

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)	504.8%	430.6%	74.2%
Since Inception p.a.	10.5%	9.7%	0.8%
Latest 15 years p.a.	10.3%	9.7%	0.6%
Latest 10 years p.a.	11.5%	11.5%	0.0%
Latest 5 years p.a.	13.6%	12.5%	1.1%
Latest 3 years p.a.	17.9%	16.9%	1.0%
Latest 1 year	25.1%	24.2%	0.9%
Year to date	25.1%	24.2%	0.9%
Month	2.6%	2.7%	(0.1)%

ASSET ALLOCATION

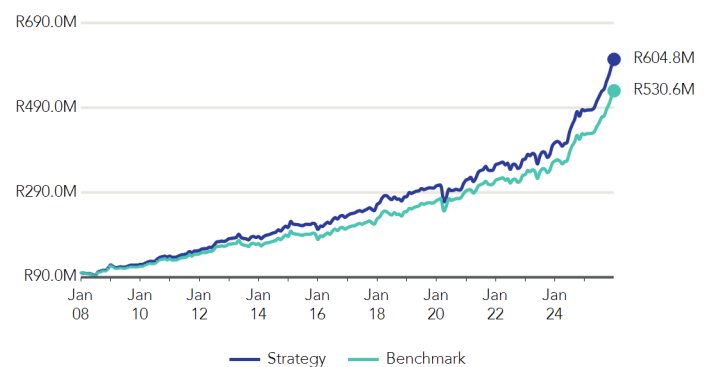
Asset Type	% Strategy
Fixed Rate Government Bonds	79.0%
Government ILBs	5.4%
Floating Rate NCDs	4.6%
Fixed Rate Other	2.7%
Fixed Rate Corporate Bonds	2.5%
Property	2.1%
Cash	1.4%
Floating Rate Corporate Bonds	1.1%
Corporate ILBs	0.7%
Other	0.5%

GENERAL INFORMATION

Inception Date	01 January 2008
Strategy Size †	R4.70 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	6.3%	47.4%
1 to 3 years	0.7%	0.0%
3 to 7 years	21.3%	24.0%
7 to 12 years	33.5%	15.1%
Over 12 years	36.2%	23.7%

STRATEGY STATISTICS*

	Strategy	Benchmark
Modified Duration (incl. inflation-linked bonds)	6.1	6.5
Modified Duration (excl. inflation-linked bonds)	5.9	6.5

PORTFOLIO MANAGERS

**Nishan Maharaj** - BSc (Hons), MBA

Nishan is Head of Fixed Interest at Coronation and a portfolio manager across all fixed interest strategies. He joined Coronation in 2012 has 23 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 24 years' investment experience.

**Seamus Vasey** - BCom (Hons), MSc, CFA

Seamus is a portfolio manager and analyst within the Fixed Interest investment unit with more than 22 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.

**Mauro Longano** - BScEng (Hons), CA (SA)

Mauro is a portfolio manager and Head of Fixed Interest research. He co-manages various fixed income strategies for institutional and retail clients. Mauro joined Coronation in 2014 and has 15 years' investment industry experience.

**Steve Janson** - BBusSc

Steve is a portfolio manager and analyst within the Fixed Interest investment unit, with 19 years' investment experience. Steve's current responsibilities include fixed income and property research responsibilities as well as co-managing the Coronation Active Bond Strategy and Coronation Bond unit trust fund.

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

REVIEW FOR THE QUARTER

The final quarter of 2025 set the stage with cautious momentum. Globally, easing inflation pressures and a broadening shift toward monetary policy normalisation supported fixed income markets. In contrast, prevailing geopolitical tensions, elevated sovereign issuance, and lingering trade frictions underscored a more complex risk environment. US policy easing gathered traction as growth moderated, while emerging markets continued to benefit from improving external balances and targeted rate-cutting cycles. Against this global backdrop, South African (SA) bonds were supported by improving domestic sentiment, greater policy coherence under the Government of National Unity (GNU), and contained inflation outcomes, despite ongoing concerns around fiscal consolidation and structural reform execution. Entering 2026, the active and intense Chinese Year of the Fire Horse, markets appear positioned to reward discerning investors who can move decisively with conviction – balancing agility with discipline as global and domestic policy signals evolve.

The SA bond market had a remarkable year with yields compressing significantly across the curve. The 10-year SA government bond (SAGB) ended the year at 8.2%, while the 30-year SAGB compressed by more than 200 basis points (bps) to 8.95%. This propelled the performance of the 12-year-plus area of the curve to 31.21% for the 2025 calendar year, which is well ahead of the FTSE/JSE All Bond Index's (ALBI) return of 24.24%. Nominal bond returns far outstripped the returns from other fixed income assets, with cash returning 7.28% over the year and inflation-linked bonds (ILBs) returning 15.42%.

