Balanced Plus aims to achieve the best possible investment growth for retirement savers (within the constraints of Regulation 28 of the Pension Funds Act) over the long term.

Balanced Plus can invest in a wide variety of assets, such as shares, bonds, listed property and cash, both in South Africa and internationally.

The fund complies with Regulation 28, which limits the exposure of retirement investors to certain asset classes. For example, shares may never comprise more than 75% of the fund’s portfolio, while exposure to property and foreign assets (excluding Africa) is limited to 25% each.

The fund is mandated to use derivative instruments for efficient portfolio management purposes.

As Balanced Plus aims to maximise long-term returns, it will typically have a strong bias towards shares, which offer the highest expected growth over the long run. The fund’s managers actively seek out attractively valued shares that may achieve strong returns over periods of five years and longer.

While shares usually offer the best investment return, this comes with the greatest risk of short-term losses. The fund’s investment in shares is therefore carefully balanced with other assets (including cash, bonds and property) to ensure that risk is moderated. Returns from these assets are not as volatile as shares, and will not always move in the same direction (up or down) at the same time, making the fund less risky than a pure equity fund.

Given the care taken to manage risk and to ensure that the best possible returns can be achieved from a range of diverse investments, it is unlikely that the Balanced Plus fund will lose money over the longer term. However, the fund may produce negative returns in extreme years, albeit at a lower level than a fund that is only invested in shares.

The recommended investment term is five years and longer.

Investors who are saving for retirement, and:
- can stay invested for at least five years (preferably longer);
- have to choose a fund for their retirement annuity, provident fund, preservation fund or pension fund, and are looking for an investment that balances long-term growth with moderate levels of risk.

An annual fee of 1.25% (excl. VAT) is payable.

Fund expenses that are incurred in the fund include fees payable to unconnected international fund managers on a portion of assets situated offshore as well as trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs. We do not charge fees to access or withdraw from the fund.

More detail is available on www.coronation.com
CORONATION BALANCED PLUS FUND

CLASS A as at 30 September 2017

Fund category: South African - Multi Asset - High Equity
Launch date: 15 April 1996
Fund size: R88.43 billion
NAV: 10544.25 cents
Benchmark/Performance: Composite (52.5% equity, 22.5% bonds, 20% international, 5% cash)
Fee Hurdle: Portfolio manager/s: Karl Leinberger, Sarah-Jane Alexander and Adrian Zetler

Total Expense Ratio: 1.63%
1 Year: 1.25%
3 Year: 1.63%
Fund management fee: 0.17%
1 Year: 0.21%
3 Year: 0.21%
Fund expenses: 0.12%
1 Year: 0.17%
3 Year: 0.17%
VAT: 0.12%
1 Year: 0.13%
3 Year: 0.13%
Transaction costs (inc. VAT): 1.75%
1 Year: 1.76%
3 Year: 1.76%

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

As at 30 Sep 2017 % of Fund
Domestic Assets 74.6%
Equities 44.8%
Oil & Gas 0.0%
Basic Materials 8.0%
Industrials 1.1%
Consumer Goods 9.1%
Health Care 1.8%
Consumer Services 10.1%
Telecommunications 3.3%
Financials 6.9%
Technology 0.0%
Derivatives 4.6%
Unlisted 0.0%
Preference Shares & Other Securities 0.2%
Real Estate 13.3%
Bonds 10.6%
Commodities 1.2%
Cash 3.5%
Other (Currency Futures) 1.1%
Others 0.1%
Derivatives (0.1)%
International Assets 25.4%
Equities 22.8%
Real Estate 0.6%
Bonds 0.5%
Cash 1.4%

As at 30 Sep 2017
Sector
Domestic Assets 74.6%
Equities 44.8%
Oil & Gas 0.0%
Basic Materials 8.0%
Industrials 1.1%
Consumer Goods 9.1%
Health Care 1.8%
Consumer Services 10.1%
Telecommunications 3.3%
Financials 6.9%
Technology 0.0%
Derivatives 4.6%
Unlisted 0.0%
Preference Shares & Other Securities 0.2%
Real Estate 13.3%
Bonds 10.6%
Commodities 1.2%
Cash 3.5%
Other (Currency Futures) 1.1%
Others 0.1%
Derivatives (0.1)%
International Assets 25.4%
Equities 22.8%
Real Estate 0.6%
Bonds 0.5%
Cash 1.4%

GROWTH OF A R100,000 INVESTMENT

PORTFOLIO DETAIL

PERFORMANCE AND RISK STATISTICS

PERFORMANCE FOR VARIOUS PERIODS

Since Launch (unannualised) 1986.6% 1444.1% 542.4%
Since Launch (annualised) 15.2% 13.6% 1.6%
Latest 20 years (annualised) 14.0% 13.6% 0.2%
Latest 15 years (annualised) 15.5% 14.8% 0.6%
Latest 10 years (annualised) 10.7% 10.3% 0.4%
Latest 5 years (annualised) 12.1% 12.1% 0.0%
Latest 3 years (annualised) 7.0% 8.8% (1.8)%
Latest 1 year 7.1% 9.6% (2.6)%
Year to date 10.0% 10.3% (0.3)%

