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The Coronation Fund Managers Personal Investments Quarterly

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NOTES FROM MY INBOX

‘CHAOS IS A FRIEND OF MINE.’
- BOB DYLAN

By Pieter Koekemoer

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



With politicians behaving badly everywhere, the news cycle may have left you somewhat jaded. From the UK’s shock and (under prime minister Theresa May) strengthening bid for isolationism to the Mexican peso emerging as the key gauge of who is winning a US presidential debate, abnormal is the new normal.

In SA, the headlines have been equally alarming. Every day brings more shock news of corruption and political strife, as well as scenes of burning universities and protest. The current mood is akin to the social unrest that plagued our country in the years leading to the first democratic elections in 1994.

It sometimes feels difficult to remain optimistic and to keep perspective. Still, ours is a noisy and vibrant democracy, and growing ever stronger. This was demonstrated by the local government elections in August, which delivered historic shifts in support as citizens expressed their discontent.

Fact is, the political and economic noise worldwide will not die down. Some of the developments will have long-term implications and require a recalibration of expectations. But Coronation’s investment philosophy allows us to block out the short-term commotion and single-mindedly pursue the most rewarding opportunities. These often emerge when there is more bad news than good (and when recent financial market performance is underwhelming). This focus on the fundamentals has underpinned our meaningful investment outperformance over the long term.

DECODING THE PASSIVE SALES PITCH

In this edition, we provide an active manager’s response to the considerable push toward passive investing over the past five years. Passive investing has created inefficiencies and mispricing in the market, offering opportunities for true active investors like ourselves. No wonder our CIO Karl Leinberger writes in the following article that index rebalancing days are his favourite days in the office.

Still, the fundamental flaws of index tracking as an investment strategy are becoming increasingly apparent. Its sales pitch is based on instant gratification and the need for a known cost, which are taking precedence over the actual goal of retirement investing: to have sufficient income to live on after retirement. But it is not hard to see why investors fall for the sexy sales pitch: with so much information and choice out there, it is easy for the key issues to get lost in the clamour.

Karl provides clarification in his article, and challenges the conventional thinking behind the sales pitch. From the true cost of these products to the integral shortcomings of a passive investment strategy (which forces investors to buy high and sell low), he finds that key realities are often glossed over.

As Karl also explains, tracking the index can be hazardous in a concentrated market like SA. Often investors end up with the very antithesis of the passive proposition: single-stock risk. With so few shares dominating the market, many investors are oblivious to the fact that they are dangerously exposed. Elsewhere in this edition, we explore another problem with benchmarks, particularly in emerging and frontier markets. We have long argued that benchmarks are often not a true and accurate reflection of the investable universe of those countries, nor do they represent the best companies that investors could invest in. On page 9, the head of our global frontiers team, Peter Leger, explains why active, clean-slate investing is a less risky way to access the best opportunities in these markets.

In addition to our quarterly contributions on the economy and markets, you will find a number of investment cases in this edition, including for Anheuser-Busch InBev (ABI). Following the SABMiller takeover announcement, our SA strategies were early investors in the Brazilian beer behemoth on the strength of existing coverage and fundamental analysis from our global investment team. Our analysts are frequent visitors to Brazil, and have over the years done extensive research into ABI.



BEST AFRICA FUND MANAGER

Coronation was recently named the Best Africa Fund Manager at the annual Ai Capital Market Index Series Awards held in New York. We are proud to have received the award three times in the eight years since the inception of our Africa strategies. This, we believe, is testament to the value that has been created for our clients and the success of replicating our proven investment philosophy and process across emerging, developed and frontier markets.

ADDITIONAL SECURITY MEASURES FOR OUR INVESTORS

We continue to invest in our security infrastructure to ensure we do our utmost to protect you against identity theft and cybercrime. To bolster our defences, we have recently started to implement voice biometrics. This means we will be able to use your unique voiceprint for authentication in future telephonic interactions. When next you call our client service representatives, we will register your voice details. This may mean staying on the line slightly longer than you are used to, but we think that the additional protection of your hard-earned capital will make this inconvenience worthwhile.

We hope you enjoy the read. As always, please do not hesitate to contact us if we have failed to live up to your expectations. ■

MARKET MOVEMENTS

	3rd quarter 2016 %	Year to date 2016 %
All Share Index R	0.5	4.8
All Share Index \$	7.7	18.2
All Bond R	3.4	15.0
All Bond \$	10.8	29.7
Cash R	1.8	5.5
Resources Index R	8.1	35.9
Financial Index R	0.8	2.5
Industrial Index R	(2.0)	(1.9)
MSCI World \$	5.0	6.1
MSCI ACWI \$	5.3	6.6
MSCI EM \$	9.0	16.0
S&P 500 \$	3.9	7.8
Nasdaq \$	10.7	7.2
MSCI Pacific \$	8.6	5.5
Dow Jones EURO Stoxx 50 \$	6.3	(2.4)



THE FLAWS IN THE CASE FOR PASSIVE INVESTING

BY AN ACTIVE FUND MANAGER

By Karl Leinberger

Karl was appointed CIO in 2008. He joined Coronation in 2000 as an equity analyst and was made head of research in 2005. He manages the Coronation Balanced Plus Fund and comanages the Coronation Equity Fund and the SA Equity Fund.



In recent years, passive investment products have gained significant market share across the world. In my view, John Bogle, long considered the godfather of passive investing, did the savings industry a great service, because there are many incontrovertibly good things that passive investing brings to the market:

- Passive products **increase choice for the consumer** – this is always a good thing.
- The case for passive products **is premised on low fees**, which puts pressure on active managers who charge inappropriately high fees (fees that are not justified by the value they have added in their funds over time).
- It **threatens active managers who have not delivered outperformance or who do not produce truly active portfolios** (that is, they construct portfolios that hug benchmarks).
- **Passive strategies genuinely make sense for some investors.** Examples include:
 - Investors who have not done the due diligence themselves, or have not taken the advice needed, to select skilled active managers.
 - Those who do not have the long time horizon needed to prosper in financial markets. (Unfortunately, these investors tend to churn out of the active manager who has recently underperformed in favour of the active manager who has recently outperformed. In the process, they end up chasing yesterday's winner, buying high and selling low, and ultimately destroying lots of value.)

However, notwithstanding these positives, I think that many investors in passive products are seduced by the sales pitch without fully understanding some of the deep flaws intrinsic to the passive proposition.

This article outlines a number of these flaws. (Please note that these points do not need to be read in any particular order, but in our opinion are all worth considering.)

1. INACTIVE (PASSIVE) INVESTING ACTUALLY DOES NOT EXIST

The bad news is that all investment actions require an active decision. No matter how artfully the passive sales pitch is presented, all passive investments fundamentally require an active decision. This is something of a fly in the ointment, as it is at odds with the seminal idea of passive investing – that clients are unable to identify which managers will make the correct active decisions and should therefore select an alternative that requires no active decisions (and thereby get the return of the market).

There are countless examples that demonstrate this point. Equity funds are a good place to start. A market cap weighted benchmark is the only true passive benchmark because it is the only index that all investors can buy. Yet the proliferation of passive equity benchmarks in all major markets is bewildering. In the US there are more equity benchmarks than there are large-cap stocks. This crushes the very foundation on which the case for passive investing rests, because investors do not simply get the return of the market when they invest in passive equity products. Instead, they get the return of the equity benchmark they have selected **after** fees and other costs incurred. And the active decision taken in choosing a benchmark can result in a materially different outcome for investors over long periods.

The SA equity market today provides an instructive case study. The most widely used passive products in the retail market are domestic equity funds. Once a client decides to allocate capital to a passive SA equity product, he/she then needs to choose a specific fund (benchmark). The bad news is that there are many options, each of which yield a very different outcome over long periods of time. In the retail market, the FTSE/JSE Top 40 Index funds initially attracted the lion's share of the SA equity money. However, over the last few years, SWIX 40 Index funds have outperformed the FTSE/JSE Top 40 Index funds. A significant part of this return differential has come from a lower weighting to commodity stocks in



the SWIX 40 Index. In 2015, this resulted in a big net inflow (R1.4 billion) to SWIX 40 Index funds and a large net outflow (R1.4 billion) from the ALSI 40 Index funds. Clients in these products believed they were following a passive strategy and getting the return of the market. Yet, in having to make the seemingly simple choice between the SWIX 40 Index and the FTSE/JSE Top 40 Index, they were unwittingly putting themselves into the position of having to make the most difficult active investment decision in the SA market: how much to allocate to commodity stocks?

The numbers tell the story. Index funds are forced to track the market. Consequently, they owned lots of commodity stocks at the top of the cycle, when prices were high (by June 2008, the SWIX 40 Index funds had 51% invested in commodities while the FTSE/JSE Top 40 Index funds had 61% invested), and they owned very little at the bottom of the market when prices were low (by December 2015, the SWIX 40 Index funds had 8% invested in commodities while the FTSE/JSE Top 40 Index funds had 12% invested).

To give you a sense of the commodity conundrum faced by all active managers in SA today:

- Commodity markets are oversupplied and the outlook is bleak.
- Supply is still increasing due to projects that were committed to at the top of the market.
- Demand is anaemic and depends heavily on China (which is at risk of a hard landing).
- As a result, commodity stocks trade at depressed levels. At the beginning of the year, commodity markets became so stressed that we estimate that many of these stocks were trading at a quarter of their underlying value. This explains why so many of them have doubled or tripled since their January lows.
- Is the 2016 rally a dead-cat bounce and are we in fact only halfway through a decade-long bear market? Or have we seen the bottom and are commodity stocks still cheap enough to buy?

There is an inherent irony in passive investing. Clients buy into the argument that they do not know which active manager will get the big calls right. In a flawed leap of logic, they are then seduced into thinking that active decisions are not required. In so doing, they unwittingly put themselves into the position of having to make some of the big active decisions themselves (for example, how much to allocate to commodity stocks, as noted above).

Given the fiduciary responsibilities that many advisers and boards of trustees have to the end investor, I question whether enough thought is given to the reality that active decisions cannot be removed from the investment process. This is the Achilles heel of passive strategies. Someone,

somewhere is making an active decision. First, this needs to be acknowledged. Then the decision needs to be made by a skilled and experienced professional who will be held accountable for the call.

2. THE PASSIVE ASSET ALLOCATION PROCESS IS FLAWED

Asset allocation is generally accepted to be the most important investment decision that any allocator of capital makes. The gains or losses from selecting the right or wrong equity manager will typically be dwarfed by the gains or losses stemming from the right or wrong asset allocation decision (for example, allocating too much to bonds and not enough to stocks). Asset allocation is the big call and you need to get it right.

Unfortunately, once again, there is no such thing as a passive asset allocation decision. The conceivers of passive products understand this, which is why passive multi-asset class products are typically 'hardwired' to make rules-based asset allocation decisions using passive building blocks. While they may pitch this asset allocation process as being passive, in truth, investors are buying a fundamentally active asset allocation strategy.

As an example, many passive products use a fixed equity/bond allocation that is rebalanced periodically. Typically, the optimal allocations are arrived at by analysing history and back-testing alternative allocations to find the ones that worked best (in the past). The rebalancing process is rules based – it typically happens either monthly, quarterly or on an annual basis (usually whatever has worked best in the past!).

Make no mistake, this is fundamentally a very active investment strategy. The investment decision is based on historical performance data and implicitly assumes that the future will look like the past. I question whether this will be the case. There are many reasons for this, but to name just a few:

- Over the last five decades the JSE has produced extraordinary, once-in-a-generation returns that are unlikely to be repeated in the future.
- The JSE itself looks nothing like it did ten years ago. Three of the six largest stocks listed on the JSE were not even listed on our market ten years ago.
- Central bankers responded to the global financial crisis with quantitative easing. Eight years later, interest rates in many countries are now negative. This is a grand experiment that poses significant risk to economies and to the savings industry worldwide.
- I believe that quantitative easing has created a bond bubble; one that has massively inflated historical bond returns and will result in massive losses for bond investors at some point in the future.



3. PASSIVE PRODUCTS ARE NOT APPROPRIATE IN A HIGHLY CONCENTRATED MARKET SUCH AS SA

One of Bogle's strongest arguments in favour of passive investing is that investors in passive products remove stock-specific risk from their portfolios and simply get the return of the market. This is a compelling argument and it applies in many of the world's more mature and deep markets. Investors in a passive Standard & Poor's (S&P) 500 fund today have only 3% of their investment exposed to the single largest stock, while exposure to the ten largest stocks in their portfolio will amount to 18%.

Unfortunately, the SA equity market is highly concentrated. The largest stock in the SWIX 40 Index is Naspers, at an eye-watering 19%, while the top ten stocks in the index represent 47%.

Accordingly, one of the strongest arguments in favour of passive strategies does not apply in the SA market. Not only does it not apply, it is actually the reverse - there is an unmanaged risk latent in most passive SA equity products today. Investors in passive SA equity products do not avoid single-stock risk. Often they end up with much more single-stock risk, and they do so without a skilled and experienced investment professional being accountable for the appropriateness of that weighting.

We currently believe that Naspers is undervalued. For that reason, although it is a large weighting in our equity portfolios, it has been appropriately sized in accordance with our view of the risk-adjusted return that it offers. Fundamentally, however, it remains a risky stock. Most of its value comes from its Chinese internet holding, Tencent. The internet sits at the epicentre of creative destruction. Most of the world's biggest internet companies today barely existed ten years ago. Will the winners of today dominate the internet ten years from now? In China, the risks are even greater because Chinese internet companies are not faced with meaningful competition from the global gorillas (Facebook, Google, etc.), all of which are not allowed to operate in China. Thus the incumbents implicitly depend on the support of their regulators to thrive. Tencent is the kind of stock that can easily become overvalued and decline precipitously at any time. It is not the kind of stock that should be close to 20% of a retirement portfolio, certainly not without an active decision supporting it and an investment professional accountable for the call.

4. PASSIVE BOND FUNDS ARE ALARMINGLY FLAWED

Bond funds are perhaps the most flawed of the passive products. The conundrum of setting an appropriate

benchmark for a bond fund is even greater than that described for an equity fund. It is typically solved by adopting the well-known bond indices: the Citigroup World Government Bond Index (WGBI) for global bonds and the JSE All Bond Index for SA bonds.

The problem here is that the more indebted an entity, the more bonds it has in issue. And the more bonds it has in issue, the greater its weight in the index. This is a very perverse outcome. Investors in passive bond funds end up, unwittingly, in products with a systemic bias to more indebted (riskier) entities. All other things being equal, the more indebted an entity, the less creditworthy it is, and the higher its weighting in a passive bond fund.

The point is well illustrated by the WGBI today. Three countries stand out as having government debt levels that vary from worrying to terrifying: France, Italy and Japan. Their debt/GDP numbers are 97%, 133% and 248%, respectively. In the WGBI, Japan has a weighting of 23%, France a weighting of 8% and Italy a weighting of 7%. All three countries are at risk of a debt trap. Japan, in particular, continues to blithely rack up deficits with complete indifference to the country's own insolvency. And yet, the bigger those deficits, the more bonds these countries will issue, and the more of their bonds passive bond funds will have to buy.

