11/21

INVESTING FOR LONG-TERM CAPITAL GROWTH

COROLAB

Your guide to investment ideas

CORONATION

TRUST IS EARNED™

THE CORONATION CLIENT CHARTER

We strive to always put clients first

We have an unwavering commitment to the long term

We focus on producing top performance over all meaningful periods

We are uncompromising about ethics

Why do you invest for the long term?

People invest for the long term for different reasons. It may be for discretionary purposes, such as a child's education in five to 10 years' time, or for retirement, which may be multiple decades (30 to 40 years) from now.

Whatever long-term objective you are aiming to fund, as a long-term saver you are ultimately interested in the real (or after-inflation) rate of return on your money committed.

YOUR 'REWARD' FOR DELAYING GRATIFICATION

Earning a positive real return is what matters most to long-term savers. For example, as is clear from the table below, the ability to compound returns at a positive real rate of 5% per year increases your purchasing power by 1.6 times over 10 years (or 7% per year, the real return that has been achieved by Coronation Balanced Plus since its inception) and by 7 times over 40 years. Being able to add an additional 2% a year by way of alpha doubles your purchasing power after a decade, and improves it by 15 times over 40 years – a material impact.

COMPOUNDING AT DIFFERENT REAL RATES OF RETURN

	REAL RATE OF RETURN		
INVESTMENT PERIOD IN YEARS	**2.5% p.a.**	**5% p.a.**	**7% p.a.**
10	1.3x	1.6x	2.0x
20	1.6x	2.7x	3.9x
30	2.0x	4.3x	7.6x
40	2.1x	7.0x	15.0x

Source: Coronation Fund Managers

Your actual real rate of return achieved will have a material impact on purchasing power in the long term.

What real rates of return can investors expect over the long term?

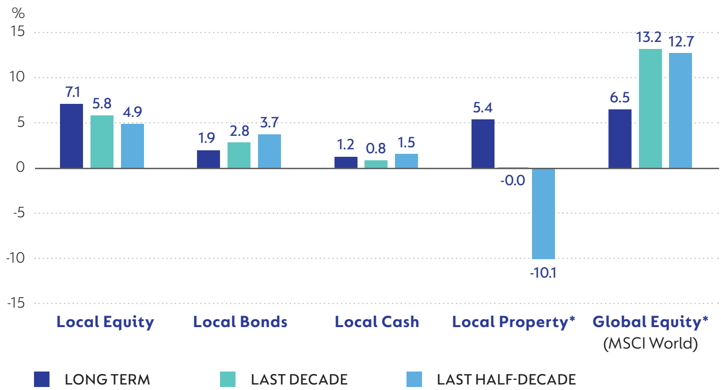
Judging from the table on page 3, it is clear that your future expectations for real returns play an important role in the planning that goes into achieving your long-term goal/s. However, by its very nature, the future is uncertain and we have, at best, only partial information to inform our forecasts. A good starting point to selecting prudent real rates of return is to look at the very long-run asset class returns.

LOOKING BACK AT THE VERY LONG TERM CAN GUIDE A PRUDENT REAL RATE OF RETURN

Figure 1 shows that over the very long term growth assets (property and equity) produced a real rate of return between 5% and 7%, while income assets (cash and bonds) earned between 1% and 2%. This implies an expected long-run real rate of return of around 5% p.a. for a typical balanced fund that you would use for retirement purposes (assuming growth asset exposure of

Figure 1

ANNUALISED REAL RETURNS PER ASSET CLASS (LAST 121 YEARS VS LAST DECADE AND HALF-DECADE TO OCTOBER 2021)



Source: Deutsche Bank, IRESS, Triumph of the Optimists – Dimson, March and Staunten
**Shorter history for global equities (51 years) and local property (41 years)*

between 70% and 75% and income asset exposure between 25% and 30%). Apart from global equities and local property, actual real returns achieved over the past decade were more or less in line with the long-term average across most of the major asset classes.

