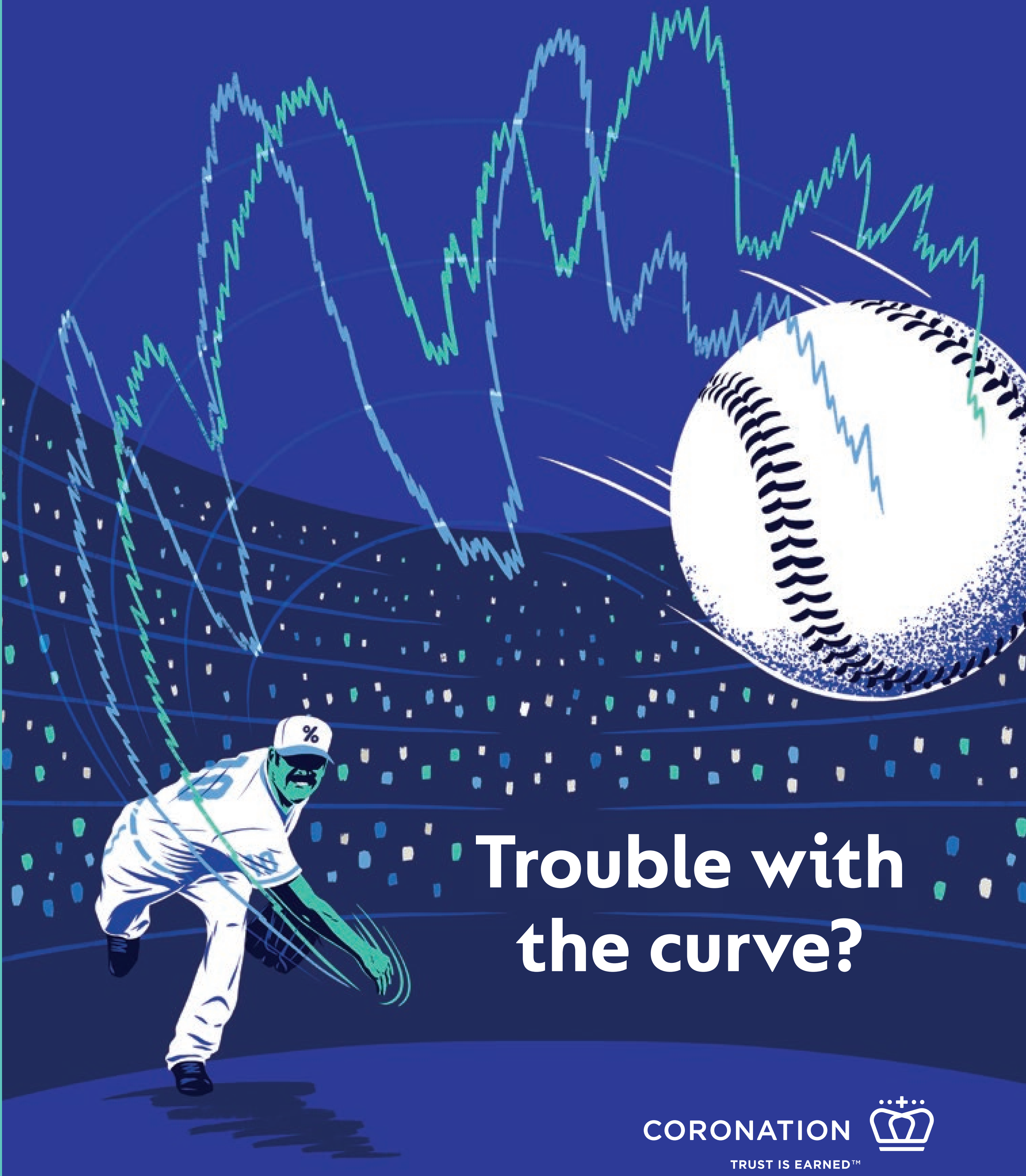
corospondent

The Personal Investments Quarterly



Trouble with the curve?

CORONATION

TRUST IS EARNED™

OCTOBER 2019 SPRING EDITION

OUR CLIENT CHARTER

Our commitment to you

We strive to always put our clients first

We have an unwavering commitment to the long term

We focus on producing top performance over all meaningful periods

We are uncompromising about ethics

7th Floor, MontClare Place, Cnr Campground & Main Roads, Claremont 7708. PO Box 44684, Claremont 7735.
Client service: 0800 22 11 77 E-mail: clientservice@coronation.co.za **www.coronation.com**

On the cover: **The US 10-year Treasury bond's yield curve inversion has attracted much attention in recent months. Baseball is the quintessential US sport, and the curve ball speaks to the uncertain outcome of the brief inversion.**

Notes from my inbox

"A promise is a cloud; fulfilment is the rain." – Arab Proverb

By **PIETER KOEKEMOER**

Pieter is Head of Personal Investments

THE THIRD QUARTER of this year can best be described as another period of muddling through. Global markets ended flat, the rand weakened and South Africa Inc. shares remained under pressure, with the release of multiple profit warnings and disappointing results that again confirmed how weak the local economy remains. Our funds produced reasonable performance under the circumstances, with a more than 3% benchmark outperformance for the Equity and Top 20 funds, and positive returns from our multi-asset Balanced Plus, Market Plus, Capital Plus and Balanced Defensive funds.

During August, Finance Minister Tito Mboweni surprised the market with the release of an economic reform paper, summarised by economist Marie Antelme on page 28. Some of Treasury's ideas were subsequently endorsed by the ruling party's National Executive Committee. President Ramaphosa also added his weight to the efforts to kickstart confidence when he appointed a new economic advisory panel. While these are promising signs, there is a desperate need for evidence of tangible action. In her article on page 16, Marie discusses her laundry list of concerns that require urgent attention. Only once we see progress on these issues can we expect households and businesses to become more confident about the future.

Closely associated with weak domestic confidence is the debate about the appropriate allocation to international assets. With much better returns from global markets – especially US >

equities – over the past decade, you often hear the argument that you should sell all your local investments and only invest offshore. This is a sentiment-driven view that assumes that the future will play out exactly as the most recent past. A more reasoned response would be to implement a well-considered long-term investment programme, informed by your own circumstances, that appropriately diversifies your risks across jurisdictions, geographies, sectors and companies. You can read more in my article on page 12.

Globally, investors became fixated with negative interest rates, inverted yield curves and the latter's ability to forecast impending recessions. Fixed income portfolio manager Seamus Vasey unpacks the topic in our lead article on page 6. Another key development was the decision by the US Business Roundtable (a group of nearly 200 CEOs representing the largest US companies) to update its statement on the purpose of a corporation, away from shareholder primacy to a broader commitment to all stakeholders. We support this change in thinking. While our primary role will always be to deliver returns for our clients, we are long-term investors. This requires us to think about the sustainability of the environment and societies in which our investee companies operate. If businesses and investors do not play their part in addressing the issues of the day, it is likely that the eventual returns available to their shareholders will diminish. You can read more about what we do to promote good corporate behaviour across the companies we invest in on your behalf in the Coronation Stewardship Report available on our website.

Back home, portfolio manager Tumi Motlanthe outlines the investment case for Shoprite on page 30. Globally, investment analyst Chris Cheetham provides insight into the value we see in leading US cable operators on page 20. Portfolio manager Suhail Suleman weighs in on China's influence on the emerging market basket on page 37, while investment analyst Greg Longe points out why it's best to be circumspect about frontier market IPOs on page 24.

As we enter the last few months of this decade, we remain committed to the singular purpose that has defined Coronation's culture and actions since 1993: building long-term wealth for our clients. As always, I invite you to contact us via clientservice@coronation.com if in any way we have not met your expectations.

Enjoy the read and thank you for your ongoing support and trust.

Pieter

IN THIS ISSUE

TRUST IS EARNED

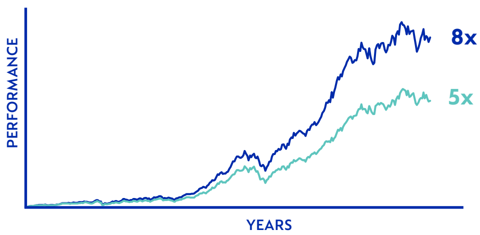
When Coronation opened its doors back in 1993 and committed wholeheartedly to the future of South Africa, the country was moving through uncertain times. As we head into the next decade, that sense of uncertainty is again palpable, both at home and globally. But navigating through challenging times takes courage, confidence and a strong sense of clarity of purpose.

We are a homegrown South African business and have become one of the leading investment managers in our country. We are privileged to manage the savings of millions of South Africans, a responsibility that we take very seriously. Our unique culture and values, instilled from inception, drive how we show up every single day to earn our clients' trust. Here are ways in which we honour our long-term commitments to clients and stakeholders:

Building our clients' wealth over the long term

We have generated long-term outperformance for our investors.

Long-term performance matters



– Coronation Equity – Benchmark†

Source: Coronation, as at 30 September 2019

Based on R100 000 invested in Coronation Equity on its launch date (15 April 1996) at a real (after inflation) rate of 9.2%, after all fees

99.9%

of client assets[1] have outperformed their benchmarks since inception

[1] As at 30 September 2019; funds with a 10-year+ history, asset-weighted

8x purchasing power after 23 years

Transforming our business from within

We are a proud South African business.

Level 2 B-BBEE contributor*

Successfully recruited, trained and retained exceptional black and female talent across our business since 1993.

56% black employees

49% female employees

78% of our board members are black

>R210bn[2] of total AUM managed by black investment professionals

[2] As at 31 August 2019

Advancing transformation in our industry

Pre-dating BEE legislation in South Africa, we pioneered corporate initiatives that have contributed to meaningful transformation and the development of skills in the financial services industry.

Established 3 independent black businesses

- African Harvest Fund Managers
- Kagiso Asset Management
- Intembeko Investment Administrators

Since 2006, we have allocated

>R300 million

in brokerage to black stockbrokers through the Coronation Business Support programme

Over the past decade, we have funded and trained

120

black IFA practices through the ASISA IFA Development Programme

27

analysts through the Vunani Securities Training Academy

† Composite benchmark: 87.5% local equity, 12.5% international equity. Prior to 1 October 2015, the benchmark was the FTSE/JSE SWIX Index Highest annual return: 62.5% (Aug 2004 – Jul 2005); Lowest annual return: -28.7% (Mar 2008 – Feb 2009)

* as measured by the revised Financial Sector Code

All figures are as at 30 September 2019, unless otherwise stated.

INSIGHTS

Yield curves

Inverted yield curves, negative bond yields, liquidity everywhere and not a drop to drink

By SEAMUS VASEY

THE QUICK TAKE

- An inverted US 10-year Treasury bond yield curve can not only be a predictor, but a cause
- The post-GFC central bank monetary arsenal may well prove ineffective in current conditions
- Times are unprecedented; more than 25% of the global bond market now trades at a negative yield
- It's not insane to invest in negative-yielding bonds; in current conditions it would be a pity if SA missed the bus

Seamus is a fixed income portfolio manager and analyst with 15 years of investment experience.

SMALL FORESTS HAVE been razed to the ground and squids worldwide have been sucked dry to help support the volumes that have been written about bond yield curve inversions in recent times. This reached a peak at the beginning of September when the US 10-year Treasury bond yield briefly fell below that of its short-dated counterpart, the two-year bond, for the first time since 2006. The ensuing frenzy of handwringing and woeful prognostications from market commentators has certainly been eyebrow raising. Yet are they wrong?

There are respectable justifications for taking heed when long-term interest rates in the US fall below the level of short-term rates. This is a rare occurrence and has been – without contest – the most reliable early warning signal of an impending recession. Out of the 10 instances that the curve has inverted since World War II, only once (in the mid-1960s) did the slope of the curve turn negative *without* an ensuing recession; conversely, there haven't been any modern US recessions that *weren't* preceded by an inverted yield curve (see Figure 1 on page 7).

THE ORACLE

But it's not just the success of this indicator that's attractive to market watchers; it's the extent of the forewarning the signal provides. While many other harbingers of a slump in economic activity tend to be practically contemporaneous with the slowdown itself, the yield curve is seemingly able to look over the horizon and provide several quarters' advance warning.

Just as important as the reliability and predictive strength of this indicator are its simplicity and plausibility. These latter benefits are related. The difference between a long-term interest rate (typically the 10-year bond) and a short-term interest rate (alternatively the policy rate, a T-bill rate or yield on the two-year bond) is the entire metric.

Hence, even as macroeconomic, external and regulatory conditions varied considerably at the times when the yield curve became downward sloping over the past seven decades, all these influences were arguably already incorporated into interest rates. The unconditionality of this metric shouldn't be too surprising.

After all, bond yields are really just aggregated market expectations of all the macroeconomic factors that influence growth, inflation and policy, and savings and investment decisions.

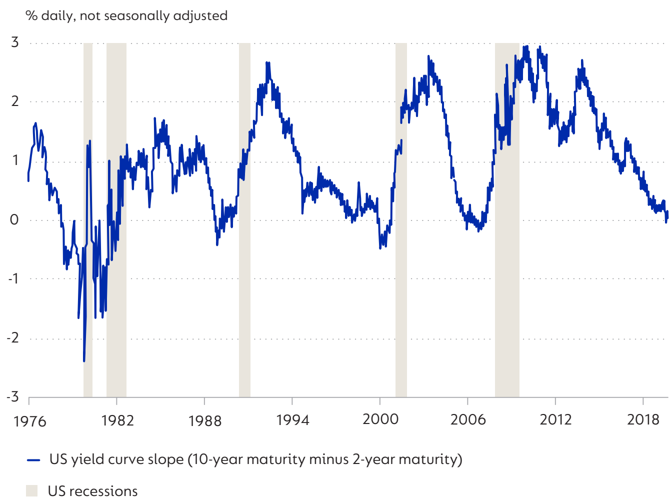
And if that weren't enough to solidify confidence in the importance of this measure, there is a causality argument. Most analysts view an inverted yield curve as being *anticipatory* of an approaching economic slump. However, there is some validity to the notion that an inverted yield curve itself can help promote a negative feedback loop within the broader real economy.

So, it's not just the collective foresight of the US bond market that – for all intents and purposes – predicts recessions each and every time, but it is the very occurrence of long-term interest rates being less than short-term rates that helps bring about the slump. This negative effect would most clearly permeate through the banking system, which relies on an upward-sloping yield curve to be profitable.

Weakness in the ability of the economy to generate credit almost inevitably harms economic growth, so it's quite conceivable that yield curve inversion may actually help bring about recessions – which would certainly bolster the metric's predictive ability!

Figure 1

HISTORIC YIELD CURVE INVERSIONS



Source: Federal Reserve Bank of St. Louis

IS THIS TIME DIFFERENT?

But what are the counterarguments to the implications of the 'true' US yield curve inversion that recently arose, or equivalently, to invoke the most dangerous question in economics: is this time different?

There are two key differences for the US bond market between the current era and prior decades. The first is financial repression – the extent to which policymakers have actively influenced bond yields through direct, unconventional means. The second is the substantially globalised nature of G10 sovereign debt markets and how distorted these markets have become through their own central bank involvement.

The former simply means that one can't necessarily trust the signals being provided by a market that has been deliberately distorted by the Federal Reserve Board (the Fed), principally through its quantitative easing (QE) programme. The latter implies that, even when the Fed isn't directly influencing US Treasury yields, the substitutability among G10 sovereign bonds means that central bank interference anywhere will filter through to other markets, including the US. These differences certainly lend weight in applying additional scepticism to the signals being sent by the US yield curve. So, to return to the original question: is the intense concern generated by yield curve inversion in the US justified or not? For most people, the concise answer would still be 'yes', despite the counterarguments. But for long-term investors, the original question itself is largely irrelevant.

A US RECESSION: WHEN, NOT IF

Long-term investors are always interested in what's beyond the next phase of the business cycle. It isn't controversial to suggest that the US is facing a slowdown. Exactly when it will occur and how deep the slump will be are important cyclical questions, but there are far more significant, secular uncertainties to contemplate.

IS THE INTENSE CONCERN GENERATED BY YIELD CURVE INVERSION IN THE US JUSTIFIED OR NOT?

Indeed, these structural questions are already being posed in many economies and bond markets around the world. The US will very likely face these same challenges in time, but they are immediate for most other developed markets.

Underlying these concerns are two interrelated questions: what is the effectiveness of monetary policy from this point and how (un)sustainable are negative interest rates?

THE FUTURE OF MONETARY POLICY

The key is to recognise that the current, synchronised global slowdown is substantially different to the downturn that materialised in the wake of the 2008/2009 Global Financial Crisis (GFC). Central bank optimists will highlight that this is a positive starting point: the vastly >

expanded toolboxes of the European Central Bank (ECB), the Bank of Japan, the Bank of England and the Swiss National Bank, among others, can be more quickly and assertively deployed. Previously, short-term policy rates were really the only primary tool to ease monetary conditions, but, through dire necessity, a much broader set of interventions came to fruition, along with a greater willingness to embrace unorthodox methods. The problem is whether the limits of even these unconventional interventions might already have been reached.

HAS THE GLOBAL BOND MARKET COLLECTIVELY LOST ITS MIND ... AND WILLINGLY PLUNGED DOWN THE INFAMOUS RABBIT HOLE?

The most blatant sign that monetary policy in many parts of the world may be pushing up against an effective limit can be seen in the extent of negative interest rates.

The landscape is unprecedented. Over a quarter of the global bond market (c. $15 trillion of the Bloomberg Barclays Global Aggregate Bond Index) now trades with a negative yield (see Figure 2). And with the US being the second-to-last major bond market with an all-positive yield curve (the UK is the other), this means that nearly 90% of the positive yield being generated from the global investment-grade bond market comes from America.

Furthermore, unlike previous episodes of negative-yielding debt, not only are large proportions of sovereign and investment-grade corporate bond markets trading at below-zero interest rate levels, but this has even infected some parts of 'high-yield' bond markets (subinvestment grade or junk), making a mockery of price-based risk discrimination within certain jurisdictions.

Figure 2

A PROXY FOR NEGATIVE-YIELDING DEBT IN THE GLOBAL BOND MARKET

Source: Bloomberg

NEGATIVE-YIELDING BONDS ARE OBVIOUSLY IRRATIONAL ... OR ARE THEY?

It seems absurd that literally thousands of billions of dollars' worth of bonds are trading with negative yields; has the global bond market collectively lost its mind, quaffed generously from a "Drink Me" potion and willingly plunged down the infamous rabbit hole (as suggested by the long- and very long-term yields in figures 3 and 4 on page 9)?

The answer is: maybe not. There is a variety of rationalisations for holding negative-yielding bonds. The first fallacy to displace is the overwhelmingly widespread notion that buying a negative-yielding bond *guarantees* a loss-making investment. This is patently not true for holding periods of less than maturity where capital gains outpace the losses from negative yields. It is also not necessarily true for bonds bought with a negative yield and held till maturity. Provided a bond has an initial non-negative coupon (as all bonds currently do) and reinvestment rates aren't always negative, the total return over the life of the bond may still be positive.

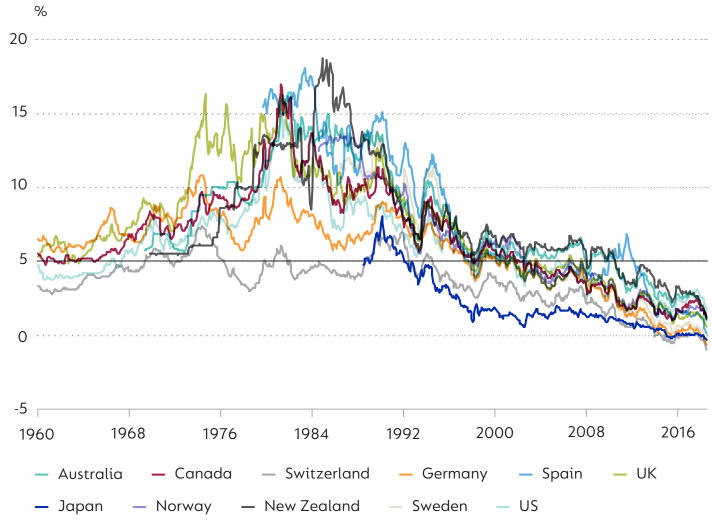
As such, if bondholders were momentum-driven investors with short-term horizons or long-term holders not overly concerned by market-to-market losses in the intervening period, a strange equilibrium could be sustained whereby views for a return to positive rates *and* even more deeply negative rates could co-exist and negative yields could be maintained.

A less far-fetched rationalisation for the sustainability of negative-yielding bonds for an extended period lies with a more entrenched fear of deflation. In the face of a potentially protracted period of negative inflation, nominal bonds are typically the superior asset class to hold. With declining price levels, any asset that can provide a sustained nominal cash payout becomes very valuable.

Another way to see this is to focus on the real yields provided by nominal, fixed-coupon bonds; these can very well be positive in a deflationary environment. And aside from the fixed cash-flow profile that nominal bonds provide, they become even more valuable relative to other asset classes, which tend to struggle in the macroeconomic climate that accompanies an extended period of deflation. This is the 'Japanification' scenario whereby a similar fate that befell Japan over its lost decade strikes elsewhere, with Western Europe being highest ranking on the candidate list.

