FLEXIBLE FIXED INCOME STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 31 DECEMBER 2021

CORONATION
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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)	185.3%	91.8%	160.5%
Since Inception p.a.	9.5%	5.8%	8.7%
Latest 10 years p.a.	9.1%	5.8%	8.2%
Latest 5 years p.a.	8.8%	5.8%	9.1%
Latest 3 years p.a.	8.6%	5.1%	9.1%
Latest 1 year	11.9%	3.6%	8.4%
Year to date	11.9%	3.6%	8.4%
Month	3.6%	0.3%	2.7%

ASSET ALLOCATION

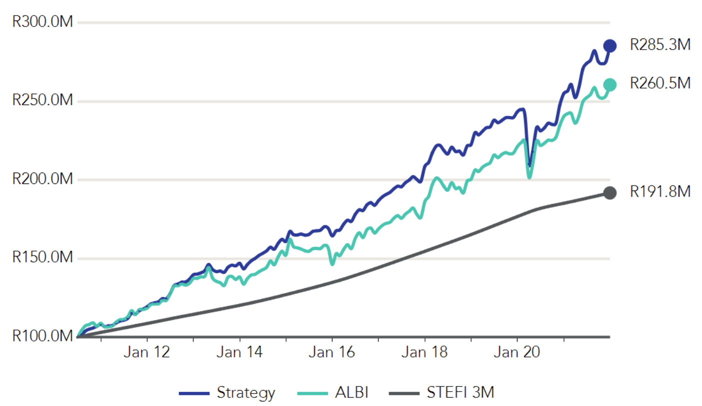
Asset Type	% Strategy
Fixed Rate Government Bonds	83.0%
Fixed Rate Corporate Bonds	7.0%
Property	5.4%
Corporate ILBs	2.4%
Floating Rate NCDs	0.4%
Floating Rate Other	0.4%
Other	0.4%
Government ILBs	0.3%
Fixed Rate Other	0.3%
Cash	0.2%
Floating Rate Corporate Bonds	0.1%
Preference Shares	0.1%

GENERAL INFORMATION

Inception Date	01 July 2010
Strategy Size †	R9.77 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	1.4%
1 to 3 years	1.0%
3 to 7 years	6.1%
7 to 12 years	29.6%
Over 12 years	56.3%

STRATEGY STATISTICS*

Modified Duration (incl. inflation-linked bonds)	6.7
Modified Duration (excl. inflation-linked bonds)	6.5

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PORTFOLIO MANAGERS

Nishan Maharaj - BSc (Hons), MBA

Nishan is head of Fixed Interest and responsible for the investment unit's process and performance across all strategies. He also manages all fixed interest assets. Nishan has 18 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 19 years' investment experience.

Seamus Vasey - BCom (Hons), MSc, CFA

Seamus is a portfolio manager and analyst within the Fixed Interest investment unit with 17 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.

REGULATORY DISCLOSURE AND DISCLAIMER

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

REVIEW FOR THE QUARTER

The Strategy produced decent returns for the quarter remaining ahead of cash and the ALBI over the said period, as well as over 12 months.

South African assets have had a roller coaster of a year. South African government bonds (SAGBs) traded in a 130 basis points (bps) range and, despite ending the year just above the midpoint of the trading range, still managed to outperform most emerging and developed bond markets. The FTSE JSE All Bond Index (ALBI) was up 8.4% in local currency, but the depreciation of the rand over the year eroded most of the return. This still put its return at -0.18% in US dollars, which is better than the FTSE World Government Bond Index at -6.97% and J.P. Morgan Emerging Market Bond Index at -1.51%.

The ALBI return far exceeded cash at 3.6% and was driven by the outperformance of bonds with a maturity of greater than 12 years that produced a return of 12.6%. This flattening of the yield curve was in large part due to the front end of the yield curve (less than seven years' maturity) widening relative to longer maturities. Inflation-linked bonds (ILBs), which carry a significantly higher duration than nominal bonds, saw real yields compress almost 100bps which helped them produce a bumper return of 15.5%. However, over three years their return (7.3%) remains below that of nominal bonds (9.1%).

December news flow was dominated by developed market central bank meetings, including a surprise rate hike by the Bank of England. Upside inflation risks have brought forward the need for central banks to tighten monetary policy settings, as sticky bottlenecks prevail, exacerbated by constrained supply chains, high primary commodity prices, labour shortages in the US and parts of Europe, and a new Covid-19 variant. While the full impact of the new variant is still unclear, the impact is likely to exacerbate some of the inflation pressures and pose a headwind to the ongoing recovery.

