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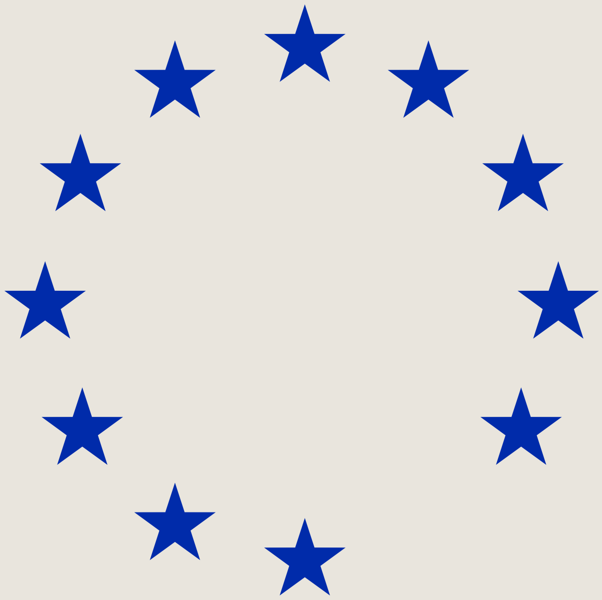
The Personal Investments Quarterly



A dog's Brexit

CORONATION
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OCTOBER 2018 SPRING EDITION

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Notes from my inbox

By Pieter Koekemoer

"When I consider what people generally want in calculating, I found that it always is a number." – Mathematician Muhammad ibn Musa al-Khwarizmi, 9th century

"The element of surprise is common in a system where so many decisions depend on forecasts of the future." – Iconoclastic economist Frank Knight, mid-20th century

Pieter is head of the personal investments business. His key responsibility is to ensure exceptional client service through a combination of appropriate product, relevant market information and good client outcomes.

OUR MODERN MASTERY of numbers is rooted in the Hindu-Arabic numeric system developed around 1 500 years ago and first encountered by Europeans 700 years later at the time of the Crusades. Muhammad ibn Musa al-Khwarizmi was a scholar based in Baghdad and is generally recognised as the founder of algebra (literally meaning the reunion of broken parts). Incidentally, his name is also the root of the word algorithm. It took another 400 years before the concepts of probability and formal risk management were developed during the Renaissance, which led to the development of sophisticated financial and insurance markets in the 1700s. This in turn enabled the rapid economic growth achieved during the Industrial Revolution. Since the Victorian era, the study of economics and risk became increasingly dominated by mathematics and the belief in rational >

decision-making. The backlash against this purely numerical approach started in the early 20th century when economists such as Frank Knight pointed out that in making decisions, we are typically dealing with unquantifiable uncertainty rather than quantifiable risks. Scholars such as Amos Tversky, Daniel Kahneman and Richard Thaler have further described how cognitive biases influence the way humans manage risk and uncertainty.*

So why the history lesson? Like in al-Khwarizmi's time, investors today are still insistent on a number; in our case, a future return expectation. This need tends to increase when recent results have been underwhelming and pessimism is more common than optimism. We understand why many investors are concerned. 2018 continues to be a testing year, reflected in cash outperforming equities, listed property and bonds – both in South Africa and globally – over the first nine months of the year. For the past three years, local shares barely beat inflation, delivering a real return of 1.5%. Local economic conditions remain tough, with many signals of weak confidence and consumers under pressure. Quality shares that used to be loved by the market over years, or even decades, have been aggressively sold down after either delivering a poor set of results, a single missed expectation or in response to news that the company in question is faced by an unexpected challenge. Global investors, who a few years ago nearly universally believed in emerging markets and the African growth story, are now shunning the continent. Given recent experience, it is reasonable to ask whether this is just a particularly tough cycle, or whether the strategies that used to work are now broken.

Unfortunately, like Knight pointed out a millennium later, we can only respond with an imperfect answer. Uncertainty means that many paths can be taken, that the collective actions of millions of decision-makers will influence the outcomes in surprising ways and that it is only with the benefit of hindsight that we will know the eventual destination.

We have, however, been here before. Whether it was the tough transition to democracy in the early 1990s, the emerging markets crisis of 1998, the bursting of the dot-com bubble in 2000, the collapse of the commodity super-cycle and the global financial crisis in 2008, or the destabilising events of Nenegate in 2015, we have been able to navigate the choppy waters. During these periods, asset prices reflect a lot of negative sentiment. Starting yields on income assets become more attractive as investors sell bonds and property. Equity valuations become undemanding as earnings decline and shares de-rate. The negative jaws of depressed earnings and increasing costs that are causing today's concerns often create tomorrow's opportunities. In these conditions, small changes in circumstance can lead to large jumps in share prices. We still have very high convictions that a relentless focus on valuation, coupled with judicious implementation in well-diversified, risk-appropriate portfolios will deliver good outcomes over time. In nearly all instances, the investment cases remain intact for the positions in our funds that have recently disappointed.

IN THIS EDITION

Nicholas Hops unpacks one such investment case in his article, explaining why we have exposure to selected platinum group miners despite a very tough decade for the industry. For insight into a global opportunity currently in our portfolios, read Paul Neethling's story on New Oriental Education, China's largest provider of private educational services, mostly after-school tutoring. You can also read the flagship fund update on page 34 or the fund commentaries available on www.coronation.com for further information on how we have deployed your capital.

We also include two financial planning articles. In a follow-up to last quarter's article on setting return expectations, Christo Lineveldt unpacks the return outlook from the perspective of more conservative investors. On page 12, we discuss the advantages of tax-free investments, which we believe are still the best tax break available to individual investors.

Marie Antelme provides an update on the Brexit process, another example of uncertainty in action. With the statutory exit deadline less than six months away, the outcome remains surprisingly open-ended.

We hope you enjoy the read. As always, you are welcome to email us at clientservice@coronation.com if you have any specific questions, concerns or issues that you would like to discuss.

Pieter

*If you are interested in reading more about this history, Peter Bernstein's classic *Against The Gods: The Remarkable Story of Risk* is a good starting point.

Key performance indicators and fund performance

AS AT 30 SEPTEMBER 2018

	QTD	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	15 YEARS	20 YEARS
DOMESTIC INDICES								
CAPI (J303T)	(1.0%)	(3.0%)	3.3%	6.6%	8.0%	12.3%	16.6%	-
ALSI (J203T)	(2.2%)	(3.8%)	3.3%	6.7%	8.0%	12.1%	16.3%	16.6%
Top 40 (J200T)	(2.7%)	(3.2%)	3.3%	6.3%	7.7%	11.7%	16.0%	16.4%
SWIX (J403T)	(3.3%)	(8.0%)	0.9%	5.6%	8.0%	12.5%	16.9%	-
ALSI Industrials (J257T)	(7.8%)	(11.8%)	(7.7%)	2.5%	7.7%	16.2%	20.2%	16.5%
ALSI Financials (J580T)	2.8%	(6.8%)	8.1%	4.6%	10.9%	13.8%	16.9%	13.6%
ALSI Resources (J258T)	5.2%	21.0%	26.9%	15.7%	1.0%	2.9%	9.3%	15.3%
SA Listed Property (J253T)	(1.0%)	(22.2%)	(15.7%)	(1.4%)	6.8%	13.5%	18.4%	-
BEASSA (TR) All Bond Index (JAPI05)	0.8%	4.8%	7.1%	7.7%	7.2%	8.6%	8.6%	11.8%
Short Term Fixed Interest 3 Month Cash Rate	1.7%	5.1%	6.9%	7.0%	6.5%	6.5%	7.2%	-
CPI	1.1%	3.9%	4.8%	5.3%	5.3%	5.2%	5.7%	6.1%
INTERNATIONAL INDICES								
MSCI ACWI (USD)	4.3%	3.8%	9.8%	13.4%	8.7%	8.2%	8.1%	-
MSCI WORLD (USD)	5.0%	5.4%	11.2%	13.5%	9.3%	8.6%	8.1%	6.2%
MSCI GEM (USD)	(1.1%)	(7.7%)	(0.8%)	12.4%	3.6%	5.4%	9.7%	-
S&P 500 (USD)	7.7%	10.6%	17.9%	17.3%	13.9%	12.0%	9.7%	7.4%
BGBA (USD)	(0.9%)	(2.4%)	(1.3%)	2.0%	0.8%	2.9%	3.5%	3.9%
3 Month Libor (USD)	0.6%	1.7%	2.1%	1.3%	0.9%	0.7%	1.7%	2.3%
MSCI ACWI (ZAR)	7.5%	18.7%	14.7%	14.3%	16.4%	14.2%	13.4%	-
MSCI WORLD (ZAR)	8.2%	20.6%	16.2%	14.4%	17.1%	14.6%	13.4%	10.9%
MSCI GEM (ZAR)	1.9%	5.6%	3.6%	13.2%	11.0%	11.3%	15.0%	-
3 Month Libor (ZAR)	3.7%	16.3%	6.6%	2.1%	8.1%	6.3%	6.7%	6.9%
SPOT RATES								
Rand Dollar exchange rate	13.7	12.4	13.5	13.8	10.0	8.2	6.9	5.9
Rand Dollar % change	(3.0%)	(12.6%)	(4.3%)	(0.8%)	(6.7%)	(5.3%)	(4.6%)	(4.3%)
Rand Euro exchange rate	16.0	14.9	16.0	15.5	13.6	11.7	8.1	7.0
Rand Pound exchange rate	18.1	16.7	18.0	20.9	16.2	14.8	11.5	10.0
Gold price (USD)	1 250.5	1 187.3	1 283.1	1 114.0	1 326.5	884.5	388.0	293.9
Oil price (USD barrel)	79.2	82.9	56.8	48.4	108.4	98.2	27.6	14.9

	QTD	YTD	1 YEAR	3 YEARS	5 YEAR S	10 YEARS	15 YEARS	20 YEARS	SINCE LAUNCH
DOMESTIC FUNDS PERFORMANCE									
Coronation Top 20 Fund	(4.0%)	(7.6%)	(3.8%)	6.6%	5.2%	13.0%	18.4%	-	17.8%
ASISA Mean of South African Equity General	(0.7%)	(4.2%)	1.2%	4.1%	6.0%	10.2%	15.0%	-	14.2%
Coronation Market Plus Fund**	(1.5%)	(1.7%)	(2.0%)	6.1%	6.6%	12.0%	15.8%	-	15.6%
ASISA Mean of South African Multi-Asset Flexible	0.6%	(0.4%)	1.6%	4.6%	6.8%	9.7%	12.1%	-	11.8%
Coronation Balanced Plus Fund	(0.7%)	(0.5%)	2.0%	5.6%	7.2%	11.4%	15.3%	14.9%	14.6%
ASISA Mean of South African Multi-Asset High Equity	1.1%	0.9%	3.1%	5.3%	6.9%	9.6%	13.5%	13.9%	12.6%
Coronation Capital Plus Fund	0.2%	1.7%	2.0%	5.2%	5.8%	9.7%	12.1%	-	12.1%
ASISA Mean of South African Multi-Asset Medium Equity	1.5%	1.9%	3.8%	5.3%	6.6%	8.8%	11.3%	-	11.3%
Coronation Balanced Defensive Fund	1.1%	4.3%	4.8%	6.6%	7.3%	10.1%	-	-	9.7%
ASISA Mean of South African Multi-Asset Low Equity	1.6%	3.2%	4.7%	6.0%	7.0%	8.5%	-	-	7.9%
Coronation Strategic Income Fund	1.7%	5.3%	7.5%	8.5%	8.1%	9.1%	9.4%	-	10.3%
ASISA Mean of South African Multi-Asset Income	1.9%	5.6%	7.2%	7.8%	7.3%	7.5%	7.8%	-	8.7%
INTERNATIONAL FUNDS PERFORMANCE									
Coronation Global Opportunities Equity Fund	1.3%	3.5%	9.3%	11.7%	7.4%	8.9%	-	-	6.2%
Coronation Global Opportunities Equity [ZAR] Feeder Fund	5.3%	19.2%	15.3%	12.8%	14.9%	14.4%	12.9%	11.8%	12.9%
Coronation Global Emerging Markets Fund	(5.4%)	(16.7%)	(14.4%)	12.3%	(0.4%)	6.0%	-	-	4.2%
Coronation Global Emerging Markets Flexible [ZAR] Fund	(2.5%)	(4.6%)	(9.5%)	13.8%	6.4%	10.9%	-	-	9.3%
Coronation Global Managed Fund	0.9%	(3.8%)	(1.0%)	8.3%	3.8%	-	-	-	6.3%
Coronation Global Managed [ZAR] Feeder Fund	4.9%	10.9%	4.4%	9.9%	11.0%	-	-	-	13.9%
Coronation Global Capital Plus Fund	0.6%	(0.9%)	0.8%	4.8%	2.0%	-	-	-	4.0%
Coronation Global Capital Plus [ZAR] Feeder Fund	4.0%	13.8%	5.8%	5.8%	8.9%	-	-	-	9.1%
Coronation Global Strategic Income Fund	0.5%	0.1%	1.4%	1.6%	1.5%	-	-	-	2.4%
Coronation Global Strategic USD Income [ZAR] Feeder Fund	3.7%	14.7%	6.1%	2.3%	8.5%	-	-	-	8.1%

* 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)
Figures as at 30 September 2018; for detailed fund performance, refer to pages 38 and 40

Going forward from here

What might go right?

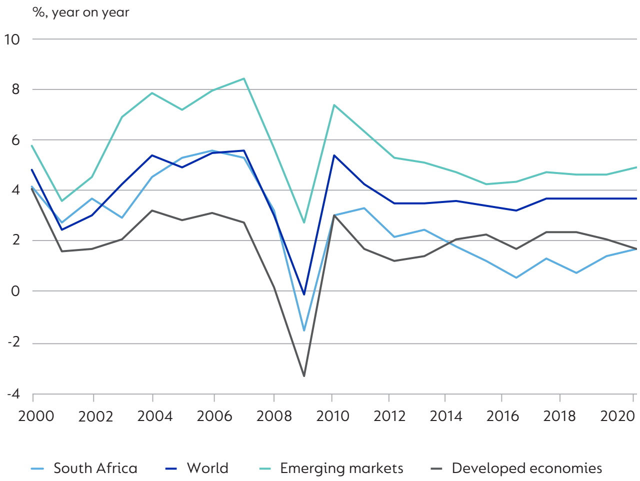
By Marie Antelme

IT HAS BEEN a consistently disappointing year for growth. After a decade in which growth barely topped an average of 1.5%, accompanied by a grinding deterioration in the political environment and institutional integrity, it was not hard, arithmetically, to justify a sentiment-driven reprieve this year. Indeed, at the start of this year, the drivers of growth seemed broadly in line. Global growth accelerated into the fourth quarter of 2017, domestic terms of trade were elevated, the US was set to deliver a decent taxpayer boost to already strong output activity, and low global inflation pointed to only a slow normalisation of very accommodative global monetary policy settings.

Then a number of things went wrong. Global growth momentum, especially in developed economies, slowed meaningfully in the first quarter of 2018. The US saw GDP moderate to 2.2% quarter on quarter seasonally adjusted and annualised (q/q saa) from

Marie is an economist with 18 years' experience in financial markets. She joined Coronation in 2014 after working for UBS AG, First South Securities and Credit Suisse First Boston.

RELATIVE GDP GROWTH

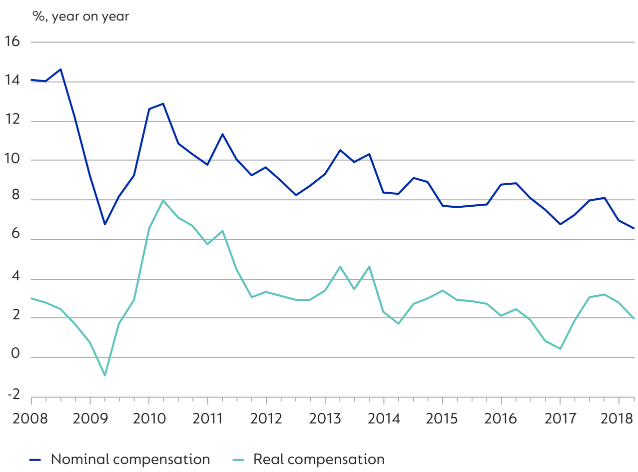


Source: IMF

2.3%, but in Germany growth slowed to 1.5% q/q saa from 2.2%, and Japan's economy registered a contraction. Some of the slowing reflected one-offs which reversed in the second quarter, but the disruption stalled the momentum which built through 2017. While global growth is still robust, it has become more uneven and, importantly, visible risks have increased. And they are all to the downside.

