2023

INVESTING TAX-EFFICIENTLY FOR THE LONG TERM

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

Overview

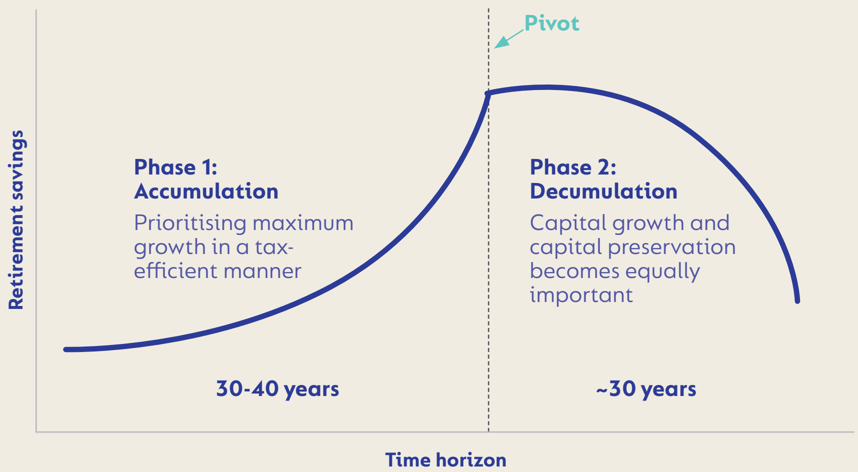
People invest for the long term for different reasons. With the benefit of time on your side, you get to invest in funds that are managed to deliver **maximum capital growth**. You might as well do so in a product that enables you to **invest tax-efficiently**.

The impact of compounding maximum capital growth in a tax-efficient manner is **significant**. This edition illustrates how pairing the most appropriate growth-oriented multi-asset class fund with a suitable tax-efficient product can help you to achieve just that.

Why do you invest for the long term?

The most likely (and significant) reason why people invest for the long term is to build up capital for their retirement in what could be multiple decades from now.

Your retirement investment journey



Read more about the second phase of your retirement journey in Corolab: Investing for income and growth.

Those who are fortunate enough to have access to discretionary savings (in other words, savings in excess of what you are already committing to your retirement pot) may be investing for an additional long-term goal, such as a child's education or towards having greater financial freedom later in life.

Whatever significant long-term goal you are aiming to invest towards, it is worth remembering that you can achieve maximum capital growth in a tax-efficient manner. In this quest for tax-efficient investing, your options include retirement annuities (RAs), tax-free investments (TFIs) and, for higher income individuals, endowments.

While each of these products fulfil a different function in an investor's overall portfolio (it's not a case of one being better than the other), this *Corolab* focuses on the most suitable combination of underlying investment fund and product with which to invest for your retirement or for another discretionary long-term goal.

Investing for retirement by way of a retirement annuity (RA)

Saving towards your retirement could take up most of your working life (30-40 years). If you manage to stay the course and invest sufficiently in a fund with a strong track record of delivering inflation-beating returns, history tells us there are few risks that could derail this long-term goal. The only additional outcome that you need to concern yourself with is achieving maximum capital growth in a tax-efficient manner as you build your nest egg during this accumulation phase of your retirement journey.

Achieving tax efficiency with an RA

The Coronation Retirement Annuity Fund is a personal retirement plan that enables you to save tax-efficiently for retirement and is an ideal vehicle for allocating a portion of your non-retirement funding income to.

The key advantages of an RA

Tax efficiency and growth

Your contributions are tax deductible (up to certain limits) and your investment returns are not taxed while you remain invested.

Choice

You can choose from a range of Coronation unit trust funds. (But note that your portfolio needs to comply with Regulation 28.)

Flexibility

You can reduce, stop or resume contributions at any time.