Figure 3

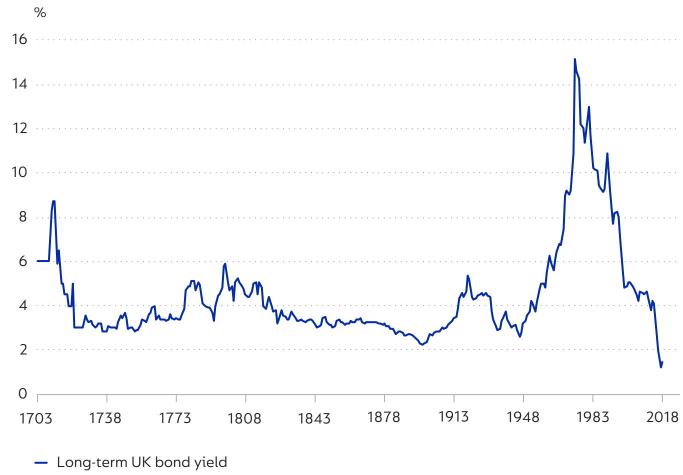
10-YEAR GOVERNMENT BOND YIELDS – HISTORICALLY COORDINATED AND DEPRESSED



Source: Federal Reserve Bank of St. Louis

Figure 4

HISTORY OF LONG-TERM UK BOND YIELDS



Source: Federal Reserve Bank of St. Louis

An even more reasonable class of justifications for the viability of negative-yielding bonds lies with investment portfolio dynamics. What many bondholders will have found reassuring in recent months is that the 'safe-haven' characteristics of bonds trading with negative yields have been sustained. This means that these are still reliable defensive assets.

So, from a portfolio construction basis, while these bonds may well be vulnerable due to exceptionally high valuations, they also continue to provide a nominal income stream and offer their traditional diversification benefits (including capital preservation and negative correlation to growth assets) within a multi-asset class context. And it is these latter characteristics that are highly sought after within any holistic investment portfolio. Indeed, they are scarce enough that investors may even be prepared to pay up for these features; a cost potentially represented by negative yields.

But perhaps the most feasible validation for seeing sustained negative global bond yields lies with market expectations. In the context that the short-end policy rates of major central banks were increasingly seen as being set around or below zero for an extended period, it would be rational to anticipate equally subdued long-term rates. Indeed, provided the equilibrium real rate of interest (or 'R-star' in economists' jargon) was believed to have reset to a very low level, the danger posed by bond yields 'normalising' to some pre-GFC long-term neutral level is effectively neutered. Hence it is the notion – increasingly more plausible to investors – that structural factors are responsible for a lower equilibrium real rate (essentially where inflation and unemployment are in balance in an economy).

In particular, globalisation; technological changes, through digitisation; demographics, through the ageing developed world; and even the wage-bargaining process, through the shift in the relative balance of power between capital and labour, have lowered inflation and altered the relationship between inflation and other economic variables. And regardless of where the balance lies in these explanations, provided belief in lower inflation is increasingly attributed to structural rather than cyclical causes, then the more justified the notion of entrenched low interest rates becomes.

NOT A REVIVAL OF THE POST-GFC CENTRAL BANK PLAYBOOK

It appears that central banks and markets have been rapidly adjusting in preparation for a rerun of the post-GFC interval that saw exceptional monetary easing over a protracted period. After all, policy rates have been cut widely, lending operations have been revived, asset purchase programmes reinvigorated and forward guidance is open-ended once again. However, there is a crucial difference this time around.

There is significantly more widespread recognition that monetary policy has reached some – if not all – of its effective limits. Perhaps the greater area of dispute now is around whether exceptional monetary easing, especially negative rates, >

is actually counterproductive to its own aims or whether these ill effects are long term enough in nature (or manageable) that aggressively loose monetary policy is still better than nothing – even if it'll do little to solve deeper productivity issues facing most economies.

This complexity was highlighted at the ECB's September policy meeting. Much of the attention was focused on the Bank's monetary policy adjustments, especially the *de facto* open-ended revival of bond purchases to the tune of €20 billion per month. However, the underlying messaging was very clear: monetary policy cannot be the only heavy lifter.

Without fiscal expansion, European growth will remain anaemic and a form of secular stagnation will likely take hold. The departing ECB President, Mario Draghi, even while reviving easing mechanisms for the Euro-area (and adding a few monetary innovations too), unequivocally emphasised that fiscal policy needs to become the main instrument to stimulate demand.

This clear and forceful endorsement from such an eminent policymaker should – in an ideal world – have significant traction in finance ministries across the Continent. Yet this is not a given. Resistance to perceived sovereign profligacy has been legendary in Northern Europe. After all, it isn't coincidental that the German word for 'debt' *(Schuld)* is the same for 'guilt'.

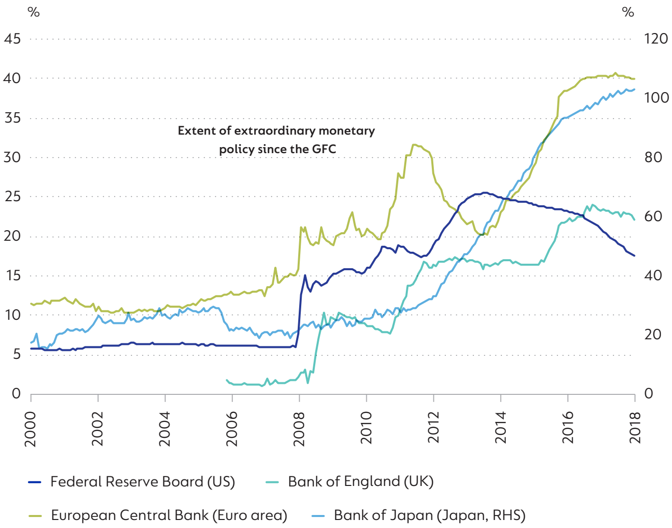
The most that can be said is that the debate has already begun to shift. But while this has been a global phenomenon, it has unfortunately been slowest to evolve in Europe – the developed world geography that most urgently needs a different policy configuration.

And so, the market's answers to the imperative questions facing bond investors reflect deep scepticism about the effectiveness of monetary policy tools, both interest rates and unconventional interventions, from this point (see Figure 5). As such, the potential for an extended period of exceptionally low interest rates is seen as quite high, as the political courage to forego extraordinarily easy monetary conditions is seen as absent.

Rates may be negative or slightly positive, but what isn't doubted by the market is that they'll remain so for a protracted extent. This itself reflects cynicism about policymakers' willingness and ability to rebalance policy interventions to favourably boost growth and raise inflation.

Figure 5

HAVE THE LIMITS OF MONETARY POLICY BEEN REACHED?



Sources: Bloomberg, US Federal Reserve Board, Bank of England, Bank of Japan, European Central Bank

THROUGH THE LOOKING GLASS – THE SOUTH AFRICAN CONTEXT

South Africa doesn't face quite the same monetary policy restraints as those seen in developed markets. Real rates are still very much positive across the curve, inflation is low but set to remain in the upper end of the target band over the foreseeable future, and fiscal expansion certainly hasn't been kept unduly restrained – in fact, quite the opposite. But it would be absolutely accurate to emphasise that South Africa's growth issues go well beyond what monetary policy can sufficiently address – just like in much of the rest of the world.

However, with the globalised nature of fixed income markets, the *direct* influence of G3 (the US, Japan and the EU) risk-free rates on domestic bond yields always needs careful consideration. As such, it is instructive to consider the counterfactual: what would South African bond yields have looked like if there hadn't been the most widespread and prolific reduction in developed market bond yields over the past three quarters or so?

Even with other countervailing forces, it is highly improbable that South African bonds that have fared particularly well in a world that was pursuing a continued de-escalation away from extraordinarily easy monetary conditions.

A higher level of global risk-free rates would have necessitated a commensurate adjustment to South African bond yields, while a reversal of capital flows from emerging markets back to a US dollar base would likely have exacerbated this process.

So, it's fair to characterise this episode of global interest rate and spread compression as both a blessing and curse for South Africa. Without the offsetting gravitational pull of lower developed market yields, South African bonds would have almost certainly struggled to overcome the intensification of domestic fiscal difficulties.

The curse is that the market signal that this would have provided may have prompted a quicker and more compelling political response to address these difficulties in a more coherent and definitive manner than has been seen to date.

If the market's prognostication for ineffective monetary policy and an extended period of very low developed-market interest rates pans out, South Africa has a window of opportunity to structurally turn around its current fiscal predicament and avoid a far more rapid and jarring correction to an unsustainable debt trajectory. It would be deeply regrettable if this passing moment of grace were to be squandered and a crisis were necessary to correct the imbalance. +

Investing your rands offshore

It's about *how*, not *when*

By PIETER KOEKEMOER

THE QUICK TAKE

Global markets offer a broader opportunity set than the SA equity index

Multi-asset class funds offer you the benefit of professional, risk-adjusted allocation

If you live and work in SA, you are exposed to a high degree of country-specific risk

Pieter is Head of Personal Investments

HIGH ON THE agenda of many dinner conversations these days is the topic of investing offshore. With persisting uncertainty around our country's economic future, we understand that many South Africans may feel unsettled about their own financial futures. At Coronation, we believe that, no matter the current market sentiment, it's always a good time to consider the long-term benefits of owning a balanced portfolio of both international and domestic assets. It's not a question of when to invest offshore, but rather how.

From a young age we are taught not to put all our eggs in one basket. This truism stems from the value of diversification, which is the key benefit of having at least some of your assets offshore. International assets make your portfolio better by diversifying economic-, jurisdictional-, currency-, industry-, and company-specific risks, without necessarily reducing expected long-term returns. The more than 5 000 investable shares in the global universe allow access to growth opportunities, industries and geographies not available in the local equity market, which consists of only 160 investable shares.

NO ASSET CLASS WINS ALL THE TIME

While much of the current emphasis is on how global markets performed better than the local market over the past decade, as shown in Table 1 on page 13, this has not always been the case. Over the past 20 years, the local market materially outperformed global equity markets, as the outcomes through most of the 2000s were very different to more recent performance. Another point to ponder is how US equity market returns dominated over the past decade. There is no guarantee that this outcome will be repeated over the next decade, especially considering the high valuations base in the US.

If you are interested in unpacking the relative performance of local and global markets further, you can read the brief summary of key market events over the past two decades on pages 14 and 15. It is worthwhile to highlight that eventual return outcomes are sometimes surprisingly different to the consensus view informed by the events of the day. For example, the rand weakened materially in 2000 as a result of a global risk-off episode that impacted all emerging markets, despite South

Africa achieving its first investment-grade rating. Then, in 2001, the local share index managed to outperform the global index despite a 37% fall in the value of the rand.

Another way to look at this is to consider the correlation between relative equity market performance and the dollar/rand exchange rate. The rand depreciated against the dollar in 12 of the last 20 years, but global equity markets outperformed the local equity market in only eight of the 20 years, as shown in Table 2. One of the reasons for this discrepancy is that most of the underlying business activities of the companies that happen to be listed on the JSE take place outside of South Africa.

Table 1

RELATIVE PERFORMANCE: LOCAL AND GLOBAL MARKETS

	12 months	2 years	3 years	5 years	10 years	15 years	20 years
FTSE/JSE ALL Share TR ZAR	1.9%	2.6%	5.1%	5.3%	11.5%	14.1%	14.5%
MSCI WORLD TR ZAR	8.9%	12.5%	13.9%	13.7%	16.9%	13.4%	9.8%
S&P 500 TR ZAR	11.5%	17.2%	17.2%	17.6%	21.5%	15.4%	11.4%

Sources: Bloomberg, IRESS

Table 2

LOCAL VERSUS GLOBAL EQUITY MARKETS

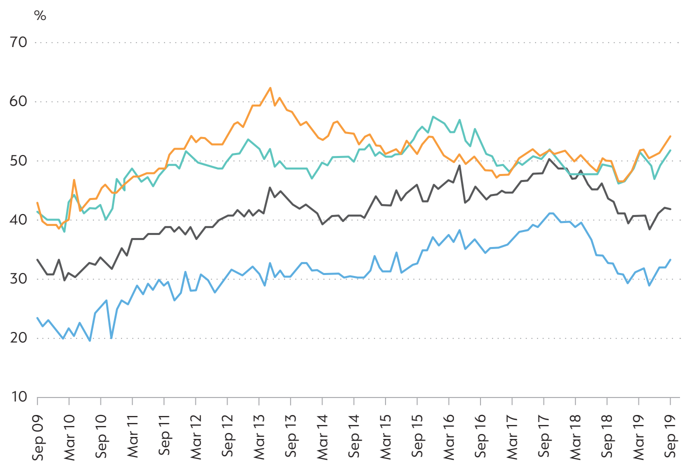
2019 YTD	2018	2017	2016	2015	2014	2013	2012	2011	2010
24.0%	5.9%	21.0%	2.6%	34.6%	16.7%	57.0%	26.7%	16.3%	19.0%
7.1%	(8.5%)	10.7%	(4.2%)	5.1%	10.9%	21.4%	21.3%	2.3%	0.5%
2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**
32.1%	(16.6%)	19.2%	40.7%	47.3%	25.4%	16.1%	(8.3%)	32.6%	11.3%
1.6%	(23.2%)	7.0%	31.9%	23.4%	(1.9%)	3.1%	(43.5%)	32.4%	0.4%

MSCI World FTSE/JSE ALSI

Sources: Bloomberg, IRESS

Figure 1

TOTAL FOREIGN EXPOSURE PLUS SOUTH AFRICAN RAND HEDGE



Source: Coronation

HOW TO GAIN OFFSHORE EXPOSURE

If you are invested in one of our multi-asset class funds, you already have a considerable international allocation. This allocation consists of direct offshore exposure and the portion of the value we place on local shares that derives from economic activity outside of South Africa. Figure 1 shows the effective rand-hedge exposure across our multi-asset class funds over time. For our Balanced Plus and Market Plus funds, with long-term growth objectives, this is typically more than 50% of the portfolio. For the more conservative Capital Plus and Balanced Defensive funds, which have near-term capital preservation targets in rands, the range is somewhat lower. Each of these funds provide the easiest way to gain hassle-free international exposure, as you mandate us to manage the scope of international allocation on your behalf.

In addition, it's easy to top up your investment or to draw an income from these funds, as they are accessible with low minimum investment requirements, and can be used in tax-efficient investment vehicles such as retirement annuities and tax-free investments.

If you want more international exposure, you can also invest in rand-denominated international funds. You may want to do this with your discretionary (non-retirement) savings in order to further diversify your risk. The reality is that by living, working and owning a home in South Africa, you already have significant country-specific risk, arguing for an additional international allocation.

These funds, such as the Coronation Global Managed and Coronation Optimum Growth funds, allocate all or most assets to international investments, while remaining easy to use and access, as the funds are established in South Africa. However, while they provide full economic diversification, they still operate under the laws of South Africa and therefore do not diversify jurisdictional risk.

One example of jurisdictional risk is that South Africa still enforces exchange controls, which limit the amount that asset managers can invest outside of South Africa on behalf of clients[1].

>

[1] The current limits are 30% globally and 10% in the rest of Africa for retirement fund investors, and 40% globally and 10% in the rest of Africa for discretionary investors.

While highly unlikely, these limits may be reduced in future, which may lead to an enforced and unwanted reduction in offshore exposure. If you have a substantial amount to invest offshore, you can externalise your rands and invest in a fund incorporated in another country, most often in the EU. In this case, the laws of the country of incorporation govern your investment.

Coronation offers a range of funds incorporated in Ireland with the same economic exposure as our rand-denominated international funds, but with the added benefit of jurisdictional diversification. The downside of investing via this route is more complex administrative requirements due to cross-border banking, and you may have to apply for South African Revenue Service clearance if you want to invest more than the annual R1 million general offshore allowance. These funds have a minimum investment amount of $15 000.

REASON MUST BE YOUR GUIDE

So, the message is to cut through media hype of doom and gloom, and to keep your eye on your goals when allocating to international assets. It is also useful to avoid the myopia of the moment and take some time to consider the bigger picture. When you unpack historical market returns, it becomes evident that investing is about well-considered diversification across asset classes and geographies rather than extreme, sentiment-driven moves between local and global assets. +

For more on investing offshore with Coronation, visit www.coronation.com

Key market events since 2000: a tale of two contrasting decades

Comparing local vs global market performance*

2000: Global markets outperform by 11.0%
The dot.com bubble burst, dragging global markets down; sentiment shifted to risk-off, impacting emerging market currencies. The rand declined by 19% against the dollar, despite S&P rating SA as investment grade for the first time. SA miners declined in response to the first Mining Charter. Telkom and SAA were part privatised, and similar plans were tabled for Eskom. Capital gains tax was introduced.

2001: Local market outperforms by 0.2%
The US recession continued and the September 11 attacks contributed to a 13% dollar decline in the S&P 500. Despite the rand falling by a then-record 37% against the dollar, the local equity market managed to outperform global markets, as commodity shares produced strong returns in the final quarter.

2002: Local market outperforms by 35.2%
Global equity markets lost money for the third year running, and the US was rocked by the Enron and Worldcom accounting scandals. The rand strengthened 28% to the dollar. This impacted dual-listed and rand-hedge shares, but a single-digit forward P/E multiple, a healthy local economy, and strong performance by Telkom, Vodacom and MTN saw SA outperform its global peers.

2003: Local market outperforms by 13.0%
While global markets increased by more than 30% in dollars, the rand again strengthened significantly, resulting in another disappointing year for offshore assets. After a 12% return, the ALSI was still undervalued and the local economy remained in good shape.

2004: Local market outperforms by 27.3%
Global markets again produced positive returns in dollars, but this was offset by the rand's 15% gain against the dollar (over three years the rand strengthened by more than 50%). Local banks and retailers continued to benefit from a healthy consumer and Naspers appreciated by 80%.

2005: Local market outperforms by 23.9%
The local market returned an incredible 47%, aided by rampant resource shares as the impact of China's rise reverberated around the world. This was more than enough to offset an 11% decline in the rand/dollar exchange rate and a 10% dollar return by global equity markets.

2006: Local market outperforms by 8.8%
The JSE delivered 40%+ and global investors fell in love with emerging markets. It was a great year for developed markets too, with a 21% dollar return. The rand weakened by 9%. Early warning signs of a new bubble in the US housing and credit markets became apparent.

2007: Local market outperforms by 12.2%
A stable year for the rand. Global markets were under pressure as concerns about the US housing and credit markets grew, but still ended the year with a single-digit positive return. The local market started the year well, but retailers and banks came under pressure as the SARB aggressively hiked rates in response to rising energy and food prices.

2008: Global markets outperform by 6.7%
A dismal year with no place to hide as the Global Financial Crisis (GFC) roiled global markets. The JSE declined by 23% in rands, the MSCI by 40% in dollars, and the rand weakened by 27%. While the short-term outlook for the economy and profits was dire, valuations were so attractive that we viewed it as a once-in-a-lifetime opportunity to buy global equities.

2009: Local market outperforms by 30.5%
Developed markets entered the world of zero interest rates and quantitative easing. The rand recovered from the risk aversion caused by the GFC and strengthened by 21%. Local equities recovered strongly as the lure of low valuations trumped concerns about the global economy. The longest bull market in US history, still going today, kicked off in March 2009.

2010: Local market outperforms by 18.5%
Global markets were up in dollars, but this was completely offset by a 12% appreciation of the rand. This was supported by significant foreign investment inflows into SA, which also contributed to a recovery in the share prices of resource companies and retailers.

2011: Global markets outperform by 14.0%
A muted year for global markets, hallmarked by 'trendless volatility': despite lots of ups and downs, local and global indices still ended the year flat. The lack of direction was mostly due to the European debt crisis. Attention was fixated on the PIIGS (Portugal, Ireland, Italy, Greece and Spain). The rand weakened for the first time since the GFC, declining by 20% against the dollar. The local equity market struggled to produce growth, given concerns about full valuation levels.

2012: Local market outperforms by 5.4%
The market climbed the proverbial wall of worry. The rand remained stable, global markets recorded an above-average dollar return and the local market gained 27%. This was the year of Grexit, Marikana, a record number of service delivery protests, and the confirmation of SA's competitive decline as a result of economic mismanagement. On the plus side, SA was included in the World Government Bond Index and significant foreign buying of local shares continued.

2013: Global markets outperform by 35.5%
A year of strong returns from global and local indices and material rand weakness (-18%). While global developed markets – notably Japan and the US – continued to do well as a result of central bank support, then-Chairman Ben Bernanke's announcement that the Fed may consider reducing its asset purchases caused the so-called 'taper tantrum': a sell-off in emerging market currencies and other assets.

2014: Global markets outperform by 5.8%
While returns were more subdued, markets still delivered real returns. The rand declined by 9%. Concerns about the SA economy increased with ongoing labour unrest, problems at the Medupi and Kusile power stations and the return of load-shedding. Locally, financials did well, but resources declined sharply on slowing China growth. The US economy continued to perform well. Global returns, ex-US, were dampened by a strong dollar.

2015: Global markets outperform by 29.5%
A brutal year for investors. Commodities continued to decline as the Chinese economy shifted focus from infrastructure to consumer spending. The Fed started tapering asset purchases and raised rates for the first time since 2008. These factors caused emerging markets to lose favour. In SA, a bad macro environment, fiscal slippage, a lack of investment, Eskom's woes, and a severe drought were compounded by the axing of then-Finance Minister Nene. These factors culminated in the rand losing 25% of its value against the dollar; a cumulative decline of 60% over five years.

2016: Local market outperforms by 6.9%
Developed market politics emerged as a bigger risk factor, as the world became familiar with Brexit and Trump. As domestic growth slowed to a standstill and confidence eroded further, the JSE failed to beat inflation for a second consecutive year. The rand recovered somewhat from its Nenegate-induced oversold position.

2017: Local market outperforms by 10.3%
A good year for the JSE built on Naspers' 80% gain was completely overshadowed by the collapse of Steinhoff, which further eroded investor confidence. The rand also gained 10% against the dollar, buoyed by Cyril Ramaphosa's election as ANC leader. Global markets continued to do well in dollar terms, supported by a benign economic environment and tax cuts in the US.

