2024

LONG-TERM INVESTING

COROLAB

Your guide to investment ideas

CORONATION

TRUST IS EARNED™

The Coronation client charter

- We strive to always put clients first
- We have an unwavering commitment to the long term
- We focus on producing top performance over all meaningful periods
- We are uncompromising about ethics

Overview

People invest for the long term for different reasons. When you have time on your side, taking advantage of two things can maximise your outcome:

- investing in a reputable fund that is managed to deliver maximum capital growth; and
- doing so in a tax-efficient manner.

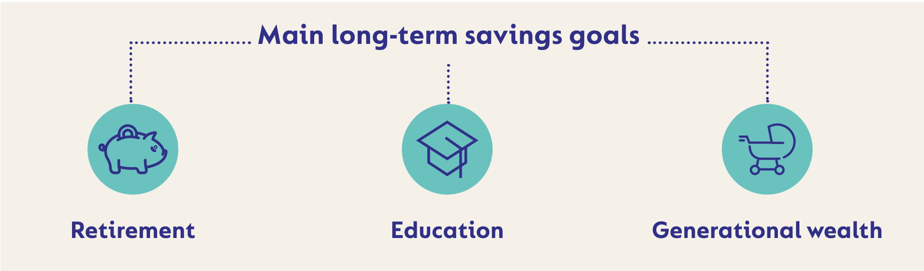
The impact of **compounding maximum capital growth in a tax-efficient manner over the long term** is significant.

This edition illustrates how to pair the most appropriate growth-oriented multi-asset class fund with a suitable tax-efficient product to achieve two examples of long-term investment goals.

Why do you invest for the long term?

The most likely (and significant) reason why people invest for the long term is to build up capital for their retirement in what could be multiple decades from now.

Those who are fortunate enough to have access to discretionary savings (in other words, savings in excess of what they are already committing to their retirement pot) may be investing for an additional long-term goal, such as a child's education, towards having greater financial freedom later in life, or to create generational wealth.



Whatever significant long-term goal you aim to invest towards, it is worth remembering that you can achieve **maximum capital growth in a tax-efficient manner**. Let's start with how to maximise capital growth over the long term.

Maximising capital growth over the long term

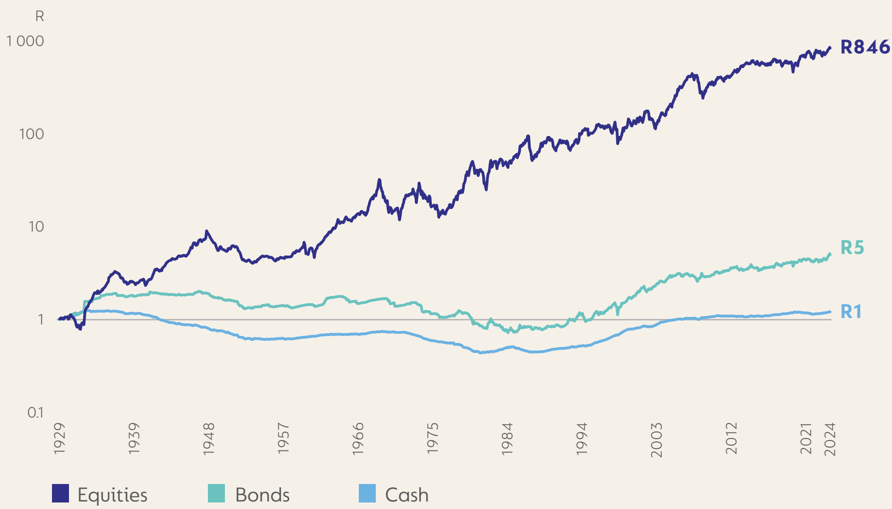
When you are investing for a long-term goal, your single biggest aim is to achieve inflation-beating returns that will grow your real wealth over time. Inflation is the biggest risk to long-term investors as it steadily erodes purchasing power, meaning that the same amount of money will buy less in the future than it does today.

