CORONATION STRATEGIC INCOME FUND

Fund Information as at 30 April 2024

CORONATION

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WHAT IS THE FUND'S OBJECTIVE?

Strategic Income aims to achieve a higher return than a traditional money market or pure income fund.

WHAT DOES THE FUND INVEST IN?

Strategic Income can invest in a wide variety of assets, such as cash, government and corporate bonds, inflation-linked bonds and listed property, both in South Africa and internationally, in a manner similar to that usually employed by retirement funds.

As great care is taken to protect the fund against loss, Strategic Income does not invest in ordinary shares and its combined exposure to locally listed property (typically max. 10%), local preference shares (typically max. 10%), local hybrid instruments (typically max. 5%) and international assets (typically max. 10% on an effective exposure basis*) would generally not exceed 25% of the fund.

The fund has a flexible mandate with no prescribed maturity or duration limits for its investments. The fund is mandated to use derivative instruments for efficient portfolio management purposes.

* Prudential (SARB) international exposure is typically limited to a maximum of 15%

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

2/10
Conservative

Maximum growth/ minimum income exposures

- Growth Assets: 10%
- Income Assets: 90%

Strategic Income is tactically managed to secure an attractive return, while protecting capital.

Its investments are carefully researched by a large and experienced investment team and subjected to a strict risk management process. The fund is actively positioned to balance long-term strategic positions with shorter-term tactical opportunities to achieve the best possible income.

While the fund is managed in a conservative and defensive manner, there are no guarantees it will always outperform cash over short periods of time. Capital losses are possible, especially in the case of negative credit events affecting underlying holdings.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The recommended investment term is 12-months and longer. The fund's exposure to growth assets like listed property and preference shares will cause price fluctuations from day to day, making it unsuitable as an alternative to a money market fund over very short investment horizons (12-months and shorter). Note that the fund is also less likely to outperform money market funds in a rising interest rate environment.

Given its limited exposure to growth assets, the fund is not suited for investment terms of longer than five years.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Investors who

- are looking for an intelligent alternative to cash or bank deposits over periods from 12 to 36 months;
- seek managed exposure to income generating investments;
- are believers in the benefits of active management within the fixed interest universe.

WHAT COSTS CAN I EXPECT TO PAY?

The annual management fee is 0.45%.

Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other fund costs.

We do not charge fees to access or withdraw from the fund.

More detail is available on www.coronation.com.

WHO ARE THE FUND MANAGERS?

NISHAN MAHARAJ
BSc (Hons), MBA

MAURO LONGANO
BScEng (Hons), CA (SA)

GENERAL FUND INFORMATION

Fund Launch Date	2 July 2001
Fund Class	P (previously class B4)
Class Launch Date	1 October 2012
Benchmark	110% of STeFI 3-month index
ASISA Fund Category	South African – Multi-asset – Income
Income Distribution	Quarterly (March, June, September, December)
Bloomberg Code	CORSTB4
ISIN Code	ZAE000170403
JSE Code	CSIB4

CORONATION STRATEGIC INCOME FUND

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CLASS P as at 30 April 2024

ASISA Fund Category	South African - Multi Asset - Income
Launch date	01 October 2012
Fund size	R36.03 billion
NAV	1540.21 cents
Benchmark	110% of the STeFI 3-month Index
Portfolio manager/s	Nishan Maharaj and Mauro Longano

	1 Year	3 Year
Total Expense Ratio	0.53%	0.49%
Fund management fee	0.44%	0.41%
Fund expenses	0.01%	0.01%
VAT	0.07%	0.06%
Transaction costs (inc. VAT)	0.00%	0.00%
Total Investment Charge	0.53%	0.49%

PERFORMANCE AND RISK STATISTICS

PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	732.5%	484.3%	248.3%
Since Launch (annualised)	9.7%	8.0%	1.7%
Latest 20 years (annualised)	8.9%	7.4%	1.5%
Latest 15 years (annualised)	8.6%	6.7%	1.9%
Latest 10 years (annualised)	7.9%	6.8%	1.1%
Latest 5 years (annualised)	7.1%	6.2%	0.8%
Latest 3 years (annualised)	7.7%	6.5%	1.2%
Latest 1 year	10.2%	9.1%	1.1%
Year to date	2.2%	2.9%	(0.8)%
Yield (Net of Fees)	9.8%		

RISK STATISTICS

Current	Fund
Weighted average time to maturity (credit)	2.6 years
Modified Duration	1.7 years
Modified Duration (ex Inflation Linked Bonds)	1.4 years

Since Inception	Fund	Benchmark
Annualised Deviation	2.7%	0.7%
Sharpe Ratio	0.77	
Maximum Gain	60.8%	
Maximum Drawdown	(4.2)%	
Positive Months	91.6%	