2018: Global markets outperform by 14.4%
Local and global markets declined in response to the Fed, signaling its intent to raise US interest rates, coupled with deteriorating geopolitics and an intensifying trade war between the US and China. Emerging markets fell even further out of favour. Domestic confidence and growth remained in the doldrums and the rand depreciated by 15%.

2019 year to date: Global markets outperform by 16.9%
While the domestic economy remains under pressure, the rand remained stable this year. The local equity market remains on track to produce reasonable returns, but global markets, both developed and emerging, recovered more strongly as the Fed reverted to a dovish stance.

*Market outperformance quoted in rand.

ECONOMIC COMMENT

My laundry list of concerns

Restoring confidence is key to growth recovery

By MARIE ANTELME

THE QUICK TAKE

We're experiencing a perfect storm of economic headwinds to global growth

Policy inertia continues to dog growth and confidence

The government debt-to-expenditure ratio is of grave concern

The world at large is in a state of upheaval; quantitative easing is back

Marie is an economist with 18 years of experience in financial markets.

TO SAY THAT we are living in uncertain times seems more than ever a gross understatement. South Africa's political landscape is in transition from a decade of maladministration towards painful stabilisation. Economic growth has suffered and the path to recovery is still unclear.

EXODUS

People are leaving and at times the political narrative is toxic. Globally, populist politics and protectionism are weakening traditional allegiances; while against a backdrop of slowing economic growth, traditional policy instruments seem stretched beyond effectiveness. This turbulent combination finds us in choppy, unchartered waters. In this note, I try to distil the issues that concern me most.

OVER THE RAINBOW

My most immediate concern is the outlook for domestic politics. Importantly, whether this administration will deliver sustainable policies that are necessary to improve domestic growth. This extends beyond the President, through an administration which has thus far failed to act decisively or think creatively when the economy needs it most.

When Cyril Ramaphosa won the ANC presidency at the ANC's 2017 National Conference at NASREC, the country was euphoric, expecting (or hoping against hope?) one man to transform a corrupt state and a growthless economy into an accountable state and a growing economy. To date, progress has been slow at best, and expectations have been disappointed. Several reasons for this sluggishness have emerged in the intervening 19 months:

1. The degree and depth of corruption in both the public and private sectors were much worse than suspected. The Zondo Commission, among others, has revealed this, and recent public statements by the President have confirmed it.

2. The President has had to opt for a strategic, reformist approach, which takes time to implement. His narrow NASREC victory, coupled with ongoing opposition from his detractors,

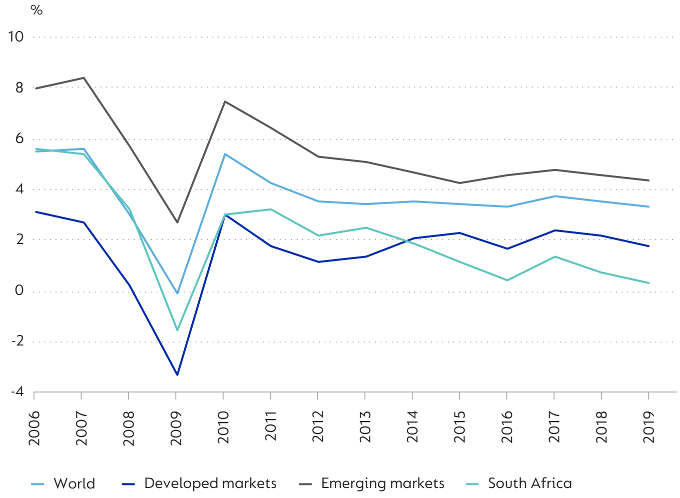
both within and from outside the ANC, means he has had to use commissions and review committees, the mechanism of the courts, and the slow attrition of opponents to reach decisions and make appointments. This has taken time.

3. Unfortunately for the President, his ability to build an economic dialogue with enough momentum has been thwarted by a number of other distractions. These constraints seem to be easing, as he recently confirmed the imminent announcement of new policies; however, we still await key decisions.

4. There have been some notable successes, including the appointment of a credible commissioner of the South African Revenue Service, a renewed and credible head of the National Prosecuting Authority, and the rehabilitation of various institutional investigative units. These are all important, positive steps to restoring institutional resilience.

Figure 1

REAL GDP GROWTH COMPARISON



Source: IMF

A STATE OF INERTIA

A decade of poor policy setting and weak implementation, exacerbated by state rent seeking, has led to a considerable depletion of domestic resources. Offshoring by local companies, and an acceleration in emigration have hollowed out the financial and skills bases. It is unclear whether the economy will be able to make a full recovery, but the result has been a protracted period of very low growth.

Low nominal growth is the next concern. Achieving better, stronger growth really is the most important economic challenge for South Africa at this critical stage. It is the means by which economies generate opportunities and government the resources by which to provide for people where economic allocations fail. It doesn't fix inequality, but it allows the state to make provision for the most vulnerable. Without growth we have no options. The South African economy has underperformed global growth, across developed and emerging markets, since the 2008/2009 Global Financial Crisis (GFC). This became (and has stayed) more pronounced in 2012 (see Figure 1).

This at least partly reflects the effects of post-GCF policy choices: at the time, government spending accelerated as revenue collapsed. This was the right thing to do in a crisis. However, the way in which government spent, hiring many people and expanding their incomes at a rate well ahead of inflation, had a permanently negative effect on government expenditure. At the time, government expected growth to return to pre-crisis rates; only it didn't. The result is that revenue has fallen much faster than expenditure has been able to adjust, and the shortfall has been met by an accelerated accumulation of debt. And, in spite of all the best efforts of the National Treasury, this continues to be the case. It means that the two fastest-growing expenditure lines in the budget are the public sector wage bill and the price of servicing government debt.

DROWNING IN DEBT

This brings me to my next biggest concern, because the two are linked – rising government debt combined with the financial and operational condition of state-owned enterprises (SOEs). In the case of the former, because growth has been so much weaker than expected, revenues have consistently underperformed budgeted amounts and the allocation to expenditure, and government has funded the shortfall by raising debt.

Government debt is expected to hit 60% of GDP in the current fiscal year, excluding the debt owed by the SOEs. Alone this is not alarming, but the trajectory is: government debt bottomed at 24.6% of GDP in the third quarter of 2008; since then, it has increased to 56.7%, a compound annual rate of 7.9%. As we stand, government debt will not stabilise, but will continue to build over the medium term (refer to figures 2 and 3 on page 18).

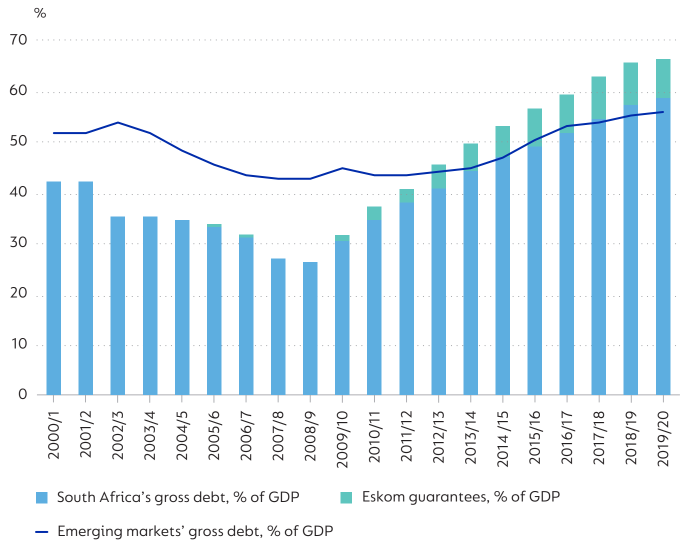
Why does it matter? The bigger the debt burden becomes, the greater the cost it exacts on the economy. Not only are financial resources directed away from productivity-promoting investment to >

finance the debt; but it must ultimately be repaid. We can already see that increased debt is weighing on the economy's ability to grow. Rising issuance puts pressure on long-term interest rates, which affect borrowing costs across the economy by raising the cost of debt and debt service.

Taken together, the increased cost of debt, coupled with a rising risk that the situation will become increasingly unsustainable, undermines any appetite for investment. Less investment now means less growth later, which means high levels of debt have a lasting impact on both realised and potential growth. As this happens, living standards fall.

Figure 2

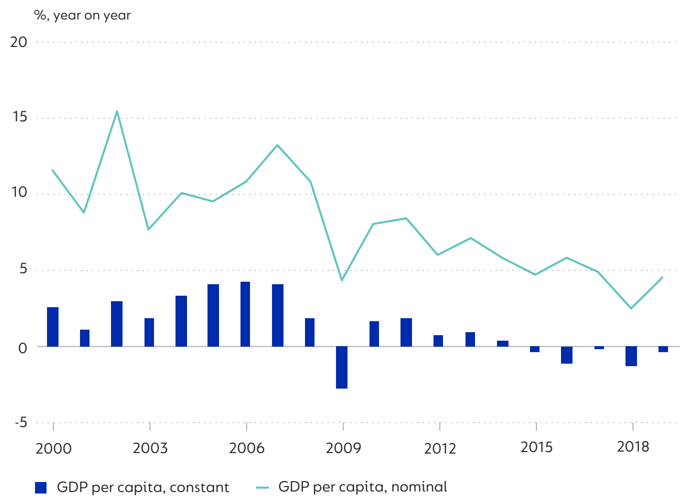
GOVERNMENT DEBT, PERCENTAGE OF GDP



Source: South African Reserve Bank

Figure 3

GDP PER CAPITA



Source: IMF

Outside of a cumbersome wage bill, the costs to the fiscus of troubled SOEs have increased enormously. Eskom remains the biggest challenge. This is the next big concern – the financial and operational viability of Eskom and the risk this poses to both sustainable growth and government finances.

DARK MATTER

In February, the National Treasury allocated an additional R23 billion per annum of taxpayers' money over the next decade to keep Eskom afloat. By March (the very next month) it became clear that this wasn't enough, and government front-loaded R13 billion of this year's annual allocation to the entity. At the end of July, Finance Minister Tito Mboweni tabled a Special Appropriation Bill, allocating an additional R26 billion transfer to Eskom in the current fiscal year, and a further R33 billion in 2020/2021. Despite promises that these transfers would be made on condition that certain reforms be met, further details have not been forthcoming.

Eskom's financial and operational fragility really emerged at the start of Ramaphosa's presidency in mid-2018. While the causes pre-date this, the situation has deteriorated visibly since, and the complex nature of Eskom's challenges has become more apparent:

1. Eskom is insolvent. Years of corruption, coupled with a failure to invest in adequate capacity, and falling revenues have resulted in a debt stock of R420 billion, and its revenues cannot meet the combined cost of servicing this debt and its operating expenses. By our estimates, without dramatic remedial intervention, Eskom will need direct financial assistance (taxpayers' transfers) for the foreseeable future.

2. The remedy requires difficult decisions. At group level, recurrent expenditure (wages and debt service) continues to rise, and there is little appetite to reduce these costs. To add to these woes, revenue is constrained by a shrinking customer base and chronic non-payment.

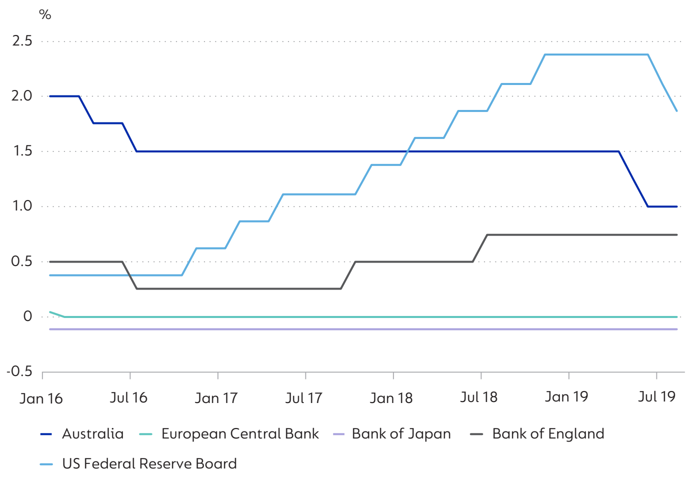
3. Eskom as an entity is an anachronism and needs to be restructured. This includes vertical disintegration, higher tariffs, and, importantly, a new way of managing its excessive debt burden.

4. Eskom is unable to meet the energy needs of a growing economy.

5. It isn't clear that decision makers realise the urgency with which this needs to be addressed.

Figure 4

GLOBAL POLICY RATES



Source: Haver

Probably the most important parallel requirements for stability are a detailed (and agreed) turnaround strategy for a disintegrated entity, and what Eskom and the government propose to do with its debt. The former is up to the Department of Public Enterprises, the President and stakeholders; the latter requires that these agree and then negotiate with the bondholders. At this late stage, while there has clearly been a lot of consultation, there seems to be little agreement. As we head into the tabling of the Medium-Term Budget Policy Statement in October, we have yet to see any evidence of real progress.

This means that there is real risk that Minister Mboweni will table a policy statement with a fiscal position considerably worse than was estimated at the time of the February National Budget (which is widely expected), but with few compensating measures. In this case, domestic debt to GDP will not only rise above 60% this year, but is also unlikely to reflect the necessary conditions for stabilisation. In this dim light, growth prospects are further diminished. And there is little relief in looking to the rest of the world to find it. This time, there is cold comfort to be found abroad.

A WORLD AT SEA

South Africa is a small, open economy operating in a very uncertain world. More than ever, political signalling is driving asset markets and economic policy in a global environment that is more disconnected than it has ever been in the post-war period. Across economies, growth has decelerated since late-2018, owing mostly to moderation in China, compounded by falling global trade volumes and the escalation in trade tensions between the US and China. At the same time, political tensions remain high. China-related protests in Hong Kong are ongoing, with little obvious source of diffusion; the Middle East remains a source of great potential unrest; and the UK's EU exit date is fast approaching, with its own fraught political uncertainty. And, US President Donald Trump continues to be a disruptor across a range of issues and geographies.

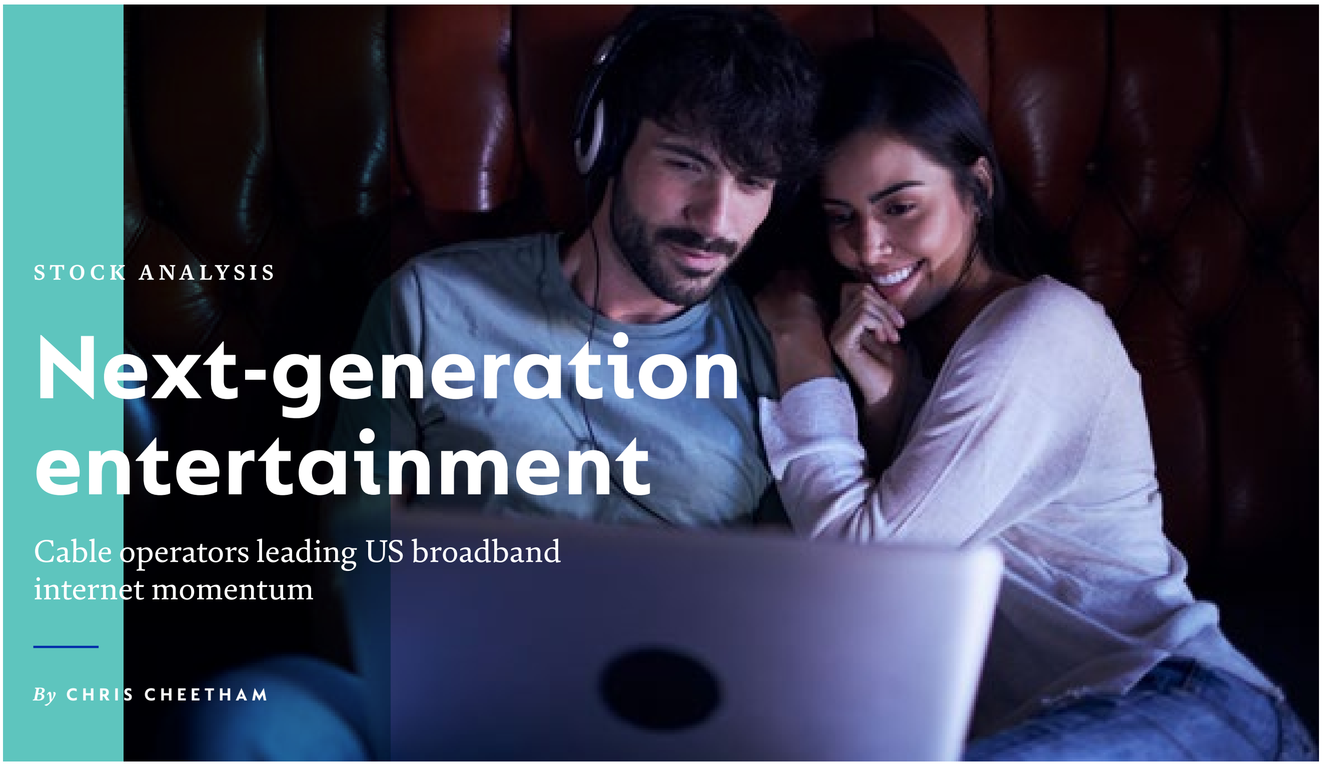
Central banks in the US, the EU, Japan and across emerging markets have increased monetary support for their economies in response to this weakness and the uncertainty it poses to domestic growth. At the September news conference of the Federal Open Market Committee, Jerome Powell, Chairman of the Federal Reserve Board, reiterated that the decision to cut the fund's rate for the second time this year, despite decent growth in the US, was due to a weaker external environment, with growing risk and inflation persistently below the 2% target.

Similarly, outgoing European Central Bank President, Mario Draghi, announced not only a deposit rate reduction into deeper negative territory, but open-ended direct support for asset markets in the form of a renewed targeted longer-term refinancing operation. Japan's stance is also accommodative and "more keen to ease than before since overseas risks are heightening" (see Figure 4).

Ultimately, the outlook for global growth in coming quarters will be in the balance between supportive monetary and fiscal policies for reasonably solid domestic demand, and an ongoing deterioration and heightened escalation in uncertainty playing out in global trade.

For now, we expect global growth to stabilise at weaker levels as policy support matures, acknowledging the pronounced uncertainty.

For South Africa, there is much to be gained from clarified policy direction, despite rising global headwinds. In particular, decisive action on Eskom could go a long way to restoring confidence among businesses and consumers. Recent data from the Bureau for Economic Research confirmed that confidence among these key growth drivers hit multi-decade lows in the third quarter of 2019, inhibiting consumption and capex decisions. With few easy short-term drivers of growth available, restoring confidence is key to the start of any growth recovery. ✚



STOCK ANALYSIS

Next-generation entertainment

Cable operators leading US broadband internet momentum

By CHRIS CHEETHAM

THE QUICK TAKE

- The TV shift from linear to OTT is still nascent in the US and momentum will increase
- The average US cable household consumes over 250GB per month
- Broadband internet will be the backbone of next-generation entertainment
- Broadband is now the primary product sold by cable operators, while pay TV is less relevant

Chris is a global developed markets analyst with more than eight years of investment experience.

IN THE LAST edition of *Corospondent*, we discussed how consumer habits have evolved with respect to entertainment and how viewership continues to shift away from traditional live television to on-demand video streamed over the internet. The transition of entertainment and communication to online is still in its infancy and we expect the trend to continue. Against this backdrop, we believe cable operators are well placed as the leading providers of broadband internet in the US.

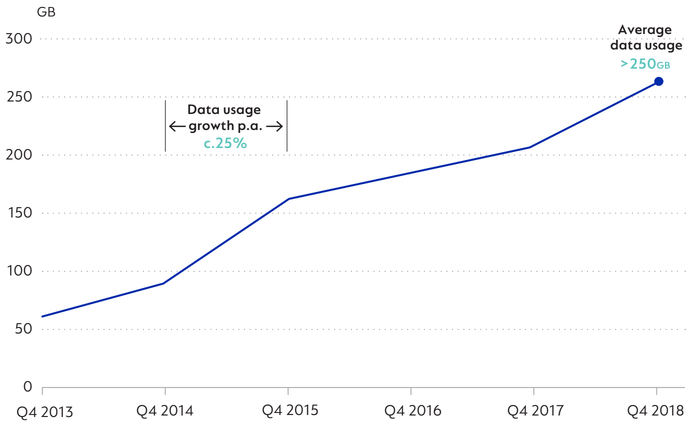
Both Charter Communications and Altice USA have materially outperformed the market year to date, up around 45% and 70%, respectively, and we continue to hold both as core positions in our active global equity portfolios. Although the market has traditionally focused on cable's declining pay-TV business, broadband internet is the primary product sold into the home. With the strong growth in its customer base, broadband now contributes almost all of the free cash flow generated by the cable operators. As consumers continue to shift to streamed video, broadband will become the backbone of next-generation entertainment, the importance of which will continue to rise, and our view is that the cable investment case is misunderstood and underappreciated by the market.

As reflected in Figure 1 on page 21, these strong structural trends have resulted in a rapid increase in data demand, with the average US cable household consuming over 250 Gigabytes (GB) of data per month, while households that don't subscribe to traditional pay TV use roughly double that.

This is a clear illustration that cord cutters consume more data as video content is streamed via the likes of Netflix and other over-the-top (OTT) providers. Data consumption is only set to increase further, with Altice USA disclosing that its most data-hungry homes (the top 10% of users) consume one Terabyte of data per month and have 15 or more connected devices. In time, it's fair to expect this to become the norm as streaming-use cases expand to include higher-quality video as well as connected home and gaming applications.