In South Africa, high-frequency data were discouraging to start with: mining production contracted and manufacturing was weak, affected by refinery closure and other disruptions. Net trade fell hard in the first quarter, with an iron ore derailment at least in part to blame. Agriculture was much weaker than expected, affected by the drought, and a high base.

HOUSEHOLD INCOME UNDER PRESSURE



Source: South African Reserve Bank

From an expenditure perspective, data for the first half of this year point to households under immense strain. Real household income has been under pressure since 2010. With the value-added tax hike, and another year in which there was effectively no adjustment for bracket creep, consumers have seen a meaningful increase in their tax burden relative to income. Household spending contracted 1.3% y/y in the second quarter of 2018, off a low 1.0% y/y in the first quarter. In addition, gross fixed capital formation contracted for the second consecutive quarter as government and public corporation spending fell, offsetting a nascent recovery (albeit important) in private capex. The various supply-side one-offs led to a massive inventory contraction, which took an additional 2.9 percentage points off GDP. Net trade was the only real positive, with a recovery in export volumes.

By mid-year, hopes of a speedy recovery were dashed. Output data have improved, but momentum is too slow, for now, to meet high hopes of a post-Zuma recovery this year. It has all taken a lot longer than expected.

As we head into 2019, it is hard to be optimistic, because a number of things have now deteriorated:

- Global growth is slowing, and has become more uneven.
- Global trade volumes are under pressure and trade tensions have risen.
- Higher US interest rates, and possibly elsewhere, in coming months, imply a more adverse environment for emerging market assets.
- High oil prices threaten inflation and reduce real incomes.
- Domestic policies remain messy despite the best efforts of the new administration.
- Domestic employment and wage data are still weak.
- Profitability is under pressure.
- Sentiment has deteriorated.

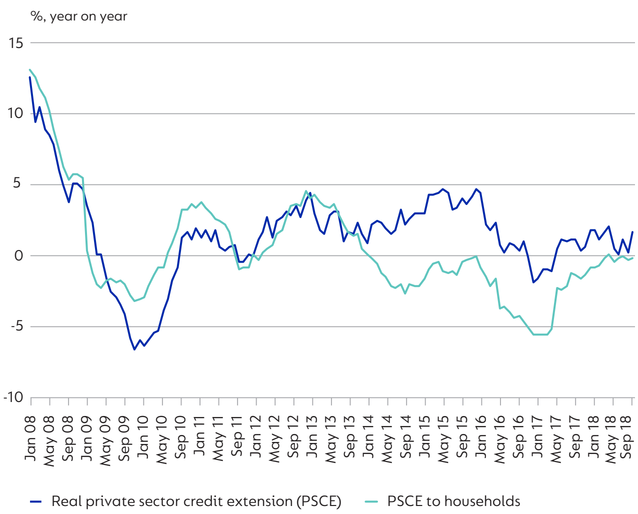
While these developments make it hard to expect a meaningful acceleration in growth in South Africa, I still think the worst is behind us. So let us indulge in a little sideways thinking. What could go right?

With South Africa having scored so many own goals in terms of policy and political rhetoric that negatively affected sentiment and growth, and having suffered a number of 'one-offs' which affected output, there is some merit to the argument that the country may benefit from stability in these areas. The economy, demonstrably, has not grown. Without growth there is limited room for a deceleration – you cannot fall off a cliff if you have not climbed it! Growth is always a function of a combination of labour absorption (consumption), capex and productivity gains. In turn, consumption is a function of income growth and a willingness to spend, while capex usually requires a change in capacity constraints and an improvement in expected returns, and is usually the biggest driver of efficiency (productivity).

The protracted period of economic malaise has seen deleveraging (except the state). There are few visible excesses, and credit growth in real terms is low but stable. Importantly, consumers should see some easing in their very constrained positions in coming months. Most recent data suggest a modest acceleration in credit extension to households.

Consumer confidence, which undoubtedly overshot in the first half of the year, remains elevated by historic standards and is historically consistent with stronger spending. Household leverage has declined, and debt service costs remain low. Household saving has turned positive, which suggests some cushion has been rebuilt. While higher fuel prices are a rising headwind, the rate of change should slow in early 2019, and we expect food inflation to remain reasonably low. Importantly, we do not expect a similar increase in the household tax burden in 2019/2020. The outlook for employment is stable, and it is possible that government's infrastructure plan could improve employment at the margin. Similarly, the extension of the youth employment tax incentive should also help.

REAL CREDIT GROWTH

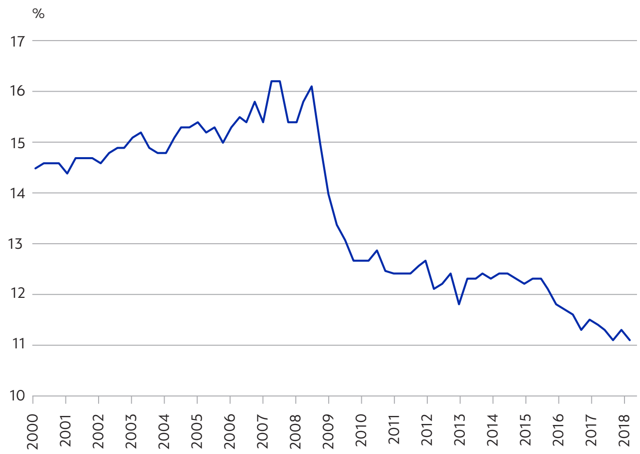


Source: South African Reserve Bank

While gross fixed capital formation was very weak in the first half of 2018, private capex was positive. The available data show that companies have increased investment in non-residential structures and transport equipment, and recent data for building plans passed have visibly picked up. In addition, inventories, run down excessively in response to interrupted mining and manufacturing supply, have room to recover.

It is likely that a meaningful acceleration in domestic demand will push the current account deficit wider. It is also possible that the sharp depreciation in the currency and recent moves to simplify tourist visa requirements could facilitate a bumper tourism season in the year ahead. The currency may be vulnerable, but some offset is possible too, if we get just a few things right.

INVENTORIES TO GDP



Source: South African Reserve Bank

With this in mind, we expect growth to recover moderately in the third quarter and accelerate further into 2019. With a real growth forecast of 0.8% this year and 1.8% next year, the forecast still implies a relatively constrained acceleration and modest growth in 2019, only just at or slightly below potential. This not only implies a return to an uninspiring past, but also an environment in which core inflation should remain low. Our forecast for inflation is for CPI to average 4.6% in 2018 and rise to 5.4% in 2019, despite the weaker currency and acceleration in oil prices. In this context, we are unlikely to see an aggressive interest rate cycle, despite the risk that the South African Reserve Bank Monetary Policy Committee (MPC) may decide to moderately increase nominal rates as inflation ticks up. We expect real rates to remain accommodative. Our base case is for interest rates to remain on hold through mid-2019, acknowledging the risk that the MPC may opt to start gradually raising rates should rising headline inflation threaten long-term expectations. It is, however, worth highlighting that within this relatively benign base case, considerably faster and more inclusive growth is needed to ensure fiscal and social stability.

What drives sentiment? More and more bad news has driven domestic sentiment weaker for a decade. While this year has certainly taught us that lost momentum and a deficit of trust take more than we had thought to heal and in turn translate into committed capital, either by households or businesses, it is possible that, at the margin, the rate of deterioration has bottomed. ✚

The silver lining of low returns

Avoiding impulsive decisions by looking forward

By Christo Lineveldt

Christo is an investment specialist within the Coronation personal investments business, responsible for the distribution of Coronation's funds across IFA and corporate channels. He holds a BCom in economics and econometrics, and a postgraduate diploma in financial planning, and is a Certified Financial Planner.

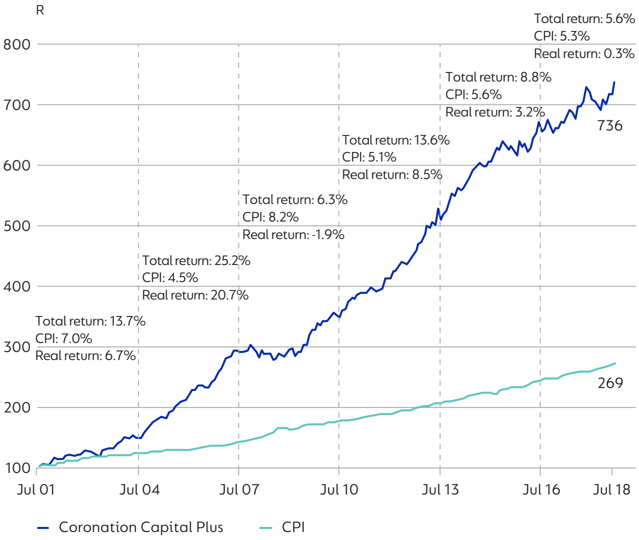
IN LAST QUARTER'S *Corospondent* we wrote about the low-return environment of the last five years and how it has led to a significant gap between expected returns and the actual results experienced by investors. The underwhelming period endured by some investors has left many questioning the risk-return payoff inherent in financial markets, and none more so than those drawing an income in retirement who rely on investment returns to sustain prudent drawdown rates.

THE INCONSISTENCY OF INFLATION-BEATING RETURNS

The need to sustain a growing income in retirement over multiple decades requires a return in excess of inflation – an obvious statement that requires little explanation. What is less intuitive >

is the fact that real returns do not materialise in a uniform fashion. Consider the graph below, which compares the value of R100 invested in one of our flagship post-retirement funds, the Coronation Capital Plus Fund, with the inflation-adjusted value of the R100 since inception of the fund.

DISCRETE 3-YEAR RETURNS IN CAPITAL PLUS FUND SINCE INCEPTION



For detailed fund performance, refer to page 38

Source: Morningstar

Since its launch 17 years ago, the fund managed to beat inflation by 6.6% per annum, resulting in a near tripling of purchasing power. However, by simply dividing the history into discrete three-year periods (the minimum recommended investment horizon), one can better observe the investor journey over time. For instance, an extremely strong three-year period from mid-2004 to mid-2007 resulted in real returns of more than 20% per annum – leaving many investors with lofty return expectations. That period was followed by three years characterised by the global financial crisis, which ultimately resulted in negative real returns and reversing investor sentiment completely – only to be followed by another strong three-year period.

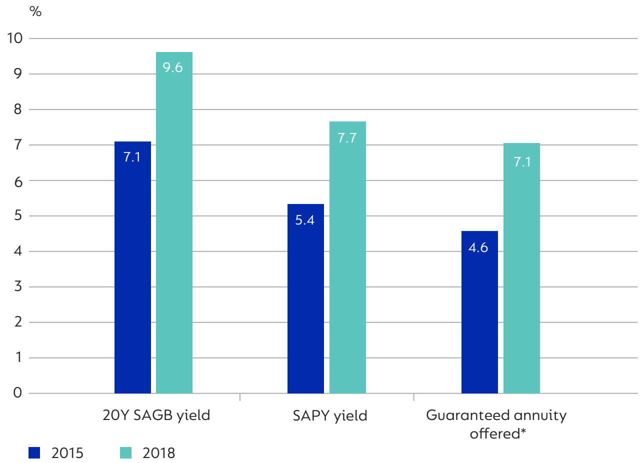
It is useful to view the muted real returns of recent years in the context of longer history. In pursuit of beating inflation over time, one can expect to experience episodes of disappointing returns, but can take comfort from the fact that better times lie ahead.

HEADWINDS HAVE TURNED INTO TAILWINDS

Multi-asset portfolios such as those managed for post-retirement investors have various sources of returns that are driven by different factors, including the yields offered on bonds and property. These yields proved to be a substantial headwind to reaching one's inflation-beating targets over the most recent period of displeasing returns.

More recently, we have seen a significant shift in yields to the point where they provide for tailwinds in reaching the real return objectives for post-retirement portfolios. Comparing the current yields on South African government bonds (SAGB) and the South African Listed Property Index (SAPY) to what they were in 2015 shows how meaningful that shift has been.

YIELDS ON OFFER IN 2015 VS 2018



* Sample quotes obtained for 65 year-old male and female with 90% survivorship income and a 7% annuity growth rate.

Source: Bloomberg

Many investors assess the feasibility of living annuities based on the performance of the underlying funds over the recent past (looking backward). In contrast, guaranteed annuities are assessed on the income offered to the investor by the life office, which is informed by the future expected returns from markets such as the yields offered on long-dated bonds and property (looking forward).

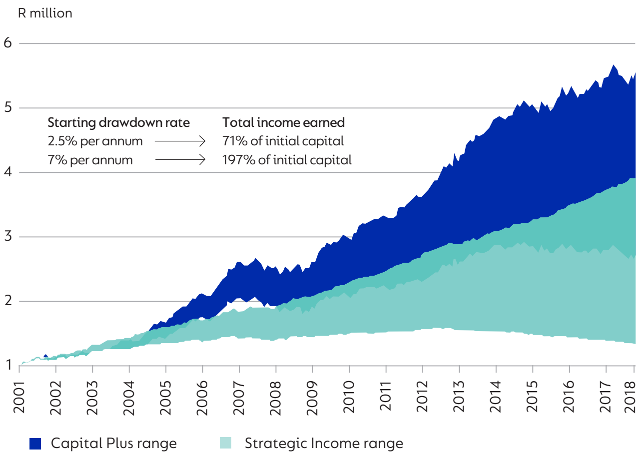
The backward-looking nature of living annuities versus the forward-looking nature of guaranteed annuities could lead to investors moving assets into guaranteed annuities without appreciating the fact that they will benefit from the same drivers in their living annuity in years to come.

HARNESSING THE POWER OF GROWTH ASSETS IN RETIREMENT

In last quarter's article, we discussed our analysis of industry flows and highlighted the de-risking trends that result from investors switching out of funds with growth asset exposure to funds with little exposure to such assets. This trend is particularly strong in post-retirement portfolios. It is worthwhile reminding investors that thoughtful exposure to growth assets (in the form of equities and property) remains a crucial ingredient to a successful income drawdown plan. Take the following example using two of Coronation's funds which both launched in 2001. The Coronation Strategic Income Fund is aimed at investors with immediate income needs and, as a result, does not have any exposure to equities.

The Coronation Capital Plus Fund is aimed at investors in retirement with long-term drawdown needs and holds the optimal

LIVING ANNUITY EXPERIENCE IN CAPITAL PLUS AND STRATEGIC INCOME FUNDS



* Assumes Rand income is taken monthly and increases by 6% annually

Sources: Morningstar, Coronation

exposure to growth assets for that purpose – typically ranging between 40% and 70% of the portfolio.

The graph on the left shows the value of R1 million invested in either fund for a range of starting drawdown rates between 2.5% and 7% per annum. The benefit of reasonable exposure to growth assets for income-drawing investors becomes clear in the fullness of time.

SCRUTINY IS GOOD, BUT AVOID IMPULSIVE ACTIONS

Periods of low returns typically result in greater scrutiny of investment portfolios – something that should be encouraged. Investors need to ensure that their investment portfolios are still fit for purpose and that they are getting value for fees.

Although it may be sensible for some to take action, we encourage investors to avoid impulsive decisions based on the very recent past. There is good reason to expect better investment outcomes in years to come. We would hate for you to miss it. ✚

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PERSONAL INVESTMENTS

Tax-free investments

Still the best tax break available to individual investors

SEPTEMBER MARKED THE third anniversary of our tax-free investment (TFI) product, the advantages of which we have consistently advocated over the years.