	Fund	Date Range
Highest annual return	18.7%	Nov 2002 - Oct 2003
Lowest annual return	2.5%	Apr 2019 - Mar 2020

CREDIT RATINGS

	% of Fund
AAA+ to A-	83.5%
BBB+ to B-	1.4%
CCC+ to C-	0.0%
CLNs	9.8%
No Rating	5.3%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
28 Mar 2024	02 Apr 2024	32.30	0.00	32.30
29 Dec 2023	02 Jan 2024	36.22	0.11	36.10
29 Sep 2023	02 Oct 2023	34.05	0.05	34.00
30 Jun 2023	03 Jul 2023	31.99	0.18	31.81

PORTFOLIO DETAIL

ASSET ALLOCATION BY INSTRUMENT TYPE

	Domestic Assets	International
Cash and Money Market NCDs	30.2%	0.1%
Fixed Rate bonds	22.4%	3.9%
Floating Rate bonds	21.4%	0.3%
Inflation-Linked bonds	11.2%	0.2%
Credit Linked Notes (CLNs)	3.0%	6.8%
Listed Property	2.8%	0.0%
Preference shares	0.2%	0.0%
Other (Currency Futures)	(2.5%)	0.0%
Total	**88.7%**	**11.3%**
Net offshore exposure after currency hedge		**2.0%**

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Banks and Insurers: NCDs & Deposits	30.6%
Government	23.7%
Banks: Senior Debt	23.6%
Other Corporates	12.7%
REITs: Equity and Debt	2.8%
Banks: Subordinated debt (>12m)	2.7%
State Owned Enterprises	2.4%
Insurers	1.8%
Coronation Global Bond Fund	1.3%
Coronation Global Strategic Income	0.8%
Banks: Subordinated debt (<12m)	0.1%
Currency Futures	(2.5%)
Total	**100.0%**

TOP 5 CREDIT EXPOSURE

	% of Fund
Republic Of South Africa	28.8%
Standard Bank Of SA Ltd	17.3%
Nedbank Ltd	12.8%
Absa Bank Ltd	10.6%
Firstrand Bank Ltd	6.8%

TOP 5 REFERENCE ENTITY EXPOSURE

	% of Fund
Republic of South Africa	6.1%
MAS	1.1%
Nepi	0.6%
Prosus	0.6%
CDX IG	0.6%

100% of CLN exposure is issuer valued with a daily or at worst weekly price frequency

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2024	1.0%	0.3%	0.3%	0.6%									**2.2%**
Fund 2023	1.6%	0.1%	0.7%	0.4%	(1.1)%	2.1%	1.6%	0.9%	(0.3)%	0.8%	2.1%	1.4%	**10.9%**
Fund 2022	0.1%	0.1%	0.2%	0.5%	0.6%	(0.9)%	1.1%	0.6%	(0.7)%	1.2%	1.6%	0.7%	**5.3%**
Fund 2021	0.4%	0.7%	(0.2)%	1.2%	0.7%	0.7%	0.6%	0.9%	(0.1)%	(0.1)%	0.6%	1.5%	**7.1%**
Fund 2020	0.8%	(0.1)%	(4.1)%	2.5%	1.6%	0.8%	0.4%	0.6%	0.1%	0.3%	1.2%	1.0%	**5.0%**

Issue date: 2024/05/09

Please refer to page 4 of the Comprehensive Fact Sheet for important additional infomation, including change in cost disclosures.

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

Performance and fund positioning

The Fund returned 0.56% in April, bringing its 12-month total return to 10.2%, ahead of cash (8.22%) and its benchmark (9.07%) over the same year. We continue to believe that current positioning offers the best probability of achieving the Fund's cash + 2% objective over the medium to longer term.

Local 'bonds' performance in April was uninspiring. The FTSE/JSE All Bond Index (ALBI) delivered 1.37%, with the long end of the curve (12+ years) posting the best returns, up 2.31%. The belly of the curve (7-12 years) closed 1.27% higher, while medium-term bonds (3-7 years) returned 0.56%. Short-term bonds (1-3 years) were up 0.41%, while cash was up 0.65%, and inflation-linked bonds (ILBs) were up 0.26%.

April dataflow was dominated by first-quarter 2024 (Q1-24) economic growth readings, with the US, China and the euro area showing soft but positive quarter-on-quarter (q/q) growth. Inflation readings remained steady, marginally easing from the previous month, with food prices declining but core inflation broadly sticky. Better-than-expected growth with persistent inflation remains a prevailing theme.

In the US, the economy grew by 1.6% q/q in Q1-24 from 3.4% q/q in the fourth quarter of 2023 (Q4-23). Growth was supported by strong consumer spending, increases in fixed asset investment, and government spending at the state and local levels. Subdued private inventory investment and an increase in imports detracted from the overall growth rate.

