

LONG TERM OBJECTIVE

The Coronation Global Strategic USD Income Strategy is an asset allocation strategy that invests across different fixed interest securities. It aims to achieve capital growth and a competitive annual yield, while preserving capital over rolling 12-month periods. Its benchmark is 110% of the Secured Overnight Financing Rate (SOFR). The strategy has a flexible mandate with no restriction on duration (interest rate sensitivity) and term. However, duration is unlikely to be more than three years. The strategy invests mainly in a combination of fixed, floating-rate and inflation linked securities of varying maturities, denominated in a spread of currencies and listed on recognised exchanges worldwide. Debt securities in which the strategy invests may be issued by governments, government agencies, supranational institutions, banks, credit institutions and other companies. Up to 30% of the strategy may be invested in debt securities with credit ratings between BBB+ and BBB- (or equivalent) and up to 10% may be invested in debt securities that are unrated or rated below BBB- (or equivalent). A maximum allocation of 10% to listed property is allowed. The strategy may make use of derivatives for efficient portfolio management.

INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house. Our aim is to identify mispriced assets trading at discounts to their fair value through extensive proprietary research. The fixed income portfolios are positioned on a long term strategic market view, but this is balanced by taking advantage of shorter-term tactical opportunities when the market lags or runs ahead of that strategic view. As active managers, we consider investment decisions across the full spectrum of potential return enhancers. These include duration and yield curve positions, inflation-linked assets as well as yield enhancement through credit enhanced assets. We aim to maximise returns by actively combining both a top-down and a bottom-up approach to portfolio construction.

STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	48.9%	22.0%	26.9%
Since Inception p.a.	3.2%	1.6%	1.6%
Latest 10 years p.a.	2.6%	1.9%	0.7%
Latest 5 years p.a.	3.1%	2.5%	0.6%
Latest 3 years p.a.	3.2%	3.5%	(0.3)%
Latest 1 year	7.1%	6.1%	1.0%
Year to date	3.0%	3.0%	0.0%
Month	0.5%	0.5%	0.0%

CURRENCY EXPOSURE

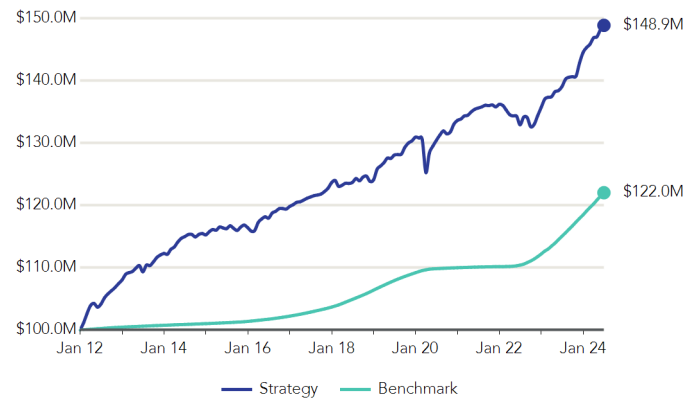
Currency	% Strategy
USD	100.1%
Other	(0.1)%

GENERAL INFORMATION

Inception Date	31 January 2012
Strategy Size *	\$724.3 million
Strategy Status	Open
Mandate Benchmark	110% of Secured Overnight Financing Rate (SOFRINDEX) Index
Redemption Terms	N/A
Base Currency	USD

*Strategy assets under management as at the most recent quarter end.

GROWTH OF US\$100M INVESTMENT



Benchmark: 110% of Secured Overnight Financing Rate from 01 December 2021. Previously 110% of ICE LIBOR USD 3 Month (US0003M Index).

ASSET ALLOCATION

Asset Type	% Strategy
Fixed Rate Corporate Bonds	41.6%
Floating Rate Government Bonds	17.1%
Floating Rate Corporate Bonds	15.0%
Fixed Rate Government Bonds	12.0%
Government ILBs	9.4%
Cash	5.6%
Other	1.4%
Property	1.0%
Derivatives	(3.1)%

EFFECTIVE MATURITY PROFILE

Term	% Strategy
0 to 1 year	37.3%
1 to 3 years	46.3%
3 to 7 years	12.0%
7 to 12 years	1.8%
Over 12 years	1.4%

STRATEGY STATISTICS

Modified Duration (incl. inflation-linked bonds)	1.1
Modified Duration (excl. inflation-linked bonds)	0.9

PORTFOLIO MANAGERS



Nishan Maharaj - BSc (Hons), MBA

Nishan is Head of Fixed Interest at Coronation and a portfolio manager across all fixed interest strategies. He joined Coronation in 2012 has 21 years' investment experience.