5. PASSIVE IS BECOMING DISCONCERTINGLY ACTIVE AS SMART BETA PRODUCTS GROW IN NUMBER

An interesting development in the passive industry is that, as passive has gained in acceptance and confidence, it has become more active. More and more active investment decisions are being designed into passive products (is the world not an amazing place?). The boundaries between active and passive are therefore becoming ever more blurred. All smart beta products are, in truth, semi-active products. Is this a bad thing? I think so:

- The risk in these products is that clients believe they are getting a passive product - one that will track the return of the market (albeit with a few tweaks here and there that happened to have worked out very well in the past). These tweaks are always ones that delivered excellent results in the past. The back-testing results are always compelling. However, financial markets are daunting places that humble the best. If the formula for success were as simple as repeating what worked in the past, we could all fill our investment teams with algorithms and get on with life ...
- In many cases, clients do not realise that they are invested in products where far-reaching active decisions are in fact being made. This applies as much to the smart beta



building block funds (bonds, equities, properties) as it does to the passive asset allocation funds. In most cases these important active decisions are not being made by a team with the skills, the experience, the extensive research process and the granular understanding of the underlying securities that ought to support any active decision-making process.

6. THE PASSIVE SALES PITCH IS PREMISED ON LOW FEES. THIS IS OFTEN FAR FROM THE TRUTH.

Although we do not have access to fee data in the institutional market, I assume that many large pension funds secure fees below 0.2% per annum (which I consider to be a fair fee for passive).

In the retail market, however, passive products are surprisingly expensive. *In fact, many passive retail products seem to charge active-like fees for a passive service:*

- The total investment charge (TIC) for the five largest equity tracker unit trusts in the retail market are still very high, at 0.78% per annum on average.
- The equivalent number for the largest equity exchange-traded fund (ETF) in the market is lower, but still high, at 0.46% per annum. (This was arrived at by doing a like-for-like comparison to a unit trust, which includes the brokerage costs incurred in buying and selling ETFs. In this calculation we used the cheapest brokerage deal we could find and watered down those brokerage costs over a 20-year holding period.)
- The TICs for smart beta products are significantly higher than the pure equity trackers; in many cases these are close to those that genuinely active funds charge.

7. SOME PASSIVE PRODUCTS UNDERPERFORM THEIR BENCHMARKS BY A LOT MORE THAN THEIR EXPENSE RATIOS

The passive sales pitch leaves one with the impression that a passive product will give its client the returns of the benchmark after fees. However, an analysis of the historical returns delivered by passive retail products/ETFs demonstrates that this is not always the case.

Passive products underperform their benchmarks to the extent that they do not perfectly mirror their benchmarks, as well as due to the trading costs they incur. As more money flows into passive products, I think this underperformance will become more pronounced. Why?

- Flows into passive products result in an increased supply of scrip lending in the market. Passive products earn a fee income from scrip lending, but as supply increases, that fee income will decline.

- When indices are rebalanced (as stocks fall away or are added to the index), passive products will increasingly struggle to mirror their benchmarks as more and more money competes to do exactly the same trade.

An analysis of the retail market does not reveal a uniform experience across the different product providers. Some products have not suffered any performance drag at all, whereas for others it is as high as 0.5% per annum (this needs to be added to the fund's TIC to calculate total underperformance).

In the end, a thoughtful analysis of the passive sales pitch reveals many flaws that are glossed over by its proponents. As is so often the case in life, the theory is frequently very much at odds with the reality. Although passive undoubtedly has its place in the market, we observe that it comes with as many negatives as it does positives.

FINALLY, WHAT DOES THE GROWTH IN PASSIVE ASSETS MEAN FOR ACTIVE MANAGERS?

In my opinion, true active managers have nothing to fear. Passive investing leverages off active investing, because active managers make markets more efficient than they would otherwise be. The two strategies are, for this reason, complementary. Markets function best when there is a broad universe of investors with different strategies and time horizons. The growth in passive strategies actually increases the opportunity set for the genuinely active manager. It does this by increasing liquidity in the market. It also makes markets less efficient because it fundamentally biases the investment process towards buying high and selling low. It systematically gives higher weights to overvalued stocks and lower weights to undervalued stocks.

A good practical example would be index rebalancing days (these happen once a quarter and are my favourite days in the office because of the opportunity they provide to buy cheap stocks and to sell expensive stocks in size). On these days, passive products are forced to sell stocks that have performed poorly enough to fall out of their respective benchmarks and to buy those stocks that have performed well enough to move up into their respective benchmarks.

By definition, active managers cannot deliver out-performance if markets are efficient. They endeavour to buy low and sell high. In order to do so, they need someone on the other side of the trade. Passive money is here to stay. It no doubt adds to the stress levels of rational long-term managers (by definition the inefficient pricing of assets has to cause short-term underperformance in their funds). But ultimately it creates opportunity.

Many of our clients ask us to critique the passive proposition. Although this article was penned in answer to that request,

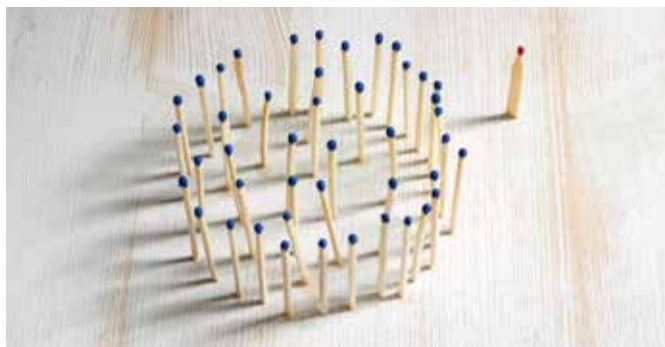


I think that as an active manager we ought to heed the wise words of Jeff Bezos, the founder of Amazon. He notes that most businesses spend too much time watching their competitors. Amazon has succeeded because of its relentless focus on its clients, not its competitors. The active manager that cuts out all the noise and delivers compelling results for clients over long periods of time (and charges a fair fee for that service) will prosper regardless:

- Over Coronation’s 23-year history, our institutional (pension fund) SA equity portfolios have outperformed their benchmarks by 3% per annum before fees. R100 million invested on the day we opened for business

in 1993 would be worth R3.8 billion today, after all fees and costs. That same amount invested in passive alternatives, at a fee rate as low as 0.2% per annum, would be worth R2.8 billion.

- Similarly, R100 000 invested in our SA equity unit trust on the day it launched in 1996 would be worth R3.1 million today, after all fees and costs. The same amount invested in a passive All Share Index-tracking unit trust fund at a TIC of 0.78% per annum (approximately what the two largest retail index tracker funds charge) would be worth only R1.3 million, and worth just R1.4 million if it had been invested in an All Share ETF (with an all-in cost of 0.46% per annum). ■



BENCHMARKS

THE RISK OF ZOMBIE INVESTING AND DEAD MONEY

By Peter Leger

Peter is head of Coronation’s Global Frontiers investment unit and manages portfolios within the strategy. He has 18 years’ experience as both a portfolio manager and research analyst.



I get it. Folk in finance spend their lives putting numbers to things. We love to measure and track and record. Whole industries are built on this and it comes with its own language. It helps us feel in control and that the quality of our decisions is more measured. And arguably, it does translate into better decisions.

The rise of the investment industry’s obsession with benchmarks and the tracking thereof is a case in point. Sure, it helps consultants and fund selectors to compare a manager’s abilities, and the importance of this goes without saying. The bigger question is whether this is really the best approach, especially in a world where the very nature of benchmarks can be quite arbitrary. Too often the accepted wisdom of the use of benchmarks goes unchallenged, and too little time is spent understanding the one thing that ultimately ends up defining a portfolio.

For Coronation, the more important question investors should ask is why they are participating in the markets they have chosen.

When it comes to frontier markets, the reason supporting their investment decision should not be because they want to outperform a benchmark. Returns in some of these markets can reach large negatives, and beating a benchmark in this instance is cold comfort. By hugging a benchmark, a

manager can be accused of lacking investment conviction and, quite frankly, courage.

Generally, when we make the above argument, we get accused of wanting to be rewarded for beta performance in a portfolio. Simply put, I (the portfolio manager) am trying to take credit for a general move in equity prices, rather than outperforming an equity benchmark. Nothing could be further from the truth. We believe there is far more value in trying to make sure that we focus on generating absolute returns for our investors, rather than outperforming a poorly constructed benchmark. And this is often no easy task.

In the frontier space, the most widely used benchmark is the MSCI Frontier Markets Index, measured in US dollars. This index includes 117 constituents and covers 85% of the free float-adjusted market capitalisation in each country. Sounds like a good effort. When building benchmarks, MSCI states that a strong emphasis is on index liquidity, investability and replicability.

The key words in the above paragraph are **investability** and **free float**. These two filters have major consequences and result in a significant distortion of the index. Why does this matter? The free float refers to the percentage of ownership of stocks held by shorter-term investors. By way



of example, British American Tobacco plc (BAT) owns 60% of the listed BAT Kenya. The free float is then put at 40%, and the benchmark weight of the index is downweighted accordingly.

If you do a screen of consumer stocks across frontier markets, a very common theme is that the global multinationals have beaten the investment community to the choicest consumer options. BAT, Heineken, Diageo, Nestlé, Unilever – the list goes on – all have claimed their stake in these markets. And as a result, the benchmarks receive a corresponding haircut. Banks, typically, do not have international parents. Or if they do, they have grown at a much slower rate. Banks, by their nature, issue shares as they grow. This has resulted in the free float of financial stocks being very high, and they have muscled in far greater representation in the index.

We prefer the more measured approach of investing in consumer stocks that fund growth through internal profit generation and those that come with greater comfort of an international parent. Why then would we choose to have a measurement (benchmark) that forces us to buy more of companies that display far less discipline when it comes to the use of their capital and the issuance of precious scrip? This is exactly what using the MSCI Frontier Markets Index forces one to do.

Let us take a look at how MSCI defines the space and the results thereof.

TOP COUNTRIES IN THE MSCI FRONTIER MARKETS INDEX VS CORONATION PORTFOLIO POSITION

Country allocation	MSCI Frontier Markets Index	Coronation Global Frontiers*
Kuwait	17.2%	0%
Argentina	15.3%	0%
Pakistan	9.5%	8.3%

* Coronation Global Frontiers is an institutional portfolio.

Sources: Coronation, Trustnet Offshore, MSCI

Coronation Global Frontiers is an institutional-only portfolio. Another institutional portfolio, Coronation Africa Frontiers, is managed by the same team and included as an underlying holding in our multi-asset funds such as Coronation Balanced Plus.

TOP SECTORS IN THE MSCI FRONTIER MARKETS INDEX VS CORONATION PORTFOLIO POSITION

Sector allocation	MSCI Frontier Markets Index	Coronation Global Frontiers*
Financials	50.2%	19.7%
Telecommunications	13.1%	8.9%
Consumer staples	11.5%	37.3%
Energy	8.8%	1.3%

* Coronation Global Frontiers is an institutional portfolio.

Sources: Coronation, Trustnet Offshore, MSCI

We maintain that investors who choose to put capital to work in frontier markets do so because they wish to compound their capital. They are not actively investing in what is often viewed as a risky asset class because of benchmark volatility. Accordingly, by constraining a portfolio around a benchmark such as MSCI Frontier Markets you run the inevitable risk of sizing investment positions relative to the benchmark, and not relative to the return opportunity on an absolute basis.

We are not suggesting that fund managers whose portfolios resemble the benchmark do not have a fundamental view of the position size in their respective portfolios. The only point we are trying to make is that a definite consequence of portfolios that are risk constrained against a particular benchmark is the inclusion of positions that are merely the result of benchmark referencing.

You should not own a frontier stock just because it happens to be large in a frontier markets benchmark. And constraining a frontier markets portfolio manager to a benchmark risks unintended consequences that will be in direct contradiction to the original reasons for choosing to invest in frontier markets.

As active, bottom-up stock pickers, we view this akin to zombie investing, and would rather avoid carrying dead money in our portfolios. ■



ANHEUSER-BUSCH INBEV

A BEER BEHEMOTH

By Dirk Kotzé

Dirk joined Coronation in 1998 and currently co-manages a large segregated industrial mandate. His research background spans resources, heavy industry and consumer staples.



'Non est potestas Super Terram quae Comparetur ei.' (There is no power on earth to be compared to him.)

A Latin quote from the Book of Job describing the mythical beast Leviathan (or behemoth). The quote was featured on the frontispiece of the original 1651 edition of Leviathan by Thomas Hobbes. Leviathan was a feared sea serpent or monster. In Hebrew it simply means 'whale'.

Thursday 29 September marked a sad moment in South Africa's corporate history. It was the last day of trading for SABMiller, which listed as the JSE's first industrial company in 1897. Over the past 119 years, South African Breweries grew to become the world's second-largest brewer, one of the top 100 companies listed in London and the second-biggest company on the JSE. Yet it was not too big to be acquired. In September 2015, Anheuser-Busch InBev (ABI), the world's biggest beer company, made an audacious offer for SABMiller. The combination of (mostly) cash and shares, bumped up by several sweeteners to a final \$112 billion, was accepted a year later. End of SABMiller. Fortunately for SA investors, ABI had to get the blessing of local regulatory authorities, one of the many hoops it had to jump through. It was clear early on that a JSE listing would go some way to smoothing that path. ABI duly became an inwardly-listed company in February this year. SA-based investors can thus still obtain exposure to the assets they once owned (and then some) through the shares of the acquirer. To many local investors, however, the 'new' company will feel big, foreign, unknown and a little scary, like the leviathan of legend. This note will do its best to demystify the beast.

Let us start with the people behind ABI. The company has its origins with three gentlemen named Jorge Paulo Lemann, Marcel Herrmann Telles and Carlos Alberto Sicupira. You probably know the story, but here is a recap. Lemann, Telles and Sicupira founded Banco Garantia, an avant garde investment bank, in Brazil in 1971, eventually selling it to Credit Suisse in 1998 for \$675 million. They had identified beer as a great business and used their capital to buy the Brazilian brewery Brahma. In 1999 they merged it with another brewing company, Antarctica, to form Ambev, the

biggest brewer in Brazil. This first big deal, done when Lemann was already 59 and with a heart attack under his belt, set them up for greater things. Within five years, and now under the leadership of Lemann's protégé, Carlos Brito, Ambev was big enough to merge with Interbrew, a prestigious but sleepy Belgian brewer. The cost savings that the aggressive Brazilians were able to extract from Interbrew astounded the market. The stock of the combined firm, now called InBev, rose 40% in 2005 alone. In 2008, at the height of the global financial crisis, InBev made a controversial \$46 billion bid for Anheuser-Busch, the US corporate doyen. To have raised such a sum given the global backdrop at the time was an unbelievable achievement. It worked and became the stuff of business legend, as recounted in many breathless books (*Dethroning the King*, by former *Financial Times* correspondent Julie MacIntosh among many others).

ABI was now the biggest brewer globally and owned Budweiser, the so-called 'King of Beers'. Again, cost savings were significant. They were to do it twice more. In 2012, ABI bought the 50% in Mexican brewer Modelo that it did not already own, for \$20 billion. To acquire SABMiller, it raised over \$60 billion of bond finance. Following the deal, ABI - already a global behemoth - is now the biggest consumer product goods company in the world by profits (ahead of Procter & Gamble and Nestlé). In brewing terms, it makes almost five times the profits of the next global brewer, Heineken. Leviathan indeed.