Cost efficiency

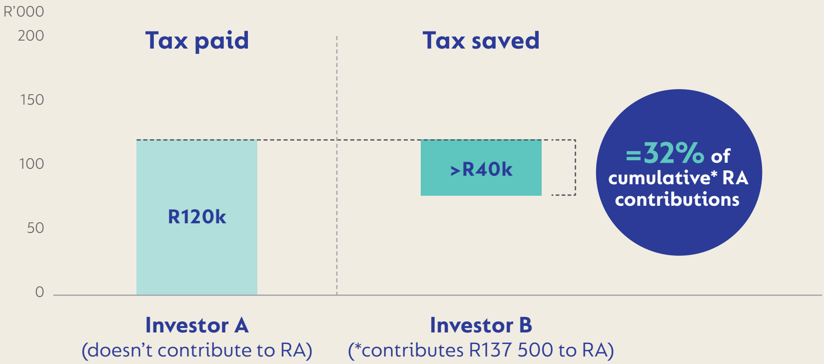
No initial fees, switching fees, exit penalties[1] or administration fees.

1 While this is the ordinary course of business, Coronation retains the right to apply switching fees or exit penalties under limited circumstances.

The tax saving enabled by contributing towards an RA is best illustrated by the following example. Investor A earns non-retirement funding income* of R500 000 a year but doesn't contribute to an RA. As a result, Investor A pays roughly R120 000 in tax on that amount of income. Investor B earns the same amount of non-retirement funding income a year but contributes 27.5% (or R137 500) to an RA. Because Investor B's contributions are tax deductible (up to certain limits), this results in a tax saving of more than R40 000 – essentially discounting his annual retirement contributions by a third.

The tax saving on your RA contributions can be meaningful

Tax paid vs tax saving for two investors with annual incomes of R500 000



* As a self-employed individual, all your income would be non-retirement funding income. If you are already part of an employer pension or provident fund but would like to supplement your retirement savings by way of contributing to an RA, then your non-retirement funding income would be irregular and variable income (commission, performance bonuses and other windfalls). In other words, income that is not used to calculate individual contributions to your company pension or provident fund.

Source: Coronation Fund Managers

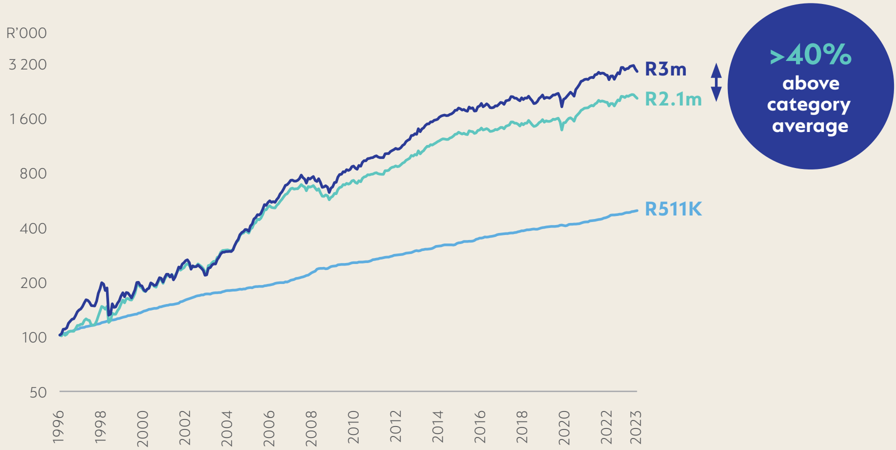
Maximising capital growth with Coronation Balanced Plus

If you are saving for retirement in the Coronation Retirement Annuity, we believe that Coronation Balanced Plus, our flagship pre-retirement fund, is the most suitable option from which investors' retirement savings stand to benefit. This is because the fund offers investors the highest exposure to growth assets and offshore exposure within Regulation 28 limits, allowing investors to maximise capital growth.

Coronation Balanced Plus has a 27-year track record of beating inflation by more than 5% per annum and its benchmark (ASISA category average) by 1.5% per year over this multi-decade period. It also managed to outperform the local equity market with significantly less exposure to equities. This level of outperformance compounded over time can add significantly to your investment outcome. If you consider the added benefit of tax-deductible contributions and the fact that your investment returns are not taxed while you remain invested, the outcome becomes even greater. As is clear from the graph below, an investment in the average high equity balanced fund more than 27 years ago would have grown your capital by 21 times (in nominal terms) as at end October 2023, whereas a similar investment in the Coronation Balanced Plus Fund, which has outperformed the category average by 1.5% p.a. after fees (a seemingly small number), would have grown your capital by close to 31 times over this same period.