RISK STATISTICS SINCE LAUNCH

Fund Benchmark
Annualised Deviation 13.3% 12.4%
Sharpe Ratio 0.41 0.31
Maximum Gain 57.9% 29.3%
Maximum Drawdown (34.3)% (31.9)%
Positive Months 68.5% 65.8%

Fund Date Range
Highest annual return 49.3% Aug 2004 - Jul 2005
Lowest annual return (17.4)% Sep 1997 - Aug 1998

MONTHLY PERFORMANCE RETURNS

January February March April May June July August September October November December YTD
Fund 2017 2.0% 0.1% 1.9% 2.6% (0.3)% (2.0)% 4.6% 0.5% 0.6% 2.5% (1.9)% 0.8% 0.1% 10.0%
Fund 2016 (4.1)% 0.3% 5.4% 0.9% 3.5% (4.4)% 1.5% 2.5% (1.9)% (2.6)% 0.3% 0.6% 0.5%
Fund 2015 1.9% 2.9% (0.2)% 3.0% (1.2)% (1.5)% 0.8% (1.5)% (0.9)% 3.5% (1.7)% 0.8% 8.1%

Please refer to page 4 of the Comprehensive Fact Sheet for important additional information, including change in cost disclosures.

Issue date: 2017/10/18
Please note that the commentary is for the retail class of the fund.

The fund had a strong quarter, delivering a return of 5.7%. Its long-term track record remains compelling, with the fund performing well against both its peer group and the quantitative benchmarks over most meaningful periods.

Notwithstanding the latest turbulence in the White House; ongoing acrimonious Brexit negotiations; rising populism in a number of countries; and long range missile tests in North Korea, global equities delivered another strong performance over the quarter, with prospects for synchronised global economic growth more than offsetting these multitude of concerns. The MSCI All Country World Index returned 5.2% in US dollars for the quarter (18.7% over a rolling 12 months). Emerging markets continuing their strong rally, returning +8% for the quarter (+22.9% over a rolling 12 months), and outperforming developed markets which returned +5% for the quarter (+18.8% over a rolling 12 months). Our large weighting in global and, in particular, emerging market equities, significantly added to fund performance this quarter. Although we maintain a healthy weighting to global equities, we have used the continued strength to reduce our exposure. Furthermore, we still hold some put options to protect these equity holdings to some extent in the event of a widespread sell-off. We have used the proceeds from our reduction in global equities to gradually increase our domestic equity exposure on further weakness in the rand and local equity markets.

Locally, headlines continue to be dominated by the political backdrop which remains volatile. The political and policy uncertainty has wreaked havoc on business and consumer sentiment with South African business confidence slumping to a 32-year low. This has filtered through to a weak and deteriorating economic growth outlook. Disappointing fiscal revenues, together with further state-owned enterprise bailouts, are undermining fiscal consolidation and have increased the probability of additional credit rating downgrades. These factors, coupled with our view that global bond yields remain at unsustainably low levels, have informed our position of maintaining very low exposure to domestic fixed-rate bonds. This is partly offset by our overweight position in listed property – especially the A property shares, which we believe offer very attractive risk adjusted returns.

The rand proved remarkably resilient for most of the quarter but then weakened materially in September on deterioration in South Africa sentiment. The rand ended the quarter down 3.6% against the US dollar and almost 7% against the euro.

Overall, the JSE had a good quarter, with the All Share Capped Index returning +8.4% (9.4% over a rolling 12-month period). Returns for the quarter were driven by a strong performance from the resources sector (+17.8%) and outpaced returns from some of the large industrial sector constituents such as Naspers (+15%) and Richemont (+15%) which masked the poor performance of many SA-focused domestic shares. The financial sector lagged the overall market remaining 3.1% for the quarter with life insurers underperforming in this challenging operating environment.

We continue to maintain a reasonable exposure to resources in our equity and balanced funds based on our assessment of their long-term value. Our overweight positions in Anglo American (+41%), Exxaro (+35%), Glencore (27%) and Northam (+14%) have all contributed meaningfully to performance over the past quarter but we still see value in these stocks from current levels. As examples; Anglo American is trading on c9x and Exxaro c7x our assessment of normal earnings. We acknowledge the risks in the investment case (aggressive tax planning, high gearing levels, continuous M&A activity) but still believe the stock is breathtakingly cheap and we rate the management team highly.