Whether you are investing R500 or R5 000 via a monthly debit order, it is a no-brainer that up to the first R2 750 should be invested into a TFI. Or if you have a lump sum on hand, you can invest up to R33 000 per tax year, and up to a maximum of R500 000 tax free over your lifetime. Importantly, the sooner you invest your lifetime tax-free allowance, the more you will reap the rewards of long-term investing and the power of compounding.

IS IT REALLY TAX FREE?

One of the big financial planning debates is whether contributing to a retirement annuity (RA) fund or a TFI will produce better results. To arrive at a conclusion, it helps to understand the taxation models on each of the products.

RAs are taxed on an EET basis (exempt contributions, exempt investment returns, taxed withdrawals). Your retirement savings are given a head start, as government effectively subsidises your savings. The downside is that you do not know what the applicable tax rate will be at that time when you eventually start withdrawing. Additionally, you cannot access your funds until the age of 55, and your investment choice is limited to Pension Funds Act-compliant funds.

TFIs, on the other hand, operate on a 'TEE' basis. This means that contributions are made from money that is already taxed, no tax is accrued during the investment period and all proceeds taken from the investment are tax free. It therefore gives you complete tax certainty, as your investment will not be subject to future changes due to tax rates.

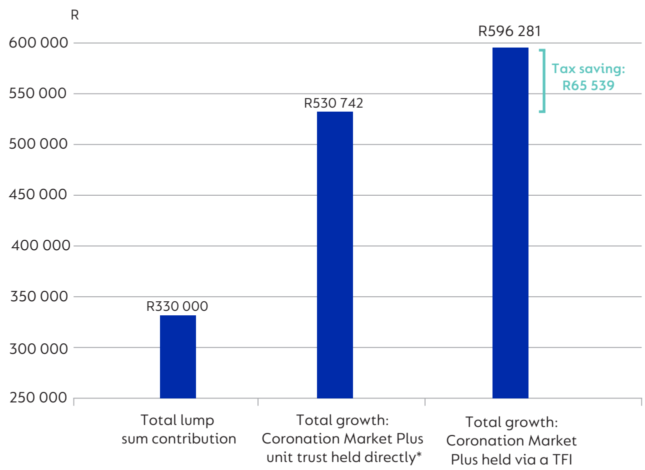
As a reminder, if you have not opened a TFI or contributed to your existing TFI in the 2018/2019 tax year, remember to do so at or before 14h00 on 28 February 2019. Children can also receive the benefits of tax-free investing. By opening a tax-free investment on behalf of your minor child, you unlock the full power of compounding on their long-term savings. If you need any assistance, please contact us at clientservice@coronation.com or on 0800 22 11 77.

The other major benefit of an investment in a TFI is that you have complete investment freedom. If you have a long time horizon, you can invest in a portfolio with a larger risk budget and a higher expected return. The main downside to a TFI is the limit on the amount that you can invest.

With TFIs now transferable, you can also move them from a deposit-linked TFI investment typically offered by a bank to a unit trust-based TFI, where you can maximise the benefits of your investment without losing the existing tax-free status.

At Coronation, our domestic flagship funds are available as investment options within our TFI product. We have also added a number of our rand-denominated international flagship funds to the selection. You can switch between funds, or withdraw money, without incurring any costs or penalties. Just be mindful that all amounts invested will count towards your annual and lifetime limits regardless of any withdrawals you make – you cannot 'replace' the money you withdraw with a new investment. In other words, if you have already committed R33 000 to a TFI this tax year and then withdrew some, or the entire amount, any further investments into your TFI during this tax year will be taxed at a rate of 40%. To find a fund that is suitable to your needs, visit www.coronation.com/tax-free. +

MATERIAL GAINS ACHIEVABLE WITH A TFI – LUMP SUM INVESTMENT IN DIRECTLY HELD UNIT TRUST VS UNIT TRUST HELD VIA A TFI



*Assumptions: Standard unit trust – assume a marginal tax rate of 45% and dividend withholding tax of 20%. No yearly tax-free allowances on interest and capital gains tax have been applied. Calculations are based on fund performance over a 10-year period to end-September 2018.

Source: Coronation

GLOBAL POLITICS

A dog's Brexit

It was always going to get messy

By Marie Antelme

THE TIME IS now desperately short. In less than six months, the UK will leave the EU, either with a ratified withdrawal agreement and political decree or without one.

Marie is an economist with 18 years' experience in financial markets. She joined Coronation in 2014 after working for UBS AG, First South Securities and Credit Suisse First Boston.

Should the UK leave with a withdrawal agreement in place, it will be in a negotiation holding period with the EU. It is also possible that negotiations progress sufficiently but fail to make the deadline and the EU agrees to an extension, but this is not an option on the table at this stage. This means that British Prime Minister Theresa May has until the end of the year – and perhaps a little longer – to craft the required documentation that satisfies a range of different groups whose interests are not aligned. Formally, what she has now is the 'Chequers plan' – and no one likes it.

The agreement needs to be worded in a way that clearly resolves three crucial conditions for the UK's withdrawal, but at the same time leaves sufficient flexibility for these politically fragile issues to be open to some interpretative differences.

>

The first two conditions, which have already been agreed in principle, are the commitment to continue paying the UK's financial obligations of about £39 billion to the EU, and the rights of EU citizens living in the UK or moving to the UK during the transition period.

The critical sticking point is the Northern Irish border 'backstop', where negotiators on all fronts have failed to find phrasing that conveys a suitable resolution to both the EU and the UK, and takes into account Ireland's fragile political legacy.

WHAT IS THE 'IRISH ISSUE' AND WHY HAS IT BEEN SO HARD TO RESOLVE?

At this time, Ireland is an independent country and a member of the EU. Northern Ireland, however, is part of the UK and is, for now, part of the EU. Depending on what negotiators agree is going to be the future relationship between the UK and the EU, the UK will either exit the Single Market or the Customs Union, or both.

Thereafter, the EU requires that some kind of border is erected to ensure both quality checks and tax collection between the two entities remain intact. The issue is, however, Ireland and Northern Ireland. Most parties accept that for reasons of acute historical sensitivity, any physical border infrastructure between them is politically unacceptable.

The need for a backstop agreement related to Northern Ireland is a form of guarantee should no final agreement be reached during the transition negotiations. As such, the EU requires that the backstop agreement be reasonably explicit. Prime Minister May is looking for flexibility in the wording of the agreement because she is hoping the issue will resolve itself as the future relationship and trade negotiations evolve, and because she needs to balance the interests of both her own divided party and the Democratic Unionist Party (DUP) – its Northern Irish coalition partner.

The DUP is adamantly against integrating with Ireland and is seemingly open to a hard border with its neighbour. The EU has consistently argued that even if a border is avoided, Northern Ireland must stay in full, permanent regulatory alignment with the EU and be bound by the oversight of the European Court of Justice. This would misalign part of the UK to the rest of it, challenging the UK's constitutional integrity, and is wholly unacceptable to the DUP. The situation seems at this stage to be intractable.

While the withdrawal agreement between the EU and the UK still seems in its infancy, the economic reality of not reaching any agreement may still outweigh the political cost of agreeing something to avert a disorderly unravelling of the process as the deadline arrives.

Even if there were an accelerated compromise with the EU, in which most of the detailed negotiation is deferred to a transition period after the March 2019 deadline and possibly extended beyond the current transition period of January 2021, such an agreement will probably require some capitulation by May on key issues of independence. This will only postpone the tough talk.

TROUBLE AT HOME

In the UK, underlying tension would remain unresolved in the case of an accelerated compromise with the EU. A considerable challenge in negotiations is the distance between the 'Brexiteers', 'Remainers' and the DUP. May still needs to maintain close relationships with these domestic political groupings, which advocate a wide spectrum of views.

May received a mandate to manage the UK's exit from the EU after the 2016 UK referendum, but there have been many vocal supporters of various outcomes. These range from a 'hard' Brexit to those who did not want to leave the EU at all and would be willing to concede some pooling of sovereignty to maintain a close relationship.

What has complicated negotiations is the capacity for the associated political parties of this range of ideologies (the most obvious of which is the Labour Party) to use the current impasse to their own political advantage.

WHAT ARE THE ALTERNATIVES?

For all scenarios, there are any number of possible permutations, given the unknown path of travel in the coming days and weeks, and how little we currently have to go on. Also, even if May manages to get all parties to agree to the withdrawal agreement in time, or to an extension, there is no guarantee that the transition negotiations will deliver an agreed outcome. A 'hard' Brexit may still happen in the end.

A 'no Brexit'

The UK government abandons its Brexit plans. This would require another referendum (with a 'remain' majority outcome) and, given the current political configuration with a coalition government, another election. This seems highly unlikely given the time at hand, but possible if May fails to deliver an acceptable proposal and Westminster calls for another vote. The EU would still have to agree to an extension of the deadline.

A 'soft Brexit'

The UK manages to negotiate concessions to trade and non-trade barriers, in line with other countries who have free trade agreements with the EU. It is also possible that some transition is agreed for the financial services sector. This is unlikely to be enough to avoid losses, but they would be less and spread over a longer period.

A 'hard Brexit'

The UK fails to reach any agreement before the March 2019 deadline and reverts to World Trade Organisation Most Favoured Nation status with the EU from April 2019. This will bring into play a host of trade and non-trade barriers, even if some suspension is negotiated for a short period to insure the economies do not seize. This does imply significant losses to both goods and services trade and – especially for the latter – possibly a large associated decline in the UK's financial services sector. A 'hard Brexit' outcome is still possible, even if the withdrawal agreement deadline is met in some way or another, but the negotiation process fails and the transition period ends with no agreement on the way forward.

A 'muddle through'

It is possible that the EU and UK agree to a holding pattern, with the UK complying to rules existing for other countries with whom the EU has preferential arrangements. However, countries such as Norway within the European Economic Area, or Switzerland, have concessions to single market conditions in their agreements, which would require a considerable compromise to the UK's current position.

THE OUTCOME WILL BE A BALANCE OF NEGOTIATING POWER

The closer we move to the March 2019 deadline, the harder it will be to measure with any real certainty where the balance of power in the negotiations lies. On the one hand, the distance between the warring factions within the UK's political spectrum leaves both opportunity and incentive to disrupt an already seemingly impossible task, although there seem to be emerging signs of greater support for the Prime Minister within the Conservative Party. On the other hand, May needs the EU to agree to her proposal even before she gets UK parliamentary approval.

The EU can dictate the required level of detail and has the capacity to agree to or deny an extension. It is both a larger and more closed economy than the UK, and will arguably be less affected by a trade disruption than the UK. The EU at this stage seems reasonably united, which would facilitate the ratification process, where the range of opinion across the UK cabinet, parliament and society is well heard.

Success requires a meeting of minds, even if it is a hostile one, and time may still be the biggest driver of closure. But even in a best-case scenario, this presents a challenging basis on which to negotiate going forward.

There is not a single part of the process which is likely to be easy. In fact, there are so many known and visible obstacles to success that it is hard to imagine how an agreement, no matter how vague, will be reached. For now, it still seems possible that a no-deal price outweighs the cost of a compromised agreement, but patience and time are running out. ✚

Disruption

How companies avoid obsolescence through innovation

By Humaira Surve

Humaira is an analyst within the Global Developed Markets investment unit. She joined Coronation in 2012 after working for Accenture. She holds an MBA from INSEAD.

DISRUPTION IS NOTHING new; in fact, human progress has always been driven by the advent of new technologies and processes which lower cost, increase convenience or improve product performance. Disruption in the market is usually driven by an innovation – a challenger company develops a new solution, initially with limited applications, a niche customer base and a relatively high cost structure compared to an incumbent business's existing products.

Over time, with technological advancements, either the cost structure or the technological capability of the innovation improves significantly. Eventually, what once appealed to a limited audience begins to draw in customers once loyal to the established business. These established companies often knew about the existence of the new innovation but either failed to realise the potential market size or adapt their business to take advantage of the technology.

Companies that are unwilling or unable to adapt their organisational structure to one better suited to respond to new innovation often find themselves the casualties of disruption.

Take Xerox, for example. The printing solutions group actually invented the first personal computer (PC) in the 1970s with a graphic user interface and a mouse. However, it failed to commercialise its success because it did not have the retail sales knowledge to do so. Microsoft founder Bill Gates, however, grasped the promise of the technology for retail customers and developed an organisation well suited to serving this market. Xerox ultimately failed to commercialise its own invention.

The Great Atlantic & Pacific Tea Company, better known as A&P, was a chain of US grocery stores which operated very successfully from the 1920s onwards and earned above-market returns on investment for decades.

A&P was a relatively small-format grocery store located in urban areas and charged lower prices than competing stores. It was able to earn high returns despite its low prices due to its cost efficiency. Several technological and social changes around the 1950s resulted in a dramatic shift to a new format, which resulted in A&P shrinking significantly.

Companies that are unwilling or unable to adapt their organisational structure to one better suited to respond to new innovation often find themselves the casualties of disruption.

The two key technological changes that disrupted A&P's business model were the advent of affordable automobiles and the mass production of refrigerators. The former led to increased sub-urbanisation and the latter allowed people to make fewer but larger shopping trips. This favoured the supermarket format which began developing in suburbs. Supermarkets had large parking lots and stocked a greater variety and volume of product. Supermarkets drew customers from further afield than an A&P store could, resulting in a larger volume of sales than an A&P could support.

These volumes allowed the supermarkets to use their fixed cost infrastructure, such as their supply chains, much more efficiently than the A&P stores. Eventually they achieved a lower cost structure, allowing them to charge lower prices, take market share and then dominate for the next several decades.

MODERN TECH THREATS

Key technologies leading to market disruption today are always-on connectivity, mobile devices, cloud computing, artificial intelligence (AI) and machine learning.

Always-on connectivity has increased product and service transparency to customers, with product and service prices and reviews easily accessible through the use of mobile devices on review sites like Booking.com – a share we own – or by asking friends on social media.

As a result of this transparency, to win in business today, a company's product or service has to be great; there must be some practical or emotional appeal. It is no longer good enough to control the distribution channel, because alternatives are often available at the click of a button rather than a drive away.

Cloud computing has lowered the cost of starting a new business. A smart entrepreneur can rent processing power and storage by the minute, prototype a new application (app) in days and then acquire customers globally via an app store.

MACHINE LEARNING AND ARTIFICIAL INTELLIGENCE

Machine learning and AI are probably less familiar to most than the other three technologies described here. Machine learning is a subset of the broader scientific concept of AI.

Normal PCs or servers perform relatively mechanical tasks at a much faster rate than humans are able to achieve. An app is simply a set of instructions that is broken down into smaller subinstructions, which are then executed in a linear manner.

AI, on the other hand, aims to imbue computers with interpretative capabilities. The popular technique of AI today, called machine learning, involves the setup of a computerised neural network. This network is then trained using masses of sample data, like images of cats, for example. Once the network is trained, it can be used to make inferences.

Results of a recent study in *Nature Medicine* journal showed that multimedia parent company Alphabet's DeepMind AI system was able to diagnose eye diseases such as glaucoma from retinal scans at an error rate lower than that of eight different human retinal specialists. Alphabet is a holding in our portfolios.

EVALUATING DISRUPTION

How does one evaluate the investment potential of businesses in the face of these technological changes? Unfortunately, there is no easy answer; each business has to be assessed on its own merits. There are several factors to consider in the process.

It is important to have a view on the impact, if any, of these technologies on the industry in which the business operates. >

For example, the mobile internet has driven mass adoption of social media, which has increased users' time spent accessing various social media products. This has led to an increase in the inventory of advertising real estate (scrolling creates an endless stream which can be dotted with advertisements) and lowered digital advertising prices relative to traditional media.

The development has been great for companies like Facebook and Alphabet, but very negative for traditional media (newspapers) and advertisers such as WPP. By understanding where we are in the shift from old to new media, we can get a sense of how much opportunity remains. While the best technology platforms still have many years of growth ahead due to these secular shifts, they are also investing significantly in future opportunities.