At the Federal Open Market Committee (FOMC) meeting in early May, the Federal Reserve Board (Fed) left the Fed funds rate unchanged at the 5.25%-5.50% target range. The FOMC statement noted strong economic activity, resilient labour markets and the low unemployment rate in the US as conditions that supported their ongoing tight monetary policy settings. The FOMC also cautioned that inflation remains elevated, and there has been limited progress towards reaching the 2.0% inflation target. Headline inflation rose to 3.5% year on year (y/y) in March from 3.2% y/y in February, while core inflation remained unchanged at 3.8% y/y – both well in excess of the c. 2% long-term target. The increase in inflation was driven by a rise in energy costs, shelter, and apparel and was partly offset by the moderation in food prices.

In emerging markets, 'China's economy grew by 1.6% q/q in Q1-24 from a revised growth of 1.2% q/q in Q4-23 and 5.3% y/y. The growth was mainly due to government spending on infrastructure and an export-driven recovery in manufacturing. Retail sales were also up, as wage growth remains positive. However, the property market remains weak and will remain a drag on overall activity.

The rand ended the month at R18.79/US$1. 'SA's idiosyncratic problems and the turn in global risk sentiment continued to weigh on the ZAR. Offshore credit assets and certain developed market bonds continue to flag as relatively attractive. The Fund has utilised a significant part of its offshore allowance to invest in these assets. When valuations are stretched, the Fund will hedge/unhedge portions of its exposure back into rands/dollars by selling/buying JSE-traded currency futures (US dollars, UK pounds, and euros). These instruments are used to adjust the 'Fund's exposure synthetically, allowing it to maintain its core holdings in offshore assets.

In South Africa (SA), headline inflation eased to 5.3% y/y in March from 5.6% y/y in February, while core inflation slowed a little to 4.9% y/y from 5.0% y/y. The drop was driven by a moderation in food and fuel costs. Elsewhere, prices were generally soft, with modest gains in apparel, household services, restaurants, and hotels.

At the end of April, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 9.43% (three-year) and 10.05% (five-year), higher compared to the end of the previous month. Our inflation expectations suggest that the current pricing of these instruments remains attractive due to their lower modified duration and, hence, high breakeven relative to cash. In addition, NCDs have the added benefit of being liquid, thus 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.

The significant reduction in rate cut expectations over the last quarter has tainted the enthusiasm for risk assets. However, the monetary policy pivot still remains in play, and, as such, emerging markets should continue to see supportive flows into their markets. Idiosyncratic SA factors have led to further underperformance of SA assets relative to the peer group. Low growth, sticky inflation and burgeoning deficits will continue to weigh on the longer-term outlook for SA unless reform implementation is accelerated through increased private sector participation. 'SA's bond yields remain elevated but still provide an attractive alternative to cash, given their high embedded risk premium.

ILBs are securities designed to help protect investors against inflation. They are indexed to inflation so that the principal amount invested and, hence, the interest payments rise and fall with the inflation rate. ILBs have offered protection to investors since the start of the year. However, current breakeven inflation across the ILB curve averages between 5.5% and 6%, which is well above even our own expectations for inflation over the medium term. It is only the shorter-dated ILBs (I2029, six years to maturity and I2033, nine years to maturity) that flag as fairly valued from a valuation perspective. Risks on the inflation front still remain elevated, and these shorter-dated ILBs, due to their inherent inflation protection, warrant a decent allocation within portfolios.

The local listed property sector was down 0.48% over the month, bringing its 12-month return to 13.24%. Operational performance will remain in the spotlight as an indicator of the pace and depth of the 'sector's recovery. The current poor growth outlook, combined with an increase in cost base due to higher administered prices and second-round effects on loadshedding, will weigh on the 'sector's earnings in the coming year. We believe that one must remain cautious due to the high levels of uncertainty around the strength and durability of the local recovery.

We believe that allocating significant amounts of capital to the local credit market is unwise and would represent a substantial opportunity cost in the face of attractive valuations in other, more liquid asset classes. The current level of credit spreads on offer are at historically compressed levels despite SA being close its weakest economic position in its history. Corporate profitability and creditworthiness are inevitably tied to economic outcomes, with significant polarisation in performance. SA is a sub-investment grade economy and, thus, local credit should trade at high yield spreads. However, SA trades as an investment grade issuer. The only spreads that trade at the high yield equivalent are riskier issues coming from taxi financing, subordinated tranches of securitisations and bank debt. This also shows, how much better value there currently is in offshore credit, which offers higher credit quality and better diversity at much more attractive valuation levels.

