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The Personal Investments Quarterly

Turning points

CORONATION

TRUST IS EARNED™

JANUARY 2020 SUMMER EDITION

OUR CLIENT CHARTER

Our commitment to you

We strive to always put our clients first

We have an unwavering commitment to the long term

We focus on producing top performance over all meaningful periods

We are uncompromising about ethics

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On the cover: To herald the turning of the decade, we take a look at the world from a broad perspective as the impact of geopolitics is being felt in both global economic policy and the markets. That said, while cognisant of these events and their impact on sectors and regions, we remain committed to our bottom-up, valuation-driven investment approach.

Notes from my inbox

"Trust is undeniably linked to doing what is right. Ethical drivers such as integrity, dependability and purpose drive the trust capital of business."
– 2020 Edelman Trust Barometer

By **PIETER KOEKEMOER**

Pieter is Head of Personal Investments

MANY HAPPY RETURNS!

2019 brought much-needed relief for our investors. Returns across most asset classes were ahead or in line with the expected outcomes and our funds benefited from strong outperformance by our equity picks across local, emerging and developed markets. Coronation Top 20 (+15.9%; 5.4% ahead of benchmark), Coronation Global Emerging Markets (+31.3%; 15.8% ahead of benchmark), and Coronation Global Equity Select (+33.9%; 10.4% ahead of benchmark) all had exceptional years. Our multi-asset funds exceeded or matched their long-term real return objectives, with Coronation Balanced Plus, Coronation Capital Plus and Coronation Balanced Defensive beating inflation by 8.7%, 5.1% and 5.4%, respectively. While these pleasing outcomes were enough to ensure that returns for the past decade created real wealth, our local funds' medium-term returns are still somewhat weaker than we would like them to be. We remain confident that enough attractive opportunities are available today to expect good returns from our funds over the next decade. You can read more about the performance and positioning of specific funds in the summary on page 29 or via the detailed fund commentaries available on our website.

TRUST DEFICIT

Communications firm Edelman recently released their trust barometer. They make the point that trust is granted on two distinct attributes: competence (delivering on your promises) and

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ethical behaviour (doing the right thing and working to improve society). Globally, their survey respondents perceived business as competent but not ethical, NGOs as ethical but not competent, and the media and government as both unethical and incompetent. The South African government scored by far the lowest of the 28 survey countries on both the competence and ethical metrics. This trust deficit is the root cause of the sorry state of our economy, as it undermines confidence, reduces investment and thus limits the potential growth rate.

Many structural issues that are perceived as intractable have their roots in this. With evidence of more ethics and integrity, issues that today look nearly unmanageable may come to be seen as solvable for the greater good. Competent land reform that supports labour-intensive small-scale farming may, under these conditions, be reframed as a necessary mechanism to deal with inequality and unemployment rather than a needless attack on property rights; National Health Insurance may be understood as a rational public-private partnership to roll out higher quality health care for more South Africans, rather than a cynical attempt to gain control over private medical aid premiums; and a larger tax and debt burden may be seen to assist with restructuring electricity supply and Eskom as a necessary contribution to a just transition from fossil fuels to renewable energy, rather than being forced to throw more money down a bottomless pit of corruption and inefficiency. President Cyril Ramaphosa acknowledged in a recent letter to the nation that a capable State starts with the people who work in it, who should be hired only based on skill, and should be held accountable for their actions. Time will tell whether there is enough commitment to these fine words for trust in government to grow.

IN THIS EDITION

Economist Marie Antelme reviews the very challenging current fiscal conditions from the perspective of a similarly tough period in the early 1990s on page 8. Portfolio manager Neville Chester reviews the case for investing in local equities despite an unsupportive economic environment on page 6. Portfolio manager Siphamandla Shozi unpacks the investment case for Distell on page 17. We have also asked our Personal Investment team to share their top wealth creation tips for the next decade, which you can find on page 20.

Thank you for your continued support. We know that we would not be here without you. As always, I invite you to let us know if there is any aspect of our service to you that did not live up to expectations. You can mail us at clientservice@coronation.com. Good luck out there.

Pieter

IN THIS ISSUE

Key performance indicators and fund performance

AS AT 31 DECEMBER 2019

	QTD	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	15 YEARS	20 YEARS
DOMESTIC INDICES								
CAPI (J303T)	4.9%	10.5%	10.5%	6.4%	5.7%	10.7%	14.0%	-
ALSI (J203T)	4.6%	12.0%	12.0%	7.4%	6.0%	10.8%	13.9%	13.4%
Top 40 (J200T)	4.5%	12.4%	12.4%	8.3%	6.1%	10.5%	13.6%	13.0%
SWIX (J403T)	4.8%	9.3%	9.3%	5.4%	4.8%	11.1%	13.8%	-
ALSI Industrials (J257T)	0.0%	8.9%	8.9%	3.2%	3.5%	13.8%	15.8%	13.7%
ALSI Financials (J580T)	2.8%	0.6%	0.6%	3.5%	3.9%	12.3%	12.3%	11.4%
ALSI Resources (J258T)	13.8%	28.5%	28.5%	20.5%	8.2%	3.3%	10.2%	11.7%
All Property Index (J803T)	1.2%	(0.4%)	(0.4%)	(5.0%)	(0.6%)	9.6%	-	-
BEASSA (TR) All Bond Index	1.7%	10.3%	10.3%	9.4%	7.7%	8.9%	8.3%	10.5%
Short Term Fixed Interest 3 Month Cash Rate	1.6%	6.9%	6.9%	7.0%	6.8%	6.2%	7.1%	-
CPI	0.4%	4.1%	4.1%	4.4%	5.0%	5.1%	5.7%	5.9%
INTERNATIONAL INDICES								
MSCI ACWI (USD)	9.0%	26.6%	26.6%	12.4%	8.4%	8.8%	6.9%	-
MSCI WORLD (USD)	8.6%	27.7%	27.7%	12.6%	8.7%	9.5%	6.9%	4.5%
MSCI GEM (USD)	11.8%	18.4%	18.4%	11.6%	5.6%	3.7%	7.5%	6.7%
S&P 500 (USD)	9.1%	31.5%	31.5%	15.3%	11.7%	13.6%	9.0%	6.1%
BGBA (USD)	0.5%	6.8%	6.8%	4.3%	2.3%	2.5%	3.2%	4.5%
3 Month Libor (USD)	0.5%	2.4%	2.4%	2.0%	1.4%	0.9%	1.8%	2.1%
MSCI ACWI (ZAR)	0.8%	23.5%	23.5%	13.3%	12.9%	16.0%	13.5%	-
MSCI WORLD (ZAR)	0.4%	24.5%	24.5%	13.4%	13.2%	16.7%	13.6%	8.9%
MSCI GEM (ZAR)	3.4%	15.5%	15.5%	12.4%	9.9%	10.5%	14.2%	-
3 Month Libor (ZAR)	(7.0%)	(0.1%)	(0.1%)	2.8%	5.6%	7.5%	8.2%	6.4%
SPOT RATES								
Rand Dollar exchange rate	15.1	14.4	14.4	13.7	11.5	7.4	5.6	6.1
Rand Dollar % change	8.1%	2.5%	2.5%	(0.7%)	(3.9%)	(6.2%)	(5.9%)	(4.0%)
Rand Euro exchange rate	16.5	16.5	16.5	14.4	14.0	10.5	7.7	6.2
Rand Pound exchange rate	18.6	18.3	18.3	16.7	18.0	11.9	10.9	9.9
Gold price (USD)	1 485.3	1 281.7	1 281.7	1 159.1	1 199.3	1 087.5	435.6	290.3
Oil price (USD barrel)	60.8	54.4	54.4	56.8	57.3	77.9	40.6	25.1

	QTD	YTD	1 YEAR	3 YEARS	5 YEAR S	10 YEARS	15 YEARS	20 YEARS	SINCE LAUNCH
DOMESTIC FUNDS (PERFORMANCE IN RANDS)									
Coronation Top 20 Fund	7.6%	15.8%	15.8%	6.3%	5.1%	10.9%	15.1%	-	17.1%
ASISA Mean of South African Equity General	4.4%	8.2%	8.2%	3.6%	3.4%	8.7%	11.8%	-	13.7%
Coronation Market Plus Fund**	3.5%	13.3%	13.3%	5.2%	5.3%	10.8%	12.8%	-	15.0%
ASISA Mean of South African Multi-Asset Flexible	2.9%	8.3%	8.3%	4.1%	4.5%	9.4%	11.0%	-	11.2%
Coronation Balanced Plus Fund	3.9%	12.8%	12.8%	6.0%	5.3%	10.3%	12.7%	13.0%	14.1%
ASISA Mean of South African Multi-Asset High Equity	2.5%	9.6%	9.6%	5.2%	5.0%	8.8%	11.0%	12.3%	12.1%
Coronation Capital Plus Fund	1.2%	9.2%	9.2%	4.4%	4.4%	8.3%	10.1%	-	11.5%
ASISA Mean of South African Multi-Asset Medium Equity	2.0%	9.5%	9.5%	5.5%	5.1%	8.2%	9.3%	-	10.8%
Coronation Balanced Defensive Fund	1.3%	9.5%	9.5%	6.4%	6.2%	9.4%	-	-	9.3%
ASISA Mean of South African Multi-Asset Low Equity	1.5%	8.4%	8.4%	6.0%	5.9%	8.0%	-	-	7.7%
Coronation Strategic Income Fund	1.3%	8.4%	8.4%	8.3%	8.2%	8.9%	9.0%	-	10.2%
ASISA Mean of South African Multi-Asset Income	1.7%	8.2%	8.2%	8.0%	7.7%	7.2%	7.6%	-	9.0%
INTERNATIONAL FUNDS (PERFORMANCE IN USD)									
Coronation Global Opportunities Equity Fund	12.2%	27.2%	27.2%	11.1%	6.3%	8.0%	-	-	6.1%
Coronation Global Emerging Markets Fund	12.6%	38.2%	38.2%	12.1%	4.7%	4.8%	-	-	5.5%
Coronation Global Managed Fund	8.3%	23.4%	23.4%	7.2%	4.5%	-	-	-	6.5%
Coronation Global Capital Plus Fund	4.2%	14.1%	14.1%	4.9%	3.5%	3.7%	-	-	4.3%
Coronation Global Strategic Income Fund	1.0%	4.7%	4.7%	2.2%	1.7%	-	-	-	2.6%

* All ASISA averages exclude Coronation funds in that category

** Highest annual return (Coronation Market Plus): 50.0% (Aug 2004 - Jul 2005); lowest annual return: -20.1% (Mar 2008 - Feb 2009); fund launch date 2 July 2001

Figures as at 31 December 2019; for detailed fund performance, refer to pages 34 and 36

Meaningful periods

INSIGHTS

The investment case for South African equities

Significant opportunities may underlie a bleak outlook

By NEVILLE CHESTER

THE QUICK TAKE

Fiscal consolidation and meaningful policy implementation is essential to restore investment confidence and a meaningful growth path

Corruption, SOE failure and high debt levels have hamstrung the economy and the aftermath is likely to continue to do so

It is in conditions such as these that remarkable opportunity can arise and some SA stocks are worth watching

Neville manages Coronation's Aggressive Equity Strategy and has 23 years of investment experience.

THE OUTLOOK FOR domestic equity in the period ahead is an exceptionally challenging call to make, given the two vast extremes that will potentially drive market returns and how one should be positioned.

On most metrics, the FTSE/JSE All Share Index (ALSI) shows up as extremely cheap compared to its history. Like all averages, this hides a number of desperately cheap shares and some that are still looking fully valued.

Companies that have been able to deliver consistent earnings growth despite the challenging environment trade at eye-watering valuations. At the high end of the spectrum, Clicks and Capitec are estimated at forward price-to-earnings (P/E) ratios of 33 times and 22 times, respectively; whereas companies that have had a more challenging time are trading on multiples that we haven't seen in well over a decade. This is reflected in sectors such as the clothing retailers, where Truworths, for example, is trading at eight times earnings and an equivalent 8% dividend yield; and in the large banks, where one can invest in a bank like Nedbank, which is trading at seven times earnings and a 7% dividend yield.

The reason for the very low rating of South African companies is obvious to all who live here. The economy is in a dire state and the political environment remains one where, despite all the obvious challenges and problems, change remains marginal at best and the status quo prevails. Policies to truly step up growth are spoken about and alluded to, but we remain stymied in a low-growth environment, made much worse by the failure, both financially and operationally, of Eskom.

NOT ALL THOSE WHO WANDER ARE LOST

Much like Robert Frost's paths in the forest, we face two divergent roads ahead. Should we fail to deal meaningfully with the economic challenges we face, the country is doomed to a low-growth future and all the attendant financial and social risks that will come with it. In that case, these low single-digit P/E multiples will have proved to be appropriate, pricing for an environment where real earnings will continue to decline in perpetuity.

However, should we see signs of the country choosing to take the path 'less travelled', one with short-term challenges, but ultimately leading to a better state where fiscal consolidation occurs, confidence returns and economic growth picks up, there are unbelievable bargains to be had in the local equity market at the moment.

The challenge is being able to assess the probability of which route South Africa is likely to follow, how much is actually priced into company valuations and which companies can potentially grow under either scenario. As mentioned earlier, investors who are unimpressed by the trajectory of the South African economy, but want to maintain some local exposure, are prepared to pay incredibly high multiples for the perceived safety of shares that have shown consistent earnings growth the past few years; and the consensus view is that they will continue. They are priced for this growth, and then some, and should they disappoint, the gap between expectation and reality will be enormous. A stock re-rating from an expected 33 times earnings to our assessment of a normal rating for an average South African business would result in a 62% decline in its share price.

THE OPPORTUNITIES FOR PATIENT INVESTORS, SHOULD WE RECOVER OFF THE LOW LEVELS TO WHICH WE HAVE FALLEN, ARE SIGNIFICANT.

The brutal and all-encompassing nature of the derating of the local market has meant that there are companies which we believe are above-average quality businesses, trading today at ratings we think are overly pessimistic. These are companies that should be able to defend their earnings base in real terms in a low-road scenario and, if we follow a better path, could deliver real earnings growth that is not being priced for. These make excellent investments where the pay-off profile is skewed to the upside.

UNCHARTERED TERRITORY

However, the future is unlikely to look much like the past decade in South Africa (refer to economist Marie Antelme's article on page 8). Years of profligate spending by government and rampant corruption meant that there was a lot of money sloshing around in the economy, a situation that is not going to recur. To make matters worse, the debts incurred in the last decade need to be repaid, which means that a much tighter fiscal policy must be maintained. In plain English, this means that money will actually be taken out of the economy to service and settle the staggering debt run up by government and State-owned enterprises.

The upshot of this is that businesses that seemed to be able to grow their earnings regardless of the economic cycle in past times, may not be able to repeat that performance in the years ahead. And therein lies the challenge: identifying investments that offer both upside potential and relative downside protection.

A COLD COMING WE HAD OF IT

Why are we even bothering if the outlook is so clouded and the risks are so high? Because the opportunities for patient investors, should we recover off the low levels to which we have fallen, are significant. The last time South Africa was in a similar situation was back in 2002/2003 when the outlook for the country was equally pessimistic, and the world was still recovering from the shocks of the Dotcom bubble and the 9/11 terrorist attacks. The rand had weakened significantly, and domestic shares were trading on ratings very similar to where they are today.

What followed was a period of very strong returns for domestic shares, as the situation normalised and economic growth returned, with the ALSI delivering a total return of 29.5% per annum for the next four years. This is by no means guaranteed to be repeated, but given where valuations are currently trading, one has to take a serious look at domestic companies as potential investments for the next decade.

A PROFESSIONAL GUIDE MAKES THE JOURNEY

Our key strength and the pillar that supports our investments at Coronation is our intense focus on proprietary research. This will, once again, be absolutely crucial in determining which companies will be the future winners and losers, not in the next 12 months, but over years. All in, the above reinforces the oft-repeated view that while investing is simple in theory, it is incredibly difficult in practice. ✚

ECONOMIC COMMENT

South Africa's at risk of falling into a debt trap

Let us not waste another crisis

By MARIE ANTELME

THE QUICK TAKE

- A crisis is an opportunity to turn poison into medicine, and it takes discipline not alchemy
- SA's fiscus requires the most urgent attention; it's almost as if we're back to square one
- The remedies that were available to SA in the 1990s have all but dried up
- The increased attractiveness of other emerging economies is not helping the situation

Marie is an economist with 19 years of experience in financial markets.

CRISES FORCE US to re-evaluate, to think differently, and to seek solutions that challenge the status quo. They are circumstances where all paradigms are up for debate and there is greater latitude to question leadership and existing norms.

In South Africa, we are not responding to the current crisis. Not limited to Eskom, the economic and fiscal ramifications of weak growth have become critical. GDP growth has averaged 0.8% over the past five years (2019 estimate) and is unlikely to come in much above 0.3% in 2019.

This compares to a post-democracy, pre-Global Financial Crisis average of 3.6%. Importantly for the current fiscal position, nominal GDP growth is running at 4.7%, compared to 12% over the same period.