Make money, and the world will conspire to call you a gentleman, said Oscar Wilde. In joint control of ABI through a voting pool arrangement (with the Belgian families who used to own Interbrew), the Ambev founders are now among the world's most celebrated billionaires. How did they do it? Well, they are clearly very good dealmakers and financiers. But these are not asset strippers and paper merchants. They have improved the quality of the acquired businesses by simplifying them, scaling them up and removing costs. In almost all cases, the operating margins of acquired businesses have been increased by more than 10%. At the heart of this success lies a unique

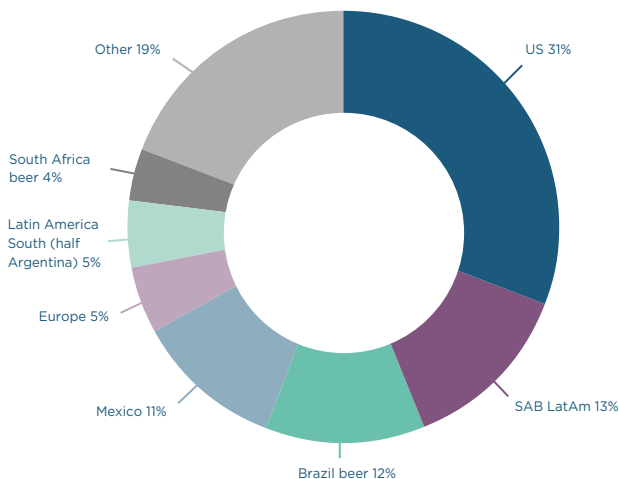


business culture ('dream, people, culture', in their words) which can be rendered as follows:

- ABI is very good at large-company basics like distribution, logistics, procurement and sales execution. Excellence, at scale, is powerful.
- Management structures are flat, allowing direct line of sight downward and feedback upward. Somehow they run businesses with fewer people than peer companies.
- Managers are heavily incentivised to reach outrageous stretch targets (the 'dream'), the idea being that they are then challenged to find innovative ways to bridge the 'expectation gap' to a higher level of performance. Incentives are largely through shares, aligning the interests of managers and shareholders.
- Budgeting is brutal and goals are set from the top. ABI is synonymous with zero-based budgeting. They are cost demons who fly economy and stay in gritty bed-and-breakfasts. To get a new ballpoint pen, you have to hand in your old one. Really.
- Simplicity. They drive hard, but mostly at things that can move the needle. The focus is to get things 80% right, but not to sweat the small stuff (the 80% effort that brings the last 20% reward).

Enough of the history. What are investors in ABI getting? The following pie chart shows where the earnings come from.

ABI EARNINGS SPLIT



Source: Coronation estimates

A massive 77% of earnings comes from the Americas, 33% from North and 44% from South. ABI's Latin American business is particularly powerful, and spread across 17 countries, with Brazil and Mexico prominent. The six ex-SAB countries add significant scale to this continental presence. At 9% (of which SA represents 4%), Africa still punches below its 30-country weight, but it offers both organic growth and the potential for mergers and acquisitions. To round off a truly global portfolio, Asia (China, Australia and

South Korea) comes in at 9% and Europe (nine countries) at 5%. Some 56% of ABI is exposed to faster-growing emerging markets, climbing to an expected 66% by the end of our forecast period. With a solid 30% of earnings from the US, and diversified as ABI is across continents and currencies, currency exposure is actually quite modest. Looking at things in aggregate, ABI sells one in four beers consumed worldwide and earns between 45% and 50% of all the profits in global beer. For the SABMiller deal, it raised \$60 billion in debt at a rate of 3.2%, with an average term of 13 years, a better rate than is available to some countries, including SA. Its prodigious financing capability is underpinned by an annual EBITDA (discretionary cash flow) of \$25 billion. Market capitalisation is \$260 billion, or R3.5 trillion. Leviathan.

How do you grow something that is already this big? There are many moving parts, but on the 80/20 principle, the things that will make the difference over the next five years are:

- \$1.95 billion of synergies to come from re-sizing SABMiller's (and the joint) cost base after the deal.
- ABI's important US business is presently struggling. Market conditions are tough and some key brands, especially Bud Light, are underperforming. To fix this, sales and marketing expenditure is currently elevated. A normalisation of these factors will add to earnings growth from here.
- The strong growth in the acquired SABMiller LatAm businesses will continue, aided by margin enhancement from ABI's logistics and efficiency initiatives.
- Mexico is turning into a brilliant market for ABI. A large, profitable duopoly with ABI in the lead role, it is growing strongly. Margins can still expand further.
- In China, ABI's premium beers have found a sweet spot as an affordable luxury, while mainstream beer and fancy spirits have battled. Profitability will more than double over the next five years.

If we consider the income statement at a group-wide level, from the top down, revenue should grow close to 10% in dollars in the medium term. This comes from a combination of 3% to 4% volume growth, 3% to 4% annual growth in price/mix and a bit of help from currency strength. The margins of a consumer staples company should rise gradually with greater scale and efficiency, taking growth in operating profit to over the 10% mark. Now add or subtract the effect of de-gearing (less interest as they lay off the acquisition debt), tax effects and gradual share buybacks, and one comfortably gets to 12% earnings growth. In dollars. Leviathan can indeed still grow.

We have here the opportunity to buy shares in a company with excellent, almost unbeatable fundamentals, one of the best in the world. It offers scale, market power, a strong balance sheet and a deep moat around the business, in the form of brands, relationships and market positions. Beer is a



consumer staple with steady revenues, the portfolio effect takes care of currency and country issues, and growth is guaranteed through exposure to emerging markets. To round it off, there is the stewardship of awesome capital allocators who are shareholders alongside us. Perfection comes at a price, however. ABI is priced at around 19 times what it should earn in a normal year. And for now, before the cost savings are reflected in earnings, the one-year price earnings stands at a daunting 26 times. Even a few years ahead, the price earnings comes out at the higher end of the peer spectrum. Too rich? It may be for some. This share has looked expensive many times in the past and still did well for shareholders. Perhaps

the problem is that the optionality from new deals cannot be accommodated in earnings forecasts. Or that natural conservatism means the forecast has upside.

Taking it all into account, I see a decent margin of safety between our valuation of the company and the actual share price of ABI, a stock SA investors should be willing to hold even if it were at fair value. Thus, it is not a buy or sell decision for me but rather how big the portfolio weighting should be. Most Coronation portfolios already have a sizeable position in ABI. It is likely to get bigger over time. Disregard Leviathan at thy peril. ■



THE IMPORTANCE OF GROWTH

AND WHY IT IS A KEY CONCERN FOR THE RATINGS AGENCIES

By Marie Antelme



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

It really is all about growth. Growth reduces poverty, lowers unemployment, creates incomes and generates taxes. In turn, this adds to revenues and allows governments to implement policies that improve the standards of living. Sustained periods of growth reinforce this virtuous cycle – creating economic room for wider government services, education, investment, innovation and ultimately improvements in productivity.

Without growth, it is very difficult to achieve a sustained reduction in poverty. It also becomes unattractive for companies to invest or employ, and ultimately government coffers run dry. Without decent revenue income, governments are forced to raise debt in order to secure money to spend. The more debt governments raise, the more markets and investors demand to be paid for such funding.

Over time, the cost of borrowing tends to increase, further limiting government's options. This is why growth is so important, and why it is a key concern for those ratings agencies with pending reassessments of SA's sovereign rating. In economic terms, there are only three ways in which an economy can grow. It can:

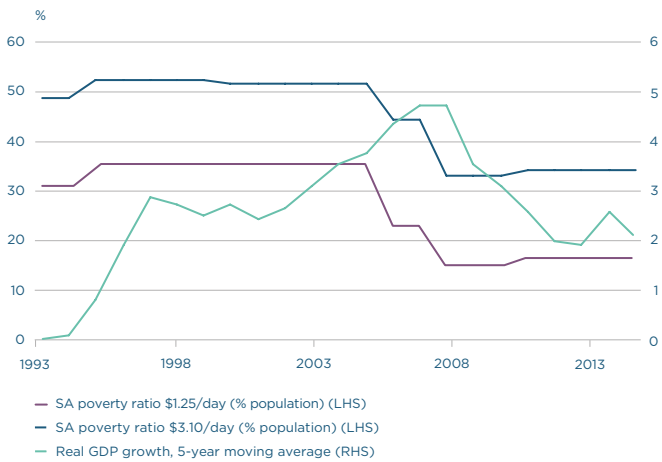
- absorb more labour by creating jobs and incomes;
- invest more in capital and create capacity; and
- especially once the gains from both of the above have been realised, combine its labour and capital in more creative ways to generate output through productivity.

It is perhaps easy to dismiss this 'virtuous cycle' as one that sounds nice in theory, but unlikely in reality. This is especially true in the current environment, where globally economies seem stuck in a low-growth and low-productivity rut, and both monetary and fiscal options seem limited. SA is facing the same challenge: growth has fallen to very low rates and potential (long-term) growth estimates have been steadily revised lower. This reflects diminished capacity within the economy to generate healthy, sustained growth at this stage, and through the deterioration, government has had to rely more heavily on raising debt to fund spending.

What is perhaps harder to remember is the fact that SA has seen periods where sustained growth did lift a significant number of people out of extreme poverty, where unemployment fell and investment picked up, and government was able to implement social policies that improved standards of living. Importantly, SA was able to reduce the proportion of people living in extreme poverty during this period, and still managed to improve the fiscal position. The World Bank defines 'extreme poverty' as those living on less than \$1.25 per day. At the time of writing, that would have amounted to about R17.50 – a little more than the cost of one night's sleep in a homeless shelter in Cape Town. In 1993, the World Bank measured SA's 'extreme poverty' headcount at 32% of the population. By 2011, this figure halved to 16.6%. If we use a slightly wider World Bank measure, the proportion of people living on less than \$3.10 per day in 1993 equalled 49.2%, and reduced to 34.7% by 2011.



SA: POVERTY AND GROWTH

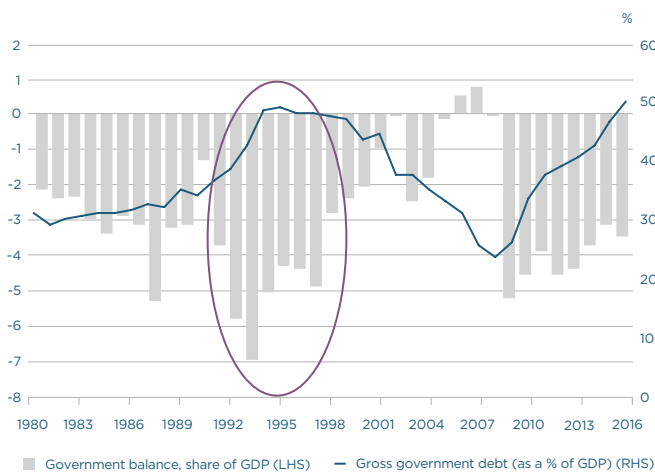


Sources: World Bank, SA Reserve Bank

This is no mean feat when considering the economic adjustment that took place in SA over this period. In 1994 the ANC government inherited an economy that was basically bust. There was no real growth, and the fiscus was in a terrible state. Government debt totalled 42% of GDP in 1993 (and would accelerate to 49% by 1995), and the deficit plummeted to -6.9% of GDP.

Between 1994 and 2000, government began to implement policies to stabilise the economy. It adopted a fiscal framework that was initially guided by the Reconstruction and Development Programme (RDP) and then, from 1996, by the Growth, Employment and Redistribution strategy (GEAR). The adoption of GEAR, in part, recognised that economic growth was too slow for government to implement the social objectives of the RDP. This meant that between 2001 and 2006, fiscal policy became visibly more expansionary. Expenditure increased from 19.7% of GDP to 23.1%, representing real growth of 8% on average

SA: FISCAL POSITION



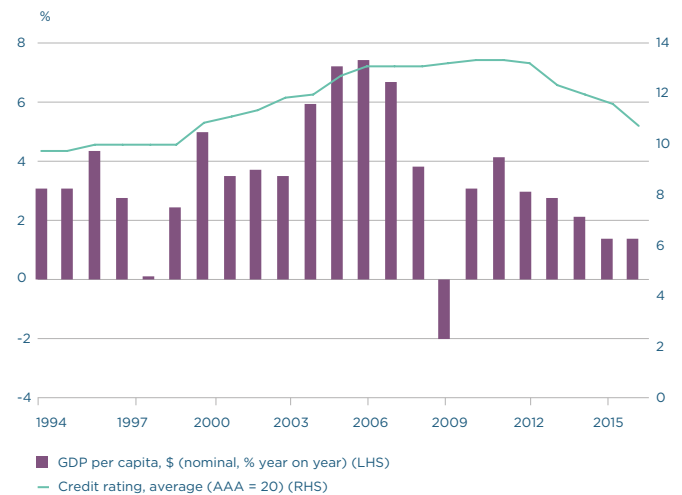
Source: National Treasury

over the period. During this time, revenue increased to more than 26% of GDP, buoyed by stronger nominal growth, a widening of the tax base and commodity price windfalls. Alongside steady fiscal consolidation, government started to build a social security safety net, which included a system of conditional and unconditional grants. The net effect was an increase in noninterest spending, but smaller deficits (as is clear from the previous graph).

Ratings agencies recognised the strong commitment to, and delivery of, more sustainable fiscal policy (and the decent growth that ensued), and awarded SA with investment-grade ratings - upgraded steadily from 2001 to 2009.

In some ways we are faced today with similar challenges to those prevailing in 1994: the economy is likely to grow by only 0.3% this year and by about 1% in 2017. The medium-term budget policy statement should deliver a deficit forecast a little weaker than the -3.2% targeted in the February Budget, as the quality of revenue is weaker than expected and is a risk to the targeted fiscal deficit for the current fiscal year. Expenditure is also running a little ahead of budget, although early election-related spending may reverse and some evidence that government is managing to lower its wage costs could provide some relief. In the past, government has demonstrated its ability to hold fast to an expenditure cap, and will have to keep a firm grip on its expenditure targets to deliver a sustainable improvement in the fiscal balance.

SA: GROWTH AND AVERAGE CREDIT RATING



Source: Oxford Economics

Gross loan debt has risen quite sharply from a low of 26% of GDP at the peak of the previous cycle in the first quarter of 2009, to 50.5% at the end of the 2015/2016 fiscal year. This is above the pre-democracy levels. Low interest rates have kept the cost of servicing debt reasonably contained, but certainly this is a risk going forward.

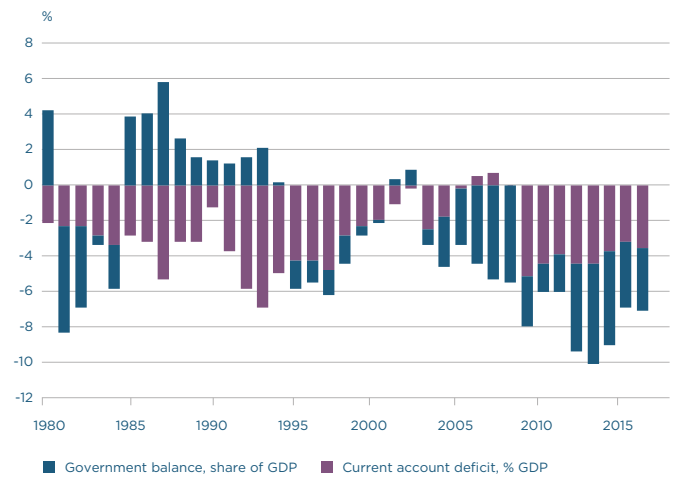


A rise in debt service costs will leave even less room for spending on social protection or investment. Overall, the fiscal position is constrained and National Treasury has a formidable task in coordinating ongoing consolidation. And instead of working towards achieving ever better investment-grade ratings, as was the case through the last decade, SA is trying to avoid a downgrade to junk status.