Despite the recovery in ILB performance in the fourth quarter of 2025, their returns still remain well below nominal bonds over a longer horizon. Over three years, ALBI returned 16.89% while the FTSE/JSE Composite Inflation Linked Bond Index (CILI) delivered 10.04%. Over five years, ALBI returned 12.54% and CILI 9.91%, and over 10 years, ALBI returned 11.48% and CILI 6.5%. The rand was not underdone, with a pronounced appreciation against the dollar, closing the year at R16.56/US\$ (versus R18.84/US\$ at the end of 2024), generating a 12.06% return, which was in line with its emerging peers. This, combined with local bond performance, outshone global bond returns, with the FTSE World Government Bond Index (WGBI) only returning 7.55% in dollars, compared to the 41.28% from the ALBI dollar equivalent.

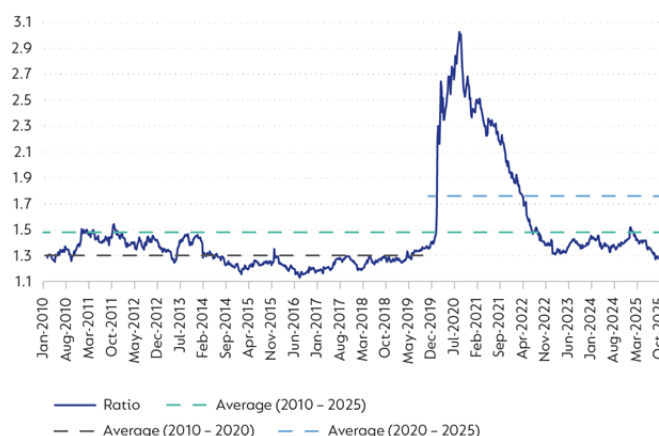
Over the last five years, nominal bonds (the ALBI) have generated a return in excess of 6% of cash (12.54% versus 6.32%). This was on the back of the increased embedded risk premium in SA assets and specifically SA bond yields due to the Covid fiscal hangover. When compared to the pre-pandemic decade (2010-2020), nominal bonds produced a return of 8.85% versus cash at 6.52%, putting the excess return closer to 3%, the impact of this outlier event is clear. Currently, the ALBI's yield of c.8.5% versus the c.6.5% expected from one-year cash sits more in line with the 2010-2020 period, and is a needed step change in investor return expectations, given the moderation in SA bond yields. In addition, it is important to consider the possible return expectations for nominal bonds under various scenarios, but with an understanding of what the forecasted levels imply.

Never let a good crisis go to waste

The first thing to point out is that the ratio between cash and bond yields is now close to its tightest level since 2010. This implies that the breakeven for bond yields relative to cash is quite low. That is, the bond curve only needs to widen by 0.35%-0.45% (depending on whether one includes the roll down) before nominal bond performance equates to expected one-year cash returns. As shown in Figure 1 this is equivalent to a 2% reduction in the return relative to available yield.

Figure 1

SA 10-YEAR BOND VERSUS 1-YEAR EXPECTED CASH

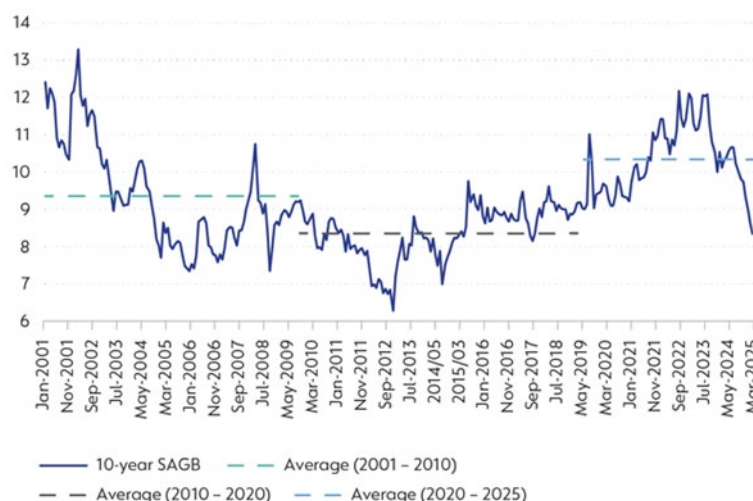


Source: Coronation, Bloomberg

The 10-year SAGB bond yields are currently trading at 8.2%, which is below the average at which they traded in the last decade. This is not to say that they could not go further; however, the circumstances that led to that lower average yield were quite unique and specific to the first half of that decade. Globally, the economy was still recovering from the depths of the Great Financial Crisis (GFC). Then, global policy rates were at zero (the Federal Reserve Board funds rate averaged 0%), global bond yields were at all-time lows (the US and German 10-years' averaged 2%-2.5%), and SA had just been included in the WGBI due to it being rated investment grade by all three of the major rating agencies.