Figure 1

AVERAGE DATA USAGE PER HOUSEHOLD PER MONTH



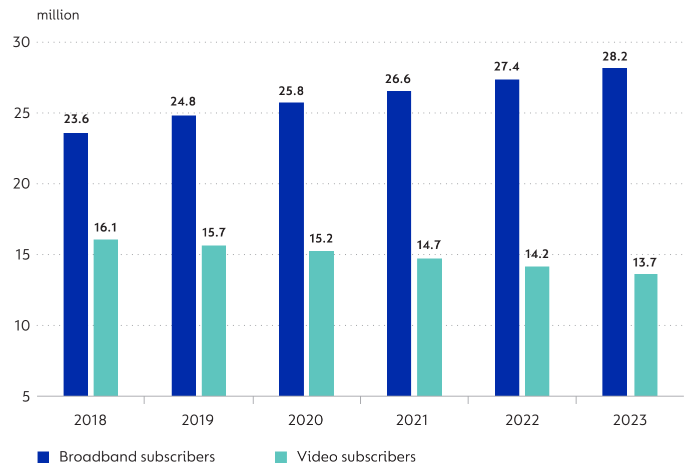
Source: Altice USA 2018 results presentation

WHAT IS CABLE?

Cable was initially conceived to bring free broadcast television to mountainous areas unable to receive adequate signal through the air via antenna systems. A cable system can be thought of as an electricity grid transmitting data from one point to another, and at its core consists of a mix of copper and fibre transmission lines. Today, most US homes and businesses have cable running past them, dug into the pavement decades before, and cable has both an advantaged infrastructure and natural monopoly in most US towns and cities. The rapid construction of cable infrastructure started in the mid-50s and was followed by decades of footprint expansion and consolidation led by players such as the legendary John Malone.

Figure 2

CHARTER: STEADY GROWTH IN BROADBAND SUBSCRIBERS IN THE US



Source: Coronation estimates

The cable-use case soon shifted from broadcast to pay TV, leading to the establishment of well-known channels such as ESPN and HBO. For many subsequent years, cable was primarily focused on selling a traditional bundle of pay-TV channels, as DSTV does today. Cable is a scale game, and years of footprint consolidation means that the three major listed US operators – Charter Communications, Comcast and Altice USA – now pass 51 million, 58 million and nine million homes or businesses, respectively!

THE SHIFT TO BROADBAND

It's no secret that traditional, 'linear' TV subscriber numbers are declining, and we expect this to continue. Cable operators have repositioned themselves with broadband as the primary focus, enabled by extensive plant upgrades that started at the turn of the century and continue to this day.

Much of the original footprint has been replaced with fibre, and networks have been digitised and upgraded, resulting in speeds of one Gigabit per second (Gbps) being readily available. Operators have already identified a realistic, low-cost path to 10Gbps.

As a result of its well-established position and advantaged infrastructure, cable has continued to take share of the US broadband market and today serves two thirds of all broadband-connected homes. Most US homes are passed by both cable and a telco line offering DSL (think Telkom); the latter offers insufficient speeds and continues to lose market share as data consumption explodes.

New competition is unlikely due to the cost of laying fibre and the questionable return on investment in doing so because of the difficulty in prying customers away from entrenched providers. Much of this cable was originally put down decades ago and it's often near impossible to overbuild this infrastructure from a town planning or regulatory perspective. Today, the provision of broadband internet is cable's primary cash generator.

WHAT ABOUT CABLE'S TRADITIONAL VIDEO BUSINESS?

Figure 2 illustrates that while broadband is now clearly the primary service being sold into the home, video still comprises a significant proportion of cable operator revenue, although video users continue to decline by 2% to 3% per year. The video backdrop is one of intense competition, with traditional distributors like cable and satellite losing out to OTT platforms. >

Furthermore, new services from deep-pocketed companies such as Disney and Apple are due to launch imminently.

This fight for eyeballs is driving content costs up, with timeless shows like *Seinfeld* and *Friends* recently costing around the $400 million to $500 million mark for new multiyear carriage deals, according to press reports, while Apple is reportedly spending over $15 million an episode on *The Morning Show* starring Jennifer Aniston and Reese Witherspoon.

IS IT VIDEO'S TURN TO DIE?

What does this challenging backdrop mean for cable operators?

Table 1 clearly shows that video's contribution to cable is smaller than the revenue headline suggests. Due to significant programming costs paid to channel and content owners, video is a very low-margin business and is estimated to contribute under 20% of total earnings before interest, tax, depreciation and amortisation (EBITDA) for the likes of Charter and Altice USA. Content costs are paid on a per-subscriber basis, and so naturally decrease in line with declines in the video subscriber base, smoothing the overall impact of video's downward trajectory.

Furthermore, video contributes only marginal free cash flow to cable operators due to the high cost of putting set-top boxes into homes. We believe that the current pace of video subscriber declines is very manageable, and that new cable initiatives, such as the launch of aggressively-priced bundled mobile plans, will bring benefits such as broadband churn reduction, filling the gap that video once filled. While video is still an important element of the cable triple-play bundle, its contribution to free cash flow and therefore company valuation must not be overestimated.

Table 1

CONTRIBUTION TO REVENUE, EBITDA AND FREE CASH FLOW

	Altice USA	Charter
Revenue contribution		
Video	42%	38%
Broadband, business services and other	58%	62%
EBITDA contribution		
Video	17%	8%
Broadband, business services and other	83%	92%
Estimated 2020 free cash flow yield	9%	7%

Sources: Published financials and Coronation estimates

TRADITIONAL VIDEO'S LOSS IS BROADBAND'S GAIN

While content owners slug it out for eyeballs and continue to write bigger cheques for new shows, a fast and consistent internet connection remains paramount to delivering the required streaming experience. It's estimated that over 75% of internet traffic is video use, which clearly illustrates how a traditional video subscriber loss is broadband's gain.

As the traditional television bundle is replaced with skinnier online options and individual apps, a complicated experience arises for consumers used to having all their video needs met in one place. In response, cable is making the right moves to leverage its primary broadband relationship into being the aggregator of choice in the modern world of streamed video, with set-top boxes now including OTT options in an easily searchable format.

WHAT ARE THE KEY RISKS TO CONSIDER?

Could technological change challenge cable's advantage in the provision of broadband internet? We continue to monitor global developments around 5G and its potential to allow mobile operators to play a larger role in home broadband. 5G is the next generation of radio network technology and should bring significant benefits to the average mobile phone user, including higher speeds and increased capacity. US telecom giants like Verizon and T-Mobile have different strategies, but both envisage using 5G technology to provide home broadband. While we are not dismissive of this threat, the amount of data consumed by the average US household and the growth thereof make it difficult for mobile technology to compete with fixed alternatives such as cable and fibre.

The average US mobile customer uses under 10GB of data per month; even a tenfold increase in mobile capacity – the upper range suggested by industry experts – will struggle to compete with the average cable household consuming over 250GB per month and growing rapidly. 5G will also allow the use of previously untapped spectrum[1] bands, and certain use cases will enable high-capacity home broadband solutions in limited circumstances. This high-frequency signal does not travel far and therefore requires more towers (connected with fibre) near to the end-

[1] Spectrum refers to a range of radio waves used by telecommunication providers for wireless communication purposes.

consumer – an effective densification of the network. In these use cases, the lines between wired and wireless will become increasingly blurred and, ultimately, cable companies are well placed due to their ownership of existing wired infrastructure.

CONCLUSION

While cable stocks have performed strongly this year, Charter and Altice USA trade on 2020 free cash flow yields of around 7% and 9%, respectively – still a significant discount to the overall market. We believe this is too cheap, considering both companies have excellent, shareholder-friendly management teams and offer the potential for explosive free cash flow growth on the back of growing earnings and declining capital intensity.

In our view, the market is still overly focused on video declines and isn't adequately rewarding cable operators for their strong, incumbent position as the leading providers of broadband internet. Broadband is a must-have, sticky product for consumers, and offers attractive margins and growing free cash flow profiles to the providers. We do not believe that this is reflected in current cable valuations. We continue to hold both Charter and Altice USA as core positions in our global portfolios. +

GLOBAL FRONTIER MARKETS

Buyer beware

IPO learnings from frontier markets

By GREG LONGE

THE QUICK TAKE

- New listings may set hearts racing, but reason must intervene
- Companies list to the seller's advantage
- Keep in mind the industrial cycle
- Experience can unlock opportunity

Greg is a frontier markets investment analyst with six years of investment experience.

WE HAVE ALL been there. Your heart begins to beat a little quicker, you press forward, leaning closer, the fear of missing out starts to reveal itself as you eye the 'competition'. Will you get lucky, or has the chance passed you by? Whether it's a glimpse of a celebrity or your favourite sport star, the chance to get free tickets to a show or simply waiting to catch the bouquet or garter at a wedding, we all have those moments when we get caught up in the hype and excitement of the crowd. Initial public offerings (IPOs) can evoke similar reactions in the investing public, often to their detriment.

When it comes to IPOs, investing in global frontier markets is no different to investing elsewhere. They have a way of grabbing your attention, whether you want them to or not. The phone begins to ring incessantly with 'well-meaning' bankers looking to provide updates on the latest hot listing, and diaries fill up with meeting requests from investment analysts wanting to share their views. Company management meetings become more frequent as they crisscross the world on roadshows aimed at charming investors. Post listing, it's amazing how these roadshows dry up. If the IPO is large enough, they can capture the hearts and minds of the general public. Uber drivers, distant relatives and old school friends suddenly want to talk about the new listing, while daytime TV and the Twittersphere is filled with so-called experts sharing their opinions.

At Coronation, we are typically more reserved when it comes to IPOs. Some can be good investments, but most often the risks outweigh the reward. Of the 67 capital raises above $25 million in global frontier markets over the past three years, we have participated in five.

LESSONS LEARNT

There are many reasons why the barrier to investing in an IPO should be higher than simply purchasing shares on the secondary market, but here are a few key lessons that we have learnt from 26 years of investing around the globe and, more recently, in our Global Frontiers Strategy:

- The inside edge
- Timing matters
- Understanding the industrial cycle
- The hype seldom works in your favour
- It's the length of track record that counts

THE INSIDE EDGE

IPOs involve insiders (founders/executives/private equity investors/financial institutions) selling shares to outside investors. Typically, these insiders are intimately involved in the business, either through direct management or via a seat on the board. They know the business better than anyone else … and they are choosing to sell. To make matters worse, they get to set the price and date of the listing. Unlike purchasing shares on an exchange where both buyers and sellers have access to similar information, the price is market determined and timing is up to the buyer; with IPOs, the insiders have a clear information advantage over potential buyers. It's like playing poker with someone who has already seen all the cards in the deck.

TIMING MATTERS

Have you ever been to a Sunday afternoon show house? There are flowers everywhere, freshly baked bread in the oven and everything is neat and tidy. It is the very picture of suburban bliss. The house has been dressed up to sell.

Contrast this with surprising a friend with a visit. While it will no doubt depend on your friend, chances are that there would be dishes in the sink, the bed might not be made, muddy paw prints probably trace a line down the passage and toys might be littering the floor. It could even be the very same house, just different timing. Companies come to market when they feel that 'market conditions are favourable'. What that means is that the sellers feel that the market conditions are favourable – to them. And by inference, less favourable to the buyer.

Insiders know exactly when the IPO will occur, with many months' notice. It is unsurprising then that management teams do their very best to ensure that everything looks great by the time the IPO date arrives. In many ways the companies trading year in and year out on stock exchanges look like your friend's house, while IPOs always seem to end up feeling more like a show house.

A stock-specific example of 'favourable timing' in global frontier markets was the recent listing of an oil marketing company following two years of very strong profit growth in Morocco. While the company operates in several markets, the business was heavily reliant on its Moroccan business, which made up approximately 30% of total earnings before interest, tax, depreciation and amortisation (EBITDA). Fast forward six months and significant regulatory headwinds emerged that severely undermined the profit pool in this market, cutting the Moroccan EBITDA by over 50% as a result. The timing of the IPO was certainly favourable to the sellers. Coronation did not participate in the IPO due to valuation concerns given the regulatory risk in the business.

THE INDUSTRIAL CYCLE

The industrial cycle sees a business build a factory, steadily increase unit sales until the factory becomes capacity constrained, and then build another factory as the cycle starts again. As utilisation of the factory increases, so too will the level of profitability. This is because the company's fixed costs are spread over a larger volume of units – which is economies of scale at work. Table 1 captures this dynamic well for a fictitious factory. It shows how operating profit margins increase as the volume of units produced rise from 40% of capacity to 100%. Margins rise from 0% to 30% as utilisation increases.

Table 1

INDUSTRIAL CYCLE

Utilisation	Per unit	40%	60%	80%	100%
Volume		800	1 200	1 600	2 000
Sales	1 000	800 000	1 200 000	1 600 000	2 000 000
Variable costs	(500)	(400 000)	(600 000)	(800 000)	(1 000 000)
Contribution margin	500	400 000	600 000	800 000	1 000 000
Fixed costs		(400 000)	(400 000)	(400 000)	(400 000)
Operating profit		-	200 000	400 000	600 000
EBIT %		0.0%	16.7%	25.0%	30.0%

Source: Coronation

IPOs are often used as a way for a business to raise money to expand capacity when existing capacity starts to become constrained. Phrased differently, when businesses operate at somewhere between 80% and 100% capacity, they often look to list. This also happens to be when operating margins are at cyclical highs, when management can show a few years of improving profitability and the results look strong. This is well and good, provided the buyers of the IPO understand where the business is positioned in the industrial cycle and then value the business using a lower, through-the-cycle margin forecast. Our experience has been that this is typically not the case.

The investment bankers forecast margin expansion into perpetuity and management teams give a multitude of reasons why 'this time it's different' or why the high margins are here to stay. A few years down the line, the new factory is built and overall utilisation has fallen, margins decline (not >

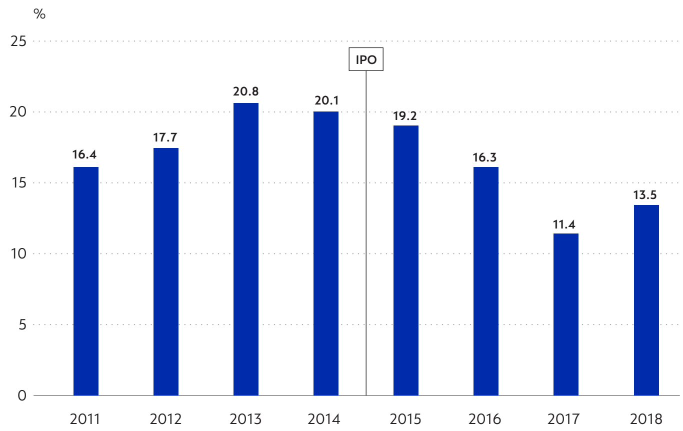
because of bad management but simply due to the industrial cycle at work) and share prices come under pressure. Our experience has been that this is the time when you want to be buying the now out-of-favour, recently listed company.

A global frontiers example is a food company in Egypt that listed a few years ago. The company released three years of annual financial statements that provided margins from 2011 to 2014 (see Figure 1). They showed steady improvement as utilisation increased by close to 100%.

Post listing, 2015 and 2016 saw capacity increase by 50%. Utilisation, and with it, margins, fell significantly into 2017 before both picked up in 2018. While there were no doubt many factors at play here, the industrial cycle certainly made an impact. Coronation did not participate in the IPO, due in part to our view of the level of normal profitability we used in our valuations.

Figure 1

EARNINGS BEFORE INTEREST AND TAX MARGINS



Source: Coronation

THE HYPE SELDOM WORKS IN YOUR FAVOUR

Every day, stock exchanges around the world facilitate trades in the thousands of companies listed globally. All but a handful of trades occur with little fanfare, marketing or hype.

The story of IPOs could not be more different. A string of analysts, advisers, brokers, bankers and company representatives are readily available to walk you through the investment case, five-year plans and reasons why this is too good an opportunity to be missed. The level of noise surrounding an IPO is deafening, but just because it's front of mind doesn't mean it's a good investment. Often the overlooked, unloved, boring and forgotten stocks represent the true bargains.

It seems that nothing captures the investing public's attention quite like the IPO of a technology stock. The hype surrounding the listings in the dotcom bubble of 2000 are legendary. In more recent history, high-profile listings like those of Facebook, Twitter, Alibaba and Uber have dominated headlines.

In our global frontier markets universe, Jumia, the so-called 'Amazon of Africa' has been the subject of similar hype. This was especially so after listing at $14.5 a share, the share price quickly moved up to almost $50 in a matter of weeks, before giving back all the gains.

Jumia now trades below its listing price. While we would have loved to have participated in the IPO (and then sold close to the peak) we did not, due to concerns around the business model and once again the margin of safety being too low.

IT'S THE LENGTH OF TRACK RECORD THAT COUNTS

Listed companies publicly disclose financial statements each year. The longer they have been listed, the longer the history of results becomes. By reading these reports and analysing the financial statements through the years, an investor can observe how the business performs through the economic cycle; in good times and in bad. They can observe some of the culture of the business, how capital is allocated and how management teams treat shareholders and their other stakeholders. While anyone operating in financial markets knows that past performance is no guarantee of future success, the past does provide valuable insights into a business.

At Coronation, we will regularly analyse 10 or even 20 years of a company's operating history and financial performance as we evaluate investment opportunities. IPOs do not afford us the same opportunity, as historic financials for the past three years are typically all that is disclosed. Management teams are aware of this, and they know when the IPO is scheduled to take place. Optimising the financials over a fairly short period of time is not difficult – capex can be delayed, sales pushed onto distributors and discretionary expenditure postponed. As a result, it's tough to really know what you are buying when it comes to IPOs.

Take another look at the EBIT margins in Figure 1 – by providing only three years of financial history (which is actually pretty good for an IPO) the margins shown capture a very limited period in the company's life. It's difficult to know whether the 16% low in 2011 or the 21% high in 2013 are normal. Analysing the business today, over a fuller eight-year cycle, shows that the through-the-cycle average is most likely somewhere around 17%. This is well below the 21% shown at the time of the IPO.

OPPORTUNITY KNOCKS

While the issues listed here are significant, they are not insurmountable, and every so often an opportunity crosses our desk that has a sufficient margin of safety to warrant a position in our portfolios (even after adjusting for the concerns raised here). The important thing to understand is how the very nature of an IPO works against the buyer and in response, to increase the required return needed to invest. Two examples of recent listings in Egypt in which we have participated are Ibnsina Pharma and Cairo for Investment and Real Estate Development (CIRA), the latter which, despite its name, is the largest private-sector education provider in the country. Both listings came to the market at valuations that were attractive, despite the risks mentioned above.

Ibnsina Pharma is Egypt's second-largest and fastest growing pharmaceutical distribution business. The business has a very strong management team headed up by co-founders who, together with the chairman, own a collective 33% of the company. They are very much aligned with shareholders. The business has succeeded by focusing closely on the 40 000 pharmacists they serve, leveraging their country-wide distribution network, and ensuring that they were well positioned to capture the rapid growth in Egypt's pharmaceutical sector. While we participated in the IPO, we were only allocated a fraction of the shares we applied for due to the high demand the listing attracted. We subsequently doubled our position through buying in the market in the days following the IPO, despite the share increasing strongly, as the margin of safety was large. The share is up almost 100% since listing and results continue to be strong.

EVERY SO OFTEN AN OPPORTUNITY CROSSES OUR DESK THAT HAS A SUFFICIENT MARGIN OF SAFETY TO WARRANT A POSITION IN OUR PORTFOLIOS.

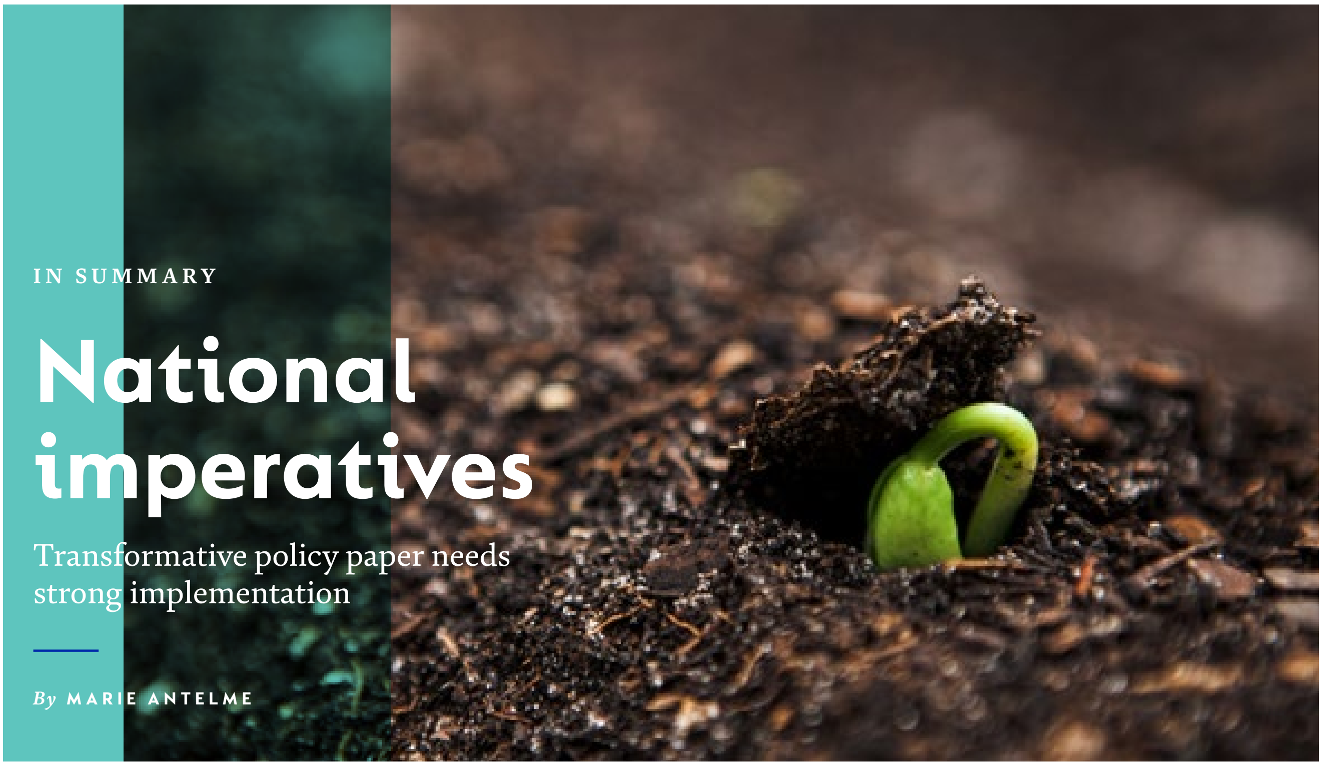
CIRA runs 19 schools across Egypt and a university. The company is growing strongly as existing facilities are being expanded and new schools are being added. The business model focuses on providing high-quality but affordable private schooling to the middle class by teaching a variety of international curriculums.

