CORONATION

FLEXIBLE FIXED INCOME STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 31 DECEMBER 2024

CORONATION TRUST IS EARNED™

LONG TERM OBJECTIVE

The Coronation Flexible Fixed Income Strategy is an actively managed fixed interest solution that has a flexible mandate with no duration or term restrictions. The Strategy aims to outperform the better of cash or bonds over rolling 3-year periods. The Strategy invests in the traditional fixed interest assets, but can also invest in listed property (max. 15%), preference shares (max. 10%) and inflation-linked bonds, which are typically excluded in most specialist mandates. This flexibility allows the Strategy to maximise every opportunity in the domestic fixed interest space and produce superior returns for clients.

INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house. Our aim is to identify mispriced assets trading at discounts to their fair value through extensive proprietary research. The fixed income portfolios are positioned on a long term strategic market view, but this is balanced by taking advantage of shorter-term tactical opportunities when the market lags or runs ahead of that strategic view. As active managers, we consider investment decisions across the full spectrum of potential return enhancers. These include duration and yield curve positions, inflation-linked assets as well as yield enhancement through credit enhanced assets. We aim to maximise returns by actively combining both a top-down and a bottom-up approach to portfolio construction.

STRATEGY RETURNS GROSS OF FEES

Period	Strategy	STEFI 3M	ALBI
Since Inception (cumulative)	288.9%	134.6%	249.2%
Since Inception p.a.	9.8%	6.1%	9.0%
Latest 10 years p.a.	9.2%	6.3%	8.7%
Latest 5 years p.a.	9.8%	5.8%	9.6%
Latest 3 years p.a.	10.9%	6.9%	10.3%
Latest 1 year	19.1%	8.2%	17.2%
Year to date	19.1%	8.2%	17.2%
Month	(0.3)%	0.6%	(0.3)%

ASSET ALLOCATION

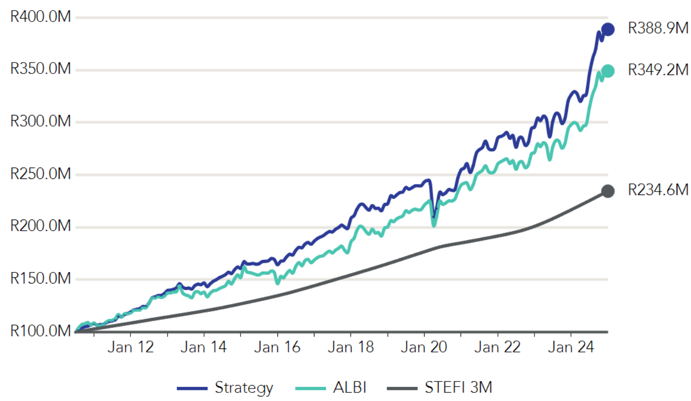
Asset Type	% Strategy
Fixed Rate Government Bonds	80.9%
Government ILBs	5.2%
Cash	3.0%
Fixed Rate Other	2.3%
Floating Rate Corporate Bonds	2.1%
Property	2.0%
Floating Rate NCDs	1.6%
Corporate ILBs	1.3%
Fixed Rate Corporate Bonds	1.0%
Other	0.5%
Preference Shares	0.1%

GENERAL INFORMATION

Inception Date	01 July 2010
Strategy Size †	R1.90 billion
Strategy Status	Open
Mandate Benchmark	The higher of cash (Short Term Fixed Interest 3 month Index (STeFI 3m)) or bonds (JSE ASSA All Bond Index (ALBI)) over rolling 3 year periods
Dealing Frequency	Daily
Base Currency	ZAR

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

GROWTH OF R100M INVESTMENT



Benchmark: The higher of cash (Short Term Fixed Interest 3 month Index (STeFI 3m)) or bonds (JSE ASSA All Bond Index (ALBI)) over rolling 3 year periods

EFFECTIVE MATURITY PROFILE*

Term	% Strategy
0 to 1 year	4.7%
1 to 3 years	0.8%
3 to 7 years	15.3%
7 to 12 years	38.5%
Over 12 years	38.6%

STRATEGY STATISTICS*

Modified Duration (incl. inflation-linked bonds)	5.9
Modified Duration (excl. inflation-linked bonds)	5.6

PORTFOLIO MANAGERS

Nishan Maharaj - BSc (Hons), MBA

Nishan is Head of Fixed Interest at Coronation and a portfolio manager across all fixed interest strategies. He joined Coronation in 2012 has 21 years' investment experience.

