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NAM CORONATION STRATEGIC INCOME FUND QUARTERLY COMMENTARY Q4-25

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

Performance and fund positioning

The Fund returned 0.82% in December, bringing its 12-month total return to 10.9%, which is ahead of cash (7.57%) over the same period. We believe the Fund's current positioning offers the best probability of achieving its cash +2% objective over the medium to longer term.

The final quarter of 2025 set the stage with cautious momentum. Globally, easing inflation pressures and a broadening shift toward monetary policy normalisation supported fixed income markets. In contrast, prevailing geopolitical tensions, elevated sovereign issuance, and lingering trade frictions underscored a more complex risk environment. US policy easing gathered traction as growth moderated, while emerging markets continued to benefit from improving external balances and targeted interest rate-cutting cycles. Against this global backdrop, South African (SA) bonds were supported by improving domestic sentiment, greater policy coherence under the Government of National Unity (GNU), and contained inflation outcomes, despite ongoing concerns about fiscal consolidation and the execution of structural reforms. Entering 2026, the active and intense Chinese Year of the Fire Horse, markets appear positioned to reward discerning investors who can move decisively with conviction; balancing agility with discipline as global and SA policy signals evolve.

2025 saw a strong rally in Namibian bonds, with total returns of 16.38%, primarily driven by benchmark bond yield compressions. In December, the IJG All Bond Index rose 1.75% m/m after a 3.25% m/m increase in November. The IJG Inflation-Linked Bond Index (ILBI) delivered 0.97%. Despite persistent pressure on spreads, the Namibian yield curve rallied broadly in 2025, led by aggressive repricing at the front end. The belly of the curve (bonds maturing in 7-12 years) delivered 1.95%, while medium-term bonds (maturing in 3-7 years) posted 1.54%, and short-term bonds (maturing in 1-3 years) returned 0.82%. Despite the strong performance, Namibian bonds still underperformed South African bonds in 2025, as concerns around the uncertain fiscal trajectory and high government borrowing requirement weighed on spreads.

During Q4-25, the 3-month Johannesburg Interbank Average Rate (Jibar) reduced from 7.000% to 6.750%, reflecting the market's view of an easing policy environment. At the end of Q4-25, local Namibian banks were offering a spread of 25bps above the Jibar for one-year tenor floating-rate notes. The one-year fixed rate negotiable certificate of deposit (NCD) yield decreased by 0.15% to 7.21% from the 7.36% offered in the third quarter of 2025. The decrease in rates is reflective of Namibia's downward trend in the interest rate environment. Treasury Bills (T-Bills) remain attractive relative to fixed-rate NCDs; however, floating-rate notes offer reasonable returns without taking the duration risk. The Fund increased its holdings in floating-rate NCDs and T-Bills during Q4-25.

The SA bond market had a remarkable year with yields compressing significantly across the curve. The 10-year SA government bond (SAGB) yield ended the year at 8.20%, while the 30-year SAGB compressed by



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more than 200 basis points to 8.95%. This propelled the performance of the 12-yearplus area of the yield curve to 31.21% for the 2025 calendar year, which is well ahead of the FTSE/JSE All Bond Index's (ALBI) return of 24.24%. Nominal bond returns far outstripped the returns from other fixed income assets, with cash returning 7.28% over the year and inflation-linked bonds (ILBs) returning 15.42%.

Despite the recovery in ILB performance in the fourth quarter of 2025, their returns still remain well below nominal bonds over a longer horizon. Over three years, ALBI returned 16.89% while CILI delivered 10.04%. Over five years, ALBI returned 12.54% and CILI 9.91%, and over 10 years, ALBI returned 11.48% and CILI 6.50%. The rand was not underdone, with a pronounced appreciation against the dollar, closing the year at R16.56/US\$ (versus R18.84/US\$ at the end of 2024), generating a 12.06% return, which was in line with its emerging market (EM) peers. This, combined with local bond performance, outshone global bond returns, with the FTSE World Government Bond Index (WGBI) only returning 7.55% in US dollars, compared to the 41.28% from the ALBI dollar equivalent.

Over the last five years, nominal bonds (the ALBI) have generated a return in excess of 6% of cash (12.54% versus 6.32%). This was on the back of the increased embedded risk premium in SA assets, and specifically SA bond yields due to the Covid fiscal hangover. When compared to the pre-pandemic decade (2010-2020), nominal bonds produced a return of 8.85% versus cash at 6.52%, putting the excess return closer to 3%, the impact of this outlier event is clear. Currently, the ALBI's yield of c. 8.5% versus the c. 6.5% expected from one-year cash sits more in line with the latter and is a needed step change in investor return expectations, given the moderation in SA bond yields.

Globally, December continued to show sticky inflation readings, hovering just above central banks' target ranges. Activity data remain more resilient than forecasters anticipated – prompting some caution from policymakers, who are increasingly shifting to data-dependent guidance. Developed market central banks continued to ease policy rates but were reluctant to signal more cuts in the coming months.

The Federal Reserve Board (the Fed) cut the Federal Funds target rate range by 25 basis points (bps), moving the range to 3.50%-3.75% at the December Federal Open Market Committee meeting. Cumulatively, the Fed reduced policy rates by 75bps in 2025. It noted that the US economy has been growing at a moderate pace and that the labour market has become more vulnerable, despite unemployment remaining low relative to history. Inflation risks were still assessed to the upside, and the 2% target is only expected to be reached in 2028. The Fed reiterated that it would proceed with caution and future rate decisions will be data-driven, which has led to a repricing of market expectations for near-term rate cuts. The market is only pricing in two 25bps rate cuts in 2026.

