CORONATION

# INFLATION PLUS STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 31 MARCH 2024

CORONATION TRUST IS EARNED™

## LONG TERM OBJECTIVE

The Coronation Inflation Plus 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. The Strategy can invest up to 40% in Domestic and Foreign Equities.

## 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) | 304.2% | 107.1% | 197.1% |
| Since Inception p.a. | 10.1% | 5.1% | 5.0% |
| Latest 10 years p.a. | 8.8% | 5.1% | 3.7% |
| Latest 5 years p.a. | 9.7% | 5.2% | 4.5% |
| Latest 3 years p.a. | 9.9% | 6.2% | 3.7% |
| Latest 1 year | 14.3% | 5.4% | 8.9% |
| Year to date | 3.1% | 2.0% | 1.1% |
| Month | 0.8% | 0.9% | (0.1)% |

## ASSET ALLOCATION

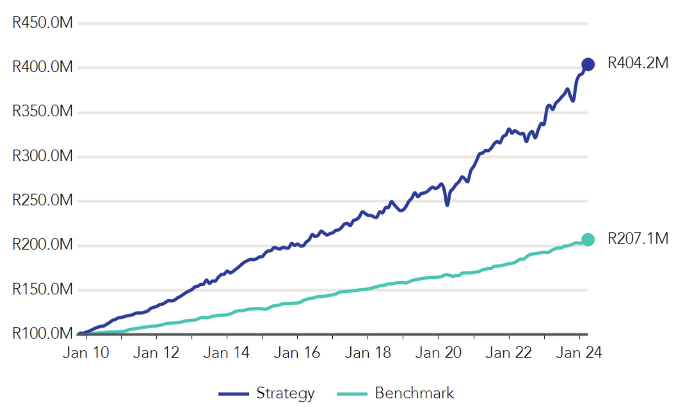
| Asset Type | % Strategy |
|---|---|
| Local Bonds | 30.0% |
| Foreign Equities | 25.8% |
| Local Equities | 13.7% |
| Foreign Bonds | 13.4% |
| Cash | 12.6% |
| Local Commodities | 1.9% |
| Local Hedge Funds | 1.7% |
| Local Property | 0.8% |
| Foreign Property | 0.1% |

## GENERAL INFORMATION

| | |
|---|---|
| Inception Date | 01 October 2009 |
| Strategy Size † | R6.28 billion |
| Strategy Status | Open |
| Mandate Benchmark | Consumer Price Index (CPI) |
| Performance Target | CPI + 3% (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 |
|---|---|
| CORO GBL EQUITY FOF-Z | 15.0% |
| CORO GBL CAPITAL PLUS-Z | 4.2% |
| CORONATION GEM EQUITY FUND | 3.8% |
| RSA ILB 1.875% 280233 | 3.1% |
| RSA FIX 7.000% 280231 | 2.6% |
| FIRSTRAND BANK LTD ILB 2.600% 310328 | 2.1% |
| PROSUS | 1.8% |
| RSA FIX 6.250% 310336 | 1.7% |
| RSA ILB 2.000% 310125 | 1.5% |
| NEDBANK LTD FIX 9.125% 080125 | 1.3% |

## MODIFIED DURATION*

| | |
|---|---|
| Portfolio | 1.4 |
| Fixed Income Assets | 3.1 |

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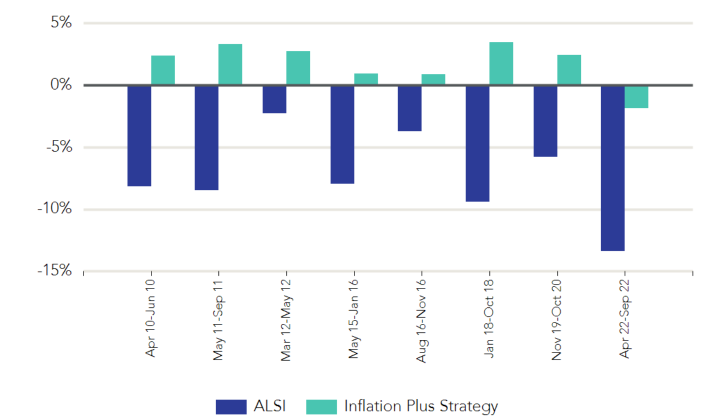
## PERFORMANCE & RISK STATISTICS (Since inception)

