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NOTES FROM MY INBOX

RIGOUR IN A POST-TRUTH WORLD

By Kirshni Totaram

Kirshni is global head of institutional business. She is a qualified actuary and a former manager of the Coronation Property Equity portfolio. Kirshni joined Coronation in 2000.

Welcome back!

A new year traditionally heralds new beginnings, but there is no denying that we will not close the chapter on 2016 any time soon. The events of last year will reverberate through modern history, and have upended the status quo, probably irreversibly.

Apart from Brexit and the election of Donald Trump as US president, the year that saw the highest global temperatures on record also gave us presidential impeachments in Brazil and South Korea, the rise of populism, unremitting terror attacks, the death of the Trans-Pacific Partnership and a bloody civil war in Syria, the effects of which were felt far beyond the region. In South Africa, the political ground shifted below our feet as power relations changed, the electorate switched allegiances and civil unrest intensified. At times, amid the constant flow of new allegations and shocking developments, a single day proved to be a long time in local politics.

The political volatility across the world was matched by market movements. After some stops and starts, developed market equities reached record highs in the final quarter of the year, just as US bond yields finally started falling apart. Commodities and the oil price gained ground and, despite a couple of lethal blows, the predicted demise of the rand was greatly exaggerated – while the almighty sterling lost 16% against the dollar.

As you know, we do not invest on daily newsflow or market gyrations. We are solely focused on achieving long-term investment growth and the risk-adjusted valuation of an asset remains the single most important consideration when investing our clients' savings. Events in a year like 2016 will not change our investment approach, and we continue to focus on finding opportunities as the market overreacts and misprices investments. That said, there is an undeniable sense that the international environment is changing, creating more moving parts to take into account. Not only are we carefully considering the impact of the shifting status quo on investments, but we also have a greater awareness of our own responsibility to maintain rigour in a post-truth world.

Fake news, amplified by social media, has been swaying debate and sowing mistrust, and it has been disconcerting to see how a blatant lie, tweeted in the early morning hours, can get halfway around the world before the truth has a chance to get its pants on, to paraphrase a saying attributed to Winston Churchill. Amid an oversupply of information, there is a scarcity of verified fact, and even less real wisdom. Now more than ever, we are all required to demand the highest standards from our information sources and to be judicious in who and what we trust. Trust should be earned, after all.

This especially holds true for investing. In recent years, we have seen an increase in imprudent rhetoric and easy promises in the asset management industry. But there is no shortcut in delivering real, market-beating investment growth over the long term – rigorous research and domain knowledge are required, along with the broad shoulders and discipline to make the unpopular decisions that may impact short-term performance, but will ultimately grow your investment in the long run.

Our 23-year track record of superior performance and of always putting clients first should anchor our investors in a time where integrity and truth are in short supply. With a singular focus on fund management, we strive to earn your trust through the highest ethical standards and strong investment performance. Our culture of being owner-managed, independent and performance-driven has helped us to consistently deliver market-beating returns for our investors over the long term. When looking at our institutional clients:

- More than 95% of those clients who have been invested with us for more than ten years have outperformed their benchmarks.

- 100% of clients have outperformed their benchmarks over 20 years.

It has now been almost five years since our SA equity product range has been closed to new investors, and more than four years since we closed our balanced and absolute return strategies. As an investment-led firm, we value our investment track record far more than our company profitability or our market share.

IN THIS EDITION

In an exclusive article written for our readers, the *Financial Times* chief foreign affairs commentator Gideon Rachman explores the new 'Trumpian world'. He believes president Trump could trigger a revolution in global politics, with the potential of upsetting trade relations and other relationships. You will find Gideon's guide to the main issues to watch out for in 2017 on the following pages.

On page 7, political analyst Simon Freemantle gives his assessment of where SA politics may be heading this year. After the bruising events of 2016, he expects a different kind of drama to play out in the coming months ahead of the ANC leadership election in December.

Amid the volatility, we continue to find good long-term opportunities across the globe, and in this edition, we outline the investment cases for international consumer staple companies (page 20), frontier cement companies (page 31) and the UK property group Hammerson (page 22).

Our economist Marie Antelme assesses the improved prospects for economic growth in SA this year on page 9, and you will find our regular commentaries on the local and international markets elsewhere in the publication. We also review the performance of our funds for the year (page 11) and profile our Coronation Global Managed Strategy (page 25) in this issue. ■

We hope you enjoy the read.

MARKET MOVEMENTS

	4th quarter 2016 %	2016 %
All Share Index R	(2.1)	2.6
All Share Index $	(1.9)	15.9
All Bond R	0.4	15.5
All Bond $	0.5	30.4
Cash R	1.9	7.4
Resources Index R	(1.2)	34.2
Financial Index R	2.9	5.4
Industrial Index R	(4.7)	(6.6)
MSCI World $	2.0	8.2
MSCI ACWI $	1.2	7.9
MSCI EM $	(4.2)	11.2
S&P 500 $	3.8	12.0
Nasdaq $	0.1	7.3
MSCI Pacific $	(1.0)	4.5
Dow Jones EURO Stoxx 50 $	3.2	0.7

THE NEW *TRUMPIAN* WORLD

By Gideon Rachman

Gideon is the chief foreign affairs commentator at the Financial Times *and a globally respected journalist. He joined the* Financial Times *in 2006 after a 15-year career at* The Economist*, which included positions as a foreign correspondent in Brussels, Washington and Bangkok.*

The presidency of Donald Trump has the potential to be a revolutionary moment in global politics. The new US president appears to reject some of the basic principles on which American foreign policy has been based since the end of the Second World War. Ever since 1945, all US presidents have shared a commitment to an international order built around two central pillars. The first pillar is the promotion of international trade. The second is a global security system based on a network of US-led alliances.

But during his campaign for the presidency, Trump threatened to pull down both pillars. The 45th president of the United States is an avowed trade protectionist. And he is also a man who has consistently questioned the value of US-led alliances – calling NATO 'obsolete' and suggesting that America's alliances with Japan and South Korea are bad deals for the US. The question is what will happen when Trump's big ideas collide with the real world? Here is an issue-by-issue guide to the main places and problems to watch out for in 2017:

RUSSIA

Trump is an open admirer of Vladimir Putin. The new US president's desire for a rapprochement with the Kremlin could lead him to lift sanctions on Russia and to accept the annexation of Crimea. But any such policies are likely to bring Trump into direct conflict, with the US intelligence community and with influential members of his own Republican party. The new president poured scorn on the CIA's assessment that Russian hacking had played a part in the American presidential election. But can he afford to have a poisonous relationship with such a powerful interest group in Washington? After all, Trump will need the CIA's assessments to guide him through some of the most dangerous issues he faces – including North Korea.

NORTH KOREA

The biggest looming security crisis facing Trump is probably North Korea. By the end of the Obama years, concerns were mounting in the White House that North Korea is getting dangerously close to being able to fit a nuclear warhead onto a ballistic missile that could hit the west coast of the United States. It is conventional wisdom in the US security establishment that a North Korea armed with ballistic nuclear missiles is an intolerable threat to the US. Trump's initial comments on the subject suggest that he believes that increased pressure from China could force the North Koreans to abandon their nuclear programme. But gaining Beijing's co-operation could be impossible – against a background of rows over trade and Taiwan. Faced with frustration over North Korea, Trump may be tempted to revisit some of the military options that were discarded by President Obama as too dangerous.

TRADE

During the election campaign, Trump was visceral in his denunciations of China, proclaiming that, 'We have a $500 billion deficit with China ... We can't continue to allow China to rape our country ... It's the greatest theft in the history of the world'. Those who hoped that Trump would abandon protectionism, after winning office, were quickly disappointed. On the contrary, the new president placed protectionists in key positions in his administration. Peter Navarro, author of a book and film called *Death by China,* was appointed to head a new National Trade Council, based in the White House. Navarro's intellectual ally, Wilbur Ross, is Commerce Secretary.

Navarro's film begins by urging viewers – 'Don't buy made in China'. It points out the considerable loss in US manufacturing jobs, since China joined the World Trade Organisation in 2001, and blames this on a range of 'unfair' Chinese trading practices – including lax environmental standards, currency manipulation, intellectual property theft and illegal export subsidies. Some of the ills that Navarro highlights – such as commercial espionage – are real enough. Other complaints, such as the charge of currency manipulation, are outdated.

If Trump follows through on his threat to impose swinging tariffs on Chinese goods, he would certainly provoke

retaliation. A trade war would ensue, poisoning commercial relations between the first and second largest economies in the world – and damaging the entire global economy.

CHINA

The threat of a real war between the US and China has also risen, following Trump's election. The deliberate but careful attempts of the Obama administration to push back against Chinese ambitions in the Asia-Pacific region are likely to be replaced by a new Trump approach that is much more openly confrontational, and more impulsive in style. Even before taking office, the new US president demonstrated his willingness to antagonise Beijing – by taking a phone-call from the president of Taiwan, something that all US presidents have refused to do, since the normalisation of relations between the US and China in the 1970s. Mr Trump has also endorsed a significant expansion in the US Navy, which could signal a more aggressive American rejection of Beijing's ambitions in the South China Sea. If there is a broader strategic thrust to Mr Trump's thinking, it could be to split apart the informal alliance between Russia and China – and instead form a Washington-Moscow axis, designed at containing Chinese influence.

EUROPE

There are crucial elections in France, the Netherlands and Germany this year. There is now fear in the French and German governments, that Mr Trump may seek to help the European far-right – by supporting Marine Le Pen in the French presidential elections in May, the Party for Freedom in the Dutch elections in March and the Alternative für Deutschland party in the German elections in September. In that case, both the Kremlin and the White House would be working towards the defeat of the German chancellor. Such a scenario would once have been unthinkable. But it is possible in the new *Trumpian* world.

BREXIT

One huge disruptive factor for the global economy and for the Western alliance is Britain's determination to leave the EU. The formal negotiation process is likely to begin in early 2017. It is unlikely to go well because the gap between the expectations of the British and EU sides is enormous. The British want to restore control over immigration from Europe and restore the supremacy of UK law – while maintaining complete free trade with Europe. The EU will refuse to do this.

Unfortunately for the UK, the negotiating process hugely favours the EU because if no new agreement is reached, the UK will simply fall out of the EU after two years – with potentially chaotic consequences for trade and migration. Faced with this nightmarish situation, the British may look to the Trump administration for assistance – either in the form of pressure on the EU, or through the offer of an alternative free-trade deal with the US. That, however, would be very hard to deliver quickly.

IRAN

Republicans in Congress share Trump's disdain for President Obama's nuclear deal with Iran. Some of the new president's key appointees – including General Michael Flynn, his National Security Advisor – are particularly noted for their hostility towards Iran. But, in the long term, ripping up the nuclear deal could put the US on the road to a war with Iran. Will Mr Trump be prepared to take that risk?

TURKEY

Some investment bankers have talked of a fragile five countries, made up of South Africa, Brazil, Indonesia, India and Turkey. These five are said to be defined by their reliance on foreign capital. But, of the five, by far the most fragile looks to be Turkey – for reasons that are essentially to do with geopolitics.

The backwash of the Syrian war is now seriously destabilising Turkey. The country now hosts more than 3m refugees and has been hit repeatedly by terrorist attacks. It is also bitterly politically divided as President Erdogan seeks to consolidate his power – and purges both the press and the civil service. The year has started with the Turkish currency plunging. And given Turkey's significance – on issues ranging from refugees to the NATO alliance – turmoil there will inevitably affect Europe and the wider West. It cannot simply be ignored.

THE MIDDLE EAST AND TERRORISM

Trump has consistently advocated a much more ferocious approach to the war on 'radical Islamic terrorism'. But his advisers disagree about what that might mean. Some want the US military to go plunging back into the Middle East. Others argue that such a policy would push America back into the quagmire of war – while provoking new terror attacks. They will advocate a more isolationist approach that focuses on homeland security.

STYLE

Will Trump become a more conventional politician, as he settles into the Oval Office? The early signs suggest not. Foreign leaders may have to get used to the idea that changes in US foreign policy can emerge from a 3AM Tweet from the White House. Trump supporters relish the new president's confrontational style and his willingness to question the conventional wisdom – which they see as a refreshing contrast to the professorial style of Obama. Trump's critics fear that the new president will blunder into crises and will make the world a much more dangerous place. In 2017, we will learn which theory is closer to the truth. ■

SA POLITICS IN 2017

A DIFFERENT KIND OF DRAMA

By Simon Freemantle

Simon is the senior political economist and head of the African political economy unit at Standard Bank. He is a regular presenter on political and economic issues relating to SA and Africa on a variety of local and international platforms.

From an SA political perspective, 2016 was a bruising year. The year's extraordinary volatility was largely determined by the seismic changes brought about by a dominant ruling party losing its once casual hegemony on the popular vote; a president scrambling for reascendancy after an epochal political miscalculation, and in doing so fanning wider internal discord in the party he leads; and a body politic, best represented by a restive student population, growing increasingly frustrated by the stubbornly torpid pace of economic growth and transformation.

Various themes can be hauled from the debris of last year's political cycle, all of which will – in some form – carry through into the new year, and will shape the country's longer-term political and economic direction.

The first is undeniably the manner in which president Jacob Zuma's political authority has been so profoundly – and quite likely irreversibly – eroded. The turning point in this regard was undoubtedly the president's dismissal of former finance minister Nhlanhla Nene on '9/12' 2015, a moment that proved to be catalytic in mobilising those within the mechanics of the ANC and state, and from business and civil society, who had grown increasingly uneasy with the president's stewardship of the economy. Still buffeted by the manner in which he was forced to re-appoint Pravin Gordhan as finance minister, the president then faced a damning Constitutional Court judgement against him, compelling him, as the opposition EFF had demanded, to 'pay back the money' unduly spent by the state on his personal Nkandla home. He also encountered rising allegations of state capture against him and the Gupta family, articulated in a public protector investigation later in the year, as well as elevated internal criticism following the ANC's poor performance in the August municipal elections. In the final ANC National Executive Committee (NEC) meeting for the year, several senior party leaders rose to initiate a discussion on the removal of Zuma from the state presidency – a motion he survived largely as a result of crippling internal discord in the party and the related inability to find the consensus it demands to move forward on such matters, rather than due to the once-formidable grip he held on the party's leadership cluster.

The scale of Zuma's loss of place is perhaps best emphasised by his inability to orchestrate a reshuffle of his cabinet in 2016 – particularly given how many of the ministers serving at his behest are now openly defiant of his directives.

2017 will be the final year of Zuma's functional political power. It will culminate in the ANC electing a new party president; surrounded by a reshaped 'top six' and an NEC which better represents the ANC's current dynamic. It is already instructive that the ANC's factional battles are now being openly fought over who will replace president Zuma this year, rather (as has been the case since 2007) than over support for and opposition to the president himself. As such, 2017 will be the year in which Zuma's centrality to the wider debate of the country's political and economic direction begins to weaken. Discussions will begin to focus more on what follows the president's damaging tenure, than on the tenure itself. Compounding the effects of this weakening for the president will be the legal challenges he will face in 2017 – none more important, perhaps, than his appeal against last year's High Court ruling that overturned the National Prosecuting Authority's (NPA) withdrawal of corruption charges against him in 2009.

In parliament, the ANC caucus, led by chief whip Jackson Mthembu, will likely seek to regain some of its lost ground by assuming a position in key matters which is more in line with public sentiment – such as in the inquiry into the errant former board at the SABC and the role of the broadcaster's indefatigable former chief operating officer Hlaudi Motsoeneng – and less subservient to the president's legislative whims, as with the resistance to the president's ordered review of the Financial Intelligence Centre Amendment Bill.

The ANC's succession battle will be an all-consuming political theme for the year. Early signs suggest that the primary battle will be between deputy president Cyril Ramaphosa and African Union Commission chairperson Nkosazana Dlamini-Zuma. Yet there are other party leaders whose aspirations cannot be underestimated – such as ANC chairperson Baleka Mbete, ANC treasurer Zweli Mkhize

and Free State premier Ace Magashule. If the 2007 and 2012 elective conferences are anything to go by, then rival factions will each put forward 'slates' of their preferred top six leaders, hoping to ensure that all their candidates are elected as a bloc and that challengers are completely sidelined. Given the toxicity of the ANC's current internal strife, such a winner-takes-all approach would likely threaten a further split in the party, one substantial enough to undermine the ANC's grip on the national majority in the 2019 elections. Given the spectre of this outcome, there is still the chance that a compromise slate could be formed – one led by Ramaphosa, deputised by Dr Dlamini-Zuma, and including some of the other top six candidates currently sparring for political elevation.

A further important theme that cut through last year was the persistent threat of a downgrade of the country's sovereign credit rating to junk status. Standard & Poor's in particular provided an important reprieve in June last year, but suggested that key reforms to substantially elevate economic growth, and a dulling in the intensity of political discord, particularly as it relates to the functioning of the National Treasury, were critical for retaining the country's investment-grade rating.

One of the positive features of 2016, which was somewhat lost in the general political clamour, was the relative stability in labour relations. Last year, three-year wage agreements were signed, without industrial action, for the three largest platinum producers and across the automotive sector, providing stability in these previously volatile areas of the economy out to 2019. 2017 will likely provide a continuation in this general stabilisation, with the major focus resting on negotiations in the metal, steel and engineering sectors, the agreement for which expires on 30 June. Elsewhere, the signing into law of the Mineral and Resource Petroleum Development Act and the agreement on the conditions of the reframed Mining Charter, particularly as it relates to the 'once empowered, always empowered' clause, will be critical.

Ratings agencies will announce their reviews of the country's status in June, the same month that the ANC gathers in Gauteng for its five-yearly policy conference (when the customary demands for 'radical economic transformation' can be expected), and again in December, when the ANC gathers to elect new leadership. Politics, and the shape and intensity of potential change in this regard, will therefore again be a central element for ratings agencies in their determinations of the country's credit status this year.

Gordhan will likely enter the year more assured, galvanised as he has surely been by the profound support he was able to accumulate from across the political spectrum, civil society, business and the public in response to his harassment by the Hawks in 2016. National Treasury will be less encumbered this year by the demands of an election cycle, which may somewhat ease populist pressures on the Budget process. However, balancing the demands of an ideologically divergent ruling party will remain a central challenge this year – particularly when a fringe cohort, trumpeted most consistently by ANC Youth League leader Collen Maine, continues to argue that the country's conservative fiscal course is largely responsible for the plight suffered by the poor. Further, the Hawks may still seek to formalise charges related to their allegations that a SARS 'rogue unit' was operated under Gordhan's tenure, though they will likely find a less receptive audience at the NPA in driving these potential demands given the obvious breakdown in relations between Hawks boss Berning Ntlemeza and his NPA counterpart, advocate Shaun Abrahams.

With no lasting solution to the frustrations of the student groups that so profoundly disrupted university activities last year, some degree of unrest must again be anticipated, with a focus both on the beginning of the academic year and the announcement, towards the end of the year, of the anticipated fee increases for 2018. Beyond this, the South African Social Security Agency appears ill-prepared to assume control of the distribution of social grants to around 17 million vulnerable South Africans from current service provider CPS, whose contract expires on 31 March this year. Any disruption to the payment of grants could have serious social consequences.

For the opposition, 2017 will be an important year, too. Both the EFF and the DA will have to begin to find new avenues to exploit voter sympathy as the ease with which they have simply assailed the ANC through attacks on the president's moral fortitude begins to lose its wider lustre. The primary focus for the DA will be on ensuring it is capable of providing a discernible improvement in the management of the metropolitan municipalities that it now runs. This will be far more straightforward in Nelson Mandela Bay, where the DA holds a fairly comfortable majority, and previous mismanagement was so acute, than it will be in Johannesburg, where the DA's hold is so much more brittle, and the prior performance of the metro under mayor Parks Tau more credible. It will in many ways be a holding year for the EFF, one in which the party aims to retain its credibility through emphasising its kingmaker status in key metros; assailing the ANC in parliament; and growing its representation among the country's as-yet politically dormant 'born-free' population. 2017 should be the year in which the National Union of Metalworkers of SA's much-vaunted political party will be established, aided by former Congress of SA Trade Unions (Cosatu) general secretary Zwelinzima Vavi. Though such an addition would add valuable nuance to the broader political environment, the moment for such a formation to accumulate real national scale may have passed.

