CORONATION

STRATEGIC BOND STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 30 SEPTEMBER 2021

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LONG TERM OBJECTIVE

The Coronation Strategic Bond Strategy is an actively managed fixed interest solution that allocates across all the different fixed income instruments. The Strategy has a flexible mandate with no duration or term restrictions. The Strategy invests in the traditional fixed interest assets, but can also invest in listed property, preference shares 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. The Strategy aims to consistently outperform the JSE ASSA All Bond Index over the medium to long term.

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	Benchmark	Active Return
Since Inception (cumulative)	243.3%	209.8%	33.5%
Since Inception p.a.	9.4%	8.6%	0.8%
Latest 10 years p.a.	8.8%	8.3%	0.5%
Latest 5 years p.a.	8.0%	8.5%	(0.5)%
Latest 3 years p.a.	7.7%	9.1%	(1.4)%
Latest 1 year	16.0%	12.5%	3.5%
Year to date	7.5%	5.4%	2.1%
Month	(2.4)%	(2.1)%	(0.3)%

ASSET ALLOCATION

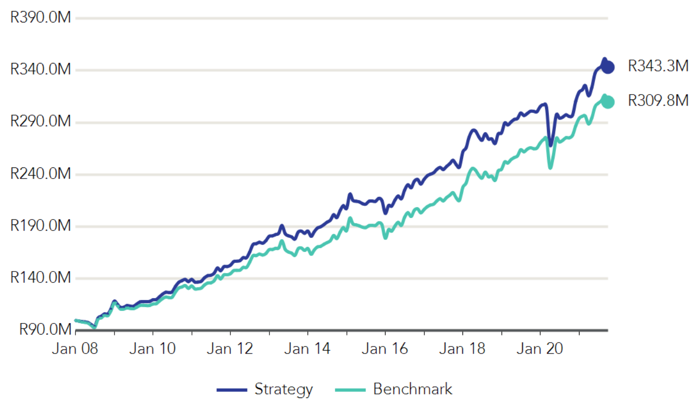
Asset Type	% Strategy
Fixed Rate Government Bonds	81.3%
Fixed Rate Corporate Bonds	5.9%
Property	4.0%
Corporate ILBs	2.8%
Floating Rate NCDs	1.9%
Cash	1.6%
Government ILBs	1.4%
Fixed Rate Other	0.8%
Floating Rate Corporate Bonds	0.2%
Floating Rate Other	0.1%

GENERAL INFORMATION

Inception Date	01 January 2008
Strategy Size †	R6.51 billion
Strategy Status	Open
Mandate Benchmark	JSE ASSA All Bond Index (ALBI)
Dealing Frequency	Daily
Base Currency	ZAR

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

GROWTH OF R100M INVESTMENT



Benchmark: JSE ASSA All Bond Index (ALBI)

EFFECTIVE MATURITY PROFILE*

Term	% Strategy	% Benchmark
0 to 1 year	4.1%	22.7%
1 to 3 years	2.1%	6.0%
3 to 7 years	5.3%	18.7%
7 to 12 years	30.5%	26.1%
Over 12 years	53.9%	36.7%

STRATEGY STATISTICS*

	Strategy	Benchmark
Modified Duration (incl. inflation-linked bonds)	6.6	6.4
Modified Duration (excl. inflation-linked bonds)	6.4	6.4

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.

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

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REVIEW FOR THE QUARTER

The Strategy again delivered healthy returns over the quarter, with the 12-month performance remaining well ahead of both cash and the Strategy's benchmark.

The post-pandemic recovery has been fraught with numerous challenges. Vaccination rates among developed economies remain high and continued economic stimulus has increased demand for finished goods in these countries. However, global supply chains remain slow as emerging economies, which are vaccinating at a much slower rate, are acting as bottlenecks within the global supply chain. Although these bottlenecks might well prove to be temporary, they have resulted in a spike in global goods prices, elevating global energy prices and causing a few sparks in the inflation tinder box. China's definitive move to redistribute wealth and deflate its property market towards the end of the third quarter of 2021 (Q3-21), increased uncertainty in global markets, further hurting already fragile sentiment pushing risk assets weaker.

South Africa (SA) was among the worst performers within emerging markets, as the rand lost 5.3% against the dollar (two thirds of which was in September alone) and the benchmark bond widened by 40 basis points (bps) over the quarter (close to 50bps wider from the start of September). The FTSE/JSE All Bond Index was down 2.1% over September, bringing its return for the quarter to 0.4% and 12.5% over the last 12 months. Inflation-linked bonds (ILBs) performed significantly better as real yields held despite the selloff in nominal bonds. ILBs returned 2.0% for the quarter and 15.8% over the last 12 months. Global bond yields have also seen a significant move wider, with the FTSE World Government Bond Index down 2.3% over the month, led primarily by the move wider in US bonds yields (up 50bps from their quarter lows). The pace of the selloff has, in part, also contributed to the weaker risk backdrop for emerging markets.

