

## LONG TERM OBJECTIVE

The Coronation Medical Absolute Strategy targets positive real returns with an overriding focus on limiting downside returns or portfolio losses. Therefore, capital preservation in real terms is equally important to return optimisation. The Strategy is managed in accordance with the limits of Annexure B of Regulation 30 of the Medical Schemes Act.

## INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house. Our aim is to identify mispriced assets trading at discounts to their long-term business value (fair value) through extensive proprietary research. In calculating fair values, through our fundamental research, we focus on through-the-cycle normalised earnings and/or free cash flows using a long-term time horizon. The Portfolio is constructed on a cleanslate basis based on the relative risk-adjusted upside to fair value of each underlying security. The Portfolio is constructed with no reference to a benchmark. We do not equate risk with tracking error, or divergence from a benchmark, but rather with a permanent loss of capital.

## STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	759.1%	193.5%	565.6%
Since Inception p.a.	11.3%	5.5%	5.8%
Latest 20 years p.a.	11.3%	5.5%	5.8%
Latest 15 years p.a.	9.3%	5.1%	4.2%
Latest 10 years p.a.	7.0%	5.0%	2.0%
Latest 5 years p.a.	9.0%	5.0%	4.0%
Latest 3 years p.a.	9.6%	6.0%	3.6%
Latest 1 year	10.9%	5.2%	5.7%
Year to date	4.8%	2.5%	2.3%
Month	2.0%	0.2%	1.8%

## ASSET ALLOCATION

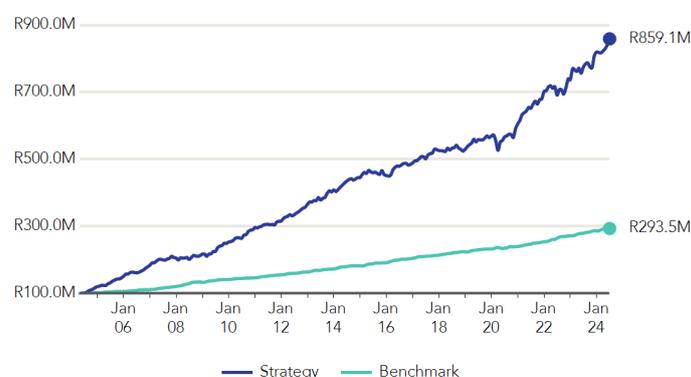
Asset Type	% Strategy
Local Equities	32.8%
Local Bonds	28.6%
Cash	25.9%
Foreign Bonds	9.4%
Local Commodities	2.0%
Local Property	1.3%

## GENERAL INFORMATION

Inception Date	01 May 2004
Strategy Size †	R1.61 billion
Strategy Status	Open
Mandate Benchmark	Consumer Price Index (CPI)
Performance Target	CPI + 3% (gross of fees and taxes) over a rolling 3 year period
Dealing Frequency	Daily
Base Currency	ZAR
Regulation 30	Yes

†Strategy assets under management as at the most recent quarter end.

## GROWTH OF R100M INVESTMENT



Benchmark: Consumer Price Index (CPI)

## TOP 10 HOLDINGS

Holding	% Strategy
NEDBANK LTD FIX 9.150% 121224	10.6%
RSA FIX 8.875% 280235	4.6%
PROSUS	4.1%
RSA FIX 6.250% 310336	4.0%
FIRSTRAND LIMITED	2.8%
RSA ILB 1.875% 280233	2.8%
RSA FIX 8.250% 310332	2.7%
RSA FIX 8.000% 310130	2.6%
CIE FINANCIERE RICHEMO-A REG	2.4%
BRITISH AMERICAN TOBACCO PLC	2.4%

## MODIFIED DURATION\*

Portfolio	1.5
Fixed Income Assets	2.7

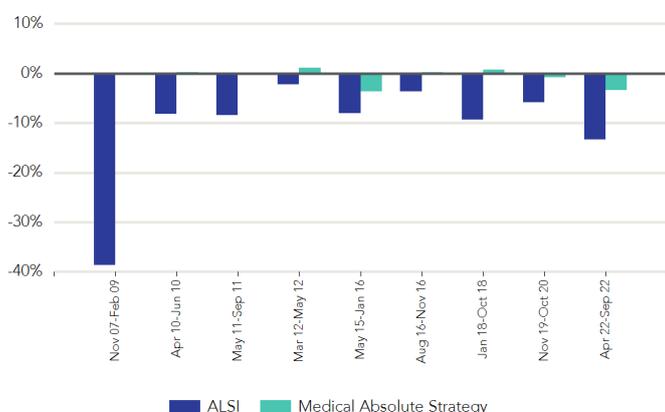
## PERFORMANCE & RISK STATISTICS (Since inception)