Despite being the largest private-sector educator, the company's market share is still only 0.1% and the business has a long growth runway ahead. Given the rate of expansion, the biggest risk is the ability of management to execute and ensure that the new schools adhere to the high standards of the existing offering. While near-term valuation multiples were not cheap, our long-term valuation methodology meant that we could value the many years of compounding ahead of the company, which, when coupled with strong cash generation and high returns, made for a compelling investment opportunity. CIRA is up almost 90% since the IPO.

We often get a client or a colleague asking whether we had participated in a particular stock's IPO, usually regarding a high-profile listing that has increased in value (think Jumia once it was in the $30 per share area). In these moments we are reminded of the wise words of Warren Buffett:

"I worry much more about the things that I do than the things that I don't do. I missed all kinds of opportunities in my life. You just want to make sure that you're on the side of the house when you bet rather than bet against the house. You don't really have to worry about, you know, what's going on in IPOs, or people making money. People win lotteries every day, but there's no reason to have that affect you at all."

IPOs are simply another investment opportunity that may or may not be attractive. The idiosyncratic risks of the listing process, though, do require a little bit of extra care and thought. ✚



IN SUMMARY

National imperatives

Transformative policy paper needs strong implementation

By **MARIE ANTELME**

THE QUICK TAKE

- The emphasis must be on growth-promoting policy and improving employment
- Public-private partnerships are key to unlocking growth and addressing social reform
- Not enough attention was paid to supporting small to medium enterprises
- We need political will to come to the fore for any hope of recovery

Marie is an economist with 18 years of experience in financial markets.

IN AUGUST, the National Treasury released a policy document for public comment. The document prioritises reforms that are expected to have maximum impact on growth, acknowledging that the lethal cocktail of low growth and rising unemployment is rendering South Africa's economic trajectory unsustainable.

The paper also advocates reforms that will improve economic transformation, increase employment, boost competitiveness and support the expansion of export-oriented sectors of the economy. In addition, it highlights that "any attempt to raise South Africa's potential growth rate must include progress on the fundamental building blocks of long-run sustainable growth".

Some of the preconditions to success listed, such as a stable macroeconomic framework, are already in place. However, others, including improved basic education; relaxed immigration requirements to address skills constraints; and a new social compact between government, the private sector and other social partners are not, and may pose significant political challenges to delivery. Additionally, the reforms themselves will take time to implement.

THE UPSIDE

Positively, the document addresses several critical issues:

- The most important feature of the document is its focus on growth. Without growth, South Africa will not have the resources with which to tackle social challenges, or an increasingly unsustainable fiscus.
- It strongly advocates greater engagement with and inclusion of the private sector, broadly through a social compact and specifically through several direct interventions.
- It prioritises improving the competitiveness of domestic companies through cutting red tape; reducing the cost and increasing the efficiency of business and transport services; and a commitment to identifying and addressing issues that hamper the ease of doing business in South Africa.

While most of the content is not new, synthesising existing policy documents within the National Treasury as well as independently produced research by both local and international specialists over a significant period, the paper brings a wealth of insight into key issues that South Africa has so far failed to adequately address.

THE GAPS

There are several shortcomings and omissions. For a start, the paper does not directly address labour market reform, despite this being highlighted as a considerable constraint to growth and improved employment.

It does make indirect references to the need to reduce the regulatory burden on small and medium enterprises, but they are arguably not enough. Ideas include exempting them from automatic inclusion in sectoral wage agreements and offering incentives to employ young people.

Also, while macroeconomic stability is an absolute precondition for microeconomic interventions to succeed, the paper does not address fiscal sustainability in the short term, which is not only a practical constraint to growth, but is also essential to restoring confidence.

PRESSING CONCERNS

The publication carries with it a sense of urgency, not least of which is the way in which it was published by the National Treasury. Kickstarting economic growth is paramount, not only to stabilise the fiscus, but also to provide the economic resources with which to address South Africa's crippling triad of poverty, inequality and a failed transformation agenda.

That said, it appears that this sense of urgency has not landed, and it is unclear how much political backing the recommendations will attract. If the ongoing delays in the provision of clear policy direction, notably for the failing state-owned enterprises that threaten both fiscal and growth outlooks, continue to undermine household and business confidence, the success of any new policy will be limited, and growth is likely to remain lacklustre.

We need broad consensus for this potentially transformative policy document to gain critical traction and then the momentum required for it to yield any success. Importantly, factional, ideological and perhaps even personal differences simply cannot be allowed to prevail at the expense of economic recovery. ✚

STOCK ANALYSIS

Shoprite

The price is right (or at least it feels that way)

By TUMI MOTLANTHE

THE QUICK TAKE

- The decision to invest in a business isn't arrived at neatly
- Despite poor GDP numbers, Shoprite SA has defended its earnings base admirably
- Shoprite Africa's fixes will take time, but we are happy to sit and wait for them
- As one of SA's best businesses, Shoprite is a great stock to own at this point in time

Tumi is an equity portfolio manager with 12 years of investment experience.

"We are not so brazen as to believe that we can perfectly calibrate valuation; determining risk and return for any investment remains an art not an exact science." – Seth Klarman, Baupost Group CEO

WHEN IT COMES to having your favourite cake or dessert, you typically choose between taking a trip to the shops or, if you're feeling a bit of *MasterChef* inspiration, you may decide to make it yourself. If it's the latter, you'll know that a quick online search will result in any number of recipes with accurate measurements for each ingredient, the order in which they should be mixed together, and the precise amount of time it should be in the oven.

Unlike baking, the decision to invest in a business isn't arrived at so neatly, and often hinges on a blend of tangible and intangible elements, the interpretation of which could easily make one person a buyer and the next person a seller. The Shoprite investment case is one such example in today's market, and we've positioned ourselves in the Buy camp.

A LOT OF BAD NEWS BAKED INTO THE PRICE

Shoprite's share price peaked on 7 March 2018, closing at R275.50 – today it trades at R122 a share. While it has more than halved over the past 18 months, this precipitous decline isn't enough to conclude that the stock will generate a market-beating return over our investment horizon.

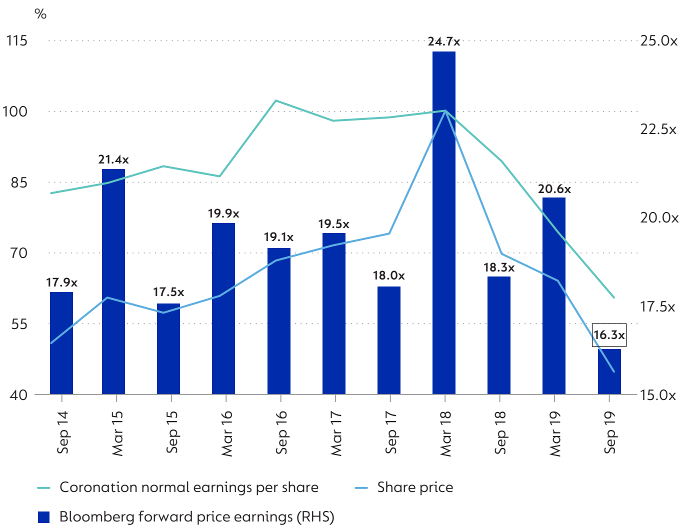
This price move must be contextualised by the underlying earnings power of the company and/or the value of the assets underpinning the operations. Figure 1 attempts to do just this.

Using 7 March 2018 as a reference point, the chart highlights how our assessment of normal earnings has since declined 40%. It also shows that the stock has de-rated significantly, with the market saying it is willing to pay a lot less (around 35% less) for R1 of earnings a year out versus at the peak.

On a price-to-earnings basis, it's only been cheaper than it is today 6% of the time over the last 10 years.

Figure 1

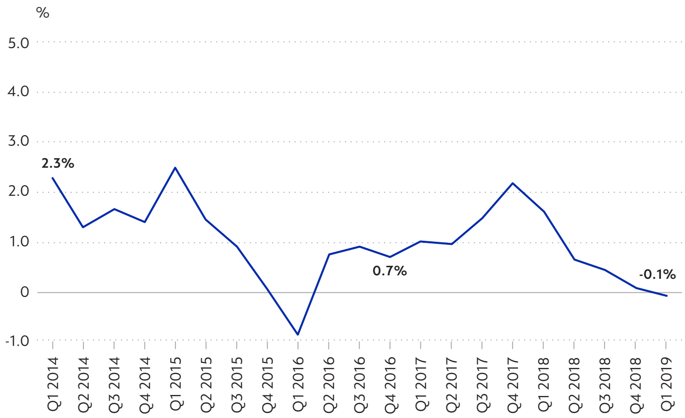
SHOPRITE RATING CHECK – LAST FIVE YEARS



Sources: Bloomberg, Coronation data and analysis

Figure 2

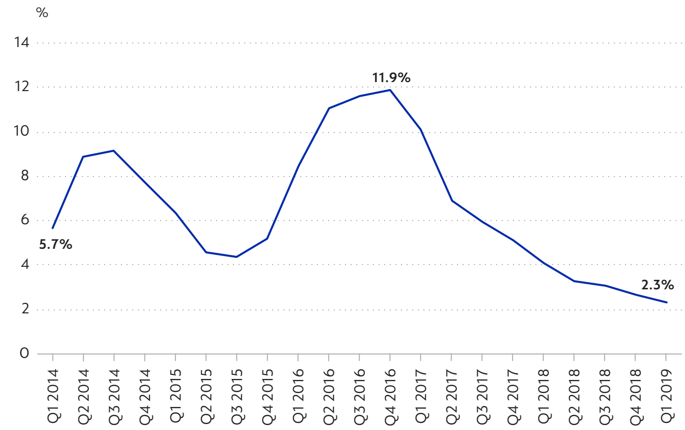
SOUTH AFRICAN REAL GDP GROWTH – LAST FIVE YEARS



Source: Statistics South Africa

Figure 3

SOUTH AFRICAN FOOD INFLATION – LAST FIVE YEARS



Source: Statistics South Africa

NOT JUST A SHOPRITE STORY, BUT A BROADER SOUTH AFRICA INC. STORY

This development of big share price declines, on the back of large earnings disappointments, is quite broad based and has presented several investment opportunities in companies with operations facing the local environment. After all, companies deliver earnings based on what they've been able to do in the real economy. And the real economy has not been supportive.

Figure 2 shows how South African GDP has failed to show meaningful growth on a sustained basis over the last five years and has actually been slowing down. At the same time, the cost of living – electricity, rates and taxes, fuel and services – has gone up a lot and income hasn't kept up. For many businesses, the ability to pass on inflationary price increases has not been there, and the food retailers in particular have seen this come off spectacularly (especially in the last three years), as shown in Figure 3.

DESPITE THIS, SHOPRITE SOUTH AFRICA HAS PROVED QUITE RESILIENT

Although group earnings have been materially reset from the highs of two years ago, the South African Supermarkets division has defended its earnings base admirably (down 15% in real terms) and achieved trading profit margins above 5%, despite real revenue in 2019 only being a percent higher than it was in 2017.

Having historically been 80% of group trading profit, South African Supermarkets were responsible for all the profit reported in the last set of results – Africa Supermarkets' earnings are down 115% and currently lossmaking (see Figure 5).

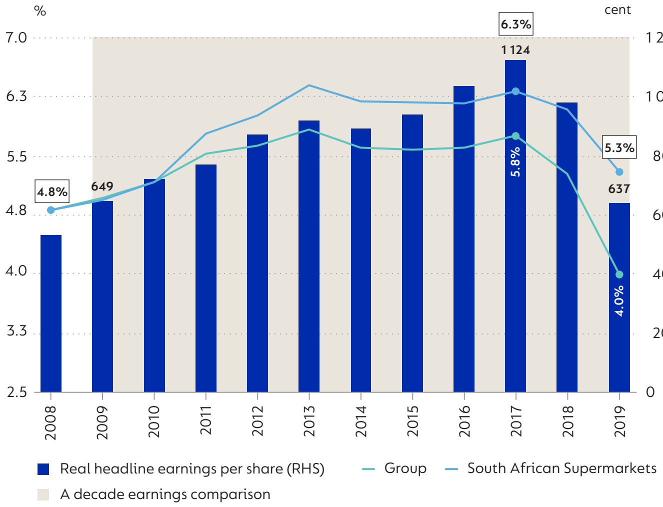
In thinking about the current tough climate, and the group's ability to defend today's earnings base going forward, we see this particular development as positive, and are of the view that there is limited downside to the last reported earnings – and good upside potential.

Given the difficulty of the last year for the group, it's easy to forget just how excellent an operation Shoprite's local business is. It owns a third of the South African food market, has the biggest footprint in three distinct brands, boasts the longest heritage and runs the most refined operation in centralised distribution, with a good management team that's been in the business for years.

These virtues don't simply disappear over a 12- to 18-month period, which, by the way, was plagued by a combination of once-off disruptions, including a troubled SAP implementation and a strike >

Figure 4

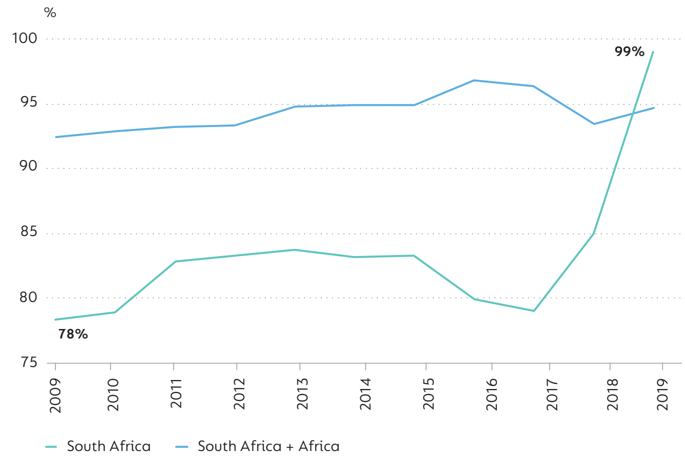
SHOPRITE: REAL HEADLINE EARNINGS PER SHARE AND EARNINGS BEFORE INTEREST AND TAX MARGINS



Sources: Shoprite financial results releases, Coronation analysis

Figure 5

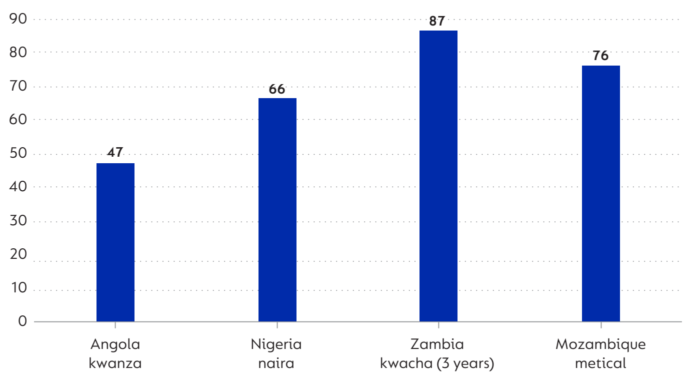
SUPERMARKETS' CONTRIBUTION TO GROUP TRADING PROFIT



Sources: Shoprite investor presentations, Coronation analysis

Figure 6

SHOPRITE AFRICA: CURRENCY DEPRECIATION – LAST FIVE YEARS 2014=100



Note: This is the 12-month average exchange rate over Shoprite's financial year, which is to end June.

Sources: Shoprite investor presentations, Thomson Reuters Eikon, Coronation analysis

at its main distribution centre (that handles more than half of Shoprite's volumes), while having higher exposure than its peers to the low-end consumer who has felt the brunt of the weak economy.

Over the last six months, Shoprite has reasserted its sales growth leadership among the three majors (Shoprite, Spar and Pick n Pay), delivering growth of nearly 10% (admittedly off a soft base), which has come with an increase in both volumes and inflation during that time. Industry players we've been speaking to confirm that they are experiencing similar trends, with the sense that demand for food staples has stabilised somewhat.

It is our view that as things like the new minimum wage start to filter through to cash-strapped consumers and the country gets a bit of policy direction (and action!) from the recently elected government, we'll start to see sales growth trends match nominal GDP growth and then accelerate ahead of it. Before any discretionary spending starts to come through, the basics have to be taken care of first.

FIXING AFRICA

After being the main, positive differentiator versus its peers over much of the last decade, Shoprite's 14-country operation has turned into a decidedly negative differentiator. The cluster generates nearly a fifth of South African Supermarkets' sales, on 40% of the South African asset base, and just made a trading loss of R265 million (from a R1.4 billion profit just two years ago). The going has been very tough.

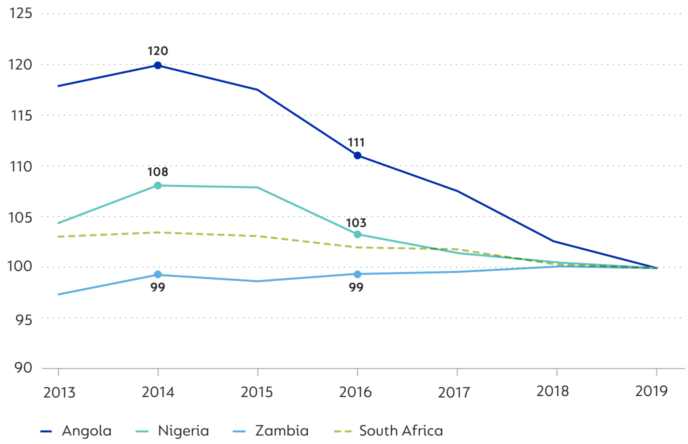
Figure 6 highlights the extent to which local currencies have depreciated against the South African rand, with the major revenue and profit contributors, Angola and Nigeria, losing half and a third of their purchasing power, respectively. This has had a material impact on the underlying economies and the ability of individuals to hold their real incomes (Figure 7).

Exacerbating the deterioration in affordability is the increased complexity of trading in these markets. Selling food in increasingly hard-to-reach places and in more challenging regulatory regimes (in response to the currency situation) has now resulted in a large amount of invested capital generating negative returns, while the cash-flow generation ability versus peers is structurally lower at the group level. But this can change, and we think it will.

The executive management team appreciates the fact that the current operating model is inefficient and needs correcting. Conversations with

Figure 7

SHOPRITE AFRICA: REAL GDP PER CAPITA, 2019 = 100



Sources: IMF, Coronation analysis

them suggest that they are scrutinising all areas of spend within the business, and that no option is off the table. This includes selling off excess real estate and limiting further new investment into the detracting countries, thereby limiting the extent to which the operations are being subsidised. There is also the possibility of exiting some markets if they see no turnaround prospects over the medium term.

However, whether or not Shoprite puts these actions into effect does not affect our base case. We have taken a harsher view on the value of the African operations – which have declined by two thirds – by reducing optimism around sustainable margins (down from 6% to 4%), cutting revenues four years out (by 35%) and lowering the fair multiple used to value the operation (by 20%).

If management executes half of the actions within its control, a lot of value will be unlocked in Africa. However, these fixes will take time, and we're happy to sit and wait for them. Encouragingly, the company has demonstrated its seriousness here by introducing return and bottom-line earnings growth hurdles (at group level) as performance criteria for incentive remuneration in its latest integrated report.

CONCLUSION

In the end, the call to invest in Shoprite on behalf of clients remains a valuation-based decision.

The share price has meaningfully retraced, and the earnings base is no longer high (and is a lot more defendable than two years ago). We have arrived at our assessment of the fair value of the business using conservative assumptions – many of which will likely need to be relaxed a year or two from now. Despite this, the share trades on 13 times what we view as the normal earnings per share for the group and offers valuation upside.

The current sentiment around the business is very negative, but this doesn't change the fact that Shoprite remains one of South Africa's best businesses. You would want to own such businesses at most points in the investment cycle, but particularly in times such as these. ✚

BOND OUTLOOK

Local bonds attractive in low-yield world

But depressed growth and further Eskom support weigh heavily on government

By NISHAN MAHARAJ

THE QUICK TAKE

- We're still far from seeing a restart of the US QE programme, given the room to move lower on policy rates
- SAGBs have a very limited margin of safety against a turn in global sentiment
- SA will likely be downgraded to subinvestment grade territory by Q3-20
- SA bonds look fantastically attractive and relatively cheap to dollar-based investors

Nishan is Head of Fixed Interest and has 16 years of investment experience.