Figure 2

THREE DECADES OF THE 10-YEAR SAGB

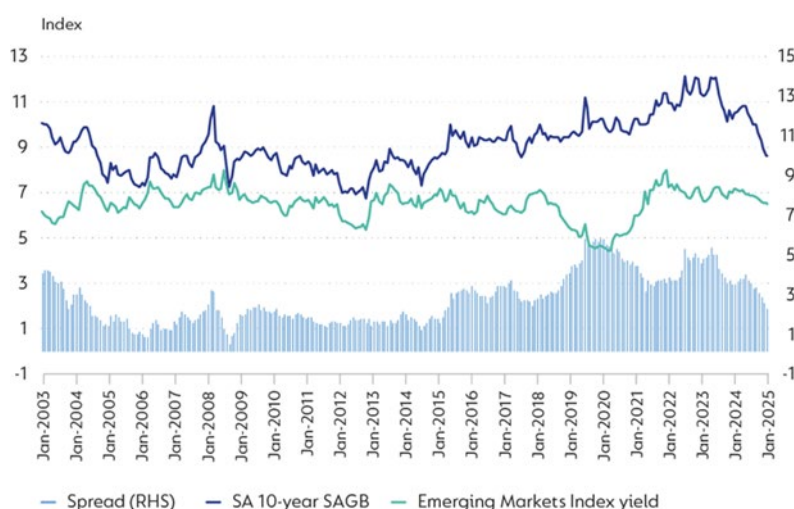


Source: Coronation, Bloomberg

These were indeed special times that facilitated lower bond yields across the emerging markets complex, and SA differentiated itself positively versus its peer group, as indicated by its yield spread versus the MSCI Emerging Markets Index. The recent SA bond performance has been so strong that SA local yields are within a sniff of their tightest spread levels when compared to their emerging market counterparts.

Figure 3

SAGBs VERSUS EMERGING MARKET PEERS



Source: Coronation, Bloomberg

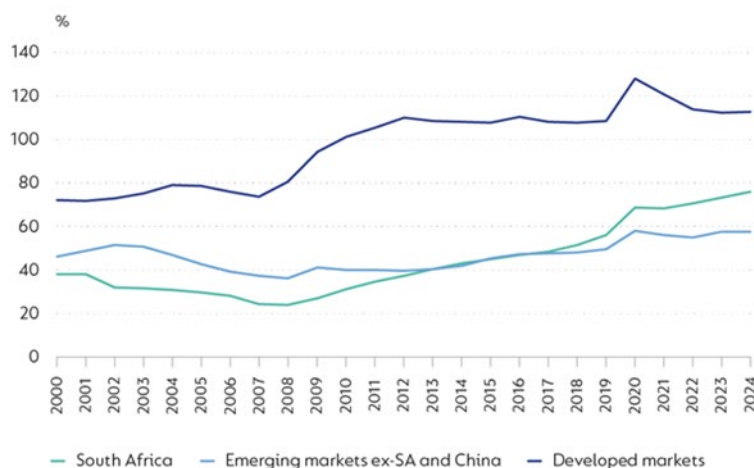
Low growth and debt hamper momentum

One might argue that the recent adjustment in the inflation target, combined with the positive showing at the 2025 Medium-Term Budget Policy Statement (MTBPS), has positioned SA strongly on its recovery path. However, a large part of the improved outlook that came through in the MTBPS was attributable to better mining revenue due to higher precious metal prices and adjustments to all inflation-related expenditure, which provided a significant saving over the forecast period. Low growth remains a key inhibitor to true fiscal consolidation, and real growth closer to 3% is now needed to stabilise the deficit and debt profile.

SA's debt to GDP is expected to average close to 80% over the forecast period, which is a far cry from its 45% average over the last decade. In fact, despite SA's recent bond outperformance relative to US Treasuries and its emerging market counterparts, longer term fiscal metrics remain quite poor. As shown in Figures 4 and 5, SA's debt to GDP has doubled since the start of the millennium, while debt across both emerging and developed markets has increased only marginally by multiples of between 1.2 times and 1.6 times. In addition, SA's growth has been lacklustre, underperforming emerging and developed economies in the last five years despite very strong bond performance. These metrics would have to see a dramatic turnaround to justify the current levels and relative valuation on SA bond yields.