FISCAL WOES TOP AGENDA

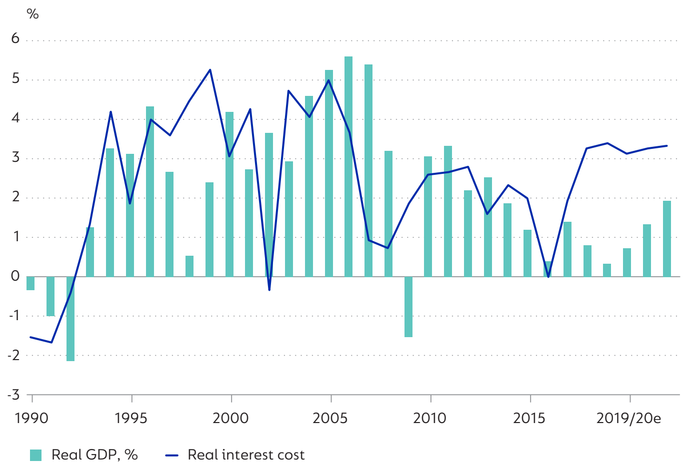
The biggest economic casualty has been the country's fiscal position that had improved from a very low base in 1993/1994, a condition not very different to the one we're in now, to one of notable strength in early 2009. This has since reversed due to several interconnected and reinforcing causes, namely low nominal growth; failing confidence and investment; increasingly complicated economic policies; institutional decay and State Capture; and, definitely not least, the prevailing and intensifying crisis at Eskom. These events have combined to enforce the reality that South Africa remains one of the world's most unequal economies with respect to both income and wealth. This is a gap that is exacerbated by diminishing resources with which to address this compound crisis.

This is not the first time we have been here. Some of the metrics are different, some of the causes and consequences are too, but in 1993/1994, South Africa was struggling out of a three-year recession, exacerbated by a prolonged drought.

The fiscal position was under strain as a combination of weak growth and a sharp escalation in expenditure saw the deficit balloon to -6.3% of GDP, from -1.2% three years earlier. Debt jumped from 30.5% of GDP to 36.9%, heading up, and debt service costs climbed steadily to above 5% of GDP.

Figure 1

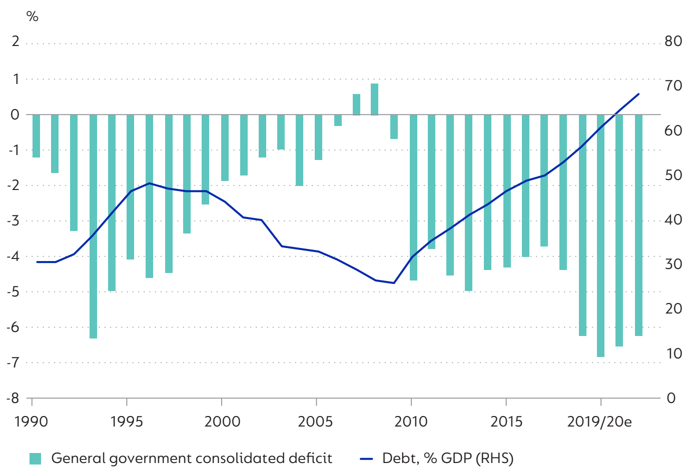
REAL INTEREST COST VERSUS REAL GDP



Sources: SARB, Coronation

Figure 2

GENERAL GOVERNMENT MAIN BUDGET BALANCE



Sources: Coronation, National Treasury

In 1993, the South African Reserve Bank (SARB) published a paper[1] titled, "Is South Africa in a debt trap?" The parallels to today are sobering. While the paper concluded that it was impossible to assess categorically that the country was in a debt trap, by most indicative measures, the economy was close to this critical position.

BACK TO THE FUTURE

The details beg further analysis, and comparisons to today's position are worth highlighting – both the risk and the potential for remedy. To start, it is important to describe two important concepts. First, 'sustainable debt' is debt that stabilises or diminishes relative to output (GDP) over a reasonable forecast horizon. The official forecasts published in the October 2019 Medium-Term Budget Policy Statement (MTBPS) see gross government debt rise from an estimated 60.8% in the current fiscal year to 71.3% in 2022/2023, in the absence of any remedial interventions. This trajectory is unsustainable.

The second is a 'debt trap' – this happens when real (nominal) interest payments exceed real (nominal) GDP growth over a sustained period of time. This results in an 'explosion' in the government debt-to-GDP ratio, which can no longer be prevented because of limited remedial capacity. Essentially this means that the State cannot effectively raise revenue or cut expenditure in a politically practicable manner, and this dynamic creates a self-perpetuating and compounding increase in government debt.

The SARB paper compared the domestic data at the time to the IMF's debt sustainability criteria, which state that government debt will continue to rise if the ratio of the primary balance to GDP is smaller than the ratio of government debt to GDP, multiplied by the real cost of debt (interest rate) minus real GDP growth rate. The rationale is that a government cannot indefinitely run deficits if the real rate of growth is below the real cost of financing its debt.

The study found that while the government was able to finance its deficit in a sustainable manner at the time, it raised serious concerns about the risk of the economy falling into a debt trap. Importantly, the risk of interest-cost growth relative to GDP (see Figure 1) could be a key driver of debt accumulation. The fiscal assessment can then be summarised as follows:

1. The large deficit, although partly reflecting cyclical factors, was high relative to potential GDP, making a recovery harder to realistically forecast. In the 1970s, when the deficit had ballooned before, potential growth was estimated at nearly 4%. In 1993, this was closer to 1% to 2% – slightly above the 1.1% that the SARB currently estimates for 2020, implying an increasingly unsustainable position.
2. The increase in debt stock, albeit from relatively manageable levels, implied a further rise in the interest burden on tax revenue, which would persist should growth remain low.
3. Low domestic savings could raise borrowing costs, crowding out the private sector and widening the current account deficit.
4. Concerns about public willingness to fund increased borrowing, and at what cost, implied further upside risk to long-term interest rates.

[1] E.J. van der Merwe, "Is South Africa in a debt trap?" South African Reserve Bank Occasional Paper No 6, May 1993

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5. Lastly, the report raised the possibility that, as the debt burden increased, "authorities will be unable to prevent the financing of their budgetary deficits by means of an increase in the money supply and monetary base of the economy". Under such circumstances, the SARB warned, government debt will increasingly have to be monetised, destroying the ability of the Central Bank to contain inflation.

POINT OF NO RETURN?

There are clear parallels with South Africa's position today. The recent deterioration in the government deficit to an estimated 6% of GDP (6.2%: 2019/2020 MTBPSe), *ceteris paribus*, is well in excess of potential growth. The expected increase in debt stock and the concomitant debt service burden suggest a return to interest payments of close to 5% of GDP. There is some upside risk to this estimate should borrowing costs rise off the currently low (global) base.

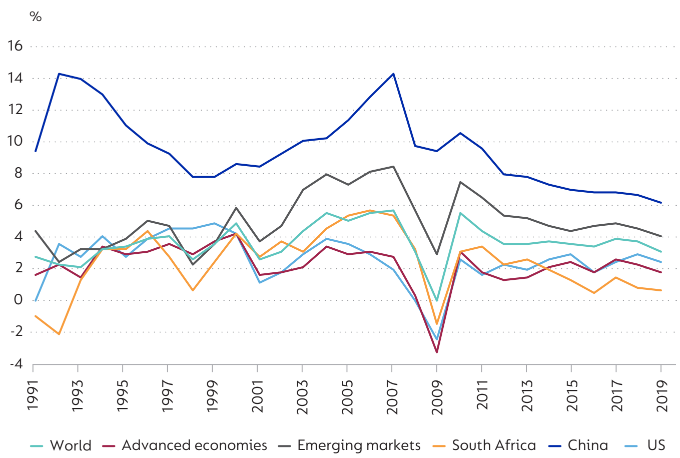
Figure 3

SOUTH AFRICA INTEREST PAYMENT, % GDP

Source: SARS

Figure 4

WORLD REAL GDP, % YEAR ON YEAR



Source: IMF

Ongoing government dissaving has, and will continue to, put pressure on the current account, making the fiscus and currency vulnerable to a sudden stop in funding flows. Lastly, it could be argued that the relative underperformance of South African fixed income to that of other emerging markets in a very supportive global environment already reflects the early onset of a 'loss of faith' in government's ability to implement sufficient remedial fiscal and policy action to avoid a debt trap.

With debt service costs already the fastest growing expenditure item over the medium-term expenditure framework, with tax revenue as a percentage of GDP at already high levels and stagnating growth, there are enough red flags to raise grave concerns about South Africa's ability to avoid a debt trap.

A LEAF FROM HISTORY

In the early 1990s, and even more visibly from the early 2000s, a combination of nominal growth recovery and institutional reform enabled the government not only to avoid a debt trap, but also to rehabilitate the fiscal position to one of outright health. Despite the emerging market crises between 1997 and 2000, South Africa managed to capitalise on a steady improvement in global growth, materially boosted by the growth acceleration in China.

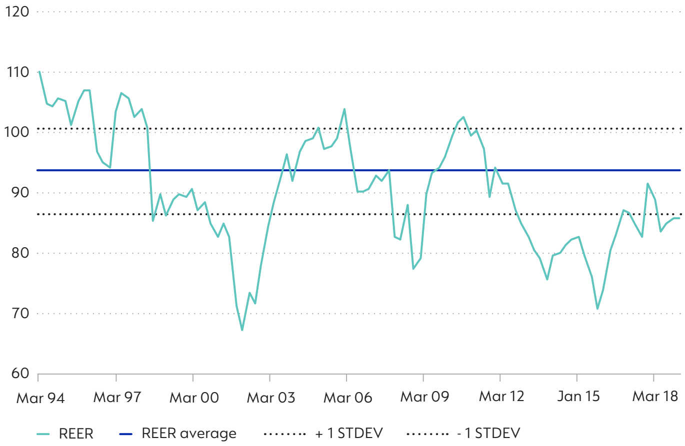
The domestic currency crisis in 2001 added momentum to the recovery, because it left South Africa with a severely undervalued currency. The boost to domestic terms of trade saw export prices rise meaningfully. This prompted a recovery in manufacturing production and an improvement in employment, and provided government with much-needed revenue windfalls.

During this time, South Africa also enjoyed several positive institutional changes, which not only facilitated an improvement in growth and thus revenue collection, but also in confidence and in policy implementation:

- The Constitution was gazetted on 18 December 1996.
- The National Treasury presented the first MTBPS in December 1997, preparing the way for the first multi-year Budget determination in February 1998.
- The SARB implemented inflation targeting, announced in September 1999 and starting in 2000.
- Mr Pravin Gordhan was appointed as Commissioner of the South African Revenue Service in 1999.

Figure 5

REAL EFFECTIVE EXCHANGE RATE VALUATION



Sources: SARB, Coronation

In line with global inflation, spurred by the recovering exchange rate and facilitated by the new SARB mandate, domestic inflation (and borrowing costs) fell from 14% in 1993 to -0.7% in 2004. The now more disciplined fiscal process, improved activity and the associated revenue benefits all helped to reduce the inherited fiscal deficit and debt stock.

The fiscal deficit narrowed from -6% of GDP in 1994 via -7.0% in March 1997 to a small surplus of 0.3% in June 2002, with a full windfall from the weaker rand, high inflation and very high rand-based commodity prices. Some stimulus in 2003/2004 saw the deficit widen in the wake of slower growth in 2002, notably lower revenue, expanded social security and a big allocation to the contingency reserve out of the fiscus. With the narrowing of the deficit thereafter, government gross debt fell from 48.8% of GDP in June 1997 to a nadir of 26% in 2008/2009.

OUT OF RESERVE

Returning to the present day, the drivers of growth that saved South Africa from a debt trap in the 1990s have largely been drained. Their replenishment would require an innovative shift in domestic economic policy, or a recovery in global growth and commodity prices, and preferably both. It is possible that the currently elevated terms of trade and an uptick in global growth in the second half of 2020 will provide a catalyst for an acceleration in domestic growth momentum. But the structure of the economy has also changed, and mining and manufacturing are considerably smaller components of gross value added – together now 19% from 29% in 1993/1994, which limits the ability to fully capitalise on this improvement.

Early data for the fourth quarter of 2019 (Q4-19) suggest tentative signs of stabilising domestic output, with an annual rate of about 0.4% in reach for the year as a whole.

However, the onset of loadshedding in early December, with the unprecedented escalation to Schedule 6 and the persistence of a diminished energy availability factor, will also compromise this nascent recovery. A number of mining companies closed early, and there is anecdotal evidence that small and medium enterprises have battled to sustain business activity as a result.

More broadly, domestic sentiment was hit hard and confidence remains weak. The clear risk is that considerably weaker Q4-19 growth will bleed into 2020 as power uncertainty persists, dragging our 2020 outlook to 0.9% (1.1% previously) on the back of the ongoing inadequate energy availability factor.

With real GDP growth of less than 1% and real debt service costs heading for 5%, the interest burden is set to reach almost 15% of total expenditure. Unless the gap narrows, interest cost and debt will compound, and the rising debt burden will increasingly limit expenditure on all other essential goods and services.

IS IT TERMINAL?

The economy is in crisis. There really isn't the luxury of time. Until government creates policies that welcome innovation, innovation will not come. South Africa no longer has relative economic advantages to offset its challenges in attracting new investment, driving employment and enhancing productivity.

There are lots of emerging market alternatives that need skills and foreign savings, and which create policies to facilitate their participation. The progress of countries like India, China, Pakistan and Bangladesh in the World Bank *Ease of Doing Business* measures shows us this. South Africa's performance, which has deteriorated by 52 places, from 32 in 2008 to 84 currently (where the lower the rank, the better the score), speaks for itself.

A country that used to contemplate which policies could be used to best attract investment and was able to direct revenue to the most economically vulnerable, is struggling to grow. A fiercely developmental economic agenda is at odds with economic innovation and growth. Redistribution is not growth, but without growth, redistribution can only be limited. With growth, it could be limitless.

>

POWER STATEMENT

The near-term answer may lie in a bafflingly overlooked commitment by the government in an opinion piece by President Cyril Ramaphosa that was published in December last year. 'A new era in energy generation'[2] opens with the progressive statement that, "In the wake of the hugely damaging power shortages of the last two weeks, government has agreed – in keeping with the Integrated Resource Plan (IRP) 2019 – to allow users to generate power for their own use and to accelerate the purchase of power from independent producers. In effect, the path has been cleared for the expansion and diversification of energy production on a significant scale".

This powerful commitment flies in the face of ongoing uncertainty and criticism that there is no ability or willingness to rethink private power generation in South Africa.

Stabilising energy availability; providing room for scheduled maintenance; and sending a signal, not only that there is a plan to manage the Eskom crisis (at least to stabilise chaotic load shedding), but also that government is willing to re-evaluate, to think differently, and seek solutions that challenge the status quo, despite inertia, vested interests and factional resistance, would be a grand step in the right direction to structural reform of the economy.

But words aren't enough, we need to see these commitments come to life. ✚

[2] Daily Maverick Opinionista, "A new era in energy generation", Cyril Ramaphosa, 18 December 2019. www.dailymaverick.co.za/opinionista/2019-12-18-a-new-era-in-energy-generation/

BOND OUTLOOK

Valuing South African debt

"The best time to plant a tree was 20 years ago. The second best time is now." – Chinese proverb

By NISHAN MAHARAJ

THE QUICK TAKE

- Local economic woes and policy inertia continue to weigh on SA bonds
- Monetary and fiscal policy, as well as global cost of capital, drive local yields
- The administration must urgently make some hard decisions, such as cutting the public wage bill
- Our analysis supports the inclusion of SA bonds in a portfolio

Nishan is head of Fixed Interest and has 17 years of investment experience.

THE LAST YEAR of the past decade, 2019, was the Chinese Year of the [Earth] Pig. Despite the images that might spring to mind, in Chinese astrology the pig represents wealth and treasure. Considering the amount of turbulence that was injected into financial markets by geopolitical game changers such as Brexit, the US-China trade war and the Hong Kong protests, the fortunes of the Earth Pig did shine on global equity markets as they closed 2019 up more than 25% in US dollars (as measured by the MSCI World and All Country World indices).

Global bond markets were no exception, as most bond markets saw their yields compress over the course of the year, driven by a slowdown in global growth and a dovish twist by global central banks. Emerging market bonds provided a total return of c. 14% in US dollars as the hunt for yield intensified in a world where $11.2 trillion worth of debt now trades at a negative yield.

This year is the Chinese Year of the [Metal] Rat, which symbolises renewal. For South Africans, this is both auspicious and apt, as few economies need renewal more than South Africa's. Despite the rally in global equity and bond markets, South African bond and equity markets underperformed their global peers. The local economy continued to slow due to concerns about deteriorating government finances and State-owned enterprises (SOEs), and specifically Eskom, as bouts of loadshedding continued to intensify. The All Bond Index (ALBI) produced a total return of 10.3% in rands (13.1% in US dollars), which was driven by a rally in the three- to 12-year area of the curve, as expectations of further interest rate cuts continued, given the low growth and contained inflation environment. The slow pace of policy change and implementation, and the requisite tough decisionmaking, will continue to weigh on the country into 2020. That said, the flower that blooms in adversity is the most rare and beautiful of all, so let's hope South Africa can learn and heal from its damaged past, rather than run from it.