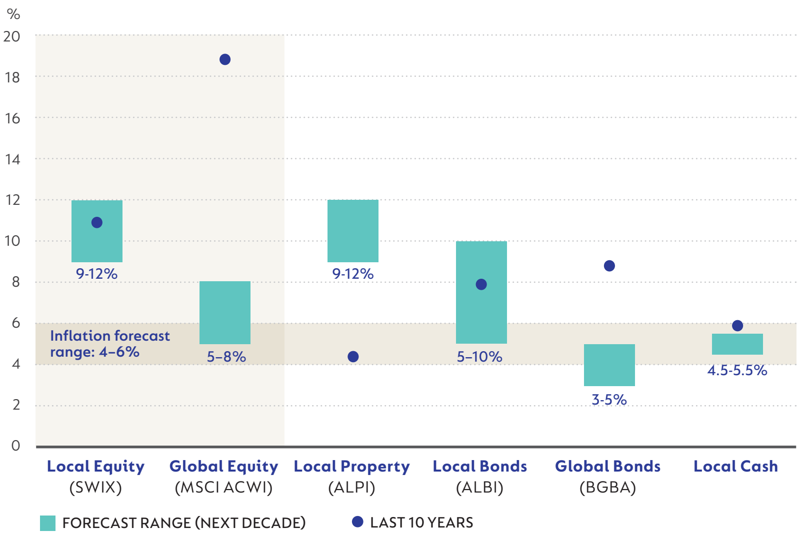
WHAT DO WE EXPECT FOR THE NEXT DECADE?

The upper band of our 10-year forecast range for local equity (see **Figure 2**) is now above the experience of the last decade as a result of more attractive valuations. The strong performance from global markets has contributed to global equities outperforming local equities over the past decade and warrants caution in future expectations. However, it is reasonable to expect better returns from the average balanced fund over the next decade, based on a more favourable outlook for local growth assets. Considering our forecasted returns for the different asset classes that make up your typical balanced fund, it is reasonable to expect a real return going forward that is more in line with the long-term average return (of around 5% per year, as explained on page 4). We expect the recent reward for investing in growth assets (as per the past two years) to continue.

Figure 2

EXPECTED ASSET CLASS RETURNS FOR THE NEXT DECADE

Asset allocation is the most important decision you make in investments.



Source: Coronation Fund Managers as at 31 October 2021

So what drives returns for investors with multi-decade horizons?

If you are looking to achieve long-term capital growth, time is your great advantage. This enables your investment portfolio to benefit from the key drivers of capital growth, that are critical to long-term wealth creation.

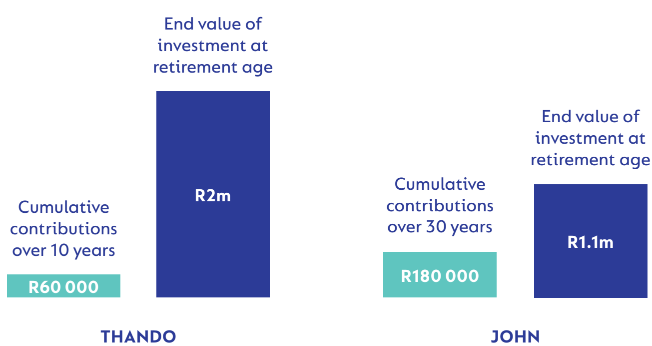
1. COMPOUNDING

Compounding is when your investment returns are re-invested, creating a larger base from which you can earn returns in the future. Compounding is an exponential rather than a linear function, so the longer you have to invest, the greater the possibility of dramatically multiplying your long-term returns.

Consider the extraordinary power of compounding with this example:

Thando starts to invest R500 a month at the age of 25. She contributes the same amount monthly for a period of 10 years, with her investment growing at a rate of 10% a year. After 10 years, she stops contributing on a monthly basis and simply allows her investment to grow until her retirement age of 65. John also invests R500 a month, but only starts 10 years later than Thando (at the point where Thando stops her contributions). He then continues to contribute that same amount diligently until his 65th birthday. His investment also grows at 10% a year.