The power of compounding ahead of peers and inflation

Growth of R100 000 invested since 15 April 1996



Coronation Balanced Plus　ASISA category average*　Inflation

* SA Multi-Asset High Equity ASISA Fund Category Average (excluding Coronation funds)

Source: Coronation Fund Managers as at 31 October 2023

The benefit of preservation

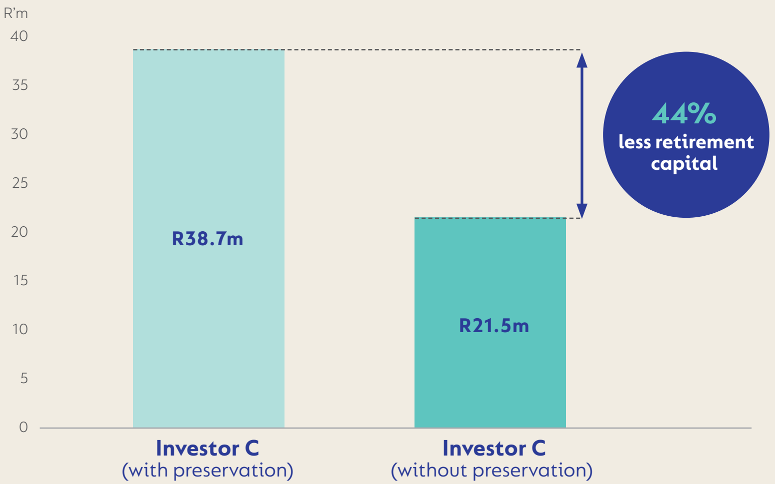
Coronation Balanced Plus is also a suitable option for those changing jobs and wanting to preserve the tax benefits of contributions made to a previous employer's pension or provident fund by way of the Coronation Preservation Pension Fund or Coronation Preservation Provident Fund.

To demonstrate the value of preserving your retirement contributions versus cashing out to meet a short-term need, consider the following simplified example.

Investor C earned a pensionable salary of R100 000 a year (which adjusted for inflation annually) over a period of 40 years and contributed 12% to her company pension plan that invested in Coronation Balanced Plus. After 10 years of working full-time, Investor C decided to leave her job to move to another company, where she continued working for another 30-year period until retirement. Here too, her salary adjusted annually to account for inflation. Upon resignation, she preserved her accumulated savings in a preservation provident fund, with Coronation Balanced Plus as her underlying fund choice and continued to contribute 12% to her company pension fund that invested in Coronation Balanced Plus. Had she not preserved her accumulated savings at the point of changing jobs, her total retirement savings would have been 44% less today as per the visual below.

Don't underestimate the impact of preservation over time

You could end up with significantly less capital when you don't preserve, and will be subject to paying tax on the amount that you cash out



Source: Coronation calculations based on Coronation Balanced Plus performance as at 31 October 2023. For the period prior to Coronation Balanced Plus' inception, an annualised return of 13% was used, which is in line with the fund's annualised return since inception.

Investing for a long-term goal with discretionary savings

If you are investing for a long-term goal with discretionary savings, your options with which to achieve maximum capital growth are wide. Depending on the purpose of your investment, your investment fund doesn't need to comply with Regulation 28 and could include anything from a domestic equity-only fund (such as Coronation Equity or Coronation Top 20) or a global fund available to South African investors (*Read more about our range of global funds in Corolab: Investing Offshore*).

Achieving tax efficiency with a TFI

If you want to make your discretionary long-term investment work a little harder, you could consider housing your chosen underlying investment fund in a tax-free investment (TFI), such as the Coronation Tax-Free Investment.

The key advantages of a TFI

Tax efficiency and growth

You don't pay tax on your investment returns – both while you're invested and when your investment pays out.

This means:

– No local tax on interest or other income.

– No local dividend tax.

– No local capital gains tax.

Choice

You can choose from a range of Coronation unit trust funds. Your fund choice does not have to comply with Regulation 28.