Looking ahead, there are reasons to be more optimistic as well as significant lingering concerns. On the positive side, some growth data look a little better: the second-quarter GDP rebound to 3.3% quarter-on-quarter (seasonally adjusted and annualised) is unlikely to be sustained, but better-than-expected trade data are driving net export growth, and the current account is at the margin less of a funding concern. In time, households should benefit from falling (food) inflation following the sharp rise in 2016. Even if the job market fails to recover, real household incomes should have some reprieve, and falling food inflation tends to alleviate more strain on low-income households. We expect the central bank to keep interest rates on hold at 7% for some time, but if inflation is well below the current SA Reserve Bank forecast for 2017 of around 5.7% on average, there should be room to cut rates late next year. Growth in 2017 should be closer to 1% in real terms, and possibly a little higher.

The political environment remains fluid, and uncertainty is no friend of growth. Consumer and business confidence is constrained. These are key ingredients of future growth

SA'S JOINT FUNDING REQUIREMENT



Source: SA Reserve Bank

dynamics – companies in particular may be able to spend on investment, but if they are unwilling to do so, growth will remain weak, and options limited. While ratings agencies may remain forgiving of weak (but improving) growth, their assessment of government’s willingness and ability to meet its debt obligations has become more uncertain with the pressure on state institutions, which has increased since the end of 2015. An end to this uncertainty would greatly improve SA’s growth prospects. ■



BOND OUTLOOK

‘WE ARE CONTINUOUSLY FACED WITH GREAT OPPORTUNITIES BRILLIANTLY DISGUISED AS INSOLUBLE PROBLEMS.’ - LEE IACocca

By Mark Le Roux



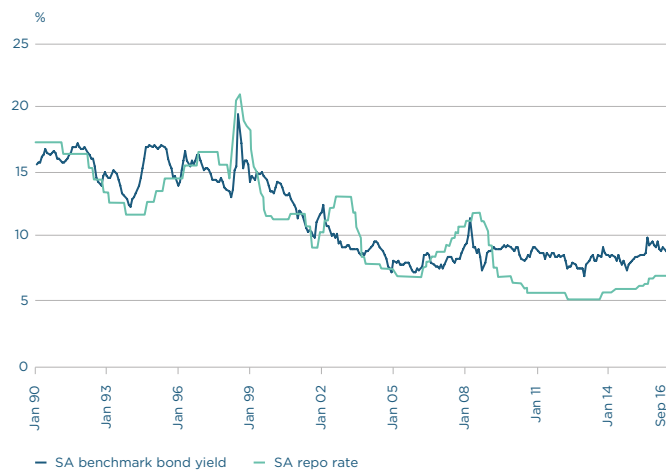
Mark is head of Coronation’s fixed interest unit. He joined Coronation in 2005 and has 25 years’ experience in the investment industry.

At the start of this year, the SA bond market was battered and bruised, having survived the turmoil of three finance ministers in one month. Yields were under pressure, confidence was at crisis levels and the outlook for 2016 seemed ominous. The benchmark government 10-year bond (commonly quoted as the R186) opened the year at almost a double-digit yield of 9.75% and the rand had blown out to a level of R15.50-odd to the US dollar. Expectations of a spike in inflation in the coming year were widely held and in January the SA Reserve Bank’s (SARB) Monetary Policy Committee (MPC) stepped in and hiked the policy (repo) rate by a full 50 basis points to 6.75%.

However, as is often the case, the best opportunities usually present themselves at times of crisis. At the time, fear of a very unstable domestic political economy presented a great buying opportunity in local bonds. Yields have rallied strongly over the past nine months to around 8.5%, with the bond market producing an eye-watering 15.5% year-to-date return. Throughout this period, finance minister Pravin Gordhan fought the good and righteous fight to steady the country’s fiscal ship, trying to block the patronage network at every turn and putting policies in place to try to avert a country downgrade to junk by the ratings agencies.



SA LONG BOND YIELD VS SA REPO RATE



Sources: Reuters, Datastream

The bond market responded positively to these developments, an important vote of confidence in the outlook for sustainable fiscal policy. Importantly, lower yields also reduce the interest burden on the fiscus, allowing greater flexibility for expenditure on other things.

So where to for the local bond market from here? With yields around 8.5%, are there more gains to come?

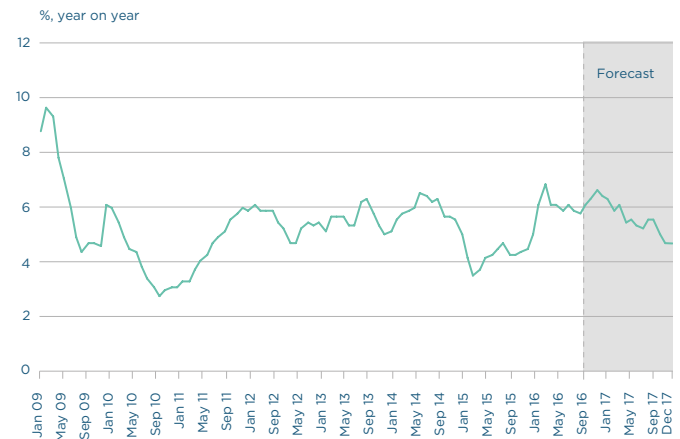
While we are reasonably positive on the fundamental outlook for bond prices, the fluid political situation may affect political risk premium. Nonetheless, the underlying fundamentals should continue to dominate the valuation of these instruments. And the biggest fundamental driver of bond yields is the trajectory of inflation.

Inflation is expected to peak in the upcoming quarter at around 6.7% and then fall steadily into next year to average around 5.7% for 2017. The main driver is expected to be a relatively sharp deceleration in food price inflation, which now looks close to a peak. Our view is reinforced by the improvement in rainfall - perhaps increasing evidence that La Niña is coming and farmers are more likely to generate a more normal harvest this summer season after last year's debilitating drought.

The next strongest driver (and greatest potential uncertainty) is the relative stability seen in the exchange rate, despite ongoing bouts of political uncertainty. The rand has rallied around 11% to R14.20 versus the US dollar since the start of the year. Underlying improvements in the trade account added impetus to the rand's performance after its big depreciation last year.

We think that the improved inflation outlook means that the SARB will not hike rates further. If sustained, it should also have a positive impact on inflation expectations. In the most recent MPC communiqué issued in late September, the

HEADLINE CPI, INCLUDING FORECAST



Sources: StatsSA, Coronation

MPC made it clear that if its inflation forecast is realised, then the current hiking cycle is close to peaking. However, they did caution the market not to start pricing in rate cuts too soon because 'the bar to monetary accommodation remains high'. Despite this, the suggestion that the hiking cycle may be over should provide underlying support to bond yields, also resulting in a flatter yield curve.

As always, nothing is straightforward and risks remain. We are concerned about two things. The first is a pending rate hike in the US and the possibility that it puts upward pressure on US bond yields which, in turn, would likely hurt the pricing of the bond yields in other countries, including here in SA.

US 10-YEAR TREASURY YIELD



Sources: Reuters, Datastream

The second is the still relatively high probability that SA's sovereign rating is downgraded to junk status when the ratings agencies give their assessments before the end of the year. A ratings downgrade would be material to



the pricing of our bond yields and could result in a major sell-off. Our view is that the odds are about even. If we do get a medium-term budget policy statement at the end of October that manages to hold the current fiscal line and the finance minister continues to demonstrate his fighting spirit, we could get a stay of execution into next year. This, in turn, may give a window of opportunity for policymakers to address some of the much-needed structural issues and

reforms that would improve the outlook for growth in the longer term.

Although there are clear risks to domestic bond pricing, we do believe that the fundamental valuation argument provides a decent underpin at current levels. As such, our funds continue to hold and accumulate domestic government bonds at these yields. ■



MARKET REVIEW

NAVIGATING THROUGH THE NOISE

By **Quinton Ivan**



Quinton is head of SA equity research and co-manages the Coronation Core Equity portfolios. He joined Coronation in 2005.

For the third quarter of 2016, the MSCI All Country World Index and the MSCI Emerging Markets Index returned 5.3% and 9% respectively in US dollars. Locally, the JSE All Share Index returned 7.7% in dollars, but rand appreciation (in line with other emerging market currencies) meant that the rise in local currency terms was more muted at 0.5% over the same period. Commodity prices, in general, ended the quarter virtually unchanged in US dollars: oil was down 1.3%, platinum gained 0.3% and copper rose slightly by 0.2%. Notwithstanding the benign moves in commodity prices and strength of the rand, resource shares performed well: the local Resources Index returned 8.1% for the quarter, outperforming industrials (-2.1%) and financials (0.8%). The longer-term divergence in the performance of resources relative to industrials and financials remains significant. Not only has the Resources Index lagged industrials and

financials over three, five and ten years, but it has also underperformed cash over these time periods.

Nearly eight years since the global financial crisis, interest rates remain close to zero in most major economies and even negative in others. The world's major central banks are committed to maintaining the status quo of unconventional monetary policy. The US Federal Reserve has once again delayed hiking rates, while the European Central Bank and the Bank of Japan continue to apply quantitative easing. Highly accommodative monetary policy represses the cost of capital and serves as a tax on the savings industry. This lack of yield encourages risk-taking as capital scours the globe in search of the best opportunities. This has the effect of manipulating asset prices across the spectrum – equities, bonds, property and currencies – which has resulted in the current disconnect between strong financial markets and tepid growth in most major economies. While monetary policy has succeeded in buoying financial markets, very little of the heavy lifting by way of fiscal and social reform has taken place. While central bankers may have averted the great recession from becoming a depression, they are potentially sowing the seeds for another crisis in the years ahead.

At the time of writing, Theresa May, the UK prime minister, has announced that she will start formal negotiations for Britain to leave the EU by March 2017. Once she triggers Article 50, she will have two years to negotiate a new trade deal with the EU. This has once again rekindled uncertainty, as market participants speculate about the terms of such a deal. This uncertainty is likely to result in central bankers erring on the side of caution and keeping interest rates lower for even longer.

MARKET SUMMARY

Index	3rd quarter 2016	1 year	3 years	5 years	10 years
All Share	0.6%	6.8%	9.0%	15.5%	12.2%
Resources	8.1%	24.1%	(1.7%)	0.7%	2.7%
Financials	0.8%	(0.9%)	13.2%	19.4%	12.1%
Industrials	(2.1%)	4.5%	12.1%	22.3%	18.3%
SA Listed Property	(0.7%)	3.8%	14.4%	17.7%	17.4%
All Bond	3.4%	7.6%	6.8%	8.0%	8.5%
Cash	1.8%	6.8%	6.1%	5.7%	7.1%

Source: Deutsche Bank



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

We believe domestic equities are moderately attractive. While the JSE All Share Index is near its peak in rand terms, it has basically tracked sideways for the last five years in US dollar terms. This is largely due to 48% of the JSE All Share Index constituents being rand hedges, which benefit from a depreciating currency. We believe the global businesses listed in SA are attractively valued and, as such, our portfolios have healthy weightings in stocks such as Naspers, Steinhoff International Holdings, British American Tobacco and Anheuser-Busch InBev (you can read more about the latter's investment case on page 11). These businesses are exceptionally well managed and are diversified across numerous geographies and currencies, which make for a robust business model and protect the companies from an earnings shock in any single market.

Resource shares have performed strongly year-to-date as commodity prices recovered. Our funds were well positioned to capture this bounce, given our reasonable weighting in resource shares. Notwithstanding the recent outperformance, we believe resources remain attractive based on our assessment of fair value. However, given the vagaries around currencies, commodity price moves and Chinese demand, one has to manage these risks by ensuring that the weighting in our respective portfolios is sized appropriately. Our preferred holdings remain Mondi, Anglo American and the low-cost platinum producers, Northam and Impala Platinum. SA gold and platinum miners both face enormous challenges and cost pressures (such as real increases in electricity tariffs and labour costs without the corresponding gains in productivity). The SA platinum producers mine approximately 70% of the world's platinum supply. This affords them pricing power. Metal prices will have to adjust higher to reflect these cost pressures in order to incentivise platinum miners to expand production to meet demand.

The same is not true for gold. SA mines a tiny portion of the world's gold supply; the world does not need our gold. This means that SA gold miners are likely to absorb these cost pressures, adversely affecting their profitability. Prior to the recovery in the gold price, SA gold miners faced enormous pressure; balance sheets were under immense strain and many were either facing a rights issue or closure. This prompted management to run these businesses for cash – production was high graded (at the expense of the life of mine) and exploration capital expenditure was culled. While this is good for near-term cash flow and profitability, it is

negative in the long term. Mines face a declining production profile – if they do not replace production (by sinking new shafts, as an example), unit costs will eventually blow out as lower production is spread over a similar fixed-cost base. This will be detrimental to profitability. We thus remain negative on SA gold miners.

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

Banks returned 10% for the quarter, outperforming the broader financial index. While banks are effectively a geared play on a weak domestic economy, we believe that this is more than discounted in the current share prices. Valuations are attractive on both a price-to-earnings and price-to-book basis. These businesses are well capitalised, well provided for and trade on attractive dividend yields. Our preferred holdings are Standard Bank, Nedbank and FirstRand. Life insurers returned -1.5% for the quarter. Our preference remains Old Mutual and MMI Holdings, both of which trade on attractive dividend yields and below our assessment of their intrinsic value.

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

In a low-growth, low-yield environment, equities remain our preferred asset class for producing inflation-beating returns. We prefer global to domestic equities on the basis of valuation and remain at the maximum 25% offshore limit in our global balanced funds. We believe the current rand/dollar exchange rate to be fairly valued. At times, when we believe the rand to be oversold, we will lock in currency weakness by using futures, without physically selling global equities.

In conclusion, financial markets are fraught with uncertainty as investor sentiment reacts to the news of the day, which causes asset prices to gyrate. During these choppy markets, our long-term time horizon and valuation-driven investment philosophy act as a compass, allowing us to navigate through the noise and make the correct decisions for the benefit of our clients. ■



TRANSFORMATION

DRIVING CHANGE

By Kirshni Totaram

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



Coronation has been committed to real transformation since we first opened for business in 1993.

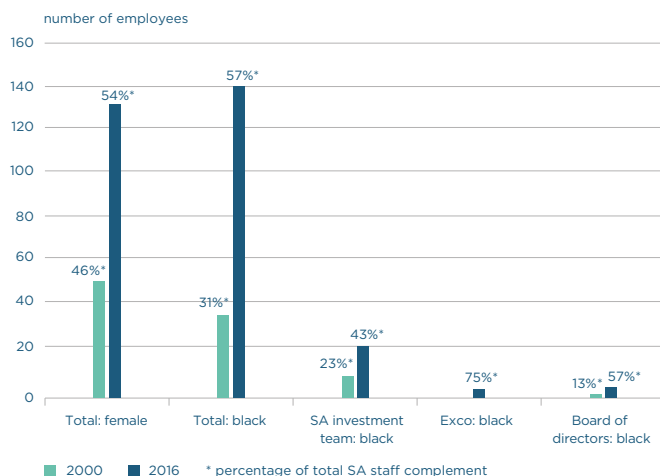
Today, the majority of our employees are black. Together they own a direct and broad-based stake of more than 20% in the business (as measured in terms of the Financial Sector Code).