| | |
|---|---|
| Average Annual Return | 10.3% |
| Annualised Standard Deviation | 5.1% |
| Highest Monthly Return | 5.9% |
| Lowest Monthly Return | (6.7)% |
| % Positive Months | 77.0% |
| Downside Deviation | 2.5% |
| Maximum Drawdown | (8.9)% |
| Sortino Ratio | 1.9 |

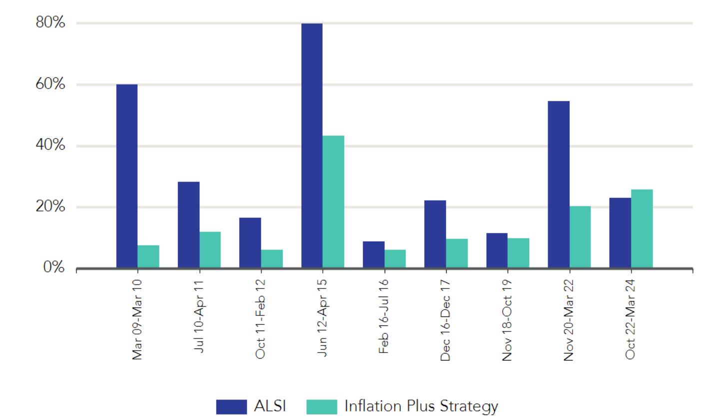
## EFFECTIVE MATURITY PROFILE*

| Term | % Strategy (incl. Cash) | % Strategy (excl. Cash) |
|---|---|---|
| 0 to 1 year | 19.9% | 18.1% |
| 1 to 3 years | 3.7% | 3.8% |
| 3 to 7 years | 12.9% | 13.2% |
| 7 to 12 years | 7.9% | 8.1% |
| Over 12 years | 1.9% | 2.0% |

## 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 21 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 38 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 26 years' investment experience.

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

## REVIEW FOR THE QUARTER

Global equity markets posted a strong start to the year, with the MSCI ACWI returning 8% in Q1-24. The performance was broad-based across developed markets, with the S&P 500 Index up 11%, the Dow Jones Euro Stoxx 50 up 10% and Japan's Nikkei 225 rising 21%, finally surpassing its previous high (in 1989!).

Much of this performance has been driven by the growing conviction that the US economy will achieve a soft landing despite an extremely sharp 525 basis points rise in the fed funds rate over 18 months. Economic growth remains strong, unemployment is remarkably low, and inflation has moderated from a peak in the high single digits in 2022 to the low three percents, albeit above the US Federal Reserve's 2% target. While expectations for the extent and timing of rate cuts have moderated, absent any unforeseen shocks, it seems clear that the next move in rates is down.

Emerging markets fared less well, returning 2% for the quarter. Much of the attention is focused on weak economic growth in China, which has disappointed since its reopening after Covid lockdowns due to high debt levels and a distressed property market. Global bond markets returned -2% for the quarter, lagging equities as yields rose from their recent lows at the end of December 2023.

South Africa faces ongoing challenges as the key enablers of a functioning economy continue to falter – power, ports and logistics and, increasingly, water infrastructure. This backdrop was reflected in local market returns: the FTSE/JSE Capped SWIX Index was down -2% for the quarter (with domestic-facing sectors such as banks and retailers declining by more), and the FTSE/JSE All Bond Index down -2%, despite high attractive real yields on offer. The rand lost 2% against the US dollar over the quarter.

The Strategy returned c.3% for the quarter and over 14% over the past 12 months, comfortably ahead of the inflation target. Positive real returns have been generated over all meaningful longer-term periods, and returns are in excess of the Strategy's return target over 15 years and since inception.

