CORONATION
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***Please note that the commentary is for the retail class of the Fund.***

**Performance**

The Fund delivered a return of 2.45% for the quarter ended 31 December 2025, compared to the STeFI Composite benchmark return of 1.75%, resulting in relative outperformance of 0.70%. Over the past year, the Fund returned 9.61%, well ahead of its benchmark and target return hurdles. Throughout the quarter, the portfolio maintained its conservative positioning, focusing on high-quality money market instruments and selectively on nominal government bonds and inflation-linked bonds (ILBs), where valuations remained attractive relative to cash.

Recent data points to a constructive macro backdrop for South Africa, with both growth and inflation evolving favourably. On the activity side, GDP momentum strengthened in Q3-25, with a broad-based uplift across sectors, reinforcing the view that the recovery is becoming more entrenched and providing a solid platform heading into Q4-25. This improvement is echoed in the latest Bureau for Economic Research survey results, which signal firmer confidence and improving forward-looking indicators, suggesting that growth should remain supported into year-end.

On the price front, CPI surprised on the downside again in October, printing at a subdued 3.6% year-on-year (y/y), underscoring easing inflationary pressures and a benign near-term outlook. Together, firmer growth dynamics alongside contained inflation point to a more balanced macro environment, with increasing scope for supportive monetary policy as the recovery continues.

The Medium-Term Budget Policy Statement (MTBPS) showed continued progress in fiscal consolidation. National Treasury reaffirmed its commitment to stabilising debt and delivering rising primary surpluses, aided by a lower inflation target and an additional R31 billion GFECRA allocation in 2026/27. Debt is expected to peak at 77.9% of GDP this year before improving modestly. The MTBPS reinforced reforms focused on spending efficiency, procurement transparency, municipal finances, Eskom-related risks, and infrastructure delivery. However, the improved baseline remains constrained, with consolidation relying heavily on lower inflation assumptions, leaving limited room for adverse shocks.

On the global front, inflation broadly cooled in 2025. Major central banks took divergent policy actions as inflation eased: the US Federal Reserve pivoted toward cautious rate cuts late in 2025 to support a softening economy while monitoring persistent price pressures, emphasising data-dependent decisions. Meanwhile, the European Central Bank primarily held rates steady near target as euro-area inflation softened close to 2%. Persistent geopolitical and trade uncertainties remain a risk.

Against this backdrop, the South African Reserve Bank cut the repo rate by 25 basis points (bps) in November 2025, responding to lower-than-expected inflation and subdued demand. Our current expectation is for another 25bps of rate cuts.

**Fund positioning**

Domestic bond markets delivered strong returns over the quarter. Performance across the Fund's core nominal bond holdings reflected these dynamics. The shorter-dated R2030 delivered a three-month total return of 3.93%, while the R213 returned 4.99%. Longer-dated bonds delivered significantly stronger performance, with the R2037 returning 10.29% and the R2039 returning 9.95%, mainly driven by their higher duration exposure and strong carry. During the quarter, the R186 bond was split into three separate bonds (which we continue to hold in the Fund), each maturing at a different point over the next three years.

ILBs underperformed their nominal counterparts but still generated positive absolute returns. The I2029 delivered a three-month return of 2.50%, while the I2033 returned 5.75%. Longer-dated ILBs materially outperformed shorter maturities, with the I2038 delivering a return of 9.15% over the quarter. Despite subdued near-term inflation dynamics, real yields across the linker curve remain attractive and continue to provide diversification benefits within the portfolio.

Portfolio positioning remained focused on balancing attractive carry (income) with prudent risk management. Nominal bond exposure remained concentrated in the sub-10-year segment of the curve, which we continue to view as offering the most attractive risk-reward profile for a cash-cognisant mandate. ILBs remained an essential component of the portfolio, providing protection against inflation surprises while still expected to deliver cash-beating returns over the medium term. Money market opportunities remained limited, with bank credit spreads staying compressed amid ample system liquidity and limited issuance. Credit opportunities remained scarce, with spreads offering limited compensation for risk, and the Fund's overall credit exposure therefore remained constrained.

**Outlook**

Looking ahead, we remain cautiously constructive. Inflation is well controlled, and domestic fundamentals show tentative signs of stabilisation. However, global risks, including policy uncertainty, geopolitical developments, and potential trade disruptions, are likely to keep volatility elevated. That said, the absolute level of nominal and real yields continues to warrant exposure in a cash-benchmarked mandate, given our current repo rate trajectory. We focus on valuation and liquidity, investing only in instruments offering appropriate risk-adjusted returns. Given the Fund's current yield and modest duration positioning, we believe it is well positioned to outperform cash over the medium term.

**Portfolio managers**
**Nishan Maharaj and Mauro Longano**
as at 31 December 2025