

## LONG TERM OBJECTIVE

The Coronation Aggressive Equity Strategy is our aggressive offering within our equity product range. The Strategy is constructed on a clean-slate basis with no reference to a benchmark, and seeks to outperform the equity market over meaningful periods (defined as at least 5 years).

## 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 underlying 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 clean-slate 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 the probability of a permanent loss of capital.

## STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	2,165.3%	1,439.6%	725.7%
Since Inception p.a.	15.8%	13.7%	2.1%
Latest 20 years p.a.	14.8%	12.8%	2.0%
Latest 15 years p.a.	12.3%	10.6%	1.7%
Latest 10 years p.a.	9.5%	7.0%	2.5%
Latest 5 years p.a.	21.6%	18.7%	2.9%
Latest 1 year	24.0%	22.9%	1.1%
Year to date	4.8%	5.8%	(1.0)%
Month	2.2%	3.6%	(1.4)%

## TOP 10 HOLDINGS

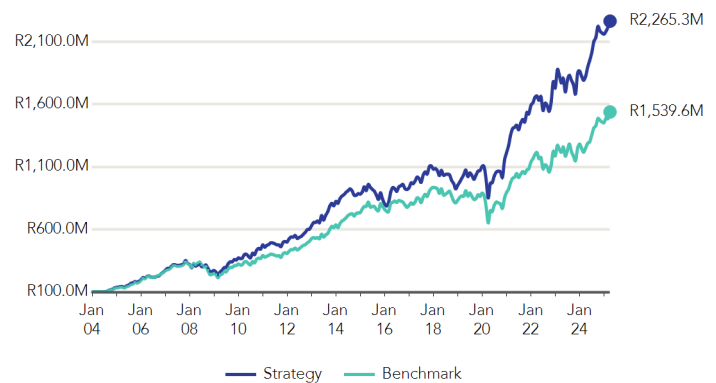
Holding	% Strategy
PROSUS	11.0%
STANDARD BANK GROUP LTD	7.3%
NASPERS LTD	6.5%
ANHEUSER-BUSCH INBEV SA/NV	5.9%
ANGLOGOLD ASHANTI PLC	5.4%
NEDBANK GROUP LTD	4.5%
QUILTER PLC	4.1%
INVESTEC LTD	3.0%
MTN GROUP LTD	2.5%
DIS-CHEM PHARMACIES LTD	2.4%

## GENERAL INFORMATION

Inception Date	01 January 2004
Strategy Size †	R18.44 billion
Strategy Status	Open
Mandate Benchmark	JSE Capped Shareholder Weighted Index (Capped SWIX*)
Dealing Frequency	Daily
Base Currency	ZAR

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

## GROWTH OF R100M INVESTMENT



Benchmark: JSE Capped Shareholder Weighted Index (Capped SWIX\*)

\*FTSE/JSE Capped Shareholder Weighted Index from 01 May 2017. Previously 50 Low Resources (inception to 31 January 2002) and FTSE/JSE Shareholder Weighted Index (01 February 2002 to 30 April 2017).

## PERFORMANCE &amp; RISK STATISTICS (Since inception)

	Strategy	Benchmark
Average Annual Return	17.0%	14.9%
Tracking Error	4.6%	
Information Ratio	0.5	
Annualised Standard Deviation	14.4%	14.4%
Maximum Drawdown	(33.2)%	(37.0)%

## TRACKING ERROR



## SECTOR EXPOSURE

Sector	% Strategy
Financials	31.3%
Technology	21.0%
Basic Materials	17.9%
Consumer Services	14.2%
Consumer Goods	8.7%
Telecommunications	3.2%

Sector	% Strategy
Health Care	1.7%
Industrials	1.6%
Derivatives	0.3%
Interest Bearing	0.1%

## PORTFOLIO MANAGERS



Neville Chester - BCom, CA (SA), CFA

Neville is a senior member of the investment team with 27 years' investment experience. He manages Coronation's Aggressive Equity Strategy and is co-manager of the Coronation Top 20 and Market Plus unit trust funds.