Though the context for the year ahead appears to be more benign than the year that has passed, it is unlikely that 2017

will be marked by decisive change. For this, we await the resolution of the ANC's leadership battle. Still, there will be gaps to be exploited by the president's loosened grip of the national discourse, and his inability to fundamentally disrupt the grinding process of stabilisation, which is headed in the state by the National Treasury and aided by re-formed partnerships with the private sector. Countering these incremental gains will be those seeking to maximise their current political access through legislative and state procurement channels – their urgency necessitated by Zuma's replacement by year-end. Focus will in this regard rest on the passage of the nuclear programme, which Eskom continues to champion despite wide public and political opposition.

A different kind of drama will seize SA politics this year – one that follows from the grinding shifts that took place in 2016, and that is determined in large part by the range of potential outcomes offered by the ANC's elective process. Though the ANC appears to be aware of its institutional and moral failings, it is less clear whether it has the capacity and institutional fortitude to correct them; and, if not, what political constellations will fill the void created by the party's demise. Answers to these pressing questions will begin to emerge from the fog this year. ■

Disclaimer: The views and opinions expressed in this article are those of the author and have originally been prepared and previously shared with other financial market participants, primarily institutional clients of Standard Bank.

SA GROWTH

A LITTLE COULD GO A LONG WAY

By Marie Antelme

Marie is the chief economist within the fixed interest investment unit. She joined Coronation in 2014 after working for UBS AG, First South Securities and Credit Suisse First Boston.

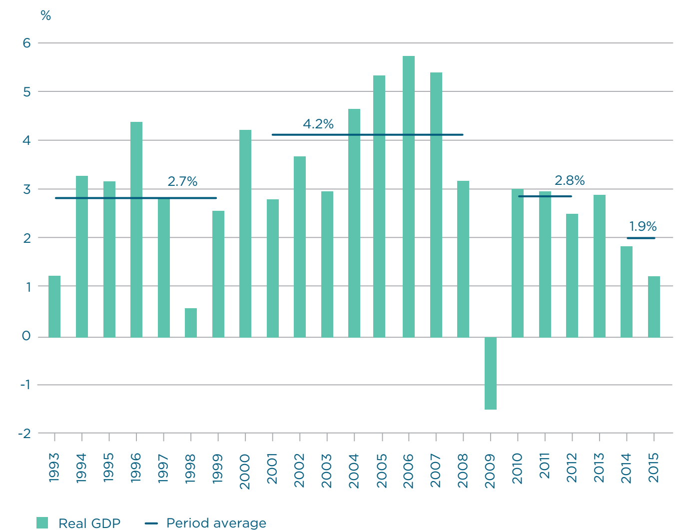
LOOKING BACK

Last year was abysmal. SA's economy suffered as the drought deepened and inflation spiked, prompting two interest rate hikes. The political landscape remained in flux following the double replacement of SA's finance minister in December 2015, which also hit domestic financial markets, slammed the currency and pushed bond yields higher. With almost no help from global growth, real GDP probably barely managed to stand still in 2016.

Looking back, average growth in SA has slowed from 4.3% per annum in the eight years before the financial crisis in 2008, to 3% in 2010 to 2012, and just under 2% over the past four years. Since 2012, key developments have had a negative impact on growth and confidence, also impacting the currency. The first event was the tragic loss of life at Marikana in 2012, followed by a prolonged period of labour hostilities through 2014. In 2015 came Nenegate, allegations of high-level corruption and renewed turmoil in the ANC.

Domestically, apart from policy uncertainty, capacity constraints also included (but were not limited to) the availability of electricity, high levels of household debt, fiscal consolidation, higher inflation and tighter monetary policy. In addition, the drought and rocketing food prices slowed growth.

SA REAL GDP



Source: Statistics SA

OUTLOOK FOR 2017

The good news for this year is that many of these constraints have either started to ease, or have been remedied. Before we get into the details, let us first address the elephant in the room: the fluid SA political landscape. While the

president has both the right and ability to change members of his cabinet, the internal power balance within the ruling ANC has so far limited the choices he has been able to implement. Still, it is difficult to monitor and assess shifts in the balance of power.

Politics will most likely continue to dominate markets from time to time this year. It is also important to remember that the ANC will hold its own elective conference at the end of 2017, ahead of the national elections in 2019. It is at this conference that the party will elect new leadership for the following five years. The likely presidential candidate for the national elections will emerge from these contenders. Accordingly, political positioning will be a constant feature in SA in 2017.

Turning to the economy, there is enough evidence to suggest that growth will improve this year, off a very weak base. The worst drought in decades saw agricultural output shrink by 8.8% by the third quarter of 2016, compared to the same period the year before. Mining output contracted 3.4% on the same basis and the secondary sectors – manufacturing, utilities and construction – were flat, with the only growth coming from trade, business services and government. In all cases the growth registered by these sectors was lacklustre at best, and slowed towards the end of the year.

Looking at the data from the demand side, household spending – 60% of total GDP – weakened through the year as the impact of rising inflation (notably in food prices, which hit 11.8% in the year to October) and a cumulative 200 basis points in interest rate hikes since 2014 compounded job losses. Gross fixed capital formation, including inventory restocking, has suffered amid ongoing weak global demand, falling commodity prices and (until recently) fraught labour relations. Poor confidence and political uncertainty still weighed, and capital expenditure was flat through most of 2016. Net trade, however, was a positive contributor to growth as domestic terms of trade improved and a combination of better exports and weaker imports saw a recovery in the trade balance.

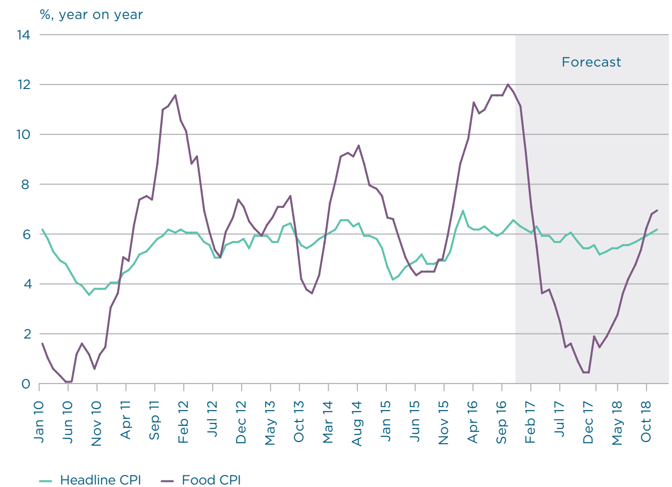
Global growth is expected to accelerate from 3% to about 3.5% (International Monetary Fund: 3.4%), boosted by stimulus and improved confidence in the US, decent momentum from Europe, and better economic performance from emerging markets, notably Russia and Brazil, which have suffered recessionary conditions in 2016. This should help support commodity prices, and an improvement in investment in these economies should see an improvement in global trade.

The good news for the SA economy should be supported by four other baseline assumptions. Firstly, lower inflation should help improve real incomes, and lower food inflation in particular should alleviate some of the pressure on middle- and lower-income households. Then, interest rates will not be hiked, and may even head lower late this year. Thirdly, improved confidence could see a modest rise in investment and, lastly, terms of trade should remain relatively favourable.

INFLATION

Headline CPI accelerated to 7% year-on-year in February last year, moderating slightly to a second peak of 6.6% in November. We expect CPI to average 6.3% in 2016. The main driver was rising food inflation, partly owing to the impact of the drought, but also reflecting the wider impact of a weaker currency on retail fuel and imported goods prices. Food inflation accelerated to almost 12% towards the end of the year, from 7.1% year-on-year in January. Decent rainfall in key crop-growing regions late last year has seen farmers planning to plant 26.5% more hectares of maize, and a total increase of 15% in the overall planting of summer crops. The price of white maize has fallen almost 40% from its peak to current levels. Global stock levels remain high and imports could provide a possible reprieve in the early part of the year when domestic stocks run low. Accordingly, we expect grain input prices to moderate back towards export parity. Given the impact of the drought on cattle herds, meat prices could be a little slower to adjust, but base effects alone should ensure a significantly slower pace of food inflation (we estimate 3.4% on average this year from 10.7% in 2016), with fierce retail competition skewing the risk to lower rather than higher prices.

SA CONSUMER INFLATION



Sources: Statistics SA, Coronation

The rate of change in inflation (how quickly it rises or falls) has a meaningful impact on disposable incomes, and the deceleration in prices should bolster real household incomes. It is possible that fiscal drag (perhaps in combination with outright tax hikes) may offset some of these gains, but all else being equal there should still be an improvement in household spending power in 2017.

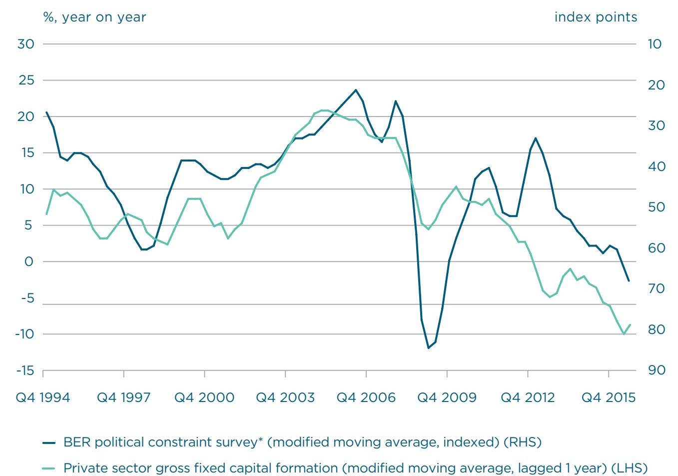
EXPECTED GROWTH

Fixed investment growth should also return to mildly positive rates. Overall investment spending has been boosted by government and state-owned entities since the financial crisis, while private sector investment remained weak. Here too, are signs of some improvement. Labour relations have become less hostile, and days lost to strike activity have fallen meaningfully in the past two years. Also, more stable commodity prices and even a modest pick-up in global trade volumes may boost investment, even for stock replacement. The intensification of political tension in 2016 has also prompted some improvement in dialogue between government and the private sector, which may support business confidence and increase companies' willingness to invest. This is of course vulnerable to political ructions, already a significant constraint on investment.

The prospects for the domestic terms of trade are very hard to assess. A revival in domestic demand could well support stronger import growth, but then again, key export commodities have rallied along with the recent rise in oil prices.

Taken together, our baseline growth forecast is for an acceleration in real GDP to 1.4% in 2017 from 0.3% last year. We expect inflation to moderate to 5.2% by year-end, and to average 5.8% this year. Early-year increases in retail fuel prices have put pressure on inflation, but there is still some downside risk: cooling food inflation could drag the forecast even lower. Given better growth and falling inflation, we think the SA Reserve Bank will keep interest rates on hold for some time, but modest rate cuts may even be expected by year-end. These projections are hardly buoyant, and the rise in growth is not yet a reflection of easing structural constraints. Instead, it will be a cyclical improvement off a deeply constrained base. As with all baseline projections, and especially in a world where unpredictable political and economic shocks can jolt markets, forward-looking optimism can be derailed by unforeseen or low-probability events not included in our analyses. That said, just a little lower inflation should go some way to ease the pressure of 2016. ■

SA POLITICS AND INVESTMENT



*The proportion of respondents in the manufacturing sector who see politics as a constraint on their investment plans.

Sources: SA Reserve Bank, Bureau for Economic Research (BER)

THE YEAR IN REVIEW

PERFORMANCE OF OUR SA INVESTMENT STRATEGIES

2016 was an unsettling year on many fronts. For Coronation investors, however, the year brought reassuringly strong returns as many of our key long-term positions came to fruition.

Equities continued to be our preferred asset class for producing inflation-beating returns. We favoured global over domestic equities on the basis of valuation, and remain at the maximum offshore limit for most funds. In US dollars, the MSCI All Country World Index returned 1.2% for the fourth quarter and 7.9% for the calendar year, while the MSCI Emerging Markets Index declined 4.2% for the quarter, but delivered 11.2% for the calendar year.

As expected, the US Federal Reserve raised interest rates by 25 basis points (bps) in December. Our base case remains

that the pace of interest rate normalisation will be gradual and that interest rates will remain at historically low levels for longer. Despite the obvious political uncertainties inherent in a Trump presidency, markets have taken the view that accommodative monetary policies, fiscal stimulus (lower taxes and increased state spending on infrastructure), and a commitment from the US government to cut regulation and support business will be very positive for equities.

Locally, the FTSE/JSE All Share Index (ALSI) returned -1.9% for the quarter and 15.9% for the calendar year in US dollars. Given the significant strengthening of the rand (+11.5% against the US dollar), this translated into a rand return of 2.6% for the index for the calendar year.

SA economic growth remains subdued with risk to the downside, given the backdrop of a weak global economy, instability caused by political infighting and the risk of a credit downgrade to junk status. Recent rand strength has improved inflation expectations and, together with weak economic growth, this means that the SA Reserve Bank is unlikely to hike interest rates further.

Domestic equities appear moderately attractive. While the ALSI is near its peak in rand terms, it has basically tracked sideways for the last five years in US dollar terms. We believe the global businesses listed in SA are attractively valued and as such, our portfolios have healthy weightings in stocks such as Naspers, Steinhoff International Holdings, British American Tobacco (BAT) and Anheuser-Busch InBev (ABI).

SPECIALIST EQUITY STRATEGIES

	Launch date	1 year	5 years	Since inception*
Houseview Equity	Oct 93	6.83%	14.77%	17.62%
Benchmark		3.94%	13.33%	14.82%
Aggressive Equity	Jan 04	15.98%	13.27%	18.75%
Benchmark		4.13%	14.18%	17.27%

**Annualised*

Both the Houseview Equity and Aggressive Equity portfolios delivered strong alpha over the past year, and were well positioned to capture the strong rally in the commodity sector. The Aggressive Equity portfolio offered an outstanding return of 15.98% over the year, outperforming its benchmark by 11.85%, while Houseview Equity's return was 6.83% for the year, delivering alpha of 2.89%.

Resource shares rallied by more than 34% for the year and our selected holdings in the sector were star performers. Anglo American, a blue-chip company which has been in existence for over a hundred years and which some commentators were claiming would go bust in 2016, delivered a phenomenal 183% return for the 12-month period. Exxaro delivered a 103% return – as we have explained many times before, it is not that exposed to floating price contracts for its coal sales and was not expected to fall like other resource companies. Finally, Impala Platinum came through with a 70% return over the 12-month period.

Our funds started accumulating an overweight position in resource shares in 2014 and 2015, which detracted from performance over that period and made holding resources at the beginning of 2016 a challenging view to many investors. Headlines were pervasively negative and many questioned the sustainability of these business models if spot prices prevailed. Our focus was on company valuations based on normalised commodity prices, which suggested that resource companies were looking extremely cheap. This view was not indiscriminate. We held shares where underlying commodity exposure was supported by long-term supply-demand fundamentals. As such, we not only benefited from the resource rally, but our specific holdings have outperformed the sector.

Despite the recovery we still have a healthy weighting to resources, as valuations on a through-the-cycle basis are still compelling. We have, however, trimmed some positions, given the reduced margin of safety. Our preferred holdings remain Anglo American, Mondi, Exxaro and the platinum producers. We continue to favour platinum over gold producers and prefer the low-cost platinum producers Northam and Impala Platinum.

Like most market participants, we had no crystal ball with which to predict that 2016 would be the year in which commodity prices would stabilise and share prices would rally. What we did do differently to the market was to be prepared to invest when we felt that the long-term value of the businesses, as informed by our assessment of long-term commodity prices, was incredibly cheap. The recovery in the resources sector was swift and sharp, and we benefited fully thanks to our early positioning.

Given the weak domestic economy, it will be a challenge for the average business to defend (let alone grow) earnings in real terms. In such an environment, high-quality businesses thrive and take market share from the weaker ones. To this end, we hold reasonable positions in food retailers and producers as well as selected consumer-facing businesses (Foschini and Woolworths). These businesses are well managed and trade below our assessment of fair value.

We have added some new positions to the Aggressive Equity portfolio over the past quarter, including Sasol, which the fund has not owned for some time. We believe the company is now discounting most of the bad news around the Lake Charles ethane cracker plant. Other recent additions include Netcare and the SA fast-moving consumer goods business Spar, which has successfully expanded into Ireland and, more recently, Switzerland.

BALANCED STRATEGIES

	Launch date	1 year	5 years	Since inception*
Global Houseview	Oct 93	3.44%	14.65%	16.52%
Benchmark		3.67%	13.76%	15.17%

**Annualised*

Our balanced portfolios have continued to deliver respectable returns, with the Global Houseview portfolio outperforming its benchmark over the final quarter as well as longer, more meaningful time periods.

Through the year, we have held a full exposure to offshore assets. Over the 12-month period, the strength of the local currency had a negative impact on the rand returns from these assets, but the rally in commodity stocks provided some support, as did our sustained bearish position on global bonds. At the start of last year, our very low weighting in global bonds detracted from performance, as we remain steadfast in our view that very low bond yields provide no incentive to invest, with the risk of significant capital losses should these markets revert to mean. This position was validated in 2016, as a sustained sell-off in US government bonds took hold.

We do, however, believe that the yields on local bonds are attractive, especially given a more favourable outlook for inflation in SA over the medium term. The risk premium implied when comparing the yields of local bonds to other developed and emerging market bonds suggests that the market has largely priced in most of the political uncertainties in SA. The domestic bond market returned 15.5% for the year. These returns are flattered somewhat by the low base, with bonds performing very poorly in the month of December 2015 following the sell-off in the wake of Nenegate.

Our SA equity allocation was focused on JSE-listed global businesses that are attractively valued, including Naspers, Steinhoff, BAT and ABI. These businesses are exceptionally well managed and are diversified across numerous geographies and currencies, which make for a robust business model and protect the companies from an earnings shock in any single market. High weightings in these stocks reflect our view on underlying valuations and not a view on the currency. We do not currently have a strong view on the currency, believing it to be fairly priced.

We believe the valuations of local banks remain reasonable on both a price-to-earnings and price-to-book basis. These businesses are well capitalised, well provided for and trade on attractive dividend yields. Our preferred holdings are Standard Bank, Nedbank and FirstRand, and we have increased our exposure to the sector over the last six months. Among life insurers, we prefer Old Mutual and MMI Holdings, both of which trade on attractive dividend yields and below our assessment of their intrinsic value.

Listed domestic property offered a return of 10.2% for the year. We expect domestic properties to show reasonable mid-single-digit growth in distributions over the medium term. Reasonable distribution growth, combined with a fair initial yield, should result in an attractive holding period return. Within our property holdings, we continue to hold the 'A' shares and higher-quality names, which we believe will produce better returns than bonds and cash over the long term.

ABSOLUTE RETURN STRATEGIES

	Launch date	1 year	5 years	Since inception*
Domestic	Apr 02	8.38%	9.13%	15.43%
CPI		6.34%	5.59%	5.88%
Inflation Plus	Oct 09	6.27%	10.24%	11.13%
CPI		6.34%	5.59%	5.21%
Global Absolute	Aug 99	6.52%	12.15%	16.13%
CPI		6.34%	5.59%	6.16%

**Annualised*

Our absolute return strategies protected investors against inflation, with our Domestic Absolute, Inflation Plus and Global Absolute strategies delivering strong alpha over meaningful periods.