In the US, the Federal Reserve Board (the Fed) left interest rates unchanged at the target range of 0.00% - 0.25% but brought forward the taper of its bond purchases at the December Monetary Policy Committee (MPC) meeting. Furthermore, the Fed now expects three 25bps rate hikes to be implemented in 2022 to counter upward price pressure, while still considering the necessary progress made towards target employment. Headline inflation increased to 6.8% year on year (y/y) in November from 6.2% y/y in October. Core inflation increased to 4.9% y/y in November from 4.6% y/y in October. Commodity prices continue to account for much of the upside, but broader core goods and service prices are a widening source of pressure.

In emerging markets, China's headline inflation accelerated to 2.3% y/y in November from 1.5% in October, as food inflation reaccelerated. Core inflation slightly decreased to 1.2% y/y in November from 1.3% y/y in October. Inflation remains something of a mixed bag in emerging markets, but increasingly upside surprises to baseline forecasts are likely to prompt further rate hikes in 2022.

In South Africa, the economy contracted by 1.5% quarter on quarter (q/q) in the third quarter of 2021 (Q3-21) from a revised growth of 1.1% q/q in the second quarter of 2021. The trade, agriculture and manufacturing sectors were the biggest contributors to the decline. On the expenditure side, household consumption and exports decreased. Aspects of the weakness in the Q3-21 GDP are very specific and related to the July 2021 riots and their immediate aftermath. However, the impact on longer-term growth from other economic sectors is unclear, given persistently high unemployment and weak consumption across a range of goods and services, despite decent income growth. The gross operating surplus has recovered well, but confidence and investment remain weak. The building blocks for resilient growth are in place, but consumers and businesses remain reticent.

Headline inflation accelerated to 5.5% y/y in November from 5.0% y/y in October. Core inflation slightly increased to 3.3% y/y in November from 3.2% y/y in October. The large fuel hike in November contributed the most to the inflation uptick, while food and other goods and services prices remained relatively stable. Looking ahead, we expect price pressures from food and energy to persist, and some price increases in goods affected by supply constraints is also increasingly likely. The outlook for interest rates, despite some evidence of weak activity in the fourth quarter of 2021 and the emergence of Omicron, remains for a steady normalisation of the repo rate.

At the end of December, shorter-dated fixed-rate Negotiable Certificates of Deposit (NCDs) traded at 6.74% (three-year) and 7.50% (five-year), lower than the close at the end of the previous month. SA's more moderate inflation expectations suggest that 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 local economy remains on track to recovery; however, the repercussions of the pandemic continue to reverberate in the form of high unemployment, increased levels of poverty and reduced business confidence. Government finances remain fragile and increased demands on the fiscus threaten to increase the debt load further, pushing the country into a debt trap. Inflation is moving higher but should remain under control despite uneasiness around global inflation. Despite the precarious local backdrop amid the turbulence caused by local and global monetary policy normalisation, SAGBs still encapsulate a significant risk premium and large margin of safety. We continue to view overweight positions to bonds in the 10- to 15-year area of the curve as attractive. In addition.

ILBs had quite a recovery in 2021 but started from a much weaker position than nominal bonds. Nonetheless, there remains selective value across the ILB curve. Real yields are elevated across the curve, with implied breakeven inflation significantly lower than current expectations for local inflation in some areas. Despite the 4% real yields at the longer end of the ILB curve, these bonds carry a significantly higher duration (almost 2.5 times their nominal equivalent), with implied breakeven inflation of well above 6%. We continue to believe that there is better value in the nominal bond curve for bonds with maturity of greater than 12 years, given the steepness of the nominal curve, lower duration relative to comparable ILBs and higher implied real yields. However, given the high real yields in the four- to nine-year area and low breakeven inflation, we view this as an attractive investment opportunity and relatively better value than the nominal bond curve in the same area – especially since one is effectively getting the inflation protection for free. This is illustrated in the following table.

The local listed property sector was up 7.88% over December, bringing its 12-month return to 36.9%. The balance sheet concerns coming out of the Covid-19 crisis have subsided somewhat as companies have managed to introduce dividend pay-out ratios (with some withholding dividends entirely) and to sell off assets. Going forward, operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. We believe that one must remain cautious, given the high levels of uncertainty around the strength and durability of the local recovery. However, certain counters are showing value, given their unique capital structures and earnings potential. These counters remain a core holding within the Strategy.

The FTSE/JSE Preference Share Index was up 6.55% over the month, bringing its 12-month return to 44.97%. The most recent performance has been bolstered by an announcement by the banks of their intent to repurchase a significant portion of their outstanding preference shares. Preference shares offer a steady dividend yield linked to the prime rate and, depending on the risk profile of the issuer, currently yield between 8% and 10% (subject to a 20% Dividends Tax, depending on the investor entity). The change in capital structure requirements mandated by Basel III will discourage banks from issuing preference shares, which will limit availability. Due to the reduced liquidity in this asset class and other instruments, at the same point in the capital structure, trading at more attractive valuations, the Strategy will not look to increase its holdings and will maintain its current small exposure to specific corporate preference shares.

We remain vigilant of the risks emanating 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.

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.