It is just as important to understand the competitive advantage or 'moat' a business has with respect to a technological change. It is not good enough for a disruptor to be better than traditional companies; for a business to thrive in the long term, it has to have something that makes it better than other companies using the new technology.

Management with a long-term focus is a starting point. Amazon founder Jeff Bezos' annual letter to shareholders has wonderful nuggets of wisdom. He emphasises the importance of customer obsession and not focusing too much on process or bureaucracy at the expense of really understanding what would delight the customer.

The best companies are aware of and embrace the big trends. In Amazon's 2016 shareholder letter, Bezos says: "The outside world can push you into Day 2 if you won't or can't embrace powerful trends quickly. If you fight them, you're probably fighting the future. Embrace them and you have a tailwind."

These big trends are not that hard to spot (they get talked and written about a lot), but they can be strangely hard for large organisations to embrace. The importance of risk-taking was mentioned in another of Bezos' annual letters: "In business, every once in a while, when you step up to the plate, you can score 1 000 runs. This long-tailed distribution of returns is why it's important to be bold. Big winners pay for so many experiments." Managed risk-taking is critical for businesses to thrive, especially when technology has accelerated the pace of change.

"In business, every once in a while, when you step up to the plate, you can score 1 000 runs. This long-tailed distribution of returns is why it's important to be bold. Big winners pay for so many experiments." – Jeff Bezos

TOP COMPANY PICKS

Three companies we believe will thrive over the long term despite the many disruptive trends mentioned above are Alphabet, Facebook and Vivendi.

In terms of equity positioning, we see value in Alphabet – it owns platforms such as Google, Google Maps, YouTube, Android, Gmail, Google Chrome and Google Play, which boast over a billion users each.

Alphabet's current growth rates are multiple times higher than the market (3% to 5%) and GDP, with projected revenue growth of 22% in 2018 and 19% in 2019, while its net cash balance sheet is robust compared to the market as a whole.

When considering investment spending and undermonetised assets, Alphabet's earnings are below normal, while its global platform and scale create tremendous optionality. We believe Alphabet has the talent, technologies, resources and intention to proactively defend its platforms and improve the reliability of their content.

Online social media company Facebook has one of the strongest network effects among consumer technology companies.

It operates a two-sided network: not only does Facebook improve if more friends are on it, it also becomes more attractive to the other side of the network – the advertisers. The more advertisers that use the platform, the more Facebook is able to invest in improving its product quality. By re-investing in both new research and development, and employees and technological infrastructure, it is able to increase its moat.

People often forget that the company also owns Instagram and WhatsApp, both of which are undermonetised and benefit from similar network effects. Facebook recently signalled significant near-term spend to strengthen security, which we believe will only reinforce the company's position many years from now. Facebook trades on a 23 times price to normalised earnings multiple[1], excluding cash, and should grow its revenue at least at a high-teens rate over the next five years. It converts over 100% of earnings to free cash flow, far in excess of the average company in the MSCI World Index.

Another top pick is French media conglomerate Vivendi, whose crown jewel asset is music publishing business Universal Music Group (UMG). Music industry revenues were decimated by piracy with the advent of the internet. The rise of unlimited music streaming, which has been enabled by fast, mobile

[1] In normalising earnings we have applied a lower than current margin, given expectations that Facebook will invest in security and privacy capabilities.

internet has increased the value proposition of licensed music relative to both piracy and more unwieldy consumption forms like individual track downloads.

We believe the music industry is on the cusp of many years of significant growth, as technology has increased the size of the addressable market.

Paid streaming subscribers make up just about 8% of the overall smartphone installed base currently. UMG owns the rights to libraries of irreplaceable music and will be a significant beneficiary as the number of streaming music users explodes. At the current share price, you are not paying much for any of the other assets that Vivendi owns besides UMG.

Disruption has always been around. It creates risks but also opportunities. A strong secular driver in its early innings, an assessment of the business's competitive advantage and a long-term oriented culture that encourages measured risk-taking are features we believe set some businesses apart. ✚

Outlook for platinum group metals remains positive

Despite new vehicle technology, global car sales still drive demand

By Nicholas Hops

Nicholas is an equity analyst within the South African investment team. He joined Coronation in 2014 and is a CFA charterholder.

The South African platinum group metal (PGM) industry has been in a near decade-long downturn as demand shocks and a pessimistic outlook pushed prices to what we believe to be unsustainably low levels. Unprofitable supply has been slow to reduce due to high barriers to exit. Sentiment towards the sector is incredibly low due to the deep-level, labour-intensive nature of the South African industry, as well as concerns surrounding the long-term demand for PGMs as the European diesel share declines and the world shifts towards electric vehicles.

The negative sentiment is so great that despite a 36% increase in the industry's rand revenue basket to near all-time highs, most equity prices continue to trade at distressed levels. Only Anglo American Platinum (Amplats) has had a positive return over this period.

PGMs comprise five precious metals, of which platinum, palladium and rhodium are the most important. These are referred to as '3E' metals. The demand side of the 3E market is dominated by catalytic converters for internal combustion engine (ICE) vehicles, making up 70% of global demand.

We are optimistic about the market for the following reasons:

- The outlook for global vehicle sales is good, driven by emerging markets.
- We expect 3E demand to grow over the next decade as environmental legislation in China and the rest of the world forces automakers to use more metal in their vehicles.
- We feel new legislation is being underestimated – in the next five years, China, the largest vehicle market, will have the strictest emissions standards in the world.

The balance of the market is split between jewellery and industrial catalysts, with 9% and 21% respectively. We expect this portion of demand to see slight growth over the next decade. The negativity on the demand side has been driven by the outlook for European diesel sales as well as the rise of battery electric vehicles (BEVs). While the outlook for European diesel vehicles is negative, it is important to note that they make up only 12% of 3E demand, which we expect to decline even further.

We are believers in the long-term prospects of BEVs, but are cognisant of the various challenges facing the technology. The primary hurdles to rapid adoption are range anxiety, a lack of infrastructure, high costs and long charging times. We have done a significant amount of work on the future of the automotive industry, travelling the world to talk to industry players and work with automotive consultants. The megatrends of electrifying the drive train, as well as using cars as a service instead of individual ownership – as demonstrated, for example, by Uber and autonomous vehicles – will shape the industry over the next few decades.

Our key takeaway from the work we have done is that the industry's transition will be evolutionary rather than revolutionary; it is not all going to change overnight.

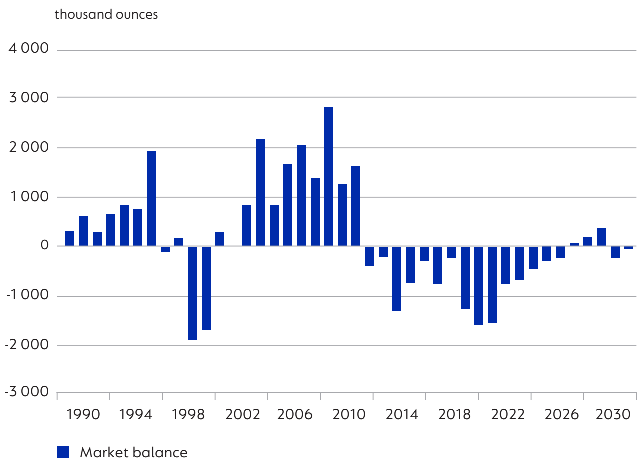
Importantly, we see a period of mass hybridisation over the next decade before BEVs start to become more affordable for the mass market. We anticipate a shift towards a portfolio of technologies, including BEVs and a variety of hybrids, as well as fuel cell vehicles. As investors in the PGM sector, our biggest concern is BEV adoption, as these have no PGMs in the vehicle at all. In our forecasts to 2030, we expect BEVs to make up 19% of global light-duty vehicle sales, up from 1% today. We expect traditional ICE vehicles as we know them to decline from 96% today to 28%. There is also some potential for fuel cells in the vehicle mix, given their suitability in long-distance and haulage applications. In addition, the Chinese and Japanese are championing the technology and are investing hard behind it, which cannot be ignored. Fuel cells are very PGM intensive and stand to be a material boost to demand, if successful.

Gasoline vehicles use predominantly palladium in their converters, instead of platinum. Palladium is in material deficit and now trades at a $180 per ounce premium to platinum where it historically traded at large discounts. Industry feedback we have gathered is that platinum is a superior metal for catalysis and that a growing price differential will swing the original equipment manufacturers back towards platinum over time. Many in the market have looked at the platinum surplus and declared that the metal is doomed; our view is that, given their fungibility, platinum and palladium must be considered together. When looked at in this way, the market is in a growing deficit. Of the 3E metals, platinum is most important for South African producers, as it is makes up 60% of the ounces extracted from our mines.

Considering all our demand expectations, we see 3E demand increasing 11% by 2030, while the market rhetoric seems set on declining demand. The negativity surrounding the PGM markets is not dissimilar to that surrounding thermal coal a few years ago. It has now become clear that despite being a 'sunset' industry, thermal coal will be around for a number of decades to come, and thermal coal prices are up over 100%. The outlook for mined supply of 3E metals over this period is muted, with growth from Russia offsetting declines from South Africa. Secondary supply of PGMs through the recycling channel is set to increase materially off today's base. Beyond 2030, we see large reductions in South African supply as many mines come to the end of their economic lives.

Coupling our supply and demand expectations gives us an average market deficit of 500 000 ounces, or 2.6% of annual demand, each year over the next 12 years. These deficits are substantially more pronounced in the near term and we expect prices to react strongly over this time frame. We have excluded potential investment demand from these balances, which may prove conservative.

GLOBAL 3E MARKET BALANCES



Sources: Johnson Matthey, company annual reports, Coronation analysis

Negativity towards the industry also stems from the deep-level, high-cost nature of the majority of South African mines. We have mitigated this through the selection of the highest quality plays in the sector – Northam Platinum and Amplats.

Northam is a medium-sized producer with two producing mines, run by an entrepreneurial management team that has taken advantage of the industry downturn by making smart acquisitions. Production growth from its Booysendal mine over the next five years will help the group double production. Booysendal is the key asset in Northam's portfolio and while it is underground, it is shallow, capital light and mechanised, requiring a smaller labour component. Northam is well positioned to generate cash flows and at current metal prices is on a nine times price earnings ratio.

Amplats is the world's leading producer of PGMs and has undergone a remarkable portfolio transition in the last five years. Shedding itself of high-cost, deep-underground mines and focusing on its key Mogalakwena asset have allowed Amplats to pay the first dividend in the sector since 2013. Mogalakwena is a unique asset as it is an open pit, which means it comes with significantly less operational complexity and standout margins. It has material expansion capability over the next decade and we believe management will pursue this.

Amplats has several options to expand the size of its portfolio over the next decade with high-quality, low-labour ounces. At today's spot prices, Amplats trades on an 11 times price earnings ratio for the 2019 year.

The sentiment around PGMs has left equity prices in the sector lagging recent improvements in the basket price. Thanks to their high-quality operations, both Northam and Amplats can generate material cashflows in today's price environment and we believe equities are yet to reflect this fact.

Combining Northam and Amplats, and on a look-through basis with Anglo American, we have a 6% exposure to the PGM sector in our house portfolios. ✚

New Oriental

China's competitive education system drives strong growth

By Paul Neethling

Paul joined Coronation in October 2016 as an equity analyst within the Global Emerging Markets investment unit. Paul is a qualified chartered accountant and a CFA charter holder. He has six years' investment experience.

"We need to focus on both basic education and advanced education. We need to have key primary schools, key middle schools and key universities. We need to have a stringent exam system in order to keep the top talent in key middle schools and key universities." – Deng Xiaoping

Deng Xiaoping was the paramount leader of the People's Republic of China from 1978 to 1989. He led China through far-reaching market economy reforms, which started opening up China to the global economy.

I wonder if Deng could have foreseen what the Chinese education system has become today? It has moved from a system where students were selected based on political and family backgrounds in the early 1970s to one which, while still highly selective, is focused on academic achievement and is exam-centric. There is little autonomy on admissions; all public universities and high schools are required >

to admit students based on scores achieved in the National College Entrance Examination (commonly known as *Gaokao*).

The *Gaokao* is a nine-hour exam over two days and is a source of anxiety for children from a young age – as well as for their parents. Due to huge demand, key universities such as Peking University and Tsinghua University have the lowest acceptance rates in the world (much lower than the top US 'Ivy League' schools).

The system clearly works for China, which is focused on innovation. In 2016, China produced 4.7 million science, technology, engineering and mathematics (STEM) graduates. This is 80% more than India, in second place with 2.6 million STEM graduates and more than eight times the US, in third place. It is also not just quantity over quality. A recent study by Qingnan Xie of Nanjing university and Richard Freeman of the US National Bureau of Economic Research found that in 2016, 24% of scientific papers had an author with a Chinese name or address (37% when Chinese language papers are included).

Given the extremely competitive nature of the education system, after-school tutoring (AST) is used extensively by parents to give their child an edge. In China, AST is considered a must should you wish your child to receive the best possible education and achieve the best subsequent career path. Parents who can afford AST make use of it from as early as preschool.

The Chinese AST market is forecast to grow in the low- to mid-teens, driven by a combination of the relaxation of the one-child policy, increasing urbanisation, rising wealth levels and AST penetration growing to levels closer to those of developed Asian peers. When asked to rank spending priorities for increased family income, Chinese consumers rank their children's education as the highest priority. The graph below illustrates that China's education spend per household lags other countries. This should grow as household income grows.

New Oriental Education & Technology Group, a recent addition to our global emerging markets strategy, is the largest and most recognised provider of private educational services in China (mainly AST and overseas test preparation, which help students to prepare for foreign admission exams).

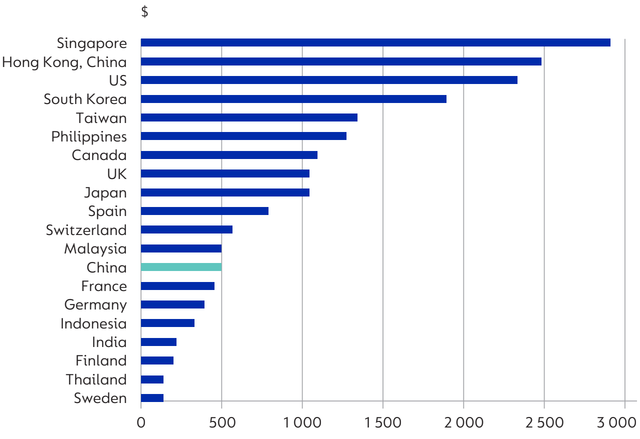
New Oriental has 6.3 million student enrolments per year (excluding online enrolments), a network of 1 081 learning centres and over 28 000 teachers, and operates in 75 cities.

New Oriental and industry counterpart TAL Education Group are by far the biggest players in this fragmented market. Despite years of above-industry growth, they each only have low single-digit market shares. With real benefits to scale (a national footprint, the best teachers, proprietary content and computerised systems with the most data), they should continue to consolidate the market over time.

New Oriental's strong capacity rollouts in recent years have led to lower class utilisation levels, as learning centres take some years to mature. This, along with investments into online to offline (O2O) – combining physical classroom teaching with online teaching resources – and pure online education initiatives, has led to New Oriental reporting decade-low operating margins in its 2018 financial year. However, these investments drive growth and strengthen competitive positioning.

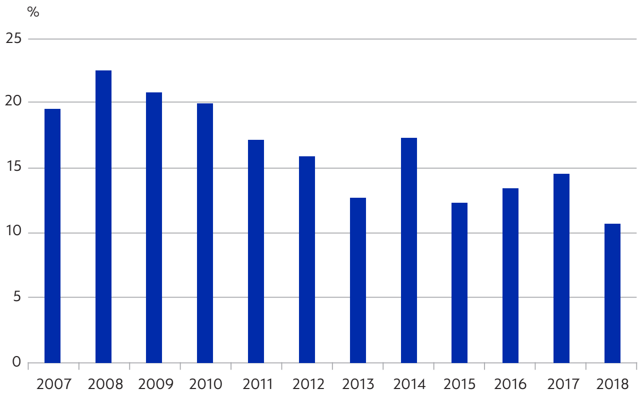
As current high investment spending and low utilisation levels normalise (lower and higher, respectively), operating margins should revert to levels materially higher than the current 10.7%.