Adrian van Pallander - BScEng, HTSdip, CFA, FRM

Adrian joined Coronation in 2002 and is a portfolio manager within Coronation's Fixed Interest investment unit. He is responsible for managing a portion of the fixed interest assets across all strategies as well as analysis, asset allocation modelling and portfolio construction monitoring. He has 21 years' investment experience.

Seamus Vasey - BCom (Hons), MSc, CFA

Seamus is a portfolio manager and analyst within the Fixed Interest investment unit with more than 20 years' investment experience. He manages assets within Coronation's specialist bond strategies. He also co-manages the Coronation Global Bond and Granite Hedge funds as well as the Global Strategic USD and Bond unit trust funds.

Mauro Longano - BScEng (Hons), CA (SA)

Mauro is a portfolio manager and Head of Fixed Interest research. He co-manages various fixed income strategies for institutional and retail clients. Mauro joined Coronation in 2014 and has 13 years' investment industry experience.

REGULATORY DISCLOSURE AND DISCLAIMER

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

REVIEW FOR THE QUARTER

2024 was another impressive year for risk assets, as continued strength in the US economy and market saw developed market equities deliver jaw-dropping, high double-digit returns. Conversely, developed market bonds grappled with sticky inflation and unease about excessive government borrowing. The return of President Donald Trump this month (January 2025) introduces uncertainty around the direction of US policy, casting a shadow over expected returns for the coming year.

2025 is the year of the Snake, which is believed to bring transformation, renewal, and growth. In a world that has been fractured by increasing geopolitical tensions and growing inequality, global debt has steadily increased to c. US$100 trillion and is expected to hit 100% of global GDP by the end of the decade. This is the shackle that needs to be shed for the world to enjoy transformative prosperity.

The FTSE/JSE All Bond Index (ALBI) was up 17.18% over the year, following a 100 basis point (bps) rally in bond yields over the same period, with the longer end of the curve (>12y maturity) producing a return in excess of 20%. Inflation-linked bonds (ILBs) significantly underperformed cash (8.21%) and bonds over the period, delivering a paltry return of 7.77%. This was primarily due to a slower path to a normal real policy rate, despite inflation ticking down much faster than expectations.

The Federal Reserve Board (the Fed) lowered the Fed funds rate target range by 25bps to 4.25% - 4.50% at the Federal Open Market Committee (FOMC) in December, with one member dissenting, voting for no cut. Cumulatively, the Fed reduced policy rates by 100bps in 2024. The FOMC noted that the economy has continued to expand at a solid pace and while unemployment has ticked up marginally, it remains within the Fed's tolerance range. Inflation has made strides towards reaching the 2% target, but it remains higher than where the Fed would like it to be. The updated dot plot in December signaled a more gradual and shallower path of interest rate cuts, with only 50bps cuts expected in 2025.

US headline inflation ticked up to 2.7% year on year (y/y) in November from 2.6% y/y in October, while core inflation remained unchanged at 3.3% y/y. The main contributor to the uptick was an increase in food, shelter, energy, and new as well as used vehicle prices. The slowdown in inflation has been below the Fed's preferred pace, thus supporting the more cautious monetary policy easing path.

In South Africa, headline inflation increased slightly to 2.9% y/y in November from 2.8% y/y in October, while core inflation slowed to 3.7% y/y from 3.9% y/y. The uptick was due to an increase in retail fuel prices which was partly offset by a moderation in food inflation. Elsewhere, transport costs fell, while vehicle prices increased. The South African Reserve Bank (SARB) became verbally cautious about easing in November, stating specifically that any additional easing would be assessed based on the available data. Given the weak GDP figure, even excluding the debated collapse in agriculture, a cut in January should be justified by the CPI undershoot and clear economic weakness. That said, much will depend on where the currency trades come January, because it weighs heavily on the MPC's risk assessment.