THE PRACTICAL EFFECT OF COMPOUNDING

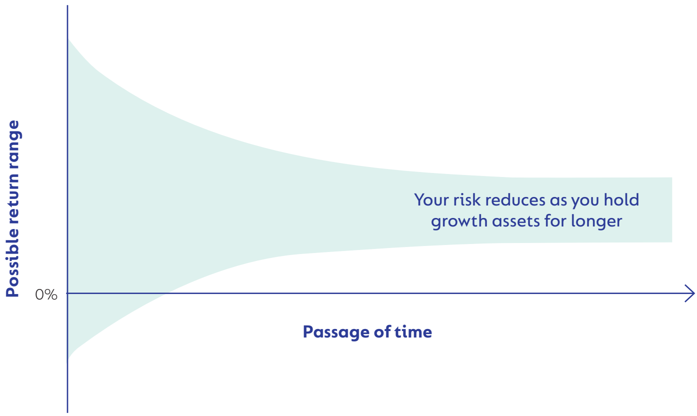


What has made the big difference for Thando?

The significant difference between the end values for Thando and John is highlighted in the illustration on page 6. At 65, Thando (who only contributed for a period of 10 years and then left the investment to compound over a period of 40 years) had accumulated an amount of more than R2 million. At 65, John (who contributed three times more than Thando) only accumulated just over half the end value of Thando's investment.

2. TIME DIVERSIFICATION OF RISK

Put simply, time diversification means that the longer you remain invested in a growth asset (such as equities), the lower your risk of losing capital becomes. 'After compounding, time diversification of risk is your second-best friend in the market,' writes Franco Busetti in *The Effective Investor* (Pan Macmillan, 2009).



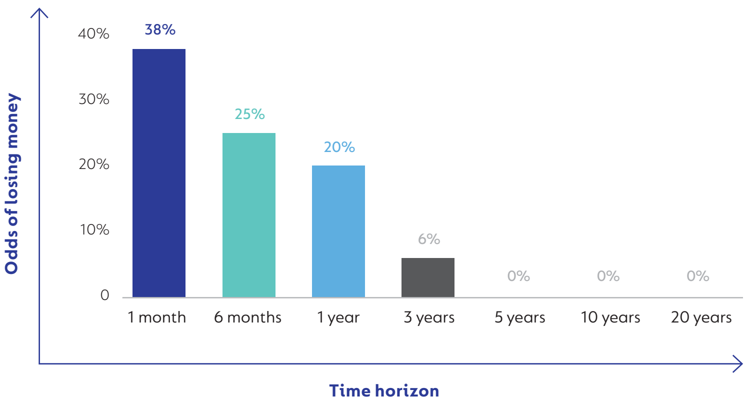
Source: Coronation Fund Managers

Consider an investment in equities – the asset class that provides the highest expected return over time, but with higher short-term volatility. The chance of losing capital in any one-year period is much greater than that of an investment in cash or bonds. However, the longer you remain invested in equities, the lower this variability becomes.

Figure 3 shows the odds of losing money on an investment in domestic equities (as measured by the FTSE/JSE All Share Index) over different investment time horizons (rolling five, 10, 20 years, etc.). Using returns dating back as far as 1960, it confirms the fact that your likelihood of losing capital on your investment diminishes drastically as your investment horizon increases. While this doesn't imply a future guarantee, it does illustrate the benefit of a longer-term horizon when allocating to growth assets.

Figure 3

YOUR ODDS OF LOSING MONEY REDUCE DRASTICALLY IF YOU GIVE YOUR INVESTMENT TIME



Source: Coronation Fund Managers as at 31 October 2021

3. ASSET ALLOCATION AND DIVERSIFICATION

Investors in balanced funds, or those who have the skills to perform the asset allocation themselves, can enhance their long-term savings by making good strategic and tactical asset allocation decisions in response to the dynamic market environment.