Figure 4

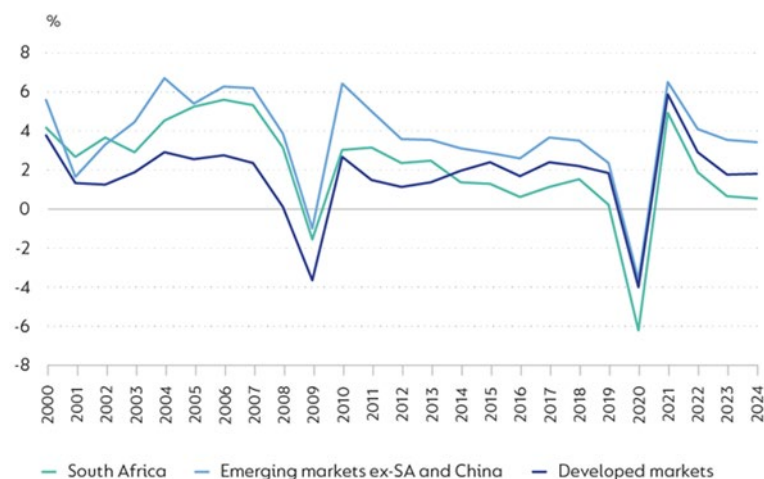
DEBT TO GDP



Source: Coronation, Emerging Market Advisor Group

Figure 5

REAL GDP



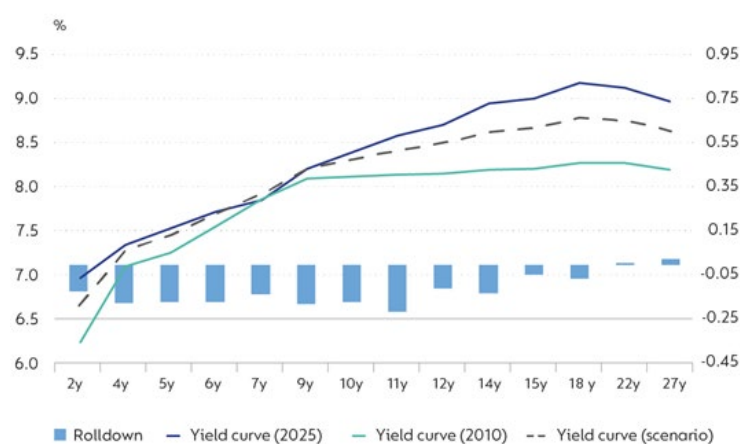
Source: Coronation, Emerging Market Advisor Group

Therefore, at current levels, it seems that SA bond valuations have run ahead of fundamentals, baking in a fair deal of good news, requiring a significant acceleration in reform momentum to propel SA's growth closer to the required 3%. However, the yield curve remains quite steep, and the cut in issuance at MTBPS has helped flatten the curve significantly. It is possible that with inflation now likely to be anchored at least below 4% and the administration's focus on fiscal consolidation, the steepness might reduce further. However, here again, one has to consider very carefully which area of the yield curve offers the most amount of value.

Rolldown or carry-on bonds occur when yield curves are normal (upward sloping). Longer maturity bonds offer higher yields than those with a shorter term to compensate for higher risk. As a bond approaches maturity (rolls shorter), its yield should naturally fall towards the lower yields of shorter dated bonds. In analysing the current yield curve, all bonds up until the 15-year area of the curve offer significant rolldown. The way to interpret Figure 6 is to imagine that nothing changes on the yield curve and to move forward in time by one year. Rolldown is the expected change in yields as they move towards the shorter yields, as time to maturity reduces.

Figure 6

SA YIELD CURVE ANALYSIS



Source: Coronation

At the start of 2010, SA's fiscal accounts were in good order, and the yield curve reflected this optimism. The 10-year yields were slightly lower than current yields, and the curve was much flatter in the 10-, 20-, and 30-year areas. Notably, the 20- and 30-year bonds were trading 10bps above the 10-year! This is in contrast to the current levels of 80bps from the 20-year bond and 50bps from the 30-year bond.

If the shape of the yield curve changed to reflect similar dynamics as 2010, then the ABLI would return 11.3% over the next year. However, based on SA fundamentals in 2010 versus now, this seems starry-eyed. An optimistic scenario would be a move in the shape of the yield curve to somewhere in between the current shape and that of 2010, which would generate an ABLI return of 9.8%. Both of these calculations make no assumption of a parallel shift of the curve (synchronised rise/fall across interest rates), just a change in shape as reflected in the graph. As stated earlier, a 0.35%-0.45% parallel shift higher in the yield curve would wipe out c. 2% of total return over a year. So, under a best-case, realistic scenario, where the curve flattens past 10 years, and yields shift uniformly upwards by 0.35%-0.45%, one can expect an ABLI return of c. 7.8-8% over the next year. This is still favourable relative to cash but would require, at minimum, a continuation of positive global risk sentiment and expedited SA reform momentum. It is clear, however, that the superior rolldown offered by the sub-15-year area of the curve justifies a decent allocation.