Equities deliver compelling real returns over long periods of time

As is clear from the graph below, equities stand out as the asset class best positioned to combat inflation, thanks to its ability to generate real returns that far outpace other asset classes such as bonds and cash. Historically, based on data spanning back to 1929, South African equities have delivered just over 7% per annum (p.a.) real over the very long term, whereas local bonds returned less than 2% p.a. real over the same period. Cash has barely kept pace with inflation, yielding real returns of 0.2% over this extended time period.

Real returns from equities far outpace that of other asset classes

Real returns for every R1 invested in domestic asset classes since December 1929



Source: Coronation, INET, as at 30 November 2024

Thus for those aiming to build a portfolio that outpaces inflation and creates substantial wealth, equities are essential, offering long-term growth potential that few other asset classes can match. By prioritising equity exposure over long periods of time, investors position themselves to achieve meaningful, inflation-beating returns.

Consider growth-oriented multi-asset class funds to stay the course

Long-term investors could consider funds that are fully invested in equities – the asset class that provides the highest expected return over time (as demonstrated on page 3).

However, being fully invested in equities (domestic or global equities, or a combination of both) comes with higher short-term volatility. While the longer you remain invested in equities, the lower this variability becomes, most investors may prefer a less volatile experience that allows them to stay the course.

For example, Coronation's growth-oriented multi-asset class funds aimed at retirement or discretionary savers – Coronation Balanced Plus and Coronation Market Plus – have delivered equity-like returns over the long term (past two decades) without exposing their investors to the volatility inherent in a pure equity fund (see table below).

Growth-oriented multi-asset class funds can deliver equity-like returns

But at much less volatility and risk

	Coronation Market Plus	Coronation Balanced Plus	SA – Multi-Asset – High Equity peer group (ex Coronation)	SA Equity	Global Equity (MSCI World ZAR)
Annualised return (20 years)	12.9%	12.5%	10.4%	13.5%	14.7%
Cumulative return (20 years)	1 038.3%	955.6%	624.8%	1 163.9%	1 111.9%
Risk and volatility					
Largest drawdown	-24.4%	-20.3%	-18.0%	-36.5%	-34.2%
2nd largest drawdown	-18.6%	-16.0%	-14.1%	-30.2%	-18.8%
3rd largest drawdown	-11.8%	-9.3%	-7.5%	-12.8%	-15.4%
Annualised volatility	10.8%	10.1%	8.2%	15.2%	14.6%

Source: Coronation and IRESS for the 20 years to 30 November 2024

Stick with reputable managers with long track records and an integrated approach to portfolio construction

Delivering track records like the aforementioned, require asset allocation across all geographies and asset classes through the cycle – a capability that very few managers have. This is because it requires an **integrated approach** that is anchored in a granular understanding of every single security's risk and return dynamics and the ability to construct and manage a portfolio based on that deep knowledge and ongoing monitoring.

Good asset allocation also requires active decision-making, as has been required in response to the many unimaginable events of the last 15+ years (including 9/11, the Global Financial Crisis, negative interest rates, the Covid pandemic, Russia's invasion of Ukraine, etc).

As we are likely to see more of these events in the fractious world we are living in, investors need to consider investing for the long term with good asset allocators that have demonstrable track records in taking bold and decisive action when it is required.

Achieving tax-efficiency over the long term: Two case studies

In this quest for tax-efficient investing over the long term, your options include retirement annuities (RAs), tax-free investments (TFIs) and – for higher income individuals – endowments.

While each of these fulfil a different function in an investor's overall portfolio (it's not a case of one being better than the other), the remainder of this *Corolab* will focus on two case studies in which we discuss the most suitable combination of underlying investment fund (with which to maximise your capital growth) and product type (with which to achieve tax-efficiency) for the purposes of retirement investing or for another discretionary long-term goal.