EDUCATION EXPENDITURE PER HOUSEHOLD



Sources: CLSA, Euromonitor

OPERATING MARGIN



Source: Company annual reports

More recently, New Oriental's share price has come under pressure (along with industry peers') as a result of the State Council releasing a document to regulate extracurricular training institutions as a measure to ease students' heavy workload. While the regulations could result in a few short-term hiccups such as longer approval times for expansion plans, leading to slower revenue growth, our view is that the regulations strengthen the position of the industry leaders.

Smaller independent operators will struggle to abide by the new, higher standards, which set out required teaching qualifications, minimum class sizes – at three square metres per learner – and business and educational licences. Consequently, we believe the regulations have enhanced New Oriental's ability to consolidate the industry and report above-market growth rates over the long term, which offsets the potential shorter-term hurdles.

We used the recent share price weakness as an opportunity to build a position in New Oriental, which currently trades on 20 times forward earnings and 14 times forward free cash flow (upfront payment terms result in over 100% conversion of profits into free cash flow), and has 27% of its market cap in cash and short-term liquid investments on the balance sheet.

The founder, Michael Yu, is still involved as executive chairman and owns 13% of the company. Strong brand equity, a defensive earnings stream and returns on equity consistently in the high teens to low twenties add to New Oriental's attractiveness.

We believe the extremely competitive education system that Deng reinstalled in China is enduring and will ensure that there is always a place for AST in China. Just like Deng believed in key schools and universities, we believe that key AST providers in China (New Oriental and TAL) will continue to grow at above-market rates for many years to come. ✚

+

FRONTIER MARKETS

Growing up with company

10 years on and it is just starting to get interesting

• • •

By Peter Leger

Peter is head of Global Frontiers and manages all strategies within the global frontiers offering. He joined Coronation in 2005 and has 20 years' experience in the financial markets in Africa as both a portfolio manager and research analyst.

LIKE IT OR hate it, South African investors have had a long affair with tobacco. It could be likened to an addiction. The visionary behind this was Anton Rupert who founded the Rembrandt Group. Without any special favours, special mineral rights or dispensations, Rupert raised capital, built businesses, did strategic deals and carved out a significant position as a South African business that could compete on global terms. To his credit, Rupert always appreciated his minority investors, and made sure the good fortune was spread equitably.

A decade ago, we started buying our first equities in the Coronation Africa Frontiers Fund. Looking back it felt like a lonely time. The Coronation process is one rich in debate, research and interrogation – something our broader team thrives on. Once we started researching companies north of the Limpopo, the opportunities to do this fell away quickly. There were not many industry experts or Bloomberg numbers, and reports were stale. There just were not that many people to talk to with real knowledge, and this upped the required margin of safety. We were also attracted to what we knew best. And so tobacco got a lot of attention.

One stock in particular caught our attention – Eastern Tobacco. The Egyptian monopoly cigarette producer was an unloved business trading at mid-single-level earnings multiples. Intrinsically, the business had so much going for it – strong cash flow earnings, regulatory barriers to entry and a growing early-stage market in a massive population. But there was a lot not to love.

The business had spent a fortune duplicating production facilities with the intent of relocating its factories. The project had taken longer and cost more than expected, and the production cost line had blown out. Investor interaction was nonexistent. There was no communication in English. Government was a controlling shareholder, and the business behaved accordingly. Most frustrating was that the stated strategy seemed to confuse the resilience of the business with the impression that management was responsible for the business's successes. And commitments were being made to numerous capital projects that would swallow up free cash flow, leaving minority shareholders with the short end of the stick.

I clearly remember the first meeting in 2008 with the chairman, or what we would call the CEO. It was one of the most surreal encounters I have experienced. Setting up the meeting required a great deal of pushing. I was struck by how busy the site was, or more specifically, how many people were busy on the site, down to the lift operators dedicated to manning the lifts over just three floors. It took an hour to move through security, reception and waiting rooms, until we finally arrived in the chairman's office.

And what an office! It was not much smaller than a tennis court – *sans* the tram lines. The walls were wood panelled and, centre stage, was a raised platform on which a massive desk sat, behind which the chairman held court. I had naively prepared a long list of questions which I soon found to be superfluous.

For the next 90 minutes, I listened to the interpreter singing the praises of Eastern and explaining why it was such a remarkable business, all while the chairman smoked a massive Cohiba cigar and nodded vigorously in agreement. It was blindingly obvious that there were levels upon levels of trapped value. But we had time to uncover it.

We made a modest investment in 2008 which was increased over the years, both in absolute terms by way of value and in relative terms by way of the size in the portfolio.

While a decade is a long time, it can also be rather fleeting. And in Eastern's case, much has changed and much has stayed the same. The cigar-smoking chairman has moved on and his replacement is a good improvement. The government holding company has become less government-like and more institutionalised. There is more English on the website, and shareholder interaction has improved greatly.

The capital-sapping projects have been cancelled. Free cash that is generated is paid out as dividends. And more recently, there is a move to change the company structure from a state-owned entity to a joint stock company (like any other) which allows for minorities to appoint directors.

The direct benefit to investors has been the following:

EASTERN TOBACCO: THEN VS NOW

	2008	2018	Increase
Volumes sold (million sticks)	78 339	85 374	9.0%
Revenue ($ million)	694	758	9.2%
Operating margin	23.1%	34.7%	
Net profit ($ million)	118	239	101.8%

Source: Bloomberg company reports

SHARE PERFORMANCE

	2008	2018	Increase
Market capital	1 146	2 166	89.0%
Annualised total return in $			16.4%
Cumulative divends paid ($ million)			821
Cumulative free cash flow			1 020

Source: Bloomberg company reports

We believe this business is about to enter a new stage in its life. The Egyptian government is set to sell down its holding to just above 50% as part of further institutionalisation of the business. The company today trades at single-digit multiples, yet is a very different business to the one we met a decade ago. Seldom are we able to invest in a business that is growing revenue and improving margins, and yet trades like an ex-growth company. Eastern is just one of the companies we have journeyed with over the last decade. There are many more similar examples. Here's to the next 10 years. +

Between a rock and a hard place

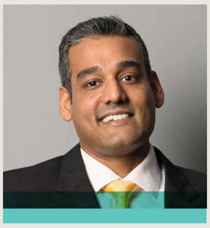
Careful navigation required for the shorter term

By Nishan Maharaj

EMERGING MARKETS AND South African fixed income markets managed to keep their heads above water this quarter, but the water was not calm. Local bonds produced a negative return in US dollar terms, in large part due to the poor performance of the rand. The local currency fell victim to a broader sell-off in emerging market currencies, which was driven in large part by the sell-off in the Turkish lira and Argentine peso.

Argentina and Turkey face similar issues of very high and increasing inflation as well as large external deficits which, until recently, have predominantly been financed by portfolio flows (foreign flow into the bond or equity market), making them rather vulnerable to global monetary policy tightening. During the quarter, the authorities in both countries acted in earnest to stem the depreciation of their currencies. In Argentina, authorities agreed the terms and structure of a $50 billion loan from the IMF, while in Turkey, the central bank hiked rates by 6.5%, in addition to implementing other supportive measures for the lira. This helped emerging markets to recover some of the losses incurred over the quarter.

Nishan is head of Fixed Interest and responsible for the investment process and performance across all portfolios within the fixed interest offering. He has 15 years' investment experience.



LOCAL POLICY UNCERTAINTY

South Africa did not differentiate itself during the quarter. Economic conditions worsened, with growth materialising below both our and market expectations (-0.7% versus 0.9% expected), which pushed the economy into technical recession. In the context of the weaker emerging markets backdrop, South Africa did not fare well, as evidenced by the poor performance of the rand over the quarter. But South Africa's problems are by no means as severe as those of Turkey and Argentina. Once the panic eased, both the local currency and domestic bonds recouped some of their losses. The All Bond Index (ALBI) was up 0.8% in the quarter, which was slightly behind cash (1.7%) as the longer end of the curve (maturity longer than 12 years) underperformed the rest of the bond curve. Concerns about growth, the implications for tax revenue and further bailouts for state-owned enterprises weighed on the fiscal outcomes, which led to this underperformance. Inflation-linked bonds (ILBs) have continued to fare poorly, with returns of 0.5% for the quarter and 0.9% over the last year, well behind cash (6.9%) and the ALBI (7.1%).

The euphoria of the first quarter has quickly faded, as policy uncertainty remains a key obstacle to South Africa's recovery. The policy trajectory and the intentions of policymakers have moved in the right direction; however, uncertainty around land expropriation without compensation and mining regulations has impeded the translation of confidence into actual spending. Towards the end of the quarter, a new, more acceptable version of the Mining Charter was released, which should ease concerns from the local mining sector. However, to see an increase in consumption spending, currently contracting quarter on quarter, more clarity on expropriation without compensation is required. Given the current rhetoric from policymakers, this should be resolved over the next couple of quarters, which will then help with a faster recovery in growth in 2019.

Despite the depreciation in the currency and the rise in the oil price, forecasts for inflation still remain contained. Inflation is expected to stay in the target band over the next two to three years and only near the top end of the band in the first half of 2019. The recent South African Reserve Bank (SARB) rhetoric has indicated an eagerness to raise interest rates, which seems puzzling given the subdued growth and inflation outlook. Our expectations are for rates to remain flat until the second half of 2019. In addition, concerns around a blowout in South Africa's fiscal deficit and implications for a further credit downgrade (which would trigger an exit from the Citigroup World Government Bond Index) are overdone. The economic assumptions behind the February budget still hold and while revenue has underperformed this year, this has been matched (if not exceeded) by expenditure underruns, which place less pressure on the fiscus and allow Moody's to keep us in investment grade at least until the second half of 2019. Thus, the local environment for South African government bonds remains fairly supportive.

CASH OR BONDS?

The change in risk sentiment and global monetary policy will continue to pose a threat to emerging market sentiment and asset performance. This by implication suggests that there might be further downside to holding local government bonds. As long-term investors, we focus on the valuation of underlying assets relative to fundamentals and whether current valuation provides our client portfolios with a sufficient margin of safety in the event of short-term volatility or adverse price movements. The key choice facing local bond investors is whether to be invested in cash or bonds. On the face of it, this seems to be a fairly simple decision, but it is one which has a major impact on portfolio returns.

In the table below, we list the 12-year and 26-year government bonds, their market yield to maturities (at the end of the quarter) and how much yields could sell off before the one-year, two-year and three-year returns on the government bonds equate to cash (6.5%).

As the table shows, assuming flat cash rates (6.5%), bond yields can move to 9.81% in the 12-year bond and/or 10.31% in the 26-year bond before they underperform cash over one year. If one assumes that cash rates move higher by 100 basis points (bps) to 7.5% (due to rate hikes, which is an extreme bear case), then the 12-year bond can move to 9.66% and the 26-year to 10.2%. As can be seen clearly, extending the investment horizon period to two or three years means the breakeven protection increases substantially. Over three years, the 12-year and 26-year bond can move higher by 1.12% and 0.92% respectively before they underperform cash, even if cash rates move up by 1% (yields can move up even further if cash rates do not move higher).

THREE-YEAR BREAKEVEN ANALYSIS OF 12- AND 26-YEAR GOVERNMENT BONDS

			Year 1		Year 2		Year 3	
	Maturity	Starting yield	Break-even	Break-even (100 bps hike)	Break-even	Break-even (100 bps hike)	Break-even	Break-even (100 bps hike)
R2030	31 Jan 30	9.39%	9.80%	9.66%	10.27%	10.13%	10.81%	10.51%
R2044	31 Jan 44	9.93%	10.30%	10.20%	10.71%	10.51%	11.17%	10.85%

Source: Coronation

The above analysis provides comfort for holders of South African government bonds relative to cash. What also comes out of this analysis is that the longer end of the government bond curve offers better value at current levels. It requires a similar magnitude of basis-point movement for both the 12-year and 26-year bond to break even relative to cash. In addition, if one is more positive on bond yields (as we will show below), then holding a 26-year fixed rate bond will provide a greater total return than a 12-year government bond, since it trades at a higher yield and has a higher modified duration (capital-at-risk measure).

DIVERSIFICATION

In addition to the above analysis, one has to ensure that current levels of valuation provide an attractive entry point and a decent margin of safety against an adverse movement in the event that the fundamental backdrop deteriorates due to any 'black swan' type of events. In the following table, we use our fair value stack-up (with an adjustment for 12-year government bonds) to first check whether current levels are attractive and whether, in an adverse scenario, bonds still provide an attractive return over the long term. >

SOUTH AFRICAN BONDS: FAIR-VALUE MODEL

	Base	Bear
US 10-year bond	3.25%	3.75%
SA inflation	5.00%	6.00%
US inflation	2.00%	2.50%
SA credit spread	2.64%	2.64%
SA 10-year fair value	**8.89%**	**9.89%**
SA 12-year fair value	**9.14%**	**10.14%**

Source: Coronation

Given our base-case assumptions of a 3.25% US 10-year rate, 5% South African inflation, 2% US inflation and a steady South African credit spread, bonds are currently cheap. Even if our worst-case scenario were to play out over the next two years, local government bonds would provide a cash-type return (12-year bond yields can move to 10.13% before they underperform cash +1%).

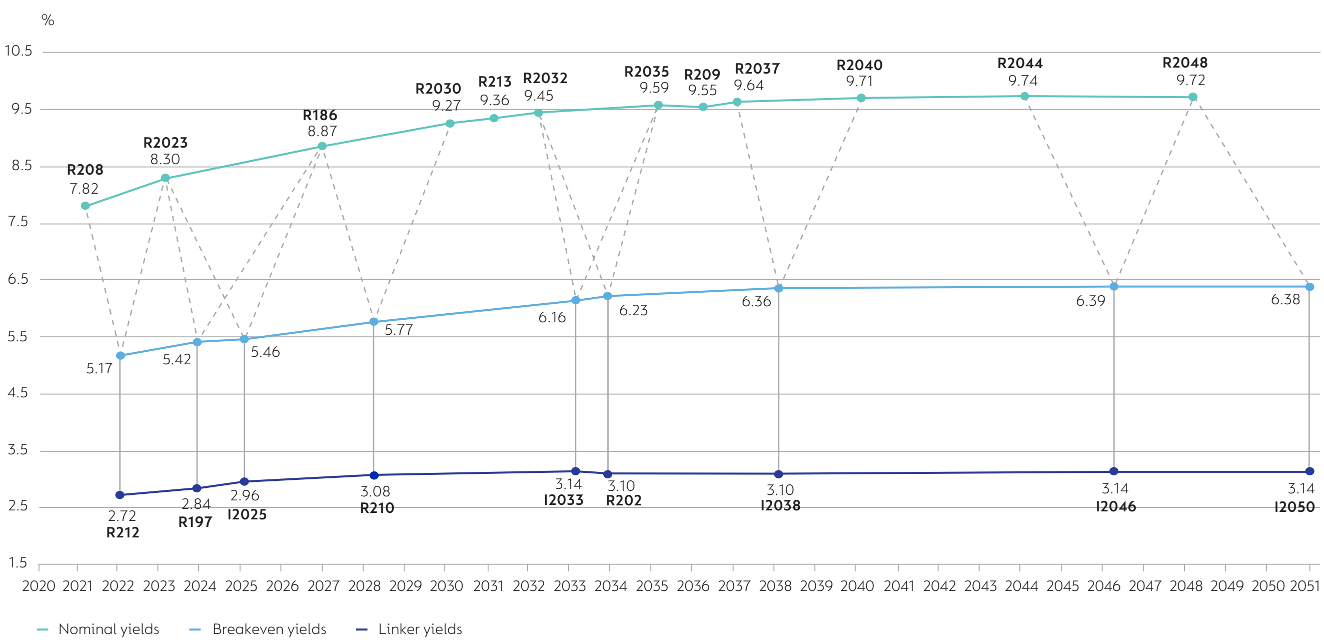
The next thing one has to decide is whether one should be allocating any bond investments towards ILBs to provide some diversification and inflation protection to the portfolio. As a reminder, ILBs are securities designed to help protect investors from inflation. They are indexed to inflation so that principal and interest payments rise and fall with inflation. In the graph below, the green line is the nominal bond curve, the dark blue line is the ILB curve and the light blue line is the implied breakeven inflation, that is, where the market expects inflation to average over the maturity of the underlying ILB.