Seamus Vasey - BCom (Hons), MSc, CFA

Seamus is a portfolio manager and analyst within the Fixed Interest investment unit with more than 20 years' investment experience. He manages assets within Coronation's specialist bond strategies. He also co-manages the Coronation Global Bond and Granite Hedge funds as well as the Global Strategic USD and Bond unit trust funds.

REGULATORY DISCLOSURE AND DISCLAIMER

The Prospectus of Coronation Global Opportunities Fund and Fund KIID can be sourced on the following link: <https://www.coronation.com/en/institutional/strategy-information/literature/ucits-fund-library/umbrella-fund> and a Summary of Investor Rights can be sourced on the following link: <https://www.coronation.com/en/institutional/about-us/ucits-v-disclosure/>.

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The volatility of the Benchmark represented in the growth chart above may be materially different from that of the Strategy. In addition, the holdings in the accounts comprising the Strategy may differ significantly from the securities that comprise the Benchmark. The Benchmark has not been selected to represent an appropriate benchmark to compare the Strategy's performance, but rather is disclosed to allow for comparison of the Strategy's performance to that of a well-known and widely recognized Benchmark.

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REVIEW FOR THE QUARTER

The Strategy delivered pleasing returns with strong outperformance of both cash and its benchmark over the quarter, and 12-month period. We continue to believe that the current positioning offers the best probability of achieving the Strategy's objective over the medium to longer term.

SA fixed income markets were on a roller coaster ride over the quarter to end June. The yield on the 10-year bond traded well over 12% into the elections before crashing down to sub 11% by the end of the second quarter of 2024 (Q2-24) as the details of the Government of National Unity (GNU) emerged, calming investor angst. The FTSE/JSE All Bond Index (ALBI) was up 7.5% over the quarter, bringing its twelve-month return to 13.7%. This is well ahead of cash, with a quarter-to-date (QTD) return of 2.0% and one-year return of 8.3%; and inflation-linked bonds, with a QTD return of 2.4% and one-year return of 9.1%. Bond performance was driven by outperformance of bonds in the belly of the curve (i.e., less than 12-year maturity). The rand gained c.3% against the US dollar QTD, which also put the ALBI's return ahead of global bonds (-3.6% in rands QTD and -2.6% over one year).

The ANC's loss of its majority has ushered in a new era of coalition politics under the GNU. Hopes of a reduced cabinet (and lower wage bill) were dashed, with several dual deputy minister roles being introduced to appease members of the 10-party GNU. Key ministries within the cabinet still remain under the control of the ANC, with many underperforming ministers returning to their roles. The ANC still controls the majority of ministries and deputy ministries, while the Democratic Alliance (DA) controls six in each. Overall policy direction will still be shaped by the ANC in many of the key areas of economic development. More importantly, the implementation of said policy will be at the behest of the ANC, with limited influence from opposition parties. This opens up the risk of a continuation of the glacial pace of reform that we have become accustomed to. On the positive side, with the introduction of opposition parties into the various ministries, there should be increased scrutiny of the checks and balances within these ministries. Hopefully, this will reduce slippage, increase governance oversight, and keep the direction of policy on track. The durability of the GNU remains an area of concern, with the two largest parties still being ideologically different. It is concerning that cracks are already starting to emerge in the provincial structures, most notably the failure to reach an agreement on governing structure in SA's economic hub, Gauteng.

The boost to sentiment from the GNU has been felt in asset prices as the risk premium in SA fixed income has seen a significant reduction. However, the SA economy still faces significant challenges and, although the direction of travel is positive, one cannot be hasty in moving long-term economic forecasts. Marginal positive revisions might be warranted at this stage, but the road to higher sustainable growth lies in the pace and minutia of implementation.

Developed market central banks met in June, with the European Central Bank (ECB) administering the first rate cut, while the other central banks opted to keep policy rates on hold. Headline inflation readings remain stubbornly above the target range, although, food prices continue to moderate.

The Federal Reserve Board (Fed) left the Fed funds rate unchanged at the 5.25%-5.50% target range at the Federal Open Market Committee (FOMC) meeting in June. The Fed statement noted strong economic activity, resilient labour markets and the low unemployment rate in the US as conditions which continue to support tight monetary policy settings. Furthermore, the FOMC cautioned that it was not yet appropriate to reduce the target range, as inflation remains elevated, and more progress is needed to reach the 2% target range.