Our resources positioning delivered the bulk of the positive returns over the past year, while the strategies' outperformance was also supported by the active management of bond positions, including buying when the SA 10-year bond was in the 9% yield region and selling some 50 bps or more lower. Within the bond component, less than 3% of our holdings comprises longer-dated fixed government bonds. Floating-rate stocks and corporate bonds remain the major constituents of our total bond exposure, by a significant margin. We have used the volatility in the rand and the local bond market to good effect, reducing global exposure through currency futures when the rand was weaker and reversing those positions when it recovered.

Our bank holdings have also performed well in 2016. Recent reported earnings from Standard Bank and Nedbank indicate businesses that have managed to deliver quality earnings growth through good cost containment and conservative provisioning. Capital levels remain healthy, which means that these banks should be able to support decent dividend yields even in a tougher economic environment.

Our absolute return strategies aim to deliver a return above inflation while also attempting never to reflect a negative

return over any rolling 12-month period. We protected capital and are reasonably satisfied with one-year returns that are slightly better than inflation. Targets of inflation plus 5% to 6% are very tough to meet in a low-return world where companies are struggling to grow earnings and interest rates are in many cases negative in real terms. It is in these challenging times that protecting capital is vital, and our absolute return strategies are managed accordingly.

SPECIALIST FIXED INCOME

	Launch date	1 year	5 years	Since inception*
Active Bond	Jul 00	16.66%	8.69%	11.61%
ALBI		15.45%	7.36%	10.68%
Strategic Bond	Jan 08	16.12%	9.02%	9.99%
ALBI		15.45%	7.36%	8.40%

**Annualised*

Our fixed income strategies delivered healthy returns over 2016, and strong outperformances over all meaningful periods.

As stated, we believe that yields on global government bonds are currently too low and do not offer value. However, the combination of a more favourable inflation outlook in SA (with risks to the downside), flat local policy rates, an SA risk premium that prices in a good deal of conservatism and a global bond environment that should remain relatively stable, suggests a more encouraging environment for SA government bonds (as discussed in more detail on page 15). SA's 10-year and 20-year government bonds trade close to 9% and 9.6% respectively, which, when taken against an inflation expectation of 5.5% to 6%, suggest a range of real returns of 2.8% to 3.9%. This is a very attractive level, both from a historical and absolute perspective, enhancing the attractiveness of SA government bonds. The main risk to this outlook remains a resurgence in local political volatility that negatively influences the country's ability to implement policy effectively. While political uncertainty has forced a more tempered approach over the previous year as well as the very near term, we maintain a more positive and constructive view on medium- to longer-term outcomes.

Our fixed income strategies continue to hold reasonable positions in selected corporate bonds where we believe that spreads adequately compensate investors for the risk undertaken. Valuations on inflation-linked bonds still do not support a more meaningful allocation at this point.

Listed property returned -0.7% for the quarter. We expect domestic properties to grow distributions at levels close to inflation over the medium term, even if one assumes an uptick in tenant vacancies. This real growth, combined with a fair initial yield, offers an attractive holding period return. In our multi-asset fixed income strategies, we continue to hold the higher-quality property names, which we believe will produce better returns than bonds and cash over the long term.

As we start a new year, we are bombarded with predictions from numerous financial experts about what lies ahead in 2017. History has taught us that our ability to forecast the immediate future is limited. We will remain focused on long-term valuations and will seek to take advantage of whatever attractive opportunities the market will present to generate long-term rewards for our investors. In an incredibly uncertain world, we continue to strive to build diversified portfolios that can absorb the many surprises that are likely to come our way in 2017. ■

BOND OUTLOOK

AN ENCOURAGING ENVIRONMENT FOR SA BONDS

By Nishan Maharaj

Nishan is head of Coronation's fixed interest investment unit. He joined the business in 2012 and has 14 years' experience in the investment industry.

VOLATILE BACKDROP

The political earthquakes of 2016 have caused shock waves that will continue to reverberate across financial markets for much of the new year. Brexit and the election of Donald Trump as the new US president reflected a deep disdain and discontentment with the status quo among voters, who expressed their unhappiness with current regimes and policies. It was a stark reminder that eight years since the great financial crisis, growth in many countries has remained undesirably low, while income inequality has seen a marked increase.

Volatility remained elevated throughout last year, contributing to high levels of uncertainty and weighing on investor sentiment and conviction. Locally, although the shock of Nenegate was behind us, the political landscape remained volatile.

Despite the volatile local and global backdrop, SA bonds managed to perform much better in 2016. This was primarily due to bonds starting the year at quite elevated yields. After starting at 9.71%, the local 10-year benchmark bond traded in a range of 9.83% to 8.40%, settling at 8.91% at year-end. The All Bond Index (ALBI) delivered a total return of 15.5% for 2016, far ahead of cash at 7.4% (Short-Term Fixed Interest Composite Index) and inflation-linked bonds at 6.1%.

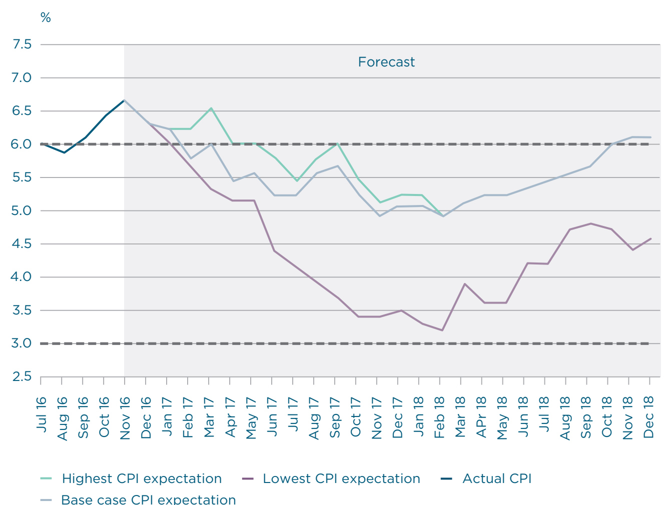
As one would expect, with 60% of the ALBI weighted towards the 12-year and longer range of the local bond curve, these bonds delivered the biggest contributon to overall performance: 17.5% – compared to 10.1% for bonds over 1 to 3 years; 13.4% (3 to 7 years) and 15.4% (7 to 12 years). Key to note here was that despite the absolute move lower in bond yields from their low starting point at the start of the year, the bulk of returns still came from the yield they provided. The ALBI's return of 15.5% was composed of a 5.85% capital return (return due to an appreciation in bond prices) and a 9.65% interest return (return due to yield earned from the underlying bonds).

INFLATION

Over the medium to longer term, domestic inflation will continue to direct local bond yields, as will the pricing of country-specific risks and developments in the global yield environment. The performance of local bonds will therefore depend on whether current yields provide a sufficient margin of safety against adverse developments in any of these drivers, or other unforeseen events.

The outlook for local inflation has improved, primarily due to the deceleration in food inflation. This is illustrated in our following base case scenario, which includes an assumption of average food inflation of 3.4% for 2017 and 4% for 2018. Even if we shock our inflation forecasts (as illustrated by the green line in the graph below) by including a move in oil to $65 per barrel and a rand slump (to R15.50/$ in the first quarter of 2017), it is still difficult to see a sustained breach of the top end of the SA Reserve Bank's (SARB) inflation band. In fact, inflation over 2017/2018 under our stressed scenario only averages 5.75%, compared to 5.45% under our base scenario.

INFLATION EXPECTATIONS



Source: Coronation analysis

The bottom line is that it is very hard, without a sustained shock to food inflation, to see the CPI persistently above target over 2017/2018, with the risk very much skewed to the downside (indicated by the purple line in the graph on the previous page). This is due to the abundant rainfall over much of SA during October to December 2016, as well as early indications that planting could increase by 15% in 2017 (measured even before the rainy period), providing a favourable environment for local bonds. Following on from this, it is very likely that we have seen the end of the interest rate hiking cycle in SA, with real policy rates expected to drift up to above 2% as inflation comes down next year. This will limit the SARB's ability to increase policy rates further and, if anything, shift expectations towards the start of a cutting cycle in late 2017 or 2018.

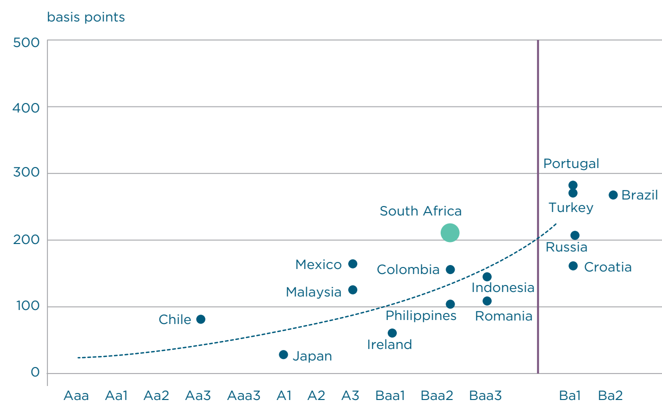
RISK PREMIUM

The local risk premium can be represented by two key measures: the SA credit default swap (CDS) spread, which measures the sovereign's riskiness as an issuer, and the spread between SA's 10-year bond yield and the US 10-year bond yield.

SA's current CDS spread sits at a level of 209 basis points (bps). Our local budget deficit, although still wide, is projected to contract meaningfully over the next three years (by approximately 1.5%), which should reduce financing needs and costs. In addition, the weaker rand and the stable mining and manufacturing environment should also continue to promote a strong trade recovery, which should reduce our current account deficit back towards -3%. The reduction in budget and current account deficits indicates that our twin deficit problem will become more manageable over time. Our expectations of a favourable inflation outlook further implies an increase in household disposable income, thereby suggesting stronger local consumption and a more stable underpin for growth. These improvements, although by themselves not sufficient to avoid a downgrade to below investment grade, do suggest that the risks are definitely tilting towards a more positive outcome on the ratings front, implying our CDS spread is somewhat too aggressively priced.

SA RISK PREMIUM: TOO HIGH?

Credit default swap spread vs Moody's sovereign credit rating



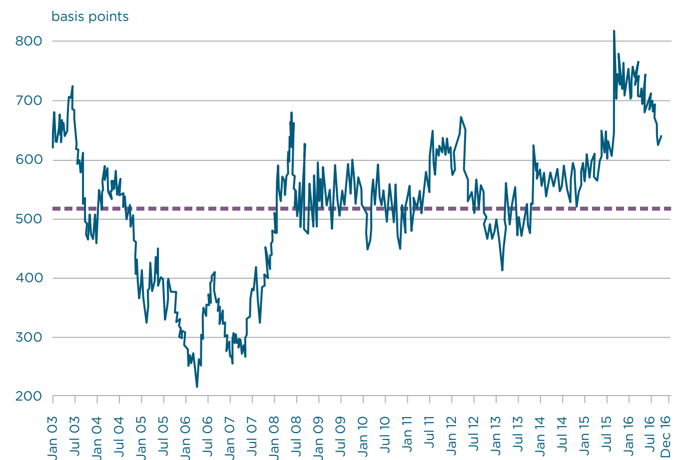
Source: Bloomberg

The spread between the SA 10-year government bond and the US 10-year government bond is representative of two factors, namely, the inflation differential between the two countries and the SA-specific risk premium:

(SA 10-year bond yield - US 10-year bond yield) = (SA inflation expectation - US inflation expectation) + SA risk premium

Currently, the spread sits at 645 bps, well above the long-term average of 525 bps. But more important is its implication for SA's risk premium. The implied breakeven inflation rate for the US 10-year bond is 2%, in line with the US Federal Reserve's (Fed) target. Our expectation of average SA inflation over the next two years is 5.5%. Using these values and the formula above, the implied SA risk premium is 295 bps, compared to current market pricing of 209 bps. This suggests that the implied risk premium between the SA 10-year and the US 10-year bonds provides a decent buffer in terms of risk premium expectations, making local bonds particularly attractive on this basis.

SPREAD BETWEEN SA 10-YEAR AND US 10-YEAR GOVERNMENT BONDS



Source: Bloomberg

One could argue that the elevated SA-specific risk premium is due to the volatile local political landscape. However, the major local events of 2016, such as the reappointment of Pravin Gordhan as finance minister, the former public prosecutor's report on state capture, the ruling of the constitutional court against president Zuma and the results of the local government elections, suggest that political volatility is starting to abate and the perceived risk premium is too high.

GLOBAL BOND YIELDS

Global yields pushed higher after the shock result of the US election in November last year. However, to call this the start of a global bond bear market seems extreme. The prospects for EU inflation and growth have improved, but the need for monetary policy accommodation will remain for some time, as indicated by the extension of the EU quantitative easing programme. Even after the end of the programme, it will be a long time before base rates move materially above the zero level again, keeping bond yields anchored. German bond yields rose by 40 bps from their lows last year but remain at 0.2% – hardly a level that strikes fear into the heart of an SA government bondholder, who earns 9%! The Fed has a target on core inflation of 2% and on keeping unemployment below 6.5%. As history has shown, it is not likely that the Fed will allow inflation to spiral out of control, causing an inflation-driven yield sell-off. In addition, with steadily decreasing levels of productivity and an effective floor in the unemployment rate due to gains in technology, US real rates will be required to remain relatively low when compared to history, around the 1% to 1.5% level. This puts the medium-term nominal rate on a US 10-year bond at around 3% to 3.5% (assuming the 2% inflation target is met and maintained). We have long argued that yields of below 2% for the US long bond were too expensive and fair value was somewhere around 2.5% to 3.5% over the medium term. As such, we do not believe that this is the start of a multi-decade sell-off in US bonds, but merely a move towards levels that are more reflective of the underlying fundamentals and risks.

PROSPECTS FOR 2017

The combination of a more favourable inflation outlook in SA (with risks to the downside), flat local policy rates, an SA risk premium that prices in a good deal of conservatism and a global bond environment that should remain relatively stable, suggests a more encouraging environment for SA government bonds. SA's 10-year and 20-year government bonds trade close to 9% and 9.6% respectively, which, when taken against an inflation expectation of 5.5% to 6%, suggest a range of real returns of 2.8% to 3.9%. This is a very attractive level both from a historical and absolute perspective, enhancing the appeal of SA government bonds. The main risk to this outlook remains a resurgence in local political volatility that negatively influences the country's ability to implement policy effectively. While political uncertainty has forced a more tempered approach over the previous year as well as the very near term, we maintain a more positive and constructive view on medium- to longer-term outcomes. ■

INTERNATIONAL OUTLOOK

ON FIRMER GROUND

By Tony Gibson

Tony is a founder member of Coronation and a former CIO. He established Coronation's international business in the mid-1990s, and has managed the Global Equity Fund of Funds strategy since inception.

INCREASED GLOBAL ACTIVITY

At the start of 2016, there was widespread anticipation of a looming global recession. At the lowest point in the first quarter, global growth had fallen to around 2%, compared to a long-run trend rate of 4%. The risk of deflation was rising and the economic outlook was dire.

Significant contributors to the prevailing mood of gloom were a stagnating Chinese economy (accompanied by fears of a sharp devaluation in the yuan) and a dramatic decline in the oil price, which saw a cut in capital spending in the energy sector. Deflation risks dominated Japanese and European bond markets, while the US Federal Reserve appeared set to slowly start hiking interest rates, despite the strengthening dollar and global economic weakness.

Since then, however, there was a marked upturn in global activity, and in recent months this has become surprisingly strong – at least when viewed through the bearish prism that has been in place since the knock to growth expectations following the global financial crisis. The narrowing of capital flows that pulled investment capital away from economic risk in 2015 reversed direction by mid-2016. Fears that a fragile US recovery would buckle and lead to a self-feeding global contraction gave way to renewed expectations for economic resilience. A further point is that in the US, politically driven interventions to buoy the economy prior

to elections have historically often created a favourable equity investment environment during the third and fourth year of a presidential term. However, due to the divided government in place over this period and the tepid pace of cyclical recovery, this pattern failed to generate positive returns for the Dow Jones Industrial Average Index as 2015 moved into 2016. These headwinds abated during the course of 2016, giving way to tailwinds that fed a 13.4% gain for the index in the presidential election year.

This improved sentiment pulled money back towards oversold raw materials, energy and economically sensitive cyclicals. Collectively, this rotation back towards economic risk fed a broadening of flows into equities – led by sectors oversold and out of favour in 2015. Gold, energy, financials, transportation stocks and cyclicals all rallied strongly. In contrast, the safe havens favoured in 2015 (such as pharmaceuticals) lagged. Among selected US equities, many that were oversold in 2015 bounced back strongly in 2016, while others that were overbought by the end of 2015 faltered or lagged in 2016. The sector rotation also appears to have carried over into the start of 2017.

While the US dollar rose sharply in 2016 against currencies such as the British pound and Mexican peso, the trade-weighted US Dollar Index rose by only 3.6% in 2016. Over the year, the US dollar rose by 6.9% against the Chinese yuan and 3.3% against the euro, but was down 2.7% against the yen. Meanwhile, commodity-sensitive currencies that were deeply oversold in 2015 – such as the Russian rouble and Brazilian real – rebounded strongly in 2016, exaggerating the liquidity-sensitive rebound in their equity markets. Simultaneously, the apparent resilience of the US economic recovery fed a widening divergence among major market bond yields: ten-year yields rose in the US and Canada, while yields fell for the year in the UK, Japan and the eurozone.

Emerging equity markets, most of which fell sharply in 2015, began to turn around in 2016 – led by strong rebounds in commodity-sensitive markets such as Brazil, Russia, Chile, Argentina and SA. Mexico failed to benefit from this reversal due to a sharp drop in the peso/dollar exchange rate. Meanwhile, Shanghai China A-shares, which rose strongly in 2015, fell sharply in 2016. Taking a medium-term perspective, over recent years both developed and emerging markets have been responding to the long-term effects of the global financial crisis, and their cycles have moved in different directions. The recovery of developed economies has been hampered by slow balance sheet repair (especially among banks) and the side-effects of quantitative easing (QE). This has resulted in lacklustre growth, persisting unemployment, low wage growth and discontented voters. By comparison, emerging economies implemented strong stimulus programmes between 2008 and 2010. These proved so effective that certain economies – including China, Brazil and Russia – had to change course in 2011 and 2012. As a result, they too experienced economic downturns and currency weakness in the years that followed. As we enter 2017, much will depend on how these issues are managed.

Considering the global economy collectively, the latest forecasts estimate the growth rate in global activity to be 4.4% (compared to 2016's low point of 2.2%). This is the highest forecast by economists since April 2011 and is also supported by other data sources, such as the Goldman Sachs Global Leading Indicator (which has reached its highest point since December 2010). As to be expected, heightened global activity has also seen a steady rise in headline inflation in almost all major economies, albeit small and largely driven by the partial recovery in oil prices. US wage inflation has also been trending upwards for some time, and will result in higher consumer prices in that economy.

TRUMP'S ECONOMIC APPROACH

On 20 January 2017, Donald Trump became the 45th US president, with Republican control of both houses of Congress. He is expected to propose a range of stimulus measures designed to promote the growth of the US economy, including tax cuts for both individuals and businesses, and several infrastructure spending programmes. He may also implement a number of reforms, including the easing of energy production restrictions (thereby encouraging the use of various different energy sources) and revisiting existing banking regulations. In doing so, he has said that he is targeting a growth rate of between 3.5% and 4%. Consensus expectations are for real GDP growth to improve to 2.5%.

It seems that the defining feature of Trump's economic approach – as proposed by his advisers – is likely to be a rebalancing of the policy mix. This will see the US move away from an exclusive reliance on easy monetary policy to jump-start the US economy towards a more balanced reliance on the deregulation of economic activity and on expansionary fiscal policy. Trump believes that this will significantly buoy the performance of the US economy. In fact, we cannot rule out the possibility of real US GDP growth doubling in the next couple of years, which will also drive up equity valuations and underpin dollar strength. Certainly, investment markets are buying into these promises.