Cost efficiency

No initial fees, administration fees or switching fees[1].

Generational wealth

You can open a tax-free investment for minor children.

Access

You have unrestricted access to your money and any withdrawals are not subject to any taxes. (However, a long-term horizon is recommended to fully realise the benefit of compounding your tax-free return.)

1 While this is the ordinary course of business, Coronation retains the right to charge a switching/exit fee under limited circumstances.

When you invest in a TFI, you don't pay local tax on your investment returns – both while you're invested and when your investment pays out. The taxes you save remain invested to grow, which can make a significant difference over the long term.

Maximising capital growth with Coronation Market Plus

Unlike retirement funds, TFIs are not bound by Regulation 28. As a result, you are free to invest in a fund that can express views beyond those constraints – and rightly expect such a solution to outperform a traditional balanced fund. If managed well, such a fund can even provide a return that is close to, or in line with, the market. But through taking on reasonable levels of risk and the added benefit of diversification, this results in a less volatile experience than that of a pure equity fund – an attribute that helps investors to stay the course.

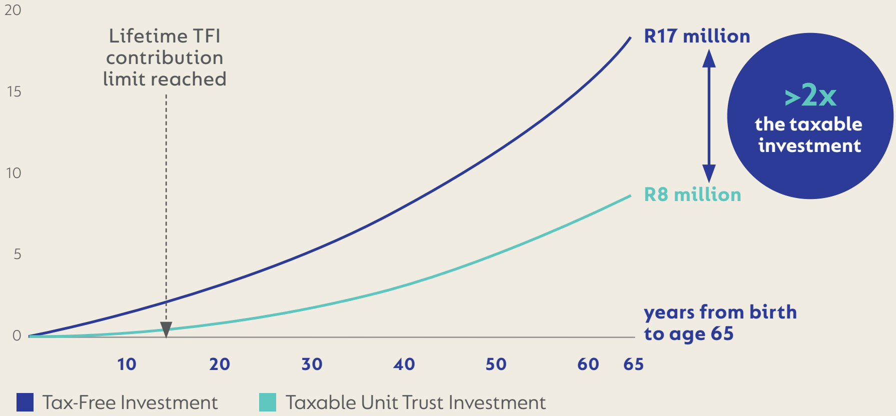
Since its inception in 2001, Coronation Market Plus has met the needs of somewhat aggressive investors aiming to build long-term capital outside of their retirement portfolios. With the ability to invest more than 75% in equities (the regulatory limit under Regulation 28), Coronation Market Plus has delivered an annualised return of 13.9% since inception, well ahead of its inflation plus 5% target and the average balanced fund return of 10.7%. What is particularly pleasing is that, over this period, despite never being fully invested in equities, Coronation Market Plus has also managed to outperform the JSE All Share Index's performance of 13%. With an objective to grow real capital over time, the fund delivered an annualised real return of 7.7% p.a. (All performance figures quoted are as at 31 October 2023.)

The benefits of staying the course

The following illustrative example highlights the long-term benefits of staying the course in a fund such as Coronation Market Plus. Imagine that you invest the maximum annual amount (R36 000) in a tax-free investment for your child from birth. If you continue doing so, you will reach the lifetime limit of R500 000 before your child turns 14. The longer you decide to keep the money invested, the more the benefits of compounding and the greater the extent to which your tax-free fund outperforms the same taxable fund.

The power of compounding tax free

Investment values (R million)



Assumptions:

- R36 000 per year invested in a TFI and a taxable investment (a normal unit trust) at birth until the lifetime limit of a TFI of R500 000 is reached at around the age of 14.
- Investment then grows in both products until age 65.
- End values assume 6% real return. Historically, Market Plus provided a real return of 7.7% p.a. since inception (as at end October 2023).
- This example is for illustrative purposes only. Future returns are uncertain and actual outcomes may differ.

Source: Coronation Fund Managers

Our analysis, based on certain assumptions, shows that if you keep the money in the fund until your child turns 18, the value of the tax-free investment will be 22% greater than the equivalent taxable investment. By age 30, this difference widens to 42% and, by age 65, the investment would be double the value of the same taxable investment.