FINDING THE SWEET SPOT

The only way a leopard can change its spots is by going from one spot to another. In 2020, the spotlight will be on South Africa's policymakers >

and their ability to change the course of the local economy and show marked progress in the right direction. As long-term investors, our key objective is to make sure that we price risk correctly and that our clients' portfolios are robustly positioned. We do this by ensuring that they are well diversified, avoiding the risks that accompany positioning towards a single-market outcome.

This implies that a great deal of time is spent on understanding the fundamental drivers of asset prices and whether the assets we hold on behalf of our clients are adequately priced with a sufficient margin of safety to buffer against short-term adverse volatility. For South African government bonds (SAGBs), this implies understanding the fundamental direction of the local economy and ensuring that they are priced to reflect prevailing and expected conditions.

THIS SEEMS LIKE THE END OF THE WORLD, BUT WE SHOULD NOT FORGET THAT SOUTH AFRICA HAS A VERY DEEP AND LIQUID BOND MARKET.

THE ECONOMY OF SOUTH AFRICAN YIELD

There are three key drivers of SAGB yields:

1. Monetary policy expectations

Monetary policy is driven by inflation and the growth outlook. Inflation is expected to average close to 4.5% over the next two years, which is at the midpoint of the inflation targeting band, while growth is not expected to reach 1.5% until 2021 (South Africa's growth has averaged sub-1% since 2015), while global growth is expected to average just above 3%. The Monetary Policy Committee (MPC) has reiterated that it wants inflation to maintain the midpoint so that it can use monetary policy more effectively during times of crisis.

South Africa's economy is struggling to grow, and although monetary policy is a blunt tool, it can be used to boost confidence and relieve some consumer pressure. Currently, real policy rates are above 2% and, if the repo rate does not move, the real policy rate will average 1.7% over the next two years. In previous cycles, when growth was this low, the real policy rate averaged close to zero. This suggests that there is room for the MPC to move policy rates at least 50 basis points (bps) lower over the next year.

2. Fiscal policy expectations

In South Africa, fiscal policy has been on a slippery slope since the Global Financial Crisis, as the administration has struggled to narrow the fiscal deficit and government debt has ballooned. The reasons for this are well known, but in recent years the slowdown in growth has decreased tax revenue, while expenditure has continued to increase to rescue ailing SOEs (Eskom, SAA and Denel). Eskom has been and remains the biggest risk to the local economy. Turnaround plans have been tabled and key personnel have been replaced, but due to the extent of a decade-plus of maladministration and corruption, operational turnaround has been slow. It is inevitable that financial support will be ongoing, and government will need to cut expenditure in other areas to keep the nation's ailing power supplier online.

The February 2020 Budget will be another watershed moment, as investors will again look to policymakers to make the hard, shorter-term decisions, such as freezing or cutting the government wage bill despite union objections. Most ratings agencies have given up hope on South Africa and moved us into subinvestment territory.

Moody's is the only agency that has retained South Africa at investment grade, which keeps us in the FTSE World Government Bond Index (WGBI). However, given the deterioration seen over the last year, it is very likely that they will downgrade South Africa in 2020, which should see outflows from the local bond market of between R70 billion and R120 billion. This seems like the end of the world, but we should not forget that:

a) South Africa has a very deep and liquid bond market.
b) The local savings industry is very large and sophisticated.
c) The fundamental deterioration and risks around it have been well flagged over the last two to three years, so investor positioning has adjusted accordingly.
d) South Africa comprises less than 1% of the WGBI, so at current valuations, investors might choose not to exit.

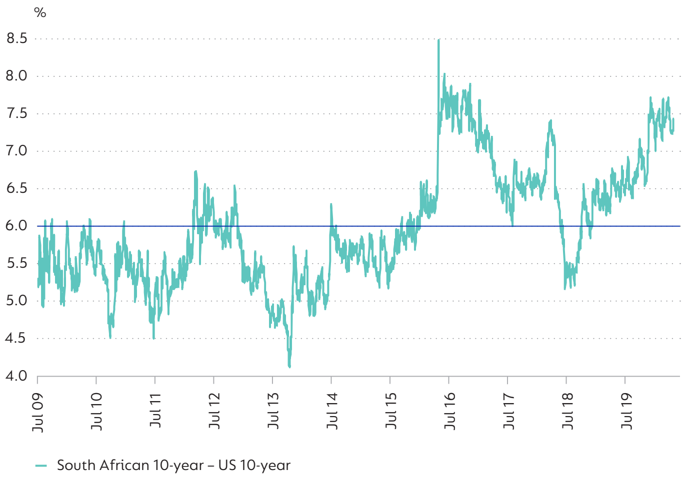
While we are likely to see some fiscal effort in the budget and some tough stances regarding SOEs, keeping the policy trajectory headed in the right direction, that doesn't rule out an exit from the WGBI. In the worst case scenario, government doesn't manage to paint a better scenario in 2020 and South Africa exits the WGBI, but that does not mean the end of the world for SAGBs, given the current risk premium embedded in assets (refer to the point below).

3. Global cost of capital

Global bonds are trading close to all-time lows due to the slowdown in global growth, the flight to safe-haven assets because of geopolitical uncertainty, and the dovish twist seen by global central banks in 2019.

Figure 1

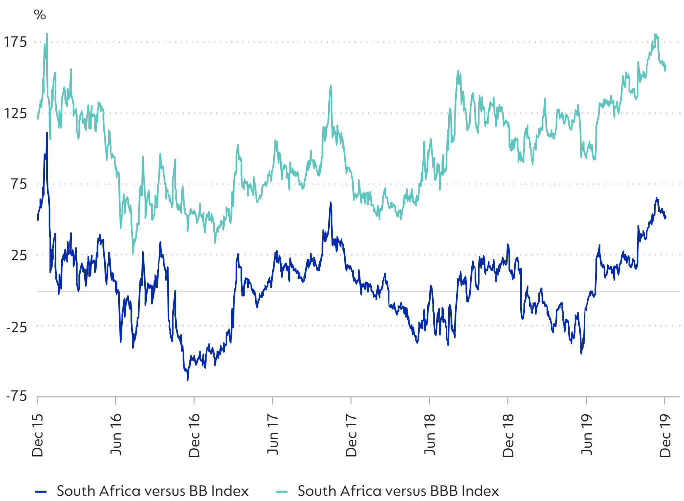
SOUTH AFRICAN 10-YEAR VERSUS US 10-YEAR SPREAD



Sources: Bloomberg, Coronation

Figure 2

SOUTH AFRICA'S CREDIT SPREAD VERSUS THE IG AND SUB-IG INDICES



Sources: Bloomberg, Coronation

It is inevitable that bond yields will move higher over the next five to 10 years; however, in the next two to three years, they could also move lower before moving higher. Global inflation remains low, with global growth set to remain sluggish.

Central banks around the world have continued to inject large amounts of liquidity into financial markets to keep crises at bay and will continue to engineer a soft landing for the global economy. This might not be the goldilocks economy of the early 2000s for emerging markets, but it will definitely be less turbulent than what we have seen previously. Until we see a turn in global inflation, one should not expect a ramp-up in global policy rates, which means that global bond yields should see only moderate fluctuation.

The backdrop for SAGBs is therefore mixed. Monetary policy should be supportive, fiscal policy will remain in the spotlight and the global cost of capital, although it should remain supportive in the short term, might be unfriendly over the longer term.

However, from a valuation perspective, these risks seem to be adequately priced. First, SAGBs' spread over the US 10-year (global risk-free) rate is quite extended (see Figure 1). This suggests enough room for SAGBs to absorb a move higher in global bonds. The follow-on question would surely be: if South Africa continues to deteriorate, should the breadth of the spread represent credit-worthiness? At current levels, however, South Africa's credit spread already trades very wide relative to both the investment grade (IG) and sub-IG indices (Figure 2), suggesting that further deterioration away from even sub-IG norms is being priced.

THE RIGHT PRICE?

Despite what might seem like an impressive return relative to cash in the local context, SAGBs have underperformed their peers considerably over the last five years due to a fundamental deterioration in South Africa. In the last five years, SAGB nominal yields have risen by 148bps, while the implied 10-year real yield has risen by over 200bps. This compares to the emerging markets average of a 61bps compression in nominal yields and a relatively small compression in implied real yields. As such, SAGBs are now the cheapest in the emerging market universe from an implied real yield perspective and the second cheapest from a nominal bond perspective (Table 1 on page 16).

Constructing a fair value for SAGBs using the global risk-free rate, inflation differentials (the difference between South African and US expected 10-year inflation – see Table 2 on page 16) and a measure of credit-worthiness for South Africa (the South African credit spread) also suggests that the South African 10-year bond, currently trading at 9%, is at inexpensive levels. Even adjusting current variables for expectations around a rise in the global risk-free rate brings one to a similar conclusion. The confluence of this evidence suggests that SAGBs are adequately priced for current risks.

FINDING VALUE

We believe that bonds at the longer end of the curve continue to offer the best value. To ascertain which point on the SAGB yield curve is the most attractive, we use a total return analysis with a three-year horizon period across >

various bond maturities. Table 3 shows how these bonds will perform if:

1. The yield curve moves parallel up 1%;
2. The yield curve moves parallel down 1%;
3. How much each bond can sell off before it breaks even with the ALBI; and
4. How much each bond can sell off before it breaks even with the 10-year bond (R2030).

The previous analysis, taken together with the fact that the difference between the 30-year and 10-year areas of the SAGB yield curve is close to the widest it has ever been (1.39% during the taper tantrum of 2013), suggest that bonds at the longer end of the curve continue to offer the best value in our view.

PORTFOLIO ALLOCATION

Inflation-linked bonds (ILBs), once again, underperformed nominal bonds in 2019, with a return of 2.6%. Only shorter-dated inflation-linked bonds provided a positive return, albeit below cash. A five-year ILB trades at a real yield of 3.6%. Using expected inflation of 4.5%, if one holds this bond for the next three years, the nominal return would be in excess of 8%, which compares very favourably to equivalent maturity nominal bonds.

In addition, with expectations for the real policy rate to move closer to 1%, it makes the carry-on shorter-dated ILBs even more attractive. At current levels, shorter-dated ILBs therefore do warrant a position in a bond portfolio.

The South African economy has been plagued with low growth, ballooning government finances and a volatile global geopolitical environment. Low growth and well-contained inflation suggest the trajectory for South Africa's policy rates to be lower over the next 12 months.

In addition, South African bonds have continued to underperform relative to their global and emerging market counterparts, suggesting an increased risk premium, given South Africa's precarious economic backdrop. At current levels, SAGBs seem adequately priced relative to underlying risks, which suggest a neutral allocation in portfolios. ✚

Table 1

SAGBs NOW THE CHEAPEST IN THE EMERGING MARKET UNIVERSE

	Nominal yield	Implied real yield	5-year change in nominal yield	5-year change in real yield
Turkey	11.9	0.4	4.22 ▼	(0.42) ▲
South Africa	**9.0**	**4.0**	**1.48** ▼	**2.14** ▼
Indonesia	7.1	3.5	(0.61) ▲	1.81 ▼
Mexico	6.9	3.3	0.96 ▼	1.02 ▼
Brazil	6.8	3.0	(5.17) ▲	(2.42) ▲
India	6.5	2.6	(1.42) ▲	(0.13) ▲
Russia	6.2	2.4	(4.54) ▲	(1.42) ▲
Average	**5.0**	**1.3**	**(0.61)** ▲	**(0.21)** ▲
Malaysia	3.3	1.4	(0.56) ▲	1.10 ▼
Chile	3.2	0.3	0.00 ▶	0.44 ▼
China	3.1	0.6	(0.41) ▲	(0.43) ▲
Poland	2.1	(0.5)	(0.39) ▲	(1.52) ▲
Hungary	2.0	(1.1)	(1.57) ▲	(2.03) ▲
Czech Republic	1.5	(0.7)	0.81 ▼	0.36 ▼
Israel	0.8	(0.4)	(1.36) ▲	(1.39) ▲

Sources: Bloomberg, Coronation

Table 2

SAGBs ADEQUATELY PRICED FOR CURRENT RISKS

	Current	Expected
US 10-year	1.92%	2.75%
South African 10-year expected inflation	5.04%	5.00%
US 10-year expected inflation	1.78%	2.00%
South Africa's credit spread	2.94%	2.94%
Fair value estimate	**8.12%**	**8.69%**

Sources: Bloomberg, Coronation

Table 3

TOTAL RETURN ANALYSIS (THREE-YEAR HORIZON)

			Total return			
Bond	Maturity	Current yield	Yield curve sells off by 1%	Yield curve rallies by 1%	Breakeven relative to ALBI	Breakeven relative to 10-year (R2030)
R186	21 Dec 26	8.25%	9.93%	7.86%	(1.41%)	(1.16%)
R2030	31 Jan 30	9.02%	11.43%	7.99%	(0.42%)	
R2035	28 Feb 35	9.73%	12.85%	8.18%	0.01%	0.13%
R2040	31 Jan 40	10.03%	13.51%	8.17%	0.11%	0.22%
R2044	31 Jan 44	10.10%	13.82%	8.08%	0.13%	0.23%

Sources: Bloomberg, Coronation

STOCK ANALYSIS

The investment case for Distell

A gem within the small- and mid-cap space

by **SIPHAMANDLA SHOZI**

THE QUICK TAKE

- Distell boasts a diversified portfolio of brands, which generally rank first or second in their respective categories
- Exposure to the fast-growing cider market is a key driver for future growth
- For beverage companies, Africa presents a multiyear opportunity for growth
- Quality management and a clear strategy are key to unlocking value

Siphamandla is a portfolio manager with 15 years of investment experience.

THE SMALL- TO MID-CAP space is littered with a lot of poor-quality companies. Such companies tend to flourish under favourable economic conditions and struggle or cease to exist when conditions deteriorate. They also often exhibit a combination of the following characteristics: lack of scale, price taking, inexperienced management teams, weak balance sheets and lack of product diversification.

As a result of these factors, the market generally punishes the small- to mid-cap sector by awarding a discount to its rating relative to the market. So, when we find a small- or mid-cap counter that generally displays the opposite of the above characteristics but is priced attractively, we get very excited. We think Distell is one of those companies.

Distell is an alcoholic beverages business with its head office located in Stellenbosch. The company boasts a diversified portfolio of brands across several categories including ciders, spirits and wines, and generally ranks first or second in these categories. Production facilities are spread throughout South Africa as well as various countries on the African continent and in Europe. Some of Distell's well-known brands include Savanna, Hunter's, Viceroy and Klipdrift. Figures 1 and 2 show the split of profits by product categories and main geographies. The biggest contributor to profits is ciders (42%) and the biggest region is South Africa (74%).

TRENDS TIP THE BALANCE

The South African alcohol market is mature, exceeding R200 billion in annual spend and a relatively high per capita consumption. Overall market growth has been very pedestrian over the past decade, and changes in market share between categories and premiumisation have been the key drivers of growth.

The beer category has the largest market share, but has been losing ground to other categories, including ciders and spirits. Trends in the consumption of alcohol have been changing from single- to mixed-gender occasions, the rejection of beer by health-conscious millennials and a notable increase in female drinkers.

>

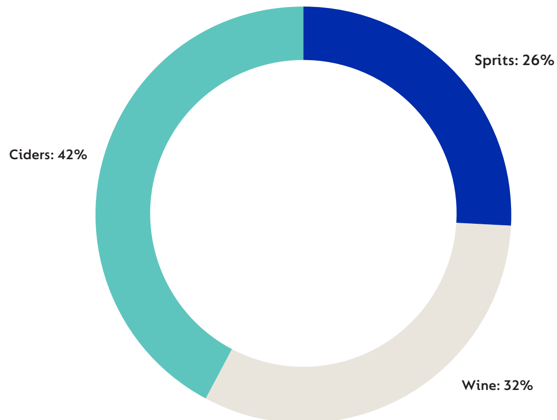
AN APPLE A DAY

This shift requires companies to have a broad portfolio of brands to cater to these trends. Luckily, Distell has a portfolio that is very well suited to these changing market dynamics. Over the past couple of decades, the growth in cider has been phenomenal, at two to three times the rate of beer. In South Africa, the category now occupies 9% of the market, compared to around 6% to 7% internationally, making it the second biggest cider market in the world after the UK.

Distell produces Savanna and Hunter's, the number one and two brands on the market, with a combined share of over 80%. These ciders have led to an impressive growth in group volumes and revenue of 5% and 10% per annum, respectively, over the past 10 years. This stellar growth is even more impressive when one considers that growth in the spirits and wine categories has been lacklustre due to the maturity of these markets.