In addition, we pioneered a number of corporate initiatives that have contributed to transformation and the development of skills in the asset management and financial services industry in Southern Africa. This includes our deliberate intervention in the local black stockbroking industry over the past decade, which has created sustainable stockbroking houses servicing the investment community as a whole, as well as the more recent cosponsorship of an independent financial adviser development programme.

TRANSFORMING FROM WITHIN

Coronation is a meritocracy. Every employee has a meaningful and measurable contribution to make in ensuring the continued success of our business.

TRANSFORMATION FROM 2000 TO 2016



Source: Coronation

By following a disciplined recruitment and selection process, we have successfully recruited, trained and retained exceptional black talent, some of whom now hold critical management roles within the business. A key measure of the success we have achieved over the past 16 years is illustrated in the previous graph.

Highlights as at the end of September include:

- Three out of four executive committee members are black.
- Four out of seven board members are black.
- Close to 60% of our total SA staff complement are black, and more than half are female.
- Within the SA investment team of 47 individuals, 20 (more than 40%) investment professionals are black.
- 75% of the senior managers within the SA investment team are black.
- 50% of the portfolio managers within the SA investment team are black, two of whom are black females.

We continue to invest in black talent in the investment industry through a number of internship programmes and we also have dedicated black trainee analyst roles within our investment team.

TRANSFORMING THROUGH OWNERSHIP

Staff ownership is an integral part of our culture. We believe that being part-owners in our business, our people can make the right decisions for the long-term benefit of our clients and the business as a whole. In 2005, we created SA's first staff-only black economic empowerment deal, the Imvula Trust (Imvula). Today, more than 20% of our business is directly owned by our black staff (comprising their holdings via Imvula as well as direct holdings in Coronation).

TRANSFORMING AND GROWING OUR INDUSTRY

We believe we can have a great impact on transformation by focusing on upstream and downstream activity in the local investment industry.



As an asset management company, we are responsible for the procurement of stockbroking services on behalf of many of our clients. In 2006, we used this 'purchasing power' to launch the Coronation Business Support Programme. Over the past decade, the programme has proven to be a sustainable and effective intervention to grow niche black stockbrokers. Since inception, the programme's allocation to participants has grown consistently, amounting to more than R200 million (in terms of new business).

Were it not for the insights and hands-on support by Coronation management and staff as part of the programme, many of these stockbroking businesses would not be in existence today.

The transformation enabled by the programme has been both material and meaningful. More recently, it has inspired the launch of a broader industry programme with the aim of further transforming and strengthening the black stockbroking community. In collaboration with the Association for Savings and Investment South Africa (Asisa), four leading industry participants (sponsors), of which we

are one, launched this new and exciting programme on 1 August 2016.

We have followed a similar cooperative approach to assist with the development of independently-minded black professionals in the financial planning industry. Since 2015, we have been a cosponsor of Asisa's Independent Financial Adviser (IFA) Development Programme. The aim of this programme is to provide business development support to existing black IFAs by equipping them with practical practice management skills and knowledge. The programme also includes an IFA internship programme for talented black graduates to gain theoretical knowledge and practical work experience at some of the country's top IFA practices.

We believe the success of our approach to transformation rests with the fact that its principles have been consistent with our key values of owner-management, being performance-driven and a meritocracy. Our commitment to real transformation has also been embedded in our culture and how we do things on a day-to-day basis. ■



INTERNATIONAL OUTLOOK

GLOBAL GROWTH SHOULD PROVE SURPRISINGLY POSITIVE IN 2017

By Tony Gibson

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



Equity market performance saw a quick turnaround during the past three months, with volatility accelerating towards the end of the quarter. Equity markets in the US were again boosted by technology shares, which rose by 12%, while bank shares had a strong quarter across most major markets, including the US, Europe and Japan. Energy shares also had a positive three-month period following production cuts recently announced by OPEC.

Emerging markets had a strong quarter as well, both at the equity market level and in terms of positive currency movements. Brazil and Russia were the stand-out performers. Year-to-date, the MSCI Emerging Markets Index has posted a positive return of 16%. This compares to a return of only 6.1% for the MSCI World Index of developed market equities, which has raised hopes that emerging market equities have finally turned the corner. A number

of factors as to why emerging market equities have rallied this year are highlighted below:

- Importantly, the rally started in February from relatively cheap equity valuation levels and oversold emerging market currency levels that reflected highly pessimistic investor sentiment.
- China surprised investors with massive stimulus that generated a recovery in commodity prices, which are key drivers of emerging market equities and currencies.
- The US Federal Reserve backed away from its plans to tighten monetary policy in March, which helped both commodity prices and emerging market currencies recover after sharp sell-offs in 2015.
- The Brexit shock to global markets late in June helped push developed market sovereign bond yields to new lows, which boosted the relative attractiveness of emerging



market bonds and currencies. Firmer commodity prices have also supported upward revisions to expectations for emerging market earnings.

With regard to China – following the recovery in its real estate markets – commodity markets have benefited from stronger demand. Copper imports for the three months to June were up by 34% from a year ago. Domestic steel prices in China have also risen by 52% since the end of November 2015, which has coincided with a strong rebound in JPMorgan's Emerging Market Currencies Index. As always, it remains unclear how robust (or sustainable) China's apparent stabilisation will be. Private sector investment has continued to slow down, while investment by state-owned enterprises (SOEs) has accelerated to a pace of 23.5% in the first half of this year (compared to relatively sluggish growth of 9.9% in the second half of 2015). The concern is that borrowing by unprofitable SOEs – a.k.a. 'zombie companies' – may be diverting credit from more productive uses in the private sector. But for the time being, the government seems to be prioritising stability at any cost.

The macro risk that remains for emerging market equities overall is the potential for major industrial commodity prices to resume their multi-year bear market trajectory as the effects of China's stimulus begin to wear off. A look at a long-term chart of the inflation-adjusted Commodity Research Bureau's Raw Industrials Index provides some perspective, as this clearly illustrates a long-term downward trend since the late 1940s. This may well reflect the fact that, as Alan Greenspan once noted, the GDP of advanced economies has become notably 'lighter' over time as the share of services has increased, thereby reducing the share of materials-intensive heavy industries.

Moving on to the UK, the Brexit result of 23 June has brought about sharp downward revisions for growth, including for many of its European neighbours. According to a Bloomberg survey, economists cut their 2017 forecasts for UK real GDP growth from about 2.2% to 0.5% (essentially forecasting a recession) in the weeks that followed the vote. This growth forecast revision was accompanied by cuts to growth for 2017 ranging between 0.3% and 0.5% for many other European countries whose economies are exposed to trade with the UK.

In line with such forecast revisions, global bond yields fell on the view that central banks would need to either cut interest rates, as the UK has subsequently done, or signal that rates would be kept lower for longer. According to a Fitch Ratings report, the amount of negative-yielding sovereign debt rose by 12.5% in June to a staggering level of \$11.7 trillion following the turmoil created by the Brexit vote. The drop in sovereign debt yields in developed markets has created a 'stretch for yield' trade that has boosted the relative

attractiveness of emerging market debt, where yields generally remain higher than in developed markets. The result has been a resumption of portfolio capital flows into emerging markets following strong outflows through much of 2015. Data from the Institute of International Finance show a net flow into emerging markets of \$107 billion in the six months to end August. Although that rate of change does not look excessive relative to the persistent pace of flows into emerging markets in previous years, there must be some worries that capital flows into emerging markets are overheating and setting the stage for disappointing returns and renewed outflows.

As highlighted already, bond markets have had another very strong year thus far, delivering double-digit gains. Bond investors continue to implicitly believe that secular stagflation is inevitable and growth in much of the world is settling at below-trend levels. They are conveniently overlooking the fact that there is a very meagre cushion in the value offered by long-dated US bonds. A mere 0.2% increase in Treasury yields would wipe out a whole year's worth of interest income! Corporate bonds have been an even stronger performer over the quarter.

As we move into the fourth quarter of 2016, investors are essentially focusing on two key risks. One concerns the systemic risk in the financial system – related to the threat of a possible collapse of Deutsche Bank – while the second relates to US politics. Another risk that continues to cause concern is the fear that global economic growth – more specifically US economic growth – may falter. Naturally, this risk must be offset against the anticipation of a rise in US interest rates in the event that the US economy grows more robustly than anticipated. It is undoubtedly true that global equity and bond markets are in the late stages of a multi-year bull market, and this rightfully causes investors to be cautious. However, it is also true that since the 2008/2009 bear market, many money managers have viewed the equity bull market through the prism of mistrust that was caused by this painful experience.

Those equity investors who currently hold a negative view towards equities will argue that the stock market continues to be characterised by very high valuations and very low earnings growth. They believe that the only thing preventing this trend from setting off a bear market has been the equity-bulls' faith in global central banks keeping interest rates near, or below, 0%. Additionally, they will point out that, according to statistics provided by Standard & Poor's (S&P), the market valuation for the S&P 500 Index stands at around 25 times reported earnings per share (EPS) and 22 times operating EPS. At the same time, earnings growth has been negative for the past seven quarters. Somewhat simplistically, it can be argued that in reality, most companies that are earnings 'challenged' trade at significantly lower levels than the current market multiple. As an example, Apple's growth has



slowed sharply and it is trading at 13 times EPS. In turn, IBM has struggled with EPS growth and it is trading at 12 times earnings. If the S&P 500 was a stock, they would argue, it would not be trading on a multiple of 25 times. Implicitly, the risk therefore lies in those consumer staple stocks that trade on mid-20 multiples due to the belief that their earnings will continue to grow at steady and predictable levels. This might well prove to be an overly sanguine outlook.

A further cause for concern is that, while equity valuations in the US are back to 2007 levels, the constituent companies have leveraged up in order to facilitate share buybacks. Currently, companies are much more leveraged than in 2007, with gross and net leverage respectively 40% and 25% higher. This was made possible, for now, by lower current interest rates. The federal government has levered up as well. If one strips out the amounts that the government owes to Social Security and other agencies, the federal debt held by the public more than doubled, from 35% to 76%.

That all said, in our opinion, the single most important issue undermining investor confidence is that, as was the case a year ago, many observers and investors are concerned that cyclical weakening in the US late this year and into 2017 may drag the global economy towards stagnation, or even a deflationary recession.

We, however, believe that despite the tepid pace of the post-2009 recovery, the US economy is far more resilient than many perceive it to be, particularly when relative comparisons are made with other major economies. Our reasons for holding this view are as follows:

- Populations are ageing and contracting in Japan and Russia, and poised to contract across much of Europe. Simultaneously, working-age populations are contracting in many leading emerging economies, including China, South Korea, Taiwan and Singapore. Meanwhile, the US population continues to expand by about 2.5 million people per year, providing fuel for growth in the labour force and domestic consumption. Additionally, the core of the large millennial generation is now gaining a foothold in the workforce and is poised to trigger a 15-year rise in household formations, a new baby boom and robust demand for housing, consumer durables and family-related goods and services. As this secular catalyst for domestic demand gathers momentum, the demographic divergence between the US and most of Europe and East Asia will become more apparent and somewhat transform the global economy, trade and capital flows, and collective demand for energy and raw materials. While this dynamic will only be fully felt in the 2020s, over the next 18 to 24 months, the momentum of cyclical recovery will dominate, led by resilience in US consumption and growth, modest growth in Europe and Japan, and the momentum of Chinese growth. This

will also be fed by the late stages of urbanisation and government funding of infrastructure projects and financial support for leveraged SOEs.

- Looking more closely at the underlying demographic numbers, as the financial crisis began in 2007, full-time employment in the US peaked at 122 million. After falling to 111 million by the end of 2009, the gradual recovery over the past seven years has restored the 11 million full-time jobs lost and created an additional two million. Yet, from 2007 through to the present, the US population has increased by between 23 million and 24 million people, with the core of the huge millennial generation moving into the workforce.
- While some baby boomers have left the workforce over the past nine years, the net increase of only two million full-time jobs since the 2007 peak reflects several disparate factors. Many older workers were forced reluctantly into early retirement. Many young adults unable to find work out of high school or college chose to continue studying. Meanwhile, six million Americans seeking full-time occupation are working part-time hours, limiting their incomes and spending power. Reducing 'involuntary' part-time work over the next year is vital to continued resilience of the current US cyclical recovery. While the value of overall US workforce participation is being clouded by young adults continuing their education and the early retirement of baby boomers, a valuable barometer of new job creation is the trend among workers (aged 25 to 34) just entering the workforce. The participation rate of this young adult group bottomed out between 2013 and mid-2015, and has been rising over the past year. A resilient US economy should lift this rate even further towards a normal level of about 83% in 2017.
- Based on the current US population, 'normal' annual demand for existing homes should total 5.5 million to six million units. In the past year, sales have rebounded close to the lower end of this range and should rise further in 2017. While the surge in construction from 2005 into 2008 triggered a sharp jump in the supply of unsold existing homes, inventory has been drawn down to very low levels over the past three years. Tight supply and delays in ramping up new home construction have fed house price inflation in many markets across the US. To meet the demand for new household formations, the rate of new home construction should be close to one million single-family units per year. While the number of homes built has risen over the past two years, delays in zoning and permits, as well as shortages of skilled labour, have kept this cyclical rebound far below the level needed to meet demand. The resulting upward pressure on residential construction will be a key driver of US economic resilience over the next three to four years.



In summary, the core of the huge millennial generation, born between 1983 and 1995, is now aged 21 to 33. The expected surge in new household formations was delayed by the deep recession of 2007 to 2011. However, over the next four to five years, pent-up demand from this group should drive new household formations up from 700 000 to 1.5 million units per year. In turn, this should trigger a positive ripple effect on the demand for property, housing and consumer-durable goods.

Turning to another key pillar of the US economy, while there is still considerable pent-up demand in the US for housing, the restricted demand for motor vehicles has largely been met. Yet, while total vehicle sales in the US have reached a cyclical peak, demand is likely to remain close to current levels for another 18 to 24 months before the reducing age of the fleet and other factors set in motion a reduction in new car and truck sales. US new vehicle sales for this year and the next are expected to be close to 17.6 million to 17.8 million units. In the shorter term, once we are past the uncertainty

created by the presidential election, total US vehicle demand may surprise on the upside through year-end.

Looking at overall GDP growth in the US economy, the sharp drop in oil prices (since late 2014 and through to early 2016) triggered a significant drop in energy sector investment in the country. While consumers benefited from lower fuel prices, the drop in capital investment created a near-term drag on US GDP growth that heightened fears by late 2015 that the economy might slide into a recession. However, the drag on GDP growth from the energy sector has now run its course, setting the stage for a rebound in capital spending in 2017. Collectively, these near-term cyclical catalysts should support firmer than expected resilience in US economic growth over the next 12 to 18 months. Combined with near-term investment-led momentum in China, and a modest cyclical improvement in growth for Europe and Japan, the outlook for global growth should prove surprisingly positive in 2017. The US economy (and hopefully the political system) is more resilient than many fear or doubt. ■



HARLEY-DAVIDSON

LIVE YOUR LEGEND

By Ryann Dean

Ryann joined Coronation in 2014 as a global developed markets analyst. He is a qualified chartered accountant and completed his articles in the financial services division of KPMG.



