

## LONG TERM OBJECTIVE

The Coronation Domestic Absolute Strategy targets positive real returns with an overriding focus on limiting downside returns or portfolio losses. Therefore, capital preservation in real terms is equally important to return optimisation. The Strategy is managed in accordance with the limits of Regulation 28 of the Pension Funds Act.

## INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house. Our aim is to identify mispriced assets trading at discounts to their long-term business value (fair value) through extensive proprietary research. In calculating fair values, through our fundamental research, we focus on through-the-cycle normalised earnings and/or free cash flows using a long-term time horizon. The Portfolio is constructed on a cleanslate basis based on the relative risk-adjusted upside to fair value of each underlying security. The Portfolio is constructed with no reference to a benchmark. We do not equate risk with tracking error, or divergence from a benchmark, but rather with a permanent loss of capital.

## STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	1,306.1%	226.6%	1,079.5%
Since Inception p.a.	12.9%	5.6%	7.3%
Latest 20 years p.a.	12.2%	5.5%	6.7%
Latest 15 years p.a.	9.9%	5.2%	4.7%
Latest 10 years p.a.	7.3%	5.2%	2.1%
Latest 5 years p.a.	9.5%	5.1%	4.4%
Latest 3 years p.a.	11.7%	6.1%	5.6%
Latest 1 year	11.3%	5.2%	6.1%
Year to date	11.3%	5.2%	6.1%
Month	1.6%	0.0%	1.6%

## ASSET ALLOCATION

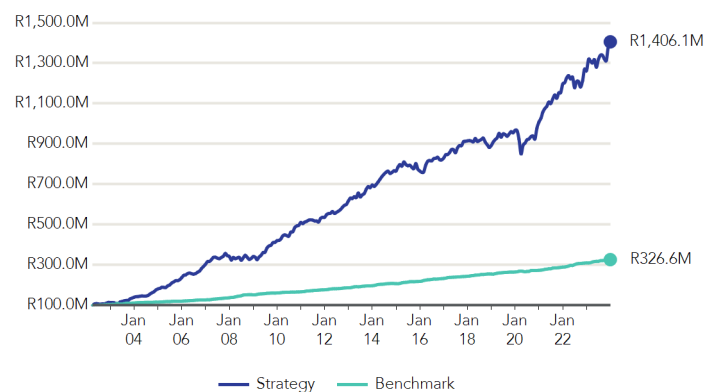
Asset Type	% Strategy
Equities	44.0%
Bonds	37.1%
Cash	15.8%
Commodities	2.1%
Property	1.0%

## GENERAL INFORMATION

Inception Date	01 April 2002
Strategy Size †	R3.34 billion
Strategy Status	Open
Mandate Benchmark	Consumer Price Index (CPI)
Performance Target	CPI + 4% (gross of fees and taxes) over a rolling 3 year period
Dealing Frequency	Daily
Base Currency	ZAR
Regulation 28	Yes

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

## GROWTH OF R100M INVESTMENT



Benchmark: Consumer Price Index (CPI)

## TOP 10 HOLDINGS

Holding	% Strategy
PROSUS	4.9%
FIRSTRAND LIMITED	3.7%
RSA FIX 6.250% 310336	3.6%
RSA ILB 1.875% 280233	3.5%
CIE FINANCIERE RICHEMO-A REG	3.2%
RSA FIX 7.000% 280231	3.2%
RSA FIX 8.875% 280235	3.1%
BRITISH AMERICAN TOBACCO PLC	3.1%
STANDARD BANK GROUP LTD	2.7%
FIRSTRAND BANK LTD ILB 2.600% 310328	2.4%

## MODIFIED DURATION\*

Portfolio	1.9
Fixed Income Assets	3.5

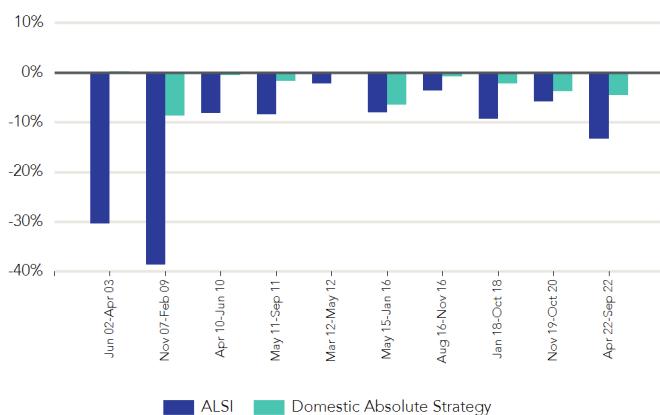
## PERFORMANCE &amp; RISK STATISTICS (Since inception)

Average Annual Return	13.2%
Annualised Standard Deviation	7.5%
Highest Monthly Return	7.5%
Lowest Monthly Return	(7.9)%
% Positive Months	69.3%
Downside Deviation	3.4%
Maximum Drawdown	(12.1)%
Sortino Ratio	1.6