Figure 1

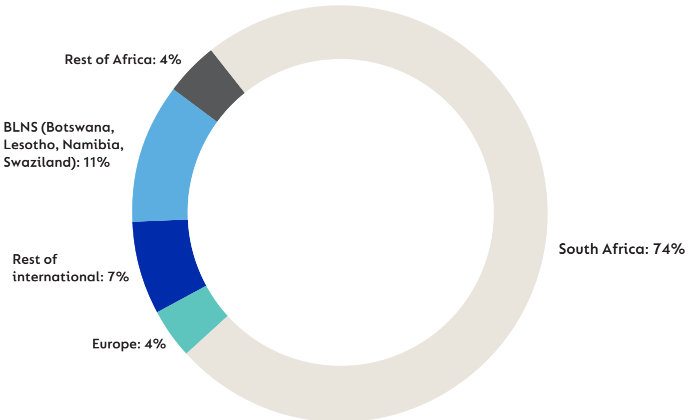
EBIT CONTRIBUTION BY PRODUCT



Sources: Distell Annual Reports, Coronation estimates

Figure 2

EBIT CONTRIBUTION BY REGION



Sources: Distell Annual Reports, Coronation estimates

THE COMPETITIVE EDGE

This growth has also attracted several competitors into the category. In South Africa, consumers tend to lump ciders together with other flavoured alcoholic beverages (FABs) as one category, thus creating a bigger pool for competitors to attack one another. The biggest competitors we worry about are Amalgamated Beverage Industries' (ABI) Flying Fish (a flavoured beer) and Heineken's Strongbow (a cider). While Flying Fish initially had some impact, it has faded, as ABI has been distracted by bedding down its acquisition of South African Breweries (SAB). On the other hand, Heineken, which boasts the largest cider brand (Strongbow) in the world, has had a negative impact, especially on the Hunter's brand.

However, Distell's overall market share has surprisingly increased during this period. The company has been able to innovate by introducing brands like Bernini, a wine cooler, which leverages its strength in the wine market into the FAB category. This innovation has allowed Distell to fend off narrow competition looking to attack some of its big brands. It also demonstrates the value of having a deep, diversified portfolio of brands to choose from. Given the low overall market share of the cider category, we believe the category has more legs for growth.

NETWORK OPTIMISATION

Due to historical reasons, Distell's distribution of production facilities has been below optimal. This has contributed to a significant number of inefficiencies in its supply chain. A massive project to correct this has been undertaken, which involved closing some facilities while relocating others closer to their respective markets. The benefits of this are multifold. Being closer to the markets allows better response times while reducing inventory holding time, thereby reducing the working capital cycle.

Moving production to bigger, scalable sites and decommissioning smaller, inefficient operations should also result in a lower unit cost of production. These changes should improve both margins and free cash flows over the next few years.

AFRICAN EXPANSION

Excluding the last five or so years, Distell's exports to African countries were booming, growing at double digits for several years. However, the slump in commodity prices led to currency fluctuations and a decline in demand for imported products in these countries. Some even raised import duties as they scrambled to fill gaps in their fiscal funding. This exposed the fragility of Distell's export model as markets such as Angola, which used to import in excess of 30 million litres of Distell's ciders, became miniscule. As a result, Distell has been evolving its Africa strategy. While previous exports had been pretty much split evenly between the three product categories, their main thrust will now be through mainstream spirits, with ciders and wine complementing this.

Mainstream spirits are one of the fastest growing alcohol categories in Africa. The category is still very fragmented, with a number of regional, privately owned players in the game. However, Distell has a lot of experience in the category, being the biggest producer of mainstream spirits in South Africa, and should be able to leverage this knowledge into developing the category in these markets.

In order to defend against import duties and currency fluctuations, Distell created in-country production facilities and increased local sourcing, while partnering with local operators to build a strong route to market. A couple of acquisitions, Best (Angolan) and KWA (Kenyan), were done to create critical mass and leverage existing production facilities. These are some of the fastest growing mainstream spirits companies in Africa.

Multicategory production facilities have already been built in these countries, including Nigeria, and should start ramping up over the next few months. This should enable the African business to be more resilient through the cycle while participating in the inherent growth potential of these markets. Recent results have been promising as revenue grew strongly by 19%.

We think Africa offers a multiyear opportunity from which patient investors should be able to reap rewards in the years ahead.

FRESH PERSPECTIVE

Just over five years ago, significant changes in management were implemented at Distell. Although previous management had led the company well for a decade and a half prior to that, it became clear that there was a need for fresh blood to take the company to the next level. The appointment of Richard Rushton who had previously worked at SAB in Latin America was a game changer for the business. He has executed on the strategy in an exemplary manner, improving production efficiencies, expanding distribution, strengthening the route to market, changing the Africa business model and reducing the international footprint, as well as selling underperforming brands like Bisquit. This led to an increased focus on margins, returns and capital allocation.

We had always believed in the potential of the brands under Distell, but felt that more could be done with them under a different management team. With the current management team, we have faith that the full potential of this homegrown business is being realised, some of which will become apparent to the market over time.

THE BOTTOM LINE

At the end of the day it all boils down to valuation. Distell trades at a forward multiple of 11 times to our assessment of normalised earnings, which is very attractive. As such we continue to be significant shareholders in Distell. +

20 tips for the 2020s

PART 1

TO SET THE tone for the start of the new decade, we have asked our Personal Investments team for their top investment tips. We have published 10 of their contributions in this edition. You'll notice some common themes coming through. Look out for part two in the next edition of *Corospondent*, due out in April 2020.

Just get started – *Julian Band*

If you remember nothing else, remember this. One of the secrets to achieving your goals is simply taking the first step, and it's no different when it comes to investing. You can start small, from as little as R500 a month, and build up from there. Once you're comfortable that you are invested in the right fund for your needs, you can ramp up your investment. But get started. Today. Because every day is an opportunity to grow your wealth.

Save first, spend later – *Dorette Brits*

Looking at the modern era we live in, our world revolves around spending money on experiences instead of things, a need for instant gratification and FOMO (Fear of Missing Out), or the YOLO (You Only Live Once) mentality leading to the "enjoy your money today, don't worry about tomorrow" way of living. We all spend time trying to discover the key to wealth creation, or how to become rich quick. The simple answer to this question is, there is no such thing as getting rich quickly.

There are, however, two universal truths that will help you to maximise your money:

1. **Pay yourself first:** This means prioritising your savings and investments above other budget items and living on what is left.

2. **Harness the power of compound interest:** Every great force we encounter in our world didn't always start that way. A snowflake turns into an avalanche by first becoming a snowball.

Even if you start small, say with R500 a month, which might not sound like much, enter the effect of compounding and voilà, your snowflakes may be the start of an avalanche. Assuming a growth rate of 10% over a 20-year period, your small FOMO sacrifice will amount to nearly R360 000. So, what is the moral of my story? "Don't save what is left after spending, spend what is left after saving." – Warren Buffett

GET STARTED. TODAY. BECAUSE EVERY DAY IS AN OPPORTUNITY TO GROW YOUR WEALTH.

Julian Band

Have a realistic time horizon – *Peter Kempen*

Everyone who starts to work for a company starts investing on that day through their mandatory contribution to the company's retirement fund. Those that work for themselves or derive an income from other sources may only start investing once their business is off the ground, debts are settled, and surplus funds are available. Regardless of the start date, once the process has begun it never ends, as almost everyone will need to have investments till the day they die.

In effect, your time horizon should therefore be from the day you start investing, for your lifetime, and likely beyond. If you start investing in your early 20s that may be a period of 50+ years, and even if you retire at 60 your investment time horizon may be another 25 years. You also need to consider what happens after you die, as investments might be left to beneficiaries who are much younger and have long investment time horizons. Following that logic, the time horizon for many investors should be perpetual. Yet, if you ask most investors what their time horizon is, the bulk of responses will be around the five- or 10-year mark.

Ironically, performance from growth assets becomes a lot more predictable over a longer time horizon and predictability is lowest for periods <10 years, as shown in Figure 1.

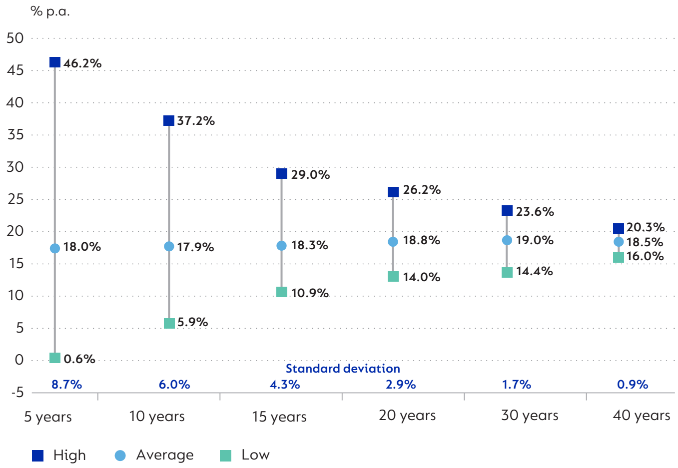
Most investors therefore need to reconsider their time horizon carefully. The longer the time horizon, the easier it becomes to manage risk, stick to a strategy, overcome emotions and reap the benefits of compounding, which are discussed elsewhere in this article.

Cash is not king – *Amika Pillay*

The phrase 'cash is king' suggests that money in the bank is more valuable than any other form of investment. In periods when higher risk investments deliver disappointing returns, this belief becomes more widely accepted, with many investors developing a strong preference to hold their money in cash. The desire to not see investment values going backward supersedes every other financial planning consideration. Long-term objectives are sacrificed in the pursuit of 'safety' in the shorter term. While this reaction is understandable, it ultimately leads to poor outcomes. Why? While an investment in cash feels safe, it fails to compensate for the impact of inflation. Inflation is the 'silent killer' of savings. It slowly erodes the purchasing power of your money. Cash returns are less likely to exceed inflation than equity returns and investing too conservatively dramatically depresses long-term wealth creation, as shown in Figure 2.

Figure 1

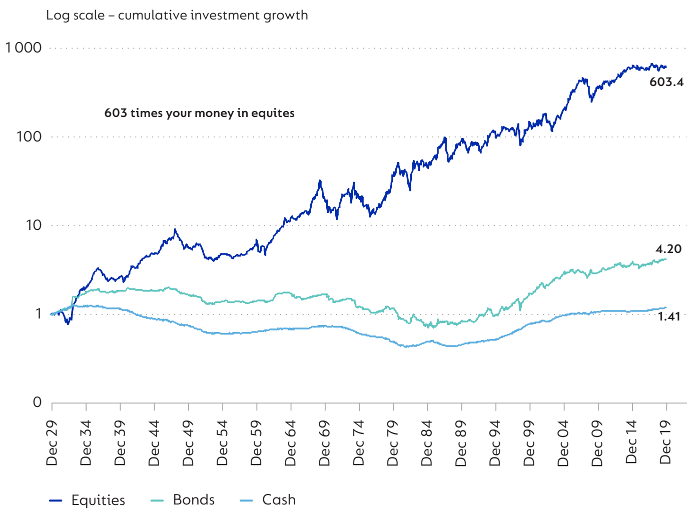
RANGE OF RETURNS OVER ROLLING PERIODS (FTSE/JSE ALL SHARE INDEX 1960 – 31 DECEMBER 2019)



Source: Busetti (The Effective Investor, 2009), with additional calculations by Coronation

Figure 2

REAL RETURNS – FROM 1930



Source: Coronation

So, despite the notion that growth assets are risky, a bigger risk is being too conservative. Maintaining exposure to growth assets over an appropriate time horizon can mitigate the destructive effects of inflation and ensure a more successful investment journey.

Look ahead, not behind you, when making investment decisions – *Kim Deane*

Investing seems to be the only space where we like to buy things when they are priced at a premium and sell things when they go on sale. This peculiar phenomenon is largely driven by 'rear-view mirror' investing, one of the most common investment mistakes to make. We scrutinise our most recent >

WISE INVESTORS KNOW THAT THE FUNDAMENTALS, NOT PAST PERFORMANCE, WILL DICTATE FUTURE RETURNS.

Kim Deane

experience in the market and extrapolate this into the future. We seem to believe that what performed well in the past will continue to go up, and what disappointed will never recover. If this was the case, investing would be easy. Unfortunately, although hindsight might be 20/20 vision, investors repeatedly destroy value by buying high and selling low in their attempt to time markets, asset classes or investment managers.

Wise investors know that the fundamentals (future cash flows and the price you are asked to pay for it today), not past performance, will dictate future returns. Ultimately, regardless of asset class, investment manager or timeframe considered, making future investment decisions based on what has occurred in the past is a sure way to destroy value. Focus on the fundamentals and stick to your investment plan!

Investing is a team sport – *Anton Pienaar*

Imagine Rassie Erasmus picked a team consisting of 23 Cheslin Kolbes or 22 Pieter-Steph du Toits. Both are regarded as the best players in their respective positions in the world, but a team made up of only players with their attributes would not do well. Who will kick the penalties if you only have Pieter-Stephs? How will the scrum perform with 15 Cheslins?

The same goes for investments. It might seem like a good idea to own only the asset classes and funds that are on 'top form' and performed well in the recent past. Many investors currently choose to invest only in income and global funds – the recent winners – but this is a similarly flawed response as picking a team full of Kolbes.

Table 1 shows how different asset classes dominate from year to year, making the chasing of past winners a poor strategy. Rather invest in a well-diversified balanced fund. More diversification means you will never be in the best or worst fund category in any given year, but the reduced volatility makes it easier to stay the course.

MORE DIVERSIFICATION MEANS YOU WILL NEVER BE IN THE BEST OR WORST FUND CATEGORY IN ANY GIVEN YEAR.

Anton Pienaar

Spending time choosing the right fund is an important step in building wealth – *Sally Prins*

We all know the most powerful ally in wealth building is compounding. We are taught from an early age that compounding is the eighth

Table 1

THE SMOOTHING EFFECT OF A BALANCED FUND

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 years p.a.	20 years p.a.
SA Equity 32.3%	SA Equity 19.6%	Global Bonds 28.8%	SA Equity 26.7%	Global Equity 51.4%	Global Equity 15.2%	USD Cash 35.5%	SA Bonds 15.5%	SA Equity 18.1%	USD Cash 18.7%	Global Equity 23.5%	Global Equity 16.8%	SA Equity 13.4%
Balanced Plus 23.0%	Balanced Plus 15.4%	USD Cash 22.3%	Global Equity 20.9%	Balanced Plus 25.6%	Global Bonds 11.3%	Global Equity 31.8%	SA Cash 7.1%	Balanced Plus 12.7%	Global Bonds 14.6%	Balanced Plus 12.8%	SA Equity 10.8%	Balanced Plus 13.0%
SA Cash 8.6%	SA Bonds 15.0%	Global Equity 12.9%	Balanced Plus 20.0%	USD Cash 23.6%	SA Equity 11.1%	Global Bonds 30.8%	Inflation 6.8%	Global Equity 12.1%	SA Bonds 7.7%	SA Equity 10.5%	Balanced Plus 10.3%	SA Bonds 10.5%
Inflation 6.3%	SA Cash 6.6%	SA Bonds 8.8%	SA Bonds 16.0%	SA Equity 21.6%	Balanced Plus 10.9%	Balanced Plus 8.1%	SA Equity 3.9%	SA Bonds 10.2%	SA Cash 6.9%	SA Bonds 10.3%	SA Bonds 9.3%	Global Equity 8.9%
Global Equity 4.6%	Inflation 3.5%	Balanced Plus 7.1%	Global Bonds 8.6%	Global Bonds 20.0%	USD Cash 10.9%	SA Cash 6.1%	Balanced Plus 0.5%	SA Cash 7.1%	Global Equity 5.1%	SA Cash 6.9%	Global Bonds 8.9%	Global Bonds 8.9%
SA Bonds (1.0%)	Global Equity 0.8%	Inflation 6.1%	Inflation 5.7%	Inflation 5.4%	SA Bonds 10.2%	Inflation 5.2%	Global Equity (4.5%)	Inflation 4.7%	Inflation 4.5%	Global Bonds 4.2%	SA Cash 6.2%	SA Cash 7.9%
Global Bonds (16.9%)	Global Bonds (5.6%)	SA Cash 5.5%	SA Cash 5.3%	SA Cash 5.0%	SA Cash 5.7%	SA Equity 5.2%	Global Bonds (9.6%)	Global Bonds (2.9%)	Balanced Plus (6.3%)	Inflation 4.1%	Inflation 5.1%	USD Cash 6.4%
USD Cash (21.8%)	USD Cash (10.2%)	SA Equity 3.0%	USD Cash 4.5%	SA Bonds 0.6%	Inflation 5.3%	SA Bonds (3.9%)	USD Cash (10.8%)	USD Cash (8.4%)	SA Equity (7.7%)	USD Cash (0.1%)	USD Cash 4.5%	Inflation 5.9%

Sources: IRESS, Morningstar

wonder of the world and the only free lunch in investing. But for compounding to do its job, we need to remain invested.

A study done in the US a few years ago showed the impact of switching unit trust funds. Investors earned half the return of the actual funds they were invested in due to the timing of frequent switching between funds. Instead of allowing your money to compound, wealth is often destroyed as you move from one fund to another, as you are at risk of selling a portfolio of cheaper assets to buy a portfolio of more expensive ones. This can be avoided by doing work upfront to make sure you choose the right fund that suits the amount of risk you are willing and able to take, coupled with the amount of time you want to remain invested.

Do the research, select the fund and stay the course.