Harley-Davidson (Harley) needs no introduction. It is arguably the world's most iconic motorcycle brand and symbolises the very ideal of freedom for its riders. The company has been in existence for more than a century and during this time has grown to become one of the most dominant motorcycle manufacturers in the world, with a singular focus on the customer.

The investment case for Harley revolves around a few key pillars: its brand power, industry-leading financial metrics, future growth prospects and a strong shareholder focus.

BRAND POWER

When you purchase a Harley, you are not simply buying a mode of transport. Rather, you are buying into the Harley lifestyle, which includes branded clothing and accessories. Most importantly, it means joining the local riding chapter (which is analogous to a club). These chapters provide a sense of community and allow riders to socialise while building phenomenal brand loyalty. Harley has approximately 1 400 riding chapters worldwide and the Harley Owners Group (H.O.G.) has over one million members.

In 2015 Harley was the only motorcycle manufacturer to feature in Interbrand's ranking of the world's most valuable brands. Not only does this reflect the legacy that Harley has crafted over many decades, but it also showcases existing management's stewardship of the brand. Customers come first, even if this hurts near-term financial results, as illustrated in the following example.

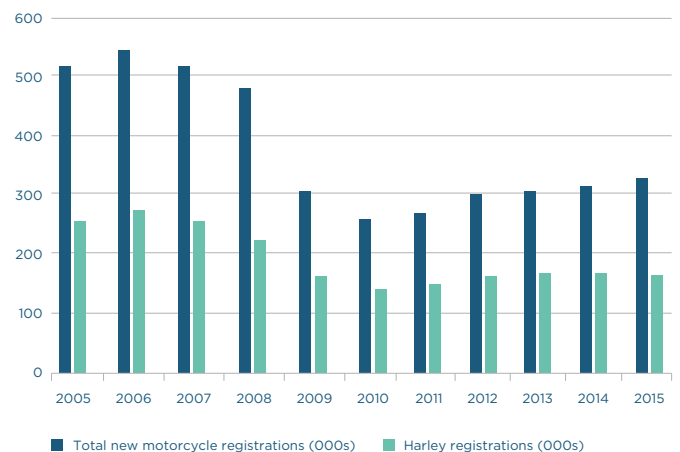
From late 2014 the Japanese motorcycle manufacturers (Honda, Suzuki, Yamaha and Kawasaki) heavily discounted their motorcycles in response to a weakening yen. This was an attempt to gain increased market share in the US. The discounting by the Japanese manufacturers encouraged other motorcycle manufacturers to do the same, and a vicious downward spiral of promotions ensued. Harley, however, remained an outlier, with a steadfast refusal to discount. To Harley, this would impair the value proposition of its new motorcycles and negatively affect the residual

values of its existing bikes. As a result, Harley's revenue declined and it lost market share in 2015. Most importantly, however, the integrity of the Harley brand remained intact, and it is not surprising to us that its market share has already started to recover. Customer loyalty, combined with Harley's brand power, creates a very high barrier to entry and thus a significant moat around the company.

INDUSTRY-LEADING FINANCIAL METRICS

Harley's margins are industry leading due to premium pricing on its premier product line-up and excellent operational efficiency. It has been said that a good crisis should never be wasted, and so Harley used the global financial crisis to completely restructure their manufacturing facilities and staffing levels. The company embraced 'surge manufacturing' – a leaner, more cost-effective and less labour-intensive process (labour intensity has been halved in some of its facilities). Surge manufacturing enables Harley to quickly adjust supply levels to meet market demand (and thus not risk oversupplying their dealer network). It also allows the business to cope with the traditional seasonality in motorcycle sales (purchases peak prior to the summer riding

US MOTORCYCLE REGISTRATIONS (601CC AND ABOVE)



Source: Motorcycle Industry Council, 601cc and above data only



season). The adoption of this manufacturing approach has reduced time to market for new products by up to 30%.

Over the last five years the operating margin within Harley's motorcycle segment has averaged 16%, significantly higher than that of its peer group. One of the benefits of a slow growth market is that Harley does not need to invest large amounts of capex in new facilities. This is one of the key reasons behind Harley's exceptional free cash flow (FCF) generation, with FCF conversion over the last five years of 110%. This compares very favourably to the average business globally, which typically generates 70 cents to 80 cents of FCF for every one dollar of reported earnings.

FUTURE GROWTH PROSPECTS

Harley dominates the US heavyweight motorcycle market¹ with a market share of approximately 50%, more than double its nearest competitor. The US is a slow growing market and with motorcycle sales for 2015 40% below peak levels, it is clear that any pre-crisis froth has evaporated. We expect steady, but slow, growth from these levels.

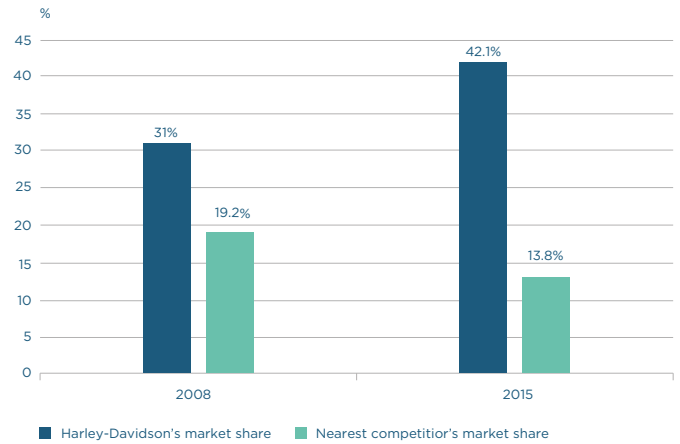
Harley's business remains domestically focused, with 64% of sales realised in the US. International expansion is, however, an underappreciated growth opportunity. In the last five years international sales have grown 1.4 times faster than those achieved in the US, and as Harley builds out distribution and expands into new territories, management aims for this to continue. By 2020, Harley envisages to add 150 to 200 new international dealerships – an increase of 20% to 30% on the current international base. In many countries, motorcycle riding is a key form of transport and leisure, and as the most iconic motorcycle brand in the world, Harley is well placed to capture an increasing share in these markets.

A key concern for Harley has been its ageing rider demographic, specifically the male baby boomer generation. This year the oldest baby boomers will turn 70, which means they are reaching a stage where riding a heavyweight motorcycle may no longer be feasible. Harley will need to supplement falling sales in this demographic with increased sales to a younger audience and other demographics. Management noted this issue some time ago and has since focused on broadening the appeal of motorcycling to other demographics where the company was underexposed. These strategies are beginning to show success, as indicated in the following graph which shows the gains in the key young adult demographic since 2008. In 2015, one-third of new Harley purchasers did not own a motorcycle before. In addition, 2015 was the eighth consecutive year in which Harley was the number one seller of motorcycles to young adults (aged 18 to 34). In a recent

earnings call, Harley management stated that the company was now selling more motorcycles to young adults than they had sold to baby boomers at the same stage in their lives, setting Harley up for continued success in the future.

HARLEY-DAVIDSON US MARKET SHARE: YOUNG ADULTS

Young adult men and women, 18-34 (motorcycles 601cc+)



Sources: Based on IHS Automotive, US new motorcycle data for calendar year 2008 vs 2015

STRONG SHAREHOLDER FOCUS

For any investment, how management decides to allocate the cash generated by the business can have a meaningful impact on the company's future prospects and returns to equity holders. In our view, management has acted astutely. Harley has a reasonable dividend yield of 3% (higher than the market), which has increased at a compound annual growth rate of 20% since the global financial crisis.

But it is the opportunistic share buybacks during the last 18 months that we view very favourably. The bulk occurred in 2015 when the business used its strong balance sheet² and the favourable financing environment to borrow \$750 million at 4% for the purpose of buying back shares (at the time shares were trading at an approximate 9% FCF yield). This debt issuance, combined with cash generated by the business during the year, allowed Harley to repurchase \$1.5 billion worth of shares (13% of the shares outstanding at the time) at prices well below our estimate of fair value. This management action is best described by Warren Buffett in his 1984 letter to shareholders: "By making repurchases when a company's market value is well below its business value, management clearly demonstrates that it is given to actions that enhance the wealth of shareholders, rather than to actions that expand management's domain but that do nothing for (or even harm) shareholders. Seeing this, shareholders and potential shareholders increase their

¹ The heavyweight motorcycle segment (601cc and above) accounts for 85% of US motorcycle sales.

² Technical note: The face value of debt on Harley's balance sheet exceeds the \$750 million borrowed in 2015; however, this includes the financial services segment. The motorcycle company only has \$750 million in debt, resulting in a net debt/EBITDA ratio of 0.7 times in 2015.

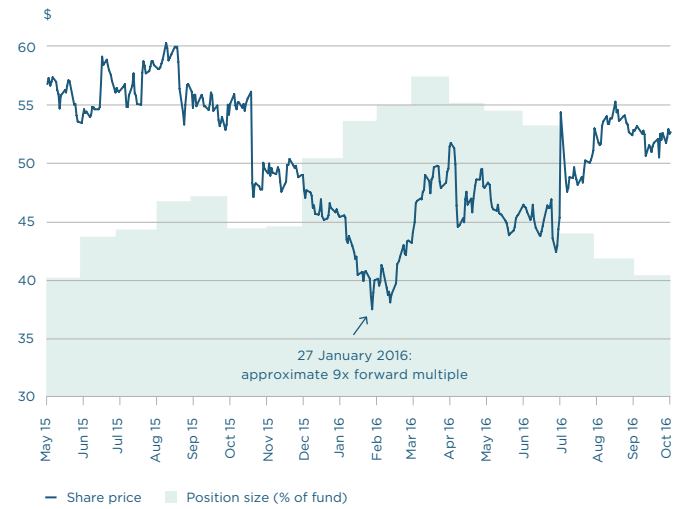


estimates of future returns from the business. This upward revision, in turn, produces market prices more in line with intrinsic business value.”

CONCLUSION

The market has recognised the value of Harley’s brand for many years. In fact, since 1990, Harley has typically traded at an approximate 15% premium to the forward earnings multiple of the Standard and Poor’s (S&P) 500 Index. There has only been one meaningful length of time in the past (2.5 years spanning the global financial crisis) when Harley traded at a discount to the market’s forward earnings multiple. But in mid-2015, when we first purchased Harley, this discount had widened to more than 20%. We naturally spent a significant amount of time researching the company’s fundamentals and determining our own view of what the business was worth. We concluded that there was significant upside to the share price at the time. This in-depth analysis gave us the conviction to add to the position as Harley continued to underperform (see graph below). At one point, Harley’s forward earnings multiple approached nine times – a 40% discount to that of the S&P 500 Index – while our view of what the business was worth remained largely unchanged.

HARLEY SHARE PRICE VS CORONATION GLOBAL EQUITY SELECT POSITION SIZE



Sources: Bloomberg, Coronation analysis

Although the share price has since recovered (up a third from its lows), we continue to see upside and believe that Harley remains an attractive holding in our global funds. ■



ODONTOPREV

A LONG-TERM WINNER

By Marc Talpert

Marc joined Coronation in 2014 as an equity analyst within the emerging markets team. He is a qualified chartered accountant and completed his articles with Ernst & Young.



With 6.3 million members, OdontoPrev is the largest private dental insurance provider in Brazil, founded in 1987 by five dentists. From humble beginnings, it has grown exceptionally over the past 29 years, generating great shareholder returns since its listing in 2006 (a total return of 18.47% in US dollars per annum to date). This is a company that has delivered time and time again. We do not feel the story is finished, and expect compelling shareholder returns in future.

Some 11% of Brazilians have dental insurance, compared to 60% in the US. Brazil has the highest absolute number of dentists globally (277 000, or 12% of all dentists in the world), with the US in the second position (160 000). This is an important dynamic: the abundant supply of dentists ensures that OdontoPrev has access to an extensive network of dentists as the company continues to grow membership going forward. A testament to this reality is that its current network of 28 000 affiliated dentists is backed up by a waiting list of 25 000 additional dentists wanting to join the network. This allows OdontoPrev to grow its member base while maintaining high service levels, without the commensurate investment in capital expenditure.

Brazil's public sector has traditionally not invested in the dental segment, contributing to one of the worst ratios of public to private dental spending globally. For the private sector, this has provided an attractive opportunity.

The dental insurance market has some favourable characteristics when compared to the medical insurance industry. Preventive dental measures are far more effective, even in elderly populations. Also, unlike other medical care, dental costs do not rise significantly with age. Dental issues are far more predictable, given that there are far fewer dental diseases than other medical illnesses, thereby reducing the range of outcomes and the risk of mistakes when developing actuarial models. The dental care business is also not so complex, or as influenced by exogenous events, as dental claims are not severe or random in general, and can be controlled through interventions. Accordingly, management quality becomes a decisive factor for the success of the business.

The dental insurance market in Brazil is split into three categories, namely corporate, small and medium enterprises (SMEs) and individual. Corporate members represent 76% of OdontoPrev's current member base, followed by SMEs (14%) and individuals (10%). The large proportion of corporate members is a function of the dynamics of the Brazilian market, and also part of the company's historic legacy. In the corporate space, you are dealing with a consolidated customer base who are pushed to take up insurance as an employee benefit. The result is a lot of competition, but with less risk of adverse selection (high-risk insurance clients), and a market whereby scale can be achieved quite quickly. This part of the market was where OdontoPrev has historically (until 2014) focused most of its attention, achieving massive success and becoming a market leader. It now has 29% of the dental insurance market share and receives 43% of the revenue (three times more than number two).

This remarkable success is testament to an excellent management team which has out-executed its peers. This was achieved through an unwavering commitment to providing value to its members, as well as nurturing relationships with dentists, ensuring both sides of the value chain were looked after.

OdontoPrev's commitment and value offering to customers are underpinned by its proprietary IT system which has been built up over the last 29 years. It acts as a monitoring system, which links to all their dentists, thereby giving OdontoPrev oversight into each and every dental procedure carried out by its affiliated dentists. These procedures are then audited by a team of 80 dentists, who ensure consumers are not over-treated, significantly reducing waste and effectively bringing down prices for all members. OdontoPrev's management contends that it is cheaper to have a dental plan than pay out of pocket. This is a powerful selling point that will attract future members from the estimated 78 million Brazilians currently paying out of pocket for dental care. In testament to this value offering, the company has enjoyed the highest renewal rate in the market, despite its above-average premiums.



OdontoPrev views dentists in its network as business partners rather than resources, thereby fostering long-term relationships. The specialty area of each dentist is recognised, and patients are matched with suitable dentists, thus providing great customer service and ensuring their affiliated dentists get the experience they desire. The company provides continuous education about new dentistry procedures and technologies to their affiliated dentists, providing great value to their dental network by improving their skills.

The success achieved in the corporate space has set the company up for its next wave of growth in the SME and individual market, of which only 5% has dental plans. This is a far more fragmented market with less competition owing to distribution challenges. However, this market has superior economics due to higher premiums, resulting in higher contribution margins and (notwithstanding the higher distribution costs) higher operating margins.

The distribution challenges in the individual and SME market have been identified by management and addressed through the signing of two exclusive distribution agreements with two of the largest banks in Brazil. OdontoPrev has an agreement with Bradesco (also the controlling shareholder of OdontoPrev) as well as a joint venture with Banco do Brasil (formed in 2015). Together, the agreements give OdontoPrev access to 52% of all Brazilian banking clients.