Average Annual Return	11.4%
Annualised Standard Deviation	5.4%
Highest Monthly Return	4.9%
Lowest Monthly Return	(5.1)%
% Positive Months	71.1%
Downside Deviation	2.3%
Maximum Drawdown	(7.9)%
Sortino Ratio	2.1

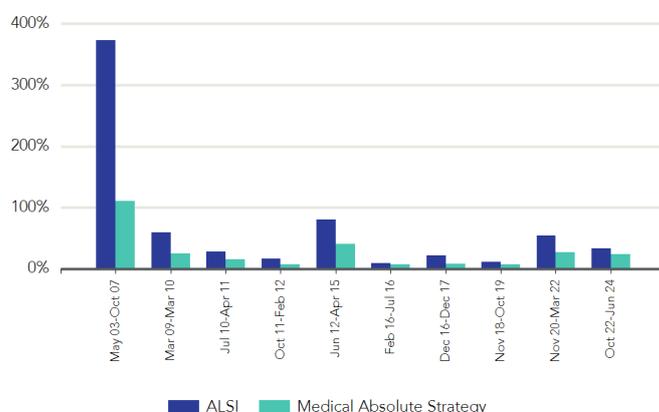
## EFFECTIVE MATURITY PROFILE\*

Term	% Strategy (incl. Cash)	% Strategy (excl. Cash)
0 to 1 year	25.8%	26.0%
1 to 3 years	3.1%	3.1%
3 to 7 years	9.0%	9.0%
7 to 12 years	14.5%	14.4%
Over 12 years	0.7%	0.7%

## BEAR MARKETS



## BULL MARKETS



In the bar graphs above, we have divided the period since inception of our Strategy into bull and bear markets. The Strategy’s returns are measured against the FTSE/JSE All Share index. The bear market graph clearly demonstrates how the Strategy has protected capital; its losses were much more shallow than the market during downswings. As evident from the second graph, the Strategy also enjoyed healthy upside participation in bull markets.

## PORTFOLIO MANAGERS



**Pallavi Ambekar - BBusSc, CA (SA), CFA**

Pallavi is Head of Absolute Return at Coronation and a portfolio manager across all strategies in this unit. She also has research responsibility for certain large capitalization shares listed on the JSE. She has 21 years’ investment experience.



**Charles de Kock - BCom (Hons), MCom**

Charles joined Coronation in 2005 and is a co-portfolio manager across all strategies within the Absolute Return investment unit. He also co-manages the Coronation Balanced Defensive and Capital Plus unit trust funds. Charles has 38 years’ investment experience.



**Neill Young - BBusSc, CA (SA), CFA**

Neill joined Coronation in 1998 and co-manages Coronation’s Absolute Return Strategies as well as the Coronation Financial, Balanced Defensive and Capital Plus unit trust funds. Neill has 26 years’ investment experience.

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

## REVIEW FOR THE QUARTER

At the halfway point of this year, we have already had to contend with a few surprise election outcomes and proceedings. India's Prime Minister Narendra Modi was widely expected to have a clean sweep but had to form a coalition to secure a third term; while in France, President Emmanuel Macron called a snap national election in response to the gains by far-right parties in the EU parliamentary elections, who then suffered a surprise defeat against a left-wing alliance. At home, our own elections resulted in the ruling national party, the ANC, losing its majority position by an unexpectedly wide margin. Despite this result, initial fears of violence in KwaZulu-Natal or an alliance with the populist EFF or MK party have not materialised. Instead, we have seen a calm acceptance of the loss of its majority by the ANC and, encouragingly, a pull towards forming a centrist grouping with the DA. Notwithstanding the fraught negotiations leading up to the formation of the cabinet, the outcome announced by the President is broadly sensible. This is a positive result for the country and will hopefully lead to much-needed reforms being implemented. Our domestic asset prices have responded accordingly with a strong rally in SA government bonds, local property stocks, SA Inc. businesses and a strengthening of the rand versus the US dollar.