These results show that by resisting the temptation to disinvest from the fund, the nest egg being built up would keep your child in good stead by either financing tertiary education, buying a first home or ideally investing in their retirement, depending on when your child decides to disinvest. This theoretical exercise also shows the incredible power of compounding over long periods of time. Investing R500 000 spread out over 14 years and then doing nothing for 41 years results in an investment worth R17 million in today's money by the age of 65. That is enough to fund a retirement income for life of more than R80 000 a month, again in today's money. Our hypothetical (very patient) tax-free investment beneficiary would therefore never have to contribute to retirement while working, effectively freeing up 10% to 15% of annual income that would normally have been required to fund retirement income if you start contributing in your early 20s.

Maximising capital growth in international markets

Investors seeking to utilise their discretionary savings in a fund that predominantly invests in offshore asset classes, can consider one of Coronation's global long-term growth-oriented multi-asset funds. The Coronation Global Optimum Growth Fund is an aggressive allocation fund suited to investors with a very long time horizon (10 years plus).

A higher-income option

High-income individuals who have already hit the investment ceiling in their TFI should consider an endowment as another tax-efficient investment option. The appeal of endowments lies in the flat tax rates that apply to income and capital gains. Income is taxed at 30% (compared with a marginal individual tax rate that can be as high as 45%), while capital gains are taxed at 12% (compared with an effective rate of 18% for individuals in the highest income tax bracket).

Investors' underlying fund options are not restricted by any regulation. As such, you can choose to invest in any of our long-term growth-oriented funds.

All roads lead to multi-asset funds

Long-term investors, especially those who are investing with discretionary savings, could consider funds that are fully invested in equities – the asset class that provides the highest expected return over time.

However, being fully invested in equities (domestic or global equities, or a combination of both) comes with higher short-term volatility. While the longer you remain invested in equities, the lower this variability becomes, most investors may prefer a less volatile experience that allows them to stay the course.

Achieving a smoother return path through diversification and active asset allocation

Both Coronation Balanced Plus and Coronation Market Plus have strong asset allocation track records. By making considered yet decisive asset allocation decisions, informed by our proprietary long-term work, these funds have enhanced the long-term savings of their investors through the various changing market and regulatory environments without exposing their investors to the volatility inherent in a pure equity fund.

You get equity-like returns from Coronation Balanced Plus and Coronation Market Plus

But at much less volatility and risk

	Coronation Balanced Plus	Coronation Market Plus	SA – Multi-Asset – High Equity peer group	SA Equity	Global Equity
Annualised return	12.9%	13.5%	10.8%	13.4%	12.7%
Cumulative return	1 037.4%	1 158.4%	682.4%	1 139.8%	993.1%
Times your money	11.4	12.6	7.8	12.4	10.9
Risk and volatility					
Largest drawdown	-20.3%	-24.4%	-18.0%	-36.5%	-35.1%
2nd largest drawdown	-16.0%	-18.6%	-14.1%	-30.2%	-18.5%
3rd largest drawdown	-9.3%	-11.8%	-7.5%	-12.8%	-14.7%
Annualised volatility	10.1%	10.9%	8.4%	14.7%	14.5%

Source: Coronation and IRESS for the 20 years to 31 October 2023.

Easier said than done

However, asset allocation across all geographies and asset classes through the cycle is a capability that very few managers have. This is because it requires an integrated approach that is anchored in a granular understanding of every single security's risk and return dynamics and then to construct and manage a portfolio based on that deep knowledge and ongoing monitoring.

Good asset allocation also requires active decision-making as has been required in response to the many unimaginable events of the last 15 years (including 9/11, the Global Financial Crisis, negative interest rates, the Covid pandemic, Russia's invasion of Ukraine, etc). As we are likely to see more of these events in the fractious world we are living in, investors need to consider investing with good asset allocators with a demonstrable track record in taking bold and decisive action when it is needed.

Adding another layer of tax efficiency

Choosing to house your long-term investment in a multi-asset fund has the added benefit that active asset allocation adjustments are made on your behalf within the fund and, as such, do not trigger a capital gains event (as would be the case with a DIY portfolio).

