CORONATION TRUST IS EARNED™

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

Performance and fund positioning

The Fund delivered a return of 2.53% for the quarter, outperforming the SteFi Composite benchmark of 1.81% by 0.72%. Year-to-date, the Fund has returned 6.99%, exceeding the benchmark's 5.67%. Throughout the quarter, the portfolio maintained its conservative stance, focusing on high-quality credit and selective nominal and inflation-linked bond (ILB) exposure.

Real GDP grew faster than expected in Q2-25 at 0.8% quarter-on-quarter (q/q) and 1.1% year-on-year (y/y), improving from the marginal 0.1% expansion in Q1. The recovery was broadly based on the production side, despite persistent weakness in logistics and utilities. On the demand side, government and household spending helped offset continued weak capital expenditure. While the production recovery showed good breadth, modest utility gains and transport weakness still point to unresolved network industry challenges. Weak capex continues to drag significantly, though private sector participation has shown encouraging improvement. We maintain our 0.8% real GDP growth forecast for 2025, with upside risk.

August CPI came in below expectations at 3.3% y/y (down from 3.5%), while core inflation edged up to 3.1% y/y, with the decrease primarily driven by falling food prices. Despite weak overall price momentum, base effects and less favourable fuel dynamics are expected to push inflation toward 4% in the coming months. The more benign outlook for inflation, combined with contained core pressures and moderating inflation expectations, strengthens the case for an interest rate cut before the end of the year.

The South African Reserve Bank maintained the repo rate at 7.00% in September, following its July cut. This decision reflects an improved inflation outlook, tempered by global uncertainty and caution regarding domestic wage pressures. The Governor reaffirmed the Bank's commitment to a 3% inflation target, which may be formalised later in the fiscal year. We anticipate a possible further 25 basis points cut at the November MPC meeting.

Against this backdrop, the Fund’s performance benefited from its focus on carry (earning steady interest income), high-quality credit selection (choosing financially strong issuers), and strategic duration positioning (adjusting bond maturities to capture rate opportunities). ILBs provided cash-beating returns while helping to manage risk within the portfolio. Despite money market holdings underperforming longer-duration assets, the Fund achieved strong absolute returns and benchmark outperformance while maintaining lower interest rate risk.

Domestic bond markets delivered robust gains in the third quarter, supported by continued disinflation and a more constructive global market tone. The FTSE/JSE All Bond Index (ALBI) returned 6.94% for the quarter, driven by a broad rally in nominal yields as inflation expectations moderated and investors anticipated eventual policy easing. The ILB (CILI) Index advanced by 5.11%, lagging nominal bonds but still contributing positively to returns. Within the ALBI, shorter maturities performed well as investors captured attractive front-end yields, while longer-dated bonds benefited from a modest compression in term premia. The one- to three-year sector returned 2.5%, the three- to seven-year area 4.8%, and the seven- to 12-year segment advanced by 6.3%. The 12-years-plus bucket delivered the strongest result, returning 7.6% as duration demand strengthened into quarter-end.

Focusing on the specific bond holdings of the Fund, performance reflected the consistent compression along the curve. The shorter R186 gained 2.24%, with intermediate bonds R2030 and R213 delivering quarterly returns of 4.11% and 4.94% respectively. While ILBs generated returns above cash, they slightly lagged their nominal counterparts. The I2029 returned 3.0%, as real yields eased slightly from their mid-year highs. All these returns comfortably beat our cash benchmark.

Money market opportunities remained limited, with NCD floating rate spreads staying relatively flat during the quarter, reflecting persistent tight credit market conditions and excess banking system liquidity. Based on our repo rate outlook, we've identified better value in shorter-dated ILBs and treasury bills.

In this environment, our duration positioning remains short and focused on the front-end of the curve, where the risk-reward is most attractive for a cash-benchmarked fund. ILBs offer a hedge against inflation surprises, while still expected to outperform cash. At quarter-end, the Fund's effective modified duration measured 1.70 years (0.94 years excluding inflation linkers) and the portfolio's yield-to-maturity stood at 8.20%. This positions the Fund favourably to outperform its benchmark over the coming year.

Portfolio managers
Nishan Maharaj and Mauro Longano
as at 30 September 2025