OF SA FIX 8.250% 101123	4.6%
NEDBANK LTD FIX 8.200% 101123	4.6%
RSA FIX 8.250% 310332	3.5%
RSA FIX 8.000% 310130	3.5%
PROSUS	3.0%
RSA FIX 6.250% 310336	2.9%
BRITISH AMERICAN TOBACCO PLC	2.7%
ANGLO AMERICAN PLC	2.4%
COMPAGNIE FINANCIERE RICHEMONT SA	2.3%

MODIFIED DURATION*

Portfolio	1.9
Fixed Income Assets	3.5

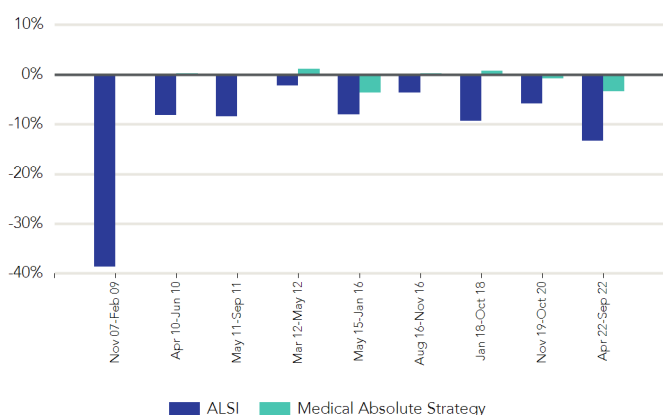
PERFORMANCE & RISK STATISTICS (Since inception)

Average Annual Return	11.5%
Annualised Standard Deviation	5.4%
Highest Monthly Return	4.9%
Lowest Monthly Return	(5.1)%
% Positive Months	71.9%
Downside Deviation	2.3%
Maximum Drawdown	(7.9)%
Sortino Ratio	1.9

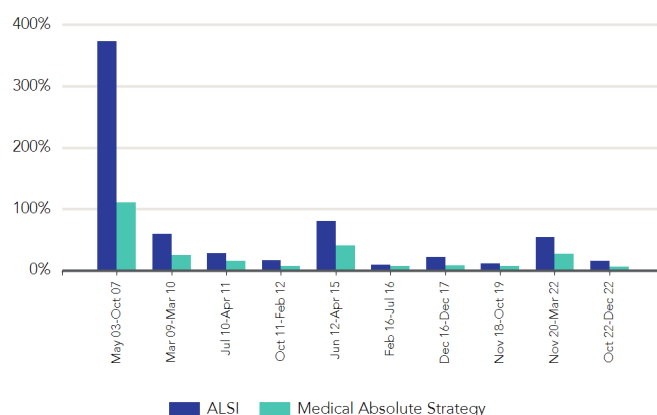
EFFECTIVE MATURITY PROFILE*

Term	% Strategy (incl. Cash)	% Strategy (excl. Cash)
0 to 1 year	24.9%	29.3%
1 to 3 years	8.3%	7.9%
3 to 7 years	4.8%	4.5%
7 to 12 years	11.2%	10.6%
Over 12 years	5.1%	4.8%

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



Pallavi Ambekar - BBusSc, CA (SA), CFA

Pallavi is Head of Absolute Return at Coronation and a portfolio manager across all strategies in this unit. She also has research responsibility for certain large capitalization shares listed on the JSE. She has 19 years' investment experience.



Charles de Kock - BCom (Hons), MCom

Charles joined Coronation in 2005 and is a co-portfolio manager across all strategies within the Absolute Return investment unit. He also co-manages the Coronation Balanced Defensive and Capital Plus unit trust funds. Charles has more than 35 years' investment experience.



Neill Young - BBusSc, CA (SA), CFA

Neill joined Coronation in 1998 and co-manages Coronation's Absolute Return Strategies as well as the Coronation Financial, Balanced Defensive and Capital Plus unit trust funds. Neill has more than 24 years' investment experience.

REGULATORY DISCLOSURE AND DISCLAIMER

The content of this document and any information provided may be of a general nature and is not based on any analysis of the investment objectives, financial situation or particular needs of any potential investor. As a result, there may be limitations as to the appropriateness of any information given. It is therefore recommended that any potential investor first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the potential investor prior to acting upon such information and to consider whether any recommendation is appropriate considering the potential investor's own objectives and particular needs. Neither Coronation Fund Managers Limited nor any subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. Any opinions, statements or information contained herein may change and are expressed in good faith. Coronation does not undertake to advise any person if such opinions, statements or information should change or become inaccurate. This document is for information purposes only and does not constitute or form part of any offer to the public to issue or sell, or any solicitation of any offer to subscribe for or purchase an investment, nor shall it or the fact of its distribution form the basis of, or be relied upon in connection with any contract for investment. The value of the investments may go down as well as up and past performance is not necessarily a guide to future performance. Coronation Fund Managers Limited is a full member of the Association for Savings and Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers. Coronation Life Assurance Company Limited is a licenced insurer under the Insurance Act, No.18 of 2017.

