

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)	246.6%	125.5%	214.5%
Since Inception p.a.	9.3%	6.0%	8.5%
Latest 10 years p.a.	8.5%	6.2%	8.2%
Latest 5 years p.a.	7.8%	5.7%	7.8%
Latest 3 years p.a.	8.1%	6.2%	7.6%
Latest 1 year	15.2%	8.3%	13.7%
Year to date	6.2%	4.0%	5.6%
Month	5.8%	0.7%	5.2%

ASSET ALLOCATION

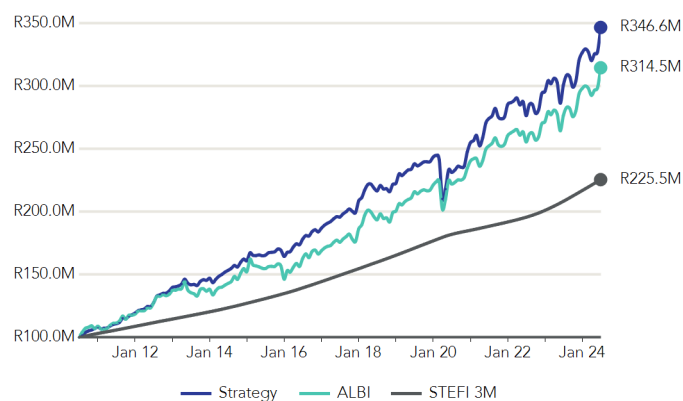
Asset Type	% Strategy
Fixed Rate Government Bonds	84.7%
Government ILBs	3.0%
Property	2.7%
Fixed Rate Other	2.4%
Cash	2.4%
Fixed Rate Corporate Bonds	1.2%
Floating Rate NCDs	1.2%
Corporate ILBs	1.1%
Floating Rate Corporate Bonds	0.8%
Other	0.4%
Preference Shares	0.1%

GENERAL INFORMATION

Inception Date	01 July 2010
Strategy Size †	R2.09 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	2.9%
1 to 3 years	0.7%
3 to 7 years	20.1%
7 to 12 years	42.7%
Over 12 years	30.9%

STRATEGY STATISTICS*

Modified Duration (incl. inflation-linked bonds)	5.9
Modified Duration (excl. inflation-linked bonds)	5.7

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

The content of this document and any information provided may be of a general nature and is not based on any analysis of the investment objectives, financial situation or particular needs of any potential investor. As a result, there may be limitations as to the appropriateness of any information given. It is therefore recommended that any potential investor first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the potential investor prior to acting upon such information and to consider whether any recommendation is appropriate considering the potential investor's own objectives and particular needs. Neither Coronation Fund Managers Limited nor any subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. Any opinions, statements or information contained herein may change and are expressed in good faith. Coronation does not undertake to advise any person if such opinions, statements or information should change or become inaccurate. This document is for information purposes only and does not constitute or form part of any offer to the public to issue or sell, or any solicitation of any offer to subscribe for or purchase an investment, nor shall it or the fact of its distribution form the basis of, or be relied upon in connection with any contract for investment. The value of the investments may go down as well as up and past performance is not necessarily a guide to future performance. Coronation Fund Managers Limited is a full member of the Association for Savings and Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers. Coronation Life Assurance Company Limited is a licenced insurer under the Insurance Act, No.18 of 2017.

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

REVIEW FOR THE QUARTER

SA fixed income markets were on a roller coaster ride over the quarter to end June. The yield on the 10-year bond traded well over 12% into the elections before crashing down to sub 11% by the end of the second quarter of 2024 (Q2-24) as the details of the Government of National Unity (GNU) emerged, calming investor angst. The FTSE/JSE All Bond Index (ALBI) was up 7.5% over the quarter, bringing its twelve-month return to 13.7%. This is well ahead of cash, with a quarter-to-date (QTD) return of 2.0% and one-year return of 8.3%; and inflation-linked bonds, with a QTD return of 2.4% and one-year return of 9.1%. Bond performance was driven by outperformance of bonds in the belly of the curve (i.e., less than 12-year maturity). The rand gained c.3% against the US dollar QTD, which also put the ALBI's return ahead of global bonds (-3.6% in rands QTD and -2.6% over one year).

The ANC's loss of its majority has ushered in a new era of coalition politics under the GNU. Hopes of a reduced cabinet (and lower wage bill) were dashed, with several dual deputy minister roles being introduced to appease members of the 10-party GNU. Key ministries within the cabinet still remain under the control of the ANC, with many underperforming ministers returning to their roles. The ANC still controls the majority of ministries and deputy ministries, while the Democratic Alliance (DA) controls six in each. Overall policy direction will still be shaped by the ANC in many of the key areas of economic development. More importantly, the implementation of said policy will be at the behest of the ANC, with limited influence from opposition parties. This opens up the risk of a continuation of the glacial pace of reform that we have become accustomed to. On the positive side, with the introduction of opposition parties into the various ministries, there should be increased scrutiny of the checks and balances within these ministries. Hopefully, this will reduce slippage, increase governance oversight, and keep the direction of policy on track. The durability of the GNU remains an area of concern, with the two largest parties still being ideologically different. It is concerning that cracks are already starting to emerge in the provincial structures, most notably the failure to reach an agreement on governing structure in SA's economic hub, Gauteng.