The other major sales channel is through retailers. Historically the majority of SME and individual plans were sold through retailers, which incurs commissions of 25% to 40% (while banks charge 10% to 15%), but this mix is changing. Currently 40% of all plans are sold via banks, compared to 34% a year ago, with management working actively with its banking partners to improve selling by ensuring incentives at branch level are aligned correctly. Owing to the low ticket item nature of dental plans, banks are a superior channel due to the existing sales infrastructure. This is also an attractive

business for banks: no capital is required, which means it enhances its return on equity (ROE).

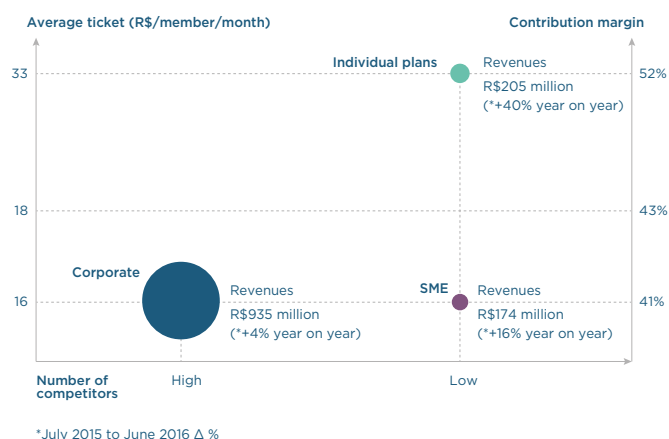
Within the individual and SME segment, the company offers a portfolio of more than a hundred different contracts. OdontoPrev believes greater product differentiation helps reveal preferences based on client choices and reduces the guesswork in predicting how members will access dentists. This allows the company to price according to customer needs, reducing the risk of adverse selection.

On top of all the aforementioned characteristics, the business has really delivered phenomenal accounting metrics and should continue to do so. The company generates a very healthy operating margin of 25%, which we believe is sustainable and should in fact rise owing to the increasing contribution of individual and SME plans, which have superior economics. The sustainability of an operating margin is often determined by the competitive environment, pricing power and the barriers to entry in an industry.

The pricing of dental insurance is inherently attractive: the consumer's main goal is not achieving the cheapest dental treatment, but rather the most effective treatment administered by a trusted practitioner. This allows OdontoPrev to consistently charge more expensive rates than its competitors, and still gain market share. So while its competitors, who largely suffered from confused strategies and a lack of focus, have priced aggressively in the past, it did little to entice OdontoPrev members to move across. Moreover, an important development took place in 2009, with the merger of OdontoPrev and Bradesco Dental, which consolidated the market and added 1.3 million lives to OdontoPrev's 2.6 million at the time.

Finally, the barriers to entry for other players are immense, especially in the individual and SME space, which represents the biggest long-term opportunity for the company. These barriers are a function of the proprietary IT system the company has built, along with the exclusive distribution agreements they have formed with major Brazilian banks.

COMPETITIVE DYNAMIC AND CONTRIBUTION MARGIN DIFFERENTIAL



Source: OdontoPrev corporate presentation, September 2016

The cash flows a business will generate in future determines its intrinsic value. The challenge is forecasting these cash flows, as the future is unknown. Accordingly, a business with a clearer outlook of its future prospects, with fewer different potential outcomes, is inherently worth more. Thanks to its annuity-type revenue from existing members, along with powerful industry tailwinds owing to the low penetration and superior distribution abilities, there is good visibility of OdontoPrev's future revenue. Moreover, the company has put in place incentives to encourage members to pay their monthly subscriptions upfront, further enhancing visibility.

OdontoPrev's operating margins, its limited capex requirements (less than 1% of sales) and low working capital requirements (working capital to sales of 5% on average



over the last ten years), result in free cash flow generation, which is in excess of accounting earnings. Also, the reinvestment requirements of the business are limited, enabling it to pay out close to 100% of earnings each year in dividends. These qualities have resulted in the business generating an ROE of 34% in 2015, up from 18% in 2011. This should continue to rise as its incremental growth and cash generation do not require the equivalent reinvestment in

the business. The biggest risk for the business is changing regulations, but we feel this risk is mitigated by OdontoPrev's plans to provide real value to the consumer and deliver cost-effective dental care. OdontoPrev has been a holding in the Global Emerging Markets Fund for the past one-and-a-half years and we believe it will remain a long-term winner, providing our clients with good returns going forward. ■



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.

■ INCOME ■ GROWTH

INVESTOR NEED					
	INCOME ONLY	INCOME AND GROWTH		LONG-TERM CAPITAL GROWTH	
FUND	STRATEGIC INCOME Cash ¹	BALANCED DEFENSIVE Inflation ¹	CAPITAL PLUS Inflation ¹	BALANCED PLUS Composite benchmark ¹ (equities, bonds and cash)	TOP 20 FTSE/JSE CAPI ¹
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	93.3% / 6.7% 	61.2% / 38.8% 	44.3% / 55.7% 	17.9% / 82.1% 	0.1% / 99.9%
LAUNCH DATE	Jul 2001	Feb 2007	Jul 2001	Apr 1996	Oct 2000
ANNUAL RETURN (Since launch)	10.6% 7.9%	10.5% 6.4%	13.2% 6.1%	15.7% 13.8%	19.8% 15.1%
QUARTILE RANK (Since launch)	1st	1st	1st	1st	1st
ANNUAL RETURN (Last 10 years)	9.3% 7.1%	- -	10.5% 6.2%	12.7% 11.7%	14.8% 11.7%
QUARTILE RANK (Last 10 years)	1st	-	1st	1st	1st
ANNUAL RETURN (Last 5 years)	8.8% 5.7%	11.4% 5.6%	10.9% 5.6%	14.5% 14.4%	15.5% 15.6%
QUARTILE RANK (Last 5 years)	1st	1st	3rd	1st	2nd
STANDARD DEVIATION (Last 5 years)	1.5% 0.2%	4.3% 1.4%	5.7% 1.4%	7.8% 7.3%	13.1% 12.1%
FUND HIGHLIGHTS	Outperformed cash by 3% p.a. over the past 5 years and 2.8% p.a. since launch in 2001.	Outperformed inflation by 4.2% p.a. (after fees) since launch, while producing positive returns over all 12-month periods. A top performing conservative fund in South Africa over 5 years.	Outperformed inflation by 7.2% p.a. (after fees) since launch, while producing positive returns over 24 months more than 95% of the time.	No. 1 balanced fund in South Africa since launch in 1996, outperforming its average competitor by 2.5% p.a. Outperformed inflation by on average 9.1% p.a. since launch and outperformed the ALSI on average by 1.6% p.a.	The fund added 4.8% p.a. to the return of the market. This means R100 000 invested in Top 20 at launch in October 2000 grew to more than R1.8 million by end-September 2016 - nearly double the current value of a similar investment in the FTSE/JSE Top 40 Index. The fund is a top quartile performer since launch.

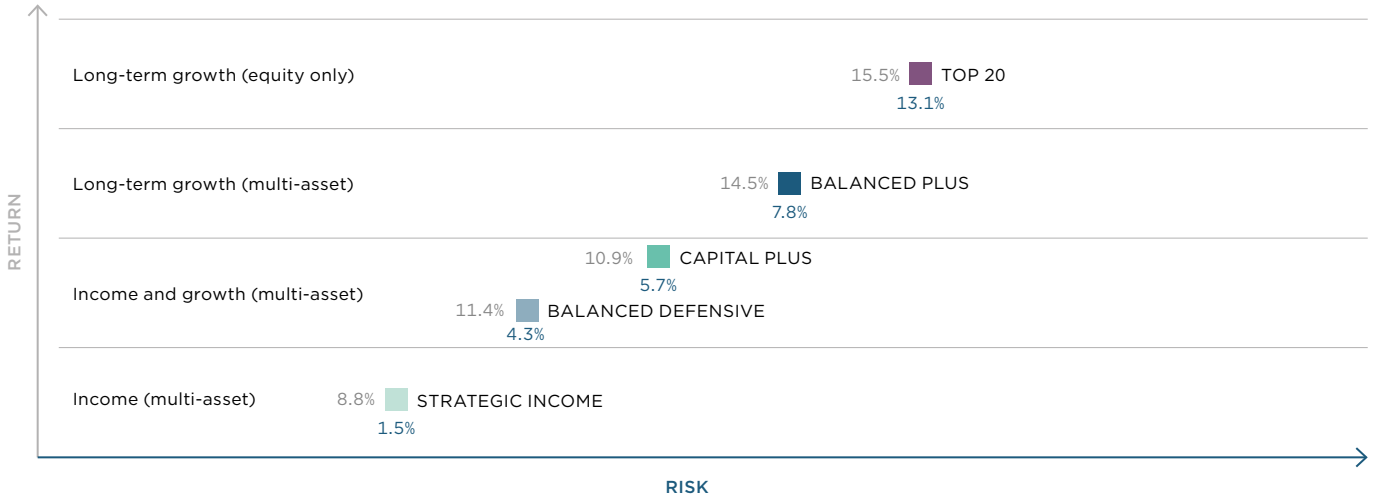
¹ Income versus growth assets as at 30 September 2016. Growth assets defined as equities, listed property and commodities (excluding gold).

Figures are quoted from Morningstar as at 30 September 2016 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.



RISK VERSUS RETURN

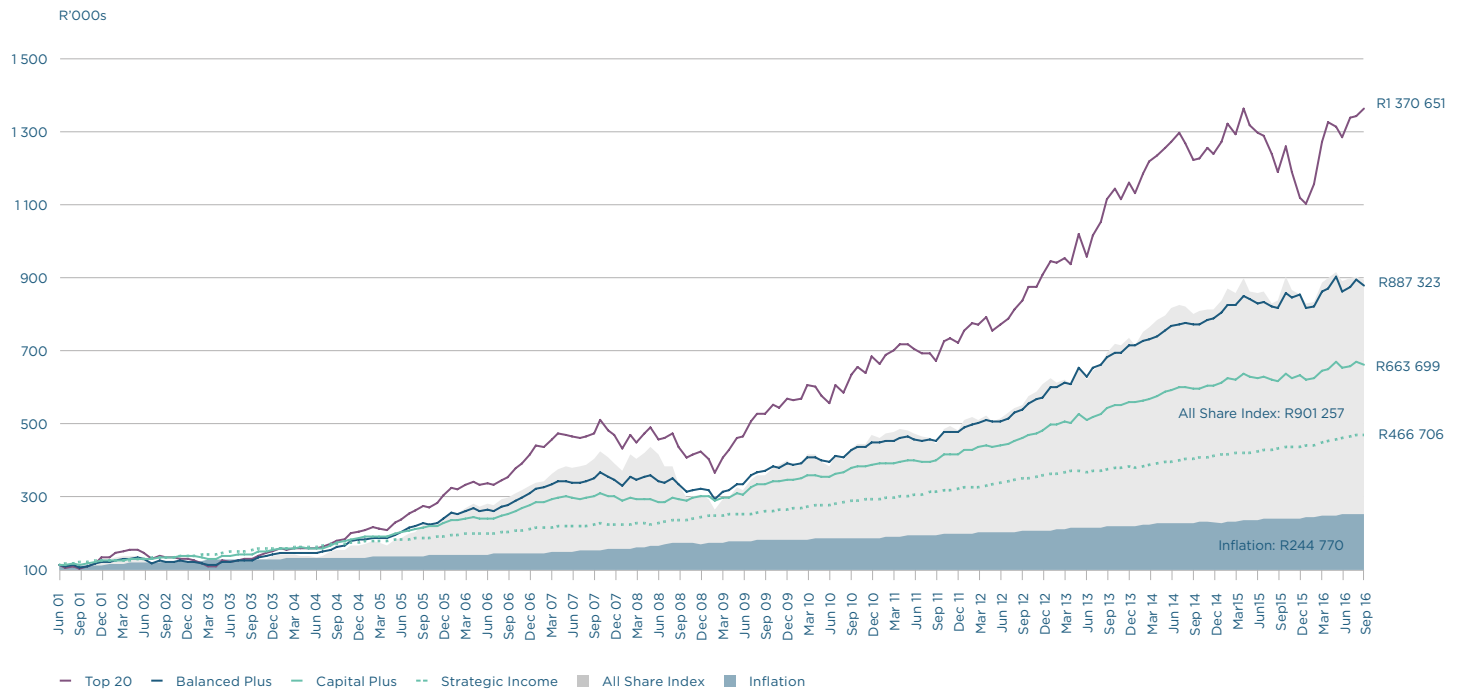
5-year annualised return and risk (standard deviation) quoted as at 30 September 2016. Figures quoted in ZAR after all income reinvested and all costs deducted.



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 1 July 2001 as at 30 September 2016. 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 2 February 2007.



Source: Morningstar



INTERNATIONAL FLAGSHIP FUND RANGE

■ INCOME ■ GROWTH

FUND ¹	INVESTOR NEED				
	DEPOSIT ALTERNATIVE	CAPITAL PRESERVATION	LONG-TERM CAPITAL GROWTH (MULTI-ASSET)	LONG-TERM CAPITAL GROWTH (EQUITY ONLY)	
	GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER GLOBAL STRATEGIC USD INCOME US dollar cash (3 Month Libor)[†]	GLOBAL CAPITAL PLUS [ZAR] FEEDER GLOBAL CAPITAL PLUS [FOREIGN CURRENCY][‡] US dollar cash (3 Month Libor)[*]	GLOBAL MANAGED [ZAR] FEEDER GLOBAL MANAGED [USD] Composite (equities and bonds) [†]	GLOBAL OPPORTUNITIES EQUITY [ZAR] FEEDER GLOBAL OPPORTUNITIES EQUITY [USD] MSCI ACWI [†]	GLOBAL EMERGING MARKETS FLEXIBLE [ZAR] GLOBAL EMERGING MARKETS [USD] 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	97.7% / 2.3% 	54.3% / 45.7% 	26.1% / 73.9% 	1.7% / 98.3% 	0.4% / 99.6%
LAUNCH DATE	Aug 2013 Dec 2011	Nov 2008 Sep 2009	Oct 2009 March 2010	Aug 1997 May 2008	Dec 2007 July 2008
ANNUAL RETURN ³ (Since launch)	2.9% †0.4%	5.7% †(0.4%)	6.7% †6.6%	6.5% †5.4%	1.5% †(0.9%)
QUARTILE RANK (Since launch)	4th	1st	1st	1st	1st
ANNUAL RETURN (Last 5 years)	- -	4.6% (0.4%)	8.7% 7.6%	10.3% 12.3%	4.3 3.3
QUARTILE RANK (Last 5 years)	-	1st	1st	1st	1st
FUND HIGHLIGHTS	The fund has outperformed US dollar cash by 2.5% p.a. since launch.	The fund has outperformed US dollar cash by 5.2% p.a. (after fees) since launch.	No. 1 global multi-asset high equity fund in South Africa since launch.	Both the rand and US dollar versions of the fund have outperformed the global equity market with less risk since their respective launch dates.	Outperformed the MSCI Emerging Markets Index by more than 2.4% p.a. since launch.

¹ Rand- and dollar-denominated fund names are included for reference.

² Income versus growth assets as at 30 September 2016 (for USD funds). Growth assets defined as equities, listed property and commodities (excluding gold).

