CORONATION

FLEXIBLE FIXED INCOME STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 31 MARCH 2025

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)	290.8%	138.9%	251.6%
Since Inception p.a.	9.7%	6.1%	8.9%
Latest 10 years p.a.	9.0%	6.4%	8.4%
Latest 5 years p.a.	13.2%	5.9%	11.7%
Latest 3 years p.a.	10.4%	7.3%	9.8%
Latest 1 year	22.0%	8.0%	20.2%
Year to date	0.5%	1.8%	0.7%
Month	0.1%	0.6%	0.2%

ASSET ALLOCATION

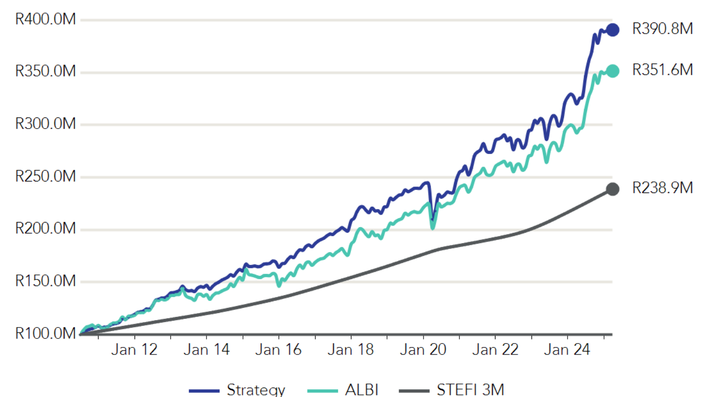
Asset Type	% Strategy
Fixed Rate Government Bonds	80.9%
Government ILBs	6.1%
Property	2.6%
Fixed Rate Other	2.4%
Floating Rate Corporate Bonds	2.2%
Floating Rate NCDs	2.0%
Corporate ILBs	1.3%
Cash	1.3%
Fixed Rate Corporate Bonds	0.6%
Other	0.4%
Floating Rate Other	0.1%
Preference Shares	0.1%

GENERAL INFORMATION

Inception Date	01 July 2010
Strategy Size †	R1.97 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	3.3%
1 to 3 years	0.8%
3 to 7 years	23.9%
7 to 12 years	38.9%
Over 12 years	30.4%

STRATEGY STATISTICS*

Modified Duration (incl. inflation-linked bonds)	6.0
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

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

The first quarter of 2025 was marked by significant shifts in global financial markets that have reverberated through South Africa (SA)'s economic landscape. Central banks, including the US Federal Reserve, signaled a cautious pivot, balancing growth concerns with persistent cost-of-living challenges. Global risk sentiment has soured as investors recalibrate their views and appetites amid new tariff policies and a strengthening dollar. The uncertainty on the magnitude of the impact of the Trump administration's tariffs, counter-tariffs by affected countries, the deteriorating diplomatic relationship between the US and SA, and recent tremors within the Government of National Unity (GNU) around the Budget have weakened the appeal of SA assets.

Despite US bond yields compressing 30 basis points (bps) over the quarter, the SA 10-year bond weakened by c.30bps due to SA-idiosyncratic issues (SA-US tensions and uncertainty with regards to Budget outcomes), driven by the steepening of the yield curve (maturities of 10-years plus moving more than shorter maturity yields). The FTSE/JSE All Bond Index (ALBI) and the FTSE/JSE Inflation-Linked Bond Index (CILI) were both up 0.7% by the end of the quarter, behind cash at 1.83%, but still well ahead over the last 12 months (ALBI 20.16%; CILI 8.93%; cash 8.03%). Emerging markets remained on the back foot through most of the last 12 months; however, in the last quarter, the dollar weakened slightly. The rand was among the beneficiaries, strengthening 2.8% during the quarter, leaving it c.50 cents stronger than the same point last year (18.84 versus 18.33). This helped the local bonds outperform global bonds in dollars (3.53% versus 2.57%) and keeps their performance well ahead of their global counterparts over the last 12 months (23.43% versus 2.10%).

March saw major developed markets' central banks maintaining a cautious stance on policy rates. Rising geopolitical tensions continued to dominate financial market news flow, raising uncertainty, and creating potential headwinds for inflation and economic activity in 2025. Inflation readings, in general, reflected slower-than-expected price moderations.

The Federal Reserve Board (the Fed) left the target range for the federal funds rate unchanged at 4.25% to 4.5% at the March Federal Open Market Committee (FOMC) meeting. The FOMC observed that there has been some moderation in consumer spending, and it is yet to be seen how tariffs will impact consumer spending and investment. The Fed downgraded its expected growth forecast and increased its inflation forecast for 2025 owing to the volatile global trading environment.