EUROPE AND UK

In Europe, the outlook is less promising. In particular, the weakness of the European Central Bank's QE programme and its decision to lower one of its key policy rates into negative territory have proved to be significant stumbling blocks to economic recovery. Unemployment remains high across the continent, while income growth is weak. Consequently, we have seen the emergence of fervent populism and nativism, with both far-right and far-left political movements growing. With upcoming elections in

the Netherlands, France and Germany this year, there is the risk of further disruptive political outcomes.

In the UK, real GDP growth had averaged 2.3% since 2013, aided by gradual balance sheet repair and supported by expansionary QE measures. Unlike in the eurozone, deflation has also not been a concern. However, it still remains to be seen how Brexit will be negotiated, and what this will mean for the UK's access to the EU market and international investment. To date, the brunt of the fallout has been borne by the British pound, which has seen a significant decline in value. Once formal Brexit negotiations begin, it could easily fall further. This has the potential to push up import prices and filter through to CPI, undermining real wage growth. In turn, a reduction in consumer spending (which makes up 65% of British GDP) will negatively impact economic growth. In 2017, growth of 1.4% and a CPI rate of 2.5% are expected.

CHINA

Within emerging markets, China remains the largest – and the largest global buyer of commodities. Having embarked on a new round of credit expansion from the start of 2014, the Chinese economy could see yet another period of inflation. This could threaten the country's sought-after shift to more consumption-led growth, and would also hold significant repercussions for other emerging markets, especially the commodity producers and China's neighbouring economies. To date, excess credit growth has been largely confined to the Chinese financial and government sectors, but there are concerning indications that the broader economy may soon be impacted. This includes a series of mini-bubbles in equities, the housing market and then commodities. In addition, producer prices have started to rise for the first time in four years. The country will need to address these issues decisively to minimise the impact on its economy, but how it will go about doing so remains to be seen.

EXPECTATIONS FOR 2017

As we have highlighted before, far lower emphasis has been placed on valuation in the recent years of below-trend economic growth. Rather, stocks with low levels of volatility gained favour, outperforming more cyclical counters. Often, this was due to their bond-like qualities rather than their fundamental attributes – and it made these stocks expensive. Such valuations are likely to prove unsustainable, and are already starting to reverse. Furthermore, anticipated fiscal stimulus in the US under the Trump administration will support those parts of the market that have lagged 'safe haven' assets. In particular, the banks should continue to perform well. Being better capitalised now than they were in the wake of the financial crisis, these entities have also generally reduced the volatility of their earnings streams (despite operating under heightened regulation and in an environment of exceptionally low interest rates).

The sharp drop in commodity prices from mid-2014 into early 2016 weighed heavily on global equity indices, capital investment, and the economies and currencies of commodity-sensitive countries. Due to the lag between investment and production for most nonagricultural commodities, it takes time for lower prices to reduce supply, or for a price rebound to increase production. Energy inventories remain high, and the scope of pledged 2017 oil production cutbacks remains uncertain. However, the supply headwinds created by the sharp drop in energy sector capital investment from 2014 through 2016 will more than offset the near-term impact of a modest 2017 rebound in drilling and spending. It is the increasing recognition of this reality that fuelled the sharp year-on-year rise in oil and natural gas prices in 2016, and modest rebounds in other raw materials (where prices had fallen below the cost of production by early 2016).

The global economy and markets enter 2017 on considerably firmer footing than last year. The outlook has improved for developed economies as growth momentum has picked up in recent months and risk assets across the board have continued the rally sparked by Trump's unexpected victory. But far more importantly, markets are exhibiting that the election of Trump as the president of the US – as divided as public opinion on him may be – will make a fundamental impact on the performance of the US economy. A faster growing US is positive for the global economy, but the impact outside the US will be limited until 2018.

The outlook has also improved for emerging markets, but in the near term it is likely that there will be further capital outflows due to a stronger dollar and rising interest rate risk, imposing financial stress.

A caveat to be borne in mind is that an 'America First' policy from Trump will add significant further global stress, as will a closer 'friendship' between the US and Russia based on common economic and security interests, which will be to the detriment of Europe. ■

CONSUMER STAPLES

INVESTING WHEN THE PRICE IS RIGHT

By Louis Stassen

Louis is a founding member of Coronation and a former CIO. Today he heads up the global developed markets investment unit, and co-manages Coronation's global multi-asset and direct developed market equity strategies.

On the face of it, the international consumer staples sector is a no-brainer for investors seeking global exposure.

These companies produce essential products (food, beverages, tobacco and household goods) that remain in demand even when times are bad. From Unilever, Nestlé and Anheuser-Busch InBev (ABI) to Heineken and British American Tobacco (BAT) – the sector has some of the best management teams, strong global brands, solid margins and defensive business models.

Intuitively, it feels less risky to invest in these global brand names, especially since consumer staples remain resilient in uncertain times – ideal for those seeking a secure offshore investment.

Still, we largely steered clear of these go-to companies in recent years. As always, our concern is valuation. While it would be easy to justify an investment in these upstanding companies, we only invest in shares that are trading below our estimation of their long-term intrinsic value. We do not invest in companies because we feel comfortable with them or can associate with their brands. We are solely focused on valuation; we do not want to overpay.

In recent years, consumer staple companies have rerated to trade at a much higher premium to the rest of the market than the historical average. They were in demand not only for their defensive qualities amid a weaker world economy, but also as alternatives to developed market government bonds.

Compared to the record-low returns offered by bonds, these respectable behemoths offered attractive dividend yields, low risk and the high probability of strong earnings growth. Return-hungry investors have been piling into these companies for many quarters, pushing share prices higher.

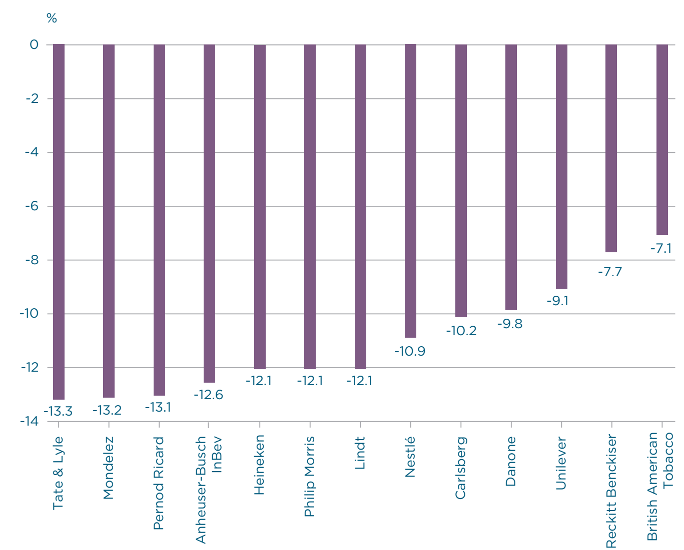
This trend promptly reversed following the US presidential election results. The market expects the Trump regime to pump money into infrastructure and, in combination with corporate tax cuts, bolster US economic growth. Along with this, inflationary pressures are anticipated, which triggered a sharp increase in long-term interest rates in the developed world. As bond proxies, the consumer staples were dumped in favour of perceived better value elsewhere.

With the prospect of a bump in growth, equity investors pivoted away from defensive workhorse investments to more exciting cyclical companies. Some of our current key holdings – including car companies and the mattress group Tempur Sealy – saw strong gains as investors recognised their value.

But without any change in their underlying prospects, consumer staples lost large chunks of their value. Almost overnight, for example, Unilever's price earnings ratio went from 21 times to 18.5 with no change in the company's outlook.

Now our interest was piqued.

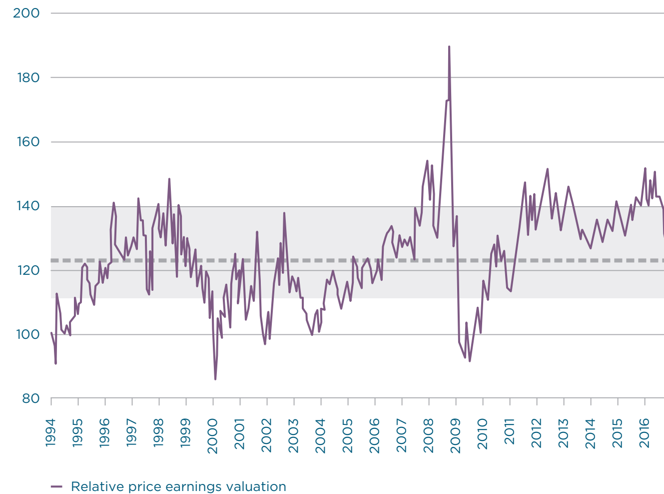
CONSUMER STAPLE SHARE DECLINES SINCE THE US ELECTIONS (PEAK-TO-TROUGH)



Source: Bloomberg

Some of the biggest names in the consumer staple sector suffered large losses since the presidential election, with Heineken and ABI both losing more than 12%. In relative terms, most consumer staples grew much cheaper. Compared to the broader market, the sector's premium retreated by almost a third in the past 12 months, while its relative price earnings valuation reverted back to the long-term mean.

GLOBAL CONSUMER STAPLES VS THE BROADER MARKET



Sources: Thomson One, IBES, Morgan Stanley Research

The sell-off in consumer staples was somewhat illogical. Nothing changed in the underlying fundamentals of these companies, and in fact, stronger economic growth will be a boon for consumer-facing corporates, particularly well-managed consumer staples.

We have moved quickly to benefit from the irrational selling in the sector. Over the last two months, we have increased our exposure to consumer staples in our Equity, Global Managed and Global Capital Plus portfolios.

We have added to the following holdings (in brackets, the weighting in the Coronation Global Equity Strategy portfolio):

BAT (1.7%) AND PHILIP MORRIS (1%)

Long-term cash flow conversion across the tobacco industry is excellent, as working capital requirements are low and capital spend is constrained. The tobacco companies have demonstrated extraordinary pricing power and shareholder-friendly capital allocation. Both groups continue to look attractive from a valuation perspective. New tobacco products – particularly the IQOS, Philip Morris's non-burning cigarette which has found a large market in Asia – could provide a growth fillip in future. In addition to its promising new-generation products, BAT has sizeable activities in the US, which will benefit from the anticipated lowering of corporate tax rates. It is also currently in negotiations to increase its US exposure with the proposed takeover and delisting of Reynolds American, the second largest cigarette seller in the US and owner of the Camel brand.

ABI (1.4%) AND HEINEKEN (1.2%)

The world's largest brewers enjoy high barriers to entry, powerful brands (with the associated pricing power this affords), distribution muscle, access to cheap capital and top talent, and most importantly, a high level of free cash-flow generation. ABI is currently digesting the SABMiller acquisition that will allow the group to reduce its cost base and improve margins.

UNILEVER (1.2%)

The British-Dutch multinational consumer goods company owns brands like Omo, Surf, Dove and Knorr. The company's share price is down more than 9% (in dollars) since the US election, despite its aggressive margin and cash targets for the medium term. We are confident that the company's adoption of a zero-based budgeting process will assist in achieving these goals.

RECKITT BENCKISER (1.2%)

The world's leading consumer health and hygiene company (with brands including Dettol, Harpic, Durex and Nurofen) has strong pricing power and sells its products across 200 markets. Arguably, Reckitt Benckiser has the most shareholder-friendly management team in the sector, with a proven ability to deliver operational results.

We have increased our collective exposure to this group of companies by 8% in the immediate aftermath of the US election. Also, we would not be surprised to see more weakness in the US bond market, which should create further opportunities in the largest consumer staples, given their correlated performance of late. As always, we will continue to be disciplined, valuation-based investors, and will only consider an investment that offers a sufficient margin of safety to our estimate of fair value. ■

HAMMERSON

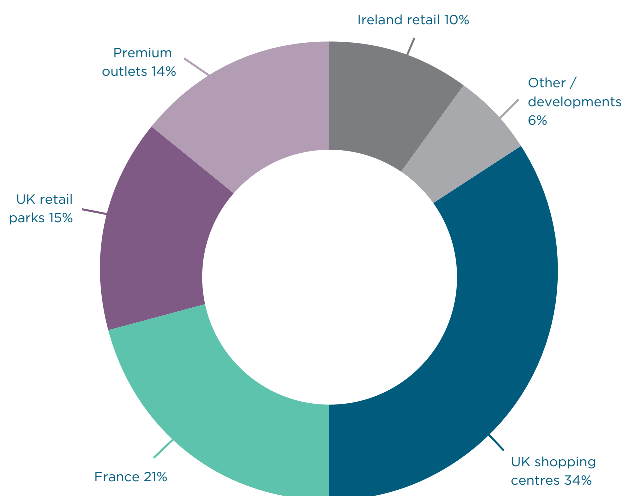
BACKING QUALITY

By Kanyane Matlou

Kanyane is an analyst within Coronation's fixed interest investment unit. He joined Coronation in 2013, and has various analytical responsibilities related to listed property research.

Hammerson is a dominant property group in the UK, owning some of the leading shopping centres across the country. The company, which is listed both in London (it is included in the FTSE 100 Index) and Johannesburg, also owns a portfolio of UK retail parks and shopping centres in France, as well as premium outlet centres in other European countries. Most recently, Hammerson gained exposure to Ireland, acquiring a stake in a portfolio of retail assets towards the end of 2015, which included that country's largest shopping centre, Dundrum.

HAMMERSON PORTFOLIO SPLIT



Source: Hammerson

DOMINANT SHOPPING CENTRES

Following years of a relatively stagnant retail environment, the UK has shown signs of recovery in recent years, with both consumer confidence and retail sales exhibiting green shoots. While it is unclear what the impact of Brexit will be on these metrics when the UK eventually leaves the EU, we expect Hammerson's portfolio to continue to benefit from the ongoing recovery in the retail environment thanks to its relatively limited exposure to London and the dominance of its assets.

In addition to giving the landlord leverage with retailers, having a dominant shopping centre is also defensive. In downturns, retailers would sooner close an average store in a secondary location than a flagship shop in a prime location. We view Hammerson's portfolio of UK shopping centres as among the most prime of the various UK landlords. Management has consistently invested in the centres over the years, optimising their leisure proposition and securing strong tenants, thereby creating ideal shopping destinations. Partly owing to the work that has gone into the portfolio, we expect the estimated rental value (ERV) of Hammerson's UK shopping centres to show growth in the low single digits over the next few years, broadly in line with the 2.2% compound annual growth recorded in the three-and-a-half years to June 2016.

With the rise of e-commerce, the sustainability of shopping centres has increasingly come under scrutiny. The UK is among the leading adopters of internet shopping, which already represents a mid-teen percentage of total sales. The need for bricks-and-mortar outlets in an age where product can be bought online and delivered on the same day, remains a key question going forward for all owners of shopping centre real estate. However, not all shopping centres are created equal. Mid-tier centres whose only offering is product that can be found online will likely feel the impact of 'e-tailing'. On the other hand, we believe that dominant shopping centres, with flagship stores and a sufficient entertainment offering, complement the e-tailing trend and remain a key avenue in a retailer's omnichannel arsenal.

While its UK shopping centre portfolio may be among the best in the country, the strength of Hammerson's retail park portfolio is not at the same level. Its retail park portfolio has seen like-for-like net rental income growth that is some 100 basis points below the average growth achieved by the Hammerson shopping centre portfolio over the past five years.

However, the retail park market has managed to maintain a healthy occupancy rate and rental growth rates have been more than decent in recent years. While we do not expect retail park rentals to go backwards, given the relatively high base rates, we see limited to no growth in rental over the next five years.

GEOGRAPHICAL DIVERSIFICATION

Unlike its London-listed peers, whose portfolios are almost exclusively UK focused, Hammerson's domestic exposure represents only 60% of its asset base. The balance is in euro-denominated assets in Ireland, France and a few other countries on the continent. This substantial euro exposure means that an investor in Hammerson faces much less UK-idiosyncratic risk than with its peers, and this is particularly pertinent in the wake of the UK referendum outcome on EU membership. While the details of the Brexit process remain murky, it is clear that the impact of any fall in asset values should hit Hammerson's net asset value (NAV) less than other members of the 'big four' (British Land, Land Securities and Intu) given its euro exposure.

On balance, this diversification element outweighs what we perceive as a relatively weaker portfolio of French shopping centres. The French retail market is facing headwinds and we expect rentals in the French portfolio to chug along sideways over the next few years, as the retail environment remains lacklustre, while occupancy cost ratios are close to their maximum levels.

Meanwhile, despite much criticism in the market relating to the full price paid for the Irish acquisition, the fundamentals of the Irish retail market are the strongest in over a decade. As a result, we see strong growth potential in ERV at Dundrum, which should lead to substantial value accretion. As long-term investors, we judge the soundness of an investment by its potential return over the long term, not just the acquisition yield in year one. With an expected compound annual growth rate in ERV of 4% to 5% over the next five years, we see Dundrum adding substantial value to the Hammerson business.

PREMIUM OUTLETS

In addition to traditional shopping centres and retail parks, Hammerson owns premium outlet centres both in the UK and on the continent, via its stakes in Value Retail and VIA Outlets (through joint venture holdings). Luxury brands are sold at discounted prices at these centres, which have attracted growing interest from tourists, both local and international. The outlet market has seen sales growth of 8% to 10% per annum since the financial crisis, with rental growth coming in at a similar level, as the rentals charged are mostly based on turnover. In recent months, Hammerson has invested additional capital into the VIA Outlets business, reflecting management's confidence in continued growth in the sector. On mainland Europe, saturation levels for outlet centres are at different points, but some runway remains for this part of the business to make up a greater portion of the Hammerson asset base.

DEVELOPMENTS

Good managers of real estate continuously work and invest in their assets to fend off competition and keep shoppers visiting. Hammerson has a pipeline of development opportunities representing just over a quarter of its standing investments. These include plans either awaiting approval or already approved, and range from leisure extensions to existing centres to the construction of new phases on vacant pieces of land adjacent to standing developments. The company recently completed phase one of its Victoria Gate development in Leeds, and is in the process of completing a dining and leisure extension at Westquay in Southampton. Additionally, three major projects are in the planning phase, expected to be completed around 2021/2022. Two of these are Croydon and Brent Cross, which are expected to breathe new life into the company's assets in South and North London respectively, cementing the dominance of its shopping centres in these regions. Together with the development of the Goodsyard project in London, these three major projects should see an investment of about £1.3 billion, which should be accretive to NAV upon completion.

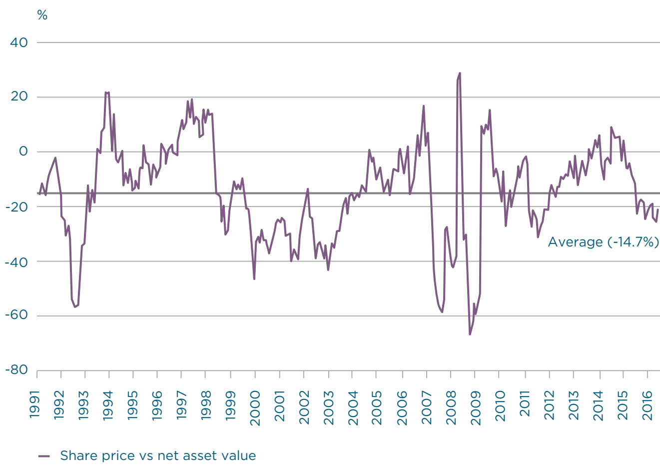
MANAGEMENT

Hammerson's management team is among the leading managers of real estate in the UK. The team has consistently delivered growth in ERV across the portfolio, and in addition to that has been able to sign rentals that are consistently above the passing rent (the previous rent amount before the renewal). In the four-and-a-half years to June 2016, Hammerson has achieved leasing levels that were on average an impressive 10% above passing rent. This has been reflected in the compelling growth in NAV per share since the financial crisis, as well as similarly impressive growth in earnings and dividend per share.

Strategically, the decision to exit the office sector in 2012 has shown management to be good allocators of capital, with the proceeds from the sale put to better use in the outlet business. While management could not have anticipated the Brexit vote, the group is also now in a better position than its peers who are more exposed to office space, which is coming under pressure following the referendum.