AN ASTONISHING $15 trillion worth of global government bonds now trade at a negative yield. That's approximately 25% of the market that is trading with a yield to maturity of less than zero. This phenomenon, for now, has been confined to Europe and Japan, and in extreme cases like Switzerland, Germany and the Netherlands, the entire yield curve trades in negative territory (negative yields all the way out to 2050!).

Any intelligent person would ask the question, who in their right mind would be investing in an asset that is guaranteed to lose them money? In a world where the alternatives are overpriced risky assets, where one can suffer permanent loss of capital, or negative cash/deposit rates, suddenly assets at less negative yields and that have consistent buyers in the form of central banks (which makes short-term capital gain possible), look a whole lot better.

In a world of no yield, one would expect relatively high-yielding assets to be well supported. Since the beginning of the year, emerging market bonds returned 12.1% in US dollars. This is despite many emerging market currencies being down considerably (3%-7%) over the last quarter.

South African bonds scraped in with a positive return of 0.74% this last quarter, but over the last 12 months the All Bond Index has delivered an impressive return of 11.4% in rand, which, despite the 6.5% depreciation in the currency over the same period, still produced a positive return of approximately 5% in dollars. Over the last quarter, the South African 10-year bond has traded in the 8.50%-9% range, with the further rally in global bond yields acting as a strong anchor for local yields.

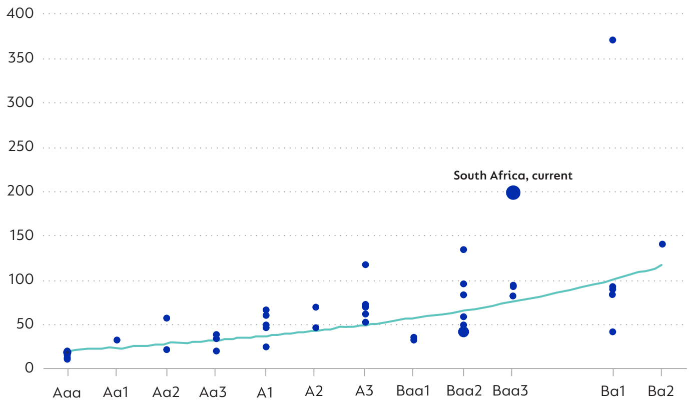
The US 10-year bond has rallied from levels of just above 2% to 1.67% over the course of the quarter, for several reasons. The escalation of tension in the US-China trade relationship has dented global confidence, which has led to a material slowdown in the global capex cycle. This has coincided with a slowing in US and global growth. Central banks have been quick to step in and engineer a softer growth landing, with the US reducing interest rates 0.5% this year and the European Central Bank moving deposit rates further into negative territory, accompanied with a restart of its bond purchase programme.

Current data emerging from Europe point to growth slowing to 1% with inflation of 1.5%, which suggests, at a bare minimum, a continuation of accommodative monetary policy in the EU. US data, more specifically the US labour market, have proved more resilient, despite recent cracks starting to appear. The reaction of the US Federal Reserve Board has not been as frantic as market pricing of interest rate cuts and has instead adopted a wait-and-see approach to further rate easing. We are still quite far away from seeing a restart of the US quantitative easing programme, given the room to move lower on policy rates. The hope is that recent measures implemented by global central banks are enough to mitigate an aggressive growth slowdown in the months to come.

On the local front, we remain in limbo as we await the Medium-Term Budget Policy Statement at the end of October and further details on the turnaround for Eskom. Inflation continues to be well behaved and expectations are for it to average 5% over the next two to three years. Growth expectations have been continually revised down, with current expectations for a marginal pick-up to 1.5% over the next two to three years. Structural reforms have been much talked about, especially in the new National Treasury economic strategy plan released by Finance Minister Tito Mboweni towards the end of the third quarter. Unfortunately, time is running out, and what's needed now is an accelerated implementation of these initiatives to bring back confidence and investment into the local economy – read more on page 28.

Figure 1

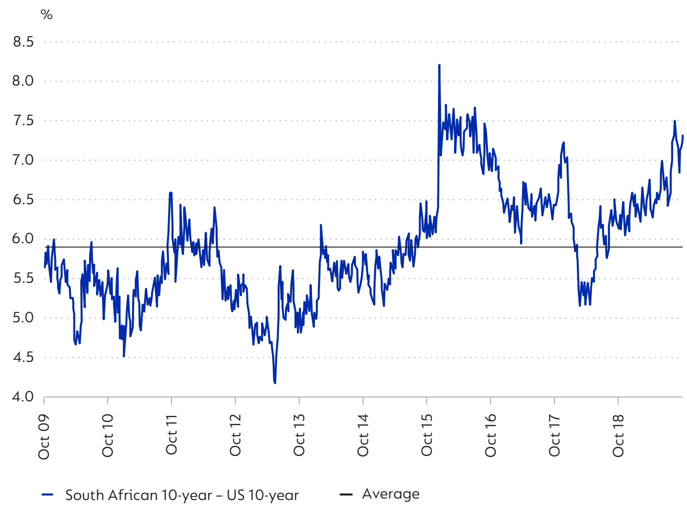
SOUTH AFRICA'S CREDIT SPREAD



Source: Bloomberg

Figure 2

SOUTH AFRICAN 10-YEAR VERSUS US 10-YEAR SPREAD



Source: Bloomberg

Government finances continue to weigh heavily on the local outlook, with the fiscal deficit expected to breach -6% this year and debt/GDP to push above 60%. The major culprit of this deterioration has been the continued support needed by ailing state-owned entities (SOEs), most specifically Eskom. Without a credible plan to turn around the entity, more money will need to be poured in to allow it to meet its obligations. Herein lies the major risk for the local economy, and while there has been an acknowledgement of the problems by government, there has been a lack of urgency in putting a credible plan in place to halt Eskom's deterioration, let alone turn the entity around.

Moody's is still the only rating agency that rates South Africa as an investment-grade country and has provided the country with a tremendous amount of leeway over the last 12 months. Its recent statements suggest that it will continue to do so, given the reform intent of government. However, given what is currently known about the trajectory of further deterioration, if there are no substantial efforts to fix the problems the country faces, it is very likely that South Africa would be assigned a negative outlook on our investment-grade rating by November 2019 and downgraded to subinvestment grade territory by Q3-20. The deterioration in South Africa's fundamentals has been well flagged, which has allowed a risk premium to be built into South African government bonds (SAGBs), both in terms of absolute yields and the steepness of the yield curve. South Africa's credit spread (represented in Figure 1 by South Africa's credit default spread) already trades at levels that are consistent with a subinvestment peer group. In addition, 10-year >

SAGBs trade at a spread of 7.25% over US 10-year yields, which is well above the long-term average and close to the widest levels they have been in 10 years (see Figure 2). These measures suggest a decent amount of the bad news is already being priced in by markets.

Furthermore, SAGBs look quite cheap when compared to the emerging markets universe. In Table 1, we show the nominal yields of various emerging market bonds and their implied real yields (the return one would get if we stripped out the effects of inflation over the next year). South Africa not only sits well above the emerging market average but also at the top of the ranking table when it comes to the relative cheapness of nominal and real yields. In a world of very low to zero yields, South African bonds look fantastically attractive and relatively cheap to dollar-based investors.

As a dollar-based investor, when one invests into a local currency bond market, there are two major risks that one takes. First, you take the risk that the yield at which you are investing does not offer a sufficient margin of safety in the event of further local fundamental deterioration, and secondly you are taking the risk that the currency depreciates to such an extent that it wipes all the yield from the bonds. The first risk is something that we have discussed at length in the past. We construct a fair value for 10-year SAGBs, using the expected global risk-free rate (US 10-year), expected US/South African inflation differentials and the South African credit spread. We use values of 2% (normal US 10-year rate), 3.8% (5.3%-1.5%; South African 10-year breakeven minus US 10-year breakeven) and 3.16% (South African EMBI plus sovereign spread) to arrive at a fair value of 9.03%, which is not far from current levels of 8.92%. This suggests that SAGBs trade pretty much at fair value, implying not much room in the case of further fundamental deterioration.

Dollar-based investors have the option of buying 10-year South African bonds issued in dollars, currently trading at 4.88% with no currency risk, or buying a 10-year SAGB issued in rand trading at 8.92%. If you do not expect the currency to move, then it's a no-brainer to buy the bond issued in rand due to the higher yield on offer. Over the past two decades, the rand has depreciated by an annualised rate of 4.4%. The annual depreciation would comprise inflation differentials and a risk premium. Since South Africa runs a higher inflation rate than the US, the rand has to deteriorate by a minimum of the inflation differential for purchasing power between the two countries to remain unchanged. The more unpredictable part is the risk premium that needs to be priced due to the risk of deterioration in other local factors.

Table 1

EM BOND MARKETS: NOMINAL AND IMPLIED REAL YIELDS

	Nominal yield	Implied real yield
South Africa	8.92	4.13
Indonesia	7.26	3.79
Brazil	7.05	3.23
Mexico	6.88	3.16
India	6.70	3.04
Russia	6.90	2.62
Malaysia	3.33	1.85
Average	5.15	1.30
China	3.14	0.73
Chile	2.53	(0.07)
Israel	0.89	(0.36)
Poland	1.99	(0.55)
Czech Republic	1.33	(1.09)
Turkey	13.15	(1.16)
Hungary	1.97	(1.19)

Source: Bloomberg

Over the last 20 years, the inflation differential between South Africa and the US has been 3.4% (5.6%-2.2%: actual inflation outcomes), suggesting the risk premium should be 1% (4.4%-3.4%).

Current inflation differentials sit at 3.8%, which makes the 20-year annualised depreciation of 4.4% look reasonable, as we assume a reduced risk premium going forward. This implies that a dollar-based investor can expect a return in dollars of 4.52% (8.92%-4.4%). Compared to the actual South African 10-year dollar bond, this is not that attractive, unless one has a materially positive view on the currency. It would also explain why the local South African bond market has experienced outflows this last year of approximately R8 billion. This is a big turnaround from the R20 billion of inflows we were sitting with at the end of the first quarter of this year.

South Africa inflation will remain benign and growth subdued, which would, at worse, allow policy rates to remain on hold. However, persistent low growth and the need for further support of SOEs will weigh heavily on government finances, resulting in wider budget deficits and a significant increase in the debt burden. The global environment remains supportive for emerging markets and South Africa, especially given the renewed monetary policy easing embarked on by global central banks. However, SAGBs trade at fair value at best and have a very limited margin of safety against a turn in global sentiment or a worsening in local economic conditions. Therefore, it is prudent to maintain a neutral to slightly underweight allocation to SAGBs at current levels. ✚

GLOBAL EMERGING MARKETS

China

A weighty issue?

By SUHAIL SULEMAN

THE QUICK TAKE

- Unprecedented growth has boosted China from a stagnant economy to a global heavyweight
- China's dominance of the MSCI EM Index is set to strengthen in the near future
- An index that is so dominated by one country poses a problem for passive investors
- Active management is required to price the risks associated with the degree of Chinese state-owned stocks in the EM Index

Suhail is a global emerging markets portfolio manager with 18 years of investment experience.

MUCH TIME AND effort have been devoted to understanding the recent rise of China as a major global economic power. It is, however, important to also note that China (or at least the precursor territories making up modern China) was the largest single economy in the world until the late 1800s and had been so for several hundred years. This isn't surprising, as people have lived a subsistence or agrarian existence with fairly low output per capita for most of human history. Countries with larger populations would therefore have had larger economies. This changed permanently with the advent of the industrial revolution and the advancement of technology, in particular. First the Western European nations, then a rapidly growing US, came to dominate the world economy thanks to massive gains in technology-enabled productivity.

China underwent substantial transformation during this period. Military defeats to Britain in the Opium Wars (which led to the ceding of Hong Kong to Britain) were followed by partial colonial occupation by Japan, a civil war leading to communist control of 'mainland' China and the fleeing of the nationalist government to the island of Taiwan in the aftermath of World War II. Following this period, communist mainland China stagnated economically until around 1980. At that point, China accounted for less than 5% of world GDP (despite the country making up 22% of the world population at the time) and the average person was extremely poor relative to someone living in the West (per capita GDP was a mere 1.5% of the average American). Unprecedented sustained economic growth has since transformed China into a middle-income country and, because of its large population, it is today the second-largest economy in the world; the largest if you use purchasing power parity.

EMERGING GLOBAL FORCE

Where China was once just another emerging market at the turn of the century, today it is the most important emerging market (see figures 1 and 2), and one that can make or break the returns of any fund manager. In the run up to the Global Financial Crisis, when commodity prices were still elevated and the currencies of commodity exporters were trading at historical (relative) >

highs, Brazil was the largest weight in the MSCI Emerging Markets Index at 17%. China's weight had risen to 15% by this point, from single digits several years before. Fast forward to the time of writing, and China's weight has reached almost 32%, while Brazil's has declined to just under 8%. Such has been the scale of China's growth that the next largest country weight in the index is almost 20% behind it (Republic of Korea).

If all index securities moved in tandem going forward, China's weight would increase further in the months and years ahead. Currently, the A shares (domestic China listings) have an 'inclusion factor' of 15%, meaning that 85% of their weight is not counted within the MSCI Emerging Markets Index. They started the year at 5% and by the end of 2019, the inclusion factor will increase to 20%. All else being equal, this will increase China's overall weight to 33%. As the inclusion factor edges up further, it could, if it reached 100%, eventually result in China being over 42% of the broader index. An index so dominated by an individual country is problematic for passive or tracking error-conscious investors, but it is a material opportunity for active managers to add (or destroy) value.

EMERGING MARKET OUTLIER

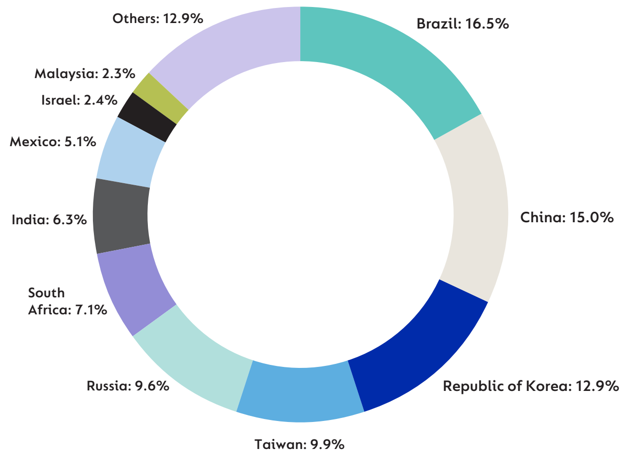
China is in many ways very different from the rest of the emerging market universe. As a start, it is the only country in the index with a weight above 5% where a very large proportion of the listed market consists of state-owned entities. Russia is another country with high levels of state ownership of large index constituents, but is only 4% of the market.

State ownership is rarely positive for minority shareholders in the long run, as the state has often shown itself to be a poor custodian of capital and has other obligations to meet besides maximising shareholder returns. Over time, a high level of exposure to state-owned businesses could likely result in poor absolute returns. A very good illustration of this is shown in Table 1, where the top 10 Chinese stocks in the MSCI Emerging Markets Index are shown at the end of the most recent month and the corresponding month 10 years ago. State-owned businesses are highlighted for ease of reference.

As one can see in Table 1 (page 39), state-owned businesses have underperformed their private sector peers by a significant margin over the last 10 years, such that five new private businesses have entered the top 10 weights (displacing state-owned businesses), and the only top 10 private sector business from 10 years ago (Tencent) is now the largest stock in the Emerging Markets Index. A passive investor in emerging markets today (like before) has significant exposure to the Chinese state via the state-owned businesses that comprise the index. Additionally, many of the private sector stocks in China face risks and regulations that are unique to China. A good example is the existence of variable interest entity structures. These allow companies in China to list overseas despite their core operations being officially closed to foreign investors. All the main internet stocks (Tencent, Alibaba, Baidu and others) use these structures. We don't believe it is likely that China would end this practice due to the impact it would have on its capital markets, but the risk is non-zero in nature and does not exist in other countries.

Figure 1

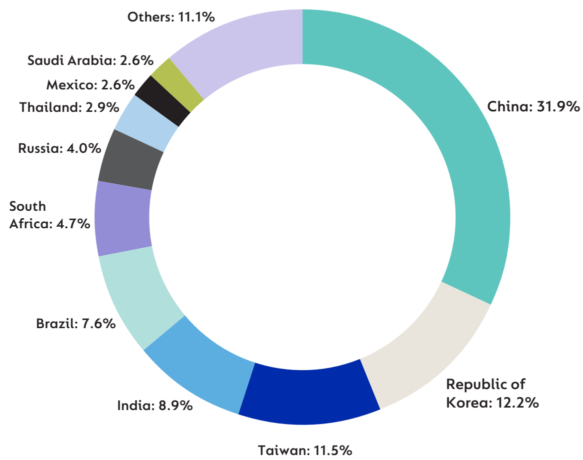
MSCI EMERGING MARKETS COUNTRY WEIGHTS – JULY 2008



Source: MSCI

Figure 2

MSCI EMERGING MARKETS COUNTRY WEIGHTS – SEPTEMBER 2019



Source: MSCI

China-specific regulation also impacts many other businesses, from censored search results in Baidu to foreign content restrictions in the gaming companies. The high concentration to China should play a precautionary role in both the asset allocation decision on exposure to emerging markets and the decision on whether to invest passively or actively. In our view, the very high China concentration, coupled with state ownership and regulation, materially increases the risks associated with investing passively in emerging markets.

Only an active approach can price for and navigate around these risks. There are many great businesses in China that investors should have access to at the right price and, in our view, their presence in an investor's portfolio should be valuation dependent, not determined by index weight. This observation is true for all countries, but with China's high index weight, it is particularly relevant. ✚

Table 1

TOP 10 CHINA WEIGHTS

SEPTEMBER 2009		SEPTEMBER 2019	
Name	**Weight**	**Name**	**Weight**
China Mobile	2.0%	Tencent	4.5%
China Construction Bank Corporation	1.2%	Alibaba	4.4%
ICBC	1.2%	China Construction Bank	1.4%
China Life Insurance	1.1%	Ping An Insurance Group	1.2%
Bank of China	1.0%	China Mobile	1.0%
CNOOC	0.8%	ICBC	0.8%
Petrochina	0.8%	Bank of China	0.6%
Tencent	0.5%	Baidu	0.5%
China Shenhua Energy	0.5%	CNOOC	0.5%
China Petroleum & Chemical Corporation	0.5%	JD.com	0.4%

State-owned businesses

Source: MSCI

CORONATION INSIGHTS

Flagship fund update

INVESTOR NEED: LONG-TERM GROWTH

Domestic general equity funds

Top 20 and Equity

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

OVERALL, THE JSE EXPERIENCED A DISAPPOINTING QUARTER.

Overall, the JSE experienced a disappointing quarter. The weakness was broad based, but the financial and resource sectors fared the worst. Our equity holdings, skewed towards the global stocks that happen to be listed on the JSE, performed well on a relative basis. We have used the weakness during the quarter to add to positions.

Recent domestic economic data reinforced how dire the underlying economic situation really is. This has flowed through to corporate earnings and we have been bombarded with company profit warnings over the quarter. Investor and consumer sentiment continue to remain very weak and government urgently needs to deliver on much-needed structural reform to restore consumer and corporate confidence and kickstart the economy. However, it is in this tough environment where active management can add significant value and we remain excited about the positions in the funds and the potential for good long-term returns from these levels.

The listed platinum miner Northam Platinum delivered a return in excess of 40% this quarter as the price of the overall platinum-group metals (PGMs) basket rose, and the company showed improving results and strong cash generation. The fundamentals driving the higher prices in the PGM markets remain firmly in place, as continued demand from automobile manufacturers due to tightening emissions standards meets declining supply from an industry that has not invested in new mines for close on a decade.

Limiting our portfolios' exposure to Sasol was beneficial this quarter. The Sasol share price is down 54% over the past 12 months as further cost overruns relating to the Lake Charles Chemicals Project (LCCP) emerged. Management also had to announce a delay in the reporting of their full-year results to further investigate a breach of internal controls. As it stands, we have yet to see Sasol's June year-end results, but we believe that the delay is as a result of control weaknesses identified around the project budgeting process and is not centred around the financial statements themselves. Although further cost overruns are unlikely, our biggest remaining concern is that the budgeted profitability for LCCP disappoints on the back of ramp-up issues or pressure on commodity prices. Nevertheless, we expect the company to now shift to a phase of debt reduction and improved free cash flow generation. Sasol trades on four times 2021 earnings, calculated using relatively conservative currency and oil price assumptions. This is very attractive for a business of its quality. We have used the share price weakness to increase our exposure, but remain cognisant of the risks surrounding recent announcements and are managing the position size carefully.

South African-facing companies struggled in the quarter. The sentiment locally remains poor, and the brutally tough economic environment means there is very little revenue growth to be had for purely South African companies. Foreign investors have generally been sellers, putting more pressure on the share prices of most domestic stocks.

WE ELECTED TO TAKE THE FULL ALLOTMENT OF PROSUS SHARES, GIVEN THE POTENTIAL VALUE UNLOCK OPPORTUNITY.

During the quarter, Naspers listed and part unbundled 26% of Prosus to its underlying shareholders in an effort to try and narrow the discount at which Naspers trades relative to its underlying intrinsic value. A foreign listing of Prosus will assist Naspers in pursuing its ambitions to become a leading global consumer internet business by giving it access to a wider pool of investors and capital. Furthermore, the two-tier corporate structure provides Naspers with more financial flexibility and the ability to more efficiently manage the discount to its underlying intrinsic value by using capital allocation tools such as share buybacks. In this corporate action, we elected to take the full allotment of Prosus shares, given the potential value unlock opportunity.