At the end of December, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.29% (three-year) and 8.83% (five-year), with both maturities being higher compared to the end of the previous month. Our inflation expectations suggest that the current pricing of these instruments remains attractive due to their lower modified duration and, hence, high breakeven relative to cash. In addition, NCDs have the added benefit of being liquid, thus aligning the Strategy's liquidity with the needs of its investors. The Strategy continues to hold decent exposure to these instruments (fewer floating than fixed), but we will remain cautious and selective when increasing exposure.

ILBs have been the worst-performing asset class within fixed income for the last couple of years. In a portfolio of assets, one requires diversification and something that offers insurance in the event the base case doesn't materialise. As such, just because an asset has not performed well does not mean it does not deserve a place in the portfolio. ILBs are such an asset class, primarily because of their inherent risk-offsetting attributes and current valuation. ILBs offer protection if inflation materialises higher than expectations. At current levels, the real yields on offer are historically high (in excess of 4.5% across the curve, which implies a guaranteed return of CPI + 4.5%), and the total return on offer relative to nominal bonds remains attractive. This attractiveness is focused primarily on maturities of less than four to six years.

Despite a wobbly end to the year, risk assets enjoyed a relatively strong 2024. SA government bonds shone as they outperformed their emerging and developed market counterparts. The road ahead is less certain. Inflation has remained well behaved and is expected to remain close to the midpoint of the current target band. However, the SARB's reluctance to ease rates might prove to be a headwind to bond yields and the economy going forward. In addition, local growth has remained lacklustre, and the growth required to shed the burden of our current debt load remains much higher than expectations. The risk premium on SA bonds has been much reduced and is commensurate, if not too idealistic, with SA's economic future. In addition, global risks remain high as the incoming US president's policy direction might stoke inflation and push global bond yields even higher still. We continue to maintain a neutral position on local bond yields in light of their reduced risk premium, with very little exposure to local credit and a moderate allocation to ILBs given their attractive valuation and offsetting risk attributes.

The local listed property sector was up 0.68% over the month, bringing its 12-month return to 29.81%. Operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. The current subdued growth outlook, combined with an increase in the cost base, due to higher administered prices and second-round effects on loadshedding, will weigh on the sector's earnings in the coming year. We believe that one must remain cautious given the high levels of uncertainty around the strength and durability of the local recovery.

Local credit spreads are at historically tight levels due to low levels of issuance and large swaths of capital looking for a home with reduced volatility. The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the local market. This sector has grown exponentially over the last five years and has reached a market size of over R100 billion. However, only a third of this market reprices, creating an inaccurate representation of asset volatility and pricing. CLNs mask the underlying/ see-through credit risk as the issuing entity (predominantly local banks) is seen as the primary credit risk.

The increased usage of CLNs has not expanded the pool of borrowers, rather it has only served to concentrate it. This is due to the ability to limit the volatility of these instruments by not marking them to market based on the underlying asset price movements. The combination of attractive yields and no volatility is an opportunity that not many would pass up, unless, of course, transparency of pricing is important to the underlying investor. As a result, there can be significant unseen risks within fixed income Strategy's. Investors need to remain prudently focused on finding assets of which the valuations are correctly aligned to fundamentals and efficient market pricing. Except for a few opportunities, we view the local credit market as unattractive relative to other asset classes.

We remain vigilant of the risks from the dislocations between stretched valuations and the local economy's underlying fundamentals. However, we believe that the Strategy's current positioning correctly reflects appropriate levels of caution, while its yield of 9.43% (gross of fees) remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected portfolio performance over the next 12 months. As is evident, we remain cautious in our management of the Strategy. We continue to invest only in assets and instruments that we believe have the correct risk and term premium to limit investor downside and enhance yield.