As an example, the I2033 matures in the year 2033 and in order for the ILB to outperform its equivalent nominal (R2035), inflation needs to average above 6.16%. As is evident from the graph below, one would only hold ILBs that have a breakeven inflation of less than 6%, given that the SARB is an inflation-targeting central bank that has never allowed inflation to average more than 6% over any extended period.

Therefore, any longer ILB (with a maturity longer or equal to 12 years) does not offer value relative to its nominal bond counterpart, because one would need inflation to average well above 6% each year over a period of 12 years for the ILB to just perform in line with nominal bonds. However, a case can be made for shorter-date ILBs, where implied breakeven inflation is around 5.5%, with real yields of more than 2.5%. In this case, the shorter-date ILB offers an attractive pickup relative to the real policy rate (currently at 1% to 1.5%) and provides one with a 'free protection' in the event that inflation moves closer to the top end of the band over the next two to three years.

Recent economic releases have suggested that the local economy is taking much longer than initially anticipated to move onto a sustainable growth path. South Africa's longer-term growth prospects are being dimmed by shorter-term uncertainty on key policies. Policy pronouncements more recently have signaled policymakers' intention for a more market-friendly outcome, which should put growth back on an upward trajectory. Local inflation should remain within the target band, even after the recent sell-off in the rand and the rally in the oil price. South African government bonds provide an attractive return relative to cash, compare favourably to their emerging market peer group and offer a decent margin of safety against a shorter-term deterioration in fundamentals. At current levels, the yields on offer in the local bond market are attractive relative to their underlying fundamentals and warrant a neutral to overweight allocation. ✚

NOMINAL BONDS VS INFLATION-LINKED BONDS



Source: Coronation

There is always noise

Tighter financial conditions are the greatest near-term threat to global growth

By Marie Antelme

Marie is an economist with 18 years' experience in financial markets. She joined Coronation in 2014 after working for UBS AG, First South Securities and Credit Suisse First Boston.

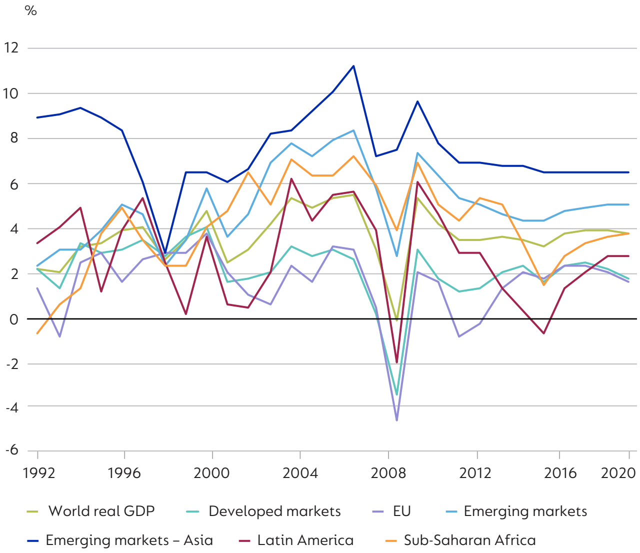
THERE IS PERHAPS one universal truth about economics and that is that there is always 'noise'. This is particularly difficult to sift through at the moment, where the visible risks are numerous and have potentially large implications for economies, policy setting and asset prices.

Available economic data suggest that global growth is still running at a healthy clip. The October IMF World Economic Outlook still forecasts global growth at 3.9% this year – in line with the April assessment – and at 3.9% in 2019. Healthy employment gains have helped offset moderating trade volumes, and capital investment is an ongoing support for good quality growth, especially in developed economies.

But the composition of growth has become more uneven, and the risks, mostly downside, have become greater. Growth remains generally strong in advanced economies, but momentum has slowed visibly in the EU and Japan, and to a lesser degree in the UK. >

In contrast, US GDP continues to grow above potential, with strong employment gains and rising inflation. For developed economies, GDP should be 2.4% in 2018 and 2.2% in 2019.

GLOBAL GROWTH STRONG, BUT LESS SYNCHRONISED



Source: IMF

For emerging and developing economies, growth is forecast at 4.9% in 2018 and 5.1% in 2019, but this forecast implies quite a wide variance across countries.

Recent market volatility highlights that the risk of a sharper tightening of global financial conditions is the biggest risk to the outlook for growth. US Federal Reserve (Fed) policy is, as always, central to global developments.

Given the strong, broad-based growth being experienced in the US, the Fed is on track to continue raising interest rates over the next two years – at this stage ahead of its counterparts in other countries. This should, on balance, support the US dollar, but it also implies tighter financial conditions in emerging markets and the likelihood of developing economies becoming more restrictive. Were the Fed to tighten more quickly than the markets expect, a broader range of countries could come under pressure.

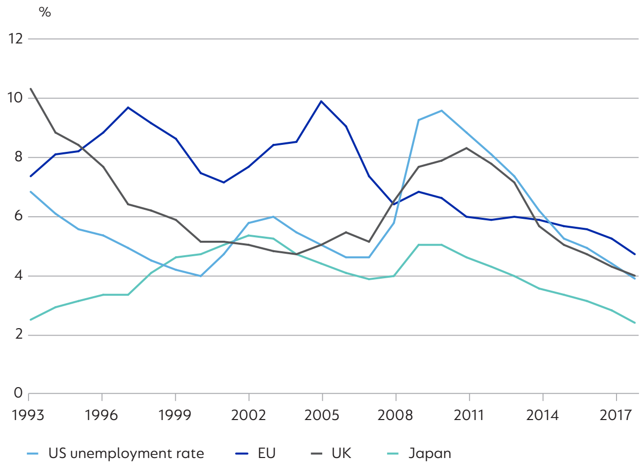
The next visible area of risk is a further escalation in trade tensions, with ongoing implications for growth, investment, asset prices and confidence. The US has initiated adverse trade actions against a wide range of countries, but most aggressively against China. Recent negotiations suggest some conciliation with the North American Free Trade Agreement (NAFTA) partners, and talks have started between the US, the EU and Japan. However, the threat of higher tariffs across a bigger base of Chinese imports is becoming increasingly likely.

The high oil price is also becoming a source of concern. Since June, Brent crude oil prices have risen from $72 per barrel to over $80 per barrel – a level last seen in 2014. Historically, high oil prices have contributed to slowing global growth as rising inflation erodes real incomes and undermines spending. In a world where support from trade is moderating, making economies more reliant on domestically driven growth, this becomes a greater risk.

Turning to country specifics, the US economy is poised to continue growing strongly over the next two years. Substantial fiscal stimulus has fuelled already strong domestic demand, which is in turn supported by healthy employment gains and still-accommodative monetary policy.

GDP is forecast at 2.9% in 2018 and a slightly more moderate 2.6% in 2019. With the unemployment rate at multiyear lows, strong growth is likely to be increasingly accompanied by rising inflation and expanding domestic demand, rising demand for imports and a wider current account deficit. The upcoming midterm elections could have a meaningful impact on fiscal policy into the 2020 presidential election.

DECENT QUALITY GROWTH



Source: IMF

In Europe, data suggest that the recovery off 2018's first-quarter weak spot has peaked. Underlying currently strong growth, sentiment indicators and industrial production growth have started to moderate. GDP for the region as a whole is forecast at 2.1% this year and 1.8% in 2019.

The European Central Bank has signalled an end to its quantitative easing programme from December 2018 and has already started tapering monthly purchases, but has stated that the policy rate will remain unchanged until at least the middle of 2019.

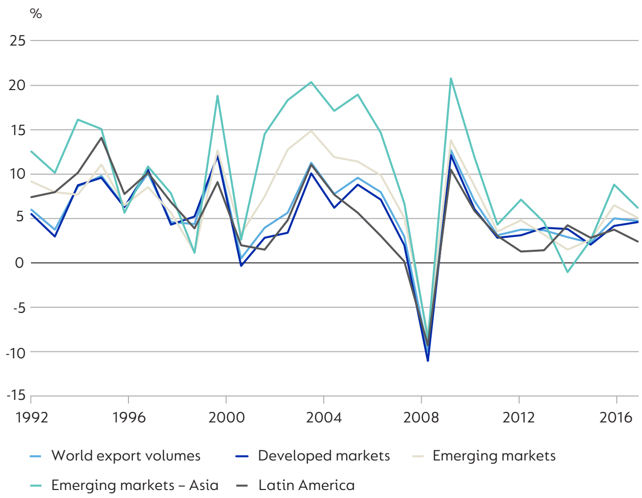
With talks under way, there is some agreement among NAFTA negotiators, which bodes well for a de-escalation of trade tension with the US. An intensification of tension is still a visible risk to European growth, with the US threatening to raise the tariff on imported European vehicles from 2.5% to 25%. Germany is Europe's biggest car manufacturer, but, with healthy domestic growth, smaller peripheral producers may be harder hit. Encouragingly, the start of trade talks between the US and both the EU and Japan perhaps limits some of this risk at the time of writing.

The UK's journey to Brexit has, to date, not been a big issue for the EU, but as the March 2019 deadline approaches (and an agreement or extension is needed well before this time), countries within Europe and the UK will be at risk of negotiations failing. In the UK, Prime Minister Theresa May still faces complex and considerable challenges in facilitating an agreement with the EU and then at home – here with a combination of her own divided party, its coalition partner and the opposition. Time is short.

Amid this uncertainty, the UK economy continues to muddle along. On balance, it has lost momentum since the referendum in 2015, but data have been mixed more recently. Unemployment has fallen steadily and, at 4.0%, is at multiyear lows. Retail sales data have recently been stronger and the economy is expected to grow 1.2% in 2018 and an uncertain 1.3% in 2019.

Japan's economy continues to grow at a solid pace, with growth of 3.0% registered in the second quarter of 2018 and an overall expectation that the economy will expand 1.1% for the year. A series of natural disasters will disrupt output in the second half of 2018, but here too, unemployment is very low, at 2.4%, and strong corporate profit growth has lifted capital expenditure.

EXPORT VOLUMES UNDER PRESSURE



Source: IMF

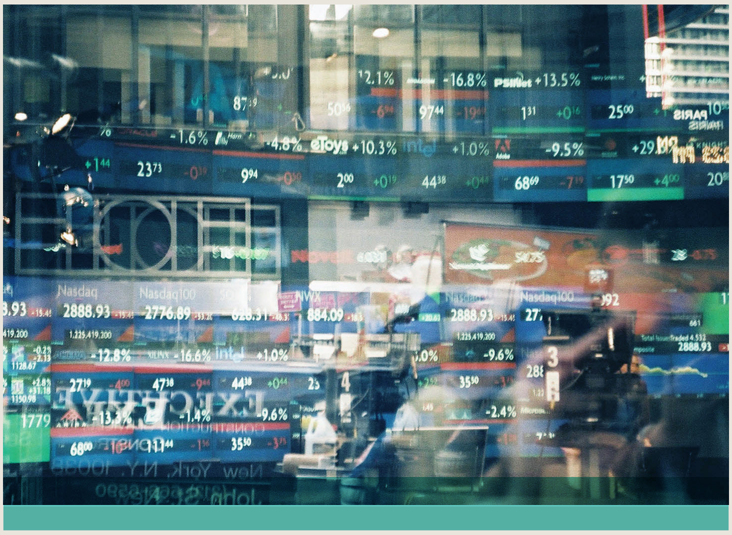
Preparations for the 2020 Summer Olympics in Tokyo could see spending elevated through the early part of 2019. Headwinds for growth include trade uncertainty and the scheduled value-added tax increase, which could disrupt consumption in late 2019.

Elsewhere in Asia, China is at the forefront of the trade conflict with the US. While official data still show GDP running at about 6.5% year on year, activity data have softened. The negative impact of slowing credit impulse has weighed on construction and general infrastructure, although retail, property and even trade has held up reasonably well. Recent data, however, suggest that the trade sector is now showing signs of the impact of US tariff increases, with the latest round of 10% of $200 billion of Chinese imports effective 24 September likely to weigh further. Offsetting policy measures, including a softer stance on credit growth and a range of tax cuts are unlikely to fully offset the intensifying impact of trade tensions on sentiment and investment in China.

More broadly, emerging markets have experienced powerful crosswinds in recent months. The strong US dollar, rising interest rates, rising oil prices, trade tensions and areas of geopolitical conflict all impact emerging economies in different ways. While global policy setting is still broadly supportive of emerging market growth, markets have started to differentiate between economies with specific vulnerabilities or political uncertainties.

On balance, interest rates have increased across emerging markets, with the most vulnerable economies experiencing significant currency depreciation and higher policy rates. In economies such as Turkey and Argentina, growth is likely to slow sharply as a result. Elsewhere, oil exporters such as Russia may benefit from higher prices, but here too, political uncertainty and the ongoing risk of US sanctions will weigh on the outlook and the currency.

While the global backdrop is reasonably strong, with areas of decent quality growth, the outlook for emerging markets remains satisfactory. However, it seems unlikely that conditions in developed economies will improve from here. The threat of higher US rates than the market expects, along with a stronger US dollar and ongoing wider trade tensions, all suggest that the outlook for emerging markets is likely to remain challenging, albeit to different degrees, in coming quarters. +



South African flagship fund update

INVESTOR NEED: LONG-TERM GROWTH

Domestic general equity funds

PERFORMANCE FOR VARIOUS PERIODS

	Launch date	3 years	5 years	10 years	15 years	20 years
Top 20*	1 Oct 00	6.6%	5.2%	13.0%	18.4%	-
Equity[1]	15 Apr 96	6.3%	6.5%	12.7%	17.2%	15.8%
Average competitor		4.1%	6.0%	10.2%	15.0%	15.5%

The Coronation Top 20 Fund is a concentrated portfolio of locally listed shares. The Coronation Equity Fund is a more diversified portfolio of locally listed shares, plus a concentrated portfolio of developed and emerging market shares. Performance is shown for the A classes of the funds. The average competitor return represents the median of the South Africa – Equity – General category, including the Coronation Funds in the category, and is sourced from Morningstar as at 30 September 2018.

Source: Morningstar

Both the Top 20 and Equity funds mirrored the market's difficult quarter, declining by 4.0% and 2.2% respectively. In Top 20, our key mining holdings (Anglo American, Exxaro and Northam) were positive contributors to performance. We have added to our holdings in Anglo American and BHP Billiton. In both funds, we continue to maintain reasonable exposure to resources based on our assessment of their long-term value. Our preference for Anglo American (+6%) over BHP Billiton (+2%) – based on a more attractive commodity mix and valuation – continued to contribute to performance, as did our platinum exposure, mainly through Northam (+9%).

Both funds were affected by Naspers' share price decline on the back of a pull-back in the Tencent share price after disappointing quarterly earnings and Chinese government-related delays in the licensing of new online games. But we remain optimistic about Tencent's longer-term prospects.

The MTN share price decline also had an effect on performance after the Nigerian authorities accused MTN and its bankers of being in violation of certain foreign exchange regulations. It is our view that the claim has little merit and a more accommodating stance by the Nigerian government bodes well for a positive outcome.

The quarter has been testing, but in this volatile and uncertain world, our objective remains to build diversified portfolios that can absorb unanticipated shocks.

The quarter has been testing, but in this volatile and uncertain world, our objective remains to build diversified portfolios that can absorb unanticipated shocks. We will remain focused on valuation and will seek to take advantage of attractive opportunities that the market may present to us and, in so doing, generate inflation-beating returns for our investors over the long term.