Examples of this may include:

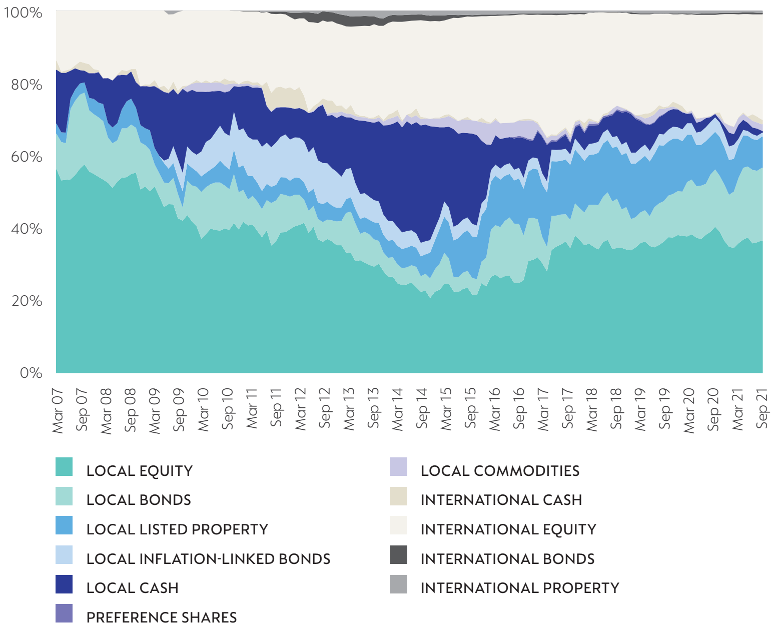
- New opportunities arising as companies, industries, countries and asset classes develop and contract;
- Changes in relative valuation levels, both within and between asset classes over time;
- A growing investible universe thanks to new asset classes (e.g. inflation-linked bonds);
- The deepening of existing asset classes (e.g. new listings and more activity, as was the case in the domestic listed property market);
- Changes to regulations that restrict or enhance the freedom to invest in foreign markets.

Figure 4 (overleaf) illustrates how we have used the above tools to add value through active allocation in our flagship balanced fund, Coronation Balanced Plus, over more than a decade. The stand-out features are:

- Our comfort with temporarily holding relatively high levels of cash at times when we believe valuations to be stretched in higher return/higher risk alternatives such as bonds, property and equity;
- The increase in offshore equity exposure over time, primarily at the expense of local equities. This trend was partly due to regulatory action, as exchange control limits were gradually relaxed to the current 30% foreign asset limit, but, more importantly, driven by the more attractive relative valuation of global compared to local shares at certain times.

Figure 4

TOTAL ASSET ALLOCATION



Source: Coronation Fund Managers as at 31 October 2021

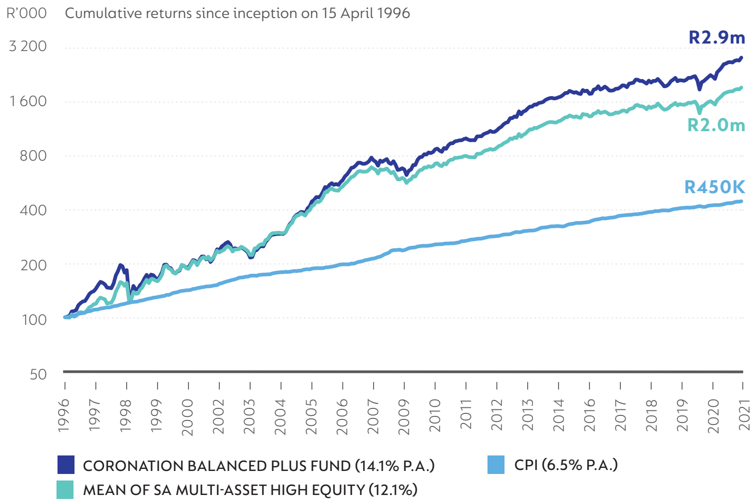
4. ACTIVE RETURNS

Investing with a skilled fund manager, which actively manages your portfolio, gives you the opportunity to add alpha*, which can add significantly to your investment over time. Coronation, like all active managers, pursues the out-performance of market indices or benchmarks (net of the fees we charge and costs that our portfolios incur).