The boost to sentiment from the GNU has been felt in asset prices as the risk premium in SA fixed income has seen a significant reduction. However, the SA economy still faces significant challenges and, although the direction of travel is positive, one cannot be hasty in moving long-term economic forecasts. Marginal positive revisions might be warranted at this stage, but the road to higher sustainable growth lies in the pace and minutia of implementation.

Developed market central banks met in June, with the European Central Bank (ECB) administering the first rate cut, while the other central banks opted to keep policy rates on hold. Headline inflation readings remain stubbornly above the target range, although, food prices continue to moderate.

The Federal Reserve Board (Fed) left the Fed funds rate unchanged at the 5.25%-5.50% target range at the Federal Open Market Committee (FOMC) meeting in June. The Fed statement noted strong economic activity, resilient labour markets and the low unemployment rate in the US as conditions which continue to support tight monetary policy settings. Furthermore, the FOMC cautioned that it was not yet appropriate to reduce the target range, as inflation remains elevated, and more progress is needed to reach the 2% target range.

US headline inflation edged lower to 3.3% year on year (y/y) in May from 3.4% y/y in April, while core inflation reduced to 3.4% y/y from 3.6% y/y. The headline decline was due to continued moderation in food prices, a drop in transportation costs and declining vehicle prices. Housing, motor vehicle insurance and energy prices increased.

Inflation in SA has proven to be stickier than anticipated, but recent developments in food and oil prices, combined with a stable rand, have helped produce a slightly better outcome. Our expectations remain for inflation to dip towards the midpoint of the band (4.5%) in the fourth quarter of this year (Q4-24) and remain at or above 5% over our forecast period. The South African Reserve Bank's (SARB's) commitment to getting inflation sustainably on a path to 4.5%, the need to keep the real policy rates high amidst a higher-for-longer global rate environment and high fiscal risks implies a higher real policy rate than past experience. In addition, talk of moving the inflation target towards 3% will also weigh on the SARB's ability to provide monetary policy support to the economy meaningfully. We continue to believe a real policy rate of 2%-2.5% remains appropriate in the current environment. This suggests a nominal repo rate of 7.5%, with rate cuts commencing in the third quarter of 2024; in increments of 25 basis points (bps). However, upside risks to inflation remain from higher administered prices (Eskom will apply for a 44% tariff hike in 2025) and sticky food inflation. Market expectations of the repo rate have converged towards our expectations, with limited room for further compression.

At the end of June, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.86% (three-year) and 9.34% (five-year), lower 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.

Global monetary policy remains conducive for risk assets, which should remain supportive of flows into emerging markets. SA has seen a significant reduction in risk premium following the formation of the GNU and the inclusion of the pro-reformist opposition into cabinet. SA inflation has benefited from both local and global factors and should support a shallow rate-cutting cycle starting towards the tail end of 2024. However, low growth, upside risks to inflation and burgeoning deficits will continue to weigh on the longer-term outlook for SA unless reform implementation is accelerated. SA's bond yields have seen significant compression, with the margin of safety narrowing significantly, both from an absolute basis and relative to the emerging market peer group. There might be slightly more juice left in the SA bond rally. However, we believe that SA bonds now trade at or very close to fair value. A more positive shift in underlying fundamentals is needed to justify tighter valuations and outperformance. Thus, we would advocate positions closer to neutral in bond Strategy's. The underperformance of ILBs in the recent SA fixed income rally has increased their attractiveness, which warrants a generous allocation, focused on maturities of less than 10-year maturity, even ahead of nominal bonds.

ILBs are securities designed to help protect investors against inflation. They are indexed to inflation so that the principal amount invested and, hence, the interest payments rise and fall with the inflation rate. The significant underperformance of ILBs relative to nominal bonds has resulted in a compression of breakeven inflation levels towards the 5% level. This compares favourably to our own expectations of inflation averaging 5-5.5% over the longer term. Risks on the inflation front still remain elevated, primarily due to administered and network industry prices. As such, ILBs, due to their inherent inflation protection and attractive total return expectations, warrant a decent allocation within Strategies, specifically those with a maturity of less than nine years (2033).

The local listed property sector was up 6.2% over the month, bringing its 12-month return to 26%. Operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. The current poor growth outlook, combined with an increase in 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 due to the high levels of uncertainty around the strength and durability of the local recovery.

We believe that allocating significant amounts of capital to the local credit market is unwise and would represent a substantial opportunity cost in the face of attractive valuations in other, more liquid asset classes. The current level of credit spreads on offer are at historically compressed levels despite SA being close its weakest economic position in its history. Corporate profitability and creditworthiness are inevitably tied to economic outcomes, with significant polarisation in performance.

The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the local market. This market sector has grown exponentially over the last five years and has reached a market size of over R100 billion. Still, 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, instead it has only served to concentrate it. This is due to the ability to limit the volatility of these instruments through not marking them to market¹ based on the underlying asset price movements. This is why CLN repacks of SA government bonds have become so popular over the last five years. The combination of attractive yields and no volatility is an opportunity that not many would pass up, unless, of course, pricing transparency is important to the underlying investor. As a result, there can be significant unseen risks within fixed income funds. Investors need to remain prudently focused on finding assets whose valuations are correctly aligned with fundamentals and efficient market pricing.

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. The Strategy's yield remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected Strategy 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.

¹ Valuations are not regularly adjusted to mirror their current value