We believe management's decision to enter the Irish market confirms its prudence. As highlighted earlier, given the strong retail market backdrop in Ireland, the ERV growth prospects of the Irish acquisition more than outweigh the perceived 'overpayment' from an initial yield perspective.

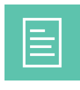
HAMMERSON PREMIUM/DISCOUNT TO NET ASSET VALUE



Sources: Bloomberg, Coronation

CONCLUSION

We like Hammerson's portfolio of dominant assets, its geographical diversification as well as its management team. With the company having recently listed on the JSE, we are now able to gain exposure to a quality portfolio under an excellent management team, without using our offshore allowance. We expect the value creation that should come from the UK shopping centre business, the Irish acquisition as well as the strong outlet business to outweigh the pedestrian performance of the UK retail parks and French business. With the counter trading at a discount of 20% to 25% to its last stated NAV, we believe that at these levels, Hammerson is a quality stock that is worth adding to our portfolios. ■



CORONATION GLOBAL MANAGED

INCEPTION DATE

1 November 2009

PORTFOLIO MANAGERS

Louis Stassen and Neil Padoa

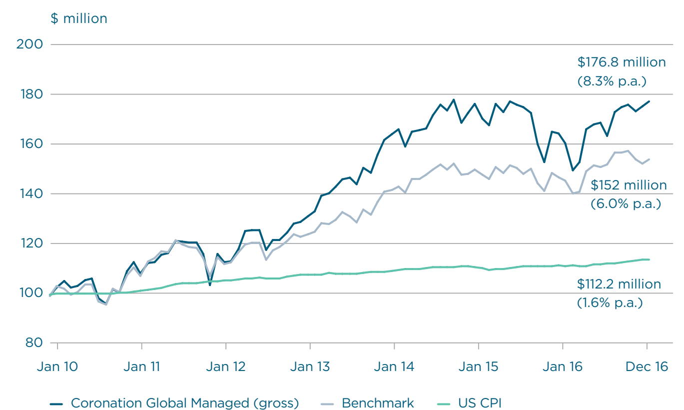
Louis is a founding member of Coronation and a former CIO, with 27 years' investment experience. He heads up Coronation's global developed markets investment unit. Neil is a portfolio manager and head of global developed markets research. He joined Coronation in May 2012 and has 9 years' investment experience.

OVERVIEW

A selection of our best investment ideas from around the world. Coronation Global Managed invests in a wide range of global asset classes, regions and currencies – with the primary objective of maximising long-term investment returns (over rolling five-year periods and longer). At the same time, it seeks to take on less risk than the equity market and to avoid any permanent capital loss. In addition, the strategy aims to outperform a composite benchmark: 60% MSCI All Country World USD Index (a broad measure of global equity market performance) and 40% Bloomberg Barclays Global Aggregate Bond Index (a performance measure for global fixed income markets).

Over the past five years the strategy has delivered an annualised return of 9.2%, outperforming its benchmark by 3% per year (gross of fees). Since its inception in November 2009, it has delivered a return of 8.3% per annum.

GROWTH OF $100 MILLION INVESTED SINCE INCEPTION



Sources: Bloomberg, Coronation

CUMULATIVE PERFORMANCE

	1 year	3 years (per annum)	5 years (per annum)	Since inception* (per annum)
Coronation Global Managed Strategy (gross)	10.2%	2.1%	9.2%	8.3%
Benchmark**	5.7%	2.4%	6.2%	6.0%
Outperformance	**4.5%**	**(0.3%)**	**3.0%**	**2.3%**
US CPI	2.0%	1.1%	1.3%	1.6%

** Since inception - November 2009*
*** Benchmark (spliced) - 60% of ACWI and 40% Barclays Global Bond*
Note: Returns are in US dollar

ABOUT THE STRATEGY

Coronation Global Managed is an actively managed, global multi-asset class strategy. It is managed according to the same investment philosophy we have used within SA for more than two decades – a tried and tested approach that has enabled us to successfully manage multi-asset class mandates for the past 23 years. Today, multi-asset class mandates represent over 50% of the assets we manage on behalf of SA investors.

One of Coronation's key advantages is our generalist approach – both in our use of different asset classes to structure our investments and within our investment team. Bucking the global trend towards specialist mandates 20 years ago, Coronation has consistently maintained material assets in multi-asset class strategies. This has given us invaluable experience in managing these strategies through materially changing environments. In addition, we have avoided silos in our investment team. Rather, our integrated global team comprises well-rounded generalist investment professionals with the expertise to evaluate investment opportunities across sectors, asset classes and geographies.

As such, we are now uniquely positioned in how we manage multi-asset class mandates, making the Coronation Global Managed portfolio fairly unique in the international market. Generally, managers tend to offer either specialist asset class building blocks or balanced mandates with formulaic asset allocation, where different building blocks are managed by different managers. In our view a building block route holds the potential to take on unintended views and risks within the

portfolio, and ultimately results in poorer risk management. We believe that an integrated, bottom-up approach to asset allocation and security selection results in a more optimal solution for investors.

HOW WE MANAGE THE STRATEGY

At Coronation, we construct robust, antifragile portfolios of our highest-conviction investment ideas. This results from an intense focus on proprietary investment research, across geographies, sectors and instruments. Based on this research – and our assessments of long-term risk-adjusted returns – we construct our portfolios from the bottom up. We do not use systematic or mechanistic measures to determine asset class allocations or rebalance our portfolios. Rather, we make active decisions on individual security selections, asset allocation and risk management on an ongoing basis.

The asset allocation decision is therefore no different to any other investment decision, and could be effected through derivatives or individual security positions (depending on market conditions, liquidity and risk-adjusted opportunity, risk allocations are increased in cheap markets, while capital is protected by reducing allocations in expensive markets).

ASSET ALLOCATION

Given its long-term growth-orientated mandate, Coronation Global Managed is managed with a high allocation to risk-seeking assets. This includes a maximum exposure of 75% to equity (with emerging market equities being capped at 30% within the 75%) and high exposure to listed property. According to our bottom-up selection process, we evaluate all investment opportunities to identify assets trading at material discounts to their underlying long-term value. We also believe that interaction with management is an integral part of our analysis of a company.

With our asset allocation modelling having shown the value of listed property within a balanced mandate, we consider the asset class an important building block in the strategy. We evaluate listed property investments relative to opportunities within the fixed interest space, and as much as 12% of the strategy has been allocated to property since its inception. Current exposure is around 8%.

Within fixed interest, we currently favour credit over government bonds. We maintain our negative view on bonds given an anticipated uptick in inflationary pressures. In addition, we have a strong preference for credit instruments from issuers we are more familiar with, either due to a link to the SA market or our knowledge of a particular industry. Current exposures include Investec, Old Mutual and MTN.

Finally, the cash component of the strategy (a residual component, once all tactical allocations have been made) is actively managed. Given the current anaemic returns being generated by the asset class, we are aware of the temptation to invest cash in higher-risk instruments. However, we view cash as a risk-balancing component within the portfolio, and manage our investments within tight risk constraints. This ensures that we do not raise the strategy's risk profile and maintain liquidity at all times.

A recent introduction to our investment mix has been merger arbitrage opportunities: investing in companies for which corporate transactions are pending. This exposure may constitute up to 10% of the strategy if we believe that the risk/reward trade-off falls in our favour. A case in point is our current investment in US pharmacy Rite Aid, for which the drugstore chain Walgreens has made a bid. In our view the transaction will offer significant value, and it presented an attractive risk/reward profile as the market was initially cynical of its approval by the Federal Trade Commission.

RISK MANAGEMENT

We apply robust risk management measures when selecting instruments for inclusion in the portfolio, as well as in the sizing of these various instruments (depending on their expected risk-adjusted returns). In addition, we apply hedging when deemed necessary to protect against downside risk. Once again, this is always an active decision, implemented when deemed appropriate by the portfolio managers, and not a mechanistic rule irrespective of market conditions.

OUTLOOK

Uncertainty continues to prevail worldwide. This is both political (in the wake of Brexit, Donald Trump's election as US president, and rising nativism and populism globally) and economic (particularly around the impact of interest rate normalisation). As such, we maintain a more cautious stance towards equities, and the strategy's current equity exposure is around 60% (in line with the benchmark weighting). Significant positions include our holdings in the alternative asset manager space in the US and a recent allocation to global consumer staples (discussed in more detail on page 20).

We maintain conviction in the longer-term performance prospects of our alternative asset manager stocks. After detracting from performance for some time, these stocks rerated post Trump's election on prospects of improved economic growth – and the opportunities this would present for the managers to generate compelling returns for clients. However, we are mindful of noises around a tax overhaul under the Trump administration. While this would increase the attractiveness of US companies poised to benefit from corporate and individual tax reductions (and would therefore create greater investment opportunity), there is also talk of a potential increase in the effective tax rate for the private equity industry. This would have a negative impact on this sector, and we are closely monitoring developments.

Having previously found little value in traditional consumer staples (fast-moving consumer goods such as food, beverages, tobacco and household goods), the fund now has a total exposure of 8%. In the recent past, investors have tended towards overweight positions in this sector as a proxy for the bond market, where yields remained under pressure. However, Trump's election precipitated a significant sell-off in response to greater bond issuance and improved bond rates. This presented an opportunity for the fund to invest in high-quality consumer staple stocks at attractive valuations.

Due to our concerns around an uptick in global bond levels (which have seen a marked correction already, and are likely to correct further) we currently hold no bonds with interest rate risk exposure. In addition, we have hedged out the interest rate risk associated with our credit counters. Within listed property, our major exposure (roughly two-thirds) remains to the UK market, which sold off as a result of uncertainty around Brexit. The dramatic price adjustment and prevailing price weakness have provided long-term investors with a unique opportunity to buy strong and well-located assets at attractive prices.

Finally, the year ahead will once again hold heightened political risk – in particular, the potential for negative surprise outcomes from upcoming European elections in Germany, France and the Netherlands. While unexpected macropolitical events may contribute to market volatility, we will continue to emphasise our bottom-up selection process. We carefully consider appropriate position sizes and asset allocation weightings within the strategy to ensure a robust portfolio with the ability to deliver on its mandate, despite the outcomes of uncertain macro-events. We do not chase share prices or constantly react to the most immediate newsflow, and where we identify value we are willing to sacrifice short-term returns in pursuit of compelling long-term client outcomes. Often, the portfolio actions that cause short-term pain (buying dramatically undervalued assets while prices are still falling, or selling overvalued assets while prices are still rising) are also those that deliver the most compelling long-term results.

CORONATION GLOBAL EMERGING MARKETS EQUITY

By Gavin Joubert

Gavin is head of Coronation's Global Emerging Markets investment unit and co-manages the Global Emerging Markets Equity Strategy. He has more than 17 years' experience as an investment analyst and portfolio manager. Gavin joined Coronation in 1999.

OVERVIEW

Coronation Global Emerging Markets Equity provides access to the best investment opportunities in global emerging markets. It aims to deliver capital growth through a focused equity portfolio, comprising securities of companies based in emerging markets or which derive a significant portion of their business from emerging economies. The objective is to outperform the MSCI Emerging Markets Index over five years and longer periods.

THE YEAR IN REVIEW

Coronation Global Emerging Markets Equity returned 15.1% in 2016, which was 3.9% ahead of the index's return of 11.2%. Over the past year, seven stocks made a positive contribution to performance of more than 1%, of which four were Brazilian. These companies (Kroton, Estácio, Itaúsa and BB Seguridade) appreciated by more than 50% in US dollars in 2016. Kroton, the education company, was the standout performer, appreciating by 74% in US dollars and contributing 2.7% to outperformance.

Other notable contributors in 2016 include the Indian private bank Yes Bank (+55%; 1.6% contribution), the Russian food retailer X5 Retail (+71%; 1.2% contribution) and the Chinese online gaming company NetEase (+45%, 1.2% contribution). The largest negative detractor was the Chinese e-commerce company JD.com (-21%, 1.3% negative contribution), while the only other detractor of more than 1% was not owning Samsung Electronics (resulting in a 1.1% negative contribution).

We would make the point, as we always do, that not too much should be read into performance over short time periods of one or two years. Given our long-term focus, and the fact that we therefore frequently own stocks that are disliked by the market because of their poor short-term

outlook (Brazilian stocks being the most recent case in point), it is often necessary to go through periods of short-term underperformance in order to achieve the objective of long-term outperformance of the market. In our view, only periods of five years or longer are meaningful, and ideally, if possible, performance should be assessed on this basis. In this regard, since the strategy launched eight-and-a-half years ago, it has outperformed the market by 4.9% per annum and over the past five years it has beaten the market by 3.8% per annum.

In terms of portfolio activity in the final quarter of the year, we reduced the size of our holdings in the Indian IT services companies through reducing both the Cognizant and the Tata Consultancy positions and selling out of our smallest position, HCL. As a result, exposure to the Indian IT service companies moved from 4.3% of strategy at the end of September to 1.5% in total at the end of December. In turn, the Indian exposure reduced from 12.1% of strategy to 9.1%. We still believe that the Indian IT service companies have attractive long-term prospects; however, the potential risks facing these businesses have increased (insourcing, automation, a Trump administration clampdown on visas, etc.) and, as a result, these stocks are somewhat less attractive on a risk-adjusted return basis, in our view.

We also sold out of Prudential and Mayora Indah, as they moved closer to and reached our fair values, respectively, and sold out of Kinnevik to make room for more attractive opportunities that arose. We largely sold out of NetEase as it reached our fair value and at the same time added to the strategy's existing 58.com position, as the decline in its share price made it even more attractive.

In terms of buying activity, we continued to add to Yum! Brands (owner of KFC, Pizza Hut and Taco Bell globally) and also added to Yum China after it was spun out of Yum! Brands. Following the split, the original Yum! Brands now consists of all operations globally (excluding China) and over 40% of earnings come from emerging markets: 20% alone comes from the royalty fee from the Chinese business. 100% of Yum China's earnings come from the 7 300 units in China.

Yum! Brands owns three of the best global fast food brands, has defensive and stable earnings, generates large amounts of free cash flow and has very high returns on capital. This is particularly the case for the original Yum! Brands, where 93% of units are franchised (compared with the Chinese business, where 80% of stores are company owned), resulting in even higher returns on capital (>100%) and free cash flow generation relative to earnings. The original Yum! Brands continues to refranchise units, with a target of being 98% refranchised by 2018. This will raise the firm's return on capital and lift its conversion of earnings into free cash flow even higher. In the case of Yum China we believe that there are still many years of growth left in China (due to low penetration of units and a fragmented quick-service restaurant market) and, in addition, profitability is currently below normal, in our view. We think both stocks are attractive and together these two positions now make up 4% of strategy.

We also bought new positions in Nike and Sberbank, both of which have been holdings in the past. In our view, Nike is among the best businesses in the world. Its brand is iconic, it is the global leader in a structurally growing market and has high exposure to emerging markets (42% of profits), generates returns on equity of 30% and converts around 90% of its earnings into free cash flow. Going forward, we believe the company can continue to grow its top line in the high single digits and that it can also expand margins through continued purchasing and manufacturing efficiencies, as well as due to an increase in the contribution of the higher margin retail and e-commerce divisions. Recently, the Nike share price has been under pressure due to slower short-term earnings growth, partly due to decent performance from rivals such as Adidas and Under Armour, and we used this opportunity to build a position.

Sberbank is the dominant bank in Russia (attracting 46% of retail deposits in Russia, 38% of credit card balances, 40% of retail loans and 32% of corporate loans), and is arguably the most dominant domestic bank in the world. The poor economic conditions in Russia over the past few years have in fact made Sberbank even stronger, as many competitors have come under pressure.

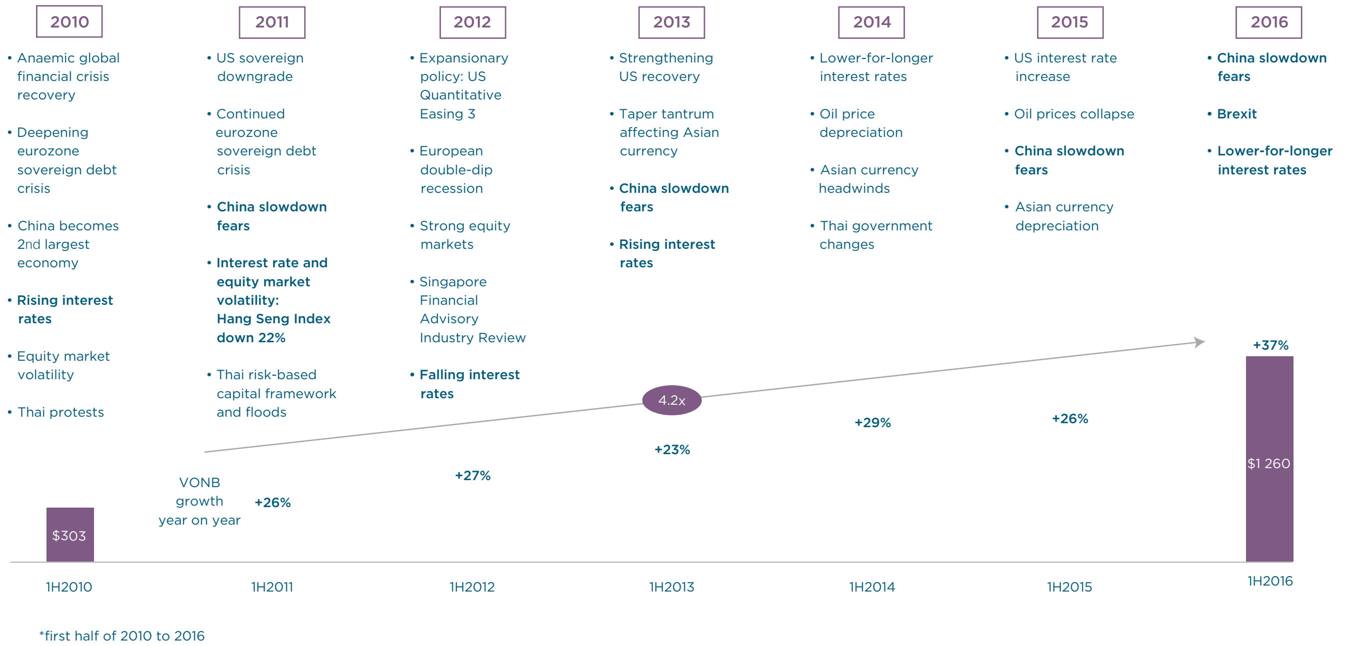
The key negative is that the bank is state-owned. However, over the past five years its CEO Herman Gref has managed to steer the bank away from state-pressured uneconomic lending, and introduced significant change (including new risk management systems, the closure of branches and reduction in headcount, and various digital initiatives). Today, Sberbank trades on around 6.5 times 2017 earnings, 1.1 times price to book and a 3% dividend yield, which we find attractive for such a dominant bank that is on track to generate return on equity of close to 20% in the years ahead.

Finally, on the buying side, we bought a new position in the pan-Asian long-term insurer AIA Group (AIA). A former unit of AIG, AIA has operations in 18 countries throughout Asia, with the key markets being Hong Kong, China, Singapore, Thailand, Malaysia, Indonesia, India and the Philippines. Insurance penetration in these countries is still low and the middle class in these regions is growing rapidly, with Asia having the fastest growing middle class in the world.