How much money do I need to retire? – *Bernard Wessels*

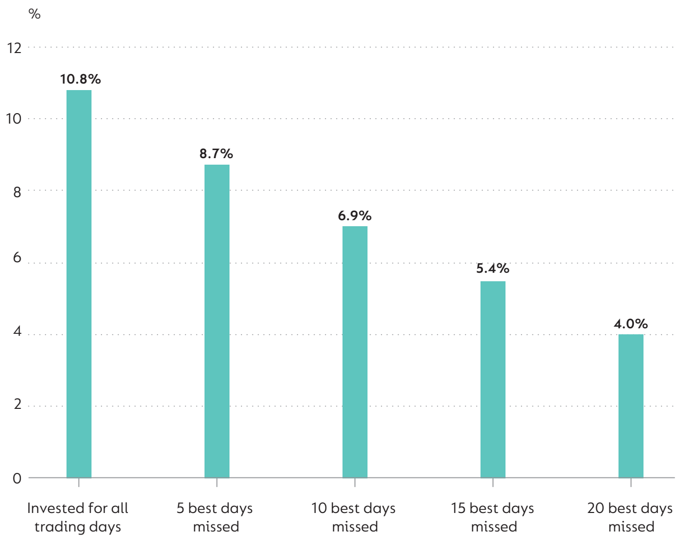
It depends on how much income you need and for how long. Assuming a sustainable withdrawal rate of 5%, a R500 000 annual income requirement will require a capital base of R10 million (in today's terms). If you plan to retire in 30 years' time and you assume inflation in South Africa will average 4.5% p.a. over this period (the midpoint of the South African Reserve Bank's inflation target range), you will require a capital base of R37 million. This would provide an annual income of approximately R1.9 million in 2050, which is equivalent to the R500 000 annual income requirement today.

The next step is to ask what amount should be invested today to accumulate R37 million in retirement capital. Let's assume a well-diversified, multi-asset fund, such as the Coronation Balanced Plus Fund, will achieve returns of inflation +5% over the next 30 years (a total return of 9.5% per annum for 30 years). Doing a simple present value calculation, the amount to be invested today to accumulate the required capital base of R37 million upon retirement is only R2.4 million. Assuming a 35-year period until retirement, this amount reduces to approximately R1.5m.

Compounding over long periods 'bought' investors the difference between the R10 million required today to produce a R500 000 income and the roughly R2.4 million or R1.5 million required today to grow to the required capital base in 2050. For most retirement plans to work, it is paramount that investors understand, appreciate and capture this long-term benefit of compound growth.

Figure 3

THE COST OF MARKET TIMING



Sources: Coronation and IRESS as at 31 December 2019

Nothing lasts forever – Mmaba Molefe

If you have lived long enough, you would know that everything ends. Whether good or bad, nothing lasts forever. Even though we know this to be true, when tough times hit, we immediately feel like it has been going on for a lot longer than it has and we think it will extend into the future, which makes us overly fearful. We therefore feel the need to act quickly, which is sometimes to our detriment. What we can learn from the last decade is that when things are all doom and gloom, have patience and wait; things will change. This is the biggest challenge we face as investors when returns are low – we struggle to sit tight and not do anything to our investments. We want to sell, and we end up selling low just to buy high later. The results can be pronounced, for example, for the last 10 years ending 31 December 2019, the JSE gave you a 10.8% annual total return, but if you missed only the five best days in those 10 years, your return would have been 8.7%, and 4.0% if you missed the best 20 days.

As tough as it may seem, when investing long term, you need to learn to tune out the short-term noise and be patient, because nothing lasts forever.

TUNE OUT THE SHORT-TERM NOISE AND BE PATIENT, BECAUSE NOTHING LASTS FOREVER.

Mmaba Molefe

Think long term: which investor do you want to be in 2030? – *Naledi Makiwane*

South African growth assets disappointed over the last five years. As a result, more conservative domestic funds delivered better return outcomes than those with more exposure to the riskier asset classes. In response, many disappointed investors >

moved money out of multi-asset funds and into income funds. This switch was return-eroding in 2019, as the timing of reducing exposure to growth assets coincided with an improvement in equity returns.

We regularly publish our expected return forecast, comparing the actual return produced by the various asset classes over the previous decade to our expected returns over the next decade. Table 2 shows our forecast towards the end of 2009. Our current forecast, as at 31 December 2019 (a decade later) is presented in Table 3.

The thinking behind our forecasts is informed by the understanding that what you see through the rear-view mirror is different to what you see through the windscreen. The core principle is that higher prices today mean lower returns in future, while lower prices today mean higher returns in future.

As tempting as it may be for South African investors to be conservatively positioned anchoring off the last five disappointing years, we should challenge ourselves to look forward, not backward. +

Table 2

2009 ASSET CLASS FORECAST

As at 31 Oct 2009	1999-2009 p.a. (ZAR)	10-year forecast p.a. (ZAR)	10-year actual p.a. (ZAR)
Local equity	17.0%	11.0%	10.8%
Global equity	2.3%	14.0%	16.8%
Property	23.2%	9.0%	10.0%
Bonds	13.2%	9.0%	9.3%
Cash	10.3%	8.0%	6.2%
Inflation	6.8%	6.0%	5.1%

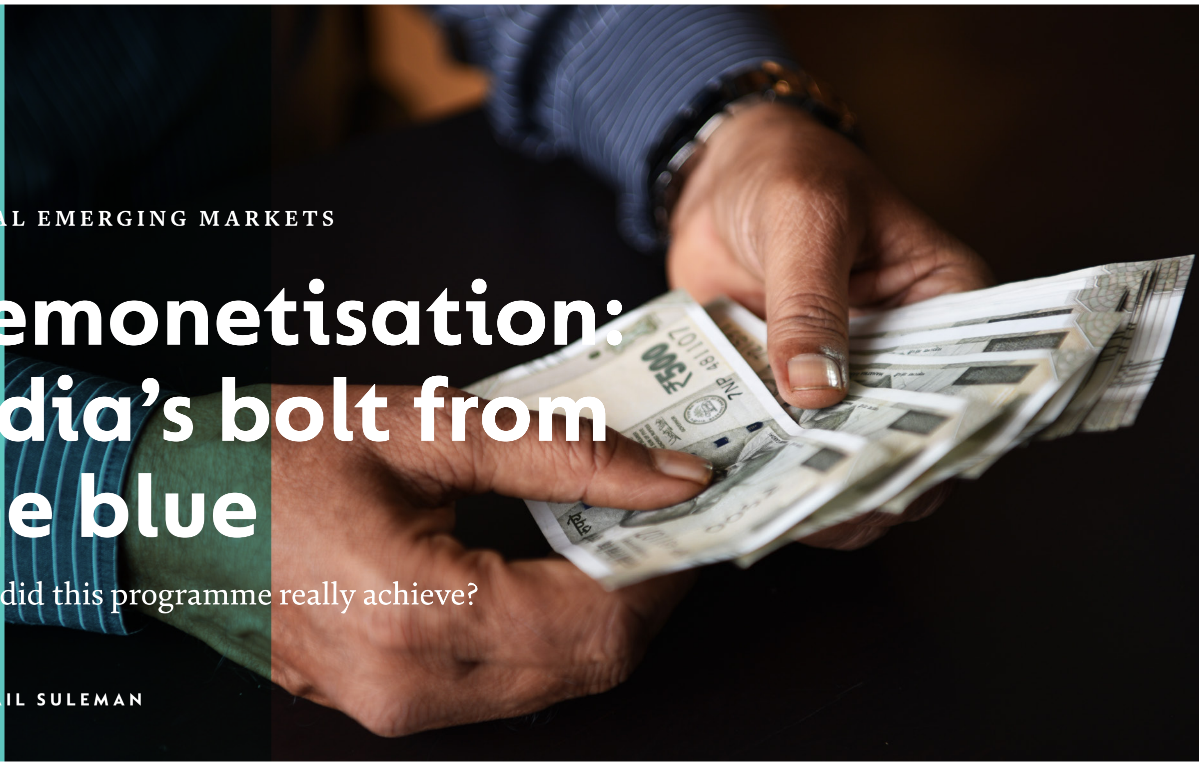
Source: Coronation

Table 3

2019 ASSET CLASS FORECAST

As at 31 Dec 2019	Last 10 years p.a. (ZAR)	Last 5 years p.a. (ZAR)	10-year forecast p.a. (ZAR)
Local equity	11.1%	3.7%	8 - 11%
Global equity	16.6%	13.5%	6 - 8%
Local property	10.8%	1.2%	7 - 10%
Local bonds	8.9%	7.7%	9 - 10%
Global bonds	9.2%	6.5%	4 - 5%
Cash	6.2%	6.8%	6 - 7%
Inflation	5.1%	5.0%	5 - 6%

Source: Coronation



GLOBAL EMERGING MARKETS

Demonetisation: India's bolt from the blue

What did this programme really achieve?

by **SUHAIL SULEMAN**

THE QUICK TAKE

- Demonetisation failed to punish beneficiaries of illicit activity/parallel market operators as intended
- Constraints on withdrawals relative to immediate high deposits led to excess liquidity in the banking sector
- Money market and similar instruments became attractive savings vehicles, with above-inflation interest rates
- The demonetisation process indirectly caused some of the issues that led to defaults by some non-banking finance companies

Suhail is a portfolio manager within the Global Emerging Markets investment unit.

IT'S BEEN JUST over three years since 8 November 2016 when, without prior warning, the government of India announced a cabinet decision that all existing Rs500 and Rs1 000 notes (then worth $7.50 and $15.00, respectively) would cease to be legal tender from midnight. In light of the deceleration of India's economic growth rate and liquidity issues in its banking sector, it is worth revisiting the impact of this 'demonetisation' programme on the intervening years.

At the time of the announcement, the government also laid out the path forward to manage this exercise. The following day, 9 November, would be a banking holiday when no deposits or withdrawals would be allowed. From 10 November, all holders of these notes would have to deposit them into a bank account or exchange them for either smaller-denomination notes or a new series of high-denomination notes before the end of the calendar year. The old notes could be used for a short time for a narrow range of transactions, with certain public services such as healthcare and train fares listed as exemptions, but by and large, the soon-to-be defunct denominations were essentially useless to holders.

I've looked for data as to what proportion of the total value of outstanding notes these cancelled notes represented at the time, and there is a wide variety of estimates.

Evidence suggests that the cancelled notes represented about 25% of total notes in circulation by volume. However, since these were the two highest denomination notes in the country, they represented over 90% of cash currency in circulation by value. Reserve Bank of India (RBI) figures show that the total value of notes in circulation at the time of the decision amounted to $260 billion, so something in the region of $240 billion needed to be deposited or exchanged by the end of December 2016.

THE ELEMENT OF SURPRISE

A variety of reasons was given by the government for this drastic measure. Most apparent was the need to curb tax evasion by mainstreaming the >

shadow economy. In theory, this move would either spook tax evaders and other holders of illicit funds for fear of having to disclose their source of income, causing them to cut their losses, or the money would leave the shadow economy and enter the formal economy under the oversight of the banking system and tax authorities. Other reasons cited were along the same lines, such as halting counterfeiting activities and weeding out the proceeds of corruption.

Both individually and as a collective, the aims were laudable, but of course the true measures of success for any policy are, first, whether it achieves its targets, and secondly, the overall cost of implementation. Economists refer to the latter as a 'cost-benefit analysis', and it has been the subject of much debate in India as to whether this exercise was a success overall.

THERE IS (ALWAYS) A WAY

As mentioned, the government expected a material proportion of the cancelled bank notes to be of dubious origin and to leave the system permanently, as their holders would not be able to explain the source of funds. On this metric, the demonetisation drive failed completely.

The RBI estimates that 99.3% of total cancelled notes were either deposited or exchanged. This is an astonishingly high proportion, both in absolute terms and relative to government expectations of 80% to 85%. In discussions with bank executives with whom our investment team meets when in India, the common theme was that people found a way to deposit their illicit money.

The most frequent tactic was to divide large sums into smaller amounts that fell below the suspicious threshold, and then have several 'friends' deposit the money into their own accounts, to be subsequently withdrawn and returned to the originator for a fee or commission.

There were also reports of many businesses accepting the cancelled notes as payment for goods and services, since the businesses could then deposit the money under the pretext of having been in possession of them before they were cancelled.

UNINTENDED CONSEQUENCES

As could be expected in a society where more than 95% of transactions are cash, the demonetisation programme had quite an impact on ordinary citizens. Even with flawless implementation, it would have been difficult to avoid large-scale disruption – and the implementation was far from flawless.

In the days and weeks that followed, India's national pastime became queuing at banks and ATMs to deposit money and withdraw new notes. The banking system was not prepared – there was an insufficiency of new notes and daily withdrawal limits meant that money deposited far exceeded the amount that could be withdrawn on a system-wide basis.

There was also a shortage of smaller-denomination notes, as most people did not want to withdraw Rs2 000 ($22.50) notes, which is a significant amount of money in a low-income country. Additionally, large notes are not readily accepted by merchants, many of whom found themselves struggling due to the lack of lower-denomination notes for their cash floats.

The temporary flood of liquidity into the banking system also had consequences. The shortage of notes and staggered withdrawal limits resulted in people 'parking' their money in fixed-term deposits or money market funds to get returns. Since one could earn interest rates higher than inflation in India (positive real rates), this made sense relative to withdrawing cash that earns nothing in the holder's hands.

A FATAL FLAW

Much of this money found its way into the wholesale funding market, allowing India's non-banking financial companies (NBFCs) to go on a lending spree just as the economy started to slow. One such NBFC, Infrastructure Leasing & Financial Services, defaulted on its debts in August 2018. The default was caused by poor lending practices and a mismatch between the long-term funding required for infrastructure and road projects, and the shorter-term nature of its borrowing book.

The default alarmed the market and led to a flight from the money- and wholesale-funding markets to regular savings accounts with banks, some of which was then withdrawn as cash. Other NBFCs have also since defaulted, most prominently Dewan Housing Finance Limited.

For now, the initial contagion seems to have been contained, but many of the weaker NBFCs have been forced to cut back on loan growth to preserve capital, as wholesale funding dried up for them, or at least was only possible at very high rates that squeezed their profit margins (net interest margins).

The recent slowdown in economic growth in the country is therefore partially attributable to the consequences of demonetisation.

MANY MERCHANTS FOUND THEMSELVES STRUGGLING DUE TO THE LACK OF LOWER-DENOMINATION NOTES FOR THEIR CASH FLOATS.

THE OPPORTUNITY

A positive by-product of the programme was seen in some of the smaller private sector banks that our analysts assess. These banks had been investing in growing their branch infrastructure for several years in the hope of attracting a greater proportion of their revenue from current and savings accounts (CASA). A higher CASA ratio is desirable, since the average interest paid on these accounts is lower than other potential sources of funding.

Customers who deposit money in a bank are also more likely to make use of any retail banking offering available, take out loans or purchase other financial products.

A good illustration is Yes Bank, which was India's fourth largest private sector bank at the time of the demonetisation exercise. In February 2016 (the financial year-end for most Indian businesses as it coincides with the tax year-end), CASA deposits made up 28% (see Figure 1) of Yes Bank's total deposits. By the time end-February 2017 came around, just four short months after the recall, CASA accounted for 36% of total deposits.

At the time, management attributed the spike to a rush of deposits by new customers who opened accounts at any bank they could to avoid dealing with the chaos at the bigger banks. Further, the lack of notes and the economic slowdown that followed demonetisation meant the average duration of deposits was longer than originally expected.

Another private sector bank we follow, with a more established retail franchise, also saw a significant jump in its CASA ratio. Axis Bank's ratio exceeded 50% for the first time in 2017 (see Figure 2), jumping 4% as a result of demonetisation-related inflows.

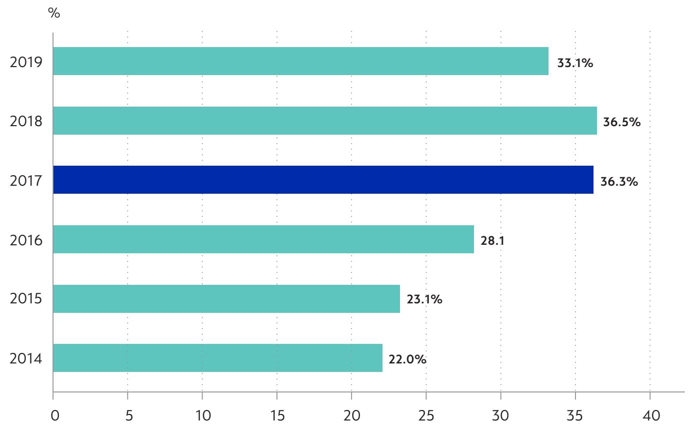
Figures 3 and 4 illustrate the impact demonetisation had on deposits and currency. Figure 3 tracks total deposits in the banking system and shows that there was a big spike in deposit growth when the programme started (it would have been even higher had no withdrawals been allowed), but collapsed completely thereafter as people were able to withdraw much of the money they had deposited.

Figure 4 shows how total currency in circulation collapsed before resuming its upward trend. This counters the argument that the programme would help the transition to a 'cashless' society over time.