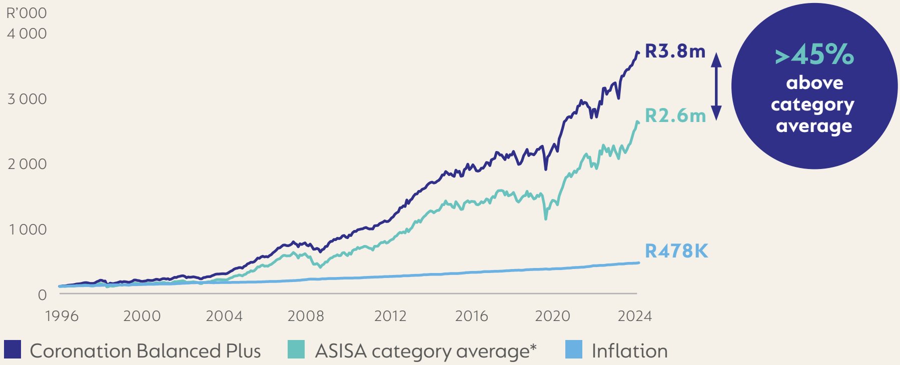
CASE STUDY 1: INVESTING FOR RETIREMENT BY WAY OF A RETIREMENT ANNUITY

Maximising capital growth with Coronation Balanced Plus

If you are saving for retirement, we believe that Coronation Balanced Plus, our flagship pre-retirement fund, is the most suitable option from which investors' retirement savings stand to benefit. This is because the Fund offers investors the highest exposure to growth assets and offshore exposure within Regulation 28 limits, allowing investors to maximise capital growth.

The power of compounding ahead of peers and inflation

Growth of R100 000 invested in Coronation Balanced Plus since 15 April 1996



* SA – Multi-Asset – High Equity ASISA Fund Category Average (excluding Coronation funds)

Source: Coronation as at 30 November 2024

Coronation Balanced Plus has a 28-year track record in delivering inflation-beating returns ahead of its benchmark (ASISA category average). Since inception, the Fund also managed to outperform the local equity market, and doing so with significantly less exposure to equities.

This level of outperformance compounded over time, can add significantly to your investment outcome.

As is clear from the prior graph, an investment in the average high equity balanced fund more than 28 years ago would have grown your capital by 26 times (in nominal terms) as at end November 2024, whereas a similar investment in the Coronation Balanced Plus Fund, which has outperformed the category average by a seemingly small 1.6% p.a. after fees, would have grown your capital by more than 38 times over this same period.

Achieving tax-efficiency with a Retirement Annuity

The Coronation Retirement Annuity Fund is a personal retirement account that enables you to save tax-efficiently for retirement if you are self-employed or with which to supplement your existing occupational retirement savings if you are employed.

The key advantages of an RA

Tax efficiency and growth

Your contributions are tax deductible (up to certain limits) and your investment returns are not taxed while you remain invested.

Choice

You can choose from a range of Coronation unit trust funds. (But note that your portfolio needs to comply with Regulation 28.)

Flexibility

You can reduce, stop or resume contributions at any time.

Cost efficiency

No initial fees, switching fees, exit penalties[1] or administration fees.

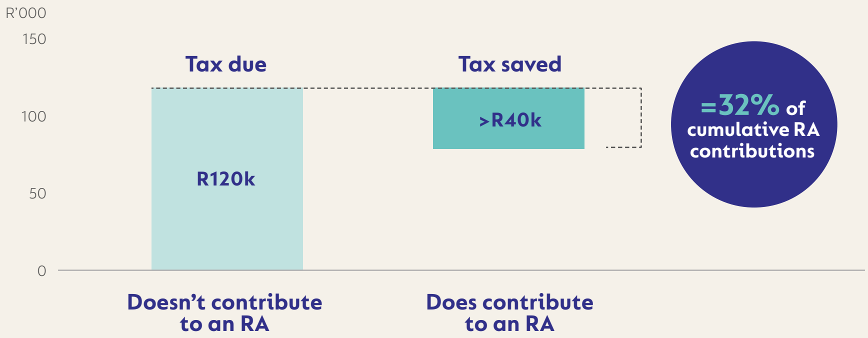
[1] While this is the ordinary course of business, Coronation retains the right to apply switching fees or exit penalties under limited circumstances.

