



01/23

INVESTING TAX-EFFICIENTLY  
FOR SIGNIFICANT LONG-TERM GOALS

COROLAB

*Your guide to investment ideas*

CORONATION

TRUST IS EARNED™

A blue-tinted photograph of four business professionals (two men and two women) in a meeting. They are standing around a small round table with drinks and documents. The background shows a cityscape through a window. A white crosshair graphic is positioned to the left of the main title.

# THE CORONATION CLIENT CHARTER

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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

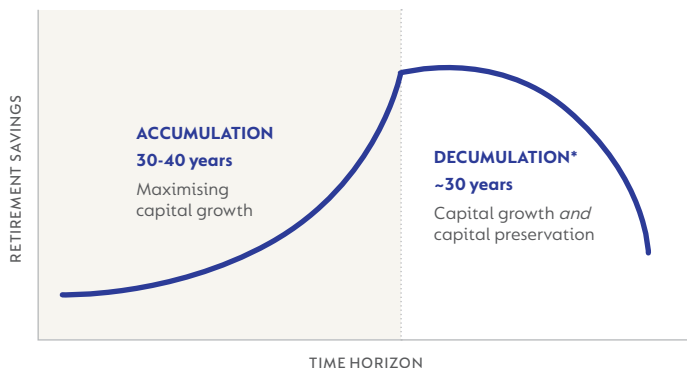


# Investing tax-efficiently for significant long-term goals

- Investing for significant long-term goals often takes place over multiple decades
- With the benefit of time on your side, you get to invest in funds that are managed to deliver maximum capital growth
- If your quest is to invest tax-efficiently for the long term, there are a number of products from which to choose
- The impact of compounding maximum capital growth in a tax-efficient manner is significant and we offer two multi-asset class investment funds that, when combined with the right product, will help you achieve just that

People invest for the long term for different reasons. The most likely (and significant) reason is that you are building up capital for your retirement in what could be multiple decades from now.

## YOUR RETIREMENT JOURNEY CAN SPAN MULTIPLE DECADES



\*Read more about this phase of retirement in [Corolab: Pivoting towards 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 also be investing for another 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, chances are that you want to 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 have a different function in an investment portfolio (it's not a case of one being better than the other), this *Corolab* aims to focus on the most suitable combination of underlying investment fund and product with which to **invest for your retirement by way of an RA, or for another discretionary long-term goal by way of a TFI.**

TAX-EFFICIENT PRODUCTS FOR:	
RETIREMENT	DISCRETIONARY
➤ Retirement Annuity (→ page 5)	➤ Tax-Free Investment (→ page 8)
➤ Preservation Pension Fund (→ page 6)	➤ Endowment (→ page 11)
➤ Preservation Provident Fund (→ page 6)	

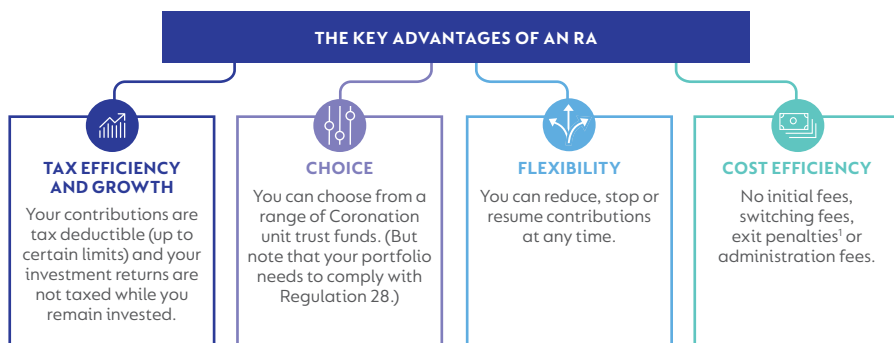


# Investing for retirement by way of a retirement annuity

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

The **Coronation Retirement Annuity Fund** is a personal retirement plan that enables you to save tax-efficiently for retirement.

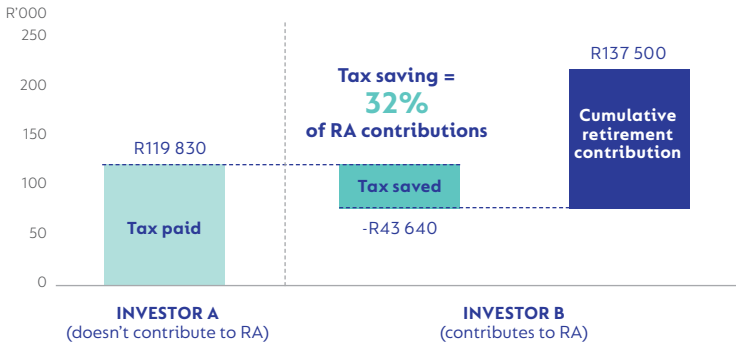


1. While this is the ordinary course of business, Coronation retains the right to apply switching fees or exit penalties under limited circumstances.