>

Figure 1

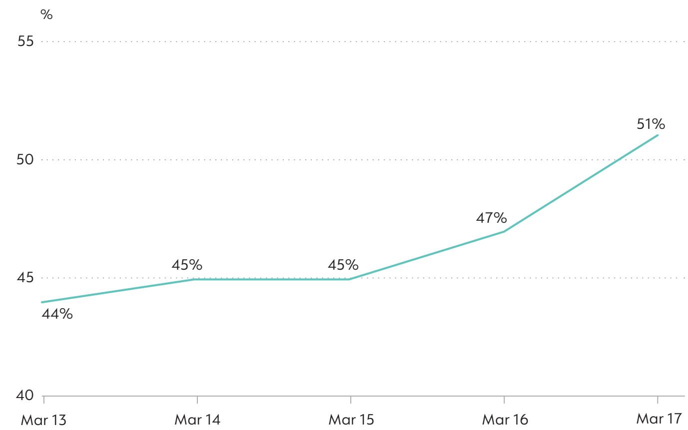
YES BANK: CASA RATIO (5-YEAR CAGR 35.7%)



Source: Yes Bank Annual Report for the year ended February 2019

Figure 2

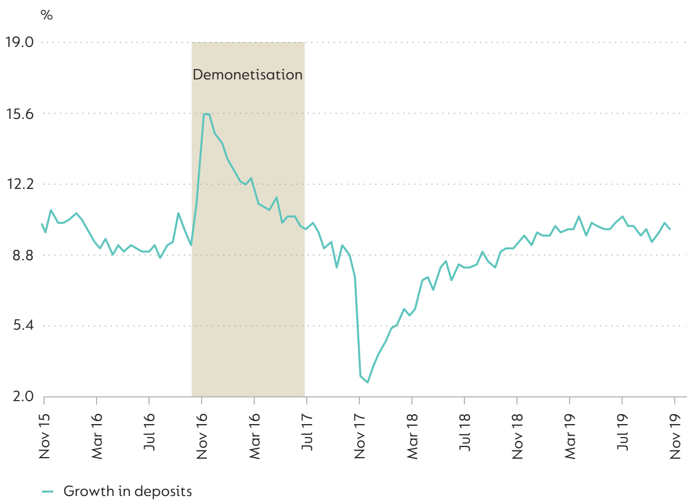
AXIS BANK: CASA RATIO AMONG THE BEST



Source: Axis Bank Investor Relations Presentation June 2017

Figure 3

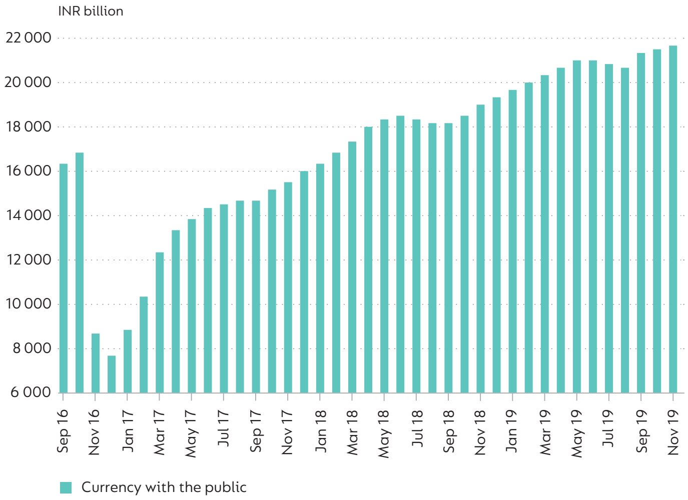
IMPACT OF DEMONETISATION ON DEPOSITS



Source: Edelweiss Financial Services, from RBI fortnightly data

Figure 4

IMPACT OF DEMONETISATION ON CURRENCY



Source: Edelweiss Financial Services, from RBI monthly data

BUT WAS IT WORTH IT?

Based on the evidence presented, it is my conclusion that the demonetisation exercise did not achieve what it set out to do, or certainly not what the government argued would be achieved at the time. When one considers the short-term disruption it caused to Indian society and the medium-term impact it had on the NBFCs, it is probably fair to state that the net impact on India was negative. ✚

CORONATION INSIGHTS

Flagship fund update

INVESTOR NEED: LONG-TERM GROWTH

Domestic general equity funds

Top 20 and Equity

Top 20 is a focused portfolio of our top stock picks on the JSE, while our Equity Fund invests in South African and global equities. Both funds are suited to investors with a long-term horizon who are seeking high growth and can ride out short-term volatility.

In stark contrast to the last quarter of 2018, the final quarter of 2019 (Q4-19) finished on a strong note, with general support for risk assets globally as sentiment improved on easing of the trade tensions between the US and China. The Equity Fund returned 17.2% and Top 20 delivered 15.9% in 2019. (For full performance details, refer to the fund facts sheets on www.coronation.com)

While 2019 was a much better year for South African equities, medium-term returns for domestic growth asset classes remain below average. The JSE's returns were boosted by the South African resource sector, which gained 28.5% for the year. Industrials and financials were considerably weaker, delivering 8.9% and 0.6%, respectively, for 2019 as a whole, with the higher domestic exposure of the financial sector weighing on performance.

It was pleasing to see shares that detracted from performance in 2018 contributed strongly in 2019. Most notable among these were the platinum group metals (PGM), with portfolio holdings Northam (+186%) and Impala (+291%) up particularly strongly. Other notable performers for the year include our Equity portfolio's global holdings, while Quilter (+38%), British American Tobacco (+36%), Naspers (+22%) and Anheuser-Bush InBev (+23%) contributed to the performance of both the Top 20 and Equity funds. Both portfolios' underweight positions in domestic businesses contributed positively, as the challenges of a lacklustre consumer environment and persistent structural cost inflation eroded earnings.

Naspers had a busy year with the unbundling of Multichoice; the establishment of Prosus – an Amsterdam-listed entity that houses its international assets; unbundling of a portion of Prosus (26%) to shareholders; and a bid for Just Eat, a multinational food delivery player. Due to the attractiveness of the underlying assets and the holding company discount, Naspers and Prosus constitute a significant holding in our portfolios. Their major asset, Tencent, is growing rapidly in online payments and financial services, a market segment many times larger than the gaming market they currently dominate.

British American Tobacco continued to deliver on its strategy, growing revenues, widening margins and through strong cash conversion. This was despite the fact that US regulators are becoming increasingly concerned over youth recruitment and the potential harm of alternative tobacco delivery methods like vaping. The magnitude of the threat posed by this category to its traditional business now looks reduced.

Platinum-group companies benefited from rising prices given growing demand and a limited supply response, the remedy to which will require significant capex with long lead times. While we have cut our holdings into price strength, we still have meaningful exposure. Northam's strength also reflected an easing of investor concerns on the overhang of the BEE deal funding, which becomes less dilutive at a higher share price.

In contrast to the big winners, most of the South African-focused companies that we did own performed poorly. Similarly, the fast-moving consumer goods (FMCG) retailers continued to struggle to show any share price appreciation, despite delivering commendable results in a tough environment. This has allowed us to build meaningful positions in what are very high-quality cash-generative businesses at attractive valuations. FMCG retailers are far less sensitive that retailers are to the performance of the domestic economy and should also benefit from the pick-up we have seen in food inflation recently. In addition, in the case of a retailer such >

as Shoprite, stock-specific issues, which should not recur, will see earnings pick up without much help from top-line revenue growth.

Sasol (which we discussed in detail in the previous edition of Corospondent) suffered a tumultuous year, collapsing on the back of further cost overruns relating to the Lake Charles Chemicals Project and a delay in its financial results. The share has rebounded c. 20% off its recent lows. We continue to manage the position size carefully as risks in the company remain high.

Distell was the standout in our basket of South African stocks last year. The company has defended and grown its market share without having to resort to sacrificing margins, resulting in a pleasing growth in profitability. Looking ahead, we should see further growth in profitability as its African operations return to more normal operating margins. It remains a solidly defensive and strongly cash-generative investment. You can read more about our investment case on page 17.

While it was pleasing to see market recognition of the value inherent in some of the funds' larger positions during 2019, we continue to see attractive opportunities for disciplined, long-term investors that should generate inflation-beating returns overtime.

Multi-asset class funds

Balanced Plus and Market Plus

Balanced Plus and Market Plus offer long-term investors access to a diversified portfolio of local and international assets. While Market Plus has a stronger bias towards shares, Balanced Plus complies with retirement regulations, which limit exposure to risk assets. Both funds are suited to investors with a longer-term time horizon seeking growth.

Global equity markets rose strongly in 2019 in response to looser monetary policy in the US and Europe, and trade war fears receding. All eyes remain on US President Donald Trump as he stands for re-election in 2020 and the reverberating effect his policy will have on US-China tensions. Elections in the UK saw a stronger-than-anticipated majority for the Conservative Party under Boris Johnson and moved the country closer to a withdrawal from the EU in January 2020. Emerging markets also performed strongly in US dollars in 2019 and Q4-19. Notable performances included Russia (+53%), Brazil (+26%) and China (+24%).

Locally, investor confidence remains weak, as impatience has set in with the slow pace of much-needed reform. The plight of Eskom remains concerning and unplanned outages pose a major threat to economic growth. The severe loadshedding experienced in December is expected to have taken a toll on retailers' Q4-19 earnings. Growth continued to disappoint, with a contraction in both the first and third quarters of 2019. Low domestic growth and low inflation (3.7% CPI for 2019) should lead to rate cuts. However, the South African Reserve Bank has been reluctant to cut rates, believing that dovish monetary policy will have a limited impact, given the high structural impediments to growth. As a result, real yields of local bonds are at very attractive levels and they therefore have a meaningful role to play in our multi-asset portfolios.

We are more cautious on domestic property, where we expect companies to struggle to show distribution growth over the medium term as high rentals that are up for renewal are rebased to market levels.

Equity exposure was the big driver of performance for both funds, with the strongest return coming from our exposure to global emerging markets, followed by developed market equity exposure. The South African equity market also delivered good returns, albeit less than the other equity allocations within the funds. We are especially pleased with the significant alpha added over and above the market returns.

We have continued to trim the global equity exposure as developed markets, in particular the US, have delivered very strong returns and look fairly fully priced. In contrast, we have maintained our emerging market exposure as we think the majority of these markets remain cheap and should benefit from an improved global trade environment as well as a potentially weaker dollar in the years ahead.

We have added to our South African equity exposure where we have consistently held an overweight position in global companies listed on the JSE and particularly resource shares. Taking into account our direct offshore exposure as well as our high exposure to global companies in our local equity holding, we still have fairly low exposure to pure domestic assets.

We have moved quite quickly to build up a meaningful position in longer dated local government bonds. The budget risks and likelihood of a sovereign downgrade are all well known, and in our view, fully priced into the bond market. South African bond spreads over equivalent US treasuries are well above other sub-investment grade issuers. With inflation sticky at around 4%, the opportunity to pick up domestic bonds with real yields in excess of 5% is a very attractive investment, with relatively low risk. Given the lack of absolute return in the global bond space, we have virtually no bond exposure outside of South Africa.

Our property allocation remained static, as we prefer to take our yield exposure in the bond market. Having said that, we do see yields looking attractive, now even in the blue-chip property names. This is an area that we will watch closely in the new year. Globally, we hold positions mainly in European real estate investment trusts where yields are significantly above sovereign bond yields, offering attractive returns in hard currencies.

We continue to manage the funds in a cautious manner but look to take advantage of the significant mispricing of assets. The mix of different jurisdiction equity positions, combined with high yielding local bonds makes for a portfolio that should be able to ride out the tumultuous period ahead, delivering growth and yield to continue beating inflation.

INVESTOR NEED: INCOME AND GROWTH

Capital Plus and Balanced Defensive

Capital Plus seeks to offer reasonable growth over the medium to long term, while preserving capital over any 18-month period, while Balanced Defensive is slightly more conservative and first seeks to protect capital over 12 months and then achieve reasonable growth in the long term. These funds suit investors who want to draw an income over an extended period of time.

The funds exceeded their 'inflation plus' targets for the year, but they did not succeed in taking the three- and five-year returns to the targeted level. Since inception, the fund returns remain comfortably ahead of their targeted returns.

Major contributors for the year include Northam Platinum, Naspers, British American Tobacco, Anglo American, Altron (in the case of Capital Plus) and Anheuser-Busch InBev (in the case of Balanced Defensive). Detracting from performance were Sasol, Shoprite, Nedbank, Advtech and Woolworths. The contributors far exceeded the detractors and the funds' equities delivered returns of between 9% and close to 11% for the year. Domestic bonds delivered a total return of roughly 9.5% (in both funds), but property investments lost 13% (in the case of Capital Plus) and 4% (in the case of Balanced Defensive) of its value. Foreign assets were the best performing asset class in both funds, with a total return of between 19% and 21%.

We increased our exposure to the local bond market due to the highly attractive real yields on offer. The bond component of our portfolios carries a yield of more than 9%. While we do expect inflation to rise somewhat from the current sub-4% level, it leaves us with a comfortable margin of safety. The high yields in the domestic bond component helped to keep us below the maximum offshore exposure, where yields are extremely low. The high real yield on bonds is also an argument for limiting domestic equity exposure to less than our maximum allowed.

It remains difficult for companies linked to the local economy to grow earnings due to a lack of top-line growth in almost every sector. While the earnings base is low and ratings generally attractive without a rise in confidence, spending will remain depressed. Our exposure to equities remains skewed towards the global stocks listed on the JSE, such as Naspers, British American Tobacco, Anheuser-Busch InBev and others. Exposure to the so-called 'South Africa Inc.' stocks is held mostly through banks and defensive retailers.

Looking forward, we are of the view that the targeted 'inflation plus' returns are achievable. The bond component alone has a high enough yield to deliver the required real return and is supported by a good selection of quality domestic and global equities that are reasonably valued. It is, however, crucial that government passes a budget early in the new year that adequately addresses the deteriorating fiscal situation. Some tough decisions need to be made to curtail spending and stop the bleeding at the State-owned enterprises (SOEs). Lower interest rates will also help the economy and should be viewed positively by the markets.

INVESTOR NEED: IMMEDIATE INCOME

Strategic Income

Strategic Income is a managed income fund that invests across the full range of income-generating asset classes such as government, corporate and inflation-linked bonds, listed property, offshore bonds, money-market negotiable certificates

>

of deposit (NCDs) and preference shares. The main aim of the fund is to produce a consistent and reliable return for investors with immediate income needs.

We remain vigilant of risks emanating from the dislocations between stretched valuations and the underlying fundamentals of the local economy. However, we believe that the fund's current positioning correctly reflects appropriate levels of caution. The fund's yield of 8.48% remains attractive relative to its duration risk.

The fund maintains its healthy exposure to offshore assets, and, when valuations are stretched, it will hedge/unhedge portions of its exposure back into rands/dollars by selling/buying JSE-traded currency futures (US dollar, UK pound and euro). These instruments are used to adjust the fund's exposure synthetically, allowing it to maintain its core holdings in offshore assets. This has the added benefit of enhancing the fund's yield when bringing offshore exposure back into rand.

The spreads of floating-rate NCDs have dulled in appeal due to a compression in credit spreads. There has been a reduced need for funding from local banks given the low-growth environment. Fixed-rate NCDs continue to hold appeal due to the inherent protection offered by their yields and relative to our expectations for a stable repo rate. However, credit spreads remain in expensive territory. The fund continues to hold decent exposure to these instruments (less floating than fixed), but we remain cautious and selective when increasing exposure.

Inflation is expected to average close to 4.5% over the next two years, while growth is not expected to reach 1.5% until 2021 (South Africa's growth has averaged sub-1% since 2015), while global growth is expected to average just above 3%. The Monetary Policy Committee (MPC) has reiterated that it wants inflation closer to the midpoint, so that it can use monetary policy more effectively during times of crisis. South Africa's economy is struggling to grow and although monetary policy is a blunt tool, it can be used to boost confidence and relieve some consumer pressure.

Local bond and equity markets underperformed their global peers. The domestic economy has been plagued with low growth, ballooning government finances and a volatile global geopolitical environment. Low growth and well-contained inflation suggest the trajectory for policy rates to be lower over the next 12 months. In addition, local bonds have continued to underperform relative to their global and emerging market counterparts, suggesting an increased risk premium given South Africa's precarious economic backdrop. At current levels, South African government bonds seem adequately priced relative to underlying risks, which suggests a neutral allocation in portfolios.

Moody's is the only ratings agency that has South Africa as investment grade, which keeps us in the World Government Bond Index (WGBI). However, it is very likely that they will downgrade South Africa in 2020, which should see outflows from the local bond market of between R70 billion and R120 billion. This may seem like a big negative but we should not forget that South Africa has a very deep, liquid bond market; a large, sophisticated saving industry; that this deterioration and associated risks have been well flagged over the last few years, so investor positioning has adjusted accordingly; and that South Africa is less than 1% of the WGBI, so at current valuations, investors might choose not to exit. And, even if the 2020 February Budget fails to restore confidence and South Africa does exit the WGBI, it does not mean the end of the world for South African government bonds. It is more likely that we will see some fiscal effort in the budget and with regard to SOEs, which will at least keep policy trajectory headed in the right direction.