Multi-asset class funds

PERFORMANCE FOR VARIOUS PERIODS

	Launch date	3 years	5 years	10 years	15 years	20 years
Balanced Plus*	15 Apr 96	5.6%	7.2%	11.4%	15.3%	14.9%
Market Plus[2]	2 Jul 01	6.1%	6.6%	12.0%	15.8%	-
Average competitor		5.3%	6.9%	9.6%	13.5%	13.9%

The Coronation Balanced Plus Fund represents our best investment view for long-term retirement savers and is managed according to the investment restrictions applicable to retirement funds. The Coronation Market Plus Fund represents our best investment view for long-term discretionary savers and as such can have more exposure to shares and foreign assets. Performance is shown for the A classes of the funds. The average competitor return represents the median of the South Africa – Asset Allocation – High Equity category, including the Coronation Fund in the category, and is sourced from Morningstar as at 30 September 2018.

Source: Morningstar

As mentioned above, the past quarter has been a tough period, with most capital markets around the world under pressure. Both the Balanced Plus and Market Plus funds declined, by -0.7% and -1.5% respectively.

Globally, Brexit has weighed heavily on UK markets. Europe has not fared much better, also feeling the effects of Brexit as well as the impact of the rise of populist governments. In the east, China has been under pressure, given concerns about trade wars and the impact on the local currency, while problems in Argentina and Turkey sparked fears of a global contagion in emerging markets.

We continued to reduce exposure to what looks like a very expensive US equity market in favour of the rest of the world, where valuations are more reasonable. We have not yet made the move to buy into developed market debt markets, although with US yields at 3.2% they are close to the point at which we would start adding.

Local equity markets have had a torrid time, with several of the rand-hedge shares not doing well for stock-specific reasons (Naspers and British American Tobacco). Domestic stocks have also performed poorly as many sectors have been exposed to the poor macroeconomic backdrop. In our equity component, we continue to have a bias towards high-quality, more defensive South African businesses, the banks and dual-listed multinational companies.

With local equity markets down over 9% since the start of the year, we are adding to our overall South African equity exposure now as we think this offers compelling value on a medium-term horizon. Our holdings in listed property have continued to languish as the sector remains tainted by the collapse in share prices of the Resilient group. In addition, we have seen a number of property companies reduce their guidance amid tough trading conditions in the office and retail sectors.

Domestic inflation has remained firmly below 6% despite the weaker rand and higher oil price, as the state of the consumer has prevented manufacturers and retailers from passing on the price pressures. In this environment, buying government bonds on yields in excess of 9% – and locking in real yields of 3% to 4% – look compelling. We have added to our fixed-rate exposures so that more than 10% of the Market Plus portfolio now comprise fixed-rate bonds.

We also built a position in integrated wealth manager Quilter following its recent unbundling from Old Mutual. Quilter trades at a significant discount to its listed peers and we believe it is particularly attractive. The fund's UK property holdings had another disappointing quarter, though we believe the stocks we hold (Hammerson and Intu) are now incredibly cheap.

Some of our consumer-facing domestic holdings had a very challenging quarter and experienced double-digit share price declines. At this point, we are asking ourselves whether the weakness is a cyclical or structural phenomenon. Has the earnings quality of food producers and retailers structurally changed? We do not believe this to be the case. In an economy with high structural inflation, it is extremely challenging for management to navigate a low-volume growth environment.

Only a small recovery in economic growth will significantly ease this burden. This issue has been exacerbated by the current low food inflation environment and, for producers, by additional imports on shelves because of a strong rand at the beginning of the year. As such, we believe some of these pressures will abate and continue to selectively add to the consumer stocks.

>

INVESTOR NEED: INCOME AND GROWTH

Multi-asset class funds

PERFORMANCE FOR VARIOUS PERIODS

	Launch date	3 years	5 years	10 years	15 years
Capital Plus*	2 Jul 01	5.2%	5.8%	9.7%	12.1%
Balanced Defensive*	1 Feb 07	6.6%	7.3%	10.1%	-
Inflation		5.3%	5.3%	5.2%	5.7%

The Coronation Capital Plus Fund aims to provide a growing regular income over extended periods of time and up to 70% of its portfolio can be invested in growth assets (shares, listed property and commodities excluding gold). The Coronation Balanced Defensive Fund has the same aim, but is a more conservative fund, allowing a maximum of 50% exposure to growth assets. The Funds are compared to inflation to reflect their absolute return focus. Inflation is measured as the Consumer Price Index, lagged by one month.

Sources: Morningstar, IRESS

The Capital Plus and Balanced Defensive funds have the dual mandate of beating inflation by 4% and 3% respectively over time and protecting capital over all rolling 18-month and 12-month periods respectively. While we were able to protect capital, the funds unfortunately did not achieve its inflation-plus targets in the recent past (longer term returns are still ahead of the benchmark).

In Capital Plus, we took advantage of the market sell-off during the quarter (the All Share Index declined by 2.2%) to increase the fund's allocation to domestic equity by adding to our positions in Anglo American, Nedbank and Shoprite. Standard Bank remains one of the fund's top holdings and we used recent share price weakness to add to our holding. In Balanced Defensive, we added to our positions in Standard Bank, Anglo American and ADvTECH.

The local property sector was again under pressure, declining -1.0 % for the quarter and -22.2% year to date, affecting both funds. We expect domestic properties to show muted nominal growth in distributions over the medium term; however, combined with an attractive initial yield, it offers an enticing holding period return.

The rise in local government bond yields to levels between 9% and 10%, depending on its duration, is particularly attractive to these funds with inflation-beating targets of 4% and 3%. Inflation is expected to average between 5% and 6% over the long term. Buying bonds at these attractive real yields was therefore an opportunity that we did not want to miss out on and have further added to our South African bond holdings during the quarter. Our bond purchases were funded by lightening our global holdings as the rand weakened.

Going forward, we see a far more attractive investment environment in which it will be easier to reach our inflation-plus targets. We believe our portfolios are appropriately positioned for the upturn, though we will never lose sight of the need to be defensive. We think our portfolios are well diversified, our asset allocation is prudent and we have sufficient exposure to growth assets to take advantage of the attractive upside in many high-quality shares.

We believe our portfolios are appropriately positioned for the upturn, though we will never lose sight of the need to be defensive.

INVESTOR NEED: IMMEDIATE INCOME

Income fund

PERFORMANCE FOR VARIOUS PERIODS

	Launch date	3 years	5 years	10 years	15 years
Strategic Income*	2 Jul 01	8.5%	8.1%	9.1%	9.4%
Cash (STeFI 3M)		7.0%	6.5%	6.5%	7.2%

The Coronation Strategic Income Fund aims to provide an alternative to cash or medium-term fixed deposits. Cash returns are measured using the STeFI 3-month index.

Sources: Morningstar, IRESS

The fund returned 0.5% in September, bringing its total return to 5.3% for the year and 7.6% for the 12-month period. This is ahead of the returns delivered by cash (6.9%) and in line with its benchmark (7.6%) over the same one-year period.

After a brutal August, September provided a reprieve for South African bond markets, although the aggregate performance was still negative. The All Bond Index fell 0.4% and weakness was concentrated in longer-dated bonds (12+ years) that lost 0.7%. This was followed by the belly of the curve (7 to 12 years), which was essentially flat over the period. Short-dated bonds performed better, up 0.6%, while inflation linkers returned 0.5%. Cash returned 0.6% in September.

In the US, the Federal Open Market Committee (FOMC) raised the federal funds rate by 25 basis points (bps) to a range of 2.0% to 2.3% in September, with the notable change to the statement being the removal of the word 'accommodative' in its description of the current monetary policy stance. At this time, an additional 25 bps rate hike is expected at the December meeting, and the central tendency on the dot plot (showing where US Federal Reserve members expect rates to go over the next few years) implies four more hikes in 2019.

The South African Reserve Bank's (SARB) Monetary Policy Committee left the repo rate unchanged at 6.5% in September, voting four to three to not hike by 25 bps. The hawkish stance represented by this vote, especially in the face of weak growth and the acknowledged absence of demand pressures, suggests that the SARB may be willing to sacrifice growth in the short term for tighter policy and a longer-term moderation in expectations. This increases the risk of a 25 bps hike in November.

At the end of July, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.7% (three-year) and 9.3% (five-year), down slightly over the month. The spreads of floating rate NCDs have dulled in appeal over the last few quarters, due to a compression in credit spreads. There has been a reduced need for funding from banks in South Africa, 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 (less than 100 bps in the three-year area and 110 bps in the five-year area). The fund continues to hold decent exposure to these instruments (less floating than fixed), but we will remain cautious and selective when increasing exposure. NCDs have the added benefit of being liquid, thus aligning the liquidity of the fund with the needs of its investors.

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 9.1% remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected fund performance over the next 12 months.

As is evident, we remain cautious in our management of the fund. We continue to invest only in assets and instruments that we believe have the correct risk and term premium to limit investor downside and enhance yield. ✚

[1] Highest annual return (Coronation Equity): 62.5% (Aug 2004 - Jul 2005); lowest annual return: -28.7% (Mar 2008 - Feb 2009)

[2] Highest annual return (Coronation Market Plus): 50.0% (Aug 2004 - Jul 2005); lowest annual return: -20.1% (Mar 2008 - Feb 2009)

* For highest and lowest annual returns, refer to page 38.

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	93.2% 6.8%	60.5% 39.5%	41.9% 58.1%	19.3% 80.7%	0.1% 99.9%
LAUNCH DATE	Jul 2001	Feb 2007	Jul 2001	Apr 1996	Oct 2000
ANNUAL RETURN[2] (Since launch)	10.3% 7.8%†	9.7% 6.1%†	12.1% 5.9%†	14.6% 13.3%†	17.8% 14.1%†
QUARTILE RANK (Since launch)	1st	1st	1st	1st	1st
ANNUAL RETURN (Last 10 years)	9.1% 6.5%†	10.1% 5.2%†	9.7% 5.2%†	11.4% 11.8%†	13.0% 11.8%†
STANDARD DEVIATION (Last 10 years)	1.6% 0.4%†	4.3% 1.3%†	5.9% 1.3%†	8.7% 8.9%†	14.2% 14.4%†
FUND HIGHLIGHTS	Outperformed cash by 1.6% p.a. over the past 5 years and 2.6% p.a. since launch in 2001.	Outperformed inflation by 3.6% p.a. (after fees) since launch, while producing positive returns over all 12-month periods.	Outperformed inflation by 6.2% 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 8.3% p.a. since launch and outperformed the ALSI on average by 1.2% p.a.	The fund added 3.7% p.a. to the return of the market. This means that R100 000 invested in Top 20 at launch in Oct 2000 grew to more than R1.9 million by end-September 2018 – nearly double the value of its current benchmark. The fund is a top quartile performer since launch.

1 *Income versus growth assets as at 30 September 2018. Growth assets defined as equities, listed property and commodities (excluding gold).*

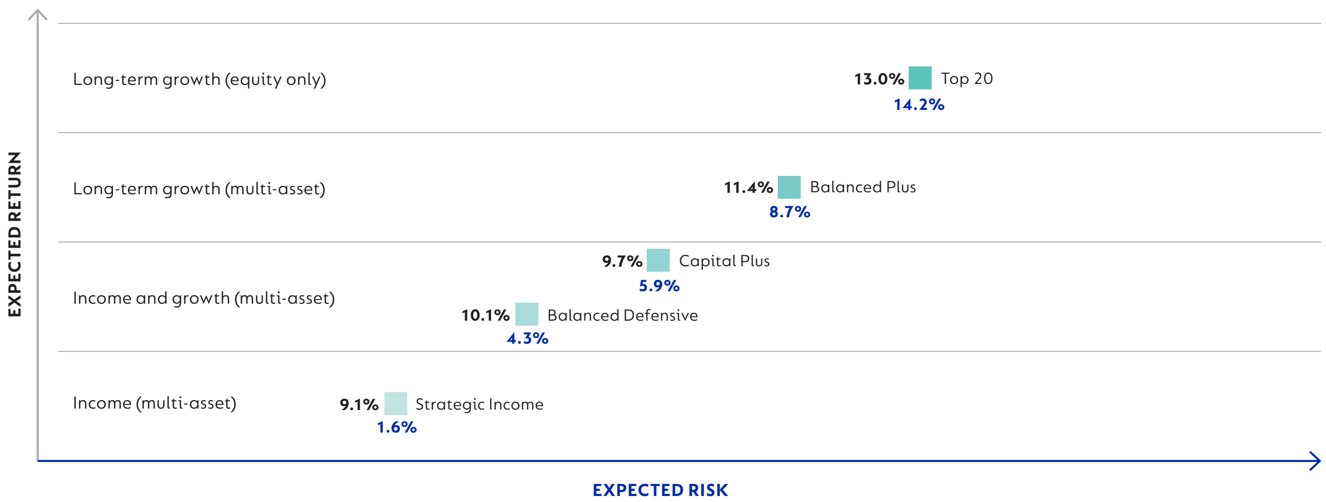
2 *Highest annual return*
Strategic Income: 18.7% (Nov 2002 – Oct 2003); Balanced Defensive: 21.2% (Jun 2012 – May 2013); Capital Plus: 33.8% (Aug 2004 – Jul 2005); Balanced Plus: 49.3% (Aug 2004 – Jul 2005); Top 20: 68.9% (May 2005 – Apr 2006)

Lowest annual return
Strategic Income: 2.6% (Jun 2007 – May 2008); Balanced Defensive: 2.0% (Mar 2008 – Feb 2009); Capital Plus: - 6.2% (Nov 2007 – Oct 2008); Balanced Plus: -17.4% (Sep 1997 – Aug 1998); Top 20: -31.7% (May 2002 – Apr 2003)

Figures are quoted from Morningstar as at 30 September 2018 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

RISK VERSUS RETURN

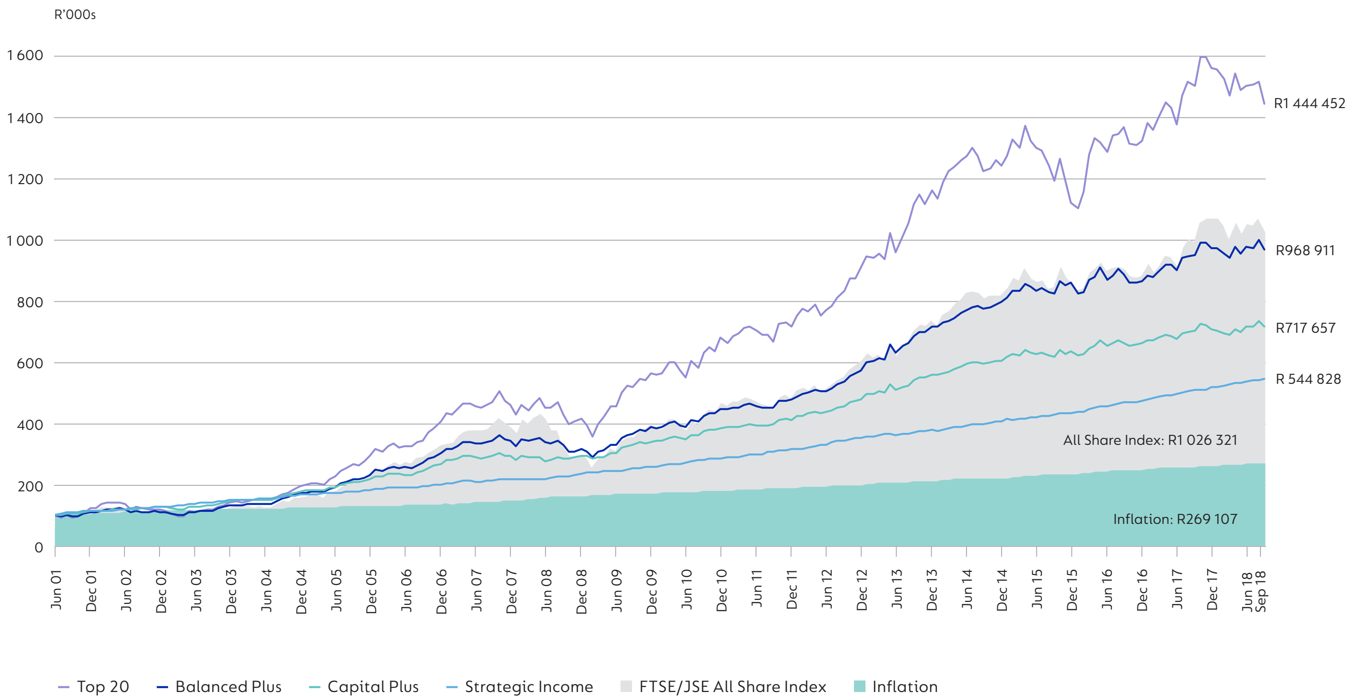
10-year annualised return and risk (standard deviation) quoted as at 30 September 2018.
Figures quoted in ZAR after all income reinvested and all costs deducted.