AIA has a strong brand in the region, excellent distribution through a massive on-the-ground sales force of 250 000 agents, and a no. 1 or no. 2 market position in the key markets of Thailand, Malaysia, Singapore, Indonesia and the Philippines. Market shares in China and India are still low (1% in both cases), but this represents a big opportunity over

AIA GROUP MARKET SHARE AND MARKET GROWTH* (2010 - 2016)

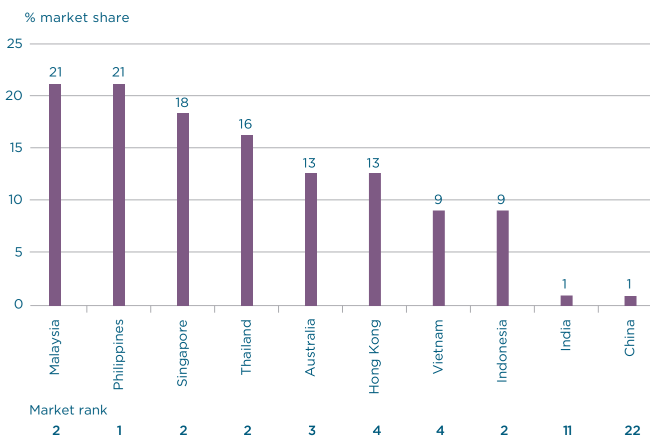
Sustained delivery through market cycles



*first half of 2010 to 2016

the next decade. Even though AIA's market share in China is only 1% (AIA only has five branches in mainland China), the country already contributes 20% of the group's value of new business (VONB).

AIA GROUP MARKET SHARE AND MARKET RANK



Sources: Company data, Millman Report, HKOCI, CIRC, TLAA, MAS, BNM, Philippines IC, APRA, IRDA, Vietnamnet, Morgan Stanley Research

An additional competitive advantage sits in AIA Vitality, a strategic joint venture with the SA insurer Discovery (also a portfolio holding) that utilises Discovery's proprietary wellness-based life insurance model to improve the health of customers and, in doing so, lower premiums. Discovery introduced Vitality into the SA market two decades ago. The product has been incredibly successful and AIA Vitality naturally benefits from the experience and expertise that Discovery has built up over the past 20 years.

Under the leadership of the CEO Mark Tucker, AIA has delivered exceptional growth over the past five years, with VONB growth consistently over 25% per annum. Going forward, given the size of the potential market and AIA's strong position, we believe the company can grow VONB by 15%+ per annum, as well as generate a 15% return on embedded value. The decline in the share price towards the end of the year (partly driven by concerns of restrictions on Chinese residents buying insurance products in Hong Kong) enabled us to buy AIA on around 15 times 2017 earnings, a 1.7 price to embedded value and a 2% dividend yield, which we believe is attractive for a company of this quality.

The weighted average upside to the portfolio at the end of December was just below 60%, which is well in excess of the long-term average of 50%. We continue to come across a number of potential new buys and the bigger challenge is deciding which positions to reduce or sell to make room for these potential new holdings. During the first quarter of 2017, members of the investment team will be going to India, and have scheduled two separate research trips to Brazil. ■

CORONATION AFRICA FRONTIERS

By Peter Leger

Peter is head of Coronation's Global Frontiers investment unit and manages portfolios within the strategy. He has 19 years' experience as both a portfolio manager and research analyst.

OVERVIEW

Coronation Africa Frontiers aims to maximise the long-term risk-adjusted returns available from investments on the African continent, through capital growth of the underlying stocks selected. It is a flexible portfolio primarily invested in listed African equities, or stocks listed on developed and emerging market exchanges where a substantial part of earnings is derived from the African continent.

THE YEAR IN REVIEW

Currency regimes have certainly been top of mind during 2016. Having flirted with the move to a free-floating currency, Nigeria ultimately opted to continue with a managed peg despite the dire consequences it has had on the economy. Egypt, on the other hand, has fully embraced a move to a floating-rate regime. This, coupled with the removal of subsidies and the $12.4 billion loan agreement with the International Monetary Fund, saw the economy completely reset and the country well positioned to put the past five years of hardship behind it.

However, the short-term impact has been very negative for the strategy over the quarter. Egypt, which is still the strategy's largest country exposure, was down 24.4%, despite the market increasing by 54.4% in local currency terms over the past three months. Nigeria was down 5.3% and Kenya declined by 2.5%. In contrast, there was strong demand for equities in Zimbabwe, partly due to the introduction of the new 'bond notes'. The Zimbabwean market was up 46% during the quarter. Against this backdrop, the strategy decreased by 5.5% over the past three months, compared to its benchmark (3 Month USD Libor + 5%), which was up 1.5%, and the JSE Africa Top 30 ex SA Index, down 6.3%.

As a whole, 2016 was a very difficult year for most of the major bourses across Africa, exacerbated by the weakness of African currencies against the US dollar. For the year, Nigeria was down 40.7%, Egypt declined 25.5% and Kenya lost 13.4%. The market in Morocco performed well over the calendar year, increasing by 27.4%, while a strong performance in the most recent quarter helped the Zimbabwean market to gain 25.8% for the year. This saw the strategy end the year down 4.9%, a better showing than the JSE Africa Top 30 ex SA Index and the peer group, but shy of our absolute return benchmark.

Over the past year, the largest contributor to performance was our investment in an Egyptian gold mine, Centamin (+3.1%). Our holdings in Zimbabwean companies – Zimplats (+1.8%), Econet (+1.4%) and Delta (+1.1%) – also made a positive contribution. Due to the significant devaluation of the Egyptian pound during the year, Egyptian companies were the largest detractors from performance, specifically Egyptian International Pharmaceuticals Company (-2.9%) and Eastern Tobacco (-1.9%).

Over the last five years, Egypt has been rocked by the Arab Spring protests, a soft coup, a collapse in oil prices and tourism all but disappearing over concerns around terrorism. We believe these events have resulted in corporate earnings for Egyptian companies being well below our estimate of normal. The Middle East's most populous nation has also suffered from a history of regimes that sought to buy political goodwill through sizeable food and fuel subsidies, putting immense pressure on government finances. The fiscal deficit has blown out to 12.3% of GDP (2016E) and gross government debt levels have risen to 94.6% of GDP. This was not sustainable.

Given the managed peg exchange rate regime, the burden on the central bank rose steadily over the course of the year as foreign currency reserves dwindled. Sourcing US dollars with which to import goods or equipment became increasingly difficult and a black market for US dollars emerged. The black market rate moved well above the official rate of 7.8 Egyptian pounds to the US dollar, eventually peaking at 18 Egyptian pounds to the US dollar in late October. The government was left with little choice but to float the currency.

Since its floating as of 3 November 2016, the Egyptian pound has lost over half its value and currently trades around

18 Egyptian pounds to the US dollar. The impact of such an extreme currency move is that inflation has increased significantly, hitting 23.3% in December. The move has also meant that many economists believe the Egyptian pound is now one of the cheapest currencies globally. The Egyptian economy has seen an almost overnight improvement in the competitiveness of its exports and affordability of its tourism industry.

While the float is certainly a step in the right direction, it was one of a number of economic reforms that have been passed as the Egyptian government looks to address the underlying problems in the economy.

These reforms include removing fuel subsidies, increasing electricity prices, expanding the Suez Canal, improving power supply, the passing of the civil service law and implementing value-added tax. These changes, which have further added to inflationary pressures in the short term, will hugely benefit the country in the longer term.

The response from international investors has been immediate. In the month following the currency devaluation, the central bank recorded an estimated $4 billion in foreign capital inflows. Central bank reserves have swelled from $15.6 billion in October to $24.3 billion in December. A further $7 billion has flowed into the banking system as individuals have deposited their savings and remittances.

As with any African economy, information is not always as accessible or transparent as one would like, but foreign equity flows into Egypt have been estimated at $500 million, with a further $1 billion in fixed income inflows over the last two months of 2016.

We believe this is but the tip of the iceberg, with many emerging market and frontier funds once again starting to look at Egypt after a number of years out of the market. This return of foreign buyers partly explains the performance of the stock market.

While 2016 has been another tough year, we are encouraged by the step change we have seen in Egypt over the past two months. We believe that after a number of years of economic mismanagement and external pressures, the country is well positioned to return to growth once again. Looking across our portfolio, we are certainly excited to see what 2017 has in store for the excellent set of companies we own and for the strategy in general.

We remain committed to finding high-quality businesses trading at attractive valuations, and then in holding them we will wait for share prices to reach our estimate of intrinsic value. ■

*Please note that all returns are quoted in US dollars unless otherwise stated.

FRONTIER CEMENT COMPANIES

SIX DEGREES OF SEPARATION

By Gregory Longe

Gregory is an investment analyst within the Global Frontiers investment unit. He joined Coronation in February 2013 after completing his audit training at Ernst & Young.

Six degrees of separation; I'm sure you've heard of it. The idea that any person in the world can be connected to any other person in six or fewer steps. Coined by Hungarian author Frigyes Karinthy in 1929, this idea entered mainstream culture in the 1990s with John Guare's play and subsequent film. The idea that we are all linked individually can also be applied to companies, especially in today's globalised world. Expanding the Coronation Frontiers fund offering from being focused solely on Africa to include the other global frontier markets provides examples of many such connections and, I believe, makes us better investors as a result.

After many years of investing in African frontier markets, Coronation recently launched a Global Frontiers Fund that includes countries in Southeast Asia, the Middle East, Eastern Europe and Latin America. Heading out across the globe in the lead-up to the launch of this new fund, I thought that it would be our eight years of experience investing in companies across Africa that would assist in analysing frontier businesses elsewhere. While this was certainly the case, I did not expect my experience in Pakistan to help me better analyse our African and even SA investments. We have seen examples in mobile money, banking and

brewing, but in no sector has this connection been quite as apparent as in the cement industry.

PAKISTAN

One of our earlier investigative trips was to Pakistan. After visiting many companies across a variety of industries, we met with one of the large cement manufacturers, Lucky Cement (Lucky). Its management was impressive, focusing on a number of areas that we viewed as important, and the meeting was a good one. From our history of investing in Africa we knew cement companies well and two things in particular caught our eye. Firstly, Lucky's energy costs and secondly, its plant location.

- Energy: In cement, energy costs make up a large proportion of total costs, as part of the production process involves the heating of limestone and clay to over 1 500 degrees Celsius. This is expensive and any saving in heating costs is a competitive advantage. What makes Lucky special is that it has optimised its plant to burn alternative fuels, such as old tyres or waste, that are cheaper than the coal or diesel used by its peers.
- Location: Lucky has two main production plants, one in the north of the country and a second in Karachi in the south. The Karachi plant is situated within the port, providing a very cheap and convenient route for overseas exports. This is another competitive advantage over its peers, who incur costs getting their cement to the port before they can export.

These two factors mean that Lucky is the lowest-cost producer in the market and very competitive globally. This cost advantage allows Lucky to export cement to many other markets – more on that later.

NIGERIA

Dangote Cement (Dangote) is the market-leading cement company in Nigeria. Dangote is a company we know well, both through a past investment in a key competitor and our current shareholding. About the same time as we were visiting Pakistan and meeting Lucky, Dangote was embarking on an ambitious expansion plan across Africa. The first phase saw cement plants built in Senegal and Cameroon as well as an investment in Sephaku, an SA company. Subsequent plants were opened in Ethiopia, Tanzania, Côte d'Ivoire, Zambia and the Congo. Like Lucky, Dangote can produce cement significantly cheaper than competitors and is often the low-cost producer in its respective markets.

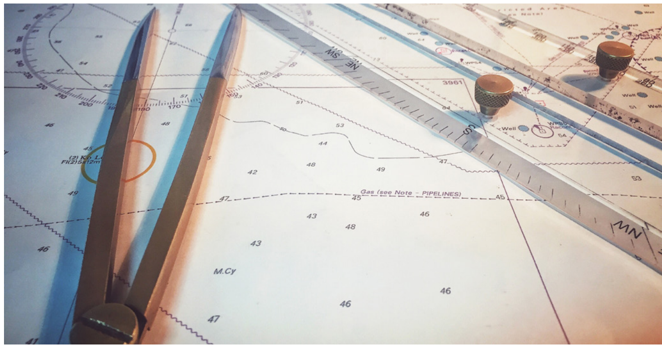
SA

Dangote's entry into SA in 2014 caused an immediate stir and the company rapidly established itself, taking a national market share of 15%. By leveraging plant efficiencies and then passing these savings on to the consumer, Dangote could charge lower prices than the incumbents, whose older plants were more expensive to run. Because Dangote's plants are situated in the interior of the country, its market share was higher in Gauteng, as it is more expensive to send cement to the coast. This was further exacerbated by cheap Asian imports into the coastal regions around Durban.

Throughout the course of 2014 and early 2015, we began to hear complaints from SA cement manufacturers, including Dangote and Pretoria Portland Cement (PPC), about the 'dumping' of cement by Pakistani companies. One of the largest exporters to SA was in fact Lucky, the low-cost Pakistani cement producer we had recently met. We were thus able to leverage our exposure in global frontier markets like Pakistan, and our African experience in Nigeria, to deepen our understanding of the investment case for Dangote and the SA cement industry.

This connection of markets and companies has recurred numerous times since, whether it is PPC and Dangote with plants in Ethiopia, or Lucky and PPC in the Democratic Republic of the Congo. The benefits of knowing all of the affected companies, and of hearing both sides of the story, have been invaluable in helping us form our investment views. More than just providing insight into the investment case for Dangote or Lucky, it has also helped us relook the investment case of their competitors. By avoiding investments in some of their competitors, we have escaped the occasional rights issue or two. The move into global frontier markets has improved the depth of our understanding of companies in our 'home' markets.

On an individual level, Facebook has been instrumental in driving down the number of steps needed to connect to any other person. Across their user base, the average number is now only 3.6 steps, down from 5.3 steps in 2008. In an increasingly globalised world, I have no doubt that the interconnectedness of markets and companies will continue to deepen in a similar way, even in the frontier parts of the world that one would not expect. ■



INTERNATIONAL PORTFOLIO UPDATE

CORONATION GLOBAL EQUITY FUND OF FUNDS

	Launch date	1 year	3 years	5 years	Since inception
Fund	1 Jul 00	7.92%	1.74%	10.63%	4.90%
Benchmark		7.86%	4.10%	10.86%	3.88%

Annualised, quoted in USD

The fund declined 1% against the benchmark advance of 1.2% for the quarter. This brings the rolling 12-month performance to 7.9%, in line with the MSCI All Country World Index.

The election of Donald Trump as US president in early November took many by surprise and set off a strong rally in the US equity markets, especially among the energy, materials and financial sectors. This was in response to Trump's campaign promises of fiscal stimulus through tax cuts, increased spending on infrastructure and defence and other measures including, among others, the lifting of restrictions on energy production and deregulation in the banking sector.

The US Federal Reserve also delivered on the widely anticipated 0.25% rise in interest rates in December and further indicated that it may raise rates three times during 2017. A strengthening in the US dollar meant that strong equity market performance in Europe and Japan was somewhat muted in the fund's base currency.

North America was the best performing region by a large margin, rising 3.5% (in US dollar terms). Asia ex-Japan declined 2.7% (in US dollar terms) and was the weakest region this quarter. Japan was marginally negative, declining 0.2%, while Europe declined 0.4% (both in US dollar terms). Emerging markets underperformed developed markets by 5.8% (in US dollar terms). The fund's regional positioning had a negative impact on performance.

Among the global sectors, financials (+14.1%), energy (+6.7%) and materials (+2.7%) generated the best returns. The worst performing sectors were real estate (-6.5%), consumer staples (-6%) and healthcare (-5.6%). On a look-through basis, the fund was negatively impacted by its sector positioning, principally as a result of having an underweight position in financials and energy and an overweight position in the IT sector. Low exposure to healthcare and utilities had a small positive impact.

In general, the underlying managers struggled over the quarter and detracted from the portfolio's performance.

Maverick Capital declined 1.8%, with large positions in Anheuser-Busch InBev (-18.5%), Universal Health Services (-13.6%), Sabre Corporation (-11.0%) and Seven & I (-6.4%) the key drivers behind the manager's negative performance. Although currency hedging and positions such as CommScope (+23.6%) and Waste Connections (+5.5%) performed well, they were not enough to compensate for the detractors.

Conatus Capital had a weak quarter, driven by top holdings including Constellation Brands (-7.7%), PayPal (-3.7%), Activision Blizzard (-18.5%) and Facebook (-10.3%). Maverick and Conatus both have excellent long-term track records and we remain confident in their ability to deliver going forward.

Viking Capital, which has had a stellar track record in recent years, also underperformed over the quarter, driven by its technology exposure (Facebook -10.3%, Amazon -10.4% and Alphabet -1.4%).

On the positive side, Egerton Capital enjoyed a good quarter, outperforming the index, with positions in Airbus (+16.7%), Safran (+8%) and Charter Communications (+6.7%) contributing to this performance.

After a poor run, Vulcan Value Partners delivered strong returns as the likes of Swiss Re (+10.1%), Anthem Inc. (+15.3%), Axis Capital (+20.8%) and State Street Corporation (+12.25) all performed strongly on the outcome of the Trump victory.

The global economy and markets enter 2017 in a considerably better position than this time last year. There is an improved outlook for developed economies, with growth momentum picking up and risk assets rallying in the wake of the US presidential election. Markets are indicating that the new US leadership should have a fundamentally positive impact on the US economy. A faster growing US economy is good for the global economy, although it will take some time before its impact is felt outside of the US.

In Europe, the year ahead is filled with elections and referendums that may reshape the political landscape. Together with the start of the long-awaited Brexit negotiations in March 2017, these risks should not be ignored. Emerging markets face near-term challenges as the stronger US dollar leads to capital outflows and rising interest rates. Trump's views on globalisation remain a risk and any strong action in this regard may cause further global stress.

CORONATION GLOBAL EQUITY STRATEGY

	Launch date	1 year	3 years	5 years	Since inception
Fund	14 Nov 14	13.45%	-	-	1.01%
Benchmark		7.86%	-	-	2.28%

Annualised, quoted in USD

The event that overshadowed financial markets this past quarter (and for that matter, the entire 2016) was the election of Donald Trump as the 45th US president. For the second time during the 12-month period, opinion polls got the final result of a major election or referendum dead wrong. While commentators were united in expecting the worst for equity markets in the event of a shock result, the opposite happened. The market upheaval has been spectacular, and these newly established trends were continuing to play out at the time of writing.

Equity markets declined sharply for a short while on 9 November 2016 (the day after the US presidential election), but the Standard & Poor's (S&P) 500 Index closed the day up 1.1%. Since the election date, the S&P 500 Index has gained more than 6%. However, the most volatility has been experienced within sectors. Trump's promises and threats regarding taxes and global trade reverberated across the markets with spectacular results.

Financial shares (more specifically banks) stood out and outperformed strongly, with the sector being up 21% for the quarter. This rally was fuelled by the promises of higher economic growth, lower effective tax rates and less regulation.

Most cyclical shares rebounded, especially those that should benefit from the promised infrastructural investment programme and the 'Made in the USA' initiative. The energy sector benefited from both the anticipation that less regulation will facilitate volume growth and a renewed effort by the major oil producers to curtail production to prop up the oil price. The losers in this rotation exercise were healthcare (even though a Clinton election would arguably have been worse for the sector), consumer staples (also impacted by a sharp increase in long-term interest rates, discussed below in more detail) and information technology (although this sector should benefit from the proposed capital repatriation relaxation).

Some of these themes had a significant impact on other assets classes. The promise of stronger economic growth, lower tax rates (implying a higher budget deficit) and some hawkish comments in response to the actions of the US Federal Reserve led to a sharp adjustment in interest rate expectations. The US ten-year yield moved from 1.85% on election day to 2.05% two days later, and finished the year at 2.44% – a massive adjustment of 60 basis points in a very short space of time.

Expectations for short rates also kicked up, albeit not as dramatically. As a result of these moves, the real estate sector sold off, becoming the second worst performing sector over the quarter after healthcare. The US dollar strengthened from more than $1.10 to the euro to its current level of around $1.05, but emerging market currencies perversely strengthened on the prospect of better global economic growth. The gold price fell from $1 275 to a low of $1 130 on higher inflationary expectations and the stronger US dollar, while most commodity prices (especially copper) rose.

All of this culminated in one of the most memorable quarters in financial markets in recent history. The global index (MSCI All Country World Index) returned 1.2% over the quarter and 7.9% for the last year. Within developed markets, the UK was a notable underperformer, given the continued uncertainty after the Brexit vote.