³ Returns quoted in USD for the oldest fund.

⁴ Available in USD Hedged, GBP Hedged, EUR Hedged or Houseview currency classes.

Figures are quoted from Morningstar as at 30 September 2016 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily an indication of future performance. Participatory interests are traded at ruling prices and can engage in scrip lending and borrowing. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. A schedule of fees and charges is available on request from the management company. Pricing is calculated on a net asset value basis, less permissible deductions. Forward pricing is used. Commission and incentives may be paid and, if so, are included in the overall costs. Coronation is a member of the Association for Savings and Investment SA (ASISA).

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

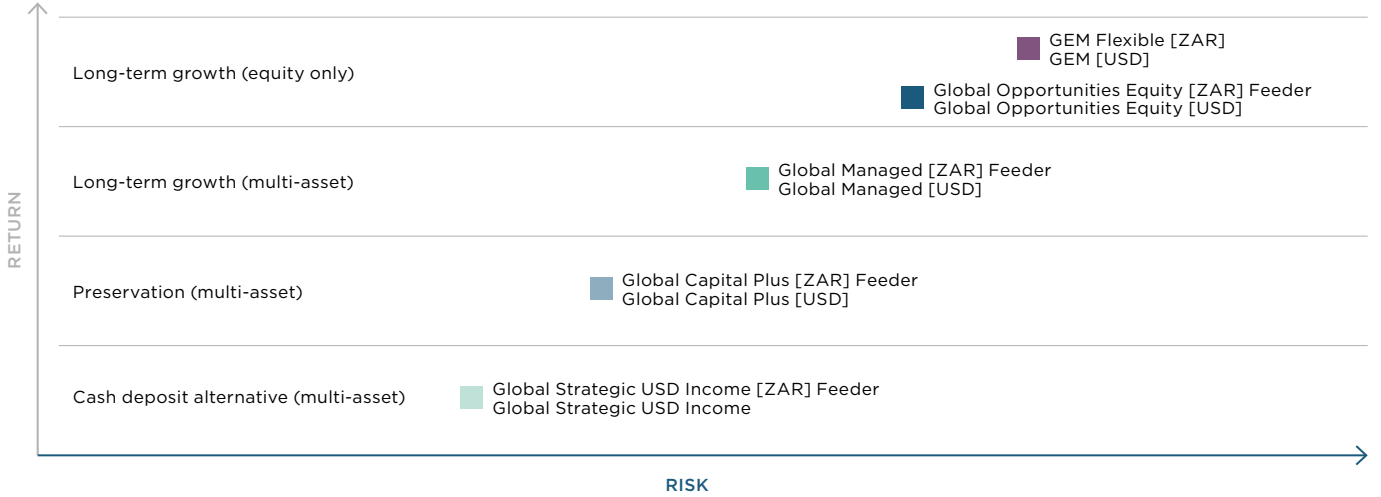
The SARB allows each resident South African taxpayer to externalise funds of up to R11 million per calendar year (R10 million foreign capital allowance and a R1 million single discretionary allowance) for direct offshore investment in foreign currency denominated assets. If you want to invest more than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

- 1 Obtain approval from SARS 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 that 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.



EXPECTED RISK VERSUS RETURN

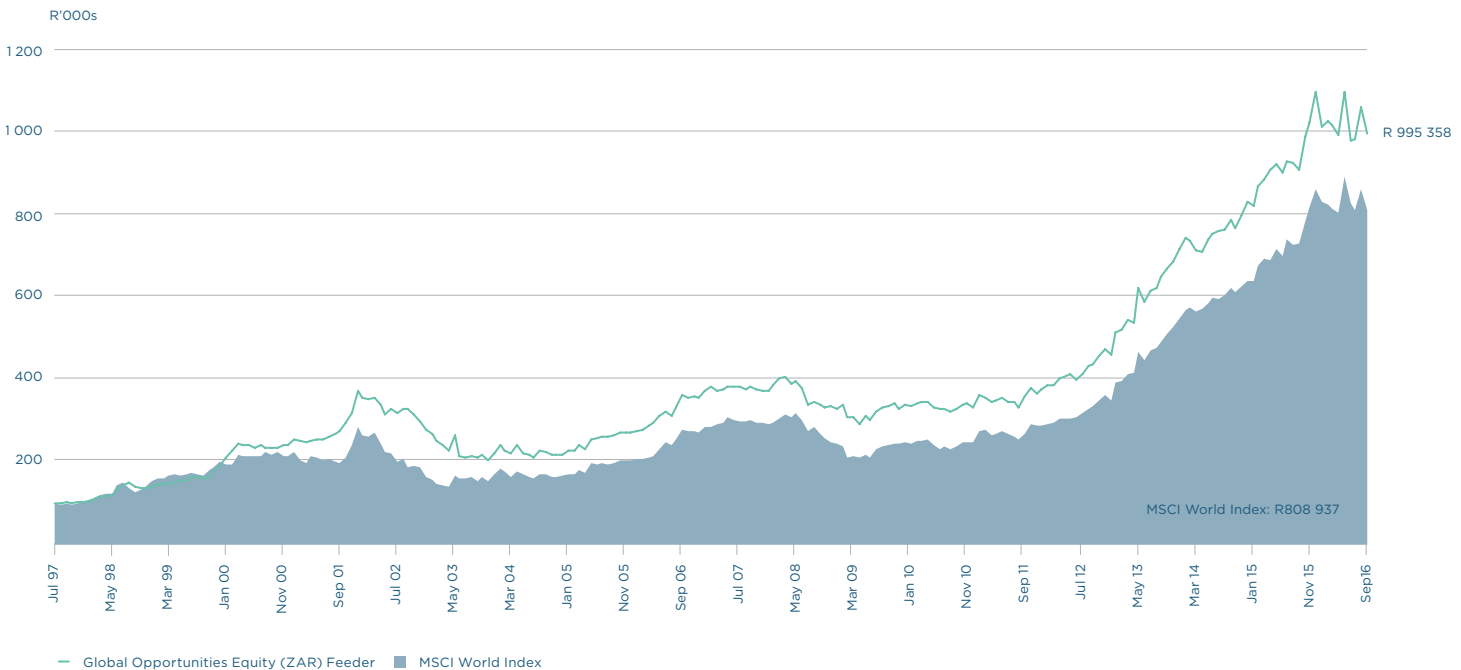
Expected return and risk positioning for both rand- and dollar-denominated funds after all income reinvested and all costs deducted.



Source: Morningstar

GROWTH OF R100 000 INVESTED IN GLOBAL OPPORTUNITIES EQUITY [ZAR] FEEDER ON 1 AUGUST 1997

Value of R100 000 invested in Global Opportunities Equity [ZAR] Feeder on 1 August 1997 as at 30 September 2016. All income reinvested for funds; MSCI World Index is on a total return basis. Global Capital Plus [ZAR] Feeder, Global Emerging Markets Flexible [ZAR], Global Managed [ZAR] Feeder and Global Strategic USD Income [ZAR] Feeder, which were launched between 2007 and 2012, have not been included.



Source: Morningstar



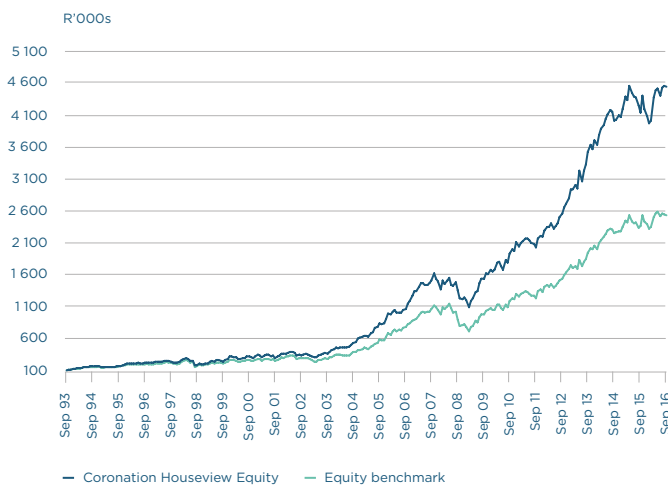
LONG-TERM investment track record



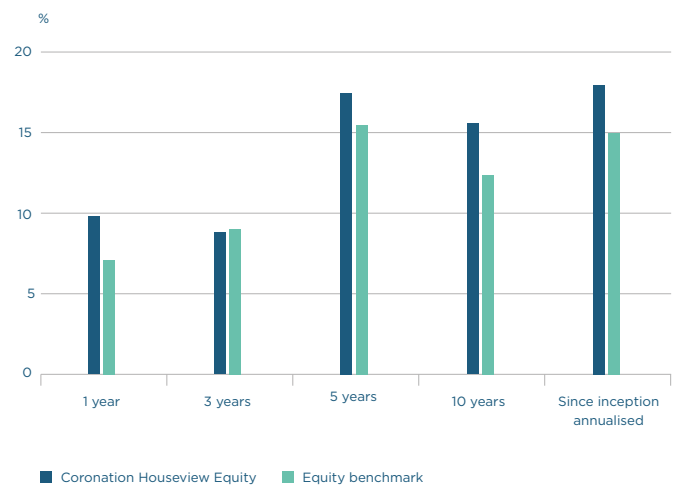
CORONATION HOUSEVIEW EQUITY* RETURNS VS EQUITY BENCHMARK

5-YEAR ANNUALISED RETURNS	CORONATION HOUSEVIEW EQUITY	EQUITY BENCHMARK	ALPHA
1998	8.15%	6.49%	1.66%
1999	14.23%	10.91%	3.33%
2000	10.93%	7.52%	3.41%
2001	10.95%	9.38%	1.57%
2002	9.46%	7.80%	1.66%
2003	18.02%	13.78%	4.24%
2004	14.12%	9.63%	4.49%
2005	23.35%	18.94%	4.41%
2006	28.38%	23.66%	4.72%
2007	33.79%	29.55%	4.24%
2008	23.36%	19.73%	3.63%
2009	22.23%	20.67%	1.56%
2010	18.55%	15.73%	2.82%
2011	11.58%	8.73%	2.85%
2012	13.39%	10.10%	3.29%
2013	24.37%	20.21%	4.16%
2014	19.39%	16.08%	3.31%
2015	14.05%	13.14%	0.91%
4 years 9 months to 30 September 2016	16.65%	14.41%	2.24%
ANNUALISED TO 30 SEPTEMBER 2016			
1 year	9.91%	7.17%	2.74%
3 years	8.90%	9.09%	(0.19%)
5 years	17.55%	15.48%	2.07%
10 years	15.67%	12.45%	3.22%
Since inception in October 1993 annualised	18.05%	15.06%	2.98%
Average outperformance per 5-year return			3.08%
Number of 5-year periods outperformed			19.00
Number of 5-year periods underperformed			-

CUMULATIVE PERFORMANCE



ANNUALISED RETURNS TO 30 SEPTEMBER 2016



An investment of R100 000 in Coronation Houseview Equity on 1 October 1993 would have grown to **R4 543 169** by 30 September 2016. By comparison, the returns generated by the Equity Benchmark over the same period would have grown a similar investment to **R2 521 691**.

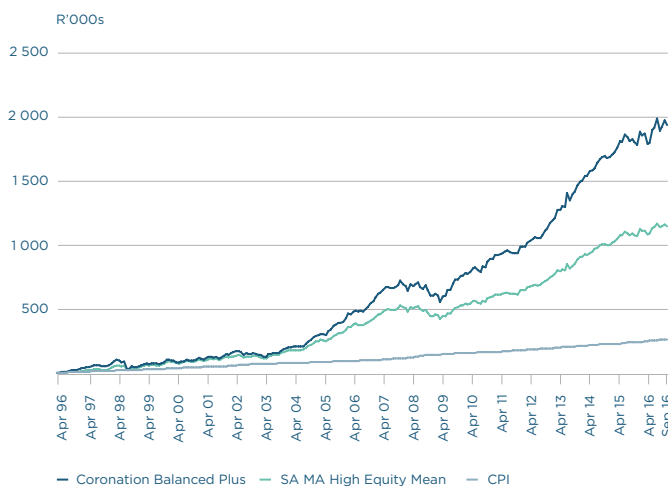
* Coronation Houseview Equity, which is an institutional portfolio, has been used to illustrate Coronation's investment track record since inception of the business in 1993.



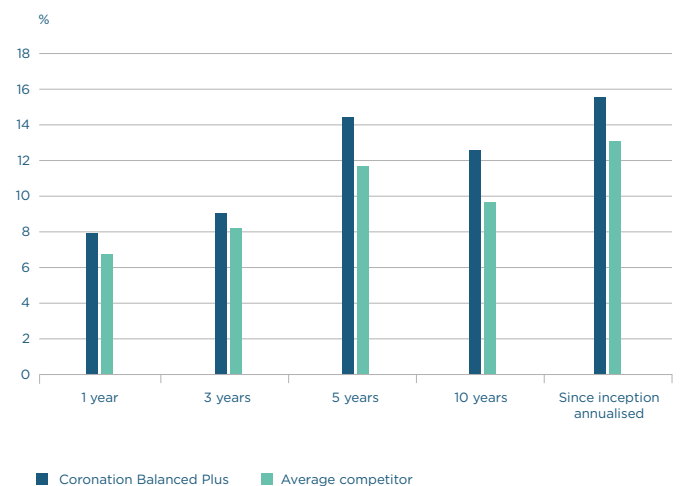
CORONATION BALANCED PLUS FUND VS INFLATION AND AVERAGE COMPETITOR*

5-YEAR ANNUALISED RETURNS	CORONATION BALANCED PLUS	INFLATION	REAL RETURN
2000	16.00%	7.90%	8.10%
2001	14.38%	7.41%	6.97%
2002	10.73%	8.04%	2.69%
2003	14.68%	7.33%	7.35%
2004	13.82%	6.68%	7.14%
2005	20.53%	5.85%	14.68%
2006	22.43%	5.54%	16.89%
2007	25.35%	5.17%	20.18%
2008	19.28%	6.41%	12.87%
2009	17.60%	6.82%	10.77%
2010	13.97%	6.71%	7.26%
2011	9.49%	6.94%	2.55%
2012	10.81%	6.36%	4.45%
2013	17.98%	5.39%	12.58%
2014	15.57%	5.19%	10.38%
2015	14.05%	5.54%	8.51%
4 years 9 months to 30 September 2016	14.04%	5.74%	8.30%
ANNUALISED TO 30 SEPTEMBER 2016	CORONATION BALANCED PLUS	AVERAGE COMPETITOR	ALPHA
1 year	7.96%	6.75%	1.20%
3 years	9.10%	8.20%	0.90%
5 years	14.49%	11.76%	2.72%
10 years	12.67%	9.68%	2.99%
Since inception in April 1996 annualised	15.66%	13.15%	2.50%
Average 5-year real return			9.51%
Number of 5-year periods where the real return is >10%			7.00
Number of 5-year periods where the real return is 5% - 10%			7.00
Number of 5-year periods where the real return is 0% - 5%			3.00

CUMULATIVE PERFORMANCE



ANNUALISED RETURNS TO 30 SEPTEMBER 2016



An investment of R100 000 in Coronation Global Balanced on 1 October 1993 would have grown to **R1 948 678** by 30 September 2016. By comparison, the SA multi-asset high-equity sector over the same period would have grown a similar investment to **R1 246 460**.

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



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