Your investment in an RA must comply with Regulation 28 of the Pension Funds Act. Investing in the Coronation Balanced Plus Fund (as discussed before) is the simplest way to achieve that using Coronation's best investment views.

One of an RA's key advantages is that your contributions are tax-deductible (up to certain limits). The tax saving enabled by contributing towards an RA is best illustrated by the following example. Investor A earns non-retirement funding income* of R500 000 a year but doesn't contribute to an RA. As a result, Investor A pays roughly R120 000 in tax on that amount of income. Now let's assume Investor A did contribute the maximum allowable amount to an RA, which is 27.5% of R500 000 (or R137 500). This results in a tax saving of more than R40 000, which ultimately funds 32% of Investor A's contributions for the year.

The tax saving on your RA contributions can be meaningful

Tax paid vs tax saving



* As a self-employed individual, all your income would be non-retirement funding income. If you are already part of an employer pension or provident fund but would like to supplement your retirement savings by way of contributing to an RA, then your non-retirement funding income would be irregular and variable income (commission, performance bonuses and other windfalls). In other words, income that is not used to calculate individual contributions to your company pension or provident fund.

Source: Coronation

Reminder: Don't disrupt the power of compounding tax-free growth

If you consider the other key benefit of an RA which enables your investment returns to grow tax-free while you remain invested, the investment outcome becomes even greater. But it's crucial not to disrupt the power of invesment growth that grows tax-free.

While the new two-pot retirement system offers investors the flexibility to access a portion of their RAs during emergencies, early withdrawals come with significant long-term financial consequences that could drastically reduce a member's standard of living in retirement.

- **Early withdrawals are taxed at a higher rate**

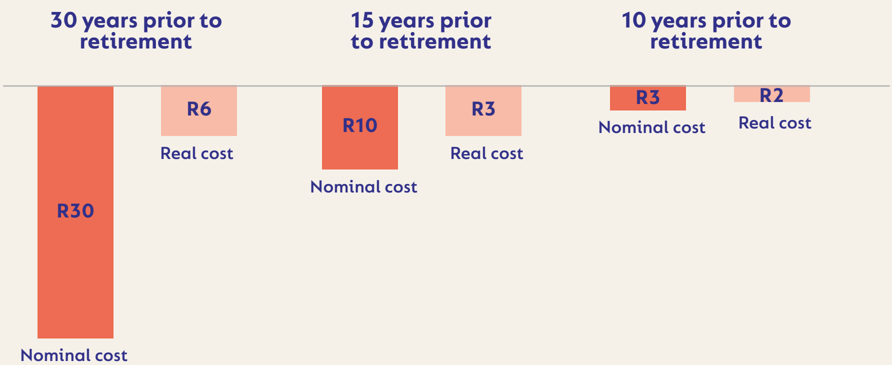
  Early withdrawals from the savings pot are taxed at a member's marginal tax rate, meaning a portion of each withdrawal is lost to taxation. Members who wait until retirement (at age 55 years or ideally later) to withdraw from their RA, benefit from preferential lump sum tax tables. By withdrawing early, you effectively forfeit this valuable tax advantage.

- **Early withdrawals disrupt the powerful effects of long-term compounding**

  Compounding enables retirement savings to grow exponentially over time, as returns generate further returns. For instance, for every R1 withdrawn from a retirement fund 30 years before retirement, the future value of a member's savings is reduced by around R6 in real terms, due to the opportunity cost of foregoing compounded growth. Even over shorter periods, the impact is still significant – withdrawals made just 10 years before retirement could result in an opportunity cost of R2 (in real terms) for every R1 withdrawn.