Market strength continued into Q2-24 with the MSCI All Country World Index returning 3% for the quarter (USD) bringing year-to-date (YTD) returns to 11.6%. Global economic growth remained reasonably resilient despite the higher-for-longer rate environment. Returns from the S&P 500 (+4% in USD for the quarter) were extremely narrow as three shares (Nvidia, Microsoft and Apple) accounted for more than 90% of the gain. The equal-weighted S&P has underperformed the S&P by a whopping 29% over the last 18 months.

The FTSE/JSE Capped Shareholder Weighted Index (CSWIX) returned 8.2% for the quarter bringing YTD returns to 5.7% (given the negative first quarter). The FTSE/JSE All Bond Index (ALBI) was up 7.5% over the quarter, bringing its YTD return to 5.6%. This is well ahead of cash, with a quarterly return of 2.0%.

Performance for the quarter was again very good with both asset allocation and instrument selection contributing to the total return. Importantly, the longer-term performance is still comfortably ahead of its inflation target.

Looking forward, while the formation of the Government of National Unity (GNU) will be a significant improvement to the one-party rule of the ANC, it will not be easy to manage the day-to-day working of a government consisting of many different viewpoints and ideologies. The low growth rut in which we find ourselves is the result of many years of neglect of infrastructure spending and poor management of vital SOEs such as Eskom and Transnet. Without adequate power, water, rail, and functioning ports, the economy will struggle to reach its full potential. Turning these very important cogs of the economy into efficient working enterprises will take time and monumental effort.

The government has also run up a huge debt burden that has had the effect of pushing local government bond yields very high, making debt servicing costly and borrowing for new investments very expensive. It will take several years of running much tighter budgets to improve the government's fiscal position. This comes at a time when big spending on neglected infrastructure is necessary.

These structural issues are not insurmountable, but the implementation of reform policies, together with timely execution, will be critical to overcoming them. We expect that the political coordination of the GNU will not be smooth and will require compromises to be made for the country's benefit. Hence, while the election outcome has been viewed constructively, the difficult work still lies ahead. Our absolute return Strategies have not made any significant changes to their positioning in response to the elections, as our key views are still largely in place. These are:

SA assets look cheap, but we remain selective. Our focus will continue to be on the longer-term outlook for these assets rather than positioning ourselves for short-term opportunities. As discussed above, a positive election outcome does not automatically and immediately result in a significant improvement in our country's growth profile. We have a reasonable allocation to SA government and inflation-linked bonds, mostly in the belly of the curve, where we think the real risk-adjusted returns are the most attractive.

In addition, our exposure to SA government bonds is supplemented by allocations to SA corporate credit, where the yields to maturity are healthy. The income-generating portion of our Strategy's domestic allocation is complemented by SA growth assets (mainly equities). Our domestic equity allocation comprises global businesses that are listed on the JSE, very specific commodity shares and robust domestic businesses that have reasonable growth prospects and that can supplement their growth with good dividend yields. The recent trading updates by the banks are instructive. While the banks all trade at multiples, which are at a discount to their long-term history, FirstRand and Nedbank (both held in the Strategy) delivered better-than-expected earnings, while Absa (not held) came in with sub-par results. This confirms that, ultimately, the underlying fundamentals continue to matter more than broad-brush investing in 'cheap' domestic assets.

Finally, global corporate credit holdings continue to generate a positive real yield and provide diversification in this Strategy's income category.

In summary, the Strategy holds approximately 33% in domestic equities, almost 30% in domestic bonds and 25% in domestic cash (as we look for opportunities to invest) and almost 11% in foreign fixed income assets.

In conclusion, the economic outlook for SA has improved and the new government has an opportunity to raise business and consumer confidence levels off an extremely low base *if* they follow sound long-term policies and appoint competent individuals in areas where it is needed. While we are hopeful for this scenario, we remain cautious in assuming quick success. Outside of SA, we think macro risks are easing, but major political and geopolitical risks remain and could create disorder. Our focus continues to be on building our Strategies from the bottom up to deliver robust inflation-beating returns in a diverse range of scenarios.