September was dominated by central bank meetings. Most committees voted to maintain current monetary settings in developed economies, with the notable exception of the US Federal Reserve (Fed), which took a step towards tapering the quantitative support put in place at the start of the pandemic. Inflation releases for August also saw inflationary pressure moderating in several countries as measured month-on-month, although annual rates remain elevated. As the energy crisis builds, the risk of price pressures persisting remains considerable.

In the US, the Fed left the fed fund's target range unchanged at 0.00-0.25% and the pace of asset purchases was maintained at $120bn per month. In the subsequent press conference, Chair Jerome Powell, went a little further, revealing that the Fed could "easily move ahead" to announce tapering at its November meeting, and would aim to conclude purchases around the middle of next year. Importantly, he distanced this tapering from any subsequent rate hikes, saying the market should not see the two as immediately linked. GDP growth projections were revised lower, owing to another wave of Covid-19 infections, the slow recovery of pandemic hit sectors and raw material supply constraints. Headline inflation eased to 5.3% year-on-year (y/y) in August from 5.4% y/y in July, mainly due to a decline in prices of used cars, airline fares and hotel rates. Core inflation slowed to 4% y/y in August from 4.3% y/y in July and core PCE inflation was unchanged at 3.6% y/y.

In emerging markets, China's headline inflation slowed to 0.8% y/y in August from 1% y/y in July. The decline is due to decreasing food prices and stable prices for transport and communication goods and services. China remains a considerable uncertainty for the global recovery, with growth slowing meaningfully as a result of regulatory tightening, and its zero-tolerance approach to the virus, which has led to ongoing shutdowns of critical industrial regions and ports. Recent developments in Chinese regulations have also caused some volatility in the country's financial and property markets. While uncertainty prevails, commodity prices may remain under pressure, although market expectations are that there will be some policy easing in Q4-21 to help support growth.

The rand ended the quarter at R15.07 to the dollar. Going forward, the cyclical tailwinds from strong commodity prices should continue to underpin the rand's valuation. The Strategy maintains its healthy exposure to offshore assets. When valuations are stretched, it will hedge/unhedge portions of its exposure back into rands/dollars by selling/buying JSE-traded currency futures (US dollars, UK pounds and euros). These instruments are used to adjust the Strategy's exposure synthetically, allowing it to maintain its core holdings in offshore assets.

The South African Reserve Bank (SARB) left the repo rate unchanged at its monetary policy meeting, by unanimous vote. The SARB further revised inflation and growth expectations higher for the near term, but lowered growth forecasts further out. Headline inflation is seen averaging at 4.4% in 2021 and economic growth for 2021 was revised higher to 5.3% from 4.2% at the previous meeting. The committee further emphasised that while it sees the risks to growth as balanced, the pandemic, rising global PPI inflation, unstable commodity prices and the longer-term impact of the pandemic and unrest in July are risks to their projections. Despite this somewhat more dovish outcome, the market is pricing in a 25bps rate hike at the next meeting. We concur with this expectation.

Headline inflation accelerated to 4.9% y/y in August from 4.6% y/y in July, mostly reflecting higher food and fuel prices. Core inflation was broadly stable at 3.1% y/y in August versus 3% y/y in July. Inflation risks for the fourth quarter of the year remain high due to increasing goods prices – notably fuel and, to a lesser degree, food inflation, as well as sticky administered prices.

At the end of August, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 6.3% (three-year) and 7.3% (five-year), materially higher than the close at the end of the previous month, due to the repricing in SARB interest rate expectations. SA's more moderate inflation expectations suggest that current pricing of these instruments remains attractive due to their lower modified duration and, 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 economic recovery remains on track, as inflation will remain under control and growth recovers. Medium-term expectations for inflation remain contained, while longer term expectations for growth are below the needed level to avert continuing concerns of SA falling into a debt trap. However, current valuations remain attractive, both relative to local and global alternatives, suggesting the embedded risk premium is sufficient to compensate for the underlying risks currently. The start of the tapering of the Fed's asset purchase programme should not inject the same amount of volatility and uncertainty into markets, like it did in 2013 and, therefore, should not have the same negative impact on SAGB's. We continue to view SAGB's in the 10- to 15-year area of the curve as the most attractive asset.

The local listed property sector was down 0.2% over September, bringing its 12-month return to 58.1%. 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 selling 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 9.6% over the month, bringing its 12-month return to 40.7%. 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, 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. 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.