The use of structured products, such as credit-linked notes (CLNs), have become ubiquitous within the local market. This sector of the market has grown exponentially over the last five years and has reached a market size of over R100 billion, but only a third of this market reprices, creating an inaccurate representation of asset volatility and pricing. 'CLN's mask the underlying/see-through credit risk as the issuing entity (predominantly local 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 through not marking them to market[1] based on the underlying asset price movements. This is why CLN repacks of SA government bonds have become so popular over the last five years. The combination of attractive yields and no 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 of which the valuations are correctly aligned to fundamentals and efficient market pricing.

Outlook

We remain vigilant of the risks from the dislocations between stretched valuations and the local economy's underlying fundamentals. However, we believe that the 'Fund's current positioning correctly reflects appropriate levels of caution. The 'Fund's yield of 10.3% (gross of fees) remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected Fund 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 30 April 2024

[1] Valuations are not regularly adjusted to mirror their current value

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION STRATEGIC INCOME FUND

Unit trusts should be considered medium- to long-term investments. The value of units may go down as well as up, and therefore Coronation does not make any guarantees with respect to the protection of capital or returns. Past performance is not necessarily an indication of future performance. The fund is mandated to invest a portion of its portfolio (typically up to a maximum of 10%) into foreign securities and may as a result 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 asset allocation by instrument type are reflected on a look-through basis. The asset allocation by issuer type and top issuer exposures are not reflected on a look-through basis. The yield shown is an estimate in part based on market assumptions and forecasts. The yield is calculated by taking the interest and income receivable of all the instruments in the fund divided by the net asset value, expressed as a nominal annual rate. It is provided to give an approximate indication of the achievable yield for an investment made at the reporting date. Actual experience may differ, based on changes in market values, interest rates and changes in costs actually experienced during the investment period. The yield disclosed on the MDD is current and calculated as at the MDD reporting date.

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. Portfolio managed by Coronation Asset Management (Pty) Ltd (FSP 548) , an authorised financial services provider. The Management Company reserves the right to close the fund to new investors if we deem it necessary to limit further inflows in order for it to be managed in accordance with its mandate. Unit trusts are allowed to engage in scrip lending and borrowing. Standard Chartered has been appointed as trustees for the fund (www.sc.com/za; 011-2176600). Coronation is a full member of the Association for Savings & Investment SA (ASISA).

HOW ARE UNITS PRICED AND AT WHICH PRICE WILL MY TRANSACTION BE EXECUTED?

Unit trusts are traded at ruling prices set on every trading day. 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) and forward pricing is used. Instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. The payment of withdrawals may be delayed in extraordinary circumstances, when the manager with the consent of the fund trustees deem this to be in the interest of all fund investors. These circumstances may include periods when significant underlying markets suspend trading which will prevent accurate valuation of the instruments held in the fund. When the suspension of trading relates to only certain assets held by the fund, these assets may be side-pocketed. This process allows normal liquidity on the assets that can be valued, but will delay liquidity on the affected portion of the fund. If the fund is faced with excessive withdrawals, the affected withdrawals may be ring-fenced, which is the separation and delayed sale of the assets reflecting the interest of the liquidity seeking investors. It ensures that the sale of a large number of units will not force Coronation to sell the underlying investments in a manner that may have a negative impact on remaining investors of the fund.

HOW WAS THE PERFORMANCE INFORMATION INCLUDED IN THIS FACT SHEET CALCULATED?

Performance is calculated by Coronation as at the last day of the month for a lump sum investment using Class P NAV prices with income distributions reinvested. Class A NAV prices were used for the period prior to the launch of Class P. All underlying price and distribution data is sourced from Morningstar. Performance figures are quoted after the deduction of all costs (including manager fees and trading costs) incurred within the fund. 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. Unannualised performance represents the total return earned by the fund over the given time period, expressed as a percentage.

WHAT IS THE TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS (TC)?

TER is calculated as a percentage of the average net asset value of the portfolio incurred as charges, levies and fees in the management of the portfolio over the period referenced. The TER charged by any underlying fund held as part of a fund's portfolio is included in the fund expenses portion of the TER, but trading and implementation costs incurred in managing the underlying fund are excluded. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. The 1 year TER is for the 12 months to end of the previous financial year (updated annually). The 3 year TER is for a rolling 36-month period to the last available quarter end (December, March, June and September).

Transaction costs are a necessary cost in managing a fund and impacts the fund's return. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER.

The Total Investment Charge is the sum of the Total Expense Ratio (TER) and transaction costs.

ADVICE AND PLATFORM COSTS

Coronation does not provide financial advice. If you appoint an adviser, advice fees are contracted directly between you and the adviser. For more information please contact the relevant platform (Linked Investment Service Provider or Life Assurance Provider).

WHERE CAN I FIND ADDITIONAL INFORMATION?

Additional information such as daily fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, www.coronation.com

IMPORTANT INFORMATION REGARDING TERMS OF USE

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