MTN is a business that has been undermanaged for a number of years and although there have been several positive developments in recent months, this has yet to reflect in market sentiment towards the stock and in its share price. The history of operational disappointments in Nigeria and South Africa, which have decimated the earnings base; the current negative investor sentiment towards volatile markets like Nigeria, Iran and Syria; and the regulatory headwinds across its various geographies have scared off many in the market. However, given this low base, coupled with the sweeping management changes that took place over the past 12 months, we are very excited about the opportunity for a significant turnaround. MTN is trading on 5.5x our assessment of normal earnings.

UK property stocks: The share prices of these stocks have been hit hard by the uncertainties surrounding Brexit. It is difficult to know with certainty how these will play out, but Intu, Hammerson and CapCo currently trade at substantial discounts to their reported NAVs (43%, 31% and 23% respectively) and the former two produce forward dividend yields of 6.4% and 5.0%. While the disclosed NAV rests on a number of assumptions regarding future events and may fluctuate somewhat over time, the attractive dividend yields afford one the opportunity to wait for the impact of a more stable environment to manifest.

Domestic listed property delivered a strong performance for the quarter with a return of 5.7%. After holding up better than the other property sectors over the past few years, retail has also started to show signs of strain in this recessionary economy. Underlying retailer trading densities have slowed and as a result, renewals have come under pressure. Tenant retention ratios have also started easing. This will start filtering through to lower distribution growth. We continue to tread cautiously and prefer to stay invested in the higher-quality property names and A property shares, which we believe will produce better returns than bonds and cash over the long term.

In this uncertain world, our objective remains on building diversified portfolios that can absorb unanticipated shocks. We will remain focused on valuation and will seek to take advantage of attractive opportunities that the market may present and in so doing generate inflation-beating returns for our investors over the long term.

Earnings disappointments, deteriorating investor sentiment and large share price declines have provided an opportunity to increase our stakes in some defensive, high-quality, domestic businesses. We have bought broadly in names including Spar, Netcare and Curro. Funding for these positions has come predominantly from a reduction in the size of the Naspers position. This has certainly not been an easy call to make. The Naspers investment continues to be compelling. Tencent is a phenomenal business and is at the core of a rapidly growing Chinese internet economy with numerous opportunities to further monetise its massive user base. As an example; we believe that Tencent’s move into payments and financial services creates a market opportunity several times the size of its current gaming business. Naspers currently trades at an almost 30% discount to its Tencent stake alone – in our view, a complete pricing anomaly. Furthermore, we have been very encouraged by the steps Naspers management have taken to streamline the rest of the Naspers portfolio. Although Naspers remains the largest single position in the fund; we felt that the absolute size of this position had grown too large for a clean-slate fund and had created stock-specific risk for investors in absolute terms.

The local equity portfolio remains skewed towards stocks with large offshore earnings exposure (Naspers, British American Tobacco, MTN, UK-listed property holdings and Steinhoff). We believe valuations for these businesses are extremely attractive. As an example:

- Steinhoff: After significant underperformance over the past 12 months, Steinhoff is now trading on a 10x 1-year forward PE multiple and c8.5x our assessment of normal earnings. We acknowledge the risks in the investment case (aggressive tax planning, high gearing levels, continuous M&A activity) but still believe the stock is breathtakingly cheap and we rate the management team highly.
- MTN is a business that has been undermanaged for a number of years and although there have been several positive developments in recent months, this has yet to reflect in market sentiment towards the stock and in its share price. The history of operational disappointments in Nigeria and South Africa, which have decimated the earnings base; the current negative investor sentiment towards volatile markets like Nigeria, Iran and Syria; and the regulatory headwinds across its various geographies have scared off many in the market. However, given this low base, coupled with the sweeping management changes that took place over the past 12 months, we are very excited about the opportunity for a significant turnaround. MTN is trading on 5.5x our assessment of normal earnings.

Portfolio managers

Karl Leinberger, Sarah-Jane Alexander and Adrian Zetler

as at 30 September 2017
The Balanced Plus Fund should be considered a medium- to long-term investment. The value of units may go down as well as up, and therefore Coronation does not make any guarantees with respect to the protection of capital or returns. Past performance is not necessarily an indication of future performance. The fund is mandated to invest up to 30% (including a maximum exposure of 5% to Africa, excluding South Africa) of its portfolio into foreign securities and may as a result be exposed to macroeconomic, settlement, political, tax, reporting or illiquidity risk factors that may be different to similar investments in the South African markets. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Asset allocation is reflected on a look-through basis. Any African exposure (ex SA) is reflected under international assets.

Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Services Board in terms of the Collective Investment Schemes Control Act. Portfolio managed by Coronation Asset Management (Pty) (FSP 548) Ltd, an authorised financial services provider. The Management Company reserves the right to close the fund to new investors if we deem it necessary to limit further inflows in order for it to be managed in accordance with its mandate. Unit trusts are allowed to engage in scrip lending and borrowing. Standard Chartered has been appointed as trustees for the fund (www.sc.com/za, 011-2176600). Coronation is a full member of the Association for Savings & Investment SA (ASISA).

Additional information such as daily fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, www.coronation.com.

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