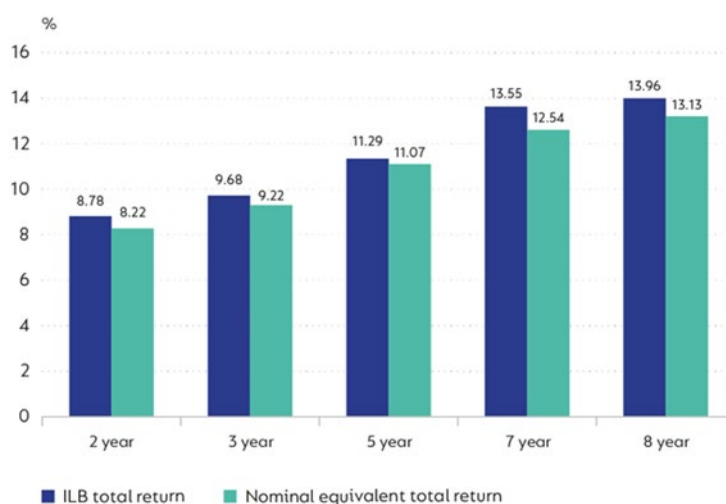
Notwithstanding the South African Reserve Bank's (SARB) commitment to keep inflation anchored at the ratified target of 3%, external developments, specifically regarding emerging market currencies, have benefited the rand/dollar cross, and lower oil prices have further assisted in keeping SA inflation in check. Our forecasts currently have inflation averaging closer to 3% if the rand strength is sustained and oil prices stay the course (recent developments in South America might further help to moderate long-term oil expectations).

This could provide further room for the SARB to ease interest rates quicker and lower (c. 50bps) than our current expectation of a 6.25% repo rate by year end. To a large extent, this seems to have been factored into bond and interest markets; however, shorter dated ILBs still have real yields in excess of where the real policy rate could settle by year end. If inflation does average 3% this year, there should be no reason why the SARB should not revert to a neutral real policy rate of 2.5%, which still leaves room for 3- to 7-year ILBs to compress from the current levels in excess of 4%.

Figure 7 shows the total return of ILBs versus nominal bonds, assuming ILB yields compress 1% and inflation materialises at 3% over the next year. Nominal bonds are assumed to similarly compress by 1% in such a scenario, although in a scenario where we expect the repo rate to settle 6.25%, the move in nominal bond yields would not be as large. It is quite clear that for front-end exposure out to seven years, ILBs remain the superior value proposition.

Figure 7

ILB VERSUS NOMINAL TOTAL RETURN



Source: Coronation

The local listed property sector was up 0.12% over the month, bringing its 12-month return to 30.56%. The cost savings due to the implementation of solar and increased payout ratios helped bolster the sector's performance. Despite dividend yields being quite low (7-8%), the improved dividend growth puts the total return prospects well above bonds, which could support the sector. Valuations remain quite tight, and the risks posed from a slower economic recovery could erode optimism in the sector's prospects. We believe that one must remain cautious given the high levels of uncertainty around the strength and durability of the local recovery.

Local credit spreads are at historically tight levels due to low issuance volumes and a large amount of capital seeking a home with reduced volatility. The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the local market. This sector has experienced exponential growth over the last five years, reaching a market size of over R100 billion. However, only a third of this market reprices, creating an inaccurate representation of asset volatility and pricing. CLNs mask the underlying/see-through credit risk as the issuing entity (predominantly local banks) is seen as the primary credit risk.

As SA enters 2026, the bond market reflects a transition from recovery-driven returns to a more mature phase of the cycle, where valuation discipline and curve selection will be paramount. While the global backdrop of easing inflation and policy normalisation remains broadly supportive, much of the easy compression in local yields has already occurred, leaving limited margin for error should growth or reform momentum disappoint. In this environment, consistent with the symbolism of the Year of the Fire Horse, successful bond investing will require measured decisiveness – favouring carry and rolldown in the belly of the curve, selective exposure to real yields at the front end, and a disciplined approach to risk premia. SA bonds continue to offer value relative to cash and their global peers, but future returns are likely to be earned through careful positioning rather than broad-based yield compression.