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, this results in a tax saving of more than R40 000 – essentially funding close to a third of his annual retirement contributions.

### THE TAX SAVING ON YOUR RA CONTRIBUTIONS ARE 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.

### MAXIMISING CAPITAL GROWTH

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. The Fund is also suitable to 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**.

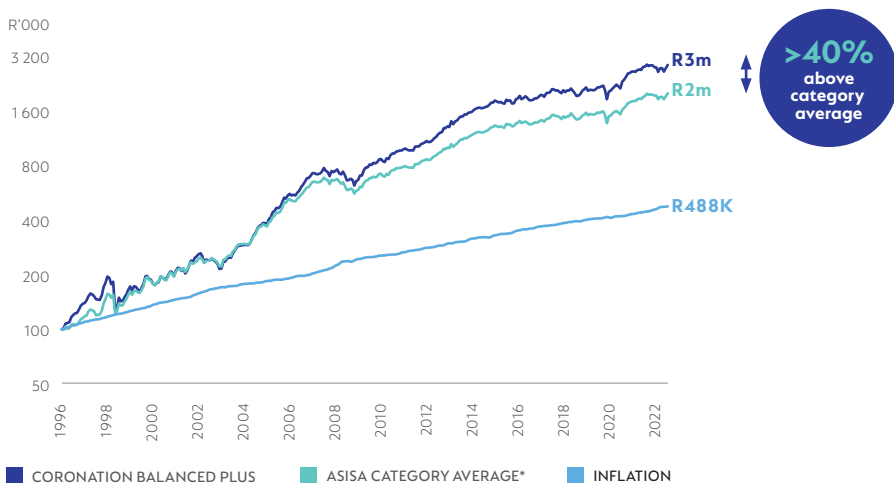


**Coronation Balanced Plus** has a 26-year track record of beating inflation by more than 5% per annum and its benchmark (ASISA category average) by 1.5% per year over this multi-decade period. It also managed to outperform the local equity market with significantly less exposure to equities. This level 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 26 years ago would have grown your capital by 20 times (in nominal terms) as at end December 2022, 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 30 times over this same period.

## THE POWER OF COMPOUNDING AHEAD OF PEERS AND INFLATION

Growth of R100 000 invested since 15 April 1996



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

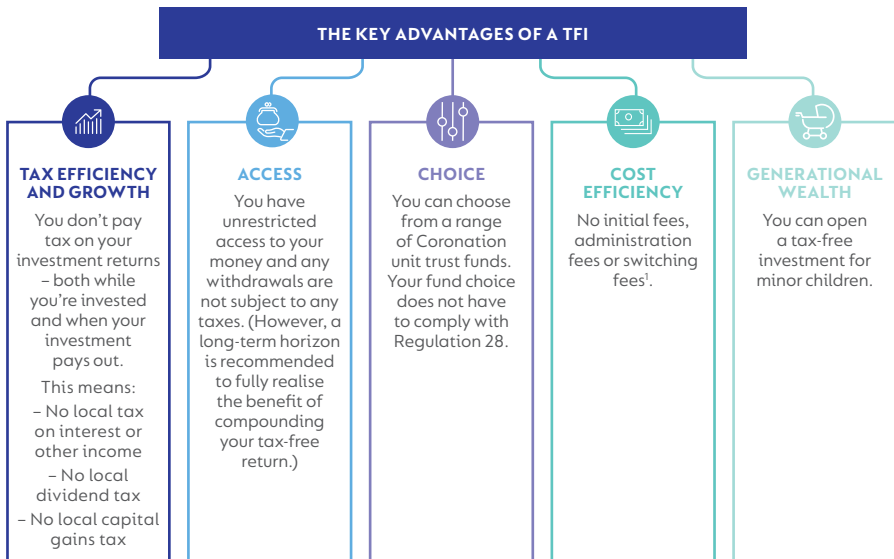
Source: Coronation Fund Managers as at 31 December 2022

# 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 the global funds available to South African investors (read more about our range of global funds in **Corolab: Investing Offshore**).

## ACHIEVING TAX EFFICIENCY

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**.



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 (differing from an RA). The taxes you save remain invested to grow, which can make a significant difference over the long term.

## MAXIMISING CAPITAL GROWTH

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 with the added benefit of diversification that 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 aggressive investors aiming to build long-term capital outside of their retirement portfolios. With the ability to invest more than the Regulation 28 limit of 75% in equities, and up to 30% offshore, **Coronation Market Plus** has delivered an annualised return of 14.3%, well ahead of its inflation plus 5% target of 10.7% and the average balanced fund return of 11.0%.

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 13.7%. With an objective to grow real capital over time, the Fund delivered an annualised real return of 8.6% p.a. (All performance figures quoted are as at 31 December 2022.)