Within a multi-asset fund, the managers can buy or sell underlying assets without showing an actual gain or loss for the investors, which would be subject to capital gains tax (CGT) in the hands of an individual. CGT is therefore deferred until such time as you decide to divest.

Conclusion

The conclusion is as simple as it is compelling: Invest for your long-term goals in funds managed by good asset allocators with strong track records in delivering inflation-beating returns over long periods of time.

When you pair these track records with a tax-efficient product, the power of compounding will most likely do extraordinary things for you. Choosing a multi-asset fund such as Coronation Balanced Plus (for savers who need to adhere to retirement limits within the context of an RA) or Coronation Market Plus (for discretionary savers who can seek more flexibility in terms of equity exposure than a Regulation 28-compliant fund) are most likely to help you achieve the best outcomes while enabling you to stay the course.

Fund information (as at 31 October 2023)

	Coronation Balanced Plus	Coronation Market Plus
Fund objective	The fund aims to achieve the best possible investment growth for retirement savers (within the constraints of Regulation 28 of the Pension Funds Act) over the long term.	The fund aims to maximise long-term investment growth, at lower levels of risk than a fund that is only invested in shares.
Launch date	15 April 1996	02 July 2001
Benchmark	ASISA fund category average (excluding Coronation funds)	CPI + 5%
Performance		
SI (annualised)		
Fund	13.2%	13.9%
Benchmark	11.1%	10.7%
Highest annual return	49.3% (Aug 2004 - Jul 2005)	50.0% (Aug 2004 - Jul 2005)
Lowest annual return	-17.4% (Sep 1997 - Aug 1998)	-20.1% (Mar 2008 - Feb 2009)

NOTES

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Disclaimer:
All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result thereof, there may be limitations as to the appropriateness of any information given. It is therefore recommended that the reader first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the reader prior to acting upon information. Neither Coronation Fund Managers Limited, Coronation Management Company (RF) (Pty) Ltd nor any other subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. Coronation endeavours to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. 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Note that individual investor performance may differ as a result of the actual investment date, the date of reinvestment of distributions and dividend withholding tax, where applicable. Annualised performance figures represent the geometric average return earned by the fund over the given time period. Where foreign securities are included in a fund it may be exposed to macroeconomic, settlement, political, tax, reporting or illiquidity risk factors that may be different to similar investments in the South African markets. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. The Coronation Money Market fund is not a bank deposit account. The fund has a constant price, and the total return is made up of interest received and any gain or loss made on any particular instrument, in most cases the return will merely have the effect of increasing or decreasing the daily yield, but in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. Excessive withdrawals could place the fund under liquidity pressures, in such circumstances a process of ring-fencing of redemption instructions and managed pay-outs over time may be followed. A fund of funds invests in collective investment schemes that levy their own fees and charges, which could result in a higher fee structure for this fund. A feeder fund invests in a single fund of a collective investment scheme, which levies its own charges and could result in a higher fee structure for the feeder fund. Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Sector Conduct Authority in terms of the Collective Investment Schemes Control Act. Unit trusts are traded at ruling prices set on every day trading. Forward pricing is used. For Domestic Unit Trust Funds and Tax Free Investments, including rand-denominated Offshore Unit Trust Funds, fund valuations take place at approximately 15h00 each business day, except at month end when the valuation is performed at approximately 17h00 (JSE market close). For these Funds, instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. For Offshore Unit Trust Funds that are denominated in a foreign currency, fund valuations take place at approximately 17h00 each business day (Irish Time) and instructions must reach the Management Company before 12h00 (SA Time) to ensure the value of the next business day. For Retirement Products, fund valuations take place at approximately 15h00 each business day, except at month end when valuation is performed at approximately 17h00 (JSE market close). For these Products, instructions must reach the Management Company before 14h00 to ensure the value of the next business day. Additional information such as fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, www.coronation.com. Coronation Fund Managers Limited is a Full member of the Association for Savings & Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers. Coronation Life Assurance Company Limited is a licenced insurer under the Insurance Act, No.18 of 2017. 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