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

REVIEW FOR THE QUARTER

2022 was a relentless year. Global markets had to navigate a land war, an inflation shock, unexpectedly steep monetary tightening, and heightened geopolitical tensions all while economies were still emerging from or dealing with the Covid crisis. These events resulted in poor US dollar returns from most asset classes, with many struggling to beat inflation or to deliver a positive performance. In US\$ terms, the MSCI All Country World Index came in with a negative 18.4% return for the year, the MSCI Emerging Markets Index was down 20.1% and the World Government Bond Index was down 18.3%.

In South Africa (SA), investors fared slightly better, assisted by a 6.4% weakening of the rand against the US dollar. In rand terms, the domestic FTSE/JSE Capped Shareholder Weighted Index was up 4.4% for the year, followed closely by the FTSE/JSE All Bond Index (ALBI), up 4.3%. Listed property came in with marginally positive returns. Overall, no asset class delivered returns in excess of SA inflation, which is itself elevated at 7.1%, but below levels currently experienced in most developed markets. Against this backdrop, the Strategy delivered a 5.1% return for the year aided by a very strong 4th quarter.

Domestic assets have contributed positively to Strategy performance over the past 12 months, with the exposure taken primarily through equities and bonds. Good equity and bond selection delivered returns ahead of their respective indices. Within domestic equities, defensive holdings in British American Tobacco; commodity holdings in Glencore, Exxaro and Anglo American; and domestic bank holdings (Nedbank, Standard Bank, FirstRand) were the largest contributors to returns, while holdings in Quilter, Anglo Gold, MTN and Spar detracted.

Naspers/Prosus bounced very nicely in Q4-22. While Prosus was “only” up 24% for the quarter, it is up 83% from its low in October to the time of writing. Extremely weak sentiment has been improving as Chinese President Xi Jinping spoke about the importance of a healthy Chinese tech sector. The Chinese government announcing the softening of their zero-Covid stance is also expected to buoy consumer demand and Chinese economic activity in general. Finally, Prosus/Naspers’s aggressive share buyback campaign is starting to benefit intrinsic value per share, as they buy back their shares at a discount to its underlying value.

Within domestic fixed income, the biggest contribution came from holdings in inflation-linked bonds. We continue to see real yields on offer from SA government bonds as attractive, notwithstanding the structural challenges faced by the domestic economy. Risk is managed by keeping the duration of the Strategy’s bond carve-out lower than that of the ALBI but at a real yield that remains compelling.

Domestic stocks continue to offer attractive stock picking opportunities, with their low starting expectations and undemanding valuations. Many trade on high dividend yields too. Our emphasis within the portfolio has been on finding businesses that can prosper even in a low-growth economy. The banks feature here as their earnings have benefited from interest rate hikes, with higher interest earned on capital and lazy deposits. Strong capital positions leave them well placed to release provisions when the credit cycle turns. We increased the Absa exposure in the Strategy during the quarter. 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.

Looking forward, we expect the influence of some of the key drivers of markets in 2022 to continue into 2023:

- Although inflation remains elevated, a combination of loosening supply chains, lower energy prices and moderating household rents means that it is likely that inflation has peaked and will start rolling over. This implies that the interest rate response from central banks is nearing completion, although the timing of a potential “pause” and “pivot” remains uncertain.
- The key concern for the year ahead remains the growth outlook of key economies. Europe and the US will face a recession because of the adoption of more restrictive monetary policies. Emerging markets, however, are well placed to show relatively faster growth as they start to come out from a rate hiking cycle sooner than developed markets. China’s surprise emergence from stringent Covid lockdowns towards the end of the year means that their growth prospects have also brightened.
- Geopolitical risks will remain elevated as the war in Ukraine continues. This will impact investor positioning and sentiment, but the de-rating in global asset prices seen last year has resulted in more palatable starting valuations.
- An immediate impact of the war was felt last year through a spike in energy prices. Towards the end of the year, we saw these prices moderate due to warmer weather and the impact of demand destruction. We expect medium-term energy prices to be supported at relatively elevated levels as years of under-investment in oil and coal constrain growth in supply.
- Domestically, we continue to see muted economic growth as rapid deterioration in rail and power infrastructure presents real headwinds to our industrial, retail and export businesses. Lack of adequate fixed investment spend and proper policy reform means that these problems will be difficult to address quickly. Low economic growth will impact the earnings power of domestic-facing businesses but also has implications for the government’s ability to manage its debt burden.

The above list is not comprehensive and shows that many of the issues faced last year remain unresolved as we enter the new year. The Strategy will continue to stick to its process of making asset allocation and instrument selection decisions based on valuations while being mindful of managing downside risks through diversification and purchasing protection. We continue to think a full equity allocation is appropriate, as we see significant value in our selection. A portion of our equity exposure remains under put protection. We have also balanced the risk asset exposure with a healthy fixed income allocation where we can still achieve attractive real yields.

While the past year was challenging to navigate, we have seen before that crisis periods throw out compelling investment opportunities. We have a proven investment philosophy and process that allows us to take advantage of these opportunities to generate long-term wealth for clients. We think the portfolio remains resilient despite a highly uncertain outlook and that the Strategy is also well set up to deliver on its targeted returns for clients.