US headline inflation edged lower to 3.3% year on year (y/y) in May from 3.4% y/y in April, while core inflation reduced to 3.4% y/y from 3.6% y/y. The headline decline was due to continued moderation in food prices, a drop in transportation costs and declining vehicle prices. Housing, motor vehicle insurance and energy prices increased.

The rand ended the month at R18.19/US\$1. Local events, coupled with a favourable global risk backdrop, helped the ZAR recover significantly. Offshore credit assets and certain developed market bonds continue to flag as relatively attractive. The Strategy has utilised a significant part of its offshore allowance to invest in these assets. When valuations are stretched, the Strategy 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 Strategy's exposure synthetically, allowing it to maintain its core holdings in offshore assets.

Inflation in SA has proven to be stickier than anticipated, but recent developments in food and oil prices, combined with a stable rand, have helped produce a slightly better outcome. Our expectations remain for inflation to dip towards the midpoint of the band (4.5%) in the fourth quarter of this year (Q4-24) and remain at or above 5% over our forecast period. The South African Reserve Bank's (SARB's) commitment to getting inflation sustainably on a path to 4.5%, the need to keep the real policy rates high amidst a higher-for-longer global rate environment and high fiscal risks implies a higher real policy rate than past experience. In addition, talk of moving the inflation target towards 3% will also weigh on the SARB's ability to provide monetary policy support to the economy meaningfully. We continue to believe a real policy rate of 2%-2.5% remains appropriate in the current environment. This suggests a nominal repo rate of 7.5%, with rate cuts commencing in the third quarter of 2024; in increments of 25 basis points (bps).

However, upside risks to inflation remain from higher administered prices (Eskom will apply for a 44% tariff hike in 2025) and sticky food inflation. Market expectations of the repo rate have converged towards our expectations, with limited room for further compression.

At the end of June, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.86% (three-year) and 9.34% (five-year), lower 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 Strategy's liquidity with the needs of its investors. The Strategy continues to hold decent exposure to these instruments (fewer floating than fixed), but we will remain cautious and selective when increasing exposure.

Global monetary policy remains conducive for risk assets, which should remain supportive of flows into emerging markets. SA has seen a significant reduction in risk premium following the formation of the GNU and the inclusion of the pro-reformist opposition into cabinet. SA inflation has benefited from both local and global factors and should support a shallow rate-cutting cycle starting towards the tail end of 2024. However, low growth, upside risks to inflation and burgeoning deficits will continue to weigh on the longer-term outlook for SA unless reform implementation is accelerated. SA's bond yields have seen significant compression, with the margin of safety narrowing significantly, both from an absolute basis and relative to the emerging market peer group. There might be slightly more juice left in the SA bond rally. However, we believe that SA bonds now trade at or very close to fair value. A more positive shift in underlying fundamentals is needed to justify tighter valuations and outperformance. Thus, we would advocate positions closer to neutral in bond portfolios. The underperformance of ILBs in the recent SA fixed income rally has increased their attractiveness, which warrants a generous allocation, focused on maturities of less than 10-year maturity, even ahead of nominal bonds.

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. The significant underperformance of ILBs relative to nominal bonds has resulted in a compression of breakeven inflation levels towards the 5% level. This compares favourably to our own expectations of inflation averaging 5-5.5% over the longer term. Risks on the inflation front still remain elevated, primarily due to administered and network industry prices. As such, ILBs, due to their inherent inflation protection and attractive total return expectations, warrant a decent allocation within portfolios, specifically those with a maturity of less than nine years (2033).

The local listed property sector was up 6.2% over the month, bringing its 12-month return to 26%. 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.

The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the local market. This market sector has grown exponentially over the last five years and has reached a market size of over R100 billion. Still, 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 local banks) is seen as the primary credit risk. The increased usage of CLNs has not expanded the pool of borrowers, instead 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 market¹ 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, pricing transparency 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.

We remain vigilant of the risks from the dislocations between stretched valuations and the local economy's underlying fundamentals. However, we believe that the Strategy's current positioning correctly reflects appropriate levels of caution. The Strategy's yield remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected Strategy performance over the next 12 months. As is evident, we remain cautious in our management of the Strategy. 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.

¹ Valuations are not regularly adjusted to mirror their current value