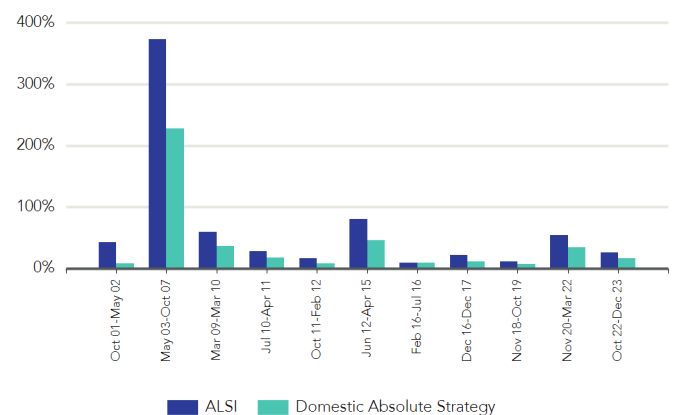
## EFFECTIVE MATURITY PROFILE\*

Term	% Strategy (incl. Cash)	% Strategy (excl. Cash)
0 to 1 year	16.6%	15.3%
1 to 3 years	6.3%	6.4%
3 to 7 years	11.0%	11.2%
7 to 12 years	13.4%	13.6%
Over 12 years	5.6%	5.7%

## BEAR MARKETS



## BULL MARKETS



In the bar graphs above, we have divided the period since inception of our Strategy into bull and bear markets. The Strategy's returns are measured against the FTSE/JSE All Share index. The bear market graph clearly demonstrates how the Strategy has protected capital; its losses were much more shallow than the market during downswings. As evident from the second graph, the Strategy also enjoyed healthy upside participation in bull markets.

## PORTFOLIO MANAGERS



Pallavi Ambekar - BBusSc, CA (SA), CFA

Pallavi is Head of Absolute Return at Coronation and a portfolio manager across all strategies in this unit. She also has research responsibility for certain large capitalization shares listed on the JSE. She has 20 years' investment experience.



Charles de Kock - BCom (Hons), MCom

Charles joined Coronation in 2005 and is a co-portfolio manager across all strategies within the Absolute Return investment unit. He also co-manages the Coronation Balanced Defensive and Capital Plus unit trust funds. Charles has more than 37 years' investment experience.



Neill Young - BBusSc, CA (SA), CFA

Neill joined Coronation in 1998 and co-manages Coronation's Absolute Return Strategies as well as the Coronation Financial, Balanced Defensive and Capital Plus unit trust funds. Neill has more than 25 years' investment 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 equities, property and preference shares.

## REVIEW FOR THE QUARTER

Calendar year 2023 was another year of surprises. The much-anticipated US recession failed to materialise, the strength of the Chinese recovery disappointed investors, and geopolitical tensions continued in the Ukraine, with a new conflict arising in the Middle East. The robustness of the US economy caused a material shift in interest rate expectations. This, in turn, drove a vigorous recovery in global equity markets, with the MSCI All Country World Index delivering a 31% net return (in rands) for the year. After negative return performances in the preceding two years, the World Government Bond Index delivered 13% (in rands) in 2023.

South African (SA) asset classes delivered credible performances despite the increasing headwinds to our economic growth from deteriorating infrastructure. The FTSE/All Bond Index was up 10%, followed closely by the FTSE/JSE Capped SWIX Index, which was up 8%. Listed property was the strongest performer, delivering 11% for the year, but with performance concentrated in a few names only.

Against this backdrop, the Strategy delivered a particularly pleasing performance of almost 12% for the year (and approximately 6.5% for the quarter). This return is materially above the Strategy's inflation return target. Importantly, the Strategy has exceeded the SA inflation rate over longer time periods.

In a rather tricky SA economic environment, good equity and bond selection contributed positively to Strategy performance over the past 12 months. Within domestic equities, Standard Bank, FirstRand, Richemont, Textainer, and OUTsurance were the largest contributors to returns, while holdings in Anglo American and British American Tobacco detracted.

In domestic fixed income, the biggest contribution came from holdings in nominal bonds. We continue to see real yields on offer from SA government bonds as attractive but are increasingly mindful of the structural challenges faced by the domestic economy. Risk is managed by keeping the duration of the Strategy's bond carve-out lower than that of the ALBI but at a real yield that remains compelling.

The Strategy continues to have a healthy exposure to risk assets (c.50% of Strategy at year-end), but we have also used the richer yield environment to build up our cash position to approximately 16% of portfolio.

Looking forward into 2024, consensus expectations are for lower rates and a soft landing in the US. While the global outlook seems less fraught than at the beginning of 2023, we are not complacent. Stretched valuations at headline index levels, combined with simmering geopolitical tensions and an election-packed year, could bring some negative surprises on the global front. Domestically, we continue to see challenged economic growth as rapid deterioration in rail and power infrastructure present real headwinds to our industrial, retail and export businesses. Lack of adequate fixed investment spend and proper policy reform, mean that these problems will be difficult to address quickly. Low economic growth will impact the earnings power of domestic-facing businesses but also has implications for the government's ability to manage its debt burden. Our own domestic elections will be closely watched and is also likely to cause short-term volatility.

The Strategy will continue to stick to its approach of making active asset allocation and instrument selection decisions based off valuations while being mindful of managing downside risks through diversification and purchasing protection. We continue to have a relatively full equity allocation, as we see significant value in our selection. A portion of our local equity exposure remains under put protection. We have also balanced the risk asset exposure with a healthy fixed income and cash allocation where we can achieve attractive real yields.

We think the portfolio is well set up to deliver on its targeted returns for clients, while remaining resilient and able to navigate future uncertainties.