US headline inflation slowed to 2.7% year on year (y/y) in November from 3.0% y/y in September, while core inflation eased to 2.6% y/y from 3.0% y/y (October inflation data was not published due to the government shutdown). The main inflation drivers were upticks in energy and medical care costs, offset by a moderation in the food, housing, and transportation services categories.

The rand ended the month at R16.56/US\$1, better than its close in the previous month but in line with its EM peer group. Offshore credit assets and certain developed market bonds continue to flag as relatively



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attractive. The Fund has utilised a significant part of its offshore allowance to invest in these assets. When offshore assets become expensive (or relatively cheap), the Fund may adjust its foreign currency exposure by buying or selling currency futures on the JSE (typically in US dollars, UK pounds, or euros). This helps the Fund fine-tune its exposure to global markets without having to sell its offshore investments.

SA headline inflation slowed at the margin to 3.5% y/y in November from 3.6% y/y in October, while core inflation ticked up slightly to 3.2% y/y from 3.1% y/y. Increases were observed in the food and non-alcoholic beverages category following an outbreak of foot-and-mouth disease, which drove meat prices up. Restaurants and accommodation prices rose on the back of increasing travel activity. There were price moderations in the transport, energy, and recreation categories.

At the end of November, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 7.11% (three-year) and 7.48% (five-year), both lower than at the end of the previous month. Our inflation expectations suggest that the current pricing of these instruments remains attractive given their lower modified duration and, hence, high breakeven relative to cash. In addition, NCDs offer the added benefit of being liquid, thereby aligning the Fund's liquidity with the needs of its investors. The Fund continues to hold decent exposure to these instruments (fewer floating than fixed), but we will remain cautious and selective when increasing exposure.

Notwithstanding the South African Reserve Bank's (SARB) commitment to keep inflation anchored at the ratified target of 3%, external developments, specifically regarding EM currencies, have benefited the rand/dollar cross, and lower oil prices have further helped in keeping SA inflation in check. Our forecasts currently have inflation averaging closer to 3% if the rand strength is sustained and oil prices stay the course (recent developments in South America might further help to moderate long-term oil expectations). This could provide further room for the SARB to ease interest rates quicker and lower (c. 50bps) than our current expectation of a 6.25% repo rate by year-end. To a large extent, this seems to have been factored into bond and interest markets; however, shorter-dated ILBs still have real yields in excess of where the real policy rate could settle by year-end. If inflation does average 3% this year, there should be no reason why the SARB should not revert to a neutral real policy rate of 2.5%, which still leaves room for three- to seven-year ILBs to compress from the current levels in excess of 4%. Assuming ILB yields compress 1%, inflation materialises at 3% over the next year, and nominal bonds compress by 1% (although in a scenario where the repo settles at 5.75% versus our current expectations of 6.25%, the move would not be so large), the total return of ILBs outstrips the return of the nominal bonds. Thus, making front-end exposure out to seven years in ILBs, is the superior value proposition.

As SA enters 2026, the bond market reflects a transition from recovery-driven returns to a more mature phase of the cycle, where valuation discipline and curve selection will be paramount. While the global backdrop of easing inflation and policy normalisation remains broadly supportive, much of the easy compression in local yields has already occurred, leaving limited margin for error should growth or reform momentum disappoint. In this environment, consistent with the symbolism of the Chinese Year of the Fire Horse, successful bond investing will require measured decisiveness across the yield curve: favouring the belly (medium-term bonds) where you can earn solid returns and benefit as bonds 'roll' towards maturity; selective exposure to real yields at the front end (shorter term bonds); and a disciplined approach to risk



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premia. SA bonds continue to offer value relative to cash and global peers, but future returns are likely to be earned through careful positioning rather than broad-based yield compression.

SA listed property sector was up 0.12% over the month, bringing its 12-month return to 30.56%. The cost savings due to the implementation of solar and increased payout ratios helped bolster the sector's performance. Despite dividend yields being quite low (7-8%), the improved dividend growth puts the total return prospects well above bonds, which could support the sector. Valuations remain quite tight, and the risks posed from a slower economic recovery could erode optimism in the sector's prospects. We believe that one must remain cautious given the high levels of uncertainty around the strength and durability of the local recovery. SA credit spreads are at historically tight levels due to low issuance volumes and a large amount of capital seeking a home with reduced volatility. The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the SA market. This sector has experienced exponential growth over the last five years, reaching a market size of over R100 billion. However, only a third of this market reprices, creating an inaccurate representation of asset volatility and pricing. CLNs mask the underlying/see-through credit risk as the issuing entity (predominantly SA banks) is seen as the primary credit risk.

The increased usage of CLNs has not expanded the pool of borrowers; rather, it has only served to concentrate it. This is due to the ability to limit the volatility of these instruments by not marking them to market based on the underlying asset price movements. The combination of attractive yields and absence of volatility is an opportunity that not many would pass up, unless, of course, transparency of pricing is important to the underlying investor. As a result, there can be significant unseen risks within fixed income funds. Investors need to remain prudently focused on finding assets whose valuations are correctly aligned with fundamentals and efficient market pricing. Except for a few opportunities, we view the SA credit market as unattractive relative to other asset classes.

Outlook

We remain vigilant about the risks posed by dislocations between stretched valuations and the local economy's underlying fundamentals. However, we believe the Fund's current positioning accurately reflects the appropriate level of caution, while its yield of 8.0% (gross of fees) remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected portfolio performance over the next 12 months. As is evident, we remain cautious in our management of the Fund. We continue to invest only in assets and instruments that we believe have the correct risk and term premium to limit investor downside and enhance yield.

Portfolio managers

Nishan Maharaj and Mauro Longano
as at 31 December 2025