Listed property has been the largest drag on performance. From a valuation perspective, the sector remains attractive. If one excludes offshore exposure, the property sector's yield is greater than 10%, which compares favourably to the benchmark bond. The fund maintains holdings in counters that offer strong distribution and income growth, with upside to their net asset value. In the event of a moderation in listed property valuations (which may be triggered by further risk-asset or bond-market weakness), we will look to increase the fund's exposure to this sector at more attractive levels.

Despite attractive valuations, the preference share asset class will continue to dissipate, given the lack of new issuance as bank issues risk being classified as eligible loss-absorbing capital (only senior to equity). The fund maintains select exposure to certain high-quality corporate preference shares but will not actively look to increase its holdings.

We continue to believe that the fund's yield of 8.48% is an adequate proxy for expected fund performance over the next 12 months.

INVESTOR NEED: OFFSHORE DIVERSIFICATION

Global Managed & Optimum Growth

Global Managed aims to achieve good long-term investment growth by investing in a range of opportunities available in public asset markets from around the world. It may suit investors who are seeking long-term growth with the appetite for short-term volatility.

Optimum Growth aims to maximise long-term investment growth by investing in a range of opportunities available in public asset markets from both South Africa and around the world. Our intent is to provide competitive after-inflation returns measured in rand over all five-year periods.

2019 was a year to make money. In fact, of the 38 asset classes Deutsche Bank tracks, all were up on an annual basis – the first time this has happened since the inception of the dataset in 2007. In the face of inverted yield curves, ongoing US-China trade tensions and Brexit drama, the US stock market posted its strongest gains since 2009 – in the 11th year of this bull market! On reflection, it was very hard for investors not to post gains.

Years like this are beneficial to wealth creation. But after a sustained period of strong equity returns, declining interest rates, reduced tax rates, expanding profit margins and rising valuation multiples, investors should, in our view, recalibrate return expectations lower.

The conditions in place today are quite different to those in place a decade ago. We have no special insight into short-term market moves, but feel that absolute returns could very well be lower over the next 10 years compared to the last 10.

In the case of Global Managed, strong equity markets combined with good stock selection were the primary drivers of the fund's strong return in 2019. Global equity markets returned 26.6%, with the portion of our portfolio invested in equities outperforming by a handsome 15%, delivering 41.9% for the year.

Despite the fund's current equity weighting (60%) being approximately equal to that of its benchmark, it is important to note that, in aggregate, Global Managed looks very different to the benchmark. Although we will be held to our benchmark over time, our aim and intention in managing the fund has a number of additional dimensions:

1. Deliver attractive absolute returns (meaningfully ahead of inflation).
2. Offer some downside protection from equity market volatility (though with equities as a core building block, investors in the fund should not expect to be fully shielded from market sell-offs).
3. Do not expose the fund to excessive risk, even if such exposures are large in the benchmark (such as developed market government bonds today).

Executing on these additional dimensions over time will, in our view, not only lead to a satisfactory return outcome, but one that continues to be ahead of the benchmark.

Our property stocks recovered in Q4-19, but the annual return remained disappointing. Considering the minimal risk carried, we are satisfied with the 3.4% fixed income return for the year, even though it lagged the benchmark. Prices for most fixed income assets have been pushed to very high levels, in our view, and we will continue to hold very little duration or interest rate risk until value emerges. Finally, gold was a notable performer, increasing 18% for the year.

In the case of Optimum Growth, the fund ended Q4-19 with a 72% net equity exposure, equivalent to that of the prior quarter-end. Of this net exposure, 61.2% was invested in developed market equities, 33.1% in emerging market equities and 5.7% in South African equities.

Our negative view on global bonds remained unchanged, as a large portion of developed market sovereign bonds offer negative yields to maturity, with the follow-on effect that most corporate bonds also offer yields which do not compensate you for the accompanying risk. Only 4.8% of the fund is invested in bonds.

The fund also has 4.3% invested in global property and a physical gold position of 2.7%. The balance is invested in cash, largely offshore.

As has been the case for many years, the bulk of the fund (over 90%) is invested offshore, with very little exposure to South Africa.

You can read more about our current portfolio construction in the comprehensive fact sheets, available at coronation.com. ✚

Domestic flagship fund range

Coronation offers a range of domestic and international funds to cater for the majority of investor needs. These funds share the common Coronation DNA of a disciplined, long-term focused and valuation-based investment philosophy and our commitment to provide investment excellence.

INVESTOR NEED

	INCOME ONLY	INCOME AND GROWTH		LONG-TERM CAPITAL GROWTH	
FUND	**STRATEGIC INCOME** Cash†	**BALANCED DEFENSIVE** Inflation†	**CAPITAL PLUS** Inflation†	**BALANCED PLUS** Composite benchmark† (equities, bonds and cash)	**TOP 20** FTSE/JSE CAPI†
FUND DESCRIPTION	Conservative asset allocation across the yielding asset classes. Ideal for investors looking for an intelligent alternative to cash or bank deposits over periods from 12 to 36 months.	A lower risk alternative to Capital Plus for investors requiring a growing regular income. The fund holds fewer growth assets and more income assets than Capital Plus and has a risk budget that is in line with the typical income-and-growth portfolio.	Focused on providing a growing regular income. The fund has a higher risk budget than the typical income-and-growth fund, making it ideal for investors in retirement seeking to draw an income from their capital over an extended period of time.	Best investment view across all asset classes. Ideal for pre-retirement savers as it is managed in line with the investment restrictions that apply to pension funds. If you are not saving within a retirement vehicle, consider Market Plus, the unconstrained version of this mandate.	A concentrated portfolio of 15-20 shares selected from the entire JSE, compared to the average equity fund holding 40-60 shares. The fund requires a longer investment time horizon and is an ideal building block for investors who wish to blend their equity exposure across a number of funds. Investors who prefer to own just one equity fund may consider the more broadly diversified Coronation Equity Fund.
INCOME VS GROWTH ASSETS[1] ● INCOME ● GROWTH	95.2% 4.8%	57.0% 43.0%	43.6% 56.4%	20.5% 79.5%	0.1% 99.9%
LAUNCH DATE	Jul 2001	Feb 2007	Jul 2001	Apr 1996	Oct 2000
ANNUAL RETURN[2] (Since launch)	10.2% 7.7%†	9.3% 5.9%†	11.5% 5.8%†	14.1% 12.9%†	17.1% 13.4%†
QUARTILE RANK (Since launch)	1st	1st	1st	1st	1st
ANNUAL RETURN (Last 10 years)	8.9% 6.2%†	9.4% 5.1%†	8.3% 5.1%†	10.3% 11.1%†	10.9% 10.5%†
STANDARD DEVIATION (Last 10 years)	1.4% 0.2%†	4.1% 1.2%†	5.5% 1.2%†	7.8% 7.6%†	12.8% 12.4%†
FUND HIGHLIGHTS	Outperformed cash by 1.4% p.a. over the past 5 years and 2.5% p.a. since launch in 2001.	Outperformed inflation by 3.4% p.a. (after fees) since launch, while producing positive returns over all 12-month periods.	Outperformed inflation by 5.8% p.a. (after fees) since launch, while producing positive returns over 24 months more than 99% of the time.	No. 1 balanced fund in South Africa since launch in 1996, outperforming its average competitor by 2.0% p.a. Outperformed inflation by on average 7.9% p.a. since launch and outperformed the ALSI on average by 1.1% p.a (since launch).	The fund added 3.7% p.a. to the return of the market. This means R100 000 invested in Top 20 at launch in Oct 2000 grew to more than R2.0 million by end-Dec 2019 – nearly double the value of its current benchmark. The fund is a top quartile performer since launch.

[1] *Income versus growth assets as at 31 December 2019. Growth assets defined as equities, listed property and commodities (excluding gold).*

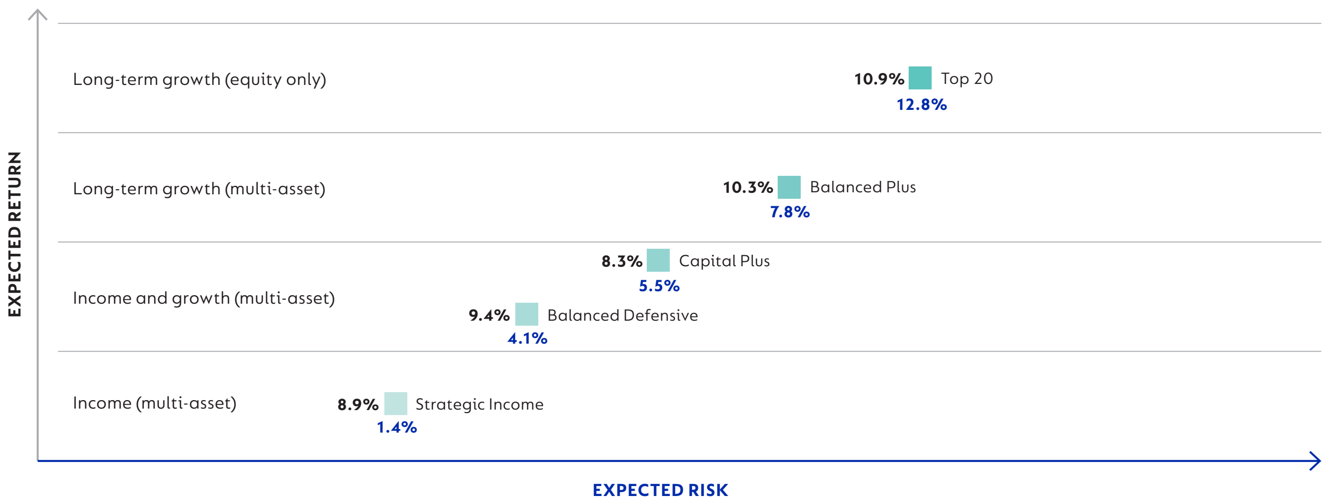
[2] *Highest annual return*
Balanced Defensive: 21.2% (Jun 2012 - May 2013); Balanced Plus: 49.3% (Aug 2004 - Jul 2005); Capital Plus: 33.8% (Aug 2004 - Jul 2005); Strategic Income: 18.7% (Nov 2002 - Oct 2003); Top 20: 68.9% (May 2005 - Apr 2006)

Lowest annual return
Balanced Defensive: 0.5% (Dec 2017 - Nov 2018) ; Balanced Plus: -17.4% (Sep 1997 - Aug 1998); Capital Plus: - 6.2% (Nov 2007 - Oct 2008); Strategic Income: 2.6% (Jun 2007 - May 2008); Top 20: -31.7% (May 2002 - Apr 2003)

Figures are quoted from Morningstar as at 31 December 2019 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

RISK VERSUS RETURN

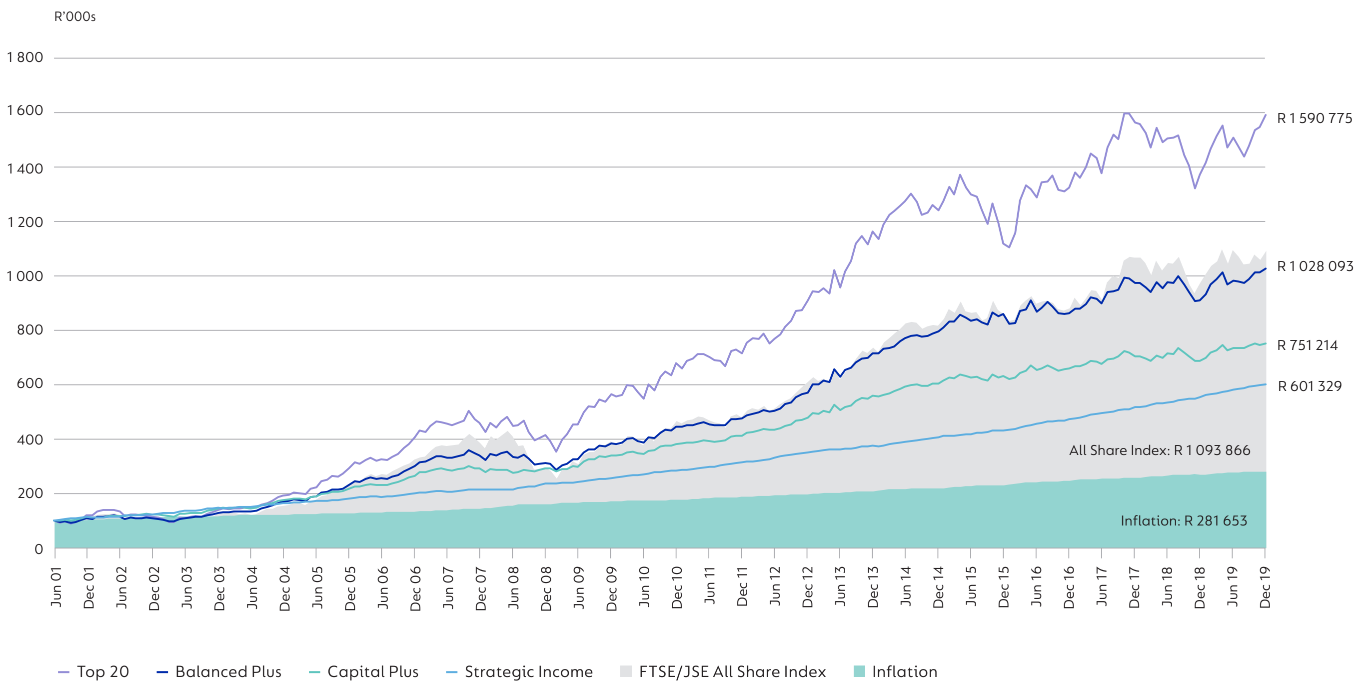
10-year annualised return and risk (standard deviation) quoted as at 31 December 2019.
Figures quoted in ZAR after all income reinvested and all costs deducted.



Source: Morningstar

GROWTH OF R100 000 INVESTED IN OUR DOMESTIC FLAGSHIP FUNDS ON 1 JULY 2001

Value of R100 000 invested in Coronation's domestic flagship funds since inception of Capital Plus on 2 July 2001 as at 31 December 2019. All income reinvested for funds; FTSE/JSE All Share Index is on a total return basis. Balanced Defensive is excluded as it was only launched on 1 February 2007.



Source: Morningstar

International flagship fund range

INVESTOR NEED

	DEPOSIT ALTERNATIVE	CAPITAL PRESERVATION	LONG-TERM CAPITAL GROWTH (MULTI-ASSET)	LONG-TERM CAPITAL GROWTH (EQUITY ONLY)	
FUND[1]	**GLOBAL STRATEGIC USD INCOME** US dollar cash (3 Month Libor)†	**GLOBAL CAPITAL PLUS** US dollar cash (3 Month Libor)†	**GLOBAL MANAGED** Composite (equities and bonds)†	**GLOBAL OPPORTUNITIES EQUITY** MSCI ACWI†	**GLOBAL EMERGING MARKETS** MSCI Emerging Markets Index†
FUND DESCRIPTION	An intelligent alternative to dollar-denominated bank deposits over periods of 12 months or longer.	A low-risk global balanced fund reflecting our best long-term global investment view moderated for investors with smaller risk budgets. We offer both hedged and houseview currency classes of this fund. In the case of the former, the fund aims to preserve capital in the class currency over any 12-month period.	A global balanced fund reflecting our best long-term global investment view for investors seeking to evaluate outcomes in hard currency terms. Will invest in different asset classes and geographies, with a bias towards growth assets in general and equities in particular.	A diversified portfolio of the best global equity managers (typically 6-10) who share our investment philosophy. An ideal fund for investors who prefer to own just one global equity fund. Investors who want to blend their international equity exposure may consider Coronation Global Equity Select, which has more concentrated exposure to our best global investment views.	Our top stock picks from companies providing exposure to emerging markets. The US dollar fund remains fully invested in equities at all times, while the rand fund will reduce equity exposure when we struggle to find value.
INCOME VS GROWTH ASSETS[2] ● INCOME ● GROWTH	97.6% 2.4%	61.4% 38.6%	31.9% 68.1%	0.3% 99.7%	3.1% 96.9%
LAUNCH DATE OF OLDEST FUND	Dec 2011	Nov 2008	Oct 2009	Aug 1997	Dec 2007
ANNUAL RETURN[3] (Since launch)	2.6% 1.0%†	5.3% 0.9%†	6.7% 7.0%†	6.9% 6.3%†	3.5% 1.7%†
QUARTILE RANK (Since launch)	–	1st	1st	–	1st
ANNUAL RETURN[3] (Last 5 years)	1.7% 1.4%	3.3% 1.4%	4.3% 6.3%	6.2% 8.7%	4.2% 5.7%
ANNUAL RETURN[3] (Last 10 years)	–	3.4% 0.9%	6.2% 6.8%	7.7% 9.8%	4.3% 3.9%
QUARTILE RANK (Last 5 years)	–	1st	2nd	–	3rd
FUND HIGHLIGHTS	Outperformed US Dollar cash by 1.5% p.a (after fees) since launch in December 2011.	The fund has outperformed US Dollar cash by 4.4% p.a. (after fees) since launch in 2008.	Number one global multi-asset high equity fund in South Africa since launch in October 2009.	Both the rand and dollar versions of the fund have outperformed the global equity market with less risk since their respective launch dates.	Both the rand and dollar versions of the fund have outperformed the MSCI Emerging Markets Index by more than 1.8% p.a. since their respective launch dates.