US headline inflation slowed down to 2.8% year on year (y/y) in February from 3.0% y/y in January, while core inflation eased to 3.1% y/y from 3.3% y/y. The decline was due to a moderation in food, energy, new and old vehicles, medical care, and transportation costs. There was a slight increase in apparel prices, while housing costs were flat.

The South African Reserve Bank (SARB) left the repo rate unchanged at 7.5% at the March MPC meeting. Two members voted for a 25bps cut while four voted to hold, signaling a change in the unanimous voting observed in the past meetings. The SARB lowered inflation forecasts for 2025 and noted that growth has been disappointing and having reduced expectations for domestic demand. The MPC seems to be showing a clear preference for higher real rates and a more restrictive stance than seems warranted, despite the lowering of inflation forecasts, well-anchored expectations at the target, and disappointing domestic demand.

SA headline inflation remained unchanged at 3.2% y/y in February, while core inflation slowed to 3.4% y/y from 3.5% y/y. Increases in food and non-alcoholic beverages, housing and household utilities were offset by a decline in fuel prices. Broadly, several factors have helped bring the forecast profile for CPI lower over the past few months. These include currency resilience, falling international oil prices, low food inflation, weak rentals, and the impact of the reweighted CPI basket, which increased the weight of some of the lower inflation components.

The recent Trump administration tariffs, combined with the loss of business confidence in SA due to the GNU instability, risk placing growth on a lower path. Real policy rates in SA are now at the most restrictive levels that they have been at since the early 2000s when inflation was in double digits, growth was c.4%, and SA was only starting its inflation-targeting journey. Inflation is now very much under control at 4.5% (through the cycle), but growth prospects remain in the doldrums. Why is it, then, that the SARB maintains real policy rates north of 4% when the historical norm has been 1.5%-2%? It is implicitly targeting inflation at a lower point (3%-3.5%). We maintain that a lower inflation target over the longer term is beneficial; however, the high cost of funding in the local economy at a point when growth is faltering, is throttling the recovery, and rates should be 100bps to 150bps lower given current conditions. Unfortunately, the SARB is probably going to remain on this path, at best keeping rates stable going forward, unless global growth forces its hand. This might happen as the effects of the tariff hikes make their way through to the global economy.

At the end of March, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.27% (three-year) and 8.77% (five-year), with both maturities slightly 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.

The recent Budget turmoil highlights the very difficult task that the country faces given its excessive debt load. On face value, the Budget sticks to its fiscal consolidation path by financing all new expenditure (increased front-line workers, Social Relief of Distress Grant and funding costs) through increased revenue measures (VAT hike, bracket creep and use of unallocated reserves). However, the increased expenditure is recurring and fixed, implying any fall off in growth and thus revenue, will create a larger funding shortfall. As a result, this will further reduce fiscal buffers and increase the risks of a higher debt load going forward.

Anaemic growth is at the heart of SA's fiscal mess. The formation of the GNU, which included the pro-business DA, helped bolster investor sentiment and removed downside tail risk from SA's policy choices. While we have not yet seen significant policy shifts, deterioration has been halted, slippage reduced, and much needed reforms prioritised, fostering an environment in which growth could accelerate towards 2%. This is still substantially lower than what's needed but higher than that of the last decade. At the time of writing, it seems very likely that this arrangement will not continue in its current form, that is, the DA will either leave the GNU or be removed from its current positions within government. This will be a significant step back in SA's recovery story and places the fiscal rehabilitation in great peril. Much of the reform process was started before the formation of the GNU and will definitely continue, but the risk is that the urgency behind implementation fades, lowering the growth trajectory. In addition, the recent Trump tariff actions will lower global growth, maybe not into recession, but enough to hurt a small export-driven economy on the southern tip of Africa.

The changes in the global landscape have become less favourable for risk and emerging market assets. The effects of a global trade war will leave global growth floundering, and export-driven economies will struggle in such an environment. The slowdown in global growth, once the immediate inflationary shock retreats, should compel global monetary policy to turn supportive, thus supporting global developed market fixed income. SA's recent political turbulence makes it ill-placed in an unfriendly world. Local inflation should remain relatively well behaved, but a growth slowdown will have negative consequences for the country's finances, suggesting a further risk premium needing to be priced into local bond yields. This would be further solidified if the GNU is reconfigured in a manner that is less supportive of growth and business. SA bonds are at risk of a wider repricing in yields, and bond Strategy's should remain neutral but ready to take advantage of weakness when it prevails. In addition, ILBs should be present in Strategy's to provide some risk offset should the worst outcome materialise.

The local listed property sector was down 1.54% over the month, bringing its 12-month return to 20.13%. Operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. The current increase in the cost base, due to higher administered prices and second-round effects on deteriorating infrastructure in much of the country, 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 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.