Over the course of 2016, US equities performed strongly, outperforming the global index by around 4%. While emerging equity markets underperformed during the final quarter of the year as Chinese stocks declined on Trump's anti-China rhetoric, they still outperformed the global index by 4.5% over the year. Brazil and Russia were the two stand-out performers of 2016, supported by both currency strength and a strong equity rerating.

The strategy performed well against this volatile backdrop. Its quarterly return of 2% outperformed the benchmark by 0.8%. More importantly, the strategy's annual return of 13.5% outperformed the benchmark by a very respectable 5.6%. This was a very satisfying outcome given the strategy's poor relative performance in 2015. The strategy has now clawed back almost all of the initial underperformance since

its launch in November 2014. We remain committed to not only erase this deficit, but to also justify our active approach to fund management by achieving positive alpha over the medium to longer term.

Another satisfying feature of our more recent returns is the higher hit ratio we achieved over the past quarter. This ratio of 1.57, which represents the fund's winners relative to losers in terms of individual stock positions, is the highest since inception. While the ratio in itself does not guarantee good performance (it is far more important to avoid big losers and upsize your winners), it is indicative of an investment process that adds value in terms of tilting the odds of outperformance in our favour. As a matter of interest, this number is still below one since inception, as initially a number of our emerging market positions cost us dearly.

For the quarter, most of our positions in the more cyclical shares and alternative asset managers made a positive contribution to performance. Notable contributors include KKR, Apollo Global Management and Blackstone, as well as Tempur Sealy, American Express and the strategy's US airline positions.

TripAdvisor continued to disappoint (after another poor set of results), while some of our technology positions such as Amazon and Facebook suffered from the vicious sector rotation. The fact that the strategy still outperformed, despite being materially underweight US banks, shows that the bulk of the rest of the portfolio was very supportive.

The biggest contributors to the strategy's strong performance were Kroton/Estácio (Brazilian education companies currently merging), Apollo Global Management (with the alternative asset manager having bounced back strongly after a prolonged period of poor share price performance), NetEase (a Chinese gaming company subsequently sold after a very strong share price rerating), Charter Communications (still a big position within the strategy) and Urban Outfitters (which we sold out of and recently reintroduced into the portfolio).

Losers over the period include TripAdvisor, JD.com (a Chinese e-commerce operator still building scale), LPL Financial Holdings (a financial advisory business sold after disappointing operational and strategic results) and Pershing Square (the listed vehicle of the prominent investor Bill Ackman, and still one of the strategy's biggest positions).

Investors who follow the portfolio closely will notice that for the first time since inception we have added meaningfully to the so-called consumer staple sector (as discussed on page 20). We added roughly 8% of the portfolio to a basket of these shares during the quarter.

The biggest buys include British American Tobacco (1.7%), Anheuser-Busch InBev (1.4%), Unilever (1.2%) and Heineken (1.2%). Seeing that we expect the long bond yield in the US to continue rising over the next few years, we might get more opportunities to buy some of these high-quality companies at attractive valuation levels, and we are standing ready to do so. However, we will always be conscious of valuation, wanting to pay a fair entry price, as this will be the key determinant in whether a holding will add value to the overall portfolio performance.

The global economy and markets enter 2017 on considerably firmer footing than last year. However, markets have moved quickly to reprice assets that should benefit from this improved outlook.

As such, we have become slightly more conservative in our portfolio positioning. The aforementioned holdings in consumer staples have added to the reduced risk profile. We have also bought some put options to protect the fund against unforeseen hiccups, as the cost of these protection strategies remains attractive, in our opinion.

CORONATION GLOBAL MANAGED STRATEGY

	Launch date	1 year	3 years	5 years	Since inception
Fund	1 Nov 09	10.20%	2.13%	9.22%	8.28%
Benchmark		5.69%	2.36%	6.20%	6.02%

Annualised, quoted in USD

The strategy performed well against the volatile backdrop (as discussed in the Global Equity Strategy commentary). Its quarterly return of 0.6% outperformed the benchmark by a significant 2.8%. More importantly, the strategy return of 10.2% exceeded the benchmark return by a very satisfying 4.5% for the 12-month period. This was a very gratifying outcome, given the strategy's poor relative and absolute performance in 2015. Since inception more than six years ago, the strategy has outperformed its benchmark by just more than 2% per annum on a gross basis – a noteworthy performance.

The robust performance over the last year was partly due to very strong equity selection, with the strategy's equity carve-out outperforming the MSCI All Country World Index benchmark by a strong 6%. This was also due to a pleasing result from our merger arbitrage bucket, which returned 14.3% for the year. At year-end, we still had a few positions open, but the opportunity set has shrunk somewhat.

In addition, by being very hawkish on the outlook for developed market government bonds, and therefore hedging out the interest rate risk in our credit holdings, we have managed to avoid the bulk of the bond market carnage over the quarter. As an illustration, our credit carve-out returned a very marginal -0.1% over the quarter, and a pleasing 7.7% for the year.

The negative contributors to performance include our property holdings (particularly over the last year) and our position in physical gold. The gold position was only initiated during 2016, and was considered a form of protection or diversification, but the poor performance in the price of gold was still disappointing. We also held a few protection strategies against our physical equity holdings which, given the Trump rally, have cost us some insurance premium. We will continue to add some protection to the portfolio to manage overall risk.

Within equities, most of our positions in the more cyclical shares and alternative asset managers contributed positively over the quarter (as highlighted in the Global Equity Strategy commentary).

Within property, we have reduced some of our positions, but also added to other holdings such as Cromwell (as the market sold off during the first six weeks of the quarter). We continue to monitor opportunities in the US, but have not acted on any as yet. In terms of credit, we are in the process of reducing the strategy's exposure, as the Trump rally has positively impacted credit spreads. In turn, we have added to our gold position over the quarter into price weakness.

CORONATION GLOBAL BOND

	Launch date	1 year	3 years	5 years	Since inception
Fund	1 Oct 09	8.23%	0.68%	1.75%	2.89%
Benchmark		2.09%	(0.58%)	(0.84%)	0.70%

Annualised, quoted in USD

Global bonds as measured by the Bloomberg Barclays Global Aggregate Bond Index fell by 7.1% during the fourth quarter as international bond yields rose sharply. US 10-year bond yields rose from 1.6% to 2.6%, with the bulk of the increase following the US election result. While much of the new presidency's policy details remain highly uncertain, fiscal policy should again become more influential, as we highlighted in previous commentaries.

The sell-off in developed market government bonds also reflects a rising risk premium within bond valuations, as well as elevated expectations for future interest rates, as global growth has surprised to the upside and inflation expectations have risen. Emerging markets and corporate bonds performed well under the circumstances as investors continued to seek out yield. The fund returned -4.41% during the quarter.

While the magnitude of the rise in yield may appear extreme, one needs to reflect on how extended valuations had become. By mid-2016, longer-dated breakeven rates of inflation in the US had fallen to 1.5%, as investors effectively priced in an undershoot of the US Federal Reserve's (Fed) inflation target for years to come. At the same time, the Fed grew increasingly vocal about the level of slack in the labour market, signalling that they expected rate increases of well above those priced by the market. Meanwhile, the limitations of loose monetary policy were increasingly debated and a greater role for fiscal policy widely advocated. Both presidential candidates in the US election proposed more expansive fiscal policies.

The election of Donald Trump and his much-vaunted focus on infrastructure spending merely brought the debate to the centre stage. At this juncture, we know the thrust of Trump's policies, but not the detail, the timelines or how successful he may be in implementing his objectives. In the short term, the new administration's 'America First' approach is likely to be very positive for growth, and econometric modelling suggests that rates may need to rise by considerably more than priced by the market, even after the recent sell-off. Whether policy changes can actually boost the long-term growth rate of the US economy beyond the first few years remains more uncertain.

As expected, the Federal Open Market Committee (FOMC) increased the target range for the federal funds rate by 0.25% (from 0.5% to 0.75%) in December, and also raised its profile of future rate expectations for the first time since mid-2014 (which followed a run of eight successive cuts). Minutes of the meeting revealed FOMC members saw an upside risk to their growth forecasts on the provisional assumption that fiscal policy would be more expansionary.

Concern was also expressed about an undesired undershooting of the natural rate of unemployment. When asked about Trump's fiscal plans, chairperson Janet Yellen suggested that a fiscal expansion would be more appropriate when unemployment was higher, while also stressing she had never advocated a policy of 'letting the economy run hot'. The fund took advantage of the sell-off in yields to increase its duration slightly and reduce some of its inflation-linked bond exposure in favour of fixed rate Treasuries after the widening in breakeven rates.

Meanwhile in Europe, economic momentum has surprised to the upside on the back of better domestic demand, as lower oil prices and less austerity boosted consumers. In some countries such as Germany, the weaker euro has helped exporters and low rates have aided construction. The improving picture has increased the European Central Bank's (ECB) confidence that economic recovery is on track and that deflation is no longer an issue. In fact, European breakeven rates of inflation have recovered by the same magnitude as those in the US during the last six months. At the December meeting of the ECB, the decision was taken to scale back the Asset Purchase Programme from €80 billion to €60 billion per month, with further reductions (most likely in the second half of 2017) under consideration

as inflation adjusts towards 2%. Policy rates meanwhile are set to remain on hold for a considerable time. Much of the market's focus in 2017 is likely to be on politics, with elections in Germany, France, the Netherlands and probably Italy. After the political surprises of 2016, investors are more conscious of the risks, with Eurosceptic parties in Italy and in particular in France opening up existential risks.

Emerging market bonds came under pressure in mid-November after the US election, with the spread on the Emerging Market Bond Index (EMBI) widening as much as 50 basis points (bps) to just over 400 bps. However, this appears to have been driven by selling from exchange traded funds and, for the most part, markets regained some of their poise as the markets' indigestion abated. For 2016 as a whole, emerging market bonds performed well, with the EMBI spread closing at 360 bps – a far cry from the 540 bps in mid-February. In the local currency space, emerging market bond yields performed better than might have been expected given the rise in US yields.

There were a few exceptions, with Mexico the most obvious casualty of a Trump presidency. The fund has increased its exposure to emerging market assets by buying SA local currency government debt and also hard currency debt denominated in euro. The fund initially increased its allocation but subsequently halved its exposure to Mexico following the US elections. A position was established in Turkey via a short-dated currency forward position and also through hard-currency US dollar bonds. The fund took a small position in Egypt and Argentina via currency forwards after significant moves in the currencies.

In emerging markets, currency moves often dwarf moves in underlying bonds, but the fourth quarter also witnessed sharp falls in major developed market currencies against a stronger dollar. Of the G10 currencies, the yen weakened the most – down just over 13%, as widening interest rate differentials once again became a major driving force behind currency moves.

The euro fell by 6.4% and sterling by 5% against the US dollar during the quarter. With a potentially more hawkish Fed, US corporate tax reform and a potential tax holiday on the repatriation of US offshore earnings, continued US dollar strength is a compelling view, but arguably one that is already backed by significant consensus.

Continued capital outflows from China, the Brexit overhang in the UK, elections within Europe and a yield targeting regime in Japan all reinforce the US dollar strength story. Continued dollar strength will likely depend on how much fiscal stimulus actually transpires, with Fed members suggesting every 1% equivalent of GDP may translate into 50 bps of rate rises. Within emerging markets, we have seen a number of sizeable moves in exchange rates. The Mexican peso has been a high-profile casualty of Trump's election, while in Turkey, deteriorating macro conditions and heightened political risks have seen the lira weaken considerably. In frontier markets, Egypt allowed its currency to float freely (triggering a fall of over 50%) after finalising a $12 billion loan with the International Monetary Fund. The fund has continued to run an overweight US dollar position, while maintaining an underweight position in euro and yen. The fund is now neutral on sterling and has been increasing its recent emerging market exposure from its overweight dollar position.

The initial reaction of markets to the US election has been positive for riskier assets, which have rallied on the back of expectations of a stronger US economy. Fears of an impending slowdown in the US have been cast aside, and equity markets in developed markets have rallied just shy of 10% since the election.

The increased optimism was also felt in corporate bond markets, which took their lead from equities and rallied strongly post the election. Despite a record $1.43 trillion of new issuance in US investment grade names and $681 billion of net new issuance, demand for yield again seemed insatiable as the broad investment grade index generated returns of approximately 1.5% more than US government bonds in the fourth quarter and 4.4% for 2016 as a whole.

Asset purchase programmes in Europe, and more recently in the UK, have also provided a strong backstop for markets. The fund invested in new issue from MTN and also purchased some Intu convertible bonds, while selling its exposure in Standard Chartered.

The fund continues to run an underweight duration position, principally via Europe and Japan, while the yield on the portfolio remains comfortably above that of its benchmark. The forthcoming presidency of Donald Trump has been billed by some as one of the most significant events of recent times, but at this stage, given the lack of clarity on key policies, it is difficult to gauge how the world's most important and influential bond and currency markets will be shaped. It does seem, however, that the period of strong cross-asset correlations may be over, and with that comes greater opportunities.

CORONATION GLOBAL FRONTIERS

	Launch date	1 year	3 years	5 years	Since inception
Fund	1 Dec 14	7.02%	-	-	(4.03%)
Benchmark		0.76%	-	-	0.53%

Annualised, quoted in USD

Frontier markets produced a mixed performance over the quarter. Sri Lanka, which is now the strategy's largest

country exposure, was down 6.7%. Egypt (our second largest country exposure) fully embraced its move to a floating exchange rate regime in November 2016, the short-term impact of which resulted in a 51% currency devaluation and a drag on the strategy's performance over the period.

The decision to float the currency, coupled with subsidy removal and a $12.4 billion International Monetary Fund deal, sees the economy completely reset and the country well positioned for growth. The Egyptian market was down 24.4%, despite the market increasing 54.4% in local currency terms over the quarter.

In contrast, there was strong demand for equities in Zimbabwe, partly due to the introduction of the new 'bond notes', which resulted in the Zimbabwean market being up 46% for the quarter. Pakistan gained 18%, while Bangladesh was up 7.3%. Against this backdrop the strategy was flat (0.1%), compared to the 3 Month USD Libor, which was up 0.2% and the MSCI Frontier Markets Index, which rose 0.5% for the quarter.

2016 as a whole also saw a mixed performance across the frontier universe: Pakistan (+46.4%), Morocco (+27.4%), Zimbabwe (+25.8%), Vietnam (+14.8%) and Bangladesh (+9.0%) all did well, while Egypt (-25.5%) and Nigeria (-40.7%) were negative, largely due to significant currency devaluations during the year. Sri Lanka returned -12.6%. For 2016, the strategy delivered +7%, which is well ahead of both the 3 Month USD Libor (+0.8%) and the MSCI Frontier Markets Index (+3.2%).

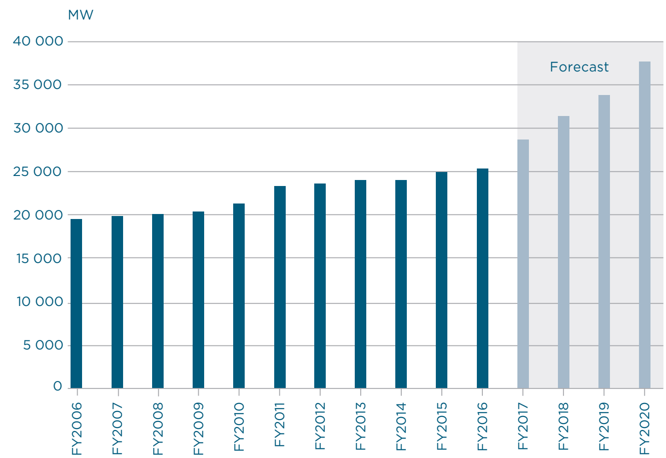
The largest contributors to performance in 2016 were Guararapes (a Brazilian clothing retailer) and Beximco (a pharmaceutical company in Bangladesh), while the largest detractors were Bulgartabac (a Bulgarian tobacco company) and Qalaa Holdings (an Egyptian conglomerate with interests in energy assets).

Due to a tough 2015 for frontier markets in general, the strategy's annualised return since inception is -4.0%. This is lower than the 3 Month USD Libor, which returned +0.5%, but comfortably ahead of the -7.5% recorded by the MSCI Frontier Markets Index.

In 2016, the shining light in global frontier markets was Pakistan. The strong performance of the Karachi Stock Exchange 100 Index (up 46.4%) has been driven by an expansion in energy supply, excitement around the China Pakistan Economic Corridor (CPEC), security improvements and the announcement that MSCI will be upgrading Pakistan to emerging market status in 2017. Pakistan comprises 9.4% of the strategy, making it our third largest country exposure.

Pakistan has long suffered from insufficient energy supply and a lack of business and consumer confidence due to the ever-present threat of terrorism. The government has prioritised power generation, and a number of projects are due to come online over the next few years (see the following graph).

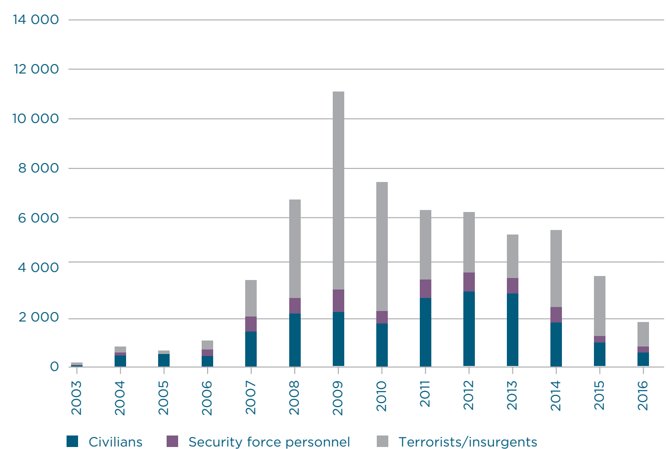
PAKISTAN POWER CAPACITY



Source: Exotix

When we visited Karachi and Lahore in March 2014 there was a very real concern around the rule of law and civilian safety. This has changed dramatically since then, as can be seen in the following graph. Total fatalities fell 33% in 2015 and a further 51% in 2016. This has been the safest year in a decade and has resulted in a marked improvement in business sentiment and private consumption.

PAKISTAN TERRORISM FATALITIES 2003 - 2016



Source: South Asia Terrorism Portal

Another key driver to Pakistan's performance in 2016 has been the excitement around the CPEC and the impact it is likely to have on corporate earnings over the medium term. The CPEC refers to an economic corridor stretching from Gwadar in southwest Pakistan to Kashgar in western China.

The corridor includes $51 billion of power generation and infrastructure projects, mainly financed by the Chinese. The improvement in infrastructure will see broad-based benefits across the economy from the commercial port in Gwadar, improved road and rail networks, and power generation growth. This should see local banks enjoying a pick-up in private sector credit growth after a number of years of stagnation. The project construction phase should provide a boon to local cement manufacturers, with an estimated four million tonnes per annum needed – 10% to 15% of current industry demand. We are confident that our banking and cement holdings are well positioned to benefit from any incremental demand from the CPEC.

The final driver of Pakistani positivity is the announcement that MSCI will be upgrading the country to emerging market status. We typically place little value on MSCI's arbitrary country classifications, but there are investors who do. The upgrade has the potential to see emerging market investors look to enter Pakistan, while some frontier investors will be forced to sell. The net impact is, however, likely to be positive and some investors are buying in the run-up to this.

We continue to be excited about the strategy and its underlying companies' future prospects. We believe that the portfolio holds a number of attractively valued businesses across our frontier market universe. While Pakistan was the very bright star of 2016, we look forward to seeing which markets will deliver in 2017 and beyond. ■

*All returns are quoted in US dollar terms unless otherwise stated.

Please note that the commentaries for the Coronation Global Emerging Markets Equity and Africa Frontiers strategies are featured on pages 27 and 30.