Nic Stein - BBusSc, CA (SA), CFA

Nic is a portfolio manager and analyst within the Coronation investment team with 15 years' investment experience. He co-manages the Coronation Aggressive Equity and Managed strategies as well as the Coronation Resources, Top 20 and Market Plus unit trust funds.



Nicholas Hops - BBusSc, CFA

Nicholas is Head of South African Equity Research and a portfolio manager at Coronation. He co-manages the Market Plus, Industrial and Resources unit trust funds. Nicholas joined Coronation in 2014 and has 11 years' investment experience.

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## REVIEW FOR THE QUARTER

Whatever happened in the last quarter, it pretty much pales into insignificance given the extreme moves that have followed into the new quarter. It had been a good quarter for SA equity performance in general, however the Strategy underperformed the benchmark due to being underweight gold counters. The long-term performance remains well ahead of the relevant benchmarks.

We had been managing the Strategy on a cautious basis for some time, having not gotten caught up in the Government of National Unity (GNU) rally last year, which saw SA-specific stocks rally hard on the back of hope that the GNU would deliver the long-awaited growth in the local economy. We were sceptical that such growth would filter through, and that what would come through would take much longer, given the frictions inherent in the system. On top of this, a central bank which persists in running very tight monetary policy with some of the highest real rates in the world meant that we were always unlikely to see the 2% GDP growth that many market participants were forecasting.

This proved to be fortuitous positioning as the domestic budget impasse has now shaken the foundations of the GNU, resulting in a severe sell-off of SA assets with equities, bonds and the currency all weakening. The fact that this happened in the midst of a global risk-off period due to the imposition of tariffs on the rest of the world by the US just added to the selling pressure.

Inherent in constructing a Strategy, we are always wary of building a Strategy around one specific view. Famously, Harry Markowitz, the founder of modern Strategy theory, stated that diversification is the 'one free lunch' that one gets in investment management, and to forego this to 'punt' a particular view in a Strategy is not professional management of clients' savings. We like to construct robust Strategy's that typically perform better through periods of volatility, allowing us to take advantage of price dislocations such as we are experiencing currently.

The application of global tariffs by the US in reality should not be that significant an impingement on the SA economy. On its own, tariffs do not result in inflation in SA, despite what certain pundits say. The fact that the currency has weakened will certainly bring an element of inflation, but this was not due to tariffs but rather the domestic issues related to the GNU. The US dollar has actually weakened significantly against most currencies this year, given the negative view market participants have taken on what tariffs mean for the US. SA has largely de-industrialised under our restrictive policies and the collapse of SOE's over the last few decades, and as such the country is mainly an exporter of mineral commodities which are not impacted by tariffs. It largely leaves the auto industry (already facing challenges from the transition from the internal combustion engine to electrified drive chains) as the main one impacted by tariffs.

Given all these moving parts, the Strategy's structure has remained largely unchanged. Our very large holdings in defensively positioned companies like ABI and AngloGold have provided stability and good returns through the past quarter and remain key holdings in the Strategy.

We have added Aspen to the Strategy as the share price has sold off this year, despite recently delivering better-than-expected results. An entrepreneurial owner-run business, Aspen has had mixed fortunes over the years as its aggressive expansion into a multi-national pharmaceutical business has been impacted by emerging market currency weakness and restrictive legislation in varying regions. Despite these travails, it has de-gearred its balance sheet, appropriately structured its debt and now has an enviable manufacturing base, presenting the business with opportunities to grow revenues off a relatively fixed cost base.

The past quarter saw the banks and insurers all report year-end results. By and large, these were all slightly better than expected. Our holdings of Standard Bank, Nedbank and Sanlam, all saw positive performance in the quarter because of this. They have all declared excellent dividends, which is the ultimate return for shareholders. While share price appreciation is nice, over the longer term, all price movement is anchored by the reality of the cash flows a business can deliver. Prices are now falling due to global and local risk sentiment, yet long-term investors can take comfort from the strong cash flows these investments are delivering to their shareholders.

Dislocations as we are currently experiencing always provide opportunities for the long-term stock picker. We are therefore excited by the opportunities we see in this market.