The cost of borrowing from your future self

Nominal and real cost at retirement of every R1 withdrawn early



Assumes a retirement age of 65 and a balanced fund return of 12% per annum and inflation of 6% per annum.
Source: Coronation

This serves as a powerful reminder that early withdrawals not only deplete the current balance but can ultimately jeopardise long-term financial security.

CASE STUDY 2:
INVESTING FOR A LONG-TERM GOAL WITH DISCRETIONARY SAVINGS

Maximising capital growth with Coronation Market Plus

If you are investing for a long-term goal with discretionary savings, your options with which to achieve maximum capital growth are wide. Depending on the purpose of your investment, your investment fund doesn't need to comply with Regulation 28 and could include anything from a domestic equity-only fund (such as Coronation Equity or Coronation Top 20) or a global fund available to South African investors. We believe Coronation Market Plus offers a complete long-term solution for discretionary long-term savers.

Since its inception in 2001, Coronation Market Plus has met the needs of aggressive investors aiming to build long-term capital outside their retirement portfolios. With the ability to invest more than 75% in equities (the regulatory limit under Regulation 28) and 45% offshore, Coronation Market Plus has delivered annualised returns well ahead of inflation and the average balanced fund. What is particularly pleasing is that, over this period, despite never being fully invested in equities, Coronation Market Plus has also managed to outperform the JSE All Share Index's performance.

Achieving tax efficiency with a Tax-Free Investment

If you want to make your discretionary long-term investment work a little harder, you could consider housing your chosen underlying investment fund in a tax-free investment (TFI), such as the Coronation Tax-Free Investment account.

The key advantages of a TFI

Tax efficiency and growth
You don't pay local tax on your investment returns – both while you're invested and when your investment pays out.

Choice
You can choose from a range of Coronation unit trust funds. Your fund choice does not have to comply with Regulation 28.

Cost efficiency
No initial fees, administration fees or switching fees[1].

Generational wealth
You can open a tax-free investment for minor children.

Access
You have unrestricted access to your money and any withdrawals are not subject to any taxes. (However, a long-term horizon is recommended.)

[1] While this is the ordinary course of business, Coronation retains the right to charge a switching/exit fee under limited circumstances.

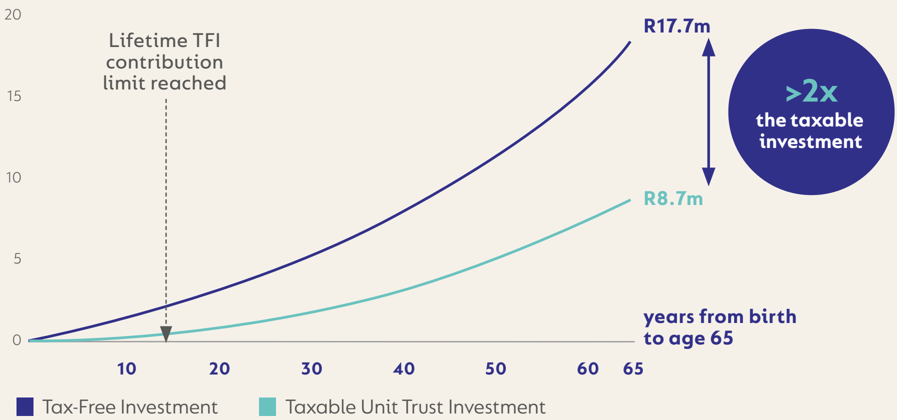
When you invest in a TFI, you don't pay local tax on your investment returns – both while you're invested and when your investment pays out. The taxes you save remain invested to grow, which can make a significant difference over the long term.

The following illustrative example highlights the long-term benefits of tax-free compounding in a fund such as Coronation Market Plus.

Imagine that you invest the maximum annual amount (R36 000) in a tax-free investment for your child from birth. If you continue doing so, you will reach the lifetime limit of R500 000 before your child turns 14. The longer you decide to keep the money invested, the more the benefits of compounding and the greater the extent to which your tax-free fund outperforms the same taxable fund in real terms.