Global macro conditions remain fragile, as trade wars and extreme political events remain prevalent. Charter Communications is a relatively new addition to the Equity fund and is already one of our largest international holdings. It has performed well since its introduction and is up 12% in rands over this quarter alone. Read more in the article about Charter on page 20.

Multi-asset class funds

Balanced Plus and Market Plus

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

It has continued to be an exceptionally difficult market, with many asset classes struggling. Against the backdrop of a slowing global economy, an escalating trade war and a revival of central bank stimulus measures, the MSCI All Country World Index ended the quarter flat in US dollar terms. Geopolitical risk in the Middle East, with escalating US-Iran tensions and a missile strike on a Saudi oil refinery – which is responsible for almost 5% of world oil supply – added to equity market volatility during the quarter.

The FTSE World Government Bond Index appreciated by just under 1% in US dollars for the quarter. In September, the European Central Bank (ECB) announced its biggest package of rate cuts and economic stimulus in three years as President Mario Draghi warned governments that they needed to act quickly to revive flagging eurozone growth. Soon thereafter, the Federal Reserve Board (the Fed) also cut rates by a further 25 basis points (bps), although the accompanying commentary was more hawkish than the market was expecting. Negative interest rates have led to significant distortions in asset markets. Currently roughly $15 trillion of global debt trade at negative yields – meaning you are likely to lose money if you hold these instruments to maturity. The extent to which central banks continue to distort debt markets is concerning and we remain cautious on the outlook for global bonds. Read more analysis on the bond yield curve on page 6.

During September, the South African Reserve Bank (SARB) held the policy rate unchanged at 6.5%, but the SARB's statement was more dovish than in July when it did cut rates. Although the SARB's view is that monetary policy is not the solution to South Africa's poor growth outlook, we believe that given the weak domestic economy, contained inflation and favourable global rate expectations, the SARB has room to further cut rates. Against this challenging economic backdrop, the rand weakened by almost 7% against the US dollar. The portfolios were well positioned for this move.

With local bond yields ticking up, the All Bond Index returned only 0.7% for the quarter. However, over the past year bonds have performed strongly (up 11.4% over the rolling 12 months). Given the attractive real yields, local bonds continue to offer reasonable value. The property stocks have been battered by the weak economy, which is playing >

itself out through increasing vacancy levels, large rental reversions and reduced rental escalations. Much of the sector will struggle to show any distribution growth over the medium term.

While the banks we own all showed decent earnings numbers for the half year, they have all sold down further as concerns over the general outlook for South Africa, and worries over potential debt downgrades, has weighed on sentiment. Large rand-hedge stocks such as Naspers (flat), British American Tobacco (+14%), Anheuser-Busch InBev (+16%) and Bidcorp (+6%) held up well.

We continue to be optimistic about the return potential of the portfolios and we feel that forward-looking returns can be significant. A number of the positions in the portfolios are now very attractively priced and should be able to deliver strong returns over the next several years.

INVESTOR NEED: INCOME AND GROWTH

Capital Plus and Balanced Defensive

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

This quarter, we have seen the continuation of a very volatile and unpredictable global environment. The escalation of the US-China trade war and the unfolding Brexit soap opera has been further compounded by rising tensions in the Middle East and ongoing protests in Hong Kong. While these events have played out, the outlook for global growth continues to slow. Policymakers are trying to support the global economy, with more central banks around the world cutting interest rates, led by the Fed and the ECB. As a consequence, sovereign debt yields are trading at zero to negative real rates and we have even seen some corporates issue bonds with a zero coupon. This is an unusual state of affairs, and, as such, we think the global bond space is not attractive from a risk-return perspective.

WE REMAIN VERY SELECTIVE IN OUR DOMESTIC EQUITY HOLDINGS.

South Africa's economic outlook continues to be muted, despite many self-help options. The lack of political will to implement urgently needed reform at state-owned enterprises (Eskom in particular) has been disappointing. It is difficult to see how business and consumer confidence will return with continued inactivity on this front. Our base case is that the South African economy will continue to show lacklustre growth until these structural issues are addressed.

Given this context, the funds' positioning is weighted towards local fixed income assets. This exposure has been a positive contributor to the portfolios' performance for the quarter. However, both South African equity and South African property produced negative returns in the quarter.

During the quarter, we took the opportunity to increase our local equity exposure marginally by adding selectively to some domestic equity counters where valuations have become too cheap to ignore. An example of this would be Dischem, which we think is well positioned to show organic growth as well as take market share from independent pharmacies. The combination of robust earnings growth and a strong balance sheet means that this share presents attractive long-term upside. Dischem is one of the few shares that can show growth in a stagnant South African economy.

We remain very selective in our domestic equity holdings and our local allocation is thus weighted towards rand-hedge shares.

We have largely maintained our offshore exposure in the portfolios. This has been a positive contributor to performance this year and we have trimmed some of our holdings on the back of strong returns generated.

We think the portfolios are correctly positioned to navigate this uncertain environment. As we have already seen this year, it is not easy to predict the most accurate political or economic outcome, but with the balanced mix of risk assets and yielding assets, our funds can meet their return targets.

INVESTOR NEED: IMMEDIATE INCOME

Strategic Income

Strategic Income is a managed income fund that invests across the full range of income-generating asset classes such as government, corporate and inflation-linked bonds, listed property, offshore bonds, money-market negotiable certificates of deposit (NCDs) and preference shares. The main aim of the fund is to produce a consistent and reliable return for investors with immediate income needs.

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

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

THE US EQUITY MARKET CONTINUES TO PERFORM BETTER THAN ITS COUNTERPARTS AROUND THE WORLD.

The spreads of floating-rate NCDs have dulled in appeal over the last few quarters due to a compression in credit spreads. There has been a reduced need for funding from banks in South Africa, given the low-growth environment. Fixed-rate NCDs continue to hold appeal due to the inherent protection offered by their yields and relative to our expectations for a stable repo rate. However, credit spreads remain in expensive territory (less than 100bps in the three-year area and 110bps in the five-year area). The fund continues to hold decent exposure to these instruments (less floating than fixed), but we will remain cautious and selective when increasing exposure.

Overall, inflation pressure remains benign. Given this and ongoing low growth, the market still sees some room for policy rate easing in the coming months. The Medium-Term Budget Policy Statement at the end of October and the Moody's credit review in November remain key event risks the SARB will be monitoring before its next Monetary Policy Committee meeting in November.

The global environment remains supportive for emerging markets and South Africa, especially given the renewed monetary policy easing embarked on by global central banks. However, South African government bonds (SAGBs) trade at fair value at best and have a limited margin of safety against a turn in global sentiment or a worsening in local economic conditions. Therefore, it is prudent to maintain a moderate allocation to SAGBs at current levels.

Listed property has been the largest drag on the fund's performance. Despite the underperformance, from a valuation perspective, selected counters remain attractive. The fund maintains holdings in shares that offer strong distribution and income growth, with upside to their net asset value. In the event of a moderation in listed property valuations, we will look to increase the fund's exposure to this sector at more attractive levels.

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

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

INVESTOR NEED: OFFSHORE DIVERSIFICATION

Global Managed & Optimum Growth

Global Managed aims to achieve good long-term investment growth by investing in a range of opportunities available in public asset markets from around the world. It may suit investors who are seeking long-term growth with the appetite for short-term volatility. Optimum Growth aims to maximise long-term investment growth by investing in a range of opportunities available in public asset markets from both South Africa and around the world. Our intent is to provide competitive after-inflation returns measured in rand over all five-year periods.

The narrative around the short-term driving forces of global equity markets has not changed materially since the previous quarter, nor since the beginning of the year. Investors are still fixated by the anticipation of lower interest rates in the US and the ebb and flow of trade war rhetoric between the US and its major trading partners.

During the third quarter, these variables resulted in essentially a zero-return generated by global equities. The year-to-date benchmark index return (MSCI Country All World Index) of 16.2% speaks more to a low base from the fourth quarter of last year (the 12 months lagging return is only 1.4%) than to better news on the economic or corporate profits fronts. The three-year return of 9.7% p.a. is slightly above long-term averages.

The US equity market continues to perform better than its counterparts around the world. It has outperformed Europe by 6.5% over the first nine months of the year and by over 4% over the last 12 months. The performance of its financial sector

>

relative to that of Europe, as well as the strength of the information technology sector in the US explains the majority of this outperformance. Japan had a better quarter in relative terms, but still lags the US materially over longer periods.

Emerging markets continue to underperform their developed market peers, primarily as a result of poorer corporate profit growth and some self-inflicted economic pain. Emerging market currencies have been reasonably strong.

Global bonds continued to rally, reflecting lower yields, as concerns about global growth prospects lingered, with no visible signs of inflationary pressures in the developed economies. However, in dollar terms, most bond markets generated negative returns as a result of the stronger US dollar. Over the last year, global bonds have generated very strong returns despite the stronger US dollar over this period.

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

Global property performed well over the quarter, handsomely outperforming equities, and, over the last 12 months have now generated better returns than equities. Japanese property stocks did the best, with the US not far below. Hong Kong Real Estate Investment Trusts and developers lost value in the light of the escalation in violence in the territory.

The US dollar continues to strengthen against its major trading partners, causing more angst in the Trump administration about the competitiveness of US exports. The Japanese yen was the only major currency that strengthened against the US dollar over the last year.

In light of the increased global uncertainties, it is not surprising that gold continued to do well, generating a positive return of almost 4% over the quarter. However, given the extent of the perceived risks around the globe, we are slightly disappointed by the performance of the precious metal.

We continue to be excited about the prospects for our holdings, tempered somewhat in the short term by being mindful that the world is a volatile place right now. ✚

Key performance indicators and fund performance

AS AT 30 SEPTEMBER 2019

	QTD	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	15 YEARS	20 YEARS
DOMESTIC INDICES								
CAPI (J303T)	(5.1%)	5.4%	0.3%	4.3%	5.0%	11.4%	14.3%	-
ALSI (J203T)	(4.6%)	7.1%	1.9%	5.1%	5.3%	11.5%	14.1%	14.5%
Top 40 (J200T)	(5.2%)	7.5%	1.9%	5.6%	5.1%	11.3%	13.8%	14.1%
SWIX (J403T)	(4.3%)	4.3%	0.2%	2.6%	4.6%	11.5%	14.4%	-
ALSI Industrials (J257T)	(2.5%)	8.9%	1.8%	1.6%	4.9%	14.8%	17.4%	15.4%
ALSI Financials (J580T)	(6.8%)	(2.1%)	(4.2%)	3.5%	5.5%	12.7%	13.4%	12.8%
ALSI Resources (J258T)	(6.4%)	13.0%	7.9%	15.0%	1.0%	3.6%	8.4%	11.8%
All Property Index (J803T)	(4.2%)	(1.5%)	(7.7%)	(5.4%)	1.1%	9.9%	-	-
BEASSA (TR) All Bond Index	0.7%	8.4%	11.4%	8.9%	8.3%	8.8%	8.7%	10.9%
Short Term Fixed Interest 3 Month Cash Rate	1.7%	5.2%	7.0%	7.0%	6.8%	6.2%	7.1%	-
CPI	1.2%	4.0%	4.5%	4.8%	5.0%	5.1%	5.7%	6.0%
INTERNATIONAL INDICES								
MSCI ACWI (USD)	0.0%	16.2%	1.4%	9.7%	6.7%	8.3%	7.1%	-
MSCI WORLD (USD)	0.5%	17.6%	1.8%	10.2%	7.2%	9.0%	7.1%	4.9%
MSCI GEM (USD)	(4.2%)	5.9%	(2.0%)	6.0%	2.3%	3.4%	7.8%	7.3%
S&P 500 (USD)	1.7%	20.6%	4.3%	13.4%	10.8%	13.2%	9.0%	6.3%
BGBA (USD)	0.7%	6.3%	7.6%	1.6%	2.0%	2.3%	3.6%	4.4%
3 Month Libor (USD)	0.6%	1.9%	2.6%	1.9%	1.3%	0.8%	1.8%	2.2%
MSCI ACWI (ZAR)	7.3%	22.5%	8.4%	13.4%	13.1%	16.2%	13.3%	-
MSCI WORLD (ZAR)	7.9%	24.0%	8.9%	13.9%	13.7%	16.9%	13.4%	9.8%
MSCI GEM (ZAR)	2.8%	11.7%	4.8%	9.5%	8.5%	10.9%	14.1%	-
3 Month Libor (ZAR)	8.0%	7.4%	9.7%	5.3%	7.5%	8.1%	7.7%	7.0%
SPOT RATES								
Rand Dollar exchange rate	14.1	14.4	14.2	13.7	11.3	7.5	6.5	6.0
Rand Dollar % change	-6.8%	-5.2%	-6.5%	-3.2%	-5.7%	-6.8%	-5.5%	-4.5%
Rand Euro exchange rate	16.0	16.5	16.4	15.4	14.2	11.0	8.0	6.4
Rand Pound exchange rate	17.9	18.3	18.4	17.6	18.3	12.0	11.7	9.9
Gold price (USD)	1 409.0	1 281.7	1 187.3	1 322.5	1 216.5	995.8	415.7	299.0
Oil price (USD barrel)	64.4	54.4	82.9	50.2	94.7	68.9	46.4	23.6

	QTD	YTD	1 YEAR	3 YEARS	5 YEAR S	10 YEARS	15 YEARS	20 YEARS	SINCE LAUNCH
DOMESTIC FUNDS (PERFORMANCE IN RANDS)									
Coronation Top 20 Fund	(1.9%)	7.7%	2.4%	2.6%	3.8%	11.0%	15.7%	-	16.9%
ASISA Mean of South African Equity General	(3.7%)	3.6%	(1.5%)	1.4%	3.0%	9.0%	12.7%	-	13.6%
Coronation Market Plus Fund**	0.8%	9.4%	3.7%	3.4%	4.9%	11.1%	13.6%	-	15.0%
ASISA Mean of South African Multi-Asset Flexible	(0.8%)	5.4%	1.0%	2.6%	4.6%	9.7%	11.3%	-	11.3%
Coronation Balanced Plus Fund	0.7%	8.6%	2.1%	3.7%	5.0%	10.5%	13.3%	13.9%	14.1%
ASISA Mean of South African Multi-Asset High Equity	(0.1%)	6.9%	2.0%	3.8%	5.0%	9.1%	11.8%	13.2%	12.1%
Coronation Capital Plus Fund	1.0%	7.9%	3.4%	3.8%	4.5%	8.5%	10.7%	-	11.6%
ASISA Mean of South African Multi-Asset Medium Equity	0.5%	7.3%	3.4%	4.4%	5.1%	8.4%	9.8%	-	10.9%
Coronation Balanced Defensive Fund	1.7%	8.1%	5.7%	5.8%	6.4%	9.6%	-	-	9.4%
ASISA Mean of South African Multi-Asset Low Equity	1.2%	6.8%	4.9%	5.4%	6.1%	8.1%	-	-	7.7%
Coronation Strategic Income Fund	2.0%	7.0%	8.9%	8.3%	8.3%	9.0%	9.2%	-	10.2%
ASISA Mean of South African Multi-Asset Income	1.8%	6.4%	8.5%	8.0%	7.8%	7.3%	7.9%	-	9.0%
INTERNATIONAL FUNDS (PERFORMANCE IN USD)									
Coronation Global Opportunities Equity Fund	(2.6%)	13.3%	(5.6%)	6.1%	4.5%	7.1%	-	-	5.1%
Coronation Global Emerging Markets Fund	(4.9%)	22.7%	8.7%	5.7%	0.9%	4.5%	-	-	4.6%
Coronation Global Managed Fund	0.1%	14.0%	1.8%	4.5%	2.9%	-	-	-	5.8%
Coronation Global Capital Plus Fund	1.1%	9.5%	4.0%	3.3%	2.3%	3.6%	-	-	4.0%
Coronation Global Strategic Income Fund	0.8%	3.6%	3.0%	1.9%	1.5%	-	-	-	2.5%

* All ASISA averages exclude Coronation funds in that category

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

Figures as at 30 September 2019; for detailed fund performance, refer to pages 46 and 48

Meaningful periods

Domestic flagship fund range

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

INVESTOR NEED

	INCOME ONLY	INCOME AND GROWTH		LONG-TERM CAPITAL GROWTH	
FUND	**STRATEGIC INCOME** Cash†	**BALANCED DEFENSIVE** Inflation†	**CAPITAL PLUS** Inflation†	**BALANCED PLUS** Composite benchmark† (equities, bonds and cash)	**TOP 20** FTSE/JSE CAPI†
FUND DESCRIPTION	Conservative asset allocation across the yielding asset classes. Ideal for investors looking for an intelligent alternative to cash or bank deposits over periods from 12 to 36 months.	A lower risk alternative to Capital Plus for investors requiring a growing regular income. The fund holds fewer growth assets and more income assets than Capital Plus and has a risk budget that is in line with the typical income-and-growth portfolio.	Focused on providing a growing regular income. The fund has a higher risk budget than the typical income-and-growth fund, making it ideal for investors in retirement seeking to draw an income from their capital over an extended period of time.	Best investment view across all asset classes. Ideal for pre-retirement savers as it is managed in line with the investment restrictions that apply to pension funds. If you are not saving within a retirement vehicle, consider Market Plus, the unconstrained version of this mandate.	A concentrated portfolio of 15-20 shares selected from the entire JSE, compared to the average equity fund holding 40-60 shares. The fund requires a longer investment time horizon and is an ideal building block for investors who wish to blend their equity exposure across a number of funds. Investors who prefer to own just one equity fund may consider the more broadly diversified Coronation Equity Fund.
INCOME VS GROWTH ASSETS[1] ● INCOME ● GROWTH	95.0% 5.0%	57.2% 42.8%	44.4% 55.6%	22.3% 77.8%	0% 100%
LAUNCH DATE	Jul 2001	Feb 2007	Jul 2001	Apr 1996	Oct 2000
ANNUAL RETURN[2] (Since launch)	10.2% 7.7%†	9.4% 6.0%†	11.6% 5.8%†	14.1% 12.9%†	16.9% 13.3%†
QUARTILE RANK (Since launch)	1st	1st	1st	1st	1st
ANNUAL RETURN (Last 10 years)	9.0% 6.2%†	9.6% 5.1%†	8.5% 5.1%†	10.5% 11.6%†	11.0% 11.2%†
STANDARD DEVIATION (Last 10 years)	1.4% 0.2%†	4.1% 1.2%†	5.5% 1.2%†	7.8% 7.6%†	12.9% 12.4%†
FUND HIGHLIGHTS	Outperformed cash by 1.5% p.a. over the past 5 years and 2.5% p.a. since launch in 2001.	Outperformed inflation by 3.4% p.a. (after fees) since launch, while producing positive returns over all 12-month periods.	Outperformed inflation by 5.8% p.a. (after fees) since launch, while producing positive returns over 24 months more than 99% of the time.	No. 1 balanced fund in South Africa since launch in 1996, outperforming its average competitor by 1.9% p.a. Outperformed inflation by on average 7.8% p.a. since launch and outperformed the ALSI on average by 1.2% p.a (since launch).	The fund added 3.6% p.a. to the return of the market. This means R100 000 invested in Top 20 at launch in Oct 2000 grew to more than R1.9 million by end-September 2019 – nearly double the value of its current benchmark. The fund is a top quartile performer since launch.