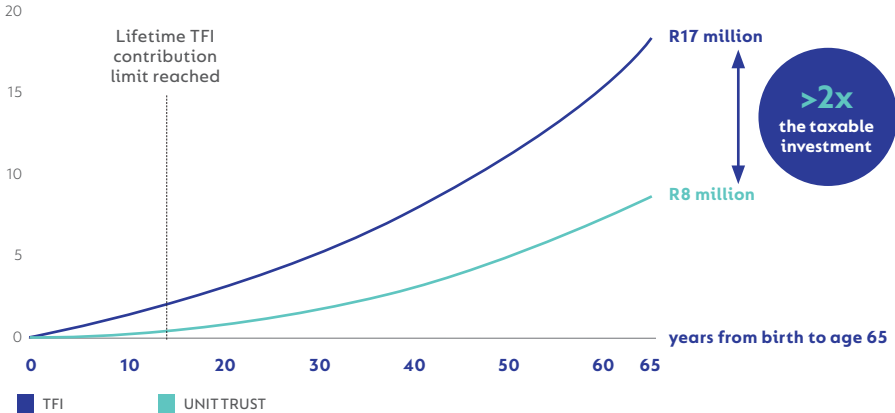
### The benefits of staying the course

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The following illustrative example highlights the long-term benefits of staying the course in **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 8.6% p.a. since inception (as at end December 2022).
- 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.



## 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).

Read more [here](#).

# Why choose a multi-asset fund for your long-term goals?

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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.

## A SMOOTHER RETURN PATH

Both **Coronation Balanced Plus** and **Coronation Market Plus** have strong asset allocation track records. By making good strategic and tactical asset allocation decisions in response to the dynamic market environment, these funds have enhanced the long-term savings of their investors by outperforming the equity market since their respective launch dates but without exposing their investors to the volatility inherent in a pure equity fund (as explained on [pages 7 and 9](#)).

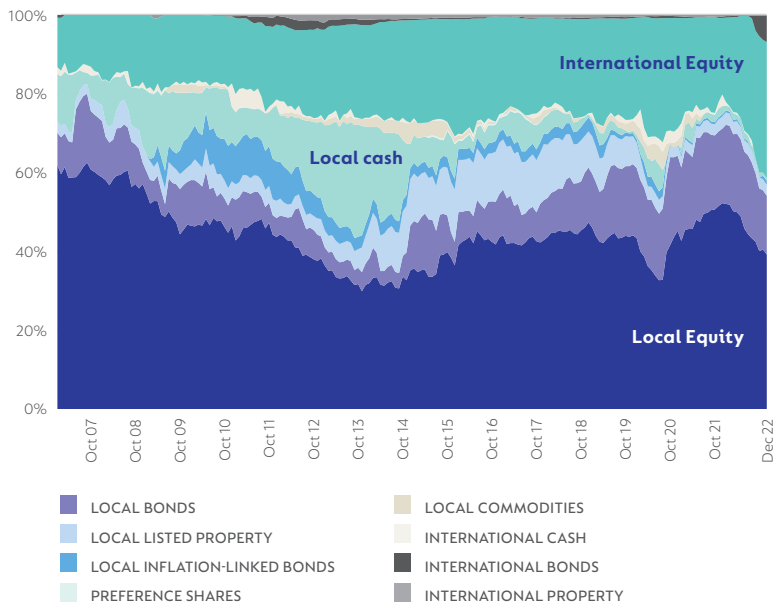
Examples of the dynamic market environment may include:

- ▶ 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.



The following figure illustrates how we have used the above tools to add value through active allocation in **Coronation Balanced Plus**, over more than a decade (as demonstrated in the graph on [page 7](#)).

### CREATING VALUE THROUGH ACTIVE ASSET ALLOCATION



Source: Coronation Fund Managers as at 31 December 2022

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 international 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 (then swiftly) relaxed to the current 45% foreign asset limit.

## 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

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The conclusion is as simple as it is compelling: Invest for your long-term goals in funds 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 offshore and 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 December 2022)

	BALANCED PLUS	MARKET PLUS
<b>Fund objective</b>	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.
<b>Reg 28 compliant</b>	✓	X
<b>Max growth exposure</b>	85%	100%
<b>Launch date</b>	15 April 1996	02 July 2001
<b>Benchmark</b>	South African – Multi-asset – High Equity ASISA fund category average (excluding Coronation funds)	CPI + 5%
<b>Performance</b>		
• <b>SI (annualised)</b>		
Fund	13.5%	14.3%
Benchmark	12.0%	10.7%
• <b>10 years (annualised)</b>		
Fund	8.9%	9.2%
Benchmark	7.7%	10.2%
• <b>Highest annual return</b>	49.3% (Aug 2004 - Jul 2005)	50% (Aug 2004 - Jul 2005)
• <b>Lowest annual return</b>	-17.4% (Sep 1997 - Aug 1998)	-20.1% (Mar 2008 - Feb 2009)

For a more detailed account of historic fund performances, please refer to the respective minimum disclosure documents available on our website, [www.coronation.com](http://www.coronation.com)











#### Disclaimer:

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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](http://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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**[transact@coronation.com](mailto:transact@coronation.com)** or fax us on **+27 21 680 2100**.

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