The power of compounding tax free

Real (after inflation) investment values (R million)



Assumptions:

- R36 000 per year invested in a TFI and a taxable investment (a normal unit trust) at birth until the lifetime limit of a TFI of R500 000 is reached at around the age of 14.
- Investment then grows in both products until age 65.
- End values assume 6% growth after inflation (historically, Coronation Market Plus provided 8.9% real p.a. since inception as at 30 November 2024), 5% inflation and marginal tax split between income, dividends and capital growth based on historic average of Coronation Market Plus.
- This example is for illustrative purposes only. Future returns are uncertain and actual outcomes may differ.

Source: Coronation

Our analysis, based on certain assumptions (see bottom of graph on page 11), shows that if you keep the money in the fund until your child turns 18, the value of the tax-free investment will be 22% greater than the equivalent taxable investment. By age 30, this difference widens to 42% and by age 65, the investment would be double the value of the same taxable investment.

These results show that by resisting the temptation to disinvest from the fund, the nest egg which is built up would keep your child in good stead by either financing tertiary education, buying a first home or ideally investing in their retirement, depending on when your child decides to disinvest.

This theoretical exercise also shows the incredible power of compounding over long periods. Investing R500 000 spread out over 14 years and then doing nothing for 41 years results in an investment worth R17.7 million in today's money by the age of 65. That is enough to fund a monthly retirement income for life of more than R80 000, again in today's money. Our hypothetical (very patient) tax-free investment beneficiary would, therefore, never have to contribute to retirement while working, effectively freeing up 10% to 15% of annual income that would typically have been required to fund retirement income if you start contributing in your early 20s.

You can also select to maximise your capital growth in international markets

Investors seeking to utilise their discretionary savings in a fund that predominantly invests in offshore asset classes (Coronation Market Plus is limited to 45% offshore), can consider one of Coronation's global long-term growth-oriented multi-asset funds. The Coronation Global Optimum Growth Fund is an aggressive allocation fund suited to investors with a very long time horizon (10 years plus). Read more about this fund in our **Corolab: Investing Offshore**.

A higher-income option

High-income individuals who have already hit the investment ceiling in their TFI could consider a Coronation Endowment Plan as another tax-efficient investment option.

The appeal of endowments lies in the flat tax rates that apply to income and capital gains. Income is taxed at 30% (compared with a marginal individual tax rate that can be as high as 45%), while capital gains are taxed at 12% (compared with an effective rate of 18% for individuals in the highest income tax bracket). Investors' underlying fund options are not restricted by any regulation. As such, you can choose to invest in any of our long-term growth-oriented funds.

Conclusion

The conclusion is as simple as it is compelling: Invest for your long-term goals in reputable growth-oriented multi-asset funds with long track records in the delivery of equity-like, inflation-beating returns.

Choosing to house your long-term investment in a multi-asset fund has the added benefit that Capital Gains Tax is deferred until you decide to divest, as active asset allocation adjustments are made on your behalf within the fund and, as such, do not trigger a capital gains event (as would be the case with a DIY portfolio).

Choosing a multi-asset fund such as Coronation Balanced Plus (for savers who need to adhere to retirement limits within the context of an RA) or Coronation Market Plus (for discretionary savers who can seek more flexibility in terms of equity exposure than a Regulation 28-compliant fund) are most likely to help you achieve the best outcomes while enabling you to stay the course.

When you pair these track records with a tax-efficient product, the power of compounding will most likely do extraordinary things for you.

NOTES

Date of issue: December 2024
All performance data is quoted as at 30 November 2024.

For **enquiries** you can call us on **0800 22 11 77**
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For **new applications or transactions** you can email your forms directly to **transact@coronation.com** or fax us on **+27 21 680 2100**.

For **more information or to invest online**, visit us on **www.coronation.com**.