1 *Income versus growth assets as at 30 September 2019. Growth assets defined as equities, listed property and commodities (excluding gold).*

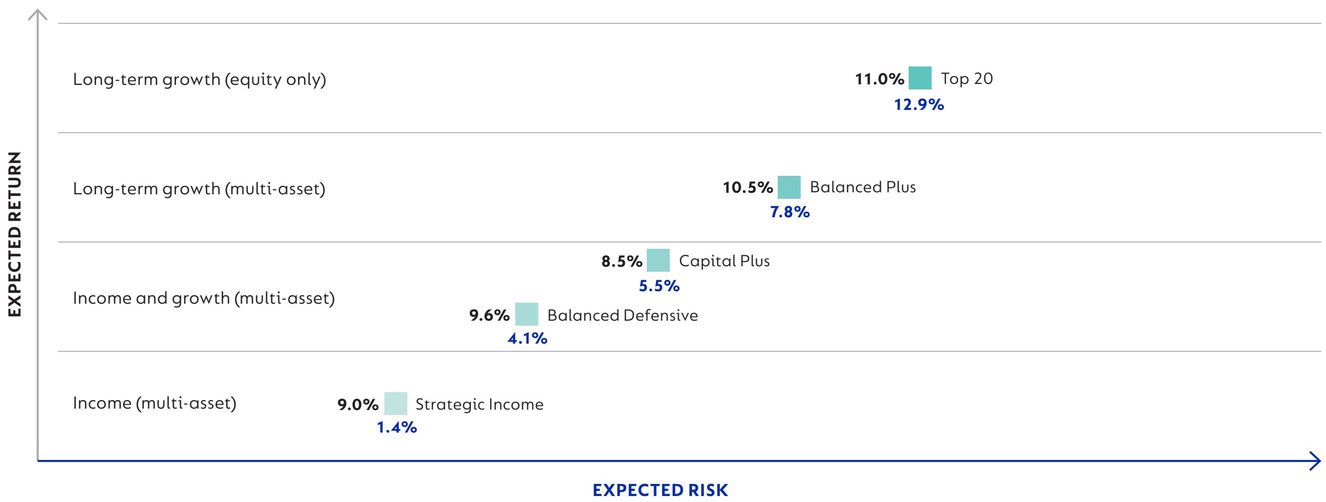
2 *Highest annual return*
Balanced Defensive: 21.2% (Jun 2012 - May 2013); Balanced Plus: 49.3% (Aug 2004 - Jul 2005); Capital Plus: 33.8% (Aug 2004 - Jul 2005); Strategic Income: 18.7% (Nov 2002 - Oct 2003); Top 20: 68.9% (May 2005 - Apr 2006)

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

Figures are quoted from Morningstar as at 30 September 2019 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

RISK VERSUS RETURN

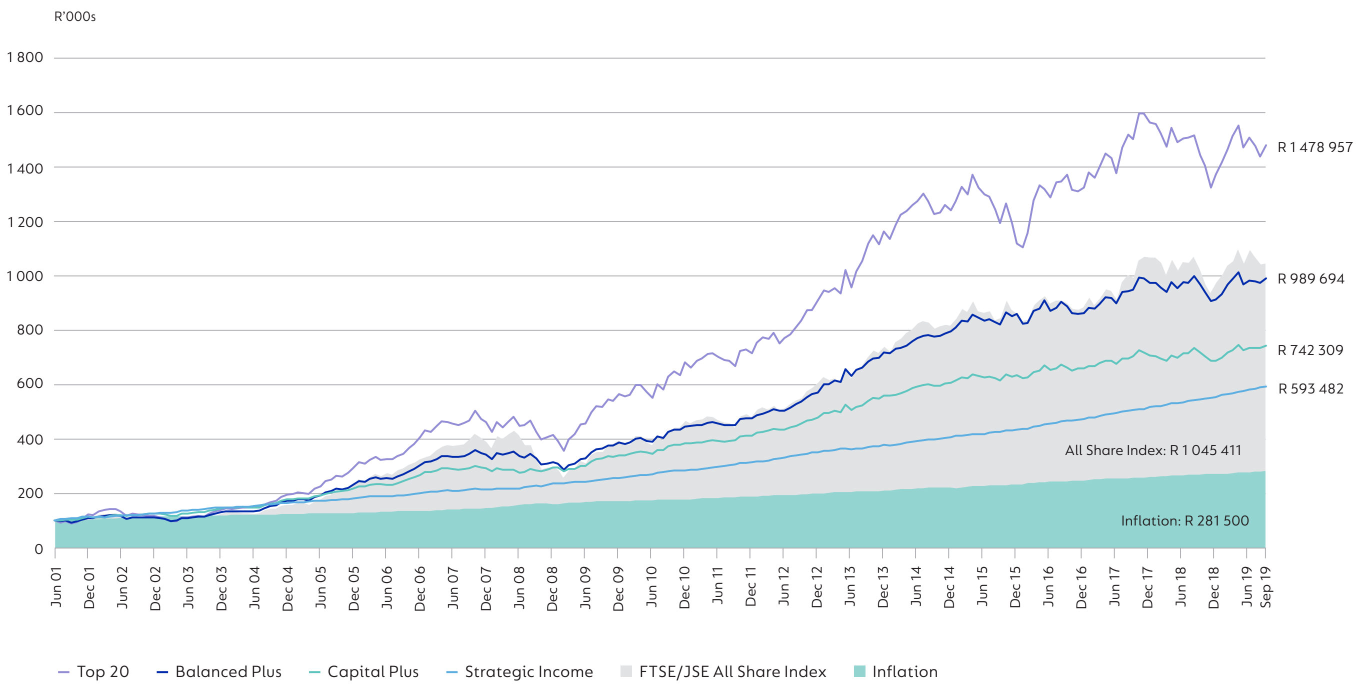
10-year annualised return and risk (standard deviation) quoted as at 30 September 2019.
Figures quoted in ZAR after all income reinvested and all costs deducted.



Source: Morningstar

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

Value of R100 000 invested in Coronation's domestic flagship funds since inception of Capital Plus on 2 July 2001 as at 30 September 2019. All income reinvested for funds; FTSE/JSE All Share Index is on a total return basis. Balanced Defensive is excluded as it was only launched on 1 February 2007.



Source: Morningstar

International flagship fund range

INVESTOR NEED

	DEPOSIT ALTERNATIVE	CAPITAL PRESERVATION	LONG-TERM CAPITAL GROWTH (MULTI-ASSET)	LONG-TERM CAPITAL GROWTH (EQUITY ONLY)	
FUND[1]	**GLOBAL STRATEGIC USD INCOME** US dollar cash (3 Month Libor)†	**GLOBAL CAPITAL PLUS** US dollar cash (3 Month Libor)†	**GLOBAL MANAGED** Composite (equities and bonds)†	**GLOBAL OPPORTUNITIES EQUITY** MSCI ACWI†	**GLOBAL EMERGING MARKETS** MSCI Emerging Markets Index†
FUND DESCRIPTION	An intelligent alternative to dollar-denominated bank deposits over periods of 12 months or longer.	A low-risk global balanced fund reflecting our best long-term global investment view moderated for investors with smaller risk budgets. We offer both hedged and houseview currency classes of this fund. In the case of the former, the fund aims to preserve capital in the class currency over any 12-month period.	A global balanced fund reflecting our best long-term global investment view for investors seeking to evaluate outcomes in hard currency terms. Will invest in different asset classes and geographies, with a bias towards growth assets in general and equities in particular.	A diversified portfolio of the best global equity managers (typically 6-10) who share our investment philosophy. An ideal fund for investors who prefer to own just one global equity fund. Investors who want to blend their international equity exposure may consider Coronation Global Equity Select, which has more concentrated exposure to our best global investment views.	Our top stock picks from companies providing exposure to emerging markets. The US dollar fund remains fully invested in equities at all times, while the rand fund will reduce equity exposure when we struggle to find value.
INCOME VS GROWTH ASSETS[2] ● INCOME ● GROWTH	97.3% 2.7%	62.2% 37.8%	34.6% 65.4%	0.3% 99.7%	5.1% 94.9%
LAUNCH DATE OF OLDEST FUND	Dec 2011	Nov 2008	Oct 2009	Aug 1997	Dec 2007
ANNUAL RETURN[3] (Since launch)	2.5% 1.0%†	5.0% 0.9%†	6.0% 6.6%†	6.4% 5.9%†	2.5% 0.8%†
QUARTILE RANK (Since launch)	–	1st	1st	–	1st
ANNUAL RETURN[3] (Last 5 years)	1.5% 1.3%	2.3% 1.3%	2.8% 5.2%	4.4% 7.1%	0.6% 2.4%
ANNUAL RETURN[3] (Last 10 years)	–	3.2% 0.8%	–	6.9% 9.3%	3.9% 3.6 %
QUARTILE RANK (Last 5 years)	–	1st	3rd	–	4th
FUND HIGHLIGHTS	Outperformed US Dollar cash by 1.5% p.a (after fees) since launch in December 2011.	The fund has outperformed US Dollar cash by 4.1% p.a. (after fees) since launch in 2008.	Number one global multi-asset high equity fund in South Africa since launch in October 2009.	Both the rand and dollar versions of the fund have outperformed the global equity market with less risk since their respective launch dates.	Both the rand and dollar versions of the fund have outperformed the MSCI Emerging Markets Index by more than 1.8% p.a. since their respective launch dates.

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

2 *Income versus growth assets as at 30 September 2019 (for US dollar funds). Growth assets defined as equities, listed property and commodities (excluding gold).*

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

Highest annual return
Global Strategic USD Income: 7.1% (Jan 2012 - Dec 2012); Global Capital Plus [ZAR] Feeder: 31.4% (Mar 2009 - Feb 2010); Global Managed [ZAR] Feeder: 23.1% (Jul 2010 - Jun 2011); Global Emerging Markets Flexible [ZAR]: 96.3% (Mar 2009 - Feb 2010); Global Opportunities Equity [ZAR] Feeder: 56.9% (Apr 1999 - Mar 2000)

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

Figures are quoted from Morningstar as at 30 September 2019 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

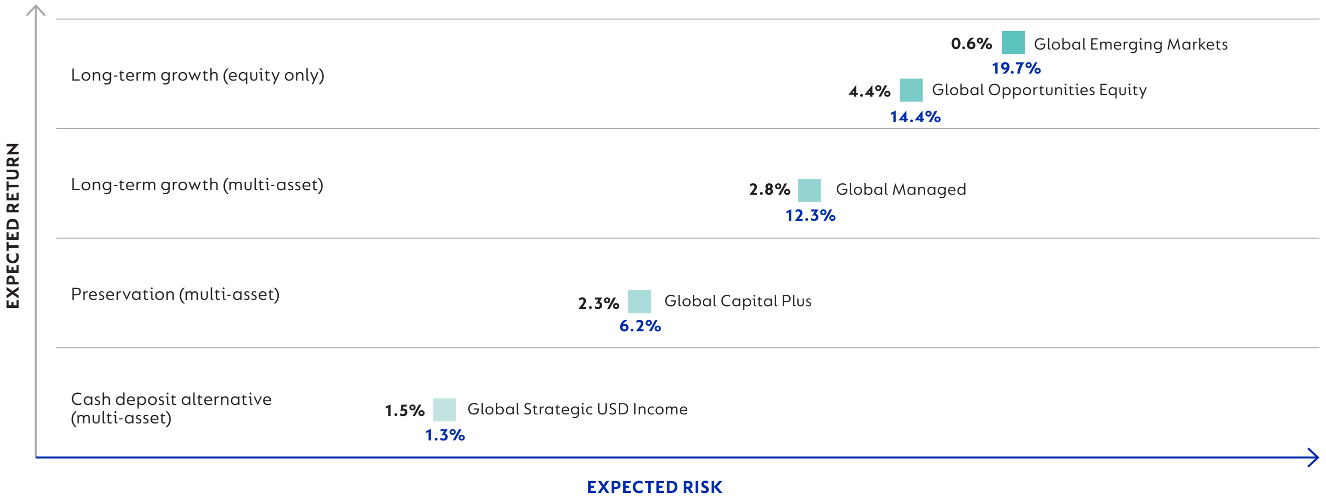
HAVE YOU CONSIDERED EXTERNALISING RANDS? IT IS EASIER THAN YOU MIGHT THINK.

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

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

RISK VERSUS RETURN

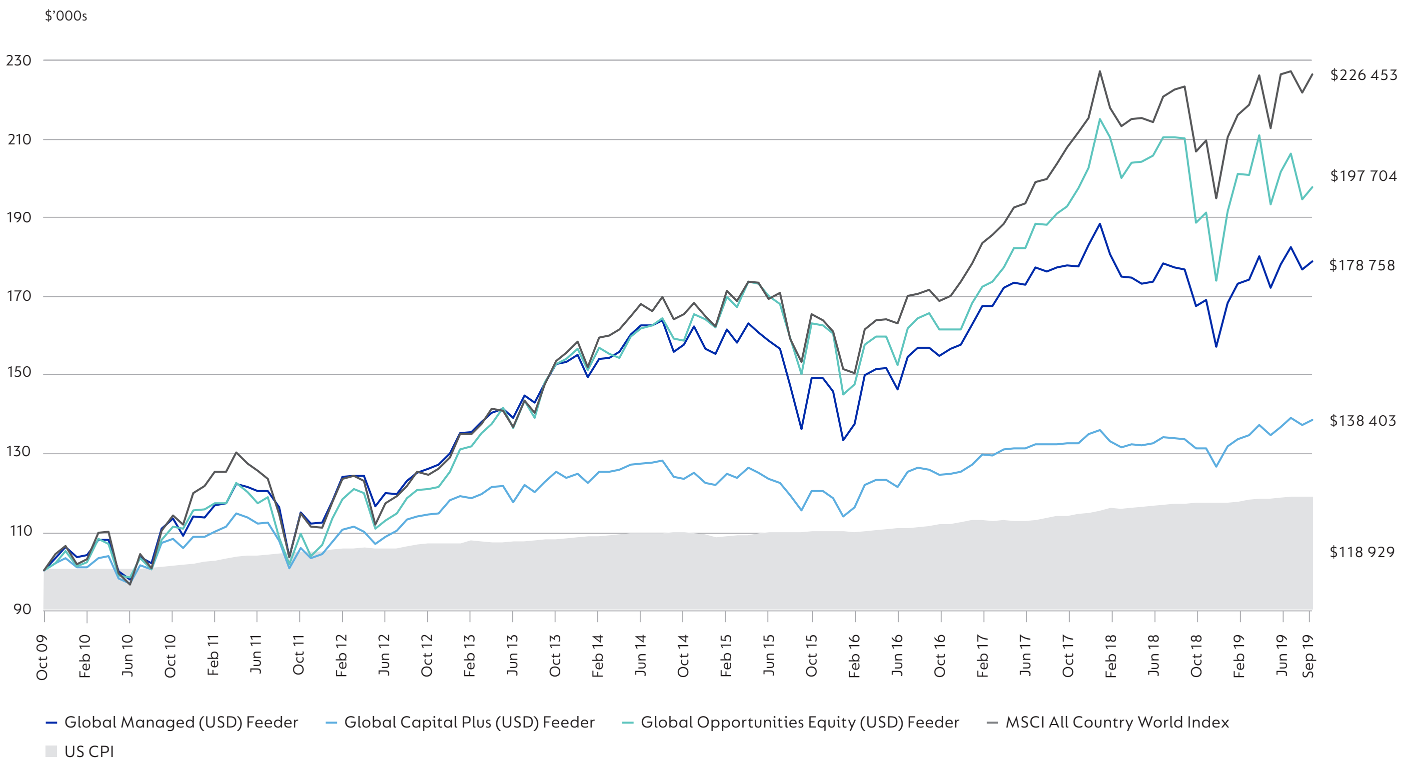
5-year annualised return and risk (standard deviation) quoted as at 30 September 2019. Figures quoted in USD (for the oldest fund) after all income reinvested and all costs deducted.



Source: Morningstar

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

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



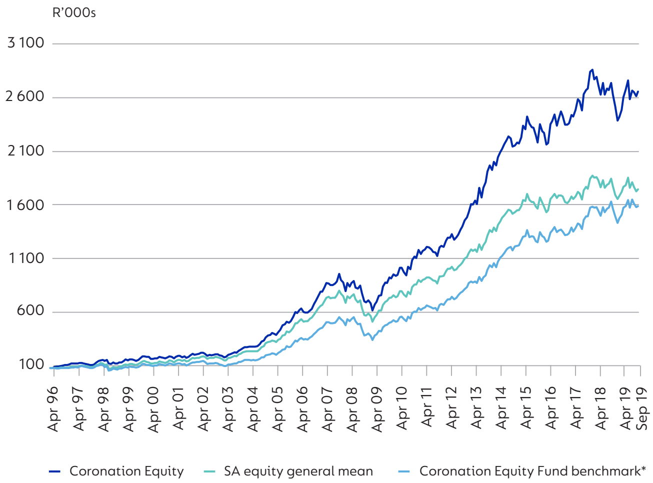
Source: Morningstar

Long-term investment track record

CORONATION EQUITY RETURNS VS EQUITY BENCHMARK

10-YEAR ANNUALISED RETURNS	CORONATION EQUITY	AVERAGE COMPETITOR	OUTPERFORMANCE OF AVERAGE COMPETITOR
2006	19.38%	17.09%	2.30%
2007	21.45%	19.23%	2.22%
2008	17.62%	18.47%	(0.84%)
2009	16.53%	16.68%	(0.15%)
2010	19.59%	19.14%	0.45%
2011	18.03%	16.98%	1.05%
2012	21.12%	18.94%	2.19%
2013	21.60%	18.68%	2.92%
2014	18.44%	16.32%	2.12%
2015	14.86%	12.62%	2.24%
2016	11.95%	9.54%	2.41%
2017	11.99%	8.90%	3.09%
2018	12.77%	10.54%	2.23%
9 years 9 months to 30 September 2019	11.57%	8.52%	3.06%
ANNUALISED TO 30 SEPTEMBER 2019	**CORONATION EQUITY**	**AVERAGE COMPETITOR**	**ALPHA**
1 year	1.02%	(1.50%)	2.52%
3 years	2.95%	1.45%	1.50%
5 years	4.34%	2.97%	1.37%
10 years	11.57%	9.04%	2.53%
Since inception in April 1996 annualised	14.97%	11.46%	3.51%
Average outperformance per 10-year return			1.81%
Number of 10-year periods outperformed			12.00
Number of 10-year periods underperformed			2.00

CUMULATIVE PERFORMANCE

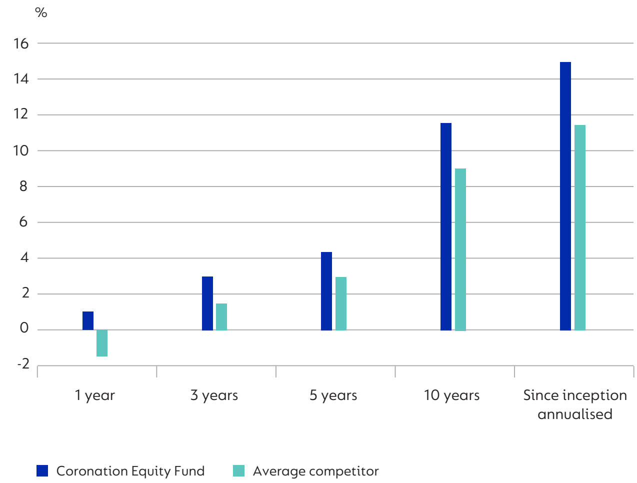


*Composite (87.5% SA equity, 12.5% International equity)

Highest annual return: 62.5% (Aug 2004 - Jul 2005); Lowest annual return: -28.7% (Mar 2008 - Feb 2009)

Source: Morningstar

ANNUALISED RETURNS TO 30 SEPTEMBER 2019



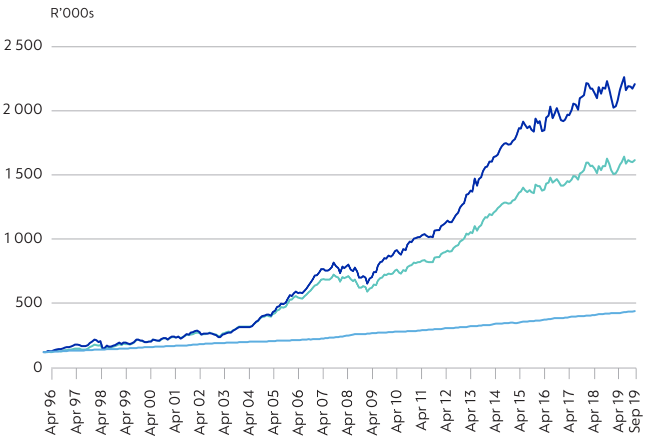
Source: Morningstar

An investment of R100 000 in Coronation Equity on 15 April 1996 would have grown to **R2 619 979** by 30 September 2019. By comparison, the returns generated by the fund's benchmark over the same period would have grown a similar investment to **R1 576 901**, while the South African equity general sector would have grown a similar investment to **R1 728 406**.

CORONATION BALANCED PLUS FUND VS INFLATION AND AVERAGE COMPETITOR*

10-YEAR ANNUALISED RETURNS	CORONATION BALANCED PLUS	INFLATION	REAL RETURN
2006	18.33%	6.47%	11.86%
2007	17.81%	6.59%	11.22%
2008	16.96%	6.87%	10.09%
2009	15.69%	6.75%	8.94%
2010	17.20%	6.28%	10.93%
2011	15.78%	6.24%	9.54%
2012	17.85%	5.76%	12.09%
2013	18.63%	5.90%	12.73%
2014	16.58%	6.00%	10.57%
2015	14.01%	6.12%	7.89%
2016	11.08%	6.30%	4.77%
2017	11.04%	5.92%	5.12%
2018	11.26%	5.34%	5.92%
9 years 9 months to 30 September 2019	10.53%	5.14%	5.39%
ANNUALISED TO 30 JUNE 2019	**CORONATION BALANCED PLUS**	**AVERAGE COMPETITOR**	**ALPHA**
1 year	2.15%	1.98%	0.16%
3 years	3.71%	3.77%	(0.06%)
5 years	4.99%	4.96%	0.03%
10 years	10.53%	9.09%	1.44%
Since inception in April 1996 annualised	14.05%	12.15%	1.90%
Average 10-year real return			9.08%
Number of 10-year periods where the real return is >10%			7.00
Number of 10-year periods where the real return is 5% - 10%			6.00
Number of 10-year periods where the real return is 0% - 5%			1.00

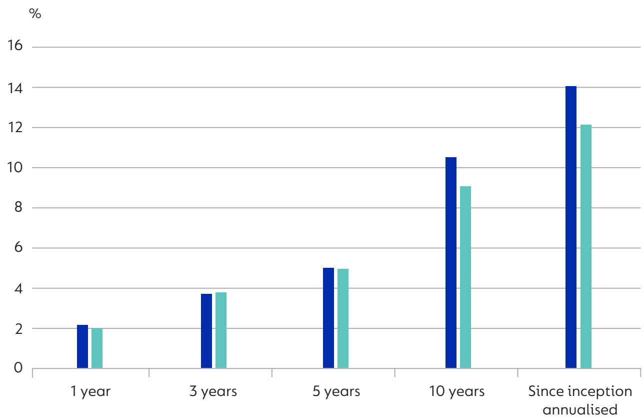
CUMULATIVE PERFORMANCE



For more detail about this fund, refer to page 46.

Source: Morningstar

ANNUALISED RETURNS TO 30 SEPTEMBER 2019



Source: Morningstar

An investment of R100 000 in Coronation Balanced Plus on 15 April 1996 would have grown to **R2 173 499** by 30 September 2019. By comparison, the South African multi-asset high-equity sector over the same period would have grown a similar investment to **R1 585 181**.

* *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.*