INSTITUTIONAL FUND PERFORMANCE

PORTFOLIOS[Δ]	FEES[º]	LAUNCH DATE	1 YEAR	3 YEARS	5 YEARS	10 YEARS	15 YEARS	CUM SINCE LAUNCH †	ANN SINCE LAUNCH †
GLOBAL BALANCED									
Global Houseview	G	Oct-93	3.44%	8.08%	14.65%	12.68%	15.31%	3 400.49%	16.52%
Median of the Peer Group*			3.67%	8.08%	13.76%	10.86%	13.99%	2 567.72%	15.17%
Alpha			**(0.23%)**	**0.00%**	**0.89%**	**1.82%**	**1.32%**	**832.77%**	**1.35%**
Managed	G	May-96	7.96%	8.06%	15.28%	13.53%	15.69%	2 446.31%	16.96%
Median of the Peer Group*			3.67%	8.08%	13.76%	10.86%	13.99%	1 399.80%	14.00%
Alpha			**4.29%**	**(0.02%)**	**1.52%**	**2.67%**	**1.70%**	**1 046.51%**	**2.96%**
DOMESTIC BALANCED									
Domestic Houseview	G	Jan-98	7.01%	6.84%	12.51%	12.14%	16.36%	1 604.18%	16.10%
Domestic Balanced Benchmark			7.31%	7.42%	11.73%	10.35%	13.30%	998.45%	13.44%
Alpha			**(0.30%)**	**(0.58%)**	**0.78%**	**1.79%**	**3.06%**	**605.72%**	**2.65%**
SPECIALIST EQUITY									
Houseview Equity	G	Oct-93	6.83%	5.61%	14.77%	13.16%	18.02%	4 254.66%	17.62%
Houseview Equity Benchmark			3.94%	6.68%	13.33%	11.01%	15.07%	2 387.97%	14.82%
Alpha			**2.89%**	**(1.08%)**	**1.44%**	**2.16%**	**2.95%**	**1 866.68%**	**2.80%**
Aggressive Equity	G	Jan-04	15.98%	4.22%	13.27%	13.03%	-	833.42%	18.75%
Aggressive Equity Benchmark			4.13%	7.59%	14.18%	11.38%	-	693.07%	17.27%
Alpha			**11.85%**	**(3.37%)**	**(0.91%)**	**1.66%**	**-**	**140.36%**	**1.48%**
Core Equity	G	Mar-04	5.55%	5.93%	14.49%	13.55%	-	849.76%	19.17%
FTSE/JSE Shareholder Weighted Index			4.13%	7.59%	14.18%	11.38%	-	661.86%	17.14%
Alpha			**1.42%**	**(1.65%)**	**0.31%**	**2.17%**	**-**	**187.90%**	**2.03%**
SPECIALIST FIXED INTEREST									
Strategic Cash	G	Sep-06	8.23%	7.52%	7.04%	8.14%	-	124.66%	8.15%
Short Term Fixed Interest 3 Month Index			7.05%	6.26%	5.83%	7.08%	-	103.43%	7.11%
Alpha			**1.18%**	**1.26%**	**1.21%**	**1.07%**	**-**	**21.23%**	**1.03%**
Active Bond	G	Jul-00	16.66%	8.01%	8.69%	9.10%	10.57%	512.45%	11.61%
BEASSA All Bond Index			15.45%	6.90%	7.36%	7.97%	9.63%	433.47%	10.68%
Alpha			**1.20%**	**1.11%**	**1.33%**	**1.12%**	**0.94%**	**78.98%**	**0.93%**
Strategic Bond	G	Jan-08	16.12%	8.22%	9.02%	-	-	135.60%	9.99%
BEASSA All Bond Index			15.45%	6.90%	7.36%	-	-	106.63%	8.40%
Alpha			**0.67%**	**1.31%**	**1.66%**	**-**	**-**	**28.97%**	**1.59%**
Absolute Bond	G	Mar-03	10.02%	7.82%	8.25%	10.44%	-	298.66%	10.51%
CPI			6.34%	5.62%	5.59%	6.26%	-	115.54%	5.71%
Alpha			**3.68%**	**2.19%**	**2.66%**	**4.18%**	**-**	**183.12%**	**4.81%**
Flexible Fixed Income	G	Jul-10	13.74%	8.49%	9.43%	-	-	87.19%	10.13%
BEASSA All Bond Index			15.45%	6.90%	7.36%	-	-	68.93%	8.40%
Alpha			**(1.72%)**	**1.58%**	**2.07%**	**-**	**-**	**18.26%**	**1.73%**
Short Term Fixed Interest 3 Month Index			7.05%	6.26%	5.83%	-	-	44.34%	5.81%
Alpha			**6.69%**	**2.23%**	**3.60%**	**-**	**-**	**42.85%**	**4.32%**
Medical Aid Cash	G	Dec-05	8.55%	7.50%	6.90%	8.11%	-	135.44%	8.03%
Short Term Fixed Interest 3 Month Index			7.05%	6.26%	5.83%	7.08%	-	114.12%	7.11%
Alpha			**1.50%**	**1.24%**	**1.07%**	**1.04%**	**-**	**21.32%**	**0.92%**
INFLATION-LINKED BENCHMARK									
Global Absolute	G	Aug-99	6.52%	7.53%	12.15%	11.69%	14.91%	1 253.04%	16.13%
CPI			6.34%	5.62%	5.59%	6.26%	6.02%	183.29%	6.16%
Alpha			**0.19%**	**1.91%**	**6.57%**	**5.43%**	**8.89%**	**1 069.75%**	**9.97%**
Domestic Absolute	G	Apr-02	8.38%	6.02%	9.13%	10.59%	-	730.10%	15.43%
CPI			6.34%	5.62%	5.59%	6.26%	-	132.28%	5.88%
Alpha			**2.04%**	**0.39%**	**3.54%**	**4.32%**	**-**	**597.82%**	**9.55%**
Inflation Plus	G	Oct-09	6.27%	7.76%	10.24%	-	-	114.88%	11.13%
CPI			6.34%	5.62%	5.59%	-	-	44.50%	5.21%
Alpha			**(0.07%)**	**2.14%**	**4.65%**	**-**	**-**	**70.38%**	**5.92%**
Medical Absolute	G	May-04	8.24%	6.16%	9.13%	10.27%	-	388.70%	13.34%
CPI			6.34%	5.62%	5.59%	6.26%	-	103.71%	5.78%
Alpha			**1.91%**	**0.54%**	**3.54%**	**4.01%**	**-**	**285.00%**	**7.57%**

PORTFOLIOS[Δ]	FEES[º]	LAUNCH DATE	1 YEAR	3 YEARS	5 YEARS	10 YEARS	15 YEARS	CUM SINCE LAUNCH [†]	ANN SINCE LAUNCH [†]
HEDGE FUNDS									
Coronation Presidio Fund	N	Oct-05	0.58%	8.49%	16.60%	15.76%	-	461.77%	16.58%
Cash			6.67%	5.90%	5.50%	6.72%	-	108.96%	6.77%
Alpha			**(6.10%)**	**2.59%**	**11.10%**	**9.04%**	**-**	**352.81%**	**9.81%**
Coronation Multi-Strategy Arbitrage Fund	N	Jul-03	30.55%	11.35%	10.36%	11.78%	-	415.50%	12.92%
Cash			6.67%	5.90%	5.50%	6.72%	-	147.13%	6.93%
Alpha			**23.87%**	**5.45%**	**4.86%**	**5.07%**	**-**	**268.37%**	**5.99%**
Coronation Granite Fixed Income Fund	N	Oct-02	9.54%	7.68%	7.69%	9.26%	-	294.60%	10.11%
Cash			6.67%	5.90%	5.50%	6.72%	-	170.30%	7.23%
Alpha			**2.87%**	**1.78%**	**2.19%**	**2.54%**	**-**	**124.30%**	**2.89%**
OFFSHORE FUNDS[1]									
Coronation Global Equity FoF (US$)	N	Jul-00	7.92%	1.74%	10.63%	5.04%	7.42%	120.05%	4.90%
Coronation Global Equity FoFs Benchmark			7.86%	4.10%	10.86%	4.33%	6.34%	87.35%	3.88%
Alpha			**0.06%**	**(2.36%)**	**(0.22%)**	**0.72%**	**1.07%**	**32.71%**	**1.02%**
Coronation Global Managed (US$)	G	Nov-09	10.20%	2.13%	9.22%	-	-	76.84%	8.28%
Coronation Global Managed Benchmark			5.69%	2.36%	6.20%	-	-	52.04%	6.02%
Alpha			**4.51%**	**(0.23%)**	**3.02%**	**-**	**-**	**24.81%**	**2.26%**
Global Capital Plus (US$)	G	Sep-09	7.09%	1.86%	6.02%	-	-	52.19%	5.89%
Global Capital Plus Benchmark			0.76%	(2.95%)	(1.01%)	-	-	(7.71%)	(1.09%)
Alpha			**6.33%**	**4.81%**	**7.03%**	**-**	**-**	**59.89%**	**6.98%**
Global Bond (US$)	G	Oct-09	8.23%	0.68%	1.75%	-	-	22.96%	2.89%
Global Bond Benchmark			2.09%	(0.58%)	(0.84%)	-	-	5.19%	0.70%
Alpha			**6.15%**	**1.26%**	**2.59%**	**-**	**-**	**17.77%**	**2.19%**
Global Emerging Markets Equity Strategy	G	Jul-08	15.07%	(5.04%)	5.37%	-	-	55.47%	5.35%
Coronation Global Emerging Markets Equity Benchmark			11.19%	(2.33%)	1.55%	-	-	3.98%	0.46%
Alpha			**3.88%**	**(2.71%)**	**3.82%**	**-**	**-**	**51.49%**	**4.89%**
Coronation All Africa Strategy	G	Aug-08	4.28%	(8.48%)	4.22%	-	-	67.93%	6.35%
3 Month USD Libor			0.76%	0.44%	0.41%	-	-	4.72%	0.55%
Alpha			**3.52%**	**(8.92%)**	**3.81%**	**-**	**-**	**63.21%**	**5.80%**
Coronation Africa Frontiers Strategy	G	Oct-08	(4.89%)	(8.98%)	4.80%	-	-	78.82%	7.30%
3 Month USD Libor			0.76%	0.44%	0.41%	-	-	4.20%	0.50%
Alpha			**(5.64%)**	**(9.42%)**	**4.39%**	**-**	**-**	**74.62%**	**6.80%**
Coronation Global Frontiers	G	Dec-14	7.02%	-	-	-	-	(8.20%)	(4.03%)
3 Month USD Libor			0.76%	-	-	-	-	1.10%	0.53%
Alpha			**6.26%**	**-**	**-**	**-**	**-**	**(9.31%)**	**(4.55%)**
Coronation Global Equity Strategy	G	Nov-14	13.45%	-	-	-	-	2.19%	1.01%
MSCI All Country World Net US$			7.86%	-	-	-	-	5.01%	2.28%
Alpha			**5.58%**	**-**	**-**	**-**	**-**	**(2.82%)**	**(1.28%)**

[1] *Figures quoted in US$ as at 31 December 2016.*

Δ *Figures are quoted from the Independent Retirement Fund Survey as at 31 December 2016.*

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

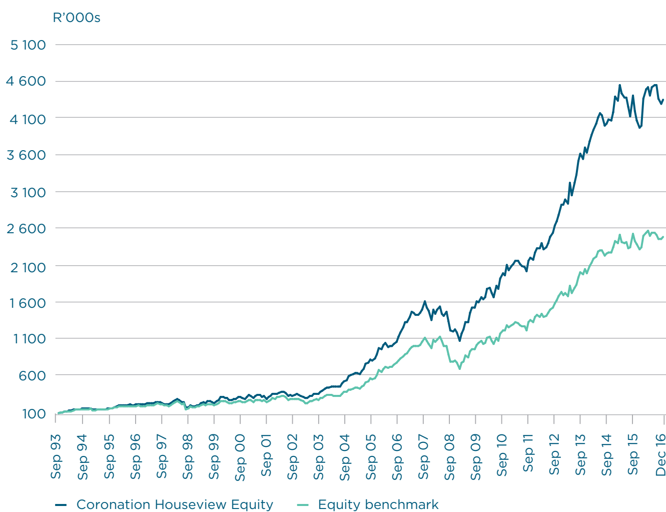
º *G = Gross, N = Net*

† *CUM SINCE LAUNCH = Cumulative returns since launch, ANN SINCE LAUNCH = Annualised returns since launch. Figures of one year and less indicate percentage change.*

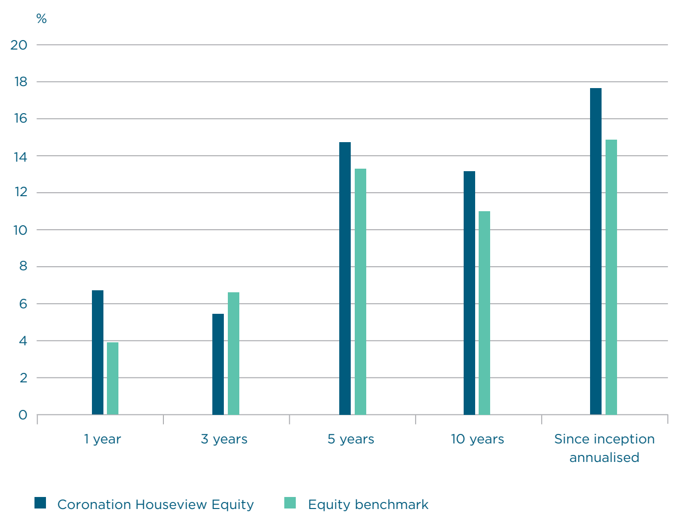
CORONATION HOUSEVIEW EQUITY RETURNS VS EQUITY BENCHMARK

5-YEAR ANNUALISED RETURNS	CORONATION HOUSEVIEW EQUITY	EQUITY BENCHMARK	ALPHA
1998	8.15%	6.49%	**1.66%**
1999	14.23%	10.91%	**3.33%**
2000	10.93%	7.52%	**3.41%**
2001	10.95%	9.38%	**1.57%**
2002	9.46%	7.80%	**1.66%**
2003	18.02%	13.78%	**4.24%**
2004	14.12%	9.63%	**4.49%**
2005	23.35%	18.94%	**4.41%**
2006	28.38%	23.66%	**4.72%**
2007	33.79%	29.55%	**4.24%**
2008	23.36%	19.73%	**3.63%**
2009	22.23%	20.67%	**1.56%**
2010	18.55%	15.73%	**2.82%**
2011	11.58%	8.73%	**2.85%**
2012	13.39%	10.10%	**3.29%**
2013	24.37%	20.21%	**4.16%**
2014	19.39%	16.08%	**3.31%**
2015	14.05%	13.14%	**0.91%**
2016	14.77%	13.33%	**1.44%**
ANNUALISED TO 31 DECEMBER 2016			
1 year	6.83%	3.94%	**2.89%**
3 years	5.61%	6.68%	**(1.08%)**
5 years	14.77%	13.33%	**1.44%**
10 years	13.16%	11.01%	**2.16%**
Since inception in October 1993 annualised	17.62%	14.82%	**2.80%**
Average outperformance per 5-year return			**3.04%**
Number of 5-year periods outperformed			**19.00**
Number of 5-year periods underperformed			**-**

CUMULATIVE PERFORMANCE



ANNUALISED RETURNS TO 31 DECEMBER 2016

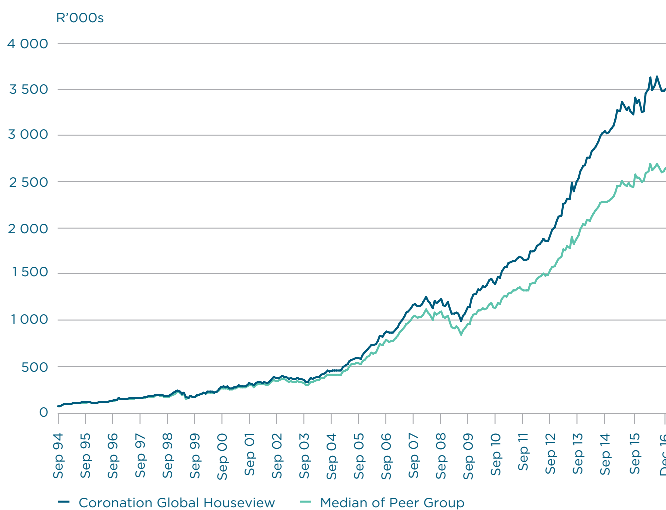


An investment of R100 000 in Coronation Houseview Equity on 1 October 1993 would have grown to **R4 354 657** by 31 December 2016. By comparison, the returns generated by the Equity Benchmark over the same period would have grown a similar investment to **R2 487 973**.

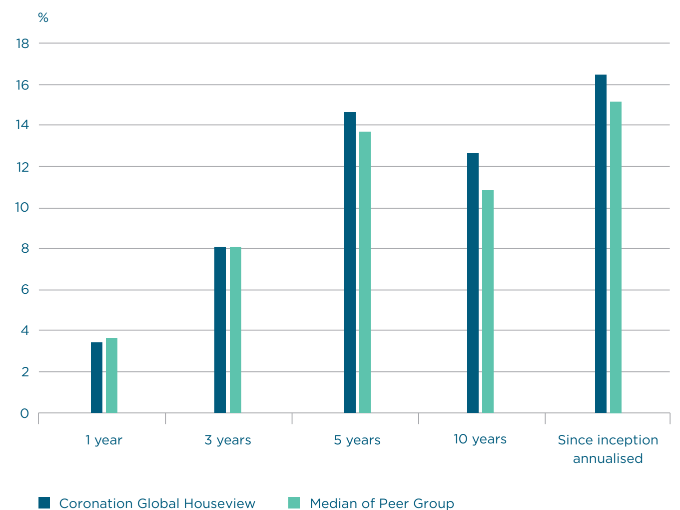
CORONATION GLOBAL HOUSEVIEW (BALANCED) RETURNS VS MEDIAN OF PEER GROUP*

5-YEAR ANNUALISED RETURNS	CORONATION GLOBAL HOUSEVIEW	MEDIAN OF PEER GROUP*	ALPHA
1998	11.21%	11.26%	**(0.04%)**
1999	16.36%	15.54%	**0.82%**
2000	13.82%	13.17%	**0.65%**
2001	16.54%	15.02%	**1.52%**
2002	12.74%	12.05%	**0.69%**
2003	17.67%	15.96%	**1.71%**
2004	14.35%	13.30%	**1.05%**
2005	19.58%	18.16%	**1.42%**
2006	20.74%	19.53%	**1.22%**
2007	24.93%	24.82%	**0.10%**
2008	18.96%	17.52%	**1.44%**
2009	18.28%	15.19%	**3.09%**
2010	15.23%	12.02%	**3.21%**
2011	10.75%	8.32%	**2.43%**
2012	12.23%	9.83%	**2.40%**
2013	20.13%	17.67%	**2.46%**
2014	17.52%	15.64%	**1.88%**
2015	15.69%	14.61%	**1.08%**
2016	14.65%	13.76%	**0.89%**
ANNUALISED TO 31 DECEMBER 2016			
1 year	3.44%	3.67%	**(0.23%)**
3 years	8.08%	8.08%	**0.00%**
5 years	14.65%	13.76%	**0.89%**
10 years	12.68%	10.86%	**1.82%**
Since inception in October 1993 annualised	16.52%	15.17%	**1.35%**
Average outperformance per 5-year return			**1.47%**
Number of 5-year periods outperformed			**18.00**
Number of 5-year periods underperformed			**1.00**

CUMULATIVE PERFORMANCE



ANNUALISED RETURNS TO 31 DECEMBER 2016



An investment of R100 000 in Coronation Global Balanced on 1 October 1993 would have grown to **R3 500 495** by 31 December 2016. By comparison, the Median return of Global Large Managers over the same period would have grown a similar investment to **R2 651 485**.

** 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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