***Alpha is the difference between the return of an actively managed fund and that of the market index. Zero alpha means the earned return = that of the market.**

Figure 5

GROWTH OF R100 000 INVESTMENT IN CORONATION BALANCED PLUS



Source: Coronation Fund Managers as at 31 October 2021
*For more detail about this Fund, please refer to its **comprehensive fact sheet**.*

Figure 5 shows the rewards of adding an active return to that of the market by having remained invested with Coronation over the long term. An investment in the average high equity balanced fund more than 25 years ago would have grown your capital by a little over 19 times (in nominal terms), whereas a similar investment in the Coronation Balanced Plus Fund, which has outperformed the category average by 2% p.a. after fees (a seemingly small number), would have grown your capital by 29 times.

The conclusion is as simple as it is compelling:

> **Invest in growth assets for long periods of time, stick with winning fund managers for the long haul, and the power of compounding will most likely do extraordinary things for you.**

Investing for the long term with Coronation

Depending on your specific goal (and investment horizon), we offer a range of funds aimed at meeting the needs of investors who want to achieve long-term capital growth.

INVESTING FOR THE LONG TERM IN A RETIREMENT PRODUCT

INVESTORS NEED TO CHOOSE BETWEEN:

- **investing in a multi-asset (balanced) fund; or**
- **performing the asset allocation themselves by way of building block funds (DIY portfolio)**

Regardless of your chosen investment approach (balanced fund or DIY portfolio), your underlying investment portfolio needs to comply with Regulation 28 of the Pension Funds Act, which allows you to invest up to 75% in equities and a maximum of 30% in international assets. We do believe that the majority of investors are better off investing in a multi-asset fund with a strong track record, such as Coronation Balanced Plus (see **table** on page 13).

INVESTING FOR THE LONG TERM FOR DISCRETIONARY PURPOSES

INVESTORS NEED TO CHOOSE BETWEEN:

- **investing in a single-asset class; or**
- **a growth-oriented multi-asset class**

Single-asset class

We offer two equity (single-asset class) portfolios that pursue market-beating returns over the long term for investors who are able to withstand short-term market turbulence. These funds are not suited to investors who are concerned about short-term capital losses or who want to generate consistent income. The Coronation Top 20 Fund is a concentrated portfolio that consists of no more than 20 of our best SA equity ideas and has a 21-year track record of adding meaningfully to an investor's long-term wealth creation.

Due to Top 20's concentrated nature, the fund is not suitable for those who seek an equity investment that tracks the returns of the market. Coronation Equity is less concentrated than Coronation Top 20, making it more suitable for investors holding only one equity fund. The fund may underperform the market in the short term in pursuit of superior long-term gains.

Multi-asset class

We also offer a worldwide multi-asset portfolio for investors looking to build up capital outside of a retirement fund, but who prefer to leave the asset allocation decision-making to the skilled portfolio manager. When investing in Coronation Market Plus, investors gain access to our best views across all asset classes limited to a maximum offshore investment of 40%.

FUND	Coronation Balanced Plus	Coronation Market Plus	Coronation Top 20	Coronation Equity
SUITABLE FOR	Pre-retirement savers seeking to invest in a balanced portfolio of assets, managed in line with the investment restrictions that apply to pension funds.	Pre-retirement savers seeking to invest in a balanced portfolio of assets that is not constrained by the limits applicable to retirement funds.	Long-term savers seeking concentrated exposure to the JSE through Coronation's top picks, ideally blending it with equity exposure across a number of funds.	Long-term savers seeking more broadly diversified exposure to the JSE through a single fund only.
RECOMMENDED INVESTMENT TIME HORIZON	5 years +	5 years +	5 years +	5 years +
REAL RETURN ACHIEVED SINCE INCEPTION	7.6% p.a.	8.8% p.a.	10.8% p.a.	8.8% p.a.
	Download the fund's comprehensive fact sheet **here**.	Download the fund's comprehensive fact sheet **here**.	Download the fund's comprehensive fact sheet **here**.	Download the fund's comprehensive fact sheet **here**.

Investors who wish to invest for long-term capital growth in one of our international funds, can download our Offshore Investing Corolab from coronation.com.

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For **enquiries** you can call us on **0800 22 11 77**
or email us at **clientservice@coronation.com**.

For **new applications or transactions** you can email your forms directly to **transact@coronation.com** or fax us on **+27 21 680 2100**.

For **more information or to invest online**, visit us on **www.coronation.com**.