The Strategy continues to benefit from a high weighting in global assets, particularly global equities. At the quarter end, gross exposure to global assets was sitting slightly above 40%. We consider a weighting in global assets that is close to the permissible maximum a prudent allocation of investor capital. This is simply because of the much greater choice on offer in global markets, allowing diversification away from the idiosyncratic risks of exposure to the SA economy. However, we are cognisant of the potential volatility introduced by currency movements to rand investors, so a portion of this exposure (currently c.4%) is locked by making use of currency futures. While we continue to see attractive stock picking opportunities in the global universe, we are mindful of the strong performance of these markets over the past six months in particular and retain 30% put protection over this portion of the portfolio. In addition to global equity exposure, we continue to hold a global fixed income position consisting of a basket of high-quality global credits as well as both long- and short-dated US Treasuries offering what we consider to be attractive yields.

Exposure to domestic assets detracted slightly from returns for the quarter, although good instrument selection resulted in both SA equities and bonds outperforming their respective benchmark indices. Over the past 12 months, the contribution from domestic assets has been far more meaningful. Real yields on SA government bonds continue to look attractive, but as always, we remain aware of the fiscal challenges faced by the National Treasury and the longer-term risks to debt sustainability. For this reason, we continue to limit the duration of the domestic fixed income portion of the portfolio and include meaningful exposure to both corporate credit and inflation-linked bonds, which should provide some protection in a low-road/high-inflation scenario.

During the quarter, we made no significant changes to asset allocation. However, exposure to global assets (both equities and fixed income) increased in large part due to relative price and currency moves.

While the anticipated declining rate cycle in developed markets should be supportive of asset prices, we are mindful of the strong run in equity markets over the past six months and the high valuations implied in headline index levels. Geopolitical tensions remain high in both Ukraine and the Middle East – perhaps reflected in gold trading at an all-time high of around $2 300/oz (at the time of writing). Domestically, the national elections in May are likely to attract much attention. Polls suggest that the ANC will likely drop below a 50% majority and will need to enter a coalition to remain in power. The extent of the shortfall will determine their likely partner. A significant shortfall will require a coalition with a larger party, and the options here will probably produce very divergent market reactions. We are not in a position to predict the outcome any more accurately than the polls. But regardless of any favourable policy changes that may result, it will take many years to correct the structural problems that beset the SA economy.

We aim to construct a portfolio that is resilient under a variety of scenarios rather than any single outcome or event, mindful of the need to protect capital and to generate positive real returns ahead of the target. We retain a high exposure to global assets in the Strategy, and within the SA equity allocation a significant exposure to global businesses that happen to be listed in South Africa. Risk assets currently sit at over 40% of the Strategy, balanced with exposure to fixed income assets and cash offering attractive real yields.

Within the SA equity allocation, Strategy holdings include global stocks listed on the JSE (with their high offshore exposure) and selected resources and domestic stocks.

The Strategy's core holdings continue to be the global stocks listed in SA: Prosus, Richemont, Aspen, Bidcorp, British American Tobacco, and Anheuser-Busch InBev.

Performances within the resources sector varied widely, with the gold companies meaningfully outperforming PGM shares, diversified miners, and Sasol. The Strategy has benefited from low holdings across the underperforming sectors. The gold price has strengthened in the face of heightened geopolitical uncertainty and ongoing polarisation with gold equities rising to reflect the higher gold spot prices. The Strategy initiated a small position in AngloGold.

Domestic stocks offer good opportunities for stock picking, but avoiding value traps is critical. The gap between winning and losing domestic businesses is widening. Winning businesses are investing in their franchises and can grow their top lines above costs. We have a strong preference for the winners and believe that perceived value in many of the weaker, low PE (price-to-earnings) businesses will prove to be illusory. This has been extremely stark in a sector like food retail.

Our bottom-up assessment of expected returns by asset class gives us confidence in being able to deliver targeted returns over the medium and long term.