[1] *Funds are available as rand-denominated feeder funds and foreign currency-denominated funds. The Global Capital Plus fund is also available in US dollar Hedged (launched 1 December 2011), GBP Hedged (launched 1 December 2011), EUR Hedged (launched 1 December 2011) or Houseview currency class (launched 1 September 2009).*

[2] *Income versus growth assets as at 31 December 2019 (for US dollar funds). Growth assets defined as equities, listed property and commodities (excluding gold).*

[3] *Returns quoted in US dollar for the oldest fund.*

Highest annual return
Global Strategic USD Income: 7.1% (Jan 2012 - Dec 2012); Global Capital Plus [ZAR] Feeder: 31.4% (Mar 2009 - Feb 2010); Global Managed [ZAR] Feeder: 23.1% (Jul 2010 - Jun 2011); Global Emerging Markets Flexible [ZAR]: 96.0% (Mar 2009 - Feb 2010); Global Opportunities Equity [ZAR] Feeder: 56.9% (Apr 1999 - Mar 2000)

Lowest annual return
Global Strategic USD Income: -1.0% (Mar 2015 -Feb 2016); Global Capital Plus [ZAR] Feeder:-7.0% (Mar 2015 - Feb 2016); Global Managed [ZAR] Feeder: -14.9% (Mar 2015 - Feb 2016); Global Emerging Markets Flexible [ZAR]: -51.9% (Mar 2008 - Feb 2009); Global Opportunities Equity [ZAR] Feeder: -41.3 % (Mar 2008 - Feb 2009)

Figures are quoted from Morningstar as at 31 December 2019 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily an indication of future performance. Participatory interests are traded at ruling prices and can engage in scrip lending and borrowing. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. A schedule of fees and charges is available on request from the management company. Pricing is calculated on a net asset value basis, less permissible deductions. Forward pricing is used. Commission and incentives may be paid and, if so, are included in the overall costs. Coronation is a member of the Association for Savings and Investment South Africa (ASISA).

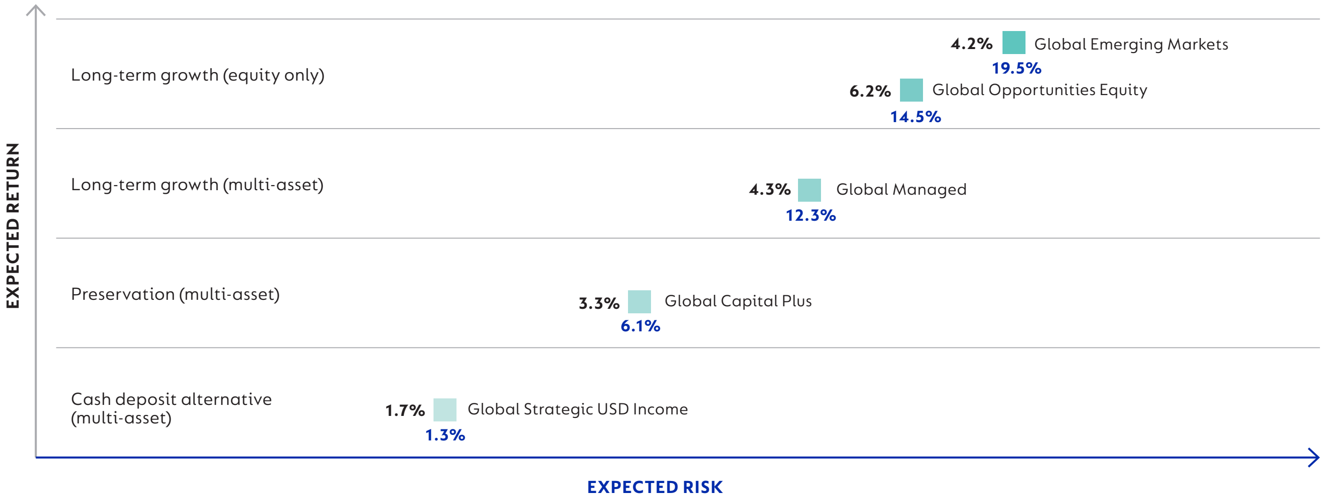
HAVE YOU CONSIDERED EXTERNALISING RANDS? IT IS EASIER THAN YOU MIGHT THINK.

The South African Reserve Bank allows each resident South African taxpayer to externalise funds of up to R11 million per calendar year (a R10 million foreign capital allowance and a R1 million single discretionary allowance) for direct offshore investment in foreign currency denominated assets. If you want to invest more than R1 million, the process is as easy as:

1. Obtain approval from the South African Revenue Service by completing the appropriate form available via eFiling or your local tax office. Approvals are valid for 12 months and relatively easy to obtain if you are a taxpayer in good standing.
2. Pick the mandate that is appropriate to your needs from the range of funds listed here. You may find the 'Choosing a Fund' section or 'Compare Funds' tool on our website helpful, or you may want to consult your financial advisor if you need advice.
3. Complete the relevant application forms and do a swift transfer to our US dollar subscription account. Your banker or a foreign exchange currency provider can assist with the forex transaction, while you can phone us on 0800 86 96 42, or read the FAQ on our website, at any time if you are uncertain.

RISK VERSUS RETURN

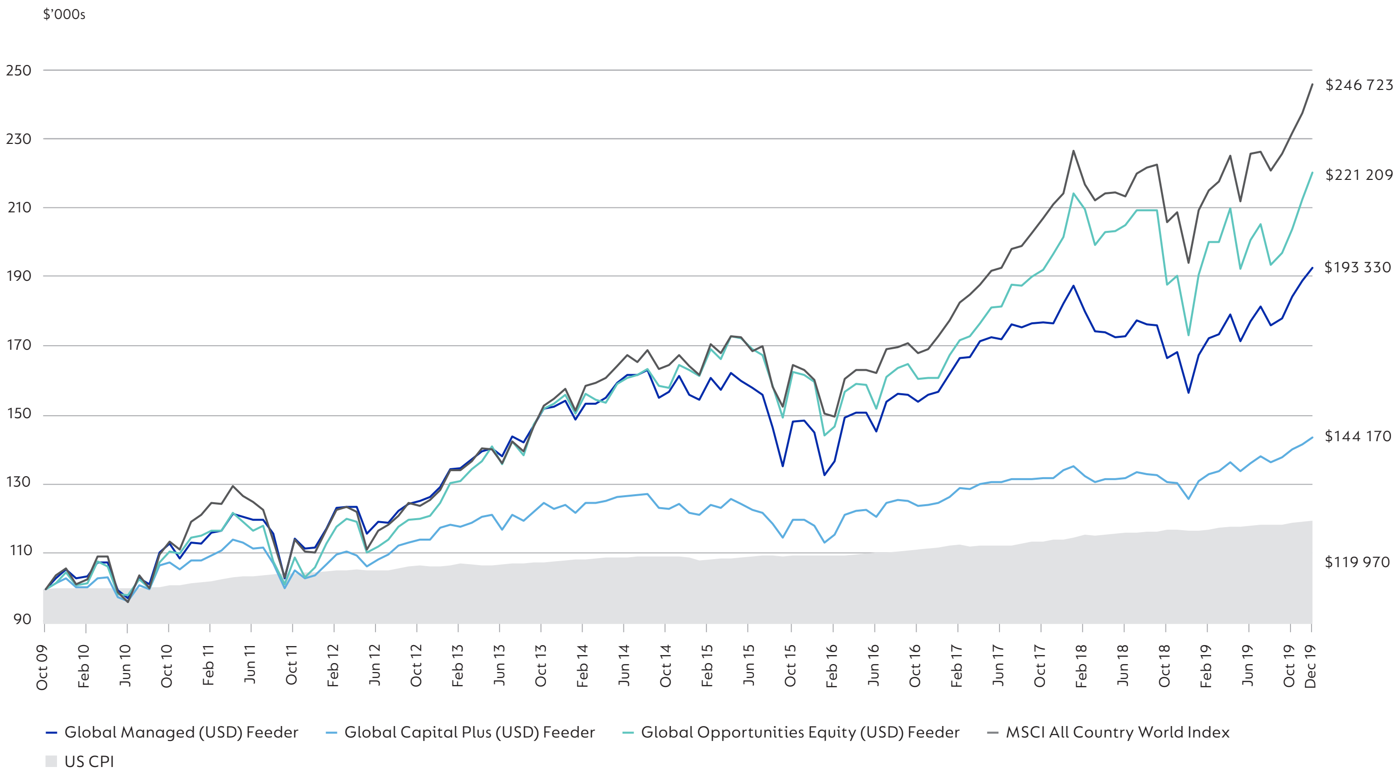
5-year annualised return and risk (standard deviation) quoted as at 31 December 2019. Figures quoted in USD (for the oldest fund) after all income reinvested and all costs deducted.



Source: Morningstar

GROWTH OF $100 000 INVESTED IN OUR GLOBAL MULTI-ASSET FUNDS ON 29 OCTOBER 2009

Value of $100 000 invested in Global Managed [ZAR] Feeder, Global Capital Plus [ZAR] Feeder and Global Opportunities Equity [ZAR] Feeder since inception of Global Managed [ZAR] Feeder on 29 October 2009. All returns quoted in USD. All income reinvested for funds. MSCI World Index is on a total return basis.



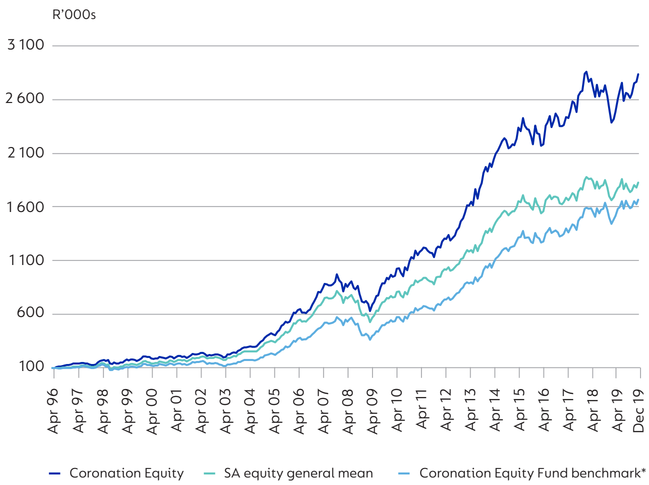
Source: Morningstar

Long-term investment track record

CORONATION EQUITY RETURNS VS EQUITY BENCHMARK

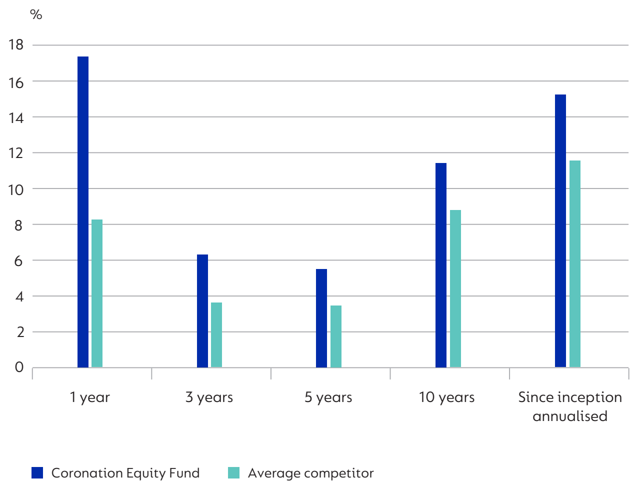
10-YEAR ANNUALISED RETURNS	CORONATION EQUITY	AVERAGE COMPETITOR	OUTPERFORMANCE OF AVERAGE COMPETITOR
2006	19.38%	17.09%	2.30%
2007	21.45%	19.23%	2.22%
2008	17.62%	18.47%	(0.84%)
2009	16.53%	16.68%	(0.15%)
2010	19.59%	19.14%	0.45%
2011	18.03%	16.98%	1.05%
2012	21.12%	18.94%	2.19%
2013	21.60%	18.68%	2.92%
2014	18.44%	16.32%	2.12%
2015	14.86%	12.62%	2.24%
2016	11.95%	9.54%	2.41%
2017	11.99%	8.90%	3.09%
2018	12.77%	10.54%	2.23%
2019	11.35%	8.71%	2.63%
ANNUALISED TO 31 DECEMBER 2019	**CORONATION EQUITY**	**AVERAGE COMPETITOR**	**ALPHA**
1 year	17.23%	8.19%	9.05%
3 years	6.25%	3.61%	2.64%
5 years	5.45%	3.44%	2.01%
10 years	11.35%	8.71%	2.63%
Since inception in April 1996 annualised	15.12%	11.46%	3.66%
Average outperformance per 10-year return			1.78%
Number of 10-year periods outperformed			12.00
Number of 10-year periods underperformed			2.00

CUMULATIVE PERFORMANCE



Source: Morningstar

ANNUALISED RETURNS TO 31 DECEMBER 2019



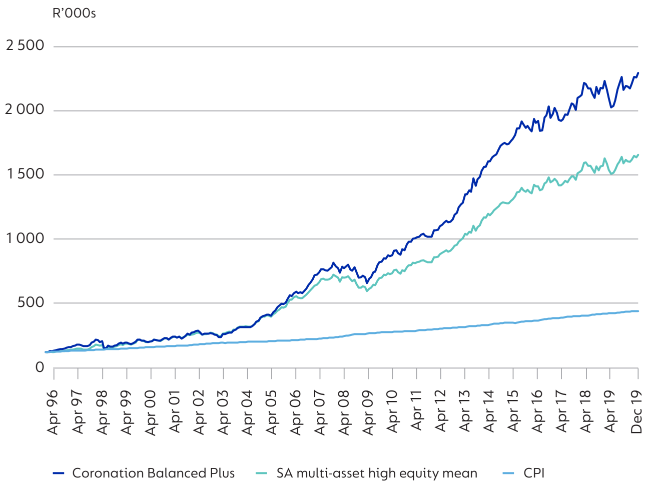
Source: Morningstar

An investment of R100 000 in Coronation Equity on 15 April 1996 would have grown to **R2 799 189** by 31 December 2019. By comparison, the returns generated by the fund's benchmark over the same period would have grown a similar investment to **R1 645 776**, while the South African equity general sector would have grown a similar investment to **R1 803 322**.

CORONATION BALANCED PLUS FUND VS INFLATION AND AVERAGE COMPETITOR*

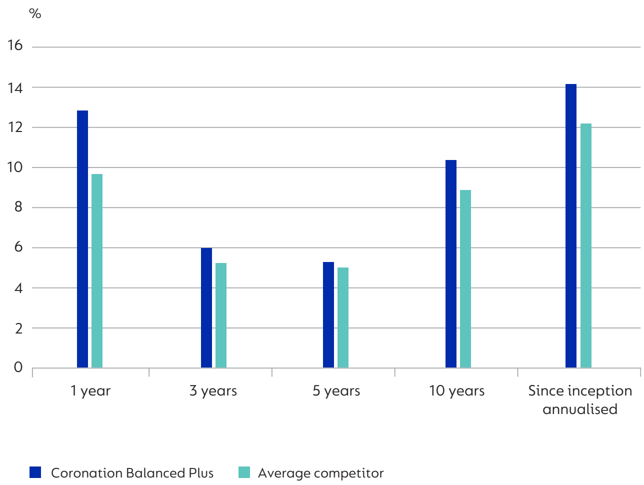
10-YEAR ANNUALISED RETURNS	CORONATION BALANCED PLUS	INFLATION	REAL RETURN
2006	18.33%	6.47%	11.86%
2007	17.81%	6.59%	11.22%
2008	16.96%	6.87%	10.09%
2009	15.69%	6.75%	8.94%
2010	17.20%	6.28%	10.93%
2011	15.78%	6.24%	9.54%
2012	17.85%	5.76%	12.09%
2013	18.63%	5.90%	12.73%
2014	16.58%	6.00%	10.57%
2015	14.01%	6.12%	7.89%
2016	11.08%	6.30%	4.77%
2017	11.04%	5.92%	5.12%
2018	11.26%	5.34%	5.92%
2019	10.30%	5.12%	5.18%
ANNUALISED TO 31 DECEMBER 2019	**CORONATION BALANCED PLUS**	**AVERAGE COMPETITOR**	**ALPHA**
1 year	12.77%	9.58%	3.18%
3 years	5.97%	5.17%	0.80%
5 years	5.27%	4.96%	0.31%
10 years	10.30%	8.81%	1.49%
Since inception in April 1996 annualised	14.08%	12.10%	1.97%
Average 10-year real return			9.06%
Number of 10-year periods where the real return is >10%			7.00
Number of 10-year periods where the real return is 5% - 10%			6.00
Number of 10-year periods where the real return is 0% - 5%			1.00

CUMULATIVE PERFORMANCE



Source: Morningstar

ANNUALISED RETURNS TO 31 DECEMBER 2019



Source: Morningstar

An investment of R100 000 in Coronation Balanced Plus on 15 April 1996 would have grown to **R2 257 828** by 31 December 2019. By comparison, the South African multi-asset high-equity sector over the same period would have grown a similar investment to **R1 625 039**.

* *Median of Peer Group is the median of the fully-discretionary retirement portfolios of the largest managers as published in performance surveys and calculated by Coronation Fund Managers.*