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 30 September 2018. 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	96.8% 3.2%	61.9% 38.1%	30.3% 69.7%	0.3% 99.7%	5.9% 94.1%
LAUNCH DATE OF OLDEST FUND	Dec 2011	Nov 2008	Oct 2009	Aug 1997	Dec 2007
ANNUAL RETURN[3] (Since launch)	2.4% 0.7%†	5.1% 0.7%†	6.6% 6.8%†	7.0% 6.1%†	2.1% 1.1%†
QUARTILE RANK (Since launch)	–	1st	1st	–	1st
ANNUAL RETURN[3] (Last 5 years)	1.5% 0.9%	1.7% 0.9%	3.6% 5.8%	7.3% 9.4%	(0.7)% 3.8%
ANNUAL RETURN[3] (Last 10 years)				8.3% 8.9%	5.0% 5.6%
QUARTILE RANK (Last 5 years)	–	2nd	2nd	–	4th
FUND HIGHLIGHTS	Outperformed US dollar cash by 1.7% p.a (after fees) since launch in December 2011.	Outperformed US dollar cash by 4.4% p.a. (after fees) since launch in 2008.	Number 1 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 1.1% 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 30 September 2018 (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 30 September 2018 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).

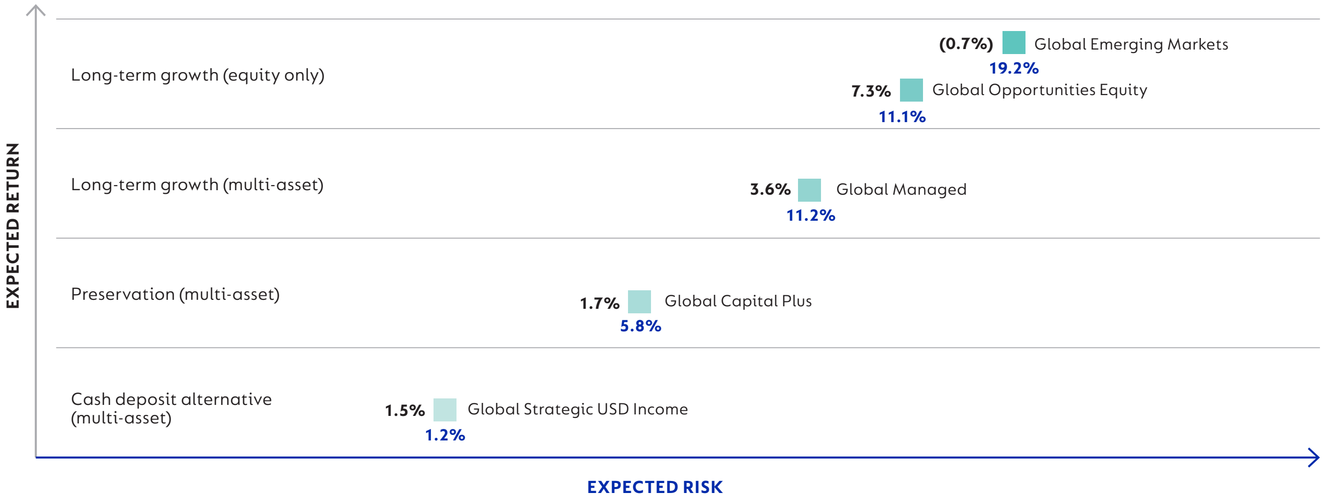
HAVE YOU CONSIDERED EXTERNALISING RANDS? IT IS EASIER THAN YOU MIGHT THINK.

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

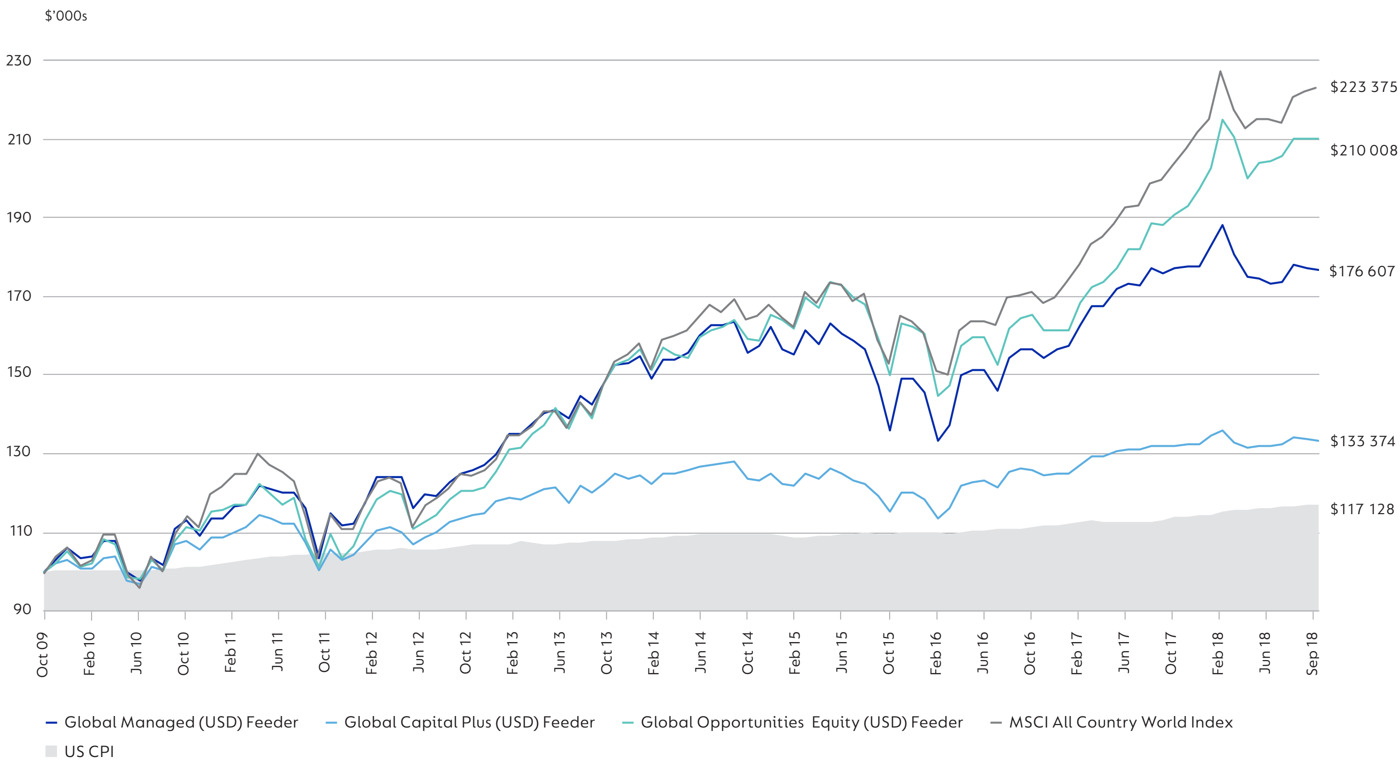
5-year annualised return and risk (standard deviation) quoted as at 30 September 2018. Figures quoted in USD (for the oldest fund) after all income reinvested and all costs deducted.



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.



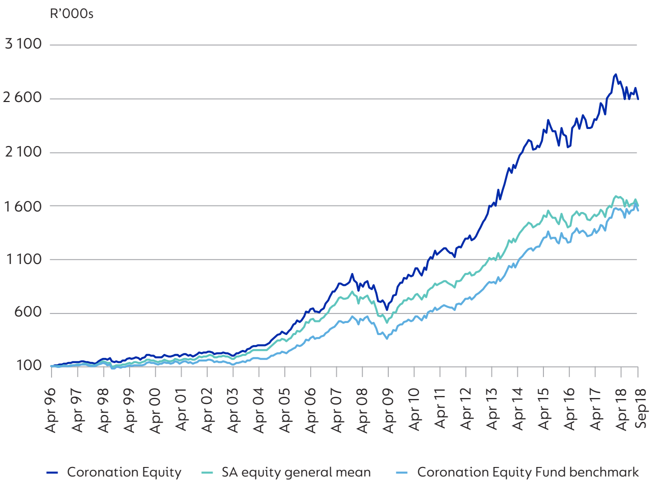
Source: Morningstar

Long-term investment track record

CORONATION EQUITY RETURNS VS EQUITY BENCHMARK

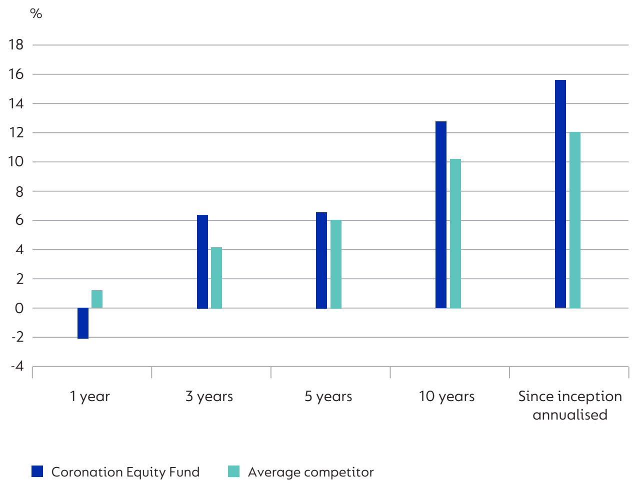
10-YEAR ANNUALISED RETURNS	CORONATION EQUITY	AVERAGE COMPETITOR	OUTPERFORMANCE OF AVERAGE COMPETITOR
2006	19.38%	17.09%	2.30%
2007	21.45%	19.23%	2.22%
2008	17.62%	18.47%	(0.84%)
2009	16.53%	16.39%	0.14%
2010	19.59%	18.86%	0.73%
2011	18.03%	16.78%	1.25%
2012	21.12%	18.77%	2.35%
2013	21.60%	18.49%	3.11%
2014	18.44%	16.17%	2.26%
2015	14.86%	12.52%	2.34%
2016	11.95%	9.47%	2.48%
2017	11.99%	8.82%	3.18%
9 years 9 months to 30 September 2018	14.08%	11.38%	2.70%
ANNUALISED TO 30 SEPTEMBER 2018	**CORONATION EQUITY**	**AVERAGE COMPETITOR**	**ALPHA**
1 year	(2.08%)	1.21%	(3.29%)
3 years	6.32%	4.11%	2.21%
5 years	6.49%	6.03%	0.46%
10 years	12.74%	10.18%	2.56%
Since inception in October 1993 annualised	15.63%	12.05%	3.58%
Average outperformance per 10-year return			1.86%
Number of 10-year periods outperformed			12.00
Number of 10-year periods underperformed			1.00

CUMULATIVE PERFORMANCE



Source: Morningstar

ANNUALISED RETURNS TO 30 SEPTEMBER 2018



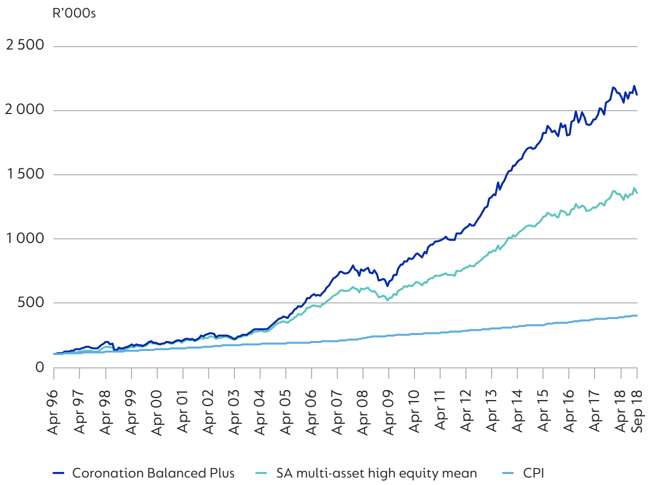
Source: Morningstar

An investment of R100 000 in Coronation Equity on 15 April 1996 would have grown to **R2 593 514** by 30 September 2018. By comparison, the returns generated by the fund's benchmark over the same period would have grown a similar investment to **R1 555 858**, while the South African equity general sector would have grown a similar investment to **R1 597 926**.

CORONATION BALANCED PLUS FUND VS INFLATION AND AVERAGE COMPETITOR*

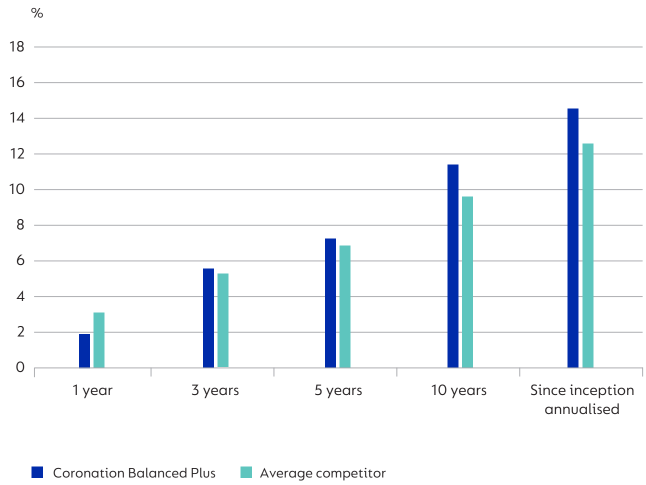
10-YEAR ANNUALISED RETURNS	CORONATION BALANCED PLUS	INFLATION	REAL RETURN
2006	18.33%	6.47%	11.86%
2007	17.81%	6.59%	11.22%
2008	16.96%	6.87%	10.09%
2009	15.69%	6.75%	8.94%
2010	17.20%	6.28%	10.93%
2011	15.78%	6.24%	9.54%
2012	17.85%	5.76%	12.09%
2013	18.63%	5.90%	12.73%
2014	16.58%	6.00%	10.57%
2015	14.01%	6.12%	7.89%
2016	11.08%	6.30%	4.77%
2017	11.04%	5.92%	5.12%
9 years 9 months to 30 September 2018	12.26%	5.42%	6.84%
ANNUALISED TO 30 SEPTEMBER 2018	**CORONATION BALANCED PLUS**	**AVERAGE COMPETITOR**	**ALPHA**
1 year	1.98%	3.14%	(1.16%)
3 years	5.64%	5.31%	0.33%
5 years	7.24%	6.88%	0.36%
10 years	11.43%	9.63%	1.80%
Since inception in April 1996 annualised	14.61%	12.59%	2.02%
Average 10-year real return			9.43%
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%			5.00
Number of 10-year periods where the real return is 0% - 5%			1.00

CUMULATIVE PERFORMANCE



Source: Morningstar

ANNUALISED RETURNS TO 30 SEPTEMBER 2018



Source: Morningstar

An investment of R100 000 in Coronation Balanced Plus on 15 April 1996 would have grown to **R2 127 856** by 30 September 2018. By comparison, the South African multi-asset high-equity sector over the same period would have grown a similar investment to **R1 362 021**.

* *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.*

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